



Complete Agenda

Democratic Service
Swyddfa'r Cyngor
CAERNARFON
Gwynedd
LL55 1SH

Meeting

PENSIONS COMMITTEE

Date and Time

2.00 pm, TUESDAY, 19TH MARCH, 2024

Location

Virtual Meeting

NOTE

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

Contact Point

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(DISTRIBUTED 13/03/24)

PENSIONS COMMITTEE

MEMBERSHIP (9)

Plaid Cymru (4)

Councillors

Iwan Huws
Ioan Thomas

R Medwyn Hughes

Elin Hywel

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

AGENDA

1. APOLOGIES

To receive any apologies for absence

2. DECLARATION OF PERSONAL INTEREST

To receive any declaration of personal interest

3. URGENT ITEMS

To note any items which are urgent business in the opinion of the Chairman so that they may be considered

4. MINUTES

5 - 11

The Chairman shall propose that the minutes of the meeting of this committee held on 22nd January 2024 to be signed as a true record

5. TRAINING PLAN

12 - 17

To consider and accept the report and approve the 2024/25 training plan.

6. TREASURY MANAGEMENT STRATEGY STATEMENT FOR 2024/25

18 - 39

- To consider the report
- To adopt the attached Treasury Management Strategy Statement for 2024/25, as amended for the Gwynedd Pension Fund (Appendix A).
- To make a request to the Council (even though it is not a separate body) to allow the Pension Fund's surplus cash balances to be pooled with the Council's general cashflow from 1 April 2024 onwards.

7. WALES PENSION PARTNERSHIP BUSINESS PLAN

40 - 56

To consider the report and approve the Business Plan

8. LGC INVESTMENT SEMINAR

To receive a verbal update from the LGC Investment Seminar

9. EXCLUSION OF PRESS AND PUBLIC

The Chairman shall propose that the press and public be excluded from the meeting during the discussion on the following items due to the likely disclosure of exempt information as defined in Paragraph 14 of Schedule 12A of the Local Government act 1972 Information relating to the financial or business affairs of any particular person (including the authority holding that information).

There is an acknowledged public interest in openness in relation to the use of public resources and related financial issues. It is also acknowledged that there are occasions, in order to protect the financial interests of public authorities that matters related to commercial information need to be discussed without being publicised. Publication of such commercially sensitive information would be inappropriate having regard to the legitimate interests of third parties and could undermine confidence to engage with the Council and therefore the Councils ability make decisions on behalf of the fund. This would be contrary to the wider public interest of securing value for money and the best overall outcome. For those reasons the matters are exempt from the public interest.

10. WELSH PENSION PARTNERSHIP OPERATOR PROCUREMENT RECOMMENDATION REPORT

Copy for Members only

PENSIONS COMMITTEE 22-01-24

Present:

Councillors:

Stephen Churchman (Chair), John Brynmor Hughes (item 11 onwards), Richard Medwyn Hughes, Elin Hywel, John Pughe Roberts, Ioan Thomas and Robin Williams (Isle of Anglesey County Council)

Officers:

Dewi Morgan (Head of Finance), Delyth Jones-Thomas (Investment Manager), Ffion Madog Evans (Assistant Head of Finance - Accounting and Pensions), Meirion Jones (Pensions Manager), Owain Pritchard (Team Leader Systems and Special Projects) and Lowri Haf Evans (Democracy Services Officer)

Others invited:

Tony Deakin (Member of the Pension Board - observing)

1. APOLOGIES

Apologies were received from Cllr Iwan Huws.

2. DECLARATION OF PERSONAL INTEREST

None to note.

3. URGENT ITEMS

None to note.

4. MINUTES

The Chair accepted the minutes of the meeting held on 27 November 2023 as a true record.

5. EXCLUSION OF PRESS AND PUBLIC

RESOLVED to exclude the press and public from the meeting during the discussion on the following items due to the likely disclosure of exempt information as defined in paragraph 14, Schedule 12A of the Local Government Act 1972 - Information about the financial or business transactions of any specific person (including the authority that retains that information). There was an acknowledged public interest in openness in relation to the use of public resources and related financial issues. However, it was also acknowledged that there were occasions, in order to protect public financial interests, where commercial information must be discussed without being publicised. The reports related specifically to a proposed procurement process. Publicising such commercially sensitive information could be detrimental to the interests of the Council and its partners by undermining competition. This would be contrary to

the wider public interest of securing the best overall outcome. For these reasons, the matter was closed in the public interest.

6. PROCUREMENT OF ADMINISTRATIVE SYSTEM

Submitted – a report by the Pensions Manager providing information on the proposal to award a contract for a Pensions Administration System.

It was reported that Cyngor Gwynedd as the Administrative Authority of the Gwynedd Pension Fund, had a statutory responsibility to provide proper administration of the LGPS for all members of the Gwynedd Pension Fund. This would include interpreting legislative changes ensuring that a robust and efficient pension administration system was in place, one that addressed the complexities of historical and recent pension reform and was ready for any future changes. It was reiterated that it was essential for the Council, in meeting statutory obligations, to use a pensions management system that can accurately handle the complexities of calculating scheme members' benefits as well as retaining relevant data such as a Document Management and Electronic Records system.

Members had been requested to consider a contract for a Pensions Administration software provider to ensure continuity of Service so that the Council fulfils its statutory pension scheme duties at the conclusion of the current arrangements.

The performance of the existing provider was discussed as well as the proposed costs of the agreement together with the implementation of a direct award (ideally a tender exercise would have been initiated at least 18 months before the current contract expired, but as this had not occurred it was necessary to implement a solution).

It was proposed and seconded that a Direct Award be given to the existing supplier for a further period of five years (17 September 2024 - 16 September 2029).

Gratitude was expressed for the report.

Observations arising from the ensuing discussion:

- That the cost was quite fixed
- That new elements were proposed with the new contract
- That the service was consistent
- That there was good collaboration
- Making good use of Welsh - cost negotiation suggestion that Gwynedd had taken the lead on the Welsh language element.

In response to a question regarding choosing not to complete a commissioning /tendering process to test the market and if this was a prudent decision, the Head of Finance noted that the process was completed in accordance with a specific procedure within procurement regulations.

Resolved:

- **To approve the awarding of a contract, in accordance with Regulation 32 of the Public Contracts Regulations, for a Pensions Administration Software contract for a 5-year contract term**
- **To approve a one-off payment in relation to the licence fee in the current tax year (2023/24)**
- **To approve a payment in relation to annual support and maintenance costs for a 5-year contract.**

- **To delegate authority to the Pensions Manager to reach an agreement on the final contract terms with the company and authorise the implementation of that contract by Cyngor Gwynedd.**

Note:

To negotiate the cost for leading on the Welsh language element.

7. ROBECO ENGAGEMENT SERVICE – ENGAGEMENT REPORT 01-07-2023 UNTIL 30-09-2023

A quarterly report was submitted summarising the work Robeco (Wales Pension Partnership Voting and Engagement Provider) delivers on behalf of the Pension Fund including engagement work.

It was reported that Robeco offered different levels of engagement, and detailed statistics of the topics of discussion, the number of companies, the number of activities and further details of the engagement completed in the last quarter were presented. They reiterated that they also chose an engagement theme for each quarter and over the last period it had been Zero Carbon Emissions.

It was highlighted that it was intended to invite Robeco to future Wales Pension Partnership training sessions and that Members would be invited to attend these sessions.

Observations arising from the ensuing discussion:

- That consideration needed to be given to how to use / do more with the information that was gathered

RESOLVED:

To accept and note the contents of the report

8. RE-OPEN THE MEETING TO THE PRESS AND PUBLIC

It was proposed and seconded to re-open the meeting to the press and public

RESOLVED to re-open the meeting to the press and public

9. WALES PENSION PARTNERSHIP (WPP) UPDATE

A report was submitted by the Investment Manager which now appeared regularly on the Pensions Committee agenda as a means of ensuring that Members received current and up-to-date information of the WPP's work. Reference was made to a summary of the discussions and decisions of the meeting of the Joint Governance Committee (the Partnership's decision-making body) held on 13 December 2023, with particular attention to a review of the Business Plan for 2023/24.

Reference was made to the update of operator Waystone (previously Link) which provided regulatory services together with information on all the funds established by the Partnership (Gwynedd being part of 8 of them, with 83% of the Gwynedd Fund pooled with the Partnership) and to a record of the performance of those funds.

Attention was drawn to the performance of the funds, and to the analysis and performance of each sub-fund highlighting that, in the context of equities in particular,

the period had been a challenging one with interest rates staying higher for longer, and the price of oil causing inflation to remain high.

In the context of future developments, it was reported that work would be undertaken with the Partnership to consider and develop property pooling options with the tender process already underway to identify a provider. It was also noted that joining the open-ended Infrastructure Sub-fund and Schroders private equity mandate continued.

Thanks was expressed for the report.

In response to a question about what would happen to the existing property portfolio and whether it would transfer to the new fund, it was noted that this would be part of the discussion with the new provider and the need to provide what was best for Gwynedd. Options would include, transferring the existing portfolio to a new fund or setting up a new fund for new finance and keeping the existing finance with the existing management.

RESOLVED to accept and note the quarterly update of the Wales Pension Partnership.

10. TREASURY MANAGEMENT 2023-24 MID YEAR REVIEW

Submitted, for information, a report highlighting the Council's actual Treasury Management activity during the current financial year. In accordance with the Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) it was a requirement that authorities report on the performance of the treasury management function at least twice a year (mid-year and at year end).

At the Pensions Committee meeting in March 2023, it was resolved to allow Pension Fund surplus funds to be accumulated and co-invested with the Council's overall cash flow for the 2023/24 financial year. It was highlighted that during the six months between 1 April and 30 September 2023 no banks where the Council had deposited money had failed to repay. It was reiterated that the Council's investment income was estimated to be higher than expected in the 2023/24 budget.

The economic backdrop, money markets and credit reviews for the period were highlighted. In terms of investment activities, reference was made to the types of investments invested which, in accordance with practice, included banks and building societies, local authorities, money market funds, pooled funds and the debt management office.

It was confirmed that treasury management activities undertaken during the period had fully complied with the investment restrictions of the CIPFA Code of Practice. It was highlighted that the only indicator with non-compliance was the 'Interest Rate Disclosure' and it was clarified that this indicator was set when there were lower interest conditions at the beginning of 2023, and therefore it was reasonable that the amounts were so different. It was reiterated that it was good news that the interest income was significantly higher.

Thanks were given for the report.

In response to a question about Birmingham and Warrington Councils and if the Council had loaned them money, it was noted that the Council had loaned money to Birmingham Council, but the money had been paid back. It was reiterated that Arlingclose was keeping track of the current position of Councils and shared a list of those Councils that were acceptable to invest in.

In response to a question about the interest rate indicator and if there should be concern about this or if it should be corrected, it was noted that the Gwynedd Pension Fund was not dependent on this interest income and it was only a bonus, however the importance of keeping an eye on the situation was noted as interest rates were likely to fall.

RESOLVED

To accept the report and note the information

11. APPROVING THE 2024/2025 BUDGET

The Investment Manager submitted a report seeking the Committee's approval of a budget for the Pensions Administration Unit and the Investment Unit for the 2024-2025 financial year. It was reported that the budget was approved on an annual basis by the Pensions Committee.

Reference was made to the Administration Unit budget, reporting that 24 staff members were employed along with the costs of systems, printing, and central reimbursements. It was noted that costs were consistent apart from an inflation figure, with an adjustment of £28,600 for an increase in the annual cost for software fees. Reference was made to the costs of the Investment Unit which are shared between the Fund and Cyngor Gwynedd as the Unit was also responsible for Treasury Management.

The Investment Manager noted that adviser costs and investment managers' costs were part of her responsibility but these varied depending on the performance of the investments and the work needed to be carried out by the consultants. It was considered that setting a detailed budget for consultant costs would not be beneficial as expenditure was changing, however it was reiterated that the expenditure was fully reported within the final accounts and in the Fund's Annual Report.

Gratitude was expressed for the report.

RESOLVED:

To accept the report and approve the budget for the 2024/25 financial year for the Pensions Administration Unit and the Investment Unit.

12. 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 reviews and notes the objectives for 2024. It was reported, following a review of the investment consulting and fiduciary management markets, that the Competition and Markets Authority had noted that Pension Scheme Trustees should set objectives for their investment consultants, and clearly stipulate what was expected from them.

It was reported that Hymans was performing good work and over the past year had been collaborating and providing advice on the Strategic Asset Allocation in the recent re-assessment of the funding level; assisted in determining the appropriate level of commitments to the private markets and ensured that the Fund had adequate cash flow to pay the pensioners on a monthly basis. It was reiterated that Hymans had also worked with the officers in reviewing internal policies and ensuring compliance with any relevant pension regulations.

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. Whilst accepting also that the fees were high (which was also true for some other companies in the market), Hymans had worked well throughout the year with all partners e.g. the actuary and WPP.

Reference was made to the current objectives and the progress made against those objectives during 2023 together with the objectives for 2024. The main objectives for 2023 were identified and combined into 10 key objectives for 2024. Reference was also made to the projects that were likely to take place in 2024 and the support needed from the investment consultants to implement them.

It was reported that Hymans had given a service to the Council for years, but in the next 6 months the Council would issue a tender for the consultative work establishing a specific contract (which would also include a transitional period). This was reiterated as an appropriate step to take and would be an opportunity to look at what the market had to offer and add a competitive element.

Gratitude was expressed for the report.

RESOLVED

- **To accept and note the information.**
- **To accept the progress made on the consultants' objectives during 2023**

13. CLIMATE SCIENCE AND ECONOMIC MODELLING

The Investment Manager presented a report, responding to how the Gwynedd Pension Fund had considered the climate in setting its funding and investment strategy, and how this would develop in the future.

It was reported that several articles had been published recently which stated that the advice that pension funds received did not follow climate science, and therefore risked these investments (this was based mainly on a report by Carbon Tracker (July 2023)). It was noted that some Pension Board members had also drawn officers' attention to the articles and shared their concerns. In response to those concerns it was resolved to investigate how the Gwynedd Pension Fund had taken the climate into account when setting the funding and investment strategies, and how this would evolve in the future.

The main message from Carbon Tracker, a not-for-profit company that examined climate risk, was that economic papers ignored climate 'tipping points' which meant that changes in the economic impact from global warming were "much more likely to be disruptive and sudden, rather than continuous and relatively gradual".

It was noted that concerns had been shared with Hymans Robertson, the Fund's investment consultants who, agreed that the report raised valid points, but that the aspects they referred to had been taken into account when setting the Fund's investment strategy. These issues were considered using 'scenario analysis' with examples of those situations shared with Members. It was recognised that this aspect needed to evolve as an understanding of climate risk developed, and that Hymans would investigate more detailed and more extreme scenarios. It was reiterated that measuring exposure to climate hazards and developing a climate transition action plan would be the next key steps for the Fund to address and to implement TCFD requirements (namely disclosure of the Fund's governance in the context of climate-related risks and opportunities).

Gratitude was expressed for the report and to the Pension Board for highlighting the issue.

In response to a question about the Gwynedd Fund's use of the three scenarios and if they used all three options, it was noted that the Gwynedd Fund would use a relative (not extreme) scenario with the situation assessed every three years (unless there was a startling change and the Committee chose to adapt this).

RESOLVED

To accept and note the contents of the report

14. LAPFF CONFERENCE, BOURNEMOUTH 6 DECEMBER 2023

Following attendance at the LAPFF Conference in Bournemouth, 6 December 2023, the Chair presented verbal information of what had been discussed. He noted that this year's conference was entitled "Impact - Stewardship in a time of Global Crisis", with Environmental, Social and Governance issues at the heart of conference presentations and sessions. He reiterated that the presentations and sessions were intended to focus attendees' minds on the big issues and themes of the day and ask members to consider, when using their position and responsibilities as investors, how best to move these issues forward and make an impact. A brief summary was given of the information and examples gained from the individual sessions.

He noted that the conference was a good one and had included complex issues. He reiterated that there was value in sharing information from the conferences and he intended to offer a regular item on the committee's agenda.

RESOLVED

To accept and note the information.

Note: That Members share information from the conferences attended, as a standing item on the agenda.

The meeting commenced at 14:00 and concluded at 15:10

COMMITTEE:	PENSIONS COMMITTEE
DATE:	19 MARCH 2024
TITLE:	TRAINING PLAN
PURPOSE:	To receive an update on 2023/24 and to approve the 2024/25 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 2023/24 and to approve the 2024/25 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 \(gwyneddpensionfund.wales\)](https://www.gwyneddpensionfund.wales)

3. 2023/24 TRAINING

3.1 The plan adopted in 2023/24 is in appendix 1 with the progress noted. In addition to the Training Plan, the officers and members of the Committee and Board and have also attended a number of conferences during the year.

3.2 There was a requirement for the new Committee and Board members to attend the LGPS Fundamentals course last year, unfortunately due to train strikes and a change in locations, not all members managed to attend. All members have now completed this requirement during the year.

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 2024/25 and can be seen in Appendix 2.

5. RECOMMENDATION

5.1 The Committee is asked to accept the report and approve the 2024/25 Training plan.

Gwynedd Pension Fund Training Plan 2023/24 - Update

Subject	Date	Applies to	Provider	Completed?
Private Market Asset Classes (Private Equity and Property)	Q1	Officers, Committee and Board Members	Wales Pension Partnership	✓
Levelling Up/ Development Opportunities	April – June 2023		Wales Pension Partnership	✓
TCFD Reporting	Q2	Officers, Committee and Board Members	Wales Pension Partnership	✓
Performance Reporting	July – September 2023		Wales Pension Partnership	✓
Responsible Investing: Voting and Engagement	Q3	Officers, Committee and Board Members	Wales Pension Partnership	✓
Responsible Investing within the WPP Sub Funds	October – December 2023		Wales Pension Partnership	✓
Progress of other LGPS pools and collaboration opportunities	Q4	Officers, Committee and Board Members	Wales Pension Partnership	✓
Pooling Guidance	January – March 2024		Wales Pension Partnership	✓
LGPS Fundamentals	Autumn 2023	New Committee members	Local Government Association	✓
Accounts Closedown	March 2024	Officers	CIPFA	X- no change in the accounting rules

Gwynedd Pension Fund Training Plan 2023/24 - Update

The following conferences and training events were also attended by officers, Committee and Board members as part of their professional development:

- LGC Investment Seminar
- LAPF Strategic Investment Forum
- LAPFF Annual Conference
- DG Publishing Pooling Symposium



Gwynedd Pension Fund Training Plan 2024/25

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 2024/25 financial year which are based on current topical priorities:

Topic	Provisional Date	Applies to	Provider
WPP Pooled investments	Q1	Officers, Committee and Board Members	Wales Pension Partnership
Overview of cyber security and considerations for WPP	April – June 2024		Wales Pension Partnership
Responsible Investment Policy	Q2 July – September 2024	Officers, Committee and Board Members	Wales Pension Partnership
Climate Risk Policy			Wales Pension Partnership
Stewardship Policy			Wales Pension Partnership
Net Zero journey planning	Q3	Officers, Committee and Board Members	Wales Pension Partnership
Climate metrics	October – December 2024		Wales Pension Partnership
Progress of other LGPS pools and collaboration opportunities	Q4	Officers, Committee and Board Members	Wales Pension Partnership
Any new regulatory/ guidance developments	January – March 2025		Wales Pension Partnership
Accounts Closedown	February 2025	Officers	CIPFA

MEETING:	PENSIONS COMMITTEE
DATE:	19 MARCH 2024
TITLE:	TREASURY MANAGEMENT STRATEGY STATEMENT FOR 2024/25
PURPOSE:	To ask the Pensions Committee to adopt the strategy and confirm pooling arrangements
RECOMMENDATION:	RECEIVE THE REPORT FOR INFORMATION
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 Cyngor Gwynedd's Treasury Management Strategy Statement (TMSS) for 2024/25, as amended for the purpose of the Pension Fund (which is attached as Appendix A). Cyngor Gwynedd's TMSS for 2024/25 was approved by the full Council on 7th March 2024.

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 Cyngor Gwynedd has been over £40 million.

3. POOLING IN ORDER TO MAXIMISE RETURNS

Currently all the Fund's surplus cash is pooled with the cash balances of Cyngor Gwynedd and invested with counterparties in accordance with Cyngor Gwynedd's Treasury Management Strategy Statement. At the end of the financial year, Cyngor Gwynedd 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 7th March 2024 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 2024/25, as amended for the Gwynedd Pension Fund (Appendix A).
- 4.2 The Pensions Committee is also asked to make a request to the Council (even though it is not a separate body) to allow the Pension Fund's surplus cash balances to be pooled with the Council's general cashflow from 1 April 2024 onwards.

Treasury Management Strategy Statement 2024/25

1. Introduction

- 1.1 Treasury management is the management of the Council's cash flows and investments, and the associated risks. The Council 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. External Context

2.1 Economic background

The impact on the UK from higher interest rates and inflation, a weakening economic outlook, an uncertain political climate due to an upcoming general election, together with war in Ukraine and the Middle East, will be major influences on the Council's treasury management strategy for 2024/25.

The Bank of England (BoE) increased Bank Rate to 5.25% in August 2023, before maintaining this level for the rest of 2023. In December 2023, members of the BoE's Monetary Policy Committee voted 6-3 in favour of keeping Bank Rate at 5.25%. The three dissenters wanted to increase rates by another 0.25%.

The November quarterly Monetary Policy Report (MPR) forecast a prolonged period of weak Gross Domestic Product (GDP) growth with the potential for a mild contraction due to ongoing weak economic activity. The outlook for CPI inflation was deemed to be highly uncertain, with upside risks to CPI falling to the 2% target coming from potential energy price increases, strong domestic wage growth and persistence in price-setting.

Office for National Statistics (ONS) figures showed CPI inflation was 3.9% in November 2023, down from a 4.6% rate in the previous month and, in line with the recent trend, lower than expected. The core CPI inflation rate declined to 5.1% from the previous month's 5.7%, again lower than predictions. Looking ahead, using the interest rate path implied by financial markets, the BoE expects CPI inflation to continue falling slowly, but taking until early 2025 to reach the 2% target before dropping below target during the second half 2025 and into 2026.

ONS figures showed the UK economy contracted by 0.1% between July and September 2023. The BoE forecasts GDP will likely stagnate through 2024. The BoE forecasts that higher interest rates will constrain GDP growth, which will remain weak over the entire forecast horizon.

The labour market appears to be loosening, but only very slowly. The unemployment rate rose slightly to 4.2% between June and August 2023, from 4.0% in the previous 3-month period, but the lack of consistency in the data between the two periods made comparisons difficult. Earnings growth has remained strong, but has showed some signs of easing; regular pay (excluding bonuses) was up 7.3% over the period and total pay (including bonuses) up 7.2%. Adjusted for inflation, regular pay was 1.4% and total pay 1.3%. Looking forward, the MPR showed the unemployment rate is expected to be around 4.25% in the second half of calendar 2023, but then rising steadily over the forecast horizon to around 5% in late 2025/early 2026.

Having increased its key interest rate to a target range of 5.25-5.50% in August 2023, the US Federal Reserve appears now to have concluded the hiking cycle. It is likely this level represents the peak in US rates following a more dovish meeting outcome in December 2023. US GDP grew at an annualised rate of 4.9% between July and September 2023, ahead of expectations for a 4.3% expansion and the 2.1% reading for Q2. But the impact from higher rates has started to feed into economic activity and growth will weaken in 2024. Annual CPI inflation was 3.1% in November.

Eurozone inflation has declined steadily since the start of 2023, falling to an annual rate of 2.4% in November 2023. Economic growth has been weak and GDP contracted by 0.1% in the three months to September 2023. In line with other central banks, the European Central Bank has increased rates, taking its deposit facility,

fixed rate tender, and marginal lending rates to 3.75%, 4.25% and 4.50% respectively.

2.2 Credit outlook

Credit Default Swap (CDS) prices were volatile during 2023, spiking in March on the back of banking sector contagion concerns following the major events of Silicon Valley Bank becoming insolvent and the takeover of Credit Suisse by UBS. After then falling back in Q2 of calendar 2023, in the second half of the year, higher interest rates and inflation, the ongoing war in Ukraine, and now the Middle East, have led to CDS prices increasing steadily.

On an annual basis, CDS price volatility has so far been lower in 2023 compared to 2022, but this year has seen more of a divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities once again.

Moody's revised its outlook on the UK sovereign to stable from negative to reflect its view of restored political predictability following the volatility after the 2022 mini-budget. Moody's also affirmed the Aa3 rating in recognition of the UK's economic resilience and strong institutional framework.

Following its rating action on the UK sovereign, Moody's revised the outlook on five UK banks to stable from negative and then followed this by the same action on five rated local authorities. However, within the same update the long-term ratings of those five local authorities were downgraded.

There remain competing tensions in the banking sector, on one side from higher interest rates boosting net income and profitability against another of a weakening economic outlook and likely recessions that increase the possibility of a deterioration in the quality of banks' assets.

However, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

2.3 Interest rate forecast (December 2023)

Although UK inflation and wage growth remain elevated, the Council's treasury management adviser Arlingclose forecasts that Bank Rate has peaked at 5.25%. The Bank of England's Monetary Policy Committee will start reducing rates in 2024 to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. Arlingclose sees rate cuts from Q3 2024 to a low of around 3% by early-mid 2026.

Arlingclose expects long-term gilt yields to be broadly stable at current levels (amid continued volatility), following the decline in yields towards the end of 2023, which reflects the expected lower medium-term path for Bank Rate. Yields will remain relatively higher than in the past, due to quantitative tightening and significant bond supply. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

A more detailed economic and interest rate forecast provided by Arlingclose is attached in **Appendix 1**.

- 2.4** For the purpose of setting the budget, it has been assumed that new treasury management investments will be made at an average rate of 4.7% in 2024/25.

3. Treasury Investment Strategy

- 3.1** The Council holds significant 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 £118.5 and £270.2 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 2024/25 at its meeting on 19th March 2024.

3.2 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.

3.3 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.

3.4 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.

3.5 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.

3.6 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.

3.7 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.

3.8 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.

3.9 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.

3.10 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.

3.11 Registered providers (unsecured)

Loans to, and bonds issued or guaranteed by, 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.

3.12 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.

3.13 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.

3.14 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.

3.15 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.

3.16 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.

3.17 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.

3.18 Reputational aspects

The Council is aware that investment with certain counterparties, while considered secure from a purely financial perspective, may leave it open to criticism, valid or otherwise, that may affect its public reputation, and this risk will therefore be taken into account when making investment decisions.

3.19 Other information on the security of investments

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020 and 2022, 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.

3.20 Investment limits

The Council's revenue reserves available to cover investment losses are forecast to be £95 million on 31st March 2024. In order that no more than 10.5% 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

3.21 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.

4. Treasury Management Prudential Indicators

The Council measures and manages its exposures to treasury management risks using the following indicators.

4.1 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

4.2 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

4.3 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	£2,290,000
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	£2,290,000

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.

4.4 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	2024/25	2025/26	2026/27	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.

5. Related Matters

5.1 The CIPFA Code requires the Council to include the following in its Treasury Management Strategy.

5.2 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.

5.3 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.

5.4 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.

6. Welsh Government Guidance

Further matter required by the Welsh Government Guidance are included in **Appendix 3**.

7. Financial Implications

- 7.1 The budget for investment income in 2024/25 is £3.2 million based on an average investment portfolio of £81.1 million at an interest rate of 4.7% for deposits and £13 million of pooled funds at a return of 4.3%.

8 Other Options Considered

- 8.1 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 2023

Underlying assumptions:

- UK inflation and wage growth remain elevated but have eased over the past two months fuelling rate cuts expectations. Near-term rate cuts remain unlikely, although downside risks will increase as the UK economy likely slides into recession.
- The MPC's message remains unchanged as the Committee seeks to maintain tighter financial conditions. Monetary policy will remain tight as inflation is expected to moderate to target slowly, although some wage and inflation measures are below the Bank's last forecasts.
- Despite some deterioration in activity data, the UK economy remains resilient in the face of tighter monetary policy. Recent data has been soft but mixed; the more timely PMI figures suggest that the services sector is recovering from a weak Q3. Tighter policy will however bear down on domestic and external activity as interest rates bite.
- Employment demand is easing. Anecdotal evidence suggests slowing recruitment and pay growth, and we expect unemployment to rise further. As unemployment rises and interest rates remain high, consumer sentiment will deteriorate. Household and business spending will therefore be weak.
- Inflation will fall over the next 12 months. The path to the target will not be smooth, with higher energy prices and base effects interrupting the downtrend at times. The MPC's attention will remain on underlying inflation measures and wage data. We believe policy rates will remain at the peak for another 10 months, or until the MPC is comfortable the risk of further second-round effects has diminished.
- Maintaining monetary policy in restrictive territory for so long, when the economy is already struggling, will require significant loosening in the future to boost activity.
- Global bond yields will remain volatile. Markets are currently running with expectations of near-term US rate cuts, fuelled somewhat unexpectedly by US policymakers themselves. Term premia and bond yields have experienced a marked decline. It would not be a surprise to see a reversal if data points do not support the narrative, but the current 10-year yield appears broadly reflective of a lower medium- term level for Bank Rate.
- There is a heightened risk of fiscal policy and/or geo-political events causing substantial volatility in yields.

Forecast:

The MPC held Bank Rate at 5.25% in December. We believe this is the peak for Bank Rate.

- The MPC will cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. We see rate cuts from Q3 2024 to a low of around 3% by early-mid 2026.
- The immediate risks around Bank Rate have become more balanced, due to the weakening UK economy and dampening effects on inflation. This shifts to the downside in the short term as the economy weakens.
- Long-term gilt yields are now substantially lower. Arlingclose expects yields to be flat from here over the short-term reflecting medium term Bank Rate forecasts. Periodic volatility is likely.

	Current	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00
Central Case	5.25	5.25	5.25	5.25	5.00	4.75	4.25	4.00	3.75	3.50	3.25	3.00	3.00
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
3-month money market rate													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00
Central Case	5.40	5.40	5.40	5.30	5.15	4.80	4.30	4.10	3.80	3.50	3.25	3.05	3.05
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
5yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.77	3.75	3.75	3.75	3.70	3.60	3.50	3.50	3.40	3.30	3.30	3.30	3.35
Downside risk	0.00	-0.25	-0.75	-0.85	-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	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.72	3.75	3.80	3.80	3.80	3.80	3.80	3.80	3.75	3.65	3.60	3.65	3.70
Downside risk	0.00	-0.25	-0.75	-0.85	-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	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.16	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.25
Downside risk	0.00	-0.25	-0.75	-0.85	-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	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.76	3.80	3.85	3.90	3.90	3.90	3.90	3.90	3.90	3.90	3.95	3.95	3.95
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00

PWLB Standard Rate = Gilt yield + 1.00%

PWLB Certainty Rate = Gilt yield + 0.80%

PWLB HRA Rate = Gilt yield + 0.40%

UK Infrastructure Bank Rate = Gilt yield + 0.40%

Appendix 2- Existing Investment Portfolio Position

	31.12.2023 Actual Portfolio £m	31.12.2023 Average Rate %
Treasury investments:		
Bank and Building Societies (unsecured)	10.5	5.34
The UK Government	18.8	5.19
Local Authorities	93.0	5.42
Money Market Funds	62.0	5.30
Pooled funds	13.0	5.79
Total treasury investments	197.3	5.38

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.

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 2023, 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.

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 7th February 2024. 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: 19 MARCH 2024

TITLE: WALES PENSION PARTNERSHIP BUSINESS PLAN

PURPOSE: To approve the Business Plan

RECOMMENDATION: APPROVE BUSINESS PLAN

AUTHOR: DELYTH JONES-THOMAS, INVESTMENT MANAGER

1. INTRODUCTION

The Wales Pension Partnership has updated its Business Plan and is seeking approval from the individual committees within the partnership.

The Business Plan was introduced to the Joint Governance Committee for approval on March 13th.

2. BUSINESS PLAN

The Wales Pension Partnership business plan details how the partnership is going to achieve its goals. The business plan is constantly monitored and is formally reviewed and agreed every year. The purpose of the business plan is to:

- Explain the background and governance structure of the WPP
- Outline the priorities and objectives over the next three years
- Outline the financial budget for the relevant Business Plan period
- Summarise the WPP's Investments & Performance Objectives

It lays out the plan from a marketing, financial and operational viewpoint, outlining the priorities for the partnership during 2024-2027 and ensuring that resources are allocated to meet its objectives.

The Business Plan is attached for your review in Appendix 1.

3. RECOMMENDATION

To approve the Business Plan.



Wales Pension Partnership Business Plan 2024-2027



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Introduction

This is the business plan for the Wales Pension Partnership ('WPP'), the business plan details the WPP's priorities and areas of focus for, 2024/25, 2025/26 and 2026/27. The business plan is constantly monitored and is formally reviewed and agreed every year. The purpose of the business plan is to:

- Explain the background and governance structure of the WPP
- Outline the priorities and objectives of the WPP over the next three years
- Outline the financial budget for the relevant Business Plan period
- Summarise the WPP's Investments & Performance Objectives

About the Wales Pension Partnership

Established in 2017, the WPP is a collaboration of the eight LGPS funds (Constituent Authorities) covering the whole of Wales and is one of eight national Local Government Pension pools. We have a long, successful history of collaboration, including examples that pre-date the Government's pooling initiative. We are proud of our unique identity as a Pool – our Constituent Authorities represent and span the entirety of Wales. Being democratically accountable means, we provide the best of strong public sector governance and transparency.

Our operating model is designed to be flexible and deliver value for money. We appointed an external fund Operator and make use of external advisers to bring best of breed expertise to support the running of the Pool, this includes Hymans Robertson who have been appointed as the WPP's Oversight Advisor. The Operator is Waystone Management (UK) Limited (Waystone) and they have partnered with Russell Investments to deliver effective investment management solutions with the aim of achieving strong net of fee performance for all the Constituent Authorities. We have a shared vision and agreement on the means and pace at which this vision will be achieved. The eight LGPS Funds (Constituent Authorities) of the Wales Pension Partnership are:



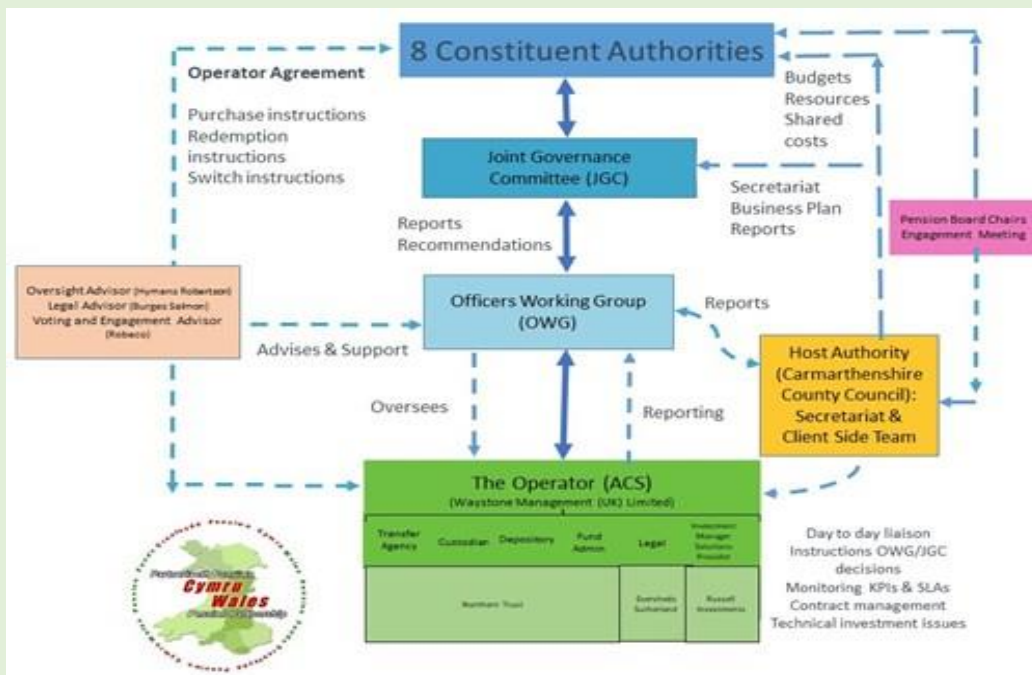
Governance

The WPP is responsible for ensuring that its business is conducted in accordance with regulation and guidance. We must also ensure that: public money is safeguarded and properly accounted for, used economically, efficiently and effectively to ensure value for money. We also strive for continuous improvement and to conform with industry best practice.

The WPP details how it deals with all aspects of Governance through its Inter Authority Agreement (IAA), which defines the standards, roles and responsibilities of the Constituent Authorities, its Members, Committees and Officers. The IAA includes a Scheme of Delegation outlining the decision-making process, taking into account the relevant legislation. In line with its belief that good governance should lead to superior outcomes for stakeholders, the WPP has put in place a robust governance structure, which has been designed to:



The diagram below shows WPP's governance structure:



The Constituent Authorities sit at the top of the WPP's governance structure. They retain control of all activity carried out by the WPP and remain responsible for approving this Business Plan, which outlines the WPP's budget and workplan, as well as its beliefs and objectives. The Constituent Authorities are heavily involved in all aspects of the WPP's governance structure, while the WPP's Joint Governance Committee and Officers Working Group are comprised respectively of elected councillors, scheme member representative and officer representatives from the Constituent Authorities.

The WPP believes in being open and transparent as well as regularly engaging with its key stakeholders. As such the WPP ensures the meetings of the Joint Governance Committee are accessible to the public via a live webcast stream. Meeting papers are also made publicly available. Local Pension Board engagement days are also held regularly as a means of fostering stakeholder engagement. The WPP recognises the importance of all of its stakeholders to reflect this the WPP has put in place an Engagement Protocol Framework, this is carried out via the following engagement mechanisms:

Engagement mechanisms and Frequency:

- | | |
|---|----------------|
| • Strategic Relationship Review meeting | Bi-Annual |
| • JGC Engagement | Quarterly |
| • Manager Performance Meetings/ Calls | Quarterly |
| • Training Events | Quarterly |
| • OWG Engagement | Quarterly |
| • Bi-weekly meetings | Every 2 weeks |
| • Pension Fund Committees | Annual |
| • Manager Engagement Days | Annual |
| • Member Communications | Annual |
| • Pension Board Engagement | Every 6 months |
| • Engagement via the website & LinkedIn | Continuous |

Risk Management

The Wales Pension Partnership ('WPP') recognises that it faces numerous risks which, if left unmanaged, can limit the WPP's ability to meet its objectives and to act in the best interest of its stakeholders and beneficiaries. However, the WPP also understands that some risks cannot be fully mitigated and that in these instances' risks need to be embraced through active and effective management.

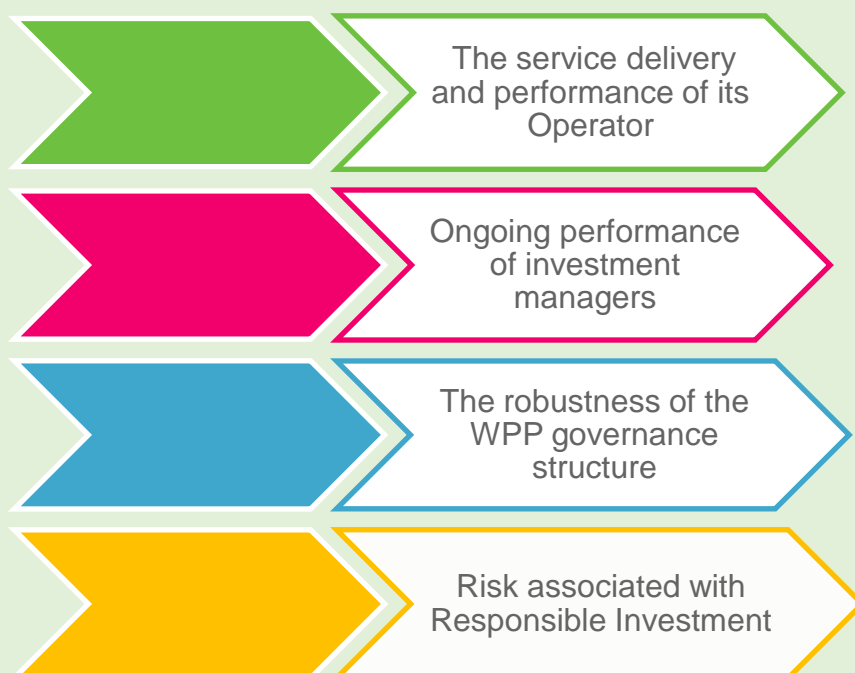
Risk management is a critical element of WPP's commitment to good governance, the WPP has developed a structured, extensive and robust risk strategy. This strategy will be embedded into the WPP's governance framework to ensure better decision-making, improved outcomes for stakeholders and greater efficiency.

The WPP's risk strategy seeks to identify and measure key risks and ensure that suitable controls and governance procedures are in place to manage these risks. The WPP believes that risks are fluid in nature and that the severity and probability of risks can change rapidly and without warning. To reflect this belief, the WPP's Risk Policy has been developed in such a way that risks can be anticipated and dealt with in a swift, effective manner to minimise potential loss or harm to the WPP and its stakeholders.

To deliver on its objectives, the WPP needs to carry out activities or seize opportunities that subject it to risk. The extent to which the WPP is able to effectively balance risk and return will depend on the success of its Risk Policy. It is critical that prior to making decisions the WPP understands the associated risks and considers the means by which these risks could be managed.

The greatest risk to the WPP's continued operation is its ability to deliver on its primary objectives. The WPP's Business Plan is an additional means through which the WPP will give special recognition to risks that pose a material threat to the delivery of its objectives and the actions required to manage these risks.

During the course of this business plan the WPP will seek to develop mechanisms, frameworks and process for managing the following key risks:



Objectives

The WPP is proud to represent the eight Constituent Authorities and recognises its duty to ensure the needs and requirements of all stakeholders are met. The WPP, through consultation with all eight Constituent Authorities, has formulated a list of primary objectives these can be summarised as follows:

- To provide pooling arrangements which allow individual funds to implement their own investment strategies (where practical)
- To achieve material cost savings for participating funds while improving or maintaining investment performance after fees
- To put in place robust governance arrangements to oversee the Pool's activities.
- To work closely with other pools in order to explore the benefits that all stakeholders in Wales might obtain from wider pooling solutions or potential direct investments
- To deliver an investment framework that achieves the best outcomes for its key stakeholders; the Constituent Authorities. The Constituent Authorities will be able to use this framework to deliver the best outcomes for their Scheme Members & Employers
- To embed the delivery of long-term, sustainable investment outcomes into decision making, through capital allocation, the ongoing scrutiny of asset managers, and the exercise of the rights and responsibilities that arise as asset owners.

The eight Constituent Authorities recognise that their strength derives from their shared beliefs and their ability to work together to deliver on their unified objectives for the benefit of all WPP stakeholders.

Beliefs

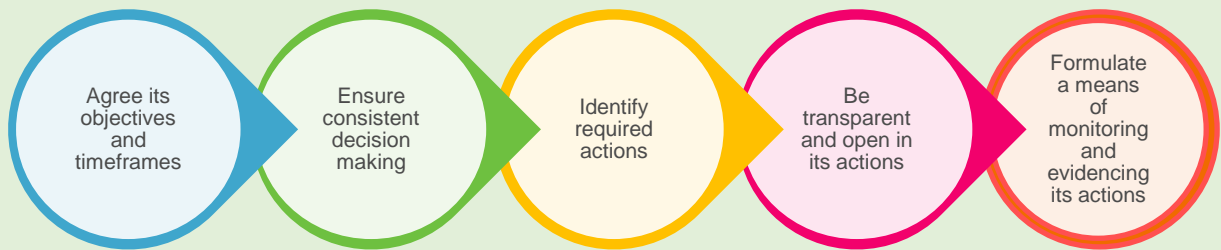
The WPP's Beliefs reflect the collaborative nature and shared values of the Constituent Authorities, they are as follows:

- The WPP's role is to facilitate and provide an investment pooling platform through which the interests of the Constituent Authorities can be implemented
- Good governance should lead to superior outcomes for the WPP's stakeholders
- Internal collaboration between the Host and Constituent Authorities is critical to achieving the WPP's objectives. External collaboration may also be beneficial in delivering cost savings and better outcomes for stakeholders
- Responsible Investment and effective Climate Risk mitigation strategies, alongside consideration and evidential management of broader Environmental, Social and Governance issues, should result in better outcomes for the WPP's stakeholders
- Effective internal and external communication is vital to achieving the WPP's objectives
- External suppliers can be a cost-effective means of enhancing the WPP's resources, capabilities and expertise
- Fee and cost transparency will aid decision making and improve stakeholder outcomes
- Continuous learning, innovation and development will help the WPP and its Constituent Authorities to evolve
- Flexible approach to the WPP pool structure and implementation methods will enable the WPP pool to adapt in future and continue to meet the needs of its stakeholders.

The WPP's beliefs are the foundation for WPP's governance framework and have been used to guide all of the WPP's activities and decision making, including its objectives and policies.

Policies

The WPP believes that good governance should lead to superior outcomes for the WPP’s stakeholders. In recognition of this belief, the WPP, in consultation with the Constituent Authorities, has developed a robust governance structure and framework and a set of governing policies. In all instances the WPP’s policies and procedures have been developed to either complement or supplement the existing procedures and policies of the Constituent Authorities. The WPP understands the importance of formulating and codifying its policies and procedures. This process allows the WPP and the Constituent Authorities, to:



The WPP’s key policies, registers and plans are listed below and can be found on the WPP website.



The WPP’s policies are reviewed on a regular basis and the WPP will continually assess whether any additional policies, registers or plans are required. The policies play a vital role in the WPP’s governance arrangements and have been formulated with the sole purpose of providing a codified framework which will ensure that the WPP achieves its objectives in an effective and transparent means.

Work Plan

The table below shows key priorities and objectives that the WPP aims to complete over the next three years. The workplan has been broken down into a number of key sections which are all vital to the continued success of the WPP

- **Governance** - The WPP believes that good governance leads to better outcomes for its stakeholders, as such it will further develop its governance framework and carry out ongoing reviews of its existing governance documents and structure.
- **Ongoing Sub-Fund development** – To date the WPP has pooled c70% of its assets and a number of other sub funds are in the process of being developed. The WPP will continue to consult with the Constituent Authorities to ensure that all suitable assets are pooled.
- **Operator Services** - The Operator, alongside the third parties that it employs on behalf of the WPP, are critical to the ongoing activities of the WPP, therefore service delivery of the Operator and third-party suppliers are crucial. The current operator contract comes to an end in December 2024 and the procurement process for the new operator contract is underway.
- **Investments and Reporting** - The WPP recognises the importance of ensuring that existing investment solutions remain optimal and aligned to Constituent Authority requirements, while also delivering the investment return expectations of the Constituent Authorities. The WPP will continue to deliver on its reporting requirements covering areas such as investment performance, risk, Stewardship activities, Responsible Investment and Climate, and will develop further reporting, as and when required.
- **Communication and Training** - The WPP wants to ensure that internal stakeholders and external parties are aware of the WPP's progress and publishes numerous report and updates to ensure that it proactively communicates its progress to stakeholders. These can all be found on the WPP website.
- **Resources, Budget and Fees** - The WPP recognises that insufficient resources pose a significant risk to its ability to deliver an investment framework that achieves the best outcomes for its key stakeholders, the WPP carries out a number of reviews to guarantee that it has suitable resources to deliver on this commitment.

Work to be completed	2024 - 2025	2025 - 2026	2026 - 2027
Governance			
Oversight Advisor procurement process	✓		
Voting & Engagement Service provider procurement process	✓		
Legal Services provider procurement process		✓	
Annual review of WPP's policies and plans	✓	✓	✓
Quarterly reviews of the Risk Register	✓	✓	✓
Respond to any pooling related consultations and carry out any necessary changes as a result of consultation outcomes	✓	✓	✓
Ongoing Sub-Fund development			
Launch the real estate investment programmes	✓		
Launch additional Private Market vintages	✓	✓	✓

Consideration of WPP's Levelling up / impact requirements	✓	✓	✓
Consultation with CAs on need for further Sub-Funds, review and develop, as required	✓	✓	✓
Consideration of Local Investment opportunities	✓	✓	✓
Operator Services			
Complete Operator contract procurement process and implement new operator contract	✓		
Operator and Sub-Fund governance Oversight	✓	✓	✓
Investments and Reporting			
Develop & Implement Private Markets reporting	✓		
Climate-related / TCFD reporting	✓	✓	✓
Stewardship Code reporting	✓	✓	✓
Consider additional reporting that demonstrates WPP's commitment to Responsible Investment	✓	✓	✓
On-going Sub-Fund responsible investment and climate risk performance reporting, scrutiny and challenge	✓	✓	✓
Annual performance review of WPP Sub-Funds	✓	✓	✓
Review of Russell Investment's service delivery in delivering WPP's objectives across Sub-Funds	✓		
On-going engagement with Constituent Authorities regarding ESG / RI standards and their climate ambitions	✓	✓	✓
Communication and Training			
Formulation of WPP's Annual Responsible Investment Progress Report	✓	✓	✓
Formulation of WPP's Annual Training Plan	✓	✓	✓
Formulation of WPP's Annual Update	✓	✓	✓
Formulation of WPP's Annual Report	✓	✓	✓
Resources, Budget and Fees			
Annual review of resources and capacity	✓	✓	✓
Formulation of Annual WPP Budget	✓	✓	✓
Review and Monitoring of Operator / external provider fees	✓	✓	✓

Training Plan

It is best practice for WPP personnel 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.

The WPP's training plan is designed to supplement existing Constituent Authority training plans. Local level training needs will continue to be addressed by Constituent Authorities while the WPP training plan will offer training that is relevant to the WPP's pooling activities.

WPP personnel should obtain a degree of knowledge and understanding that ensures they are able to carry out their duties associated with the WPP. WPP personnel should also be aware of the WPP's framework, beliefs, policies, governance matrix, the decision-making process and decision logging process.

To aid WPP personnel, the Host Authority will arrange quarterly training sessions which will cover major areas such as investments, administration, regulation requirements, government guidance and market developments. The WPP's training events will primarily focus on meeting the training needs of members of the OWG and JGC, however Constituent Authorities are encouraged to invite Pension Committee Members, as well as Pension Board Representatives if they believe that the training would be beneficial to these individuals.

We have set out below a list of training topics which the Host Authority will arrange training for during the 2024/25 financial year. WPP's training topics are based on current WPP topical priorities and from an analysis of the WPP training requirements questionnaire/ assessment responses, completed by members of the Joint Governance Committee ('JGC') and Officers Working Group ('OWG').

Product Knowledge and Cyber Security:

- WPP Pooled Investments
- Overview of cyber security and consideration for WPP

Policies:

- Responsible Investment Policy
- Climate Risk Policy
- Stewardship Policy

Responsible Investment (RI):

- Net Zero journey planning
- Climate Metrics

Market Understanding & Regulatory Requirements:

- Progress of other LGPS pools & Collaboration Opportunities
- Any new regulatory / guidance developments

Budget

The table below outlines the WPP's budget for the next three years.

	Forecast 2023-24 outturn	2024-25	2025-26	2026-27
	£'000	£'000	£'000	£'000
Host Authority *	173	231	239	245
External Advisors *	1,559	1,411	1,435	1,541
TOTAL to be recharged	1,732	1,642	1,674	1,786
Operator **	36,079	40,734	45,705	50,231
Allocator **	1,796	7,006	7,016	7,302
TOTAL to be deducted from the NAV	37,875	47,740	52,721	57,533

**Host Authority and External Advisor costs are to be funded equally by all eight of the WPP's Constituent Authorities and these will be recharged on an annual basis.*

***Operator / Allocator Services costs are based on each Constituent Authority's percentage share of WPP assets and are deducted directly from the Net Asset Value (NAV) of the Constituent Authority's assets.*

Investments & Performance

The WPP's Constituent Authorities have total assets of circa £22.5bn (as at 31 March 2023). The Constituent Authorities' passive investments are effectively within the Pool but are held by the respective WPP authorities in the form of insurance policies.

The Officers Working Group receives quarterly, six monthly and annual performance reports, the group reviews and challenges the performance of Investment Managers on behalf of the WPP. The WPP hosts annual manager engagement days, which are used to challenge managers and to facilitate engagement with Constituent Authority Pension Committee and Board Members and the WPP's Investment Managers. The Constituent Authorities also carry out their own analysis of WPP's investment performance at local level, this will include manager attendance at Pension Committees. Below we outline the WPP's existing Sub-Funds.

Equity Sub-Funds



Sub Fund	Performance Benchmark	Participating Funds	Underlying Investment Managers	Launch Date
Global Growth	MSCI ACWI ND	RCT, Dyfed, Gwynedd, Cardiff and Powys	Baillie Gifford, Veritas and Pzena	Feb 19
Global Opportunities	MSCI ACWI ND	Swansea, Torfaen, Gwynedd, RCT and Cardiff	Morgan Stanley, Numeric, Sanders, Jacobs Levy, SW Mitchell, Nissay, Intermede and Oaktree	Feb 19
UK Opportunities	FTSE All Share	Cardiff and Torfaen	Baillie Gifford, Ninety-One, J O Hambro, Liontrust and Fidelity	Sept 19
Emerging Markets	MSCI Emerging Markets ND +1.5%	Cardiff, Clwyd, Gwynedd, Powys and Torfaen	Artisan, Bin Yuan, Barrow Hanley, Axiom, Numeric and Oaktree	Oct 21
Sustainable Active Equity	MSCI ACWI ND	Cardiff, Clwyd, Dyfed, Gwynedd, Powys, RCT, Swansea and Torfaen	Sparinvest, Mirova, Neuberger Berman, Wellington and Artemis	June 23

Fixed Income Sub-Funds

Absolute Return
Bond Fund

Managed by Russell
Investments

Global Government
Bond Fund

Managed by Russell
Investments

Multi-Asset Credit
Fund

Managed by Russell
Investments

Global Credit Fund

Managed by Russell
Investments

UK Credit Fund

Managed by
Waystone
Management (UK)
Limited

Sub Fund	Performance Benchmark	Participating Funds	Underlying Investment Managers	Launch Date
Global Credit	Bloomberg Barclays Global Aggregate Credit Index (GBP Hedged)	Cardiff, Dyfed, Gwynedd, Powys and Torfaen	Western, Metlife, Fidelity and Robeco	July 20
Global Government	FTSE WGBI Index (GBP Hedged)	Cardiff and Torfaen	Bluebay and Colchester	July 20
Multi-Asset Credit	3 Month GBP SONIA plus 4%	Cardiff, Clwyd, Gwynedd, Powys, and Swansea	ICG, Man GLG, BlueBay, Barings and Voya	July 20
Absolute Return Bond Fund	3 Month GBP SONIA plus 2%	Gwynedd, Powys and Swansea	Wellington, Aegon and Insight	Sept 20
UK Credit Fund	ICE BofA ML Eur-Stg plus 0.65%	RCT	Fidelity	July 20

Private Markets

Infrastructure –
closed ended

Managed by GCM
Grosvenor

Participating Funds:
Clwyd, Dyfed,
Gwynedd, Powys,
RCT, Swansea and
Torfaen

Infrastructure –
open ended

Managed by CBRE,
IFM and Octopus

Participating Funds:
Cardiff, Gwynedd,
Powys, Swansea,
Torfaen

Private Credit

Managed by Russell
Investments

Participating Funds:
Cardiff, Clwyd, Dyfed
Gwynedd, Powys,
Swansea and
Torfaen

Private Equity

Managed by
Schroders Capital

Participating Funds:
Cardiff, Clwyd,
Gwynedd, Powys
and Swansea

Contact Details

If you require further information about anything in or related to this business plan, please contact the Wales Pension Partnership:

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Further information on the WPP and ongoing updates on the WPP's progress can be found on the website and LinkedIn page.

The website can be found here:

<https://www.walespensionpartnership.org/>

