CYNGOR BWRDEISTREF SIROL
RHONDDA CYNON TAF
COUNTY BOROUGH COUNCIL

GWŶS I GYFARFOD O'R CYNGOR

C.Hanagan
Cyfarwyddwr Gwasanaeth y Gwasanaethau Democrataidd a Chyfathrebu
Cyngor Bwrdeistref Sirol Rhondda Cynon Taf
Y Pafiliynau
Parc Hen Lofa'r Cambrian
Cwm Clydach CF40 2XX

Dolen gyswllt: Sarah Daniel - Uwch Swyddog Gwasanaethau Democrataidd (07385 086169)

DYMA WŶS I CHI i gyfarfod o **PWYLLGOR CRONFA BENSIYNAU** yn cael ei gynnal yn on **DYDD LLUN, 11EG HYDREF, 2021** am **2.00 PM.**

AGENDA **Tudalennau**

1. DATGAN BUDDIANT

Derbyn datganiadau o fuddiannau personol gan Aelodau, yn unol â gofynion y Cod Ymddygiad.

Nodwch:

1. Mae gofyn i Aelodau ddatgan rhif a phwnc yr agendwm mae eu buddiant yn ymwneud ag ef a mynegi natur y buddiant personol hwnnw; a
2. Lle bo Aelodau'n ymneilltuo o'r cyfarfod o ganlyniad i ddatgelu buddiant sy'n rhagfarnu, rhaid iddyn nhw roi gwybod i'r Cadeirydd pan fyddan nhw'n gadael.

2. COFNODION

Derbyn cofnodion o gyfarfod blaenorol Pwyllgor y Gronfa Bensiwn a gynhaliwyd ar 13.07.2021

3 - 8

3. TRAFOD CADARNHAU'R CYNNIG ISOD YN BENDERFYNIAD:

Bod y cyfarfod hwn yn cadw aelodau o'r wasg ac aelodau o'r cyhoedd allan o ystafell y cyfarfod, dan Adran 100A(4) o'r Ddeddf Llywodraeth

Leol (fel y'i diwygiwyd) ar gyfer yr eitemau canlynol ar yr agenda - Eitemau 4 ar y sail y byddai'n debygol o olygu datgelu gwybodaeth eithriedig yn ôl diffiniad paragraff 14 o Ran 4 o Atodlen 12A o'r Ddeddf".

4. DYSGU A DATBLYGU

Buddsoddi Cyfrifol - Derbyn cyflwyniad gan Baillie Gifford

5. ADRODDIAD AR SWYDDOGAETHAU DIRPRWYEDIG

9 - 28

6. COFRESTR RISGIAU'R GRONFA BENSIWN - TROSOLWG O'R GOFRESTR RISGIAU

29 - 38

7. PARTNERIAETH PENSIYNAU CYMRU - Y DIWEDDARAF

39 - 40

8. ADOLYGIAD O DDATGANIAD Y STRATEGAETH ARIANNU A STRATEGAETH GWEINYDDU'R GRONFA BENSIWN

41 - 122

9. MATERION BRYS

Trafod unrhyw faterion brys y mae'r Cadeirydd yn eu gweld yn briodol.

Cyfarwyddwr Gwasanaeth y Gwasanaethau Democrataidd a Chyfathrebu

Cylchreliad:-

Cadeirydd ac Is-gadeirydd:
(Y Cynghorydd M Norris a Y Cynghorydd M Griffiths)

Y Cynghorwyr Bwrdeistref Sirol: Y Cynghorydd G Caple, Y Cynghorydd E Webster and Y Cynghorydd L Hooper

RHONDDA CYNON TAF COUNCIL PENSION FUND COMMITTEE

Minutes of the meeting of the Pension Fund Committee held virtually on Tuesday, 13 July 2021 at 2.00 pm

County Borough Councillors - Pension Fund Committee Members in attendance:-

Councillor M Norris (Chair)

Councillor G Caple
Councillor E Webster

Officers in attendance:-

Mr B Davies, Director of Finance & Digital Services
Mr P Griffiths - Service Director - Performance and Improvement
Mr I Traylor, Service Director – Pensions, Procurement & Transactional Services
Ms Y Keitch – Senior Accountant Pensions and Treasury Management
Mrs S Daniel – Senior Democratic Services Officer

Apologies

County Borough Councillors M Griffiths

1 Declaration of Interest

In accordance with the Council's Code of Conduct, there were no declarations made pertaining to the agenda.

2 Minutes

It was **RESOLVED** to approve the minutes of the Pension Fund Committee held on the 22 March 2021 as an accurate reflection of the meeting.

3 Work Programme

The Director of Finance and Digital Services presented the report to Members which provided details of the Committee's work programme for the 2021 – 22 Municipal Year. Members were informed of the items scheduled for the year and were reminded that the Work Programme remains flexible to adapt to changing priorities and business requirements.

RESOLVED: Members agreed the work programme for the 2021-22 Municipal Year.

4 Delegated Function Report

The Director of Finance and Digital Services presented the report to Members which set out the key issues being addressed as delegated functions, as specified in the Pension Fund Governance Policy Statement. He referred Members to the performance of the fund detailed in the table at paragraph 4.3 which had outperformed the benchmark by 3.7% for the three year period and also performance for quarter 1 of 2021 (January to March 2021): Global Growth high alpha equity portfolio, Global Opportunities high alpha equity portfolio, CBRE property and BlackRock Passive Equity all outperformed their benchmarks; Baillie Gifford traditional equity portfolio and the UK Credit portfolio underperformed their benchmarks; and the BlackRock Passive Gilt portfolio returned benchmark performance.

The Director added that the Baillie Gifford traditional equity portfolio (global core) outperformed their rolling 3-year benchmark achieving a return of 19.0% against a benchmark of 8.1% and achieved a return of 63.7% over the last year, 34.1% ahead of their benchmark.

The Director of Finance and Digital Services went on to inform the Committee that the Pension Fund participates in the Pensions and Investment Research Consultants Limited (PIRC) annual Local Authority fund Statistical Universe Review. At the end of March 2021, the Universe comprised of 64 funds with a combined value of £230 billion. He referred Members to the summary of the Fund's performance and its ranking in the table at paragraph 4.5 of the report.

The Chairperson congratulated all the officers for their hard work and commitment.

The Director of Finance and Digital Services reminded Members of the revised Asset Allocation Strategy agreed at the March 2021 Committee, this being, a three-step approach to reduce equity exposure and to begin to step up the Fund's exposure to infrastructure, which was now being explored.

The Director added that the Pension Fund draft Statement of Accounts for 2020/21 had been certified with the external audit process to follow.

A Member stated the performance had been exceptional post Brexit and the Fund was doing very well. He asked if the economy post Brexit is likely to drive up pensions?

The Director of Finance and Digital Services advised that the Fund's exposure is global and therefore it is anticipated that Brexit would have minimal impact. He added that the Actuary would feed back the need to be cautious following a period of exceptional performance, as it is rare this level of performance would be maintained over the longer term.

The Service Director Pensions, Procurement and Transactional Services continued through the report and advised that an Internal Audit review of the Pensions Service was concluded in March 2021, the scope covered two key reassurance aspects:

- The Fund's compliance against the findings contained on the 'Pension Regulators Engagement Report'; and
- A review of the appropriateness of our remote working processes introduced last year.

The overall control environment was considered effective, with two minor recommendations made in relation to remote working. Full details of the findings were attached as Appendix 1 to the report.

The Service Director Pensions, Procurement and Transactional Services reminded Members that at the previous Committee, the Ministry of Housing, Communities & Local Government (MHCLG) published statutory guidance to assist LGPS administering authorities and scheme employers in implementing and operating the regulations on 'employer flexibilities'.

The Service Director added that the Fund's proposed application of these new flexibilities has now been reflected in a revised Funding Strategy Statement and Administration Strategy which are currently being consulted upon (closing date for consultation responses being the 22nd July).

The Service Director Pensions, Procurement and Transactional Services went on to inform Committee that on 13 May 2021 the Minister for Regional Growth and Local Government made a Written Ministerial Statement on McCloud and the LGPS https://questions-statements.parliament.uk/written-statements/detail/2021-05-13/hcws26. The statement confirms the key changes that the Government will make to the LGPS regulations to remove the unlawful age discrimination. It is now anticipated that MHCLG will issue a full response to the consultation and publish draft regulations later this year. He added that any changes would retrospectively apply to scheme members and would be a significant exercise for the Service and fund Employers.

The Service Director Pensions, Procurement and Transactional Services added that initial meetings have been held with the Fund Actuary to discuss and plan the requirements for the 2022 Valuation cycle and noted that the publication of the Government Actuary's Department report on the 2019 valuations is understood to have been delayed until September.

The Fund's Pensioners have been notified of the annual pension increase of 0.5% that has been applied to pensions in payment and deferred pensions.

He added that the statistics around scheme member deaths continue to be collated and monitored by the Scheme Advisory Board, and the latest statistics at a fund level were more in line with pre-pandemic levels.

Members were advised that data quality and compliance remains a key priority for the Pension Fund. Further to the previous update, the Fund has been working closely with Employers yet to implement the I-Connect monthly data transfers. Significant progress had been made during the first quarter of 2021/22 with Bridgend CBC going live during June. Members were reassured that Officers would continue to support and encourage the remaining Employers yet to implement, to progress this beneficial data solution.

The Service Director Pensions, Procurement and Transactional Services continued and informed the Committee that the Member Self Serve (MSS) continues to be promoted and registrations of Active, Deferred, Pensioner and Dependant members were shown in the table at paragraph 5.9 of the report. Officers advised that they would notify all members of their Annual Benefits Statements by 31st August and would also encourage them to sign up to the MSS portal, noting that the Fund's 'Employer Communication Forum' is very supportive of promoting this functionality.

Eight Members were informed that key Performance Service Standards are monitored by the Investment and Administration Advisory Panel and Pension Board. It was noted that in respect of performance during May 2021, two Performance Service Standard was behind target.

- % of Refunds of contributions processed within 10 days (68% for May against a target of 95%). 28 cases were completed of which 9 exceeded the 10 day target.
- % Transfers out processed within 10 days (50% for May against a target of 95%). 6 cases were completed of which 3 exceeded the 10 day target

The Service Director continued by indicating that during June, the Service has conducted a number of targeted onsite 'face to face' training sessions to help ensure the continual development of expertise within the team. Furthermore, the Service continues to monitor its workforce planning arrangements and actively supports the Council's Apprenticeship and Graduate schemes with recruitment underway during July 2021.

It was added that the Service is experiencing performance issues with its appointed In-house Additional Voluntary Contribution (AVC) provider. Members were advised that the issue is not unique to this administering body, however, officers have taken the opportunity to notify the Pensions Ombudsman of the concerns i.e. when a Member retires and takes their pension benefit, delays have been experienced obtaining the AVC fund for inclusion in their pension benefit option pack.

The Chairman thanked the officers for the comprehensive report and for the high quality work they have continued to undertake during the pandemic.
He added that he was disappointed to hear that the AVC provider was not providing the benefits statements on time but was reassured to hear that officers were following up on the issues.

The Director of Finance and Digital Services fed back that the Pension Board last met virtually on the 26 April 2021 and no items were noted for referral back to this Committee. It was also noted that the next Pension Board would take place on the 9th August 2021.

RESOLVED: Members noted the update.

5 Pension Fund Risk Register - Risk Register Overview

The Service Director Finance and Improvement Services presented the arrangements in place to manage risk within the Pension Fund.

He advised Members that the Fund maintains a Risk Register which is reviewed and updated on a quarterly basis, and referred Members to the Risk Register attached at Appendix 1 for their consideration.

Members commented that they felt reassured based on the comprehensive control measures in place to manage risks.

RESOLVED: Members noted the contents of the report.

6 Wales Pension Partnership - Update (including WPP Business Pan 2021-2024

The Senior Accountant Pensions and Treasury Management presented the report to Members which detailed the work and progress of the Wales Pension Partnership and Joint Governance Committee (JGC). The Senior Accountant advised that the last meeting of the JGC was held on the 24th March 2021 where the Host update included the following:

Work was continuing to develop in a number of key areas:

- WPP Sub funds – Work continues with the next tranches of sub-funds covering emerging market equities and private markets.
- Finalising reporting requirements with Robeco, the WPP voting and Engagement Service Provider.
- Officer Working Group sub-groups:
    - Private Markets sub-group.
    - Responsible Investment sub-group.
    - Risk Register sub-group.

Next Steps / Priorities:

- Continuing the work of the private markets sub-group.
- Completion of the 2020/21 year-end closure of accounts.
- Prepare the 2020/21 Annual Update and Annual Return.

Other Key areas:

- Virtual training sessions continue.
- The website continues to be updated with approved policies, press releases and details of sub-fund launches.

The Senior Accountant advised Members that the next JGC is scheduled to take place on 28th July 2021.

RESOLVED: Members considered and approved the WPP Business Plan 2021-2024.

7 Urgent Business

None received

CLLR M. NORRIS
CHAIR.

tudalen wag

RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

MUNICIPAL YEAR 2021-22

PENSION FUND COMMITTEE **11th OCTOBER 2021** **REPORT OF: THE DIRECTOR OF FINANCE AND DIGITAL SERVICES**	**AGENDA ITEM NO 5** **DELEGATED FUNCTIONS – UPDATE REPORT**

Author – Barrie Davies, Director of Finance and Digital Services (01443) 424026

1.0 PURPOSE OF REPORT

1.1 This report sets out the key issues being addressed as delegated functions, as specified in the Pension Fund Governance Policy Statement, by the Director of Finance and Digital Services.

2.0 RECOMMENDATIONS

2.1 It is recommended that the Committee:

2.1.1 Note the issues being addressed; and

2.1.2 Consider whether they wish to receive further detail on any issues.

3.0 BACKGROUND

3.1 The Director of Finance and Digital Services (in their capacity as S151 officer) supported by an Investment and Administration Advisory Panel with appropriate officer, independent advisor and professional support, has delegated responsibility for all day-to-day operational matters.

3.2 The Panel advises on all aspects of the Pension Fund. It produces the annual report to Committee and is subject to Audit scrutiny. Areas upon which it gives advice are: -

- Selection, appointment and dismissal of the Fund's advisers, including actuary, benefits consultants, investment consultants, global custodian, fund managers, lawyers, pension funds administrator and independent professional advisers.

- Making decisions relating to employers joining and leaving the Fund. This includes which employers are entitled to join the Fund, any requirements relating to their entry, ongoing monitoring and the basis for leaving the Fund.

- Agreeing the terms and payment of bulk transfers into and out of the Fund.

- Agreeing Fund business plans and monitoring progress against them.

- Maintain the Fund's Knowledge and Skills Policy for all Pension Fund Committee Members and for all officers of the Fund, including determining the Fund’s knowledge and skills framework, identifying training requirements, developing training plans and monitoring compliance with the policy.

- Formulating responses to consultations on LGPS matters and other matters where they may impact on the Fund or its stakeholders.

- Ensuring the Fund is managed and pension payments are made in compliance with the extant Local Government Pension Scheme Legislation, Her Majesty’s Revenue & Customs requirements for UK registered pension schemes and all other relevant statutory provisions.

- Ensuring robust risk management arrangements are in place.

- Ensuring the Council operates with due regard and in the spirit of all relevant statutory and non-statutory best practice guidance in relation to its management of the Fund.

- Monitor investment performance.

- Work with the Fund Actuary to determine the level of employer contributions required from each employer within the Fund and ensure such contributions are received.

3.3 The Investment and Administration Advisory Panel meets on a quarterly basis, the most recent meeting taking place on the 27th September 2021.

4.0 INVESTMENT PERFORMANCE

4.1 There is a quarterly reporting cycle for pension fund investment performance, with exception reporting agreed with fund managers where there are particular concerns. The most recent Panel Meeting considered investment performance to the end of June 2021.

4.2 During the quarter ended 30th June 2021, the overall value of the Fund increased from £4,493 million to £4,725 million.

4.3 A summary of performance relative to the Fund specific benchmark is shown below.

Total Portfolio

	2018		2019				2020				2021		3yr
Quarter	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	
Fund	2.8	-8.1	7.9	5.0	1.9	2.6	-11.4	16.6	3.5	9.5	1.6	5.4	**11.9**
B'mark	2.4	-6.2	7.0	4.1	3.1	0.7	-10.6	12.5	1.6	6.5	1.1	5.1	**8.7**
Relative	0.5	-2.0	0.9	0.9	-1.2	1.9	-0.8	4.1	1.9	3.0	0.5	0.3	**3.2**

4.4 As shown, the rolling 3 year performance of the Fund is 11.9% positive as compared to a benchmark of 8.7%. For the last quarter (i.e. quarter 2), Baillie Gifford, UK Credit and BlackRock Passive Equity outperformed their benchmarks; CBRE and BlackRock passive gilts performed in line with benchmark; and Global Growth and Global Opportunities underperformed their benchmark. Baillie Gifford traditional equity portfolio outperformed their rolling 3 year rolling benchmark achieving a return of 18.1% against a benchmark of 8.1%.

4.5 The September 2021 Panel included a review of fund managers' performance. Presentations were received from BlackRock, the passive equity and UK Gilt manager, and CBRE, the property manager.

4.6 The asset allocation of the Fund by fund manager and mandate as at 30th June 2021 (which includes cash) is shown in the table below.

Baillie Gifford Traditional	Global Equities	23%
Link – Global Opportunities Fund	Global High Alpha Equities	8%
Link – Global Growth Fund	Global High Alpha Equities	34%
Link – UK Credit Fund	UK Credit	12%
BlackRock	Passive Global Equities	5%
Blackrock	Passive UK Gilts	12%
CBRE	UK Property	6%
Internal	Cash	0%

4.7 As Members will be aware the March 2021 meeting of the Committee agreed to the revised asset allocation strategy for the Fund and the steps to be taken to move toward the preferred strategy together with the current allocation as show in the table below.

Asset Class	Current Allocation	Step 1	Step 2	Step 3
Total Equities	69%	64%	59%	54%
Infrastructure	0	0	5%	10%
Property	7%	7%	7%	7%
Government Bonds (UK)	9%	12%	12%	12%

Corporate Bonds (UK)	14%	15%	15%	15%
Cash	1%	2%	2%	2%
Absolute Return (10 years pa)	5.5%	5.3%	5.5%	5.6%
Volatility (10 years pa)	14.2%	13.3%	12.7%	12.3%

4.8 With regard to infrastructure, it is proposed that the Fund invests over a number of years in order to secure and optimise opportunities across the different time periods (and vintage years). Options continue to be explored in this regard alongside the progress of WPP.

4.9 Step 1 of the revised asset allocation strategy has been completed. Baillie Gifford's mandate was reduced by £225 million increasing the allocation in UK Government Bonds by £180 million (9th June 2021) and the UK Credit by £45 million (7th July 2021).

5.0 ADMINISTRATION UPDATE

5.1 At the end of July 2021, the Public Service Pensions and Judicial Officers Bill, dealing with the remedy for the 'McCloud' age discrimination, was laid before Parliament. The Bill includes retrospective measures and confirms the remedy period covering membership from the date of reform - 1 April 2014 to 31 March 2022 for eligible members. The Bill enables LGPS regulations to make provision for final salary benefits to be paid in respect of the remedy period. Draft LGPS regulations are expected by the end of 2021.

5.2 Following recent ministerial changes, on the 19th September it was announced that the Ministry of Housing, Communities and Local Government (MHCLG) will become the Department for Levelling Up, Housing and Communities (DLUHC).

5.3 The Fund published all Annual Benefit Statements prior to the statutory deadline of the 31st August 2021. This exercise was shortly followed by the 'Annual Allowance' review with pension saving statements issued by the deadline of the 6th October 2021.

5.4 The Scheme Advisory Board (SAB) no longer require death statistical information from Administering Bodies. The statistics are still being collated by the Fund and the table below provides an update and comparison on death numbers:

Month	2021	2020	2019
January	83	61	-
February	98	52	-
March	64	60	-
April	50	129	39
May	41	66	51
June	35	66	46
July	41	65	43
August	39	38	46
September		54	55
October		59	84
November		66	61
December		55	43

5.5 A meeting of the Fund's Communications Forum was held on 22nd July 2021. The main focus of discussion beyond the standard agenda items, included McCloud and the 2022 Valuation requirements.

5.6 Data quality and compliance remains a key priority for the Pension Fund. Further to the previous update at Committee, the Fund has been working closely with the applicable Employers yet to implement the I-Connect monthly data transfers. Progress has been made around some of the technical issues, and the Service will continue to work closely with the small number of remaining Employers. The national 'Pension Dashboards' programme is underway and data providers (including the Fund's system partner) have signed up for the initial testing phase, further information can be found at: https://www.pensionsdashboardsprogramme.org.uk/

5.7 Member Self Serve (MSS) continues to be promoted and registrations of Active, Deferred, Pensioner and Dependant members are shown below (as at September 2021).

	Member Numbers	**MSS Registrations**	**Current Percentage Take-up**	**Percentage Reported Previously**
Actives	23865	10176	42.64%	37.33%
Deferred	28556	8797	30.81%	27.07%
Pensioners	17926	4286	23.91%	22.68%
Dependants	2832	141	4.98%	4.85%

5.8 Eight 'Key Performance Service Standards' are monitored by the Panel and Pension Board. It was noted that in respect of performance during August 2021, a number of Performance Service Standards were behind, however, some significant numbers processed during the period as shown in the table below:

STANDARD MEASURED		INTERVENTION %	AUGUST 2021		COMMENTS (for August 2021 performance)	2021/22 Year to Date Actual %
			No. of Cases	% on Target		
% Refund of contributions processed within 10 days	Payment	95	4	75	4 cases completed. One over target.	80.22
% Divorce Estimates processed within 10 days	Statement	95	10	100	10 cases completed. All on time.	91.67
% Preserved Benefits processed within 10 days	Statement	90	147	100	147 cases completed. All on time.	98.59
% Employer requests for retirement estimates processed within 5 days	Statement	95	14	64.29	14 cases completed. 5 cases over target.	93.94
% Retirements from Active membership processed within 5 days	Payment	95	39	79.49	39 cases completed. 8 cases over target.	90.61
% Preserved Benefits into payment on retirement processed within 5 days	Payment	95	28	89.29	28 cases completed. 3 cases over target	95.57
% Transfers In processed within 10 days	Statement	90	5	100	5 cases completed. All on time.	96.05
% Transfers Out processed within 10 days (Monthly)	Payment	95	13	69.23	13 cases completed. 4 cases over target	67.44

5.9 The Fund's new graduate officer and apprentices (2) commenced their employment during September 2021. A process of 'face to face' training and development has been undertaken with these new officers and the existing team.

5.10 Whilst some performance improvements have been noted with the Fund's 'Additional Voluntary Contributions' partner, there remain areas of concern which will need to be addressed.

5.11 The Annual General Meeting will be held virtually and has been scheduled for Monday 22nd November 2021. The Fund Actuary will provide a position update in the lead up to the 2022 Valuation exercise.

5.12 The number of 'Internal Dispute Resolution Procedure' Appeals in progress continues to be extremely low, with no obvious trends or concerns to report. In line with the Fund's Breaches Policy considerations, there were no potential breaches to report during the period.

6.0 PENSION BOARD

6.1 The Pension Board last met virtually on 9th August 2021, with the next meeting scheduled to take place on 15th November 2021. There were no items noted for referral back to Committee.

6.2 One of the longstanding 'Scheme Member' Pension Board Members is stepping down from the role at the end of October. The Fund is currently going through an appropriate recruitment process to appoint a replacement. As part of this recruitment and the recent personnel changes within the Service, the Fund has registered a number of places on the LGA 'Fundamentals Training programme' planned for the Autumn.

6.3 Pension Board Members have continued to support their skills and knowledge requirement, through their attendance at relevant online events.

7.0 OTHER ISSUES

7.1 The Panel reviewed the skills and knowledge framework and noted the updates.

7.2 The Risk Register was considered and updates noted. A review of the Risk Register is being dealt with elsewhere in this agenda.

7.3 Attached at Appendix 1 is the latest LAPFF quarterly engagement report for the period April to June 2021.

8.0 CONCLUSION

8.1 This report sets out, for the Committee, the key issues being addressed as delegated functions, as specified in the Pension Fund Governance Policy Statement, by the Director of Finance and Digital Services.

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Quarterly Engagement Report

April-June 2021

Local Authority Pension Fund Forum

Shell, Exxon, ArcelorMittal, National Grid, Tesco, Hanwha

CLIMATE EMERGENCY

Shell Pushed to the Brink on Climate

Objective: LAPFF has engaged with Shell for many years, including as a participant in the CA100+ initiative. The objective has been to see a clear and credible business transition path towards net zero by 2050, with appropriate reductions in all emissions prior to 2050 in order to reach that goal.

Achieved: LAPFF is a member of CA100+ and the Shell engagement group, and along with several other members was concerned about the commitment Shell had to becoming net zero. The two lead engagers entered into a non-disclosure agreement with the company, therefore privy to Shell's approach whilst unable to inform other members of the group until after the public statements in support were made. Shell's approach was released in February 2021. LAPFF had however analysed what was said perhaps more fully and sceptically than others, and LAPFF recommended voting against Shell's climate transition resolution and for the resolution of campaign group Follow This.

The Shell resolution at the 18 May AGM passed with 11% opposition, but 30% of voting shareholders voted in favour of the Follow This resolution. However, on 26 May a Dutch Court concluded that Shell's plans were inadequate on each of the points that LAPFF had highlighted. These were:

- that the small print showed the proposal was not incorporated into operating plans or budgets and that these things would only occur when Shell's customers had made adjustments;
- that the proposals for Carbon Capture and Storage and Nature Based solutions were ill-defined (as well as not in budgets or operating plans);
- that emissions were based on discredited "intensity" measures rather than absolute emissions; and
- that there were no targets for emissions reduction by 2030.

In consequence the Court has required that Shell reduce its global absolute emissions by 45% by 2030 with reference to 2019 emissions in order to begin to meet Paris goals.

In Progress: The company has indicated it intends to appeal the judgment. The current plan from LAPFF is to engage with the incoming chair, Sir Andrew Mackenzie. A key issue for discussion is why LAPFF and the Courts were able to draw the same conclusion despite a considerable public relations effort to push the opposite. The key lesson from Shell is that LAPFF engages as part owners of the company, not default supporters of incumbent management.

CLIMATE EMERGENCY

Media coverage - LAPFF urges member funds to oppose Shell climate strategy - *Pensions Age Magazine*
UK public pension forum recommends vote against Shell on climate - *News, IPE*
Pension Forum LAPFF Recommends Members Vote Against Shell Climate Plan - *ESG Today*
UPDATE 2-Shell climate plan should be opposed at AGM -funds group - *Reuters*
UK pensions group recommends members oppose Shell's climate strategy at AGM - *Nasdaq*
Shell climate plan should be opposed at AGM - funds group - *Euronews*
Shell Climate Plan Should Be Opposed At AGM Says Funds Group - *Checkout*

Exxon Board Overhauled

Objective: Exxon has for years been a poster child for climate change denial, despite evidence that extensive Exxon research had identified the harmful effects of climate change decades ago. Consequently, investors – including LAPFF – have voted for a number of years now to overhaul the Exxon board.
Achieved: The requests from LAPFF to meet with members of the Exxon board were consistently fobbed off, including as recently as the spring of this year. In light of these refusals, it was not a difficult decision to issue advice to back a slate of four directors proposed by hedge fund Engine No.1 and vote against the election of other members.

The first signs that things were not going the way the company would like was an unscheduled one and a half hour gap in the company's AGM on 26 May. At the time of writing, the votes have still not been fully counted and announced. However, Exxon has stated that three of the Engine No. 1 candidates have been elected to the board and three of the board nominated candidates were not.
In Progress: In light of this tremendous result of shareholder activism, LAPFF hopes to be able to engage with new board members.

Say on Climate Ramps Up

Objective: LAPFF has been speaking with Sir Chris Hohn, of The Children's Investment Fund Management, who came up with an idea to press companies to put their climate plans and strategies to vote

Sir Chris Hohn, of The Children's Investment Fund Management,

at AGMs in much the way that say on pay votes take place currently. The goal of this initiative is to allow shareholders the opportunity to hold all companies more accountable for their carbon management activities, not just those with high carbon emissions.
Achieved: While there have been mixed views on this initiative, there have been a number of positive outcomes from these votes. For example, LAPFF was able to use Shell's say on climate resolution to express significant concerns about the company's climate plans. It is also putting pressure on companies that did not bring such resolutions to their AGMs this year to do so next year. Anglo American announced at its 2021 AGM that it will bring an advisory resolution on its climate plans to the 2022 AGM, joining a number of other companies making this commitment. Finally, this initiative is driving clarity for investors on how to assess company climate initiatives. Several organisations have come together to rate company plans on a number of factors, such as targets and strategy, in particular the Climate Action 100+ benchmark. These analyses help investors to understand and evaluate company climate plans in a systematic and strategic manner.
In Progress: Some commentators have expressed concern that the Say on Climate initiative misses the mark and deflects attention from real action, such as voting out board directors. However, we have seen this year with the Exxon board debacle that investors can do both and indeed the Say on Climate initiative emphasizes the fact that 'annual shareholder votes on climate transition action plans are complementary to other votes on critical climate matters, such as disclosure, audit and other board votes. As this initiative develops and investors gain a better sense of what to ask of companies, it seems likely that say on climate resolutions will be an important tool in the arsenal of responsible investors seeking to press companies in the right direction on climate.

National Grid

Objective: A meeting was held with National Grid representatives as part of the ESG roadshow the company is undertaking prior to the July AGM. LAPFF Vice Chair Cllr Rob Chapman, together with other lead CA100+ investors, met with Steve Thompson, Environmental Sustainability Manager and Nick Ashworth Director of Investor Relations. The primary objective for LAPFF was to assess company progress against the CA100+ benchmark in anticipation of questions to put to the chair prior to the 2021 AGM and the resolution for an advisory vote on the group net zero transition plan, ie. a 'say on climate' vote.
Achieved: The company has now set a new Scope 3 target to reduce carbon emissions 37.5% below the 1990 baseline by 2034, up from the previous target of 20% by 2030. This target is aligned with the science-based targets initiative. Scope 3 emissions are by far the largest proportion of the company's emissions, and, having signed up to the science-based targets initiative, it is welcome to see this amended mid-term concrete target. Although National Grid is buying WPD Group, the UK's largest electricity distribution business, it is still devoting attention to including hydrogen in the domestic gas supply. Concerns were raised about this focus and the potential of locking in stranded assets.
In Progress: A meeting is scheduled with the new chair, Paula Rasput Reynolds in July, prior to the late July AGM.

ArcelorMittal

Objective: At a meeting in May, Cllr Chapman led a collaborative investor meeting to ascertain if there was an increased focus on hydrogen as opposed to processes reliant on carbon capture

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and storage (CCS) to ensure all procedures were in place to input questions to the AGM, and to ask if the company would consider a 'say on climate' vote at its 2022 AGM.
Achieved: Company representatives indicated there had always been an emphasis of hydrogen, even if it wasn't reported in that way and the recent separation of hydrogen and 'smart carbon' in their reporting showed this. However, more information was provided on ArcelorMittal's electrolysis technology, the company's Siderwin project on which it is collaborating with 11 partners, which shows a lot of potential. The company agreed to liaise on AGM arrangements. Subsequent to this, LAPFF received correspondence indicating that the CA100+ benchmark would be referenced in their next Climate Action report.
In Progress: The second group-wide Climate Action report has been much delayed but is due to be published around the end of June, after which a further meeting will be sought.

Mining and Human Rights

Objective: During the quarter, LAPFF aimed to raise the link between human rights and financial performance at mining companies. The impetus for this angle on the engagement has come from speaking with mining companies for whom law suits and fines spanning many years persist and grow while human rights issues remain unresolved.

BHP and Vale are examples of this problem. BHP is facing protracted litigation in the UK over its role in the Samarco dam collapse in Brazil, and both BHP and Vale are facing fines of one million Reais a day for each day they fail to make adequate and complete reparations to the victims of the Samarco dam collapse. Rio Tinto is also facing threats of billions of dollars in losses at its Oyu Tolgoi operation in Mongolia, in part because of poor relations with affected community members. And Anglo American is facing a class action lawsuit for alleged lead poisoning in Zambia that stems back to 1925, as well as continued operational problems at Cerrejon, its joint venture in Colombia with BHP and Glencore. (Just to note, Anglo American and BHP have recently withdrawn from this joint venture).
Achieved: Consequently, LAPFF asked a question at the Rio Tinto AGM about whether the company would be willing to quantify the financial cost of its social failures. Noting the complexities in doing so, it would be helpful for investors to understand some of the financial consequences of mining companies' social failings in order to make clear that they are losing money when companies do not respect human rights and broader social issues in their operations.

LAPFF has also raised this issue with BHP and Vale in engagement meetings. For example, LAPFF issued four questions on behalf of affected community members that asked for the financial

Some of Rio Tinto's problems
Top: The lead smelting plant at Kabwe, Zambia, one of the ten most polluted places in the world
Right: Affected communities in the Oyu Tolgoi operation in Mongolia
Below: Protests against its joint venture in Colombia with BHP and Glencore

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implications of various actions Vale has had to take in response to the Mariana and Brumadinho dam collapses in Brazil. These financial implications are important not least because the Renova Foundation, the joint venture between BHP and Vale established to make reparations after the Mariana dam collapse, has spent 13.1 billion Reais to date, according to its website, with very little progress on housing by all accounts. A meeting with the Renova CEO in late June suggested that he was optimistic that house building and resettlement would speed up in the coming months.

In June, LAPFF Chair, Cllr Doug McMurdo, met with Rio Tinto's new CEO, Jakob Stausholm, who replaced Jean-Sebastian Jacques after the company's destruction of the caves at Juukan Gorge in Western Australia last year. The discussion covered Mr. Stausholm's vision for company culture at Rio Tinto post-Juukan Gorge. Cllr McMurdo also met with Anglo American CEO, Mark Cutifani, to ask about Mr. Cutifani's visit to Cerrejon, a site that lost 91 production days during 2020 due to a strike. This meeting followed a webinar with workers at Cerrejon who cited deplorable working conditions at the mine and a webinar last quarter with community members affected by the mine who cited a litany of human rights and environmental violations associated with the project. In fact, these groups have filed a complaint with multiple National Contact Points of the OECD to complain about the conditions stemming from the mine's operations.

Glencore and BHP also faced implications from the OECD complaint regarding Cerrejon, but it has been announced that Anglo American and BHP have sold their shares in the joint venture to Glencore. These sales were announced just days after Cllr McMurdo met with both Glencore Chair, Tony Hayward, and BHP Chair, Ken MacKenzie. Glencore's on-going litigation around compliance was discussed, and Cllr McMurdo once again pressed Mr. MacKenzie on the ESG failings of joint ventures, including the financial implications for investors of these failings.

In Progress: LAPFF will continue to drive home the link between social and environmental failures by mining companies and poor or reduced long-term financial returns for investors. It is clear that making this link for companies and investors alike will take some time, especially given that mining companies just announced unprecedented dividends this AGM season in the midst of Covid and serious on-going human rights and environmental problems, but this issue will come home to roost eventually. The clearest link for both companies and investors on this point appears to be the struggles that companies have with joint ventures, so LAPFF is continuing to push on this point whenever possible. LAPFF will also continue to track developments with house building and resettlements following the Samarco dam collapse.

Media coverage - 'Devastating': Can Rio's local boss rebuild trust after Juukan disaster? - *smh.com.au*
Rio Tinto suffers huge revolt over pay - *Financial Times - ft.com*
Investors oppose Rio Tinto pay report over rock shelter outrage - *Reuters*

LAPFF Posts Monthly Updates on Samarco Dam Collapse

Objective: One area where Brazilian community members have asked LAPFF to push in relation to reparations after the Samarco dam collapse in Brazil is on housing. Only ten houses have been rebuilt in over five and a half years in three of the main areas where houses were destroyed by the sludge released from the dam according to affected community members and the companies.
Achieved: Consequently, LAPFF has started publishing monthly updates on its website of the number of houses built over five and a half years after the dam collapse. The Forum contacts BHP and Vale, the companies involved, and the Renova Foundation, the joint venture entity responsible for reparations, and the affected communities for updated information. What quickly became clear was that the company data did not match the community data by a long way, so LAPFF has had to publish each party's data separately.
In Progress: LAPFF has now undertaken this exercise for three months, but only three houses have been built in that time according to the companies and the communities. LAPFF will continue to press for these houses to be built well, quickly, and in accordance with the needs and wishes of the affected community members.

Brazilian Investor and Community Engagements

Objective: Another area where community members affected by the Mariana and Brumadinho dam collapses asked LAPFF to help was in connecting them with Brazilian investors who could support their efforts.
Achieved: Last year, LAPFF made an initial attempt to reach out to one of the main Brazilian investors in Vale – Previ. However, it came to light that the Vale Chair at the time was also the CEO of Previ, so no progress was made on that front. Subsequently, LAPFF – through Principles for Responsible Investment (PRI) – has connected with JGP Credito, a Brazilian investment firm that has an in-house ESG team. JGP Credito has shown significant interest in engaging with the affected communities. They asked questions from affected community members at Vale's AGM on behalf of LAPFF and joined LAPFF's quarterly meeting with affected community members to get acquainted with community representatives.

LAPFF Chair, Cllr Doug McMurdo, was also invited by PRI to participate in a webinar aimed at Brazilian investors. He was asked to speak on a panel addressing the 'S' in ESG and raised a number of thoughts and issues LAPFF has encountered in its tailings dam engagements in Brazil. A well-known responsible investor in Brazil, Fabio Alperowitch, chaired the panel, and LAPFF has been corresponding with him since. Mr. Alperowitch has met with affected community representatives in Brazil after LAPFF put these two parties in touch and is looking to connect LAPFF with more Brazilian investors who might be interested in this engagement, though he suggests that responsible investors in Brazil are few and far between.
In Progress: While affected community members have expressed gratitude for LAPFF's assistance and efforts so far on their behalf, it is clear that local investors engaged on this issue would have better success. This is because they understand not just the local language but the local cultural and political levers to make progress. LAPFF will therefore continue to work on building a coalition of Brazilian investors to help take this engagement forward.

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A "pyramide of shoes" in Paris residents stacked up their old shoes in solidarity with Handicap International's bid to bring attention for demands on a global ban of anti-personnel mines and cluster bombs.

Hanwha Drops Cluster Munitions Business

Objective: In 2014, LAPFF was approached by some of its members to undertake an engagement with defence companies to ask them to stop producing and selling cluster munitions. This engagement was difficult because these companies were on government defence contracts, so the prospect of having investors carry the necessary weight to convince them to stop producing and selling cluster munitions seemed slim.
Achieved: However, about a year later, Singapore Technologies wrote to LAPFF stating that the company had ceased the production and sale of cluster munitions, in part due to pressure from LAPFF and other investors on this issue. Then, in December 2020, LAPFF began to receive emails from another company with which the Forum had engaged – Hanwha Corporation – stating that company had sold off its cluster munitions business.

The company offered meetings to investors recently, and LAPFF Executive member, Cllr Wilf Flynn, met with Hanwha representatives to discuss the company's decision to dispose of its cluster munitions business. The possibility of a say on climate resolution to next year's AGM was also discussed as it transpired that the South Korean government is keen to promote sustainability and green technology.
In Progress: LAPFF has sought clarity on whether Hanwha would be willing to put a say on climate resolution to its next AGM.

Israeli-Palestinian Engagement Continues

Objective: LAPFF approached seventeen companies in October 2020 operating in the Occupied Palestinian Territories (the Territories), seeking to raise a number of concerns based on their operations in the Territories. Subsequently, one meeting was held alongside several email communications.
Achieved: LAPFF subsequently wrote in June 2021 to sixteen of the companies initially engaged (Altice Europe N.V. has been taken private since the initial round of engagement) requesting that they undertake human rights impact assessments (HRIAs) related to their operations in the Territories. The hope is that companies operating in the Territories will understand the importance of undertaking these HRIAs, not only to highlight where the companies might be complicit in human rights infringements, but also to provide insight on potential investment risks for shareholders. The Forum also issued voting alerts for Booking Holdings Inc, TripAdvisor Inc and Expedia Group Inc, all of whom have been non-responders thus far in the LAPFF engagement. The voting alerts were issued after LAPFF met with representatives from the UN including the Office of the United Nations High Commissioner for Human Rights (OHCHR) to better understand the methodology used in producing the reports the OHCHR has issued on this issue in previous years. In February 2020, the OHCHR issued a listing of companies that are active in the Territories and that raise human rights concerns. LAPFF has based its company engagement targets on this list.
In Progress: The Forum will seek to put pressure on the companies with which it has engaged to undertake these HRIAs and will consider voting alerts on a case-by-case basis.

AGMs and Voting Alerts

Objective: Each year, LAPFF circulates voting alerts and attends AGMs of companies with which the Forum is targeting engagement. Last year and this year have been challenging on one hand and have opened opportunities on the other hand because of Covid. LAPFF has managed to attend several AGMs and to issue a number of voting alerts to date.
Achieved: LAPFF has attended AGMs this year for Rio Tinto, Barclays, Anglo American, ArcelorMittal, Shell, and Lyondell Basell so far this year. Here is a taste of a couple:

AGMS

ArcelorMittal

As the company did not have an AGM that was open to shareholders in 2020, LAPFF had pushed for more access this year. The company had put arrangements in place to allow written questions, but in the event, the widespread crash of many internet sites on the day of the AGM meant a hastily arranged zoom session gave far more open and transparent access. Aditya Mittal, the recently appointed chief executive, gave a positive response to providing an accelerated timeline for implementing hydrogen technology, saying that the company wanted to be a leader and that another announcement on hydrogen developments was imminent. In response to a request for a 'say on climate' vote at the 2022 AGM, Bruno LaFont, the lead independent director, noted that they would consult with shareholders on this.

Lyondell Basell

The LAPFF chair, Cllr McMurdo, participated in the company AGM, as part of a 'formal discussion' scheduled for the AGM by the CA100+ lead investors, which focussed on the company's performance against the CA100+ benchmark. LAPFF noted the annual forum as the best forum for understanding a broad range

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of shareholder views and asked the company to put its climate strategy to vote at the 2022 AGM and annually at each AGM, in effect for a 'say on climate'.

VOTING ALERTS

LAPFF has also issued several voting alerts so far this AGM season. Alerts issued have been for: Rio Tinto, HSBC, Glencore, Barclays, Shell, Facebook, Amazon, Exxon, Expedia, Trip Advisor, Booking Holdings, Mitsubishi UFJ Financial Group, and Delta Airlines. Below is some detail on a few of the alerts:

Barclays

LAPFF advised voting in favour of a resolution asking the company to implement a strategy with improved targets to phase out the provision of financial services to fossil fuel projects consistent with the Paris Agreement. A company meeting in April had indicated the criteria for investing in oil sands companies was for these companies to have a less than average carbon emission intensity by 2030, compared to other oil sands companies. The alert flagged up that it would be helpful if Barclay's next year's Annual Report disclosed the amount of fossil fuel dependent lending.

Mitsubishi UFJ Financial Group

The voting recommendation to members was to vote in favour of a resolution for the company to disclose an annual plan of the business strategy to align financing and investments with the goals of the Paris Agreement. The alert noted that the company continues to provide significant finance to fossil fuel expansion and deforestation, falling far short of Paris alignment.
Media coverage - https://www.reuters.com/business/sustainable-business/uk-pensions-group-says-backs-climate-resolution-mitsubishi-ufj-2021-06-28/

Delta Airlines

LAPFF advised members to support a resolution for Delta to evaluate and report on how the company's lobbying activities align with the Paris Agreement and how the company plans to mitigate risks presented by any such misalignment. At the AGM, the resolution passed with a majority vote.

In Progress: LAPFF will continue to issue voting alerts and attend AGMs as relevant and possible throughout the year.

Diversity Engagements and Socio-Economic Task Force

Objective: The Hampton-Alexander Review set a target of 33% representation of women on FTSE350 boards and in Executive Committees by the end of 2020. With this target in mind, LAPFF views the financial sector as a laggard in the FTSE100 in terms of gender pay gaps and female representation. LAPFF has also sought to engage on ethnic diversity and approached the City of London Taskforce on Socio Economic Diversity.
Achieved: LAPFF approached six companies in the financial services sector in the FTSE100, holding meetings with both Standard Life Aberdeen and Lloyds Banking Group. Both companies provided a detailed insight into the issues they face in championing woman and how they are tackling the gender pay gap. Lloyds Banking Group is one of the first companies in the FTSE100 to post an ethnicity pay gap report and recognises that there is work to be done in this area. With the City of London Taskforce on Socio Economic Diversity in mind, the Forum also asked how social class was taken into account with both companies. Then in May 2021, Cllr John Gray, LAPFF Vice-Chair was appointed to the City of

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London's Taskforce Advisory Board on Socio-Economic Diversity. The Forum has also continued its participation in the 30% Club Investor Group Meetings which provides a space to discuss best practice among investors in relation to female representation on company boards.
In Progress: The Forum will extend its engagement on diversity and pay gaps to the FTSE350, looking to see where companies have not yet met targets of the Hampton-Alexander review, and where wider pay gaps exist. Cllr John Gray will also be involved in the City of London's Taskforce Advisory Board, which will have a series of workstreams seeking to tackle the issue of socio-economic diversity in the financial services sector.

Worker Safety during the Pandemic

Objective: The coronavirus pandemic has highlighted the importance that companies must place on the S in ESG to safeguard workers and protect and enhance shareholder value. The heightened exposure of workers and others to the pandemic in some sectors potentially poses serious investment risks for LAPFF members. It also goes to the heart of LAPFF's objectives of promoting responsible investment and the highest standards of corporate governance. Engagements sought to ensure that proper processes have been in place during the crisis and that boards were providing proper oversight as the crisis has unfolded. These engagements have focused on sectors most at risk including the outsourcing and social care sectors.
Achieved: LAPFF met with Capita and Serco. The meeting with Capita covered the safeguarding of staff and the balance of working from home and from call centres. At the meeting with the new chair of Serco, LAPFF discussed how the board managed the pandemic. There was a discussion around PPE and cleaning in hospitals, as well as organising video calls for prisons.

Alongside the outsourcing sector, the care sector has been identified as facing specific risks. The Forum met the chair of Target Healthcare REIT. Although providing the buildings rather than the care, property companies play an important role in ensuring high standards. The need to engage both tenants and landlords was discussed at the meeting. LAPFF, alongside a range of other investors, also signed on to an expectations for the nursing home sector statement. The statement, coordinated by UNI Global, calls on providers to improve standards for residents and staff in the wake of the pandemic.
In Progress: The Forum will continue to be engaging companies on this agenda and collaboratively with the care sector as part of the UNI Global initiative.

WEBINAR

COLOMBIAN WORKERS AT THE CERREJON MINE
UNI Global worked with LAPFF to set up a webinar with workers at the Cerrejon coal mine in Colombia. They reported horrendous working conditions and threats to their personal safety. Cerrejon is a joint venture between BHP, Anglo American, and Glencore.

CLIMATE LAW WEBINAR
LAPFF teamed with Hausfeld LLP to run a webinar on developments in climate law. The following week, the Dutch courts handed down a ruling that Shell must cut its global carbon emissions by 45 percent by 2030 based on a 2019 benchmark.

"I am noticing a worrying trend of asset disposal without consideration for the conduct of the entities to which the disposals are made. This phenomenon cuts across coal businesses sold to small and unaccountable businesses without knowing whether emissions will be cut to cluster munitions businesses sold to entities with no promise of working to cease the production and sale of cluster munitions. Sweeping issues into another room will not solve the world's problems, nor will it create better investment opportunities for investors."

LAPFF Chair, Cllr Doug McMurdo

Electric Vehicles and Climate Change

Objective: Car use is a major contributor to global carbon emissions. Carmakers are facing tightening regulatory emission and fuel standards across the globe, which will require them to move to electrify their fleets. LAPFF has sought to engage companies through approaching this challenge and pushing for emission reductions in the short term and longer-term commitments to net zero. The Forum has also been engaging through Climate Action 100+ with US companies.
Achieved: After meeting with General Motors in January 2021, LAPFF joined a collaborative call alongside CA100+ this June to further discuss the company's approach to electrifying its product line and its position on climate lobbying. General Motors produces several large sized vehicles including trucks and SUVs. The pivot for these to a 1.5C pathway is necessary for the company to align itself with its competitors in transitioning to a net-zero economy. This was the main topic of discussion at the meeting.
In Progress: LAPFF will continue its engagement with vehicle producers around changing regulation and their approach to electrifying product lines. General Motors appears to be lagging behind competitors in this area, and the Forum will continue to push for quicker production of electric vehicles.

Anglo American on Climate

Objective: The mining sector poses considerable climate risks to investors. The sector's operations are often carbon intensive and some minerals extracted, notably coal, are of great harm to the environment. LAPFF, as part of Climate Action 100+, has sought greater disclosure on Scope 3 and emissions data, an emphasis on reducing thermal coal

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mining, setting Scope 3 goals and targets, and ensuring lobbying aligned with net zero.

Achieved: Anglo American has committed to carbon neutrality by 2040 across all assets for Scope 1 and 2 emissions which represents a step forward and is a recognition that 2050 was too far away. The meeting covered how Anglo American is seeking to reduce emissions from mining and included a discussion of capital allocation and mining activities required to support the transition to net zero.

In Progress: LAPFF is seeking to engage further with Anglo American on its Scope 3 emissions. There is work to be done on measuring emissions and fully accounting for carbon emissions that are present in the value chain.

COLLABORATIVE ENGAGEMENTS

IOPA engagement meetings

LAPFF has continued to participate in the Investors for Opioid and Pharmaceutical Accountability (IOPA) meetings. The group has run a number of Vote No campaigns, notably at Cardinal and AmerisourceBergen . The group also wrote to the chairs of compensation committees at eleven companies, scrutinising how executive compensation had been handled in light of charges being brought for opioids settlements.

Collaborative initiatives on Climate

The SEC was seeking input to proposed climate change disclosure. LAPFF, as a CERES member, co-signed a letter supporting essential principles, including basing disclosure rules on the Taskforce on Climate-related Financial Disclosure (TCFD) guidance, having industry specific metrics, promoting emissions disclosure and the inclusion of material climate disclosures in financial filings.

In April, LAPFF co-signed an investor call for methane and flaring regulations at federal level in the US. The aim is to support and encourage the Biden administration to enforce strong methane regulations for the oil and gas industry. It is considered regulation will be low-cost for industry. Methane emissions are potent greenhouse gases, 84 times more powerful than carbon dioxide in the first two decades after release.

LAPFF, as in previous years, has signed a Global Investor Statement to Governments on the Climate Crisis in advance of the United Nations Climate Change Conference (COP26) taking place in November this year. There are five main asks, including a request for governments to strengthen their nationally determined contributions (NDCs) for 2030 to limit warming to align with 1.5 degrees Celsius.

CONSULTATION RESPONSES

LAPFF Just Transition Inquiry

The All-Party Parliamentary Group for Local Authority Pension Funds' inquiry into 'Responsible investment for a just transition' continued. The LAPFF-supported APPG inquiry, chaired by Clive Betts MP, held its third evidence session in May. The meeting heard from Colin Baines (Investment Engagement Manager, Friends Provident Foundation); Sarah Teacher (CEO, Impact Investing Institute); Andy Gouldson (Chair of the Leeds Climate Commission) and Peter Brierley (Lead Organiser, Citizens UK). The call for evidence has now closed and the inquiry is reviewing the evidence to be discussed at the next meeting before the final report is published in October ahead of COP 26.

DWP Consultation – 'S' in ESG

LAPFF responded to the DWP's consultation on 'consideration of social risks and opportunities by occupational pension schemes'. Although the consultation did not cover LGPS funds, as pension regulation and legislation for the Forum's sector tends in the end to mirror DWP's LAPFF submitted a response. The Forum's response outlined LAPFF's policy approach to social issues and how and what themes we engage companies on. LAPFF's response also stated that social issues are often overlooked and there was a need for much greater company disclosure.

Investor Letter to SEC on Proxy Voting Rules

The Biden Administration SEC has signalled that it plans to support investors' ESG aspirations, not least by failing to enforce the Trump era imposition of obstacles to filing shareholder resolutions on ESG. However, US investors remain concerned that the US proxy voting rules will not facilitate ESG-related resolutions and sent a letter to this effect which LAPFF signed.

BEIS White Paper on Audit Reform

In 2018 LAPFF made a submission to the Financial Reporting Council (FRC) dealing with governance of companies which presented serious concerns about the FRC and its own governance. That led to a period of circumspection which then led to the Kingman Review. The Kingman Review concluded that the FRC was not fit for purpose and would be replaced by a new body, the Auditing, Reporting and Governance Authority (ARGA).

This White Paper deals with some of the issues relevant to the transition to ARGA. Some of the issues around accounting and auditing standards have not been addressed. The problem LAPFF identifies in its response is not so much reform of the law, but implementation of existing law. Some parties have argued that the law is different to the position of LAPFF. However, that approach overlooks the fact that what the law states is merely an articulation of economic facts.

Central to the preparation of the accounts is whether they should be prepared on a going concern basis. Several basic principles are relevant to the determination of that. Phantom 'profits' and phantom 'net assets' will create a risk of a phantom 'going concern' and if auditors sign accounts without bottoming these considerations then their opinions will be wrong.

Being able to distinguish between cash or near cash (realised) or non-cash (unrealised) items is essential to determine whether a company is capable of being a going concern or not. A company may not be a going concern if it cannot service debt and cover ordinary costs and – absent additional sources of funds or guarantees – that requires cash flows from profits, not unrealised gains.

The same applies with the matter of effective internal control, including the absence of material fraud.

Unfortunately, both International Accounting Standards (IFRS) and International Auditing Standards (ISA) water down, or even go against, such basic principles. Some other issues are also covered on the LAPFF website.

Media coverage - [LAPFF questions UKEB's approval of accounting standards - *Pensions Age Magazine*]

ENGAGEMENT

AFL-CIO and EU Tax Letters

There are continued concerns that country-by-country-reporting laws on tax are not addressing the full scope of the reporting gaps. For example, a recent AFL-CIO letter on this issue to the US Congress called for laws requiring that companies report their taxes for all countries in which they operate, not just a general 'rest of the world' category. PRI sent a letter on this issue to the European Union shortly after the AFL-CIO letter was sent in the US. LAPFF signed both letters.

Facial Recognition Technology Investor Statement

Human rights concerns surrounding facial recognition technology have surfaced in the last few years. LAPFF issued a voting alert to Amazon on this topic both last year and this year and signed an investor statement circulated by Candriam on this issue this quarter.

Media coverage - https://www.professionalpensions.com/news/3076049/lapff-supports-majority-amazon-shareholder-resolutions

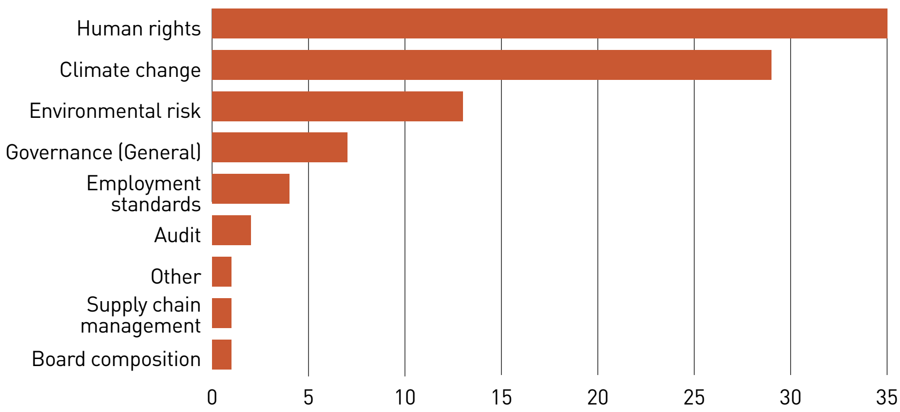
HM Treasury Consultation on Aviation Tax Reform

In its response to the consultation, LAPFF called on the Treasury to review the current position of air tickets being VAT free and aviation fuel incurring no duty. A price signal of reducing domestic air passenger duty (APD) would likely encourage more flights. This outcome is in stark and direct opposition to the government's own climate change target to reduce emissions by 78% by 2035 over 1990 levels. LAPFF has long recognised the imperative to address climate change as a systemic investment concern for investors. With aviation expected to grow to be the biggest source of UK emissions by 2050, it is a significant contributor to the material financial risks of climate change with the potential for loss of shareholder value.

Media coverage - [LAPFF urges Treasury to review position on APD amid 'contradictory signalling' - *Pensions Age Magazine*]

ENGAGEMENT DATA

ENGAGEMENT TOPICS



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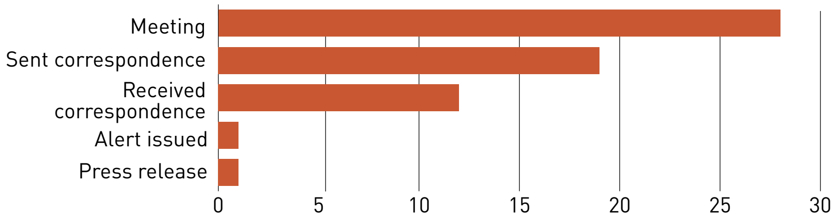
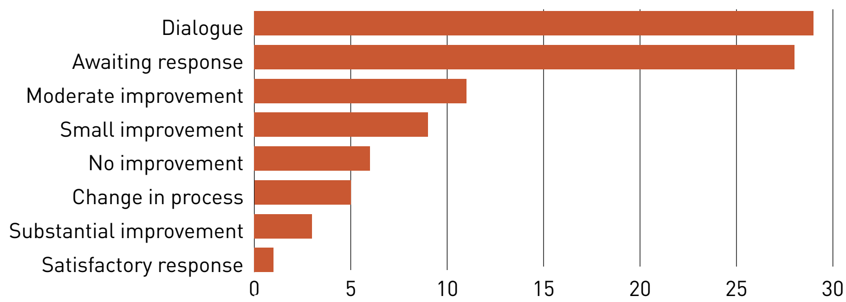
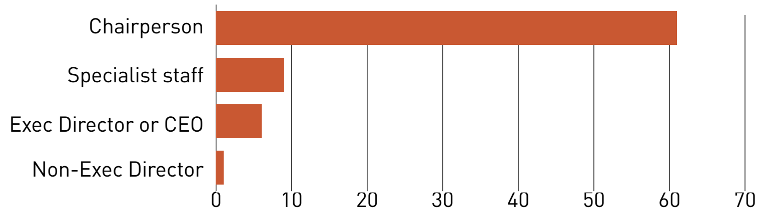


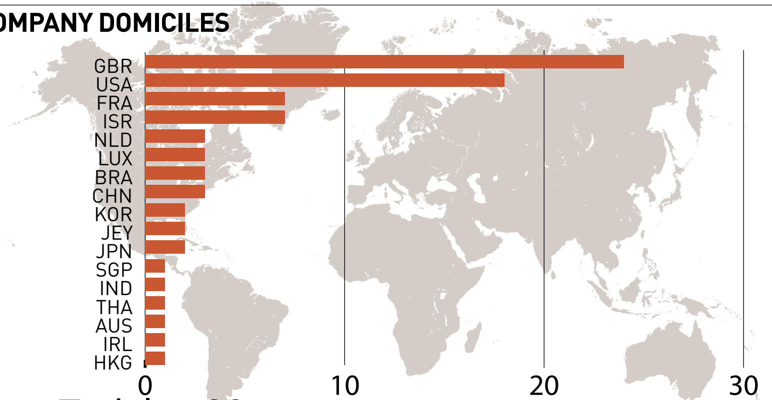
MEETING ENGAGEMENT OUTCOMES



POSITION ENGAGED



COMPANY DOMICILES



COMPANY PROGRESS REPORT

59 Companies engaged over the quarter

*The table below is a consolidated representation of engagements so reflects the number of companies engaged, not the number of engagements

Company/Index	Activity	Topic	Outcome
ABBOTT LABORATORIES	Sent Correspondence	Environmental Risk	Awaiting Response
AIR LIQUIDE SA	Sent Correspondence	Climate Change	Dialogue
ALSTOM SA	Sent Correspondence	Human Rights	Dialogue
AMAZON.COM INC.	Alert Issued	Human Rights	Dialogue
ANGLO AMERICAN PLC	Meeting	Human Rights	Change in Process
APPLE INC	Sent Correspondence	Environmental Risk	Awaiting Response
ARCELORMITTAL SA	Received Correspondence	Climate Change	Substantial Improvement
BANK HAPOALIM B M	Sent Correspondence	Human Rights	Awaiting Response
BANK LEUMI LE-ISRAEL BM	Sent Correspondence	Human Rights	Awaiting Response
BARCLAYS PLC	Meeting	Climate Change	Dialogue
BARRATT DEVELOPMENTS PLC	Sent Correspondence	Climate Change	Awaiting Response
BEZEQ THE ISRAELI TELECOMMUNICATION CORP LTD	Sent Correspondence	Human Rights	Awaiting Response
BHP GROUP PLC	Meeting	Governance (General)	Moderate Improvement
BOOKING HOLDINGS INC.	Alert Issued	Human Rights	No Improvement
BP PLC	Meeting	Environmental Risk	Awaiting Response
CHARTER COMMUNICATIONS INC	Meeting	Environmental Risk	Awaiting Response
COMPAGNIE DES ALPES	Sent Correspondence	Environmental Risk	Awaiting Response
CONSTELLATION BRANDS INC.	Meeting	Environmental Risk	Change in Process
CRH PLC	Received Correspondence	Climate Change	Small Improvement
DBS GROUP HOLDINGS LTD	Sent Correspondence	Climate Change	Dialogue
DELEK GROUP LTD	Sent Correspondence	Human Rights	Awaiting Response
EXPEDIA GROUP INC	Alert Issued	Human Rights	No Improvement
FACEBOOK INC.	Alert Issued	Governance (General)	Moderate Improvement
FREEPORT-MCMORAN INC.	Sent Correspondence	Human Rights	Dialogue
GENERAL MILLS INC	Sent Correspondence	Human Rights	Awaiting Response
GENERAL MOTORS COMPANY	Meeting	Climate Change	Small Improvement
GLENCORE PLC	Meeting	Governance (General)	Moderate Improvement
HANWHA CORP	Meeting	Human Rights	Substantial Improvement
HUADIAN POWER INTL CORP LTD	AGM	Climate Change	Change in Process
HUANENG POWER INTERNATIONAL	AGM	Climate Change	Dialogue
IMPACT HEALTHCARE REIT PLC	Sent Correspondence	Employment Standards	Awaiting Response
INDORAMA VENTURES PCL	Sent Correspondence	Human Rights	Awaiting Response
ISRAEL DISCOUNT BANK LTD	Sent Correspondence	Human Rights	Awaiting Response
LLOYDS BANKING GROUP PLC	Meeting	Governance (General)	Moderate Improvement
MITSUBISHI UFJ FINANCIAL GRP	Sent Correspondence	Climate Change	Dialogue
MIZRAHI TEFAHOT BANK LTD	Sent Correspondence	Human Rights	Awaiting Response
MORRISON PLC	AGM	Other	No Improvement
MOTOROLA SOLUTIONS INC.	Sent Correspondence	Human Rights	Awaiting Response
NATIONAL GRID PLC	Meeting	Climate Change	Substantial Improvement
NEXTERA ENERGY INC	Sent Correspondence	Climate Change	Dialogue
PAZ OIL CO LTD	Sent Correspondence	Human Rights	Awaiting Response
PERSIMMON PLC	Sent Correspondence	Climate Change	Dialogue
RIO TINTO PLC	AGM/MEETING	Human Rights	Change in process
ROYAL DUTCH SHELL PLC	Meeting	Climate Change	Dialogue
SAINSBURY (J) PLC	Meeting	Climate Change	Moderate Improvement
SANOFI	Meeting	Environmental Risk	Awaiting Response
SERCO GROUP PLC	Meeting	Employment Standards	Small Improvement
SHUI ON LAND LTD	Sent Correspondence	Environmental Risk	Awaiting Response
SONIC HEALTHCARE LTD	Sent Correspondence	Climate Change	Awaiting Response
STANDARD LIFE ABERDEEN PLC	Meeting	Board Composition	Moderate Improvement
TARGET HEALTHCARE REIT LTD	Meeting	Employment Standards	Moderate Improvement
TAYLOR WIMPEY PLC	Sent Correspondence	Climate Change	Awaiting Response
TOTALENERGIES SE	Received Correspondence	Climate Change	Moderate Improvement
TOYOTA MOTOR CORP	Sent Correspondence	Environmental Risk	Awaiting Response

COMPANY PROGRESS REPORT

59 Companies engaged over the quarter

*The table below is a consolidated representation of engagements so reflects the number of companies engaged, not the number of engagements

Transco (National Grid)	Meeting	Climate Change	Small Improvement
TRIPADVISOR INC.	Received Correspondence	Human Rights	Small Improvement
VALE SA	Meeting	Climate Change	Dialogue
YES BANK	Sent Correspondence	Human Rights	Awaiting Response
YUHAN CORP	Sent Correspondence	Environmental Risk	Awaiting Response

LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

Avon Pension Fund
Barking and Dagenham (London Borough of)
Barnet LB
Bedfordshire Pension Fund
Bexley (London Borough of)
Berkshire Pension Fund
Brent (London Borough of)
Bromley (London Borough of)
Camden (London Borough of)
Cardiff and Vale of Glamorgan Pension Fund
Cambridgeshire Pension Fund
Cheshire Pension Fund
City and County of Swansea Pension Fund
City of London Corporation
Clwyd Pension Fund
Cornwall Pension Fund
Croydon LB
Cumbria Pension Scheme
Derbyshire County Council
Devon County Council
Dorset County Pension Fund
Durham Pension Fund
Dyfed Pension Fund
Ealing (London Borough of)
East Riding of Yorkshire Council
East Sussex Pension Fund
Enfield (London Borough of)
Environment Agency Pension Fund
Essex Pension Fund
Falkirk Council
Gloucestershire Pension Fund
Greater Gwent Fund
Greater Manchester Pension Fund
Greenwich Pension Fund
Gwynedd Pension Fund
Hackney (London Borough of)
Hammersmith and Fulham (London Borough of)
Haringey (London Borough of)
Harrow (London Borough of)
Havering LB
Hertfordshire
Hounslow (London Borough of)
Islington (London Borough of)
Kingston upon Thames Pension Fund
Lambeth (London Borough of)
Lancashire County Pension Fund
Leicestershire
Lewisham (London Borough of)
Lincolnshire County Council
London Pension Fund Authority
Lothian Pension Fund
Merseyside Pension Fund
Merton (London Borough of)
Newham (London Borough of)
Norfolk Pension Fund
North East Scotland Pension Fund
North Yorkshire County Council Pension Fund
Northamptonshire County Council
Nottinghamshire County Council
Oxfordshire Pension Fund
Powys County Council Pension Fund
Redbridge (London Borough of)
Rhondda Cynon Taf
Shropshire Council
Somerset County Council
South Yorkshire Pensions Authority
Southwark (London Borough of)
Staffordshire Pension Fund
Strathclyde Pension Fund
Suffolk County Council Pension Fund
Surrey County Council
Sutton (London Borough of)
Teesside Pension Fund
Tower Hamlets (London Borough of)
Tyne and Wear Pension Fund
Waltham Forest (London Borough of)
Wandsworth (London Borough of)
Warwickshire Pension Fund
West Midlands Pension Fund
West Yorkshire Pension Fund
Westminster CC
Wiltshire County Council
Worcestershire County Council

Pool Company Members
Border to Coast Pensions Partnership
Brunel Pensions Partnership
LGPS Central
Local Pensions Partnership
London CIV
Northern LGPS
Wales Pension Partnership

RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

MUNICIPAL YEAR 2021-22

PENSION FUND COMMITTEE 11TH OCTOBER 2021 REPORT OF: THE DIRECTOR OF FINANCE AND DIGITAL SERVICES	AGENDA ITEM NO. 6 PENSION FUND RISK REGISTER – RISK REGISTER OVERVIEW

Author – Barrie Davies, Director of Finance and Digital Services (01443) 424026

1.0 PURPOSE OF REPORT

1.1 To provide the Committee with details of the arrangements in place to manage risk within the Pension Fund.

2.0 RECOMMENDATIONS

2.1 It is recommended that the Committee:

2.1.1 Note the arrangements in place for the management of risk within the fund; and

2.1.2 Review the Risk Register (Appendix 1) and consider whether they wish to receive further detail on any issues.

3.0 BACKGROUND

3.1 The terms of reference of the Pension Fund Committee sets out its responsibilities with regard to risk management, namely:

- *To provide independent assurance to members of the Fund of the adequacy of the risk management and associated control environment, responsible for the Fund's financial and non-financial performance.*

3.2 The Director of Finance and Digital Services (in their capacity as S151 officer) supported by the Investment and Administration Advisory Panel with appropriate officer, independent advisor and professional support, has delegated responsibility for all day to day operational matters, which includes ensuring that robust risk management arrangements are in place.

4.0 RISK MANAGEMENT

4.1 With regard to Risk Management, the Fund maintains a Risk Register which is reviewed and updated, as necessary and appropriate, on a quarterly basis.

4.2 The Risk Register is reviewed in detail and operationally by the Pension Fund Working Group, where recommended updates are made to reflect changes in risks. This is then presented to the quarterly meetings of the Investment and Administration Advisory Panel for further review, challenge and agreement.

4.3 Following the agreement of the updated register, it is published on the Fund Website.

4.4 The register is also reviewed by the Pension Board, as part of their role in supporting the Fund's overall governance arrangements.

4.5 The risk register, dated September 2021, is attached as Appendix 1 for review and consideration by the Committee.

5.0 CONCLUSION

5.1 This report sets out, for the Committee, the arrangements in place for the management of risk by the Pension Fund.

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APPENDIX 1

Summary of Pension Fund Risks

Introduction

The purpose of this document is to assess the risk associated with the RCT Pension Fund and to outline the control measures in place.

Key to scoring

Likelihood Assessment Matrix:

Factor	Score	Indicators
Almost certain	5	99% likely to happen or has happened on a regular basis over the last 12 months
Very likely	4	75% likely to happen or has happened at least once or twice in the last 12 months
Likely	3	50% likely to happen or has happened once or twice in the last 24 months
Unlikely	2	20% likely to happen or has happened once or twice in the last 5 years
Highly unlikely	1	5% likely to happen or hasn't happened within the last 5 years

Impact Assessment Matrix:

Risk	Score
Major	5
High	4
Moderate	3
Minor	2
Trivial	1

Ascertainment Of Risk Level According To Levels Of Impact And Likelihood:

Likelihood		1	2	3	4	5
	5					
	4				1	
Likelihood	3			1	2	
	2	1	1	2	8	4
	1		3	3	6	5
		1	2	3	4	5
				Impact		

1	High Risk
15	Medium Risk
21	Low Risk

Overarching Fund Objective – to ensure Fund assets are sufficient to meet Fund liabilities in the short, medium and long term

Risk Category	Risk Description	IMPACT	LIKELIHOOD	RATING		Control Measure	Comments on changes in risk rating Sept 2021 qtr
Funding	Long term investment strategy unable to meet the objective of funding liabilities.	**5**	**2**	**10**	MR	• Monitoring of deficit, reporting on the funding levels produced by the actuaries. • Monitoring of the adopted asset / liability model. • Monitoring the outcome of the consultation on the remedies of the McCloud case in the Supreme Court.	
	Sub-optimal asset allocation throughout the portfolio.	**4**	**2**	**8**	MR	• The investment strategy is reviewed and adopted by the Pension Fund Committee. • The Committee (with advice from the Advisory Panel) should regularly review the asset allocation strategy. • The review should cover both the fund strategy and the asset allocation. • Post 2019 valuation review completed and implementation in progress.	
	Actuarial assumptions are not met. e.g. discount rate, life expectancy assumptions.	**4**	**3**	**12**	MR	• Agree and set prudent assumptions in conjunction with the appointed Fund Actuary, based on past trends, forecasts, longevity modelling. • Adhere to triennial valuations. • Monitor performance against assumptions, consider Interim Valuations where necessary. • Monthly monitoring of Pension Fund investment valuation given the uncertainty in markets due to Covid-19. • Receive regular Actuarial Funding updates.	
	Increases in Employer contributions.	**4**	**2**	**8**	MR	• Participate in LGPS Scheme design consultation. • Engage with Employers during and between Valuation cycles, particularly during times of organisational change e.g. downsizing, outsourcing. • Ensure adequate securities / guarantees are in place where possible and that consequential risk is fully communicated to relevant parties.	
	Potential for 'Cashflow Negativity'	**4**	**2**	**8**	MR	• Regularly monitor cashflow impact position as contributions reduce. • Ensure sufficient income generation/liquid assets are available. • Regularly review Asset Strategy and adjust as necessary.	

	Detrimental changes to the maturity of fund membership. As the scheme matures the ratio of pensioner / deferred pensioner to active employees increases.	**4**	**2**	**8**	MR	• Monitor carefully through the valuation cycle. Ensure the investment strategy reflects current and forecast Fund maturity. • Actively participate in pension consultation, giving due consideration to any proposals that may have a disproportional impact on scheme 'opt out' rates.	
Investments	Financial Market suppressed by economic climate, national / global austerity measures and Brexit.	**4**	**4**	**16**	HR	• Long-term funding plan with a diverse range of asset classes and Fund Manager styles. • Panel clearly understand the impact of market conditions on asset classes and fund manager performance. • Panel monitor and scrutinise performance, market conditions and forecasts. • Continue to monitor the potential implications of Brexit. • Material economic and financial risk of infectious disease.	
	Custody arrangements may not be sufficient to safeguard pension fund assets.	**4**	**2**	**8**	MR	• An agreement is in place between the custodian and Pension Fund. • Monthly reconciliations are carried out to check external custodian records. • Funds held in the name of the Pension Fund or the WPP, not the Fund Manager nor the Custodian.	
	Investment returns fail to meet agreed targets.	**4**	**2**	**8**	MR	• Regular monitoring of investment returns. • Advisory Panel review and challenge of fund manager performance against their benchmarks and targets. • Use advisors to support the monitoring and challenge of fund managers. • Where performance issues arise, put more targeted review and challenge arrangements in place.	
	Adverse impact of the transition of the Pension Fund's assets into the Wales Pension Partnership pooling	**4**	**2**	**8**	MR	• Effective governance arrangements of the Joint Governance Committee and Officer Working Group. • Key role undertaken by the Joint Governance Committee at transition process. • Ensure operator establishes a tax efficient UK collective investment vehicle. • Ensure the appropriate 'wrappers' for the investments in illiquid assets.	

	Investments are not carried out by the fund manager in accordance with instructions given by the Pension Fund.	**3**	**2**	**6**	LR	• Investment assets and transactions are monitored in-house via the Euraplan Shareholder II system. • Investment management fees are monitored on a quarterly basis. • Investment malpractices are reported to the FCA.	New control measure added to reflect the reporting of malpractices
	Pension fund investments may not be accurately valued.	**4**	**1**	**4**	LR	• Investments are valued using correct prices obtained by fund managers from independent third party agencies.	
	Fund managers may not have the appropriate control framework in place to protect pension fund assets.	**4**	**1**	**4**	LR	• Agreements are in place between fund managers and the Pension Fund. • Portfolios are managed in accordance with the investment objectives. • Monthly reconciliations are carried out to check portfolios against administering authority records. • Third parties provide the Pension Fund with an annual internal control report, which provides assurance. • FCA regulated. • Fund managers have robust arrangements in place to manage mandates at difficult and volatile times.	
	Fund manager mandate restrictions and benchmarks constrain returns.	**3**	**1**	**3**	LR	• Obtain advice from advisors. • Obtain advice from performance measurement company.	
Governance	Introduction of new pooling arrangements by central government	**5**	**2**	**10**	MR	• Joint Governance Committee and Officer Working Group has been formally constituted. • Establishment of sub-groups of the WPP for specialisation. • Wales Pension Partnership's CIV proposal approved by FCA on 24th July 2018, further submissions approved to allow for the development of additional sub funds. • Participation on consultation papers. • Engagement with local pension boards. • Creation of sub-funds continues to be effectively progressed. • Pension Board Engagement days held to update Pension Board Chairs and provide feedback. • Development of appropriate business plans, policies and procedures.	

	Failure to comply with LGPS Governance Regulation / Pension Regulator Code of Practice.	**5**	**1**	**5**	LR	• Fund Governance Compliance Statement is reviewed and published annually. • The Fund's 'Pension Board' became effective from 1st April 2015. • The Fund has a breaches policy. • Review the Investment Strategy Statement annually in accordance with MHCLG guidance. • Benchmark against regulator on code of practice. • Submit Annual Pension Scheme Regulator Return on time. • Good governance review currently being considered by MHCLG.	
	Members, officers and advisors do not have the right knowledge or skills.	**4**	**1**	**4**	LR	• The Pension Fund has adopted the CIPFA knowledge and skills framework. • The Pension Fund Skill and Knowledge framework is reviewed at each Investment and Administration Advisory Panel, Pension Committee and Pension Board • The Pension Fund subscribes to relevant professional bodies, e.g. LAPFF.	
	Loss of reputation.	**2**	**2**	**4**	LR	• The Fund holds Annual General Meetings, Communication Forums, seminars and training. • The Fund has a dynamic website responding to stakeholder requirements. • Knowledgeable and professional staff. • Meetings are held regularly with the Fund's employer authorities. • Benefit statements are sent out annually to members by 31st August. • Monitoring the policy on voting decisions and the impact should UK shareholder lose voting rights in EU companies. • Annual reports are produced by 1st December. • The Fund's Responsible Investment Policy is contained within the Investment Strategy Statement and available on the Pension Fund web-site http://www.rctpensions.org.uk/En/GovernanceandInvestments/Investments • The Pension Fund's passive equities are invested in a low carbon product. • External Audit and Governance and Audit Committee.	
	Conflicts of Interest arise.	**3**	**1**	**3**	LR	• Declarations to be made by Advisory Panel Members, Pension Board Members and Pension Committee Members. • Director of Legal Services maintains a Register of Interests. • Fund Governance Policy. • Employer / Member Engagement – Communication Policy. • Transparency – published audited accounts, Valuation, Annual Report, etc.	
	Failure to comply with the Myners Statement of Investment Principles.	**2**	**1**	**2**	LR	• The Statement is reviewed annually by the Advisory Panel and approved by the Pension Committee.	

Operational	Loss of key staff / expertise.	**4**	**3**	**12**	MR	• Job descriptions and person specifications. • Dynamic training program. • Workforce planning arrangements in place. • All staff are currently working from home during Covid-19	
	Compliance with data quality regulation and best practice.	**5**	**2**	**10**	MR	• Data Improvement Plan in place. • Good relationships / communication with Employers. • Ensure timely notification by Fund Employers of new starters, changes and leavers. • Issue annual benefit statements to scheme members for review. • Breaches policy in place. • Mandatory rollout of I-connect, monthly data submissions. • Monthly Data Screening. • Common and Scheme Specific Data reviews / scoring. • Scheme Member Self Serve validation available. • Fund participation in the National 'Tell us Once Service'. • TPR Annual Scheme Return and data score. • Membership data is hosted in the UK.	
	Cyber security breach of the Fund's pension system and personal data contained.	**5**	**2**	**10**	MR	• Third Party supplier – cyber reliance controls. • Controls and environment maintained and regularly reviewed in line with Council's standards. Internal controls include, appropriate password and access conventions, firewalls, virus and malware protection, data encryption requirements. • Annual control review or more frequent depending on environment / service changes • Designated Information Management Officer, with Security Incident reporting protocol. • Cyber Essential Accreditation. • Public Service Network (PSN) Accreditation. • Information & Security Board. • All Wales Security Forum (WARP). • Cyber Security Principles for Pension Schemes' (Self Assessment). • Cyber Security Risk Assessment undertaken during Covid-19.	
	Confidential / commercially sensitive data is leaked, stolen or misplaced	**5**	**1**	**5**	LR	• The Pension Fund will clearly mark any confidential / commercially sensitive data that it shares.	New risk added
	Failure to meet Service Standards.	**3**	**3**	**9**	MR	• Pension Fund Administration Strategy. • Workforce planning, realign to meet one off demands, skills and training review. • Appropriate systems and technology. • Regular monitoring by Fund governance groups.	

	Failure to implement scheme changes.	**4**	**2**	**8**	MR	• Regular updates are received, reviewed and acted upon in a timely manner. • Ensure software is adapted appropriately. • Membership of relevant pensions professional bodies. • Implementation of McCloud remedies.	
	Employer ceases to participate in Fund / Admitted bodies go into administration.	**3**	**2**	**6**	LR	• Employer covenants or bonds. • Regular review of covenants.	
	Failure to hold and share personal data in accordance with the General Data Protection Regulation (effective 28th May 2018).	**5**	**1**	**5**	LR	• Administering Authority Information Management Security policies. • All Scheme Member correspondence securely imaged. • Appropriate Data Protection Registration. • Third Party Data Sharing agreements in place. • Fund Privacy Notice published. • Employer Memorandum of Understanding implemented. • Mandatory training undertaken by all staff. • Awareness sessions held with the Fund's Governance groups.	
	Failure to pay pensioners on time.	**5**	**1**	**5**	LR	• Payroll Timetables maintained. • Business Continuity Plan.	
	Delivery of the 2022 Triennial Valuation	**5**	**1**	**5**	LR	• 2021 Data Cleaning exercise. • Actuarial 'Employer Covenant' reviews.	
	Qualification of accounts.	**4**	**1**	**4**	LR	• Financial Information reconciled on a timely basis. • Accounts are prepared in accordance with the relevant regulations, guidance and Codes of Practice. • Regular dialogue with external auditors.	
	Operational disaster (fire / flood, etc)	**4**	**1**	**4**	LR	• Business continuity procedures are in place and tested.	
	Compliance with Fund 'Dispute' Regulation.	**3**	**1**	**3**	LR	• Internal Dispute Procedure in place.	

	Failure by employers to pay contributions into the Fund on time and in accordance with the 2019 'Rates and Adjustments Certificate'.	**2**	**1**	**2**	LR	• Monitoring of monthly receipts to remittances, with reference to the 2019 'Rates and Adjustment Certificate'. • Report any material breaches to Regulator in accordance with the Fund's 'Breach Policy'.	
	Fraud.	**2**	**1**	**2**	LR	• Strict internal control mechanisms, segregation of duties, etc. • Internal and External Audit Review. • National Fraud Inspectorate participation. • Whistleblowing policy in place.	
Regulatory	Failure to comply with LGPS regulations and any other new regulations.	**4**	**1**	**4**	LR	• There are sufficient fully trained staff. • Regular updates are received and acted upon. • Membership of relevant pensions professional bodies. • Welsh Pension Officer Group participation. • Welsh Pension Fund Treasurers Group participation. • Compliance with MiFID II. • Submit Annual Pension Scheme Regulator Return on time. • MHCLC/LGA guidance issued to Fund Employers around the 'Exit' Regulations (now revoked).	
	Non compliance of procurement rules	**1**	**2**	**2**	LR	• Regular budget monitoring. • Periodic review of suppliers. • Contract procedure rules.	

RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

MUNICIPAL YEAR 2021-22

PENSION FUND COMMITTEE

11th OCTOBER 2021

REPORT OF: THE DIRECTOR OF FINANCE AND DIGITAL SERVICES

AGENDA ITEM 7
WALES PENSION PARTNERSHIP - UPDATE

Author – Barrie Davies, Director of Finance and Digital Services (01443) 424026

1.0 PURPOSE OF REPORT

1.1 This report provides the Committee with an update on the work and progress with regard to the Wales Pension Partnership (WPP) and Joint Governance Committee (JGC).

2.0 RECOMMENDATIONS

2.1 It is recommended that the Committee:

2.1.1 Note the update.

3.0 BACKGROUND

3.1 As the Committee is aware the UK Government's requirement for all pension funds to pool their investments has been progressing in Wales through the WPP.

3.2 The Partnership governance arrangements include a JGC which meets around 4 times a year. Each pension fund in Wales is represented on the Committee by their Chair (or Vice Chair).

3.3 The last meeting of the JGC was held on the 22nd September 2021. The agenda can be accessed here, which was shared with all Committee (and board) members before the meeting.

3.4 At the September 2021 meeting, the Host update included:

Work continuing to develop in a number of key areas:

- 2020/21 Annual Report;
- Ministry of Housing, Communities and Local Government update;
- Quarterly operator review with Link and Hymans Robertson;
- Private Markets Allocator procurement process; and
- Officer Working Group sub-groups:
  - Private Markets sub-group.
  - Responsible Investment sub-group.
  - Risk Register sub-group.

Next Steps / Priorities:

- Become a signatory to the UK Stewardship Code;
- Seek formal approval from all eight Constituent Authorities for the Inter-Authority Agreement (IAA) addendum;
- Commence the appointment process for the Scheme Member Representative;
- Development of the Private Markets Sub Funds. This will include:
  - Procurement of Private Debt, Private Equity and Infrastructure Allocators between September 2021 to February 2022.
  - Approval of Allocator appointments by JGC on 23rd March 2022.
  - The development, approval and launch of these sub funds between March 2022 and December 2022.
- Operator Review at the December 2021 JGC meeting.

Other Key areas:

- Virtual training sessions continue.
- The website continues to be updated with relevant news and publications.

3.5 The next JGC meeting is scheduled to take place on 1st December 2021.

4.0 CONCLUSION

4.1 This report provides the Committee with an update on the work of the Wales Pension Partnership and the Joint Governance Committee.

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RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

MUNICIPAL YEAR 2021-22

PENSION FUND COMMITTEE 11th OCTOBER 2021 REPORT OF: THE DIRECTOR OF FINANCE AND DIGITAL SERVICES Author – Barrie Davies, Director of Finance and Digital Services (01443) 424026	AGENDA ITEM NO. 8 REVIEW OF PENSION FUND GOVERNANCE DOCUMENTS: FUNDING STRATEGY STATEMENT AND ADMINISTRATION STRATEGY

1.0 PURPOSE OF REPORT

1.1 This report sets out updated Funding Strategy Statement and Administration Strategy governance documents which fall within the remit of the Committee as detailed in the terms of reference.

2.0 RECOMMENDATIONS

2.1 It is recommended that the Committee :

2.1.1 Review the updated Funding Strategy Statement (Appendix 1) and Administration Strategy (Appendix 2) and if deemed appropriate, approve both documents.

3.0 BACKGROUND

3.1 The agreed terms of reference of the Pension Fund Committee are as set out below.

Terms of Reference

The Pension Fund Committee have the following specific roles and functions with regards to the Rhondda Cynon Taf Pension Fund (the 'Fund'), taking account of advice from the Director of Finance and Digital Services (in their capacity as s151 Officer) and the Fund's professional advisers:-

- Determining the Fund's aims and objectives, strategies, statutory compliance statements, policies and procedures for the overall management of the Fund, including in relation to the following areas:

i) Governance – approving the Governance Policy and Compliance Statement for the Fund;

ii) Funding Strategy – approving the Fund's Funding Strategy Statement including ongoing monitoring and management of the liabilities, ensuring appropriate funding plans are in place for all employers in the Fund, giving due consideration to the results and impact of the triennial actuarial valuation and interim reports;

iii) Investment strategy - approving the Fund's investment strategy, Statement of Investment Principles and Myners Compliance Statement including setting investment targets and ensuring these are aligned with the Fund's specific liability profile and risk appetite;

iv) Administration Strategy – approving the Fund's Administration Strategy determining how the Council will administer the Fund including collecting payments due, calculating and paying benefits, gathering information from and providing information to scheme members and employers;

v) Communications Strategy – approving the Fund's Communication Strategy, determining the methods of communications with the various stakeholders including scheme members and employers;

vi) Discretions – determining how the various administering authority discretions are operated for the Fund; and

vii) Internal Dispute Resolution Procedure – determining how the Scheme Member disputes are administered.

- Monitoring the implementation of these policies and strategies as outlined above on an ongoing basis.

- Considering the Fund's financial statements as part of the approval process and agreeing the Fund’s Annual Report. Receive internal and external audit reports on the same.

- Receiving ongoing reports from the Director of Finance and Digital Services in relation to their delegated functions.

- To provide independent assurance to members of the Fund of the adequacy of the risk management and associated control environment, responsible for the Fund’s financial and non-financial performance.

- To adhere to the principles set out in the Pensions Regulator Code of Practice and undertake its duties in compliance with the obligations imposed on it.

- To receive regular training to enable Committee Members to make effective decisions and be fully aware of their statutory and fiduciary responsibilities and their stewardship role.

- Consider any pension compliance matters raised by the Fund's Pension Board.

3.2 As Members will be aware, the annual review of Fund Governance and Strategy documents was reported to Committee on [22nd March 2021](#).

4.0 GOVERNANCE AND STRATEGY DOCUMENTS - FUNDING STRATEGY STATEMENT AND ADMINISTRATION STRATEGY

4.1 Further to the annual review of Governance and Strategy documents being reported to Committee on 22^{nd} March 2021, the Funding Strategy Statement and Administration Strategy were updated to take account of the statutory guidance published by the Ministry of Housing, Communities & Local Government (MHCLG) to assist LGPS administering authorities and scheme employers in implementing and operating the regulations on 'employer flexibilities'.

4.2 As part of this process, Fund Employers have been consulted and feedback considered, and updated draft documents are included at Appendix 1 (Funding Strategy Statement) and Appendix 2 (Administration Strategy) for Committee's consideration and, if deemed appropriate, approval.

4.3 For Members information, no further updates are proposed to other Fund Governance and Strategy documents at this time.

5.0 CONCLUSION

5.1 This report sets out, for the Committee, updated Funding Strategy Statement and Administration Strategy governance documents for review and consideration in line with the Terms of Reference.

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RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL PENSION FUND

FUNDING STRATEGY STATEMENT

March 2021

Rhondda Cynon Taf County Borough Council Pension Fund

Funding Strategy Statement

SECTION 1

Introduction

Overview

This Statement has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) (the LGPS Regulations). The Statement describes Rhondda Cynon Taf County Borough Council's strategy, in its capacity as Administering Authority (the Administering Authority), for the funding of the Rhondda Cynon Taf County Borough Council Pension Fund (the Fund).

As required by Administration Regulation 58(3), the Statement has been reviewed (and where appropriate revised) having regard to guidance published by CIPFA in September 2016 as well as 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.

Consultation

In accordance with Regulation 58(3), officers, elected members, and representatives of all employers participating within the Rhondda Cynon Taf County Borough Council Pension Fund, have been consulted on the contents of this Statement and their views have been taken into account in formulating the Statement. However, the Statement describes a single strategy for the Fund as a whole.

In addition, the Administering Authority has had regard to the Fund's Investment Strategy Statement published under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the Investment Regulations) and the Scheme Advisory Board's Guide to Employer Flexibilities.

The Fund Actuary, Aon Solutions UK Ltd, has also been consulted on the contents of this Statement.

Policy Purpose

The purpose of this Funding Strategy Statement is to document the process by which the Administering Authority:

- establishes a clear and transparent strategy, specific to the Fund, which will identify how employer's pension liabilities are best met going forward
- supports the regulatory requirement in relation to the desirability of maintaining as nearly constant a primary contribution rate as possible
- enables 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.

Noting that whilst the funding strategy applicable to individual employers or categories of employers must be reflected in the Funding Strategy Statement, its focus should at all times be on those actions which are in the best long-term interests of the Fund.

Links to investment policy set out in the Investment Strategy Statement

The Authority has produced this Funding Strategy Statement having taken an overall view of the level of risk inherent in the investment policy set out in the Investment Strategy Statement and the funding policy set out in this Statement. The Authority accepts that the outcome of formulating a strategic asset allocation needs to be consistent with achieving the solvency and deficit recovery targets and meeting obligations when they fall due.

Fixed interest and index-linked Government bonds are considered to provide an effectively guaranteed return if held to redemption (assuming the Government doesn't default). The Fund's asset allocation as set out in the Investment Strategy Statement invests a significant proportion of the Fund in assets such as equities which are expected but not guaranteed to produce higher returns than Government bonds in the long term. The Administering Authority has agreed with the Fund Actuary that the funding target on the ongoing basis will be set by explicitly considering the expected return on the assets. The Administering Authority recognises that future investment returns are not guaranteed and that, in the absence of any other effects, if the expected returns are not achieved the solvency position of the Fund will deteriorate.

The funding strategy recognises the investment targets and the inherent volatility arising from the investment strategy, by being based on financial assumptions which take account of the expected average return, and by including measures which can be used to smooth out the impact of such volatility.

The Administering Authority will continue to review both documents to ensure that the overall risk profile remains appropriate including, where appropriate, use of asset liability modelling or other analysis techniques.

Review of this Statement

The Administering Authority undertook its latest substantive review of this Statement in March 2021.

The Administering Authority will formally review this Statement as part of the triennial valuation as at 31 March 2022 unless circumstances arise which require earlier action.

The Administering Authority will monitor the funding position of the Fund on an approximate basis at regular intervals between valuations, and will discuss with the Fund Actuary whether any significant changes have arisen that require action.

SECTION 2

Aims and Purpose of the Fund

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 Scheme benefits over the long term and in so doing to smooth out the contributions required from employers over the long term.

The Aims of the Fund

The main aims of the Fund are:

1. **To comply with regulation 62 of the Local Government Pension Scheme Regulations 2013 and specifically to adequately fund benefits to secure the Fund's solvency while taking account of the desirability of maintaining as nearly constant a primary employer contribution rate as possible. The Fund should achieve and maintain solvency and long term cost efficiency (subject to the administering authority not taking undue risks), which should be assessed in light of the risk profile of the fund and the risk appetite of the administering authority and employers alike, at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies.**

   The Administering Authority recognises that the requirement to keep employer primary contribution rates as nearly constant as possible can run counter to the following requirements:

   - the regulatory requirement to secure solvency and long term cost efficiency,
   - the requirement that the costs should be reasonable, and
   - maximising income from investments within reasonable cost parameters (see later)

   Producing low volatility in employer contribution rates requires material investment in assets, which 'match' the employer's liabilities. In this context, 'match' means assets that behave in a similar manner to the liabilities as economic conditions alter. For the liabilities represented by benefits payable by the Local Government Pension Scheme should there be no employers to fund the liabilities in the future, such assets would tend to comprise gilt edged investments.

   Other classes of assets, such as stocks and property, are perceived to offer higher long-term rates of return, on average, and consistent with the requirement to maximise the returns from investments the Administering Authority invests a substantial proportion of the Fund in such assets. However, these assets are more risky in nature, and that risk can manifest itself in volatile returns over short-term periods.

This short-term volatility in investment returns can produce a consequent volatility in the measured funding position of the Fund at successive valuations, with knock on effects on employer contribution rates. The impact on employer rates is mitigated by use of a risk-based approach to setting the investment return assumption; a smoothing mechanism which recognises the statutory nature of the Fund and its largest employers.

The Administering Authority recognises that there is a balance to be struck between the investment policy adopted, the smoothing mechanisms used at valuations, and the resultant smoothness of employer contribution rates from one valuation period to the next.

The Administering Authority also recognises that the position is potentially more volatile for Admission Bodies with short-term contracts where utilisation of smoothing mechanisms is less appropriate.

2. **To ensure that sufficient resources are available to meet all liabilities as they fall due**.

   The Administering Authority recognises the need to ensure that the Fund has, at all times, sufficient liquid assets to be able to pay pensions, transfer values, costs, charges and other expenses. It is the Administering Authority's policy that such expenditure is met, in the first instance, from incoming employer and employee contributions to avoid the expense of disinvesting assets. The Administering Authority monitors the position on a monthly basis to ensure that all cash requirements can be met.

3. **To manage employers' liabilities effectively.**

   The Administering Authority seeks to ensure that all employers' liabilities are managed effectively. In a funding context, this is achieved by seeking regular actuarial advice, ensuring that employers, Committee and Board members are properly informed, and through regular monitoring of the funding position.

4. **To maximise the income from investments within reasonable risk parameters.**

The Administering Authority recognises the desirability of maximising investment income within reasonable risk parameters. Investment returns higher than those available on government stocks are sought through investment in other asset classes such as stocks and property. The Administering Authority ensures that risk parameters are reasonable by:

- restricting investments to the maximum percentages set out in the Investment Strategy Statement.
- restricting investment to asset classes generally recognised as appropriate for UK pension funds.
- analysing the potential risk represented by those asset classes in collaboration with the Fund's Actuary, Investment Advisors, Fund Managers and the Wales Pension Partnership.

SECTION 3

Responsibilities of the Key Parties

Responsibilities of the key parties

The three parties whose responsibilities to the Fund are of particular relevance are the Administering Authority, the Individual Employers and the Fund Actuary.

Their key responsibilities are set out below:

Administering Authority

The Administering Authority's key responsibilities are:

1. **To operate the pension fund**
2. **Collecting employer and employee contributions, investment income and other amounts due to the Fund as stipulated in LGPS regulations and, as far as the Administering Authority is able to, ensure these contributions are paid by the due date.**

   Individual employers must pay contributions in accordance with Regulations 67 to 71 of the Regulations. The Administering Authority will ensure that all employers are aware of these requirements especially the requirement of the Pensions Act 1995 that members' contributions are paid by the 19^{th} of the month following the month that it is paid by the member. The Administering Authority may charge interest on late contributions in accordance with Regulation 71 of the Regulations.

   The Administering Authority will ensure that action is taken to recover assets from employers who have exited the Fund by

   - requesting that the Fund Actuary calculates the deficit at the date of exit of the employer
   - notifying the employer that it must meet any deficit calculated in the exit valuation.
3. **Pay from the Fund the relevant entitlements as stipulated by LGPS Regulations.**
4. **Invest surplus monies in accordance with the LGPS regulations.**

   The Administering Authority will comply with Regulation 7(8) of the Investment Regulations.
5. **Ensure that cash is available to meet liabilities as and when they fall due.**

The Administering Authority recognises this duty and discharges it in the manner set out in the Aims of the Fund above.

6. **Manage the valuation process in consultation with the Fund's actuary**

   The Administering Authority ensures it communicates effectively with the Fund Actuary to:

   - agree timescales for the provision of information and provision of valuation results
   - ensure provision of data of suitable accuracy
   - ensure that the Fund Actuary is clear about the Funding Strategy Statement
   - ensure that participating employers receive appropriate communication throughout the process
   - ensure that reports are made available as required by Guidance and Regulation
   - enable the Pension Committee and Board to review the valuation progress
   - ensure information is provided to the Government Actuary's Department to enable it to discharge its functions under Section 13 of the Public Service Pensions Act 2013 and as Scheme Actuary

7. **Prepare and maintain an Investment Strategy Statement and a Funding Strategy Statement after due consultation with interested parties.**

   The Administering Authority will ensure that both documents are prepared and maintained in the required manner.

8. **Monitor all aspects of the Fund's performance and funding and amend these two documents as required.**

   The Administering Authority monitors the investment performance and funding position of the Fund on a quarterly basis. The Investment Strategy Statement will be formally reviewed annually, and the Funding Strategy Statement every three years as part of the valuation cycle, unless circumstances dictate earlier amendment.

9. **Effectively manage any potential conflicts of interest arising from its dual role as both Administering Authority and Scheme Employer.**

10. **Ensure consistent use of policies relating to revising employer contributions between formal**

valuations, entering into deferred debt arrangements and spreading exit payments and that the process of applying those policies is clear and transparent to all fund employers.

Individual Employers

Individual Employers will:

- Deduct contributions from employees' pay.
- Pay all ongoing contributions, including their employer contributions and contributions due under a Deferred Debt Agreement as determined by the Fund Actuary, promptly by the due date.
- Develop a policy on certain discretions and exercise discretions within the regulatory framework.
- Pay for added years in accordance with agreed arrangements.
- Notify the Administering Authority promptly of all changes to membership, or other changes which affect future funding, including any notifiable events as set out in the Pensions Administration Strategy.
- Pay any exit payments required in the event of their ceasing participation in the Fund.

The Fund Actuary

The Fund Actuary will**:**

- 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 Funding Strategy Statement and the Regulations.
- prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters.
- provide advice and valuations on the exit of fund employers.
- provide advice to the Administering Authority on bonds and other forms of security against the financial effect on the Fund of Employer's default
- assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as permitted or required by the regulations, in particular in relation to any review of contributions between triennial valuations under Regulations 64(4) and 64A

- provide advice as required to support the Administering Authority in deciding whether or not to put in place a Deferred Debt Agreement under Regulation 64(7A) or spread an exit payment under Regulation 64B
- ensure that the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to his role in advising the Fund.

SECTION 4

Funding Target, Solvency, Long Term Cost Efficiency and Notional Sub-Funds

Funding Principle

The Fund is financed on the principle that it seeks to provide funds sufficient to enable payment of 100% of the benefits promised.

Funding Targets and assumptions regarding future investment strategy

The Funding Target is the amount of assets which the Fund needs to hold at any point in time such that the funds held, plus future anticipated investment returns on those funds, and taking into account the anticipated future experience of the membership and contributions due from the membership, meet the funding principle.

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

Scheduled Bodies and certain other bodies

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 low risk assets for Scheduled Bodies and certain other bodies which are, or can be treated as if they are long term in nature.

The Administering Authority adopts a risk based approach to funding. In particular the discount rate (for most employers) has been set on the basis of the assessed likelihood of meeting the funding objectives. The Administering Authority has considered 3 key decisions in setting the discount rate:

The long-term Solvency Target (i.e. 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 complex (stochastic) risk modelling carried out by the Fund Actuary, define the discount rate (investment return assumption) to be adopted and, by extension, the appropriate levels of employer contribution payable. Together they measure the riskiness (and hence also the degree of prudence) of the funding strategy. These are considered in more detail below.

Admission Bodies and bodies closed to new entrants

For Admission Bodies the Administering Authority will have specific regard to the potential for participation to cease (or to have no contributing members), the potential timing of 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 cessation (i.e. whether the liabilities will become 'orphaned' or whether a guarantor exists to subsume the notional assets and liabilities).

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 assets notionally related to these liabilities will be assumed to be invested in low risk investments. This is described in more detail later in this document.

Solvency and 'Funding Success'

The Fund'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.

The Fund is deemed to be solvent when the assets held are equal to or greater than 100% of the liabilities assessed using appropriate actuarial methods and assumptions. 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%.

For Scheduled Bodies and Admission Bodies where a Scheme Employer of sound covenant has agreed to subsume its assets and liabilities following cessation, 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 an overall return above the rate of increases to pensions and pensions accounts (Consumer Price Index (CPI)).

As at 31 March 2019 the long-term rate of CPI is assumed to be 2% p.a. and a prudent long-term investment return of 2%

above CPI is assumed. As at 31 March 2019 the solvency discount rate is therefore 4% p.a.

For Admission Bodies and other bodies whose liabilities are expected to be orphaned following cessation, a more prudent approach will be taken. The Solvency Target will be set by considering the valuation basis which would be adopted should the body leave the Fund. For most such bodies, the Solvency Target will be set commensurate with assumed investment in an appropriate portfolio of Government bonds after cessation.

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 (DDA) ends. For most such bodies, the Solvency Target will be set commensurate with assumed investment in Government bonds at the end of the period of the DDA.

Probability of Funding Success

The Administering Authority considers 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 the level of contributions payable by members and employers and asset-liability modelling carried out by the Fund Actuary.

The discount rate, and hence the overall required level of employer contributions, has been set such that the Fund Actuary estimates there is around a 75% chance that the Fund would reach or exceed its Solvency Target after 25 years.

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 and the valuation data. The valuation calculations, including future service contributions and any adjustment for 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 below). The key assumptions used for assessing the Funding Target are summarised in Appendix 1.

Consistent with the aim of enabling the primary rate of employers' contributions to be kept as nearly constant as possible, contributions 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 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. The future service rate will be stable if the profile of the membership (age, gender etc) is stable.

For employers who no longer admit new members, the Attained Age valuation method is normally used. This means that the contribution rate is derived as the average cost of benefits accruing to members over the period until they die, leave the Fund or retire. This approach should lead to more stable employer contribution rates than adoption of the Projected Unit method for closed employers.

Funding Targets and assumptions regarding future investment strategy

For Scheduled Bodies and Admission Bodies with a subsumption commitment from a long-term Scheme Employer of sound covenant, the Administering Authority assumes indefinite investment in a broad range of assets of higher risk than risk free assets.

For Admission Bodies and other bodies whose liabilities are expected to be orphaned on cessation, the Administering Authority will have regard to

- the potential for participation to cease (or for the body to have no contributing members), including whether or not it admits new members, or has set up a subsidiary company to employ staff who do not participate in the Fund,
- the type of service being provided by the employer (eg statutory or not), and the covenant of the employer,
- the potential timing of exit from the Fund,
- the funding target adopted at the previous valuation,
- any likely change in notional or actual investment strategy as regards the assets held in respect of the body's liabilities at the date of cessation (i.e. informed by whether the liabilities will become 'orphaned' or a guarantor exists to subsume the notional assets and liabilities).

The default funding target for Admission Bodies which are not expected to participate in the Fund indefinitely and which would leave orphan liabilities on exit (including where any guarantor may have exited the Fund before the admission body it guarantees), is the "ongoing orphan" funding target. This takes account of the fact that on exit the liabilities will be valued by reference to gilt yields.

For Admission Bodies open to new entrants which are considered to be of sufficiently strong covenant, the Administering Authority may, at its sole discretion, instruct the Actuary to adopt a discount rate above that adopted for ongoing orphan funding target (but below that adopted for the long-term secure scheduled bodies). This is known as the intermediate funding target.

For deferred employers where a DDA 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 DDA 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 DDA;
- 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.

The Fund is deemed to be fully funded when the assets are equal to or greater than 100% of the Funding Target, where the funding target is assessed based on the sum of the appropriate funding targets across all the employers/groups of employers.

Other Aspects of Funding Strategy

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 full funding over a period of years (the Recovery Period). The Recovery Period applicable for each participating employer is set by the Fund Actuary in consultation with the Administering Authority 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, and in the context of the LGPS as a statutory scheme, 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. The Administering Authority recognises that when employers have a deficit in the Fund 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 and has agreed with the Fund Actuary a limit of 22 years for employers in surplus and 19 years for employers in deficit. The Administering Authority's policy is to agree Recovery Periods which strike an appropriate balance between risk; affordability and stability of contributions within this framework.

For deferred employers (where there are no active members), it is expected that the maximum recovery period will be the remaining period of the DDA.

Grouping

In some circumstances it may be desirable to group employers within the Fund together for funding purposes (ie 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 can give rise to cross subsidies from one employer to another over time. The Administering Authority's policy is to review the position at each valuation to check if the rationale for grouping continues to apply. If not employers will have their own contribution rates. For employers with more than 50 contributing members, the Administering Authority would look for evidence of homogeneity between employers before considering grouping. For employers whose participation is for a fixed period grouping is unlikely to be permitted.

All employers in the Fund are grouped together in respect of the risks associated with payment of benefits on death in service and tier 1 and 2 ill-health benefits – in other words, the cost of such benefits is shared across the employers in the Fund. These benefits 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. This group is funded on the same funding target as the main scheduled bodies. All risks are shared within this group apart from the payment of deficit contributions.

Where employers are grouped together entirely for funding purposes, this will only occur with the consent of the employers involved.

Stepping

Again, consistent with the aim to keep employer contributions as nearly constant as possible, the Administering Authority will consider, at each valuation, whether new contributions should be payable immediately, or should be reached by a series of steps over future years. The Administering Authority will discuss with the Fund Actuary the risks inherent in such an approach, and will examine the financial impact and risks associated with each employer.

Where employer contribution changes are being stepped in, the Administering Authority's policy is that in the normal course of events no more than six equal annual steps will be permitted (and ideally no more than three steps when contributions are being increased). Where stepped increases are agreed, the Administering Authority will ensure that the employer recognises that this is a mechanism by which contributions can be smoothed and that it represents a deferral of costs rather than a reduction, i.e. by paying less in the short term higher contributions are likely to be required in the longer-term.

Where the expected remaining time until the employer exits the Fund is such that a shorter period is appropriate, or in other exceptional circumstances, a shorter stepping period with a bespoke stepping pattern may be permitted.

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 compares to the Administering Authority's view of the expected future return being targeted by the Fund’s investment strategy.

Inter-valuation funding calculations

In order to monitor developments and as part of its overall risk management strategy, the Administering Authority may from time to time request informal valuations or other calculations. Further details of the Administering Authority's policy in relation to:

- reviewing contributions for employers expected to exit under Regulation 64(4); and
- otherwise reviewing employer contributions between valuations as permitted by Regulation 64A

are set out in Sections 5 and 6 respectively.

Notional Sub-Funds for individual employers

Notional sub-funds

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 (or group of employers where grouping operates), as if each employer had its own notional sub-fund 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 sub-Fund notionally allocated for the purpose of determining ongoing contributions may differ to that allocated at exit.

Roll-forward of sub-funds

The notional sub-fund allocated to each employer's or group's liabilities for determining ongoing contributions during its period of participation in the Fund will be rolled forward allowing for all cashflows associated with that employer's or group's membership, including contribution income, benefit outgo, transfers in and out and investment income allocated as set out below. 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 related cashflows have been received or 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 death in service lump sum benefits shared across all employers in the Fund (see above)
- Allowance for any known material internal transfers in the Fund (cashflows will not exist for these transfers). The Fund Actuary will assume an estimated cashflow equal to the value of the liabilities determined using non club cash equivalent transfer value factors transferred from one employer to the other unless some other approach has been agreed between the two employers.
- An overall adjustment 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 be incomplete and in such circumstances and where, in the opinion of the Fund Actuary, the cashflow data which is unavailable is of low materiality, estimated cashflows will be used.

There may be circumstances where the results from the above approach requires further adjustment, for example (but not limited to) where changes in legislation are deemed by the Administering Authority to require further adjustments to notional sub-funds (likely to be where legislation has a retrospective effect and means the initial asset allocation when an employer joined the Fund needs to be revisited), or where other new information has become available that is material to the calculation of a notional sub fund (e.g. revised member data or changes in market conditions).

Attribution of investment income

Where the Administering Authority has agreed with an employer that it will have a tailored asset portfolio assumed to be allocated to its notional sub-fund, the assets notionally allocated to that sub-fund will be credited with a rate of return appropriate to the agreed notional asset portfolio.

Where the employer has not been allocated a tailored notional portfolio of assets, the assets notionally allocated to that employer will be credited with the rate of return earned by the Fund assets as a whole, adjusted for any return credited to those employers for whom a tailored notional asset portfolio exists.

SECTION 5

Special Circumstances related to Employers

Interim reviews for employers

Regulation 64(4) of the Regulations provides the Administering Authority with a power to carry out valuations in respect of employers where there are circumstances which make it likely that an employer will become an exiting employer, and for the Actuary to certify revised contribution rates, between triennial valuation dates.

The Administering Authority's overriding objective at all times in relation to participating employers is that, where possible, there is clarity over the Funding Target for that body, and that contribution rates payable are appropriate for that Funding Target. However, this is not always possible as any date of exit may be unknown (for example, participation may be assumed at present to be indefinite), and also because market conditions change daily.

The Administering Authority's general approach in this area is as follows:

- Where the date of exit is known, and is more than 3 years hence, or is unknown and assumed to be indefinite, interim valuations will generally not be carried out at the behest of the Administering Authority.
- For Transferee and Schedule 2 Part 3 (1)(d) Admission Bodies falling into the above category, the Administering Authority sees it as the responsibility of the relevant Scheme Employer to instruct it if an interim valuation is required. Such an exercise would be at the expense of the relevant Scheme Employer unless otherwise agreed.
- A material change in circumstances, such as the date of exit becoming known, material membership movements or material financial information coming to light may cause the Administering Authority to informally review the situation and subsequently formally request an interim valuation.
- For admissions due to cease within the next 3 years, the Administering Authority will keep an eye on developments and may see fit to request an interim valuation at any time.

Notwithstanding the above guidelines, the Administering Authority reserves the right to request an interim valuation of any employer at any time in accordance with Regulation 64(4).

Regulation 64A of the Regulations provides the Administering Authority with a power to obtain a revision of the rates and adjustments certificate in certain other circumstances. Further details of the Administering Authority's policy in relation to Regulation 64A are set out in Section 6.

Guarantors

Some Admission Bodies 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 and monitors the exposure of the guarantors. The Administering Authority, unless notified otherwise, sees the duty of a Guarantor to include the following:

- If an Admission Body ceases and 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 Admission Body a Guarantor can at any time agree to the future subsumption of any residual liabilities of an Admission Body. The effect of that action would generally be to reduce the Funding Target for the Admission Body, which would probably lead to reduced contribution requirements, although in determining the contributions the Administering Authority would have regard to the intentions of the Guarantor and its agreement with the Admission Body. The Guarantor should ensure that it is clear what would happen to any surplus arising on the subsequent exit of the Admission Body, in particular whether or not an exit credit would become payable.

Bonds and other securitization

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

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, for any reason it is not desirable for an Admission Body to enter into an indemnity bond, the Admission Body is required to secure a guarantee in a form satisfactory to the Administering Authority as set out in Schedule 2 Part 3 paragraph (8).

The Administering Authority's approach in this area is as follows:

a) In the case of Transferee Admission Bodies and Admission Bodies admitted under Schedule 2 Part 3 (1)(d) of the Regulations and other Admission Bodies where a Scheme Employer acts as guarantor, and so long as the Administering Authority judges the relevant Scheme Employer to be of sufficiently sound covenant, any bond exists purely to protect the relevant Scheme Employer or Guarantor on default of the Admission Body. As such, the Administering Authority's policy is that the relevant Scheme Employer or Guarantor should decide the level of required bond (to the satisfaction of the Administering Authority). The Administering Authority will be pleased to supply some standard calculations provided by the Fund Actuary to aid the relevant Scheme Employer which would satisfy the Administering Authority, but this should not be construed as advice to the relevant Scheme Employer on this matter. The Administering Authority notes that levels of required bond cover can fluctuate and recommends that relevant Scheme Employers review the required cover regularly, at least once a year.

b) In the case of Admission Bodies as described in a) above, where the Administering Authority does not judge the relevant Scheme Employer to be of sufficiently strong covenant, the Administering Authority will set a level of bond to protect the Fund. The admission will only be able to proceed once the Administering Authority has agreed that is satisfied with the level of bond cover. The Administering Authority notes that levels of required bond cover can fluctuate and will require the relevant Scheme Employer to jointly review the required cover with it regularly, at least once a year.

c) For all other Admission Bodies, the Administering Authority will set the required level of bond to protect the Fund. The admission will only be able to proceed once the Administering Authority has agreed the level of bond cover. The Administering Authority notes that levels of required bond cover can fluctuate and will review the required cover regularly, at least once a year.

Subsumed liabilities

Where an employer is ceasing participation in the Fund, it is possible that another employer in the Fund agrees 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 is subsumed 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 a mix of growth and matching assets.

Orphan liabilities

Where an employer 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 or a DDA is entered into, the Administering Authority will act on the basis that it will have no further access for funding from that employer once any cessation 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 arises on the orphan liabilities such that this creates a cost for those other employers to make good the deficiency. To give effect to this, the Administering Authority will seek funding from the outgoing employer sufficient to enable it to match the liabilities with low risk investments, generally Government fixed interest and index linked bonds.

To the extent that the Administering Authority decides not to match these liabilities with Government bonds of appropriate term then any excess or deficient returns will be added to or deducted from the investment return to be attributed to the employer's notional sub-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 Actuary notionally re-allocating assets within the Fund as required.

Exit of employers

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.

The approach adopted to value the departing employer’s liabilities for the exit valuation will depend upon the circumstances. In particular, the exit valuation will distinguish between residual liabilities which will become orphan liabilities, and liabilities which will be subsumed by a long-term secure employer such as one of the councils.

In determining the assets notionally allocated to the exiting employer at exit, consideration will be given to the contributions made by the employer to the overall Fund assets during its period of participation in the Fund. Where appropriate, the notional asset value may be subject to a cap of the value of the employer's liabilities at exit calculated using the relevant Funding Target (see below) plus the accumulated value of primary and secondary contributions paid by that employer. In determining the accumulated value of these contributions investment returns will be allocated based on the asset portfolio appropriate to the employer.

Orphan liabilities

For orphan liabilities the Funding Target in the exit valuation of the liabilities will anticipate investment in low risk investments such as Government bonds. This is to protect the other employers in the Fund, as upon exit, the employer's liabilities will become "orphan" liabilities within the Fund, and there is no recourse to that (former) employer if a shortfall emerges in relation to these liabilities after the exit date.

Any deficit or surplus in the Fund in respect of the employer will generally be due to the Fund as a termination contribution, or payable by the Fund to the employer as an exit credit respectively, where the exit date is on or after 14 May 2018.

Subsumed liabilities

For subsumed liabilities the exit valuation of the liabilities will be determined on the basis that the scheme employer providing the subsumption commitment will subsume all assets and liabilities from the exiting employer. No exit credit will be paid to, or any exit debt required from, the exiting employer, unless the exiting employer is in surplus when liabilities are calculated using a Funding Target that anticipates investment in low risk investments such as Government bonds. The assets and liabilities will be subsumed within those of the employer providing the subsumption commitment, with future contribution requirements for this employer being reassessed at each actuarial valuation.

In addition, under either scenario, the Administering Authority may, at its discretion, include additional margins for prudence compared to the approach used for determining ongoing contributions, for example (but not limited to) in relation to regulatory uncertainty (which at the date of this Statement includes uncertainty associated with the McCloud case, the Goodwin case, the cost management process and equalisation of GMP) – see Section 9 on Risks and Countermeasures.

Further, where regulatory changes have been made that impact on the value of accrued benefits but were not reflected in the latest valuation used for determining ongoing contributions, these changes will be allowed for in the exit valuation.

Spreading of exit payments

Where an exit payment is due, unless a DDA is entered into, the Administering Authority's policy is to require a one-off lump sum payment equal to the exit deficit. However, in certain circumstances employers may be able to request spreading of an exit payment on affordability grounds. The Administering Authority's policy on the spreading of exit payments as permitted by Regulation 64B is set out in Section 7.

Deferred Debt Agreements

Where an employer ceases to have any active members or would otherwise become an exiting employer, it may request that the Administering Authority enters into a Deferred Debt Agreement (DDA) as permitted by Regulation 64(7A) and become a deferred employer.

The Administering Authority's policy in relation to use of Regulation 64(7A) is set out in Section 8.

SECTION 6

Reviewing employer contributions between valuations under Regulation 64A

Background

This section sets out the Administering Authority's policies and procedures in relation to any amendment of employer contributions between formal valuations as permitted by Regulation 64A.

The Administering Authority will consider reviewing employer contributions between formal valuations in the following circumstances:

- 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;
- it appears likely to the Administering Authority that there has been a significant change in the ability of the Scheme employer or employers to meet the obligations of employers in the Scheme; or
- Scheme employer or employers have requested a review of Scheme employer contributions and have undertaken to meet the costs of that review

For the avoidance of doubt, the Administering Authority will not consider a review of contributions purely on the grounds of a change in market conditions affecting the value of assets and/or liabilities.

Factors considered

In determining whether or not a review should take place, the Administering Authority will consider the following factors (noting that this is not an exhaustive list):

- the circumstances leading to the change in liabilities arising or likely to arise, for example whether this is the result of a decision by the employer, such as the restructuring of an employer, a significant outsourcing or transfer of staff, closure to new entrants, material redundancies or significant pay awards, or other factors such as ill-health retirements, voluntary withdrawals or the loss of a significant contract.
- the materiality of any change in the employer's membership or liabilities, taking account of the Actuary's view of how this might affect its funding position, primary or secondary contribution rate.
- whether, having taken advice from the Actuary, the Administering Authority believes a change in ongoing

funding target or deficit recovery period would be justified, e.g. on provision or removal of any security, subsumption commitment, bond, guarantee, or other form of indemnity in relation to the employer's liabilities in the Fund.

- the materiality of any change in the employer's financial strength or longer-term financial outlook, based on information supplied by the employer and supported by a financial risk assessment or more detailed covenant review carried out by the Fund Actuary or other covenant adviser to the Fund.
- the general level of engagement from the employer and its adherence to its legal obligations as set out in the Pensions Administration Strategy Statement and elsewhere, including the nature and frequency of any breaches such as failure to pay contributions on time and data quality issues due to failure to provide new starter or leaver forms.

Risk assessment

In determining whether or not a review should take place, the Administering Authority will generally focus on the materiality of any potential changes in the context of the employer concerned; its financial position and current contribution levels. As a matter of principle, the Administering Authority does not consider that a review is not justified just because an employer is small in the context of the Fund as a whole, noting that failure to act could make discussions at the next formal valuation more difficult and compound the risk to the Fund. However, in determining the extent and speed of any changes to the employer's contributions the Administering Authority will consider the effect on the overall funding position of the Fund, i.e. other Fund employers.

Where contributions are being reviewed for an employer with links to another Fund employer, particularly where this is a formal organisational or contractual link, e.g. there is a tripartite admission agreement, an ownership relationship or a formal guarantee or subsumption commitment is in place, the Administering Authority will consider the potential risk/impact of the contribution review on those other employer(s), taking advice from the Fund Actuary as required.

Consultation

It is expected that in most cases the employer will be aware of the proposed review of their contributions since this will be triggered by an employer's action and employers should be aware of the need to engage with the Administering Authority in relation to any activity which could materially affect their liabilities or ability to meet those liabilities. The requirements on employers to inform the Administering Authority of certain events are set out in the Pensions Administration Strategy.

In other cases information will be required from the employer, e.g. in relation to its financial position and business plans which could be the catalyst for informing the employer that a review is being proposed. In all cases the Administering Authority will advise the employer that a review is being carried out and share the results of the review and any risk or covenant assessment as appropriate. It should be noted that the fact of a review being carried out does not automatically mean that contributions will be amended (up or down) since that will depend upon the materiality of the changes and other factors such as the outcome of discussions with the employer and any related/linked employer in the Fund and the proximity to the next formal valuation.

Where, following representations from the employer, the Administering Authority is considering not increasing the employer's contributions following a review, despite there being good reason to do so from a funding and actuarial perspective, e.g. if it would precipitate the failure of the employer or otherwise seriously impair the employer's ability to deliver its organisational objectives or it is expected that the employer's financial position will improve significantly in the near-term, the Administering Authority will consult with any related/linked employers (including any guarantor or employer providing a subsumption commitment) and, where appropriate, the largest employers in the Fund with a view to seeking their agreement to this approach.

Request process

Before requesting a review, employers should consider the regulatory requirements and the Fund's policy as set out above and satisfy themselves that there has been a relevant change in the expected amount of liabilities or their ability to meet those liabilities. The employer should contact the Pensions Service Manager, Catherine.black@rctcbc.gov.uk and complete the necessary information requirements for submission to the Administering Authority in support of their application.

The Administering Authority will consider the employer's request and may ask for further information or supporting documentation/evidence as required. If the Administering Authority, having taken actuarial advice as required, is of the opinion that a review is justified, it will advise the employer and provide an indicative cost. Employers should be aware that all advisory fees incurred by the Fund associated with a contribution review request, whether or not this results in contributions being amended, will be recharged to the employer.

Other considerations

The Administering Authority will carry out an annual assessment of the risk for Tier 3 employers and any others as considered appropriate. This will help identify whether a contribution review is required and is expected to be carried out as at each 30 September with any contribution changes effective from the following 1 April.

More generally, the Administering Authority may carry out a review at any time during the valuation cycle where it becomes aware that a review is required. In such cases the employer will be expected to provide the requested information within one month of request and the review will be completed within 6 weeks of the provision of all requested information, or completion of the risk/covenant assessment if later.

The Administering Authority will consult with the employer on the timing of any contribution changes and there will be a minimum of 4 weeks' notice given of any contribution increases. In determining whether, and when, any contribution changes are to take effect the Administering Authority will also take into account the timing of contribution changes flowing from the next formal valuation. As a result, contribution reviews are unlikely to be carried out during the 12 month period from the valuation date although if there were any material changes to the expected amount of liabilities arising or the ability of the employer to meet those liabilities during that period, this should be taken into account when finalising the Rates and Adjustments Certificate flowing from the valuation.

Appeals process

Any Employer appeal against the Administering Authority’s determination must be made in writing to the Service Director, Pensions, Procurement & Transactional Services within 6 months of being notified of the determination.

An appeal will require the Employer to evidence one of the following:

- deviation from the published policy or process by the Administering Authority, or
- any further information (or interpretation of information provided) which could influence the outcome, noting new evidence will be considered at the discretion of the Administering Authority.

SECTION 7

Spreading of exit payments under Regulation 64B

Spreading of exit payments

Where an exit payment is due, unless a DDA is entered into, the Administering Authority's policy is to require a one-off lump sum payment equal to the exit deficit. However, in certain circumstances employers may be able to request spreading of an exit payment on affordability grounds. The Administering Authority's policy on the spreading of exit payments as permitted by Regulation 64B is set out below:

It is envisaged that spreading of exit payments will only be considered at the request of an employer. The Administering Authority will then engage/consult with the employer to consider its application and determine whether or not spreading the exit payment is appropriate and the terms which should apply.

Process and factors considered

In determining whether or not to permit an exit payment to be spread, the Administering Authority will consider factors including, but not limited to:

- the ability of the employer to make a single capital payment;
- whether any security is in place, including a charge over assets, bond, guarantee or other indemnity;
- whether the overall recovery to the Fund is likely to be higher if spreading the exit payment is permitted.

In determining the employer's ability to make a single payment the Administering Authority will seek actuarial, covenant or legal advice as required. Where the Administering Authority considers that the employer is financially able to make a single capital payment it will not normally be appropriate for the exit payment to be spread.

The employer will be required to provide details of its financial position, business plans and financial forecasts and such other information as required by the Administering Authority in order for it to make a decision on whether or not to permit the exit payment to be spread. This information must be provided within 2 months of request.

In determining the appropriate length of time for an exit payment to be spread, the Administering Authority will consider the affordability of the instalments using different spreading periods for the employer. The default spreading period will be three years but longer periods of up to ten years will be considered where the Administering Authority is satisfied that this doesn't pose undue risk to the Fund in relation to the employer's ability to continue to make payments over the period.

Whilst the Administering Authority's preference would be for an employer to request spreading of any exit payment in advance of the exit date, it is acknowledged that a final decision by the employer (and the Administering Authority) on whether this will be financially beneficial/appropriate may not be possible until the employer has exited. Exiting employers will be advised of the exit deficit and the spreading of any payment will only be considered at the request of the employer. Where there is a guarantor, the guarantor will also be consulted and any agreement to spread the exit deficit may be conditional on the guarantee continuing in force during the spreading period.

The amount of the instalments due under an exit deficit spreading agreement will generally be calculated as level annual amounts allowing for interest over the spreading period in line with the discount rate used to calculate the exit liabilities. Where the exit amount is significant, monthly payments may be required or the Administering Authority may require a higher initial payment with lower annual payments thereafter to reduce the risk to the Fund. Alternative payment arrangements may be made in exceptional circumstances as long as the Administering Authority is satisfied that they do not materially increase the risk to the Fund.

Agreement, costs and review

Where it has been agreed to spread an exit payment the Administering Authority will advise the employer in writing of the arrangement, including the spreading period; the annual payments due; interest rates applicable; other costs payable* and the responsibilities of the employer during the spreading period. Where a request to spread an exit payment has been denied the Administering Authority will advise the employer in writing and provide a brief explanation of the rationale for the decision.

*Employers will be asked to pay all advisory costs associated with the spreading agreement as well as calculation of the exit deficit (these costs will not be spread).

The Administering Authority will generally review spreading agreements as part of its preparation for each triennial valuation and will take actuarial, covenant, legal and other advice as considered necessary. In addition, employers will be expected to engage with the Administering Authority during the spreading period and adhere to the notifiable events framework as set out in the Pensions Administration

Strategy. If the Administering Authority has reason to believe the employer's circumstances have changed such that a review of the spreading period (and hence the payment amounts) is appropriate, it will consult with the employer and a revised payment schedule may be implemented. Whilst this review may also consider the frequency of payments, it should be noted that it is not envisaged that any review will consider changes to the original exit amount nor interest rate applicable. An employer will be able to discharge its obligations under the spreading arrangement by paying off all future instalments at its discretion. The Administering Authority will seek actuarial advice in relation to whether or not there should be a discount for early payment given interest will have been added in line with the discount rate used for the exit valuation.

SECTION 8

Deferred Debt Agreements under Regulation 64(7A)

Deferred Debt Agreements

Where an employer ceases to have any active members or would otherwise become an exiting employer, it may request that the Administering Authority enters into a Deferred Debt Agreement (DDA) as permitted by Regulation 64(7A) and become a deferred employer.

The Administering Authority's policy in relation to use of Regulation 64(7A) is set out below.

Factors considered

In determining whether or not to enter into a DDA with an employer the Administering Authority will take into account the following factors, including but not limited to:

- the materiality of the employer and any exit deficit in terms of the Fund as a whole;
- the risk to the Fund of entering into a DDA, in terms of the likelihood of the employer failing before the DDA has ended, based on information supplied by the employer and supported by a financial risk assessment or more detailed covenant review carried out by the Fund Actuary or other covenant adviser
- the rationale for the employer requesting a DDA, particularly if the Administering Authority believes the employer would be able to make an immediate payment to cover the exit deficit; and
- whether an up front payment will be made towards the deficit, and/or any security is, or can be, put in place, including a charge over assets, bond, guarantee or other indemnity, to reduce the risk to other employers.

Where it is expected that the employer's covenant may materially weaken over time the Administering Authority is very unlikely to consider entering into a DDA with that employer. Further, where an employer can demonstrably meet the exit payment in a single instalment, the Administering Authority would be unlikely to enter into a DDA unless it was clear that this wouldn't increase risk to the Fund, e.g. if the employer was fully taxpayer-backed and sufficient assurance was in place that all contributions due, including any residual deficit at the end of the DDA, would be met in full.

Process, agreement, costs and review

It is envisaged that DDAs will only be entered into at the request of an employer. In all cases, the Administering Authority will engage/consult with the employer to determine whether or not a DDA is appropriate and the terms which should apply. As part of its application for a DDA, the Administering Authority will require information from the employer to enable the Administering Authority to take a view on the employer's strength of covenant. Information will also be required on an ongoing basis to enable the employer's financial strength/covenant to be monitored. It is expected that DDAs will be monitored on an annual basis unless circumstances dictate otherwise. Monitoring may be more frequent as the end of the period of the DDA approaches.

Employers should be aware that all advisory fees incurred by the Fund associated with a request for a DDA, whether or not this results in an agreement being entered into, and its ongoing monitoring, will be recharged to the employer.

The Administering Authority will provide a standard form of agreement for DDAs, which it will require employers (and any guarantors) to sign up to. The matters which the Administering Authority will reflect in the DDA, include:

- an undertaking by the employer to meet all requirements on Scheme employers, including payment of the secondary rate of contributions, but excluding the requirement to pay the primary rate of contributions;
- a provision for the DDA to remain in force for a specified period, which may be varied by agreement of the Administering Authority and the deferred employer as long as the total period does not exceed 10 years;
- a provision that the DDA will terminate on the first date on which one of the following events occurs:

(a) the deferred employer enrols new active members;

(b) the period specified, or as varied, elapses;

(c) the take-over, amalgamation, insolvency, winding up or liquidation of the deferred employer;

(d) the Administering Authority serves a notice on the deferred employer that it is reasonably satisfied that the deferred employer's ability to meet the contributions payable under the deferred debt arrangement has weakened materially or is likely to weaken materially in the next 12 months; or

(e) the Fund Actuary assesses that the deferred employer has paid sufficient secondary contributions to cover the exit payment that would have been due if the employer had become an exiting employer on the calculation date.

- the responsibilities of the deferred employer
- the circumstances triggering a cessation of the arrangement leading to an exit payment (or credit) becoming payable, in addition to those set out in Regulation 64 (7E) and above

It is expected that the consultation process with the employer will include discussions on the precise details of the DDA, although the purpose of providing a standard form of agreement is to make the process easier, and quicker and therefore it is not envisaged that there will be material changes to the standard.

The Administering Authority will monitor the funding position and risk/covenant associated with deferred employers on a regular basis. This will be at least triennially and most likely annually, but the frequency will depend on factors such as the size of the employer and any deficit and the materiality of movements in market conditions or the employer's membership.

The circumstances in which the Administering Authority may consider seeking to agree a variation to the length of the agreement under regulation 64(7D) include:

- where the exit deficit has reduced (increased) such that it is reasonable to reduce (extend) the length of the recovery period and associated period of the DDA assuming that, in the case of the latter, this does not materially increase the risk to the other employers/Fund
- where the deferred employer's business plans, staffing levels, finances or projected finances have changed significantly, but, in the case of a deterioration, the Administering Authority, having taken legal, actuarial, covenant or other advice as appropriate, does not consider that there is sufficient evidence that deferred employer’s ability to meet the contributions payable under the DDA has weakened materially, or is likely to weaken materially in the next 12 months
- where the level of security available to the Fund has changed in relation to the DDA, as determined by the Administering Authority, taking legal, actuarial or other advice as appropriate

At each triennial valuation, or more frequently as required, the Administering Authority will carry out an analysis of the financial risk or covenant of the deferred employer, considering actuarial, covenant, legal and other advice as necessary. Where supported by the analysis and considered necessary to protect the interests of all employers, the Administering Authority will serve notice on the deferred employer that the DDA will terminate on the grounds that it is reasonably satisfied that the deferred employer’s ability to meet the contributions payable under the deferred debt arrangement has weakened materially, or is likely to weaken materially in the next 12 months, as set out under regulation 64(7E)(d).

Employers should be aware that all advisory fees incurred by the Fund associated with consideration of a DDA for an exiting employer, whether or not this results in a DDA being entered into, will be recharged to the employer. This will include actuarial, legal, covenant and other advice and the costs of monitoring the arrangement as well as the initial set up. Estimated costs can be provided on request. All fees must be paid up front and cannot be added to any secondary contributions payable under the DDA.

It is expected that employers will make a request to consider a DDA before they would otherwise have exited the Fund under Regulation 64(1) and that a DDA should be entered into within 3 months of that date. The employer should continue to make secondary contributions at the prevailing rate whilst the DDA is being considered unless the Administering Authority, having taken actuarial and other advice as appropriate, determines that increased contributions should be payable. In exceptional circumstances, e.g. where there has been a justifiable delay due to circumstances outside of the employer's control, and at the sole discretion of the Administering Authority, a DDA may be entered into more than 3 months after the exit date.

Deferred employers will be expected to engage with the Administering Authority during the period of the DDA and adhere to the notifiable events framework as set out in the Pensions Administration Strategy as well as providing financial and other information on a regular basis. This will be necessary to support the effective monitoring of the arrangement and will be a requirement of the DDA.

SECTION 9

Identification of risks and counter measures

Approach

The Administering Authority seeks to identify all risks to the Fund and to consider the position both in aggregate and at an individual risk level. Those risks most likely to impact on the funding strategy are investment risk, liability risk, liquidity/maturity risk, regulatory/compliance risk, employer risk and governance risk.

The Administering Authority will monitor the risks to the Fund, and will take appropriate action to limit the impact of these both before, and after, they emerge wherever possible. 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.

Investment Risk

This covers items such as the performance of financial markets and the Fund's investment managers, asset reallocation in volatile markets, leading to the risk of investments not performing (income) or increasing in value (growth) as forecast. Examples of specific risks would be:

- assets not delivering the required return (for whatever reason, including manager underperformance)
- systemic risk with the possibility of interlinked and simultaneous financial market volatility
- insufficient funds to meet liabilities as they fall due
- inadequate, inappropriate or incomplete investment and actuarial advice is taken and acted upon
- counterparty failure

The specific risks associated with assets and asset classes are:

- equities – industry, country, size and stock risks
- fixed income - yield curve, credit risks, duration risks and market risks
- alternative assets – liquidity risks, property risk, alpha risk
- money market – credit risk and liquidity risk
- currency risk
- macroeconomic risks
- environmental; social and corporate governance risks

The Fund mitigates these risks through diversification, permitting investment in a wide variety of markets and assets, and through the use of specialist managers with differing mandates in addition to the internal investment management team, which has a wide variety of experience within its members.

The performance of both markets and managers is reviewed regularly by the Investment Advisory Panel, which has the appropriate skills and training required to undertake this task.

Climate change

The systemic risks posed by climate change and the policies implemented to tackle them will fundamentally change economic, political and social systems and the global financial system. They will impact every asset class, sector, industry and market in varying ways and at different times, creating both risks and opportunities for investors. The Administering Authority and Investment Advisory Panel keeps the effect of climate change on future returns under review and will commission modelling or advice from the Fund Actuary on the potential effect on funding as required.

Liability risk

The main risks include discount rates, pay and price inflation, changing retirement patterns, mortality and other demographic risks. Some of these risks will affect the amount of benefit payments; others will affect the value of benefit payments, i.e. level of assets deemed to be required to meet those benefit payments (the funding target).

The Administering Authority will ensure that the Fund Actuary investigates demographic, pay and pension increase experience at each valuation and reports on developments. The demographic assumptions are intended to be best estimate, informed by Fund experience and wider evidence where needed, e.g. the mortality assumptions are informed by a postcode analysis carried out by the Fund Actuary's specialist longevity team and the projections model released by the Continuous Mortality Investigation of the Institute and Faculty of Actuaries. If the Administering Authority becomes aware of any material changes in population mortality which may also be reflected in the Fund's experience it will ask the Fund Actuary to report on the effect on the funding position and employer contributions.

The Fund Actuary will also provide quarterly funding updates to assist the Administering Authority in its monitoring of the financial liability risks. The Administering Authority will, as far as practical, monitor changes in the age profile of the Fund membership early retirements, redundancies and ill health early retirements in the Fund and, if any changes are considered to be material, ask the Fund Actuary to report on their effect on the funding position and employer contributions.

If significant changes in the value of the liability become apparent between valuations, the Administering Authority will notify the affected employers of the anticipated impact on costs that will emerge at the next valuation and consider whether to require the review of the bonds that are in place for Admission Bodies. It will also consider the extent to which such changes can or should be allowed for in exit valuations, taking advice from the Fund Actuary.

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. Details of the Administering Authority's policy in this area are set out in Section 6.

Liquidity and Maturity risk

This is the risk of a reduction in cash flows into the Fund, or an increase in cash flows out of the Fund, or both, which can be linked to changes in the membership and, in particular, a shift in the balance from contributing members to members drawing their pensions. Changes in the funding position and hence (secondary) employer contributions can also affect the cashflow position since it is not always possible to deliver complete stability of contributions. Changes within the public sector and to the LGPS itself may affect the maturity profile of the LGPS and have potential cash flow implications. For example,

- budget cuts and headcount reductions could reduce the active (contributing) membership and increase the number of pensioners through early retirements;
- an increased emphasis on outsourcing and other alternative models for service delivery may result in falling active membership (e.g. where new admissions are closed or scheduled employers establish wholly owned companies which do not fully participate in the LGPS),
- public sector reorganisations may lead to a transfer of responsibility between different public sector bodies, (e.g. to bodies which do not participate in the Fund or the LGPS),
- scheme changes, for example lower member contributions, as provisionally agreed as part of the 2016

Scheme Advisory Board cost management process will lead to lower member contributions which may not be immediately matched by higher employer contributions,

- an increase in the take-up of the 50/50 option (whether on affordability grounds or to avoid tax charges) will reduce member contributions to the Fund

The Administering Authority seeks to maintain regular contact with employers to mitigate against the risk of unexpected or unforeseen changes in maturity or other changes leading to cashflow or liquidity issues. The Administering Authority also commissions the Fund Actuary to provide projections of benefit payments and contributions based at each valuation and monitors the cashflow position on a regular basis.

Regulatory and compliance risk

Regulatory risks to the scheme arise from changes to general and LGPS specific regulations, taxation, national changes to pension requirements, or employment law. There are a number of uncertainties associated with the benefit structure at the time of the latest formal review of this Statement, including:

- How Government will address the issues of GMP equalisation.
- The timing and provisions of any final regulations in response to the McCloud/Sargeant cases which ruled that the transitional protections implemented in the Firefighters' and Judges' Pension Schemes were illegal age discrimination.
- The outcome of the cost management process as at 31 March 2016 and 31 March 2020 and whether 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 will be implemented.

Details of the allowance made for these uncertainties in the 2019 valuation are set out in Appendix 1.

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.

Redundancy early retirement provisions - with effect from 4 November 2020 a cap on exit payments made by public sector employers came into effect, including the cost of early payment of LGPS pensions for those over aged 55. These new Regulations have since been revoked but Government is expected to come forward with new proposals and it is not yet clear what the final provisions will be for the LGPS nor whether or how they will apply to employers in Wales.

Consultations which have been published but not yet taken forward by Government include changes relating to Fair Deal arrangements, changes to the valuation cycle although the Administering Authority understands that the 2022 valuation is going ahead as previously planned, and changes to HE/FE sector employers.

The Administering Authority will keep abreast of all the proposed changes. The Administering Authority will normally respond to consultations on these matters where they have an impact on the Fund and ask the Fund Actuary to assess the possible impact on costs of the change. It would encourage employers, who frequently have a greater interest in proposed changes, to respond independently.

Employer risk

These risks arise from the ever-changing mix of employers, from short-term and ceasing employers, and the potential for a shortfall in payments and/or orphaned liabilities where employers are unable to meet their obligations to the Scheme. 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 Administering Authority's policy, as set out in Section 6, are met.

The Administering Authority maintains a knowledge base on its employers, their basis of participation and their legal status (e.g. charities, companies limited by guarantee, group/subsidiary arrangements) and uses this information to inform the FSS. It has also developed a framework for analysing the risk posed by the most material Tier 3 employers to the Fund which continue to admit new entrants and operates different funding targets to reduce the risk of employers failing and exiting the Fund with a material shortfall relative to the exit liabilities. It does not consider it appropriate (or affordable for the employers concerned) to eliminate the risk of an unmet exit deficit and will ask the Fund Actuary to review the funding position and level of risk of the short-term and Tier 3 employers between triennial valuations where it believes this is appropriate. In due course it will also ask the Fund Actuary to review the funding position of any deferred employers on a regular basis between triennial valuations, noting that the Regulations specifically provide for a DDA to end when the Actuary assesses that the deferred employer has paid sufficient secondary contributions to cover the exit payment that would have been due if the employer had become an exiting employer on the calculation (review) date.

Governance risk

This covers the risk of unexpected structural changes in the Fund membership (for example the closure of an employer to new entrants or the large scale withdrawal or retirement of groups of staff or establishment of a wholly owned company which does not participate in the Fund, or only partially participates), and the related risk of the Administering Authority not being made aware of such changes in a timely manner.

The Administering Authority’s policy is to require regular communication between itself and employers, and to ensure regular reviews of such items as bond arrangements, financial standing of non-tax raising employers and funding levels. Fund will commission triennial reviews of any bonds as part of its risk management. Particular examples are set out below:

<u>Early retirement strain payments</u>

No allowance is made for the additional value of the benefits when a member is made redundant or leaves on the grounds of efficiency. To counter the potential 'strain' (or cost) emerging at the next valuation early retirement strain payments are required from the employer to the Fund to meet this additional cost over a period of no longer than 3 years.

<u>Employers with small and declining number of contributing members</u>

The Administering Authority's view is that employers with no contributing members cannot be charged contributions under Regulation 67 (unless a DDA is entered into). There is a risk of an employer ceasing to pay contributions with a deficit in the Fund, and being unable to pay the exit payment under Regulation 64.

The Administering Authority will monitor employers with declining membership to ensure that funding is close to 100% on the solvency measure by the time the last member leaves service and this may affect the funding strategy accordingly.

Bodies ceasing to exist with unpaid deficiency

Some employers can cease to exist and become insolvent leaving the employers in the Fund open to the risk of an unpaid deficit. For Transferee Admission Bodies and Admission Bodies admitted under Schedule 2 Part 3 (1)(d), any such deficit will be met by the relevant Scheme Employer and there is therefore little risk to other employers in the Fund (provided of course that the relevant Scheme Employer is itself regarded to be of good covenant).

Other employers are more problematic and the Administering Authority will as far as practicable look to reduce risks by use of bond arrangements or ensuring there is a guarantor to back the liabilities of the body.

Recovery period risk

The Administering Authority recognises that permitting surpluses or deficiencies to be eliminated over a Recovery Period rather than immediately introduces a risk that action to restore solvency is insufficient between successive measurements. The Administering Authority will discuss the risks inherent in each situation with the Fund Actuary and to limit the Recovery Period where appropriate. Details of the Administering Authority's policy are set out earlier in this Statement.

Stepping risk

The Administering Authority recognises that permitting contribution rate changes to be introduced by annual steps rather than immediately introduces a risk that action to restore solvency is insufficient in the early years of the process. The Administering Authority will discuss the risks inherent in each situation with the Fund Actuary and limit the number of permitted steps as appropriate. Details of the Administering Authority's policy are set out earlier in this Statement.

APPENDIX 1

Actuarial Valuation as at 31 March 2019

The assumptions and method outlined below reflect the assumptions appropriate to the triennial valuation as at 31 March 2019. They are not appropriate for employer accounting purposes and may be refined for exit valuations as set out in the relevant section of this Statement above. In addition, the financial assumptions will be updated to reflect market conditions appropriate to the date of any future calculations (e.g. for admissions, exits, funding updates and any review of employer contributions before the next valuation due as at 31 March 2022).

Method and assumptions used in calculating the funding target

The actuarial method to be used is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service.

Principal assumptions

Investment return (discount rate)

The discount rate for the 2019 valuation for employers subject to the Scheduled and Subsumption Body Funding Target is 4.25% p.a. for the periods pre and post retirement, based on a Probability of Funding Success of 75%.

For employers subject to the Ongoing Orphan Body Funding Target the discount rate is 3.85% p.a. in service (equivalent to the in service discount rate for secure scheduled bodies less 0.4% p.a.) and 1.6% p.a. left service (which is equivalent to the yield on long-dated fixed interest gilts at the valuation date plus 0.3% p.a. in light of market expectations of the possible future increases in gilt yields).

For employers subject to the Intermediate Funding Target the discount rate is 3.85% p.a. in service and 3.75% p.a. left service left service.

For liabilities which are already orphaned the discount rate is 1.3% p.a. (equivalent to the yield on long-dated fixed interest gilts at the valuation date).

Inflation (Retail Prices Index (RPI) and Consumer Prices Index (CPI) inflation)

The RPI inflation assumption is taken to be the Capital Market Assumption at the valuation date as produced by Aon Solutions UK Limited. In formulating the Capital Market Assumption, both consensus forecasts and the inflation risk premium are considered.

The CPI inflation assumption at the valuation date is set as RPI inflation less 1.1%.p.a. The deduction has been set having regard to the estimated difference between RPI and CPI arising from the difference in the calculation approach between the two indices. This estimate (and hence the assumed difference between CPI and RPI) will vary from time to time.

Salary increases

The assumption for real salary increases (salary increases in excess of consumer price inflation) will be determined by an allowance of 1.25% p.a. over the consumer price inflation assumption as described above.

Pension increases

Increases to pensions are assumed to be in line with the inflation (CPI) assumption as determined above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the CPI (e.g. Guaranteed Minimum Pensions in respect of service prior to April 1997, other than for those reaching SPA between 6 April 2016 and 5 April 2021).

Mortality

Post-retirement Mortality

Base Rates

Normal Health: Standard SAPS S2 Normal Health – Heavy Amounts tables, year of birth base rates, adjusted by a scaling factor.

Ill-health: Standard SAPS S2 Ill-health tables, year of birth base rates adjusted by a scaling factor.

Scaling Factors

Rates adjusted by scaling factors determined by Fund experience and analysis by post code using the Fund Actuary's proprietary longevity model.

Male actives retiring in normal health	95%
Male deferreds retiring in normal health	90%
Male pensioners retiring in normal health and male dependants	85%
Female actives and deferreds retiring in normal health	100%
Female pensioners retiring in normal health	95%
Female dependants	105%
Contingents of current male actives	110%
Contingents of current male deferreds and pensioners	105%
Contingents of current female actives	100%
Contingents of current female deferreds and pensioners	95%
Male ill health pensioners	115%
Female ill health pensioners	100%

Future improvement to base rates

An allowance for improvements in line with the CMI 2018 with Sk=7.5, for men or women as appropriate, with a long term rate of improvement of 1.50% p.a.

Pre-retirement mortality

Males: As for normal health retirements but with a 40% scaling factor
Females: As for normal health retirements but with a 40% scaling factor

Retirements age

Member Group*	Assumed age at retirement
Group 1 and Group 2 members	63
Group 3 members (Ro85 age = 60)	63
Group 3 members (Ro85 age > 60)	65
Group 4 members (Joiners pre 1 April 2014)	65
Group 4 members (Joiners post 31 March 2014)	State Pension Age

* *Group 1 to Group 4 members are as defined in the early payment of pension guidance (see http://lgpslibrary.org/assets/actgui/ew/Early20160418.pdf)*

Withdrawals

Allowance is made for withdrawals from service. On withdrawal, members are assumed to leave a deferred pension in the Fund and are not assumed to exercise their option to take a transfer value.

Retirement due to ill health

Allowance is made for retirements due to ill health. Proportions assumed to fall into the different benefit tiers applicable after 1 April 2008 are:

Tier 1 (upper tier)	80%
Tier 2 (middle tier)	15%
Tier 3 (lower tier)	5%

Family details

A man is assumed to be 3 years older than his spouse, civil partner or cohabite. A woman is assumed to be 3 years younger than her spouse, civil partner or cohabite.

80% of non-pensioners are assumed to be married / cohabitating at retirement or earlier death.

80% of pensioners are assumed to be married / cohabitating at age 65.

Commutation

Each member is assumed to take cash such that the total cash received (including statutory 3N/80 lump sum) is 80% of the permitted maximum amount permitted of their past service pension entitlements.

Take up of 50/50 scheme

All members are assumed to remain in the scheme which they are in at the valuation date.

Promotional salary increases

Allowance is made for age-related promotional increases.

Expenses

0.5% of Pensionable Pay added to the cost of future benefit accrual.

Method and assumptions used in calculating the cost of future accrual

The cost of future accrual (normal cost) will be calculated using the same actuarial method and assumptions as used to calculate the funding target.

For most employers, the actuarial method to be used is the Projected Unit method with a one year control period. For employers who do not permit new employees to join the Fund, the actuarial method to be used is the Attained Age method. Under both funding methods the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service.

McCloud/Cost Cap

0.9% of pay has been added to employer contributions based on Fund-specific calculations carried out by the Fund Actuary. This figure has been calculated across the Fund as a whole on the scheduled and subsumption body funding target assuming the following remedy:

- Compensation will apply to members who joined the LGPS before 1 April 2014 (see below).
- Benefits will be the better of those accrued in the 2014 Scheme or those accrued in the 2008 Scheme, backdated to 1 April 2014 (i.e. an 'underpin' approach).
- Compensation will apply to members who retire from active service with immediate pension benefits, through normal health or ill health retirement (this is because transitional protections only applied to members retiring from active service with immediate pension).
- The remedy will not apply to spouses' or dependants' benefits. This is because transitional protections only applied to members' benefits.

The cost is split 0.3% of pay in respect of past service and 0.6% of pay in respect of future service where the past service cost has been spread over a recovery period of 19 years.

GMP indexation/equalisation

There is no allowance for GMP equalisation beyond the extended 'interim' solution announced in January 2018, i.e. for full inflationary increases on GMP to be paid from the Fund for members reaching State Pension Age by 5 April 2021.

Summary of key whole Fund principal financial assumptions used for calculating funding target and cost of future accrual (the “primary contribution rate”) for the 2019 actuarial valuation

Funding target	In service discount rate	Left service discount rate
Scheduled and Subsumption Body	4.25% pa	4.25% pa
Intermediate	3.85% pa	3.75% pa
Ongoing Orphan Body	3.85% pa	1.60% pa

Rate of general pay increases	3.35% pa
Rate of price inflation (RPI)	3.2% pa
Rate of price inflation (CPI)	2.1% pa
Rate of pension increases (on benefits in excess of GMPs)	2.1% pa
Rate of pension increases on post-88 GMPs	1.9% pa
Rate of deferred pension increases	2.1% pa
Rate of GMP increases in deferment	3.35% pa

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RHONDDA CYNON TAF PENSION FUND

PENSION FUND ADMINISTRATION STRATEGY

updated March 2021

1. Introduction

The Local Government Pension Scheme (LGPS) (Administration) Regulations 2013 encourages Pension Fund Administering Authorities to introduce an Administration Strategy in order to demonstrate intent and commitment to improving the administrative processes within the LGPS Fund. These regulations are quite specific regarding the disclosure of information and performance statistics as part of this process but provide less guidance in terms of strategy.

This strategy has been developed to build on the existing Service Level Agreements (SLA) and recognises that both Fund Employers and the Rhondda Cynon Taf Pension Fund Administering Authority have a shared role in delivering an efficient and effective Pension Fund to the membership, recognising that such improvements can only be achieved in partnership.

The aims and objectives of this administration strategy document are to assist continuous improvement in Scheme administration functions, and ensure that the principles of the Pension Regulators 'Code of Practice' are consistently applied. This is achieved by introducing a framework to improve and monitor data flow, provide clear lines of communication and make roles and responsibilities transparent as well as meeting disclosure requirements.

The Administration Authority is responsible for the administration of the Local Government Pension Scheme on behalf of the Employers that currently participate in the Rhondda Cynon Taf Pension Fund. These Employers meet the eligibility criteria of the scheme, either as Scheduled, Designated or Admitted Bodies.

This document outlines the policies and performance standards that have been identified through proactive benchmarking, that are necessary to providing a cost effective and high quality pension administration service in partnership with the Rhondda Cynon Taf Fund Employers.

2. Regulatory Framework

Pension Administration Strategy

Commencement Date: 01 April 2014 (as updated March 2021)

Regulation 59(1) of the LGPS (Administration) Regulations 2013 *(see Appendix 1)* enables a Local Government Pension Scheme Administering Authority to prepare and maintain an 'Administration Strategy'.

Related legislation includes:

Local Government Pension Scheme Regulations 2013

Local Government Pension Scheme (Transitional Provisions and Savings) Regulations 2014

Local Government Pension Scheme (Benefits, Membership & Contributions) Regulations 2007;

Local Government Pension Scheme (Transitional Provisions) Regulations 2008;

Local Government Pension Scheme (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000;

Occupational Pension Schemes (Disclosure of Information) Regulations 1996.

and amendments to the aforementioned regulations.

This document has been presented, considered and ratified by the Section 151 Officer (Investment & Administration Advisory Panel) in March 2021

3. Liaison & Communication

Rhondda Cynon Taf Pension Fund is committed to providing a comprehensive communication and information service to participating employers, members and prospective members of the pension scheme. The delivery of high quality service provision depends on the mutual co-operation of the Administering Authority and Fund Employers.

To achieve this aim, each Employing Authority will designate a named individual to act as a **Pensions Liaison Officer**, as the main contact with regard to any aspect of administering the Local Government Pension Scheme (LGPS).

The Pensions Liaison Officer's responsibilities are listed in ***Appendix 2***.

Regular contact is maintained between the Administering Authority and Fund Employers by using a multi-channel approach which consists of:

Employers Annual General Meeting

An annual meeting is held for Employers chaired by the Director of Finance and Digital Services, who has overall responsibility for the Pension Fund. Key speakers range from the Actuary, Investment Managers to Industry specialists, with an update on the administration of the scheme.

Employer Communications Forum

Held quarterly, this meeting covers administration and investment issues. The Forum includes a limited number of employer representatives selected periodically and includes Scheduled, Designated and Admitted bodies as well as employee representatives. The Forum provides a representative link to the Investment and Administration Advisory Panel.

Local Pension Board

Held quarterly, this meeting covers administration and investment issues. The Board includes representation for all stakeholder groups, Employer, Pensioner, Active/Deferred Members. The Board assists Rhondda Cynon Taf County Borough Council Administering Authority as 'Scheme Manger' in -

- Securing compliance with the Principal Regulations and any other legislation relating to the governance and administration of the LGPS;
- Securing compliance with the requirements imposed in relation to the LGPS by the Pensions Regulator; and
- Ensuring the effective and efficient governance and administration of the LGPS by the Scheme Manager

Minutes of the Local Pension Board meetings are published to the Fund website, www.rctpensions.org.uk

Pension Fund Committee

The Pension Fund Committee was established in May 2016 and considers and agrees Fund strategic decisions in accordance with its terms of reference.

Minutes of the Pension Fund Committee are published to the Council website, www.rctcbc.gov.uk/EN/Council/CouncillorsCommitteesandMeetings/Committees/PensionsFundCommittee

The Wales Pension Partnership Joint Governance Committee oversees the pooling of the investments of the eight Local Government Pension Scheme funds in Wales. The Governance Committee comprises one elected member nominated from each of the Constituent Authorities.

Minutes of the Committee are published on the host authority website at http://democracy.carmarthenshire.gov.wales/mgCommitteeDetails

Pension Fund Annual Report

The Annual Report illustrates levels of performance against key benchmarks and work volumes as well as summarising achievements against the Pension Fund's key objectives for the year.

Website

The Administering Authority provides a dedicated, standalone website for Rhondda Cynon Taf Pension Fund members. This website offers self service options via My Pension On-line to the Fund's active, deferred and pensioner members.

Contacts Database

A global circulation list is maintained of key email addresses, such as pension contacts, finance managers and key personnel. This means we can communicate with the relevant party quickly and efficiently.

For example, we use this medium to communicate any issues that are currently under debate. This includes changes to regulations that impact on fund employers and their employees.

Meetings with Individual Employers

Regular meetings are held with larger employers and on request for small\medium sized organisations. These meetings are designed to address specific issues relating to the particular employer such as the performance of both the Employer and Administering Authority.

Any difficulties experienced by either party in relation to service delivery will provide both parties with the opportunity to address any issues. The Pension Fund is committed to the delivery of a quality administration service. Service Standards are set out under ***Section 4.***

Practitioner Training

The Administering Authority provides specific staff development training workshops where resources allow, and these include:

- Process Overview
- Admin Completion
- VER \ Early retirements and pension strain
- End of Year Processes
- Valuation

4. Standards of Service

Employing Authority Responsibilities

The main duties of the Employer as set out in the regulations are:

4.1 To determine who is eligible to become a member of the Scheme and the date from which membership of the Scheme commences in line with Local Government Pension Scheme Regulations 2013 and statutory Auto-enrolment regulations

4.2 For periods of membership before 1st April 2014 to determine whether that person was employed in a full time, part time, variable time or casual capacity. If the employee was part time the Employing Authority must also determine the proportion which the employees' contractual hours bear to the hours of a comparable full time employee.

4.3 To determine an employee's pay for the purposes of setting the appropriate contribution rate with pre-set contribution bands.

4.4 To determine full time equivalent pay for the purposes of calculating benefits due from the Scheme for membership prior to 1st April 2014 and to determine CARE pensionable pay for the purposes of calculating benefits due from the Scheme for membership post 1st April 2014.

4.5 To issue contracts of employment to individuals, confirming or otherwise, their eligibility to join the Scheme. Fund Employers should state in their contract that members have 12 months from the date of joining to undertake any transfer of pension rights into the LGPS.

4.6 To provide to each new member of the LGPS, and existing members who are commencing a further job, a Welcome Pack which asks for details of other periods of membership of the LGPS and other public service pensions. To include New Starters on the monthly I-connect interface.

4.7 On the cessation of membership of the Scheme to determine the reason for leaving and entitlement to benefit and notify the Pension Fund and the Scheme member of the decision at the earliest opportunity.

4.8 To supply timely and accurate information to the Pension Fund to ensure the correct calculation of benefits payable from the Scheme

4.9 To deduct from a member's pay and pay over to the In House AVC provider the contributions within the statutory deadlines indicated in ***Section 5.***

4.10 The Employer is responsible for exercising the discretionary powers given to Employing Authorities by the regulations. These regulations also require the employer to publish its policy in respect of these key discretions.

4.11 To accompany any statement issued to an employee relating to any decision made about the Scheme, with a notice drawing the employee's attention to their right of appeal under the LGPS.

4.12 In the event of a potential Ill health retirement, the Employer should arrange an appointment with an approved Independent Registered Medical Practitioner for the Scheme member in accordance with regulatory requirements. The Employer should submit the certificate to the Pension Fund.

4.13 It is incumbent on the Employer to keep a record of their Tier 3 Ill health retirements, particularly with regard to the 18 month review ensuring they meet their legislative responsibilities.

4.14 The Employer shall repay to the Scheme member any incorrectly deducted employee's contributions including, where more than one month has elapsed between the date the incorrect contributions were deducted and the date they were returned, interest on any such contributions which had not by then been paid over to the Pension Fund.

4.15 The Employer must provide monthly information to the Fund by electronic interface using I-Connect. The interface includes membership movements and monthly pay and contributions information. Each monthly submission must be followed up with the corresponding payment of contributions and remittance.

4.16 The Employer must provide reconciled year-end information to 31 March each year, in an approved format, balancing the amounts paid to the Fund during the year with the total contributions uploaded to their scheme members during the year via I-Connect. This should be provided no later than 30/04/YY and signed by an authorised officer.

4.17 The Employer is responsible for complying with the requirements for funding early retirement as set out by the Administering Authority. Where such requirements are not complied with, the Pension Fund will not pay any benefits to the member concerned until such time as they are complied with.

4.18 The Employer shall, within **14 working days** of receipt of an invoice, pay the Pension Fund interest on payments due from the Employer which is overdue by more than one month *(see Appendix 1)*.

4.19 The Employer will provide information as appropriate to alert the Pension Fund to any impending major workload resulting from circumstances such as proposed redundancy exercises. Any volume requests over and above 10 estimates will need to be agreed in advance as they constitute a bulk exercise and the Pension Fund will need to receive as much notice as possible to help ensure delivery within agreed timescales. These timescales will need to be agreed separately.

4.20 Where a member leaves the Scheme and full contributions have not been deducted for whatever reason the Employer shall immediately make payment of outstanding member's and employer's contributions to the Pension Fund.

4.21 To ensure compliance with Data Protection Act 1998, (General Data Protection Regulation (Regulation (EU) 2016/679) as effective from 28th May 2018), the Employer will protect from improper disclosure of information sent to the Pension Fund.

TABLE 1
Specific Employer Service Standards to help ensure an efficient and effective Service is achieved:

Form	Standard	Timescale
Welcome Pack	Ensure that a new starter has received a 'Welcome Pack' within **1 month** of becoming a scheme member.	1 month
NI4	Where a material change in circumstances occurs, unless change is notified by I-connect, the appropriate form (NI4) should be forwarded to the Pension Fund within **10 working days**.	10 working days
Leave of Absence	Where a member has been granted a period of authorised unpaid leave the employer must provide the employee, when they return to work, with details of the Assumed Pensionable Pay during the period of leave and confirm which section of the scheme they are in. The member then has the choice to buy back the "lost" pension by paying an Additional Pension Contribution (APC). The cost of the APC should be calculated by the member using the online calculator which can be found on www.lgpsmember.org. If the member opts not to buy back the pension the employer must notify the Administering Authority of the break in service. There are no time limits placed on the member to purchase an APC however the cost will increase as the member gets older.	APC application to be sent to Administering Authority as soon as practicable after member has made their decision

Maternity	Pension contributions are payable during a period of ordinary paid maternity leave. For any periods of additional unpaid maternity leave the Employer must inform the member on their return to work of the Assumed Pensionable Pay for the period of unpaid maternity leave and confirmation of which section of the scheme they are in. The member then has the choice to buy back the "lost" pension by paying an Additional Pension Contribution (APC). The cost of the APC should be calculated by the member using the online calculator which can be found on www.lgpsmember.org. The Employer should issue forms to member to establish whether the member wishes to pay contributions in respect of the unpaid maternity leave or whether they wish this period to be treated as break in service.	APC application to be sent to Administering Authority as soon as practicable after member has made their decision
CPINFO GPR EOY YY/YY Data Query	A written response to any general service enquiry including year end, raised in writing or by E-mail, within **15 working days** of receipt. Where the Employer considers a request to be of a particularly complex nature, requiring more time, the Pension Fund shall be informed of the likely timescale for completion.	15 working days
NI2 (Termination Form)	The Employer must submit a notification that an employee has left the Scheme by providing the appropriate leaver forms (NI2) within **10 working days** of the employee leaving the Scheme. Where a member leaves with an entitlement to immediate payment of pension benefits the NI2 form where possible shall be provided before the member retires and in any event within **5 working days** of the member's retirement. Where a member dies in service the Pension Fund shall be notified within **5 working days** of the death of the member	10 working days 5 working days 5 working days
N/a	The Employer shall distribute any information provided by the Pension Fund for their membership and/or potential membership within **10 working days** of its receipt.	10 working days

Administering Authority Responsibilities

The main duties of an Administering Authority as set out in the regulations are:

4.22 Rhondda Cynon Taf Pension Fund will accept the Employer's decision regarding the appropriate rate of contribution as published by the Ministry of Housing, Communities and Local Government (MHCLG) contribution bands.

4.23 To decide how any previous service or employment of an employee is to count for pension purposes, and whether such service is classed as a 'period of membership'.

4.24 To notify each member regarding the counting of service.

4.25 To maintain a record for each member which contains all the information necessary to produce an accurate benefit calculation where the Employer has provided useable and accurate information via I-connect.

4.26 To calculate and pay the appropriate benefits, based on details in the record and termination date and pay details provided by the Employer when an employee ceases employment, or membership of the Scheme for whatever reason.

4.27 To supply beneficiaries with details of their entitlements.

4.28 The Administering Authority will provide an Estimate following a request from the Employer following the receipt of a fully completed (Estimate Request) form within 5 working days. A second estimate will only be provided if there has been a material change of more than £500 to pensionable pay or over a 3 month change to the leaving date.

4.29 To increase pensions periodically in accordance with the provisions of Pensions Increase Acts and Orders. To increase members CARE benefits annually in accordance with the published Treasury Order

4.30 To pay benefits to appropriate beneficiaries only and to take steps to reduce the possibility of fraud taking place.

4.31 To maintain a 'specified person' for the purposes of the Scheme Internal Dispute Resolution Procedure (IDRP).

4.32 To ensure that 'timely' information is issued in the form of newsletters, booklets and other materials to satisfy the requirements of the Occupational Pension Schemes (Disclosure of Information) Regulations 1996. This will include the annual production of a:

- Pension Fund Report
- Pensioners Newsletter

4.33 Provide information and support on the scheme and its administration in the form of:

- Dedicated Contact
- Guidance Notes
- Global Bulletins
- Staff Development Training
- Website / Member Self-Service
- Helpdesk

4.34 Appoint a Fund Actuary for the purposes of the triennial valuation of the Pension Fund and provide periodical actuarial advice when required.

4.35 Appoint all necessary advisors to enable the appointed person to perform the duties required by the Scheme's Internal Dispute Resolution Procedure.

4.36 To co-ordinate and liaise with the Fund Actuary on behalf of the Employers with regard to the triennial valuation of the Rhondda Cynon Taf Pension Fund.

4.37 The Administering Authority is responsible for exercising its discretionary powers in relation to the published Administering Authority Discretions.

4.38 To ensure compliance with Data Protection Act 1998 (General Data Protection Regulation (Regulation (EU) 2016/679) as effective from 28th May 2018), Rhondda Cynon Taf Pension Fund will protect from improper disclosure of information. Information held will be processed by the Pension Fund in accordance with the administering the scheme. The Fund will maintain and publish its Privacy Notice.

4.39 The Administering Authority will liaise with the Actuary and other Pension Funds in respect of Transfer Values (including any bulk transfer arrangements) on behalf of the Employer.

4.40 The Administering Authority will liaise/respond to the Ministry of Housing Communities and Local Government (MHCLG), the Scheme Advisory Board (SAB), the Pensions Regulator (TPR) and the Government Actuary's Department (GAD) in-line with specified deadlines on behalf of the Rhondda Cynon Taf Fund.

4.41 Monitor Common and Conditional Data Scores in line with The Pensions Regulators Code of Practice – Governance and Administration of Public Service Pension Schemes

TABLE 2
Specific Admin Authority Service Standards to help ensure an efficient and effective Service is achieved:

Topic	Standard	Timescale
Transfers In	The Pension Fund will calculate the estimated benefits that a transfer value will buy for a member and issue an illustration within ***10 working days*** of receiving all the necessary information. Every member is entitled to one quote per transfer, any subsequent requests will be charged to the member at £108.00 plus V.A.T.	10 working days
Refunds	The Pension Fund will pay refunds within ***10 working days*** of receiving the formal request for payment provided all the relevant information has been supplied by the Employer.	10 working days
Early leavers	Early leavers will receive details of their preserved benefits within ***10 working days*** of receiving all the information required from the Employer.	10 working days
Divorce	In the event of a divorce or dissolution of a Civil Partnership, Scheme members (or their appointed solicitor) may request a Cash Equivalent Value of the member's pension rights and this will be provided within ***10 working days.*** Any other costs for supplying information or complying with a court order will be recovered from the member or their ex-spouse or ex-civil partner in accordance with the Pension Fund's Schedule of Charges.	10 working days
Benefit Statements	We will issue Annual Benefit Statements to each active and deferred members.	Annually (by 31st August)
Benefit estimates	The Pension Fund will use its discretion in the provision of estimated benefits where a member has been issued with an Annual Benefit Statement. Members will be directed to My Pension On-line in the first instance. Where an estimate of benefits is being issued, the Pension Fund will provide an illustration within ***10 working days*** of receiving a fully completed request form.	10 working days
VER Benefit estimates	Employer VER\Early Retirement requests for estimates will be provided within ***5 working days*** of receiving a fully completed Estimate Request. Any volume requests over and above 10 estimates will need to be agreed in advance.	5 working days

Maximising Benefits	Any member wishing to pay extra contributions to purchase Additional Pension Contributions (APC's) within the LGPS will receive an estimate within ***10 working days (only if not able to calculate themselves using the LGPS 2014 on-line calculator)***.	10 working days
Transfer Out	For members wishing to transfer their benefits from the Local Government Pension Scheme (LGPS), the Pension Fund will issue an illustration within ***10 working days*** of receiving all the necessary information. This illustration will be guaranteed for three months. Members are entitled to receive one quote per transfer per year, the Pension Section reserves the right to make a charge of £108.00 plus VAT for any additional quotations requested.	10 working days
Retirement	At retirement the Pension Fund will send details of the benefits payable and pay the tax-free cash lump-sum within ***5 working days*** of receiving all the information required from the employer and the return of a fully completed Pre Retirement Pack from the member.	5 working days
Death	On the death of a member, the Pension Fund will provide details of the benefits payable within ***7 working days*** of receiving all of the information required. The Pension Fund will pay the lump-sum death grant within ***5 working days*** of receiving Grant of Probate (or other appropriate documentation).	7 working days 5 working days
Triennial Valuation	The Pension Fund will meet the timescales agreed with the Actuary to ensure that new contributions rates are delivered at the earliest opportunity.	12 months from Valuation date

Unsatisfactory Performance

Both parties will endeavour to resolve any unsatisfactory performance issues identified at the earliest opportunity; however, in the event that repetitive unsatisfactory performance issues remain unaddressed, the following action is required:

- A formal report will be made to the Fund's Investment and Administration Advisory Panel detailing the unsatisfactory performance of either the Administering Authority or Employer (where costs may be recoverable as indicated in Table 3 below)

Cost Recovery	**TABLE 3**
Where disproportional costs have been incurred to the detriment of other Employers within the Fund as a direct result of an Employer's repeated lack of compliance, Rhondda Cynon Taf Pension Fund will seek to recover these additional costs from the respective Employer: These circumstances are (but are not limited to): ❑ Persistent failure to provide relevant and timely information to the Administering Authority, Scheme Member or other interested party in accordance with the agreed service standards (as set out in Section 4, Table 1) and the Scheme expectations; ❑ Additional cost incurred in providing 'Employer specific' specialist third party advice in administering the Scheme on behalf of the employer, including but not exclusive to actuarial services, occupational medical practitioner services and legal services. ❑ Instances where the performance of the Employing Authority has directly contributed to fines being levied against the Administering Authority by the Pension Regulator (see Section 5), Pensions Ombudsman, HMRC or other regulatory body. ❑ Failure to deduct and make payments on behalf of the employee and employer within agreed timelines to the Pension Fund.	
Notice	
Where the Administering Authority determines cost recovery is appropriate, written notice will be given to the Employing Authority, containing: ❑ The reason in their opinion that the Employing Authority's poor performance resulted in the additional cost; ❑ The amount and basis of additional cost incurred; ❑ The provision within the Administration Strategy relevant to the decision given.	

5. Financial Implications

Service Costs

5.1 The costs of administration are directly charged to the Pension Fund and the Administering Authority is responsible for ensuring that value for money is achieved at all times. Where additional costs are incurred for work which is not common to all Employers, or which cannot be regarded as a cost of administration, the Employer may be required to directly reimburse those costs.

5.2 Employers will be required to pay for administrative expenses in relation to the investigation and implementation of a Deferred Debt Agreement (DDA) or other measure under Regulation 64. Employers will be informed if additional administration charges are likely. Professional fees will be recharged to the Employer in all cases, regardless of whether an arrangement is subsequently entered into.

Funding Contributions by Participating Employers

5.3 The Employer's contribution rate is not fixed. Fund Employers are required to pay as much as is necessary to ensure that the proportion of the Fund relating to their organisation is sufficient to meet their liabilities. The Rhondda Cynon Taf Pension Fund is valued every three years by the Fund's Actuary. The Actuary examines the Fund's assets and liabilities and assesses the Employer's contribution rate and deficit contribution if applicable, which will apply for the next three years.

Payment Arrangements

5.4 It is the responsibility of the Employer to ensure that both employee and employer contributions are deducted at the correct rate. This includes any contributions that are due on leave of absence with reduced or no pay and any additional contributions the Pension Fund instruct the Employer to collect. The amounts paid over to the Pension Fund must reflect those contributions deducted.

5.5 Contributions (including any deficit payments) should be paid to the Pension Fund on a monthly basis and all such payments should be accompanied by a breakdown of payments, certified correct by an authorised officer, detailing the period for which the contributions were due, and showing the total pensionable pay for members in the main section of the scheme and the employees contributions deducted, the total pensionable pay for members in the 50/50 section and the employees contributions deducted, the total employer contributions for the period in question.

5.6 All contributions (including Additional Regular Contributions (ARC) and Additional Pension Contributions (APC)) should be credited to the Pension Fund without delay and within the statutory maximum limit of before the 19th of the month following that in which they were deducted in accordance with the requirements of the Pensions Act 1995. The Pension Regulator may be notified if contributions are not received within this time in accordance with the Fund's Breach Policy. If contributions are overdue by more than one month the employer will be required to pay interest in accordance with the Regulations, ***See Appendix 1.***

5.7 The Employer will ensure that it pays all Additional Voluntary Contributions (AVC) deductions from its employees to the In House AVC provider according to the published schedule and no later than the 19th of the month following the deduction.

5.8 The In House AVC provider will highlight a breach to the Administering Authority in the first instance and the Pension Regulator notified in accordance with the Pensions Act 1995. In the event of a regulatory fine, this fine will be recharged to the Fund Employer.

6. Notifiable Events

6.1 Employers should ensure that they engage with the Fund in relation to any activity which could materially affect their liabilities or ability to meet those liabilities, 'notifiable events'. These include, but are not limited to, the following:

- A decision which will restrict the employer's active membership in the Fund in future, or lead to a significant reduction in LGPS pensionable pay
- Any restructuring or other event which could materially affect the employer's membership, including a decision to cease business
- A change in the employer's legal status or constitution which may jeopardise its participation in the Fund
- If the employer has been judged to have been involved in wrongful trading
- If any senior personnel, e.g. directors, owners or senior officers have been convicted for an offence involving dishonesty, particularly where related to the employer's business
- Where the employer has, or expects to be, in breach of its banking covenant
- Details of any improvement notice (or equivalent) served by the appropriate regulator, e.g. Education Funding and Skills Agency, Office for Students, Charity Commission, Regulator for Social Housing etc, or S114 notice for local authorities

6.2 Employers should provide this information in advance of the event occurring (where possible) and as soon as practicable thereafter.

7. Associated Policies

Administering Authorities must ensure that existing solid governance arrangements are maintained and developed to help support the decision making process.

The Governance arrangements for the Rhondda Cynon Taf Pension Fund are summarised and clarified in a number of key documents that relate to the effective stewardship of the Fund.

An overarching ***Governance Statement of Compliance*** that indicates the Fund's position against the Government's best practice standards.

A ***Governance Policy Statement*** which provides an overview of the management structure, decision making and employer engagement within the scheme.

We are committed to providing a comprehensive communication and information service to participating employers and members of the pension scheme and the services we provide can be found in our ***Communications Policy Statement***.

The ***Investment Strategy Statement*** which shows, in detail how we manage the Fund's investments.

The ***Funding Strategy Statement*** which provides a summary of how we will fund our pension liabilities and policy on 'Employer Exits'.

The Fund also maintains a ***Risk Register***, which assists the monitoring of potential risks and associated actions of mitigation.

All of these documents can be found under the Library/Governance section of our pension website, or alternatively, please contact our helpdesk for a copy.

8. Management & Review

Nominated Representative

8.1 An Employer shall nominate a person who will be responsible for pension matters, and who will act as the Administering Authority's primary contact with the Employer. This individual is identified as the Pensions Liaison Officer and their key responsibilities are listed in ***Appendix 2***.

They must notify the Pension Fund immediately if there are material changes to authorised signatories or other key contacts within the Employing Authority.

Authorised Signatories

8.2 All documents and/or instructions received from an Employer must be signed by an 'Authorised Officer' whose name and specimen signature is recorded in ***Appendix 3*** of this document. Authorised Officers are responsible for all information passed to the Administering Authority. Only information, which has been signed by a recognised authorised officer, will be actioned by the Pension Fund.

Any proposed change to either the ' Pensions Liaison Officer' or to the list of 'Authorised Signatories' must be notified to the Administering Authority who will supply the Employer with the necessary documentation for completion.

It is the responsibility of the Employer to ensure that the ' Pensions Liaison Officer', and the list of 'authorised signatories' are correct and to notify the Administering Authority of changes to either, immediately.

Review

8.3 The Pension Administration Strategy will be kept under review by Rhondda Cynon Taf Pension Fund.

Rhondda Cynon Taf Pension Fund will constantly seek to improve communications between itself and Employing Authorities.

Employers may make suggestions to improve the Pension Administration Strategy for consideration by Rhondda Cynon Taf Pension Fund at any time.

Rhondda Cynon Taf Pension Fund will revise the Pension Administration Strategy following consultation with appropriate parties. The revised Pension Administration Strategy will then be published and circulated to Rhondda Cynon Taf Pension Fund's Employing Authorities and to the Secretary of State.

Employers are welcome to discuss any aspect of the Pension Administration Strategy with the Pension Fund at any time. Employers are welcome to visit the Pension Fund at any time, subject to notice.

9. Appendices

Appendix 1 Regulations related to this document

Local Government Pension Scheme Regulations 2013

Regulation 59 Pension administration strategy.

(1) An administering authority may prepare a written statement of the authority's policies in relation to such of the matters mentioned in paragraph (2) as it considers appropriate ("its pension administration strategy") and, where it does so, paragraphs (3) to (7) apply.

(2) The matters are—

(a) procedures for liaison and communication with Scheme employers in relation to which it is the administering authority ("its Scheme employers");

(b) the establishment of levels of performance which the administering authority and its Scheme employers are expected to achieve in carrying out their Scheme functions by—

(i) the setting of performance targets,

(ii) the making of agreements about levels of performance and associated matters, or

(iii) such other means as the administering authority considers appropriate;

(c) procedures which aim to secure that the administering authority and its Scheme employers comply with statutory requirements in respect of those functions and with any agreement about levels of performance;

(d) procedures for improving the communication by the administering authority and its Scheme employers to each other of information relating to those functions;

(e) the circumstances in which the administering authority may consider giving written notice to any of its Scheme employers under regulation 70 (additional costs arising from Scheme employer's level of performance) on account of that employer's unsatisfactory performance in carrying out its Scheme functions when measured against levels of performance established under sub-paragraph (b);

(f) the publication by the administering authority of annual reports dealing with—

(i) the extent to which that authority and its Scheme employers have achieved the levels of performance established under sub-paragraph (b), and

(ii) such other matters arising from its pension administration strategy as it considers appropriate; and

(g) such other matters as appear to the administering authority, after consulting its Scheme employers and such other persons as it considers appropriate, to be suitable for inclusion in that strategy.

(3) An administering authority must—

(a) keep its pension administration strategy under review; and

(b) make such revisions as are appropriate following a material change in its policies in relation to any of the matters contained in the strategy.

(4) In preparing or reviewing and making revisions to its pension administration strategy, an administering authority must consult its Scheme employers and such other persons as it considers appropriate.

(5) An administering authority must publish—

(a) its pension administration strategy; and

(b) where revisions are made to it, the strategy as revised.

(6) When an administering authority publishes its pension administration strategy, or that strategy as revised, it must send a copy of it to each of its Scheme employers and to the Secretary of State as soon as reasonably practicable.

(7) An administering authority and its Scheme employers must have regard to the pension administration strategy when carrying out their functions under these Regulations.

(8) In this regulation references to the functions of an administering authority include, where applicable, its functions as a Scheme Employer.

Local Government Pension Scheme Regulations 2013

Regulation 70 Additional costs arising from Scheme employer's level of performance.

(1) This regulation applies where, in the opinion of the appropriate administering authority, it has incurred additional costs which should be recovered from a Scheme employer because of that employer's level of performance in carrying out its functions under these Regulations.

(2) The administering authority may give written notice to the Scheme employer stating—

(a) the administering authority's reasons for forming the opinion mentioned in paragraph (1);

(b) the amount the authority has determined the Scheme employer should pay under regulation 69(1)(d) (payments by Scheme employers to administering authorities) in respect of those costs and the basis on which the specified amount is calculated; and (c) where the administering authority has prepared a pension administration strategy under regulation 59, the provisions of the strategy which are relevant to the decision to give the notice and to the matters in sub-paragraph (a), or (b).

Local Government Pension Scheme Regulations 2013

Regulation 71 Interest on late payments by Scheme employers

(1) An administering authority may require a Scheme employer or former Scheme employer from which any payment is due under regulations 67 to 70 (employers' contributions or payments) is overdue to pay interest on that amount.

(2) The date on which any amount due under regulations 67 (employers contributions), 68 (employers further payments, 70 (additional costs arising from Scheme employers level of performance) is overdue is one month from the date specified by the administering authority for payment.

(3) The date on which any amount due under regulation 69 (payment by Scheme employers to administering authorities) (other than any extra charge payable under regulation 68 and referred to in regulation 69(1)(b))) is overdue is the day after the date when that payment is due.

(4) Interest payable under this regulation must be calculated at one per cent above base rate on a day to day basis from the due date to the date of payment and compounded with three-monthly rests.

Appendix 2 Pension Liaison Responsibilities

Key responsibilities of a Pension Liaison Officer include:

- To act as the primary contact in communicating LGPS information to appropriate staff within the Employing Authority, this includes;
  - Human Resources
  - Payroll
  - Finance
  - Scheme members (where appropriate)

Ensure monthly I-connect submission are made to the Fund

- Ensure that standards of service are maintained.

- To identify any pension training needs and to liaise with the Pension Fund's Senior Team Manager on meeting these needs.

- To notify the Fund immediately if there are material changes to authorised signatories or other key contacts within the Employing Authority.

- Discharge the Employing Authority's duties and responsibilities in relation to the existing governance arrangements and the regulatory framework and other relevant legislation. This includes employer policies and discretionary decisions.

- To assist and liaise with the Fund on promoting the benefits of Scheme membership to new and existing members. This may include;

  - Induction Workshops
  - Mid Life Planning
  - Pre retirement
  - Promotion of In House Additional Voluntary Contributions (AVC)

- Distribute Pension Fund literature to Scheme members including scheme guides, factsheets, newsletters and other communication materials with a specific regard of ensuring that new starters receive the appropriate LGPS information, including statutory deadlines for transfers.

Appendix 3 Specimen Authorised Signatories Form

Authorised Signatories on behalf of:

Employer name:

Employer address:

Designated Pension Liaison Officer:

Name	**Title**	**Contact Details**	**Signature**

The officers listed below are authorised to request estimates of retirement benefits on behalf of the above named employer.

Name	**Title**	**Contact Details**	**Signature**

Signature: **Date:**

Employing Authority Officer: **Official Stamp:**

10. Contact Information

Queries		
Employer related	**Tim Jenkins**	**01443 680611**
Financial	**Catherine Black**	**01443 680646**
Retirement\Benefit	**Gemma Penning**	**01443 680357**
Member maintenance	**Kayleigh Jenkins**	**01443 680611**

Contact Details	
Helpdesk:	**01443 680611**
Fax:	**01443 680717**
Email:	**pensions@rhondda-cynon-taff.gov.uk**
Website:	**www.rctpensions.org.uk**
Mail / Visit:	**Pensions Section, Bronwydd, Porth, Rhondda, CF39 9DL.**