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TUESDAY, 25 FEBRUARY 2020

TO: ALL MEMBERS OF THE DYFED PENSION FUND COMMITTEE

I HEREBY SUMMON YOU TO ATTEND A MEETING OF THE **DYFED PENSION FUND COMMITTEE** WHICH WILL BE HELD IN THE **DEMOCRATIC SERVICES COMMITTEE ROOM, COUNTY HALL, CARMARTHEN, SA31 1JP AT 10.00 AM, ON MONDAY, 2ND MARCH, 2020** FOR THE TRANSACTION OF THE BUSINESS OUTLINED ON THE ATTACHED AGENDA

Wendy Walters

CHIEF EXECUTIVE



PLEASE RECYCLE

Democratic Officer:	Kevin Thomas
Telephone (direct line):	01267 224027
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Wendy Walters Prif Weithredwr, *Chief Executive*,
Neuadd y Sir, Caerfyrddin. SA31 1JP
County Hall, Carmarthen. SA31 1JP

**DYFED PENSION FUND COMMITTEE
3 MEMBERS**

PLAID CYMRU GROUP (1)

1 Councillor Elwyn Williams (Chair)

LABOUR GROUP (1)

1 Councillor Deryk Cundy

INDEPENDENT GROUP (1)

1 Councillor Jim Jones

NOMINATED SUBSTITUTE (1)

Councillor Dai Thomas

AGENDA

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THE REPORTS RELATING TO THE FOLLOWING ITEMS ARE NOT FOR PUBLICATION AS THEY CONTAIN EXEMPT INFORMATION AS DEFINED IN PARAGRAPH 14 OF PART 4 OF SCHEDULE 12A TO THE LOCAL GOVERNMENT ACT 1972 AS AMENDED BY THE LOCAL GOVERNMENT (ACCESS TO INFORMATION) (VARIATION) (WALES) ORDER 2007. IF, FOLLOWING THE APPLICATION OF THE PUBLIC INTEREST TEST, THE COMMITTEE RESOLVES PURSUANT TO THE ACT TO CONSIDER THESE ITEMS IN PRIVATE, THE PUBLIC WILL BE EXCLUDED FROM THE MEETING DURING SUCH CONSIDERATION.
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DYFED PENSION FUND COMMITTEE

Thursday, 28 November 2019

PRESENT: Councillor D.E. Williams (Chair)

Councillors:

T.J. Jones and D. Thomas (Substitute Member)

The following Officers were in attendance:

C. Moore, Director of Corporate Services

R. Hemingway, Head of Financial Services

K. Gerard, Pensions Manager

A. Parnell, Treasury and Pension Investments Manager

B. Owen, Pension Investments Officer

J. Laimann, Democratic Services Officer

Y Crochan, Theatr y Ffwrnes, Llanelli, 11.40 am - 12.10 pm

1. APOLOGIES FOR ABSENCE

[Note: In order for the Committee to be quorate, the start time of the meeting was postponed at the Chair's request.]

Apologies for absence were received from Councillor Rob Evans.

2. DECLARATIONS OF PERSONAL INTERESTS

Councillor	Nature of Interest
D.E. Williams	Member of the Dyfed Pension Fund
T.J. Jones	Member of the Dyfed Pension Fund
D. Thomas	Member of the Dyfed Pension Fund

3. MINUTES OF THE MEETING OF THE COMMITTEE HELD ON 18 SEPTEMBER 2019

RESOLVED that the minutes of the meeting of the Committee held on 18 September 2019 be signed as a correct record.

4. BUDGET MONITORING 1 APRIL - 30 SEPTEMBER 2019

The Committee received the Dyfed Pension Fund Budget Monitoring report which provided an update on the latest budgetary position in respect of the 2019/20 financial year. It was noted that the current position, as at 30 September 2019, forecast an under-spend of £0.2m in cash terms. With regard to expenditure, the net effect of benefits payable and transfers out represented a £1,148k over-spend mainly influenced by a higher than anticipated pension increase due to deferred pensioner lump sum payments. Management expenses were overspent by £2,253k. With regard to income, the net effect of contributions, investment income and transfers in represented an increase of £3.6m. Overall, total fund expenditure was forecast to be £91.2m and total income £91.4m representing a positive cash flow position of £0.2m.

RESOLVED that the Dyfed Pension Fund Monitoring Report be received.

5. CASH RECONCILIATION AS AT 30 SEPTEMBER 2019

The Committee considered the Cash Reconciliation report which provided an update on the cash position in respect of the Dyfed Pension Fund. It was noted that, as at 30 September 2019, £7.3m cash was being held by Carmarthenshire County Council on behalf of the Fund for immediate cash flow requirements to pay pensions, lump sums and investment management costs.

The Committee was advised that the current figure was partly driven by the fact that Pembrokeshire County Council was paying employer contributions for the whole year in advance and Carmarthenshire County Council was paying them every six months in advance. The figure was therefore expected to decrease over the following months.

RESOLVED that the Dyfed Pension Fund Cash Reconciliation report be received.

6. BREACHES REPORT

The Committee received for consideration the Breaches Report in relation to the Dyfed Pension Fund. The Committee noted that Section 70 of the Pension Act 2004 sets out the legal duty to report breaches of the law. In the Code of Practice No. 14, published by the Pensions Regulator in April 2015, paragraphs 241 to 275 provide guidance on reporting these breaches. The Dyfed Pension Fund Breaches Policy was approved by the Dyfed Pension Fund Panel in March 2016. Under the policy, breaches of the law were required to be reported to the Pensions Regulator where there was a reasonable cause to believe that:

- a legal duty which is relevant to the administration of the scheme has not been, or is not being, complied with;
- the failure to comply was likely to be of material significance to the Regulator in the exercise of any of its functions.

The Committee noted that since the last meeting there had been a number of instances where employee/employer contributions had not been received on time. However, all contribution payments were now up to date or expected to be received shortly and no report had been sent to the Pensions Regulator. The Committee also noted that the automatic payment of refunds had been included on the breaches register.

RESOLVED that the Breaches Report in relation to the Dyfed Pension Fund be noted.

7. WALES PENSION PARTNERSHIP LINK AND RUSSELL UPDATE

The Committee received an update report by Link and Russell on the Wales Pension Partnership (WPP), including current fund holdings, fund launch progress and the Link/WPP Engagement Protocol.

In response to a query on service delivery, the Committee was advised that Link's service delivery had improved after recent discussions with them but was still not to the required standard. Service delivery was monitored through six-monthly review meetings in order to ensure compliance with the operator agreement. Representatives from the WPP participant funds attended these meetings.

RESOLVED that the Wales Pension Partnership Link and Russell Update be received.

8. WALES PENSION PARTNERSHIP HOST AUTHORITY UPDATE

The Treasury & Pension Investments Manager provided the Committee with an update on the milestones and progress of the Wales Pension Partnership. Key areas for information included WPP governance workshops, the launch of an online reporting portal for constituent authorities, the appointment of Hymans as Fixed Income Transition Management Oversight Advisor, the launch of the WPP website, the development of a communications and training plan and the submission of an MHCLG progress update. The Committee was advised that the report was appended with the WPP workplan, which would be reviewed on a quarterly basis.

RESOLVED that the Wales Pension Partnership Host Authority Update be received.

9. EXCLUSION OF THE PUBLIC

RESOLVED, pursuant to the Local Government Act 1972, as amended by the Local Government (Access to Information) (Variation) (Wales) Order 2007, that the public be excluded from the meeting during consideration of the following items as the reports contained exempt information as defined in paragraph 14 of Part 4 of Schedule 12A to the Act.

10. INDEPENDENT ADVISOR PERFORMANCE AND RISK REPORT TO 30 SEPTEMBER 2019

Following the application of the public interest test it was UNANIMOUSLY RESOLVED, pursuant to the Act referred to in Minute Item 9 above, to consider this matter in private, with the public excluded from the meeting as disclosure would be likely to cause financial harm to the Pension Fund.

The Committee received the Independent Investment Adviser Report which provided information in relation to the investment managers' performance for the quarterly, 12 month and rolling 3 year periods ending 30 September 2019.

RESOLVED that the Independent Investment Adviser Report as at 30 September 2019 be noted.

11. NORTHERN TRUST PERFORMANCE REPORT 30 SEPTEMBER 2019

Following the application of the public interest test it was UNANIMOUSLY RESOLVED, pursuant to the Act referred to in Minute Item 9 above, to consider this matter in private, with the public excluded from the meeting as disclosure would be likely to cause financial harm to the Pension Fund.

The Committee considered the Northern Trust Performance report for the Dyfed Pension Fund as at 30 September 2019, which provided performance analysis at a total fund level and by investment manager for the periods up to inception.

RESOLVED that the Northern Trust Performance report for the Dyfed Pension Fund as at 30 September 2019 be received.

CHAIR

DATE

DYFED PENSION FUND COMMITTEE Date 02/03/2020

2019-2020 Audit Plan

To provide the Dyfed Pension Fund Committee with the 2019-2020 Audit Plan

Recommendations / key decisions required:

The Committee to approve the 2019-2020 Audit Plan.

Reasons:

To provide the Dyfed Pension Fund Committee with the 2019-2020 Audit Plan.

Relevant scrutiny committee to be consulted

NA

Exec Board Decision Required NA

Council Decision Required NA

Directorate: Corporate Services

Chris Moore

Report Author: Chris Moore

Designation: Director of
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Carmarthenshire County
Council

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**EXECUTIVE SUMMARY
DYFED PENSION FUND COMMITTEE
DATE 02/03/2020**

2019-2020 Audit Plan

The Wales Audit Office (WAO) to present the 2019-20 Audit Plan to the Dyfed Pension Fund Committee. The purpose of this plan is to set out the proposed scope of the plan, when it will be undertaken, how much it will cost and who will undertake it.

The WAO responsibility is to issue a report on the accounting statements which includes an opinion on their 'truth and fairness'. This provides assurance that the accounts:

- are free from material misstatement, whether caused by fraud or error
- comply with statutory and other applicable requirements and
- comply with all relevant requirements for accounting presentation and disclosure.

DETAILED REPORT ATTACHED ?

YES

IMPLICATIONS

I confirm that other than those implications which have been agreed with the appropriate Directors / Heads of Service and are referred to in detail below, there are no other implications associated with this report :

Signed: **C Moore**

Director of Corporate Services

Policy, Crime & Disorder and Equalities	Legal	Finance	ICT	Risk Management Issues	Staffing Implications	Physical Assets
NONE	NONE	NONE	NONE	NONE	NONE	NONE

CONSULTATIONS

I confirm that the appropriate consultations have taken in place and the outcomes are as detailed below

Signed: **C Moore**

Director of Corporate Services

1. Scrutiny Committee

NA

2. Local Member(s)

NA

3. Community / Town Council

NA

4. Relevant Partners

NA

5. Staff Side Representatives and other Organisations

NA

Section 100D Local Government Act, 1972 – Access to Information

List of Background Papers used in the preparation of this report:

THERE ARE NONE

Title of Document	File Ref No.	Locations that the papers are available for public inspection



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

2020 Audit Plan – Dyfed Pension Fund

Audit year: 2019-20

Date issued: February 2020

Document reference: 1744A2020-21

This document has been prepared as part of work performed/to be performed in accordance with statutory functions. Further information on this is provided in Appendix 1.

No responsibility is taken by the Auditor General, the staff of the Wales Audit Office or auditors acting on behalf of the Auditor General in relation to any member, director, officer or other employee in their individual capacity, or to any third party.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000. The section 45 Code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor General for Wales, the Wales Audit Office and, where applicable, the appointed auditor are relevant third parties.

Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at infoofficer@audit.wales.

We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

Mae'r ddogfen hon hefyd ar gael yn Gymraeg. This document is also available in Welsh.

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2020 Audit Plan

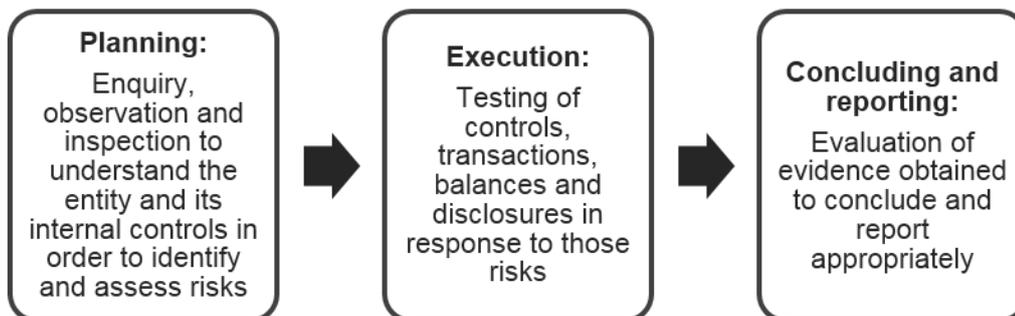
Summary

- 1 As your external auditor, my objective is to carry out an audit which discharges my statutory duties as Auditor General and fulfils my obligations under the Code of Audit Practice to examine and certify whether Dyfed Pension Fund's (the Pension Fund) accounting statements are 'true and fair'.
- 2 The purpose of this plan is to set out my proposed work, when it will be undertaken, how much it will cost and who will undertake it.
- 3 There have been no limitations imposed on me in planning the scope of this audit.
- 4 My responsibilities, along with those of management and those charged with governance, are set out in [Appendix 1](#).

Audit of Pension Fund accounts

- 5 The audit work I undertake to fulfil my responsibilities responds to my assessment of risks. This understanding allows us to develop an audit approach which focuses on addressing specific risks whilst providing assurance for the Pension Fund accounts as a whole. My audit approach consists of three phases as set out in [Exhibit 1](#).

Exhibit 1: my audit approach



- 6 The risks of material misstatement which I consider to be significant and which therefore require special audit consideration, are set out in **Exhibit 2** along with the work I intend to undertake to address them. Also included are other key areas of audit attention my team will be focusing on.

Exhibit 2: financial audit risks

Financial audit risks	Proposed audit response
Significant risks	
<p>Management Override</p> <p>The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk [ISA 240.31-33].</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> • test the appropriateness of journal entries and other adjustments made in preparing the financial statements; • review accounting estimates for biases; and • evaluate the rationale for any significant transactions outside the normal course of business.
Other areas of audit attention	
<p>Triennial Valuation</p> <p>The Pension Fund is currently finalising the valuation as at 31 March 2019 with the Actuary. There is a risk that the outcome of the valuation is not adequately disclosed in the financial statements.</p>	<p>My audit team will review the triennial valuation report and ensure that the outcomes have been adequately disclosed in the financial statements.</p>
<p>McCloud Judgement</p> <p>In 2015 the Government introduced reforms to public sector pensions, meaning most public sector workers were moved into new pension schemes.</p> <p>In December 2018, the Court of Appeal ruled that the ‘transitional protection’ offered to some members of the judges’ and firefighters’ schemes, as part of the reforms, amounted to unlawful discrimination. On 15 July 2019 the Government announced that they accept that the judgment applies to all of the main public service pension schemes.</p> <p>The impact of the judgement is likely to have a significant impact on the IAS19 liabilities and there is a risk that this is not adequately disclosed in the financial statements.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> • review the provision made by the actuary in relation to the McCloud judgement and monitor progress on the development of proposals for a remedy to be applied in the Local Government Pension Scheme; and • ensure that this is adequately disclosed in the financial statements.

Financial audit risks	Proposed audit response
<p>Guaranteed Minimum Pension (GMP)</p> <p>GMPs were the minimum pensions employers had to provide when they opted their employees out of the State Earnings Related Pensions Scheme (SERPS) between 1978 and 1997, usually through a defined benefit scheme.</p> <p>GMPs were calculated by reference to state pension age which used to be 60 for women and 65 for men. That made pension payments unequal and contravened the 1990 Barbour judgement.</p> <p>The 2018 Lloyds Banking Group judgement has provided clarification on whether and how GMPs should be equalised and creates an obligation to equalise GMPs dating back to 1990.</p> <p>No allowances have previously been made for GMPs in pension liability calculations as HM Treasury made an announcement in 2019 that public service schemes already had a method in place to achieve equalisation. However, further guidance is anticipated in the coming months, including relating to the calculation of indexation/pension increases on GMPs.</p> <p>There is a risk that appropriate allowances are not made in 2019-20 pension liability calculations for the impact of GMPs.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> • review any provision made by the actuary relating to the outstanding GMP issues and monitor progress on the development of guidance and clarification of the potential impact; and • ensure that this is adequately disclosed in the financial statements.

- 7 I do not seek to obtain absolute assurance that the Pension Fund accounting statements are true and fair but adopt a concept of materiality. My aim is to identify material misstatements, that is, those that might result in a reader of the accounts being misled. The levels at which I judge such misstatements to be material will be reported to the Pension Committee and the Audit Committee as those charged with governance for Carmarthenshire County Council (the Council), as the administering authority of the Pension Fund as a whole, prior to completion of the audit.
- 8 For reporting purposes, I will treat any misstatements below a trivial level (set at 5% of materiality) as not requiring consideration by those charged with governance and therefore I will not report them.

- 9 My fees and planned timescales for completion of the audit are based on the following assumptions:
- the financial statements are provided in accordance with the agreed timescales, to the quality expected and have been subject to a robust quality assurance review;
 - information provided to support the financial statements is in accordance with the agreed audit deliverables document¹;
 - appropriate accommodation and facilities are provided to enable my audit team to deliver my audit in an efficient manner;
 - all appropriate officials will be available during the audit;
 - you have all the necessary controls and checks in place to enable the Responsible Financial Officer to provide all the assurances that I require in the Letter of Representation addressed to me;
 - Internal Audit's planned programme of work is complete, and management has responded to issues that may have affected the financial statements; and
 - controls assurance reports are received from fund managers in accordance with agreed timescales and action has been taken to address any controls weaknesses.

Statutory audit functions

- 10 In addition to the audit of the accounts, I have statutory responsibilities to receive questions and objections to the accounts from local electors. These responsibilities are set out in the Public Audit (Wales) Act 2004:
- Section 30 Inspection of documents and questions at audit; and
 - Section 31 Right to make objections at audit.
- 11 Audit fees will be chargeable for work undertaken in dealing with electors' questions and objections. Because audit work will depend upon the number and nature of any questions and objections, it is not possible to estimate an audit fee for this work.
- 12 If I do receive questions or objections, I will discuss potential audit fees at the time.

¹ The agreed audit deliverables document sets out the expected working paper requirements to support the financial statements and include timescales and responsibilities.

Fee, audit team and timetable

Fee

- 13 Your estimated fee for 2020 is set out in [Exhibit 3](#). There have been some changes to my fee rate structure for 2020, however my audit teams will continue to drive efficiency in their audits to ensure any resulting increases will not be passed onto you.

Exhibit 3: audit fee

	Proposed fee for 2020 (£) ²	Actual fee for 2019 (£)
Audit of pension fund accounts	£28,247	£28,294

- 14 The fee for the financial audit is driven by the skill mix required to deliver the work, together with the daily charge rate for each grade of staff member. We estimate that a total of 60 days will be required to complete the audit.
- 15 Planning will be ongoing, and changes to my programme of audit work and therefore my fee, may be required if any key new risks emerge. I shall make no changes without first discussing them with the Director of Corporate Services.
- 16 Further information on my [fee scales and fee setting](#) can be found on our website.

Audit team

- 17 The main members of my team, together with their contact details, are summarised in [Exhibit 4](#).

Exhibit 4: my audit team

Name	Role	Contact number	E-mail address
Ann-Marie Harkin	Engagement Lead	02920 320562	ann-marie.harkin@audit.wales
Jason Garcia	Audit Manager	07854 022649	jason.garcia@audit.wales
Kate Havard	Audit Lead	07813 449396	kate.havard@audit.wales

- 18 I can confirm that my team members are all independent of the Pension Fund and its officers. In addition, I am not aware of any potential conflicts of interest that I need to bring to your attention.

² The fees shown in this document are exclusive of VAT, which is not charged to you.

Staff secondment

- 19 A trainee accountant employed by the Wales Audit Office was seconded to the Council for the period November 2018 to June 2019. This secondment is part of an initiative funded by the Welsh Consolidated Fund designed to allow trainee accountants to broaden their skills and to gain experience of working across different parts of the Welsh public sector.
- 20 In order to safeguard against any potential threats to auditor independence and objectivity, the following restrictions applied in line with the FRC's Revised Ethical Standard 2019:
- the secondee did not undertake any line management or management responsibilities; and
 - the secondment was for a maximum of six-months

Timetable

- 21 I will provide reports, or other outputs as agreed, to the Pension Committee and the Council's Audit Committee, covering the areas of work identified in this document. My key milestones are set out in [Exhibit 5](#).

Exhibit 5: timetable

Planned output	Work undertaken	Report finalised
2020 Audit Plan	January – February 2020	February 2020
Financial accounts work: <ul style="list-style-type: none">• Audit of Financial Statements Report• Opinion on Financial Statements	March – July 2020	September 2020
2021 Audit Plan	November – December 2020	February 2021

Future developments to my audit work

- 22 Details of other future developments including the Wales Audit Office's Good Practice Exchange (GPX) seminars and my planned work on the readiness of the Welsh public sector for Brexit are set out in [Appendix 2](#).

Appendix 1

Respective responsibilities

The Council is the administering authority of the Pension Fund. This Audit Plan has been prepared to meet the requirements of auditing standards and proper audit practices. It provides the Council with an outline of the financial audit work required for the Pension Fund accounts.

As amended by the Public Audit (Wales) Act 2013, the Public Audit (Wales) Act 2004 sets out my powers and duties to undertake your financial audit. It is my responsibility to issue a certificate and report on the Pension Fund accounting statements which includes an opinion on their 'truth and fairness', providing assurance that they:

- are free from material misstatement, whether caused by fraud or error;
- comply with the statutory and other applicable requirements; and
- comply with all relevant requirements for accounting presentation and disclosure.

My audit work does not relieve management and those charged with governance of their responsibilities which include:

- the preparation of the financial statements and Annual Report in accordance with applicable accounting standards and guidance;
- the keeping of proper accounting records;
- ensuring the regularity of financial transactions; and
- securing value for money in the use of resources.

Management agrees to provide me with:

- access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- additional information that I may request from management for the purpose of the audit; and
- unrestricted access to persons within the authority from whom I determine it necessary to obtain audit evidence.

Management will need to provide me with written representations to confirm:

- that it has fulfilled its responsibilities for the preparation of the financial statements;
- that all transactions have been recorded and are reflected in the financial statements;
- the completeness of the information provided to me for the purposes of the audit; and
- to support other audit evidence relevant to the financial statements or specific assertions in the financial statements if I deem it necessary or if required by ISAs.

Appendix 2

Other future developments

A. Good Practice Exchange

The Wales Audit Office's GPX helps public services improve by sharing knowledge and practices that work. Events are held where knowledge can be exchanged face to face and resources shared online. The main areas of work are regarding financial management, public-sector staff and governance. Further information, including details of forthcoming GPX events and outputs from past seminars can be found on the [GPX section of the Wales Audit Office website](#).

B. Brexit: preparations for the United Kingdom's departure from membership of the European Union

The Auditor General has reported on preparations in Wales for a 'no-deal Brexit', publishing a report in February 2019 and a follow-up letter to the External Affairs and Additional Legislation Committee in September 2019. At the time of reporting, there was a possibility that the UK would leave the EU without a Withdrawal Agreement in place (the no-deal scenario), which would potentially have had significant consequences for Welsh public services and the wider economy and society.

Following the general election, the United Kingdom left membership of the European Union on 31 January 2020 under the terms of the Withdrawal Agreement concluded between the EU and UK in October 2019. The next phase will involve negotiating and agreeing the future relationship between the UK and EU.

There will be a transition period to 31 December 2020, during which the UK will continue to participate in EU programmes and follow EU regulations. The Withdrawal Agreement provides for the transition period to be extended by up to two years, with the agreement of the UK and EU. The deadline for agreeing to extend the transition period is 30 June 2020. The UK Government has said that it does not intend to extend the transition period.

Despite there being an agreement on the terms of withdrawal, there remain some significant uncertainties:

- Given the very tight timetable for reaching agreement, there is a possibility of the UK leaving the transition period at the end of 2020 without an agreement about the future relationship in place. In this scenario many of the issues previously identified around a 'no-deal Brexit', such as disruption to supply chains, would arise again.
- The UK Government's position of seeking a future relationship based on a free trade agreement (rather than a closer relationship aligned to the single market) has implications that are not yet clear but which create opportunities and risks for Wales' economy, society and environment.

- There are also significant unresolved constitutional questions around how powers in areas where devolved governments were directly applying EU law, such as regional development and agriculture, will be exercised across the UK after the transition period.

In light of these uncertainties, the Auditor General will continue to keep a watching brief over developments and will make a decision later in the year as to what, if any, further work is required to look at public bodies' preparations for either a new relationship or a no-trade deal exit from the transition period.

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DYFED PENSION FUND COMMITTEE

Date 02/03/2020

Budget Monitoring 1 April 2019 – 31 December 2019

To provide the Dyfed Pension Fund Committee with an update on the latest budgetary position as at 31 December 2019

Recommendations / key decisions required:

The Committee to receive the latest Dyfed Pension Fund Budget Monitoring report and consider the budgetary position.

Reasons:

To provide the Dyfed Pension Fund Committee with an update on the latest budgetary position as at 31 December 2019.

Relevant scrutiny committee to be consulted

NA

Exec Board Decision Required NA

Council Decision Required NA

Directorate: Corporate Services

Chris Moore

Report Author: Chris Moore

Designation: Director of
Corporate Services,
Carmarthenshire County
Council

Tel Nos. 01267 224120

E Mail Addresses:
CMoore@carmarthenshire.
gov.uk

**EXECUTIVE SUMMARY
DYFED PENSION FUND COMMITTEE
DATE 02/03/2020**

BUDGET MONITORING 1 APRIL 2019 - 31 DECEMBER 2019

The position as at 31 December 2019 was an under spend compared to budget of £0.2m on cash items.

Expenditure

The net effect of Benefits Payable and Transfers Out is an overspend of £1,590k. This is mainly due to deferred pensioner lump sum payments which has resulted in a higher than anticipated pension increase. Management expenses are anticipated to be £2,326k more than budgeted.

Income

The net effect of Contributions, Investment Income and Transfers In is an increase of £4.9m. This is mainly due to a decrease in Investment Income of £0.6m, an increase in Transfers In of £3.7m together with an increase in contributions of £1.8m.

Total expenditure is estimated at £92.4m and total income estimated at £92.6m resulting in a positive cash flow position of £0.2m.

DETAILED REPORT ATTACHED ?

YES

IMPLICATIONS

I confirm that other than those implications which have been agreed with the appropriate Directors / Heads of Service and are referred to in detail below, there are no other implications associated with this report :

Signed: **C Moore**

Director of Corporate Services

Policy, Crime & Disorder and Equalities	Legal	Finance	ICT	Risk Management Issues	Staffing Implications	Physical Assets
NONE	NONE	YES	NONE	NONE	NONE	NONE

Finance

Overall, the Fund needs to maintain a positive cash flow balance to meet its obligations. The cash flow was positive by £0.2m as at 31 December 2019.

CONSULTATIONS

I confirm that the appropriate consultations have taken in place and the outcomes are as detailed below

Signed: C Moore

Director of Corporate Services

1. Scrutiny Committee

NA

2. Local Member(s)

NA

3. Community / Town Council

NA

4. Relevant Partners

NA

5. Staff Side Representatives and other Organisations

NA

Section 100D Local Government Act, 1972 – Access to Information

List of Background Papers used in the preparation of this report:

THERE ARE NONE

Title of Document	File Ref No.	Locations that the papers are available for public inspection

Dyfed Pension Fund									
Budget Monitoring									
1st April 2019 - 31st December 2019									
	Budget Type	Actual 2018-2019	Budget 2019-2020	Total income/ expenditure to date	Forecast Commitments	Forecast outturn	End of year variance		Assumptions/Comments
	Controllable / Non Controllable	£ '000 (a)	£ '000 (b)	£ '000 (c)	£ '000 (d)	£ '000 (e)	£ '000 (f)	%	
Expenditure									
Benefits Payable	Both	78,924	79,521	61,900	19,211	81,111	1,590	2.0	Higher than estimated pension increases relating to deferred pensioner lump sums
Pensions Payable	Controllable	64,128	66,021	50,669	16,942	67,611	1,590		
Commutation and lump sum retirement benefits	Non Controllable	12,873	12,000	9,944	2,056	12,000	0		
Lump sum death benefits	Non Controllable	1,923	1,500	1,287	213	1,500	0		
Payments to and account of leavers	Non Controllable	3,853	2,620	2,809	515	3,324	704	26.9	Pension Transfers higher than originally anticipated
Management Expenses		6,992	5,610	4,236	3,700	7,936	2,326	41.5	
Computer Software	Controllable	364	355	42	313	355	0		
Printing charges	Controllable	11	20	10	10	20	0		
Subscriptions, Legal fees, Conf Exps, Med Exps	Controllable	70	68	56	14	70	2		
Fund Managers									
BlackRock	Controllable	1,561	1,265	703	1,039	1,742	477		Increased market value, corporate bonds not being pooled until April 2020.
Baillie Gifford	Controllable	997	0	0	0	0	0		Pooled in February 2019
Columbia Threadneedle	Controllable	771	0	0	0	0	0		Pooled in February 2019
Schroders	Controllable	679	849	381	469	850	1		
Wales Pension Partnership	Controllable	476	750	1,248	1,345	2,593	1,843		Increase in market value and full year effect of global equity investments.
Partners Group	Controllable	811	910	381	400	781	-129		No new investments in this financial year to date
Custodian									
Northern Trust	Controllable	29	30	8	23	31	1		
Actuary									
Mercer	Controllable	78	70	165	40	205	135		Additional expenditure re: McCloud judgement and 3 year Actuarial valuation.
Performance Manager									
Northern Trust / PIRC / CEM	Controllable	38	26	-3	26	23	-3		Slight underspend due to lower fees than anticipated.
Independent Advisor									
	Controllable	20	20	10	10	20	0		
Other									
Euraplan, LSE, Pension Board	Controllable	21	23	26	-3	23	0		
Central recharges	Non Controllable	1,038	1,195	1,195	0	1,195	0		
Audit fees	Controllable	28	29	14	14	28	-1		
Controllable Expenditure		70,082	70,436	53,710	20,642	74,352	3,916		
Non Controllable Expenditure		19,687	17,315	15,235	2,784	18,019	704		
Total Expenditure		89,769	87,751	68,945	23,426	92,371	4,620		
Income									
Contributions									
Employer	Controllable	-51,360	-52,755	-36,305	-17,571	-53,876	-1,121	2.1	Increased Pensionable Pay.
Member	Controllable	-18,986	-19,363	-5,769	-14,260	-20,029	-666	3.4	Increased member purchase of annuity (pension) from their AVC when matured than originally budgeted.
Investment Income	Controllable	-13,375	-14,133	-10,709	-2,807	-13,516	617	-4.4	Includes Schroders and Black Rock SAIF. Partners Group and WPP dividend income reinvested.
Other Income	Controllable	-32	0	-4	4	0	0	0.0	
Transfers in from other pension funds	Non Controllable	-6,651	-1,500	-4,574	-600	-5,174	-3,674	244.9	Pension Transfers higher than originally anticipated
Controllable Income		-83,753	-86,251	-52,787	-34,634	-87,421	-1,170		
Non Controllable Income		-6,651	-1,500	-4,574	-600	-5,174	-3,674		
Total Income		-90,404	-87,751	-57,361	-35,234	-92,595	-4,844		
Controllable Total		-13,671	-15,815	923	-13,992	-13,069	2,746		
Non Controllable Total		13,036	15,815	10,661	2,184	12,845	-2,970		
Total		-635	0	11,584	-11,808	-224	-224		
Cash Transfer to Fund Managers	Cash	0	0	0	0	0	0		
Net Total of Cash Related Items		-635	0	11,584	-11,808	-224	-224		
Indirect Transactional Management Fees	Non Cash	4,079	1,900	0	2,840	2,840	940	49.5	CIPFA Management cost guidance issued to show indirect transactional fees indirectly paid by the funds
Investment Income	Non Cash	-4,079	-1,900	0	-2,840	-2,840	-940	49.5	Contra entry to the Indirect transactional fees
Realised gain/loss	Non Cash	-168,686	-50,000	-29,886	-21,347	-51,233	-1,233	2.5	Non Controllable. To cover portfolio rebalances. No impact to cash.
Net Total of Non-Cash Related Items		-168,686	-50,000	-29,886	-21,347	-51,233	-1,233		

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DYFED PENSION FUND COMMITTEE Date 02/03/2020

Dyfed Pension Fund Budget 2020-2021

To provide the Dyfed Pension Fund Committee with the Budget for 2020-2021

Recommendations / key decisions required:

The Committee to approve the budget for 2020-2021.

Reasons:

To provide the Dyfed Pension Fund Committee with the Budget for 2020-2021.

Relevant scrutiny committee to be consulted

NA

Exec Board Decision Required NA

Council Decision Required NA

Directorate: Corporate Services

Chris Moore

Report Author: Chris Moore

Designation: Director of Corporate Services, Carmarthenshire County Council

Tel Nos. 01267 224120

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CMoore@carmarthenshire.gov.uk

**EXECUTIVE SUMMARY
DYFED PENSION FUND COMMITTEE
DATE 02/03/2020**

Dyfed Pension Fund Budget 2020-2021

The cash related expenditure budget for 2020-2021 is £96.2m and the cash related income budget for 2020-2021 is £96.2m. This results in a NET budget of £0. This provides the Fund with flexibility to utilise investment income based on cash flow requirements.

Expenditure:

Benefits payable is estimated at £85.1m which includes 1.7% pensions increase based on September 2019 CPI and 3% net effect for new pensioner members.

Management expenses is estimated at £8.5m. Of this total, £6.6m is budgeted for investment manager fees.

Income:

Contributions is estimated at £80.9m. Employer contributions £59.8m and Employees contributions £21.1m. The contribution rates used are based on the 2019 valuation. 2.75% was factored in for pay increases with a further 2% for pay increments in 2020-2021.

Investment income is estimated at £14m to maintain a cash neutral budget so that the fund is not holding onto surplus cash that can be invested.

The non-cash related budget is £50m. This is an estimate for the realised gains and losses for individual manager portfolio rebalances and sales and purchases within the property portfolios.

DETAILED REPORT ATTACHED ?

YES

IMPLICATIONS

I confirm that other than those implications which have been agreed with the appropriate Directors / Heads of Service and are referred to in detail below, there are no other implications associated with this report :

Signed: **C Moore**

Director of Corporate Services

Policy, Crime & Disorder and Equalities	Legal	Finance	ICT	Risk Management Issues	Staffing Implications	Physical Assets
NONE	NONE	YES	NONE	NONE	NONE	NONE

Finance

The report provides an initial view of the Budget for 2020-2021 with contribution rates for the major employers revised following the recent triennial valuation exercise. Overall, the Fund needs to maintain a neutral budget so that there is sufficient income to meet its obligations. An estimated £96.2m income budget is a significant figure to achieve this.

CONSULTATIONS

I confirm that the appropriate consultations have taken in place and the outcomes are as detailed below

Signed: C Moore

Director of Corporate Services

1. Scrutiny Committee

NA

2. Local Member(s)

NA

3. Community / Town Council

NA

4. Relevant Partners

NA

5. Staff Side Representatives and other Organisations

NA

Section 100D Local Government Act, 1972 – Access to Information

List of Background Papers used in the preparation of this report:

THERE ARE NONE

Title of Document	File Ref No.	Locations that the papers are available for public inspection

Dyfed Pension Fund

Budget

1st April 2020 - 31st March 2021

	Forecast outturn 2019-2020	Budget 2019-2020	Budget 2020-2021	Assumptions/Comments
	£ '000 (a)	£ '000 (b)	£ '000 (e)	
Expenditure				
Benefits Payable	81,111	79,521	85,073	Budget includes 1.7% pensions increase (based on Sept 19 CPI) and 3% increase in pensioners.
Pensions Payable	67,611	66,021	71,573	
Commutation and lump sum retirement benefits	12,000	12,000	12,000	Budget based on likely outturn for 19-20.
Lump sum death benefits	1,500	1,500	1,500	Budget based on likely outturn for 19-20.
Payments to and account of leavers	3,324	2,620	2,620	Budget based on 19-20 budget.
Management Expenses	7,936	5,610	8,549	
Computer Software	355	355	361	Budget based on likely outturn for 19-20 plus an increase for I-Connect.
Printing charges	20	20	20	Budget based on likely outturn for 19-20.
Subscriptions, Legal fees, Conf Exps, Med Exps	70	68	70	Budget based on likely outturn for 19-20.
Fund Managers				
BlackRock	1,742	1,265	1,443	Budget based on likely outturn for 19-20 with approximate 5% market value increase and redn in assets due to pooling.
Schroders	850	849	882	Budget based on likely outturn for 19-20 with approximate 5% market value increase .
Wales Pension Partnership	2,593	750	3,510	Budget based on likely outturn for 19-20 plus and increase due to the Corporate Bonds being pooled in 20-21.
Partners Group	781	910	806	Budget based on likely outturn for 19-20 with approximate 5% market value increase.
Custodian				
Northern Trust	31	30	31	Budget based on likely outturn for 19-20.
Actuary				
Mercer	205	70	100	Budget based on likely outturn for 19-20 excluding the triennial valuation fees. Tender due 20-21.
Performance Manager				
Northern Trust / PIRC / CEM	23	26	26	Budget based on 19-20 plus inflation
Independent Advisor				
New tender	20	20	30	Budget based on new contract price including expenses
Other				
Euraplan, LSE, Pension Board	23	23	23	Budget based on 19-20
Central recharges	1,195	1,195	1,219	Increased by 2% inflation
Audit fees	28	29	28	Budget based on likely outturn for 19-20
Controllable Expenditure	74,352	70,436	78,903	
Non Controllable Expenditure	18,019	17,315	17,339	
Total Expenditure	92,371	87,751	96,242	
Income				
Contributions				
Employer	-53,876	-52,755	-59,800	Budget based on December 19 contributions including 2.75% pay increase and an additional 2% for increments. Contribution rates and past service deficit amounts as per valuation results.
Member	-20,029	-19,363	-21,148	Budget based on December 19 contributions including 2.75% pay increase and an additional 2% for increments. Contribution rates and past service deficit amounts as per valuation results.
Investment Income	-13,516	-14,133	-13,794	Investment income will be called upon as per cash flow requirements. £14 million cash required to breakeven.
Transfers in from other pension funds	-5,174	-1,500	-1,500	Budget based on 19-20 budget.
Controllable Income	-87,421	-86,251	-94,742	
Non Controllable Income	-5,174	-1,500	-1,500	
Total Income	-92,595	-87,751	-96,242	
Controllable Total	-13,069	-15,815	-15,839	
Non Controllable Total	12,845	15,815	15,839	
Total	-224	0	0	Net budget Zero. Income can be managed to suit cashflow requirements.
Cash Transfer to Fund Managers	0	0	0	
Net Total of Cash Related Items	-224	0	0	
Indirect Transactional Management Fees	2,840	1,900	2,840	CIPFA Management cost guidance issued to show indirect transactional fees indirectly paid by the funds
Investment Income	-2,840	-1,900	-2,840	Contra entry to the Indirect transactional fees
Realised gain/loss	-51,233	-50,000	-50,000	Non Controllable. To cover portfolio rebalances. No impact to cash.
Net Total of Non-Cash Related Items	-51,233	-50,000	-50,000	

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DYFED PENSION FUND COMMITTEE

Date 02/03/2020

Cash Reconciliation as at 31 December 2019

To provide the Dyfed Pension Fund Committee with an update on the cash position as at 31 December 2019

Recommendations / key decisions required:

The Committee to receive the latest Dyfed Pension Fund cash reconciliation report and consider the cash position.

Reasons:

To provide the Dyfed Pension Fund Committee with an update on the cash position as at 31 December 2019.

Relevant scrutiny committee to be consulted

NA

Exec Board Decision Required NA

Council Decision Required NA

Directorate:Corporate Services

Chris Moore

Report Author:

Chris Moore

Designation: Director of
Corporate Services,
Carmarthenshire County
Council

Tel Nos. 01267 224120

E Mail Addresses:
CMoore@carmarthenshire.
gov.uk

**EXECUTIVE SUMMARY
DYFED PENSION FUND COMMITTEE
DATE 02/03/2020**

CASH RECONCILIATION AS AT 31 DECEMBER 2019

The position as at 31 December 2019 reports £17.7m cash held by Carmarthenshire County Council on behalf of the Fund for immediate cash flow requirements to pay pensions, lump sums and investment management costs.

DETAILED REPORT ATTACHED ?

YES

IMPLICATIONS

I confirm that other than those implications which have been agreed with the appropriate Directors / Heads of Service and are referred to in detail below, there are no other implications associated with this report :

Signed: **C Moore**

Director of Corporate Services

Policy, Crime & Disorder and Equalities	Legal	Finance	ICT	Risk Management Issues	Staffing Implications	Physical Assets
NONE	NONE	YES	NONE	NONE	NONE	NONE

Finance

A sufficient cash balance is required to be held by Carmarthenshire to ensure the Fund can meet its immediate cash flow requirements.

CONSULTATIONS

I confirm that the appropriate consultations have taken in place and the outcomes are as detailed below

Signed: C Moore

Director of Corporate Services

1. Scrutiny Committee

NA

2. Local Member(s)

NA

3. Community / Town Council

NA

4. Relevant Partners

NA

5. Staff Side Representatives and other Organisations

NA

Section 100D Local Government Act, 1972 – Access to Information

List of Background Papers used in the preparation of this report:

THERE ARE NONE

Title of Document	File Ref No.	Locations that the papers are available for public inspection

Dyfed Pension Fund Cash Reconciliation

December 2019

Balance b/f 1st April 2019		£10,838,139.38
<i>Investment trades</i>		
Sales	85,173,715.92	
Purchases	-85,524,153.84	
		<hr/>
		-£350,437.92
Contributions received	£65,936,550.32	
Payments made	-£69,622,327.11	
Dividend Income	£10,676,448.88	£6,990,672.09
		<hr/>
		£17,478,373.55
Total Available for Investment		<hr/> £17,478,373.55 <hr/>
<i>Represented by :</i>		
Cash at Carmarthenshire		£17,691,273.13
Cash due to be received/deducted		£0.00
CCC Debtors		£383,324.43
CCC Creditors		-£596,224.01
		<hr/>
		£17,478,373.55 <hr/>
		£0.00

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DYFED PENSION FUND COMMITTEE

Date 02/03/2020

Breaches Report 2019-2020

In accordance with the Dyfed Pension Fund Breaches Policy to note any breaches that have occurred in 2019-2020

Recommendations / key decisions required:

To note any breaches that have occurred in the Dyfed Pension Fund in 2019-2020.

Reasons:

In accordance with the Dyfed Pension Fund Breaches Policy.

Relevant scrutiny committee to be consulted

NA

Exec Board Decision Required NA

Council Decision Required NA

Directorate: Corporate Services

Chris Moore

Report Author: Chris Moore

Designation: Director of Corporate Services, Carmarthenshire County Council

Tel Nos. 01267 224120

E Mail Addresses:
CMoore@carmarthenshire.gov.uk

**EXECUTIVE SUMMARY
DYFED PENSION FUND COMMITTEE
DATE 02/03/2020**

BREACHES REPORT 2019-2020

Introduction

Section 70 of the Pension Act 2004 sets out the legal duty to report breaches of the law. In the Code of Practice no 14, published by the Pensions Regulator in April 2015, paragraphs 241 to 275 provides guidance on reporting these breaches. The Dyfed Pension Fund Breaches Policy was approved by the Dyfed Pension Fund Committee in March 2016.

Under the policy, breaches of the law are required to reported to the Pensions Regulator where there is a reasonable cause to believe that:

- a legal duty which is relevant to the administration of the scheme has not been, or is not being, complied with
- the failure to comply is likely to be of material significance to the regulator in the exercise of any of its functions.

The up to date breaches report is attached. Since the last Committee meeting, there have been a number of instances where employee/employer contributions have not been received on time, no report has been sent to the Pensions Regulator.

DETAILED REPORT ATTACHED ?

YES

IMPLICATIONS

I confirm that other than those implications which have been agreed with the appropriate Directors / Heads of Service and are referred to in detail below, there are no other implications associated with this report :

Signed: **C Moore**

Director of Corporate Services

Policy, Crime & Disorder and Equalities	Legal	Finance	ICT	Risk Management Issues	Staffing Implications	Physical Assets
NONE	NONE	NONE	NONE	NONE	NONE	NONE

CONSULTATIONS

I confirm that the appropriate consultations have taken in place and the outcomes are as detailed below

Signed: C Moore

Director of Corporate Services

1. Scrutiny Committee

NA

2. Local Member(s)

NA

3. Community / Town Council

NA

4. Relevant Partners

NA

5. Staff Side Representatives and other Organisations

NA

Section 100D Local Government Act, 1972 – Access to Information

List of Background Papers used in the preparation of this report:

THERE ARE NONE

Title of Document	File Ref No.	Locations that the papers are available for public inspection

Breaches Report

Breach Number	Year	Date of Breach / Likely Breach	Failure Type	A description of the breach (including relevant dates), its cause and effect, including the reasons it is, or is not, believed to be of material significance	Been reported to tPR before	RAG Status	Report to tPR	Actions taken to rectify the breach. A brief descriptions of any longer term implications and actions required to prevent similar types of breaches recurring in the future
62	2019-20	April, May and June 19	Automatic payment of refund after 5 years for post 2014 leavers	Members have been contacted requesting bank details in order to pay refunds, however, no reply has been received from the scheme members. April - 3 members & total refunds = £145.90, May - 5 members & total refunds = £126.58, June - 6 members and total refund = £64.55	No	Amber	No Report	The National Technical Group has recommended to the SAB that the regulations in respect of refunds is amended and reflects the position prior to April 2014.
63	2019-20	19/5/19	PSD	April (£2,475) PSD payment not received until 18/06/2019 - 27 days late. Cause: Clerk on annual leave. Effect: Payment has now been received	No	Amber	No Report	There are no long term implications associated with this breach. Contributions now up to date.
64	2019-20	22/6/19	Contributions	May contributions (£3,162.83) received 11 days late. Cause: Clerk still trying to sort out payroll software issue. Effect: Payment has now been received	No	Amber	No Report	There are no long term implications associated with this breach. Contributions now up to date.
65	2019-20	19/6/19	Contributions	May contributions (£2,410.87) received 10/07/2019 - 21 days late. Cause: Clerk was on leave and thought cheques has been sent. Effect: Payment has now been received	No	Amber	No Report	There are no long term implications associated with this breach. Contributions now up to date.
66	2019-20	19/6/19	Contributions	May contributions (£1,158.97) received 10/07/2019 - 27 days late. Cause: Clerk was on leave and thought cheques has been sent. Effect: Payment has now been received	No	Amber	No Report	There are no long term implications associated with this breach. Contributions now up to date.
67	2019-20	22/7/19	Contributions	June contributions (£3,006.61) received 3 days late. Cause: Clerk thought payment had been made as 2 submissions had been done this year but one was relating to last year. Effect: Payment has now been received	No	Amber	No Report	There are no long term implications associated with this breach. Contributions now up to date.
68	2019-20	July, August and September 19	Automatic payment of refund after 5 years for post 2014 leavers	Members have been contacted requesting bank details in order to pay refunds, however, no reply has been received from the scheme members. July - 16 members & total refunds = £431.16, August - 15 members & total refunds = £1100.86, September - 9 members and total refunds = £172.98	No	Amber	No Report	The National Technical Group has recommended to the SAB that the regulations in respect of refunds is amended and reflects the position prior to April 2014. Following from their July 19 meeting, SAB are in the process of making recommendations to MHCLG
69	2019-20	22/8/19	PSD	July 19 (£450) Past Service Deficit payment not received until 2/09/2019 - 11 days late. Cause: Finance Officer forgot to make payment. Effect: Contributions have now been received	No	Amber	No Report	There are no long term implications associated with this breach. Contributions now up to date.
70	2019-20	22/8/19	Contributions	July contributions not yet received. Cause: Clerk on compassionate leave. Effect: Contributions not yet received-payment will be made shortly	No	Amber	No Report	There are no long term implications associated with this breach. Contributions not yet received
71	2019-20	22/9/19	Contributions	August contributions not yet received. Cause: Clerk on compassionate leave. Effect: Contributions not yet received-payment will be made shortly	No	Amber	No Report	There are no long term implications associated with this breach. Contributions not yet received
72	2019-20	22/9/19	Contributions	August Contributions (£1,444.24) received 9 days late. Cause: Online banking was not properly authorised therefore payment did not leave account. Effect: payment has now been received	No	Amber	No Report	There are no long term implications associated with this breach. Contributions now up to date.
73	2019-20	22/10/19	Contributions	September contributions not yet received. Cause: Clerk on compassionate leave but has now been in contact Effect: Contributions not yet received-payment will be made shortly	No	Amber	No Report	There are no long term implications associated with this breach. Contributions not yet received
74	2019-20	22/10/19	PSD	July-September PSD payment not yet received. Accountant has advised that a new clerk has been appointed and she will liase with her to arrange payment. Effect: PSD has now been paid in full	No	Amber	No Report	There are no long term implications associated with this breach. Contributions now received

75	2019-20	1/10/19	Automatic payment of refund after 5 years for post 2014 leavers	Members have been contacted requesting bank details in order to pay refunds, however, no reply has been received from the scheme members. October - 12 members & total refunds = £907.54	No	Amber	No Report	The National Technical Group has recommended to the SAB that the regulations in respect of refunds is amended and reflects the position prior to April 2014. Following from their July 19 meeting, SAB are in the process of making recommendations to MHCLG
76	2019-20	22/11/19	Contributions	July - October contributions received 19/12/2019. Cause: Clerk on compassionate leave but has now been in contact Effect: All payments now up to date	No	Amber	No Report	There are no long term implications associated with this breach. Contributions now up to date.
77	2019-20	22/12/19	PSD	November PSD payment (£450) received 11 days late. Cause: Clerk forgot to make payment. Effect: Payment has now been received	No	Amber	No Report	There are no long term implications associated with this breach. Contributions now up to date.
78	2019-20	22/1/20	Contributions	October - December qtr contributions received 13 days late. Cause: Clerk responsible didn't receive payment information until mid January which coincided with the clerk being on annual leave. Effect: Payment has now been received	No	Amber	No Report	There are no long term implications associated with this breach. Contributions now up to date.
79	2019-20	19/1/20	Contributions	December contributions received 9 days late. Cause: Cheque posted but received late. Effect: Payment has now been received	No	Amber	No Report	There are no long term implications associated with this breach. Contributions now up to date.
80	2019-20	19/1/20	Contributions	December contributions received 9 days late. Cause: Cheque posted but received late. Effect: Payment has now been received	No	Amber	No Report	There are no long term implications associated with this breach. Contributions now up to date.
81	2019-20	November 19, December 19 and January 20	Automatic payment of refund after 5 years for post 2014 leavers	Members have been contacted requesting bank details in order to pay refunds, however, no reply has been received from the scheme members. November - 5 members & total refunds = £375.21, December - 13 members & total refunds = £491.01, January - 12 members and total refund = £718.90	No	Amber	No Report	The National Technical Group has recommended to the SAB that the regulations in respect of refunds is amended and reflects the position prior to April 2014.
82	2019-20	22/1/20	Contributions	December contributions received 1 day late. Cause: Clerk responsible for payment was on sick leave. Effect: Payment has not been received	No	Amber	No Report	There are no long term implications associated with this breach. Contributions now up to date.
83	2019-20	19/1/20	Contributions	October - December qtr contributions received 1 day late. Cause: Cheque was posted on the 14.1.20 but not received until 20.1.20. Effect: Payment has now been received	No	Amber	No Report	There are no long term implications associated with this breach. Contributions now up to date.

DYFED PENSION FUND COMMITTEE Date 02/03/2020

Risk Register 2020-2021

To ensure that all risks are correctly identified and assessed

Recommendations / key decisions required:

The Committee to approve the risk register for 2020-2021

Reasons:

To ensure all risks are correctly identified and assessed.

Relevant scrutiny committee to be consulted

NA

Exec Board Decision Required NA

Council Decision Required NA

Directorate:Corporate Services

Chris Moore

Report Author:

Chris Moore

Designation: Director of
Corporate Services,
Carmarthenshire County
Council

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CMoore@carmarthenshire.
gov.uk

**EXECUTIVE SUMMARY
DYFED PENSION FUND COMMITTEE
DATE 02/03/2020**

RISK REGISTER 2020-2021

The Risk Register is a working document that highlights all the risks identified in relation to the functions of the Dyfed Pension Fund. This is regularly monitored and reviewed.

The register includes:

- Details of all identified risks
- Assessment of the potential impact, probability and risk rating
- The risk control measures that are in place
- The responsible officer
- Target Date (if applicable)

DETAILED REPORT ATTACHED ?

YES

IMPLICATIONS

I confirm that other than those implications which have been agreed with the appropriate Directors / Heads of Service and are referred to in detail below, there are no other implications associated with this report :

Signed: **C Moore**

Director of Corporate Services

Policy, Crime & Disorder and Equalities	Legal	Finance	ICT	Risk Management Issues	Staffing Implications	Physical Assets
NONE	NONE	NONE	NONE	YES	NONE	NONE

Risk Management Issues

The register is used to identify any risks relating to the functions of the Dyfed Pension Fund and highlights what measures are in place to mitigate these risks. Failure to manage the risks correctly could result in the Fund not meeting its objectives.

CONSULTATIONS

I confirm that the appropriate consultations have taken in place and the outcomes are as detailed below

Signed: C Moore

Director of Corporate Services

1. Scrutiny Committee

NA

2. Local Member(s)

NA

3. Community / Town Council

NA

4. Relevant Partners

NA

5. Staff Side Representatives and other Organisations

NA

Section 100D Local Government Act, 1972 – Access to Information

List of Background Papers used in the preparation of this report:

THERE ARE NONE

Title of Document	File Ref No.	Locations that the papers are available for public inspection

Risk Assessment Form

Organisation/Department/Function/Project: **Dyfed Pension Fund**

Manager: **Pensions Manager and Treasury & Pensions Investments Manager**

Date: **19 February, 2020**

Risk (Threat to achievement of business objective)	Assessment of Uncontrolled Risk (Assume NO controls in place)			Risk Control Measures	Assigned To	Target Date (Priority)	Assessment of Controlled Risk (With controls in place)		
	Impact	Probability	Risk Rating				Impact	Probability	Risk Rating
CSV400001 - Failure to comply with LGPS regulations as well as other overriding regulations	Substantial 4	Unlikely 2	Medium 8	<ul style="list-style-type: none"> Altair Development Officer undertakes Altair system checks to ensure compliance with LGPS regulations Network Groups (Altair & LGPC) Communication & Training Officer Communication & Training Officer responsible for the maintenance of Online Procedure manuals, and the provision of training to all section staff and employing bodies via site visits. Continue to act as an "Early Adopter" in conjunction with the system provider to ensure system meets regulatory requirements Technical Officer ensures legislative accuracy of calculations 	Pensions Manager Pensions Manager Pensions Manager Pensions Manager		Substantial 4	Improbable 1	Low 4

Risk Assessment Form

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	Impact	Probability	Risk Rating				Impact	Probability	Risk Rating
CSV400002 - Failure to respond to major change to the LGPS following Public Sector Pension Review	Substantial 4	Possible 3	High 12	<ul style="list-style-type: none"> Participation in all high level Government discussions and consultations Ensure best practice is implemented and DPF is seen as a centre of excellence for pension administration Continue to be recognised nationally by peers as one of the leaders in pension administration and facilitate site visits Society of Welsh Treasurers review the suitability of existing and any new pension fund arrangements 	Pensions Manager and Treasury & Pensions Investments Manager Pensions Manager Pensions Manager Pensions Manager and Treasury & Pensions Investments Manager		Substantial 4	Improbable 1	Low 4

Risk Assessment Form

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	Impact	Probability	Risk Rating				Impact	Probability	Risk Rating
				<ul style="list-style-type: none"> • CIPFA Pensions Network membership • Technical Officer ensures legislative accuracy of calculations 	Pensions Manager and Treasury & Pensions Investments Manager Pensions Manager				
CSV400003 - Failure to process accurate pension benefits payments, including lump sum payments, in a timely manner	Significant 3	Unlikely 2	Medium 6	<ul style="list-style-type: none"> • Payroll deadline procedures in place • Segregation of duties and authorisation of benefits following calculation by Senior Pensions Officer • Altair Development Officer is responsible for regular system checks regarding calculations • Communication&Training Officer liaises closely with all employing authorities to ensure timely submission of information to DPF 	Pensions Manager Pensions Manager Pensions Manager Pensions Manager		Significant 3	Improbable 1	Very Low 3

Risk Assessment Form

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	Impact	Probability	Risk Rating				Impact	Probability	Risk Rating
				<ul style="list-style-type: none"> • Item in Business Continuity/Disaster Recovery Plan • Participate in National Fraud Initiative (NFI) • Life Certificates exercise carried out for all cheque payments • Undertake reviews of monthly performance to ensure service standards are maintained • IT Contingency/Resilience Plan in place 	Pensions Manager				
<p>CSV400004 - Failure to collect and account for full receipt of contributions from employers and employees on time</p> <p>Failure to collect full receipt of pension contributions from employees and employers in line with Regulation guidelines.</p> <p>Failure of employers' financial systems; absence of key staff; failure to communicate with employers</p>	Substantial 4	Possible 3	High 12	<ul style="list-style-type: none"> • Contributions monitoring procedures 	Pensions Manager and Treasury & Pensions Investments Manager		Substantial 4	Unlikely 2	Medium 8

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	Impact	Probability	Risk Rating				Impact	Probability	Risk Rating
<p>effectively; failure of key systems such as on-line banking and/or financial ledger.</p> <p>Possible adverse audit opinion; negative cash flow position; delays in producing IAS19 accounting reports; delays in closure of year end accounts; employers forced to leave the scheme.</p>				<ul style="list-style-type: none"> • Formal timescales for receipt of contributions • Budget set and monthly monitoring against the budget • Escalation of non receipt of contributions • Systems Audit undertaken by Internal Audit and External Auditors 	<p>Pensions Manager and Treasury & Pensions Investments Manager</p>				

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Organisation/Department/Function/Project: **Dyfed Pension Fund**

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Risk (Threat to achievement of business objective)	Assessment of Uncontrolled Risk (Assume NO controls in place)			Risk Control Measures	Assigned To	Target Date (Priority)	Assessment of Controlled Risk (With controls in place)		
	Impact	Probability	Risk Rating				Impact	Probability	Risk Rating
CSV400005 - Failure to keep pension records up to date and accurate	Significant 3	Possible 3	Medium 9	<ul style="list-style-type: none"> Senior Officers liaise closely with employing authorities to ensure timely and accurate submission of data to DPF i-Connect ensures that data from employers is identified by a direct transfer from payroll on a monthly basis Data accuracy checks undertaken by the pension section prior to continual validation on workflow system Data integrity validation is performed monthly by Altair Development Officer Data validation checks also undertaken by the DPF's partners (e.g.the Actuary at Valuation) Additional validation carried out through NFI Opportunity to escalate non-compliance 	Pensions Manager Pensions Manager Pensions Manager Pensions Manager Pensions Manager Pensions Manager		Significant 3	Improbable 1	Very Low 3

Risk Assessment Form

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	Impact	Probability	Risk Rating				Impact	Probability	Risk Rating
CSV400006 - Failure to hold personal data securely	Substantial 4	Unlikely 2	Medium 8	<ul style="list-style-type: none"> Business Continuity/Disaster Recovery Plan for the Authority with IT firewalls Disaster Recovery Plan for pensions system Authorised users have unique usernames and passwords must be changed every 60 days Documentation is scanned on to the pensions system and paper copies are held for a period of 3 months before shredding Compliance with the Data Protection Act 1998 Compliance with the Authority's in-house IT policies Systems and Payroll audit undertaken annually 	Pensions Manager Pensions Manager Pensions Manager Pensions Manager Pensions Manager Pensions Manager		Significant 3	Improbable 1	Very Low 3

Risk Assessment Form

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Risk (Threat to achievement of business objective)	Assessment of Uncontrolled Risk (Assume NO controls in place)			Risk Control Measures	Assigned To	Target Date (Priority)	Assessment of Controlled Risk (With controls in place)		
	Impact	Probability	Risk Rating				Impact	Probability	Risk Rating
CSV400007 - Loss of funds through fraud or misappropriation in administration related functions	Substantial 4	Unlikely 2	Medium 8	<ul style="list-style-type: none"> Internal and external audit checks performed to ensure that appropriate and effective controls are in place Segregation of duties and authorisation of benefits following calculation by Senior Pensions Officer and Pensions Officer Altair Development Officer undertakes data integrity checks Systems and Payroll audit undertaken annually 	Pensions Manager Pensions Manager Pensions Manager Pensions Manager		Moderate 2	Unlikely 2	Low 4
CSV400008 - Normal operations disrupted by uncontrollable external factors Service delivery threats from fire, bomb, extreme weather, electrical faults, sickness epidemic, etc. Insufficient daily back up, disaster recovery, and IT cover to support systems. Temporary loss of ability to provide	Substantial 4	Possible 3	High 12	<ul style="list-style-type: none"> Business Continuity/Disaster Recovery Plan for the Authority with IT firewalls Disaster Recovery Plan for pensions system with the software provider 	Pensions Manager Pensions Manager		Significant 3	Improbable 1	Very Low 3

Risk Assessment Form

Organisation/Department/Function/Project: **Dyfed Pension Fund**

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Risk (Threat to achievement of business objective)	Assessment of Uncontrolled Risk (Assume NO controls in place)			Risk Control Measures	Assigned To	Target Date (Priority)	Assessment of Controlled Risk (With controls in place)		
	Impact	Probability	Risk Rating				Impact	Probability	Risk Rating
service to stakeholders.				<ul style="list-style-type: none"> Pension Software is a hosted system provided by Aquila Heywood and is a tier 4 design data centre with ISO27001 accreditation. 	Pensions Manager				
CSV400009 - Inability to keep service going due to loss of main office, computer system, or staff	Moderate 2	Unlikely 2	Low 4	<ul style="list-style-type: none"> Business Continuity/Disaster Recovery Plan for the Authority with IT firewalls Pension Software is a hosted system provided by Aquila Heywood and is a tier 4 design data centre with ISO27001 accreditation. 	Pensions Manager Pensions Manager		Moderate 2	Improbable 1	Very Low 2
CSV400010 - Lack of expertise among some Pension Administration officers	Significant 3	Unlikely 2	Medium 6	<ul style="list-style-type: none"> Personal development plan in place to support the development of each officer in the Section Specific courses / seminars attended by officers to further their knowledge and understanding 	Pensions Manager Pensions Manager		Significant 3	Improbable 1	Very Low 3

Risk Assessment Form

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	Impact	Probability	Risk Rating				Impact	Probability	Risk Rating
<p>CSV400011 - Over reliance on key Pensions Administration and Investment Officers</p> <p>Specialist nature of the work means there are relatively few experts in Investments and the Local Authority Pensions Regulations.</p> <p>Significant knowledge gap left if experts leave.</p>	<p>Significant</p> <p>3</p>	<p>Possible</p> <p>3</p>	<p>Medium</p> <p>9</p>	<ul style="list-style-type: none"> • Key officers convey specialist knowledge to colleagues on a function or topic basis by mentoring • Enhance training by bespoke sessions / courses / workshops • Specific relevant qualifications for administration and investment staff • External consultants and independent adviser available for short term assistance 	<p>Pensions Manager and Treasury & Pensions Investments Manager</p>		<p>Significant</p> <p>3</p>	<p>Unlikely</p> <p>2</p>	<p>Medium</p> <p>6</p>

Risk Assessment Form

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Risk (Threat to achievement of business objective)	Assessment of Uncontrolled Risk (Assume NO controls in place)			Risk Control Measures	Assigned To	Target Date (Priority)	Assessment of Controlled Risk (With controls in place)		
	Impact	Probability	Risk Rating				Impact	Probability	Risk Rating
CSV400012 - Failure to appropriately attract, manage, develop, and retain staff at all levels	Substantial 4	Unlikely 2	Medium 8	<ul style="list-style-type: none"> Training and Development Plan established 	Pensions Manager		Substantial 4	Improbable 1	Low 4
<p>CSV400013 - Failure to communicate properly with stakeholders Lack of clear communications.</p> <p>Scheme members are not aware of their rights and entitlements, are distanced from the Fund, which could lead to a reduction in new members and an increase in leavers.</p> <p>Communication with investment managers, custodian, independent adviser, fund employers, pensioners, scheme members, actuary and government organisations.</p>	Significant 3	Unlikely 2	Medium 6	<ul style="list-style-type: none"> Dedicated Communication & Training Officer post established Dedicated Communication & Training Officer will continue to fulfil all the communication requirements of the DPF, in accordance with the Communications Policy Statement Comprehensive website is continually updated and developed My Pension Online is used to enhance the service provided to scheme members Quarterly meetings with independent adviser and investment managers 	<p>Pensions Manager</p> <p>Pensions Manager and Treasury & Pensions Investments Manager</p> <p>Pensions Manager</p> <p>Treasury & Pensions Investments Manager</p>		Significant 3	Improbable 1	Very Low 3

Risk Assessment Form

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	Impact	Probability	Risk Rating				Impact	Probability	Risk Rating
				<ul style="list-style-type: none"> • Communications Policy in place • Annual Employer & Consultative Meeting 	Pensions Manager and Treasury & Pensions Investments Manager Pensions Manager and Treasury & Pensions Investments Manager				
CSV400014 - No appropriate procedures for Employer bodies transferring out of the pension fund or Employer bodies closing to new membership	Significant 3	Possible 3	Medium 9	<ul style="list-style-type: none"> • Inter valuation monitoring and rate reassessment if appropriate • Identification of any issue and resolution via regular site visits by Communication & Training Officer • Requirement for employing authorities to issue termination forms for each active member • Validation of membership numbers 	Pensions Manager Pensions Manager Pensions Manager Pensions Manager		Significant 3	Unlikely 2	Medium 6

Risk Assessment Form

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	Impact	Probability	Risk Rating				Impact	Probability	Risk Rating
				<ul style="list-style-type: none"> Employer covenant checks 	Pensions Manager				
<p>CSV400015 - Liquidity/cashflow risk - insufficient funds to meet liabilities as they fall due</p> <p>Failure of employers to pay contributions on time; low dividend income; significant number of liabilities paid out at the same time.</p> <p>Immediate cash contribution would be required via employers; delay in the payment of promised liabilities; negative publicity and an adverse audit report.</p>	<p>Substantial 4</p>	<p>Possible 3</p>	<p>High 12</p>	<ul style="list-style-type: none"> Monthly cash and dividend reconciliations Quarterly monitoring of investment managers by Pension Committee Appointment of custodian 	<p>Treasury & Pensions Investments Manager</p> <p>Treasury & Pensions Investments Manager</p> <p>Treasury & Pensions Investments Manager</p>		<p>Substantial 4</p>	<p>Unlikely 2</p>	<p>Medium 8</p>
<p>CSV400016 - Loss of funds through fraud or misappropriation in investment related functions</p> <p>Fraud or misappropriation of funds by an employer, investment managers or custodian.</p> <p>Financial loss to the fund.</p>	<p>Substantial 4</p>	<p>Possible 3</p>	<p>High 12</p>	<ul style="list-style-type: none"> Internal and External Audit regularly test that appropriate controls are in place and working Regulatory control reports from investment managers, custodian, etc., are also reviewed by audit. 	<p>Treasury & Pensions Investments Manager</p> <p>Treasury & Pensions Investments Manager</p>		<p>Substantial 4</p>	<p>Unlikely 2</p>	<p>Medium 8</p>

Risk Assessment Form

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	Impact	Probability	Risk Rating				Impact	Probability	Risk Rating
				<ul style="list-style-type: none"> • Due diligence is carried out whenever a new manager is appointed. • Reliance also placed in Financial Conduct Authority registration. • Quarterly monitoring by Pension Committee and Independent Adviser 	<p>Treasury & Pensions Investments Manager</p> <p>Treasury & Pensions Investments Manager</p> <p>Treasury & Pensions Investments Manager</p>				
<p>CSV400017 - Excessive levels of Pension Fund Cash held within Carmarthenshire County Council investment balances</p> <p>High dividend / interest receipts and low benefit payments being made in period.</p> <p>Lower cash like return instead of equity or bond investment returns.</p>	<p>Significant 3</p>	<p>Unlikely 2</p>	<p>Medium 6</p>	<ul style="list-style-type: none"> • Monthly cash reconciliations and separate pension fund bank accounts • Quarterly monitoring by Pension Fund Committee • Internal Audit and Wales Audit Office review 	<p>Treasury & Pensions Investments Manager</p> <p>Treasury & Pensions Investments Manager</p> <p>Treasury & Pensions Investments Manager</p>		<p>Significant 3</p>	<p>Improbable 1</p>	<p>Very Low 3</p>

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	Impact	Probability	Risk Rating				Impact	Probability	Risk Rating
<p>CSV400018 - Significant rises in employer contributions due to increases in liabilities or fall in assets</p> <p>Scheme liabilities increase disproportionately as a result of increased longevity or falling bond yields. Poor economic conditions, incorrect investment strategy, poor selection of investment managers.</p> <p>Poor / negative returns leading to potential increase in employer's costs.</p>	<p>Substantial</p> <p>4</p>	<p>Likely</p> <p>4</p>	<p>Significant</p> <p>16</p>	<ul style="list-style-type: none"> • Use qualified actuary who uses assumptions and recommends appropriate recovery period and strategy • Quarterly monitoring of investment managers by Pension Committee • Diversified Strategic Asset Allocation 	<p>Treasury & Pensions Investments Manager</p> <p>Treasury & Pensions Investments Manager</p> <p>Treasury & Pensions Investments Manager</p>		<p>Significant</p> <p>3</p>	<p>Possible</p> <p>3</p>	<p>Medium</p> <p>9</p>
<p>CSV400019 - Lack of expertise on Pension Fund Committee and/or amongst Officers</p> <p>Lack of training, continuous professional development and 4 year election cycle.</p> <p>Flawed recommendations given to Pension Fund Committee which, unchallenged, could lead to incorrect decisions being made.</p>	<p>Significant</p> <p>3</p>	<p>Likely</p> <p>4</p>	<p>High</p> <p>12</p>	<ul style="list-style-type: none"> • Ensure Officers are trained and up to date in key areas through courses, seminars, reading, discussions with consultants, etc. • Members given induction training on joining Committee with subsequent opportunities to attend other specialist training. 	<p>Treasury & Pensions Investments Manager</p> <p>Treasury & Pensions Investments Manager</p>		<p>Significant</p> <p>3</p>	<p>Possible</p> <p>3</p>	<p>Medium</p> <p>9</p>

Risk Assessment Form

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	Impact	Probability	Risk Rating				Impact	Probability	Risk Rating
				<ul style="list-style-type: none"> Members' training plan and Governance Policy established Specialist assistance available from consultants and independent adviser 	Treasury & Pensions Investments Manager Treasury & Pensions Investments Manager				
CSV400020 - Failure of Investment Strategy to deliver investment objectives Inaccurate triennial valuation assumptions used. Incorrect recovery period used. Funding level decreases; employer contribution rates become unacceptable, causing potential increase in employer's costs.	Significant 3	Likely 4	High 12	<ul style="list-style-type: none"> Qualified Actuary makes assumptions and recommends appropriate recovery period and strategy. Independent Investment adviser employed to assist the committee in making informed decisions. 	Treasury & Pensions Investments Manager Treasury & Pensions Investments Manager		Significant 3	Possible 3	Medium 9
CSV400021 - Prolonged failure of investment managers to achieve the returns specified on their mandates Under-performance by the investment managers; lack of monitoring and challenging by the Committee.	Substantial 4	Likely 4	Significant 16	<ul style="list-style-type: none"> Quarterly monitoring of investment managers and performance company reports by investment team and Pension Committee 	Treasury & Pensions Investments Manager		Substantial 4	Unlikely 2	Medium 8

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	Impact	Probability	Risk Rating				Impact	Probability	Risk Rating
<p>CSV400022 - Concentration risk - single asset class having disproportionate impact on investment objectives</p> <p>Risk of the performance of a single asset class having a disproportionate impact on the ability to meeting investment objectives. Inappropriate investment strategy following the triennial valuation, including lack of diversification.</p> <p>Funding level decreases; employer contribution rates become unacceptable, causing potential increase in employers' costs.</p>	<p>Substantial</p> <p>4</p>	<p>Possible</p> <p>3</p>	<p>High</p> <p>12</p>	<ul style="list-style-type: none"> Establish & review diversified strategic asset allocation Proactive in decision making 	<p>Treasury & Pensions Investments Manager</p> <p>Treasury & Pensions Investments Manager</p>		<p>Substantial</p> <p>4</p>	<p>Unlikely</p> <p>2</p>	<p>Medium</p> <p>8</p>
<p>CSV400023 - Counterparty risk - risk of other party in a transaction failing to meet its obligation to the fund</p> <p>This arises from deposits held with banks and other financial institutions, as well as credit exposures to the fund's members and employers.</p> <p>Loss of capital; decrease in asset values; cost of legal proceedings; adverse publicity.</p>	<p>Substantial</p> <p>4</p>	<p>Possible</p> <p>3</p>	<p>High</p> <p>12</p>	<ul style="list-style-type: none"> Set appropriate parameters with fund managers and custodian to limit exposure to default risk 	<p>Treasury & Pensions Investments Manager</p>		<p>Substantial</p> <p>4</p>	<p>Unlikely</p> <p>2</p>	<p>Medium</p> <p>8</p>

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	Impact	Probability	Risk Rating				Impact	Probability	Risk Rating
<p>CSV400024 - Interest rate risk Arises from risk of exposure to significant interest rate movements on investments.</p> <p>Bond yields and cash decrease in value.</p>	Substantial 4	Possible 3	High 12	<ul style="list-style-type: none"> Establish & review diversified strategic asset allocation 	Treasury & Pensions Investments Manager		Substantial 4	Unlikely 2	Medium 8
<p>CSV400025 - Discount rate risk Use of inappropriate discount rate to estimate future liabilities.</p> <p>Funding level decreases; employer contribution rates become unacceptable, causing potential increase in employers' costs.</p>	Substantial 4	Possible 3	High 12	<ul style="list-style-type: none"> Engage qualified actuary to make assumptions Engage independent adviser to assist the committee in making informed decisions 	Treasury & Pensions Investments Manager Treasury & Pensions Investments Manager		Substantial 4	Unlikely 2	Medium 8
<p>CSV400026 - Price risk The equity investments held exposes the fund to risk in relation to the market price of its investments.</p> <p>Funding level decreases; employer contribution rates become unacceptable, causing a potential increase in employers' costs.</p>	Substantial 4	Possible 3	High 12	<ul style="list-style-type: none"> Establish & review a diversified strategic asset allocation. Anticipate long term returns on a prudent basis. 	Treasury & Pensions Investments Manager Treasury & Pensions Investments Manager		Substantial 4	Unlikely 2	Medium 8

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	Impact	Probability	Risk Rating				Impact	Probability	Risk Rating
<p>CSV400027 - Foreign exchange risk The fund holds financial assets and liabilities denominated in foreign currencies. It is therefore exposed to an element of risk in relation to currency fluctuation.</p> <p>Funding level decreases; employer contribution rates become unacceptable, causing a potential increase in employers' costs.</p>	<p>Substantial 4</p>	<p>Possible 3</p>	<p>High 12</p>	<ul style="list-style-type: none"> Establish & review diversified (within regions) strategic asset allocation 	Treasury & Pensions Investments Manager		<p>Substantial 4</p>	<p>Unlikely 2</p>	<p>Medium 8</p>
<p>CSV400028 - Failure to meet statutory deadlines leading to qualification of the accounts Lack of planning for closure of accounts; lack of training; loss of expert knowledge.</p> <p>Qualified audit report; potential bad publicity; members' loss of confidence on officers' abilities.</p>	<p>Substantial 4</p>	<p>Possible 3</p>	<p>High 12</p>	<ul style="list-style-type: none"> Timetabled Audit Committee cycles Liaise with external audit Establish closedown timetable 	Treasury & Pensions Investments Manager Treasury & Pensions Investments Manager Treasury & Pensions Investments Manager		<p>Substantial 4</p>	<p>Unlikely 2</p>	<p>Medium 8</p>

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	Impact	Probability	Risk Rating				Impact	Probability	Risk Rating
				<ul style="list-style-type: none"> Establish WAO working paper guidance & planning document Excellent time management skills 	Treasury & Pensions Investments Manager Treasury & Pensions Investments Manager				
CSV400029 - Adequate skilled resources not available for accounts preparation Lack of training; loss of expert knowledge; annual or study leave. Qualified audit report; unsatisfactory internal audit report; failure to meet statutory closure deadlines; employee stress.	Significant 3	Likely 4	High 12	<ul style="list-style-type: none"> Appropriate Treasury & Pension Investments structure in place Arrange training courses and seminars, and mentoring 	Treasury & Pensions Investments Manager Treasury & Pensions Investments Manager		Significant 3	Possible 3	Medium 9
CSV400030 - Failure to recover all debts Lack of communication between fund officers and administering authority officers (debtors); lack of monitoring / recovery procedures. Loss of income to the Fund; loss of	Substantial 4	Likely 4	Significant 16	<ul style="list-style-type: none"> Use of specialist debt recovery section within the administering authority 	Pensions Manager and Treasury & Pensions Investments Manager		Moderate 2	Improbable 1	Very Low 2

Risk Assessment Form

Organisation/Department/Function/Project: **Dyfed Pension Fund**

Manager: **Pensions Manager and Treasury & Pensions Investments Manager**

Date: **19 February, 2020**

Risk (Threat to achievement of business objective)	Assessment of Uncontrolled Risk (Assume NO controls in place)			Risk Control Measures	Assigned To	Target Date (Priority)	Assessment of Controlled Risk (With controls in place)		
	Impact	Probability	Risk Rating				Impact	Probability	Risk Rating
stakeholder confidence in the ability of the administering authority; potential increase in costs to Fund employers				<ul style="list-style-type: none"> • Monthly monitoring of debts due 	Pensions Manager and Treasury & Pensions Investments Manager				
<p>CSV400031 - Officers acting outside delegated authority Threat of officers making unauthorised decisions or payments.</p> <p>Loss of income to fund; loss of stakeholder confidence in the ability of the administering authority; potential increase in costs to fund employers</p>	<p>Substantial 4</p>	<p>Unlikely 2</p>	<p>Medium 8</p>	<ul style="list-style-type: none"> • Undertake regular review of Standing Orders & Constitution • Report to Executive Board • Monitoring officer role 	<p>Pensions Manager and Treasury & Pensions Investments Manager</p> <p>Pensions Manager and Treasury & Pensions Investments Manager</p> <p>Pensions Manager and Treasury & Pensions Investments Manager</p>		<p>Substantial 4</p>	<p>Improbable 1</p>	<p>Low 4</p>

Risk Assessment Form

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Organisation/Department/Function/Project: **Dyfed Pension Fund**

Manager: **Pensions Manager and Treasury & Pensions Investments Manager**

Date: **19 February, 2020**

Risk (Threat to achievement of business objective)	Assessment of Uncontrolled Risk (Assume NO controls in place)			Risk Control Measures	Assigned To	Target Date (Priority)	Assessment of Controlled Risk (With controls in place)		
	Impact	Probability	Risk Rating				Impact	Probability	Risk Rating
<p>CSV400032 - Non-performance by Officers and Committee Members Lack of training for officers and members; turnover in officers and members; lack of appraisals; lack of PI monitoring; time constraints for members; conflicting deadlines for officers.</p> <p>Qualified audit report; potential bad publicity; members' loss of confidence in officers' abilities; excessive pressure on officers; loss of income to the fund; loss of stakeholder confidence in the ability of the administering authority; potential increase in costs to fund employers</p>	<p>Substantial 4</p>	<p>Possible 3</p>	<p>High 12</p>	<ul style="list-style-type: none"> • Establish performance measurement system • Pension Committee member assessments • Officer appraisals in October and March annually • Regular internal and external audits 	<p>Pensions Manager and Treasury & Pensions Investments Manager</p> <p>Treasury & Pensions Investments Manager</p> <p>Pensions Manager and Treasury & Pensions Investments Manager</p> <p>Pensions Manager and Treasury & Pensions Investments Manager</p>		<p>Substantial 4</p>	<p>Unlikely 2</p>	<p>Medium 8</p>

Risk Assessment Form

Organisation/Department/Function/Project: **Dyfed Pension Fund**

Manager: **Pensions Manager and Treasury & Pensions Investments Manager**

Date: **19 February, 2020**

Risk (Threat to achievement of business objective)	Assessment of Uncontrolled Risk (Assume NO controls in place)			Risk Control Measures	Assigned To	Target Date (Priority)	Assessment of Controlled Risk (With controls in place)		
	Impact	Probability	Risk Rating				Impact	Probability	Risk Rating
				<ul style="list-style-type: none"> Establish & review training plan for officers and members 	Pensions Manager and Treasury & Pensions Investments Manager				
<p>CSV400033 - Failure to operate strict financial and budgetary controls Lack of regular budget monitoring and budget setting; lack of communication between admin and investment sections; lack of scrutiny of investment managers', consultants', and advisers' fees.</p> <p>Unexpected variances over budget headings; members' loss of confidence in officers' abilities; loss of income to the fund; loss of stakeholder confidence in the ability of the administering authority; potential increase in costs to fund employers.</p>	<p>Substantial 4</p>	<p>Possible 3</p>	<p>High 12</p>	<ul style="list-style-type: none"> Quarterly monitoring of budgets Quarterly forecasting and profiling of budgets Closure of accounts to Audit Committee Monthly reconciliations of contributions, dividends, and pension payroll 	<p>Treasury & Pensions Investments Manager</p>		<p>Substantial 4</p>	<p>Unlikely 2</p>	<p>Medium 8</p>

Risk Assessment Form

Organisation/Department/Function/Project: **Dyfed Pension Fund**

Manager: **Pensions Manager and Treasury & Pensions Investments Manager**

Date: **19 February, 2020**

Risk (Threat to achievement of business objective)	Assessment of Uncontrolled Risk (Assume NO controls in place)			Risk Control Measures	Assigned To	Target Date (Priority)	Assessment of Controlled Risk (With controls in place)		
	Impact	Probability	Risk Rating				Impact	Probability	Risk Rating
CSV400034 - Insufficient resources to provide information requirements for the Wales Pension Partnership on the management of the fund	Substantial 4	Possible 3	High 12	<ul style="list-style-type: none"> Staffing resources to be kept under review to ensure the Fund's interests are properly met when developing investment pooling arrangements 	Treasury & Pensions Investments Manager		Substantial 4	Unlikely 2	Medium 8

DYFED PENSION FUND COMMITTEE

Date 02/03/2020

Draft Funding Strategy Statement

To provide the Dyfed Pension Fund Committee with the Draft Funding Strategy Statement

Recommendations / key decisions required:

The Committee to approve the Draft Funding Strategy Statement.

Reasons:

To provide the Dyfed Pension Fund Committee with the Draft Funding Strategy Statement.

Relevant scrutiny committee to be consulted

NA

Exec Board Decision Required NA

Council Decision Required NA

Directorate: Corporate Services

Chris Moore

Report Author: Chris Moore

Designation: Director of
Corporate Services,
Carmarthenshire County
Council

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**EXECUTIVE SUMMARY
DYFED PENSION FUND COMMITTEE
DATE 02/03/2020**

Draft Funding Strategy Statement

The purpose of this Draft Funding Strategy Statement (“FSS”) is to set out a clear and transparent funding strategy that will identify how each Fund employer’s pension liabilities are to be met going forward following the triennial valuation as at 31 March 2019.

DETAILED REPORT ATTACHED ?

YES

IMPLICATIONS

I confirm that other than those implications which have been agreed with the appropriate Directors / Heads of Service and are referred to in detail below, there are no other implications associated with this report :

Signed: **C Moore**

Director of Corporate Services

Policy, Crime & Disorder and Equalities	Legal	Finance	ICT	Risk Management Issues	Staffing Implications	Physical Assets
NONE	NONE	NONE	NONE	NONE	NONE	NONE

CONSULTATIONS

I confirm that the appropriate consultations have taken in place and the outcomes are as detailed below

Signed: **C Moore**

Director of Corporate Services

1. Scrutiny Committee

NA

2. Local Member(s)

NA

3. Community / Town Council

NA

4. Relevant Partners

NA

5. Staff Side Representatives and other Organisations

NA

Section 100D Local Government Act, 1972 – Access to Information

List of Background Papers used in the preparation of this report:

THERE ARE NONE

Title of Document	File Ref No.	Locations that the papers are available for public inspection

Dear Sir/Madam

DYFED PENSION FUND - FUNDING STRATEGY STATEMENT

The attached draft Funding Strategy Statement (“FSS”) has been prepared by Carmarthenshire County Council (the Administering Authority) to set out the funding strategy for the Dyfed Pension Fund (the “Fund”), as required by legislation.

Ensuring that the Fund has sufficient assets to meet its pension liabilities in the long term is the fiduciary responsibility of the Administering Authority. The long term objective is for the Fund to achieve this 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due. The general principle is that the assumptions used, taken as a whole, will be chosen sufficiently prudently for pensions already in payment to continue to be paid, and to reflect the commitments that will arise from members’ accrued pension rights.

The strategy adopted by the Fund will therefore be critical in achieving this. The purpose of the FSS is to set out this strategy as it applies to each Fund employer. Particular changes from the 2016 actuarial valuation, and where employers may wish to focus their comments are:

- the appropriateness of the assumptions (in particular the real discount rate over and above price inflation has been reduced by 0.5% p.a. since 2016)
- the inclusion of the estimated costs of the McCloud judgment within the valuation results and contribution plans
- the implementation of an ill-health “captive” within the Fund, whereby the costs of ill-health retirements for smaller employers will be spread across all those smaller employers (rather than being charged to the particular employer)
- the maintaining of the same general end point for recovery plans as applied in 2016, so recovery plans following the 2019 valuation will in general be three years shorter than in 2016
- the proposal to have more regard to termination positions, so in general any funding surpluses may only be offset against future contribution requirements if the employer’s funding position is in surplus over and above termination position, and no reduction in overall contributions for closed employers will be allowed (there is, however, some flexibility here if the employer can provide a guarantee or security in relation to its termination position)
- Phasing/stepping of any contribution changes will be in line with the practice adopted at the 2016 actuarial valuation. In particular, the contribution plan for smaller employers will remain unchanged until 1 April 2021, with the revised rates being implemented from that date.

The draft FSS has been developed alongside the Fund’s investment strategy on an integrated basis taking into account the overall financial and demographic risks inherent in the Fund. Given this, and in accordance with governing legislation, all interested parties connected with the Fund will be consulted with and given the opportunity to comment prior to this Funding Strategy Statement being finalised and adopted. The final statement will then be issued taking into consideration any comments and feedback received.

Please respond to me by 28 February 2020.

Thanks/Diolch
Anthony

Anthony Parnell
Rheolwr Pensiwn a Buddsoddiadau Gyllidol/
Treasury & Pension Investments Manager
Cyngor Sir Gar/
Carmarthenshire County Council
(01267) 224180

DRAFT

FUNDING STRATEGY STATEMENT

DYFED PENSION FUND

DECEMBER 2019

Carmarthenshire County Council

This Funding Strategy Statement has been prepared by Carmarthenshire County Council (the Administering Authority) to set out the funding strategy for the Dyfed Pension Fund (“the Fund”), in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

EXECUTIVE SUMMARY

Ensuring that the Dyfed Pension Fund (the “Fund”) has sufficient assets to meet its pension liabilities in the long term is the fiduciary responsibility of the Administering Authority (Carmarthenshire County Council). The funding strategy adopted by the Dyfed Pension Fund will be critical in achieving this.

The purpose of this Funding Strategy Statement (“FSS”) is to set out a clear and transparent funding strategy that will identify how each Fund employer’s pension liabilities are to be met going forward.

The details contained in this Funding Strategy Statement will have a financial and operational impact on all participating employers in the Dyfed Pension Fund.

It is imperative therefore that each existing or potential employer is aware of the details contained in this statement.

Given this, and in accordance with governing legislation, all interested parties connected with the Dyfed Pension Fund have been consulted and given opportunity to comment prior to this Funding Strategy Statement being finalised and adopted. This statement takes into consideration all comments and feedback received.



MEETING THE FUND’S SOLVENCY OBJECTIVE

The Administering Authority’s long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period. Contributions are set in relation to this objective which means that once 100% solvency is achieved, if the assumptions are borne out in practice, there would be sufficient assets to pay all benefits earned up to the valuation date as they fall due.

The general principle adopted by the Fund is that the assumptions used, taken as a whole, will be sufficiently prudent for this objective to be reasonably achieved in the long term at each valuation.

However, because financial and market conditions/outlook change between valuations, the assumptions used at one valuation may need to be amended at the next to meet the primary objectives. This in turn means that contributions will be subject to change from one valuation to another. This objective is considered on an employer specific level when setting individual contribution rates so each employer has the same fundamental objective in relation to their liabilities.

The funding strategy set out in this document has been developed alongside the Fund’s investment strategy on an integrated basis taking into account the overall financial and demographic risks inherent in the Fund to meet the objective for all employers over different periods. The funding strategy includes appropriate margins to allow for the possibility of adverse events (e.g. material reduction in investment returns, economic downturn and higher inflation

outlook) leading to a worsening of the funding position which would normally lead to volatility of contribution rates at future valuations if these margins were not included. This prudence is required by the Regulations and guidance issued by professional bodies and Government agencies to assist the Fund in meeting its primary solvency objective. The level of prudence has been quantified by the Actuary to provide protection against future adverse experience in the long term. Individual employer results will also have regard to their covenant strength and the investment strategy applied to the asset shares of those employers.



LONG TERM COST EFFICIENCY

Employer contributions are also set in order to achieve long term cost efficiency.

Long term cost-efficiency requires that any funding plan must provide equity between different generations of taxpayers. This means that the contributions must not be set at a level that is likely to give rise to additional costs in the future which fall on later generations of taxpayers or put too high a burden on current taxpayers. The funding parameters and assumptions e.g. deficit recovery period must have regard to this requirement which means a level of prudence is needed. Furthermore, the FSS must have regard to the desirability of maintaining as nearly constant a primary rate of contributions as possible.

When formulating the funding strategy, the Administering Authority has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary's Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the "solvency" of the pension fund and "long term cost efficiency" of the Scheme so far as relating to the Fund.

DEFICIT RECOVERY PLAN AND CONTRIBUTIONS



The solvency level of the Fund is 105% at the valuation date i.e. there is a small surplus of assets over liabilities. However, for many employers in the Fund the funding level will be less than 100% - i.e. their assets within the Fund are less than their liabilities. In these cases, a deficit recovery plan needs to be implemented such that additional contributions are paid into the Fund to meet the shortfall. (In a similar manner, where an employer is in surplus it may in certain circumstances be appropriate to reduce the overall contributions payable to reflect this, by way of a "surplus offset".)

Deficit contributions paid to the Fund by each employer will be expressed as £s amounts (flat or increasing year on year) and it is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford given other competing cost pressures. This may result in some flexibility in recovery periods by employer which would be at the sole discretion of the Administering Authority. The recovery periods will be set by the Fund, although employers will be free to select any shorter deficit recovery period if they wish. Selected employers may also elect to make prepayments of contributions which could result in cash savings over the period of the valuation certificate.

The objective is to recover any deficit over a reasonable timeframe, and this will be periodically reviewed. Full details are set out in this FSS.

Subject to affordability and other considerations, the end point of individual employer recovery plans is expected to be maintained at this valuation, which means that recovery periods will

normally be three years shorter than at the 2016 actuarial valuation. The target recovery period for employers at this valuation is therefore 11 years (3 years less than the corresponding target of 14 years from the previous valuation). In practice, individual employer circumstances could cause their recovery period to be different from this.

Over and above this, the Fund is now giving more recognition to the potential liabilities in the event that an employer will exit the Fund at some point. With this in mind, closed employers will normally have their contributions underpinned at existing levels. In addition, any employer in surplus on the ongoing actuarial valuation assumptions will not normally be allowed to use that surplus to offset its future contribution requirements to the Fund. These restrictions will not apply if the body has a surplus on its termination basis: in this event a surplus on the termination basis may be used to offset future contribution requirements.

In order to allow employers time to adjust their budgets, contributions for 2020/21 will normally be maintained at their existing levels, other than for the major scheduled bodies, before moving to the new rates in 2021/22. Where there is a material increase in contributions required at this valuation, in certain circumstances the Fund may agree to the increase being phased in over the period to 2022/23.



ACTUARIAL ASSUMPTIONS

The actuarial assumptions used for assessing the funding position of the Fund and the individual employers, the “Primary” contribution rate, and any contribution variations due to underlying surpluses or deficits (i.e. the “Secondary” rate) are set out in Appendix A to this FSS.

The discount rate in excess of CPI inflation (the “real discount rate”) has been derived based on the expected return on the Fund’s assets based on the long term strategy set out in its Investment Strategy Statement (ISS). When assessing the appropriate prudent discount rate, consideration has been given to the level of expected asset returns in excess of CPI inflation (i.e. the rate at which the benefits in the LGPS generally increase each year).

The assumption for the long term expected future real returns has fallen since the last valuation. This is principally due to a combination of expectations for the returns on the Fund’s assets and the level of inflation in the long term. The assumption has therefore been adjusted so that in the Actuary’s opinion, when allowing for the resultant employer contributions emerging from the valuation, the Fund can reasonably be expected to meet the Solvency and Long Term Cost Efficiency objectives.

Taking into account the above the Fund Actuary is proposing that the long term real return over CPI inflation assumptions for determining the past service liabilities should be 1.70% per annum and 2.25% per annum for determining the future service (“primary”) contribution rate. This compares to 2.20% per annum and 2.75% per annum respectively at the last valuation.

The demographic assumptions are based on the Fund Actuary’s bespoke analysis for the Fund, also taking into account the experience of the wider LGPS where relevant.

EMPLOYER ASSET SHARES

The Fund is a multi-employer pension scheme that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This



means it is necessary to make some approximations in the timing of cash flows and allocation of investment returns when deriving each employer's asset share.

At each review, cash flows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund. In addition, the asset shares may be restated for changes in data or other policies.



FUND POLICIES

In addition to the information/approaches required by overarching guidance and Regulation, this statement also summarises the Fund's practice and policies in a number of key areas:

1. Covenant assessment and monitoring

An employer's financial covenant underpins its legal obligation and crucially the ability to meet its financial responsibilities to the Fund now and in the future. The strength of covenant to the Fund effectively underwrites the risks to which the Fund is exposed. These risks include underfunding, longevity, investment and market forces.

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital to the overall risk management and governance of the Fund. The employers' covenants will be assessed and monitored objectively in a proportionate manner, and an employer's ability to meet their obligations in the short and long term will be considered when determining its funding strategy.

After the valuation, the Fund will continue to monitor employers' covenants in conjunction with their funding positions over the inter-valuation period. This will enable the Fund to anticipate and pre-empt any material issues arising and thus adopt a proactive approach in partnership with the employer. More details are provided in the relevant appendix to this statement.

2. Admitting employers to the Fund

Various types of employers are permitted to join the LGPS under certain circumstances, and the conditions upon which their entry to the Fund is based on the Fund's separately maintained policy. Examples of new employers include:

- Scheme Employers
- Designated bodies - those that are permitted to join if they pass a resolution
- Admission bodies - usually arising as a result of an outsourcing or a transfer to an entity that provides some form of public service and their funding primarily derives from local or central government.
- [Employers may also join the Fund under the 'Deemed Employer' route. Further information on this is set out within **Appendix C.**]

[Drafting Note – This has been added following the consultation published by the MHCLG on 10 January 2019 (found here: <https://www.gov.uk/government/consultations/local->

government-pension-scheme-fair-deal-strengthening-pension-protection). The Funding Strategy Statement and Fund policies may need further adaptation once the consultation process has been completed.]

Certain employers may be required to provide a guarantee or alternative security before entry will be allowed, in accordance with the Regulations and Fund policies.

The key objective for the Fund is to only admit employers where the risk to the Fund is mitigated as far as possible.

3. Termination policy for employers exiting the Fund

When an employer ceases to participate within the Fund, it becomes an exiting employer under the Regulations. The Fund is then required to obtain an actuarial valuation of that employer's liabilities in respect of the benefits of the exiting employer's current and former employees, along with a termination contribution certificate.

Where there is no guarantor who would subsume the liabilities of the exiting employer, the Fund's policy is that a more prudent discount rate linked to corporate bond yields is used for assessing liabilities on termination. Any exit payments due should be paid immediately although instalment plans will be considered by the Administering Authority on a case by case basis. The Administering Authority also reserves the right to modify this approach on a case by case basis if circumstances warrant it.

Any exit credits (surplus assets over liabilities) will be paid from the Fund to the exiting employer following certification by the Actuary. The Administering Authority also reserves the right to modify this approach on a case by case basis if circumstances warrant it.

Where there is a **guarantor** who would subsume the assets and liabilities of the outgoing employer, the policy is that any deficit or surplus would normally be subsumed into the guarantor and taken into account at the following valuation. This is subject to agreement from all interested parties who will need to consider any separate contractual agreements that have been put in place between the exiting employer and the guarantor, in particular any 'Risk-Sharing' agreements that may exist.

[An employer may continue to participate in the Fund with no contributing members and utilise the "Deferred Debt" Arrangements at the sole discretion of the Administering Authority which will be subject to a satisfactory covenant review on an ongoing basis. In this circumstance they will be treated as per any other participating employer in relation to overall funding strategy (including potentially requiring a final exit payment at some point) allowing for the covenant.]

[Drafting Note – This section has been adjusted following the consultation published by the MHCLG on 8 May 2019 (found here: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/800321/LGPS_valuation_cycle_reform_consultation.pdf). The Funding Strategy Statement and Fund policies may need further adaptation once the consultation process has been completed

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APPENDICES

- A - ACTUARIAL METHOD AND ASSUMPTIONS
- B - EMPLOYER DEFICIT RECOVERY PLANS
- C - TERMINATION POLICY
- D - COVENANT ASSESMENT AND MONITORING POLICY
- E - GLOSSARY OF TERMS

1

INTRODUCTION

The Local Government Pension Scheme Regulations 2013 (“the 2013 Regulations”) and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (“the 2014 Transitional Regulations”) and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (all as amended) (collectively, “the Regulations”) provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS). The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the Dyfed Pension Fund the Administering Authority will prepare and publish its funding strategy;
- In preparing the FSS, the Administering Authority must have regard to:
 - the guidance issued by CIPFA for this purpose; and
 - the Investment Strategy Statement (ISS) for the Scheme published under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended);
- The FSS must be revised and published whenever there is a material change in either the policy set out in the FSS or the ISS.

BENEFITS

The benefits provided by the Dyfed Pension Fund are specified in the governing legislation contained in the Regulations referred to above. Benefits payable under the Dyfed Pension Fund are guaranteed by statute and thereby the pensions promise is secure for members. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time facilitating scrutiny and accountability through improved transparency and disclosure.

The Fund is a defined benefit arrangement with principally final salary related benefits from contributing members up to 1 April 2014 and Career Averaged Revalued Earnings (“CARE”) benefits earned thereafter. There is also a “50:50 Scheme Option”, where members can elect to accrue 50% of the full scheme benefits in relation to the member only and pay 50% of the normal member contribution.

EMPLOYER CONTRIBUTIONS

The required levels of employee contributions are specified in the Regulations. Employer contributions are determined in accordance with the Regulations (which require that an actuarial valuation is completed every three years by the Fund Actuary, including a rates and adjustments certificate specifying the “primary” and “secondary” rate of the employer’s contribution).

PRIMARY RATE

The “Primary rate” for an employer is the contribution rate required to meet the cost of the future accrual of benefits, ignoring any past service surplus or deficit, but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer’s covenant.

The Primary rate for the whole fund is the weighted average (by payroll) of the individual employers' Primary rates.

SECONDARY RATE

The "Secondary rate" is an adjustment to the Primary rate to reflect any past service deficit or surplus, to arrive at the rate each employer is required to pay. The Secondary rate may be expressed as a percentage adjustment to the Primary rate, and/or a cash adjustment in each of the three years beginning 1 April in the year following that in which the valuation date falls.

The Secondary rate is specified in the rates and adjustments certificate.

For any employer, the rate they are actually required to pay is the sum of the Primary and Secondary rates.

Secondary rates for the whole fund in each of the three years shall also be disclosed. These will be the calculated weighted average based on the whole fund payroll in respect of percentage rates and the total amount in respect of cash adjustments.

2

PURPOSE OF FSS IN POLICY TERMS

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the Fund Actuary.

The Administering Authority's long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and maintain sufficient assets in order for it to pay all benefits arising as they fall due.

The purpose of this Funding Strategy Statement is therefore:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward by taking a prudent longer-term view of funding those liabilities;
- to establish contributions at a level to "secure the solvency" of the pension fund and the "long term cost efficiency",
- to have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

3

AIMS AND PURPOSE OF THE FUND

THE AIMS OF THE FUND ARE TO:

- manage employers' liabilities effectively and ensure that sufficient resources (i.e. liquid assets) are available to meet all liabilities as they fall due
- enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers, scheduled, designating and admitted bodies, while achieving and maintaining fund solvency and long term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future due to sector changes
- maximise the returns from investments within reasonable risk parameters taking into account the above aims.

THE PURPOSE OF THE FUND IS TO:

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses as defined in the Regulations.

4

RESPONSIBILITIES OF THE KEY PARTIES

The efficient and effective management of the pension fund can only be achieved if all parties exercise their statutory duties and responsibilities conscientiously and diligently. The key parties for the purposes of the FSS are the Administering Authority (and, in particular the Pensions Committee), the individual employers and the Fund Actuary and details of their roles are set out below. Other parties required to play their part in the fund management process are bankers, custodians, investment managers, auditors and legal, investment and governance advisors, along with the Local Pensions Board created under the Public Service Pensions Act 2013.

KEY PARTIES TO THE FSS

The **Administering Authority** should:

- operate the pension fund
- collect employer and employee contributions, investment income and other amounts due to the pension fund as stipulated in the Regulations
- pay from the pension fund the relevant entitlements as stipulated in the Regulations
- invest surplus monies in accordance with the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- take measures as set out in the Regulations to safeguard the fund against the consequences of employer default
- manage the valuation process in consultation with the Fund Actuary
- prepare and maintain a FSS and an ISS, both after proper consultation with interested parties, and
- monitor all aspects of the Fund's performance and funding, amending the FSS/ISS as necessary
- effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and a scheme employer, and
- establish, support and monitor a Local Pension Board (LPB) as required by the Public Service Pensions Act 2013, the Regulations and the Pensions Regulator's relevant Code of Practice.

The **Individual Employer** should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations)
- pay all contributions, including their own as determined by the Fund Actuary, promptly by the due date
- develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain, and
- have regard to the Pensions Regulator's focus on data quality and comply with any requirement set by the Administering Authority in this context, and

- notify the Administering Authority promptly of any changes to membership which may affect future funding.
- Understand the pension impacts of any changes to their organisational structure and service delivery model
- Understand that the quality of the data provided to the Fund will directly impact on the assessment of the liabilities and contributions. In particular, any deficiencies in the data would normally result in the employer higher contributions than otherwise would be the case if the data was high of quality

The **Fund Actuary** should:

- prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency after agreeing assumptions with the Administering Authority and having regard to their FSS and the Regulations
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as pension strain costs, ill health retirement costs etc
- provide advice and valuations on the termination of admission agreements
- provide advice to the Administering Authority on bonds and other forms of security against the financial effect on the Fund of employer default
- assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as required by the Regulations
- advise on funding strategy, the preparation of the FSS and the inter-relationship between the FSS and the ISS, and
- ensure the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to the Fund Actuary's role in advising the Fund.

The **Fund's Investment Manager(s)** should:

- invest funds given in accordance with the ISS and the Investment Management Agreement (IMA)
- meet investment performance targets and risk constraints, and
- comply with all the legislative, commercial and mandate requirements.

5

SOLVENCY FUNDING TARGET

Securing the “solvency” and “long term cost efficiency” is a regulatory requirement. To meet these requirements, the Administering Authority’s long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the “funding target”) assessed on an ongoing past service basis including allowance for projected final pay where appropriate. In the long term, an employer’s total contribution rate would ultimately revert to its Primary rate of contribution.

SOLVENCY AND LONG TERM EFFICIENCY

Each employer’s contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund’s liabilities i.e. benefit payments can be reasonably met as they arise.

Employer contributions are also set in order to achieve long term cost efficiency. Long term cost-efficiency implies that contributions must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time.

When formulating the funding strategy, the Administering Authority has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary’s Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the “solvency” of the pension fund and “long term cost efficiency” of the Scheme so far as relating to the Fund.

DETERMINATION OF THE SOLVENCY FUNDING TARGET AND DEFICIT RECOVERY PLAN

The principal method and assumptions to be used in the calculation of the funding target are set out in **Appendix A**. The Employer Deficit Recovery Plans are set out in **Appendix B**.

Underlying these assumptions are the following two tenets:

- that the Fund is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

This allows the Fund to take a longer term view when assessing the contribution requirements for certain employers.

In considering this the Administering Authority, based on the advice of the Fund Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful potentially taking into account any changes in funding after the valuation date up to the finalisation of the valuation by 31 March 2020 at the latest.

As part of each valuation separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy between the distinct employers and employer groups in the Fund.

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2019 actuarial valuation:

Individual employer contributions will be expressed and certified as two separate elements:

- the **Primary rate**: a percentage of pensionable payroll in respect of the cost of the future accrual of benefits
- the **Secondary rate**: a schedule of lump sum monetary amounts over 2020/23 in respect of an employer's surplus or deficit

For any employer, the total contributions they are actually required to pay in any one year is the sum of the Primary and Secondary rates (subject to an overall minimum of zero). Both elements are subject to further review from April 2023 based on the results of the 2022 actuarial valuation.

RECOVERY PLAN

It is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford based on the Administering Authority's view of the employer's covenant and risk to the Fund.

Recovery periods will be set by the Fund on a consistent basis across employer categories where possible and communicated as part of the discussions with employers. This will determine the minimum contribution requirement and employers will be free to select any shorter deficit recovery period and higher contributions if they wish, including the option of prepaying the deficit contributions in one lump sum either on an annual basis or a one-off payment. This will be reflected in the monetary amount requested via a reduction in overall deficit contributions payable. The Administering Authority does retain ultimate discretion in applying these principles for individual employers on grounds of affordability and covenant strength.

The key principles when considering deficit recovery are as follows:

- The Fund does not believe it appropriate for monetary contribution reductions to apply compared to the existing funding plan (allowing for indexation of deficit contributions where applicable) where deficits remain unless there is a compelling reason to do so.
- Certain employers may follow a bespoke investment and funding strategy pertaining to their own circumstances determined by their risk and maturity characteristics. This will be documented separately.
- As a general rule the deficit recovery period will reduce by at least 3 years for employers at this valuation when compared to the preceding valuation. This is to target full solvency over a similar (or shorter) time horizon. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. Subject to affordability considerations and other factors, a bespoke period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Recovery Plan in **Appendix B**).

Application of these principles has resulted in the target recovery period of 11 years being adopted across Fund employers.

- Subject to affordability and other considerations, the end point of individual employer recovery plans is expected to be maintained at this valuation, which means that recovery periods will normally be three years shorter than at the 2016 actuarial valuation. The target recovery period for employers at this valuation is therefore 11 years (3 years less than the corresponding target of 14 years from the previous valuation). In practice, individual employer circumstances could cause their recovery period to be different from this.
- Over and above this, the Fund is now giving more recognition to the potential liabilities in the event that an employer will exit the Fund at some point. With this in mind, closed employers will normally have their contributions underpinned at existing levels. In addition, any employer in surplus on the ongoing actuarial valuation assumptions will not normally be allowed to use that surplus to offset its future contribution requirements to the Fund. These restrictions will not apply if the body has a surplus on its termination basis: in this event a surplus on the termination basis may be used to offset future contribution requirements.
- In order to allow employers time to adjust their budgets, contributions for 2020/21 will normally be maintained at their existing levels, other than for the major scheduled bodies, before moving to the new rates in 2021/22. Where there is a material increase in contributions required at this valuation, in certain circumstances the Fund may agree to the increase being phased in over the period to 2022/23. Employers should be aware that any stepping or deferral of increases may affect the contribution requirements arising at future valuations.

CEASING PARTICIPATION IN THE FUND

On the cessation of an employer's participation in the Fund, in accordance with the Regulations, the Fund Actuary will be asked to make a termination assessment.

The policy for employers who have a **guarantor** participating in the Fund is as follows:

The residual assets and liabilities and hence any surplus or deficit will transfer back to the guarantor. This is subject to agreement from all interested parties who will need to consider any separate contractual agreements that have been put in place between the exiting employer and the guarantor. If all parties do not agree, then the surplus will be paid directly to the exiting employer within 3 months of cessation (despite any other agreements that may be in place).

The policy for employers who **do not** have a **guarantor** participating in the Fund is:

- In the case of a surplus, the Fund pays the exit credit to the exiting employer following completion of the termination process (within 3 months of cessation).
- In the case of a deficit, the Fund would require the exiting employer to pay the termination deficit to the Fund as a lump sum cash payment (unless agreed otherwise by the Administering Authority at their sole discretion) following completion of the termination process.
- The Administering Authority can vary the treatment on a case by case basis at its sole discretion if circumstances warrant it based on the advice of the Actuary. The termination policy is set out in Appendix C.

- In all cases the Administering Authority reserves the right to apply a different approach at its sole discretion, taking into account the risk associated with an employer in proportion to the Fund as a whole. Any employer affected will be notified separately.

FUNDING FOR NON-ILL HEALTH EARLY RETIREMENT COSTS

Employers are required to meet all costs of early retirement strain by immediate capital payments into the Fund, or in certain circumstances by agreement with the Fund, through instalments over a period not exceeding 3 years or if less the remaining period of the body's membership of the Fund.

FUNDING FOR ILL HEALTH RETIREMENT COSTS

Should a member retire on ill health grounds, this will normally result in a funding strain for that employer (i.e. increased liability). The size of any funding strain will depend on how the cost of that ill health retirement compares with the expected cost built in the actuarial assumptions for that employer. The actual cost will also depend on the level of any benefit enhancements awarded (which depend on the circumstances of the ill health retirement) and also how early the benefits are brought into payment. Because the cost of an individual ill-health retirement can be substantial in relation to an employer's contribution requirements, the Fund has introduced a "captive" whereby the costs of ill health retirements (other than for the five major scheduled employers) will be spread across a wider employer base. The treatment of any ill-health retirement strain cost emerging will therefore vary depending on the type of employer:

- For those employers who participate in the ill-health captive, any ill-health retirement strain cost emerging will be met by a contribution from the captive fund as part of the subsequent actuarial valuation (or termination assessment if sooner). No additional contributions will be due immediately from the employer although an adjustment to the "premium" payable may emerge following the subsequent actuarial valuation, depending on the overall experience of the captive fund.
- For those employers who do not participate in the ill-health captive, the "primary rate" payable over 2020/23 will include an allowance for ill-health retirement costs (alongside any allowance made for voluntary early retirements). Where ill-health retirement strain costs exceed an employer's allowance over the inter-valuation period (or should an employer not have an allowance within their "primary rate"), the excess strain costs will be included in the employer's deficit (and subsequent deficit contributions) at the 2022 valuation.

7

LINK TO INVESTMENT POLICY AND THE INVESTMENT STRATEGY STATEMENT (ISS)

The results of the 2019 valuation show the liabilities to be 105% covered by the current assets, so there is a small surplus of existing assets over the past service liabilities.

In assessing the value of the Fund's liabilities in the valuation, allowance has been made for growth asset out-performance as described below, taking into account the investment strategy adopted by the Fund, as set out in the ISS.

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is normally possible to construct a portfolio which represents the "minimum risk" investment position which would deliver a very high certainty of real returns above assumed CPI inflation. Such a portfolio would typically, in normal circumstances, consist of a mixture of long-term index-linked, fixed interest gilts and possible swaps.

Investment of the Fund's assets in line with this portfolio would minimise fluctuations in the Fund's funding position between successive actuarial valuations.

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out this valuation it would not be appropriate to make any allowance for growth assets out-performance nor any adjustment to market implied inflation assumption due to supply/demand distortions in the bond markets. This would result in real return versus CPI inflation of nil per annum at the valuation date.

On this basis of assessment, the assessed value of the Fund's liabilities at the valuation would have been significantly higher, resulting in a funding level of [62%].

Departure from a minimum risk investment strategy, in particular to include growth assets such as equities, gives a better prospect that the assets will, over time, deliver returns in excess of CPI inflation and reduce the contribution requirements. The target solvency position of having sufficient assets to meet the Fund's pension obligations might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The current strategy is shown opposite.

	Benchmark (%)	Range (%)
UK Equities	25.0	23.5 – 26.5
Overseas Equities	30.0	28.5 – 31.5
Global Equities	20.0	10.0 – 30.0
Pan European Property	15.0	10.0 – 20.0
Fixed Income	10.0	5.0 – 15.0
TOTAL	100.0	

Overseas Equities	Benchmark (%)	Range (%)
North America	13.0	10.0 - 20.0
Japan	3.5	0.0 – 10.0
Developed Pacific (excl. Japan)	3.5	0.0 – 10.0
Emerging Markets	10.0	5.0 – 15.0
TOTAL	30.0	

Fixed Income	Benchmark (%)	Range (%)
UK Corporate Bonds	10.0	5.0 - 15.0
TOTAL	10.0	

Based on the investment strategy in the ISS and the Actuary's assessment of the return expectations for each asset class, the overall best estimate average expected return is 2.7% per annum in excess of CPI inflation as at the valuation date. For the purposes of setting funding strategy however, the Administering Authority believes that it is appropriate to take a margin for prudence on these return expectations. and this is expected under the Regulations and guidance.

A measure of overall prudence to protect against adverse experience in the future is to consider the funding level if it was assessed on a "best estimate" basis for all the principal assumptions (mainly the investment return and life expectancy). The actuary has assessed this "best estimate" funding level as [129%]. This level of prudence is built in to allow the Fund to address adverse events whilst maintain stability (within reasonable parameters) in employer contributions where appropriate.

8

IDENTIFICATION OF RISKS AND COUNTER-MEASURES

The funding of defined benefits is by its nature uncertain. Funding of the Scheme is based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the Fund Actuary that the greatest risk to the funding level is the investment risk inherent in the predominantly equity based strategy, so that actual asset out-performance between successive valuations could diverge significantly from that assumed in the long term. The Actuary's formal valuation report includes a quantification of some of the major risk factors.

FINANCIAL

The financial risks are as follows:-

- Investment markets fail to perform in line with expectations
- Market outlook moves at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- Future underperformance arising as a result of participating in the All Wales pool.
- An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements.

Any increase in employer contribution rates (as a result of these risks), may in turn impact on the service delivery of that employer and their financial position.

In practice the extent to which these risks can be reduced is limited. However, the Fund's asset allocation is kept under constant review and the performance of the investment managers is regularly monitored.

DEMOGRAPHIC

The demographic risks are as follows:-

- Future changes in life expectancy (longevity) cannot be predicted with any certainty
- Potential strains from ill health retirements, over and above what is allowed for in the valuation assumptions
- Unanticipated acceleration of the maturing of the Fund resulting in materially negative cashflows and shortening of liability durations

Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, result in a greater liability for pension funds.

Ill health retirements can be costly for employers, particularly small employers where one or two costly ill health retirements can take them well above the “average” implied by the valuation assumptions. Increasingly we are seeing employers mitigate the number of ill health retirements by employing HR / occupational health preventative measures. These in conjunction with ensuring the regulatory procedures in place to ensure that ill-health retirements are properly controlled, can help control exposure to this demographic risk. As described above, for smaller employers the Fund has also implemented an internal “captive” approach to spreading the cost of ill-health retirements across a wider employer base. Apart from the regulatory procedures in place to ensure that ill-health retirements are properly controlled, **employing bodies should be doing everything in their power to minimise the number of ill-health retirements**. Early retirements for reasons of redundancy and efficiency do not affect the solvency of the Fund because they are the subject of a direct charge.

With regards to increasing maturity (e.g. due to further cuts in workforce and/or restrictions on new employees accessing the Fund), the Administering Authority regularly monitors the position in terms of cashflow requirements and considers the impact on the investment strategy.

INSURANCE OF CERTAIN BENEFITS

The contributions for any employer may be varied as agreed by the Fund Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs being insured with a third party or internally within the Fund.

REGULATORY

The key regulatory risks are as follows:-

- Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to scheme,
- Changes to national pension requirements and/or HMRC Rules

Membership of the Local Government Pension Scheme is open to all local government staff and should be encouraged as a valuable part of the contract of employment. However, increasing membership does result in higher employer monetary costs.

GOVERNANCE

The Fund has done as much as it believes it reasonably can to enable employing bodies and scheme members (via their trades unions) to make their views known to the Fund and to participate in the decision-making process. This version of the FSS is being consulted on from December 2019 and the final Statement will be formally approved prior to 31 March 2020 in accordance with Council delegations.

Governance risks are as follows:-

- The quality of membership data deteriorates materially due to breakdown in processes for updating the information resulting in liabilities being under or overstated
- Administering Authority unaware of structural changes in employer’s membership (e.g. large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level
- Administering Authority not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates
- An employer ceasing to exist with insufficient funding or adequacy of a bond
- Changes to senior Fund Officers and the Panel membership.

For these risks to be minimised much depends on information being supplied to the Administering Authority by the employing bodies. Arrangements are strictly controlled and monitored, but in most cases the employer, rather than the Fund as a whole, bears the risk.

9

MONITORING AND REVIEW

The Administering Authority has taken advice from the Fund Actuary in preparing this Statement, and has consulted with the employers participating in the Fund.

A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full actuarial valuation. Any review will take account of the current economic conditions and will also reflect any legislative changes.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example, if there:

- has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- have been significant changes to the Scheme membership, or LGPS benefits e.g. resolution of the McCloud remedy
- have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy
- have been any significant special contributions paid into the Fund
- has been a change in Regulations or Guidance which materially impacts on the policies within the funding strategy.

When monitoring the funding strategy, if the Administering Authority considers that any action is required, the relevant employing authorities will be contacted. In the case of admitted bodies, there is statutory provision for rates to be amended between valuations but it is unlikely that this power will be invoked other than in exceptional circumstances.

REVIEW OF CONTRIBUTIONS

In line with the Regulations, the Administering Authority has the ability to review employer contributions or request a full interim valuation. If considered appropriate, the Fund will carry out an interim valuation or a review of contributions for a specific employer or employer(s), if there:

1. has been a significant change in market conditions so that the funding level has changed by [more than 10% over a period of [y] months / the whole Fund funding level drops below 90%],
2. has been a material change in an employer's covenant assessed in line with the policy in Appendix D.
3. the employer has notified the Fund of their intention to exit within the next [x] years. Employers must notify the Fund as soon as they become aware of their planned exit date.
4. has been a deviation in the progress of the funding strategy for the employer.
5. have been significant changes to the Scheme membership, or LGPS benefits.
6. has been a change in employer status.
7. have been any significant special contributions paid into the Fund.
8. have been significant statutory or regulatory changes.

In the normal course of events, contributions will only be reviewed for statutory or tax raising employers as part of a full actuarial valuation (statutory or interim valuation).

Consideration will be given to any cap and collar arrangements when reviewing contribution rates.

In exceptional circumstances, not envisaged in the Funding Strategy Statement, the Fund can apply for a direction from the Secretary of State to carry out an interim valuation. The Secretary of State would also have a power to require interim valuations of the Fund either on representation from funds, scheme employers or of his own motion.

Where the contribution review is triggered by an employer request (e.g. points 2, 3, 4, 5, 6 and 7 above), the costs associated with the review will be included in the assessment of the contributions if deemed appropriate.

[Drafting Note – This has been added following the consultation published by the MHCLG on 8 May 2019 (found here: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/800321/LGPS_valuation_cycle_reform_consultation.pdf). The Funding Strategy Statement and Fund policies may need further adaptation once the consultation process has been completed.]

THE MCCLOUD JUDGMENT

The cost management process was set up by HMT, with an additional strand set up by the Scheme Advisory Board (for the LGPS). The aim of this was to control costs for employers and taxpayers via adjustments to benefits and/or employee contributions.

As part of this, it was agreed that employers should bear the costs/risks of external factors such as the discount rate, investment returns and inflation changes, whereas employees should bear the costs/risks of other factors such as wage growth, life expectancy changes, ill health retirement experience and commutation of pension.

The outcomes of the cost management process were expected to be implemented from 1 April 2019, based on data from the 2016 valuations for the LGPS. This has now been put on hold due to age discrimination cases brought in respect of the firefighters and judges schemes, relating to protections provided when the public sector schemes were changed (which was on 1 April 2014 for the LGPS and 1 April 2015 for other Schemes).

The Government have confirmed that this judgment will result in a remedy being required for the LGPS. The Scheme Advisory Board issued guidance which sets out how the McCloud case should be allowed for within the 2019 valuation.

Therefore, the Fund has considered its policy in relation to costs that could emerge from the McCloud judgment in line with the guidance from the Scheme Advisory Board in conjunction with the Actuary. Whilst the remedy is not known and may not be known for some time, for the purpose of this valuation, when considering the appropriate contribution provision, we have assumed that the judgment would have the effect of removing the current age criteria applied to the underpin implemented in 2014 for the LGPS. This underpin therefore would apply to all active members as at 1 April 2012. The relevant estimated costs have been quantified and included within the contribution requirements and funding level quoted as part of the 2019 actuarial valuation.

[Drafting Note – This paragraph has been added following the guidance issued by the Scheme Advisory Board on 14 May 2019 concerning how to deal with the potential additional liabilities arising from the Cost Cap process and the McCloud and Sargeant age discrimination case (McCloud) (found here: http://www.lgpsboard.org/images/Other/Advice_from_the_SAB_on_McCloud_May_2019.pdf). This may need further adaptation once the outcome of the case is known. The Actuary has calculated the estimated cost to employers as part of the 2019 valuation process.]

APPENDIX A

ACTUARIAL METHOD AND ASSUMPTIONS

METHOD

The actuarial method to be used in the calculation of the solvency funding target 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. This method implicitly allows for new entrants to the scheme on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, an alternative method is adopted, which makes advance allowance for the anticipated future ageing and decline of the current closed membership group potentially over the period of the rates and adjustments certificate.

FINANCIAL ASSUMPTIONS – SOLVENCY FUNDING TARGET

Investment return (discount rate)

The past service discount rate has been derived based on the expected return on the Fund assets based on the long term strategy set out in the Investment Strategy Statement (ISS). It includes appropriate margins for prudence. When assessing the appropriate discount rate consideration has been given to the returns in excess of CPI inflation (as derived below). The discount rate at the valuation has been derived based on an assumed return of 1.7% per annum above CPI inflation i.e. a real return of 1.7% per annum equivalent to a total discount rate of 4.1% per annum. This real return will be reviewed from time to time based on the investment strategy, market outlook and the Fund's overall risk metrics. The discount rate will be reviewed as a matter of course at the time of a formal valuation or a formal employer rate review.

For those employers who are funding on a corporate bond based the discount rate used will be linked directly to the yields available of corporate bond assets of an appropriate duration.

Inflation (Consumer Prices Index)

The inflation assumption will be taken to be the investment market's expectation for RPI inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Scheme's accrued liabilities, but subject to the following two adjustments:

- an allowance for supply/demand distortions in the bond market is incorporated, and
- an adjustment due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index

The overall reduction to RPI inflation to account for the above at the valuation date is 1.0% per annum.

Salary increases

In relation to benefits earned prior to 1 April 2014, the assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.5% per annum over the inflation (CPI) assumption as described above. This includes allowance for promotional increases.

Pension increases/Indexation of CARE benefits

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the CPI (e.g. Guaranteed Minimum Pensions where the LGPS is not required to provide full indexation). For members in pensionable employment, their CARE benefits are also indexed by CPI although this can be less than zero i.e. a reduction in benefits, whereas for pension increases this cannot be negative, as pensions cannot be reduced.

DEMOGRAPHIC ASSUMPTIONS

Mortality/Life Expectancy

The mortality in retirement assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity and the experience of the Fund. The mortality tables used are set out below, with a loading reflecting Fund specific experience. The derivation of the mortality assumption is set out in a separate paper as supplied by the Fund Actuary. A specific mortality assumption has also been adopted for current members who retire on the grounds of ill health. For all members, it is assumed that the accelerated trend in longevity seen over recent time periods (as evidenced in the 2018 CMI analysis) will continue in the longer term and as such, the assumptions build in a level of longevity 'improvement' year on year in the future in line with the CMI 2018 projections and a long term improvement trend of 1.75% per annum.

We have set out the life expectancies at age 65 on the 2019 assumptions.

<u>Membership Category</u>	<u>Male Life Expectancy at 65</u>	<u>Female Life Expectancy at 65</u>
Pensioners	22.9	25.3
Actives aged 45 now	24.4	27.4
Deferreds aged 45 now	22.8	26.1

For example, a male pensioner, currently aged 65, would be expected to live to age 87.9, whereas a male active member aged 45 would be expected to live until age 89.4. This is a reflection of the expected improvement in life expectancy over the next 20 years in the assumptions above.

The mortality before retirement has also been adjusted based on LGPS wide experience.

Commutation

It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take the standard 3/80ths cash sum. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 per annum of pension given up.

Other Demographics

Following an analysis of Fund experience carried out by the Actuary, the incidence of ill health retirements, withdrawal rates and the proportions married/civil partnership assumption have been updated from those adopted for the last valuation. In addition, no allowance will be made for the future take-up of the 50:50 option (an allowance of 10% of current and future members (by payroll) for certain employers was made at the last valuation). Where any member has actually opted for the 50:50 scheme, this will be allowed for in the assessment of the contribution requirements for the next 3 years. Other assumptions are as per the last valuation.

Expenses

Expenses are met out the Fund, in accordance with the Regulations. This is allowed for by adding 0.5% of pensionable pay to the contributions as required from participating employers. This addition is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.

Discretionary Benefits

The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation.

METHOD AND ASSUMPTIONS USED IN CALCULATING THE COST OF FUTURE ACCRUAL (OR “PRIMARY RATE”)

The future service liabilities are calculated using the same assumptions as the funding target except that a different financial assumption for the discount rate is used. A critical aspect here is that the Regulations state that contributions are set at such a level to achieve: full solvency in a reasonable timeframe, and long term cost-efficiency. Long term cost-efficiency implies that contributions must not be set at a level that is likely to give rise to additional costs in the future. The Regulations also state that the Fund Actuary should have regard to the *desirability* of keeping the “Primary Rate” (which is the future service rate) as stable as possible. All of these requirements need to be taken into account when setting the assumptions.

As future service contributions are paid in respect of benefits built up in the future, the Primary Rate should take account of the market conditions applying at future dates, not just the date of the valuation, thus it is justifiable to use a slightly higher expected return from the investment strategy. In addition the future liabilities for which these contributions will be paid have a longer average duration than the past service liabilities as they relate to active members only.

The financial assumptions in relation to future service (i.e. the normal cost) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real discount rate of 2.25% per annum above the long term average assumption for consumer price inflation of 2.4% per annum. This leads to a discount rate of 4.65% per annum.

EMPLOYER ASSET SHARES

The Fund is a multi-employer pension scheme that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving the employer asset share.

In attributing the overall investment performance obtained on the assets of the Scheme to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Scheme as a whole unless agreed otherwise between the employer and the Fund at the sole discretion of the Administering Authority.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share are allowed for when calculating asset shares at each valuation.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.

SUMMARY OF KEY WHOLE FUND ASSUMPTIONS USED FOR CALCULATING FUNDING TARGET AND COST OF FUTURE ACCRUAL (THE "PRIMARY RATE") FOR THE 2019 ACTUARIAL VALUATION

Long-term yields	
Market implied RPI inflation	3.40% p.a.
Solvency Funding Target financial assumptions	
Investment return/Discount Rate	4.10% p.a.
CPI price inflation	2.40% p.a.
Long Term Salary increases	3.90% p.a.
Pension increases/indexation of CARE benefits	2.40% p.a.
Future service accrual financial assumptions	
Investment return/Discount Rate	4.65% p.a.
CPI price inflation	2.40% p.a.
Long Term Salary increases	3.90% p.a.
Pension increases/indexation of CARE benefits	2.40% p.a.

Life expectancy assumptions

The post retirement mortality tables adopted for this valuation are set out below:

Current Status

Retirement Type

Mortality Table

	<u>Normal Health</u>	<u>94% S3PMA_CMI_2018 [1.75%]</u>
<u>Annuitant</u>		<u>92% S3PFA_M_CMI_2018 [1.75%]</u>
	<u>Dependant</u>	<u>124% S3PMA_CMI_2018 [1.75%]</u>
		<u>94% S3DFA_CMI_2018 [1.75%]</u>
	<u>Ill Health</u>	<u>116% S2IMA_CMI_2018 [1.75%]</u>
		<u>134% S2IFA_CMI_2018 [1.75%]</u>
	<u>Future Dependant</u>	<u>123% S3PMA_CMI_2018 [1.75%]</u>
		<u>109% S3DFA_CMI_2018 [1.75%]</u>
<u>Active</u>	<u>Normal Health</u>	<u>100% S3PMA_CMI_2018 [1.75%]</u>
		<u>91% S3PFA_M_CMI_2018 [1.75%]</u>
	<u>Ill Health</u>	<u>116% S2IMA_CMI_2018 [1.75%]</u>
<u>Deferred</u>		<u>140% S2IFA_CMI_2018 [1.75%]</u>
	<u>All</u>	<u>124% S3PMA_CMI_2018 [1.75%]</u>
<u>Future Dependant</u>		<u>109% S3PFA_M_CMI_2018 [1.75%]</u>
	<u>Dependant</u>	<u>127% S3PMA_CMI_2018 [1.75%]</u>
		<u>117% S3DFA_CMI_2018 [1.75%]</u>

Other demographic assumptions are set out in the Fund Actuary's formal report.

APPENDIX B – EMPLOYER RECOVERY PLANS

The Administering Authority's long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period. On an individual employer basis it is very rare for the assets to equal the past service liabilities, so a deficit recovery plan needs to be adopted such that additional contributions are paid into the Fund to meet the shortfall, or adjustments made to run off the surplus (where appropriate).

Deficit contributions paid to the Fund by each employer will be expressed as £s amounts and it is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford based on the Administering Authority's view of the employer's covenant and risk to the Fund.

Recovery periods will be set by the Fund on a consistent basis across employer categories where possible and communicated as part of the discussions with employers. **This will determine the minimum contribution requirement although employers will be free to select any shorter deficit recovery period and/or pay higher contributions if they wish.**

The determination of the recovery periods is summarised in the table below:

Category	Target Deficit Recovery Period	Derivation
Unitary Authorities, and Police & Crime Commissioner	14 years	3 years less than at the 2016 valuation
Mid and West Wales Fire Authority	10 years	Currently in surplus and chosen to smooth the contribution outcome
Open Employers	Normally 11 years	3 years less than at the 2016 valuation
Closed Employers	Minimum of 11 years and the average future working lifetime of the membership	Target recovery period reduced by 3 years but also ensuring consistency of overall contributions versus those on the existing recovery plan
Employers with a limited participation in the Fund	Determined on a case by case basis	Normally the length of expected period of participation in the Fund

In determining the actual recovery period to apply for any particular employer or employer grouping, the Administering Authority may take into account some or all of the following factors:

- The size of the funding shortfall;
- The business plans of the employer;
- The assessment of the financial covenant of the Employer, and security of future income streams;
- Any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.

For any employers assessed to be in surplus, their individual contribution requirements will be adjusted to such an extent that any surplus is unwound over an 11 year period unless agreed with the Administering Authority (if surpluses are sufficiently large, contribution requirements will be set to a minimum nil total amount). The current level of contributions payable by the employer may also be phased down to the reduced level as appropriate.

Over and above this, the Fund is now giving more recognition to the potential liabilities in the event that an employer will exit the Fund at some point. With this in mind, closed employers will normally have their contributions underpinned at existing levels. In addition, any employer in surplus on the ongoing actuarial valuation assumptions will not normally be allowed to use that surplus to offset its future contribution requirements to the Fund. These restrictions will not apply if the body has a surplus on its termination basis: in this event a surplus on the termination basis may be used to offset future contribution requirements.

Other factors affecting the Employer Recovery Plans

As part of the process of agreeing funding plans with individual employers, the Administering Authority will consider the use of contingent assets and other tools such as bonds or guarantees that could assist employing bodies in managing the cost of their liabilities or could provide the Fund with greater security against outstanding liabilities.

It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Administering Authority therefore would be willing to use its discretion to accept an evidenced based affordable level of contributions for the organisation for the three years 2020/2023. Any application of this option is at the ultimate discretion of the Fund officers and Section 151 officer in order to effectively manage risk across the Fund. It will only be considered after the provision of the appropriate evidence as part of the covenant assessment and also the appropriate professional advice.

For those bodies identified as having a weaker covenant, the Administering Authority will need to balance the level of risk plus the solvency requirements of the Fund with the sustainability of the organisation when agreeing funding plans. As a minimum, the annual deficit payment must meet the on-going interest costs to ensure, everything else being equal, that the deficit does not increase in monetary terms.

Notwithstanding the above, the Administering Authority, in consultation with the Fund Actuary, has also had to consider whether any exceptional arrangements should apply in particular cases.

APPENDIX C – TERMINATION POLICY

TERMINATION ASSESSMENT OF AN EMPLOYER'S RESIDUAL PENSION OBLIGATIONS AND METHOD TO CALCULATE BOND/ FINANCIAL GUARANTEES

On the cessation of an employer's participation in the Fund where an employer becomes an exiting employer, the Actuary will be asked to make a termination assessment. Depending on the circumstances of the termination this assessment may incorporate a more cautious basis of assessment of the final liabilities for the employer. Typically this will be where the employer does not have a guarantor in the Fund who has agreed to subsume the orphaned liabilities from the exiting employer.

Where it may be appropriate to use a more cautious basis, the discount rate assumption used will be derived to be consistent with a lower risk investment strategy based on corporate bond yields of an appropriate duration. This is subject to the financial assumptions used being no less cautious than the equivalent valuation assumptions updated appropriately based on the advice of the actuary. The Administering Authority retains the discretion to adopt a different approach (e.g. one based on a "minimum risk" approach) for any particular employer related to the size of the risk and the employer will be notified of this accordingly.

In addition to using a more cautious discount rate, the Actuary will also use a more prudent mortality assumption when assessing the size of the liabilities for termination purposes. In particular, the Actuary will assume a higher improvement rate for future life expectancy than is used for ongoing funding purposes. Where it is appropriate to apply a more cautious assumption, the Actuary will assume that the accelerated trend in longevity seen in recent years will continue in the longer term. The assumption, therefore, will build in a level of longevity 'improvement' year on year in the future in line with the CMI projections subject to a long term improvement trend of 2% per annum for males and females.

The appropriate method adopted depends on the characteristics of the exiting body (and in particular whether there is another employer in the Fund who is prepared to act as sponsor for any residual liabilities) and the risk in the context of the potential impact on other employers' contributions. This is because where liabilities are "orphaned" all employers have to cover any deficits (or surpluses) that arise in relation to these liabilities via their contribution rates at each valuation.

In summary, depending on the employer type, participation basis and covenant there are three alternative approaches to value liabilities on termination and to assess bond requirements:-

1. Assessing the final termination liabilities using assumptions consistent with the most recent valuation basis adjusted as necessary to reflect the expected return outlook in relation to the investment strategy which supports the exiting employer's liabilities.
2. Assessing the final liabilities using a discount rate which is linked to a lower risk investment strategy, so that the calculation of the liabilities will be based on corporate bonds of appropriate duration to the liabilities. In addition, the Actuary will apply the more prudent mortality assumption as described above.

3. Assessing the final liabilities using a discount rate which is based on a “minimum risk” approach where the discount rate will be based on government gilt yields of appropriate duration to the liabilities and a more prudent mortality assumption as above. Typically this will be applied to an employer who would have a material effect on the Fund on exit by leaving significant residual orphan liabilities.

The approach to be adopted would be varied dependent on whether there is a guarantor who participates in the Fund who would be prepared to assume responsibility for the liabilities and the type of participation as follows:-

(I) ADMISSION BODIES PARTICIPATING BY VIRTUE OF A CONTRACTUAL ARRANGEMENT

For employers that are guaranteed by a guarantor (usually the original employer or letting authority), the Fund’s policy at the point of cessation is for the guarantor to subsume the residual assets, liabilities and any surplus or deficit. This is subject to the agreement of all parties involved (i.e. the Fund, the exiting employer and the guarantor) who will need to consider any separate contractual agreements that have been put in place between the exiting employer and the guarantor.

As the guarantor will absorb the residual assets and liabilities, it is the view of the Actuary that the ongoing valuation basis described above should be adopted for the termination calculations. This is the way the initial admission agreement would typically be structured i.e. the admission would normally be fully funded based on liabilities assessed on the valuation basis.

If a guarantor deviates from the policy to subsume the residual assets, liabilities and any surplus or deficit, for future termination events the Fund will not normally allow the guarantor to subsume any residual deficits. In such cases they would normally require the exiting employer to pay off the deficit as a single lump sum.

If the guarantor refuses to take responsibility for the liabilities then the residual deferred pensioner and pensioner liabilities should be assessed on the more cautious basis. In this situation the size of the termination payment would also depend on what happened to the active members and if they all transferred back to the original Scheme Employer (or elsewhere) and aggregated their previous benefits. As the transfer would normally be effected on a "fully funded" valuation basis the termination payment required would vary depending on the circumstances of the case. Where this occurs the exiting employer would then be treated as if it had no guarantor as per the policy below.

(II) OTHER EMPLOYERS WITH A GUARANTOR IN THE FUND

The approach for these will be the same as (i) above and will depend on whether the guarantor is prepared to accept responsibility for residual liabilities.

(III) EMPLOYERS WITH NO GUARANTOR IN THE FUND

These are cases where the residual liabilities would be “orphaned” within the Fund, although it is possible that a bond would be in place. The termination calculation would be on the more cautious basis as noted in 2. above although the approach in 3. above could apply at the discretion of the Administering Authority.

The actuarial valuation and the revision of any Rates and Adjustments Certificate in respect of the outgoing employer must be produced by the Actuary at the time when the employer exits the Fund; the policy will always be subject to change in the light of changing economic circumstances and legislation.

The policy for such employers will be:

- In the case of a surplus, the Fund pays the exit credit to the exiting employer following completion of the termination process (within 3 months of cessation).
- In the case of a deficit, the Fund would require the exiting employer to pay the termination deficit to the Fund as a lump sum cash payment (unless agreed otherwise by the Administering Authority at their sole discretion) following completion of the termination process.

The above funding principles will also impact on the **bond requirements** for bodies. The purpose of the bond is that it should cover any unfunded liabilities arising on termination that cannot be reclaimed from the outgoing body.

RELEVANT REGULATIONS WITHIN THE LOCAL GOVERNMENT PENSION SCHEME REGULATIONS 2013

Regulation 64 sets out special circumstances where revised actuarial valuations and certificates must be obtained including Regulation 64 (2) where an admission agreement ceases to have effect, the Administering Authority who made it must obtain –

- an actuarial valuation as at the date it ceases the liabilities in respect of current and former employees of the admission body which is a party to that admission agreement ("the outgoing admission body"),
- a revision of any rates and adjustments certificate for any Pension Fund which is affected, showing the exit payment due from the exiting body or exit credit payable to the exiting body. Where it is not possible for any reason to obtain revised contributions from the exiting body, or from an insurer or any person providing an indemnity or bond on behalf of the body, the Administering Authority may obtain a further revision of any rates and adjustment certificate for the Pension Fund, showing –
 - a) in the case where the exiting body falls within paragraph 1(d) of Part 3 of Schedule 2 , the revised contributions due from the body which is the related employer in relation to that admission body, and
 - b) in any other case, the revised contributions due from each employing authority who contributes to the fund.

If the Administering Authority becomes aware or is of the opinion of a Scheme employer becoming an exiting employer, Regulation 64 (4) provides that it may obtain from an actuary a certificate specifying, in the case of an admission body, the percentage or amount by which, in the actuary's opinion -

- the contribution at the primary rate should be adjusted, or
- any prior secondary rate adjusted should be increased or reduced, with a view to providing that assets equivalent to the exit payment that will fall due from the Scheme employer are provided to the fund by the likely exit date or, where the Scheme employer is unable to meet the liability by that date, over such period of time thereafter as the administering authority considers reasonable.

DEFERRED DEBT ARRANGEMENTS

Unless agreed otherwise via an employer deferred debt arrangement, an employer ceases to participate within the Fund when the last active member leaves the Fund. This includes where the employer ceases to be eligible for membership e.g. a contract with a local authority comes to an end or the employer chooses to voluntarily cease participation. Where a deferred debt arrangement is agreed, an employer remains liable for deficit contributions which will be reviewed at each actuarial valuation of the Fund.

[Drafting Note – above has been added following the consultation published by the MHCLG on 8 May 2019 as it is possible employers could continue to participate in the Fund with no active members which is commonly referred to as an deferred debt arrangement (found here: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/800321/LGPS_valuation_cycle_reform_consultation.pdf). The Funding Strategy Statement and Fund policies may need further adaptation once the consultation process has been completed. This is distinct from an employer exiting the Fund and agreeing a repayment plan.]

APPENDIX D – COVENANT ASSESSMENT AND MONITORING POLICY

An employer's covenant (including those with no active members who are operating under a deferred debt arrangement) underpins its legal obligation and ability to meet its financial responsibilities now and in the future. The strength of covenant depends upon the robustness of the legal agreements in place and the likelihood that the employer can meet them. The covenant effectively underwrites the risks to which the Fund is exposed, including underfunding, longevity, investment and market forces.

An assessment of employer covenant focuses on determining the following:

- > Type of body and its origins
- > Nature and enforceability of legal agreements
- > Whether there is a bond in place and the level of the bond
- > Whether a more accelerated recovery plan should be enforced
- > Whether there is an option to call in contingent assets
- > Is there a need for monitoring of ongoing and termination funding ahead of the next actuarial valuation?

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital.

RISK CRITERIA

The assessment criteria upon which an employer should be reviewed could include:

- Nature and prospects of the employer's industry
- Employer's competitive position and relative size
- Management ability and track record
- Financial policy of the employer
- Profitability, cashflow and financial flexibility
- Employer's credit rating
- Position of the economy as a whole

Not all of the above would be applicable to assessing employer risk within the Fund; rather a proportionate approach to consideration of the above criteria would be made, with further consideration given to the following:

- The scale of obligations to the pension scheme relative to the size of the employer's operating cashflow
- The relative priority placed on the pension scheme compared to corporate finances
- An estimate of the amount which might be available to the scheme on insolvency of the employer as well as the likelihood of that eventuality.

ASSESSING EMPLOYER COVENANT

The employer covenant will be assessed objectively and its ability to meet their obligations will be viewed in the context of the Fund's exposure to risk and volatility based on publically available information and/or information provided by the employer. The monitoring of covenant strength along with the funding position (including on the termination basis) enables the Fund to anticipate and pre-empt employer funding issues and thus adopt a proactive approach. In order to objectively monitor the strength of an employer's covenant, adjacent to the risk posed to the Fund, a number of fundamental financial metrics will be reviewed to develop an overview of the employer's stability and a rating score will be applied using a Red/Amber/Green (RAG) rating structure.

In order to accurately monitor employer covenant, it will be necessary for research to be carried out into employers' backgrounds and, in addition, for those employers to be contacted to gather as much information as possible. Focus will be placed on the regular monitoring of employers with a proactive rather than reactive view to mitigating risk.

The covenant assessment will be combined with the funding position to derive an overall risk score. Action will be taken if these metrics meet certain triggers based on funding level, covenant rating and the overall risk score

FREQUENCY OF MONITORING

The funding position and contribution rate for each employer participating in the Fund will be reviewed as a matter of course with each triennial actuarial valuation. However, it is important that the relative financial strength of employers is reviewed regularly to allow for a thorough assessment of the financial metrics. The funding position will be monitored (including on the termination basis) by officers based upon advice provided by the Fund Actuary.

COVENANT RISK MANAGEMENT

The focus of the Fund's risk management approach is the identification and treatment of the risks. It will be a continuous and evolving process which runs throughout the Fund's strategy. Mechanisms that will be explored with certain employers, as necessary, will include but are not limited to the following:

1. Parental Guarantee and/or Indemnifying Bond
2. Transfer to a more prudent actuarial basis and investment strategy (e.g. the termination basis)
3. A higher funding target, shortened recovery periods and increased cash contributions
4. Managed exit strategies
5. Contingent assets and/or other security such as escrow accounts.

APPENDIX E - GLOSSARY

Actuarial Valuation: an investigation by the Fund Actuary into the ability of the Fund to meet its liabilities. For the LGPS the Fund Actuary will assess the funding level of each participating employer and agree contribution rates with the Administering Authority to fund the cost of new benefits and make good any existing deficits as set out in the separate Funding Strategy Statement. The asset value is based on market values at the valuation date.

Administering Authority: the council with a statutory responsibility for running the Fund and that is responsible for all aspects of its management and operation.

Admission bodies: A specific type of employer under the Local Government Pension Scheme (LGPS) who do not automatically qualify for participation in the Fund but are allowed to join if they satisfy the relevant criteria set out in the Regulations.

Benchmark: a measure against which fund performance is to be judged.

Best Estimate Assumption: an assumption where the outcome has a 50/50 chance of being achieved.

Bonds: loans made to an issuer (often a government or a company) which undertakes to repay the loan at an agreed later date. The term refers generically to corporate bonds or government bonds (gilts).

Career Average Revalued Earnings Scheme (CARE): with effect from 1 April 2014, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.

CPI: acronym standing for "Consumer Prices Index". CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. The reference goods and services differ from those of RPI. These goods are expected to provide lower, less volatile inflation increases. Pension increases in the LGPS are linked to the annual change in CPI.

Contingent Assets: assets held by employers in the Fund that can be called upon by the Fund in the event of the employer not being able to cover the debt due upon termination. The terms will be set out in a separate agreement between the Fund and employer.

Covenant: the assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term or affordability constraints in the short term.

Deficit: the extent to which the value of the Fund's past service liabilities exceeds the value of the Fund's assets. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).

Deficit recovery period: the target length of time over which the current deficit is intended to be paid off. A shorter period will give rise to a higher annual contribution, and vice versa.

Discount Rate: the rate of interest used to convert a cash amount e.g. future benefit payments occurring in the future to a present value.

Employer's Future Service Contribution Rate (Primary Rate): the contribution rate payable by an employer, expressed as a % of pensionable pay, as being sufficient to meet the cost of new benefits being accrued by active members in the future. The cost will be net of employee contributions and will include an allowance for the expected level of administrative expenses.

Employing bodies: any organisation that participates in the LGPS, including admission bodies and scheme employers.

Equities: shares in a company which are bought and sold on a stock exchange.

Fund Actuary / Actuary: an individual appointed by the Administering Authority who is a Fellow of the Institute and Faculty of Actuaries and is suitably authorised and experienced to perform an LGPS actuarial valuation.

Funding or solvency Level: the ratio of the value of the Fund's assets and the value of the Fund's liabilities expressed as a percentage.

Funding Strategy Statement: this is a key governance document that outlines how the Administering Authority will manage employer's contributions and risks to the Fund.

Investment Strategy: the long-term distribution of assets among various asset classes that takes into account the Funds objectives and attitude to risk.

Government Actuary's Department (GAD): the GAD is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury.

Guarantee / guarantor: a formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's covenant to be as strong as its guarantor's.

Minimum risk funding basis: more cautious funding basis than the existing valuation basis. The relevant discount rate used for valuing the present value of liabilities is based on the yields from Government Bonds or Swaps.

Letting employer: an employer that outsources part of its services/workforce to another employer, usually a contractor. The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer.

Liabilities: the actuarially calculated present value of all benefit entitlements i.e. scheme cashflows of all members of the Fund, built up to date or in the future. The liabilities in relation to the benefit entitlements earned up to the valuation date are compared with the present market value of Fund assets to derive the deficit and funding/solvency level. Liabilities can be assessed on different set of actuarial assumptions depending on the purpose of the valuation.

LGPS: the Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements.

Mandatory scheme employers: Employers that have the statutory right to participate in the LGPS. These organisations (set out in Part 1 of Schedule 2 of the 2013 Regulations) would not need to designate eligibility, unlike the Part 2 Scheme Employers. For example, these include councils, colleges, universities and academies.

Maturity: a general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

Members: The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).

Orphan liabilities: liabilities in the Fund for which there is no sponsoring employer within the Fund. Ultimately orphan liabilities must be underwritten by all other employers in the Fund.

Percentiles: relative ranking (in hundredths) of a particular range. For example, in terms of expected returns a percentile ranking of 75 indicates that in 25% of cases, the return achieved would be greater than the figure, and in 75% cases the return would be lower.

Phasing/stepping of contributions: when there is an increase/decrease in an employer's long term contribution requirements, the increase in contributions can be gradually stepped or phased in over an agreed period. The phasing/stepping can be in equal steps or on a bespoke basis for each employer.

Pooling: employers may be grouped together for the purpose of calculating contribution rates, (i.e. a single contribution rate applicable to all employers in the pool). A pool may still require each individual employer to ultimately pay for its own share of deficit, or (if formally agreed) it may allow deficits to be passed from one employer to another.

Prepayment: the payment by employers of contributions to the Fund earlier than that certified by the Fund Actuary. The amount paid will be reduced in monetary terms compared to the certified amount to reflect the early payment.

Present Value: the value of projected benefit payments, discounted back to the valuation date.

Profile: the profile of an employer's membership or liability reflects various measurements of that employer's members, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc.

Prudent Assumption: an assumption where the outcome has a greater than 50/50 chance of being achieved i.e. the outcome is more likely to be overstated than understated. Legislation and Guidance requires the assumptions adopted for an actuarial valuation to be prudent.

Rates and Adjustments Certificate: a formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation. This is completed by the Fund Actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.

Real Return or Real Discount Rate: a rate of return or discount rate net of (CPI) inflation.

Recovery Plan: a strategy by which an employer will make up a funding deficit over a specified period of time (“the recovery period”), as set out in the Funding Strategy Statement.

Scheduled bodies: types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

Scheme Employers: employers that have the statutory right to participate in the LGPS. These organisations (set out in Part 1 of Schedule 2 of the 2013 Regulations) would not need to designate eligibility, unlike the Part 2 Scheme Employers.

Section 13 Valuation: in accordance with Section 13 of the Public Service Pensions Act 2014, the Government Actuary’s Department (GAD) have been commissioned to advise the Department for Communities and Local Government (DCLG) in connection with reviewing the 2016 LGPS actuarial valuations. All LGPS Funds therefore will be assessed on a standardised set of assumptions as part of this process.

Solvency Funding Target: an assessment of the present value of benefits to be paid in the future. The desired funding target is to achieve a solvency level of a 100% i.e. assets equal to the accrued liabilities at the valuation date assessed on the ongoing concern basis.

Valuation funding basis: the financial and demographic assumptions used to determine the employer’s contribution requirements. The relevant discount rate used for valuing the present value of liabilities is consistent with an expected rate of return of the Fund’s investments. This includes an expected out-performance over gilts in the long-term from other asset classes, held by the Fund.

50/50 Scheme: in the LGPS, active members are given the option of accruing a lower personal benefit in the 50/50 Scheme, in return for paying a lower level of contribution.

DYFED PENSION FUND COMMITTEE Date 02/03/2020

Business Plan 2020 - 2021

To provide the Dyfed Pension Fund Committee with the Business Plan 2020-2021

Recommendations / key decisions required:

The Committee to approve the Business Plan for 2020 - 2021.

Reasons:

To provide the Dyfed Pension Fund Committee with the Business Plan for 2020 - 2021.

Relevant scrutiny committee to be consulted

NA

Exec Board Decision Required NA

Council Decision Required NA

Directorate: Corporate Services

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**EXECUTIVE SUMMARY
DYFED PENSION FUND COMMITTEE
DATE 02/03/2020**

Business Plan 2020 - 2021

The Dyfed Pension Fund business plan describes how the Fund is going to achieve its goals. It lays out the plan from a marketing, financial and operational viewpoint.

DETAILED REPORT ATTACHED ?

YES

IMPLICATIONS

I confirm that other than those implications which have been agreed with the appropriate Directors / Heads of Service and are referred to in detail below, there are no other implications associated with this report :

Signed: **C Moore**

Director of Corporate Services

Policy, Crime & Disorder and Equalities	Legal	Finance	ICT	Risk Management Issues	Staffing Implications	Physical Assets
NONE	NONE	YES	NONE	NONE	NONE	NONE

Finance

The full business plan outlines the priorities for the Dyfed Pension Fund during 2020-2021, ensuring that resources are allocated to meet our objectives.

CONSULTATIONS

I confirm that the appropriate consultations have taken in place and the outcomes are as detailed below

Signed: C Moore

Director of Corporate Services

1. Scrutiny Committee

NA

2. Local Member(s)

NA

3. Community / Town Council

NA

4. Relevant Partners

NA

5. Staff Side Representatives and other Organisations

NA

Section 100D Local Government Act, 1972 – Access to Information

List of Background Papers used in the preparation of this report:

THERE ARE NONE

Title of Document	File Ref No.	Locations that the papers are available for public inspection



Business Plan

2020 - 2021

Dyfed Pension Fund



Administered by:



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Dyfed Pension Fund Business Plan

This Business Plan explains how the **Dyfed Pension Fund** intends to develop and improve its services.

It enables the Fund to focus on achieving agreed targets and helps staff see how they contribute to the overall success of the Dyfed Pension Fund.

about the Dyfed Pension Fund

The Dyfed Pension Fund is one of 101 funds making up the Local Government Pension Scheme.

Carmarthenshire County Council is the statutorily appointed Administering Authority for the Dyfed Pension Fund. It administers the benefits and invests the assets of the Fund.

Carmarthenshire County Council also acts as the administrator for the unfunded Police and Fire pension schemes for Dyfed Powys Police Authority, Mid & West Wales Fire and Rescue Service and North Wales Fire and Rescue Service respectively.

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The Fund's LGPS membership base consists of 47,250 members (as at 31st March 2019) from 48 employing authorities.



how the fund is run



Chairman of the Pension Fund Committee (far left)
Councillor Elwyn Williams

Committee Members (left to right)
Councillor Jim Jones
Councillor Deryk Cundy
Councillor Dai Thomas (Substitute Committee Member)

All pension matters are delegated to the Pension Fund Committee and its members act as 'quasi trustees'.

The Committee delegates the day to day running of the Pension Fund to the Section 151 Officer and the Pensions Administration and Investment teams.

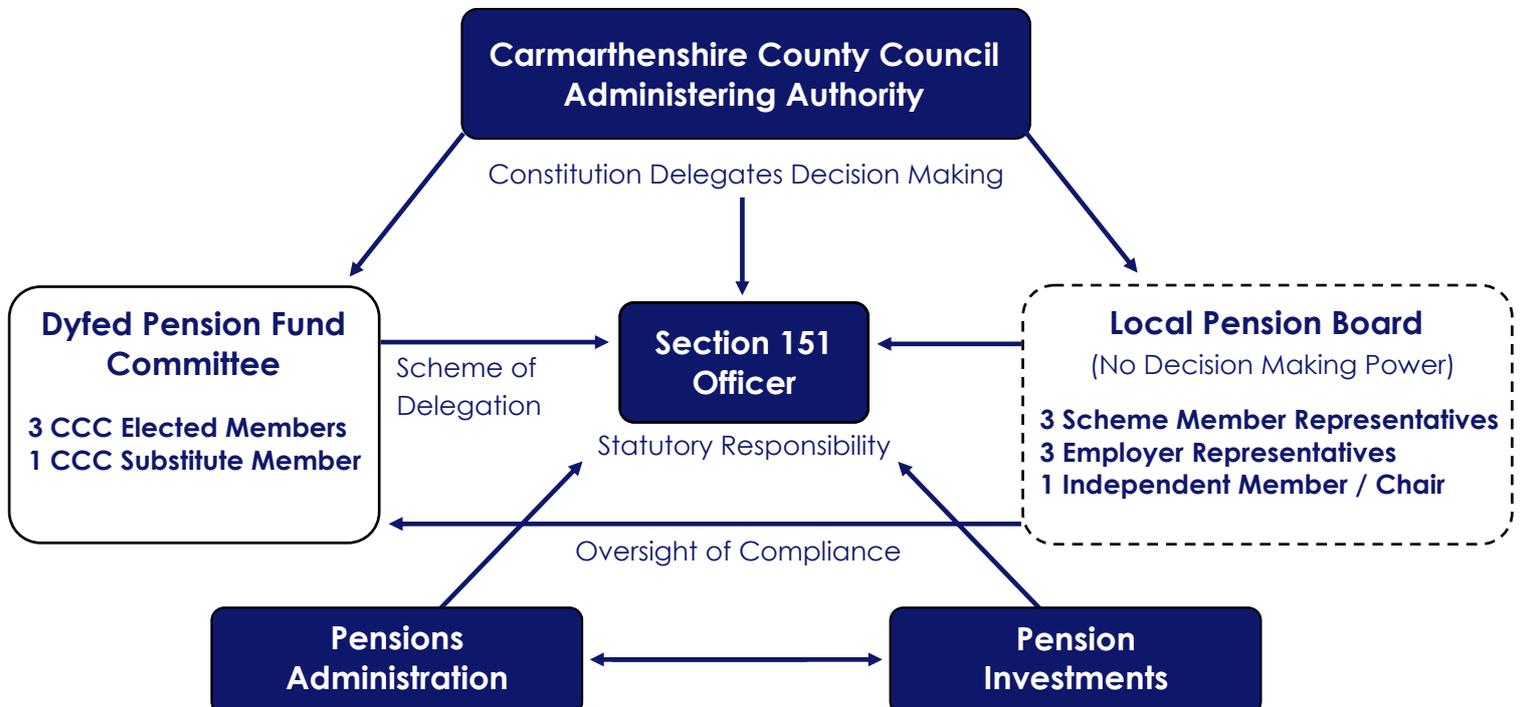
The Pensions Administration and Investment teams are responsible for all aspects of the Fund including administration, accounting, investment and governance.

The Local Pension Board was established on 1 April 2015 under the requirements of the Public Service Pensions Act (PSPA) 2013. It has an oversight/assisting role with the Administering Authority in securing compliance with regulations and requirements and ensuring effective and efficient governance and administration of the Fund. (see below)

The Dyfed Pension Fund aims to provide a high quality service that is transparent, efficient and supportive to all stakeholders

governance of the fund

The relationship between the Dyfed Pension Fund Committee and operational management within Carmarthenshire County Council can be illustrated as follows. The detailed governance of the Fund is set out in the **Governance Policy**.



- The independent investment adviser advises the Committee on all aspects of investment management at quarterly and ad-hoc meetings.
- The custodian (Northern Trust) is responsible for the safe-keeping of the Fund's investment assets, arranges the settlement of sales and purchases and collects income on the investments held.
- The actuary (Mercer) carries out statutorily required fund valuations including the setting of employer contribution rates, IAS 19 schedules and other general actuarial advice.
- The performance management company (PIRC) reviews the performance of the investment manager relative to agreed benchmarks.

principal responsibilities



These responsibilities include:

- **Pension administration services including calculating and paying benefits. To ensure accuracy of the member database in partnership with all stakeholders.**
- **Implementation of the funding strategy to ensure Fund assets are sufficient to meet pension liabilities.**
- **Investing Fund assets, implementing investment strategy, managing external investment managers.**
- **Internal management of assets and promoting responsible investment.**
- **Safekeeping and accounting of Fund assets.**
- **Preparing the Fund's annual report and accounts.**
- **Providing information and guidance on pension issues to employers and others.**

overall goal of the fund

To continuously develop our services by aiming to:

- **Provide excellent customer care**
- **Support and develop staff**
- **Ensure that assets meet scheme liabilities**
- **Reduce the risk of employer contribution rate volatility**



The Fund's customers fall into three categories.



Ministry of Housing,
Communities &
Local Government



Department for Work & Pensions



Scheme Membership as at 31st March 2019

Local Government	
Active Members (Contributors)	18,344
Deferred Pensioners	15,719
Pensioners	13,187
Total Membership	47,250

Employers of the Scheme Members

The Fund is dependant on the information provided by its employers in order to provide and maintain an accurate and effective service to members. The Dyfed Pension Fund has 48 employing authorities participating in the Local Government Pension Scheme as at 31st March 2019.

Regulatory Bodies

The key bodies that the Fund liaise with include:

- **The Ministry of Housing, Communities and Local Government** – the regulatory body responsible for the LGPS.
- **HM Revenues & Customs**
- **The Department for Work & Pensions**

key policy documents

Key policy documents which the reader may wish to refer to are available on the Dyfed Pension Fund website (www.dyfedpensionfund.org.uk):

- **Administration Strategy & Service Standards**
- **Customer Charter**
- **Funding Strategy Statement**
- **Investment Strategy Statement**
- **Communication Policy Statement**
- **Governance Compliance Statement**
- **Governance Policy Statement**



business objectives of the fund



1. To ensure the effective management and governance of the Dyfed Pension Fund in a way that strives for continuous improvement through improved value for money, the promotion of excellent customer service and compliance with all regulatory and best practice requirements.

2. To ensure the proper administration, accounting and reporting of all the Dyfed Pension Fund's financial affairs.



3. To recruit, train, nurture and retain highly motivated staff with the necessary professional, managerial and customer focus skills.

4. To become a recognised role model of best practice amongst LGPS Funds and to be recognised by our customers as providing an excellent service.

5. To establish a strategic asset allocation benchmark which is expected to deliver the required investment return, at an accepted level of risk, in the long term.



6. To ensure that the assets of the Fund match or exceed its liabilities thus minimising and avoiding the volatility of the employers contribution rate.

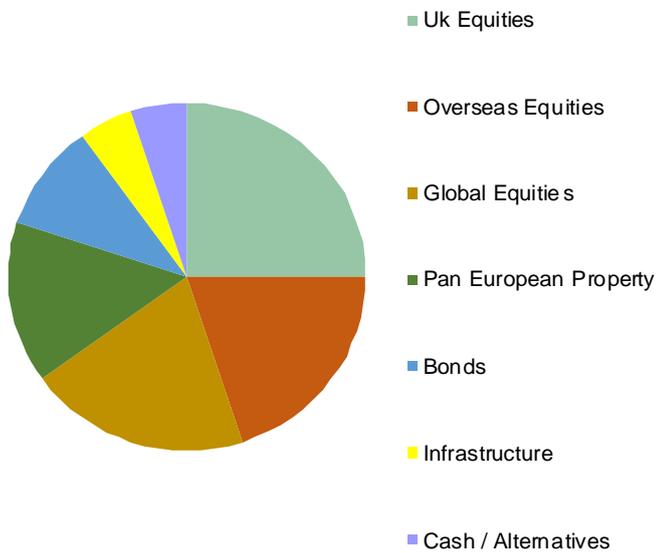
7. To provide a lean, effective, customer friendly benefits administration service, which ensures:

- The calculation and payment of scheme benefits accurately and promptly;
- The accurate maintenance of the records of all members of the Fund; and
- Effective communication, as well as fair explanation and support to the Fund's scheme members and employer bodies.

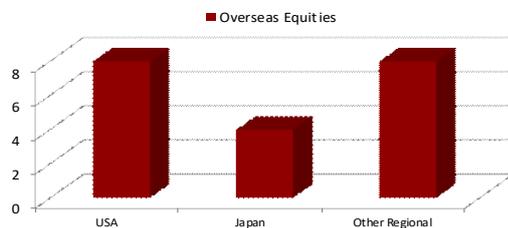


The Fund's performance objectives are encapsulated in its strategic benchmark. The following illustrations show the Fund's investment strategy and benchmarks.

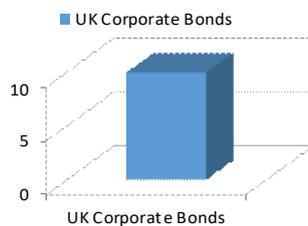
Asset Class



Asset Class	Benchmark (%)
UK Equities	25.00
Overseas Equities	20.00
Global Equities	20.00
Pan European Property	15.00
Fixed Income	10.00
Infrastructure	5.00
Cash / Alternatives	5.00
Total	100.00



Overseas Equities	Benchmark (%)
USA	8.00
Japan	4.00
Other Regional	8.00
Total	20.00



Fixed Income	Benchmark (%)
UK Corporate Bonds	10.00
Total	10.00

The approach to investment of the Fund's assets is built around the policies and practices set out in the Investment Strategy Statement (ISS) and the Funding Strategy Statement (FSS).

The Fund has a range of managers, including the All Wales Pool (Wales Pension Partnership), and expert advisers in place to support its investment objectives detailed in its ISS.

The in-house management is formulated to provide advice on investment management, promote best practice and implement the decisions of the Committee.

Best practice having regard to:

- **Myners' Principles**
- **Professional and industry standards**
- **Wales Audit Office, and other professional bodies' views, codes and recommendations**
- **Investment management regulations**
- **Accounting standards**
- **LGPS Regulations**
- **Overriding pensions legislation**



Partners Group
Passion for Alternative Investments



Schroders

budget

April 2020 - March 2021

key statistics

- **104% Funded as at 31st March 2019**
One of the best funded LGPS schemes
- **19.4% primary employer contribution rate for 2020/2021**
One of the lowest in the LGPS.
- **Investment Return of 6.5% in 2018/2019**
29th out of 61 LGPS Pension Funds in the universe.
- **Market Value of the Fund - £2,570m as at 31st March 2019**

	Budget £'000
Pensions Payable	71,573
Lump Sum, Death benefit, Transfers Out	16,344
Administration fees	689
Investment Management expenses	6,641
Central recharges	1,219
EXPENDITURE	96,466
Employee Contributions	(21,148)
Employer Contributions	(59,800)
Investment Income	(14,018)
Transfers In	(1,500)
INCOME	(96,466)

Ongoing Topic	Main task
Scheme Developments	To implement amendments to the Local Government Pension Scheme as a consequence of legislation changes and any further AVC changes due to Freedom & Choice legislation.
Committee Member training	To provide training for committee members on specific issues ahead of relevant decisions by the Committee.
Keep under review and refresh key policy documents	To seek committee member approval and formally publish documents e.g. Governance Policy, Communication Strategy, etc.
Investment Manager Review	Continuous review of existing managers' performance or new developments in the markets may trigger a review of part or all of the Fund's investments.
Investment Strategy Statement / Funding Strategy Statement	To implement any changes as a result of scheme developments and investment strategy reviews.
Guaranteed Minimum Pension (GMP) Reconciliation	Complete reconciliation of member data to that held by the HMRC in respect of contracted-out membership.
My Pension Online	Continue to promote the service to members.
i-Connect	Implement the i-Connect data exchange for uploading and improving data transfer for employers that wish to transfer data electronically.
Auto Enrolment	Ensure compliance with the implementation of auto enrolment in accordance with the requirement of the Pensions Act.
Improve access to personal information	Improve communication in line with best practice and serve the needs of our members and employers by: <ul style="list-style-type: none"> - developing and keeping up to date the Fund's website. - reviewing existing fact sheets and letters to improve readability.
Continue to develop a high performing team	To have a highly motivated staff team with the necessary professional, managerial and customer skills to provide excellent service.
Review of all Administration Procedures	To identify where more efficient customer focused procedures and processes can be adopted.
Continue to undertake regular road shows / seminars	To improve communications with the Fund's members.
Developing collaboration with other Local Government Pension Funds	Assess the opportunities for further collaboration.
Local Pension Board	Coordinate and provide ongoing support for pension board.
Wales Pension Partnership - Host Authority	Continue to provide Host Authority support to the Wales Pension Partnership.
Developments/New Topic	Main task
New Committee Member training	To provide training for new committee members.
New Local Pension Board Member training	To provide training for new board members.
Custody Services	Review and retender the contract.
Actuarial and Benefit Consultancy Services	Review and tender the contract.
Actuarial Valuation	Implement results of the triennial valuation as at 31 March 2019.
Independent Investment Advisor	Review and retender the contract.
Strategic Asset Allocation	Review the strategic asset allocation of the Fund.
Data Quality	Ensure that the Data Quality scores in respect of both common and scheme specific data which are reported to the Pensions Regulator increase annually.



Contacting the Dyfed Pension Fund...



Pension Administration

Dyfed Pension Fund
Building 2
St David's Park
Carmarthen
SA31 3HB

Pension Investments & Governance

Dyfed Pension Fund
County Hall
Carmarthen
SA31 1JP



pensions@carmarthenshire.gov.uk



www.dyfedpensionfund.org.uk

DYFED PENSION FUND COMMITTEE

Date 02/03/2020

Wales Pension Partnership Link and Russell Update

The Committee to receive an update from Link and Russell on the milestones and progress of the Wales Pension Partnership

Recommendations / key decisions required:

Link and Russell to provide an update on the milestone and progress of the Wales Pension Partnership.

Reasons:

Link and Russell to provide an update on the following key areas:

- Current Fund Holdings
- Fund Launch Progress
- Link / WPP Engagement Protocol

Relevant scrutiny committee to be consulted

NA

Exec Board Decision Required NA

Council Decision Required NA

Directorate: Corporate Services

Chris Moore

Report Author: Chris Moore

Designation: Director of Corporate Services, Carmarthenshire County Council

Tel Nos. 01267 224120

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CMoore@carmarthenshire.gov.uk

**EXECUTIVE SUMMARY
DYFED PENSION FUND COMMITTEE
DATE 02/03/2020**

WALES PENSION PARTNERSHIP LINK AND RUSSELL UPDATE

A report from Link and Russell providing an update on the progress and milestones of the following Sub Funds:

- Tranche 1 – Global Equity
- Tranche 2 – UK and European Equities
- Tranche 3 – Fixed Income
- Tranche 4 – Private Markets

Also, an update on the Engagement Protocol, including key meeting dates.

DETAILED REPORT ATTACHED ?

YES

IMPLICATIONS

I confirm that other than those implications which have been agreed with the appropriate Directors / Heads of Service and are referred to in detail below, there are no other implications associated with this report :

Signed: **C Moore**

Director of Corporate Services

Policy, Crime & Disorder and Equalities	Legal	Finance	ICT	Risk Management Issues	Staffing Implications	Physical Assets
NONE	NONE	NONE	NONE	NONE	NONE	NONE

CONSULTATIONS

I confirm that the appropriate consultations have taken in place and the outcomes are as detailed below

Signed: **C Moore**

Director

1. Scrutiny Committee

NA

2. Local Member(s)

NA

3. Community / Town Council

NA

4. Relevant Partners

NA

5. Staff Side Representatives and other Organisations

NA

Section 100D Local Government Act, 1972 – Access to Information

List of Background Papers used in the preparation of this report:

THERE ARE NONE

Title of Document	File Ref No.	Locations that the papers are available for public inspection

WPP OWG

January 31st 2020

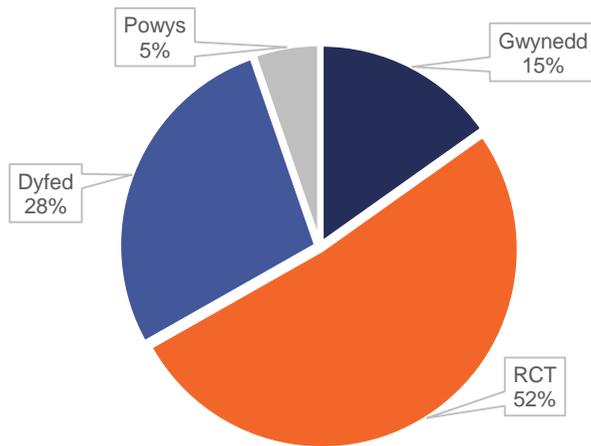
Cardiff County Hall

Current LF Wales PP GG Fund Holdings

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31 December 2019

Global Growth Equity



Net of Fee Returns	Global Growth
AUM	£2,372,559,745
3 Month	3.77%
ITD	14.14%
MSCI ACWI / UK ITD	13.91%*
Excess return ITD	0.23%

* Inception date 6.2.19 for Global Growth

Fund Launch Progress Report

Tranche 3, 4 & 5 updates



Progress to date

Page 148

Tranche 3 (Fixed Income)

Fund structure, manager line-up and fee proposals approved by JGC

- WPP have appointed Hymans as Transition Advisor
- Link, Hymans, Byhiras and the host authority have been involved in the selection process for a Fixed Income Transition Manager
- Link have appointed Blackrock as the Fixed Income Transition Manager
- First call with Blackrock took place on the 31st of October 2019 to go through key project matters
- FCA submission 29th January 2020 following delays with Depositary signoff
- Launch date week commencing 20th April 2020 agreed by all parties

Tranche 4 (Emerging Markets)

- Russell presented emerging markets proposal paper at OWG on the 8th of November
- Tranche 4 Managers and preferred fund structure agreement to take place at OWG 31st Jan 2020

Tranche 5 (Private Markets)

- Private Markets session held on the 23rd January 2020 incl. Russell Investments presentation on Impact Investing
- WPP working with Hymans to develop the proposed Property Fund carve-out

Any other Business

Non fund launch related activity



Further Points for Discussion

Page 14 of 50

Freedom of Information request

- Nov 2019 OWG agreed WPP standard approach to be developed when responding to Fol requests
- Agreement for communication channels to be reached

Performance Reporting

- Overview of key feedback provided to date
- NT performance reporting on EPI funds

Portal Update

- Overview of recent issues / developments

December KPI Snapshot

Transfer Agency

- Dealing & Settlement – Nil
- Calls – Nil
- Distributions – Nil
- Investor Statements – Sent for all funds

Compliance

- Breaches –3 YTD
 - 16th Jan GG launch activity caused processing delays due to delayed receipt of in-specie asset lists
 - 16th Jan GO launch activity caused processing delays due to delayed receipt of in-specie asset lists
 - 14th March GO redemption instruction created an overdraft as the redemption payment was funded incorrectly but was amended with no impact to the fund
- Complaints - Nil

Fund Accounting

- Valuations Produced – 95% within SLA
- Month End Sign-offs – 40% within SLA
- Report & Accounts – Nil

Launch Activity

Fund: N/A

Value: N/A

Authorities: N/A

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DYFED PENSION FUND COMMITTEE

Date 02/03/2020

Independent Adviser Contract

To provide the Dyfed Pension Fund Committee with an update on the Independent Adviser tender

Recommendations / key decisions required:

The Committee to note the update on the Independent Adviser tender.

Reasons:

To provide the Dyfed Pension Fund Committee with an update on the Independent Adviser tender.

Relevant scrutiny committee to be consulted

NA

Exec Board Decision Required NA

Council Decision Required NA

Directorate:Corporate Services

Chris Moore

Report Author: Chris Moore

Designation: Director of
Corporate Services,
Carmarthenshire County
Council

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gov.uk

**EXECUTIVE SUMMARY
DYFED PENSION FUND COMMITTEE
DATE 02/03/2020**

Independent Adviser Contract

To update the pension committee on the Independent Adviser tender.

DETAILED REPORT ATTACHED ?

NO

IMPLICATIONS

I confirm that other than those implications which have been agreed with the appropriate Directors / Heads of Service and are referred to in detail below, there are no other implications associated with this report :

Signed: **C Moore**

Director of Corporate Services

Policy, Crime & Disorder and Equalities	Legal	Finance	ICT	Risk Management Issues	Staffing Implications	Physical Assets
NONE	NONE	NONE	NONE	NONE	NONE	NONE

CONSULTATIONS

I confirm that the appropriate consultations have taken in place and the outcomes are as detailed below

Signed: **C Moore**

Director of Corporate Services

1. Scrutiny Committee

NA

2. Local Member(s)

NA

3. Community / Town Council

NA

4. Relevant Partners

NA

5. Staff Side Representatives and other Organisations

NA

Section 100D Local Government Act, 1972 – Access to Information

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Agenda Item 15

By virtue of paragraph(s) 14 of Part 4 of Schedule 12A of the Local Government Act 1972 as amended by the Local Government (Access to Information) (Variation) (Wales) Order 2007.

Document is Restricted

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Agenda Item 16

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