Complete Agenda

Democratic Service
Swyddfa'r Cyngor
CAERNARFON
Gwynedd
LL55 1SH

Meeting

PENSIONS COMMITTEE

Date and Time

2.00 pm, MONDAY, 27TH MARCH, 2023

Location

Virtual Meeting

NOTE

*** For public access to the meeting, please contact us***

Contact Point

Lowri Haf Evans

01286 679878

lowrihafevans@gwynedd.llyw.cymru

(DISTRIBUTED 17/03/23)

PENSIONS COMMITTEE

MEMBERSHIP (9)

Plaid Cymru (4)

Councillors

Iwan Huws | Medwyn Hughes | Elin Hywel
Ioan Thomas

Independent (2)

Councillors

John Pughe Roberts | John Brynmor Hughes

Lib / Lab (1)

Councillor Stephen Churchman

Co-opted Members (2)

Councillor Robin Wyn Williams	Isle of Anglesey County Council
Councillor Goronwy Owen Edwards	Conwy County Borough Council

Ex-officio Members

Chair and Vice-Chair of the Council

A G E N D A

11. POLICY ON REPORTING BREACHES OF THE LAW 217 - 236

To consider and approve the Policy

12. TRAINING PLAN 237 - 242

To accept the report and approve the 2023/24 Training plan.

PENSIONS COMMITTEE 18-01-23

Present:

Councillors:

Stephen Churchman, Goronwy Edwards (Conwy County Borough Council), John Brynmor Hughes, Iwan Huws, Elin Hywel, John Pughe Roberts and Ioan Thomas

Officers:

Dafydd Edwards (Fund Director), Dewi Morgan (Head of Finance Department), Delyth Jones-Thomas (Investment Manager), Meirion Jones (Pensions Manager) and Lowri Haf Evans (Democracy Services Officer).

Others invited:

H Eifion Jones (observing – Chair of Pensions Board)

1. APOLOGIES

Apologies were received from Councillors Richard Medwyn Hughes and Robin Williams (Isle of Anglesey County Council).

2. DECLARATION OF PERSONAL INTEREST

None to note

3. URGENT ITEMS

Members were informed that Mr Huw Trainor had accepted a new job with Grŵp Llandrillo Menai and consequently there would be a need to elect a new employer representative to the Board.

In accordance with the statutory procedure of electing members to the Board, it was highlighted that the first term of some members of the Board was coming to an end, and although any representative could be reappointed for further a period in the post, subject to their re-nomination as needed, that this had to be done formally. In light of Mr Huw Trainor's announcement, it was considered timely to commence the process of reappointing more broadly in February / March 2023. It was reiterated that the existing members would be informed of the arrangements of the public process and of the intention to appoint five members (an exception to the Cyngor Gwynedd representative was noted, since the appointment was a very recent one and was protected). The interview panel would comprise of the Cabinet Member (Finance), the Head of Finance and the Monitoring Officer.

4. MINUTES

The Chair accepted the minutes of the meeting held on 21 November 2022 as a true record.

5. APPROVING THE 2023/24 BUDGET

The Investment Manager submitted a report seeking the Committee's approval of a budget for the Pensions Administration Section and the Investment Section for the 2023-2024 financial year.

It was reported that the budget was now approved on an annual basis by the Pensions Committee. Reference was made to one adjustment to the Pensions Administration Section’s budget with the regrading of one post and other staff increments. It was noted that the budget did not include Investment Manager or Consultant fees, as they varied significantly. Nevertheless, it was noted that the expenditure would be reported in full within the final accounts and the Fund's Annual Report. It was reiterated that it was proposed to begin to record the fund's costs and to draw up a business plan for the 2024/25 budget.

Gratitude was expressed for the report. It was considered that the proposal for recording the fund's costs was a positive step - that keeping a record of billing arrangements and the fund's costs was very important.

RESOLVED

- **To accept the report**
- **To approve the budget of the Pensions Administration and Investment Sections for the 2023/24 financial year**

6. REVIEW OF STRATEGIC OBJECTIVES FOR THE FUND'S INVESTMENT CONSULTANTS

Submitted - the report of the Investment Manager, reporting on progress against current objectives and requesting that the Committee review and approve the objectives for 2023. It was reported, following a review of the of the investment consulting and fiduciary management markets, the Competition and Markets Authority had noted that Pension Scheme Trustees should set objectives for their investment consultants, and clearly stipulate the expectations upon them.

It was reported that Hymans was delivering good work, providing quarterly reports for the investment panel (including a responsible investment rating for every manager), comprehensive reports for the investment panels, offering practical advice and performing in accordance with the objectives. It was explained that this last year had been busy with the consultants providing further advice on the investment strategy to restructure the Fund's strategic assets allocation following the valuation. It was reiterated that this had been important and detailed work and there had been good collaboration. It was also reported, now that responsible investment was a key area, that Hymans had worked with the Fund's officers on reviewing the responsible investment policy, advising on new investments and providing a response to the TCFD consultation.

Hymans did not provide training as part of its direct contract with the Gwynedd Fund, however appropriately timed training was available through the Wales Pension Partnership, with significant contributions from Hymans.

Accepting that the fees were high (which was also true for some other companies in the market), it was wised to receive an estimate of the cost of the work that was agreed to in advance.

Reference was made to the current objectives as well as the progress made against those objectives in 2022. It was highlighted that two new objectives had been added. There was no wish to change the Fund's investment advisors, however there was still a need to challenge their performance and ensure that the relationship was not too 'comfortable'. Due to the frustration of establishing currency hedging arrangements and as a result of missing out on opportunities to take advantage of the exchange rate with a possibility of adding value, it was considered that was a need for more proactive and timely advice and encouragement, to be able to respond to opportunities without frustration in the future,

The Chairman reiterated that the company provided a good service and met the objectives that were set by the Committee.

Gratitude was expressed for the report.

In response to a question regarding the need to expedite processes, e.g. currency hedging and the possible associated risks, it was noted there was frustration of not being able to act sooner and maybe in future the investment advisers could draw attention to potential opportunities. Nevertheless, the Fund Director highlighted that adopting the currency hedging procedure was a significant step for the Fund and the Committee's approval had been crucial in moving to that arrangement. It was reiterated that benchmarks for the future had now been established and agreements with BlackRock were ready to be implemented within a day should the opportunity arise.

In response to an additional question regarding the benefit of establishing an emergency response process, it was noted, in an emergency, the Principal Finance Officer and the Chair of the Pensions Committee would be able to implement this, but only in an emergency. Any major changes would need to be reported to the Committee and would require approval prior to implementation.

During the ensuing discussion, the following observations were made by Members:

- That reviewing the strategic objectives often was good practice
- Firmer guidance would be appreciated
- Despite missing out on opportunities, there was now a process in place to act quicker
- That the objectives set out challenges that would add value
- Despite the good cooperation, there was a need to avoid being too comfortable

RESOLVED

- **To accept and note the progress report**
- **To approve the objectives of the Investment Consultants for the next period as submitted in Appendix 1, subject to adding the word 'certain' to objective 7 'Provide relevant and timely advice' -**

    '.....'alternative' advice could sometimes be more proactive, certain and timely ...'

7. FUNDING STRATEGY STATEMENT

Submitted - the report of the Investment Manager explaining the requirement for the Fund to review the Funding Strategy Statement every three years, after the triennial valuation, it was proposed to publish the Funding Strategy Statement by 31 March 2023.

It was noted that the main purpose of the statement was to reflect on the valuation factors and balance the employers' affordability with the fund's long-term solvency objectives. The statement (draft) was submitted for the Committee to confirm the assumptions and policies to release the statement for consultation with all employers before adopting then formally at the next committee meeting.

It was explained that the document was based on the actuarial valuation. It was reiterated that the employers had received a presentation from the actuary in October when it was stated that the results were generally positive with the majority of employers witnessing a small reduction in their contributions.

It was reported that this lengthy and technical document had been prepared in detailed consultation with Hymans and the fund's officers. Reference was made to the statement and the accompanying policies. It was explained that the accompanying policies were usually incorporated in the document, but it had been agreed, with Hymans' approval, to include a reference to the policies in the strategy, but that they should be available separately and therefore easier to find / amend should there be a need to access the information or update policies without having to amend the entire strategy.

Thanks were expressed for the report.

During the ensuing discussion, the following observations were made by Members:

- Although it was a lengthy and technical document, the content was details and had been set out in an easy-to-follow style.
- The language used was clear

RESOLVED:

- **To accept and confirm the assumptions and policies in the (draft) Funding Strategy Statement.**
- **To approve the Funding Strategy Statement (draft) for consultation will all Fund employers**

8. 2023 EVENTS

A list of events for 2023 was submitted which included dates for committees, investment panels, training sessions, information forums, seminars and conferences. The need to nominate Members to attend the forums, seminars and conferences was highlighted.

It was noted that the date of the Investment Panel that had been arranged for 2 May had now been rescheduled for 15 June 2023, due to a clash with a prospective meeting of the Governance and Audit Committee on 25 May.

During the ensuing discussion, the following observations were made by Members:

- There was a need to contact and offer a space to the two members who had sent their apologies.
- Should there be no nomination from a Committee Member; invites would be extended to the Pension Board members.

RESOLVED

- **To accept and confirm nominations for attending events in 2023 and contact and offer a space to the members who sent their apologies.**
- **To extend invitations to Pension Board Member if there are empty spaces.**

The meeting commenced at 14:00 and concluded at 15:00

MEETING:	**PENSION COMMITTEE**
DATE:	**27th MARCH 2023**
TITLE:	**INVESTMENT STRATEGY STATEMENT**
PURPOSE:	**Adopt the Investment Strategy Statement**
RECOMMENDATION:	**ADOPT THE STRATEGY**
AUTHOR:	**DELYTH JONES-THOMAS, INVESTMENT MANAGER**

1. INTRODUCTION

The Fund is required to publish an Investment Strategy Statement (ISS). The Statement has been reviewed following the triennial valuation of 31 March 2022.

Kenny Taylor presented the Statement to members at our March Investment Panel.

2. FINAL INVESTMENT STRATEGY STATEMENT

The final ISS is in Appendix A. There are no changes to the version presented in the Investment Panel on the 15th March 2023.

3. RECOMMENDATION

The Investment Strategy Statement is adopted.

APPENDIX A

Investment Strategy Statement

1. Introduction and background

This is the Investment Strategy Statement ("ISS") of the Gwynedd Pension Fund ("the Fund"), which is administered by Gwynedd Council ("the Administering Authority"). The ISS is made in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 ("the Regulations").

The ISS has been prepared by the Fund's Pension Committee ("the Committee") having taken advice from the Fund's investment adviser, Hymans Robertson LLP. The Committee acts on the delegated authority of the Administering Authority.

The ISS, which was approved by the Committee in March 2023, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Fund's investment strategy with such persons it considers appropriate.

The Committee seeks to invest in accordance with the ISS, any Fund money that is not needed immediately to make payments from the Fund. The ISS should be read in conjunction with the Fund's Funding Strategy Statement.

2. The suitability of particular investments and types of investments

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis. This funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

The Committee aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary and/or inflation increases.

The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund. This benchmark is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities.

It is intended that the Fund's investment strategy will be reviewed at least every three years following actuarial valuations of the Fund.

The Fund carried out an asset liability modelling exercise in conjunction with the 2022 actuarial valuation. A number of different contribution and investment strategies were modelled and the future evolution of the Fund considered under a wide range of different scenarios. The Committee considered the chances of the Fund being fully funded at the end of the projection period, and considered the level of downside risk in the various strategies by identifying the low funding levels which might emerge in the event of poor outcomes.

This approach helps to ensure that the investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members), together with the level of disclosed surplus or deficit (relative to the funding bases used).

In addition, the Committee monitors investment strategy on an ongoing basis, focusing on factors including, but not limited to:

- Suitability given the Fund's level of funding and liability profile
- The level of expected risk
- Outlook for asset returns
- Environmental, Social and Governance (ESG) factors

The Committee also monitors the Fund's actual allocation on a regular basis to ensure it does not notably deviate from the target allocation.

The long-term asset class returns assumed within the modelling exercise were as follows:

Asset Class	Median expected return 10 years (% p.a.)	Median expected return 20 years (% p.a.)
UK Equities	5.7	6.2
Global Equities	5.8	6.3
Emerging Market Equities	5.8	6.3
Private Equity	9.4	10.0
Infrastructure	5.9	6.5
Property	4.4	5.0
Private Credit	6.0	6.8
Multi-Asset Credit	3.5	4.4
Corporate Bonds	2.4	3.2
Absolute Return Bonds	2.3	2.9

3. Investment of money in a wide variety of investments

Asset classes
The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property and commodities either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks.

The Committee reviews the nature of Fund investments on a regular basis, with reference to suitability and diversification. The Committee seeks and considers written advice from a suitably qualified person in undertaking such a review. If, at any time, investment in a security or product not previously known to the Committee is proposed, appropriate advice is sought and considered to ensure its suitability and diversification.

The Fund's target investment strategy is set out below. In line with the Regulations, the authority's investment strategy does not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007".

Table 1: Fund allocation

Asset class	Target allocation %
UK Equities	9.0
Overseas Equities	41.0
Private Equity	5.0
Total Growth	**55.0**
Property	10.0
Infrastructure	5.0
Private Credit	5.0
Multi-Asset Credit	7.5
Total Income	**27.5**
Corporate Bonds	5.0
Absolute Return Bonds	12.5
Total Protection	**17.5**
Total	100.0

Restrictions on investment

The Regulations have removed the previous restrictions that applied under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The Committee's approach to setting its investment strategy and assessing the suitability of different types of investment takes account of the various risks involved and rebalancing is considered on a quarterly basis to maintain the asset split close to the agreed asset allocation target. Therefore it is not felt necessary to set additional restrictions on investments.

Managers

The Committee has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The Committee, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. The Fund's active investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. They will make changes to their portfolios as the economic outlook alters, as individual company prospects change and in response to any unexpected market shocks in an attempt to deliver a better return than the market overall. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles. The manager of the passive funds in which the Fund invests holds a mix of investments within each pooled fund that reflects that of their respective benchmark indices.

For the assets invested with WPP, the operator is responsible for the appointment of investment managers for the WPP sub-funds.

4. The approach to risk, including the ways in which risks are to be measured and managed

The Committee is aware that the Fund has a need to take risk (e.g. investing in growth assets) to help it achieve its funding objectives. It has an active risk management programme in place that aims to help it identify the risks being taken and put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken. One of the Committee's overarching beliefs is to only to take as much investment risk as is necessary.

The principal risks affecting the Fund are set out below, we also discuss the Fund's approach to managing these risks and the contingency plans that are in place:

Funding risks

- Financial mismatch – The risk that Fund assets fail to grow in line with the developing cost of meeting the liabilities.

- Changing demographics – The risk that longevity improves and other demographic factors change, increasing the cost of Fund benefits.

- Systemic risk – The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Fund's liabilities.

The Committee measures and manages financial mismatch in two ways. As indicated above, the Committee has set a strategic asset allocation benchmark for the Fund. This benchmark was set taking into account asset liability modelling which focused on probability of success and level of downside risk. The results from the 2022 analysis highlighted that the Fund has a greater than 75% probability of being fully funded in 2039 under the current investment strategy and level of agreed contributions. The Committee assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. The Committee also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The Committee also seeks to understand the assumptions used in any analysis and modelling so they can be compared to their own views and the level of risks associated with these assumptions to be assessed.

The Committee seeks to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all eventualities that may arise under this heading.

Asset risks

- Concentration – The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.

- Illiquidity – The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.

- Currency risk – The risk that the currency of the Fund's assets underperforms relative to Sterling (i.e. the currency of the liabilities).

- Manager underperformance – The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

- Environmental, Social and Governance (ESG) factors – The risk that ESG-related factors, including climate change, reduce the Fund's ability to generate long-term returns.

- Climate change – The extent to which climate change causes a material deterioration in asset values as a consequence of factors including but not limited to policy change, physical impacts and the expected transition to a low-carbon economy.

The Committee measures and manages asset risks as follows.

The Fund's strategic asset allocation benchmark invests in a diversified range of asset classes. The Committee has put in place rebalancing arrangements to ensure the Fund's "actual allocation" does not deviate substantially from its target. The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund's asset concentration risk.

By investing across a range of assets, including liquid quoted equities and bonds, as well as property, the Committee has recognised the need for access to liquidity in the short term.

The Fund invests in a range of overseas markets which provides a diversified approach to currency markets; the Committee also assess the Fund's currency risk during their risk analysis.

The Committee has considered the risk of underperformance by any single investment manager and have attempted to reduce this risk by appointing more than one manager and having a significant proportion of the Scheme's assets managed on a passive basis. The Committee assess the Fund's managers' performance on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists.

Details of the Fund's approach to managing ESG-related risks, including risks associated with climate change, are set out later in this document.

Other provider risk

- Transition risk – The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee seeks suitable professional advice.

- Custody risk – The risk of losing economic rights to Fund assets, when held in custody or when being traded.

- Credit default – The possibility of default of a counterparty in meeting its obligations.

- Stock-lending – The possibility of default and loss of economic rights to Fund assets.

The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Fund, or has delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). The Committee has the power to replace a provider should serious concerns exist.

A separate schedule of risks that the Fund monitors is set out in the Fund's Funding Strategy Statement.

5. The approach to pooling investments, including the use of collective investment vehicles and shared services

The Fund is a participating scheme in the Wales Pensions Partnership (WPP). The proposed structure and basis on which WPP will operate was set out in the July 2016 submission to Government.

Assets to be invested in WPP

The Fund's intention is to invest its assets through WPP as and when suitable investment solutions become available. An indicative timetable for investing through WPP was set out in the July 2016 submission to Government. The key criteria for assessment of WPP solutions will be as follows:

1. That WPP enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund
2. That there is a clear financial benefit to the Fund in investing in the solution offered by WPP, should a change of provider be necessary.

At the time of preparing this statement the Fund has agreed investments in the following assets via WPP.

Asset class	Fund	Target % of Fund assets	Benchmark and performance objective
Global Equities	Global Growth Fund	10.0	MSCI AC World plus 2% p.a.
Global Equities	Global Opportunities Fund	10.0	MSCI AC World plus 2% p.a.
Global Equities	Sustainable Equity Fund	10.0	MSCI AC World plus 2% p.a.
Emerging Markets Equities	Emerging Markets Equity Fund	2.5	MSCI EM Index plus 2% p.a.
Infrastructure	Infrastructure Funds	5.0	8% p.a.
Private Credit	Private Credit Fund	5.0	8% p.a.
Bonds	Multi-Asset Credit Fund	7.5	LIBOR + 4% p.a.

Bonds	Absolute Return Bond Fund	12.5	LIBOR + 2-3% p.a.
Total		62.5	

Although investments with BlackRock are currently retained by the Fund, the procurement process for BlackRock as index-tracking manager on behalf of partner funds (and any subsequent re-tender) was handled by WPP in order to achieve substantial fee savings.

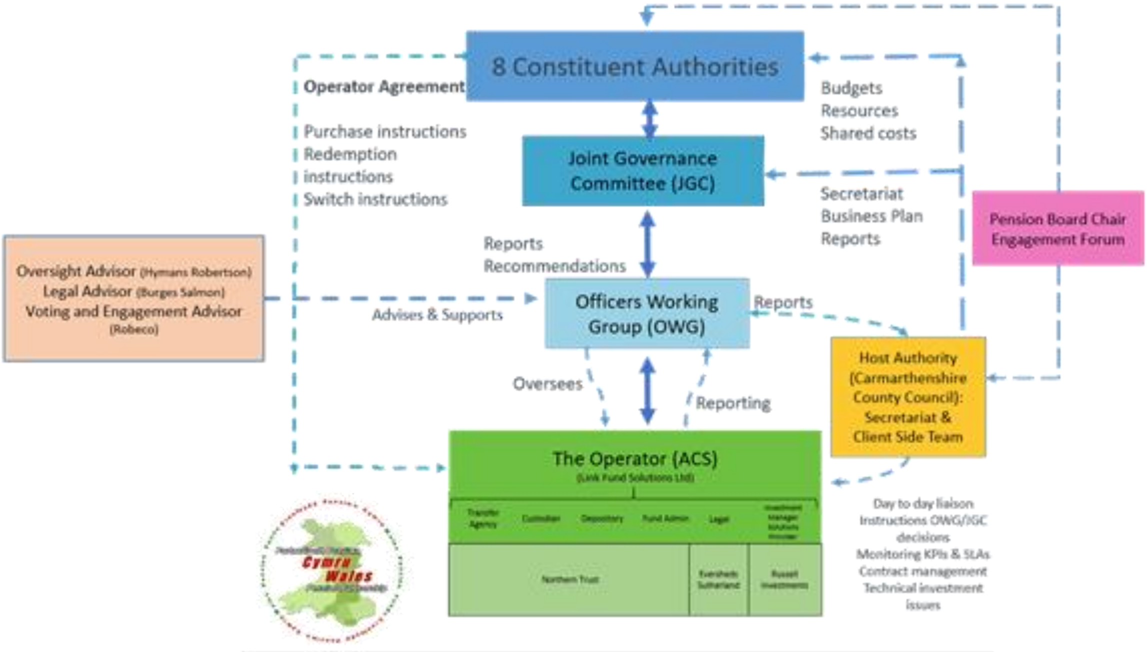
At the time of preparing this statement the Fund has of yet not invested the following existing assets via WPP. However, the Fund has elected to invest new money in Private Equity and Infrastructure funds through WPP. The Fund will consider participating in pooling arrangements for the current and/or future property investments if a suitable solution is made available by WPP.

Asset class	Manager	% of Fund assets[1]	Benchmark and performance objectives	Reason for not investing via WPP
Private Equity	Partners	6.4	MSCI ACWI + 3% p.a.	Existing contractual commitments in closed end funds which have a finite life.
Property	UBS, Lothbury, BlackRock, Threadneedle	8.3	UK All Balanced Property Fund Index	Selling and re-investing property assets would incur material costs
Infrastructure	Partners	2.9	8% p.a.	Existing contractual commitments in closed end funds which have a finite life.

[1]Allocations as at 31 December 2022

Structure and governance of WPP

WPP has appointed a third-party operator, authorised by the FCA to provide a series of investment sub-funds in which the assets of the participating funds will be invested.



A Joint Governance Committee (JGC) has been established to oversee the operator. The Committee comprises elected members – one from each of the eight participating funds. This arrangement will provide accountability for the operator back to individual administering authorities. The Joint Governance Committee (JGC) has been set up formally as a Joint Committee between the participating administering authorities. Each fund has one elected member on the Committee. It operates on the basis of 'One Fund, One Vote', though the intention is that any decisions are reached by consensus wherever possible.

The Committee is responsible for ensuring where practical that there are an appropriate range of sub-funds available to allow administering authorities to implement their own desired asset allocation. The JGC will be in regular discussions with the operator as to the specific sub-funds which should be set up within WPP, both at the outset and on an ongoing basis.

Officers from each administering authority attend JGC meetings (in a non-voting capacity). The officers advise the JGC on the establishment and monitoring of the various sub-funds as well as liaise directly with the operator on any day-to-day investment matters.

In the first instance, it is anticipated that the fund representatives on the JGC will report back to their respective individual funds' Pensions committees who will be responsible for satisfying themselves as to the effectiveness of the pooling arrangements overall and the operation of the JGC. However, the local Pensions Boards may also seek reassurance on aspects of the management of the funds' investments.

External scrutiny and formal due diligence of the operator and depositary will be carried out by the FCA in their role as regulator. In addition, Hymans Robertson have been appointed by the JGC to provide assistance with oversight of the arrangements.

The operator is responsible for selecting and contracting with investment managers for each of the sub-funds as well as appointing other service providers such as depositary asset servicer, and an external valuer as necessary. Under the proposed structure, the depository will hold legal title to the assets of WPP. The operator will be responsible for managing and operating WPP, including entering into the legal contracts with the investment managers.

The appointed operator will provide and operate a range of investment vehicles to allow collective investment by the participating funds. The operator will be responsible for selecting and contracting with investment managers for the management of the underlying assets. They will also be responsible for administration in relation to the vehicles in terms of unit pricing, valuation, handling cash flows in and out of the various sub-funds, trade processing and reporting on performance. They will be responsible for due diligence from an audit, legal and tax perspective for the respective sub-funds and also for electing a depositary to WPP.

WPP will also procure independent external legal and tax advice as necessary to support them in their relationship with the operator.

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

It is recognised that ESG factors, including climate change, can influence long-term investment performance and the ability to achieve long term sustainable returns. The Committee consider the Fund's approach to responsible investment in two key areas:

1. Sustainable investment / ESG factors – considering the financial impact of environmental, social and governance (ESG) factors on its investments.
2. Stewardship and governance – acting as responsible and active investors/owners, through considered voting of shares, and engaging with investee company management as part of the investment process.

The Committee takes ESG matters very seriously and regularly reviews its policies in this area and its investment managers' approach to ESG. The Committee has also developed a set of Responsible Investment beliefs which are set out below and also in the Fund's Responsible Investment Policy.

The Committee recognises that climate change presents a particular systemic risk to the financial stability of the global economy and has the potential to impact on the Fund's investments and, as such, represents a long-term financial risk to the Fund and its holdings.

To date, the Fund's approach to social investments has largely been to delegate this to their underlying investment managers as part of their overall ESG duties.

At the present time the Committee does not prioritise non-financial factors when selecting, retaining, or realising its investments.

The Committee have agreed the following set of investment beliefs in relation to Responsible Investment :-

- In accordance with the committee's fiduciary duty, financial considerations should carry more weight than non-financial considerations when making investment decisions, even though ESG matters can materially affect risk and returns. Therefore, ESG factors should be embedded in the investment process and in the decision-making processes of managers appointed by the Fund and by WPP.

- The Fund's Committee will seek to invest in sustainable assets, including investing within the Wales area when non-financial investments can derive from this, on condition that they satisfy the requirements of the fiduciary duty.

- The Committee accepts that it has a duty to be a responsible investor. It is expected that consulting with companies, rather than avoiding investing, will be more effective in changing corporate behaviour and reducing risk. Wherever possible, collaborative action (such as that taken via Local Authority Pension Fund Forum (LAPFF) membership and commissioned from Robeco alongside WPP partners) provides the most successful route to influence outputs.

- As a long-term investor, the Fund is vulnerable to systemic risks such as climate change and the expectation of a transfer to a low carbon economy. Financial outcomes can be improved through managing how open to such risks the Fund is.

- Shareholder comprehension and outcomes can be improved through providing transparency at each step of the value-adding chain.

- Training and education are likely to form a key element in developing the Fund and its Committee position on ESG-related matters.

7. The exercise of rights (including voting rights) attaching to investments

Voting rights
The Committee considers the Fund's approach to stewardship also as a key area by acting as a responsible and active investor, by commissioning considered voting on the Fund's behalf as shareholders, and by indirectly engaging with investee company management as part of the investment process.

The Committee has delegated the exercise of voting rights to the investment manager(s) on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value.

Accordingly, the Fund's managers have produced written guidelines of their process and practice in this regard. The managers are strongly encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies under Regulation 7(2)(f). The voting decisions made by all its investment managers are monitored on a regular basis.

In addition, Robeco are appointed to assist WPP in exercising its voting rights in line with the interest of its stakeholders and engaging with investee companies to enhance the long-term value of the Constituent Authorities' investments within WPP.

Engagement
The Committee endorses the principles embedded in the UK Stewardship Code and intends to apply to become a signatory to the updated UK Stewardship Code 2020. The Committee expects both WPP and any directly appointed asset managers to be signatories to the UK Stewardship Code 2020. In addition, the Fund believes in collective engagement and is a member of the LAPFF, through which it collectively exercises a voice across a range of corporate governance issues. In addition to the Fund's compliance with the Stewardship Code, the Fund believes in collective engagement and is a member of the Local Authority Pension Fund Forum (LAPFF), through which it collectively exercises a voice across a range of corporate governance issues.
The Committee supports engagement activity that seeks to:

- Achieve greater disclosure of information on the ESG-related risks that could affect the value of an investment;

- Achieve transparency of an investment's carbon exposure and how such companies are preparing for the transition to a low carbon economy;

- Encourage its asset managers to actively participate in collaborative engagements with other investors where this is deemed to be in the best interests of the Fund.

Further details are set out in the Fund's Responsible Investment Policy.

Investments made via WPP are subject to its Responsible Investment Policy, which is developed in consultation with the eight Welsh Local Government Pension Scheme funds, including the Gwynedd Pension Fund.

MEETING:	**PENSION COMMITTEE**
DATE:	**27 MARCH 2023**
TITLE:	**FUNDING STRATEGY STATEMENT**
PURPOSE:	**To adopt the Funding Strategy Statement following consultation**
RECOMMENDATION:	**ADOPT THE STATEMENT**
AUTHOR:	**DELYTH JONES-THOMAS, INVESTMENT MANAGER**

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1. INTRODUCTION

As reported to the Committee meeting on 18 January 2023, the Fund is required to issue a Funding Strategy Statement (FSS). This was presented and agreed at the January commitee and was sent out for consulation with interested parties.

2. RESPONSE

All participating employers, the actuary and fund advisers have been consulted.

There was a positive response from a number of employers to the statement including Snowdonia National Park, North Wales Police, GwE and Isle of Anglesey County Council.

3. FINAL FUNDING STRATEGY STATEMENT

The final FSS is attached as Appendix A.

There is one minor change in page 2 following feedback from the Board to the version that was submitted to the Committee on 18th January 2023.

4. RECOMMENDATION

The Funding Strategy Statement is adopted.

Gwynedd Pension Fund
Funding Strategy Statement
January 2023

Contents

1 Welcome to our Funding Strategy Statement

This document sets out the Funding Strategy Statement (FSS) for Gwynedd Pension Fund.

The Gwynedd Pension Fund is administered by Cyngor Gwynedd, known as the administering authority. Gwynedd Council worked with the Fund's actuary, Hymans Robertson, to prepare this FSS which is effective from 27th March 2023.

There's a regulatory requirement for Gwynedd Council to prepare an FSS. You can find out more about the regulatory framework in Appendix A. If you have any queries about the FSS, contact delythwynjonesthomas@gwynedd.llyw.cymru.

1.1 What is the Gwynedd Pension Fund?

The Gwynedd Pension Fund is part of the Local Government Pension Scheme (LGPS). You can find more information about the LGPS at www.lgpsmember.org. The administering authority runs the Fund on behalf of participating employers, their employees and current and future pensioners. You can find out more about roles and responsibilities in Appendix B.

1.2 What are the funding strategy objectives?

The funding strategy objectives are to:

- take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants
- use a balanced investment strategy to minimise long-term cash contributions from employers and meet the regulatory requirement for long-term cost efficiency
- where appropriate, ensure stable employer contribution rates
- reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy
- use reasonable measures to reduce the risk of an employer defaulting on its pension obligations.

1.3 Who is the FSS for?

The FSS is mainly for employers participating in the Fund, because it sets out how money will be collected from them to meet the Fund's obligations to pay members' benefits.

Different types of employers participate in the Fund:

Scheduled bodies
Employers who are specified in a schedule to the LGPS regulations, such as councils. Scheduled bodies must give employees access to the LGPS if they can't accrue benefits in another pension scheme, such as another public service pension scheme.

Designating employers
Employers like town and parish councils can join the LGPS through a resolution. If a resolution is passed, the Fund can't refuse entry. The employer then decides which employees can join the scheme.

Admission bodies
Other employers can join through an admission agreement. The Fund can set participation criteria for them and can refuse entry if the requirements aren't met. This type of employer includes contractors providing outsourced services like cleaning or catering to a scheduled body.

Some existing employers may be referred to as **community admission bodies** (CABs). CABs are employers with a community of interest with another scheme employer. Others may be called **transferee admission bodies** (TABs), that provide services for scheme employers. These terms aren't defined under current regulations but remain in common use from previous regulations.

1.4 How does the funding strategy link to the investment strategy?

The funding strategy sets out how money will be collected from employers to meet the Fund's obligations. Contributions, assets and other income are then invested according to an investment strategy set by the administering authority. You can find the investment strategy at www.gwyneddpensionfund.wales.

The funding and investment strategies are closely linked. The Fund must be able to pay benefits when they are due – those payments are met from a combination of contributions (through the funding strategy) and asset returns and income (through the investment strategy). If investment returns or income fall short the Fund won't be able to pay benefits, so higher contributions would be required from employers. Both strategies also consider the Fund's Responsible Investment beliefs and policy.

1.5 Does the funding strategy reflect the investment strategy?

The funding policy is consistent with the investment strategy. Future investment return expectations are set with reference to the investment strategy, including a margin for prudence which is consistent with the regulatory requirement that funds take a 'prudent longer-term view' of funding liabilities (see Appendix A)

1.6 How is the funding strategy specific to the Gwynedd Pension Fund?

The funding strategy reflects the specific characteristics of the Fund employers and its own investment strategy.

2 How does the Fund calculate employer contributions?

2.1 Calculating contribution rates

Employee contribution rates are set by the LGPS regulations.

Employer contributions are made up of two elements:

- **the primary contribution rate** – contributions payable towards future benefits
- **the secondary contribution rate** – the difference between the primary rate and the total employer contribution

The primary rate also includes an allowance for the Fund's expenses.

The Fund actuary uses a model to project each employer's asset share over a range of future economic scenarios. The contribution rate takes each employer's assets into account as well as the projected benefits due to their members. The value of the projected benefits is worked out using employer membership data and the assumptions in Appendix D.

The total contribution rate for each employer is then based on:

- **the funding target** – how much money the Fund aims to hold for each employer
- **the time horizon** – the time over which the employer aims to achieve the funding target
- **the likelihood of success** – the proportion of modelled scenarios where the funding target is met.

This approach takes into account the maturing profile of the membership when setting employer contribution rates.

The Fund permits the prepayment of employer contributions in specific circumstances. The Fund's policy on prepayments is detailed in **Appendix E**.

2.2 The contribution rate calculation

Table 1: contribution rate calculation for individual or pooled employers

Type of employer	Scheduled bodies		Colleges, Community Admission Bodies and Designating Employers		Transferee Admission Bodies
Sub-type	**Local Authorities, Police and Parc Cenedlaethol Eryri**	**Parish & town councils**	**Open to new entrants**	**Closed to new entrants**	**(all)**
Funding target*	Ongoing participation basis, assumes long-term Fund participation	Ongoing participation basis, assumes long-term Fund participation	Ongoing participation basis, but may move to low-risk exit basis		Contractor exit basis, assuming fixed-term contract in the Fund
Minimum likelihood of success	70%	75%	75%	75%	75%
Maximum time horizon	17 years	17 years	14 years	14 years or average future working lifetime, if less	Outstanding contract term
Primary rate approach	The contributions must be sufficient to meet the cost of benefits earned in the future with the required likelihood of success at the end of the time horizon				
Secondary rate	Percentage of pay				
Stabilised contribution rate?	Yes	No	No	No	No
Treatment of surplus	Covered by stabilisation arrangement	Reduce contributions through a negative secondary rate	Reduce contributions through a negative secondary rate		Reduce contributions by spreading the surplus over the remaining contract term
Phasing of contribution changes	Covered by stabilisation arrangement	3 years	3 years	3 years	None

** Employers participating in the Fund under a pass-through agreement will pay a contribution rate as agreed between the contractor and letting authority*

*** See <u>Appendix D</u> for further information on funding targets.*

2.3 Making contribution rates stable

Making employer contribution rates reasonably stable is an important funding objective. Where appropriate, contributions are set with this objective in mind. The Fund adopts a stabilised approach to setting contributions for certain employers, which either

- keeps contribution variations within a pre-determined range from year-to-year, or
- dampens contribution rate volatility over time via a phasing mechanism

After taking advice from the Fund actuary, the administering authority believes a stabilised approach is a prudent longer-term strategy for the Fund's local authorities, police body and Parc Cenedlaethol Eryri.

For these bodies, the Fund sets pre-determined ranges for contribution variations. For the 2022 valuation, it has been agreed that all stabilised employers are subject to rate reductions that are linked to their 2022 primary rates. The extent of the reduction depends on the 2022 funding level (i.e. no reduction if funded below 110%, a 1.0% reduction if funded between 110% and 115%, a 2.0% reduction if funded between 115% and 130%, and a 3.0% reduction if funded above 130%).

The longer-term movements in contribution rates are subject to the following rules:

Table 2: contribution variations for stabilised employers

Type of employer	Local Authorities, Police and Parc Cenedlaethol Eryri
Maximum contribution increase per year	+1.0% of pay
Maximum contribution decrease per year	-1.0% of pay

Increases and reductions to rates for open admitted bodies are subject to a phasing mechanism. For the 2022 valuation, this is determined by calculating the difference in total rates at 2019 and 2022 before application of the mechanism, and then restricting the subsequent increase or reduction as follows: a) if the difference is 5.0% or less of pay, the rate will change by the full difference, or b) if the difference is more than 5.0% of pay, then the rate will change by 5.0% plus half of the difference above 5.0%.

Rate reductions for stabilised employers, and those employers that are subject to the phasing mechanism, will apply in full from 2023/24. Any increases in rates will be phased in over a 3-year period.

Eligibility for the stabilisation approach and the phasing mechanism, and the numerical limits, are reviewed during each triennial valuation process. The administering authority may also review them between valuations to respond to membership or employer changes.

2.4 Reviewing contributions between valuations

The Fund may amend contribution rates between formal valuations, in line with its policy on contribution reviews. The Fund's policy is available in **Appendix F**. The purpose of any review is to establish the most appropriate contributions. A review may lead to an increase or decrease in contributions.

2.5 Are any employers pooled?

The administering authority does not currently operate formal contribution rate pools for similar types of employers.

The only employers that may be pooled are those that have a pass-through or other form of risk sharing agreement in place with a letting authority. The Fund's pass-through policy is detailed in **Appendix G**.

2.6 Administering authority discretion

Individual employers may be affected by circumstances not easily managed within the FSS rules and policies. If this happens, the administering authority may adopt alternative funding approaches on a case-by-case basis.

Additionally, the administering authority may allow greater flexibility to the employer's contributions if added security is provided. Flexibility could include things like a reduced contribution rate, extended time horizon, or permission to join a pool. Added security may include a suitable bond, a legally binding guarantee from an appropriate third party, or security over an asset.

The Fund permits the prepayment of employer contributions in specific circumstances. Further details are set out in the Fund's prepayment policy detailed in **Appendix E**.

3 What additional contributions may be payable?

3.1 Pension costs – awarding additional pension and early retirement on non ill-health grounds

If an employer awards additional pension as an annual benefit amount, they pay an additional contribution to the fund as a single lump sum. The amount is set by guidance issued by the Government Actuary's Department and updated from time to time.

If an employee retires before their normal retirement age on unreduced benefits, employers may be asked to pay additional contributions called strain payments.

Employers typically make strain payments as a single lump sum, though strain payments may be spread if the administering authority agrees:

Major employing bodies	- up to 5 years
Community Admission Bodies and designating employers	- up to 3 years
Transferee Admission Bodies	- payable immediately

3.2 Pension costs – early retirement on ill-health grounds

If a member retires early because of ill-health, their employer must pay a funding strain, which may be a large sum.

The administering authority has arranged an external insurance policy to cover ill-health early retirement strains for smaller employers. Each employer's contribution includes a share of the premium. When an active member retires on ill-health early retirement, the claim amount is credited to the employer's asset share.

For other employers, each employer's contributions include an allowance for expected ill health strain costs. These costs are monitored as part of the triennial valuation process.

The Fund's policy is detailed in **Appendix H**.

4 How does the Fund calculate assets and liabilities?

4.1 How are employer asset shares calculated?

The Fund adopts a cashflow approach to track individual employer assets.

The fund uses Hymans Robertson's HEAT system to track employer assets monthly. Each employer's assets from the previous month end are added to monthly cashflows paid in/out and investment returns to give a new month-end asset value.

If an employee moves from one employer to another within the Fund, assets equal to the cash equivalent transfer value (CETV) will move from the original employer to the receiving employer's asset share.

Alternatively, if employees move when an outsourced contract begins, the Fund actuary will calculate assets linked to the value of the liabilities transferring (see section 5).

4.2 How are employer liabilities calculated?

The Fund holds membership data for all active, deferred and pensioner members. Based on this data and the assumptions in Appendix D, the Fund actuary projects the expected benefits for all members into the future. This is expressed as a single value – the liabilities – by allowing for expected future investment returns.

Each employer's liabilities reflect the experience of their own employees and ex-employees.

4.3 What is a funding level?

An employer's funding level is the ratio of the market value of asset share against liabilities. If this is less than 100%, the employer has a shortfall: the employer's deficit. If it is more than 100%, the employer is in surplus. The amount of deficit or surplus is the difference between the asset value and the liabilities value.

Funding levels and deficit/surplus values measure a particular point in time, based on a particular set of future assumptions. While this measure is of interest, for most employers the main issue is the level of contributions payable. The funding level does not directly drive contribution rates. See section 2 for further information on rates.

5 What happens when an employer joins the Fund?

5.1 When can an employer join the Fund

Employers can join the Fund if they are a new scheduled body or a new admission body. New designating employers may also join the Fund if they pass a resolution to do so.

On joining, the Fund will determine the assets and liabilities for that employer within the Fund. The calculation will depend on the type of employer and the circumstances of joining.

A contribution rate will also be set. This will be set in accordance with the calculation set out in Section 2, unless alternative arrangements apply (for example, the employer has agreed a pass-through arrangement). More details on this are in Section 5.2 below.

5.2 New admission bodies as a result of outsourcing services

New admission bodies usually join the Fund because an existing employer (usually a scheduled body like a council) outsources a service to another organisation (a contractor). This involves TUPE transfers of staff from the letting authority to the contractor. The contractor becomes a new participating Fund employer for the duration of the contract and transferring employees remain eligible for LGPS membership. At the end of the contract, employees typically revert to the letting authority or a replacement contractor.

Liabilities for transferring active members will be calculated by the Fund actuary on the day before the outsourcing occurs.

New contractors will be allocated an asset share equal to the value of the transferring liabilities. The admission agreement may set a different initial asset allocation, depending on contract-specific circumstances.

There is flexibility for outsourcing employers when it comes to pension risk potentially taken on by the contractor. You can find more details on outsourcing options from the administering authority or in the contract admission agreement.

The Fund’s policy is to allow all new admission bodies to be set up with a pass-through arrangement, at the discretion of the letting authority. The Fund’s policy on pass through is detailed in **Appendix G**.

5.3 Other new employers

There may be other circumstances that lead to a new admission body entering the Fund, eg set up of a wholly owned subsidiary company by a Local Authority. Calculation of assets and liabilities on joining and a contribution rate will be carried out allowing for the circumstances of the new employer.

New designating employers may also join the Fund. These are usually town and parish councils. Contribution rates will be set using the same approach as other designating employers in the Fund.

5.4 Risk assessment for new admission bodies

Under the LGPS regulations, a new admission body must assess the risks it poses to the Fund if the admission agreement ends early, for example if the admission body becomes insolvent or goes out of business. In practice, the Fund actuary assesses this because the assessment must be carried out to the administering authority’s satisfaction.

After considering the assessment, the administering authority may decide the admission body must provide security, such as a guarantee from the letting employer, an indemnity or a bond.

This must cover some or all of the:

- strain costs of any early retirements, if employees are made redundant when a contract ends prematurely

- allowance for the risk of assets performing less well than expected
- allowance for the risk of liabilities being greater than expected
- allowance for the possible non-payment of employer and member contributions
- admission body's existing deficit.

The Fund will assess an employer's own unique circumstances when considering whether the body can be admitted to the Fund. This will take into account the above considerations.

The regulations state that an administering authority may make an admission agreement with any body falling under Schedule 2 Part 3 1(d (i) (previously known as a transferee admission body). In addition to the requirements within the regulations, the Fund will put in place an admission agreement. The terms of admission will need to be agreed by all three parties to the admission agreement - the Scheme Employer, the admission body and Gwynedd Council in its capacity as administrator of the Fund.

The regulations also state that an administering authority may make an admission agreement with any body falling under Schedule 2 Part 3 1 (a) (previously known as community admission bodies). In addition to the requirements given within the regulations, the Fund will put in place an admission agreement where a local authority has agreed to act as guarantor, and as such it will be a party to the admission agreement.

If the administering authority deems it appropriate to admit a new body to the Fund, an admission agreement will be put in place which covers that employer's specific circumstances.

Some of the key issues which will need to be agreed prior to admitting a new employer to the Fund include:

- The terms upon which the admitted body can be admitted to the Fund
- Details of any members who are eligible to transfer to the admitted body
- The approach for allocating assets to the admitted body and setting contributions
- Whether any guarantee or indemnity is required
- How frequently ongoing monitoring of the funding position is carried out
- The basis upon which any termination valuation will be carried out
- Details of any risk sharing or pass-through agreement, including whether the admitted body may be eligible for an exit credit.
- If the admitted body is eligible to have a pooled contribution rate, how this will be set
- The recovery of ill health and early retirement costs

The purpose of the administering authority's consideration is to reduce the risk of cross-subsidy of liabilities between employers, and to try and ensure the security of employers which participate in the Fund.

6 What happens if an employer has a bulk transfer of staff?

Bulk transfer cases will be looked at individually, but generally:

- The Fund won't pay bulk transfers greater in value than either the asset share of the transferring employer in the Fund, or the value of the liabilities of the transferring members, whichever is lower
- the Fund won't grant added benefits to members bringing in entitlements from another fund, unless the asset transfer is enough to meet the added liabilities
- the Fund may permit shortfalls on bulk transfers if the employer has a suitable covenant and commits to meeting the shortfall in an appropriate period, which may require increased contributions between valuations.

7 What happens when an employer leaves the Fund?

7.1 What is a cessation event?

Triggers for considering cessation from the Fund are:

- the last active member stops participation in the Fund. The administering authority, at their discretion, can defer acting for up to three years by issuing a suspension notice. That means cessation won't be triggered if the employer takes on one or more active members during the agreed time
- insolvency, winding up or liquidation of the body
- a breach of any admission agreement obligations that isn't remedied to the Fund's satisfaction
- failure to pay any sums due within the period required
- failure to renew or adjust the level of a bond or indemnity, or to confirm an appropriate alternative guarantor
- termination of a deferred debt arrangement (DDA).

If no DDA exists, the administering authority will instruct the Fund actuary to carry out a cessation valuation to calculate if there is a surplus or a deficit when the employer leaves the Fund.

7.2 What happens on cessation?

The administering authority must protect the interests of the remaining Fund employers when an employer leaves the scheme. The actuary aims to protect remaining employers from the risk of future loss. The funding target adopted for the cessation calculation is below. These are defined in Appendix D.

(a) Where there is no guarantor, cessation liabilities and a final surplus/deficit will usually be calculated using a low-risk basis, which is more prudent than the ongoing participation basis. The low-risk exit basis is defined in Appendix D.

(b) Where there is a guarantor, the guarantee will be considered before the cessation valuation. Where the guarantor is a guarantor of last resort, this will have no effect on the cessation valuation. If this isn't the case, cessation may be calculated using the same basis that was used to calculate liabilities (and the corresponding asset share) on joining the Fund.

(c) Depending on the guarantee, it may be possible to transfer the employer's liabilities and assets to the guarantor without crystallising deficits or surplus. This may happen if an employer can't pay the contributions due and the approach is within guarantee terms.

If the Fund can't recover the required payment in full, unpaid amounts will be paid by the related letting authority (in the case of a ceased admission body) or shared between the other Fund employers. This may require an immediate revision to the Rates and Adjustments certificate or be reflected in the contribution rates set at the next formal valuation.

The Fund actuary charges a fee for cessation valuations and there may be other cessation expenses. Fees and expenses are at the employer's expense and are deducted from the cessation surplus or added to the cessation deficit. This improves efficiency by reducing transactions between employer and Fund.

The cessation policy is in **Appendix I**.

7.3 What happens if there is a surplus?

If the cessation valuation shows the exiting employer has more assets than liabilities – an exit credit – the administering authority can decide how much will be paid back to the employer based on:

- the surplus amount
- the proportion of the surplus due to the employer's contributions
- any representations (like risk sharing agreements or guarantees) made by the exiting employer and any employer providing a guarantee or some other form of employer assistance/support
- any other relevant factors.

The Fund's approach to exit credits is detailed in the cessation policy in **Appendix I**.

7.4 How do employers repay cessation debts?

If there is a deficit, full payment will usually be expected in a single lump sum or:

- spread over an agreed period, if the employer enters into a deferred spreading agreement (DSA)
- if an exiting employer enters into a deferred debt arrangement, it stays in the Fund and pays contributions until the cessation debt is repaid. Payments are reassessed at each formal valuation.

The employer flexibility on exit policy is detailed in the cessation policy in **Appendix I**.

7.5 What if an employer has no active members?

When employers leave the Fund because their last active member has left, they may pay a cessation debt, receive an exit credit or enter a DDA/DSA. Beyond this they have no further obligation to the Fund and either:

a) their asset share runs out before all ex-employees' benefits have been paid. The other Fund employers will be required to contribute to the remaining benefits. The Fund actuary will portion the liabilities on a pro-rata basis at successive formal valuations.

b) the last ex-employee or dependant dies before the employer's asset share is fully run down. The fund actuary will apportion the remaining assets to the other Fund employers on a pro-rata basis.

8 What are the statutory reporting requirements?

8.1 Reporting regulations

The Public Service Pensions Act 2013 requires the Government Actuary's Department to report on LGPS funds in England and Wales after every three-year valuation, in what's usually called a section 13 report. The report should include confirmation that employer contributions are set at the right level to ensure the Fund's solvency and long-term cost efficiency.

8.2 Solvency

Employer contributions are set at an appropriate solvency level if the rate of contribution targets a funding level of 100% over an appropriate time, using appropriate assumptions compared to other funds. Either:

(a) employers collectively can increase their contributions, or the Fund can realise contingencies to target a 100% funding level

or

(b) there is an appropriate plan in place if there is, or is expected to be, a reduction in employers' ability to increase contributions as needed.

8.3 Long-term cost efficiency

Employer contributions are set at an appropriate long-term cost efficiency level if the contribution rate makes provision for the cost of current benefit accrual, with an appropriate adjustment for any surplus or deficit.

To assess this, the administering authority may consider absolute and relative factors.

Relative factors include:

1. comparing LGPS funds with each other
2. the implied deficit recovery period
3. the investment return required to achieve full funding after 20 years.

Absolute factors include:

1. comparing funds with an objective benchmark
2. the extent to which contributions will cover the cost of current benefit accrual and interest on any deficit
3. how the required investment return under relative considerations compares to the estimated future return targeted by the investment strategy
4. the extent to which contributions paid are in line with expected contributions, based on the Rates and Adjustments certificate
5. how any new deficit recovery plan reconciles with, and can be a continuation of, any previous deficit recovery plan, allowing for Fund experience.

These metrics may be assessed by GAD on a standardised market-related basis where the Fund's actuarial bases don't offer straightforward comparisons.

Appendices

Appendix A – The regulatory framework

A1 Why do funds need a funding strategy statement?

The Local Government Pension Scheme (LGPS) regulations require funds to maintain and publish a funding strategy statement (FSS). According to the Department for Levelling Up, Housing and Communities (DLUHC) the purpose of the FSS is to document the processes the administering authority uses to:

- *establish a **clear and transparent fund-specific strategy** identifying how employers' pension liabilities are best met going forward*
- *support the regulatory framework to maintain **as nearly constant employer contribution rates as possible***
- *ensure the Fund meets its **solvency and long-term cost efficiency** objectives*
- *take a **prudent longer-term view** of funding those liabilities.*

To prepare this FSS, the administering authority has used guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA).

A2 Consultation

Both the LGPS regulations and most recent CIPFA guidance state the FSS should be prepared in consultation with "*persons the authority considers appropriate*". This should include '*meaningful dialogue… with council tax raising authorities and representatives of other participating employers*'.

In practice, for the Fund, the consultation process for this FSS was as follows:

- A draft version of the FSS was issued to all participating employers in January 2023 for comment;
- Comments were requested within 42 days;
- Following the end of the consultation period the FSS was updated where required and then published, in March.

A3 How is the FSS published?

The FSS is made available through the following routes:
- Published on the website
- A copy sent by e-mail to each participating employer in the Fund;
- A full copy linked from the annual report and accounts of the Fund;
- Copies made available on request.

The FSS is published at Funding Strategy Statement (gwyneddpensionfund.wales) .

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the valuation. Amendments may be made before then if there are regulatory or operational changes. Any amendments will be consulted on, agreed by the Pensions Committee and included in the Committee meeting minutes.

A5 How does the FSS fit into the overall Fund documentation?

The FSS is a summary of the Fund's approach to funding liabilities. It isn't exhaustive – the Fund publishes other statements like the investment strategy statement, governance policy statement and communication policy statement. The Fund's annual report and accounts also includes up-to-date Fund information.

You can see all Fund documentation at Home (gwyneddpensionfund.wales).

Appendix B – Roles and responsibilities

B1 The administering authority:

1 operates the Fund and follows all Local Government Pension Scheme (LGPS) regulations

2 manages any conflicts of interest from its dual role as administering authority and a Fund employer

3 collects employer and employee contributions, investment income and other amounts due

4 ensures cash is available to meet benefit payments when due

5 pays all benefits and entitlements

6 invests surplus money like contributions and income which isn't needed to pay immediate benefits, in line with regulation and the investment strategy

7 communicates with employers so they understand their obligations

8 safeguards the Fund against employer default

9 works with the Fund actuary to manage the valuation process

10 provides information to the Government Actuary's Department so they can carry out their statutory obligations

11 consults on, prepares and maintains the funding and investment strategy statements

12 tells the actuary about changes which could affect funding

13 monitors the Fund's performance and funding, amending the strategy statements as necessary

14 enables the local pension board to review the valuation process.

B2 Individual employers:

1 deduct the correct contributions from employees' pay

2 pay all contributions by the due date

3 have appropriate policies in place to work within the regulatory framework

4 make additional contributions as agreed, for example to augment scheme benefits or early retirement strain

5 tell the administering authority promptly about any changes to circumstances, prospects or membership which could affect future funding.

6 make any required exit payments when leaving the Fund.

B3 The Fund actuary:

1 prepares valuations, including setting employers' contribution rates, agreeing assumptions, working within FSS and LGPS regulations and appropriately targeting fund solvency and long-term cost efficiency

2 provides information to the Government Actuary's Department so they can carry out their statutory obligations

3 advises on fund employers, including giving advice about and monitoring bonds or other security

4 prepares advice and calculations around bulk transfers and individual benefits

5 assists the administering authority to consider changes to employer contributions between formal valuations

6 advises on terminating employers' participation in the Fund

7 fully reflects actuarial professional guidance and requirements in all advice.

B4 Other parties:

1 internal and external investment advisers ensure the investment Strategy Statement (ISS) is consistent with the Funding Strategy Statement

2 investment managers, custodians and bankers play their part in the effective investment and dis-investment of Fund assets in line with the ISS

3 auditors comply with standards, ensure Fund compliance with requirements, monitor and advise on fraud detection, and sign-off annual reports and financial statements

4 governance advisers may be asked to advise the administering authority on processes and working methods

5 internal and external legal advisers ensure the Fund complies with all regulations and broader local government requirements, including the administering authority's own procedures

6 the Department for Levelling Up, Housing and Communities, assisted by the Government Actuary's Department and the Scheme Advisory Board, work with LGPS funds to meet Section 13 requirements.

Appendix C – Risks and controls

C1 Managing risks

The administering authority has a risk management programme to identify and control financial, demographic, regulatory and governance risks.

The Pensions Board has an oversight / assisting role not a decision making role, its responsibilities are to:

1. Assist the Gwynedd Pension Fund as Scheme Manager;

2. Securing compliance with regulations and requirements enforced by the Pensions Regulator and the Department for Communities and Local Government

3. Ensuring effective and efficient governance and administration of the Fund.

4. Assist with other matters as the scheme regulations may stipulate.

Details of the key fund-specific risks and controls are set out in the risk register at Risk Register 2021 (gwyneddpensionfund.wales).

C2 Employer covenant assessment and monitoring

Many of the employers participating in the Fund, such as admitted bodies (including TABs and CABs), have no local tax-raising powers. The fund's approach is to review such employers' covenants every 3 years ahead of the formal valuation.

C3 Climate risk and TCFD reporting

The Fund has considered climate-related risks when setting the funding strategy. To consider the resilience of the strategy the Fund has included climate scenario stress testing in the contribution modelling exercise for the local authority employers at the 2022 valuation. The modelling results under the stress tests were slightly worse than the core results but were still within risk tolerance levels, particularly given the severity of the stresses applied. The results provide assurance that the modelling approach does not significantly underestimate the potential impact of climate change and that the funding strategy is resilient to climate risks. The results of these stress tests may be used in future to assist with disclosures prepared in line with Task Force on Climate-Related Financial Disclosures (TCFD) principles.

The same stress tests were not applied to the funding strategy modelling for smaller employers. However, given that the same underlying model is used for all employers and that the local authority employers make up the vast majority of the Fund's assets and liabilities, applying the stress tests to all employers was not deemed proportionate at this stage and would not be expected to result in any changes to the agreed contribution plans.

The Fund has a Responsible Investment Policy Framework (Responsible Investment Policy 2022 (gwyneddpensionfund.wales)) of which was agreed by Pensions Committee in 2022.

Appendix D – Actuarial assumptions

The Fund's actuary uses a set of assumptions to determine the strategy, and so assumptions are a fundamental part of the funding strategy statement.

D1 What are assumptions?

Assumptions are used to estimate the benefits due to be paid to members. Financial assumptions determine the amount of benefit to be paid to each member, and the expected investment return on the assets held to meet those benefits. Demographic assumptions are used to work out when benefit payments are made and for how long.

The funding target is the money the Fund aims to hold to meet the benefits earned to date.

Any change in the assumptions will affect the funding target and contribution rate, but different assumptions don't affect the actual benefits the Fund will pay in future.

D2 What assumptions are used to set the contribution rate?

The Fund doesn't rely on a single set of assumptions when setting contribution rates, instead using Hymans Robertson's Economic Scenario Service (ESS) to project each employer's assets, benefits and cashflows to the end of the funding time horizon.

ESS projects future benefit payments, contributions and investment returns under 5,000 possible economic scenarios, using variables for future inflation and investment returns for each asset class, rather than a single fixed value.

For any projection, the fund actuary can assess if the funding target is satisfied at the end of the time horizon.

Table: Summary of assumptions underlying the ESS, 31 March 2022

		Annualised total returns										
		UK Equity	Developed World ex UK Equity	Private Equity	Property	Emerging Markets Equity	Listed Infrastructure Equity	Multi Asset Credit (sub inv grade)	Absolute Return Bonds (inv grade)	Inflation (CPI)	17 year real yield (CPI)	17 year yield
5 years	16th %'ile	-2.7%	-3.2%	-5.0%	-2.5%	-5.9%	-3.5%	0.3%	0.5%	2.3%	-2.2%	1.1%
	50th %'ile	5.5%	5.3%	9.5%	4.0%	5.6%	4.8%	3.1%	2.0%	3.9%	-1.3%	2.1%
	84th %'ile	13.9%	14.0%	24.1%	11.0%	17.9%	12.8%	5.7%	3.4%	5.5%	-0.4%	3.3%
10 years	16th %'ile	-0.4%	-0.7%	-1.2%	-0.6%	-2.5%	-1.1%	1.7%	0.9%	1.6%	-1.7%	1.1%
	50th %'ile	5.7%	5.6%	9.4%	4.4%	5.8%	4.9%	3.5%	2.3%	3.3%	-0.5%	2.5%
	84th %'ile	11.6%	11.7%	20.1%	9.5%	14.4%	10.9%	5.2%	3.7%	4.9%	0.7%	4.3%
20 years	16th %'ile	1.7%	1.5%	2.4%	1.4%	0.1%	1.2%	2.8%	1.4%	1.2%	-0.7%	1.3%
	50th %'ile	6.2%	6.1%	10.0%	5.0%	6.3%	5.6%	4.4%	2.9%	2.7%	1.1%	3.2%
	84th %'ile	10.6%	10.8%	17.6%	8.9%	12.8%	10.1%	6.0%	4.6%	4.3%	2.7%	5.7%
	Volatility (Disp) (1 yr)	19.9%	20.1%	31.2%	15.0%	27.0%	17.5%	7.4%	2.8%	1.4%		

D3 What financial assumptions were used?

Future investment returns and discount rate

The Fund uses a risk-based approach to generate assumptions about future investment returns over the funding time horizon, based on the investment strategy.

The discount rate is the annual rate of future investment return assumed to be earned on assets after the end of the funding time horizon. The discount rate assumption is set as a margin above the risk-free rate.

Assumptions for future investment returns depend on the funding objective.

	Employer type	Margin above risk-free rate
Ongoing basis	All employers except transferee admission bodies and closed community admission bodies	2.3%
Low-risk exit basis	Community admission bodies closed to new entrants	0%
Contractor exit basis	Transferee admission bodies	Equal to the margin used to allocate assets to the employer on joining the Fund

Discount rate (for funding level calculation as at 31 March 2022 only)

For the purpose of calculating a funding level at the 2022 valuation, a discount rate of 4.1% pa applies. This is based on a prudent estimate of investment returns, specifically, that there is an 75% likelihood that the Fund's assets will generate future investment returns of 4.1% pa over the 20 years following the 2022 valuation date.

Pension increases and CARE revaluation

Deferment and payment increases to pensions and revaluation of CARE benefits are in line with the Consumer Price Index (CPI) and determined by the regulations.

The CPI assumption is based on Hymans Robertson's ESS model. The median value of CPI inflation from the ESS was 2.7% pa on 31 March 2022.

Salary growth

The salary increase assumption at the latest valuation has been set to 0.5% above CPI pa plus a promotional salary scale.

D4 What demographic assumptions were used?

Demographic assumptions are best estimates of future experience. The Fund uses advice from Club Vita to set demographic assumptions, as well as analysis and judgement based on the Fund's experience.

Demographic assumptions vary by type of member, so each employer's own membership profile is reflected in their results.

Life expectancy

The longevity assumptions are a bespoke set of VitaCurves produced by detailed analysis and tailored to fit the fund's membership profile.

Allowance has been made for future improvements to mortality, in line with the 2021 version of the continuous mortality investigation (CMI) published by the actuarial profession. The starting point has been adjusted by +0.25% to reflect the difference between the population-wide data used in the CMI and LGPS membership. A long-term rate of mortality improvements of 1.5% pa applies.

The smoothing parameter used in the CMI model is 7.0. There is little evidence currently available on the long-term effect of Covid-19 on life expectancies. To avoid an undue impact from recently mortality experience on long-term assumptions, no weighting has been placed on data from 2020 and 2021 in the CMI.

Other demographic assumptions	
Retirement in normal health	Members are assumed to retire at the earliest age possible with no pension reduction.
Promotional salary increases	Sample increases below
Death in service	Sample rates below
Withdrawals	Sample rates below
Retirement in ill health	Sample rates below
Family details	A varying proportion of members are assumed to have a dependant partner at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. Beyond retirement the proportion is adjusted for assumed dependant mortality. Males are assumed to be 3 years older than females, and partner dependants are assumed to be opposite sex to members.
Commutation	65% of future retirements elect to exchange pension for additional tax-free cash up to the maximum
50:50 option	0.5% of members will choose the 50:50 option.

D3 Rates for demographic assumptions

Males

Incidence per 1000 active members per year								
Age	Salary Scale	Death Before Retirement	Withdrawals		Ill Health Tier 1		Ill Health Tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.17	323.45	609.76	0.00	0.00	0.00	0.00
25	117	0.17	213.65	402.77	0.00	0.00	0.00	0.00
30	131	0.20	151.59	285.73	0.00	0.00	0.00	0.00
35	144	0.24	118.44	223.22	0.10	0.07	0.02	0.01
40	150	0.41	95.36	179.66	0.16	0.12	0.03	0.02
45	157	0.68	89.57	168.72	0.35	0.27	0.07	0.05
50	162	1.09	73.83	138.92	0.90	0.68	0.23	0.17
55	162	1.70	58.14	109.45	3.54	2.65	0.51	0.38
60	162	3.06	51.82	97.51	6.23	4.67	0.44	0.33
65	162	5.10	0.00	0.00	11.83	8.87	0.00	0.00

Females

Incidence per 1000 active members per year								
Age	**Salary Scale**	**Death Before Retirement**	**Withdrawals**		**Ill Health Tier 1**		**Ill Health Tier 2**	
		FT & PT	**FT**	**PT**	**FT**	**PT**	**FT**	**PT**
20	105	0.10	352.42	373.90	0.00	0.00	0.00	0.00
25	117	0.10	237.14	251.55	0.10	0.07	0.02	0.01
30	131	0.14	198.78	210.83	0.13	0.10	0.03	0.02
35	144	0.24	171.57	181.90	0.26	0.19	0.05	0.04
40	150	0.38	142.79	151.34	0.39	0.29	0.08	0.06
45	157	0.62	133.25	141.21	0.52	0.39	0.10	0.08
50	162	0.90	112.34	118.92	0.97	0.73	0.24	0.18
55	162	1.19	83.83	88.83	3.59	2.69	0.52	0.39
60	162	1.52	67.55	71.50	5.71	4.28	0.54	0.40
65	162	1.95	0.00	0.00	10.26	7.69	0.00	0.00

D5 What assumptions apply in a cessation valuation following an employer's exit from the Fund?
Low-risk exit basis

Where there is no guarantor, the low-risk exit basis will apply.

The financial and demographic assumptions underlying the low-risk exit basis are explained below:

3. The discount rate is set equal to the annualised yield on long dated government bonds at the cessation date, with a 0% margin. This was 1.7% pa on 31 March 2022.
4. The CPI assumption is based on Hymans Robertson's ESS model. The median value of CPI inflation from the ESS was 2.7% pa on 31 March 2022.
5. Life expectancy assumptions are those used to set contribution rates, with one adjustment. A higher long-term rate of mortality improvements of 1.75% pa is assumed.

Contractor exit basis

Where there is a guarantor (eg in the case of contractors where the local authority guarantees the contractor's admission in the Fund), the contractor exit basis will apply.

The financial and demographic assumptions underlying the contractor exit basis are equal to those set for calculating contribution rates. Specifically, the discount rate is set equal to the risk-free rate at the cessation date, plus a margin equal to that set to allocate assets to the employer on joining the Fund.

Appendix E - Policy on Prepayments

1 Introduction

The purpose of this policy is to set out the administering authority's approach to the prepayment of regular contributions due by participating employers.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

1.1 Aims and objectives

The administering authority's aims and objectives related to this policy are as follows:

- To provide employers with clarity around the circumstances where prepayment of contributions will be permitted.
- To outline the key principles followed when calculating prepayment amounts.
- To outline the approach taken to assess the suitability of a prepayment as sufficient to meet the required contributions.

1.2 Background

It is common practice in the LGPS for employers to pre-pay regular contributions that were otherwise due to be paid to the Fund in future. Employer contributions include the 'Primary Rate' – which is expressed as a percentage of payroll and reflects the employer's share of the cost of future service benefits, and the 'Secondary Rate' – which can be expressed as a percentage of payroll or a monetary amount and is an additional contribution designed to ensure that the total contributions payable by the Employer meet the funding objective.

On 22 March 2022, following a request from the LGPS Scheme Advisory Board, James Goudie QC provided an Opinion on the legal status of prepayments. This Opinion found that the prepayment of employee and employer contributions was not illegal, subject to the basis for determining the prepayment amount being reasonable, proportionate and prudent. Further, the Opinion set out specific requirements around the presentation of prepayments.

1.3 Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) set out the way in which LGPS funds should determine employer contributions and contain relevant provisions regarding the payment of these, including the following:

- Regulation 9 – outlines the contribution rates payable by active members
- Regulation 62 - sets the requirement for an administering authority to prepare an R&A certificate.
- Regulation 67 – sets out the requirement for employers to pay contributions in line with the Rates and Adjustments (R&A) certificate and specifies that primary contributions be expressed as a percentage of pensionable pay of active members.

2 Statement of principles

This statement of principles covers the prepayment of regular employer contributions to the Fund. Each case will be treated on its own merits, but in general:

- The administering authority will permit the prepayment of employer contributions.
- Prepaying contributions expressed as a percentage of pay introduces the risk that the prepayment amount will be insufficient to meet the scheduled contribution (as a result of differences between expected and actual payroll). Prepaying contributions is therefore only permissible in the case of secure, long-term employers (e.g. local authorities).
- The prepayment of employee contributions is not permitted.
- A discount will be applied where employer contributions are prepaid, to reflect the investment return that is assumed to be generated by the Fund over the period of prepayment.
- The Fund actuary will determine the prepayment amount, which may require assumptions to be made about payroll over the period which the scheduled contribution is due.
- Where contributions expressed as a percentage of pay have been prepaid, the administering authority will carry out an annual check (and additional contributions may be required by the employer) to make sure that the actual amounts paid are sufficient to meet the contribution requirements set out in the R&A certificate.
- Prepayment agreements will be documented by way of correspondence between the administering authority and the employer.
- The R&A certificate will be updated on an annual basis to reflect any prepayment agreements in place.
- Employers are responsible for ensuring that any prepayment agreement is treated appropriately when accounting for pensions costs.
- Prepayment agreements can cover any annual period of the R&A (or a consecutive number of annual periods).

1 Policy

3.1 Eligibility and periods covered

The Fund is happy to consider requests from any employers to pre-pay certified primary and secondary contributions. However, in general, prepayments are most appropriate for large, secure employers with stable active memberships. Employer contributions over the period of the existing R&A certificate (and, where a draft R&A certificate is being prepared following the triennial valuation, the draft R&A certificate) may be pre-paid by employers.

Prepayment of contributions due after the end of the existing (or draft) R&A certificate is not permitted, i.e. it would not be possible to prepay employer contributions due in the 2026/27 year until the results of the 2025 valuation are known and a draft R&A certificate covering the 2026 to 2029 period has been prepared.

3.2 Request and timing

Prior to making any prepayment, employers are required to inform the Fund in writing of their wish to prepay employer contributions and to request details of the amount required by the Fund to meet the scheduled future contribution.

This request should be received by the Fund within 2 months of the start of the period for which the prepayment is in respect of.

The Fund will then provide the employer with a note of the prepayment amount and the date by which this should be paid. In general, the prepayment should be as close as possible to the beginning of the appropriate R&A period and by 30 April at the latest.

Failure to pay the prepayment amount by the specified date may lead to the need for an additional and immediate payment from the employer to ensure that the amount paid is sufficient to meet the certified amount set out in the R&A certificate.

1.3 Calculation

The Fund actuary will determine the prepayment amount required.

Where the prepayment is in respect of contributions expressed as a percentage of pay:

- The Fund actuary will determine the discounted value of scheduled contributions based on an estimate of payroll over the period (using the information available and assumptions set at the previous valuation) and the discount rate set for the purpose of the previous actuarial valuation (as specified in the previous actuarial valuation report).
- A sufficiency check will be required at the end of the period (see section 3.4)

Where the prepayment is in respect of contributions expressed as a monetary amount:

- The Fund actuary will determine the discounted value of scheduled contributions based on the discount rate set for the purpose of the previous actuarial valuation (as specified in the previous actuarial valuation report).
- No sufficiency check will be required

Employers may pay more than the prepayment amount determined by the Fund actuary.

No allowance for expected outsourcing of services will be made in the Fund actuary's estimation of payroll for the prepayment period.

1.4 Sufficiency check

Where required, the Fund actuary will carry out an **annual** assessment to check that sufficient contributions have been prepaid in respect of that period. Specifically, this will review the prepayment calculation based on actual payroll of active members over the period and this may lead to a top-up payment being required from the employer.

If this sufficiency check reveals that the prepayment amount was higher than that which would have been required based on actual payroll (i.e. if actual payroll over the period is less than was assumed), this will not lead to a refund of contributions to the employer.

The sufficiency check will not compare the assumed investment return (i.e. the discount rate) with actual returns generated over the period. i.e. the check considers payroll only. Any shortfall arising due to actual investment returns being lower than that assumed will form part of the regular contribution assessment at the next valuation (as per the normal course of events).

The administering authority will notify the employer of any top-up amount payable following this annual sufficiency check and the date by which any top-up payment should be made.

1.5 Documentation and auditor approval

The Fund will provide the employer with a note of the information used to determine the prepayment amount, including:

- Discount rate used in the calculations
- The estimate of payroll (where applicable)
- The effective date of the calculation (and the date by which payment should be made)
- The scheduled regular payments which the prepayment amount covers.

The prepayment agreement will be reflected in the R&A certificate as follows:

- The unadjusted employer regular contribution rate payable over the period of the certificate
- As a note to the contribution rate table, information relating to the prepayment amount and the discount applied, for each employer where a prepayment agreement exists.

The R&A certificate will be updated on an annual basis to reflect any prepayment agreements in place.

Employers should discuss the prepayment agreement with their auditor prior to making payment and agree the accounting treatment of this. The Fund will not accept any responsibility for the accounting implications of any prepayment agreement.

1.6 Costs

Employers entering into a prepayment agreement will be required to meet the cost of this, which includes (but is not limited to) the actuarial fees incurred by the administering authority. These costs would be recharged to employers by the Fund.

1.7 Risks

Employers may enter into prepayment agreements on the expectation that the Fund will be able to generate higher returns than they can over the prepayment period. Employers should be aware that future returns are not guaranteed, and it is possible that the returns generated on prepayment amounts may generate a lower return than that which can be generated by the employer. It is also possible that negative returns will lead to the value of any prepayment being less than that which was scheduled to be paid. In such circumstances, a top-up payment would not be required (as the sufficiency check only considers the effect of actual payroll being different to that assumed in the prepayment calculation), however the employer's asset share would be lower than it would have been if contributions were paid as scheduled. This would be considered by the Fund actuary at the next triennial valuation (as per the normal course of events).

2 Related Policies

The Fund's approach to setting regular employer contribution rates is set out in the Funding Strategy Statement, specifically "Section 2 – How does the Fund calculate employer contributions?".

Appendix F - Policy on contribution reviews

1 Introduction

The purpose of this policy is to set out the administering authority's approach to reviewing contribution rates between triennial valuations.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

1.1 Aims and objectives

The administering authority's aims and objectives related to this policy are as follows:

- To provide employers with clarity around the circumstances where contribution rates may be reviewed between valuations.
- To outline specific circumstances where contribution rates will not be reviewed.

1.2 Background

The Fund may amend contribution rates between valuations for 'significant change' to the liabilities or covenant of an employer.

Such reviews may be instigated by the Fund or at the request of a participating employer.

Any review may lead to a change in the required contributions from the employer.

1.3 Guidance and regulatory framework

Regulation 64 of the Local Government Pension Scheme Regulations 2013 (as amended) sets out the way in which LGPS funds should determine employer contributions, including the following;

- Regulation 64 (4) – allows the administering authority to review the contribution rate if it becomes likely that an employer will cease participation in the Fund, with a view to ensuring that the employer is fully funded at the expected exit date.
- Regulation 64A - sets out specific circumstances where the administering authority may revise contributions between valuations (including where a review is requested by one or more employers).

This policy also reflects statutory guidance from the Department for Levelling Up, Housing and Communities on preparing and maintaining policies relating to the review of employer contributions. Interested parties may want to refer to an accompanying guide that has been produced by the Scheme Advisory Board.

2 Statement of principles

This statement of principles covers review of contributions between valuations. Each case will be treated on its own merits, but in general:

- The administering authority reserves the right to review contributions in line with the provisions set out in the LGPS Regulations.
- The decision to make a change to contribution rates rests with the administering authority, subject to consultation with employers during the review period.
- Full justification for any change in contribution rates will be provided to employers.
- Advice will be taken from the Fund actuary in respect of any review of contribution rates.
- Any revision to contribution rates will be reflected in the Rates & Adjustment certificate.
- An additional level of security or guarantee may be sought by the Fund, in certain circumstances.

3 Policy

3.1 Circumstances for review

The Fund would consider the following circumstances as a potential trigger for review:

- in the opinion of an administering authority there are circumstances which make it likely that an employer (including an admission body) will become an exiting employer sooner than anticipated at the last valuation;
- an employer is approaching exit from the Fund within the next two years and before completion of the next triennial valuation;
- there are changes to the benefit structure set out in the LGPS Regulations which have not been allowed for at the last valuation;
- it appears likely to the administering authority that the amount of the liabilities arising or likely to arise for an employer or employers has changed significantly since the last valuation;
- it appears likely to the administering authority that there has been a significant change in the ability of an employer or employers to meet their obligations (e.g. a material change in employer covenant, or provision of additional security);
- it appears to the administering authority that the membership of the employer has changed materially such as bulk transfers, significant reductions to payroll or large-scale restructuring; or
- where an employer has failed to pay contributions or has not arranged appropriate security as required by the administering authority.

3.2 Employer requests

The administering authority will also consider a request from any employer to review contributions where the employer has undertaken to meet the costs of that review and sets out the reasoning for the review (which would be expected to fall into one of the above categories, such as a belief that their covenant has changed materially, or they are going through a significant restructuring impacting their membership).

The administering authority will require additional information to support a contribution review made at the employer's request. The specific requirements will be confirmed following any request and this is likely to include the following:

- a copy of the latest accounts;
- details of any additional security being offered (which may include insurance certificates);
- budget forecasts; and/or
- information relating to sources of funding.

The administering authority will endeavour to complete any review within 3 months of request subject to receipt of satisfactory evidence, and will monitor any change in an employer's circumstances on a regular basis following any change in contribution rate and may require further information from the employer to support this monitoring process.

The costs incurred by the administering authority in carrying out a contribution review (at the employer's request) will be met by the employer. These will be confirmed upfront to the employer prior to the review taking place.

3.3 Impact on other employers

When undertaking any review of contributions, the administering authority will also consider the impact of a change to contribution rates on other Fund employers. This will include the following factors:

- The existence of a guarantor.
- The amount of any other security held.
- The size of the employer's liabilities relative to the whole Fund.

The administering authority will consult with other Fund employers as necessary.

3.4 Effect of market volatility

Except in circumstances such as an employer nearing cessation, the administering authority will not consider market volatility or changes to asset values as a basis for a change in contributions outside a formal valuation.

3.5 Documentation

Where revisions to contribution rates are necessary, the Fund will provide the employer with a note of the information used to determine these, including:

- Explanation of the key factors leading to the need for a review of the contribution rates, including, if appropriate, the updated funding position.
- A note of the new contribution rates and effective date of these.
- Date of next review.
- Details of any processes in place to monitor any change in the employer's circumstances (if appropriate), including information required by the administering authority to carry out this monitoring.

The Rates & Adjustments certificate will be updated to reflect the revised contribution rates.

4 Related Policies

The Fund's approach to setting employer contribution rates is set out in the Funding Strategy Statement, specifically "Section 2 – How does the Fund calculate employer contributions?".

Appendix G - Policy on pass-through

1 Introduction

The purpose of this policy is to set out the administering authority's approach to admitting new contractors into the Fund on a pass-through basis. In addition, and subject to review on a case-by-case basis, the Fund may be willing to apply its pass-through principles to other admission bodies where liabilities are covered by a guarantor within the fund.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

1.1 Aims and objectives

The administering authority's aims and objectives related to this policy are as follows:

- To set out the Fund's approach to admitting new contractors / admission bodies, including the calculation of contribution rates and how risks are shared under the pass-through arrangement.
- To outline the process for admitting new contractors / admission bodies into the Fund.

1.2 Background

Employees outsourced from local authorities, police and fire authorities must be offered pension benefits that are the same, better than, or count as being broadly comparable to, the Local Government Pension Scheme (as per the Best Value Authorities Staff Transfer (Pensions) Direction 2007) and the Welsh Authority Staff Transfers (Pensions) Direction 2012. This is typically achieved by employees remaining in the LGPS and the new employer becoming an admitted body to the Fund and making the requisite employer contributions.

Pass-through is an arrangement whereby the letting authority (e.g. the local authority) retains the main risks of fluctuations in the employer contribution rate during the life of the contract, and the risk that the employer's assets may be insufficient to meet the employees' pension benefits at the end of the contract.

1.3 Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) set out the way in which LGPS funds should determine employer contributions and contain relevant provisions regarding the payment of these, including the following:

- Schedule 2 Part 3 sets out the entities eligible to join the Fund as an admitted body, their key responsibilities as an admitted body and the requirements of the admission agreement.
- Regulation 64 - covers the requirements for a cessation valuation following the exit of a participating employer from the fund.
- Regulation 67 – sets out the requirement for employers to pay contributions in line with the Rates and Adjustments (R&A) certificate and provides a definition of the primary rate.

2 Statement of principles

This statement of principles covers the admission of new contractors (or other admission bodies) to the Fund on a pass-through basis. Each case will be treated on its own merits, but in general:

- Employers which "outsource" have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. There are typically three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

- Pooling
  - Under this option the contractor is pooled with the letting authority. In this case, the contractor pays the same rate as the letting authority, which may be under a stabilisation approach.
- Letting authority retains pre-contract risks
  - Under this option the letting authority would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff.
  - The contractor's contribution rate could vary from one valuation to the next. It would be liable for any deficit (or entitled to any surplus) at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term. Please note, the level of exit credit (if any) payable on cessation would be determined by the Administering Authority in accordance with the Regulations and this FSS.
- Fixed contribution rate agreed
  - Under this option the contractor pays a fixed contribution rate throughout its participation in the Fund and does not pay any deficit or receive an exit credit.

- The administering authority is willing to administer any of the above options as long as the approach is documented in the admission agreement as well as the transfer agreement.
- The Fund has no strong preference for any of the approaches discussed above.
- Unless otherwise instructed by the letting authority, under the fixed contribution rate approach, the contractor's pension contribution rate is set equal to the primary contribution rate payable by the letting authority.
- The letting authority retains responsibility for variations in funding level, for instance due to investment performance, changes in market conditions, and longevity under its pass-through arrangement, irrespective of the size of the outsourcing.
- The contractor will meet the cost of additional liabilities arising from (non-ill health) early retirements and augmentations together with funding strains arising from excessive salary growth.
- Ill health experience will be pooled with the letting authority and no additional strain payments will be levied on the contractor in respect of ill health retirements.
- The contractor will not be required to obtain an indemnity bond.
- There will be no notional transfer of assets to the contractor within the Fund. This means that all assets and liabilities relating to the contractor's staff will remain the responsibility of the letting authority during the period of participation.
- At the end of the contract (or when there are no longer any active members participating in the Fund, for whatever reason), the admission agreement will cease and no further payment will be required from the contractor (or the letting authority) to the Fund, save for any outstanding regular contributions and/or invoices. Likewise, no "exit credit" payment will be required from the Fund to the contractor (or letting authority).

- The terms of the pass-through agreement will be documented by way of the admission agreement between the administering authority, the letting authority, and the contractor.
- All existing admission agreements are unaffected by this policy.

The principles outlined above are the default principles which will apply; however, the letting authority may request the specific details of a particular agreement to differ from the principles outlined above.

The administering authority is not obliged to agree to a departure from the principles set out in this policy but will consider such requests and engage with the letting authority to reach agreement.

3 Policy and process

3.1 Compliance

Adherence to this policy is the responsibility of the relevant responsible service manager for any given outsourcing.

The administering authority and the Fund actuary must always be notified that an outsourcing has taken place, regardless of the number of members involved.

3.2 Contribution rates

Where a contract is let on the basis of pass-through, as described above, the contribution rate payable by the contractor over the period of participation will be determined at the start of the contract in accordance with the agreed methodology (as discussed above) and this approach will apply throughout its participation in the Fund.

3.3 Risk sharing and cessation valuation

The letting authority will retain the risk of the contractor becoming insolvent during the period of admission and so no indemnity bond will be required from contractors participating in the Fund on a pass-through basis. The letting authority is effectively guaranteeing the contractor's participation in the Fund.

A cessation valuation is required when a contractor no longer has any active members in the fund. This could be due to a contract coming to its natural end, insolvency of a contractor or the last active member leaving employment or opting out of the LGPS.

Where a pass-through arrangement is in place, the Fund assets and liabilities associated with outsourced employees are retained by the letting authority. At the end of the admission, the cessation valuation will therefore record nil assets and liabilities for the ceasing employer and therefore that no cessation debt or exit credit is payable to or from the Fund.

The contractor will be required to pay any outstanding regular contributions and/or unpaid invoices relating to the cost of (non-ill health) early retirement strains and/or augmentations and/or in respect of excessive salary increases at the end of the contract.

Under a typical pass-through arrangement, the contractor will be liable for additional pension costs that arise due to items over which it exerts control. The risk allocation is as follows:

Risks	Letting authority	Contractor/ Admitted body
Surplus/deficit prior to the transfer date	✓	
Interest on surplus/deficit	✓	
Investment performance of assets held by the Fund	✓	
Changes to the discount rate that affect past service liabilities	✓	

Changes to the discount rate that affect future service accrual	✓	
Change in longevity assumptions that affect past service liabilities	✓	
Changes to longevity that affect future accrual	✓	
Price inflation affects past service liabilities	✓	
Price inflation / pension increases that affect future accrual	✓	
Exchange of pension for tax free cash	✓	
Ill health retirement experience	✓	
Strain costs attributable to granting early retirements (not due to ill health (e.g. redundancy, efficiency, waiving actuarial reductions on voluntary early retirements)		✓
Greater/lesser level of withdrawals	✓	
Rise in average age of contractor's employee membership	✓	
Changes to LGPS benefit package	✓	
Excess liabilities attributable to the contractor granting pay rises that exceed those assumed in the last formal actuarial valuation of the Fund		✓
Award of additional pension or augmentation		✓

3.4 Accounting valuations

Accounting for pensions costs is a responsibility for individual employers.

It is the administering authority's understanding that contractors may be able to account for such pass-through admissions on a defined contribution basis and therefore no formal FRS102 / IAS19 report may be required (e.g. contractors paying a fixed rate are largely indemnified from the risks inherent in providing defined benefit pensions).

As the letting authority retains most of the pension risk relating to contractors, it is the administering authority's understanding that these liabilities (and assets) should be included in the letting authority's FRS102 / IAS19 disclosures.

The administering authority expects employers to seek approval to the treatment of pension costs from their auditor.

3.5 Application

Letting authorities may request terms which differ from those set out in this policy and any such request will be considered by the administering authority.

All existing admission agreements (i.e. which commenced prior to the effective date of this policy) are unaffected by this policy.

3.6 Process

The procurement department at each letting authority that has responsibility for staff/service outsourcing must be advised of this policy. The process detailed below must be adhered to by the letting authority and (where applicable) the contractor.

- **Tender Notification** - The letting authority must publicise this pass-through policy as part of its tender process to bidders. This should confirm that the winning bidder will not be responsible for ensuring that the liabilities of outsourced employees are fully funded at the end of the contract, and that the winning bidder will only be responsible for paying contributions to the Fund during the period of participation and meeting the cost of (non-ill health) early retirement strains, the cost of benefit augmentations and excessive salary growth (assuming the terms of this policy are adhered to). It should also advise the employer contribution rate as detailed in paragraph 3.2.

- **Initial notification to Pension Team** – The letting authority must contact the administering authority when a tender (or re-tender) of an outsourcing contract is taking place and staff (or former staff) are impacted. The administering authority must be advised prior to the start of the tender and the letting uthority must also confirm that the terms of this policy have been adhered to.

- **Confirmation of winning bidder** – The letting authority must immediately advise the administering authority of the winning bidder.

- **Request for winning bidder to become an admitted body** – The winning bidder (in combination with the letting authority), should request to the administering authority that it wishes to become an admitted body within the Fund.

- **Template admission agreement** – a template pass-through admission agreement will be used for admissions under this policy. It will set out all agreed points relating to employer contribution rate, employer funding responsibilities, and exit conditions. Only in exceptional circumstances, and only with the prior agreement of the administering authority, will the wording within the template agreement be changed. All admission agreements must be reviewed (including any changes) by the administering authority and possibly its legal advisors.

- **Signed admission agreement** - Signing of the admission agreement can then take place between an appropriate representative of the winning bidder, the lead finance officer of the letting authority, and the administering authority. It is at this point the Fund can start to receive contributions from the contractor and its employee members (backdated if necessary).

- **Admitted body status** – The letting authority will advise the contractor of its requirements and responsibilities within the Fund.

3.7 Costs

Contractors being admitted to the Fund under a pass-through agreement will be required to meet the cost of this, which includes (but is not limited to) the actuarial fees incurred by the administering authority.

4 Related Policies

The Fund’s approach to setting regular employer contribution rates is set out in its Funding Strategy Statement, specifically “Section 2 – How does the Fund calculate employer contributions?”.

The treatment of new employers joining the Fund is set out in the Funding Strategy Statement, specifically “Section 5 – What happens when an employer joins the Fund?”

The treatment of employers exiting the Fund is set out in the Funding Strategy Statement, specifically “Section 6 – What happens when an employer leaves the Fund?”

Appendix H - Policy on ill health risk management

1 Introduction

The purpose of this policy is to set out the administering authority's approach to managing the risk arising due to ill health retirements.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

1.1 Aims and objectives

The administering authority's aims and objectives related to this policy are as follows:

- To explain the approach taken to manage ill health risk
- To specify circumstances where a review of experience may lead to additional contributions.
- To outline the key risks and benefits to this arrangement.

1.2 Background

Additional liabilities can arise following the retirement of members due to ill health. These additional liabilities can include the unreduced early payment of pension benefits and the award of additional pension. The level of pension benefits paid on ill health depends on the severity of the member's condition.

The LGPS Regulations require the additional liabilities to be funded by way of payments from employers. Payment of large lump sums to meet strains as and when they arise can lead to unexpected payments and put significant strain on employers' budgets. LGPS funds are able to put arrangements in place which mitigate the risk of having to pay a large cash sum due to an ill health retirement strain payment.

To mitigate this risk to smaller employers, and to evidence good governance and risk management, the administering authority has arranged for an external insurance policy to cover ill health early retirement strains for smaller employers in the Fund. Each of these employer's contributions to the Fund includes its share of that year's insurance premium. When an active member retires on ill health early retirement, the claim amount received from the insurer will be credited to the respective employer's asset share in the Fund.

For all other employers that are not covered by the external insurance policy, any funding strain in excess of the allowance made in the funding basis would be met through an increase to ongoing contributions.

1.3 Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) set out the benefits payable to members and the way in which additional benefits (such as those arising on ill health early retirement) should be funded. These include the following:

- Regulation 35 – permits the early retirement of pension on ill health grounds.
- Regulation 39 – sets out the calculation of the pension payable in the instance of ill health retirement.
- Regulation 68 – sets out the additional contributions payable by the employer to meet the liability strain caused by a member retiring through ill health.

2 Statement of principles

This statement of principles covers the external insurance arrangement in place to manage the risks created by ill health retirements for smaller employers, and the equivalent risks for larger employers not using the ill health insurance arrangement. In general:

- Employers will not be required to pay lump sum amounts to meet ill health retirement strains (in the normal course of events).
- Both Tier 1 and Tier 2 ill health retirement strains will be covered by this arrangement.
- For smaller employers in the Fund that are covered by external insurance:
    - Eligible employers are unable to opt out of this arrangement.
    - Each of these employer's contributions to the Fund includes its share of that year's insurance premium.
- For all other employers in the Fund:
    - Regular contribution rates will include the expected cost of assumed ill health retirements.
    - The Hymans Robertson Employer Asset Tracker (HEAT) system is used to track actual ill health experience.
    - Any funding strain in excess of the allowance made in the funding basis would ordinarily be met through an increase to ongoing contributions at the next triennial valuation. However, the Fund reserves the right to request immediate additional contributions in the event of material ill health strains during the period between valuations.

3 Policy

3.1 Purpose

The purpose of this ill health risk management policy is to protect the Fund against adverse ill health retirement experience of individual employers.

3.2 Eligibility

This policy applies to all employers in the Fund. The 'smaller employers' that are covered by external insurance include all town councils and community admission bodies (with under 75 active members) and exclude scheduled or designated bodies.

3.3 Operation

The policy works as follows:

- Assets shares for each employer are determined each month by Hymans Robertson, using the HEAT system and based on the monthly cashflows and asset information provided by the fund.

  As part of this data provision, the fund determines the strain costs arising due to ill health retirements and this strain is allocated to each active employer in proportion to their asset share at the beginning of that month.

- Contribution rates are set by the Fund Actuary every three years as part of the triennial valuation.

  Primary contribution rates include allowance for the expected cost of assumed ill health retirements (expressed as a percentage of payroll).

This provides ongoing funding for the assumed level of ill health retirement strains.

3.3.1 Smaller employers

- Smaller employers in the Fund are covered by the ill health insurance arrangement.
    - When an active member retires on tier one or tier two ill health early retirement, a claim amount equal to the fund calculated strain cost for the retirement will be received from the insurer (assuming a valid claim) and credited to the respective employer's asset share in the Fund.
    - It is not guaranteed that the insurer will pay the claim, for example if it does not believe that the requirements for a tier one or tier two ill health retirement have been met.

3.3.2 Other employers

- Other employers in the Fund not covered by the ill health insurance arrangement.
    - Where the actual level of ill health retirement strains exceeds the assumed level, this will lead to a shortfall arising at the next triennial valuation for those employers not covered by the ill health insurance arrangement.

      No immediate additional contributions will be required from employers to meet this shortfall, but this could increase the contribution requirement following the next triennial valuation.
    - Similarly, where the actual level of ill health retirement strains is lower than the assumed level, this will lead to a surplus arising at the next triennial valuation.

      No refund will be paid to employers as a result of this, but this surplus could lead to downwards pressures on contributions following the next triennial valuation.

3.4 Review and additional contributions

The administering authority will review the level of ill health experience across all employers at each triennial valuation.

If an employer has an unusually high incidence of ill health retirement over the previous inter-valuation period, the administering authority will engage with the employer to understand the reasons for this. In the event of concerns around the eligibility criteria applied by the employer in granting ill health retirements, this could lead to the need for the employer to pay additional contributions to the Fund.

3.5 Costs

The costs of operating this policy will be met by the Fund as part of its administration expenses.

4 Related Policies

The Fund's approach to setting regular employer contribution rates is set out in the Funding Strategy Statement, specifically "Section 2 – How does the Fund calculate employer contributions?".

Appendix I - Policy on cessations

1 Introduction

The purpose of this policy is to set out the administering authority's approach to dealing with circumstances where a scheme employer leaves the Fund and becomes an exiting employer (a cessation event).

It should be noted that this policy is not exhaustive. Each cessation will be treated on a case-by-case basis, however certain principles will apply as governed by the regulatory framework (see below) and the Fund's discretionary policies (as described in Section 3 – Policies below).

1.1 Aims and Objectives

The administering authority's aims and objectives related to this policy are as follows:

- To confirm the approach for the treatment and valuation of liabilities for employers leaving the Fund.
- To provide information about how the Fund may apply its discretionary powers when managing employer cessations.
- To outline the responsibilities of (and flexibilities for) exiting employers, the administering authority, the actuary and, where relevant, the original ceding scheme employer (usually a letting authority).

1.2 Background

As described in Section 7 of the Funding Strategy Statement (FSS), a scheme employer may become an exiting employer when a cessation event is triggered e.g. when the last active member stops participating in the Fund. On cessation from the Fund, the administering authority will instruct the Fund actuary to carry out a valuation of assets and liabilities for the exiting employer to determine whether a deficit or surplus exists. The Fund has full discretion over the repayment terms of any deficit, and the extent to which any surplus results in the payment of an exit credit.

1.3 Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) contain relevant provisions regarding employers leaving the Fund (Regulation 64) and include the following:

- Regulation 64 (1) – this regulation states that, where an employing authority ceases to be a scheme employer, the administering authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the termination date. Further, it requires the Rates & Adjustments Certificate to be amended to show the revised contributions due from the exiting employer

- Regulation 64 (2) – where an employing authority ceases to be a scheme employer, the administering authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the exit date. Further, it requires the Rates & Adjustments Certificate to be amended to show the exit payment due from the exiting employer or the excess of assets over the liabilities in the fund.

- Regulation 64 (2ZAB) – the administering authority must determine the amount of an exit credit, which may be zero, taking into account the factors specified in paragraph (2ZC) and must:
    - a) Notify its intention to make a determination to-
        - (i) The exiting employer and any other body that has provided a guarantee to the Exiting Employer
        - (ii) The scheme employer, where the exiting employer is a body that participated in the Scheme as a result of an admission agreement

   b) Pay the amount determined to that exiting employer within six months of the exit date, or such longer time as the administering authority and the exiting employer agree.

- Regulation (2ZC) – In exercising its discretion to determine the amount of any exit credit, the administering authority must have regard to the following factors-
   a) The extent to which there is an excess of assets in the fund relating to that employer in paragraph (2)(a)
   b) The proportion of this excess of assets which has arisen because of the value of the employer's contributions
   c) Any representations to the administering authority made by the exiting employer and, where that employer participates in the scheme by virtue of an admission agreement, any body listed in paragraphs (8)(a) to (d)(iii) of Part 3 to Schedule 2 of the Regulations: and
   d) Any other relevant factors

- Regulation 64 (2A) & (2B)– the administering authority, at its discretion, may issue a suspension notice to suspend payment of an exit amount for up to three years, where it reasonably believes the exiting employer is to have one or more active members contributing to the fund within the period specified in the suspension notice.

- Regulation 64 (3) – in instances where it is not possible to obtain additional contributions from the employer leaving the Fund or from the bond/indemnity or guarantor, the contribution rate(s) for the appropriate scheme employer or remaining fund employers may be amended.

- Regulation 64 (4) – where it is believed a scheme employer may cease at some point in the future, the administering authority may obtain a certificate from the Fund actuary revising the contributions for that employer, with a view to ensuring that the assets are expected to be broadly equivalent to the exit payment that will be due.

- Regulation 64 (5) – following the payment of an exit payment to the Fund, no further payments are due to the Fund from the exiting employer.

- Regulation 64 (7A-7G) – the administering authority may enter into a written deferred debt agreement, allowing the employer to have deferred employer status and to delay crystallisation of debt despite having no active members.

- Regulation 64B (1) – the administering authority may set out a policy on spreading exit payments.

In addition to the 2013 Regulations summarised above, Regulation 25A of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the Transitional Regulations") give the Fund the ability to levy a cessation debt on employers who have ceased participation in the Fund (under the previous regulations) but for whom a cessation valuation was not carried out at the time. This policy document describes how the Fund expects to deal with any such cases.
This policy also reflects statutory guidance from the Department for Levelling Up, Housing and Communities on preparing and maintaining policies relating to employer exits. Interested parties may want to refer to an accompanying guide that has been produced by the Scheme Advisory Board.

These regulations relate to all employers in the Fund.

2 Statement of Principles

This Statement of Principles covers the Fund's approach to exiting employers. Each case will be treated on its own merits but in general:

- it is the Fund's policy that the determination of any surplus or deficit on exit should aim to minimise, as far as is practicable, the risk that the remaining, unconnected employers in the Fund have to make contributions in future towards meeting the past service liabilities of current and former employees of employers leaving the Fund.
- the Fund's preferred approach is to request the full payment of any exit debt (an exit payment), which is calculated by the actuary on the appropriate basis (as per Section 7 of the FSS and Section 3.1 below). This would extinguish any liability to the Fund by the exiting employer.
- the Fund's key objective is to protect the interests of the Fund, which is aligned to protecting the interests of the remaining employers. A secondary objective is to consider the circumstances of the exiting employer in determining arrangements for the recovery of the exit debt.

3 Policies

On cessation, the administering authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus as defined in Section 4.3 of the FSS.

Where there is a deficit, payment of this amount in full would normally be sought from the exiting employer. The Fund's normal policy is that this cessation debt is paid in full in a single lump sum within 28 days of the employer being notified.

However, the Fund will consider written requests from employers to spread the payment over an agreed period, in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation (see 3.2 Repayment flexibility on exit payments below).

In circumstances where there is a surplus, the administering authority will determine, at its sole discretion, the amount of exit credit (if any) to be paid to the exiting employer (see 3.3 Exit credits below).

3.1 Approach to cessation calculations

Cessation valuations are carried out on a case-by-case basis at the sole discretion of the Fund depending on the exiting employer's circumstances. However, in general the following broad principles and assumptions may apply, as described in Section 7.2 of the FSS and summarised below:

Type of employer	Cessation exit basis	Responsible parties for unpaid or future deficit emerging
Local Authorities, Police, Parc Cenedlaethol Eryri	Low risk basis[1]	Shared between other Fund employers
Other Scheduled Bodies	Low risk basis[1]	Shared between other Fund employers
Admission bodies (TABs)	Ongoing basis / contractor exit basis[2]	Letting authority (where applicable), otherwise shared between other Fund employers
Admission bodies (CABs)	Low risk basis	Shared between other Fund employers (if no guarantor exists)
Designating employers	Low risk basis	Shared between other Fund employers (if no guarantor exists)

[1]Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (e.g. machinery of Government changes), these cessation principles would apply.

[2]Where a TAB has taken, in the view of the administering authority, action that has been deliberately designed to bring about a cessation event (e.g. stopping future accrual of LGPS benefits), then the cessation valuation will be carried out on a low-risk basis.

3.2 Repayment flexibility on exit payments

Deferred spreading arrangement (DSA)

The Fund will consider written requests from exiting employers to spread an exit payment over an agreed period, in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation.

In this exceptional case, the Fund's policy is:

- The agreed spread period is no more than three years, but the Fund could use its discretion to extend this period in extreme circumstances.
- The Fund may consider factors such as the size of the exit payment and the financial covenant of the exiting employer in determining an appropriate spreading period.
- The exiting employer may be asked to provide the administering authority with relevant financial information such as a copy of its latest accounts, sources of funding, budget forecasts, credit rating (if any) etc. to help in this determination.
- Payments due under the DSA may be subject to an interest charge.
- The Fund will only consider written requests within six months of the employer exiting the Fund. The exiting employer would be required to provide the Fund with detailed financial information to support its request.
- The Fund would take into account the amount of any security offered and seek actuarial, covenant and legal advice in all cases.
- The Fund proposes a legal document, setting out the terms of the exit payment agreement, would be prepared by the Fund and signed by all relevant parties prior to the payment agreement commencing.
- The terms of the legal document should include reference to the spreading period, the annual payments due, interest rates applicable, other costs payable and the responsibilities of the exiting employer during the exit spreading period.
- Any breach of the agreed payment plan would require payment of the outstanding cessation amount immediately.
- Where appropriate, cases may be referred to the Pensions Committee for consideration and considered on its individual merit. Decisions may be made by the Chair in consultation with officers if an urgent decision is required between Committee meetings.

Deferred debt agreement (DDA)

As an alternative, where the ceasing employer is continuing in business, the Administering Authority may enter into a written agreement with the employer to defer its obligations to make an exit payment and continue to make secondary contributions (a 'Deferred Debt Agreement' as described in Regulation 64 (7A)).

The adoption of this approach will continue to expose the employer to stock market and other funding risks during the deferment period, leading to changes in the size of the debt, rather than crystallising the size of the debt at the point of cessation.

The employer must meet all requirements on Scheme employers and pay the secondary rate of contributions as determined by the Fund actuary until the termination of the DDA.

The Administering Authority may consider a DDA in the following circumstances:

- The employer requests the Fund consider a DDA.
- The employer is expected to have a deficit if a cessation valuation was carried out.
- The employer is expected to be a going concern.
- The covenant of the employer is considered sufficient by the administering authority.

The Administering Authority will normally require:

- A legal document to be prepared, setting out the terms of the DDA and signed by all relevant parties prior to the arrangement commencing.(including details of the time period of the DDA, the annual payments due, the frequency of review and the responsibilities of the employer during the period).
- Relevant financial information for the employer such as a copy of its latest accounts, sources of funding, budget forecasts, credit rating (if any) to support its covenant assessment.
- Security be put in place covering the employer's deficit on their cessation basis and the Fund will seek actuarial, covenant and legal advice in all cases.
- Regular monitoring of the contribution requirements and security requirements
- All costs of the arrangement are met by the employer, such as the cost of advice to the Fund, ongoing monitoring or the arrangement and correspondence on any ongoing contribution and security requirements.

A DDA will normally terminate on the first date on which one of the following events occurs:

- The employer enrols new active fund members.
- The period specified, or as varied, under the DDA elapses.
- The take-over, amalgamation, insolvency, winding up or liquidation of the employer.
- The administering authority serves a notice on the employer that the administering authority is reasonably satisfied that the employer's ability to meet the contributions payable under the DDA has weakened materially or is likely to weaken materially in the next 12 months.
- The Fund actuary assesses that the employer has paid sufficient secondary contributions to cover all (or almost all) of the exit payment due if the employer becomes an exiting employer on the calculation date (i.e. employer is now largely fully funded on its low risk basis).
- The Fund actuary assesses that the employer's value of liabilities has fallen below an agreed *de minimis* level and the employer becomes an exiting employer on the calculation date.
- The employer requests early termination of the agreement and settles the exit payment in full as calculated by the Fund actuary on the calculation date (i.e. the employer pays its outstanding cessation debt on its cessation basis).

On the termination of a DDA, the employer will become an exiting employer and a cessation valuation will be completed in line with this policy.

3.3 Exit credits

The administering authority's entitlement to determine whether exit credits are payable in accordance with these provisions shall apply to all employers ceasing their participation in the fund after 14 May 2018. This provision therefore is retrospectively effective to the same extent as provisions of the Local Government Pension Scheme (Amendment) Regulations 2020.

The administering authority may determine the amount of exit credit payable to be zero, however, in making a determination, the Administering Authority will take into account the following factors.

a) the extent to which there is an excess of assets in the Fund relating to the employer over and above the liabilities specified.

b) the proportion of the excess of assets which has arisen because of the value of the employer's contributions.

c) any representations to the administering authority made by the exiting employer, guarantor, ceding Scheme Employer (usually the Letting Authority) or by a body which owns, funds or controls the exiting employer; or in some cases, the Secretary of State.

d) any other relevant factors

Admitted bodies

i. No exit credit will normally be payable in respect of admissions who joined the Fund before 14 May 2018 unless it is subject to a risk sharing arrangement as per paragraph iii) below. Prior to this date, the payment of an exit credit was not permitted under the Regulations and this will have been reflected in the commercial terms agreed between the admission body and the letting authority/awarding authority/ceding employer. This will also apply to any pre-14 May 2018 admission which has been extended or 'rolled over' beyond the initial expiry date and on the same terms that applied on joining the fund.

ii. No exit credit will normally be payable to any admission body who participates in the fund via a pass-through approach. For the avoidance of doubt, whether an exit credit is payable to any admission body who participates in the Fund via the "Letting employer retains pre-contract risks" route is subject to its risk sharing arrangement, as per paragraph iii) below.

iii. The Fund will make an exit credit payment in line with any contractual or risk sharing agreements which specifically covers the ownership of exit credits/cessation surpluses or if the admission body and letting authority have agreed any alternative approach (which is consistent with the Regulations and any other legal obligations). This information, which will include which party is responsible for which funding risk, must be presented to the Fund in a clear and unambiguous document with the agreement of both the admission body and the letting authority/awarding authority/ceding employer and within one month (or such longer time as may be agreed with the administering authority) of the admission body ceasing participation in the Fund. The Fund will also consider any representations made by the letting authority/awarding authority/ceding employer regarding monies owed to them by the admission body in respect of the contract that is ceasing or any other contractual arrangement between the two parties. The letting authority/awarding authority/ceding employer must make such representations in a clear and unambiguous document within one month of the admission body ceasing participation in the Fund.

iv. In the absence of this information or if there is any dispute from either party with regards interpretation of contractual or risk sharing agreements as outlined in iii) above, the Fund will withhold payment of the exit credit until such disputes are resolved and the information is provided to the administering authority.

v. Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the Fund will consider how the approach to setting contribution rates payable by the admission body during its participation in the Fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.

vi. If the admission agreement ends early, the Fund will consider the reason for the early termination, and whether that should have any relevance on the Fund's determination of the value of any exit credit payment. In these cases, the Fund will consider the differential between employers' contributions paid (including investment returns earned on these monies) and the size of any cessation surplus.

vii. If an admitted body leaves on a low risk basis (because no guarantor is in place), then any exit credit will normally be paid in full to the employer.

viii. The decision of the Fund is final in interpreting how any arrangement described under iii), v), vi) and vii) applies to the value of an exit credit payment.

Scheduled bodies and designating bodies

i. Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the Fund will consider how the approach to setting contribution rates payable by the employer during its participation in the Fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.

ii. Where no formal guarantor or risk-sharing arrangement exists, the Fund will consider how the approach to setting contribution rates payable by the employer during its participation in the Fund reflects the extent to which it is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.

iii. The decision of the Fund is final in interpreting how any arrangement described under i) and ii) applies to the value of an exit credit payment.

iv. If a scheduled body or designating body becomes an exiting employer due to a reorganisation, merger or take-over, then no exit credit will be paid.

v. If a scheduled body or designating body leaves on a low-risk basis (because no guarantor is in place), then any exit credit will normally be paid in full to the employer.

General

i. The Fund will advise the exiting employer as well as the letting authority and/or other relevant scheme employers of its decision to make an exit credit determination under Regulation 64.

ii. Subject to any risk sharing or other arrangements and factors discussed above, when determining the cessation funding position the Fund will generally make an assessment based on the value of contributions paid by the employer during their participation, the assets allocated when they joined the Fund and the respective investment returns earned on both.

iii. The Fund will also factor in if any contributions due or monies owed to the Fund remain unpaid by the employer at the cessation date. If this is the case, the Fund's default position will be to deduct these from any exit credit payment.

iv. The final decision will be made by the Head of Finance, in conjunction with advice from the Fund's actuary and/or legal advisors where necessary, in consideration of the points held within this policy.

v. The Fund accepts that there may be some situations that are bespoke in nature and do not fall into any of the categories above. In these situations the Fund will discuss its approach to determining an exit credit with all affected parties. The decision of the Fund in these instances is final.

vi. The guidelines above at point v) in the ‘Admitted bodies’ section, and at points i) and ii) in the ‘Scheduled bodies and designating bodies’ section, make reference to the Fund ‘considering the approach to setting contribution rates during the employer’s participation’. The different funding approaches, including the parameters used and how these can vary based on employer type, are covered in detail in Table 1 (section 2.2) in the FSS. Considering the approach taken when setting contribution rates of the exiting employer may help the Fund to understand the extent to which the employer is responsible for funding the underlying liabilities on exit. For example, if contribution rates have always been based on ongoing assumptions then this may suggest that these are also appropriate assumptions for exit credit purposes (subject to the other considerations outlined within this policy). Equally, a shorter than usual funding time horizon or lower than usual probability of success parameter may reflect underlying commercial terms about how responsibility for pension risks is split between the employer and its guarantor. For the avoidance of doubt, each exiting employer will be considered in the round alongside the other factors mentioned above.

vii. None of the above should be considered as fettering the Fund’s discretionary decision, instead it is an indication of how decisions are likely to be made. However it is important to bear in mind that each and every potential exit credit case will be considered by the administering authority on its own merits, and the administering authority will make its discretionary decision on that basis.

Disputes

In the event of any dispute or disagreement on the amount of any exit credit paid and the process by which that has been considered, the appeals and adjudication provisions contained in Regulations 74-78 of the LGPS Regulations 2013 would apply.

4 Practicalities and process

4.1 Responsibilities of ceasing employers

An employer which is aware that its participation in the Fund is likely to come to an end must:

- advise the Fund, in writing, of the likely ending of its participation (either within the terms of the admission agreement in respect of an admission body (typically a 3 month notice period is required) or otherwise as required by the Regulations for all other scheme employers). It should be noted that this includes closed employers where the last employee member is leaving (whether due to retirement, death or otherwise leaving employment).
- provide any relevant information on the reason for leaving the Fund and, where appropriate, contact information in the case of a take-over, merger or insolvency.
- provide all other information and data requirements as requested by the administering authority which are relevant, including in particular any changes to the membership which could affect the liabilities (e.g. salary increases and early retirements) and an indication of what will happen to current employee members on cessation (e.g. will they transfer to another Fund employer, will they cease to accrue benefits within the Fund, etc.).

4.2 Responsibilities of administering authority

The administering authority will:

- gather information as required, including, but not limited to, the following:
    - details of the cessation - the reason the employer is leaving the Fund (i.e. end of contract, insolvency, merger, machinery of government changes, etc.) and any supporting documentation that may have an effect on the cessation.
    - complete membership data for the outgoing employer and identify changes since the previous formal valuation.
    - the likely outcome for any remaining employee members (e.g. will they be transferred to a new employer, or will they cease to accrue liabilities in the Fund).
- identify the party that will be responsible for the employer's deficit on cessation (i.e. the employer itself, an insurance company, a receiver, another Fund employer, guarantor, etc.).
- commission the Fund actuary to carry out a cessation valuation under the appropriate regulation.
- where applicable, discuss with the employer the possibility of paying adjusted contribution rates that target a 100% funding level by the date of cessation through increased contributions in the case of a deficit on the cessation basis or reduced contributions in respect of a surplus.
- where applicable, liaise with the original ceding employer or guarantor and ensure it is aware of its responsibilities, in particular for any residual liabilities or risk associated with the outgoing employer's membership.
- having taken actuarial advice, notify the employer and other relevant parties in writing of the payment required in respect of any deficit on cessation and pursue payment.

Payment of an exit credit

- If the actuary determines that there is an excess of assets over the liabilities at the cessation date, the administering authority will act in accordance with the exit credit policy above. If payment is required, the administering authority will advise the exiting employer of the amount due to be repaid and seek to make payment within six months of the exit date. However, in order to meet the six month timeframe, the administering authority requires prompt notification of an employers' exit and all data requested to be provided in a timely manner. The administering authority is unable to make any exit credit payment until it has received all data requested.
- At the time this policy was produced, the Fund has been informed by HMRC that exit credits are not subject to tax, however all exiting employers must seek their own advice on the tax and accounting treatment of any exit credit.

4.3 Responsibilities of the actuary

Following commission of a cessation valuation by the administering authority, the Fund actuary will:

- calculate the surplus or deficit attributable to the outgoing employer on an appropriate basis, taking into account the principles set out in this policy.
- provide actuarial advice to the administering authority on how any cessation deficit should be recovered, giving consideration to the circumstances of the employer and any information collected to date in respect to the cessation.
- where appropriate, advise on the implications of the employer leaving on the remaining Fund employers, including any residual effects to be considered as part of triennial valuations.

5 Related Policies

The Fund's approach to exiting employers is set out in the FSS, specifically "Section 7 – What happens when an employer leaves the Fund?"

The approach taken to set the actuarial assumptions for cessation valuations is set out in Appendix D of the FSS.

Appendix E - Policy on Prepayments

1 Introduction

The purpose of this policy is to set out the administering authority's approach to the prepayment of regular contributions due by participating employers.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

1.1 Aims and objectives

The administering authority's aims and objectives related to this policy are as follows:

- To provide employers with clarity around the circumstances where prepayment of contributions will be permitted.
- To outline the key principles followed when calculating prepayment amounts.
- To outline the approach taken to assess the suitability of a prepayment as sufficient to meet the required contributions.

1.2 Background

It is common practice in the LGPS for employers to pre-pay regular contributions that were otherwise due to be paid to the Fund in future. Employer contributions include the 'Primary Rate' – which is expressed as a percentage of payroll and reflects the employer's share of the cost of future service benefits, and the 'Secondary Rate' – which can be expressed as a percentage of payroll or a monetary amount and is an additional contribution designed to ensure that the total contributions payable by the Employer meet the funding objective.

On 22 March 2022, following a request from the LGPS Scheme Advisory Board, James Goudie QC provided an Opinion on the legal status of prepayments. This Opinion found that the prepayment of employee and employer contributions was not illegal, subject to the basis for determining the prepayment amount being reasonable, proportionate and prudent. Further, the Opinion set out specific requirements around the presentation of prepayments.

1.3 Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) set out the way in which LGPS funds should determine employer contributions and contain relevant provisions regarding the payment of these, including the following:

- Regulation 9 – outlines the contribution rates payable by active members
- Regulation 62 - sets the requirement for an administering authority to prepare an R&A certificate.
- Regulation 67 – sets out the requirement for employers to pay contributions in line with the Rates and Adjustments (R&A) certificate and specifies that primary contributions be expressed as a percentage of pensionable pay of active members.

2 Statement of principles

This statement of principles covers the prepayment of regular employer contributions to the Fund. Each case will be treated on its own merits, but in general:

- The administering authority will permit the prepayment of employer contributions.

- Prepaying contributions expressed as a percentage of pay introduces the risk that the prepayment amount will be insufficient to meet the scheduled contribution (as a result of differences between expected and actual payroll). Prepaying contributions is therefore only permissible in the case of secure, long-term employers (e.g. local authorities).
- The prepayment of employee contributions is not permitted.
- A discount will be applied where employer contributions are prepaid, to reflect the investment return that is assumed to be generated by the Fund over the period of prepayment.
- The Fund actuary will determine the prepayment amount, which may require assumptions to be made about payroll over the period which the scheduled contribution is due.
- Where contributions expressed as a percentage of pay have been prepaid, the administering authority will carry out an annual check (and additional contributions may be required by the employer) to make sure that the actual amounts paid are sufficient to meet the contribution requirements set out in the R&A certificate.
- Prepayment agreements will be documented by way of correspondence between the administering authority and the employer.
- The R&A certificate will be updated on an annual basis to reflect any prepayment agreements in place.
- Employers are responsible for ensuring that any prepayment agreement is treated appropriately when accounting for pensions costs.
- Prepayment agreements can cover any annual period of the R&A (or a consecutive number of annual periods).

3 Policy

3.1 Eligibility and periods covered

The Fund is happy to consider requests from any employers to pre-pay certified primary and secondary contributions. However, in general, prepayments are most appropriate for large, secure employers with stable active memberships. Employer contributions over the period of the existing R&A certificate (and, where a draft R&A certificate is being prepared following the triennial valuation, the draft R&A certificate) may be pre-paid by employers.

Prepayment of contributions due after the end of the existing (or draft) R&A certificate is not permitted, i.e. it would not be possible to prepay employer contributions due in the 2026/27 year until the results of the 2025 valuation are known and a draft R&A certificate covering the 2026 to 2029 period has been prepared.

3.2 Request and timing

Prior to making any prepayment, employers are required to inform the Fund in writing of their wish to prepay employer contributions and to request details of the amount required by the Fund to meet the scheduled future contribution.

This request should be received by the Fund within 2 months of the start of the period for which the prepayment is in respect of.

The Fund will then provide the employer with a note of the prepayment amount and the date by which this should be paid. In general, the prepayment should be as close as possible to the beginning of the appropriate R&A period and by 30 April at the latest.

Failure to pay the prepayment amount by the specified date may lead to the need for an additional and immediate payment from the employer to ensure that the amount paid is sufficient to meet the certified amount set out in the R&A certificate.

3.3 Calculation

The Fund actuary will determine the prepayment amount required.

Where the prepayment is in respect of contributions expressed as a percentage of pay:

- The Fund actuary will determine the discounted value of scheduled contributions based on an estimate of payroll over the period (using the information available and assumptions set at the previous valuation) and the discount rate set for the purpose of the previous actuarial valuation (as specified in the previous actuarial valuation report).
- A sufficiency check will be required at the end of the period (see section 3.4)

Where the prepayment is in respect of contributions expressed as a monetary amount:

- The Fund actuary will determine the discounted value of scheduled contributions based on the discount rate set for the purpose of the previous actuarial valuation (as specified in the previous actuarial valuation report).
- No sufficiency check will be required

Employers may pay more than the prepayment amount determined by the Fund actuary.

No allowance for expected outsourcing of services will be made in the Fund actuary’s estimation of payroll for the prepayment period.

3.4 Sufficiency check

Where required, the Fund actuary will carry out an **annual** assessment to check that sufficient contributions have been prepaid in respect of that period. Specifically, this will review the prepayment calculation based on actual payroll of active members over the period and this may lead to a top-up payment being required from the employer.

If this sufficiency check reveals that the prepayment amount was higher than that which would have been required based on actual payroll (i.e. if actual payroll over the period is less than was assumed), this will not lead to a refund of contributions to the employer.

The sufficiency check will not compare the assumed investment return (i.e. the discount rate) with actual returns generated over the period. i.e. the check considers payroll only. Any shortfall arising due to actual investment returns being lower than that assumed will form part of the regular contribution assessment at the next valuation (as per the normal course of events).

The administering authority will notify the employer of any top-up amount payable following this annual sufficiency check and the date by which any top-up payment should be made.

3.5 Documentation and auditor approval

The Fund will provide the employer with a note of the information used to determine the prepayment amount, including:

- Discount rate used in the calculations

- The estimate of payroll (where applicable)
- The effective date of the calculation (and the date by which payment should be made)
- The scheduled regular payments which the prepayment amount covers.

The prepayment agreement will be reflected in the R&A certificate as follows:

- The unadjusted employer regular contribution rate payable over the period of the certificate
- As a note to the contribution rate table, information relating to the prepayment amount and the discount applied, for each employer where a prepayment agreement exists.

The R&A certificate will be updated on an annual basis to reflect any prepayment agreements in place.

Employers should discuss the prepayment agreement with their auditor prior to making payment and agree the accounting treatment of this. The Fund will not accept any responsibility for the accounting implications of any prepayment agreement.

3.6 Costs

Employers entering into a prepayment agreement will be required to meet the cost of this, which includes (but is not limited to) the actuarial fees incurred by the administering authority. These costs would be recharged to employers by the Fund.

3.7 Risks

Employers may enter into prepayment agreements on the expectation that the Fund will be able to generate higher returns than they can over the prepayment period. Employers should be aware that future returns are not guaranteed, and it is possible that the returns generated on prepayment amounts may generate a lower return than that which can be generated by the employer. It is also possible that negative returns will lead to the value of any prepayment being less than that which was scheduled to be paid. In such circumstances, a top-up payment would not be required (as the sufficiency check only considers the effect of actual payroll being different to that assumed in the prepayment calculation), however the employer's asset share would be lower than it would have been if contributions were paid as scheduled. This would be considered by the Fund actuary at the next triennial valuation (as per the normal course of events).

4 Related Policies

The Fund's approach to setting regular employer contribution rates is set out in the Funding Strategy Statement, specifically "Section 2 – How does the Fund calculate employer contributions?".

Appendix F - Policy on contribution reviews

1 Introduction

The purpose of this policy is to set out the administering authority's approach to reviewing contribution rates between triennial valuations.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

1.1 Aims and objectives

The administering authority's aims and objectives related to this policy are as follows:

- To provide employers with clarity around the circumstances where contribution rates may be reviewed between valuations.
- To outline specific circumstances where contribution rates will not be reviewed.

1.2 Background

The Fund may amend contribution rates between valuations for 'significant change' to the liabilities or covenant of an employer.

Such reviews may be instigated by the Fund or at the request of a participating employer.

Any review may lead to a change in the required contributions from the employer.

1.3 Guidance and regulatory framework

Regulation 64 of the Local Government Pension Scheme Regulations 2013 (as amended) sets out the way in which LGPS funds should determine employer contributions, including the following;

- Regulation 64 (4) – allows the administering authority to review the contribution rate if it becomes likely that an employer will cease participation in the Fund, with a view to ensuring that the employer is fully funded at the expected exit date.
- Regulation 64A - sets out specific circumstances where the administering authority may revise contributions between valuations (including where a review is requested by one or more employers).

This policy also reflects statutory guidance from the Department for Levelling Up, Housing and Communities on preparing and maintaining policies relating to the review of employer contributions. Interested parties may want to refer to an accompanying guide that has been produced by the Scheme Advisory Board.

2 Statement of principles

This statement of principles covers review of contributions between valuations. Each case will be treated on its own merits, but in general:

- The administering authority reserves the right to review contributions in line with the provisions set out in the LGPS Regulations.
- The decision to make a change to contribution rates rests with the administering authority, subject to consultation with employers during the review period.
- Full justification for any change in contribution rates will be provided to employers.
- Advice will be taken from the Fund actuary in respect of any review of contribution rates.
- Any revision to contribution rates will be reflected in the Rates & Adjustment certificate.
- An additional level of security or guarantee may be sought by the Fund, in certain circumstances.

3 Policy

3.1 Circumstances for review

The Fund would consider the following circumstances as a potential trigger for review:

- in the opinion of an administering authority there are circumstances which make it likely that an employer (including an admission body) will become an exiting employer sooner than anticipated at the last valuation;
- an employer is approaching exit from the Fund within the next two years and before completion of the next triennial valuation;
- there are changes to the benefit structure set out in the LGPS Regulations which have not been allowed for at the last valuation;
- it appears likely to the administering authority that the amount of the liabilities arising or likely to arise for an employer or employers has changed significantly since the last valuation;
- it appears likely to the administering authority that there has been a significant change in the ability of an employer or employers to meet their obligations (e.g. a material change in employer covenant, or provision of additional security);
- it appears to the administering authority that the membership of the employer has changed materially such as bulk transfers, significant reductions to payroll or large-scale restructuring; or
- where an employer has failed to pay contributions or has not arranged appropriate security as required by the administering authority.

3.2 Employer requests

The administering authority will also consider a request from any employer to review contributions where the employer has undertaken to meet the costs of that review and sets out the reasoning for the review (which would be expected to fall into one of the above categories, such as a belief that their covenant has changed materially, or they are going through a significant restructuring impacting their membership).

The administering authority will require additional information to support a contribution review made at the employer's request. The specific requirements will be confirmed following any request and this is likely to include the following:

- a copy of the latest accounts;
- details of any additional security being offered (which may include insurance certificates);
- budget forecasts; and/or
- information relating to sources of funding.

The administering authority will endeavour to complete any review within 3 months of request subject to receipt of satisfactory evidence, and will monitor any change in an employer's circumstances on a regular basis following any change in contribution rate and may require further information from the employer to support this monitoring process.

The costs incurred by the administering authority in carrying out a contribution review (at the employer's request) will be met by the employer. These will be confirmed upfront to the employer prior to the review taking place.

3.3 Impact on other employers

When undertaking any review of contributions, the administering authority will also consider the impact of a change to contribution rates on other Fund employers. This will include the following factors:

- The existence of a guarantor.
- The amount of any other security held.
- The size of the employer's liabilities relative to the whole Fund.

The administering authority will consult with other Fund employers as necessary.

3.4 Effect of market volatility

Except in circumstances such as an employer nearing cessation, the administering authority will not consider market volatility or changes to asset values as a basis for a change in contributions outside a formal valuation.

3.5 Documentation

Where revisions to contribution rates are necessary, the Fund will provide the employer with a note of the information used to determine these, including:

- Explanation of the key factors leading to the need for a review of the contribution rates, including, if appropriate, the updated funding position.
- A note of the new contribution rates and effective date of these.
- Date of next review.
- Details of any processes in place to monitor any change in the employer's circumstances (if appropriate), including information required by the administering authority to carry out this monitoring.

The Rates & Adjustments certificate will be updated to reflect the revised contribution rates.

4 Related Policies

The Fund’s approach to setting employer contribution rates is set out in the Funding Strategy Statement, specifically “Section 2 – How does the Fund calculate employer contributions?”.

Appendix G - Policy on pass-through

1 Introduction

The purpose of this policy is to set out the administering authority's approach to admitting new contractors into the Fund on a pass-through basis. In addition, and subject to review on a case-by-case basis, the Fund may be willing to apply its pass-through principles to other admission bodies where liabilities are covered by a guarantor within the fund.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

1.1 Aims and objectives

The administering authority's aims and objectives related to this policy are as follows:

- To set out the Fund's approach to admitting new contractors / admission bodies, including the calculation of contribution rates and how risks are shared under the pass-through arrangement.
- To outline the process for admitting new contractors / admission bodies into the Fund.

1.2 Background

Employees outsourced from local authorities, police and fire authorities must be offered pension benefits that are the same, better than, or count as being broadly comparable to, the Local Government Pension Scheme (as per the Best Value Authorities Staff Transfer (Pensions) Direction 2007) and the Welsh Authority Staff Transfers (Pensions) Direction 2012. This is typically achieved by employees remaining in the LGPS and the new employer becoming an admitted body to the Fund and making the requisite employer contributions.

Pass-through is an arrangement whereby the letting authority (e.g. the local authority) retains the main risks of fluctuations in the employer contribution rate during the life of the contract, and the risk that the employer's assets may be insufficient to meet the employees' pension benefits at the end of the contract.

1.3 Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) set out the way in which LGPS funds should determine employer contributions and contain relevant provisions regarding the payment of these, including the following:

- Schedule 2 Part 3 sets out the entities eligible to join the Fund as an admitted body, their key responsibilities as an admitted body and the requirements of the admission agreement.
- Regulation 64 - covers the requirements for a cessation valuation following the exit of a participating employer from the fund.
- Regulation 67 – sets out the requirement for employers to pay contributions in line with the Rates and Adjustments (R&A) certificate and provides a definition of the primary rate.

2 Statement of principles

This statement of principles covers the admission of new contractors (or other admission bodies) to the Fund on a pass-through basis. Each case will be treated on its own merits, but in general:

- Employers which "outsource" have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. There are typically three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

- Pooling
  - Under this option the contractor is pooled with the letting authority. In this case, the contractor pays the same rate as the letting authority, which may be under a stabilisation approach.
- Letting authority retains pre-contract risks
  - Under this option the letting authority would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff.
  - The contractor's contribution rate could vary from one valuation to the next. It would be liable for any deficit (or entitled to any surplus) at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term. Please note, the level of exit credit (if any) payable on cessation would be determined by the Administering Authority in accordance with the Regulations and this FSS.
- Fixed contribution rate agreed
  - Under this option the contractor pays a fixed contribution rate throughout its participation in the Fund and does not pay any deficit or receive an exit credit.

- The administering authority is willing to administer any of the above options as long as the approach is documented in the admission agreement as well as the transfer agreement.
- The Fund has no strong preference for any of the approaches discussed above.
- Unless otherwise instructed by the letting authority, under the fixed contribution rate approach, the contractor's pension contribution rate is set equal to the primary contribution rate payable by the letting authority.
- The letting authority retains responsibility for variations in funding level, for instance due to investment performance, changes in market conditions, and longevity under its pass-through arrangement, irrespective of the size of the outsourcing.
- The contractor will meet the cost of additional liabilities arising from (non-ill health) early retirements and augmentations together with funding strains arising from excessive salary growth.
- Ill health experience will be pooled with the letting authority and no additional strain payments will be levied on the contractor in respect of ill health retirements.
- The contractor will not be required to obtain an indemnity bond.
- There will be no notional transfer of assets to the contractor within the Fund. This means that all assets and liabilities relating to the contractor's staff will remain the responsibility of the letting authority during the period of participation.
- At the end of the contract (or when there are no longer any active members participating in the Fund, for whatever reason), the admission agreement will cease and no further payment will be required from the contractor (or the letting authority) to the Fund, save for any outstanding regular contributions and/or invoices. Likewise, no "exit credit" payment will be required from the Fund to the contractor (or letting authority).

- The terms of the pass-through agreement will be documented by way of the admission agreement between the administering authority, the letting authority, and the contractor.
- All existing admission agreements are unaffected by this policy.

The principles outlined above are the default principles which will apply; however, the letting authority may request the specific details of a particular agreement to differ from the principles outlined above.

The administering authority is not obliged to agree to a departure from the principles set out in this policy but will consider such requests and engage with the letting authority to reach agreement.

3 Policy and process

3.1 Compliance

Adherence to this policy is the responsibility of the relevant responsible service manager for any given outsourcing.

The administering authority and the Fund actuary must always be notified that an outsourcing has taken place, regardless of the number of members involved.

3.2 Contribution rates

Where a contract is let on the basis of pass-through, as described above, the contribution rate payable by the contractor over the period of participation will be determined at the start of the contract in accordance with the agreed methodology (as discussed above) and this approach will apply throughout its participation in the Fund.

3.3 Risk sharing and cessation valuation

The letting authority will retain the risk of the contractor becoming insolvent during the period of admission and so no indemnity bond will be required from contractors participating in the Fund on a pass-through basis. The letting authority is effectively guaranteeing the contractor's participation in the Fund.

A cessation valuation is required when a contractor no longer has any active members in the fund. This could be due to a contract coming to its natural end, insolvency of a contractor or the last active member leaving employment or opting out of the LGPS.

Where a pass-through arrangement is in place, the Fund assets and liabilities associated with outsourced employees are retained by the letting authority. At the end of the admission, the cessation valuation will therefore record nil assets and liabilities for the ceasing employer and therefore that no cessation debt or exit credit is payable to or from the Fund.

The contractor will be required to pay any outstanding regular contributions and/or unpaid invoices relating to the cost of (non-ill health) early retirement strains and/or augmentations and/or in respect of excessive salary increases at the end of the contract.

Under a typical pass-through arrangement, the contractor will be liable for additional pension costs that arise due to items over which it exerts control. The risk allocation is as follows:

Risks	**Letting authority**	**Contractor/ Admitted body**
Surplus/deficit prior to the transfer date	✓	
Interest on surplus/deficit	✓	
Investment performance of assets held by the Fund	✓	
Changes to the discount rate that affect past service liabilities	✓	

Changes to the discount rate that affect future service accrual	✓	
Change in longevity assumptions that affect past service liabilities	✓	
Changes to longevity that affect future accrual	✓	
Price inflation affects past service liabilities	✓	
Price inflation / pension increases that affect future accrual	✓	
Exchange of pension for tax free cash	✓	
Ill health retirement experience	✓	
Strain costs attributable to granting early retirements (not due to ill health (e.g. redundancy, efficiency, waiving actuarial reductions on voluntary early retirements)		✓
Greater/lesser level of withdrawals	✓	
Rise in average age of contractor's employee membership	✓	
Changes to LGPS benefit package	✓	
Excess liabilities attributable to the contractor granting pay rises that exceed those assumed in the last formal actuarial valuation of the Fund		✓
Award of additional pension or augmentation		✓

3.4 Accounting valuations

Accounting for pensions costs is a responsibility for individual employers.

It is the administering authority's understanding that contractors may be able to account for such pass-through admissions on a defined contribution basis and therefore no formal FRS102 / IAS19 report may be required (e.g. contractors paying a fixed rate are largely indemnified from the risks inherent in providing defined benefit pensions).

As the letting authority retains most of the pension risk relating to contractors, it is the administering authority's understanding that these liabilities (and assets) should be included in the letting authority's FRS102 / IAS19 disclosures.

The administering authority expects employers to seek approval to the treatment of pension costs from their auditor.

3.5 Application

Letting authorities may request terms which differ from those set out in this policy and any such request will be considered by the administering authority.

All existing admission agreements (i.e. which commenced prior to the effective date of this policy) are unaffected by this policy.

3.6 Process

The procurement department at each letting authority that has responsibility for staff/service outsourcing must be advised of this policy. The process detailed below must be adhered to by the letting authority and (where applicable) the contractor.

- **Tender Notification -** The letting authority must publicise this pass-through policy as part of its tender process to bidders. This should confirm that the winning bidder will not be responsible for ensuring that the liabilities of outsourced employees are fully funded at the end of the contract, and that the winning bidder will only be responsible for paying contributions to the Fund during the period of participation and meeting the cost of (non-ill health) early retirement strains, the cost of benefit augmentations and excessive salary growth (assuming the terms of this policy are adhered to). It should also advise the employer contribution rate as detailed in paragraph 3.2.

- **Initial notification to Pension Team** – The letting authority must contact the administering authority when a tender (or re-tender) of an outsourcing contract is taking place and staff (or former staff) are impacted. The administering authority must be advised prior to the start of the tender and the letting authority must also confirm that the terms of this policy have been adhered to.

- **Confirmation of winning bidder** – The letting authority must immediately advise the administering authority of the winning bidder.

- **Request for winning bidder to become an admitted body** – The winning bidder (in combination with the letting authority), should request to the administering authority that it wishes to become an admitted body within the Fund.

- **Template admission agreement** – a template pass-through admission agreement will be used for admissions under this policy. It will set out all agreed points relating to employer contribution rate, employer funding responsibilities, and exit conditions. Only in exceptional circumstances, and only with the prior agreement of the administering authority, will the wording within the template agreement be changed. All admission agreements must be reviewed (including any changes) by the administering authority and possibly its legal advisors.

- **Signed admission agreement** - Signing of the admission agreement can then take place between an appropriate representative of the winning bidder, the lead finance officer of the letting authority, and the administering authority. It is at this point the Fund can start to receive contributions from the contractor and its employee members (backdated if necessary).

- **Admitted body status** – The letting authority will advise the contractor of its requirements and responsibilities within the Fund.

3.7 Costs

Contractors being admitted to the Fund under a pass-through agreement will be required to meet the cost of this, which includes (but is not limited to) the actuarial fees incurred by the administering authority.

4 Related Policies

The Fund's approach to setting regular employer contribution rates is set out in its Funding Strategy Statement, specifically "Section 2 – How does the Fund calculate employer contributions?".

The treatment of new employers joining the Fund is set out in the Funding Strategy Statement, specifically "Section 5 – What happens when an employer joins the Fund?"

The treatment of employers exiting the Fund is set out in the Funding Strategy Statement, specifically "Section 6 – What happens when an employer leaves the Fund?"

Appendix H - Policy on ill health risk management

1 Introduction

The purpose of this policy is to set out the administering authority's approach to managing the risk arising due to ill health retirements.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

1.1 Aims and objectives

The administering authority's aims and objectives related to this policy are as follows:

- To explain the approach taken to manage ill health risk
- To specify circumstances where a review of experience may lead to additional contributions.
- To outline the key risks and benefits to this arrangement.

1.2 Background

Additional liabilities can arise following the retirement of members due to ill health. These additional liabilities can include the unreduced early payment of pension benefits and the award of additional pension. The level of pension benefits paid on ill health depends on the severity of the member's condition.

The LGPS Regulations require the additional liabilities to be funded by way of payments from employers. Payment of large lump sums to meet strains as and when they arise can lead to unexpected payments and put significant strain on employers' budgets. LGPS funds are able to put arrangements in place which mitigate the risk of having to pay a large cash sum due to an ill health retirement strain payment.

To mitigate this risk to smaller employers, and to evidence good governance and risk management, the administering authority has arranged for an external insurance policy to cover ill health early retirement strains for smaller employers in the Fund. Each of these employer's contributions to the Fund includes its share of that year's insurance premium. When an active member retires on ill health early retirement, the claim amount received from the insurer will be credited to the respective employer's asset share in the Fund.

For all other employers that are not covered by the external insurance policy, any funding strain in excess of the allowance made in the funding basis would be met through an increase to ongoing contributions.

1.3 Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) set out the benefits payable to members and the way in which additional benefits (such as those arising on ill health early retirement) should be funded. These include the following:

- Regulation 35 – permits the early retirement of pension on ill health grounds.
- Regulation 39 – sets out the calculation of the pension payable in the instance of ill health retirement.
- Regulation 68 – sets out the additional contributions payable by the employer to meet the liability strain caused by a member retiring through ill health.

2 Statement of principles

This statement of principles covers the external insurance arrangement in place to manage the risks created by ill health retirements for smaller employers, and the equivalent risks for larger employers not using the ill health insurance arrangement. In general:

- Employers will not be required to pay lump sum amounts to meet ill health retirement strains (in the normal course of events).
- Both Tier 1 and Tier 2 ill health retirement strains will be covered by this arrangement.
- For smaller employers in the Fund that are covered by external insurance:
    - Eligible employers are unable to opt out of this arrangement.
    - Each of these employer's contributions to the Fund includes its share of that year's insurance premium.
- For all other employers in the Fund:
    - Regular contribution rates will include the expected cost of assumed ill health retirements.
    - The Hymans Robertson Employer Asset Tracker (HEAT) system is used to track actual ill health experience.
    - Any funding strain in excess of the allowance made in the funding basis would ordinarily be met through an increase to ongoing contributions at the next triennial valuation. However, the Fund reserves the right to request immediate additional contributions in the event of material ill health strains during the period between valuations.

3 Policy

3.1 Purpose

The purpose of this ill health risk management policy is to protect the Fund against adverse ill health retirement experience of individual employers.

3.2 Eligibility

This policy applies to all employers in the Fund. The 'smaller employers' that are covered by external insurance include all town councils and community admission bodies (with under 75 active members) and exclude scheduled or designated bodies.

3.3 Operation

The policy works as follows:

- Assets shares for each employer are determined each month by Hymans Robertson, using the HEAT system and based on the monthly cashflows and asset information provided by the fund.

  As part of this data provision, the fund determines the strain costs arising due to ill health retirements and this strain is allocated to each active employer in proportion to their asset share at the beginning of that month.

- Contribution rates are set by the Fund Actuary every three years as part of the triennial valuation.

  Primary contribution rates include allowance for the expected cost of assumed ill health retirements (expressed as a percentage of payroll).

This provides ongoing funding for the assumed level of ill health retirement strains.

3.3.1 Smaller employers

- Smaller employers in the Fund are covered by the ill health insurance arrangement.
    - When an active member retires on tier one or tier two ill health early retirement, a claim amount equal to the fund calculated strain cost for the retirement will be received from the insurer (assuming a valid claim) and credited to the respective employer's asset share in the Fund.
    - It is not guaranteed that the insurer will pay the claim, for example if it does not believe that the requirements for a tier one or tier two ill health retirement have been met.

3.3.2 Other employers

- Other employers in the Fund not covered by the ill health insurance arrangement.
    - Where the actual level of ill health retirement strains exceeds the assumed level, this will lead to a shortfall arising at the next triennial valuation for those employers not covered by the ill health insurance arrangement.

      No immediate additional contributions will be required from employers to meet this shortfall, but this could increase the contribution requirement following the next triennial valuation.
    - Similarly, where the actual level of ill health retirement strains is lower than the assumed level, this will lead to a surplus arising at the next triennial valuation.

      No refund will be paid to employers as a result of this, but this surplus could lead to downwards pressures on contributions following the next triennial valuation.

3.4 Review and additional contributions

The administering authority will review the level of ill health experience across all employers at each triennial valuation.

If an employer has an unusually high incidence of ill health retirement over the previous inter-valuation period, the administering authority will engage with the employer to understand the reasons for this. In the event of concerns around the eligibility criteria applied by the employer in granting ill health retirements, this could lead to the need for the employer to pay additional contributions to the Fund.

3.5 Costs

The costs of operating this policy will be met by the Fund as part of its administration expenses.

4 Related Policies

The Fund's approach to setting regular employer contribution rates is set out in the Funding Strategy Statement, specifically "Section 2 – How does the Fund calculate employer contributions?".

Appendix I - Policy on cessations

1 Introduction

The purpose of this policy is to set out the administering authority's approach to dealing with circumstances where a scheme employer leaves the Fund and becomes an exiting employer (a cessation event).

It should be noted that this policy is not exhaustive. Each cessation will be treated on a case-by-case basis, however certain principles will apply as governed by the regulatory framework (see below) and the Fund's discretionary policies (as described in Section 3 – Policies below).

1.1 Aims and Objectives

The administering authority's aims and objectives related to this policy are as follows:

- To confirm the approach for the treatment and valuation of liabilities for employers leaving the Fund.
- To provide information about how the Fund may apply its discretionary powers when managing employer cessations.
- To outline the responsibilities of (and flexibilities for) exiting employers, the administering authority, the actuary and, where relevant, the original ceding scheme employer (usually a letting authority).

1.2 Background

As described in Section 7 of the Funding Strategy Statement (FSS), a scheme employer may become an exiting employer when a cessation event is triggered e.g. when the last active member stops participating in the Fund. On cessation from the Fund, the administering authority will instruct the Fund actuary to carry out a valuation of assets and liabilities for the exiting employer to determine whether a deficit or surplus exists. The Fund has full discretion over the repayment terms of any deficit, and the extent to which any surplus results in the payment of an exit credit.

1.3 Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) contain relevant provisions regarding employers leaving the Fund (Regulation 64) and include the following:

- Regulation 64 (1) – this regulation states that, where an employing authority ceases to be a scheme employer, the administering authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the termination date. Further, it requires the Rates & Adjustments Certificate to be amended to show the revised contributions due from the exiting employer

- Regulation 64 (2) – where an employing authority ceases to be a scheme employer, the administering authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the exit date. Further, it requires the Rates & Adjustments Certificate to be amended to show the exit payment due from the exiting employer or the excess of assets over the liabilities in the fund.

- Regulation 64 (2ZAB) – the administering authority must determine the amount of an exit credit, which may be zero, taking into account the factors specified in paragraph (2ZC) and must:
    a) Notify its intention to make a determination to-
        (i) The exiting employer and any other body that has provided a guarantee to the Exiting Employer
        (ii) The scheme employer, where the exiting employer is a body that participated in the Scheme as a result of an admission agreement

b) Pay the amount determined to that exiting employer within six months of the exit date, or such longer time as the administering authority and the exiting employer agree.

- Regulation (2ZC) – In exercising its discretion to determine the amount of any exit credit, the administering authority must have regard to the following factors-
    a) The extent to which there is an excess of assets in the fund relating to that employer in paragraph (2)(a)
    b) The proportion of this excess of assets which has arisen because of the value of the employer's contributions
    c) Any representations to the administering authority made by the exiting employer and, where that employer participates in the scheme by virtue of an admission agreement, any body listed in paragraphs (8)(a) to (d)(iii) of Part 3 to Schedule 2 of the Regulations: and
    d) Any other relevant factors

- Regulation 64 (2A) & (2B)– the administering authority, at its discretion, may issue a suspension notice to suspend payment of an exit amount for up to three years, where it reasonably believes the exiting employer is to have one or more active members contributing to the fund within the period specified in the suspension notice.

- Regulation 64 (3) – in instances where it is not possible to obtain additional contributions from the employer leaving the Fund or from the bond/indemnity or guarantor, the contribution rate(s) for the appropriate scheme employer or remaining fund employers may be amended.

- Regulation 64 (4) – where it is believed a scheme employer may cease at some point in the future, the administering authority may obtain a certificate from the Fund actuary revising the contributions for that employer, with a view to ensuring that the assets are expected to be broadly equivalent to the exit payment that will be due.

- Regulation 64 (5) – following the payment of an exit payment to the Fund, no further payments are due to the Fund from the exiting employer.

- Regulation 64 (7A-7G) – the administering authority may enter into a written deferred debt agreement, allowing the employer to have deferred employer status and to delay crystallisation of debt despite having no active members.

- Regulation 64B (1) – the administering authority may set out a policy on spreading exit payments.

In addition to the 2013 Regulations summarised above, Regulation 25A of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the Transitional Regulations") give the Fund the ability to levy a cessation debt on employers who have ceased participation in the Fund (under the previous regulations) but for whom a cessation valuation was not carried out at the time. This policy document describes how the Fund expects to deal with any such cases.
This policy also reflects statutory guidance from the Department for Levelling Up, Housing and Communities on preparing and maintaining policies relating to employer exits. Interested parties may want to refer to an accompanying guide that has been produced by the Scheme Advisory Board.

These regulations relate to all employers in the Fund.

2 Statement of Principles

This Statement of Principles covers the Fund's approach to exiting employers. Each case will be treated on its own merits but in general:

- it is the Fund's policy that the determination of any surplus or deficit on exit should aim to minimise, as far as is practicable, the risk that the remaining, unconnected employers in the Fund have to make contributions in future towards meeting the past service liabilities of current and former employees of employers leaving the Fund.
- the Fund's preferred approach is to request the full payment of any exit debt (an exit payment), which is calculated by the actuary on the appropriate basis (as per Section 7 of the FSS and Section 3.1 below). This would extinguish any liability to the Fund by the exiting employer.
- the Fund's key objective is to protect the interests of the Fund, which is aligned to protecting the interests of the remaining employers. A secondary objective is to consider the circumstances of the exiting employer in determining arrangements for the recovery of the exit debt.

3 Policies

On cessation, the administering authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus as defined in Section 4.3 of the FSS.

Where there is a deficit, payment of this amount in full would normally be sought from the exiting employer. The Fund's normal policy is that this cessation debt is paid in full in a single lump sum within 28 days of the employer being notified.

However, the Fund will consider written requests from employers to spread the payment over an agreed period, in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation (see 3.2 Repayment flexibility on exit payments below).

In circumstances where there is a surplus, the administering authority will determine, at its sole discretion, the amount of exit credit (if any) to be paid to the exiting employer (see 3.3 Exit credits below).

3.1 Approach to cessation calculations

Cessation valuations are carried out on a case-by-case basis at the sole discretion of the Fund depending on the exiting employer's circumstances. However, in general the following broad principles and assumptions may apply, as described in Section 7.2 of the FSS and summarised below:

Type of employer	Cessation exit basis	Responsible parties for unpaid or future deficit emerging
Local Authorities, Police, Parc Cenedlaethol Eryri	Low risk basis[1]	Shared between other Fund employers
Other Scheduled Bodies	Low risk basis[1]	Shared between other Fund employers
Admission bodies (TABs)	Ongoing basis / contractor exit basis[2]	Letting authority (where applicable), otherwise shared between other Fund employers
Admission bodies (CABs)	Low risk basis	Shared between other Fund employers (if no guarantor exists)
Designating employers	Low risk basis	Shared between other Fund employers (if no guarantor exists)

[1]Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (e.g. machinery of Government changes), these cessation principles would apply.

[2]Where a TAB has taken, in the view of the administering authority, action that has been deliberately designed to bring about a cessation event (e.g. stopping future accrual of LGPS benefits), then the cessation valuation will be carried out on a low-risk basis.

3.2 Repayment flexibility on exit payments

Deferred spreading arrangement (DSA)

The Fund will consider written requests from exiting employers to spread an exit payment over an agreed period, in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation.

In this exceptional case, the Fund's policy is:

- The agreed spread period is no more than three years, but the Fund could use its discretion to extend this period in extreme circumstances.
- The Fund may consider factors such as the size of the exit payment and the financial covenant of the exiting employer in determining an appropriate spreading period.
- The exiting employer may be asked to provide the administering authority with relevant financial information such as a copy of its latest accounts, sources of funding, budget forecasts, credit rating (if any) etc. to help in this determination.
- Payments due under the DSA may be subject to an interest charge.
- The Fund will only consider written requests within six months of the employer exiting the Fund. The exiting employer would be required to provide the Fund with detailed financial information to support its request.
- The Fund would take into account the amount of any security offered and seek actuarial, covenant and legal advice in all cases.
- The Fund proposes a legal document, setting out the terms of the exit payment agreement, would be prepared by the Fund and signed by all relevant parties prior to the payment agreement commencing.
- The terms of the legal document should include reference to the spreading period, the annual payments due, interest rates applicable, other costs payable and the responsibilities of the exiting employer during the exit spreading period.
- Any breach of the agreed payment plan would require payment of the outstanding cessation amount immediately.
- Where appropriate, cases may be referred to the Pensions Committee for consideration and considered on its individual merit. Decisions may be made by the Chair in consultation with officers if an urgent decision is required between Committee meetings.

Deferred debt agreement (DDA)

As an alternative, where the ceasing employer is continuing in business, the Administering Authority may enter into a written agreement with the employer to defer its obligations to make an exit payment and continue to make secondary contributions (a 'Deferred Debt Agreement' as described in Regulation 64 (7A)).

The adoption of this approach will continue to expose the employer to stock market and other funding risks during the deferment period, leading to changes in the size of the debt, rather than crystallising the size of the debt at the point of cessation.

The employer must meet all requirements on Scheme employers and pay the secondary rate of contributions as determined by the Fund actuary until the termination of the DDA.

The Administering Authority may consider a DDA in the following circumstances:

- The employer requests the Fund consider a DDA.
- The employer is expected to have a deficit if a cessation valuation was carried out.
- The employer is expected to be a going concern.

- The covenant of the employer is considered sufficient by the administering authority.

The Administering Authority will normally require:

- A legal document to be prepared, setting out the terms of the DDA and signed by all relevant parties prior to the arrangement commencing.(including details of the time period of the DDA, the annual payments due, the frequency of review and the responsibilities of the employer during the period).
- Relevant financial information for the employer such as a copy of its latest accounts, sources of funding, budget forecasts, credit rating (if any) to support its covenant assessment.
- Security be put in place covering the employer's deficit on their cessation basis and the Fund will seek actuarial, covenant and legal advice in all cases.
- Regular monitoring of the contribution requirements and security requirements
- All costs of the arrangement are met by the employer, such as the cost of advice to the Fund, ongoing monitoring or the arrangement and correspondence on any ongoing contribution and security requirements.

A DDA will normally terminate on the first date on which one of the following events occurs:

- The employer enrols new active fund members.
- The period specified, or as varied, under the DDA elapses.
- The take-over, amalgamation, insolvency, winding up or liquidation of the employer.
- The administering authority serves a notice on the employer that the administering authority is reasonably satisfied that the employer's ability to meet the contributions payable under the DDA has weakened materially or is likely to weaken materially in the next 12 months.
- The Fund actuary assesses that the employer has paid sufficient secondary contributions to cover all (or almost all) of the exit payment due if the employer becomes an exiting employer on the calculation date (i.e. employer is now largely fully funded on its low risk basis).
- The Fund actuary assesses that the employer's value of liabilities has fallen below an agreed *de minimis* level and the employer becomes an exiting employer on the calculation date.
- The employer requests early termination of the agreement and settles the exit payment in full as calculated by the Fund actuary on the calculation date (i.e. the employer pays its outstanding cessation debt on its cessation basis).

On the termination of a DDA, the employer will become an exiting employer and a cessation valuation will be completed in line with this policy.

3.3 Exit credits

The administering authority's entitlement to determine whether exit credits are payable in accordance with these provisions shall apply to all employers ceasing their participation in the fund after 14 May 2018. This provision therefore is retrospectively effective to the same extent as provisions of the Local Government Pension Scheme (Amendment) Regulations 2020.

The administering authority may determine the amount of exit credit payable to be zero, however, in making a determination, the Administering Authority will take into account the following factors.

a) the extent to which there is an excess of assets in the Fund relating to the employer over and above the liabilities specified.

b) the proportion of the excess of assets which has arisen because of the value of the employer's contributions.

c) any representations to the administering authority made by the exiting employer, guarantor, ceding Scheme Employer (usually the Letting Authority) or by a body which owns, funds or controls the exiting employer; or in some cases, the Secretary of State.

d) any other relevant factors

Admitted bodies

i. No exit credit will normally be payable in respect of admissions who joined the Fund before 14 May 2018 unless it is subject to a risk sharing arrangement as per paragraph iii) below. Prior to this date, the payment of an exit credit was not permitted under the Regulations and this will have been reflected in the commercial terms agreed between the admission body and the letting authority/awarding authority/ceding employer. This will also apply to any pre-14 May 2018 admission which has been extended or 'rolled over' beyond the initial expiry date and on the same terms that applied on joining the fund.

ii. No exit credit will normally be payable to any admission body who participates in the fund via a pass-through approach. For the avoidance of doubt, whether an exit credit is payable to any admission body who participates in the Fund via the "Letting employer retains pre-contract risks" route is subject to its risk sharing arrangement, as per paragraph iii) below.

iii. The Fund will make an exit credit payment in line with any contractual or risk sharing agreements which specifically covers the ownership of exit credits/cessation surpluses or if the admission body and letting authority have agreed any alternative approach (which is consistent with the Regulations and any other legal obligations). This information, which will include which party is responsible for which funding risk, must be presented to the Fund in a clear and unambiguous document with the agreement of both the admission body and the letting authority/awarding authority/ceding employer and within one month (or such longer time as may be agreed with the administering authority) of the admission body ceasing participation in the Fund. The Fund will also consider any representations made by the letting authority/awarding authority/ceding employer regarding monies owed to them by the admission body in respect of the contract that is ceasing or any other contractual arrangement between the two parties. The letting authority/awarding authority/ceding employer must make such representations in a clear and unambiguous document within one month of the admission body ceasing participation in the Fund.

iv. In the absence of this information or if there is any dispute from either party with regards interpretation of contractual or risk sharing agreements as outlined in iii) above, the Fund will withhold payment of the exit credit until such disputes are resolved and the information is provided to the administering authority.

v. Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the Fund will consider how the approach to setting contribution rates payable by the admission body during its participation in the Fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.

vi. If the admission agreement ends early, the Fund will consider the reason for the early termination, and whether that should have any relevance on the Fund's determination of the value of any exit credit payment. In these cases, the Fund will consider the differential between employers' contributions paid (including investment returns earned on these monies) and the size of any cessation surplus.

vii. If an admitted body leaves on a low risk basis (because no guarantor is in place), then any exit credit will normally be paid in full to the employer.

viii. The decision of the Fund is final in interpreting how any arrangement described under iii), v), vi) and vii) applies to the value of an exit credit payment.

Scheduled bodies and designating bodies

i. Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the Fund will consider how the approach to setting contribution rates payable by the employer during its participation in the Fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.

ii. Where no formal guarantor or risk-sharing arrangement exists, the Fund will consider how the approach to setting contribution rates payable by the employer during its participation in the Fund reflects the extent to which it is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.

iii. The decision of the Fund is final in interpreting how any arrangement described under i) and ii) applies to the value of an exit credit payment.

iv. If a scheduled body or designating body becomes an exiting employer due to a reorganisation, merger or take-over, then no exit credit will be paid.

v. If a scheduled body or designating body leaves on a low-risk basis (because no guarantor is in place), then any exit credit will normally be paid in full to the employer.

General

i. The Fund will advise the exiting employer as well as the letting authority and/or other relevant scheme employers of its decision to make an exit credit determination under Regulation 64.

ii. Subject to any risk sharing or other arrangements and factors discussed above, when determining the cessation funding position the Fund will generally make an assessment based on the value of contributions paid by the employer during their participation, the assets allocated when they joined the Fund and the respective investment returns earned on both.

iii. The Fund will also factor in if any contributions due or monies owed to the Fund remain unpaid by the employer at the cessation date. If this is the case, the Fund's default position will be to deduct these from any exit credit payment.

iv. The final decision will be made by the Head of Finance, in conjunction with advice from the Fund's actuary and/or legal advisors where necessary, in consideration of the points held within this policy.

v. The Fund accepts that there may be some situations that are bespoke in nature and do not fall into any of the categories above. In these situations the Fund will discuss its approach to determining an exit credit with all affected parties. The decision of the Fund in these instances is final.

vi. The guidelines above at point v) in the 'Admitted bodies' section, and at points i) and ii) in the 'Scheduled bodies and designating bodies' section, make reference to the Fund 'considering the approach to setting contribution rates during the employer's participation'. The different funding approaches, including the parameters used and how these can vary based on employer type, are covered in detail in Table 1 (section 2.2) in the FSS. Considering the approach taken when setting contribution rates of the exiting employer may help the Fund to understand the extent to which the employer is responsible for funding the underlying liabilities on exit. For example, if contribution rates have always been based on ongoing assumptions then this may suggest that these are also appropriate assumptions for exit credit purposes (subject to the other considerations outlined within this policy). Equally, a shorter than usual funding time horizon or lower than usual probability of success parameter may reflect underlying commercial terms about how responsibility for pension risks is split between the employer and its guarantor. For the avoidance of doubt, each exiting employer will be considered in the round alongside the other factors mentioned above.

vii. None of the above should be considered as fettering the Fund's discretionary decision, instead it is an indication of how decisions are likely to be made. However it is important to bear in mind that each and every potential exit credit case will be considered by the administering authority on its own merits, and the administering authority will make its discretionary decision on that basis.

Disputes

In the event of any dispute or disagreement on the amount of any exit credit paid and the process by which that has been considered, the appeals and adjudication provisions contained in Regulations 74-78 of the LGPS Regulations 2013 would apply.

4 Practicalities and process

4.1 Responsibilities of ceasing employers

An employer which is aware that its participation in the Fund is likely to come to an end must:

- advise the Fund, in writing, of the likely ending of its participation (either within the terms of the admission agreement in respect of an admission body (typically a 3 month notice period is required) or otherwise as required by the Regulations for all other scheme employers). It should be noted that this includes closed employers where the last employee member is leaving (whether due to retirement, death or otherwise leaving employment).
- provide any relevant information on the reason for leaving the Fund and, where appropriate, contact information in the case of a take-over, merger or insolvency.
- provide all other information and data requirements as requested by the administering authority which are relevant, including in particular any changes to the membership which could affect the liabilities (e.g. salary increases and early retirements) and an indication of what will happen to current employee members on cessation (e.g. will they transfer to another Fund employer, will they cease to accrue benefits within the Fund, etc.).

4.2 Responsibilities of administering authority

The administering authority will:

- gather information as required, including, but not limited to, the following:
    - details of the cessation - the reason the employer is leaving the Fund (i.e. end of contract, insolvency, merger, machinery of government changes, etc.) and any supporting documentation that may have an effect on the cessation.
    - complete membership data for the outgoing employer and identify changes since the previous formal valuation.
    - the likely outcome for any remaining employee members (e.g. will they be transferred to a new employer, or will they cease to accrue liabilities in the Fund).
- identify the party that will be responsible for the employer’s deficit on cessation (i.e. the employer itself, an insurance company, a receiver, another Fund employer, guarantor, etc.).
- commission the Fund actuary to carry out a cessation valuation under the appropriate regulation.
- where applicable, discuss with the employer the possibility of paying adjusted contribution rates that target a 100% funding level by the date of cessation through increased contributions in the case of a deficit on the cessation basis or reduced contributions in respect of a surplus.
- where applicable, liaise with the original ceding employer or guarantor and ensure it is aware of its responsibilities, in particular for any residual liabilities or risk associated with the outgoing employer’s membership.
- having taken actuarial advice, notify the employer and other relevant parties in writing of the payment required in respect of any deficit on cessation and pursue payment.

Payment of an exit credit

- If the actuary determines that there is an excess of assets over the liabilities at the cessation date, the administering authority will act in accordance with the exit credit policy above. If payment is required, the administering authority will advise the exiting employer of the amount due to be repaid and seek to make payment within six months of the exit date. However, in order to meet the six month timeframe, the administering authority requires prompt notification of an employers' exit and all data requested to be provided in a timely manner. The administering authority is unable to make any exit credit payment until it has received all data requested.
- At the time this policy was produced, the Fund has been informed by HMRC that exit credits are not subject to tax, however all exiting employers must seek their own advice on the tax and accounting treatment of any exit credit.

4.3 Responsibilities of the actuary

Following commission of a cessation valuation by the administering authority, the Fund actuary will:

- calculate the surplus or deficit attributable to the outgoing employer on an appropriate basis, taking into account the principles set out in this policy.
- provide actuarial advice to the administering authority on how any cessation deficit should be recovered, giving consideration to the circumstances of the employer and any information collected to date in respect to the cessation.
- where appropriate, advise on the implications of the employer leaving on the remaining Fund employers, including any residual effects to be considered as part of triennial valuations.

5 Related Policies

The Fund's approach to exiting employers is set out in the FSS, specifically "Section 7 – What happens when an employer leaves the Fund?"

The approach taken to set the actuarial assumptions for cessation valuations is set out in Appendix D of the FSS.

MEETING:	Pensions Committee
DATE:	27/03/2023
TITLE:	RISK REGISTER
PURPOSE:	For Committee members to understand the risks relating to the Pension Fund, after the Board scrutinised the Risk Register
AUTHOR:	Dewi Aeron Morgan, Head of Finance Dafydd L Edwards, Fund Director Delyth Jones-Thomas, Investment Manager Meirion Jones, Pensions Manager

1. INTRODUCTION

Gwynedd Pension Fund has a risk register to identify and monitor significant risks. The risk register also details the processes in place to mitigate the risks, where possible.

As several years have passed since the last review, we have carried out a detailed review of the register this year, with a significant number of scores adjusted, several new risks identified, and some risks archived as they are no longer relevant.

The risks that have been archived are:

No.	Risk	Reason for archiving
2.3	The fund is exposed to unnecessary risks and avoidable costs due to poorly structured investment arrangements	De minimis risk due to pooling and we have expanded the type of investments that we have.
2.15	A significant number of LGPS members would transfer their pension pots to other Pension providers in order to obtain capital under the Government's "Freedom and Choice" legislation.	The probability of this happening is now very low.
4.1	The Gwynedd Pension Fund does not have sufficient resources available to collaborate with and provide the necessary information to the partnership.	The Partnership has now been established and the Fund's staff are able to meet the Partnership's requirements in a timely manner.

The register was shared with the Pension Board on 06/03/2022, and the has since been updated in accordance with comments received from members of the Board.

We are now sharing the register with the Pensions Committee so that members understand the relevant risks to the Pension Fund, and to give Committee members an opportunity to bring any comments or proposals to the meeting.

A copy of the current Risk Register is attached at **Appendix A**.

It is a working document and will be reviewed regularly and updated for any significant risks that develop.

2. THE COMMITTEE'S ROLE

The members of the Committee are asked to review the risk register and bring any comments or suggestions to the meeting.

GWYNEDD PENSION FUND

RISK REGISTER: MARCH 2023

Risk Assessment Matrix					
Likelihood	5	10	15	20	25
	4	8	12	16	20
	3	6	9	12	15
	2	4	6	8	10
	1	2	3	4	5
	Impact				

Assessment of Impact				
		Financial	Reputation	Stakeholder/Customer
1	Negligible	< £35k	Minimal and transient loss of public trust.	Minimal impact on stakeholders or customers.
2	Minor	£35k - £300k	Slight loss of trust with no lasting impact. Little adverse publicity.	Minor impact on stakeholders or customers and customer dissatisfaction. Limited service disruption.
3	Moderate	£300k - £3m	Moderate loss of trust that receives significant adverse publicity locally with no lasting impact.	No lasting impact. Moderate disruption to stakeholders, moderate impact on customers and customer dissatisfaction. Moderate service disruption.
4	Major	£3m - £30m	Significant loss of trust and receives local media attention with potential for lasting impact.	Significant service disruption and opposition from stakeholders and/or customers. Threat of legal action.
5	Catastrophic	> £30m	Significant loss of trust and receives national media attention with potential for persisting impact.	Major service disruption and significant opposition from stakeholders and/or customers. Legal action. Long term public memory.

Assessment of Likelihood			
		Probability Descriptors	Numerical Probability
1	Rare	This will probably never happen/recur.	Under 1%
2	Unlikely	Do not expect it to happen/recur, but it is possible it may do so.	1% - under 5%
3	Possible	Might happen or recur occasionally.	5% - under 20%
4	Likely	Will probably happen/recur, but it is not a persistent issue or circumstances	20% - under 50%
5	Almost Certain	Will undoubtedly happen/recur, possibly frequently. A project more likely to fail than succeed.	Over 50%

Risk no	**Description of Risk and Potential Impact**	**Inherent Risk**			**Mitigating Controls**	**Current Risk**			**Risk Owner**	**Additional Plan**	**Timetable**
		Impact	Likelihood	Combined Score		Impact	Likelihood	Combined Score			
Governance											
1.1	The Administering Authority does not have appropriate governance arrangements including the requirement for a Pension Board resulting in: • Non-compliance with legislation or best practice • Inability to determine policy, make effective decisions and deliver services. • Risk to reputation	4	3	12	Gwynedd Pension Fund (GPF) has a Governance Policy Statement and a Governance Compliance Statement as required by the LGPS Regulations 2008. Both statements are reviewed and updated when required. Scheme employers are consulted when changes are proposed to ensure the policy is still appropriate. The Statement is available on the Gwynedd Pensions website: www.gwyneddpensionfund.wales	3	1	3	Head of Finance Investment Manager Pensions Manager		

					GPF has a Pensions Committee to discharge the Council's duties as Administering Authority/ trustee of the Pension Fund. Gwynedd Pension Board has been established as required by the Public Service Pension Act 2013 and perform their role effectively. Support and training are being provided to ensure that the members of the board have the knowledge and skills to undertake their role. Suitable management arrangements mean that there is no significantly high turnover in the membership of the Committee or the Board.						
1.2	Failure to act with integrity and be accountable to a stakeholder due to conflicts of interest etc.	2	2	4	Committee and Board members are aware of the legal responsibilities. All members of the Committee and Board declare any conflicts and potential conflicts at the beginning of each meeting.	1	2	2	Pension Committee Pensions Board Head of Finance		
1.3	The Pensions Committee and the Pension Board are unable to fulfil their responsibilities effectively resulting in: • Non-compliance with legislation or best practice • Inability to determine policy, make decisions and / or deliver service. • Reputation risk.	4	3	12	The Committee has adopted the CIPFA Code of Practice on Knowledge and Skills. A training and induction programme is available for new Committee and Board members. New Board and Committee members complete the LGPS Fundamental Course. The Fund has a Knowledge and Skills policy, and an annual training plan is adopted with relevant training offered to	3	2	6	Investment Manager Pensions Manager		

					Committee members and Board members on an ongoing basis. The Fund subscribes to relevant bodies (eg LAPFF) and sends representatives to relevant conferences. Committee and Board members are made aware of and adhere to the Governance Compliance Statement and are encouraged to identify training requirements.						
2.	**Funding and Investments**										
2.1	The Committee Members and Investment Officers make inappropriate decisions as a result of insufficient knowledge of financial markets and inadequate investment and actuarial advice received resulting in: • Poor Fund performance • Financial loss • Increased employer contributions	5	3	15	GPF Investment Strategy is set in accordance with LGPS investment regulations. The Investment Strategy takes the Fund's liabilities into account. The Investment Strategy is approved and reviewed by the Pensions Committee. GPF uses an external investment advisor who provides specialist guidance to the Investment Panel and Pensions Committee regarding the Investment Strategy Members and Officers are encouraged to challenge advice and guidance received. Members and Officers receive relevant training on a timely basis.	3	1	3	Head of Finance Investment Manager		
2.2	The Pension Fund has insufficient assets to meet its long term liabilities.	5	3	15	Triennial actuarial valuations provide periodic indications of the growth in assets against liabilities. Employer contribution rates are set in response to this.	4	1	4	Investment Manager		

	The Pension Fund's investment strategy fails to produce the required returns.				The 2022 valuation showed that there is a funding provision of 120% in the Gwynedd Fund. However, the Fund continues to use prudent assumptions for the valuation. GPF investments are diversified across a range of different types of assets to minimise the impact of losses in individual markets and individual fund managers. As a result of the 2022 Valuation, the Committee has re-allocated assets to lower risk asset types. Fund-specific benchmarks and targets are set. Fund assets are kept under regular review as part of the Fund's performance management process. Fund managers are thoroughly vetted prior to appointment and performance is reviewed regularly against the benchmark and performance objectives by the Investment Panel. The Fund/ WPP replaces underperforming investment managers.						
2.3	~~The fund is exposed to unnecessary risks and avoidable costs due to poorly structured investment arrangements resulting in:~~ ~~Financial loss~~	~~5~~	~~3~~	~~15~~	~~The Fund aims to ensure best value and to minimise exposure to risk as follows:~~ ~~The Fund's investments are diversified across a range of different types of assets to minimise the impact of losses in individual markets.~~	~~2~~	~~1~~	~~2~~	~~Investment Manager~~	ARCHIVE- De minimis risk due to pooling and having expanded the type of investments we hold.	

					~~Investment managers provide invoices for fees and disclosure of fees within funds.~~ ~~Specialist services such as transitions or currency transfers are considered where appropriate in order to reduce costs.~~ ~~Banking and custodian arrangements are reviewed and retendered as appropriate.~~						
2.4	Collapse of a fund manager or negligence, fraud or wilful default committed by a fund manager resulting in financial loss.	4	3	12	Due diligence is performed whenever a new manager or fund is appointed, and the situation is constantly reviewed through quarterly monitoring by WPP the Investment Panel and investment consultants. Legal requirements for fund managers are set out in their management agreements, and they are expected to fully comply with the Financial Conduct Authority (FCA), the Pensions Regulator (TPR) and other regulatory requirements. The Fund uses a global custodian service to ensure that investment assets are separated from custody of assets. The Fund custodian can arrange to provide a transition service if a fund manager is wound up.	2	3	6	Investment Manager	Link Fund Solutions (PPC Operator) have been in an uncertain position due to their management role with the failure of the Woodford equity fund, but the Fund and PPC are continuously monitoring the situation and discussing the appropriate steps as necessary with the other partners.	
2.5	Market risk - Market crash leading to failure to reduce the deficit resulting in: • Financial loss • Increased employer contribution costs.	5	4	15	The Fund is diversified across a range of asset classes to mitigate the impact of poor performance in an individual market segment. As a result of the 2022 Valuation, additional categories of lower risk assets will be used. Investment performance and monitoring arrangements exist which provide the	4	2	8	Investment Manager		

					investment officers with the flexibility to rebalance the portfolio in a timely manner. The long term nature of the liabilities significantly reduces the impact.						
2.6	Liquidity risk - insufficient funds to meet liabilities as they fall due.	4	3	12	Management prepares periodic cash flow forecasts to understand and manage the timing of the Fund's cash flows. The 2023 Cash Flow Modelling report has identified that the Fund will have a positive cash flow until at least 2029.	3	1	3	Investment Manager		
2.7	Interest rate risk- Arises from the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.	4	3	12	The Fund's interest rate risk is routinely monitored in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.	4	2	8	Investment Manager		
2.8	Currency risk- the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.	4	3	12	Establish & review strategic asset allocation (within global regions). Hedging arrangement has been approved by the Pensions Committee in 2022 which will manage risk.	4	2	8	Investment Manager		
2.9	The Fund fails to adequately account for climate change, climate risk and environmental, social and governance (ESG) factors.	5	3	15	The Fund has an active Responsible Investment policy and a net zero target of 2050 has been set. Polisi Buddsoddi Cyfrifol 2022 (gwyneddpensionfund.wales) As part of the Wales Pension Partnership a number of active steps take place including: responsible investment executive group,	4	2	8	Investment Manager	Invest in the WPP Sustainable Equity fund. Produce a TCFD report	2023

					engagement and voting provider, PPC a signatory to the UK Stewardship Code. The Investment Panel will also constantly engage and challenge managers on how they consider the risk of climate change and ESG factors. The Fund aims to invest in impact investments that make a difference locally and in the wider world.						
2.10	Pay and price inflation are significantly more than anticipated leading to an increase in liabilities which is higher than the previous actuarial valuation estimate.	3	3	9	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. The breadth of the Fund's investments helps to mitigate this risk.	2	3	6	Investment Manager		
2.11	Increase in number of early retirements due to public service cuts and/or ill health leading to pension liabilities increasing.	3	4	12	The Fund has coped with the impact of several years of austerity and arrangements are in place to deal with the cost-of-living cuts. Employers pay an additional capital cost for early retirements following each individual decision. The Employers' ill-health retirements are monitored, and small employers are required to take the ill- health retirement insurance provided by the Fund.	2	3	6	Investment Manager		
2.12	The average life expectancy of pensioners is greater than assumed in actuarial assumptions. An increase in liabilities which exceeds the previous valuation estimate.	3	3	9	Life expectancy assumptions are reviewed in all valuations. Life expectancy has been leveled out in the 2022 Valuation data. The Fund uses bespoke assumptions based on the life expectancy across Gwynedd Pension Fund's area.	3	2	6	Investment Manager		

					Mortality assumptions include some allowance for future increases in life expectancy.						
2.13	Scheme employers’ contributions to the Fund are not received or are processed or recorded completely and accurately. This could result in a negative cash flow situation, delays in producing IAS19/ FRS102 reports and closing the accounts.	4	3	12	Formal timescales for receipt of contributions. The team communicates regularly with scheme employers to ensure that contributions are made in a timely manner and are recorded correctly. Details of any unpaid or late contributions are recorded and appropriate action is taken to recover payments.	2	2	4	Investment Manager		
2.14	An employer ceases to exist with insufficient funding available to settle any outstanding debts, or refuses to pay the cessation value. Departing employer does not fully meet its liabilities which leads to increased costs across the remaining scheme employers.	3	3	9	The risk is mitigated by: Vetting prospective employers before admission and ensuring that they fully understand their obligations. Applications for admission to the Fund are considered carefully and a bond or guarantee is put into place if required. Outstanding liabilities will be assessed and recovered from any successor bodies or spread amongst remaining employers. The actuarial valuation attempts to balance recovery period with risk of withdrawal. If necessary, appropriate legal action will be taken.	2	3	6	Head of Finance Pensions Manager		
~~2.15~~	~~A significant number of LGPS members transfer their pension pots to other pensions providers in~~	4	~~3~~	~~12~~	~~The risk is mitigated by:~~ ~~Effective communication of the benefits of remaining in the LGPS.~~	~~1~~	~~1~~	~~1~~	~~Pensions Manager~~	ARCHIVE- The probability of this	

	~~order to obtain a capital sum under the Government's "Freedom and Choice" legislation resulting in:~~ • ~~Significant cashflow out of the Fund.~~ • ~~Reduction in assets greater than reduction in the Fund's liabilities.~~				~~Actuarial calculation of transfer value should ensure transfer value does not exceed reduction in liability.~~ ~~Requirement to seek financial Advice if transfer exceeds £30,000~~				~~Investment Manager~~	happening is now very low.	
3.	**Custodian Role**										
3.1	Failure of custodian leading to losses which results in: • Failure to reduce the deficit • Financial loss	5	3	15	A highly reliable Custodian with high accreditation was appointed. Fund assets are protected in the event of insolvency of the custodian. Mae'n rhaid i'r ceidwad gadw at reoliadau ariannol FCA a TPR.	2	2	4	Investment Manager		
4.	**Wales Pension Partnership**										
~~4.1~~	~~The Gwynedd Pension Fund does not have sufficient resources available to work with and provide the necessary information to the partnership.~~	4	~~3~~	~~12~~	~~Staff levels are monitored to ensure that the requirements of the partnership are met.~~	~~1~~	~~1~~	~~1~~	~~Head of Finance~~	ARCHIVE - The Partnership has now been established and the Fund's staff are able to meet the Partnership's requirements in a timely manner.	
5.	**COMMUNICATION**										
5.1	Insufficient communication and engagement with the Pension Fund Stakeholders. Inability to determine policy, make effective decisions and/or deliver service. Reputation risk.	3	3	9	A Communications Policy is in place. The Gwynedd Pension Fund website is kept up to date. Fund Performance is reported to the Investment & Pension Fund Committee on a regular basis. Meetings are held periodically with the Fund's employers.	3	2	6	Pensions Manager	The Gwynedd Pension Fund website needs to be reviewed. The Member Self Service system 'My Pension Online' will be upgraded in 2023/24 to improve engagement with members.	2023 2023/24

					Annual Benefit Statements and newsletters are sent annually to active and deferred Fund members. The contact list for employers is updated regularly. An AGM is held for employers and Trade Unions. The annual report and accounts are published on the Gwynedd Pensions website. A Member Self Service website is available to members to calculate their own benefits.						
6.	**Data Protection**										
6.1	The Pension Fund systems and data may not be secure and appropriately maintained. • Loss of sensitive data • Reputation risk Financial loss arising from legal action.	3	2	6	It is a mandatory requirement for all employees to undertake Data Protection training and to adhere to Gwynedd's data protection policy. Members' contribution and salary data are sent through the secure i-Connect portal directly to members' records. Egress (A secure email system) email system is used where possible to send emails to employers not listed on the Secure Email Organisation list. A secure document retention system is also operated by our actuary and consultants.	3	1	3	Pensions Manager		
7.	**Pension Administration**										
7.1	Pension benefits are not paid: • Risk of financial loss arising from compensation claims	4	2	8	The payroll system is set up to pay pensioners monthly.	4	1	4	Pensions Manager		

	• Damage to reputation				Disaster recovery plan in place with Heywood which will restore data within 7 days in the event of system failure.						
7.2	Failure of scheme membership data and pension benefit calculation processes leading to fraud, corruption or error. • Unauthorised payments under the Finance Act 2004 • Risk of financial loss and damage to reputation.	3	2	6	Information and instructions are only accepted from authorised sources. Employers are required to review and confirm membership records annually. Benefit calculations are checked by senior colleagues. All transactions comply with Gwynedd Council's financial regulations and are subject to independent authorisation. Members approaching 75 are separately identified monthly.	3	1	3	Pensions Manager		
7.3	Non-compliance with legislation and failure to correctly implement new legislation and regulations, resulting in: • Incorrect payments being made. • Risk of financial loss and damage to reputation	3	3	9	LGA/External training. Project work approach to implementation of legislative changes. In house training for all staff. Additional resources in place to implement the McCloud remedy.	2	2	4	Pensions Manager		
7.4	Pension benefits continue to be paid to deceased pensioners. • Risk of financial loss and damage to reputation.	2	4	8	All pensioners are contacted annually. Pensioners are incorporated into National Fraud Initiative. Further targeted checks are conducted with credit reference agencies as appropriate. Monthly mortality screening is undertaken and any positive matches are ceased immediately.	2	3	6	Pensions Manager		

					Tell Us Once service is in operation.						
7.5	System failure • Loss of sensitive data. • Reputation risk. Financial loss arising from legal action.	5	2	10	The system is backed-up daily. A full disaster recovery plan is in place and tested annually (In line with Gwynedd Council's policy).	5	1	5	Pensions Manager		
7.6	Member Self Service failure • Reputation risk.	4	2	8	Hosted by software provider Heywood.	4	1	4	Pensions Manager		
7.7	Cyber Attack • Loss of sensitive data. • Systems damaged or destroyed. • Reputation risk. Financial loss arising from legal action.	5	3	15	Firewall in operation. Software regularly updated with latest security features. The system is backed up daily. Password access is required.	5	2	10	Pensions Manager		
7.8	Employing authorities not fulfilling their responsibilities e.g. not supplying us with correct employee data or not supplying it in a timely manner • Incorrect benefit calculations Delays while we request missing information	3	2	6	The Administration Strategy sets out responsibilities and timetables that the employers must follow. The iConnect system in place to collect the data monthly. The employers are contacted for information if the Pensions department suspects that information is missing or contains errors. Advice and information is provided to the employers. Annual checks of data to highlight any gaps.	3	1	3	Pensions Manager		

					Meetings for the employers are held from time to time. Guidance available on the website.						
7.9	Failure to comply with disclosure regulations e.g. the requirement to issue information within a certain timescale after a request/event • Complaints / Fines	3	2	6	Robust workflow management system in place.	3	1	3	Pensions Manager		
7.10	Failure to issue Annual Benefit statements to active and deferred members by 31st August: • Reputational risk and complaints • Fines	2	4	8	Project management approach - Regular contact with employers to get data. Statements are presented online at the self-service web site. Monthly interfacing to reduce workload at year end with the main employers (iConnect)	2	1	2	Pensions Manager		
8. **Internal Processes**											
8.1	Concentration of knowledge in a small number of officers and risk of departure of key staff. The risk of losing key staff could lead to a breakdown in internal processes and service delivery, causing financial loss and potential risk to reputation	4	3	12	Key officers convey specialist knowledge to colleagues on a function or subject basis through mentoring. Training needs have been identified in a job description and reviewed each year with team members through the appraisal process. Specific relevant qualifications for administrative and investment staff.	4	2	8	Pensions Manager Investment Manager		

					Internal 'How to..' guidelines are developed on all internal processes. External consultants and independent advisor available for short term support.						
9. Uncontrollable External Factors											
9.1	Normal operations disrupted by uncontrollable external factors Service delivery threats from fire, bomb, extreme weather, electrical faults, sickness, epidemic, pandemic etc. Insufficient daily back up, disaster recovery, and IT cover to support systems. Temporary loss of ability to provide service to stakeholders	5	5	25	Working from home is happening with many of the staff now working hybrid. Disaster Recovery Plan for pension system. Business Continuity / Disaster. Recovery Plan for the Authority with IT firewalls.	3	3	9	Pensions Manager	Continue to develop new methods of working	

10. NEW RISKS

Asset Pooling											
10.1	Pooling arrangements can lead to • increase in costs • lower performance • conflict within the bout	4	3	12	The Fund's officers meet regularly with the Partnership to discuss issues and investment options.	4	2	8	Investment Manager Head of Finance		

	• lack of alignment to the Gwynedd Fund's investment strategy				The Fund has representation on all sub-groups and working groups of the Partnership. The Chairman of the Gwynedd Pension Committee is a member of the Partnership's Joint Governance Committee. The Partnership has robust and transparent governance policies and procedures. The progress of the Partnership and the performance of the funds that the Gwynedd Fund has invested in are regularly reported to the Investment Panel and Pension Board.				Pensions Committee Chair		
Final Accounts and Annual Report											
10.2	The Pension Fund's Final Accounts and Annual Report are not produced in accordance with statutory requirements, accounting standards or audit timetable. • Risk to the reputation of the Pension Fund	4	3	12	The Fund's officers are Chartered Accountants and attend regular CIPFA training courses. A timetable is set to ensure that key dates are met when preparing the accounts. Clear and consistent communication with Audit Wales so that the final audited accounts can be published before the statutory date of 1st December. The Fund has robust systems (efinancials, iConnect, Altair) which accurately record the Fund's transactions. The Fund has access to statements from our Investment Managers to confirm transactions and the value of the Fund's assets.	4	1	4	Investment Manager		

Evolution and new opportunities											
10.3	Failing to evolve and look for new opportunities.	4	3	12	Officers are kept up to date by attending WPP meetings and LGPS conferences. The consultants update the Investment Panel and officers about any opportunities.	4	1	4	Investment Manager		

Resources											
10.4	Not enough resources to deal with new pressures and changes such as McCloud, Dashboards etc.	4	3	12	The Fund's resources are reviewed annually as necessary by a Committee. A recruitment package offering flexibility.	4	2	8	Pensions Manager		

Meeting:	**Pensions Committee**
Date:	**27/03/2023**
Title:	**Pension Fund Valuation Report**
Author:	**Dafydd L Edwards – Fund Director**
Recommendation:	**For information only**

1. Introduction

In order to fulfil Regulation 62 of the Local Government Pension Scheme Regulations 2013 we commissioned Hymans Robertson to carry out a valuation of the Gwynedd Pension Fund as at 31 March 2022. This work has now been completed and the draft copy of the Valuation report can be seen in the **Appendix**.

The new rates will come into force from 1st April 2023, with the majority of employers seeing a reduction in their contribution rates.

2. Valuation Purpose

The triennial actuarial valuation is a key part of the Fund's risk management framework. Its main purpose is to ensure the Fund continues to have a contribution plan and investment strategy that will achieve the objectives set out in the Funding Strategy Statement.

3. Setting employer contribution rates

Employer contributions need to be set at a level which ensures the Fund has a reasonable likelihood of having enough money to pay members' benefits. Estimating the amount of benefits that may be paid is complex, as benefits earned today might only start being paid in 50 years' time.

Over that time period, there is significant uncertainty over factors which affect the cost of benefits, e.g. inflation, investment returns. These uncertainties are allowed for by taking a risk-based approach to setting employer contribution rates. This approach is built around three key funding decisions set by the Fund and asset-liability modelling:

- **What is the funding target for each employer?** Will the employer remain in the Fund for the long term or exit at some point

- **What is the funding time horizon?** How long will the employer participate in the Fund

- **What is the required likelihood?** How much funding risk can the employer's covenant support

Asset-liability modelling is used to project each employer's assets and benefit payments into the future using 5,000 different economic scenarios.

4. Employer Contribution Rates

Each employer has a contribution rate which is appropriate to their circumstances, and these can be found in the Rates & Adjustments Certificate, which can be found at the back of the Valuation Report.

Broadly speaking:

- Primary rates have increased since the last valuation, due to rising inflation expectations.
- Secondary rates have decreased, due to strong investment performance since the previous valuation.

However, all employers will be different, and the contribution rate will reflect the membership and experiences of each employer. The contribution rate for each employer can be seen in the Rates & Adjustments Certificate.

Each individual employer received a draft copy of their results in October 2022 and were invited to an Employer Forum at Siambr Hywel Dda on the 26th October 2022 to receive a presentation on the Valuation Process and to discuss any concerns.

Table 1 shows the combined individual employer rates set at this valuation and the last valuation (31 March 2019).

	This valuation 31 March 2022		**Last valuation 31 March 2019**	
Primary Rate:	21.8% of pay		20.1% of pay	
Secondary Rate:	2023/2024	-£8,746,000	2020/2021	£358,000
	2024/2025	-£9,021,000	2021/2022	£366,000
	2025/2026	-£9,303,000	2022/2023	£375,000

Employees in the pension scheme pay a contribution to the Fund in addition to these employer contributions. Employees' contributions are set nationally, in LGPS Regulations. The average employee contribution rate at 31 March 2022 is 6.4% of pay (6.4% at 31 March 2019).

5. Funding position

The funding level is the ratio of assets to liabilities. The market value of the assets at the valuation date is known. The value of future liabilities and the level of future investment returns are uncertain, and hence actuarially estimated.

The liabilities and funding level have been calculated across a range of different investment returns (the discount rate).

At 31 March 2022, the past service funding position has improved from the last valuation at 31 March 2019. Table 2 shows the single reported funding position at the current and previous valuation, analysed by member status and the market value of assets at the valuation date.

Valuation Date	**31 March 2022**	**31 March 2019**
Past Service Liabilities	**(£m)**	**(£m)**
Employees	1,042	855
Deferred Pensions	392	321
Pensioners	874	750
Total Liabilities	**2,308**	**1,925**
Assets	**2,776**	**2,081**
Surplus / (deficit)	**468**	**156**
Funding Level	**120%**	**108%**

The required investment return to be 100% funded is now 3.2% pa (3.5% pa at 2019). The likelihood of the Fund's investment strategy achieving the required return is 84% (78% at 2019).

6. Changes between the last Valuation

The most significant external event to occur since the last valuation has been the Covid-19 pandemic. The experience analysis shows that the amount of pension ceasing was broadly in line with expectations. Overall, mortality experience has had a minimal impact on the funding position. Salary increases have been higher than assumed over the period and, whilst this has increased the value placed on the liabilities, it has only had a small impact on the funding position.

The most significant factor to impact the funding position over the period has been investment returns on the Fund's assets, which have been much better than assumed at the previous valuation. This has had a positive impact on the funding position. In turn, this has helped reduce employers' secondary contribution rates.

Gwynedd Pension Fund

DRAFT Report on the actuarial valuation at 31 March 2022

Richard Warden FFA Malcolm Stanley FIA

09 March 2023
For and on behalf of Hymans Robertson LLP

Use the menu bar above to navigate to each section.

Contents

In this report:

Executive Summary

We have been commissioned by Cyngor Gwynedd (the Administering Authority) to carry out a valuation of the Gwynedd Pension Fund (the Fund) as at 31 March 2022. This fulfils Regulation 62 of the Local Government Pension Scheme Regulations 2013. This report is a summary of the valuation.

Contribution rates

The contribution rates for individual employers set at this valuation can be found in the Rates & Adjustments certificate. Table 1 shows the combined individual employer rates set at this valuation and the last valuation (31 March 2019).

Table 1: Whole fund contribution rates compared with the previous valuation

	This valuation 31 March 2022		Last valuation 31 March 2019	
Primary Rate	21.8% of pay		20.1% of pay	
Secondary Rate	2023/2024	-£8,746,000	2020/2021	£358,000
	2024/2025	-£9,021,000	2021/2022	£366,000
	2025/2026	-£9,303,000	2022/2023	£375,000

- The Primary rate has increased mainly due to higher inflation expectations
- The Secondary rate has decreased due to strong investment performance since the last valuation

Funding position

At 31 March 2022, the past service funding position has improved from the last valuation at 31 March 2019. Table 2 shows the single reported funding position at the current and previous valuation.

Table 2: Single reported funding position at 31 March 2022 compared with 31 March 2019

Valuation Date	31 March 2022	31 March 2019
Past Service Liabilities	**(£m)**	**(£m)**
Employees	1,042	855
Deferred Pensioners	392	321
Pensioners	874	750
Total Liabilities	**2,308**	**1,925**
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Surplus/(Deficit)	**468**	**156**
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The required investment return to be 100% funded is now 3.2% pa (3.5% pa at 2019). The likelihood of the Fund's investment strategy achieving the required return is 84% (78% at 2019).

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Approach to valuation

Valuation Purpose

The triennial actuarial valuation is an important part of the Fund's risk management framework. Its main purpose is to ensure the Fund continues to have a contribution plan and investment strategy that will achieve the objectives set out in the Funding Strategy Statement.

We have been commissioned by Cyngor Gwynedd (the Administering Authority) to carry out a valuation of the Gwynedd Pension Fund (the Fund) as at 31 March 2022. This fulfils Regulation 62 of the Local Government Pension Scheme Regulations 2013. This report marks the culmination of the valuation process and contains its two key outcomes:

1. Employer contribution rates for the period 1 April 2023 to 31 March 2026.
2. The funding level of the Fund at 31 March 2022.

Further information on the valuation process, methodology and strategy is set out in the publicly available Funding Strategy Statement, Investment Strategy Statement and published papers and minutes of the Fund's Pensions Committee. Additional material is also contained in Hymans Robertson's LGPS 2022 valuation toolkit[1].

[1] www.hymans.co.uk/media/uploads/LGPS_2022_Valuation_Toolkit.pdf

Setting employer contribution rates

Employer contributions need to be set at a level which ensures the Fund has a reasonable likelihood of having enough money to pay members' benefits. Identifying the amount of benefits that may be paid is complex as those earned today might only start being paid in 50 years' time. Over that time period, there is significant uncertainty over factors which affect the cost of benefits, eg inflation, investment returns. These uncertainties are allowed for by taking a risk-based approach to setting employer contribution rates. This approach is built around three key funding decisions set by the Fund and asset-liability modelling.

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Key funding decisions

For each employer, the Fund determines the most appropriate choice for the following three funding decisions. Further detail is set out in the Funding Strategy Statement.

What is the funding target for each employer?
Will the employer remain in the Fund for the long-term or exit at some point

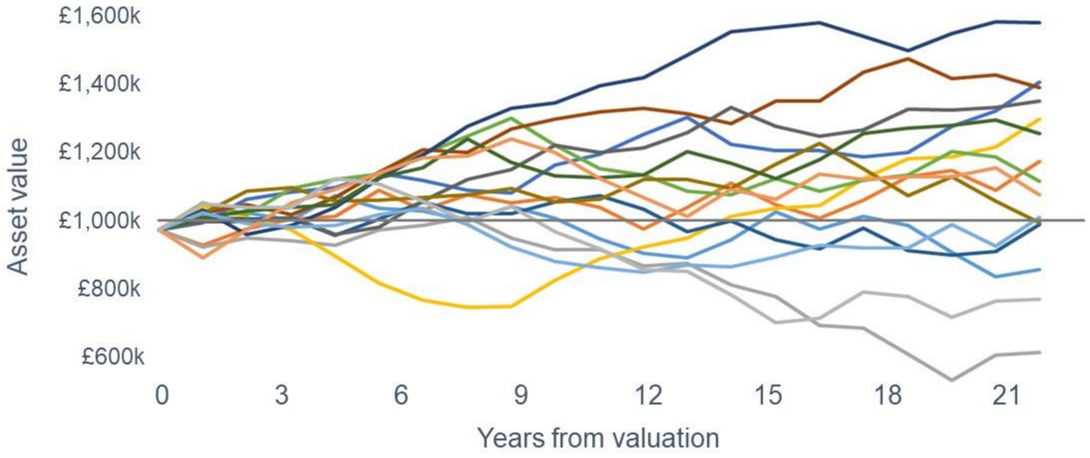
What is the funding time horizon?
How long will the employer participate in the Fund

What is the required likelihood?
How much funding risk can the employer's covenant support

Modelling approach

Asset-liability modelling is used to project each employer's assets and benefit payments into the future using 5,000 different economic scenarios. The economic scenarios are generated using Hymans Robertson's Economic Scenario Service (ESS) (further information in Appendix 2).

Picture 1: sample progression of employer asset values under different economic scenarios



Measuring the funding level

The past service funding level is measured at the valuation. Whilst it is limited in providing insight into a funding plan, it is a useful high-level summary statistic. To measure the funding level, a market-related approach is taken to calculating both the assets and the liabilities (so they are consistent with each other).

- The market value of the Fund's assets at the valuation date has been used.
- The liabilities have been valued using assumptions based on market indicators at the valuation date (these assumptions are detailed in Appendix 2).

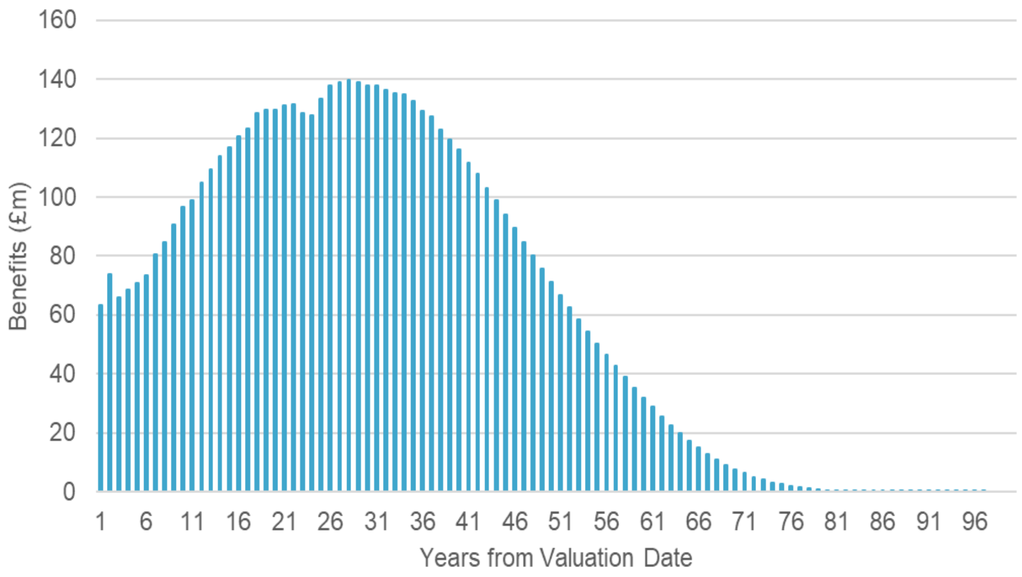
Further detail on the liabilities

The past service liabilities are the value of all future payments to members based on all benefits earned up to the valuation date, expressed in today's money.

Chart 1 shows the projected payments for all members in the Fund at the valuation date. The projections are based on the membership data provided for the valuation (Appendix 1), the assumptions (Appendix 2) and our understanding of the LGPS benefit structure as at 31 March 2022 (details at www.lgpsregs.org).

To express the future payments in today's money, the projections are discounted with an assumed future investment return on the Fund's assets (the discount rate).

Chart 1: projected benefit payments for all service earned up to 31 March 2022



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Valuation results

Employer contribution rates

The primary objective of the Fund is to set employer contribution rates that will adequately cover the cost of benefits which will accrue in the future and any costs related to benefits already earned. A secondary objective is to ensure the rates are as stable as possible. The risk-based approach detailed earlier is used to meet both these objectives.

The employer contribution rate is made up of two components.

1. A primary rate: the level sufficient to cover all new benefits.
2. A secondary rate: the costs associated with sufficiently funding benefits accrued up to the valuation date.

Each employer has a contribution rate which is appropriate to their circumstances and these can be found in the Rates & Adjustments Certificate. Broadly speaking:

- Primary rates have increased since the last valuation due to rising inflation expectations.
- Secondary rates have decreased due to strong investment performance since the previous valuation.

However all employers will be different and the contribution rate will reflect the membership and experiences of each employer.

Table 3 shows the total of all employer contribution rates to be paid into the Fund over the period 1 April 2023 to 31 March 2026.

Table 3: Whole-fund contribution rate, compared with the previous valuation

	This valuation 31 March 2022		Last valuation 31 March 2019	
Primary Rate	21.8% of pay		20.1% of pay	
Secondary Rate	2023/2024	-£8,746,000	2020/2021	£358,000
	2024/2025	-£9,021,000	2021/2022	£366,000
	2025/2026	-£9,303,000	2022/2023	£375,000

The primary rate at 2022 includes an allowance of 0.6% of pensionable pay for the Fund's expenses.

Employees pay a contribution to the Fund in addition to these rates. These contributions are set by the LGPS Regulations. The average employee contribution rate at 31 March 2022 is 6.4% of pay (6.4% at 31 March 2019).

Funding level

The funding level is the ratio of assets to liabilities. The market value of the assets at the valuation date is known. The value of the liabilities is uncertain given that the level of future investment returns are unknown.

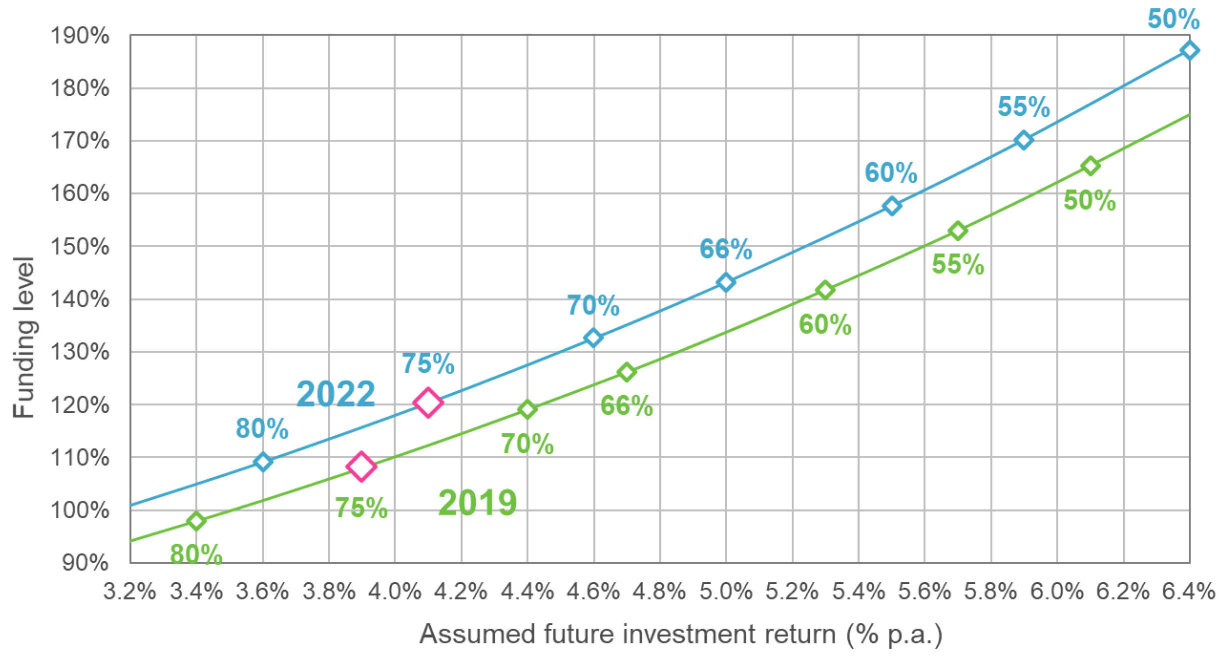
Therefore, the liabilities and funding level have been calculated across a range of different investment returns (the discount rate).

To help better understand funding risk, the likelihood of the Fund's investment strategy (detailed in Appendix 1) achieving certain levels of return has also been calculated.

Chart 2 shows how the funding level varies with future investment return assumptions at 31 March 2022 (blue line). The green line shows the same analysis at 31 March 2019.

- **The funding position at 2022 is stronger than 2019.**
- **The funding level is 100% if future investment returns are c.3.2% pa. The likelihood of the Fund's assets yielding at least this return is around 84%.**
- **The comparator at 2019 was a return of 3.5% pa which had a likelihood of 78%.**
- **There is a 50% likelihood of an investment return of 6.4% pa. So the best-estimate funding level is 187% at 31 March 2022 (161% at 2019).**

Chart 2: funding level across a range of future investment returns



Figures on each line show the likelihood of the Fund's assets exceeding that level of return over the next 20 years

Single funding level as at 31 March 2022

Whilst the chart on the previous page provides a better understanding of the past service funding position, there is still a requirement to report a single funding level at 31 March 2022.

To report a single funding level and funding surplus/deficit for the 2022 valuation, a discount rate of 4.1% pa has been used. There is a 75% likelihood associated with a future investment return of 4.1% pa.

Table 4 details the past service liabilities, split by member status and the market value of assets at the valuation date. The results at the 2019 formal valuation are shown for comparison.

The funding level and surplus/deficit figures provide a high-level snapshot of the funding position of the Fund as at 31 March 2022, however there are limitations:

- The liabilities are calculated using a single set of assumptions about the future and so are very sensitive to the choice of assumptions.
- The market value of assets held by the Fund will change on a daily basis.

The future progression of the funding position is uncertain. If the financial and demographic assumptions made at this valuation actually occur, employers pay contributions in line with the R&A certificate and there are no other changes in the financial or demographic environment, we project that the funding level at the next valuation (31 March 2025) will be approximately 118%.

Table 4: single reported funding level

Valuation Date	31 March 2022	31 March 2019
Past Service Liabilities	**(£m)**	**(£m)**
Employees	1,042	855
Deferred Pensioners	392	321
Pensioners	874	750
Total Liabilities	**2,308**	**1,925**
Assets	**2,776**	**2,081**
Surplus/(Deficit)	**468**	**156**
Funding Level	**120%**	**108%**

Important: *the reported funding level does not directly drive the contribution rates for employers. The contribution rates consider how assets and liabilities will evolve over time in different economic scenarios and also reflect each employer's funding profile and covenant.*

Changes since the last valuation

Events between 2019 and 2022

The most significant external event to occur since the last valuation has been the Covid-19 pandemic. The experience analysis below shows that the amount of pension ceasing was broadly in line with expectations. Overall, mortality experience has had a minimal impact on the funding position. Salary increases have been higher than assumed over the period and, whilst this has increased the value placed on the liabilities, it has only had a small impact on the funding position.

The most significant factor to impact the funding position over the period has been investment returns on the Fund's assets, which have been much better than assumed at the previous valuation. This has had a positive impact on the funding position. In turn, this has helped reduce employers' secondary contribution rates.

Financial

Table 5: analysis of financial experience between 2019 and 2022 valuations

	Expected	Actual	Difference	Impact on funding position
3 year period	12.2%	32.1%	19.9%	+£407m
Annual	3.9% pa	9.7% pa	5.8% pa	

Membership

Table 6: analysis of membership experience between 2019 and 2022 valuations

	Expected	Actual	Difference	Impact on funding position
Early leavers	5,055	5,873	818	+£2m
Ill-health retirements	81	66	-15	+£3m
Salary increases	3.4% pa	4.4% pa	1.0% pa	-£17m
Benefit increases	2.3% pa	1.8% pa	-0.6% pa	+£26m
Pension ceasing	£3.8m	£3.8m	£0.0m	+£0m

Changes since the last valuation

Future outlook

Expectations about the future, which inform the assumptions used to value the liabilities, have changed since the last valuation. The most significant changes are:

- Future inflation: this is expected to be on average higher than at 2019 due to current levels of high inflation.
- Investment returns: due to changes in the Fund's investment strategy and financial markets, future investment returns are now expected to be higher than at the last valuation.

Table 7: summary of change in future outlook

Factor	What does it affect?	What's changed?	Impact on liabilities
Future investment returns	The rate at which future benefit payments are discounted back, ie the discount rate assumption	Future investment returns slightly higher at 2022 than at 2019. The required return is now 4.1% pa vs. 3.9% pa at 2019.	Decrease of £92m
Inflation	The rate at which pensions in payment and deferment and CARE pots increase	Significant increase in short-term future inflation expectations.	Increase of £175m
Salary increases	The rate at which future salaries increase. This affects benefits that are still linked to final salary, ie accrued before 1 April 2014	No material change since last valuation, however no allowance has been made for a short-term expected pay restraint given competing factors like tighter budgetary conditions vs strong job market and pressure from National Living Wage increases.	Increase of £7m
Current life expectancy	How long we expect people to live for based on today's current observed mortality rates.	Slight reduction in life expectancy based on current observed data (not allowing for Covid-related excess deaths)	Decrease of £9m
Future improvements in life expectancy	How we expect life expectancies to change (increase) in the future.	Uncertainty about effectiveness of mitigations against life expectancy increases in the LGPS i.e. State Pension Age increases and Cost Cap. Need to better reflect wider pension and insurance industry long-term expectations.	Increase of £15m

Reconciling the overall change in funding position

The tables below provide insight into the funding position change between 31 March 2019 and 31 March 2022. Firstly, the changes we expect to happen (Table 8), which relate mostly to items on the asset side. Then the impact of actual experience (Table 9), which mainly affects the liabilities.

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Expected development

Table 8: expected development of funding position between 2019 and 2022 valuations

Change in the surplus/deficit position	Surplus / Deficit
	£m
Last valuation at 31 March 2019	**156**
Cashflows	
Employer contributions paid in	179
Employee contributions paid in	56
Benefits paid out	0
Net transfers into / out of the Fund	
Other cashflows (e.g. Fund expenses)	(5)
Expected changes	
Expected investment returns	249
Interest on benefits already accrued	(238)
Accrual of new benefits	(255)
Expected position at 31 March 2022	**142**

* We have insufficient data to value the impact on the liabilities as a result of transfers in/out

Impact of actual events

Table 9: impact of actual events on the funding position at 31 March 2022

Change in the surplus/deficit position	Surplus / Deficit
	£m
Expected position at 31 March 2022	**142**
Events between 2019 and 2022	
Salary increases greater than expected	(17)
Benefit increases less than expected	26
Early retirement strain (and contributions)	(4)
Ill health retirement strain	3
Early leavers greater than expected	2
Commutation less than expected	0
Pensions ceasing less than expected	0
McCloud remedy	(7)
Other membership experience	(20)
Higher than expected investment returns	407
Changes in future expectations	
Investment returns	92
Inflation	(175)
Salary increases	(7)
Longevity	(6)
Other demographic assumptions	30
Actual position at 31 March 2022	**468**

Numbers may not sum due to rounding

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Sensitivity & risk analysis

Sensitivity and risk analysis: assumptions

There is risk and uncertainty inherent with funding benefit payments that will be paid out many years in the future. The Fund is aware of these and has in place a risk register which is regularly reviewed. Additionally, as part of the valuation, the Fund reviews sources of risk that may impact its funding position and the contribution rates payable by employers.

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This section discusses some of the most significant sources of funding risk (assumptions, regulatory, administration and governance and climate change). Further information of the Fund's approach to funding risk management, including monitoring, mitigation and management, is set out in the Funding Strategy Statement.

The valuation results depend on the actuarial assumptions made about the future. By their nature, these assumptions are uncertain which means its important to understand their sensitivity and risk levels.

Contribution rates

The risk-based approach to setting employer contribution rates mitigates the limitation of relying on one set of assumptions. Therefore, there is no need to carry out additional analysis of the sensitivity of contribution rates to changes in financial assumptions. The contribution rates are sensitive to changes in demographic assumptions. The results in this section in relation to the funding position can be broadly applied to the contribution rates.

Funding level

Financial assumptions

On page 10, we have already set out how the results vary with the assumed future investment return. The table below considers inflation.

Table 10: sensitivity of funding position to inflation assumption

CPI Assumption	Surplus/ (Deficit)	Funding Level
% pa	**(£m)**	**%**
2.5%	539	124%
2.7%	468	120%
2.9%	394	117%

Demographic assumptions

The main area of demographic risk is if people live longer than expected. The table below shows the impact of longer term longevity rates improving at a faster rate (1.75% pa vs 1.5% pa used in the results)

Table 11: sensitivity of funding position to longevity assumption

Long term rate of improvement	Surplus/ (Deficit)	Funding Level
% pa	**(£m)**	**%**
1.50%	468	120%
1.75%	448	119%

Sensitivity and risk analysis: other risks

Regulatory, Administration and Governance risks

Potential risks in this area include change in central government legislation which changes the future cost of the LGPS and failures in administration processes leading to incorrect data and inaccuracies in actuarial calculations. At this valuation, specific risks include:

- **McCloud:** the remedy to resolve the McCloud case is yet to be formalised in regulations. However, an allowance has been included for this expected benefit change at the 2022 valuation as directed by the Department of Levelling Up, Housing and Communities in their letter dated March 2022[1].
- **Goodwin:** the remedy to this issue is still uncertain. It is difficult to identify who it would apply to and its impact is estimated to be very small for a LGPS fund (0.1-0.2% of liabilities). Therefore, no allowance has been made for this case at the 2022 valuation.
- **Cost Cap:** a legal challenge is ongoing in relation to the 2016 cost cap valuation and no information is known about the outcome of the 2020 cost cap valuation. At this valuation, no allowance has been made for any changes to the benefit structure that may occur as a result of a cost cap valuation.
- **GMP indexation:** it is assumed that all increases on GMPs for members reaching State Pension Age after 6 April 2016 will be paid for by LGPS employers. This is the same approach that was taken for the 2019 valuation.

Post valuation events

Since 31 March 2022, there has been significant volatility in the financial markets and short-term inflation expectations, and rises in interest rates by central banks. These events affect the value of the Fund's assets and liabilities.

- The Fund's investment return since 31 March 2022 is estimated to be between 0%-5%, likely leading to a small increase in the value of assets.
- Liability valuations are likely to be lower now than at 31 March 2022 due to rises in expected future investment returns more than offsetting the higher than expected (10.1%) pension increase at April 2023.

As an open scheme, with a strong covenant, the Fund takes a long-term view when considering the funding impact of such events. For employers who have a very short time horizon, recent volatility may be more immediately impactful, and the Fund has engaged with these employers as appropriate.

No explicit allowance has been made for this volatility in the valuation results or contribution rates detailed in the Rates & Adjustments Certificate. The Fund will continue to monitor changes in the financial and demographic environment as part of its ongoing risk management approach.

1 www.lgpslibrary.org/assets/bulletins/2022/222AppA.pdf

Sensitivity and risk analysis: climate change

Background
Climate change is a major source of uncertainty which could affect future investment returns, inflation and life expectancies. Therefore, the Fund has explicitly explored the resilience of its funding and investment strategy to future potential climate change outcomes.

It is impossible to confidently quantify the effect of climate risk given the significant uncertainty over the impact of different possible climate outcomes. Instead, three different climate change scenarios have been considered as a stress-test (instead of trying to predict how climate change affects the funding level in the future).

All the scenarios assume that there will be a period of disruption linked either to the response to climate risk (transition risks) or the effect of it (physical risks). This disruption will lead to high volatility in financial markets, and the later the disruption, the more pronounced it will be.

Further detail on the scenarios is shown on the next page and in our guide 10 of Hymans Robertson's LGPS 2022 valuation toolkit[1]

Outcome of analysis
The Fund has set its funding and investment strategy using asset-liability modelling and considering two main risk metrics:

- Likelihood of success – the chance of being fully funded in 20 years' time
- Downside risk – the average worst 5% of funding levels in 20 years' time

When exploring the potential impact of climate change, the Fund has compared how these risk metrics change under each climate change scenario (against the '*Core*' model used when setting the funding and investment strategy). The stress test results for the Fund are shown in Table 12 below.

Table 12: sensitivity of funding position to climate change scenarios

Scenario	Likelihood of success	Downside risk
Core	**82%**	**54%**
Green Revolution	81%	55%
Delayed Transition	80%	51%
Head in the Sand	77%	47%

The results are worse in the climate scenarios. This is to be expected given that they are purposefully stress-tests and all the scenarios are bad outcomes. Whilst the risk metrics are weaker, they are not materially so and not enough to suggest that the funding and investment strategy are unduly exposed to climate change risk. The Fund will continue to monitor this risk as more information emerges and climate change modelling techniques evolve.

[1] www.hymans.co.uk/media/uploads/LGPS_2022_Valuation_Toolkit.pdf

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Final comments

Final comments

The Fund's valuation operates within a broader framework, and this document should be considered alongside the following:

- The Funding Strategy Statement, which in particular highlights how different types of employer in different circumstances have their contributions calculated
- The Investment Strategy Statement, which sets out the investment strategy for the Fund
- The general governance of the Fund, such as meetings of the Pensions Committee and Local Pensions Board, decisions delegated to officers, the Fund's business plan, etc
- The Fund's risk register

New employers joining the Fund
Any new employers or admission bodies joining the Fund should be referred to the Fund Actuary to assess the required level of contribution. Depending on the number of transferring members the ceding employer's rate may also need to be reviewed.

Cessations and bulk transfers
Any employer who ceases to participate in the Fund should be referred to the Fund Actuary in accordance with Regulation 64 of the LGPS regulations.

Any bulk movement of scheme members:

- involving 10 or more scheme members being transferred from or to another LGPS fund, or
- involving 2 or more scheme members being transferred from or to a non-LGPS pension arrangement

should be referred to the Fund Actuary to consider the impact on the Fund.

Valuation frequency
Under the LGPS regulations, the next formal valuation of the Fund is due to be carried out as at 31 March 2025 where contribution rates payable from 1 April 2026 will be set.

SIGNATURE

SIGNATURE

Richard Warden FFA
09 March 2023
For and on behalf of Hymans Robertson LLP

Malcolm Stanley FIA

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Appendices

APPENDIX 1

Data

Membership data
A summary of the membership data provided by the Fund for the 2022 valuation is set out in Table 13. The corresponding membership data from the previous valuation is also shown for reference.

The results of the valuation are dependent on the quality of the data used. We have carried out a series of validation checks on the data supplied to us by the Administering Authority to ensure that it is fit for purpose.

Asset data
To check the membership data and derive employer asset values, we have used asset and accounting data and employer level cashflow data provided by the Fund.

Table 13: Whole fund membership data as at 31 March 2022 and 31 March 2019

Whole Fund Membership Data	This Valuation 31 March 2022	Last Valuation 31 March 2019
Employee members		
Number	18,435	16,936
Total actual pay (£000)	305,475	252,760
Total accrued pension (£000)	62,701	52,700
Average age (liability weighted)	51.4	50.8
Future working lifetime (years)	7.2	8.8
Deferred pensioners (including undecideds)		
Number	20,964	18,649
Total accrued pension (£000)	22,521	19,020
Average age (liability weighted)	50.2	49.6
Pensioners and dependants		
Number	11,335	9,772
Total pensions in payment (£000)	54,576	46,936
Average age (liability weighted)	68.7	67.9

APPENDIX 1

Data

Investment strategy

A summary of the investment strategy allocation used for the calculation of employer contribution rates and to derive the future assumed investment return is set out in Table 14.

This information is as set out in the Fund's Investment Strategy Statement but allows for known planned future changes.

Table 14: Investment strategy used for the 2022 valuation

Asset class	Allocation
UK equities	10.5%
Global equities	47.0%
EM equities (unhedged)	2.5%
Infrastructure equity (unlisted)	2.5%
Private equity	5.0%
Property	10.0%
Absolute Return Bonds	15.0%
Multi Asset Credit (sub investment grade)	7.5%
Total	**100.0%**

APPENDIX 2

Assumptions

To set and agree assumptions for the valuation, the Fund carried out an in-depth analysis and review, with the approach to assumption setting approved by the Pensions Committee on 17 January 2022.

Financial assumptions

Setting employer contribution rates

An asset-liability model is used to set employer contributions at the 2022 valuation. This model relies on Hymans Robertson's proprietary economic model, the Economic Scenario Service (ESS). The ESS reflects the uncertainty associated with future levels of inflation and asset returns and the interactions and correlations between different asset classes and wider economic variables. In the short term (first few years), the models are fitted with current financial market expectations. Over the longer term, models are built around views of fundamental economic parameters, for example equity risk premium, credit spreads and long term inflation. The table below shows the calibration of the ESS at 31 March 2022. Further information on the assumptions used for contribution rate setting is included in the Funding Strategy Statement.

Table 15: ESS individual asset class return distributions at 31 March 2022

		Asset class annualised total returns								Inflation/Yields		
Time period	Percentile	UK Equity	Developed World ex UK Equity	Private Equity	Property	Emerging Markets Equity	Listed Infrastructure Equity	Multi Asset Credit (sub inv grade)	Absolute Return Bonds (inv grade)	Inflation (CPI)	17 year real yield (CPI)	17 year yield
10 years	16th	-0.4%	-0.7%	-1.2%	-0.6%	-2.5%	-1.1%	1.7%	0.9%	1.6%	-1.7%	1.1%
	50th	5.7%	5.6%	9.4%	4.4%	5.8%	4.9%	3.5%	2.3%	3.3%	-0.5%	2.5%
	84th	11.6%	11.7%	20.1%	9.5%	14.4%	10.9%	5.2%	3.7%	4.9%	0.7%	4.3%
20 years	16th	1.7%	1.5%	2.4%	1.4%	0.1%	1.2%	2.8%	1.4%	1.2%	-0.7%	1.3%
	50th	6.2%	6.1%	10.0%	5.0%	6.3%	5.6%	4.4%	2.9%	2.7%	1.1%	3.2%
	84th	10.6%	10.8%	17.6%	8.9%	12.8%	10.1%	6.0%	4.6%	4.3%	2.7%	5.7%
40 years	16th	3.2%	3.1%	4.7%	2.6%	2.1%	2.6%	3.6%	1.6%	0.9%	-0.6%	1.1%
	50th	6.7%	6.5%	10.3%	5.5%	6.8%	6.1%	5.3%	3.3%	2.2%	1.3%	3.3%
	84th	10.2%	10.2%	16.1%	8.8%	11.7%	9.8%	7.1%	5.4%	3.7%	3.2%	6.1%
	Volatility (5yr)	18.1%	18.7%	30.3%	14.9%	26.0%	17.8%	5.9%	3.2%	3.3%		

APPENDIX 2

Assumptions

Financial assumptions

Calculating the funding level

The table below summarises the assumptions used to calculate the funding level at 31 March 2022, along with a comparison at the last valuation.

Table 16: Summary of assumptions used for measuring the funding level, compared to last valuation on 31 March 2019

Assumption	31 March 2022	Required for	31 March 2019
Discount rate	4.1% pa	To place a present value on all the benefits promised to scheme members at the valuation date. The Fund’s assets are estimated to have a 75% likelihood of returning above the discount rate.	3.9% pa
Benefit increases/CARE revaluation	2.7% pa	To determine the size of future benefit payments.	2.3% pa
Salary increases	3.2% pa	To determine the size of future final-salary linked benefit payments.	2.6% pa

Allowing for the McCloud remedy

Allowance has been included for this expected benefit change at the 2022 valuation as directed by the Department of Levelling Up, Housing and Communities in their letter dated March 2022[1]. Further technical detail about this assumption is set out in guide 13 of Hymans Robertson’s LGPS 2022 valuation toolkit[2]

1 www.lgpslibrary.org/assets/bulletins/2022/222AppA.pdf

2 www.hymans.co.uk/media/uploads/LGPS_2022_Valuation_Toolkit.pdf

APPENDIX 2

Assumptions

Demographic assumptions

The same demographic assumptions are used in setting contribution rates and assessing the current funding level.

Longevity

Table 17: Summary of longevity assumptions

	This valuation 31 March 2022	Last valuation 31 March 2019
Baseline assumption	VitaCurves based on member-level lifestyle factors	VitaCurves based on member-level lifestyle factors
Future improvements	**CMI 2021 model** Initial addition = **0.25% (both Female and Male)** Smoothing factor = **7.0** **1.5% pa** long-term rate of improvement	**CMI 2018 model** Initial addition = **0.25% (Female), 0.5% (Male)** Smoothing factor = **7.0** **1.25% pa** long-term rate of improvement

Further information on these assumptions can be provided upon request. Sample rates are included on the next page.

Other demographic assumptions

Table 18: Summary of other demographic assumptions

Death in service	See sample rates in Tables 19 & 20
Retirements in ill health	See sample rates in Tables 19 & 20
Withdrawals	See sample rates in Tables 19 & 20
Promotional salary increases	See sample rates in Tables 19 & 20
Commutation	65% of future retirements elect to exchange pension for additional tax free cash up to HMRC limits
50:50 option	0.5% of members (uniformly distributed across the age, service and salary range) will choose the 50:50 option
Retirement age	The earliest age at which a member can retire with their benefits unreduced
Family details	A varying proportion of members are assumed to have a dependant at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. The dependant of a male member is assumed to be 3 years younger than him and the dependent of a female member is assumed to be 3 years older than her.

APPENDIX 2

Assumptions

Sample rates for demographic assumptions

Males

Table 19: Sample rates of male demographic assumptions

Age	Salary Scale	Death Before Retirement	Withdrawals		Ill Health Tier 1		Ill Health Tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.17	323.45	609.76	0.00	0.00	0.00	0.00
25	117	0.17	213.65	402.77	0.00	0.00	0.00	0.00
30	131	0.20	151.59	285.73	0.00	0.00	0.00	0.00
35	144	0.24	118.44	223.22	0.10	0.07	0.02	0.01
40	150	0.41	95.36	179.66	0.16	0.12	0.03	0.02
45	157	0.68	89.57	168.72	0.35	0.27	0.07	0.05
50	162	1.09	73.83	138.92	0.90	0.68	0.23	0.17
55	162	1.70	58.14	109.45	3.54	2.65	0.51	0.38
60	162	3.06	51.82	97.51	6.23	4.67	0.44	0.33
65	162	5.10	0.00	0.00	11.83	8.87	0.00	0.00

Females

Table 20: Sample rates of female demographic assumptions

Age	Salary Scale	Death Before Retirement	Withdrawals		Ill Health Tier 1		Ill Health Tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.10	352.42	373.90	0.00	0.00	0.00	0.00
25	117	0.10	237.14	251.55	0.10	0.07	0.02	0.01
30	131	0.14	198.78	210.83	0.13	0.10	0.03	0.02
35	144	0.24	171.57	181.90	0.26	0.19	0.05	0.04
40	150	0.38	142.79	151.34	0.39	0.29	0.08	0.06
45	157	0.62	133.25	141.21	0.52	0.39	0.10	0.08
50	162	0.90	112.34	118.92	0.97	0.73	0.24	0.18
55	162	1.19	83.83	88.83	3.59	2.69	0.52	0.39
60	162	1.52	67.55	71.50	5.71	4.28	0.54	0.40
65	162	1.95	0.00	0.00	10.26	7.69	0.00	0.00

Figures are incidence rates per 1,000 members except salary scale. FT and PT denoted full-time and part-time members respectively.

APPENDIX 3

Reliances and limitations

We have been commissioned by Cyngor Gwynedd ("the Administering Authority") to carry out a full actuarial valuation of the Gwynedd Pension Fund ("the Fund") as at 31 March 2022 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 ("the Regulations").

This report is addressed to the Administering Authority. It has been prepared by us as actuaries to the Fund and is solely for the purpose of summarising the main outcomes of the 2022 actuarial valuation. It has not been prepared for any other third party or for any other purpose. We make no representation or warranties to any third party as to the accuracy or completeness of this report, no reliance should be placed on this report by any third party and we accept no responsibility or liability to any third party in respect of it.

This summary report is the culmination of other communications in relation to the valuation, in particular:

- Our 2022 valuation toolkit which sets out the methodology used when reviewing funding plans
- Our paper to the Fund's Pension Committee dated 6 January 2022 which discusses the valuation assumptions
- Our initial results report dated 16 August 2022 which outlines the whole fund results and inter-valuation experience
- Our paper to the Fund's Pension Officers dated 22 September 2022 which discusses the funding strategy for the Fund's councils
- Our data report dated TBC which summarises the data used for the valuation, the approach to ensuring it is fit for purpose and any adjustments made to it during the course of the valuation
- The Funding Strategy Statement which details the approach taken to adequately fund the current and future benefits due to members

The totality of our advice complies with the Regulations as they relate to actuarial valuations.

The following Technical Actuarial Standards apply to this advice, and have been complied with where material and to a proportionate degree. They are:

- TAS100 – Principles for technical actuarial work
- TAS300 – Pensions

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APPENDIX 4

Glossary

Term	Explanation
50:50 option	An option for LGPS members to pay half contributions and earn half the retirement benefit (pre-retirement protection benefits are unreduced).
Asset-liability modelling	An approach to modelling and understanding risk for a pension fund. The assets and liabilities are projected forward into the future under many different future scenarios of inflation, investment returns and interest rates. The future scenarios are then analysed to understand the risk associated with a particular combination of contribution rates and investment strategy. Different combinations of contribution rates and/or investment strategies may be tested.
Baseline longevity	The rates of death (by age and sex) in a given group of people based on current observed data.
Club Vita	A firm of longevity experts we partner with for longevity analysis. They combine data from thousands of pension schemes and use it to create detailed baseline longevity assumptions at member-level, as well as insight on general longevity trends and future improvements.
Commutation	The option for members to exchange part of their annual pension for a one-off lump sum at retirement. In the LGPS, every £1 of pension exchanged gives the member £12 of lump sum. The amounts that members commute is heavily influenced by tax rules which set an upper limit on how much lump sum can be taken tax-free.
CPI inflation	The annual rate of change of the Consumer Prices Index (CPI). The CPI is the UK government's preferred measure of inflation and is the measure used to increase LGPS (and all other public sector pension scheme) benefits each year.
Deferred pensioners	A former employee who has left employment (or opted out of the pension fund) but is not yet in receipt of their benefits from the fund.
Demographic assumptions	Assumptions concerned with member and employer choices rather than macroeconomic or financial factors. For example, retirement age or promotional salary scales. Demographic assumptions typically determine the timing of benefit payments.

APPENDIX 4

Glossary

Term	Explanation
Discount rate	A number used to place a single value on a stream of future payments, allowing for expected future investment returns.
Employee members	Members who are currently employed by employers who participate in the fund and paying contributions into the fund.
ESS	Economic Scenario Service - Hymans Robertson's proprietary economic scenario generator used to create thousands of simulations of future inflation, asset class returns and interest rates.
Funding position	The extent to which the assets held by the fund at 31 March 2022 cover the accrued benefits ie the liabilities. The two measures of the funding position are: • the funding level - the ratio of assets to liabilities; and • the funding surplus/deficit - the difference between the asset and liabilities values.
Inflation	Prices tend to increase over time, which is called inflation. Inflation is measured in different ways, using a different 'basket' of goods and mathematical formulas.
Liabilities	An employer's liability value is the single value at a given point in time of all the benefit payments expected to be made in future to all members. Benefit payments are projected using demographic and financial assumptions and the liability is calculated using a discount rate.
Longevity improvements	An assumption about how rates of death will change in future. Typically we assume that death rates will fall and life expectancies will improve over time, continuing the long-running trend.
Pensioners	A former employee who is in receipt of their benefits from the fund. This category includes eligible dependants of the former employee.

APPENDIX 4

Glossary

Term	Explanation
Primary rate	The estimated cost of future benefits, expressed in percentage of pay terms. The primary rate will include an allowance to cover the fund's expenses.
Prudence	To be prudent means to err on the side of caution in the overall set of assumptions. We build prudence into the choice of discount rate by choosing an assumption with a prudence Level of more than 50%. All other assumptions aim to be best estimate.
Prudence Level	A percentage indicating the likelihood that a discount rate assumption will be achieved in practice, based on the ESS model. The higher the prudence level, the more prudent the discount rate is.
Secondary rate	An adjustment to the primary rate, generally to reflect costs associated with benefits that have already been earned up to the valuation date. This may be expressed as a percentage of pay and/or monetary amount.
Withdrawal	Refers to members leaving the scheme before retirement. These members retain an entitlement to an LGPS pension when they retire, but are no longer earning new benefits.

Rates & Adjustments certificate

Rates and Adjustments Certificate

In accordance with Regulation 62 of the LGPS regulations, we have assessed the contributions that should be paid into the Gwynedd Pension Fund (the Fund) by participating employers for the period 1 April 2023 to 31 March 2026 in order to maintain the solvency of the Fund.

The method and assumptions used to calculate the contributions set out in this Rates and Adjustments certificate are detailed in the Funding Strategy Statement dated March 2023 and in Appendix 2 of the report on the actuarial valuation dated 31 March 2023. These assumptions underpin our estimate of the number of members who will become entitled to a payment of pensions under the provisions of the LGPS and the amount of liabilities arising in respect of such members.

The table below summarises the whole fund primary and secondary contribution rates for the period 1 April 2023 to 31 March 2026. The primary rate is the payroll weighted average of the underlying individual employer primary rates and the secondary rate is the total of the underlying individual employer secondary rates, calculated in accordance with the LGPS regulations and CIPFA guidance. The secondary rate has been shown both as a monetary amount and an equivalent percentage of the projected pensionable pay.

		This valuation 31 March 2022	
Primary rate		21.8% of pay	
Secondary rate		Monetary amount	Equivalent to % of payroll
	2023/24	-£8,746,000	-2.7%
	2024/25	-£9,021,000	-2.7%
	2025/26	-£9,303,000	-2.7%

The required minimum contribution rates for each employer in the Fund are set out in the remainder of this certificate.

Employer code	Employer name	Primary rate (% of pay)	Secondary rate (% of pay plus monetary amount)			Total contributions (primary rate plus secondary rate)			Notes
			2023/24	2024/25	2025/26	2023/24	2024/25	2025/26	
Major Scheduled Bodies									
	Gwynedd Council Pool	21.2%	-2.0%	-2.0%	-2.0%	19.2%	19.2%	19.2%	
101	Gwe	22.6%	-3.9%	-3.9%	-3.9%	18.7%	18.7%	18.7%	
	Ynys Môn County Council Pool	21.1%	-1.0%	-1.0%	-1.0%	20.1%	20.1%	20.1%	
	Conwy County Borough Council Pool	21.6%	-2.0%	-2.0%	-2.0%	19.6%	19.6%	19.6%	
Major Admission Bodies									
	Police Pool	20.7%	-2.0%	-2.0%	-2.0%	18.7%	18.7%	18.7%	
	Group Llandrillo Menai Pool	26.4%	-8.0%	-8.0%	-8.0%	18.4%	18.4%	18.4%	
37	Careers Wales North West	26.3%	-14.2%	-14.2%	-14.2%	12.1%	12.1%	12.1%	
43	Parc Cenedlaethol Eryri	20.8%	-3.0%	-3.0%	-3.0%	17.8%	17.8%	17.8%	
Other Scheduled Bodies									
13	Caernarfon Town Council	25.3%	-10.4%	-10.4%	-10.4%	14.9%	14.9%	14.9%	
14	Menai Bridge Town Council	22.7%	-22.7%	-22.7%	-22.7%	0.0%	0.0%	0.0%	
16	Bangor City Council	22.9%	-19.3%	-19.3%	-19.3%	3.6%	3.6%	3.6%	
17	Llangefni Town Council	25.6%	-1.8%	-1.8%	-1.8%	23.8%	23.8%	23.8%	
22	Beaumaris Town Council	23.0%	-1.6%	-1.6%	-1.6%	21.4%	21.4%	21.4%	
25	Cyd-Bwyllgor Claddu Caergybi	26.6%	-9.2%	-9.2%	-9.2%	17.4%	17.4%	17.4%	
27	Holyhead Town Council	21.4%	-1.8%	-1.8%	-1.8%	19.6%	19.6%	19.6%	
28	Llandudno Town Council	24.7%	-2.6%	-2.6%	-2.6%	22.1%	22.1%	22.1%	
66	Tywyn Town Council	25.4%	2.2%	2.2%	2.2%	27.6%	27.6%	27.6%	

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Employer code	Employer name	Primary rate (% of pay)	Secondary rate (% of pay plus monetary amount)			Total contributions (primary rate plus secondary rate)			Notes
			2023/24	2024/25	2025/26	2023/24	2024/25	2025/26	
Other Scheduled Bodies Continued..									
68	Cyngor Cymuned Llanllyfni	23.6%	-19.5%	-19.5%	-19.5%	4.1%	4.1%	4.1%	
70	Cyngor Tref Towyn A Bae Kinmel	25.9%	-1.7%	-1.7%	-1.7%	24.2%	24.2%	24.2%	
72	Cyngor Tref Abergele	22.9%	-7.9%	-7.9%	-7.9%	15.0%	15.0%	15.0%	
73	Cyngor Tref Bae Colwyn	24.3%	-5.0%	-5.0%	-5.0%	19.3%	19.3%	19.3%	
74	Blaenau Ffestiniog Town Council	21.5%	-2.7%	-2.7%	-2.7%	18.8%	18.8%	18.8%	
83	Cyngor Tref Conwy	22.9%	-1.0%	-1.0%	-1.0%	21.9%	21.9%	21.9%	
704	Llanfairfechan Town Council	24.4%	-1.3%	-1.3%	-1.3%	23.1%	23.1%	23.1%	
709	Cyngor Tref Llanrwst	24.5%	0.0%	0.0%	0.0%	24.5%	24.5%	24.5%	
Small Admission Bodies									
11	N.W.S.B.	25.0%	-8.3%	-8.3%	-8.3%	16.7%	16.7%	16.7%	
	Addysg Oedolion Cymru (Adult Learning Wales) Pool	26.5%	-9.2%	-9.2%	-9.2%	17.3%	17.3%	17.3%	
41	Cwmni'r Fran Wen	24.6%	-6.1%	-6.1%	-6.1%	18.5%	18.5%	18.5%	
61	Conwy Voluntary Services	25.6%	-5.8%	-5.8%	-5.8%	19.8%	19.8%	19.8%	
62	Medrwn Môn, Ynys Mon Voluntary Services	26.2%	-9.2%	-9.2%	-9.2%	17.0%	17.0%	17.0%	
67	Menter Môn	24.7%	-3.3%	-3.0%	-2.7%	21.4%	21.7%	22.0%	
71	Cais	27.8%	-13.4%	-13.4%	-13.4%	14.4%	14.4%	14.4%	
86	Superclean1LC	28.3%	-5.4%	-5.4%	-5.4%	22.9%	22.9%	22.9%	
89	Abm Catering	28.9%	-4.9%	-4.9%	-4.9%	24.0%	24.0%	24.0%	
708	Ynysmaegwyn	27.2%	4.3%	9.2%	14.0%	31.5%	36.4%	41.2%	
706	AE & AT Lewis (Anglesey Glendale)	40.8%	-35.8%	-35.8%	-35.8%	5.0%	5.0%	5.0%	

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Employer code	Employer name	Primary rate (% of pay)	Secondary rate (% of pay plus monetary amount)			Total contributions (primary rate plus secondary rate)			Notes
			2023/24	2024/25	2025/26	2023/24	2024/25	2025/26	
Other Admission Bodies									
63	Mantell Gwynedd	26.3%	0.0%	0.0%	0.0%	26.3%	26.3%	26.3%	
76	Cartrefi Conwy	25.6%	-17.1%	-17.1%	-17.1%	8.5%	8.5%	8.5%	
77	Adra	24.5%	-6.7%	-6.7%	-6.7%	17.8%	17.8%	17.8%	
707	Chartwells	35.6%	-3.8%	-3.8%	-3.8%	31.8%	31.8%	31.8%	

Further comments to the Rates and Adjustments Certificate

- Contributions expressed as a percentage of payroll should be paid into the Fund at a frequency in accordance with the requirements of the Regulations
- Further sums should be paid to the Fund to meet the costs of any early retirements and/or augmentations using methods and factors issued by us from time to time or as otherwise agreed.
- Payments may be required to be made to the Fund by employers to meet the capital costs of any ill-health retirements that exceed those allowed for within our assumptions.

Payments may be required to be made to the Fund by employers to meet the capital costs of any ill-health retirements that exceed those allowed for within our assumptions. If an employer has ill health liability insurance in place with a suitable insurer and provides satisfactory evidence to the Administering Authority, then, their certified contribution rate may be reduced by the value of their insurance premium, for the period the insurance is in place.

- The certified contribution rates represent the minimum level of contributions to be paid. Employing authorities may pay further amounts at any time and future periodic contributions may be adjusted on a basis approved by the Fund Actuary.

SIGNATURE

SIGNATURE

Richard Warden FFA

Malcolm Stanley FFA

09 March 2023
For and on behalf of Hymans Robertson LLP

Section 13 Dashboard TBC

Section 13 dashboard

Metric	Unit	2022 valuation
2022 funding position – local funding basis		
Funding level (assets/liabilities)	%	
Funding level (change since previous valuation)	%	
Asset value used at the valuation	£m	
Value of liabilities (including McCloud liability)	£m	
Surplus (deficit)	£m	
Discount rate – past service	% pa	
Discount rate – future service	% pa	Past service and future service are consistently valued with the same underlying assumptions, methodologies and models regarding future expected levels of inflation, interest rates and investment returns.
Assumed pension increase (CPI)	% pa	
Method of derivation of discount rate, plus any changes since previous valuation		

Section 13 dashboard

Metric	Unit	2022 valuation
Assumed life expectancy at age 65		
Life expectancy for current pensioners – men age 65	years	
Life expectancy for current pensioners – women age 65	years	
Life expectancy for future pensioners – men age 45	Years	
Life expectancy for future pensioners – women age 45	years	
Past service funding position – SAB basis (for comparison purposes only)		
Market value of assets	£m	
Value of liabilities	£m	
Funding level on SAB basis (assets/liabilities)	%	
Funding level on SAB basis (change since last valuation)	%	

Section 13 dashboard

Metric	Unit	2022 valuation	2019 valuation
Contribution rates payable			
Primary contribution rate	% of pay		
Secondary contribution rate (cash amounts in each year in line with CIPFA guidance)			
1st year of rates and adjustments certificate	£m		
2nd year of rates and adjustments certificate	£m		
3rd year of rates and adjustments certificate	£m		
Giving total expected contributions			
1st year of rates and adjustments certificate (£ figure based on assumed payroll)	£m		
2nd year of rates and adjustments certificate (£ figure based on assumed payroll)	£m		
3rd year of rates and adjustments certificate (£ figure based on assumed payroll)	£m		
Assumed payroll (cash amounts in each year)			
1st year of rates and adjustments certificate	£m		
2nd year of rates and adjustments certificate	£m		
3rd year of rates and adjustments certificate	£m		
3 year average total employer contribution rate	% of pay		
Average employee contribution	% of pay		
Employee contribution rate (£ figure based on assumed payroll of £Xm)	£m pa		

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Section 13 dashboard

Metric	Unit	2022 valuation	2019 valuation
Deficit recovery and surplus spreading plan			
Latest deficit recovery period end date, where this methodology is used by the fund's actuarial advisor	Year	Methodology not used	Methodology not used
Earliest surplus spreading period end date, where this methodology is used by the fund's actuarial advisor	Year	Methodology not used	Methodology not used
The time horizon end date, where this methodology is used by the fund's actuarial advisor	Year		
The funding plan's likelihood of success, where this methodology is used by the fund's actuarial advisor	%		
Percentage of liabilities relating to employers with deficit recovery periods of longer than 20 years	%		
Additional information			
Percentage of total liabilities that are in respect of Tier 3 employers	%		
Included climate change analysis/comments in the 2022 valuation report		Yes	
Value of McCloud liability in the 2022 valuation report (on local funding basis)	£m		

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MEETING:	**PENSIONS COMMITTEE**
DATE:	**27 MARCH 2023**
TITLE:	**TREASURY MANAGEMENT STRATEGY STATEMENT FOR 2023/24**
PURPOSE:	**To ask the Pensions Committee to adopt the strategy and confirm pooling arrangements**
RECOMMENDATION:	**RECEIVE THE REPORT FOR INFORMATION AND CONFIRM POOLING ARRANGEMENTS**
AUTHOR:	**DELYTH JONES-THOMAS, INVESTMENT MANAGER**

1. THE PENSION FUND'S INVESTMENT STRATEGY

In accordance with the Welsh Assembly Government's Statutory Guidance on Local Government Investments, which requires an authority to produce an Annual Investment Strategy, it is considered best practice for the Gwynedd Pension Fund (the "Fund") to adopt Gwynedd Council's Treasury Management Strategy Statement (TMSS) for 2023/24, as amended for the purpose of the Pension Fund (which is attached as Appendix A). Gwynedd Council's TMSS for 2023/24 was approved by the full Council on 2nd March 2023.

2. THE PENSION FUND'S CASHFLOW

The Fund has net inflows from its dealings with its members, so in any month, the income from contributions and transfers-in significantly exceeds the pensions, transfers out and costs paid out. Once there is sufficient surplus cash, it is transferred to one or more of the Fund's investment managers. Normally up to around £10 million is held back for cashflow purposes, in particular in respect of pension payments and funding calls from the private equity funds. However in the past, due to known commitments, there have been times when the surplus cash held in the Fund's bank accounts with Gwynedd Council has been over £25 million.

3. POOLING IN ORDER TO MAXIMISE RETURNS

Currently all the Fund's surplus cash is pooled with the cash balances of Gwynedd Council and invested with counterparties in accordance with Gwynedd Council's Treasury Management Strategy Statement. At the end of the financial year, Gwynedd Council pays interest over to the Pension Fund based on the Fund's daily balances over the year. This can continue if the Pensions Committee requests that the Pension Fund's surplus cash balances are pooled with the Council's cash balances. It is apparent that by pooling, the Fund can take advantage of economies of scale, and as a result can attract better interest rates, reduce bank costs and avoid the duplication of work within the Council. The report approved by the full Council on 2nd March 2023 included agreement to continue the pooling arrangement with the Pension Fund following any request from the Pensions Committee.

4. RECOMMENDATIONS

4.1 The Pensions Committee is asked to adopt the attached Treasury Management Strategy Statement for 2023/24, as amended for the Gwynedd Pension Fund (Appendix A).

4.2 The Pensions Committee is also asked to confirm the pooling arrangements with the Council's general cashflow from 1 April 2023 onwards.

APPENDIX A

Treasury Management Strategy Statement 2023/24

1. Introduction

1.1 Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.

1.2 Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2021 Edition* (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. In addition, the Welsh Government (WG) issued revised Guidance on Local Authority Investments in November 2019 that requires the Council to approve an investment strategy before the start of each financial year. This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the WG Guidance.

1.3 In accordance with the WG Guidance, the Council will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change in interest rates, change in the Council's capital programme or in the level of its investment balance, or a material loss in the fair value of a non-financial investment identified as part of the year end accounts preparation and audit process.

2-5 Not relevant for the Pension Fund

6. Treasury Investment Strategy

6.1 The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's investment balance has ranged between £82.3 and £170.8 million, and similar levels are expected to be maintained in the forthcoming year.

This includes the cash balances of Gwynedd Pension Fund which are pooled with the Council's funds for investment purposes. The Pension Fund requests this annually as the returns received are improved and the risks reduced by combining the cash with the Council's funds. The Pensions Committee will approve the relevant elements of this Strategy Statement and request the continuation of the pooling arrangements for 2023/24 at its meeting on 27 March 2023.

Loans to organisations providing local public services and purchases of investment property are not normally considered to be treasury investments, and therefore these are covered separately in **Appendix 3**.

6.2 Objectives

Both the CIPFA Code and the WG Guidance require the Council to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested. The Council aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

6.3 Strategy

As demonstrated by the liability benchmark above, the Council expects to be a long-term investor and treasury investments will therefore include both short-term low-risk instruments to manage day- to day cash flows and longer- term instruments where limited additional risk is accepted in return for higher investment income to support local public services.

6.4 Environmental, social and governance (ESG) considerations

Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Council's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Council will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

6.5 Business models

Under the new IFRS 9 standard, the accounting for certain investments depends on the Council's "business model" for managing them. The Council aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

6.6 Approved counterparties

The Council may invest its surplus funds with any of the counterparty in table 3 below subject to the cash limits (by counterparty) and the time limits shown.

Table 3: Approved investment counterparties and limits

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	25 years	£10m	Unlimited
Secured investments *	25 years	£10m	Unlimited
Banks (unsecured) *	13 months	£5m	Unlimited
Building societies (unsecured) *	13 months	£5m	£10m
Registered providers (unsecured) *	5 years	£5m	£25m
Money market funds *	n/a	£10m	Unlimited
Strategic pooled funds	n/a	£10m	£50m
Real estate investment trusts	n/a	£10m	£25m
Other investments *	5 years	£5m	£10m

This table must be read in conjunction with the notes below.

6.7 Minimum Credit rating

Treasury investments in the sectors marked with a * will only be made with entities whose lowest published long- term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

6.8 Government

Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

6.9 Secured investments

Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

6.10 Banks and Building Societies (unsecured)

Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

6.11 Registered providers (unsecured)

Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

6.12 Money Market Funds

Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

6.13 Strategic Pooled funds

Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

6.14 Real Estate Investment Trusts

Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

6.15 Other investments

This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Council's investment at risk.

6.16 Operational bank accounts

The Council may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion.

These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £900,000 per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

6.17 Risk assessment and credit ratings

Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

6.18 Other information on the security of investments

The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Council's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, or with other local authorities. This will cause investment returns to fall, but will protect the principal sum invested.

6.19 Investment limits

The Council's revenue reserves available to cover investment losses are forecast to be £114 million on 31st March 2023. In order that no more than 9% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £10 million. A group of entities under the same ownership will be treated as a single organisation for limit purposes.

Credit risk exposures arising from non-treasury investments, financial derivatives and balances greater than £500,000 in operational bank accounts count against the relevant investment limits.

Limits are also placed on fund managers, investments in brokers' nominee accounts and foreign countries as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Additional limits

	Cash limit
Any group of pooled funds under the same management	£25m per manager
Negotiable instruments held in a broker's nominee account	£25m per broker
Foreign countries	£10m per country

6.20 Liquidity management

The Council uses prudent cash flow forecasting techniques to determine the maximum period for which funds may prudently be committed. The forecast is compiled on the basis that short-term borrowing is used to cover its financial commitments if required. Limits on long-term investments are set by reference to the Council's medium-term financial plan and cash flow forecast.

The Council will spread its liquid cash over at least four providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

7. Treasury Management Prudential Indicators

The Council measures and manages its exposures to treasury management risks using the following indicators.

7.1 Security

The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	**Target**
Portfolio average credit score	6.0

7.2 Liquidity

The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

Liquidity risk indicator	**Target**
Total cash available within 3 months	£10m

7.3 Interest rate exposures

This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	**Limit**
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	£1,039,420
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	£1,039,420

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates.

7.4 Not relevant to the Pension Fund

7.5 Long- term treasury management investments

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long- term treasury management investments will be:

Price risk indicator	2023/24	2024/25	2025/26	No fixed date
Limit on principal invested beyond year end	£40m	£20m	£20m	£20m

Long- term investments with no fixed maturity date include strategic pooled funds and real estate investment trusts but exclude money market funds and bank accounts with no fixed maturity date as these are considered short- term.

8. Related Matters

8.1 The CIPFA Code requires the Council to include the following in its Treasury Management Strategy.

8.2 Financial Derivatives

Local authorities could have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in section 24 of the Local Government and Elections (Wales) Act 2021 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.

In line with the CIPFA Code, the Council will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

8.3 External Funds

Included within the Council balances are the balances for Gwynedd Pension Fund, GwE, Welsh Church Fund and North Wales Economic Ambition Board. The interest income is allocated to each institution based on daily balances.

8.4 Markets in Financial Instruments Directive

The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Head of Finance believes this to be the most appropriate status.

9. Welsh Government Guidance

Further matter required by the Welsh Government Guidance are included in **Appendix 3**.

10. Financial Implications

10.1 The budget for investment income in 2023/24 is £1.9 million based on an average investment portfolio of £79.8 million at an interest rate of 4.0% for deposits and £10 million of pooled funds at a return of 2.9%. The budget for debt interest paid in 2023/24 is £5.4 million, based on an average debt portfolio of £100.2 million at an average interest rate of 5.4%. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

11. Other Options Considered

11.1 The WG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Head of Finance, having consulted the Cabinet Member for Finance, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller

Appendix 1 – Arlingclose Economic & Interest Rate Forecast December 2022

Underlying assumptions:

- The influence of the mini-budget on rates and yields continues to wane following the more responsible approach shown by the new incumbents of Downing Street.
- Volatility in global markets continues, however, as investors seek the extent to which central banks are willing to tighten policy, as evidence of recessionary conditions builds. Investors have been more willing to price in the downturn in growth, easing financial conditions, to the displeasure of policymakers. This raises the risk that central banks will incur a policy error by tightening too much.
- The UK economy is already experiencing recessionary conditions and recent GDP and PMI data suggests the economy entered a technical recession in Q3 2022. The resilience shown by the economy has been surprising, despite the downturn in business activity and household spending. Lower demand should bear down on business pricing power – recent data suggests the UK has passed peak inflation.
- The lagged effect of the sharp tightening of monetary policy, and the lingering effects of the mini-budget on the housing market, widespread strike action, alongside high inflation, will continue to put pressure on household disposable income and wealth. The short- to medium-term outlook for the UK economy remains bleak.
- Demand for labour appears to be ebbing, but not quickly enough in the official data for most MPC policymakers. The labour market remains the bright spot in the economy and persisting employment strength may support activity, although there is a feeling of borrowed time. The MPC focus is on nominal wage growth, despite the huge real term pay cuts being experienced by the vast majority. Bank Rate will remain relatively high(er) until both inflation and wage growth declines.
- Global bond yields remain volatile as investors price in recessions even as central bankers push back on expectations for rate cuts in 2023. The US labour market remains tight and the Fed wants to see persistently higher policy rates, but the lagged effects of past hikes will depress activity more significantly to test the Fed's resolve.
- While the BoE appears to be somewhat more dovish given the weak outlook for the UK economy, the ECB seems to harbour (worryingly) few doubts about the short term direction of policy. Gilt yields will be broadly supported by both significant new bond supply and global rates expectations due to hawkish central bankers, offsetting the effects of declining inflation and growth.

Forecast:

- The MPC raised Bank Rate by 50bps to 3.5% in December as expected, with signs that some members believe that 3% is restrictive enough. However, a majority of members think further increases in Bank Rate might be required. Arlingclose continues to expect Bank Rate to peak at 4.25%, with further 25bps rises February, March and May 2023.
- The MPC will cut rates in the medium term to stimulate a stuttering UK economy, but will be reluctant to do so until wage growth eases. We see rate cuts in the first half of 2024.
- Arlingclose expects gilt yields to remain broadly steady over the medium term, although with continued volatility across shorter time periods.
- Gilt yields face pressures to both sides from hawkish US/EZ central bank policy on one hand to the weak global economic outlook on the other. BoE bond sales and high government borrowing will provide further underlying support for yields.

	Current	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Official Bank Rate													
Upside risk	0.00	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25	1.25
Arlingclose Central Case	3.50	4.00	4.25	4.25	4.25	4.25	4.00	3.75	3.50	3.25	3.25	3.25	3.25
Downside risk	0.00	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00
3-month money market rate													
Upside risk	0.00	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25	1.25
Arlingclose Central Case	3.00	4.40	4.40	4.40	4.35	4.30	4.25	4.00	3.75	3.50	3.40	3.40	3.40
Downside risk	0.00	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00
5yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.43	3.60	3.80	3.80	3.80	3.70	3.60	3.50	3.40	3.30	3.30	3.30	3.30
Downside risk	0.00	0.80	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
10yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.47	3.50	3.60	3.60	3.60	3.60	3.50	3.50	3.50	3.50	3.50	3.50	3.50
Downside risk	0.00	0.80	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
20yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.86	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85
Downside risk	0.00	0.80	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
50yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.46	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60
Downside risk	0.00	0.80	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%
PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
UKIB Rate (Maturity Loans) = Gilt yield + 0.60%

Appendix 2- Existing Investment Position

	31.12.2022 Actual Portfolio £m	31.12.2022 Average Rate %
Treasury investments:		
Bank and Building Societies (unsecured)	33.1	3.03
The UK Government	12.9	3.23
Local Authorities	15.0	2.45
Money Market Funds	53.0	3.23
Pooled funds	10.0	4.66
Total treasury investments	**123.9**	**3.18**

Appendix 3 – Additional requirements of Welsh Government Investment Guidance

The Welsh Government (WG) published revised Investment Guidance in November 2019 which places additional reporting requirements upon local authorities that are not integral to this Council's treasury management processes. The guidance also covers investments that are not part of treasury management, for example investment property and loans to local organisations.

Contribution: The Council's investments contribute to its service delivery objectives and/or to promote wellbeing as follows:

- treasury management investments support effective treasury management activities,
- loans to local organisations provide financial support to those organisations to enable them to deliver local public services that would otherwise be provided directly by the Council, and
- investment property provides a net financial surplus that is reinvested into local public services.

Climate change: The Council's investment decisions consider long-term climate risks to support a low carbon economy to the extent that if a low carbon investment equivalent is available with the same return, then the low carbon investment would be preferred by the Council.

Specified investments: The WG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement unless the counterparty is a local authority,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,
  - a UK local authority, parish council or community council, or
  - a body or investment scheme of "high credit quality".

The Council defines "high credit quality" organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

Loans: Not relevant to the Pension Fund.

Non-specified investments: Any financial investment not meeting the definition of a specified investment or a loan is classed as non-specified. Given the wide definition of a loan, this category only applies to units in pooled funds and shares in companies. Limits on non-specified investments are shown in table 3b; the Council confirms that its current non-specified investments remain within these limits.

Table 3b: Non-specified investment limits

	Cash limit
Units in pooled funds without credit ratings or rated below A-	£20m
Shares in real estate investment trusts	£10m
Total non-specified investments	£30m

Non-financial investments: This category covers non-financial assets held primarily or partially to generate a profit, primarily investment property. Security is determined by comparing each asset's purchase price to its fair value using the model in International Accounting Standard 40: Investment Property as adapted by proper practices. On an assessment as at 31st March 2021, the Council considers that the scale of its non-financial investments as not significant.

Liquidity: For financial investments that are not treasury management investments, or loans, the Council has procedures in place to ensure that the funds are prudently committed for a maximum period of time.

Investment advisers: The Council has appointed Arlingclose as treasury management advisers and receives specific advice on investment, debt and capital finance issues. The quality of this service is monitored by the Head of Finance and the Investment Manager on a regular basis.

Borrow in advance of need: Not relevant to the Pension Fund.

Commercial deals: In the event of a commercial deal, the individuals making the deal are aware of the core principles of the prudential framework and of the regulatory regime within which the Council operates.

Capacity, skills and corporate governance: Elected members and officers were invited to a presentation by Arlingclose on 3rd February 2023. The information and discussion at the presentation ensures that the members have the appropriate skills and information to enable them to:

- Take informed decisions as to whether to enter into a specific investment.
- To assess individual assessments in the context of the strategic objectives and risk profile of the Council
- Understand how the quantum of these decisions have changed the overall risk exposure of the local authority

Officers also regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, ACA and other appropriate organisations.

MEETING:	**PENSIONS COMMITTEE**
DATE:	**27th MARCH 2023**
TITLE:	**CASH FLOW MODELLING PROJECTIONS REPORT**
PURPOSE:	**To present the Cash Flow Modelling Projections report.**
AUTHOR:	**DELYTH JONES-THOMAS, INVESTMENT MANAGER**

1. INTRODUCTION

The purpose of this report is to present the Cash Flow Modelling report following the recent valuation. The report can be seen in Appendix 1.

The objective of the report was to project the expected cashflows of the Fund over a 20 year time horizon and to understand the sensitivity of the net cashflow position of the Fund to a number of inflation scenarios.

2. WHAT ARE THE CASH FLOWS OF THE FUND

The Fund's primary sources of income are:
- Contributions from employers in the Fund
- Contributions from employee members in the Fund
- Income streams generated from the Fund's investments

The Fund's outflows are the benefits payable to the members and their dependants. These include:
- Retirement lump sums paid to active and deferred members on retirement
- Retirement pensions paid to pensioners and their dependents • Death in service benefits and ill health benefits.

3. CURRENT POSITION

The chart below shows the absolute value of contribution income and benefit (bars) and the net cashflow position (blue line and white figures) over the last 3 years:

The cashflow position has remained positive in recent years for the Fund.

4. CASHFLOW NEGATIVE

Historically, the benefits have been paid out of the contribution income with any excess being invested. This is how the Fund's asset value has built up over time (along with investment returns). Over time a pension fund will mature and the level of benefit payments will start to exceed contribution income. At this point, a pension fund is considered "cashflow negative" and within this report, three possible scenarios were modelled to ascertain when this point is reached for Gwynedd Pension Fund.

Being cashflow negative itself is not unexpected for a pension fund. The assets that have been accrued are for the purpose of paying benefits – using them for that purpose is exactly as intended. However, if the transition to being cashflow negative is not monitored and managed effectively, it can pose a liquidity risk and the Fund may become a forced seller of assets.

5. SCENARIO ANALYSIS

The following scenario's were modelled for the fund:

Scenario 1: the baseline scenario, where inflation trends to the long-term Bank of England target of 2% p.a. by September 2025.

Scenario 2: a recession scenario, occurring largely due to excess supply over demand as a result of higher energy and food prices. This is similar to the Bank of England forecast.

Scenario 3: a stagflation scenario where inflation remains high due to higher energy and food prices.

The basic results were as follows:

Whole fund	First cashflow negative by	Estimated net cashflow position by		
		2027	2032	2042
Baseline inflation scenario	2032	+£17m	-£2m	-£10m
Recession inflation scenario	N/A	+£21m	+£12m	+£28m
Stagflation inflation scenario	2029	+£11m	-£28m	-£123m

6. ANALYSIS OF RESULTS

The conclusion from the analysis is as follows:

• Under the baseline scenario, the Fund is likely to be cashflow negative by 2032 assuming inflation is in line with the baseline scenario, however if allowance is made for recent levels of investment income, the year at which the Fund is likely to be cashflow negative is pushed back to 2036.

• Under the recession inflation scenario- the cashflow position improves and it is projected to remain positive for the whole 20 year observation period.

• Under a stagflation inflation scenario, the Fund is likely to become cashflow negative by 2029, with a significant gap opening up over the longer term.

7. RECOMMENDATION

The Committee is asked to note the contents and approve the report.

HYMANS ROBERTSON

Gwynedd Pension Fund

2022 cashflow projections

Richard Warden FFA

Kenneth Taylor FFA

18 January 2023
For and on behalf of Hymans Robertson LLP

Use the menu bar above to navigate to each section.

Contents

In this report:

Executive summary

This paper is addressed to Gwynedd Council as the Administering Authority to the Gwynedd Pension Fund ("the Fund"). The objective of this paper is to project the expected cashflows of the Fund over a 20 year time horizon and to understand the sensitivity of the net cashflow position of the Fund to a number of inflation scenarios.

From the analysis and projections set out in this paper, the following conclusions can be drawn:

- In the absence of investment income, the Fund is likely to be cashflow negative by 2032 assuming inflation is in line with the baseline scenario.
- If allowance is made recent levels of investment income into the Fund's bank account, and ignoring income that is automatically reinvested within mandates, the year at which the Fund is likely to be cashflow negative is pushed back to 2036 (under the baseline inflation scenario). Sensitivity analysis of the investment yield highlights the key role the Fund's investments play in ensuring there is enough liquidity.
- Assuming a "recession" inflation scenario improves the cashflow position; it is projected to remain positive for the whole 20 year observation period.
- Assuming a "stagflation" inflation scenario, the Fund is likely to become cashflow negative by 2029, with a significant gap opening up over the longer term.
- The projections will also be sensitive to both payroll growth and changes in employer contribution rates, although these sensitivities are not modelled here.

The cash flow projections are based on a specific set of deterministic assumptions, which are unlikely to be borne out exactly. The assumptions are summarised later in the paper and will be detailed in the Fund's 2022 formal valuation report.

Summary of net cashflow position for the Whole Fund

Whole fund	First cashflow negative by	Estimated net cashflow position by		
		2027	2032	2042
Baseline inflation scenario	2032	+£17m	-£2m	-£10m
Recession inflation scenario	N/A	+£21m	+£12m	+£28m
Stagflation inflation scenario	2029	+£11m	-£28m	-£123m

Notes

This table shows cashflow positions from member transactions only (projected benefit payments, employer and employee contributions). No allowance is made for investment income.

Background and inputs

What are the cashflows of the Fund

In this paper we consider the main cashflows in and out of the Fund over the next 20 years.

The Fund's primary sources of income are:

- Contributions from employers in the Fund
- Contributions from employee members in the Fund
- Income streams generated from the Fund's investments

The contribution income is estimated and based on:

- The 2022 valuation payroll
- The 2022/23 contribution rates currently in payment (equivalent to an average of 20.2% of pay for the Fund as a whole).
- The aggregate of all proposed employer contribution rates payable from 1 April 2023 to 31 March 2026. Thereafter the contribution rate has been assumed to remain stable up to year 20.

The Fund's outflows are the benefits payable to the members and their dependants. These include:

- Retirement lump sums paid to active and deferred members on retirement
- Retirement pensions paid to pensioners and their dependents
- Death in service benefits and ill health benefits.

Transfers in and out of the Fund by individual members are not usually a significant source of income or outflow and typically balance out over time. They have therefore been excluded.

The projected cashflows are sensitive to a number of assumptions. The most significant are:

- Level of future benefit increases (all LGPS benefits are index-linked and increase in line with Consumer Price Index (CPI) inflation)
- Level of current and future payroll (determines the amount of contributions received)

All cashflows are projected over 20 years

What is cashflow negativity and does it matter?

Every month, the Fund receives income via contributions and pays out benefits to members. Historically, the benefits have been paid out of the contribution income with any excess being invested. This is how the Fund's asset value has built up over time (along with investment returns).

Over time a pension fund will mature and the level of benefit payments will start to exceed contribution income. At this point, a pension fund is considered "cashflow negative".

Being cashflow negative itself is not unexpected for a pension fund. **The assets that have been accrued are for the purpose of paying benefits – using them for that purpose is exactly as intended.** However, if the transition to being cashflow negative is not monitored and managed effectively, it can pose a liquidity risk and the Fund may become a forced seller of assets.

At the 2022 valuation, the focus on cashflow is greater given the likely significant increase in benefits at April 2023 due to rising inflation.

Knowing when the Fund is likely to become cashflow negative is helpful as it can have implications for both the funding and investment strategy, such as :

- Having cash available to meet the Fund's primary objective of paying member benefits
- The ability to maintain stable contributions over time and withstand volatility from investment markets
- Understanding the level of cash balance that needs to be retained while avoiding a drag on investment returns
- Avoiding the risk of being a forced seller of assets at inopportune times
- Making the most efficient use of income generated by Fund assets
- Implementing optimum rebalancing and cash management policies

The cashflow position will influence the requirement for income generating investments

Methodology and Data

Membership data

We have used the data provided for the 2022 valuation of the Fund.

Assumptions

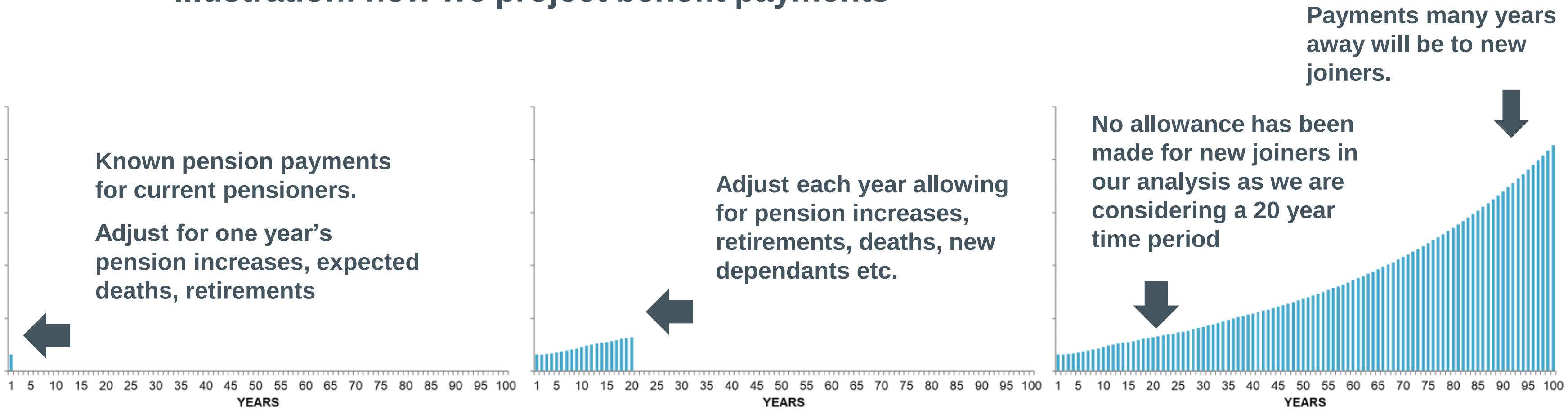
The **demographic** and **financial** assumptions are in line with those adopted for the **2022 formal valuation** of the Fund unless stated otherwise.

To assess the income required as a percentage of the asset share, assets are assumed to increase at **4.1% p.a.**

To project the contribution income, employer contributions are assumed to move in line with the pattern set out on page 13.

New joiners have not been considered within the projected benefit payments as they do not significantly influence benefit payments over the 20 year modelling period.

Illustration: how we project benefit payments



Two types of assumptions:

1. **Financial** assumptions (like inflation) affect the amount of payments.
2. **Demographic** assumptions (like how long members live) affect the timing of payments.

HYMANS ROBERTSON

The Fund's cashflows

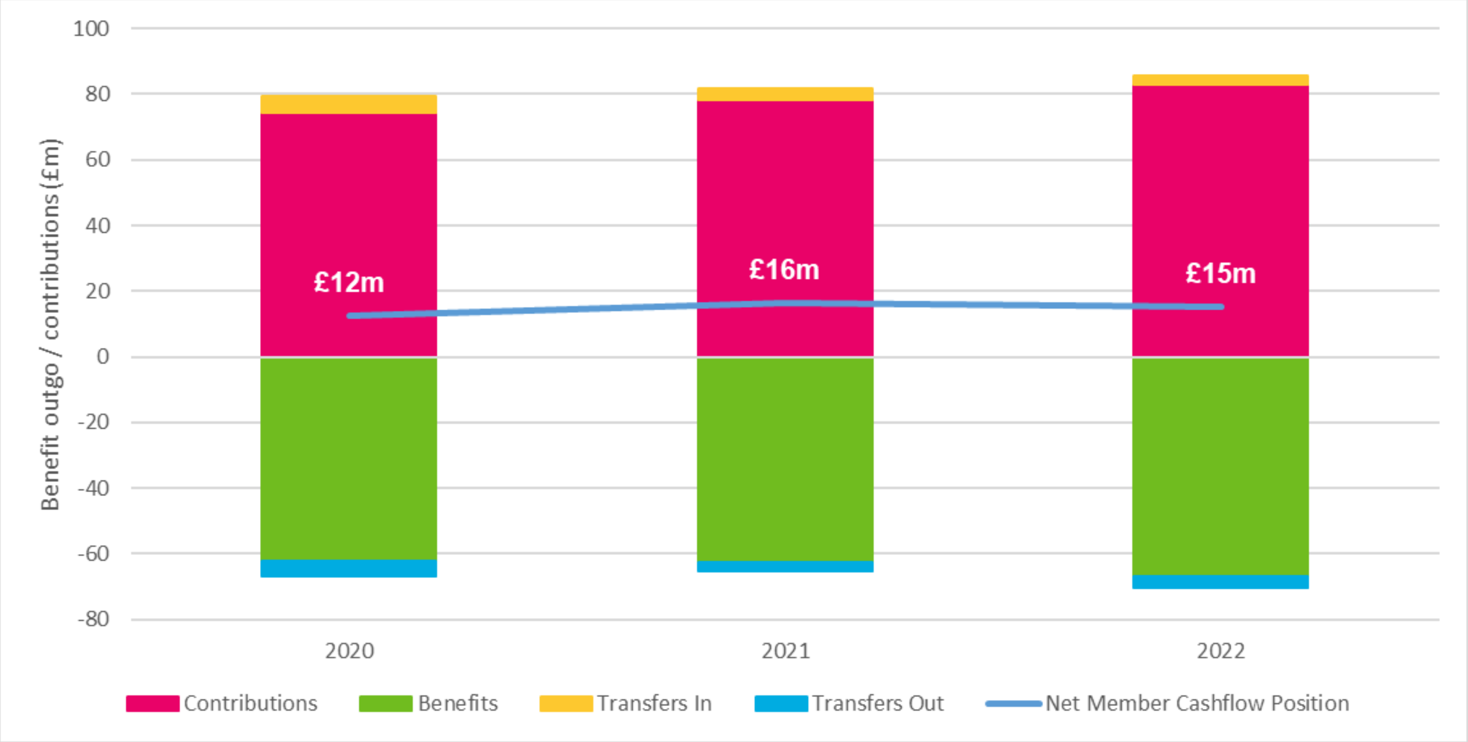
Recent cashflow position

Using the annual report and accounts for years ending 2020, 2021 and 2022, we have summarised the recent cashflow position for the Fund.

The chart shows the absolute value of contribution income and benefit outgo (bars) and the net cashflow position (blue line and white figures).

During this period, the Fund remained cashflow positive, ie income exceeded outgo.

Transfers in and out broadly net off and are cashflow neutral. We have excluded transfers from our further analysis.



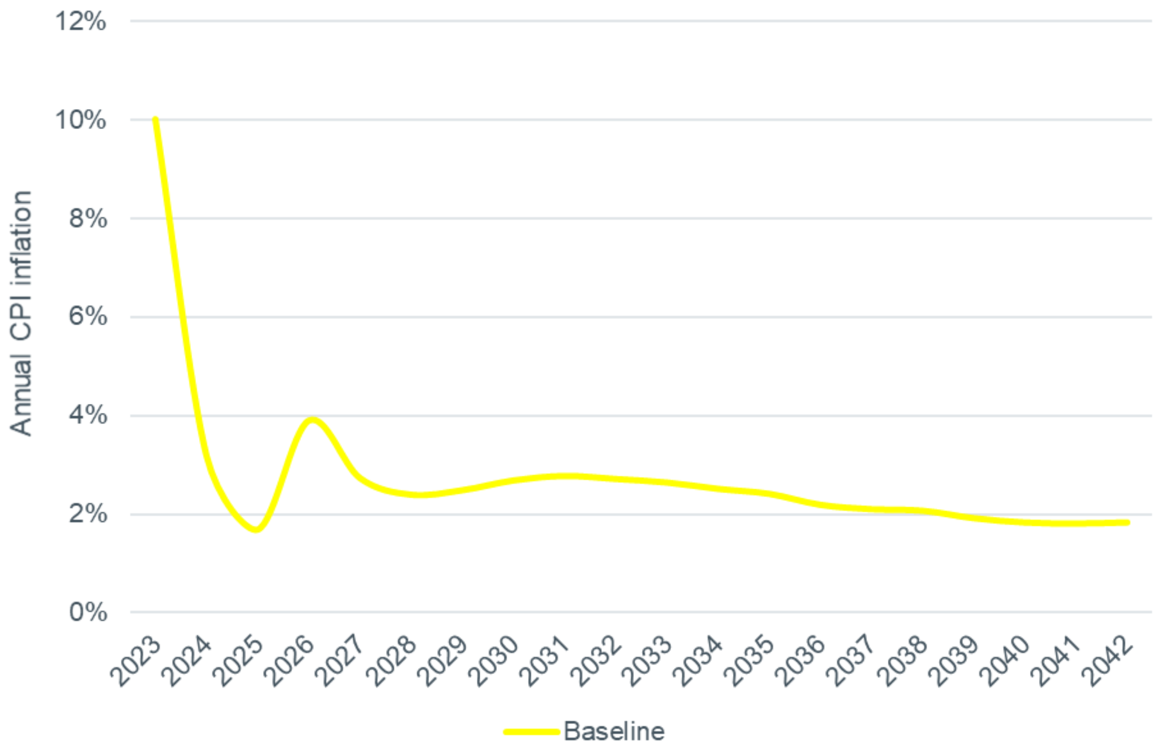
The cashflow position has remained positive in recent years.

Scenario 1 - baseline inflation

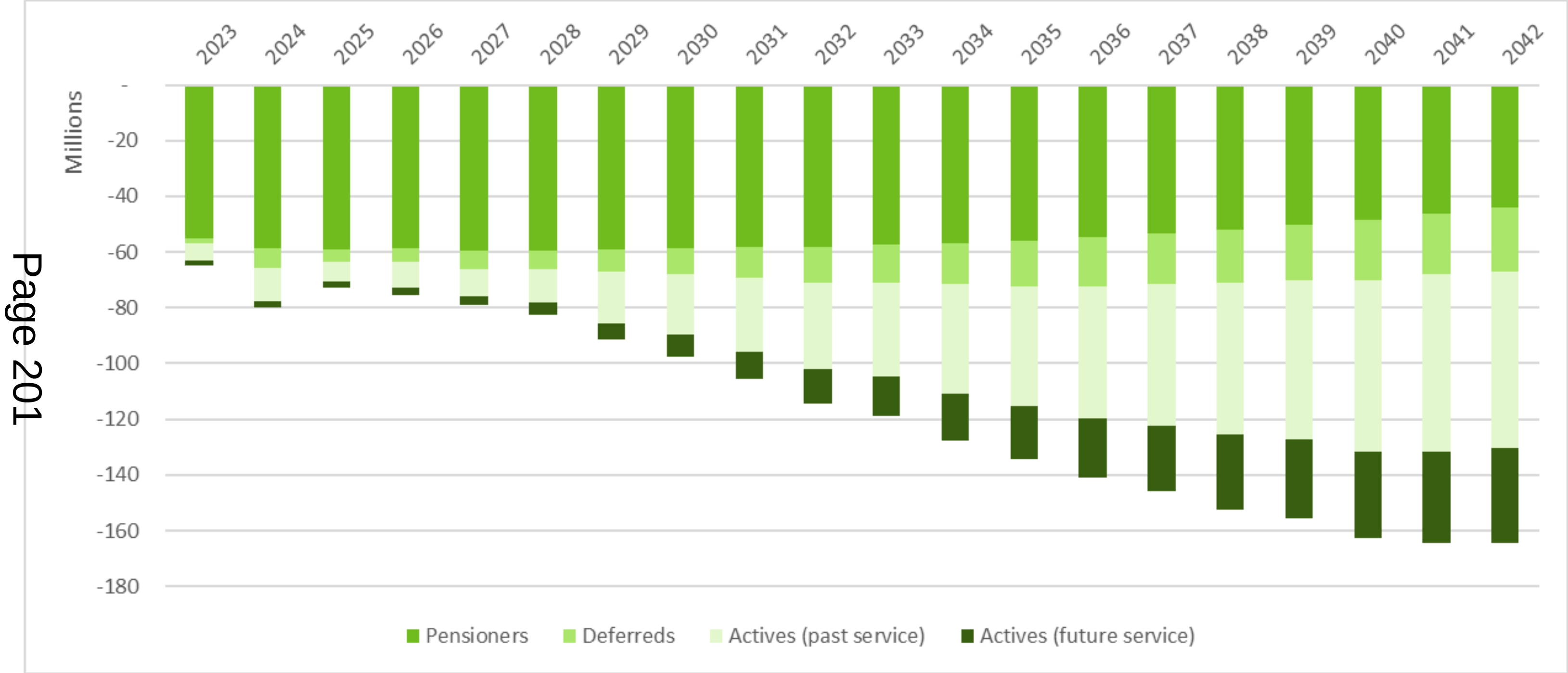
Future CPI inflation

Given the sensitivity of future benefit payments to inflation, we have firstly considered a baseline scenario for future inflation (which allows for a 10% increase in benefits in April 2023).

- Scenario 1 : this baseline scenario represents the median CPI assumption within the Hymans Robertson economic scenario service (ESS) model as at 31 March 2022 (this is the assumption used for the 2022 valuation).
- This is a combination of short-term market expectations and a longer-term expectation that the rate will tend to the Bank of England's 2% pa target.



Projected benefit outflows (baseline inflation scenario)



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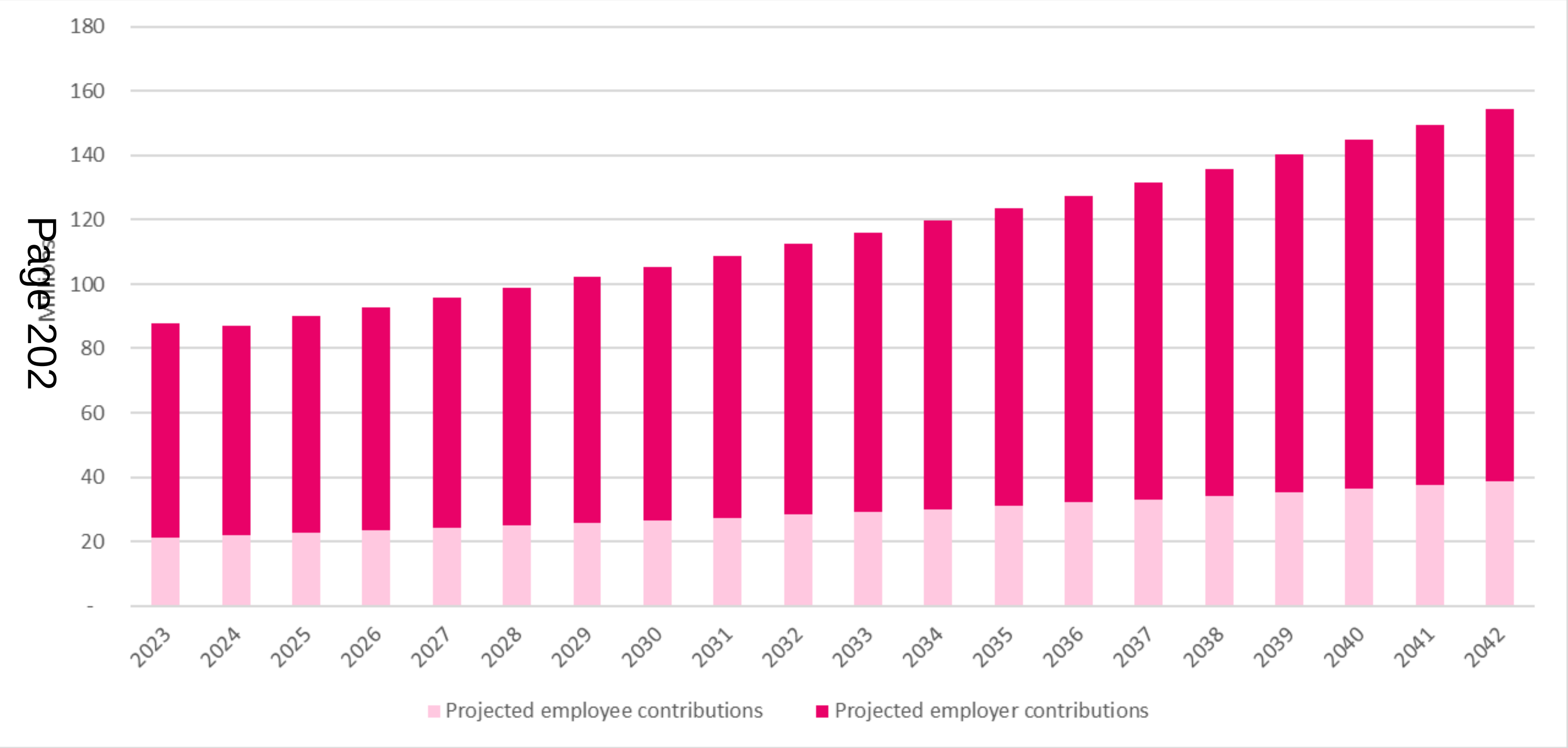
Notes

The stepped increase in benefit outflow in 2024 (year 2) is as a consequence of the model assumption that all active members already past their assumed retirement age will retire +1 year after the valuation date. In reality these outflows would be spread across a longer period.

The years along the x-axis refer to the year-end i.e. 2023 means the 2022/23 financial year (from 1 April 2022 to 31 March 2023).

The Fund currently pays around £65m in benefit payments.
This is expected to double by around 2034 assuming baseline inflation.

Projected contribution income



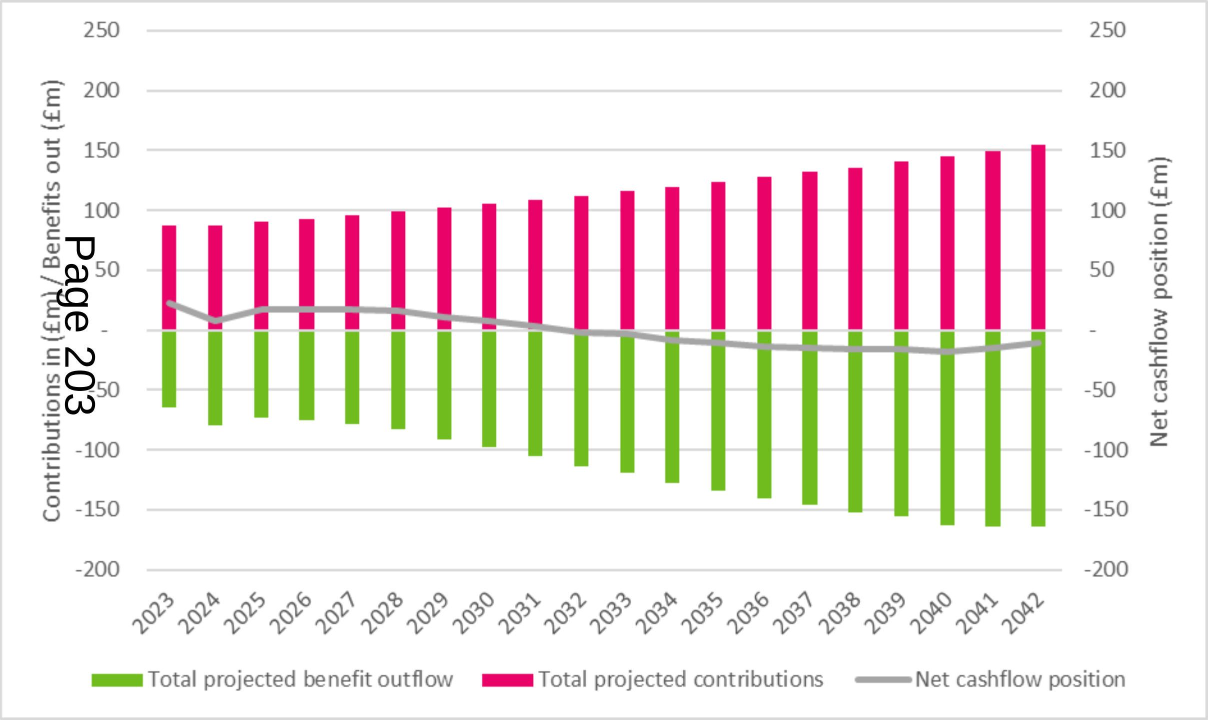
Notes

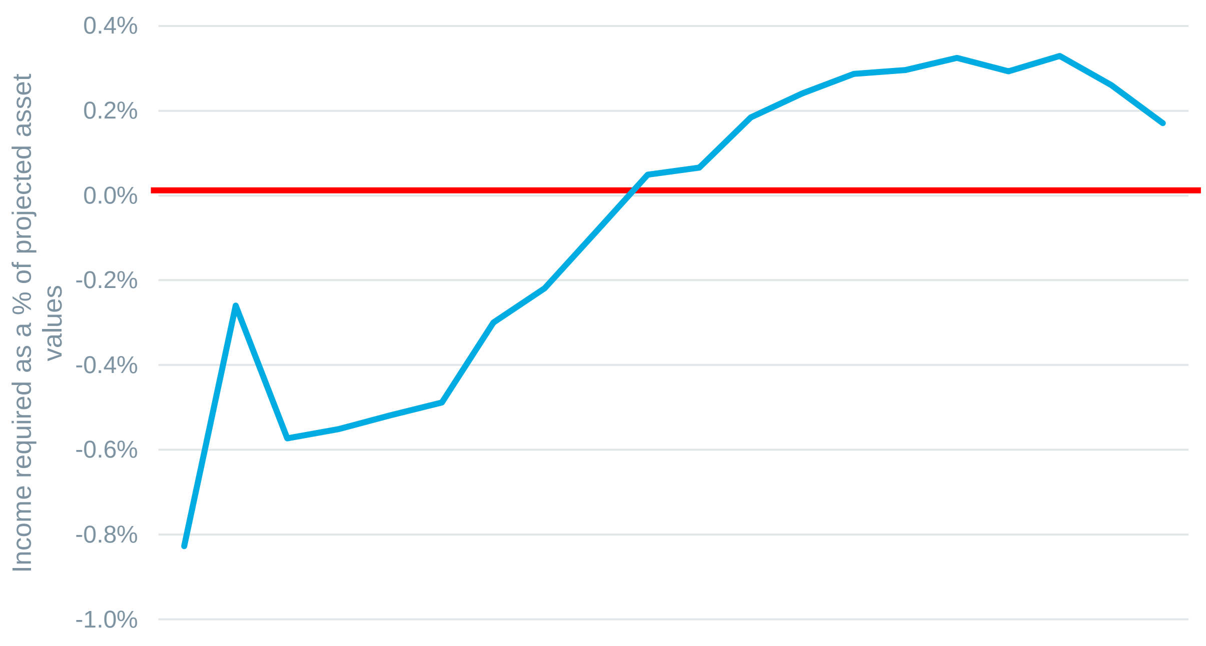
New entrants are implicitly allowed for in the income cashflow by assuming the payroll grows with inflation.

The years along the x-axis refer to the year-end i.e. 2023 means the 2022/23 financial year (from 1 April 2022 to 31 March 2023).

Payroll is assumed to increase at 3.2% pa (in line with the formal valuation)

Net cashflow position (ignoring investment income)

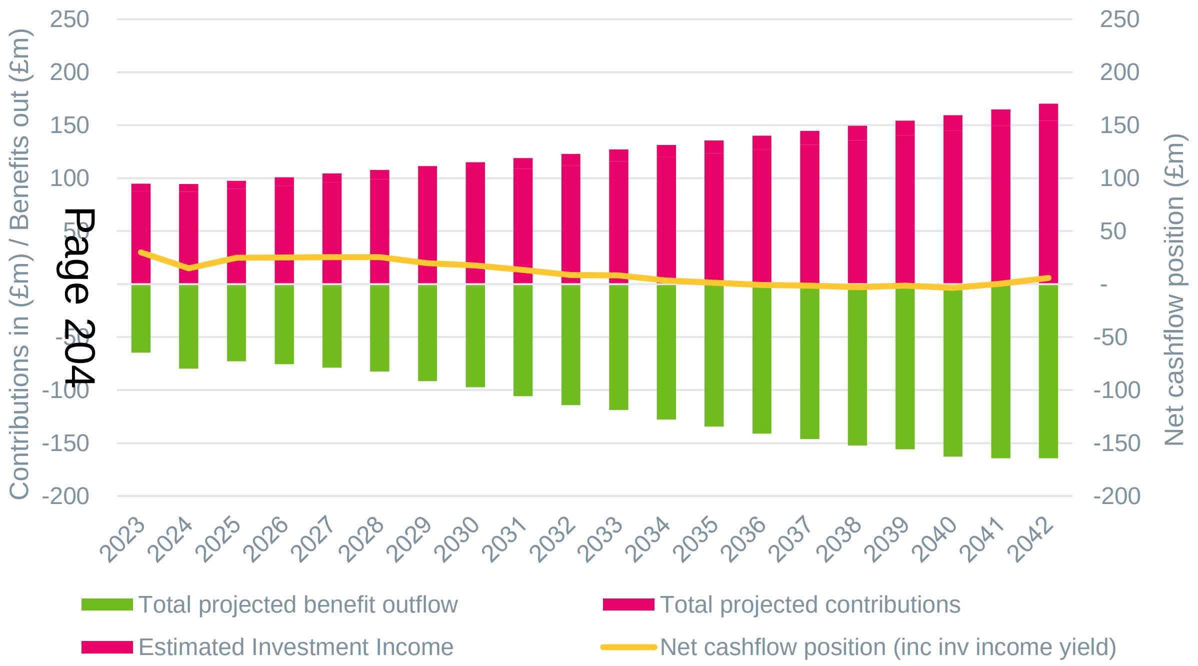




In the absence of investment income, benefit outflow is estimated to exceed contribution income by 2032 for the Fund
By 2035, investment income yield of 0.25% of assets is required to support the cashflow position

Assets are assumed to increase at 4.1% pa

Net cashflow position (including investment income of 0.25% pa*)



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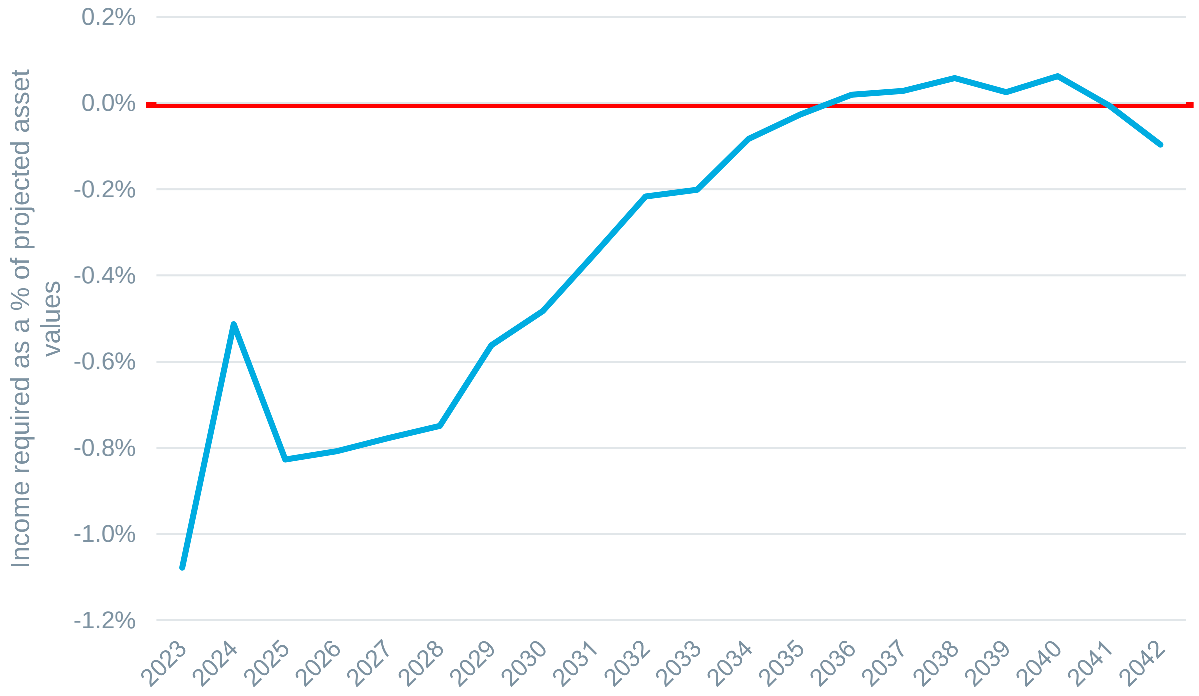

The net cashflow position improves when allowance is made for assumed investment income.
Investment income of 0.25% pa would postpone cashflow negativity until 2036.

*The assumed investment yield of 0.25% pa reflects the average yield attained by the Fund during 2019-22 and excludes income that is automatically reinvested within mandates. Assets are assumed to increase at 4.1% pa.

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Alternative inflation scenarios

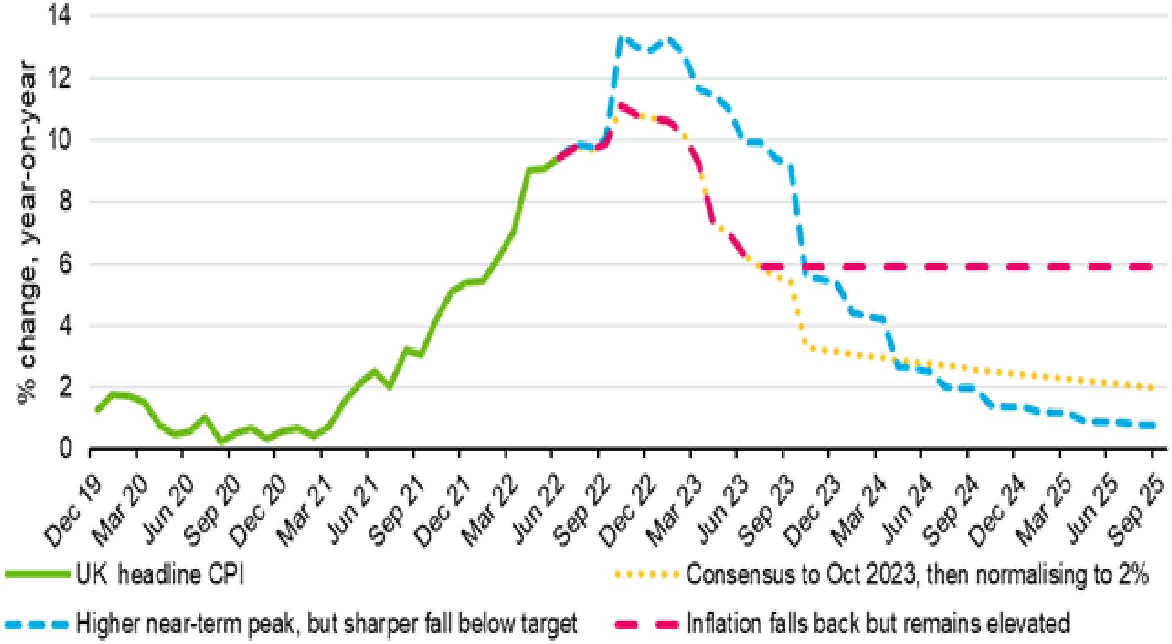
Inflation scenarios

Below are two alternative potential scenarios for future inflation. All scenarios assume a 10% increase in April 2023:

- Scenario 1 (the yellow line): this represents the baseline scenario, where inflation trends to the **long-term Bank of England target** of 2% p.a. by September 2025 (results shown in previous slides)

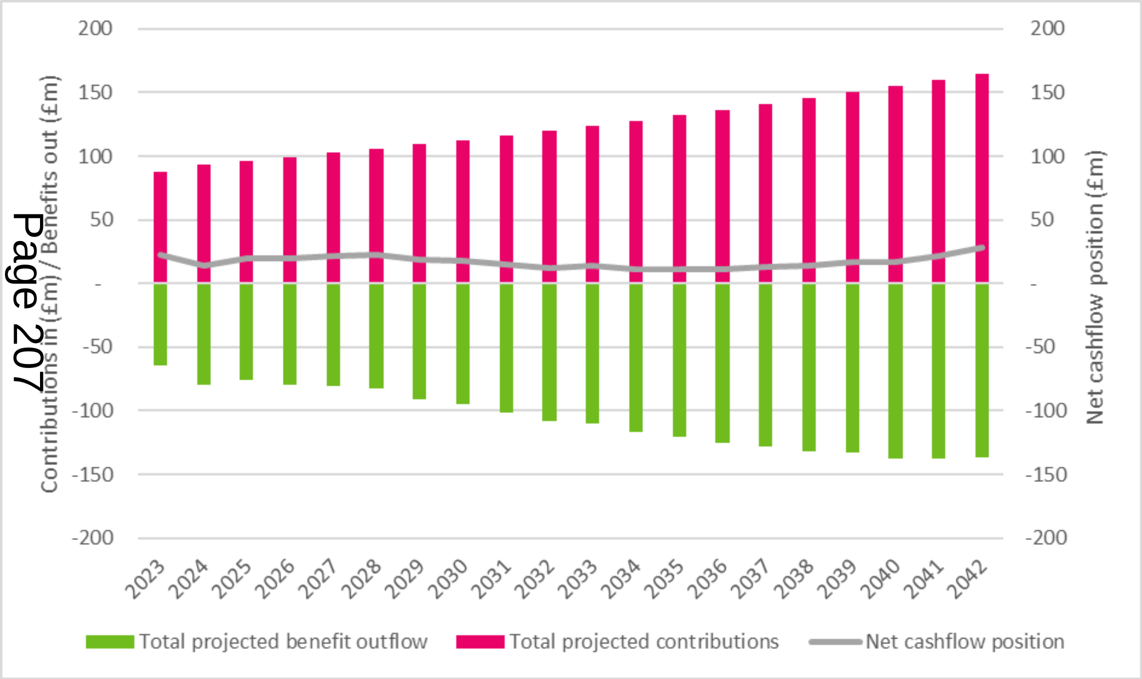
Scenario 2 (the blue line): this represents a **recession** scenario, occurring largely due to excess supply over demand as a result of higher energy and food prices. This is similar to the Bank of England forecast.

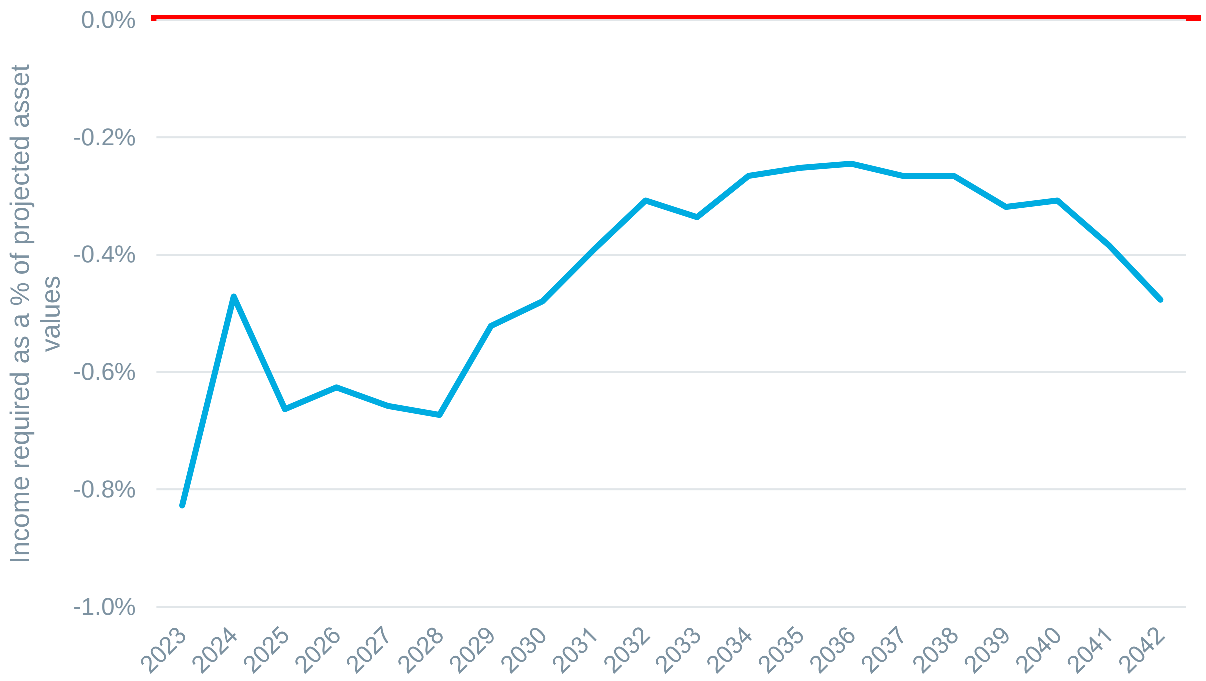
- Scenario 3 (the pink line): this represents a **stagflation** scenario where inflation remains high due to higher energy and food prices.



We have considered both alternate scenarios in the following slides.

Net cashflow position (scenario 2 - recession)

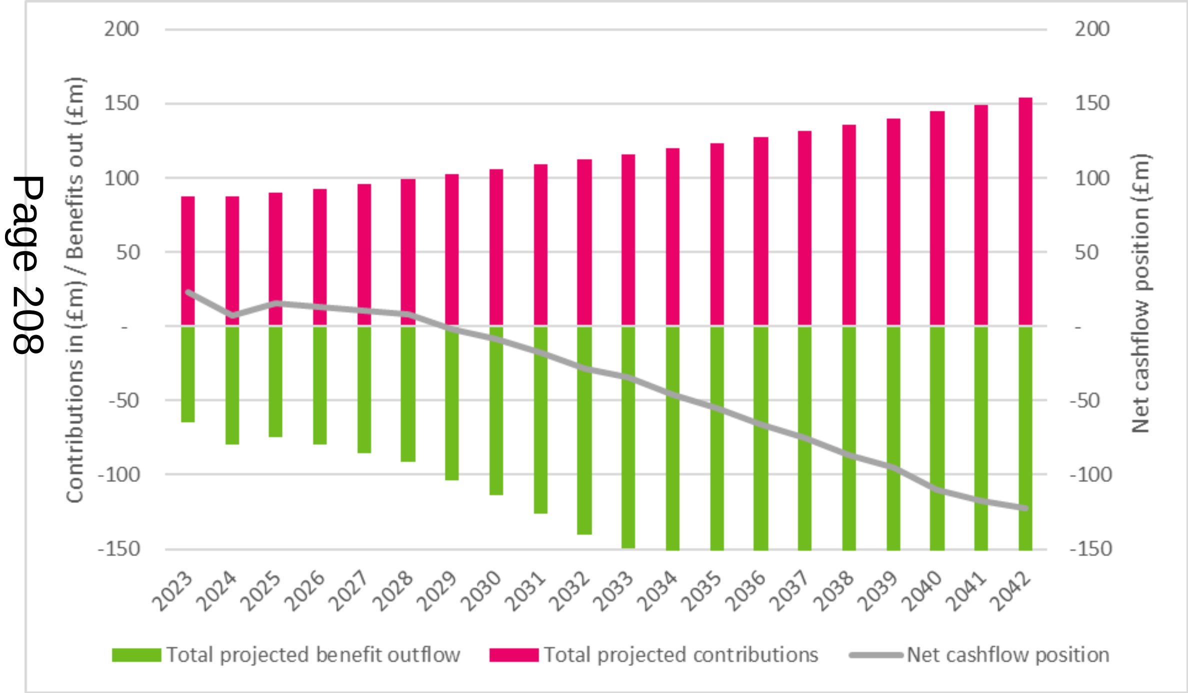


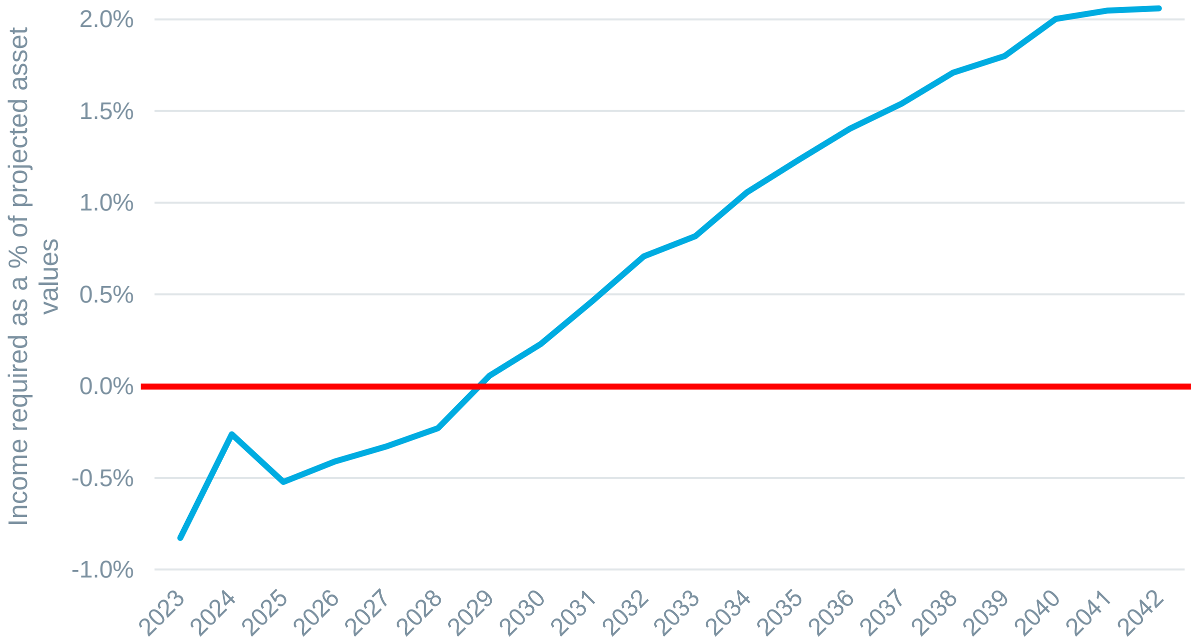


Benefit outflow is not expected to exceed contribution income over the 20 year observation period. Investment income would further improve the position

Assets are assumed to increase at 4.1% pa

Net cashflow position (scenario 3 - stagflation)

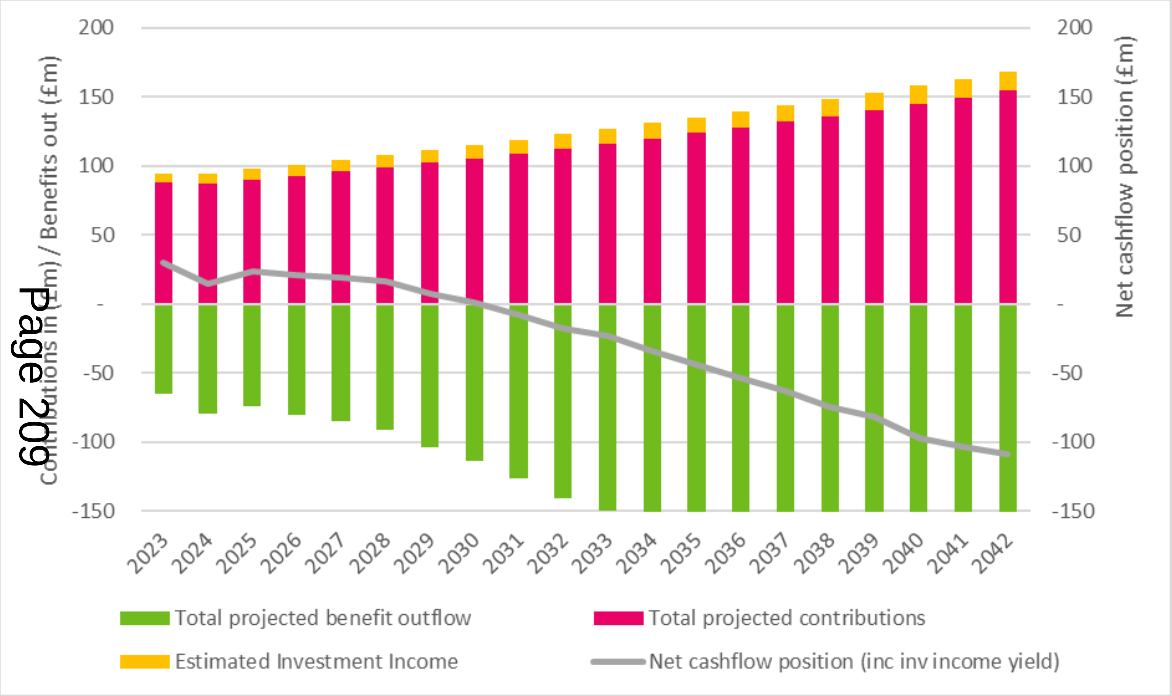


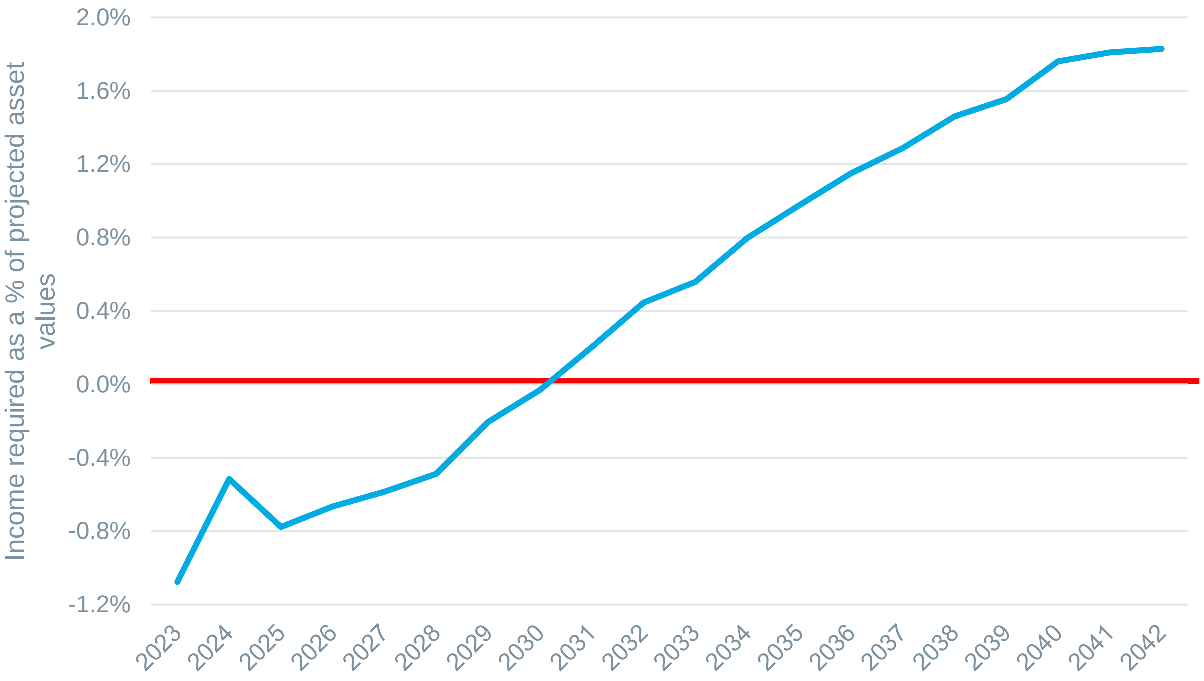


In the absence of investment income, benefit outflow is expected to exceed contribution income by 2029, with a substantial gap opening up in the longer term.

Assets are assumed to increase at 4.1% pa

Net cashflow position (stagflation incl investment income of 0.25% pa*)





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Including investment income of 0.25% pa pushes back the 'tipping point' by 2 years i.e. the Fund will become cashflow negative by 2031. However a substantial gap still opens up over the longer term e.g. investment income of almost 2% pa is required by 2042.

*The assumed investment yield of 0.25% pa reflects the average yield attained by the Fund during 2019-22 and excludes income that is automatically reinvested within mandates. Assets are assumed to increase at 4.1% pa.

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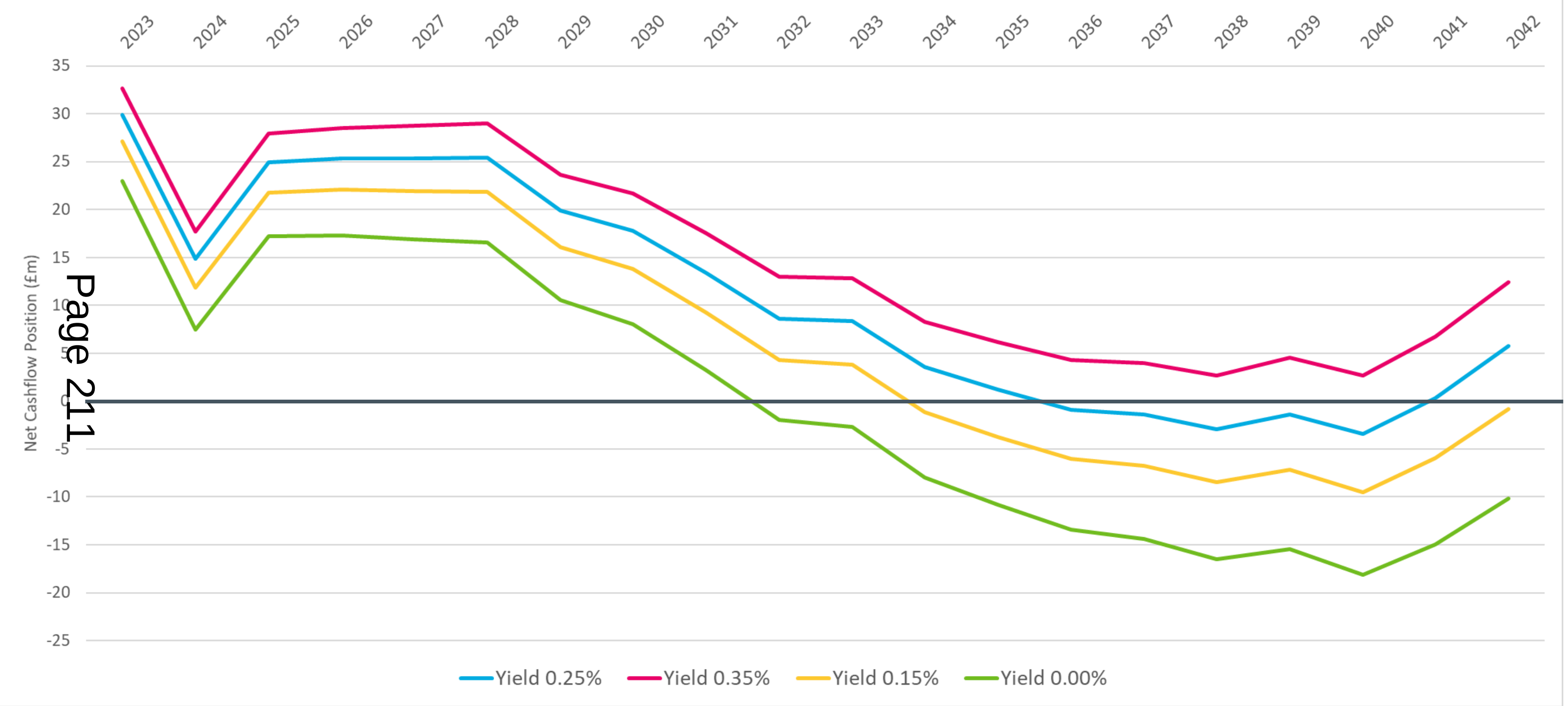
Sensitivity of net cashflow (to investment income)

Sensitivity of net cashflow to investment income* (baseline inflation)



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This highlights the sensitivity of the cashflow position to the assumed investment income yield. For example, a higher yield of 0.35% p.a. results in a positive cashflow position for the full 20 year period under investigation.

A lower yield of 0.15% p.a. results in a cashflow negative position from 2034 onwards (as shown in slide 13).

As shown previously, ignoring investment income (i.e. assuming a yield of 0%) results in a cashflow negative position from 2032.

This highlights the key role the Fund's investments play in ensuring there is enough liquidity within the overall strategy (funding and investment) to meet benefit payments.

*The assumed investment yield excludes income that is automatically reinvested within mandates. Assets are assumed to increase at 4.1% pa.

Next steps

Next steps

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1. Monitor membership changes and their impact on the cashflow position
2. Consider any factors (e.g. inflation) that may affect the cashflow position
3. Consider the investment strategy in light of any future possible negative cashflow position
4. Consider evolving or developing new cashflow management and/or rebalancing policies with your investment advisor

Reliances and limitations

APPENDIX 1

Reliances and limitations

This paper is addressed to Gwynedd Council as Administering Authority to the Gwynedd Pension Fund. It has been prepared in our capacity as actuary and investment consultant to the Fund and is solely for the purpose of projecting the expected cashflows of the Fund over a 20 year time horizon. It has not been prepared for any other purpose and should not be used for any other purpose.

The cashflow projections are based on a specific set of deterministic assumptions, which are highly unlikely to be borne out exactly. We therefore do not claim that the future will exactly match the figures in this paper. The results should be used to give an indicative idea of the Fund's medium term cashflow requirements only.

Any party must accept full responsibility for establishing that the cashflows are appropriate for the purpose to which they want to put them and any decisions that are taken based on their analysis. We cannot be held responsible for any losses sustained as a result of third parties relying on the cashflows provided, or if the cashflows are used for any inappropriate purpose

The extent of the deviations from the assumptions underpinning the cashflow projections depends on uncertain economic events as well as other factors that are not known in advance such as members' decisions, variations in mortality rates, retirement rates and withdrawal rates, fluctuations and rates of salary increase, and the numbers and ages of future new entrants which cannot be accurately predicted. In addition, there could be changes in the regulatory environment and possible changes in retirement benefits. These other uncertainties are often not related to any particular investment and economic eventualities.

Three of the important uncertainties are the:
(a) Rate of pension increases, the vast majority of which increase at the annual increase in CPI inflation
(b) Extent to which members elect to exchange pension for cash at retirement
(c) Level of future payroll and contribution rates which will determine the amount of contributions paid into the Fund

The Administering Authority is the only user of this advice. Neither we nor Hymans Robertson LLP accept any liability to any party other than the Administering Authority unless we have expressly accepted such liability in writing.

This report may be shared with the Fund's investment advisor for information purposes only but may not be passed onto any other third party except as required by law or regulatory obligation, without prior written consent of Hymans Robertson LLP.

In circumstances where disclosure is permitted, the advice may only be released or otherwise disclosed in its entirety fully disclosing the basis upon which it has been produced (including any and all limitations, caveats or qualifications).

The following Technical Actuarial Standards are applicable in relation to this advice, and have been complied with where material and to a proportionate degree:

- TAS100
- TAS300.

Thank you

Meeting:	Pensions Committee
Date:	27/03/2023
Title:	POLICY ON REPORTING BREACHES OF THE LAW
Purpose:	To seek feedback from the Committee in respect of the new policy
Author:	Meirion Jones, Pensions Manager
Recommendations:	Approve the new policy

1. Introduction

As part of the Good Governance project, it is a requirement for the Fund to produce a policy in relation to Reporting Breaches of the Law. A policy has been drafted by Hymans Robertson in conjunction with Fund officers and it can be seen in **Appendix A**.

It contains information on the policy and procedures for identifying, monitoring and, where appropriate, reporting breaches of the law as required in the Pensions Act 2004 and detailed in the Pensions Regulator's (tPR) Code of Practice no 14 - Governance and administration of public service pension schemes.

NOTE: This breaches of the law policy in in relation to the implementation of the pension scheme regulations only. Any breach of criminal law e.g. fraud or financial irregularities are dealt with in accordance with Cyngor Gwynedd's policies.

2. What is a breach of the law?

A breach of the law is "an act of breaking or failing to observe a law, agreement, or code of conduct." In the context of the Local Government Pension Scheme ("LGPS") it can encompass many aspects of the management and administration of the scheme, including, for example, failure:

- to do anything required under the LGPS Regulations;
- to do anything required under overriding legislation, applicable statutory guidance or codes of practice;
- to maintain accurate records;
- to act on any fraudulent act or omission that is identified;
- of an employer to pay over member and employer contributions on time;
- to pay member benefits either accurately or in a timely manner;
- to issue annual benefit statements on time.

3. What is non-compliance under the LGPS Regulations?

Non-compliance with the LGPS regulations can cover many aspects of the management and administration of the scheme, including failure:

- to do anything required under the LGPS Regulations
- to comply with policies and procedures (e.g. the Fund's Investment Strategy Statement, Funding Strategy Statement, discretionary policies, etc.);

4. Responsibilities in relation to breaches

Responsibility to report identified breaches of the law in relation to the Code of Practice falls on the following (known as "reporters"):

- Elected members and officers of the Council (the Scheme Manager);
- Members of the local pension board;
- Scheme employers;
- Professional advisers (including the Fund actuary, benefit consultant, investment advisers, legal advisers); and
- Third party providers (where so employed).

This policy applies only to elected members and officers of the Council, and members of the local pension board. It is for the other reporters to ensure adequate procedures and policies are put in place to identify, assess and where necessary report breaches. Both the Council and the local pension board will take all necessary steps to consider the breach and report to the Regulator, rather than having the breach solely reported by any of the other "reporters".

5. Process

All relevant officers and elected members of the Council, as well as all members of the local pension board have a responsibility to:

- identify and assess the severity of any breach or likely breach;
- report all breaches or likely breaches to the monitoring officer and section 151 officer;
- in conjunction with relevant colleagues agree a proposed course of action to rectify the breach and put in place measures to ensure the breach does not re-occur, obtaining appropriate legal or other advice where necessary;
- ensure that the appropriate corrective action has been taken to rectify the breach or likely breach and to prevent it from recurring; and
- co-operate with, and assist in, the reporting of breaches and likely breaches to the Pension Committee, local pension board and where necessary the Regulator.

6. How should a breach be reported to the Regulator?

All materially significant breaches must be reported to the Regulator in writing. This can be via post or electronically. The Regulator encourages the use of its standard reporting facility via its Exchange on-line service.

The Council will report all material breaches to the Regulator via their Exchange website.

7. Conclusion

This policy was presented to the Pension Board at their meeting on 6/3/2023 and it was highlighted that the policy sets out a clear process for the Fund to follow in relation to reporting breaches of the Law.

The policy has also been shared with Iwan Evans, Cyngor Gwynedd's Monitoring Officer. Mr Evans is also happy with the content of the policy.

We would appreciate the Committee's approval to adopt this policy.

Gwynedd Pension Fund

Policy on Reporting Breaches of the Law

Effective date of policy	
Date approved	
Next review	

Contents

1 Introduction

1.1 Background

The Gwynedd Pension Fund ("the Fund") has prepared this document in setting out its policy and procedures on identifying, managing and where necessary reporting breaches of the law as covered in paragraphs 241 to 275 of the Pensions Regulator's Code of Practice no 14: Governance and administration of public service pension schemes ("the Code of Practice").

This policy sets out the responsibility of elected members, officers of Gwynedd Council ("the Council"), and the Fund's local pension board in identifying, managing and where necessary reporting breaches of the law as they apply to the management and administration of the Fund. This policy does not cover the responsibility of other "reporters" (described later in this policy) in relation to their obligation to report breaches in accordance with the Code of Practice where they relate to the management and administration of the Fund. Where a breach of the law is identified all parties will take the necessary steps to consider the breach and report to the Regulator, rather than having the breach solely reported by any of the other "reporters".

This policy will be reviewed and approved by the Council at least annually. The Council will monitor all breaches and will ensure that adequate resources are allocated to managing and administering this process.

The Monitoring Officer for the Council will be responsible for the management and execution of this breaches policy.

The Section 151 Officer will ensure that training on breaches of the law and this policy is conducted for all relevant officers and elected members, as well as members of the local pension board at induction and on an ongoing basis.

1.2 Aims and objectives

The administering authority's aims and objectives related to this policy are as follows:

- To provide elected members, pension board members and officers clarity around the circumstances where a breach of the law may have occurred.
- To outline the key principles to be considered when assessing any breach, or likely breach, of the law.
- To outline the approach taken to log and, where appropriate, report breaches of the law.

1.3 Guidance and Regulatory framework

Scheme managers and members of pension boards must consider their statutory duty under section 70 of the Pensions Act 2004 to assess, and if necessary, report breaches of the law

- Section 70 of the Pensions Act 2004

  (1) Subsection (2) imposes a reporting requirement on the following persons—

  (a) a trustee or manager of an occupational or personal pension scheme;

  (aa) a member of the pension board of a public service pension scheme;

  (b) a person who is otherwise involved in the administration of an occupational or personal pension scheme;

  (c) the employer in relation to an occupational pension scheme;

  (d) a professional adviser in relation to such a scheme;

(e) a person who is otherwise involved in advising the trustees or managers of an occupational or personal pension scheme in relation to the scheme.

(f) a scheme strategist or scheme funder of a Master Trust scheme within the meaning of Part 1 of the Pension Schemes Act 2017 (see section 39 of that Act).

(2) Where the person has reasonable cause to believe that—

(a) a duty which is relevant to the administration of the scheme in question, and is imposed by or by virtue of an enactment or rule of law, has not been or is not being complied with, and

(b) the failure to comply is likely to be of material significance to the Regulator in the exercise of any of its functions,

he must give a written report of the matter to the Regulator as soon as reasonably practicable.

(3) No duty to which a person is subject is to be regarded as contravened merely because of any information or opinion contained in a written report under this section.

This is subject to section 311 (protected items).

(4) Section 10 of the Pensions Act 1995 (c. 26) (civil penalties) applies to any person who, without reasonable excuse, fails to comply with an obligation imposed on him by this section.

- Guidance on the exercise of the above Pensions Act 2004 requirement is contained within paragraphs 241 to 275 of the Regulators Code of Practice 14

2 Statement of Principles

This statement of principles covers the expectation of elected members and officers of the Council as well as members of the pension board when considering breaches of the law:

- The identification, management and reporting of breaches is important. It is a requirement of the Pension Regulators Code of Practice; failure to report a material breach is a civil offence that can result in civil penalties.
- At the same time, in addition to identifying, rectifying and where necessary reporting a particular breach, such breaches provide an opportunity to learn from mistakes and review and improve processes in the areas where the breach occurred.
- All staff involved in the administration and management of the Fund are expected, indeed required, to take a pro-active approach to the identification, management and reporting of all breaches that have occurred, or are likely to occur.
- The Council, as the scheme manager for the Fund, will maintain a log of all breaches of the law as applicable to the management and administration of the Fund.
- Where a breach has occurred, it should be identified and logged as either an area of non-compliance under the LGPS Regulation, a breach under Pension Law as defined within section 13 of the 2004 Pension Act or the Pension Regulator’s Code of Practice.
- The Council, officers and the local pension board cannot rely on waiting for other reporters to report a breach where it has occurred. Where a breach has occurred and has been identified by the Council, officers or local pension board it should be recorded, assessed and where necessary reported as soon as reasonably practicable.

3 Policy

What is a breach of the law?

A breach of the law is *"an act of breaking or failing to observe a law, agreement, or code of conduct."* In the context of the Local Government Pension Scheme ("LGPS") it can encompass many aspects of the management and administration of the scheme, including, for example, failure:

- to do anything required under the LGPS Regulations;
- to do anything required under overriding legislation, applicable statutory guidance or codes of practice;
- to maintain accurate records;
- to act on any fraudulent act or omission that is identified;
- of an employer to pay over member and employer contributions on time;
- to pay member benefits either accurately or in a timely manner;
- to issue annual benefit statements on time.

What is non-compliance under the LGPS Regulations?

Non-compliance with the LGPS regulations can cover many aspects of the management and administration of the scheme, including failure:

- to do anything required under the LGPS Regulations
- to comply with policies and procedures (e.g. the Fund's Investment Strategy Statement, Funding Strategy Statement, discretionary policies, etc.);

Responsibilities in relation to breaches

Responsibility to report identified breaches of the law in relation to the Code of Practice falls on the following (known as "reporters"):

- Elected members and officers of the Council (the Scheme Manager);
- Members of the local pension board;
- Scheme employers;
- Professional advisers (including the Fund actuary, benefit consultant, investment advisers, legal advisers); and
- Third party providers (where so employed).

This policy applies only to elected members and officers of the Council, and members of the local pension board. It is for the other reporters to ensure adequate procedures and policies are put in place in order to identify, assess and where necessary report breaches. Both the Council and the local pension board will take all necessary steps to consider the breach and report to the Regulator, rather than having the breach solely reported by any of the other "reporters".

Requirement to report a breach of the Law

Breaches of the law which affect pension schemes should be considered for reporting to The Pensions Regulator.

The decision whether to report an identified breach depends on whether:

- there is reasonable cause to believe there has been a breach of the law;
- and if so, is the breach likely to be of material significance to the Regulator?

It is important to understand that not every breach that is identified needs to be reported to the Regulator. For example, where it can be demonstrated that appropriate action is being taken to rectify the breach, or the breach has occurred due to teething problems with new or revised systems or processes, it may not be necessary to report the incident to the Regulator. It is still necessary that all incidents of breaches identified are recorded in the Council's breaches log. This log will be reviewed on an on-going basis to determine any trends in the breaches log that might indicate any serious failings or fraudulent behaviour.

Where such failings or fraudulent behaviour are identified immediate action will be taken to agree and put in place a plan of action to rectify the matter and prevent such an occurrence in the future.

When is a breach required to be reported to the Regulator?

The Code of Practice requires that a breach should be notified to The Regulator as soon as is reasonably practicable once there is reasonable cause to believe that a breach has occurred and that it is of material significance to The Regulator. In any event, where a breach is considered to be of material significance it must be reported to The Regulator no later than one month after becoming aware of the breach or likely breach.

Where it is considered that a breach is of such significance that The Regulator is required to intervene as a matter of urgency (for example, serious fraud) the matter should be brought to the attention of the Regulator immediately (e.g. by calling them direct). A formal report should then be submitted to The Regulator, marked as "urgent" in order to draw The Regulator's attention to it

Assessing "reasonable cause"

It is important that the Council and the local pension board are satisfied that a breach has actually occurred, rather than acting on a suspicion of such an event.

It will be necessary, therefore, for robust checks to be made by officers and elected members when acting on any suspicion of a breach having occurred. Where necessary this will involve taking legal advice from Legal Services (who may recommend specialist external legal advice if necessary) as well as other advisers (e.g. auditors or the Fund actuary, benefit consultant or investment advisers).

Deciding if a breach is "materially significant" and should be reported to the Regulator

The Regulator has produced a decision tree to assist schemes in identifying the severity of a breach and whether it should then be reported. When determining materiality of any breach or likely breach the Council, officers and local pension board will in all cases consider the following:

- cause – e.g. dishonesty, poor governance, incomplete or inaccurate information, acting or failing to act in contravention of the law;

- effect – does the nature of the breach lead to an increased likelihood of further material breaches. Is it likely to cause, for example; ineffective internal controls, lack of knowledge and understanding, inaccurate records, potential for further breaches occurring;
- reaction – e.g. taking prompt and effective action to resolve a breach, notifying scheme members where appropriate; and
- wider implications – e.g. where a breach has occurred due to lack of knowledge or poor systems and processes making it more likely that other breaches will emerge in the future.

The decision tree provides a "traffic light" system of categorising an identified breach:

Green – not caused by dishonesty, poor governance or a deliberate contravention of the law and its effect is not significant and a plan is in place to rectify the situation. In such cases the breach may not be reported to the Regulator, but should be recorded in the Council's breaches log;

Amber – does not fall easily into either green or red and requires further investigation in order to determine what action to take. Consideration of other recorded breaches may also be relevant in determining the most appropriate course of action. The Council will need to decide whether to informally alert The Regulator of the breach or likely breach, formally reporting the breach if it is subsequently decided to categorise the breach as red;

Red - caused by dishonesty, poor governance or a deliberate contravention of the law and having a significant impact, even where a plan is in place to rectify the situation. The Council must report all such breaches to the Regulator in all cases;

It should be noted that failure to report a significant breach or likely breach is likely, in itself, to be a significant breach.

The Council will use the Regulator's decision tree as a means of identifying whether any breach is to be considered as materially significant and so reported to The Regulator.

Any failure of a scheme employer to pass over employee contributions that are considered to be of material significance must be reported to The Regulator immediately.

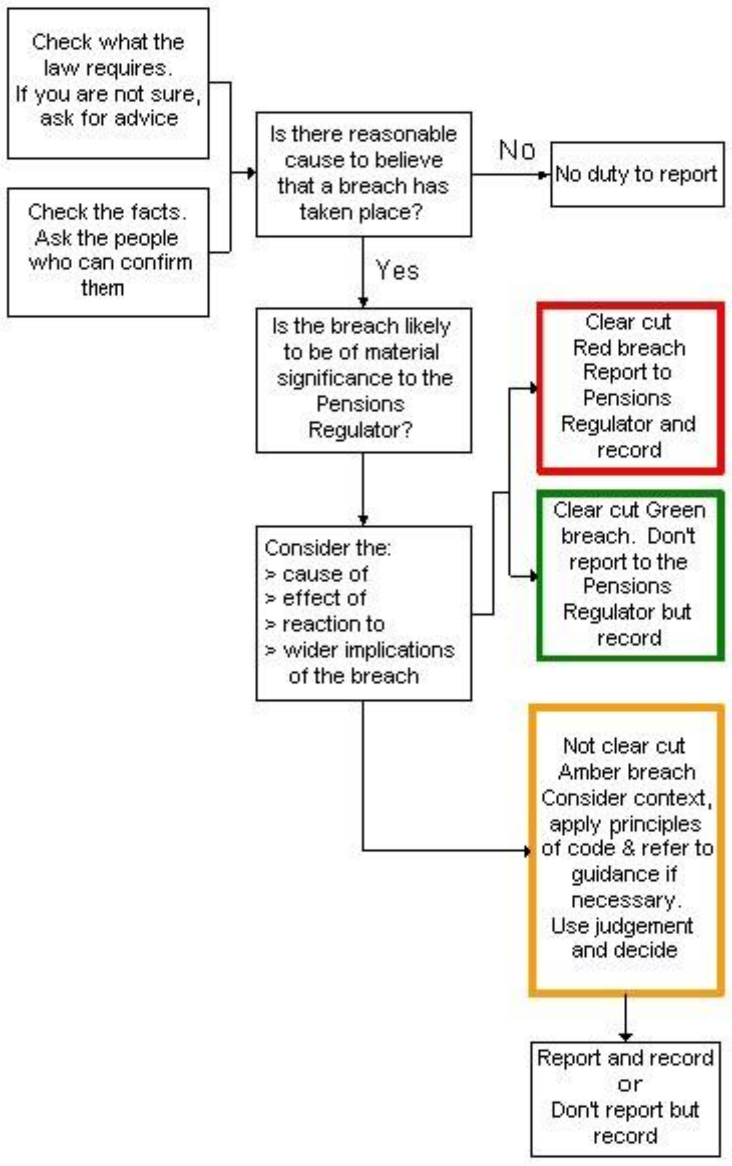
In order to determine whether failure to pay over employee contributions is materially significant or not the Council will seek from the employer:

- the cause and circumstances of the payment failure
- what action the employer has taken as a result of the payment failure, and
- the wider implications or impact of the payment failure.

Where a payment plan is agreed with the employer to recover outstanding contributions and it is being adhered to or there are circumstances of infrequent one-off late payments or administrative failures the late payment will not be considered to be of material significance.

All incidences resulting from the unwillingness or inability of the employer to pay over the employee contributions, dishonesty, fraudulent behaviour or misuse of employee contributions, poor administrative procedures or the failure to pay over employee contributions within 90 days from the due date will be considered to be of material significance and reported to the Regulator.

Once a breach or likely breach has been identified, regardless of whether it needs to be reported to The Regulator, the relevant manager, in consultation with the monitoring officer must review the circumstances of the breach in order to understand why it occurred, the consequences of the breach and agree the corrective measures required to prevent re-occurrence, including an action plan where necessary. All breaches must be recorded in the Council's breaches log.



4 Process

All relevant officers and elected members of the Council, as well as all members of the local pension board have a responsibility to:

- identify and assess the severity of any breach or likely breach;
- report all breaches or likely breaches to the monitoring officer and section 151 officer;
- in conjunction with relevant colleagues agree a proposed course of action to rectify the breach and put in place measures to ensure the breach does not re-occur, obtaining appropriate legal or other advice where necessary;
- ensure that the appropriate corrective action has been taken to rectify the breach or likely breach and to prevent it from recurring; and
- co-operate with, and assist in, the reporting of breaches and likely breaches to the Pension Committee, local pension board and where necessary the Regulator.

Responsibilities of the responsible officer

The Council's monitoring officer will be responsible for the management and execution of this breaches policy.

The monitoring officer will be responsible for recording and reporting breaches and likely breaches as follows:

- record all identified breaches and likely breaches of which they are aware in the Council's breaches log;
- investigate the circumstances of all reported breaches and likely breaches;
- ensure, where necessary that an action plan is put in place and acted on to correct the identified breach and also ensure further breaches of a similar nature do not reoccur;
- report to the Pension Committee and local pension board:

  - all materially significant breaches or likely breaches that will require reporting to The Regulator as soon as practicable, but no later than one month after becoming aware of the breach or likely breach; and

  - all other breaches at least quarterly as part of the Committee cycle.
- report all materially significant breaches to The Regulator as soon as practicable but not later than one month after becoming aware of the breach.

The monitoring officer will determine whether any breach or likely breach is materially significant, having regard to the guidance set out in the Code of Practice and after consultation with parties they deem appropriate. Such parties might include the Head of Legal Services, the Pension Committee and local pension board.

If appropriate, the matter will be referred to an external party to obtain any necessary legal or other advice before deciding if the breach is considered to be of material significance to The Regulator. Where uncertainty exists as to the materiality of any identified breach the Council, officers or local pension board will be required to informally notify the Regulator of the issue and the steps being taken to resolve the issue.

How should a breach be reported to the Regulator?

All materially significant breaches must be reported to the Regulator in writing. This can be via post or electronically. The Regulator encourages the use of its standard reporting facility via its Exchange on-line service.

The Council will report all material breaches to the Regulator via Exchange.

How are records of breaches maintained?

All breaches and likely breaches identified are to be reported to the monitoring officer as soon as they are identified. The monitoring officer will log all breaches on the Council's breaches log, including the following information:

- date the breach or likely breach was identified;
- name of the scheme;
- name of the employer (where appropriate);
- any relevant dates;
- a description of the breach, its cause and effect, including the reasons it is, or is not, believed to be of material significance;
- whether the breach is considered to be red, amber or green.
- a description of the actions taken to rectify the breach;
- a brief description of any longer term implications and actions required to prevent similar types of breaches recurring in the future.

The monitoring officer will be responsible for ensuring the effective management and rectification of any breach identified, including submission of any report to the Regulator. Any documentation supporting the breach will also be retained.

Whistleblowing

It is a statutory duty to report breaches of the law. In rare cases this may involve a duty to whistleblow on the part of an employee of the Council, officers or a member of the local pension board. The duty to report does not override any other duties a "reporter" may have, such as confidentiality. Any such duty is not breached by reporting to The Regulator. Given the statutory duty that exists, in exercising this breaches policy the Council will ensure it adheres to the requirements of the Employment Rights Act 1996 in protecting an employee making a whistleblowing disclosure to the Regulator.

The duty to report, however, does not override 'legal privilege', so certain oral and written communications between the Council or local pension board and a professional legal adviser do not have to be disclosed if they meet the principles of legal privilege.

Training

The Section 151 officer will ensure that all relevant officers and elected members, as well as members of the local pension board receive appropriate training on this policy at the commencement of their employment or appointment to the local pension board as appropriate and on an ongoing basis.

5 Related Policies

The administering authority's approach to recording and reporting breaches of the law will need to be considered in tandem with the following Fund related polices:

- Administration Strategy
- Conflicts of interest policy.

6 Appendix A: Example scenarios

Failure to enter employee into the scheme

Scenario

It is discovered that a scheme employer has not entered an eligible employee into the LGPS on joining

Steps that might be taken

On the face of it a breach will have occurred, as the scheme employer has failed to do something they are required to do under the rules of the LGPS. Before deciding to report to the Pensions Regulator it is necessary to consider why this has happened and the steps that are being taken to either rectify the situation and/or ensure it is not repeated. This will include:

- Assessing whether failure relates to a specific employee or is it something more widespread
- Remedying this particular situation immediately
- Understanding if there have been personnel changes at the employer; has this resulted in teething problems during any hand-over?
- If necessary the Fund could provide training to the employer on its responsibilities to ensure there is no repeated failure

Materiality

When considering if the delay/failure is likely to be of “material significance” you could consider;

- Has the member been denied access to the scheme completely?
- Has the employer failed to respond to the Fund’s enquiries?
- Has the member not been given the opportunity to backdate entry to the scheme and pay arrears?
- Has the employer failed to put in place an immediate plan to remedy any further failures?
- Are more members affected, or is this a one-off?

If the answer to any of the above is “yes” this may imply materiality and may warrant reporting to the Pensions Regulator. In any event the issue should be added to the Council’s breaches log.

Late payment over of contributions

Scenario

A scheme employer is late in paying over employee and employer contributions

Steps that might be taken

The reasons for the delayed payment could be many, so while a breach has clearly occurred it is important to understand the reasons behind the delay. To do this:

- Contact the employer to assess the reason for the delay
- Investigate what went wrong
- Ensure steps are put in place so as to avoid a repeat in future months
- Record the outcome of your investigation
- Make sure processes are assessed to ensure they pick up any potential fraud

Materiality

While the reason for the delay in paying over contributions might be entirely innocent, it is also possible something more sinister is at play and could be "materially significant". Consider;

- Is the employer unwilling or unable to pay? e.g. due to insolvency
- Is any dishonesty involved on the part of the employer? e.g. using non-payment to ease cash-flow
- Is the employer seeking to avoid paying contributions?
- Does the employer have inadequate processes in place to recover contributions?
- Have contributions been outstanding for over 90 days since being identified?

If the answer to any of the above is "yes" this may imply materiality and may warrant reporting to the Pensions Regulator. In any event the issue should be added to the Council's breaches log.

Late Submission of year-end data

Scenario

A scheme employer is late in submitting year-end pay and contribution return in respect of active scheme members

Steps that might be taken

On the face of it this is a breach, but the employer may not necessarily appreciate the significance. Things you might consider doing include:

- Contacting the employer to assess the reason for the non-submission
- Investigating with the employer what went wrong
- Putting in place steps to ensure no repeat
- Recording your investigations

Materiality

Is the delay/failure likely to be of "material significance"? Consider;

- Is the employer unwilling or unable to provide the required data? e.g. are its systems inadequate
- Has the employer failed to respond to the Fund's enquiries?
- Will the delay impact the issue of annual benefit statements?

If the answer to any of the above is "yes" this may imply materiality and may warrant reporting to the Pensions Regulator. In any event the issue should be added to the Council's breaches log.

Late issue of annual benefit statements

Scenario

The Fund is late/fails to issue annual benefit statements to active and/or deferred scheme members within the statutory time limits.

Steps that might be taken

Failure to issue annual benefit statements or delaying their issue is a clear breach. Before reporting to the Pensions Regulator:

- Assess whether failure relates to a specific employer or wider issues
- If there have been system or scheme rule changes, determine whether teething problems have contributed to the delay/failure
- Put in place steps to ensure statements are issued within a reasonable timescale
- Put in place steps to ensure no repeat
- Record the investigations

Materiality

Is the delay/failure likely to be of “material significance”? Consider;

- Is the breach resulting from employer failure to provide year-end data?
- Has the employer failed to respond to the Fund’s enquiries?
- Has there been a failure on the part of the Fund to have a proper plan in place for the ABS project?
- Has the Fund failed to put in place an immediate plan to remedy any delay/failure?
- Will the delay impact on the member’s actual benefits?

If the answer to any of the above is “yes” this may imply materiality and may warrant reporting to the Pensions Regulator. In any event the issue should be added to the Council’s breaches log.

Late notification of leaver/retirement details

Scenario

A scheme employer fails to provide the Fund with the necessary leaver/retirement notifications

Steps that might be taken

On the face of it a breach will have occurred, as the scheme employer has failed to do something they are required to do under the LGPS Regulations. Before deciding to report to the Pensions Regulator it is necessary to consider why this has happened and the steps that are being taken to either rectify the situation and/or ensure it is not repeated.

- Assess whether failure relates to a specific employee or is it something more widespread
- Remedy this particular situation immediately
- If there have been personnel changes at the employer, has this resulted in teething problems during any hand-over
- If necessary the Fund could provide training to the employer on its responsibilities to ensure there is no repeated failure

Materiality

Is the delay/failure likely to be of "material significance"? Consider;

- Has the employer failed to respond to the Fund's enquiries?
- Has the failure delayed the assessment and notification/payment of retirement benefits?
- Has the scheme member been denied access to investment opportunities due to the failure?
- Has the failure led to financial hardship for the member?
- Has the Fund failed to put in place an immediate plan to remedy any delay/failure?

If the answer to any of the above is "yes" this may imply materiality and may warrant reporting to the Pensions Regulator. In any event the issue should be added to the Council's breaches log.

Failure to declare potential conflict

Scenario

A Pension Committee or Pension Board member fails to declare a potential conflict of interest in relation to an issue for discussion or decision, which has later come to light

Steps that might be taken

It is a requirement to declare conflicts of interest, so a breach will have occurred. Before deciding whether to report to the Pensions Regulator:

- Determine why the conflict of interest was not reported at the outset
- Consider what impact it had on the eventual discussions or decision
- Draw attention of all Committee and Board members to the Council's conflicts of interest policy
- Consider revisiting the discussion or decision, excluding the individual concerned
- Remove the individual from the Pension Committee or Pension Board if considered their omission was of such significance as to lead to a loss of confidence in the public office

Materiality

Is the non-disclosure likely to be of "material significance"? Consider;

- Has the individual used the situation to their advantage?
- Has the individual had their judgement swayed by the apparent conflict of interest?
- Would the removal of the individual from the discussions/decision have altered the eventual outcome?
- Would the non-disclosure in this situation lead to a loss of confidence in the public office?

If the answer to any of the above is "yes" this may imply materiality and may warrant reporting to the Pensions Regulator. In any event the issue should be added to the Council's breaches log.

COMMITTEE:	**PENSIONS COMMITTEE**
DATE:	**27 MARCH 2023**
TITLE:	**TRAINING PLAN**
PURPOSE:	**To receive an update on 2022/23 and approve the 2023/24 Training Plan**
AUTHOR:	**DELYTH JONES-THOMAS, INVESTMENT MANAGER**

1. INTRODUCTION

1.1 The purpose of this report is to update the Committee on the training that has taken place in 2022/23 and to approve the 2023/24 Training Plan for the Gwynedd Pension Fund.

2. GOOD GOVERNANCE REPORT

2.1 The Good Governance report by the England and Wales Scheme Advisory Board sets out several recommendations which would improve the Governance of the LGPS, and achieve a level of parity in terms of Governance across the LGPS funds in England and Wales.

2.2 The Good Governance report recommended to:

'Introduce a requirement in the Guidance for key individuals within the LGPS, including LGPS Officers and Pensions Committees, to have the appropriate level of knowledge and understanding to carry out their duties effectively'.

A key focus of the Good Governance review centres on the Fund's Officers as well as Committee members having a sufficient level of knowledge to be able to perform their respective roles effectively.

'Administering authorities must publish a policy setting out their approach to the delivery, assessment and recording of training plans to meet these requirements.'

2.3 The Fund has formulated a policy in order to fulfil these requirements: Knowledge and Skills Policy 2022 (gwyneddpensionfund.wales)

3. 2022/23 TRAINING

3.1 The plan adopted in 2022/23 is in appendix 1 with the progress noted. In addition to the Training Plan, the officers and members of the board and committee have also attended a number of conferences and other training events during the year which also has been noted in appendix 1.

3.2 There is a requirement for the new Committee and Board members to attend the LGPS Fundamentals course, unfortunately due to train strikes and a change in locations, not all members managed to attend. This was out of the control of the members and the Fund and these members will attend in October 2023.

3.3 Within the Plan it was also expected for officers to attend the CIPFA Accounts Closedown course, but due to no change in accounting regulations this was not necessary this year.

4. TRAINING PLAN

4.1 A training plan has been formulated for 2023/24 and can be seen in Appendix 2.

5. RECOMMENDATION

5.1 The Committee is asked to accept the report and approve the 2023/24 Training plan.

Gwynedd Pension Fund Training Plan 2022/23 - Update

Subject	Date	Applies to	Provider	Completed?
Overview of Gwynedd Pension Fund	June 2022	Committee Members	Gwynedd Pension Fund officers and Fund Managers	✔
Private Market Asset Classes & the role of the Allocator	Q1 April – June 2022	Officers, Committee and Board Members	Wales Pension Partnership	✔
Active Sustainable Equities			Wales Pension Partnership	✔
Pool Knowledge: Governance & Administration	Q2 July – September 2022	Officers, Committee and Board Members	Wales Pension Partnership	✔
Pool Knowledge: Roles & Responsibilities			Wales Pension Partnership	✔
What Responsible Investment means for the WPP	Q3 October – December 2022	Officers, Committee and Board Members	Wales Pension Partnership	✔
Stewardship Code and TCFD Reporting			Wales Pension Partnership	✔
Progress of other LGPS pools	Q4 January – March 2023	Officers, Committee and Board Members	Wales Pension Partnership	✔
Collaboration Opportunities			Wales Pension Partnership	✔
LGPS Fundamentals	Autumn 2022	New Committee members	Local Government Association	Partly
Accounts Closedown	March 2023	Officers	CIPFA	X- no change in the accounting rules

Gwynedd Pension Fund Training Plan 2022/23 - Update

The following conferences and training events were also attended by officers, Committee and Board members as part of their professional development:

- LGA Pension Fund Governance Conference
- LGC Investment Seminar
- LGC Investment Summit
- LAPF Strategic Investment Forum
- LAPFF Annual Conference
- Baillie Gifford Local Authority Investment and Training Seminar
- Russell Investments Summit
- Heywood 'Insight' training course
- Annual and Lifetime allowance training course

Gwynedd Pension Fund Training Plan 2023/24

It is best practice for Gwynedd Pension Fund officers, committee and board members to have appropriate knowledge and understanding of:

- the regulations and markets relating to pensions,
- the pooling of local authority pension schemes, and
- relevant investment opportunities.

We have set out below a list of training topics which have been provisionally planned during the 2023/24 financial year which are based on current topical priorities:

Topic	Provisional Date	Applies to	Provider
Private Market Asset Classes (Private Equity and Property)	Q1 April – June 2023	Officers, Committee and Board Members	Wales Pension Partnership
Levelling Up/ Development Opportunities			Wales Pension Partnership
TCFD Reporting	Q2 July – September 2023	Officers, Committee and Board Members	Wales Pension Partnership
Performance Reporting			Wales Pension Partnership
Responsible Investing: Voting and Engagement	Q3 October – December 2023	Officers, Committee and Board Members	Wales Pension Partnership
Responsible Investing within the WPP Sub Funds			Wales Pension Partnership
Progress of other LGPS pools and collaboration opportunities	Q4 January – March 2024	Officers, Committee and Board Members	Wales Pension Partnership
Pooling Guidance			Wales Pension Partnership
LGPS Fundamentals	Autumn 2023	New Committee and Board Members	Local Government Association
Accounts Closedown	February 2024	Officers	CIPFA