RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

MUNICIPAL YEAR 2019-2020

PENSION FUND COMMITTEE

23rd MARCH 2020

REPORT OF: THE DIRECTOR OF FINANCE AND DIGITAL SERVICES

AGENDA ITEM NO. 4
REVIEW OF FUND GOVERNANCE AND STRATEGY DOCUMENTS

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1.0 PURPOSE OF REPORT

1.1 This report sets out the Fund Governance and Strategy Documents which fall within the remit of the Committee as detailed in the terms of reference.

2.0 RECOMMENDATIONS

2.1 It is recommended that the Committee :

2.1.1 Review and consider any updates required to the Fund Governance and Strategy Documents as attached at Appendix 1 to 6; and

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

3.0 BACKGROUND

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

Terms of Reference

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3.2 This report sets out for the Committee the relevant Governance and Strategy Documents which fall within its remit and details the reporting arrangements for them.

4.0 GOVERNANCE AND STRATEGY DOCUMENTS

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

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

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

Table 1 – Strategy and Governance Documents

ToR Ref	Document	Committee Date	Comments
i)	Governance Policy	23rd March 2020	**Updated**, revised Policy attached at Appendix 1
i)	Compliance Statement	23rd March 2020	**Updated**, revised Statement attached at Appendix 2

ii)	Funding Strategy Statement	23rd March 2020	**Updated**, revised Statement attached at Appendix 3
iii)	Investment Strategy Statement	23rd March 2020	**Updated**, revised Statement attached at Appendix 4
iii)	Myners Compliance Statement		No change
iii)	Stewardship Code		No Change
iv)	Administration Strategy	23rd March 2020	**Updated**, revised Strategy attached at Appendix 5
v)	Communications Strategy	23rd March 2020	**Updated**, revised Strategy attached at Appendix 6
vi)	Discretions		No Change
vii)	Internal Dispute Resolution Procedure		No Change

5.0 <u>CONCLUSION</u>

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

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APPENDIX 1

RHONDDA CYNON TAF PENSION FUND

PENSION FUND GOVERNANCE POLICY STATEMENT

STRUCTURE & ORGANISATION OF THE RCT PENSION FUND

Updated March 2020

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1. Introduction to Pension Fund Governance

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

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

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

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

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

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

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

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

Pension Fund Management can be divided into two main areas:

Investment Management

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

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

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

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

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

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

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

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

Fund Administration

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

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

There are a number of key liaisons that are maintained:

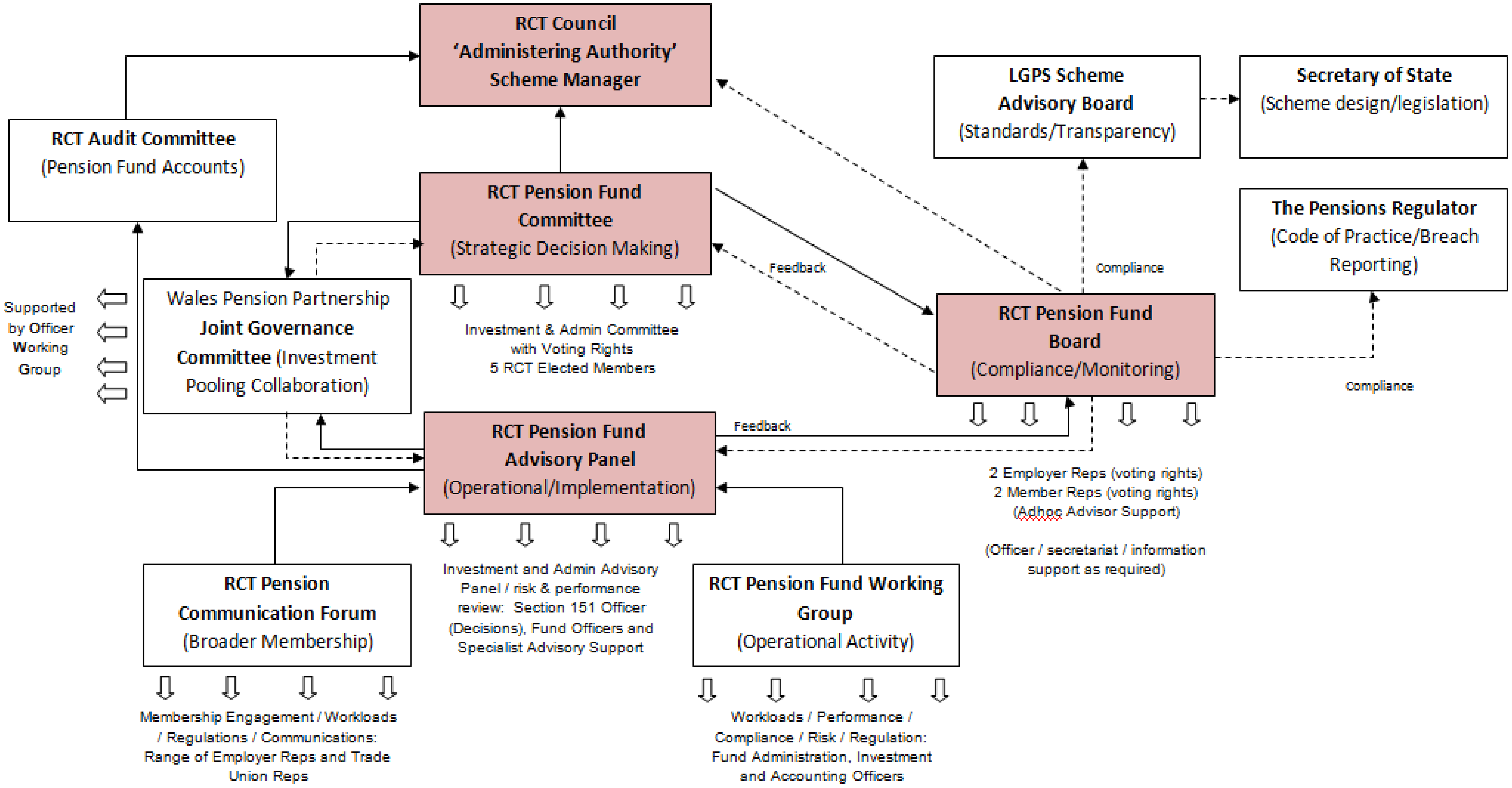
- Scheme Employers (Scheduled / Designated and Admitted Bodies)
- Fund Actuary
- MHCLG / GAD – legislative changes / modelling
- Local Government Association (LGPS)
- LGPS Scheme Advisory Board
- Welsh LGPS Pensions Officer Group
- The Pensions Regulator
- The Pensions Ombudsman

Risk Register

The Fund maintains a risk register to capture and monitor the key risks associated with its activities and the appropriate controls taken to mitigate such risks.

2.

Rhondda Cynon Taf Pension Fund Governance Structure 2020



3. Decision Making & Engagement

Decision Making

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

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

Employer Engagement

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

Scheme Member Engagement

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

In addition, the Fund's Local Pension Board includes representation on behalf of Employer and Scheme Members.

4. RCT Pension Fund Committee

Composition

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

Terms of Reference

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

- Determining the Fund's aims and objectives, strategies, statutory compliance statements, policies and procedures for the overall management of the Fund, including in relation to the following areas:
  - i) Governance – approving the Governance Policy and Compliance Statement for the Fund;
  - ii) Funding Strategy – approving the Fund's Funding Strategy Statement including ongoing monitoring and management of the liabilities, ensuring appropriate funding plans are in place for all employers in the Fund, giving due consideration to the results and impact of the triennial actuarial valuation and interim reports;
  - iii) Investment strategy - approving the Fund's investment strategy, Investment Strategy Statement and Myners Compliance Statement including setting investment targets and ensuring these are aligned with the Fund's specific liability profile and risk appetite;
  - iv) Administration Strategy – approving the Fund's Administration Strategy determining how the Council will the administer the Fund including collecting payments due, calculating and paying benefits, gathering information from and providing information to scheme members and employers;
  - v) Communications Strategy – approving the Fund's Communication Strategy, determining the methods of communications with the various stakeholders including scheme members and employers;
  - vi) Discretions – determining how the various administering authority discretions are operated for the Fund; and
  - vii) Internal Dispute Resolution Procedure – determining how the Scheme Member disputes are administered.

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

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

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

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

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

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

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

Secretarial Function

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

Frequency of Meetings

Quarterly

5. Pension Board

Composition

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

Terms of Reference

To assist Rhondda Cynon Taf County Borough Council Administering Authority as 'Scheme Manger' in -

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

Secretarial Function

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

Frequency of Meetings

Quarterly

6. Investment & Administration Advisory Panel

Composition

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

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

Terms of Reference

The Director of Finance and Digital Services (in their capacity as s151 officer) supported by an Investment and Administration Advisory Panel with appropriate officer, independent advisor and professional support, has delegated responsibility for all day to day operational matters.

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

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

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

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

- Agreeing Fund business plans and monitoring progress against them.

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

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

- Ensuring the Fund is managed and pension payments are made in compliance with the extant Local Government Pension Scheme Legislation, Her Majesty's

Revenue & Customs requirements for UK registered pension schemes and all other relevant statutory provisions.

- Ensuring robust risk management arrangements are in place.
- Ensuring the Council operates with due regard and in the spirit of all relevant statutory and non-statutory best practice guidance in relation to its management of the Fund.
- Monitor investment performance.
- Work with the Fund Actuary to determine the level of employer contributions required from each employer within the Fund, and ensure such contributions are received.

Secretarial Function

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

Frequency of meetings

The Panel meets quarterly.

7. Wales Pension Partnership Joint Governance Committee

Composition

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

Terms of Reference

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

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

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

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

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

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

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

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

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

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

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

- Ensuring that the '**O**fficer **W**orking **G**roup' acts within its remit as set out in the Inter-Authority Agreement

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

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

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

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

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

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

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

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

Secretarial Function

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

Frequency of Meetings

Quarterly (minimum)

8. Pension Fund Working Group

Composition

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

Terms of reference

Reports to Investment and Administration Advisory Panel

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

Secretarial Function

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

Frequency of Meetings

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

9. Pension Fund Communication Forum

Composition

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

Terms of Reference

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

Secretarial Function

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

Frequency of Meetings

Quarterly

10. Pension Fund Discretions Panel

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

Composition

- The Service Director Pensions, Procurement & Transactional Services (Chair)
- The Head of Finance (Education & Financial Reporting)
- The Pensions Service Manager

Terms of Reference

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

Secretarial Function

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

Frequency of meetings

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

11. Internal Dispute Resolution Procedure

Purpose of a Dispute Resolution System

The Government's stated policy intention is that an occupational pension scheme's internal dispute resolution procedure should serve as a filter, to ensure that easily resolved complaints and simple misunderstandings are not referred to the Pensions Ombudsman.

The Local Government Scheme

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

Stage 1

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

Stage 2

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

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

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

Rhondda Cynon Taf Pension Fund

STAGE ONE

Administering Authority Appeals Panel

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

The panel makes decisions and all 2 officers must be in attendance for a decision to be made. Where nominated officers are not available, appropriate deputies attend meetings. The Pensions Service Manager is responsible for presenting individual cases to the panel but is not involved in the decision making process.

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

Composition of the Panel

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

Terms of Reference

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

Secretarial Function

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

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

Frequency of Meetings

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

STAGE TWO

The administering authority's adjudicator deals with stage two appeals for the Rhondda Cynon Taf Pension Fund. This is in accordance with The Ministry of Housing, Communities & Local Government guidance.

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

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

In reconsidering the decision, the Monitoring Officer will: -

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

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

12. Training

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

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

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

13. Monitoring and Review

The Policy Statement shall be reviewed annually at the March meeting of the Investment and Administration Advisory Panel, subject to any significant legislative changes requiring earlier review.

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

APPENDIX 2

RHONDDA CYNON TAF PENSION FUND

PENSION FUND COMPLIANCE STATEMENT

Updated March 2020

STRONG HERITAGE | STRONG FUTURE
RHONDDA CYNON TAF
TREFTADAETH GADARN | DYFODOL SICR

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1. Part II/A Structure

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

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

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

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

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

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

Comments on ratings given above:

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

2. Part II/B Representation

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

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

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

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

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

Comments on ratings given above:

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

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

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

	Not Compliant	Partly Compliant	Mostly Compliant	Fully Compliant
a)				✓

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

Comments on ratings given above:

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

4. Part II/D Voting

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

	Not Compliant	Partly Compliant	Mostly Compliant	Fully Compliant
a)				✓

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

Comments on ratings given above:

Voting rights are extended to the Pension Fund Committee which is politically balanced, and is responsible for the strategic management of the Fund. All operational functions are delegated to the Director of Finance and Digital Services (as the Section 151 Officer or in his absence the Deputy Section 151 Officer).

All Pension Board members are deemed to have equal voting rights with the Chair having the casting vote if a majority decision cannot be reached

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

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

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

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

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

Comments on ratings given above:

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

6. Part II/F Meetings

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

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

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

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

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

Comments on ratings given above:

AGM is held annually where questions can be addressed to members of the main committee,
Communication Forum is held quarterly with representatives from Scheme Employers (including Admitted Bodies), Unions and Scheme Members.
RCT Local Pension Board is made up of two employer and two member representatives. The member representatives represent all categories of members, i.e. active, deferred and pensioner.
RCT Pension Committee meet quarterly.
Wales Pensions Partnership (WPP) Joint Governance Committee meet at least quarterly.

7. Part II/G Access

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

	Not Compliant	Partly Compliant	Mostly Compliant	Fully Compliant
a)				✓

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

Comments on ratings given above:

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

8. Part II/H Scope

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

	Not Compliant	Partly Compliant	Mostly Compliant	Fully Compliant
a)				✓

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

Comments on ratings given above:

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

9. Part II/I – Publicity

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

	Not Compliant	Partly Compliant	Mostly Compliant	Fully Compliant
a)				✓

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

Comments on ratings given above:

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

APPENDIX 3

RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL PENSION FUND

FUNDING STRATEGY STATEMENT

March 2020

Rhondda Cynon Taf County Borough Council Pension Fund

Funding Strategy Statement

SECTION 1

Introduction

Overview

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

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

Consultation

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

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

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

Policy Purpose

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

- establishes a clear and transparent strategy, specific to the Fund, which will identify how employer's pension liabilities are best met going forward
- supports the regulatory requirement in relation to the desirability of maintaining as nearly constant a primary contribution rate as possible
- enables overall employer contributions to be kept as constant as possible and (subject to the Administering Authority not taking undue risks and ensuring that the regulatory requirements are met) at reasonable cost to the taxpayers, scheduled, resolution (designated), and admission bodies
- ensures that the regulatory requirements to set contributions so as to ensure the solvency and long-term cost efficiency of the Fund are met
- takes a prudent longer-term view of funding the Fund's liabilities.

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

Links to investment policy set out in the Investment Strategy Statement

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

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

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

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

Review of this Statement

The Administering Authority undertook its latest substantive review of this Statement in December 2019.

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

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

SECTION 2

Aims and Purpose of the Fund

Purpose of the Fund

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

The Aims of the Fund

The main aims of the Fund are:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SECTION 3

Responsibilities of the Key Parties

Responsibilities of the key parties

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

Their key responsibilities are set out below:

Administering Authority

The Administering Authority's key responsibilities are:

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

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

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

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

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

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

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

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

   - agree timescales for the provision of information and provision of valuation results
   - ensure provision of data of suitable accuracy
   - ensure that the Fund Actuary is clear about the Funding Strategy Statement
   - ensure that participating employers receive appropriate communication throughout the process
   - ensure that reports are made available as required by Guidance and Regulation
   - enable the Pension Committee and Board to review the valuation progress

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

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

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

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

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

Individual Employers

Individual Employers will:

- Deduct contributions from employees' pay.

- Pay all ongoing contributions, including their employer contribution as determined by the Fund Actuary, promptly by the due date.
- Develop a policy on certain discretions and exercise discretions within the regulatory framework.
- Pay for added years in accordance with agreed arrangements.
- Notify the Administering Authority promptly of all changes to membership, or other changes which affect future funding
- Pay any exit payments required in the event of their ceasing participation in the Fund

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The Fund Actuary

The Fund Actuary will**:**

- prepare valuations including the setting of employers' contribution rates at a level to ensure solvency and long term cost efficiency after agreeing assumptions with the Administering Authority and having regard to the Funding Strategy Statement and the Regulations.
- prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters.
- provide advice and valuations on the exit of fund employers.
- provide advice to the Administering Authority on bonds and other forms of security against the financial effect on the Fund of Employer's default
- assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as permitted or required by the regulations
- ensure that the Administering Authority is aware of any professional guidance or other professional requirements, which may be of relevance to their role in advising the Fund.

SECTION 4

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

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

Funding Targets and assumptions regarding future investment strategy

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

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

Scheduled Bodies and certain other bodies

The Administering Authority will adopt a general approach in this regard of assuming indefinite investment in a broad range of assets of higher risk than low risk assets for Scheduled Bodies and certain other bodies which are, or can be treated as if they are long term in nature.

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

The long-term Solvency Target (i.e. the funding objective – where the Administering Authority wants the Fund to get to);

The Trajectory Period (how quickly the Administering Authority wants the Fund to get there); and

The Probability of Funding Success (how likely the Administering Authority wants it to be now that the Fund will actually achieve the Solvency Target by the end of the Trajectory Period).

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

Admission Bodies and bodies closed to new entrants

For Admission Bodies the Administering Authority will have specific regard to the potential for participation to cease (or to have no contributing members), the potential timing of exit from the fund, and any likely change in notional or actual investment strategy as regards the assets held in respect of the Admission Body's liabilities at the date of cessation (i.e. whether the liabilities will become 'orphaned' or whether a guarantor exists to subsume the notional assets and liabilities).

Orphan liabilities

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

Solvency and 'Funding Success'

The Fund's primary aim is long-term solvency. Accordingly, employers' contributions will be set to ensure that 100% of the liabilities can be met over the long term.

The Fund is deemed to be solvent when the assets held are equal to or greater than 100% of the liabilities assessed using appropriate actuarial methods and assumptions. The Administering Authority believes that its funding strategy will ensure the solvency of the Fund because employers collectively have the financial capacity to increase employer contributions should future circumstances require, in order to continue to target a funding level of 100%.

For Scheduled Bodies and Admission Bodies where a Scheme Employer of sound covenant has agreed to subsume its assets and liabilities following cessation, the Solvency Target is set :

- at a level advised by the Fund Actuary as a prudent long-term funding objective for the Fund to achieve at the end of the Trajectory Period,
- based on continued investment in a mix of growth and matching assets intended to deliver an overall return above the rate of increases to pensions and pensions accounts (Consumer Price Index (CPI)).

As at 31 March 2019 the long-term rate of CPI is assumed to be 2% p.a. and a prudent long-term investment return of 2% above CPI is assumed. As at 31 March 2019 the solvency discount rate is therefore 4% p.a.

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

Probability of Funding Success

The Administering Authority considers funding success to have been achieved if the Fund, at the end of the Trajectory Period, has achieved the Solvency Target. The Probability of Funding Success is the assessed chance of this happening based on the level of contributions payable by members and employers and asset-liability modelling carried out by the Fund Actuary.

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

Funding Target

The Funding Target is the amount of assets which the Fund needs to hold at the valuation date to pay the liabilities at that date as indicated by the chosen valuation method and assumptions and the valuation data. The valuation calculations, including future service contributions and any adjustment for surplus or deficiency set the level of contributions payable and dictate the chance of achieving the Solvency Target at the end of the Trajectory Period (defined below). The key assumptions used for assessing the Funding Target are summarised in Appendix 1.

Consistent with the aim of enabling the primary rate of employers' contributions to be kept as nearly constant as possible, contributions are set by use of the Projected Unit valuation method for most employers. The Projected Unit method is used in the actuarial valuation to determine the cost of benefits accruing for employers who continue to admit new members. This means that the future service contribution rate is derived as the cost of benefits accruing to employee members over the year following the valuation date expressed as a percentage of members' pensionable pay over that period. The future service rate will be stable if the profile of the membership (age, gender etc) is stable.

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

Funding Targets and assumptions regarding future investment strategy

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

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

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

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

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

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

Other Aspects of Funding Strategy

Recovery Periods

Where a valuation reveals that the Fund is in surplus or deficiency against the Funding Target, employer contribution rates will be adjusted to target restoration of full funding over a period of years (the Recovery Period). The Recovery Period applicable for each participating employer is set by the Fund Actuary in consultation with the Administering Authority and the employer, with a view to balancing the various funding requirements against the risks involved due to such issues as the financial strength of the employer and the nature of its participation in the Fund.

The Administering Authority recognises that a large proportion of the Fund's liabilities are expected to arise as benefit payments over long periods of time. For employers of sound covenant, and in the context of the LGPS as a statutory scheme the Administering Authority is prepared to agree to Recovery Periods which are longer than the average future working lifetime of the membership of that employer. The Administering Authority recognises that when employers have a deficit in the Fund such an approach is consistent with the aim of keeping employer contribution rates as nearly constant as possible. However, the Administering Authority also recognises the risk in relying on long recovery periods and has agreed with the Fund Actuary a limit of 22 years for employers in surplus and 19 years for employers in deficit. The Administering Authority's policy is to agree Recovery Periods which strike an appropriate balance between risk; affordability and stability of contributions within this framework.

Grouping

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

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

All employers in the Fund are grouped together in respect of the risks associated with payment of benefits on death in service and tier 1 and 2 ill-health benefits – in other words, the cost of such benefits is shared across the employers in the Fund. These benefits can cause funding strains which could be significant for some of the smaller employers without insurance or sharing of risks. The Fund, in view of its size, does not see it as cost effective or necessary to insure these benefits externally and this is seen as a pragmatic and low cost approach to spreading the risk.

Currently there is one group of employers in the Fund pooled together for funding and contribution purposes. This group is funded on the same funding target as the main scheduled bodies. All risks are shared within this group apart from the payment of deficit contributions.

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

Stepping

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

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

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

Long term cost efficiency

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

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

Inter-valuation funding calculations

In order to monitor developments, the Administering Authority may from time to time request informal valuations or other calculations. Generally, in such cases the calculations will be based on an approximate roll forward of asset and liability values, and liabilities calculated by reference to assumptions consistent with the most recent preceding valuation. Specifically, it is unlikely that the liabilities would be calculated using individual membership data, and nor would the assumptions be subject to the same level of review as occurs at formal triennial valuations.

Notional Sub-Funds for individual employers

Notional sub-funds

In order to establish contribution rates for individual employers or groups of employers it is convenient to notionally subdivide the Fund as a whole between the employers (or group of employers where grouping operates), as if each employer had its own notional sub-fund within the Fund.

This subdivision is for funding purposes only. It is purely notional in nature and does not imply any formal subdivision of assets, nor ownership of any particular assets or groups of assets by any individual employer or group. The sub-Fund notionally allocated for the purpose of determining ongoing contributions may differ to that allocated at exit.

Roll-forward of sub-funds

The notional sub-fund allocated to each employer's liabilities for determining ongoing contributions during its period of participation in the Fund will be rolled forward allowing for all cashflows associated with that employer's membership, including contribution income, benefit outgo, transfers in and out and investment income allocated as set out below. In general, no allowance is made for the timing of contributions and cashflows for each year are assumed to be made half way through the year with investment returns assumed to be uniformly earned over that year. However, where significant one-off employer related cashflows have been received or paid, allowance is made for the timing of such contributions.

Further adjustments are made for:

- A notional deduction to meet the expenses paid from the Fund in line with the assumption used at the previous valuation.
- Allowance for death in service lump sum benefits shared across all employers in the Fund (see above)
- Allowance for any known material internal transfers in the Fund (cashflows will not exist for these transfers). The Fund Actuary will assume an estimated cashflow equal to the value of the liabilities determined using non club cash equivalent transfer value factors transferred from one employer to the other unless some other approach has been agreed between the two employers.
- An overall adjustment to ensure the notional assets attributed to each employer is equal to the total assets of the Fund, which will take into account any gains or losses related to the orphan liabilities.

In some cases information available will be incomplete and in such circumstances and where, in the opinion of the Fund Actuary, the cashflow data which is unavailable is of low materiality, estimated cashflows will be used.

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

Attribution of investment income	Where the Administering Authority has agreed with an employer that it will have a tailored asset portfolio assumed to be allocated to its notional sub-fund, the assets notionally allocated to that sub-fund will be credited with a rate of return appropriate to the agreed notional asset portfolio. Where the employer has not been allocated a tailored notional portfolio of assets, the assets notionally allocated to that employer will be credited with the rate of return earned by the Fund assets as a whole, adjusted for any return credited to those employers for whom a tailored notional asset portfolio exists.

SECTION 5

Special Circumstances related to Employers

Interim reviews for Admission Bodies

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

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

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

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

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

Guarantors

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

- If an Admission Body ceases and defaults on any of its financial obligations to the Fund, the Guarantor is expected to provide finance to the Fund such that the Fund receives the amount certified by the Fund Actuary as due, including any interest payable thereon.
- If the Guarantor is an employer in the Fund and is judged to be of suitable covenant by the Administering Authority, the Guarantor may defray some of the financial liability by subsuming the residual liabilities into its own pool of Fund liabilities. In other words, it agrees to be a source of future funding in respect of those liabilities should future deficiencies emerge.
- During the period of participation of the Admission Body, a Guarantor can at any time agree to the future subsumption of any residual liabilities of an Admission Body. The effect of that action would generally be to reduce the Funding Target for the Admission Body, which would probably lead to reduced contribution requirements.

Bonds and other securitization

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

Where the level of risk identified by the assessment is such as to require it, the Admission Body shall enter into an indemnity or bond with an appropriate party.

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

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

a) In the case of Transferee Admission Bodies and Admission Bodies admitted under Schedule 2 Part 3

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

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

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

Subsumed liabilities

Where an employer is ceasing participation in the Fund such that it will no longer have any contributing members, it is possible that another employer in the Fund agrees to provide a source of future funding in respect of any emerging deficiencies in respect of those liabilities.

In such circumstances the liabilities are known as subsumed liabilities (in that responsibility for them is subsumed by the accepting employer). For such liabilities, the Administering Authority will assume that the investments held in respect of those liabilities will be the same as those held for the rest of the liabilities of the accepting employer. Generally, this will mean assuming continued investment in a mix of growth and matching assets.

Orphan liabilities

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

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

To the extent that the Administering Authority decides not to match these liabilities with Government bonds of appropriate term then any excess or deficient returns will be added to or deducted from the investment return to be attributed to the employer's notional sub-fund.

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

Exit of employers

Where an employer exits the Fund, an exit valuation will be carried out in accordance with Regulation 64. That valuation will take account of any activity as a consequence of cessation of participation regarding any existing contributing members (for example any bulk transfer payments due) and the status of any liabilities that will remain in the Fund.

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

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

Orphan liabilities

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

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

Subsumed liabilities

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

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

SECTION 6

Identification of risks and counter measures

Approach

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

The Administering Authority will monitor the risks to the Fund, and will take appropriate action to limit the impact of these both before, and after, they emerge wherever possible. The Administering Authority will ensure that funding risks are included within their overarching risk management framework and strategy, linking to their risk register and risk management policy as appropriate and includes defining a role for the Local Pension Board within this framework.

Investment Risk

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

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

The specific risks associated with assets and asset classes are:

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

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

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

Climate change

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

Liability risk

The main risks include discount rates, pay and price inflation, changing retirement patterns, mortality and other demographic risks.

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

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

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

Liquidity and Maturity risk

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

- budget cuts and headcount reductions could reduce the active (contributing) membership and increase the number of pensioners through early retirements;
- an increased emphasis on outsourcing and other alternative models for service delivery may result in falling active membership (e.g. where new admissions are closed),
- public sector reorganisations may lead to a transfer of responsibility between different public sector bodies, (e.g. to bodies which do not participate in the LGPS),
- scheme changes, for example lower member contributions, as provisionally agreed as part of the Scheme Advisory Board cost management process will lead to lower member contributions which may not be immediately matched by higher employer contributions,
- an increase in the take-up of the 50/50 option (whether on affordability grounds or to avoid tax charges) will reduce member contributions to the Fund

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

Regulatory and compliance risk

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

How Government will address the issues of GMP indexation and equalisation beyond expiry of the current interim solution from 6 April 2021

The outcome of the McCloud/Sargeant cases which ruled that the transitional protections implemented in the Firefighters' and Judges' Pension Schemes were illegal age discrimination, and what the remedy might be in the LGPS in terms of its scope and form.

The outcome of the cost management process and whether the agreement reached in relation to the Scheme Advisory Board (SAB) process for member contributions to be reduced and benefits enhanced to achieve an additional cost of 0.9% of pay.

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

There are a number of consultations which have been issued in recent years, some of which represent proposed changes which were first raised a number of years ago, including a cap on exit payments by public sector employers, new Fair Deal arrangements and greater flexibility on employer exit from the LGPS. Some of these may affect funding and pose a risk to the Fund. The Government has also consulted on changes to the valuation cycle although the Administering Authority understands that the 2022 valuation is going ahead as previously planned.

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

Employer risk

These risks arise from the ever-changing mix of employers, from short-term and ceasing employers, and the potential for a shortfall in payments and/or orphaned liabilities.

The Administering Authority maintains a knowledge base on its employers, their basis of participation and their legal status (e.g. charities, companies limited by guarantee, group/subsidiary arrangements) and uses this information to inform the FSS. It has also developed a framework for analysing the risk posed by the most material Tier 3 employers to the Fund which continue to admit new entrants and operates different funding targets to reduce the risk of employers failing and exiting the Fund with a material shortfall relative to the exit liabilities. It does not consider it appropriate (or affordable for the employers concerned) to eliminate the risk of an unmet exit deficit and will ask the Fund Actuary to review the funding position of the short-term and Tier 3 employers between triennial valuations where it believes this is appropriate.

Governance risk

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

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

Early retirement strain payments

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

Employers with small and declining number of contributing members

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

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

Bodies ceasing to exist with unpaid deficiency

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

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

Recovery period risk

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

Stepping risk

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

APPENDIX 1

Actuarial Valuation as at 31 March 2019

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

Method and assumptions used in calculating the funding target

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

Principal assumptions

Investment return (discount rate)

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

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

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

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

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

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

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

Salary increases

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

Pension increases

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

Mortality

Post-retirement Mortality

Base Rates

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

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

Scaling Factors

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

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

Future improvement to base rates

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

Pre-retirement mortality

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

Retirement age

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

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

Withdrawals

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

Retirement due to ill health

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

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

Family details

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

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

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

Commutation

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

Take up of 50/50 scheme

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

Promotional salary increases

Allowance is made for age-related promotional increases.

Expenses

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

Method and assumptions used in calculating the cost of future accrual

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

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

McCloud/Cost Cap

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

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

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

GMP indexation/equalisation

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

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

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

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

APPENDIX 4

RHONDDA CYNON TAF PENSION FUND

INVESTMENT STRATEGY STATEMENT

1. Overall Responsibility

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

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

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

- Service Director – Finance and Improvement Services
- Service Director – Pensions, Procurement and Transactional Services
- Head of Finance (Education and Financial Reporting)
- Principal Accountant, Treasury and Pension Fund Investments
- Senior Accountant, Treasury and Pension Fund Investments

Two Independent Investment Advisers are standing attendees and they help guide and shape discussions, comment on key developments and provide information on market developments.

The Council will employ an investment consultant to provide regulated investment advice where required.

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

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

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

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

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

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

2. Primary Objective

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

3. Funding Objectives

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

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

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

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

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

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

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

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

The Fund is diversified into the following asset classes:
- Equities
- Bonds
- Property
- Cash

The Fund commissioned an Asset / Liability review in 2017, the fundamental aim of which was to position the Fund's investments in order to:-
- Reduce risk
- Maintain (as far possible) return expectations
- Minimise long term costs
- Increase diversification
- Optimise the transitioning of assets into the Pool
- Introduce Infrastructure (align to Pool aspiration)

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

Aon Hewitt, an Investment Consultant was appointed to give regulated advice on the risk/return of the Pensions Fund's current investment strategy. Following on from this they were requested to comment and recommend alternatives that could deliver the Fund's long term objectives.

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

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

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

		Proposed Step 1	Proposed Step 2	Proposed Step 3
Asset Class	**Current Allocation**	**Current Benchmark**	**Strategy (1)**	**Strategy (2)**
Total Equities	**74.80%**	**63%**	**63%**	**58%**
Total Alternatives	**5.40%**	**10%**	**20%**	**25%**
Absolute Return Bonds			10%	10%
Infrastructure				5%
Property	5.40%	10%	10%	10%
Total Bonds & Cash	**19.80%**	**27%**	**17%**	**17%**
Fixed Interest	8.50%	12.50%	7.50%	7.50%
UK Corporate Bonds	9.40%	12.50%	7.50%	7.50%
Cash	1.90%	2%	2%	2%

This strategy will be subject to review following the results of the 2019 Fund Valuation.

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

Asset Class	**Target % of Fund**	***Max. % of Fund***
Equities	58%	75%
Fixed Interest (Bonds)	15%	35%
Absolute Return Bonds	10%	15%
Property	10%	15%
Infrastructure	5%	10%
Cash	2%	5%

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

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

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

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

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

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

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

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

The following demonstrates the allocation of the Fund as at March 2019 :-

	% of Fund Invested
UK Equities	9%
Overseas Equities	
US	8%
Continental Europe	5%
Other Int'l Equities	5%
Pooled Global Equites	40%
Total Bonds	24%
Property	8%
Cash & Deposits	1%

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

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

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

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

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

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

Investment Risk

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

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

The specific risks associated with assets and asset classes are:

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

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

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

The requirement is to move towards 100% funding over a period of time. The funding level is calculated triennially, following an actuarial review.

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

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

Portfolio	Portfolio Benchmark Index	Portfolio Target
Traditional equity manager	UK - FTSE All Share US – FTSE All World Europe – FTSE All World Europe Far East – FTSE All World Developed Asia Other Intl – MSCI Emerging Index	Composite Index +1% pa over rolling 3 year period
Global passive equity manager	FTSE A W All World	Index
Global high alpha managers	MSCI All Countries World Index	Index + 2% over rolling 3 year period
Fixed Interest Manager	UK Govn Bonds – FTS UK Govn All Stocks UK Corporate – IBoxx GBP Non Gilts	Composite Index +0.5% pa over rolling 3 year period
Property Manager	CPI	Index +4.5%

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

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

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

Investment Managers also have investment restrictions as follows:

Investment Restrictions per Mandate

	Total Gov. Bond Expos. Min 30% Max 70%	Non Gov Exp min 30% max 70%	Over-seas Exp 30% limit	Max. Hold'g of 15% on pooled vehicles	Max. 10% in any one single hold'g	Max. of 10% held in cash	Max. of 5% held in cash	No single overs's equity exceed 5% of total value of fund	Max. holding of 25% in trust scheme	Max 25% in Emerg Markets	Max. holding of 25% in OEIC scheme	Max. 10% in any overseas holding (added jan 16)
BMOGAM Bonds	X	X	X	X								
Baillie Gifford Traditional					X	X		X	X			
WPP Global Growth Fund					X	X			X			
WPP Global Opportunities Fund					X				X	X		
Blackrock Passive Eqs	NO LIMITS AS POOLED FUND											
CBRE Property					X		X					

The Committee has agreed that the Fund's Fixed Interest investments be transitioned into the WPP and will be managed on an active basis for UK Corporate Bonds and passively for UK Gilts. This transition is anticipated during the first half of 2020.

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

Environmental, Social and Governance risks

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

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

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

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

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

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

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

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

- Generate consistent net of fee excess returns.
- Diversify manager risk.
- Reduce average manager fees.

- Achieve tax efficiency by reclaiming withholding tax on dividends (for non-UK equity sub-funds).
- Equitably share the costs of transitioning into sub-funds.

Progress continues to be made by the Wales Pension Partnership (WPP) in the establishment of appropriate sub funds to satisfy the investment objectives across the Welsh Funds. Sub funds for the collective investing of assets have already been launched relating to Global High Alpha Equities and UK / European Equities. The next phase relates to Fixed Interest with five sub funds being launched – global gilts, global corporates, UK corporates, multi asset credit and absolute return bonds.

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

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

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

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

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

The six principles are:

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

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

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

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

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

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

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

The Fund recognises the focus and financial risks associated with climate change, fossil fuels and carbon management. The Fund remains committed to an orderly carbon transition and has set out its approach in appendix 1 to this Investment Strategy Statement.

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

9. Exercise of Voting Rights attached to investments.

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

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

All the Fund's active equity investment managers are expected to exercise their voting rights to promote good corporate governance and social and environmental responsibility. A proportion of stock is held back from stock lending activities to facilitate this.

The Fund has agreed a voting template which incorporates best practice governance guidelines. An independent voting agency is employed to monitor and compare the voting records of the Fund’s segregated managers against this template. The Managers provide quarterly voting activity reports.

10. Myners Principles of Good Investment Guidance.

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

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

Appendix 1

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

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

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

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

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

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

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

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

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

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

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

Principles

1. Responsible Investor

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

2. Asset allocation

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

3. Investment Managers

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

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

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

4. Stakeholder engagement

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

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

5. Long Term and alignment to global goals

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

6. Working Together

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

7. Risk Mitigation

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

8. Transparency

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

APPENDIX 5

RHONDDA CYNON TAF PENSION FUND

PENSION FUND ADMINISTRATION STRATEGY

updated March 2020

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1. Introduction

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

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

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

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

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

2. Regulatory Framework

Pension Administration Strategy **Commencement Date: 01 April 2014 (as updated March 2019)**
Regulation 59(1) of the LGPS (Administration) Regulations 2013 *(see Appendix 1)* enables a Local Government Pension Scheme Administering Authority to prepare and maintain an 'Administration Strategy'. Related legislation includes: Local Government Pension Scheme Regulations 2013 Local Government Pension Scheme (Transitional Provisions and Savings) Regulations 2014 Local Government Pension Scheme (Benefits, Membership & Contributions) Regulations 2007; Local Government Pension Scheme (Transitional Provisions) Regulations 2008; Local Government Pension Scheme (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000; Occupational Pension Schemes (Disclosure of Information) Regulations 1996. and amendments to the aforementioned regulations.
This document has been presented, considered and ratified by the Section 151 Officer (Investment & Administration Advisory Panel) in March 2019

3. Liaison & Communication

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

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

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

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

Employers Annual General Meeting

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

Employer Communications Forum

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

Local Pension Board

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

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

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

Pension Fund Committee

The Pension Fund Committee was established in May 2016 and considers and agrees Fund strategic decisions.

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

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

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

Pension Fund Annual Report

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

Website

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

Contacts Database

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

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

Meetings with Individual Employers

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

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

Practitioner Training

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

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

4. Standards of Service

Employing Authority Responsibilities

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Form	Standard	Timescale
Welcome Pack	Ensure that a new starter has received a 'Welcome Pack' within **1 month** of becoming a scheme member.	1 month
NI4	Where a material change in circumstances occurs, unless change is notified by I-connect, the appropriate form (NI4) should be forwarded to the Pension Fund within **10 working days**.	10 working days
Leave of Absence	Where a member has been granted a period of authorised unpaid leave the employer must provide the employee, when they return to work, with details of the Assumed Pensionable Pay during the period of leave and confirm which section of the scheme they are in. The member then has the choice to buy back the "lost" pension by paying an Additional Pension Contribution (APC). The cost of the APC should be calculated by the member using the online calculator which can be found on www.lgpsmember.org. If the member opts not to buy back the pension the employer must notify the Administering Authority of the break in service. There are no time limits placed on the member to purchase an APC however the cost will increase as the member gets older.	APC application to be sent to Administering Authority as soon as practicable after member has made their decision
Maternity	Pension contributions are payable during a period of ordinary paid maternity leave. For any periods of additional unpaid maternity leave the Employer must inform the member on their return to work of the Assumed Pensionable Pay for the period of unpaid maternity leave and confirmation of which section of the scheme they are in. The member then has the choice to buy back the "lost" pension by paying an Additional Pension Contribution (APC). The cost of the APC should be calculated by the member using the online calculator which can be found on www.lgps2014.org. The Employer should issue forms to member to establish whether the member wishes to pay contributions in respect of the unpaid maternity leave or whether they wish this period to be treated as break in service.	APC application to be sent to Administering Authority as soon as practicable after member has made their decision

CPINFO GPR EOY YY/YY Data Query	A written response to any general service enquiry including year end, raised in writing or by E-mail, within **15 working days** of receipt. Where the Employer considers a request to be of a particularly complex nature, requiring more time, the Pension Fund shall be informed of the likely timescale for completion.	15 working days
NI2 (Termination Form)	The Employer must submit a notification that an employee has left the Scheme by providing the appropriate leaver forms (NI2) within **10 working days** of the employee leaving the Scheme. Where a member leaves with an entitlement to immediate payment of pension benefits the NI2 form where possible shall be provided before the member retires and in any event within **5 working days** of the member's retirement. Where a member dies in service the Pension Fund shall be notified within **5 working days** of the death of the member	10 working days 5 working days 5 working days
N/a	The Employer shall distribute any information provided by the Pension Fund for their membership and/or potential membership within **10 working days** of its receipt.	10 working days

Administering Authority Responsibilities

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

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

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

4.24 To notify each member regarding the counting of service.

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

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

4.27 To supply beneficiaries with details of their entitlements.

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

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

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

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

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

Pension Fund Report
Pensioners Newsletter

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

- Dedicated Contact
- Guidance Notes
- Global Bulletins
- Staff Development Training
- Website
- Helpdesk

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

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

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

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

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

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

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

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

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

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

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

Unsatisfactory Performance

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

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

Cost Recovery — TABLE 3

Where disproportional costs have been incurred to the detriment of other Employers within the Fund as a direct result of an Employer's repeated lack of compliance, Rhondda Cynon Taf Pension Fund will seek to recover these additional costs from the respective Employer:

These circumstances are (but are not limited to):

- Persistent failure to provide relevant and timely information to the Administering Authority, Scheme Member or other interested party in accordance with the agreed service standards (as set out in Section 4, Table 1) and the Scheme expectations;
- Additional cost incurred in providing 'Employer specific' specialist third party advice in administering the Scheme on behalf of the employer, including but not exclusive to actuarial services, occupational medical practitioner services and legal services.
- Instances where the performance of the Employing Authority has directly contributed to fines being levied against the Administering Authority by the Pension Regulator (see Section 5), Pensions Ombudsman, HMRC or other regulatory body.
- Failure to deduct and make payments on behalf of the employee and employer within agreed timelines to the Pension Fund.

Notice

Where the Administering Authority determines cost recovery is appropriate, written notice will be given to the Employing Authority, containing:

- The reason in their opinion that the Employing Authority's poor performance resulted in the additional cost;
- The amount and basis of additional cost incurred;
- The provision within the Administration Strategy relevant to the decision given.

5. Financial Implications

Service Costs

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

Funding Contributions by Participating Employers

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

Payment Arrangements

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

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

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

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

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

6. Associated Policies

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

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

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

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

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

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

The ***Funding Strategy Statement*** which provides a summary of how we will fund our pension liabilities.

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

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

7. Management & Review

Nominated Representative

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

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

Authorised Signatories

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

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

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

Review

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

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

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

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

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

8. Appendices

Appendix 1 Regulations related to this document

Local Government Pension Scheme Regulations 2013

Regulation 59 Pension administration strategy.

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

(2) The matters are—

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

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

(i) the setting of performance targets,

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

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

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

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

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

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

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

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

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

(3) An administering authority must—

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

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

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

(5) An administering authority must publish—

(a) its pension administration strategy; and

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

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

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

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

Local Government Pension Scheme Regulations 2013

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

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

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

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

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

Local Government Pension Scheme Regulations 2013

Regulation 71 Interest on late payments by Scheme employers

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

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

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

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

Appendix 2 Pension Liaison Responsibilities

Key responsibilities of a Pension Liaison Officer include:

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

Ensure monthly I-connect submission are made to the Fund

- Ensure that standards of service are maintained.

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

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

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

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

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

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

Appendix 3 Specimen Authorised Signatories Form

<table>
<tr><td colspan="4">Authorised Signatories on behalf of:
Employer name:
Employer address:</td></tr>
<tr><td colspan="4">Designated Pension Liaison Officer:</td></tr>
<tr><td>Name</td><td>Title</td><td>Contact Details</td><td>Signature</td></tr>
<tr><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="4">The officers listed below are authorised to request estimates of retirement benefits on behalf of the above named employer.</td></tr>
<tr><td>Name</td><td>Title</td><td>Contact Details</td><td>Signature</td></tr>
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<tr><td colspan="2">Signature:

Employing Authority Officer:</td><td colspan="2">Date:

Official Stamp:</td></tr>
</table>

9. Contact Information

Queries		
Employer related	**Catherine Black**	**01443 680646**
Financial	**Denise Stone**	**01443 680319**
Retirement\Benefit	**Gemma Penning**	**01443 680357**
Member maintenance	**Kayleigh Jenkins**	**01443 680614**

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

APPENDIX 6

RHONDDA CYNON TAF PENSION FUND

PENSION FUND COMMUNICATIONS POLICY STATEMENT

updated March 2020

Introduction to Pension Fund Communication

Rhondda Cynon Taf Pension Fund is committed to providing a comprehensive communication and information service to participating employers, members and prospective members of the Pension Scheme. A dedicated Communications Team deals with all aspects of Scheme communication including administration and investments.

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

Services provided by the RCT Fund include:

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

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

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

  http://www.rctpensions.org.uk

  Key pension fund governance documents are available on the website.

- **E-Mail**
  The Pensions Section has a dedicated e-mail address and we have a system in place that provides a direct link to and from our members' records. This facility allows us to e-mail information produced by the Pensions Administration Software direct to members and employers, resulting in less paper production. We plan to expand use of this facility shortly.

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

Communicating with Scheme Members

In addition, the following services are provided specifically for Scheme members. Wherever possible documents are produced on an All Wales basis in partnership with representatives from all of the Welsh Pension Funds:

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

- **My Pension On-Line**
  We have introduced a secure self-service facility which allows our members to view their pension record, update personal details and run estimates of pension benefits payable at selected retirement dates. Pensioner members can view payslip and P60 information.

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

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

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

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

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

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

Communicating with Prospective Scheme Members

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

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

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

Communicating with Scheme Employers

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

- **Contacts Database**
  A global circulation list is maintained of key e-mail addresses, such as pension contacts, finance managers and personnel contacts. This means we can communicate with the relevant party quickly and efficiently. For example, we use this medium to communicate any issues that are currently under debate. This includes changes to the regulations that impact upon the employer and their employees.

- **Annual General Meeting**
  An annual meeting is held for employers chaired by the Director of Finance and Digital Services, who has overall responsibility for the Pension Fund. An Administration and Investment update is provided with guest speakers invited to talk about topical issues. Key speakers will include the Scheme Actuary, Investment experts or the Ministry of Housing, Communities and Local Government (MHCLG).

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

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

- **Administration Strategy**
  This strategy has been developed to build on the existing Service Level Agreements (SLA) and recognises that both Fund Employers and the Rhondda Cynon Taf Pension Fund Administering Authority have a shared role in delivering an efficient and effective Pension Fund to the membership.
  - Individual employer annual meetings form part of the monitoring process.

- **Employer Feedback**
  An annual service standards questionnaire is issued to employers to seek views on how we may improve our services.

- **Employers' Guide**
  An Employers' Guide has been produced to assist employers in discharging their pensions administration responsibilities.

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

Pensions Fund Communications - Contact Details

Helpdesk: 01443 680611

Email: pensions@rctcbc.gov.uk

Website: www.rctpensions.org.uk

Visit: Please telephone or email for an appointment

Write: Pensions Section, Bronwydd House, Porth CF39 9DL