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

DYMA WŶS I CHI i gyfarfod o PWYLLGOR CRONFA BENSIYNAU yn cael ei gynnal yn rhithwir on **DYDD LLUN, 27AIN MAWRTH, 2023** am **2.00 PM.**

AGENDA **Tudalennau**

1. DATGAN BUDDIANT

Derbyn datganiadau o fuddiannau personol gan Aelodau, yn unol â'r Cod Ymddygiad.

Nodwch:

1. Mae gofyn i Aelodau ddatgan rhif a phwnc yr eitem y 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 y cofnodion o gyfarfod blaenorol Pwyllgor y Gronfa Bensiwn a gynhaliwyd ar 13 Rhagfyr 2022.

3 - 6

3. DYSGU A DATBLYGU

Derbyn cyflwyniad gan LAPFF ar fuddsoddi ac ymgysylltu cyfrifol

4. TRAFOD CADARNHAU'R CYNNIG ISOD YN BENDERFYNIAD:

"Bod y cyfarfod yma'n cadw aelodau o'r wasg ac aelodau o'r cyhoedd allan o ystafell y cyfarfod, dan Adran 100A(4) o Ddeddf Llywodraeth Leol (fel y'i diwygiwyd), yn ystod trafod eitemau 5 a 6, ar y sail y byddai'n debygol o olygu datgelu gwybodaeth eithriedig yn ôl diffiniad paragraff 14 o Ran 4 o Atodlen 12A i'r Ddeddf."

5. LINK SOLUTIONS A RUSSELL INVESTMENTS

Derbyn cyflwyniad gan y gweithredwr a darparwr datrysiadau rheolwr cronfa Partneriaeth Pensiwn Cymru (WPP)

6. ADOLYGIAD BLYNYDDOL O DDOGFENNAU LLYWODRAETHU A STRATEGAETH Y GRONFA

7 - 146

7. ADRODDIAD AR SWYDDOGAETHAU DIRPRWYEDIG

147 - 168

8. ADOLYGU COFRESTR RISG Y GRONFA BENSIWN

169 - 180

9. PARTNERIAETH PENSIWN CYMRU – Y DIWEDDARAF

181 - 182

10. 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 Ashford)

Y Cynghorwyr Bwrdeistref Sirol: Y Cynghorydd G Jones, Y Cynghorydd N H Morgan and Y Cynghorydd D Wood

RHONDDA CYNON TAF

RHONDDA CYNON TAF COUNCIL PENSION FUND COMMITTEE

Minutes of the virtual meeting of the Pension Fund Committee held on Tuesday, 13 December 2022 at 2.00 pm.

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

Councillor M Norris (Chair)

Councillor D Wood Councillor N H Morgan

Officers in attendance:-

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

Others in Attendance
Mr G Roberts – Baillie Gifford
Ms M Haper – Baillie Gifford

15 APOLOGIES

Apologies for absence were received from County Borough Councillors M Ashford and G Jones.

16 WELCOME

The Chair welcomed County Borough Councillor N Morgan to his first meeting of the Pension Fund Committee.

17 DECLARATION OF INTEREST

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

18 MINUTES

It was **RESOLVED** to approve the minutes of the 28th October 2022 as an accurate reflection of the meeting.

19 EXEMPTION OF THE PRESS AND PUBLIC

RESOLVED that the press and public be excluded from the meeting under Section 100A(4) of the Local Government Act (as amended) for the next item of business on the grounds that it involves the likely disclosure of exempt information as defined in paragraph 14 of Part 4 of Schedule 12A of the Act.

20 **LEARNING AND DEVELOPMENT - RESPONSIBLE INVESTING AND ENGAGING WITH COMPANIES**

Through the aid of a PowerPoint presentation, representatives from Baillie Gifford provided Members with an overview of their environmental, social and governance aims and principles. After a detailed discussion in respect of the presentation, the Committee **RESOLVED**:

I. To note the contents of the presentation.

21 **DELEGATED FUNCTIONS REPORT**

The Director of Finance and Digital Services provided Members with the key issues being addressed as delegated functions, as specified in the Pension Fund Governance Policy Statement.

The Director informed Members of the quarterly reporting cycle for pension fund investment performance and referenced that during the quarter ending the 30th September 2022, the overall value of the Fund decreased from £4,108 million to £3,995 million.

The Committee were advised that the rolling 3-year performance of the Fund was 2.8% positive as compared to benchmark of 2.4% and during quarter 3 Global Opportunities high alpha equity portfolio, BlackRock Passive UK Equity (low carbon), Baillie Gifford traditional equity portfolio and UK Credit outperformed their benchmarks (noting that Baillie Gifford and UK Credit quarter 3 benchmarks were negative); Global Growth high alpha equity portfolio and CBRE Property underperformed their benchmarks; and BlackRock Passive UK Gilts performed in line with their benchmark.

Members were referred to the table at paragraph 4.7 of the report which provided detail of the revised asset allocation strategy together with the current allocation. In respect of infrastructure, the approach was for the Fund to invest over a number of years in order to secure and optimise opportunities across the different time periods (and vintage years).

The Service Director, Pensions, Procurement & Transactional Services provided the Committee with an administration update, from Section 5 of the Report, that included details of the RCT Pension Fund Annual Report, the Fund's governance documents that are currently being updated in line with the 2022 Valuation and in consultation with respective stakeholders, and details on the Employer Cost Cap and Specified Restricted Scheme.

Committee were provided with an update on the 2022 Triennial Valuation exercise, with emerging results indicating a positive increase in overall funding level since the 2019 Valuation. The Service Director added that in discussion with the Fund Actuary, a level of prudence had been factored into assumptions in recognition of current wider economic uncertainty, giving rise to market volatility and significant increases in inflation.

The Service Director updated Members on the new Life Certification exercise underway and the use of biometrics technology to provide assurance on the details / status of scheme members that live abroad, with contact being made with the 189 overseas pensioners.

The Service Director explained the scheme ‘data quality’ scores which provide a high level of data assurance and confirmed their inclusion within the Fund’s annual return to the Pension Regulator.

The Service Director also updated Members on the Service’s key performance measures and workload volumes, these remaining positive but challenging, and added that there was a continued focus on team development and recruitment. The Service Director completed the overview of the Report by providing details of the most recent Pension Board meeting on 17th October 2022.

A Member requested further information on the fluctuation in the overall value of Fund from £4.1M to £3.9M. The Director of Finance and Digital Services noted the current market volatility and fed back to Members that the Fund invests over the long term and has a diversified portfolio to manage risks, such as market volatility, and at the same time optimise return. The Director added that the Fund’s performance would be kept under on-going review in line with the robust monitoring arrangements in place.

Members discussed arranging a future briefing session with Officers on investment performance including details on the Wales Pension Partnership.

Following discussions, it was **RESOLVED**:

I. To note the issues addressed within the report.
II. To take forward a future briefing session with Officers.

22 RISK REGISTER REVIEW

The Service Director, Finance & Improvement Services provided Members with an overview of the arrangements in place to manage risk within the Pension Fund.

The Service Director 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 were informed that there had been no changes to ‘Likelihood’ or ‘Impact’ risk ratings during the last quarter for the 38 risks within the Risk Register.

One Member commented on the potential pension increase for 2023/24 aligned to the rate of inflation and whether this will cause cashflow pressures. The Service Director fed back that regular cashflow monitoring is in place alongside ensuring that sufficient funds / liquid assets are available to meet on-going pension payments.

Another Member noted the position in respect of the WPP Operator. The Director of Finance and Digital Services fed back that a WPP Operator procurement process has commenced, and Members will be kept updated as the process is progressed.

Following discussion it was **RESOLVED**:

I. To note the arrangements in place for the management of risk within the Fund.

23 PENSION FUND STATEMENT OF ACCOUNTS 2021/22 AND AUDIT WALES REPORT

The Director of Finance and Digital Services presented Members with the Pension Fund Statement of Accounts (2021/22) and advised of the role and responsibilities of the Committee with regard to the approval process for the Accounts.

The Director advised Members that the Pension Fund Statement of Accounts 2021/22 were approved by full Council on the 23rd November 2022 and the outcome of the external audit undertaken by Audit Wales was an unqualified audit opinion.

Members commented that it was a positive report and **RESOLVED**:

I. To note the audited financial statements of the Pension Fund for the financial year 2021/22.

24 WALES PENSION PARTNERSHIP - UPDATE

The Senior Accountant, Pensions and Treasury Management provided the Committee with an update on the work and progress of the Wales Pension Partnership (WPP) and Joint Governance Committee (JGC). Members were advised of the areas covered at the December 2022 JGC which included the development of the Private Markets Sub-Funds and Operator contract procurement process. The Senior Accountant fed back the importance of the Taskforce on Climate-related Financial Disclosures (TCFD) and informed Members that the consultation in respect of this ended in November 2022. Members were also informed of the aspiration to become 'carbon neutral' through using the framework, with the framework providing a consistent approach to climate-related financial risk disclosures across all LGPS Pension Funds.

Members **RESOLVED** to:

I. Note the update provided.

This meeting closed at 3.33 pm

CLLR M. NORRIS
CHAIR.

RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

MUNICIPAL YEAR 2022-23

PENSION FUND COMMITTEE 27TH MARCH 2023 REPORT OF: THE DEPUTY CHIEF EXECUTIVE AND GROUP DIRECTOR – FINANCE, DIGITAL AND FRONTLINE SERVICES	AGENDA ITEM NO. 6 ANNUAL REVIEW OF FUND GOVERNANCE AND STRATEGY DOCUMENTS

Author – Barrie Davies, Deputy Chief Executive and Group Director – Finance, Digital and Frontline Services (01443) 424026

1.0 PURPOSE OF REPORT

1.1 This report sets out the Fund Governance and Strategy 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 and consider any updates required to the Fund Governance and Strategy Documents as attached at Appendix 1 to 6; and

2.1.2 Approve the documents (subject to any required updates).

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 Deputy Chief Executive and Group Director of Finance, Digital and Frontline 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 Deputy Chief Executive and Group Director of Finance, Digital and Frontline 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 This report sets out for the Committee the relevant Governance and Strategy Documents which fall within its remit and details the reporting arrangements for them.

4.0 GOVERNANCE AND STRATEGY DOCUMENTS

4.1 In line with regulatory requirements, the Fund has a duty to maintain and review (at least annually) a number of Governance and Strategy Documents, many of which need to be in place by the 1st April each year.

4.2 Accordingly, many of these have been reviewed by officers initially and considered by the Investment and Administration Advisory Panel and shared with the Pension Board. These are now presented to the Committee for review, comment and approval as appropriate.

4.3 Set out in table 1 below are the relevant documents, as detailed in the terms of reference, and the proposed reporting arrangements to this Committee. Those now reported for consideration by the Committee are shown.

Table 1 – Strategy and Governance Documents

ToR Ref	Document	Committee Date	Comments
i)	Governance Policy	27th March 2023	**Updated**, Attached at Appendix 1
i)	Compliance Statement	27th March 2023	**Updated** Attached as Appendix 2
ii)	Funding Strategy Statement	27th March 2023	**Updated** following 2022 Valuation. Attached as Appendix 3

iii)	Investment Strategy Statement	27th March 2023	**Updated**, Attached at Appendix 4
iv)	Myners Compliance Statement	27th March 2023	No change
v)	Stewardship Code	27th March 2023	No Change
vi)	Administration Strategy	27th March 2023	**Updated**, Attached at Appendix 5
vii)	Communications Strategy	27th March 2023	**Updated**, Attached at Appendix 6
viii)	Discretions	27th March 2023	No Change
ix)	Internal Dispute Resolution Procedure	27th March 2023	No Change

5.0 CONCLUSION

5.1 This report sets out, for the Committee, the key Fund Governance and Strategy Documents for review and consideration in line with the Terms of Reference.

****

Appendix 1

RHONDDA CYNON TAF PENSION FUND

PENSION FUND GOVERNANCE POLICY STATEMENT

STRUCTURE & ORGANISATION OF THE RCT PENSION FUND

Updated March 2023

Contents **Page No.**

1. Introduction to Pension Fund Governance

Effective Pension Fund governance management is a crucial element of ensuring that the LGPS Scheme (RCT Pension Fund) remains an attractive and affordable employer pension scheme. In doing so, it is essential that an appropriate internal control environment exists that considers and regularly reviews risk, funding and securities, potential conflicts of interest, views of scheme stakeholders, regulatory consultation, change and compliance.

In 2000, the Government commissioned a *Review of Institutional investment in the UK* from Paul Myners, Chairman of the Gartmore Fund Management Group. The resultant report (known as the Myners Report) sets out a number of principles codifying best practice in pension fund management. Our compliance with each of these principles is shown annually in the Pension Fund Report.

Local Authority pension schemes are usually administered by so-called 'upper tier' authorities, i.e. counties, mets, unitaries and London boroughs (although there are two stand-alone pension funds, namely the London Pension Fund Authority and the South Yorkshire Pension Fund Authority). The top level of control is exercised by a Pensions Committee comprising host authority members. In effect, members of the Committee fulfil a quasi trustee function, equivalent to the trustees of a private sector pension fund. The Pension Fund Committee is responsible for the strategic management of the RCT Pension Fund in accordance with its terms of reference, with all operational matters delegated to the Deputy Chief Executive and Group Director - Finance, Digital and Frontline Services (as the Section 151 Officer or in his absence the Deputy Section 151 Officer).

Like many specialist local government services, elements of pension fund management are outsourced in order to harness the necessary expertise for what is a complex arena. The role of the Pensions Committee, and of officers, as agents of the Administering Authority is to determine a strategy, and to ensure that the strategy is properly and fully implemented. In effect, this is a procurement exercise, and as such requires skills that are needed in any procurement situation, for example: -

- A clear understanding of what the Fund is aiming to achieve and a strategy for achieving it
- Understanding the market and choices that can be made
- Deciding what needs to be provided in-house and what should be outsourced
- Defining and developing strong specifications for the services to be provided
- Ensuring clear and open competition
- Managing relationships, both with in-house providers and contractors
- Setting rigorous performance measures, and implementing a feedback loop for reporting, evaluating and monitoring contractor performance (whether for services provided in-house or outsourced)

Further to the Lord Hutton review of public service pension, the Public Service Pensions Act 2013 introduced a number of changes to public service pension schemes, including a number of key changes impacting on the governance arrangements of schemes. In line with the Act, each Fund Administering Authority was required to create a local Pension Board by no later than 01st April 2015. The Pension Board assists Rhondda Cynon Taf County Borough Council Administering Authority as 'Scheme Manager' in securing compliance and ensuring effective and efficient governance and administration. The RCT Local Pension Board has been established and is made up of two employer representatives and two member representatives; the Board meets quarterly each financial year.

During 2015 the Scheme Advisory Board was formally established, providing a national oversight of LGPS, tasked with the role of identifying opportunities for collaboration, cost savings and efficiencies within the scheme

There are also powers afforded to the Pension Regulator in relation to public sector scheme compliance. A ‘Code of Practice’ has been produced that sets out the standards of governance and administration for running of public service pension schemes. The RCT Pension Fund ensures its compliance with the requirements of the Code, through its risk control monitoring, and in accordance with the Fund’s Reporting Breaches Policy.

Pension Fund Management can be divided into two main areas, with an overarching Risk Register in place:

Investment Management

As noted above, many aspects of investment management are carried out by a range of external specialist services, including:

- **Investment managers** who are responsible for managing the performance of the investment fund on a day-to-day basis. This will include making decisions on what to buy and sell and buying and selling itself, within the context of a broad investment policy laid down by the Administering Authority.

- **Investment advisers** who may assist in setting the broader policy, evaluating fund manager performance and so on.

- **Investment Pooling** - the Fund participates in the Wales Pension Partnership (WPP) which is the collective investment vehicle for the use of the 8 Local Government Pension Scheme (LGPS) funds in Wales.

- **Voting and Engagement Provider** - appointed to assist the WPP in formulating and maintaining a Voting Policy and Engagement Principles that are in keeping with the Welsh Constituent Authorities' membership of the Local Authority Pension Fund Forum. This provider takes responsibility for implementing the Voting Policy across the underlying assets of the WPP.

- **Custodians** whose role is to safeguard the existence of assets and to ensure the Fund has proper title to them.

- **Actuaries** who evaluate overall fund management strategy (including the extent to which the fund is fully funded), fund performance, assess the likely impact of future trends (e.g. investment outlook, death rates etc) and advise on appropriate rates of employers contributions to ensure continued financial health for the scheme. They may also be asked for advice on overall fund management strategy. The Myners review suggested that this should be viewed as a separate service from the actuarial contract, in much the same way that auditors should not give advice that they may later be required to audit.

- **Performance measurers** who analyse fund performance, provide detailed statistical analysis of overall pension fund performance and its components, and report the results to officers and the pension panel as appropriate.

Proper control is exercised over the providers of these specialist services. There is a comprehensive policy for the Fund which includes asset allocation management, for example the Fund gearing, (proportion of higher risk investments (equities, property etc) to fixed interest stock (bonds) and broad sector divisions within the major asset classes, (in the case of equities for example, pharmaceuticals, construction, manufacturing, and geographical diversity, for example UK equities, Far East, United States). The policy on asset allocation is in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Investment Regulations, which prescribe maximum limits for investments in any one vehicle. Arrangements are in place for setting targets for fund performance, monitoring compliance with policy and taking action when necessary if performance is not in line with the targets set. The strategy for managing the Fund should also takes into account the maturity of the Fund; that is the proportion of pensioners to active contributors to the scheme.

Fund Administration

Administering the fund includes putting in place sound financial systems to ensure that contributions are collected and credited to the fund, correct levels of pensions are paid out, transfer values are correctly calculated and paid or received and queries and complaints are dealt with properly. Considerable reliance can be put on core financial controls operated by the Administering Authority through its main financial systems. The payroll system is closely tied in with pension fund administration and reliance should be placed on internal audit cover, if their cover is deemed to be adequate, although this may not be applicable in respect of admitted bodies. The administering authority is likely to be heavily dependent on the quality of information submitted to them and anomalies in data submitted by employers can cause considerable delays in the administration process.

Monitoring by the relevant panel is key, and appropriate performance indicators should be in place and reported on a regular basis. These could give, for example, details of administration costs, compliance with statutory time limits and numbers of complaints received and dealt with. In line with any local government activity, pension funds should be exposed to rigorous WPI reviews.

There are a number of key liaisons that are maintained:

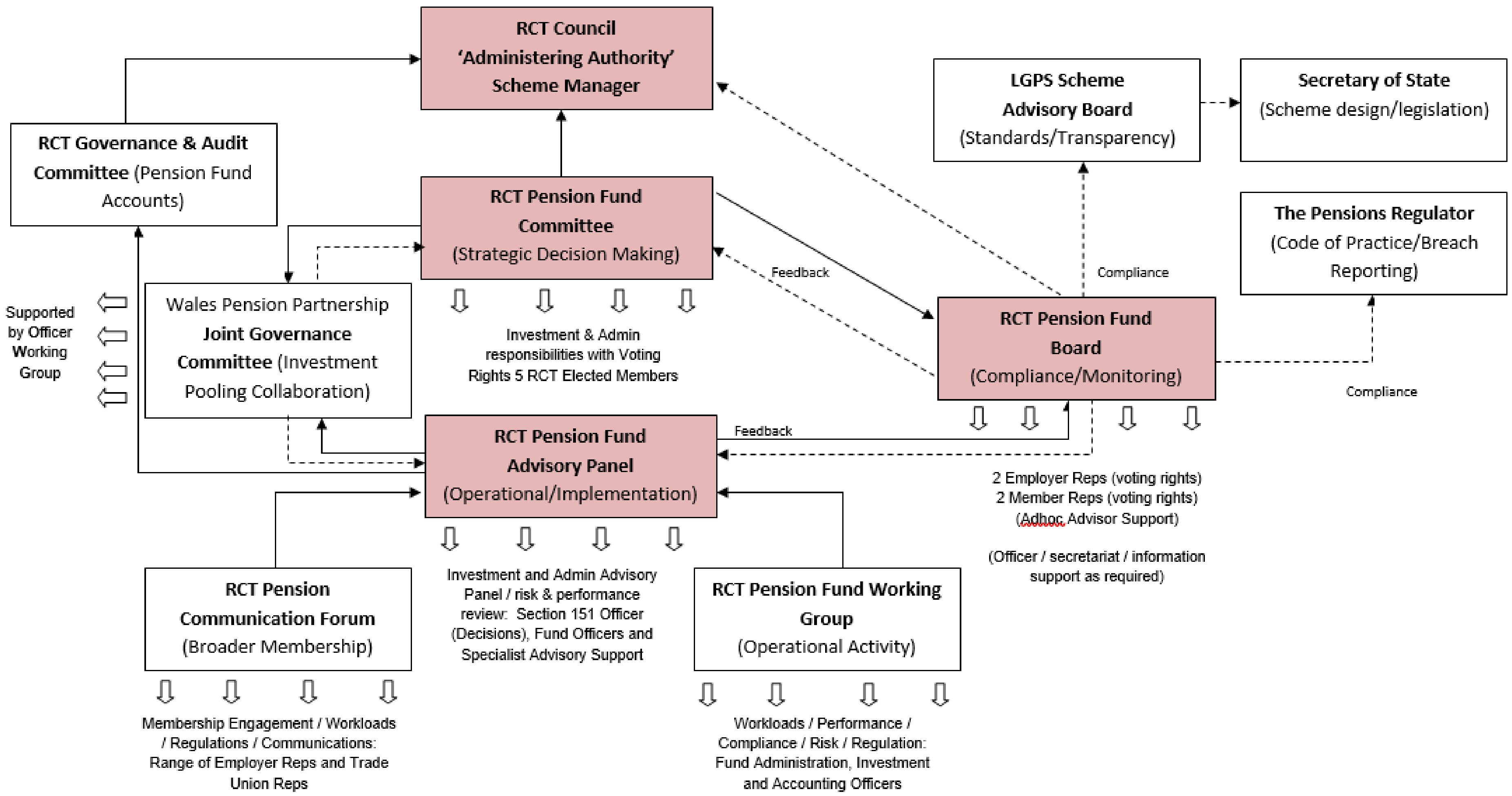
- Scheme Employers (Scheduled / Designated and Admitted Bodies)
- Fund Actuary
- DLUHC / GAD – legislative changes / modelling
- Local Government Association (LGPS)
- LGPS Scheme Advisory Board
- Welsh LGPS Pensions Officer Group
- The Pensions Regulator
- The Pensions Ombudsman

Risk Register

The Fund maintains a risk register to capture and monitor the key risks associated within it full range of activities and the appropriate controls taken to mitigate such risks. This is regularly reviewed and updated within the Fund’s governance processes.

2.

Rhondda Cynon Taf Pension Fund Governance Structure 2023



3. Decision Making & Engagement

Decision Making

The Pension Fund Committee is responsible for the strategic management of the RCT Pension Fund in accordance with its terms of reference, with all operational matters delegated to the Deputy Chief Executive and Group Director Finance, Digital & Frontline Services (as the Section 151 Officer or in his absence the Deputy Section 151 Officer).

Pension Committee Chairs or their nominated deputy (elected members), of all eight Welsh Pension Funds represent their Administering Authority on the Wales Pension Partnership Joint Governance Committee.

Employer Engagement

Currently eight employers have representation on the Communication Forum. In addition, there is an AGM for all employers and one to one meetings are held with larger employers (others on request) on an annual basis.

Scheme Member Engagement

In addition to officers (active scheme members) in attendance, Trade Unions are represented on the Fund's Communications Forum.

The Fund's Local Pension Board also includes representation on behalf of Employer and Scheme Members.

4. RCT Pension Fund Committee

Composition

The Pension Fund Committee is politically balanced and comprises 5 Elected Members.

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 Deputy Chief Executive and Group Director Finance, Digital & Frontline 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, Investment Strategy Statement 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 Deputy Chief Executive and Group Director Finance, Digital & Frontline 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.

Secretarial Function

Organisation of meetings and preparation of agenda and minutes is carried out by Committee Services. Meeting papers and agenda are circulated in advance of the meeting and published.

Frequency of Meetings

Quarterly

5. Pension Board

Composition

- Two Employer Representatives (one Chair)
- One Member Representative (Pensioner)
- One Member Representative (Active/Deferred)
  Support Officers/Advisors as required

Terms of Reference

To assist Rhondda Cynon Taf County Borough Council Administering Authority as 'Scheme Manager' 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.

Secretarial Function

Organisation of meetings and preparation of agenda and minutes is carried out by the Senior Democratic Services Officer (Legal & Democratic Services). Meeting papers and agenda are circulated in advance of the meeting and minutes are published online.

Frequency of Meetings

Quarterly, plus one annual joint Pension Committee / Board meeting

6. Investment & Administration Advisory Panel

Composition

The Panel comprises of representatives of the Administering Authority as follows: -

- The Section 151 Officer – Chair
- The Deputy Section 151 Officer
- The Service Director Pensions, Procurement & Transactional Services
- The Service Director, Finance Services
- The Principal Accountant, Treasury and Pension Fund Investments
- The Senior Accountant, Treasury and Pension Fund Investments
- Two independent Advisors to the Pension Fund

Terms of Reference

The Deputy Chief Executive and Group Director Finance, Digital & Frontline 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.

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.

Secretarial Function

The Senior Accountant, Treasury and Pension Fund Investments carries out preparation of the agenda and minutes, and organisation of meetings. Meeting papers and agenda are circulated at least 1 week in advance of the meeting.

Frequency of meetings

The Panel meets quarterly.

7. Wales Pension Partnership Joint Governance Committee

Composition

Pension Committee Chairs or their nominated deputy (elected members), of all eight Welsh Pension Funds (Administering Authorities).

Terms of Reference

To progress the Wales Investment Pooling Collaboration in accordance with the Inter-Authority Agreement :-

- Making recommendations to the Administering Authorities on the termination of the Operator Contract before the conclusion of the fixed term contract, where the performance of the Operator is considered unacceptable.

- Ensuring that there are an appropriate range of sub-funds available in order to allow the Welsh Funds to meet their strategic investment aims. Following representation from any, some or all of the Administering Authorities the Joint Governance Committee may request the Operator to set up a sub-fund in a particular asset class. The Joint Governance Committee must be mindful at all times of the need to balance the requirement to provide a particular sub-fund with the benefits of holding aggregated assets.

- Monitoring the performance of the Operator against the agreed set of key performance indicators.

- Reporting on the performance of the Investment Pool, its costs and other activities, but not limited to, the Administering Authorities, government, the Scheme Advisory Board and the general public.

- From time to time, to review the appropriateness of the existing structures, including the number and make-up of sub-funds and to make recommendations to the Administering Authorities as to the respective merits of procuring Operator services by means of a third party or through ownership by the Administering Authorities of the Operator.

- Liaising with the Operator, in such areas as the Operator seeks the preferences and views of the Joint Governance Committee, on the appointment of suppliers, for example manager preferences or the appointment of depositories.

- Liaising with the Administering Authorities on the appropriate range of sub-funds to be provided in the Investment Pool.

- From time to time reviewing policies in respect of ethical, social and governance matters and voting rights and where appropriate make recommendations to the Administering Authorities as to any changes deemed necessary

- Applying any processes or policies that are assigned to it within the Inter-Authority Agreement.

- Recommend a high level plan for initial transition of assets to the pool and further asset transitions in the event, for example, of new sub-funds being created or manager changes within sub-funds.

- Ensuring that the '**O**fficer **W**orking **G**roup' and its sub-groups act within its remit as set out in the Inter-Authority Agreement.

- Providing any analysis or commentary on annual accounts to the Administering Authorities.

- Monitoring the implementation and effectiveness of policies and initiating reviews of these where required.

- Delivery and ongoing monitoring against the Pooling Collaboration objectives, Business Plan, budgets and associated risks.

- Approving responses from the Pooling Collaboration in relation to consultations or other matters considered appropriate.

- Seeking advice from professional and authorised and regulated advisers where necessary.

- Agreeing the Business Plan to be put forward to the Administering Authorities for approval.

- Report to the Administering Authorities quarterly (and at any other time when the Joint Governance Committee considers it to be necessary) on the matters within their remit including but not limited to the performance of the Operator, the structure of the funds and the ongoing monitoring of the Business Plan.

- Agreeing criteria for the evaluation of bids or tenders for any procurement (other than the first appointment of the Operator) to be put forward for the approval of the Administering Authorities.

Secretarial Function

Organisation of meetings and preparation of agenda and minutes is carried out by the nominated host Council. Meeting papers and agenda are circulated in advance of the meeting and published.

Frequency of Meetings

Quarterly (minimum)

8. Pension Fund Working Group

Composition

- The Deputy Section 151 Officer (Chair)
- The Service Director Pensions, Procurement & Transactional Services
- The Pensions Service Manager
- The Principal Accountant, Treasury and Pension Fund Investments
- The Service Director, Finance Services
- The Senior Accountant, Treasury and Pension Fund Investments
- The Senior Team Manager (Pensions)
- Other officers as required

Terms of reference

Reports to the Investment and Administration Advisory Panel

- To discuss and propose to the Section 151 Officer the agenda for the Panel meeting
- To discuss and propose responses to consultation papers
- To discuss, review and propose any changes to the Fund's governance arrangements
- To discuss and deal with day to day administration, investment and accountancy issues
- To receive and discuss reports from the Pension Fund Actuary, Auditor and other bodies, and to report to the Panel as necessary
- To review and monitor performance management arrangements
- To review the RCT Pension Fund Risk Register
- To conduct an annual performance evaluation for the external Advisors to the pension fund
- To discuss staffing and training issues
- Any other Pension Fund matter

Secretarial Function

Organisation of meetings and preparation of agenda and minutes is carried out by the Senior Accountant, Treasury and Pension Fund Investments. Meeting papers and agenda are circulated in advance of the meeting.

Frequency of Meetings

The Group normally meets quarterly with a meeting to take place before each meeting of the Investment and Administration Advisory Panel. Ad-hoc meetings may also be arranged with the agreement of the Section 151 Officer or Deputy.

9. Pension Fund Communication Forum

Composition

- The Section 151 Officer – Chair
- The Service Director Pensions, Procurement & Transactional Services
- Principal Accountant, Treasury and Pension Fund Investments
- The Senior Team Manager (Pensions)
- 8 Employer representatives
- 2 Trades Union Officials

Terms of Reference

- To consider and discuss key investment, administration and communication issues in relation to the pension fund
-
- To receive feedback on investment and administration issues
-
- To consider all aspects of Scheme communication and to make recommendations to the Panel
-
- To prepare and report to the pension fund employers' AGM

Secretarial Function

Organisation of meetings and preparation of agenda and minutes is carried out by the Senior Team Manager (Pensions). Meeting papers and agenda are circulated in advance of the meeting.

Frequency of Meetings

Quarterly

10. Pension Fund Discretions Panel

This sub-group considers individual cases where the exercise of the Authority's discretion in its role as Administering Authority is required. All 3 officers must be in attendance and deputies as indicated in parentheses act as substitutes when required.

Composition

- The Service Director Pensions, Procurement & Transactional Services (Chair)
- The Service Director, Finance Services
- The Pensions Service Manager

Terms of Reference

- To consider and recommend to the Section 151 Officer the exercising of the Authority's discretion on individual cases, as required
- To report decisions to the Pension Fund Working Group

Secretarial Function

Organisation of meetings and preparation of minutes is carried out by a member of the Pensions Section. Meeting papers are circulated 1 week in advance of the meeting.

Frequency of meetings

Meetings are held on an ad-hoc basis, as required.

11. Internal Dispute Resolution Procedure

Purpose of a Dispute Resolution System

The Government's stated policy intention is that an occupational pension scheme's internal dispute resolution procedure should serve as a filter, to ensure that easily resolved complaints and simple misunderstandings are not referred to the Pensions Ombudsman. Appeal numbers, case types, stage and outcome (including those that are referred to the Ombudsman) are reported and monitored as part of the Fund's governance processes.

The Local Government Scheme

The Internal Dispute Resolution Procedure (IDRP) as laid down by the Local Government Pension Scheme Regulations, consists of two stages.

Stage 1

The appropriate administering authority must decide any question concerning service or employment, crediting of additional pension or the amount of benefit (or return of contributions) that a person may be entitled to. Any other matter is to be dealt with by the Scheme's employer in the first instance. The decision should be made and notified to the person, in writing, as soon is practicably possible.

Stage 2

Each Scheme employer and the administering authority must appoint an adjudicator to consider appeals to a first decision. A person has six months from the date of notification of a Stage 1 decision in which to apply to the adjudicator if they disagree with the outcome. The adjudicator has two months from receipt of the appeal application in which to notify the applicant, the scheme employer and, if the Scheme employer is not an administering authority, to the appropriate administering authority.

If the dispute is not resolved at this stage it can be referred to the Administering Authority for re-consideration and no-one who was involved in the making of a decision at stage 1 should be involved at this stage.

The full procedure is laid out in The Local Government Pension Scheme Regulations 2013.

Rhondda Cynon Taf Pension Fund

STAGE ONE

Administering Authority Appeals Panel

The Administering Authority Appeals Panel deals with appeals against a decision of the administering authority.

The panel makes decisions and all 3 officers must be in attendance for a decision to be made. Where nominated officers are not available, appropriate deputies attend meetings. The Pensions Service Manager is responsible for presenting individual cases to the panel but is not involved in the decision making process.

The Pensions Service Manager is a member of the pensions section with responsibility for the administration of appeals and complaints.

Composition of the Panel

- The Section 151 Officer (Chair)
- The Service Director Pensions, Procurement & Transactional Services
- The Pensions Service Manager

Terms of Reference

To consider and decide on stage one appeals under the Internal Dispute Resolution Procedures against decisions taken by the Administering Authority.

Secretarial Function

Organisation of meetings and preparation of papers is carried out by the Pensions Service Manager. Meeting papers are circulated at least one week in advance of the meeting. Meeting papers include correspondence received from all parties and a summary of the case, prepared by the Pensions Service Manager.

Minutes are taken by the Pensions Service Manager who is also responsible for informing the appellant of the decision and setting out the reasons for that decision.

Frequency of Meetings

Meetings are held on an ad-hoc basis, as required.

STAGE TWO

The administering authority's adjudicator deals with stage two appeals for the Rhondda Cynon Taf Pension Fund in accordance with Local Government Pension Scheme Regulations

In the event of a second stage appeal, all papers and correspondence are passed to the adjudicator by the relevant employer or where the stage one appeal was against Rhondda Cynon Taf as Administering Authority, by the Pensions Service Manager.

The matter will be given fresh consideration in an in-depth and formal way. Full account will be taken of the facts and any evidence submitted.

In reconsidering the decision, the adjudicator will: -

- Check that the regulations were applied correctly

- Check that sound, impartial procedures were used to reach the decision, in particular where the dispute concerns the exercise of a discretion by a scheme employer or by the administering authority.

Independent advice may be sought from the fund actuary, pensions lawyer or other professional adviser if necessary but the final decision will be made by the adjudicator, in keeping with the regulations.

12. Training

Members of the Pensions Committee, Investment and Administration Advisory Panel and the RCT Pension Board receive regular training and updates, which includes:

- Seminars and Courses
- Conferences
- Meetings with the Fund Actuary
- Meetings with External Fund Managers
- Meetings with the Employers Organisation
- Specialist presentations
- LGA / Pension Regulator / Scheme Advisory Board circulars
- Wales Pension Partnership events

Training and awareness sessions are undertaken and recorded in a ‘Knowledge and Skills’ Training Log.

13. Monitoring and Review

The Policy Statement shall be reviewed annually at the March meeting of the Investment and Administration Advisory Panel, subject to any significant legislative changes requiring earlier review. The annual review of all key Fund Governance Documents is reported into the March joint meeting of the Fund’s Pension Committee and Pension Board.

The annual review will consist of consideration of the effectiveness of the structure and processes generally.

Appendix 2

RHONDDA CYNON TAF PENSION FUND

PENSION FUND COMPLIANCE STATEMENT

Updated March 2023

Contents

1. Part II/A Structure

a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.

b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.

c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.

d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.

	Not Compliant	Partly Compliant	Mostly Compliant	Fully Compliant
a)				✓
b)				✓
c)				✓
d)				✓

Reason for non-compliance (Regulation 55(1)(c) 2014 Regulations):

Comments on ratings given above:

The Local Pension Board has two member representatives who represent all categories of members, i.e. active, deferred and pensioner and two Employer representatives

2. Part II/B Representation

a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:

i. employing authorities (including non-scheme employers, e.g. admitted bodies);
ii. scheme members (including deferred and pensioner scheme members);
iii. independent professional observers; and
iv. expert advisors (on an ad-hoc basis).

b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.

	Not Compliant	Partly Compliant	Mostly Compliant	Fully Compliant
a)				✓
b)				✓

Reason for non-compliance (Regulation 55(1)(c) 2014 Regulations):

Comments on ratings given above:

The Local Pension Board has two member representatives who represent all categories of members, i.e. active, deferred and pensioner and two Employer representatives
Regular skills and knowledge training is attended by Board and a register of events is maintained

3. Part II/C Selection and Role of Lay Members

a) That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.

	Not Compliant	Partly Compliant	Mostly Compliant	Fully Compliant
a)				✓

Reason for non-compliance (Regulation 55(1)(c) 2014 Regulations):

Comments on ratings given above:

The role of each committee is set out in the Governance Policy Statement. Continuous training and awareness sessions are provided to Committee, Board and Panel Members, as documented in the Fund's 'Knowledge and Skills Framework' Training log. A separate 'Knowledge and Skills Framework' Training log is maintained for Pension Committee and the Investment and Administration Advisory Panel, with a similar requirement maintained in respect of the Local Pension Board members.

4. Part II/D Voting

a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.

	Not Compliant	Partly Compliant	Mostly Compliant	Fully Compliant
a)				✓

Reason for non-compliance (Regulation 55(1)(c) 2014 Regulations):

Comments on ratings given above:

Voting rights are extended to the Pension Fund Committee which is politically balanced, and is responsible for the strategic management of the Fund. All operational functions are delegated to the Deputy Chief Executive and Group Director Finance, Digital & Frontline Services (as the Section 151 Officer or in his absence the Deputy Section 151 Officer). All Pension Board members are deemed to have equal voting rights with the Chair having the casting vote if a majority decision cannot be reached

5. Part II/E Training, Facility Time and Expenses

a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.

b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.

	Not Compliant	Partly Compliant	Mostly Compliant	Fully Compliant
a)				✓
b)				✓

Reason for non-compliance (Regulation 55(1)(c) 2014 Regulations):

Comments on ratings given above:

Policy on training and expenses are covered by the relevant authority policies. Appropriate LGA 'Trustee Training' is provided to all new Committee, Board and Panel Members. A training plan is maintained for key pension personnel, together with a 'Knowledge and Skills Framework'. A separate Knowledge and Skills Framework and Training Plan is maintained for RCT Local Pension Board members. The Local Pension Board Terms of Reference outlines the policy on reimbursement of expenses for member representatives.

6. Part II/F Meetings

a) That an administering authority's main committee or committees meet at least quarterly.

b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.

c) That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.

	Not Compliant	Partly Compliant	Mostly Compliant	Fully Compliant
a)				✓
b)				✓
c)				✓

Reason for non-compliance (Regulation 55(1)(c) 2014 Regulations):

Comments on ratings given above:

AGM is held annually (as a hybrid event in 2022) where questions can be addressed to members of the main committee,
Communication Forum is held quarterly with representatives from Scheme Employers (including Admitted Bodies), Unions and Scheme Members.
RCT Local Pension Board is made up of two employer and two member representatives. The member representatives represent all categories of members, i.e. active, deferred and pensioner.
RCT Pension Committee meet quarterly.
Wales Pensions Partnership (WPP) Joint Governance Committee meet at least quarterly.
WPP Pension Board Chair engagement days are held with officers of the WPP twice yearly. Minutes are shared and discussed with the RCT Pension Board.

7. Part II/G Access

a) That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.

	Not Compliant	Partly Compliant	Mostly Compliant	Fully Compliant
a)				✓

Reason for non-compliance (Regulation 55(1)(c) 2014 Regulations):

Comments on ratings given above:

All members of the Investment and Administration Advisory Panel have equal access to all papers for meetings.
Communication Forum minutes / documentation is circulated to all other 'Employers' not in attendance.
All members of the RCT Local Pension Board have equal access to all papers for meetings.
All members of the RCT Pension Committee have equal access to all papers for meetings.
WPP Joint Governance Committee meeting papers and minutes are circulated to the Fund's Pension Committee and Pension Board.

8. Part II/H Scope

a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.

	Not Compliant	Partly Compliant	Mostly Compliant	Fully Compliant
a)				✓

Reason for non-compliance (Regulation 55(1)(c) 2014 Regulations):

Comments on ratings given above:

The Pension Fund Governance Policy Statement sets out the governance structure, which includes a Discretions Panel that deals with matters concerning the exercise of discretions. Additionally, the Pension Fund Working Group review the wider pension scheme issues.

9. Part II/I – Publicity

a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.

	Not Compliant	Partly Compliant	Mostly Compliant	Fully Compliant
a)				✓

Reason for non-compliance (Regulation 55(1)(c) 2014 Regulations):

Comments on ratings given above:

The Pension Fund Governance Policy Statement is on the Fund web-site or can be provided in hard copy if requested. ‘Employer’ Stakeholders are formally invited to participate in the Communications Forum meetings.
The Local Pension Board has two member representatives who represent all categories of members, i.e. active, deferred and pensioner.
Pension Committee representation and minutes are published on the RCT website.
Pension Board representation and minutes are published on the RCT Fund website.
WPP Joint Governance Committee minutes and relevant governance documents are published on the WPP host authority website.

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RHONDDA CYNON TAF PENSION FUND

FUNDING STRATEGY STATEMENT

February 2023

Rhondda Cynon Taf 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 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 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 January 2023. The Administering Authority will formally review this Statement as part of the triennial valuation as at 31st March 2025 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 contributionsto 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 19th 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 setout 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 andlong 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 31st March 2022 for the purpose of the ultimate Solvency target, 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 31st March 2022 the solvency discount rate is therefore 4% p.a. The Solvency Target is a long-term target against which the level of risk in the funding strategy is measured. The Solvency Target assumptions are different to those underlying the funding target used to calculate the liabilities (see below for how those assumptions are derived)

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 (i.e. those with no active members but which continue to participate in the Fund via a Deferred Debt Agreement (DDA)) it is expected that the Solvency Target will be set by considering the valuation basis which would be adopted once the 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 77% 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 primary (i.e. 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 (primary) 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 and Admission Bodies admitted to the Fund on a “passthrough pooling arrangement” (see below for further information) with a long-term secure Scheduled Body, 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. However, as at the 2022 valuation the Administering Authority continued with its previous approach of allowing for market expectations of future increases in gilt yields in setting the left service discount rate for the ongoing orphan funding target in order to deliver more affordable contributions. Further details are set out in Appendix 1

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 Fund 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 Fund 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

Future pension increase and revaluation of pension accounts

For all funding targets where the discount rate is set based on the Fund’s investment strategy and agreed Probability of Funding Success, (rather than an assumed investment in low risk assets) an allowance will be made for future pension increases and revaluation of pension accounts using an assumption for future CPI increases which is derived consistently with the modelling underpinning the discount rates. At the 2022 valuation this is a long-term best estimate CPI assumption of 2.3% p.a. as set out in Appendix 1.

When assessing the liabilities allowance may also be made for any short-term inflationary pressures where this is considered appropriate and prudent. At the 2022 valuation an adjustment of 10% will be added to the liabilities for the long-term secure scheduled body and intermediate funding targets. This adjustment will be reviewed on a quarterly basis to ensure it remains appropriate in light of prevailing market conditions

For funding targets where the discount rate is set by reference to gilt yields the inflation assumption will be set by considering market-implied breakeven inflation as derived by comparing the yield on long-dated index-linked and fixed interest gilts on the valuation date and adjusting for the expected difference between CPI and RPI. This led to an inflation assumption in relation to orphan liabilities and left-service liabilities for the ongoing orphan funding target of 3.4% as at 31 March 2022.

However, in light of the very low level of real gilt yields at the 2022 valuation date, in order to keep contributions more affordable for employers subject to the ongoing orphan funding target, the CPI assumption adopted for left service liabilities was equivalent to 2.9%[1].

Further details of the allowance made for the short-term inflation in the 2022 valuation are set out in Appendix 1

Recovery Periods

Where a valuation reveals that the Fund is in surplus or deficiency against the Funding Target, employer contribution rates would need to 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 16 years for

[1] As the long-term CPI assumption of 2.3% is used for in service liabilities the Fund Actuary has presented the left service assumptions as CPI of 2.3% and a discount rate of 1.3% (broadly equivalent to 2.9% and 1.9%)

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/sharing or pooling of risks

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

The Administering Authority recognises that grouping 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.

As at the 2022 valuation there is one group of unconnected employers in the Fund which are pooled together for funding and contribution purposes – the Small Scheduled Bodies Group. This group comprises Town and Community Council and Crematoria whose ongoing contributions are pooled for the purpose of achieving greater stability of contributions over time due to the size and nature of these employers. The Group is funded on the same funding target as the main scheduled bodies and the same recovery period also applies. All risks are shared within this group with effect from the 2022 valuation and a common contribution rate (as a % of pay) will be certified where the Group as a whole is in surplus. If the Group is in deficit, a common primary rate will be certified with secondary contributions calculated as a % of pay which may be converted to (increasing) monetary amounts if considered necessary to protect the Group/Fund.

There will be no separate tracking of notional funding positions for the individual employers in the Group, but if a notional asset share were to be required for any of the participating employers, e.g. on exit, it will be derived by applying the Group funding level to the employer's assets assessed using the Scheduled Body funding target (i.e. all employers in the Group are assumed to have the same funding level, equal to that of the Group as a whole). The liabilities for any employer in the Group which is exiting the Fund will be assessed in line with the general provisions set out later in this statement and will depend upon whether the liabilities will be subsumed by a long-term secure employer. It is not intended that the remaining employers in the Group will be responsible for funding any liabilities should an employer in the Group exit the Fund.

Where any new groups of employers are established for funding purposes, this will only occur with the consent of the employers involved. The Administering Authority is also willing to administer pooling of contractors with the Scheme Employer where this is reflected in the Admission Agreement – see later section on Pass-through Pooling arrangements.

The funding risks associated with payment of benefits on death in service and tier 1 and 2 ill-health benefits are pooled across all employers in the Fund, 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.

Stability mechanisms

Allowance for surplus in secondary contributions

Investment returns in the period up to the valuation date contributed to a material improvement in the funding position of all employers. However, in light of falls in investment markets since the 2022 valuation date and ongoing global economic uncertainty, in order to smooth employer contributions and reduce the risk of increases being required from the 2025 valuation, only the surplus above a funding level of 110% as at 31 March 2022 will be taken into account when assessing the secondary contributions for employers subject to the scheduled body/subsumption and intermediate funding targets. This is intended to avoid a situation where employer contributions reduce from 1 April 2023 but then need to rise again from 1 April 2026 due to investment returns from 1 April 2022 to 31 March 2025 being lower than the discount rates underpinning the liabilities.

Stepping of contribution changes

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.

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 the Fund Actuary will 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 precise 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, the Fund Actuary will be asked to make allowance 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 and ill-health benefits shared across all employers in the Fund (see above)
- Allowance for any known material internal transfers (i.e. between ongoing employers) in the Fund since actual cashflows will not exist for these transfers. Unless otherwise agreed, the Fund Actuary will assume an estimated cashflow equal to the value of the liabilities determined using non club cash equivalent transfer value factors.
- 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 employer, 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 can 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

where a bond is put in place, 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.

Pass-through pooling arrangements

The Administering Authority recognises that where Scheme Employers outsource services to third party contractors it may be beneficial for much of the risk associated with funding pension benefits to be retained by the Scheme Employer. Where agreed between the Scheme Employer and an Admission Body contractor admitted under Paragraph 1(d) of Part 3 of Schedule 2 of the LGPS Regulations, and reflected in the Admission Agreement, the Administering Authority will instruct the Actuary to treat the Scheme Employer and contractor as part of a pool for funding purposes.

The default approach for such “passthrough pooling arrangements” will be as follows.

- the Admission Body will be “pooled” with the Scheme Employer i.e. the liabilities will be assessed alongside those of the Scheme Employer and other employers in the Pool and there will be no notional sub-division of assets between employers in the pool for funding purposes.
- A common Primary Contribution Rate will apply to all employers in the Pool based on the active membership of the Pool as a whole.
- For the purpose of certifying a Secondary Contribution Rate to ongoing employers in the Pool, any surplus or deficit in the Fund attributable to the Pool will be apportioned between the employers in the Pool in proportion to their Pensionable Pay.
- No exit payment will be needed from, nor any exit credit due to, the contractor on exit (its liabilities will remain in the Pool to be funded by the Scheme Employer)

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.

Where an employer exits the Fund and the liabilities for that employer become orphaned (i.e. no other scheme employer assumes responsibility for those liabilities), the Administering Authority will notionally allocate assets in the Fund to meet those liabilities which are consistent with the approach used to determine the liabilities on exit. As the funding target on exit assumes investment in Government bonds, the Administering Authority will therefore notionally allocate a share of its Government bond portfolio to broadly match any orphaned liabilities.

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.

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 and the cost management process) – 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.

Notional assets

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 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.

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

[redacted]

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 may carry out a contribution 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, which includes a range of managers within the Wales Pension Partnership investment pool, 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 and Administration 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 the Investment and Administration 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.

The Administering Authority has commissioned scenario analysis modelling on the potential effect on funding from the Fund Actuary which will be reported in the 2022 valuation report. This modelling is expected to meet the Government Actuary's Department's requirements for the 2022 valuations as well as supporting the Fund's reporting under DLUHC's proposed new TCFD (Taskforce on Climate-Related Financial Disclosures) regime for LGPS funds.

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.

Allowance will be made for prevailing high levels of consumer price inflation in the calculation of the liabilities for the 2022 valuation as set out at Appendix 1.

If significant changes in the value of the liability become apparent between valuations, including inflation above the levels allowed for in the 2022 valuation, 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),
- lower member contribution rates or a change in the contribution bands, agreed as part of the Cost Management Process or otherwise, may lead to lower contribution income if not immediately matched by higher employer contributions,
- an increase in opt-outs and the take-up of the 50/50 option (whether on affordability grounds which may currently be considered to be an increased risk due to current cost of living pressures) will reduce member contributions to the Fund,
- improvement in funding positions may lead to employer contributions rates being reduced.

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:

- 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 and which have implications for the final salary underpin in the LGPS.
- The outcome of the cost management process as at 31st March 2020 (and the Judicial Review of the 2016 process)

Details of the allowance made for these uncertainties in the 2022 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.

There are a number of consultations which have been issued in recent years, some of which represent proposed changes which were first raised a number of years ago, including a cap on exit payments by public sector employers and new Fair Deal arrangements. Some of these may affect funding and pose a risk to the Fund. The Government has also consulted on changes to the valuation cycle although no changes to the triennial cycle have yet been taken forward.

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 deficit in payments and/or orphaned liabilities where employers are unable to meet their obligations to the Scheme. Public sector spending challenges and inflation may have adverse consequences for 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 Funding Strategy Statement. 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 where appropriate 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:

Early retirement strain payments

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.

Employers with small and declining number of contributing members

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 31st March 2022

The assumptions and method outlined below reflect the assumptions appropriate to the triennial valuation as at 31st March 2022 based on the Fund's strategy as outlined above. 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 any updates are made to the strategy as part of the next valuation due as at 31 March 2025).

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 2022 valuation for employers subject to the Scheduled and Subsumption Body Funding Target is 4.30% p.a., based on a Probability of Funding Success of 77% and the Fund's long-term strategic asset allocation as set out in the current version of the Investment Strategy Statement.

For employers subject to the Ongoing Orphan Body Funding Target the discount rate is 3.90% p.a. in service (equivalent to the in service discount rate for secure scheduled bodies less 0.4% p.a.) and 1.3% p.a. left service[2].

For employers subject to the Intermediate Funding Target the discount rate is 3.90% p.a. in service and 3.80% p.a. left service.

For liabilities which are already orphaned the discount rate is 1.7% p.a. (equivalent to the yield on long-dated fixed interest gilts at the valuation date).

Inflation – ongoing funding targets

The long term best estimate CPI inflation assumption at the valuation date is set as the long term (30 year) best estimate assumption based on the Capital Market Assumptions as produced by Aon Solutions UK Limited.

Short term inflation adjustment

The Capital Market Assumptions are forward-looking and so consider the outlook from the valuation date. In practice, pension increases and revaluation of pension accounts are based on CPI increases to the previous 30 September. In light of inflation from 1 October 2021 to 31 March 2022 being materially above the long-term best estimate assumption, and continuing short-term inflationary pressures which will increase the liabilities, at the 2022 valuation an adjustment of 10% will be added to the liabilities for employers subject to the Scheduled body / subsumption and the Intermediate funding target. This adjustment will be reviewed for any inter-valuation

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[2] The left service discount rate has been derived as the yield on long-dated fixed interest gilts at the valuation date of 1.7% plus 0.2% p.a. in light of market expectations of the possible future increases in gilt yields, less 0.6% to partially reflect market implied CPI being higher than the long-term best estimate of 2.3%

calculations to ensure it remains appropriate in light of prevailing market conditions.

Inflation – exit valuation (gilts)

The RPI inflation assumption is taken to be the market implied breakeven RPI inflation derived as the difference between the yield on long-dated fixed interest and index-linked UK Government bonds.

CPI inflation is assumed to be the RPI inflation less 1.0% pa over the period to 2030 and RPI (CPIH) inflation less 0.1% pa from 2023. This gives an assumption of 3.4% p.a. as at 31 March 2022.

Salary increases

The assumption for real salary increases (salary increases in excess of consumer price inflation) will be set as 1.25% p.a. above the long-term best estimate CPI assumption as described above.

Pension increases and revaluation of pension accounts

Increases to pensions in payment 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 after 6th April 2016).

Increases to pensions in deferment (other than GMP) and revaluation of pension accounts are assumed to be in line with the inflation (CPI) assumption as determined above.

McCloud

For the purposes of the 2022 valuation, an approximate employer specific allowance will be made in respect of the McCloud remedy based upon a high-level analysis of each employer's fund membership.

Members' benefits will be valued as required by relevant legislation as in force as at 31 March 2022, except for the following assumptions:

i. It will be assumed that the current underpin (which only applies to those members within 10 years of their Normal Pension Age at 31 March 2012) will be revised and apply to all members who were active in the scheme on or before 31 March 2012 and who join the 2014 Scheme without a disqualifying service gap.

ii. The period of protection will apply from 1 April 2014 to 31 March 2022 but will cease when a member leaves active service or reaches their final salary scheme normal retirement age (whichever is sooner).

iii. Where a member remains in active service beyond 31 March 2022, the comparison of their benefits will be based on their final salary when they leave the LGPS or when they reach their final salary scheme normal retirement age (whichever is sooner).

iv. Underpin protection will apply to qualifying members who leave active membership of the LGPS with an immediate or deferred entitlement to a pension.

v. The underpin will consider when members take their benefits, so they can be assured they are getting the higher benefit.

The allowance for any additional liabilities due to the implementation of the McCloud in the LGPS will be reviewed from time-to-time and may be revised for any inter-valuation calculations where updated data is available for an employer and/or final details of the regulatory changes are known. Any revised approach will be determined on the advice of the Fund Actuary.

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APPENDIX 4

RHONDDA CYNON TAF PENSION FUND

INVESTMENT STRATEGY STATEMENT

1. Overall Responsibility

Rhondda Cynon Taf County Borough Council is the designated statutory body responsible for administering the Rhondda Cynon Taf Pension Fund on behalf of the constituent Scheduled and Admitted Bodies. The Council is responsible for setting investment policy, appointing suitable persons to implement that policy and carrying out regular reviews and monitoring of investments.

The Council has created a politically balanced Pension Fund Committee consisting of elected members to oversee the Council's responsibility with regard to the administration of the Pension Fund. This Committee is responsible for the strategic management of the Pension Fund.

The Council has appointed the Deputy Chief Executive / Group Director – Finance & Digital and Frontline Services as the officer with Section 151 responsibilities to exercise delegated powers to make decisions in respect of operational matters of the Pension Fund investments and administration. An Investment and Administration Advisory Panel has been formed to support him in this capacity. This is made up of:

- Service Director – Finance and Improvement Services
- Service Director – Pensions, Procurement and Transactional Services
- Service Director – Finance Services
- Principal Accountant, Treasury and Pension Fund Investments
- Senior Accountant, Treasury and Pension Fund Investments
- Independent Advisors

Both the Committee and the Panel meets quarterly. The Council is not strictly a trustee (technically, this is the Department for Levelling Up, Housing and Communities (DLUHC)) but acts in a quasi - trustee role.

In accordance with the requirements of the Public Service Pensions Act 2013, a Pension Board has been established in order to assist Rhondda Cynon Taf County Borough Council, as "Scheme Manager" with achieving effective and efficient governance and administration of the Rhondda Cynon Taf Pension Fund.

The role of the Pension Board as defined by sections 5(1) and 5(2) of the Public Service Pensions Act 2013, is to assist Rhondda Cynon Taf County Borough Council Administering Authority as Scheme Manager to: -

- Secure compliance with the Principal Regulations and any other legislation relating to the governance and administration of the LGPS;

- Secure compliance with the requirements imposed in relation to the LGPS by the Pensions Regulator; and
- Ensure the effective and efficient governance and administration of the LGPS by the Scheme Manager.

The Pension Board will provide oversight of the above matters and accordingly it is not a decision making body in relation to the management of the Fund itself.

Full details of governance arrangements can be found on the following link: Governance Policy

2. Primary Objective

The Fund's objective is to provide for members' pension and lump sum benefits on their retirement or for their dependants' benefits on death before or after retirement, on a defined basis in accordance with LGPS regulations.

3. Funding Objectives

Rhondda Cynon Taf County Borough Council should manage the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the actuarial value of the Fund's assets and that an appropriate level of contribution is agreed by the Authority to meet the cost of future benefits arising.

The Funding Strategy Statement and the Investment Strategy Statement are intrinsically linked and together aim to deliver stable contribution rates for employers.

The investment objective is to maximise returns subject to an acceptable level of risk whilst increasing certainty of cost for employers, minimising long term cost.

The Fund's objective is to achieve a return on Fund assets that is sufficient, over the long-term, to meet the funding objectives on an ongoing basis.

The Deputy Chief Executive / Group Director - Finance and Digital Services supported by the Investment and Administration Advisory Panel will ensure that one or more Investment Managers are appointed who are authorised under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 to manage the assets of the Fund. Contracts / mandates are in place giving instructions to the Managers as to how the investment portfolio is to be managed.

The Pension Fund Committee having taken account of advice from the Deputy Chief Executive / Group Director – Finance & Digital and Frontline Services may give specific directions as to the strategic asset allocations and will ensure the suitability of assets in relation to the needs of the Fund. The Investment Managers (each of which will have a benchmark and target to reflect their mandate) will be given full discretion over the choice of individual stocks and will be expected to maintain a diversified portfolio within the restrictions specified in each mandate.

4. Diversification Policy : *Requirement to invest fund money in a wide variety of investments*

The Fund invests in a range of asset classes to help reduce overall portfolio risk. This will ensure that if a single asset class is not performing well, this underperformance is balanced by other better performing assets at that time. The portfolio is also diversified to reduce volatility in performance.

The Fund is diversified into the following asset classes:

- Equities
- UK Gilts
- Corporate Bonds
- Property
- Infrastructure
- Cash

The Fund commissioned an Asset / Liability review in 2020, the fundamental aim of which was to position the Fund's investments in order to:-

- Reduce risk
- Maintain (as far possible) return expectations
- Minimise long term costs
- Increase diversification
- Optimise the transitioning of assets into the Pool
- Introduce Infrastructure (align to Pool aspiration)

thus ensuring the Pension Fund is being invested in the most efficient way.

Aon was appointed to give their view on the risk/return of the Pensions Fund's current investment strategy. Following on from this they were requested to comment and recommend alternatives that could deliver the Fund's long term objectives.

Simulations were undertaken for different portfolio asset strategies. The model estimated the probability of achieving a variety of funding outcomes over different time periods given the current asset allocation strategy. The majority allocation to equities in the portfolio gave a potentially high return, but was also the most significant contributor to overall risk.

Alternative asset allocation strategies were reviewed as a potential means of increasing diversification and reducing risk. Options were reviewed by the Panel, Committee and Board. It was noted that the Rhondda Cynon Taf Pension Fund was not particularly high risk compared to other LGPS funds and that some of the potential alternatives resulted in entering into asset classes that were expensive and difficult markets to enter.

The Committee concluded that the Fund should move toward the following asset allocation strategy with steps set out to achieve the desired allocation.

Asset Class	Pension Fund's allocation (31/03/2022)	**Step 1** Reduction in Equities, increase in Govn and Corp Bonds	**Step 2** Reduction in Equities for infrastructure investment	**Step 3** Reduction in equities for additional infrastructure investment
Total Equities	68%	64%	59%	54%
Infrastructure	0	0	5%	10%
Property	8%	7%	7%	7%
Government Bonds (UK)	11%	12%	12%	12%
Corporate Bonds (UK)	12%	15%	15%	15%
Cash	1%	2%	2%	2%

Following the above, the target and maximum percentages of total value of all investments that we will invest in particular investments or asset classes was as follows:

Asset Class	**Target % of Fund**	***Max. % of Fund***
Equities	54%	75%
Government Bonds	12%	35%
Corporate Bonds	15%	15%
Property	7%	15%
Infrastructure	10%	10%
Cash	2%	5%

The above target forms the basis of a customised benchmark which the Fund's performance is monitored against. The customised benchmark moves in line with market volatility. The asset allocation of the portfolio is not rebalanced on a routine basis but is reviewed annually to ensure the target return is not adversely impacted.

We may not permit more than 5% of the total value of all investments of fund money in entities that are connected with the Authority in line with Section 212 of the LG and Public Involvement in Health Act 2007.

In assessing the diversification policy, the Fund will consult with Independent Advisors.

5. Asset Allocation Policy : *Assessment of the suitability of particular investments and types of investments*

Investments are selected with their suitability to meet the Fund's overall objective of meeting pension obligations as they fall due. The level of return required is informed by the triennial actuarial valuation.

In the long term, low volatility assets such as gilt-edged investments behave in a similar manner to pension liabilities and would therefore "match" the attributes of pension obligations. However the requirement to achieve a longer term higher rate of return is, on average, achieved by other classes of assets such as stocks or property.

The current portfolio has been constructed with actuarial and independent advisor advice to achieve a specified level of return within risk parameters.

A management agreement is in place for each Investment Manager which sets out the relevant benchmark, performance target, asset allocation ranges and any restrictions as determined by the Pension Fund Committee.

The following demonstrates the allocation of the Fund as at March 2022 :-

	% of Fund Invested
Equities	19.2
Pooled Fund	
WPP Global Equities	43.2
WPP UK Credit	12.7
Other Pooled Funds	
Passive UK Gilts	5.2
Passive Equities	11.6
Pooled Property	7.6
Infrastructure	0.3
Cash & Deposits	0.2

The Pension Fund Committee has agreed not to invest in private equity at the present time.

The Pension Fund Committee has agreed to stock lend in line with the following principles :

- Appropriate collateralisation and indemnification;
- A level of stock is held back to maintain ability to vote;
- The ability to call back stock to vote on specific issues.

The Asset Allocation Strategy is reviewed annually by the Investment and Administration Advisory Panel to ensure that returns, risk and volatility are managed and consistent with overall investment strategy.

6. **Policy On Risk :** ***Approach to risk, including the ways in which risks are measured and managed***

The Fund maintains a Risk Register that is agreed by the Investment and Administration Advisory Panel and reported to the Pension Board and Pension Committee on a quarterly basis. The risk register examines funding, investment, operational, governance and regulation issues, ranks risks in terms of likelihood and impact and details mitigation measures.

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

The adoption of an asset allocation benchmark and the monitoring of performance relative to a performance target constrains the investment managers from deviating significantly from the intended approach, while permitting flexibility to manage the Fund in such a way to enhance returns.

The overall investment objective is to maximise investment returns and to minimise employer contributions over the long term within agreed risk tolerances.

The requirement is to be 100% funded, The funding level is calculated triennially, following an actuarial review.

The Fund's assets are managed on an active basis (except the Global Passive Equity mandate and the Passive UK Gilt mandate) and are expected to outperform their benchmarks over the long term. In this way the investment performance achieved by the Fund is expected to exceed the rate of return assumed by the Actuary within the valuation.

The Fund's Investment Managers have been given weighted average benchmarks and targets to reflect their mandates. Both asset allocation and stock selection is monitored. The current targets for each mandate are as follows:-

Portfolio	Portfolio Benchmark Index	Portfolio Target
Traditional equity	UK - FTSE All Share US – FTSE All World Europe – FTSE All World Europe Far East – FTSE All World Developed Asia Other Intl – MSCI Emerging Index	Composite Index +1% pa over rolling 3 year period
Global passive equity	MSCI World Low Carbon Target Reduced Fossil Fuel Select 12 BST	Index
Global high alpha equity	MSCI All Countries World Index	Index + 2% over rolling 3 year period
Infrastructure		9% IIR (net of fees with a 4% p.a. cash yield
Passive UK Gilt	FTSE Actuaries UK Conventional Gilts All Stock	Index
UK Credit	ICE BofA ML Eur-Sterling	Index plus 0.65%
Property	CPI plus 4.5%	

Review of the Investment Managers is ongoing based on the quarterly and annual performance data supplied to the Panel by external performance management agencies.

The appointment of more than one Investment Manager introduces diversification of manager risk as discussed above.

Each Investment Manager is expected to maintain a diversified portfolio of investments and adhere to restrictions imposed within their agreement.

Investment Managers also have investment restrictions as follows:

	Max. 10% in any single holding	Max. of 10% held in cash	Max. of 5% held in cash	No single overseas equity exceeds 5% of total value of fund	Max. holding of 25% in trust scheme	Max 25% in Emerging Markets
Baillie Gifford Traditional Equities	X	X		X	X	
WPP Global Growth Fund	X	X			X	
WPP Global Opportunities Fund	X				X	X
WPP UK Credit	No limits as pooled funds					
BlackRock Passive Equities	No limits as pooled funds					
BlackRock Passive UK Gilts	No limits as pooled funds					
BlackRock GIS4 Solutions	No limits as pooled funds					
CBRE Property	X		X			

The performance of both markets and Investment Managers is reviewed regularly by the Investment and Administration Advisory Panel, which has the appropriate skills and training required to undertake this task. The Panel is also supported by Independent Advisors providing advice to enable the Panel to robustly fulfil its functions.

Environmental, Social and Governance risks

The Fund believes that environmental, social and governance (ESG) factors should be taken into account on an ongoing basis and are an integral part of the Fund's responsibilities as a long-term sustainable investor.

The Fund is committed to carbon transition and to the parallel process of reducing fossil fuel exposure.

Fund engagement with investee companies is crucial in relation to improving standards of corporate governance, which over the long term is expected to enhance investment returns.

7. Approach to pooling investment, including the use of collective investment vehicles and shared services.

The Wales Pension Partnership (WPP) has appointed Link Fund Solutions Ltd (Link) to establish and run a collective investment vehicle for the sole use of the LGPS funds in Wales. This will enable the pooling of assets across a range of asset classes.

Link have established and will run an Authorised Contractual Scheme (a tax efficient UK collective investment vehicle) on behalf of the WPP. The ACS will have sub-funds in a range of asset classes that will meet the needs of the LGPS funds in Wales, to allow them to execute their differing asset allocation strategies.

With the support of Russell Investments, and in consultation with the eight individual LGPS Funds, Link have begun the process of appointing a number of Investment Managers. Each LGPS Fund in the pool will retain full control over strategic asset allocation decisions. Northern Trust will have custodian duties.

By using fewer Investment Managers with larger mandates, it is expected that the WPP will deliver fee savings, one of the primary aims of Government policy. A summary of the pooling objectives of the WPP are:

- Generate consistent net of fee excess returns.
- Diversify manager risk.
- Reduce average manager fees.
- Achieve tax efficiency by reclaiming withholding tax on dividends (for non-UK equity sub-funds).
- Equitably share the costs of transitioning into sub-funds.

Progress continues to be made by the Wales Pension Partnership (WPP) in the establishment of appropriate sub funds to satisfy the investment objectives across the Welsh Funds. The first two sub funds for the collective investing of assets was launched during January 2019 and related to Global High Alpha Equities. The sub fund for UK and European Equities was launched during September 2019. The third phase related to Fixed Interest with five sub funds being launched during July 2020 (Global gilts, global corporates, UK corporates, multi asset credit and absolute return bonds). The fourth sub fund related to emerging market equities and was launched October 2021

8. How social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments.

The overriding principle of the Fund's investment policy is to obtain the best possible financial return using the full range of investments authorised under the Local Government Pension Scheme regulations.

Although the pursuit of a financial return is our predominant concern, where possible, the Fund is committed to include Responsible Investment factors (environmental, social and corporate governance factors) into the investment process. These non-financial factors are considered to the extent that they are not detrimental to the Fund's investment returns. The incorporation of these factors into Investment Managers' stock selection decisions should serve to enhance the process, rather than restrict choice in any way. The Fund does not negatively screen stocks from the investment universe available to Managers.

The Fund requires its Investment Managers to integrate all material financial and non-financial factors, into the decision-making process for all investments. Furthermore, it expects its managers to proactively engage, influence and promote good corporate governance in the companies and markets to which the Fund is exposed. The Fund's Investment Managers provide updates on their activities in this regard.

All of the Fund's Investment Managers are signed up to the United Nations Principles of Responsible Investment (UNPRI) which encourages asset owners and asset managers to incorporate environmental, social and governance (ESG) issues into investment analysis and decision making, be active owners, seek disclosure of ESG issues and promote the principles within the industry.

The six principles are:

- We will incorporate Environmental, Social and Governance issues into investment analysis and decision-making processes;

- We will be active owners and incorporate Environmental, Social and Governance issues into our ownership policies and practices;

- We will seek appropriate disclosures on Environmental, Social and Governance issues by the entities in which we invest;

- We will promote acceptance and implementation of the Principles within the investment industry;

- We will work together to enhance our effectiveness in implementing the Principles; and

- We will each report on our activities and progress towards implementing the Principles.

The Pension Fund is a member of the Local Authority Pension Fund Forum (LAPFF). LAPFF exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders while promoting corporate social responsibility and high standards of corporate governance among the companies in which they invest.

The Fund recognises the focus and financial risks associated with climate change, fossil fuels and carbon management. The Fund remains committed to an orderly carbon transition and has set out its approach in Appendix A to this Investment Strategy Statement.

The Fund is also committed to adhering to the principles of the Stewardship Code.

9. Exercise of Voting Rights attached to investments.

Long term investment interests are enhanced by the highest standards of corporate governance and corporate responsibility. Poor governance can negatively impact shareholder value.

This Fund recognises the importance of stewardship and engagement via the equity fund managers is exercised to exert a positive influence on companies.

The Wales Pension Partnership has employed a voting and engagement provider to exercise its voting rights to promote good corporate governance and social and environment responsibility. A proportion of stock is held back from stock lending activities to facilitate this. The Provider supplies quarterly voting activity reports.

The Equity Fund Manager employed outside the WPP is expected to exercise their voting rights. The Fund has agreed a voting template which incorporates best practice governance guidelines. An independent voting agency is employed to monitor and compare the voting records of the manager against this template. The manager provides quarterly voting activity reports.

10. Myners Principles of Good Investment Guidance.

The Fund assesses and reviews its own compliance with the Myners Principles annually. The Fund has assessed itself to be fully compliant with the principles below:

Principle 1. Effective Decision Making
Principle 2. Clear Objectives
Principle 3. Risk and liabilities
Principle 4. Performance assessment
Principle 5. Responsible ownership
Principle 6. Transparency and reporting

Appendix A

Rhondda Cynon Taf Pension Fund – Responsible Investment and Carbon Investment Principles

The Rhondda Cynon Taf Pension Fund is an open, defined-benefit pension fund as part of the national Local Government Pension Scheme (LGPS).

The nature of the Fund and scheme design means that payment of pensions will extend over the very long term. In considering the Fund's investment strategy, the Fund seeks to operate

- a long term, sustainable strategy;
- one which does not rely upon the pursuit of short term returns;
- a well-structured asset and fund manager investment allocation which targets long term socially responsible, sustainable investment performance.

The Fund deploys a relatively uncomplicated investment structure which seeks to provide a return on investments which is above the level of pension liabilities and which seeks to achieve 100% funding over the long term.

As a long term investor, the Fund must be comprehensive in the consideration and mitigation of risks that the portfolio faces and investments are diversified across a number of asset types.

Rhondda Cynon Taf Pension Fund recognises the investment implications of climate change and carbon emissions.

The Fund is committed to an orderly carbon transition and believes active engagement with investee companies, rather than disinvestment, is the preferred option to bring about change whilst managing overall investment risk issues. In this regard, the Fund requires its Investment Managers to engage with investee companies and seek to ensure that their business objectives are aligned to reducing carbon exposure.

We do however also recognise that there may be instances where disinvestment is an appropriate course of action and have identified principles to guide us in this regard.

This document outlines out how the Fund will approach this divestment, how the risks and other considerations associated with such a commitment will be managed and how the divestment over time will be incorporated into the asset allocation strategy for the Fund.

The overall approach of the Fund to incorporating wider environmental social and governance issues (ESG) is set out in more detail within the Investment Strategy Statement.

Principles

1. Responsible Investor

We are of a firm view that as responsible owners we have a voice and an ability to influence strategic change within investee companies and that this can be more powerful than disinvesting alone.

2. Asset allocation

We will incorporate all ESG factors into our asset allocation and investment strategy considerations.

3. Investment Managers

We will ensure that all our investment managers are signed up to the United Nations Principles of Responsible Investment (UNPRI), that they engage effectively and are transparent in telling us how they are making a difference. Where investee companies are not aligning themselves to reduce long-term carbon exposure then we will disinvest, in an orderly way.

The Fund demands that all its Investment Managers properly consider climate related and other environmental social and governance risks in decision making within their respective portfolios.

As and when investment managers and asset allocations require amending, the risk of fossil fuel exposure will be incorporated into any due diligence regarding risk and reward decision making.

The Fund’s passive equity mandate is managed through a low carbon product

4. Stakeholder engagement

The Fund’s primary purpose is to be able to pay for pension liabilities over the long term. There are national arrangements in place to reduce pension benefits if the LGPS is unable to sustain itself through loss of value or growth in liabilities. We therefore have a duty to ensure that the future pension entitlements of members are not compromised.

However, we do hold the view of “a world worth living in” as one of our guiding principles.

5. Long Term and alignment to global goals

As an open fund, we are long term investors and must not be overly influenced by short term factors and influences.

6. Working Together

We will collaborate with other Welsh Funds through the Wales Pension Partnership and seek to align our long term goals with our partners. It is important that the Fund works with our partners to share knowledge and best practice as well as utilising collective assets to push for the most effective and efficient implementation of reduced fossil fuel strategies. We will also work with other funds nationally through our membership of the LAPFF to encourage companies to adopt the highest standards with regard to fossil fuel and energy efficiency.

7. Risk Mitigation

Investment Managers must consider ESG and Climate Change / Carbon Exposure in their investment decisions, specifically with regard to risk mitigation and be clear on any negative implications.

8. Transparency

We will understand the Fund's exposure to Carbon through a systemic approach, engaging with experts to thoroughly and robustly baseline our position and monitor going forward.

Appendix 5

RHONDDA CYNON TAF PENSION FUND

PENSION FUND ADMINISTRATION STRATEGY

updated March 2023

Contents		Page No

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 2023)**
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 Pension Committee and Pension Board in March 2023

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 Deputy Chief Executive and Group Director – Finance, Digital and Frontline Services, who has delegated operational 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 Manager' 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 on 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 on the Council website, Browse meetings - Pension Fund Committee - Rhondda Cynon Taf County Borough Council (moderngov.co.uk)
The Wales Pension Partnership Joint Governance Committee oversees the pooling of the investments of the eight Local Government Pension Scheme funds in Wales. The Joint 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 Fund's data quality is maintained to the highest standard, and 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 To appoint a person ("the adjudicator") to consider appeals in accordance with the LGPS 2013 Regulations

4.13 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.

4.14 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.

4.15 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.

4.16 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

4.17 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.

4.18 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.

4.19 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)*.

4.20 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.

4.21 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.

4.22 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.

4.23 To work with the Administering Authority and provide the necessary retrospective data and subsequent validation required to implement the McCloud remedies.

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	APC application to be sent to Administering Authority as soon as practicable after member has made their decision

	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.	
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 the 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 rates of employee contribution as published by the Department for Levelling Up, Housing and Communities (DLUHC) 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 and Personal Pension Schemes (Disclosure of Information) Regulations 2013. 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 of 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 Department for Levelling Up, Housing and Communities (DLUHC, 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.

4.42 The Administering Authority will maintain a Fund 'Risk Register' that will be regularly monitored at the Fund's Governance forums.

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 £116 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	5 working days

	completed Estimate Request. Any volume requests over and above 10 estimates will need to be agreed in advance.	
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 £116plus 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; and ❑ 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, Higher Education Funding Council for Wales, Charity Commission, Welsh Government 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 Governance and Investment section of our Pension Fund 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 680309**
Financial	**Catherine Black**	**01443 680646**
Retirement\Benefit	**Gemma Penning**	**01443 680357**
Member maintenance	**Kayleigh Jenkins**	**01443 680614**

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

Appendix 6

RHONDDA CYNON TAF PENSION FUND

PENSION FUND COMMUNICATIONS POLICY STATEMENT

updated March 2023

Introduction to Pension Fund 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. A dedicated Communications Team deals with all aspects of Scheme communication including administration and investments.

In order to minimise cost and ensure consistent scheme information is issued across Wales, the Fund activity contributes to the All Wales Communications Group. This enables the facility to share areas of good practice and produce All Wales member literature.

Services provided by the RCT Fund include:

- **Pensions Help Line**
  Our Help-Desk deals with all pensions related enquiries. Help desk hours are from 9am to 5pm Monday to Friday

- **Password Access System**
  This enables us to provide callers with information over the telephone.

- **Fund Website**
  The Pension Fund has a comprehensive website, designed in an easy to use format making it very accessible to all interested parties. The website address is promoted widely and the site contains Fund specific information as well as that relating to the Local Government Pension Scheme. There is a facility to download forms and documents along with links to other key sites. The site also has links to other relevant websites.

  The website is compliant with Web Content Accessibility Guidelines

  http://www.rctpensions.org.uk

  (Key pension fund governance documents are available on the website).

- **Wales Pension Partnership Website**
  Includes the minutes of the Wales Pension Partnership Joint Committee.

  https://www.walespensionpartnership.org/governance/joint-governance-committee-jgc/

- **E-Mail**
  The Pensions Section has a dedicated e-mail address and we have a system in place that provides a direct link to and from our members' records. This facility allows us to e-mail information produced by the Pensions Administration Software direct to members and employers.

- **Scheme Literature**

A comprehensive and up to date range of bilingual Scheme literature is freely available to members, non-members and employers. Copies can also be downloaded from the Pension Fund website.

Communicating with Scheme Members

In addition, the following services are provided specifically for Scheme members. Wherever possible documents are produced on an All Wales basis in partnership with representatives from all of the Welsh Pension Funds. The Fund is constantly looking to improve the way we communicate with members and is moving to more digital communication wherever possible.

- **Newsletters**
  A newsletter is distributed to all Scheme members keeping them abreast of any topical issues as and when they occur. An annual newsletter is also produced specifically for pensioners. These are provided in a back-to-back bilingual format.

- **My Pension On-Line**
  We have introduced a secure self-service facility which allows our members to view their pension record, update personal details and run estimates of pension benefits payable at selected retirement dates. Pensioner members can view payslip and P60 information. The service is also used to issue documents to members, for example Annual Benefit Statements, and members can upload sensitive documents that are required by the Fund.

- **Standards of Service Questionnaire**
  This is issued to a cross section of active members and pensioners following task completion in order to obtain member feedback.

- **Annual Benefit Statement**
  Statements are up-loaded to My Pension On-line or forwarded directly to the home address of members who are contributing to the Fund at the scheme year-end.

- **Work Flow**
  Written correspondence is logged and scanned to members' records daily. Time taken to respond is monitored and measured against targets, which are reviewed regularly.

- **Presentations and Road shows**
  The Communications Team provides these as required.

- **Home Visits**
  In cases of serious ill health, a representative of the Pension Section will attend a home visit in conjunction with relevant Human Resource representatives if appropriate.

- **Pension Payslips**
  Only 3 payslips are issued annually to our Pensioners as routine, this ensures that members are appropriately informed of pension increase impact and reduces the operating costs of 12 monthly notices. (Note: All monthly payment history is viewable through the member self-service 'My Pension On-Line' facility).

Communicating with Prospective Scheme Members

- **General Welcome**
  A Scheme Guide is available to potential scheme members which outlines the benefits of the LGPS.

- **Website**
  Our website provides prospective members with clear reasons as to why they should be in the scheme as well as providing information which allows a person to make an informed choice and then signposts how to join the scheme.

- **Helpdesk**
  For individuals who choose to withdraw from the scheme, our Helpdesk personnel are trained to probe the reasons for withdrawal and they have a specific "script" which lists the benefits that the individual may be losing. This is to ensure the person is making an informed decision and is aware of the choices available.

Communicating with Scheme Employers

Regular contact is maintained between the Pension Section and the Pension Fund employers:

- **Contacts Database**
  A global circulation list is maintained of key e-mail addresses, such as pension contacts, finance managers and personnel contacts. 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 the regulations that impact upon the employer and their employees.

- **Consultation**
  We will formally consult with our Scheme Employers as necessary.

- **Annual General Meeting**
  An annual meeting is held for employers chaired by the Deputy Chief Executive and Group Director - Finance, Digital & Frontline Services, who has delegated operational responsibility for the Pension Fund. An Administration and Investment update is provided with guest speakers invited to talk about topical issues. Key speakers will/have included representatives from the Scheme Actuary, The Pensions Regulator, Investment experts or the Department for Levelling Up, Housing and Communities (DLUHC)

- **Pension Fund Communication Forum**
  Held quarterly, this meeting covers administration and investment issues. The Forum includes employee and employer representatives and provides a representative link to the Investment and Administration Advisory Panel.

- **Meetings with Individual Employers**
  Held on an annual basis for larger employers, these meetings are designed to discuss issues relevant to a particular employer such as the performance of both the employer and the administering authority.

- **Administration 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.
  Individual employer annual meetings form part of the monitoring process.

- **Pension Fund Training**
  The Pension Section provides standard training workshops and specific bespoke training can be arranged via the Senior Team Manager.

RCT Pensions Fund Communications - Contact Details

Helpdesk: 01443 680611

Email: pensions@rctcbc.gov.uk

Website: www.rctpensions.org.uk

Write: Pensions Section, Oldway House, Porth, CF39 9ST

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RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

MUNICIPAL YEAR 2022-23

PENSION FUND COMMITTEE **27TH MARCH 2023** **REPORT OF: THE DEPUTY CHIEF EXECUTIVE AND GROUP DIRECTOR – FINANCE DIGITAL AND FRONTLINE SERVICES**	**AGENDA ITEM NO. 7** **DELEGATED FUNCTIONS – UPDATE REPORT**

Author – Barrie Davies, Deputy Chief Executive and Group Director – Finance, Digital and Frontline 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 Deputy Chief Executive and Group Director – Finance, Digital and Frontline 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 Deputy Chief Executive and Group Director - Finance, Digital and Frontline 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 23rd March 2023.

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 December 2022.

4.2 During the quarter ended 31st December 2022, the overall value of the Fund increased from £3,995 million to £4,103 million.

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

Total Portfolio

	2020				2021				2022				3yr
Quarter	Q1	Q2	Q3	Q4	Q1	Q2	Q3	**Q4**	Q1	Q2	Q3	Q4	
Fund	-11.4	16.6	3.5	9.5	1.6	5.4	0.3	1.6	-6.5	-8.9	-2.7	2.6	**2.8**
B'mark	-10.6	12.5	1.6	6.5	1.1	5.1	0.7	4.2	-3.2	-6.8	-2.8	3.5	**3.3**
Relative	-0.8	4.1	1.9	3.0	0.5	0.3	-0.4	-2.6	-3.3	-2.1	0.1	-0.9	**-0.5**

4.4 As shown, the rolling 3-year performance of the Fund is 2.8% positive as compared to benchmark of 3.3%. For the last quarter (i.e. quarter 4), Global Growth high alpha equity portfolio, UK Credit Fund, and BlackRock Passive UK Equity (low carbon) outperformed their benchmarks; Global Opportunities high alpha equity portfolio, CBRE Property, and Baillie Gifford Traditional Equity under-performed their benchmarks; and BlackRock Passive UK Gilts performed in line with their benchmark.

4.5 The 23rd March 2023 Panel included a review of fund managers' performance. Presentations were received from Fidelity (the UK Credit manager), Link and Russell Investments (operator and fund manager solution provider of the WPP) and Ballie Gifford (tradition equity portfolio).

4.6 The asset allocation of the Fund-by-Fund manager and mandate as at 31st December 2022 (which includes cash) is shown in the table below.

Baillie Gifford Traditional	Global Equities	18%
Link – Global Opportunities Fund	Global High Alpha Equities	10%
Link – Global Growth Fund	Global High Alpha Equities	35%
Link – UK Credit Fund	UK Credit	12%
BlackRock	Passive Global Equities	5%
Blackrock	Passive UK Gilts	11%
CBRE	UK Property	8%
Blackrock GIS 4 Solutions	Infrastructure	1%
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 towards 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	68%	64%	59%	54%
Infrastructure	1%	0	5%	10%
Property	8%	7%	7%	7%
Government Bonds (UK)	11%	12%	12%	12%
Corporate Bonds (UK)	11%	15%	15%	15%
Cash	1%	2%	2%	2%
Absolute Return (10 years pa)		5.3%	5.5%	5.6%
Volatility (10 years pa)		13.3%	12.7%	12.3%

4.8 With regard to infrastructure, the approach is for the Fund to invest over a number of years in order to secure and optimise opportunities across the different time periods (and vintage years).

4.9 Baillie Gifford's global core mandate has been reduced by £180 million which has been transitioned to UK government bonds, with a further £45 million reduction transferred to UK corporate bonds.

4.10 The Pension Fund is progressing the investment into Blackrock GIS 4 Infrastructure Fund. Capital contributions to date total £26.63 million.

4.11 The Pension Fund is committing £70 million to the closed ended infrastructure first vintage being launched by the WPP. This will take place from June 2023

5.0 ADMINISTRATION UPDATE

5.1 Significant changes from 6th April 2023 to the pension tax allowances were announced in the Spring Budget, which will require software and communication updates:

- The Lifetime Allowance charge, and ultimately the Lifetime Allowance (LTA), will be abolished.
- The maximum Pension Commencement Lump Sum for those without protections will be retained at £268,275 and remain frozen at that level.
- The standard Annual Allowance (AA) will increase from £40,000 to £60,000.
- The tapered Annual Allowance will now commence for individuals with adjusted income in excess of £260,000 (previously it was from £240,000).

5.2 HM Treasury has confirmed that LGPS pensions in payment will be increased from 10th April 2023 by 10.1%, in line with the September 2022 CPI inflation rate.

The Fund's Annual Pensioner Newsletter is currently being drafted and will include details of this increase for its membership.

5.3 On 10th February 2023, the Department for Levelling Up, Housing and Communities (DLUHC) published a consultation and draft regulations on changing the annual revaluation date, in order to better align the inflation-proofing arrangements in the LGPS used for assessing pension growth against the annual allowance. The regulations are effective from 31st March 2023, and move the annual revaluation date from 1st April to 6th April.

5.4 The Pensions Regulator (TPR) is now expected to publish their new General Code of Practice in mid-April 2023. The new consolidated code will set out proposed new governance standards for pension schemes.

5.5 LGPS Regulations in respect of the McCloud judgement and subsequent remedies, will come into force on 1st October 2023. The Scheme Advisory Board (SAB) is due to publish guidance on appropriate methods to obtain service data for the McCloud remedy. The guidance will be accompanied by legal advice, which covers the steps administering authorities should take to collect, validate and query the McCloud data they receive from employers, as well as duty of care, estimation of service, and informing members.

5.6 The Scheme Advisory Board (SAB) no longer require scheme 'death statistics'; however the Fund will continue to collate up to the Valuation date and noting that the Fund's mortality assumptions for the 2022 Valuation exercise have been amended as a result of the pandemic. The Fund's statistics are shown in the table below:

Comparison of Number of Fund Deaths

Month	**2023**	**2022**	**2021**	**2020**	**2019**
January	104	94	83	61	-
February	58	37	98	52	-
March	-	82	64	60	-
April	-	50	50	129	39
May	-	55	41	66	51
June	-	49	35	66	46
July	-	52	41	65	43
August	-	57	39	38	46
September	-	43	56	54	55
October	-	50	48	59	84
November	-	50	62	66	61
December	-	64	56	55	43

5.7 The Pension Regulator 'Governance and Administration Survey' was jointly completed with the Chair of Pension Board and submitted by the required deadline.

5.8 The 2022 Triennial Valuation exercise has concluded, and all Fund Employers have received their results. In line with the growing maturity of the Fund, the Actuary will provide some cashflow modelling based on the 2022 Valuation contribution results and the pension increase of 10.1%.

5.9 Further delays have recently been announced in respect of delivery of the National Pension Dashboard Programme. The Fund will continue to work on its preparations for the dashboards.

5.10 The new Life Certification exercise using biometrics technology to provide assurance on the details / status of Members that live abroad has proven to be successful, with only a small number of members yet to comply.

5.11 Member Self-Serve (MSS) continues to be promoted and registrations of Active, Deferred, Pensioner and Dependant members are shown below (as at February 2023).

	Member Numbers	**MSS Registrations**	**Current Percentage Take-up**	**Percentage Reported Previously**
Actives	24,076	11,482	47.69%	47.23%
Deferred	29,710	10,841	36.49%	36.51%
Pensioners	18,794	5,775	30.73%	29.45%
Dependants	3,002	184	6.13%	6.02%

5.12 The Service's eight 'Key Performance Service Standards' are regularly monitored by the Investment and Administration Advisory Panel and Pension Board. In general, performance and service volumes remain positive, and a focus on team development and recruitment continues. A positive recruitment exercise has recently concluded and will help ensure business continuity looking ahead.

5.13 The number of 'Internal Dispute Resolution Procedure' Appeals in progress continues to be extremely low, with no obvious trends or concerns to report

6.0 PENSION BOARD

6.1 The Pension Board last met on a hybrid basis on 9th January 2023. There were no items noted for referral back to Committee.

6.2 Pension Board Members have continued to support their skills and knowledge requirement, through their attendance at relevant 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 October to December 2022

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 Deputy Chief Executive and Group Director – Finance, Digital and Frontline Services.

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Quarterly Engagement Report

October-December 2022

Human Rights, Mining, Drax, Renault, Mercedes, Chipotle

Local Authority Pension Fund Forum

LAPFF CONFERENCE

LAPFF Conference 2022

LAPFF held its annual conference in Bournemouth this quarter with a heavy focus on human rights and climate. On the first afternoon, delegates heard from a Total representative about the company's decision to withdraw from Myanmar and from the Vale Chair about his company's efforts to move on from the 2015 and 2019 tailings dam disasters in Brazil. The LAPFF Chair also thanked a Brazilian communities' representative for hosting LAPFF's visit in August and September, and spoke with José Pugas of JGP Asset Management about his organisation's work with Vale, as well as on deforestation.

On the second day, the conference delegates heard from a range of asset managers about their experiences of working to implement sustainability in their operations. Moving onto climate specifically, engaging non-executive directors on the topic, and a panel on electric vehicles followed, along with a session on executive remuneration. There was a fascinating, if disturbing, session on the fall of FTX and a panel discussing the growing importance of the 'S' in ESG. An LGPS panel on 'levelling up' was followed by two sessions on the need for sustainable water use. The day ended with an update on shareholder resolutions requesting racial equity audits.

The final day of the conference opened with a recount of the Covid pandemic from Devi Sridhar, a University of Edinburgh professor who has been vocal about government and societal responses to the pandemic. She was followed by Nell McShane, who has written a book about sex discrimination and harassment against female flight stewardesses and their path to unionising. Brendan Curran from the Grantham Institute at the London School of Economics then spoke about the just transition to a zero-carbon economy. The day ended with a synopsis of the state of affairs globally by political editor and broadcaster, Robert Peston.

COMPANY ENGAGEMENTS

UN Forum on Business and Human Rights

In light of LAPFF's summer visit to Brazil, the LAPFF Chair, Cllr Doug McMurdo, was invited to speak on an investor panel at the 2022 UN Forum on Business and Human Rights in Geneva. He was joined by colleagues from Principles for Responsible Investment, Domini Impact Investments, and Business for Social Responsibility. Cllr McMurdo spoke about the need to engage with affected stakeholders, including communities affected by company operations, in order for investors to understand better the true value of their investments. He implored investors to do more on human rights as a matter of financial materiality.

BHP

Objective: LAPFF attended a BHP webinar on the company's sustainability activities and met with CEO, Mike Henry, informing a position for a voting alert ahead of BHP's November AGM. The LAPFF Chair, Cllr Doug McMurdo, also met with the Australasian Centre for Corporate Responsibility (ACCR) to find out more about why the organisation filed three shareholder resolutions ahead of BHP's AGM.

Achieved: LAPFF issued a voting alert in favour of the ACCR resolutions, recommending that its members oppose the BHP Chair, Ken MacKenzie, and vote in favour of three shareholder resolutions aimed at improving the company's climate practices.

In Progress: While LAPFF was grateful to the CEO for meeting to discuss the shareholder resolutions put to the AGM, there is still concern that the company has denied a meeting on the Samarco tailings dam collapse that occurred in 2015. LAPFF is continuing to engage BHP on both human rights and climate, but the views of both parties diverge significantly at the moment.

Vale Chair, José Penido, speaking at the LAPFF conference

Vale

Objective: One of LAPFF's main objectives with Vale is to have the company engage effectively with stakeholders affected by its operations. While Vale, and particularly the Chair, has remained open to engagement with LAPFF and other investors, LAPFF would still like to see the company engage more effectively with workers and communities affected by its operations.

Achieved: Vale Chair, José Penido, travelled to the LAPFF conference to speak in person to investors about Vale's work to provide adequate reparations and recover reputationally from the Mariana and Brumadinho tailings dam collapses from 2015 and 2019, respectively. LAPFF is therefore encouraged that the company is taking investor action seriously in respect of these disasters.

In Progress: It remains the case that the vast majority of houses in the various resettlements need to be rebuilt for affected community members. These houses are among many other reparations that still need to be carried out to an acceptable standard. LAPFF also has continued to express concerns that the company is not yet engaging in a meaningful way with affected community members. Fulfilment of Vale's reparations obligations and establishing a process for effective engagement with all stakeholders therefore remain high priorities for LAPFF.

Anglo American

Objective: Cllr McMurdo wrote to Anglo American Chair, Stuart Chambers, and offered to report back on his findings from speaking to communities in Brazil impacted by Anglo American operations.

Achieved: Mr Chambers appeared to be receptive to LAPFF's findings and requested more detailed information from LAPFF.

COMPANY ENGAGEMENT

In Progress: LAPFF is in the process of compiling the detailed findings from the Brazil visit to share with Mr Chambers and his colleagues. After this process has been completed, LAPFF is planning to meet with Anglo American's technical staff to talk them through the findings.

Glencore

Objective: Although LAPFF was keen to meet Anglo American, BHP, and Vale in relation to its Brazil visit, it wanted to share its findings and observations with other mining companies covered in LAPFF's mining and human rights report issued earlier this year. Therefore, Cllr McMurdo met with Glencore Chair, Kalidas Madhavpeddi, to talk about LAPFF's work in Brazil, to discuss concerns community members in Peru have raised about Glencore's activities in that country, and to discuss various bribery and corruption allegations against the company. Glencore's approach to climate was also discussed.

Achieved: For a number of years, LAPFF had requested that Glencore undertake an independent assessment of the company's internal controls. This request stemmed from an investor collaboration spearheaded by Sarasin when details of Glencore's business relationships in the Democratic Republic of Congo raised concerns of bribery and corruption. Although Glencore does not appear to have heeded this request, the company has now entered settlements in numerous countries in relation to various bribery and corruption allegations. It is hoped that these settlements will place internal control requirements on Glencore to prevent the occurrence of future problems in this area.

In Progress: LAPFF is hearing concerns from community members affected by Glencore's operations in Peru that are eerily similar to those LAPFF encountered in Brazil, Colombia, Mexico, Papua New Guinea, and elsewhere. Namely, communities allege that mining companies have polluted, and are continuing to pollute, their water. The companies respond by stating that the water is naturally polluted. LAPFF needs to investigate to understand what is happening in these situations.

Rio Tinto

Objective: LAPFF has been pleased to see some progress made by Rio Tinto after the company's destruction of a 46,000-year-old cultural heritage site at Juukan Gorge, Australia. Rio Tinto has been particularly transparent about its challenges on both community relations and workplace culture. During the year, the company issued both a community engagement update and a workplace culture report by a reputed independent consultant that highlighted a range of practices that need to be improved at the company. LAPFF is keen to ensure that Rio Tinto is undertaking effective social and environmental impact assessments and that the company does not face the same problems in relation to reparations at Juukan Gorge that BHP and Vale are facing in relation to reparations for the Mariana tailings dam collapse in Brazil.

Achieved: LAPFF attended an ESG briefing for investors to discuss the company's new 'Communities and Social Performance (CSP) Commitments Disclosure Final Report'. Given Rio Tinto's description of increased cultural heritage assessments, LAPFF asked if the company has also committed to independent environmental and social impact assessments (ESIAs) as part of its CSP approach.

In Progress: Although it seems that there is a fair amount of external input into various assessments, LAPFF is concerned that the company does not have a consistent or coherent approach to ESIAs. The independent assessment at Panguna in response to the OECD National Contact Point complaint on this issue is apparently underway and is to be commended, but it is reportedly a one off. Acknowledging the expense and resources involved in this type of assessment, LAPFF would like to work with a range of mining companies to determine how it could be feasibly done much more widely.

Drax

Objective: LAPFF has been increasingly concerned about the business model of Drax Group plc, which runs the UK's largest power plant at Drax in Yorkshire. Instead of coal, the plant burns imported wood pellets, mainly from North America. The concerns about sustainability flow from the burning of wood on such a scale, as well as the harvesting of wood, removing a near-term living carbon sink (trees) that can only be replaced over a long period.

Achieved: LAPFF requested a meeting with the chair of Drax Group. A meeting was held, and a comprehensive follow-up letter has been sent to the chair as a result.

In Progress: Because discussions are ongoing, further reporting and updates will occur in due course.

Drax Power Station

COMPANY ENGAGEMENT

Chipotle

Objective: LAPFF has been engaging with Chipotle on the company's approach to water stewardship for three years. The focus of the engagement has been to encourage the company to undertake a full value chain water risk assessment. After a period of heightened engagement with the company, LAPFF member Greater Manchester Pension Fund filed a resolution on this issue ahead of Chipotle's 2022 AGM. Following discussions between LAPFF and the company, an agreement was reached that would see the resolution withdrawn from the ballot. The withdrawal was conditional upon formal commitments being made relating to the company's water stewardship programme.

Achieved: LAPFF held a follow-up call with Chipotle to measure progress made against LAPFF's initial asks. In response to the resolution, the company has completed a materiality assessment covering ingredients, its supply chain and restaurants.

In Progress: Given the company now has a better understanding of the water-related risks facing the business, the next phase of the stewardship plan is to develop context-based targets that relate specifically to areas of the operations under high water stress. LAPFF will continue to work with the company to develop these goals.

KLA

Objective: Given the investment risks associated with global warming LAPFF has been issuing climate change voting alerts focused on shareholder resolutions, including those seeking to ensure companies have 1.5°C aligned targets and transition plans.

Achieved: LAPFF issued a voting alert at US company, KLA, regarding a proposal for a report on net zero targets and climate transition planning. LAPFF recognised the work being undertaken by the company. However, given the risks posed by climate change and the need to disclose a strategy for addressing climate risk and carbon emissions (covering Scopes 1, 2 and 3 and targets aligned to a 1.5°C trajectory) LAPFF recommended a vote in favour of the resolution. In the end, the resolution secured the backing of a quarter of the votes, sending a strong message to the board about what action a significant minority of shareholders want to see.

In Progress: LAPFF expects companies to reflect and respond to such results given the level of support from shareholders. LAPFF will continue to issue climate-related voting alerts in 2023.

Rolls Royce production site

Rolls Royce

Objective: A meeting with Rolls Royce Chair, Anita Frew, was held to follow up on LAPFF's collaborative correspondence to FTSE All Share chairs requesting they set out the company's carbon transition strategy to investors and put an appropriate resolution to shareholders at the AGM.

Achieved: A meeting with the head of sustainability and others covered various aspects of business strategy, targets, governance and disclosure. LAPFF asked

COMPANY/COLLABORATIVE ENGAGEMENT

if a timeline to commercialisation could be given for the company's development of electric prototypes for commuter aircraft and regional flights, noting that Norwegian airline Widerøe, that Rolls Royce has partnered with, has targeted 2025 for its first commercial launch. A separate meeting of the LAPFF Chair with Anita Frew, provided insight into the workings and chairing of the 13-strong board. Discussions on the company's carbon impact and transition plan made evident the emphasis placed on the development of new businesses and products.

In Progress: The LAPFF Chair again pressed for the board to put the transition plan to the AGM for shareholder approval. This may be considered too soon for the 2023 AGM but has not been ruled out for future AGMs.

Responsible Mineral Sourcing

Objective: LAPFF has continued its engagement with electric vehicle manufacturers to gain a better understanding of how they are addressing the risks associated with sourcing the minerals they need to produce the batteries for their vehicles. LAPFF met with Renault and General Motors on this issue for the first time this quarter and with Mercedes for the second time.

Achieved: An overview of Renault's work on risk assessments for the minerals it sources and contingent reporting was discussed. LAPFF also raised the potential benefits of membership of the Initiative for Responsible Mining Assurance (IRMA).

The discussion with Mercedes provided an in-depth view of the work the company was doing with regards to risk assessment of minerals and some of the work the company was doing in the Democratic Republic of the Congo.

General Motors laid out new additions to its board and the skills they would bring in the transition to electric vehicles. The company also spoke about the aspirations it had with its risk assessment process, audit programme and its dialogue with suppliers on the IRMA.

In Progress: LAPFF is continuing to seek engagements with electric vehicle manufacturers, impressing upon them the benefits of transparent reporting and enhanced due diligence, whilst seeking to better understand what work companies are doing and how they are managing a just transition.

Tesco

Objective: Following the military coup in Myanmar in February 2021, it has been widely reported that there has been a drop in human rights and labour standards throughout the country, with union leaders targeted, internet connections cut, wages withheld, and a lack of freedom of assembly for workers. Tesco announced a responsible exit from the country, concluding in May 2022. LAPFF sought a meeting with the company to discuss this responsible exit and gain insight into the company's global supply chain due diligence.

Achieved: When LAPFF met with Tesco, a range of factors for the company's withdrawal from Myanmar were discussed. The Ethical Trade Initiative's recommendations for responsible business in the garment sector arose as a point of reference. There was also a useful discussion about whether companies are able to maintain leverage over factories and the human rights situation on the ground with the Junta in power.

In Progress: LAPFF is continuing to monitor a number of companies that have supply chain links to Myanmar and will likely seek meetings with those that are seeking to exit the country or have already done so to gain a broader picture of how companies are approaching a 'responsible exit'.

COLLABORATIVE ENGAGEMENTS

Asia Transition Platform (MUFG, SMBC, Kasikornbank, J Power)

Objective: Meetings were held with Asian financial institutions and coal-exposed power companies in collaboration with investors in the Asia Transition Platform. Meetings with banks focused on strategies to anticipate regulatory developments, mitigate risks to capital and capitalise on investment opportunities. Engagement with J-Power followed up on LAPFF's voting recommendation for the 2022 AGM, advising support for a resolution requesting carbon emission reduction targets aligned with the goals of the Paris Agreement.

Achieved: Engagement with MUFG sought to elicit further details on the company's proposed transition plan. LAPFF executive member, Cllr Wilf Flyn, pressed particularly on ostensible support for ammonia co-firing in the power industry, given that it delays transition

Workers ride a ferry truck as they go to a factory in the morning in Yangon, Myanmar

COLLABORATIVE ENGAGEMENT

Metal manufacturing and recycling

to renewables and may not provide much benefit due to marginal emission reductions and high costs relative to renewables.

At SMBC, progress was recognised since the last meeting, with the bank setting absolute reduction targets for the oil, gas and coal sectors. It appeared that targets for investment and underwriting were still under development.

A discussion with the President of Kasikornbank, Khun Krit Jitjang, focused on how to work with client companies and bring industry along, noting work undertaken with members of the Thai bankers' association. It appears that there is now no financing for new coal plants or expansion of existing ones.

A meeting with J-Power's Executive Vice President and Director, Hitoshi Canno, covered the company's target to achieve net zero for all operations. Critical points of discussion included a stable supply of electricity for the Japanese domestic market, and a roadmap on these issues.

In Progress: LAPFF intends to continue challenging J-Power's strategy to invest in carbon capture and co-firing, with the associated risk of being 'locked-in' to coal fired plants. Regular meetings continue with Asia Research and Engagement to determine company-specific coverage for 2023, including Chinese-listed companies.

CA100+ ENGAGEMENTS

Lyondell Bassell

Objective: LAPFF sought an update on the multinational chemical company's decarbonisation strategy, subsequent to Peter Vanacker having taken over as CEO in May.

Achieved: With the arrival of the new CEO, it appears that much work has been put into an overall review of company strategy, with low-carbon initiatives poised to be a major part of company growth going forward. The meeting provided initial feedback on progress against the CA100+ benchmark results, set out investor expectations on lobbying and explored policy challenges facing the company and where there might be areas for collaboration. Company representatives noted that engagement with the investor group has helped to promote this low-carbon focus.

In Progress: On Lyondell Bassell's lobbying activities, the company discloses the trade associations it is part of but little else. It is hoped that more company policies will be disclosed by next March when the full revised company business strategy is due to be announced.

ArcelorMittal

Objectives: LAPFF has undertaken a number of engagements with ArcelorMittal and wished to determine progress in implementing zero-carbon technologies, as well as press for shareholders to be able to endorse company initiatives through a 'Say on Climate' resolution at the AGM.

Achieved: ArcelorMittal has joined the Energy Transition Commission (a LAPFF request from 2019) and referred to the

COLLABORATIVE ENGAGEMENT

Mission Possible Partnership's 'net zero steel' report which shows two thirds of the US$5 trillion required to decarbonise the global steel industry is in enabling infrastructure for green hydrogen and renewable electricity. There was a discussion about the Science-Based Targets initiative to develop appropriate methodology for the steel sector. This approach differentiates between primary and secondary steelmaking. The latter is based on recycling scrap steel and accounts for about one-third of production. It is hoped that ArcelorMittal will issue its next climate report after the AGM so it appears there is no plan for a 'transition plan' resolution for the 2023 AGM.

In Progress: The company appears to have made progress in decarbonising primary steelmaking. The Inflation Reduction Act is spurring similar initiatives in the US. In Europe however, the pace of change appears to be slower.

National Grid

Objective: A meeting with National Grid representatives sought to ascertain why the company is not aiming to align with proposed ambitious US state policy for the decarbonisation of heat, and to follow-up on requests around policy disclosure.

Achieved: In the meeting, as ever, the divergence between the US and UK businesses was apparent. The north eastern US states where National Grid operates have set policies for 100% electrification of households in the decarbonisation of heat by 2050. It appears that the company wishes to keep the benefit of existing gas infrastructure. Cllr Chapman attended the meeting and highlighted comments made by the company, which LAPFF shares, that there is no long-term future in gas and that the future is in electrification.

In Progress: Engagement continues to identify and unlock potential policy barriers for National Grid's decarbonisation strategy. LAPFF and other CA100+ investors are interested in partnering with the company in calling for the necessary policies that can unlock the barriers to fast and decisive climate action.

Sarasin – Paris-aligned accounts

Objective: In conjunction with Sarasin, LAPFF co-signed correspondence to the audit committee chairs of Equinor, CRH, Air Liquide and Rio Tinto setting out investor expectations on 1.5°C aligned accounting and audit disclosures.

Achieved: This was a follow up to previous correspondence with the committee chairs, who were also provided with Carbon Tracker's assessment of the company's 2021 audited accounts. In all four cases, there has been evidence of progress. The most substantive was Equinor's accounts where there were additional notes to the accounts and a 1.5°C sensitivity analysis for Property, Plants and Equipment. This led to the identification of a potential impairment of $11.4 billion, equivalent to just under 30% of reported 2021 equity.

In Progress: Correspondence with all four companies recognised inherent uncertainties in the transition to net zero, and responses were welcomed with a meeting offered to discuss the requests made.

Investor Alliance for Human Rights (IAHR) – The Home Depot

Objective: LAPFF joined the Investor Alliance for Human Rights (IAHR) Uyghur Working Group earlier in 2022 as part of a collaborative effort in engaging companies with alleged Uyghur forced labour in their supply chains. Through this group,

LAPFF has taken the lead on The Home Depot, a company with alleged links to forced labour in its polyvinyl chloride (PVC) supply chain noted in the 'Built on Repression' report produced by Sheffield Hallam University.

Achieved: LAPFF met with The Home Depot in December after an initial letter was sent with multiple expectations. These expectations included asking the company to complete a mapping of its value chain both inside and outside of China. The objective of this mapping is to identify both direct and indirect business relationships that are connected to the East Turkestan/Xinjiang region. Other questions were raised around the company's audit programme, including issues with undertaking thorough audits in Xinjiang.

In Progress: LAPFF is continuing to participate in the IAHR's Uyghur working group and will look to follow up with The Home Depot in 2023 to ask further questions about the company's audit programme and mapping process.

Principles for Responsible Investment (PRI) – Advance Human Rights Initiative

Over the course of the year, the PRI has been developing its Advance initiative for investors to promote corporate respect for human rights. The programme was launched at the annual PRI in Person conference this quarter. LAPFF has been assigned to investor groups engaging with Anglo American and Vale. Planning for these group engagements is already under way and will complement LAPFF's own work on human rights, as well as its collaborations through IAHR.

Investor Alliance for Human Rights (IAHR) – Investor Statement on the Corporate Sustainability Due Diligence Directive

The PRI, Eurosif, and IAHR drafted an investor statement in relation to proposed changes to the EU's Corporate Sustainability Due Diligence Directive (CSDDD). The statement proposed five improvements, all of which align with LAPFF positions on human rights, corporate governance, supply chain, and climate. These proposed improvements

COLLABORATIVE/POLICY ENGAGEMENT

are aimed at greater inclusion of financial companies and value chains, strengthening board responsibility for human rights and environmental due diligence (including through executive remuneration), and ensuring alignment with other corporate sustainability legislation within the EU. LAPFF signed onto this statement along with other investors.

SHARE – Amazon Sign-On Letter
Canadian investor body, SHARE, circulated a sign-on letter to Amazon for investors to support. The letter followed a shareholder proposal at the company's AGM asking the Board of Directors to produce a report analysing how Amazon's current human rights policies and practices protect the rightful application of the fundamental rights of freedom of association and collective bargaining. The letter requested that the Board conduct an independent third-party assessment of Amazon's commitment, policies, practices on freedom of association to identify, address and prevent any misalignments with the ILO Declaration on Fundamental Principles and Rights at Work and the UN Guiding Principles on Business and Human Rights. LAPFF joined other investors in signing onto this letter.

POLICY ENGAGEMENT

All-Party Parliamentary Group for Local Authority Pension Funds

Objective: LAPFF supports the All-Party Parliamentary Group (APPG) for Local Authority Pension Funds, established to discuss the issues and concerns of local authority pension funds. The APPG hosted a meeting in October to discuss the issue of levelling up. Part of the government's levelling up agenda has been to encourage and support private investment into local areas. The levelling up white paper also highlighted the role that local authority pension funds could play and called for LGPS funds to invest 5% locally. Through this white paper, the UK Infrastructure Bank has been tasked with engaging LGPS funds on supporting local growth. The meeting provided an opportunity to discuss barriers facing funds to reaching a local investment target as well as the potential opportunities.

Achieved: At the meeting chaired by Clive Betts MP, Lord Jim O'Neill, Vice-Chair of the Northern Powerhouse Partnership, set out the role investment could play in supporting local growth and how some LGPS funds had backed Northern Gritstone, which is financing companies being spun out of northern universities. Kate McGavin, Policy and Strategy Director at the UK Infrastructure Bank, focused on risk appetite, green infrastructure opportunities and investment some local authority pension funds had already made. The meeting provided an opportunity to hear about what funds were doing and their focus on their fiduciary duties and securing returns.

In Progress: The APPG for Local Authority Pension Funds will continue to discuss relevant policy issues facing the LGPS.

Party Political Conferences

Objective: LAPFF supports fringe events at political party conferences; they are an effective way to raise issues that LAPFF has been involved in with national politicians and among stakeholders. This year the focus of the meetings was on investing in a just transition, following the launch of the report into the issue by the LAPFF-supported APPG on Local Authority Pension Funds. The meetings provided the opportunity for LAPFF to highlight the work of the Forum on the just transition and take part in a discussion about the respective roles of government and investors.

Achieved: LAPFF held meetings at Labour, Conservative and SNP conferences, with the Liberal Democrat conference being cancelled due to the Queen's funeral. At the meetings, LAPFF highlighted why ensuring a just transition was important for investors, including reducing the risks of political resistance to climate action. LAPFF set out how it seeks to reduce risks for members by engaging companies on ESG issues and showcased the engagement work that it has undertaken on a just transition. LAPFF Executive representatives were able to discuss the issues with politicians from the respective parties and answer questions from the audience about the work of LAPFF.

In Progress: LAPFF will continue to be involved in discussions with national politicians given the importance legislation and regulation plays in shaping the environment in which LAPFF members operate.

Government Taskforce on Social Factors

Objective: Since it was founded over 30 years ago, LAPFF has been engaging on social issues and highlighting the importance of social factors to investment value. Despite the importance of social risks to responsible investors, it has often not had as much attention as governance and environmental risks. LAPFF has sought to change this situation, including among policymakers by engaging them through events and responding to consultations. In June last year LAPFF responded to the Department for Work and Pensions' call for evidence on consideration of social risks and opportunities by occupational pension schemes. As part of the Government's response, it decided to establish a Taskforce on Social Factors and LAPFF was invited to be a member.

Achieved: The establishment of the taskforce is to be welcomed and hopefully marks greater emphasis on the social risks that LAPFF engages on, including around human rights and employment standards. It is testament to the work of LAPFF and its members on social issues that it has been invited to take part in the taskforce and shows the importance of engagement with policymakers.

In Progress: The taskforce is running for a year with the expectation that it will culminate in a final report with recommendations.

ENGAGEMENT

CONSULTATION RESPONSES

LGPS Climate Governance and Reporting

In September, the Department for Levelling Up, Housing and Communities issued a consultation on governance and reporting of climate change risks for LGPS funds. The proposals within the consultation would broadly align LGPS funds with the Task Force on Climate-Related Financial Disclosures (TCFD) requirements introduced for DWP regulated funds. LAPFF responded to the consultation welcoming the move and noting LAPFF's long support for TCFD reporting. The response, based on LAPFF's policies and its Climate Change Investment Policy Framework, set out the Forum's positions on alignment with a 1.5°C scenario, the importance of a just transition, and called for further consultation on any guidance to funds that might be issued.

CA100+ Benchmark

LAPFF's response to proposed amendments for the CA100+ benchmark provided input to several proposed amendments. For example, LAPFF supported a new indicator on climate solutions where the proposed definition was for technologies, infrastructure or other activities "which help displace fossil fuels". Areas of concern included a new indicator citing 2050, which current indicators do not. LAPFF considers a 2050 focus to be unhelpful, as recent IPCC reports show the global carbon budget for remaining within 1.5°C is very likely to be used up well before then.

WEBINARS

IndustriALL Social Protection Webinar

IndustriALL and LAPFF joined forces to co-host a second webinar on the need for universal social protection. This webinar focused specifically on an ILO employee injury protection pilot project in Bangladesh. Representatives from brands H&M and Associated British Foods spoke about the reason that their companies see the need for this type of social protection. The Rana Plaza factory collapse in Bangladesh was cited as a catalyst for understanding why social protection is so important, but more brand support is needed (although there are fears of freeriding). It is hoped the pilot leads to long-term, permanent, systemic solutions. You can find a film with worker testimonials here and a brief from IndustriALL here.

MEDIA COVERAGE

Environment

ESG Investor: Firms Looking for the Right Lever to Lead on Net Zero

Mining and Human Rights:

ESG Investor: "Work Still to Do" on Brazilian Tailings Dams
Sydney Morning Herald: BHP investors dial up scrutiny of fatal dam disaster remediation and in the Age
Instit Invest: Un fonds de pension britannique mène son engagement actionnarial sur le terrain
Responsible Investor: Investor pressure builds over human rights in mining
Conectas: Tragedy in Mariana: With no agreement with affected people, companies are under pressure from international investors [in Portuguese]
BN Americas: Horizonte Minerals awards feasibility study contract for Brazil nickel-cobalt project

Health

City Wire: Firms with €5.7tn in total assets join new health coalition
ESG Investor: Investors Unite on Public Health
The Actuary: Investor alliance launched to support "healthier and fairer" societies
Ethical Marketing News: Global investor alliance managing $5.7 trillion unites to improve population health
IPE: Group of investors form health alliance

Due Diligence

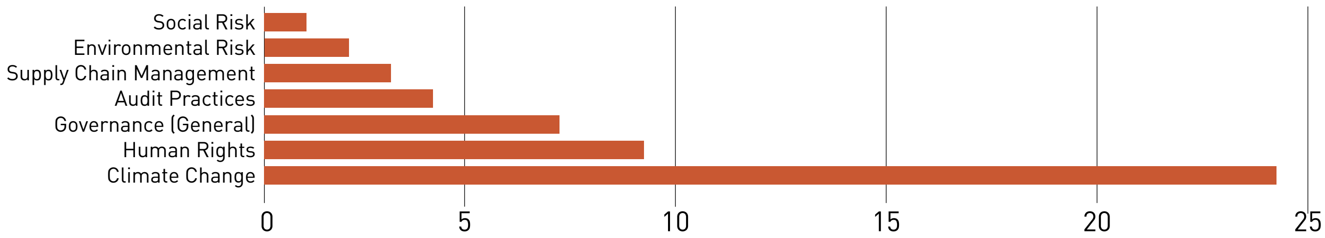
Responsible Investor: Alarm sounded over push for exclusion of FIs from EU due diligence directive

CHAIR'S QUOTE

"The LAPFF Conference this year showcased the breadth of LAPFF's work and the range of its network and partnerships. All of these endeavours and partnerships are aimed at informing our members in the best possible way so that they can make good, responsible investment decisions."

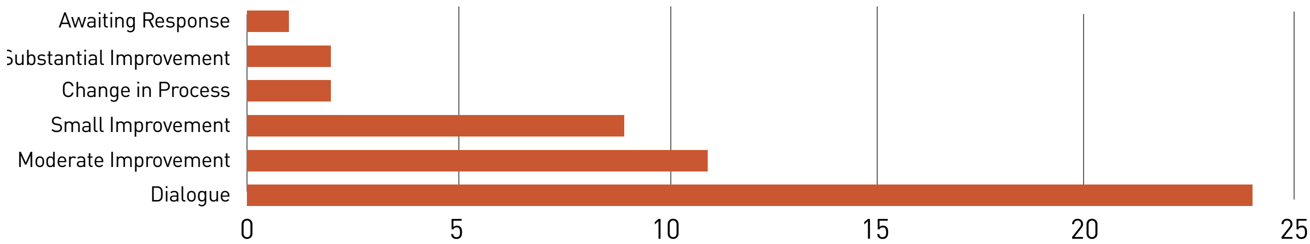
ENGAGEMENT DATA

ENGAGEMENT TOPICS

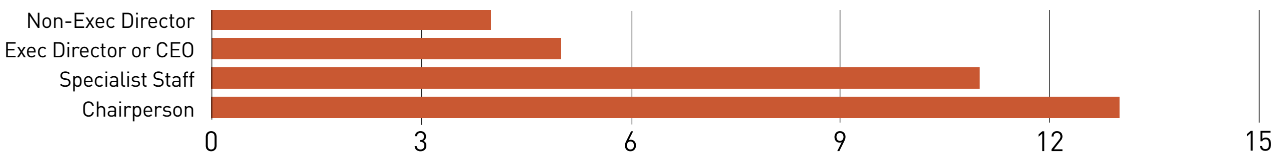


ACTIVITY

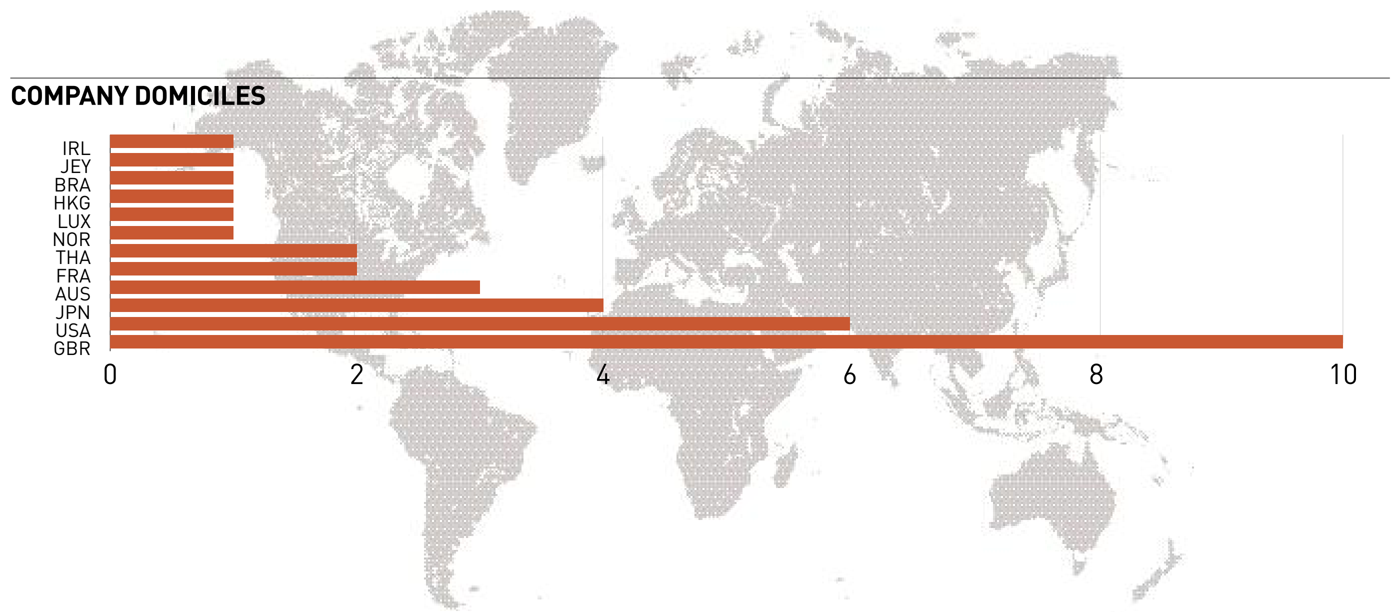
MEETING ENGAGEMENT OUTCOMES



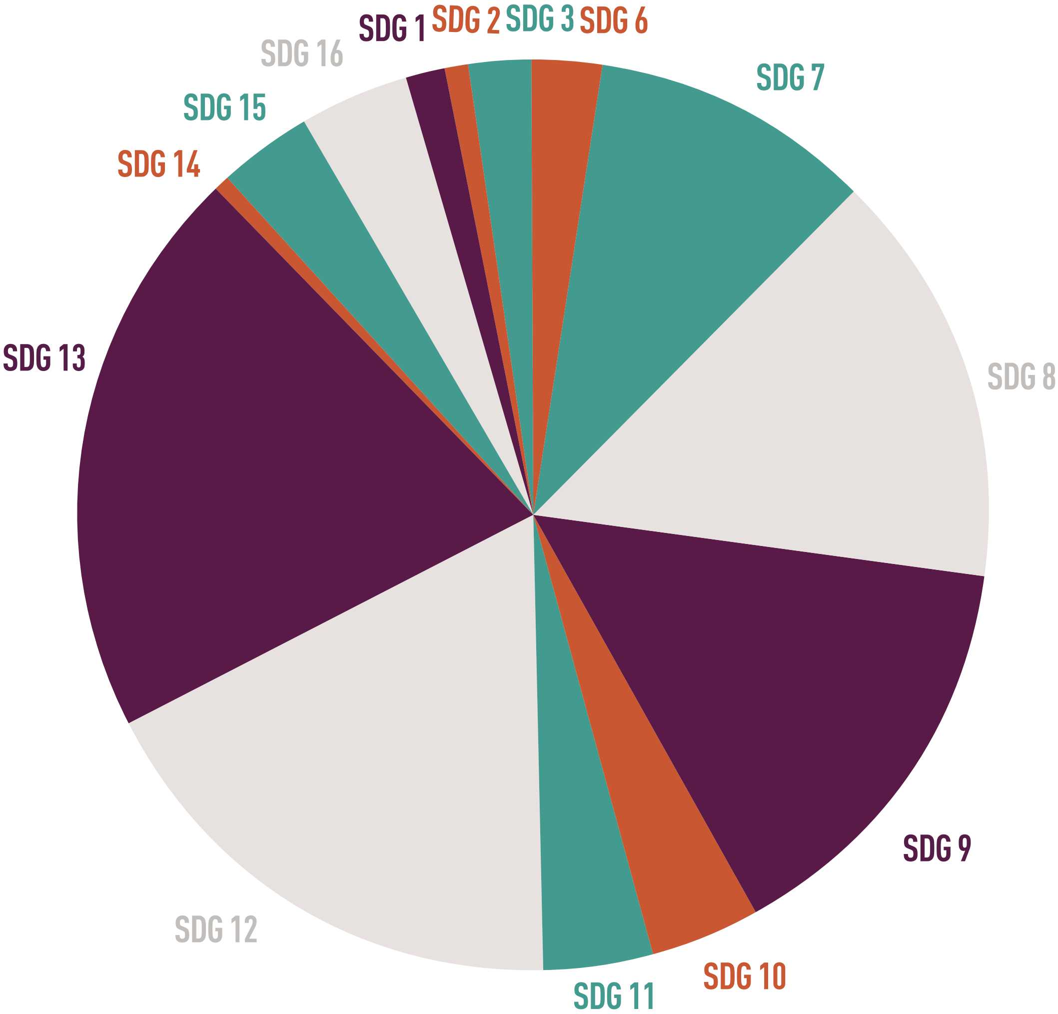
POSITION ENGAGED



COMPANY DOMICILES



ENGAGEMENT DATA



LAPFF SDG ENGAGEMENTS	
SDG 1: No Poverty	2
SDG 2: Zero Hunger	1
SDG 3: Good Health and Well-Being	3
SDG 4: Quality Education	0
SDG 5: Gender Equality	0
SDG 6: Clean Water and Sanitation	3
SDG 7: Affordable and Clean Energy	13
SDG 8: Decent Work and Economic Growth	19
SDG 9: Industry, Innovation, and Infrastructure	19
SDG 10: Reduced Inequalities	5
SDG 11: Sustainable Cities and Communities	5
SDG12: Responsible Production and Consumption	23
SDG 13: Climate Action	26
SDG 14: Life Below Water	1
SDG 15: Life on Land	4
SDG 16: Peace, Justice, and Strong Institutions	5
SDG 17: Strengthen the Means of Implementation and Revitalise the Global Partnership for Sustainable Development	0

COMPANY PROGRESS REPORT

26 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
AIA GROUP LTD	Sent Correspondence	Climate Change	Awaiting Response
AIR LIQUIDE SA	Sent Correspondence	Climate Change	Moderate Improvement
ANGLO AMERICAN PLC	Meeting	Human Rights	Dialogue
ARCELORMITTAL SA	Meeting	Climate Change	Moderate Improvement
BHP GROUP LIMITED (AUS)	Meeting	Governance (General)	Dialogue
BHP GROUP LIMITED (AUS)	Alert Issued	Governance (General)	Dialogue
CHIPOTLE MEXICAN GRILL INC	Meeting	Environmental Risk	Moderate Improvement
CRH PLC	Sent Correspondence	Climate Change	Moderate Improvement
DRAX GROUP PLC	Meeting	Climate Change	Dialogue
ELECTRIC POWER DEVELOPMENT CO	Meeting	Climate Change	Small Improvement
EQUINOR ASA	Sent Correspondence	Climate Change	Substantial Improvement
GLENCORE PLC	Meeting	Governance (General)	Change in Process
KASIKORNBANK PCL	Meeting	Climate Change	Moderate Improvement
KELLOGG COMPANY	Sent Correspondence	Social Risk	Dialogue
KLA CORPORATION	Alert Issued	Environmental Risk	Dialogue
LYONDELLBASELL INDUSTRIES N.V.	Meeting	Climate Change	Small Improvement
MITSUBISHI UFJ FINANCIAL GRP	Meeting	Climate Change	Small Improvement
NATIONAL GRID PLC	Meeting	Climate Change	Change in Process
RENAULT SA	Meeting	Supply Chain Management	Small Improvement
RIO TINTO GROUP (AUS)	Meeting	Governance (General)	Dialogue
RIO TINTO PLC	Sent Correspondence	Climate Change	Moderate Improvement
ROLLS-ROYCE HOLDINGS PLC	Meeting	Climate Change	Moderate Improvement
SUMITOMO MITSUI FINANCIAL GROUP	Meeting	Climate Change	Moderate Improvement
TESCO PLC	Meeting	Human Rights	Small Improvement
THE HOME DEPOT INC	Meeting	Human Rights	Small Improvement
VALE SA	Meeting	Governance (General)	Dialogue

LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

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

Pool Company Members

Border to Coast Pensions Partnership
LGPS Central
Local Pensions Partnership
London CIV
Northern LGPS
Wales Pension Partnership

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RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

MUNICIPAL YEAR 2022-23

PENSION FUND COMMITTEE

27TH MARCH 2023

REPORT OF: THE DEPUTY CHIEF EXECUTIVE AND GROUP DIRECTOR - FINANCE, DIGITAL AND FRONTLINE SERVICES

AGENDA ITEM NO. 8
PENSION FUND RISK REGISTER – RISK REGISTER OVERVIEW

Author – Barrie Davies, Deputy Chief Executive and Group Director – Finance, Digital and Frontline 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 Deputy Chief Executive and Group Director – Finance, Digital and Frontline 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 Members will note that two new risks have been incorporated within the Register with accompanying control measures:

- Within the ‘Investments’ Risk Category – the risk of failure to adequately take into account climate change, climate risk and ESG factors resulting in the financial loss; and

- Within the ‘Operational’ risk category – the risk of inability to comply with Pension Dashboard Staging Dates and Duties.

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

4.6 The updated Risk Register, dated March 2023, 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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<u>Summary of Pension Fund Risks</u>

<u>Introduction</u>
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						
	5					1
	4					
	3			1	2	
	2	1	1	3	8	5
	1		3	3	7	5
		1	2	3	4	5
				Impact		

1	High Risk
16	Medium Risk
23	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 March 2023 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 remedies of the McCloud case and ensuring appropriate provision is made against the Fund's liabilities.	
	Sub-optimal asset allocation throughout the portfolio.	**4**	**2**	**8**	MR	• The investment strategy is reviewed and adopted by the Pension Fund Committee. • Regular review of the asset allocation strategy by the Committee (with advice from the Advisory Panel), covering both the fund strategy and the asset allocation. • Post 2022 valuation review to commence.	
	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.	Given inflationary increases and fund valuations, update cashflow positions

	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 Geo-political instability.	**5**	**5**	**25**	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 diseases.	
	Failure to adequately take into account climate change, climate risk and ESG factors resulting in the financial loss.	**3**	**2**	**6**	LR	• The Fund's Responsible Investment Policy is contained within the Investment Strategy Statement and available on the Pension Fund web-site. • Appointment of a voting engagement provider to monitor fund managers voting and engagement held outside the WPP. • Appointment of a proxy voting engagement provider by the WPP, who engages with managers and companies on climate change, climate risk and ESG factors. • Panel engages and challenges fund managers on how they account for ESG factors. • Participation in training and development when available.	New risk
	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. • Monitor individual fund managers performance and address where necessary by closer monitoring and scrutiny	
	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 Europlan Shareholder II system. • Investment management fees are monitored on a quarterly basis. • Investment malpractices are reported to the FCA.	
	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.	
	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 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. • External 'Operator' appointed by WPP. • 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. • Scheme Member Representative co-opted as a non voting member of the JGC meetings, feeding back to Pension Board Chairs	Uncertainty on the change of ownership of the WPP 'Operator'
	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 (now Department for Levelling Up, Housing and Communities) guidance. • Benchmark against regulator on code of practice. • Submit Annual Pension Scheme Regulator Return on time. • Good governance review currently being considered by MHCLG (now Department for Levelling Up, Housing and Communities). • Participation on consultation papers.	
	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 Skills 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 both directly and through the WPP. • 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 https://www.rctpensions.org.uk/EN/GovernanceAndInvestment/Investments.aspx • The Pension Fund's passive equities are invested in a low carbon product. • External Audit and Governance and Audit Committee.	Amended to reflect the training provided by the WPP

	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 & Democratic 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 on a hybrid basis in line with the needs of the service. • Training and retaining of specialists in a challenging recruitment market.	
	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.	
	Inability to implement the 'McCloud' remedies within expected timelines	**5**	**2**	**10**	MR	• Project Team established. • Investment in team resources. • Data retrospection solutions discussed and agreed through the Fund's Employer Comms Forum. • Monitor and contribute to remedy draft regulations when available. • Early engagement with Pensions Software Supplier. • Sharing best practice through the various LGPS forums.	

	Inability to comply with Pension Dashboard Staging Dates and Duties	**4**	**1**	**4**	LR	• Connection deadline for public service schemes is September 2024 – Government announced in March 2023 that it intends to legislate to amend the staging timetable. No revised timescales published to date. • Updates from industry bodies regarding staging deadlines and requirements reviewed. • Existing software provider, Heywood, to be used as Integrated Service Provider (ISP). • Data cleansing exercises ahead of staging date. • Resource to be allocated and processes to be implemented to deal with member queries arising from use of dashboards. • Regular progress updates are provided to the Fund's governance groups.	New Risk
	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.	
	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. • Employer Engagement : Year End Data Schedules Issued / Timetable / Support. • Project Terms of Reference / Timetable agreed with Actuary. • Initial assumption agreed with Actuary. • Data submitted as per agreed timeline.	
	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 'Breaches Policy'.	This risk and control will be updated in April 2023, to reflect the 2022 Rates and Adjustments Certificate
	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.	

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RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

MUNICIPAL YEAR 2022-23

PENSION FUND COMMITTEE 27TH MARCH 2023 REPORT OF: THE DEPUTY CHIEF EXECUTIVE AND GROUP DIRECTOR - FINANCE, DIGITAL AND FRONTLINE SERVICES	AGENDA ITEM NO. 9 WALES PENSION PARTNERSHIP - UPDATE

Author – Barrie Davies, Deputy Chief Executive and Group Director - Finance, Digital and Frontline 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 latest meeting of the JGC took place on the 5th December 2022. The agenda can be accessed here, which was shared with all Committee (and board) members before the meeting.

3.4 At the March 2023 meeting the following annual policies and papers will be reviewed:

- Business Plan 2023-2026.
- Training Plan 2023/24.
- Stock Lending report.
- Policy Review of Governance matrix.
- Operator update.
- Performance reports as at 31st December 2022.
- ESG and Climate Risk reports.

Next Steps / Priorities:

- Development of the Private Markets Sub-Funds.
  - Launch of Private Debt and Infrastructure sub funds.
  - Launch of the Private equity sub fund.
  - Formulate the WPP's Property requirements.
- Launch of the Sustainable Equity Fund.
- Operator contract procurement process.
  - The existing contract comes to an end in December 2024.
  - The procurement process is ongoing.
  - The prior information notice was issued 17th January 2023.
  - A market engagement day took place on the 9th March 2023.
  - A report is scheduled to be presented to the JGC to approve the operator appointment March 2024.
  - Each individual Pension Committee will need to approve the appointment March / April 2024.
- A public announcement on the planned sale of Link Fund Solutions was received 20th February 2023. Link Group is in exclusive negotiation with the Waystone Group in respect of the sale of the whole of its Fund Solutions business.
- Task Force on Climate-Related Financial Disclosures (TCFD) reporting.

Other Key areas:

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

4.0 <u>CONCLUSION</u>

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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