

## Pwyllgor Pensiynau a Buddsoddi

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Man Cyfarfod  
**Ystafell Bwyllgor A - Neuadd y Sir,  
Llandrindod, Powys**

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Dyddiad y Cyfarfod  
**Dydd Iau, 11 Chwefror 2016**

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Neuadd Y Sir  
Llandrindod  
Powys  
LD1 5LG

Amser y Cyfarfod  
**10.00 am**

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I gael rhagor o wybodaeth cysylltwch â  
**Stephen Boyd**  
01597 826374  
steve.boyd@powys.gov.uk

05/02/2016

### AGENDA

<b>1.</b>	<b>YMDDIHEURIADAU</b>	<b>PIC5- 2016</b>
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Derbyn ymddiheuriadau am absenoldeb.

<b>2.</b>	<b>COFNODION</b>	<b>PIC6- 2016</b>
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Awdurdodi'r Cadeirydd i lofnodi cofnodion y cyfarfodydd a gynhaliwyd ar 30 medi 2015, 21 Hydref 2015 a 14 Ionawr 2016 fel cofnodion cywir.  
(Tudalennau 5 - 14)

<b>3.</b>	<b>DATGANIADAU O DDIDDORDEB</b>	<b>PIC7- 2016</b>
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Derbyn unrhyw ddatganiadau o ddiddordeb gan Aelodau yn ymwneud ag eitemau i'w hystyried ar yr agenda.

<b>4.</b>	<b>CYNIGION AR GYFER DIWYGIO BUDDSODDIADAU CYNLLUN PENSIWN LLYWODRAETH LEOL</b>	<b>PIC8- 2016</b>
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Ystyried adroddiad y Cyfarwyddwr Strategol - Adnoddau.  
(Tudalennau 15 - 24)

<b>5.</b>	<b>DIWYGIO CYNLLUN PENSIWN LLYWODRAETH LEOL - CRONFA'R PROSIECT</b>	<b>PIC9- 2016</b>
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Ystyried adroddiad y Cyfarwyddwr Strategol - Adnoddau.  
(Tudalennau 25 - 26)

<b>6.</b>	<b>CYFUNO - BONDIAU GODDEFOL</b>	<b>PIC10- 2016</b>
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Ystyried adroddiad y Cyfarwyddwr Strategol - Adnoddau.  
(Tudalennau 27 - 28)

<b>7.</b>	<b>COFRESTR RISG</b>	<b>PIC11- 2016</b>
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Ystyried adroddiad y Cyfarwyddwr Strategol - Adnoddau  
(Tudalennau 29 - 46)

<b>8.</b>	<b>PENODI YMGYNGHORYDD MEDDYGOL Y GRONFA BENSIWN</b>	<b>PIC12- 2016</b>
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Ystyried adroddiad y Cyfarwyddwr Strategol - Adnoddau  
(Tudalennau 47 - 48)

<b>9.</b>	<b>DAWNS POWYS</b>	<b>PIC13- 2016</b>
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Ystyried adroddiad y Cyfarwyddwr Strategol - Adnoddau  
(Tudalennau 49 - 50)

<b>10.</b>	<b>GWASANAETHAU EIDDO A RHEOLI ADEILADU</b>	<b>PIC14- 2016</b>
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Ystyried adroddiad y Cyfarwyddwr Strategol - Adnoddau  
(Tudalennau 51 - 52)

<b>11.</b>	<b>DIWYGIO'R CYNLLUN PENSIWN LLYWODRAETH LEOL - CRONFA CYMRU</b>	<b>PIC15- 2016</b>
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Ystyried adroddiad y Cyfarwyddwr Strategol - Adnoddau

<b>12.</b>	<b>GOHEBIAETH</b>	<b>PIC16- 2016</b>
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12.1. **Diweddariad ar y Cydweithio**  
(Tudalennau 53 - 60)

12.2. **Seilwaith**  
(Tudalennau 61 - 70)

12.3. **Lancashire & LPFA**  
(Tudalennau 71 - 82)

12.4. **Cyfuno Cynllun Pensiwn Llywodraeth Leol (UNISON)**

(Tudalennau 83 - 86)

## 12.5. Bwrdd Ymgynghorol y Cynllun

(Tudalennau 87 - 90)

<b>13.</b>	<b>COFNODION Y BWRDD PENSIWN</b>	<b>PIC17- 2016</b>
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Derbyn cofnodion drafft cyfarfodydd Bwrdd Pensiwn Powys a gynhaliwyd ar 27 Tachwedd 2015 a 22 Ionawr 2016, er gwybodaeth.

(Tudalennau 91 - 100)

<b>14.</b>	<b>EITEMAU WEDI'U HEITHRIO</b>	<b>PIC18- 2016</b>
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Mae'r Swyddog Monitro wedi penderfynu bod yr eitemau canlynol yn destun categori 3 y Rheolau Trefn Mynediad at Wybodaeth. Ei farn o ran prawf lles y cyhoedd (wedi ystyried darpariaethau Rheol 11.8, Rheolau Mynediad at Wybodaeth y Cyngor), oedd y byddai gwneud y wybodaeth hon yn gyhoeddus yn datgelu gwybodaeth ynglyn â materion ariannol neu fusnes unrhyw unigolyn penodol (gan gynnwys yr awdurdod yn cadw'r wybodaeth honno).

Yn ei farn ef, mae'r ffactorau hyn yn fwy pwysig na diddordeb y cyhoedd wrth ddatgelu'r wybodaeth. Gofynnir i Aelodau ystyried y ffactorau hyn wrth benderfynu ar brawf lles y cyhoedd, a dylent benderfynu hyn wrth iddynt ystyried eithrio'r cyhoedd o'r rhan hon o'r cyfarfod.

<b>15.</b>	<b>ADRODDIAD BUDDSODDI CHWARTEROL</b>	<b>PIC19- 2016</b>
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Ystyried adroddiad buddsoddi chwarterol gan Aon Hewitt.

(Tudalennau 101 - 122)

<b>16.</b>	<b>DYRANIAD ASED AU TYMOR CANOLIG</b>	<b>PIC20- 2016</b>
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Ystyried Diweddariad o'r Dyraniad Asedau Tymor Canolig.

(Tudalennau 123 - 138)

<b>17.</b>	<b>RHEOLWYR "CYMWYS"</b>	<b>PIC21- 2016</b>
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Derbyn diweddariad ar y newidiadau rheolwyr eciwti a chyngor gan Aon Hewitt ar opsiynau ar gyfer y cronfeydd mantoli.

Mae'r dudalen hon wedi'i gadael yn wag yn fwriadol

# PIC6- 2016

## MINUTES OF A MEETING OF THE PENSIONS AND INVESTMENT COMMITTEE HELD AT COUNTY HALL, LLANDRINDOD WELLS ON WEDNESDAY 30<sup>TH</sup> SEPTEMBER 2015

**PRESENT:** County Councillor AG Thomas (Chair)

County Councillors EA Jones and GP Vaughan

In attendance:

Gerard Moore, Chair of Powys Pensions Board  
Rachel Pinder and Richard Antrobus of Aon Hewitts.

Steve Offa Assistant Finance Business Partner/Technical Accountancy Assistant,  
Joe Rollin Pensions Manager

<b>1.</b>	<b>APOLOGIES</b>	<b>PIC31 – 2015</b>
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Apologies for absence were received from County Councillors PJ Ashton, TG Turner and Councillor AMC Weale who were on other Council business and from the Strategic Director Resources.

<b>2.</b>	<b>MINUTES</b>	<b>PIC32 – 2015</b>
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The Chairman was authorised to sign the minutes of the meeting held on 16<sup>th</sup> July 2015 as a correct record.

<b>3.</b>	<b>DECLARATIONS OF INTEREST</b>	<b>PIC33 – 2015</b>
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All members present declared interests as members of the Local Government Pension Scheme.

<b>4.</b>	<b>APPROVAL OF PROCEDURE FOR REPORTING BREACHES OF THE LAW TO THE PENSIONS REGULATOR</b>	<b>PIC34 – 2015</b>
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The Committee considered the procedure for reporting breaches of the law to the Pensions Regulator. The Pensions Manager confirmed that there were no issues of late payments of employer contributions at the moment.

<b>RESOLVED</b>	<b>Reason for Decision</b>
<b>That the PCC Procedure for Reporting Breaches of the Law to the Pensions Regulator be approved.</b>	<b>Statutory guidance requirement.</b>

<b>5.</b>	<b>COMMUNICATIONS STRATEGY STATEMENT</b>	<b>PIC35 – 2015</b>
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The Committee considered the Communications Policy Statement for the Fund.

<b>RESOLVED</b>	<b>Reason for Decision</b>
<b>To approve the Communications Policy Statement.</b>	<b>Statutory Requirement.</b>

<b>6.</b>	<b>REVIEW OF PENSION FUND GOVERNANCE POLICY &amp; COMPLIANCE STATEMENT</b>	<b>PIC36 – 2015</b>
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The Committee considered the Governance and Compliance Statement for the Pension Fund. With regards to the Scheme of Delegation, it was confirmed that delegation of functions to the Section 151 Officer was in consultation with the Chair and Vice Chair of the Committee.

<b>RESOLVED</b>	<b>Reason for Decision</b>
<b>To approve the Governance Policy and Compliance Statement subject to an amendment to paragraph 2.1 confirming that delegation of functions to the Section 151 Officer was in consultation with the Chair and Vice Chair of the Committee.</b>	<b>Statutory Requirement.</b>

<b>7.</b>	<b>PENSION FUND WORK PROGRAMME</b>	<b>PIC37 – 2015</b>
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The Committee considered the Fund's work programme for the period to 31<sup>st</sup> March 2018. It was agreed that it would be more cost effective to organise joint training for the Committee and the Pensions Board.

<b>RESOLVED</b>	<b>Reason for Decision</b>
<b>That the work programme for the period to 31<sup>st</sup> March 2018 be noted.</b>	<b>Good practice</b>

<b>8.</b>	<b>INVESTMENT MANAGERS INTERNAL CONTROLS</b>	<b>PIC38 – 2015</b>
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The Committee was advised that the Pension Fund auditors had undertaken a review of Assurance reports on the internal controls of the organisations it invests with.

<b>RESOLVED</b>	<b>Reason for Decision</b>
<b>To note the report.</b>	<b>As per report.</b>

<b>9.</b>	<b>PASSIVE GLOBAL EQUITY – ALL WALES JOINT PROCUREMENT</b>	<b>PIC39 – 2015</b>
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The Society of Welsh Treasurers were recommending the appointment of a single passive investment management with the other Welsh Pension Funds. The Committee was advised that joint procurement of could save in the region of £120,000 to £160,000 per annum.

<b>RESOLVED</b>	<b>Reason for Decision</b>
<b>To approve the participation of the Powys Pension Fund in the All Wales joint procurement exercise in respect of a pooled passive investment mandate.</b>	<b>As per report.</b>

<b>10.</b>	<b>MINUTES OF THE POWYS PENSIONS BOARD</b>	<b>PIC40 – 2015</b>
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The Committee received the minutes of the Powys Pensions Board meeting held on 31<sup>st</sup> July. With respect to minute 5a), the Committee's view was that it was good practice for non-voting members of the Board to declare interests if required. The Committee noted the Board's concern over the significant outperformance of the passive equity manager and whether they were taking any undue risks. Rachel Pinder confirmed that Aon Hewitt were satisfied that they were not taking undue risk.

<b>11.</b>	<b>PENSIONS BOARD – RECOMMENDED AMENDMENTS TO QUARTERLY INVESTMENT UPDATE</b>	<b>PIC41 – 2015</b>
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The Committee considered the recommendations of the Pensions Board that individual manager performance should be shown against the benchmark and not against manager objective, and that, where possible, the impact of individual manager performance should be shown against the impact of the strategic asset allocation.

<b>RESOLVED</b>	<b>Reason for Decision</b>
<b>To approve the recommendations of the Pensions Board.</b>	<b>As per report.</b>

<b>12.</b>	<b>PENSIONS BOARD – AMENDMENTS TO TERMS OF REFERENCE</b>	<b>PIC42 – 2015</b>
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The Committee considered the proposed amendments to the Pensions Board's terms of reference.

<b>RESOLVED</b>	<b>Reason for Decision</b>
<b>To approve the proposed amendments to paragraphs 15, 38 and 48 of the</b>	<b>As per report.</b>

<b>Pensions Board's Terms of Reference.</b>	
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<b>13.</b>	<b>GENERAL UPDATE</b>	<b>PIC42 – 2015</b>
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The Committee was advised that the Fund had entered the Hermes Property Fund. The Pensions Manager also advised that a payment had been made to the Greater Manchester Pensions Fund who had taken on responsibility for the Probation Service Pension Fund in respect of former Powys Probation staff.

Members of the Committee were asked to complete their training needs assessments by 31<sup>st</sup> October.

<b>14.</b>	<b>EXEMPT ITEMS</b>	<b>PIC43 – 2015</b>
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**RESOLVED to exclude the public for the following items on the grounds that there would be disclosure to them of exempt information under category 3 of The Local Authorities (Access to Information) (Variation) (Wales) Order 2007).**

<b>15.</b>	<b>QUARTERLY INVESTMENT REPORT</b>	<b>PIC44 – 2015</b>
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Rachel Pinder gave the Committee an update on market conditions since June.

The Committee was advised that the downturn in equity markets over the last quarter had seen the value of the Fund fall from £511.958m on 31 March to £495.91m on 30 June. Some of the underperformance was due to funds being underweight in the USA. The Fund also remained underweight in Bonds due to low yields.

The Committee remained concerned at the underperformance of a number of the managers and agreed that this needed to be addressed before the next scheduled meeting.

<b>16.</b>	<b>MEDIUM TERM ASSET ALLOCATION UPDATE</b>	<b>PIC45 – 2015</b>
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The Committee was advised that the Fund had outperformed the benchmark by 0.5% in the last quarter. The MTAA had added £1.84m in value since the start of the current mandate on 1 March 2014.

The Chair of the Pensions Board asked about the investment in real assets such as infrastructure projects like ports, roads and airports as a way of diversifying the Fund and bringing in a regular, reliable cashflow. It was agreed to put this on the agenda for the next regular meeting.



The Committee considered Aon Hewitt's proposals for the governance of investment managers with a qualified rating. It was agreed that this needed to be considered together with the performance of underperforming managers when the Section 151 Officer was available. It was therefore agreed to hold a special meeting of the Committee on the afternoon of the Council meeting on 21<sup>st</sup> October.

AG THOMAS  
CHAIR

Mae'r dudalen hon wedi'i gadael yn wag yn fwriadol

**MINUTES OF A MEETING OF THE PENSIONS AND INVESTMENT COMMITTEE  
HELD AT COUNTY HALL, LLANDRINDOD WELLS  
ON WEDNESDAY 21<sup>ST</sup> OCTOBER 2015**

**PRESENT:** County Councillor AG Thomas (Chair)

County Councillors PJ Ashton, EA Jones and TG Turner

Councillor AMC Weale

In attendance:

Gerard Moore, Chair of Powys Pensions Board  
Rachel Pinder and Richard Antrobus of Aon Hewitts.

David Powell Strategic Director Resources, Steve Offa Assistant Finance Business  
Partner/Technical Accountancy Assistant, Joe Rollin Pensions Manager

<b>1.</b>	<b>APOLOGIES</b>	<b>PIC48 – 2015</b>
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Apologies for absence were received from County Councillor GP Vaughan.

<b>2.</b>	<b>DECLARATIONS OF INTEREST</b>	<b>PIC49 – 2015</b>
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All members present declared interests as members of the Local Government Pension Scheme.

<b>3.</b>	<b>REVIEW OF INVESTMENT MANAGERS</b>	<b>PIC50 – 2015</b>
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**RESOLVED to exclude the public for the following items on the grounds that there would be disclosure to them of exempt information under category 3 of The Local Authorities (Access to Information) (Variation) (Wales) Order 2007).**

The Committee considered the governance arrangements for the current investment strategy arising from a number of managers being used to manage the Fund's assets which Aon Hewitt had given a qualified rating to. Aon Hewitt had set out a number of options for the Committee's consideration including an option to delegate its role in the selection and monitoring of managers to a third party by investing in a pooled fund who would automatically replace "qualified" managers with "buy" managers.

It was unclear to the Committee whether this degree of delegation would be allowed under the Local Government Pension Fund regulations. The Committee was also mindful of the triennial valuation in 2016 which may change the strategic asset allocations within the Fund and of proposals for an All Wales global passive equity fund being developed by Welsh Treasurers.

The Committee also noted that it did not want to put in place a system so rigid that it would force the replacement of managers where it was not sensible or cost effective to do so.

Members sought the opinion of Aon Hewitt on whether their rating of Aberdeen Asset Management was likely to improve and were advised that they did not foresee an improvement in the next 12 months. Aon Hewitt advised that the funds invested with Aberdeen Asset Management could be moved to another manager without having to go through the OJEU process but they did advise that the Committee interview prospective managers.

**RESOLVED that where an investment manager becomes rated as either qualified or a sell, as assessed from time to time by the Fund's investment consultant, the Fund will terminate that manager's mandate where the context is considered to be appropriate as determined by the Section 151 Officer in consultation with the Chair and Vice Chair of the Committee.**

AG THOMAS  
CHAIR

**MINUTES OF A MEETING OF THE PENSIONS AND INVESTMENT COMMITTEE  
HELD AT COUNTY HALL, LLANDRINDOD WELLS  
ON THURSDAY 14<sup>TH</sup> JANUARY 2016**

**PRESENT:** County Councillor AG Thomas (Chair)

County Councillors PJ Ashton and GP Vaughan

Councillor AMC Weale

In attendance:

Gerard Moore, Chair of Powys Pensions Board  
Rachel Pinder and Richard Antrobus of Aon Hewitt.

David Powell Strategic Director Resources, Steve Offa Assistant Finance Business Partner/Technical Accountancy Assistant, Dan Paley Financial Reporting & Policy Accountant, Joe Rollin Pension Fund Manager

<b>1.</b>	<b>APOLOGIES</b>	<b>PIC1 – 2016</b>
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Apologies for absence were received from County Councillors EA Jones and TG Turner.

<b>2.</b>	<b>DECLARATIONS OF INTEREST</b>	<b>PIC2 – 2016</b>
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All members present declared interests as members of the Local Government Pension Scheme.

<b>3.</b>	<b>EXEMPT ITEMS</b>	<b>PIC3 – 2016</b>
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**RESOLVED to exclude the public for the following items on the grounds that there would be disclosure to them of exempt information under category 3 of The Local Authorities (Access to Information) (Variation) (Wales) Order 2007).**

<b>4.</b>	<b>GLOBAL EQUITY MANAGER SELECTION</b>	<b>PIC4 – 2016</b>
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Committee received presentations from three Investment Managers in respect of the Pension Fund's active global equity portfolio that had been managed most recently by Aberdeen Asset Management. Presentations were received from:

Hosking Partners

Carnegie Asset Management

Sands Capital Management

**RESOLVED to appoint both Hosking Partners and Carnegie Asset Management, the mandate to be divided between them in**

**proportions to be advised by Aon Hewitt and following the approval of Section 151 Officer.**

AG THOMAS  
CHAIR

# PIC8- 2016

## CYNGOR SIR POWYS COUNTY COUNCIL

### Pensions and Investment Committee 11<sup>th</sup> February 2016

**REPORT BY:** Strategic Director of Resources

**SUBJECT:** Proposals for Reform of LGPS Investment

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**REPORT FOR:** Information

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#### **1 Introduction**

- 1.1 On 25<sup>th</sup> November DCLG issued consultation documents that set out proposals for the reform of LGPS investment regulations and requests responses from LGPS Funds and other stakeholders by 19<sup>th</sup> February. This paper outlines the principal proposals and includes a response from the Pension Fund to the consultation approved by the Section 151 Officer in consultation with the Chair and Vice Chair of Committee.

#### **2 Background**

- 2.1 The draft regulations propose to revoke and replace the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 with effect from 1<sup>st</sup> April 2016. The new regulations will be made under Sections 1 and 3, and Schedule 3, of the Public Service Pensions Act 2013.

#### **3 Principal Reforms**

- 3.1 The proposed regulations are intended to provide a simple framework for LGPS Funds under which they can invest and manage pension fund assets, with greater responsibility being placed on each administering authority. The changes, by simplifying the 2009 regulations and removing the Schedule 1 benchmarks, moves to the 'prudent person principle' which applies in the private sector. Accordingly, administering authorities will be required to take full responsibility to determine appropriately diversified investment strategies that take risk into account.
- 3.2 The 2009 requirement to prepare and publish a Statement of Investment Principles is to be replaced by a requirement to publish an Investment Strategy Statement. Administering authorities will be required to include in their strategies the regulatory essentials previously contained in the 2009 provisions, including the need for diversification; the suitability and types of investments; the

administering authority's approach to risk, including its management and measurement; the administering authority's approach to collaboration, collective investment vehicles and shared services; its policy on environmental, social and corporate governance matters; and its policy on rights and voting rights.

- 3.3 Transitional arrangements are proposed with a six month period within which new statements must be introduced (likely to be by 30<sup>th</sup> September 2016). Current SIPs will apply until replaced.
- 3.4 The draft regulations also propose new powers for the Secretary of State to issue directions to an administering authority if the Secretary of State is satisfied that the administering authority is failing to have regard to the regulations and the relevant guidance. If justified, the Secretary of State can direct the administering authority to undertake a range of actions to ensure compliance with the Government's priorities for LGPS Funds to take advantage of the benefits of scale it believes are available from asset pooling.
- 3.5 Accompanying the draft regulations, DCLG guidance provides administering authorities with the criteria that they are expected to apply in their pooling arrangements, while maintaining overall investment performance.
- 3.6 Ministers see the outcome of these proposals as a number of so-called British Wealth Funds (possibly 6 or so), each with approximately £25bn of assets with the objective that administering authorities will develop the capacity and capability to become leaders in infrastructure investment to help drive growth.

#### **4. Principal Considerations**

- 4.1 The revocation of the 2009 regulations and their replacement are significant. The powers in the 2013 Act are seen as appropriate for the changes proposed. However, the 2016 proposals retain many elements of the 2009 regulations but places them into the fund specific investment strategy statements, including diversification, advice, risk assessment and publication. The definition of 'investment' is simplified and Schedule 1 (Table of Limits on Investments) of the 2009 regulations is consequently discarded. The removal of these limits has been deemed necessary as they are seen as limiting investment activity. The responsibility for prudence and diversification is now placed directly and in full, to each individual administering authority to consider and detail as an intrinsic part of their individual strategies. This raises a number of potential risks such as multiple compliance, variable assessment, greater inter-fund variability and overall effectiveness.
- 4.2 The proposal to give powers of intervention at individual fund level to the Secretary of State is both contentious and radical. The Government appears to be seeking to impel LGPS Funds into new structures, with potentially much weaker local governance, to further national policies



for infrastructure projects, linked to wider growth objectives for the economy.

- 4.3 There are no specific references in the proposals to an Infrastructure Commission (as mentioned by the Chancellor in his 5<sup>th</sup> October party conference speech), although any future role seems inevitably associated with the asset stream being conceived of by these proposed measures.
- 4.4 Draft regulation 7 requires administering authorities to prepare their strategies in accordance with guidance issued by the Secretary of State. Failure to do so may result in Government taking steps to force the administering authority to comply with the guidance. In essence the full consequence is that the responsibility of each administering authority to administer in detail its local asset portfolio to meet its pension liabilities and, in the context of its valuation cycles, to ensure ongoing affordability and sustainability, is to be removed. This is coupled with the removal of local appointment of investment managers because of the overarching requirement to pool. As the Secretary of State will effectively agree/approve all investment strategies, responsibility for their content will ultimately rest outside of administering authorities. This begs the question that if the Secretary of State directs an administering authority to change its strategy and that change leads to a lower return or a loss, who will have responsibility for the financial outcome?

## **5. Other Considerations**

- 5.1 Management and Investment of Funds – the new provisions are intended to de-regulate and simplify the 2009 regulations and consultees are asked to consider if the approach is reasonably balanced in its effect. It is generally accepted that the challenges posed by these proposals are likely to place significant pressures on smaller LGPS Funds with limited capacities and capabilities.
- 5.2 Directions/Pooling/Infrastructure – Draft regulation 7.1 provides the route for the Secretary of State to intervene and become involved directly in the management and investment of LGPS assets. In effect, central government, on the one hand is freeing up the way in which administering authorities are able to manage and invest their assets as part of their stewardship of the national Scheme to meet their statutory pension promise, while on the other, it seeks to direct by means of a threatened intervention process, the pooling of up to £150bn of LGPS assets with untested management and governance arrangements and the associated risks. The guidance material accompanying the consultation makes clear that there is a causal link between the pooled assets and their specific use to fund non local infrastructure projects to further national economic growth policies. This raises certain questions, such as, are infrastructure projects in the best financial interests of pension fund beneficiaries.

## **6. Questions Asked of Consultees**

6.1 The Secretary of State has requested that consultees include in their consultation responses, answers to the following questions:

- 1 - Does the proposed deregulation achieve the intended policy aim of removing any unnecessary regulation while still ensuring that authorities' investments are made prudently and having taken advice?
- 2 - Are there any specific issues that should be reinstated?
- 3 - Is six months the appropriate period for the transitional arrangements to remain in place?
- 4 - Should the regulation be explicit that derivatives should only be used as a risk management tool? Are there any other circumstances in which the use of derivatives would be appropriate?
- 5 - Are there any other sources of evidence that the Secretary of State might draw on to establish whether an intervention is required?
- 6 - Does the intervention allow authorities sufficient scope and time to present evidence in favour of their existing arrangements when either determining an intervention in the first place, or reviewing whether one should remain in place?
- 7 - Does the proposed approach allow the Secretary of State sufficient flexibility to ensure that he is able to introduce a proportionate intervention?
- 8 - Do the proposals meet the objectives of the policy, which are to allow the Secretary of State to make a proportionate intervention in the investment function of an administering authority if it has not had regard to best practice, guidance or regulation?

## **7. Response**

7.1 The following responses to the specific questions raised by the consultation are as follows:

- Whilst the deregulation of investment matters is achievable through the proposed mechanism, there are concerns around the issue of prudence – particularly given that there is no freedom for administering authorities in reality, since failure to adhere to guidance will result in the intervention of the Secretary of State, even where the individual Fund liabilities may require a strategic investment approach that differs from that recommended by the guidance and therefore deemed unsuitable by the Secretary of State.
- Given that the introduction of these changes are proposed to become effective from 1<sup>st</sup> April 2016, coinciding with a valuation year in England and Wales, it is considered that transitional

- arrangements lasting 12 months would aid Funds greatly.
- There seems little need for the regulations to spell out that derivatives should only be used as a risk management tool when the guidance that is proposed to be issued with the regulations will have a statutory authority.
- It is suggested that when the Secretary of State is determining whether or not an intervention is to be undertaken that he/she has due regard to and accepts evidence from, the specialist advisers used by the Fund concerned in making the decision that has given rise to the possible intervention.

7.2 In addition, the Pension Fund’s response raises the following matters:

- Is the Government clear about the role of elected members in the pooled fund structure? How can their responsibility be realistic when the continuity prevalent in current structures will be diluted and even broken?
- Will the Government provide assurances to cover infrastructure risk if LGPS assets are directed to fund national infrastructure projects?
- Given that LGPS assets have a specific role within the stewardship of the Scheme locally in matching liabilities, is the Government fully confident that the move to pooled structures will not undermine the Scheme’s long-term viability?
- Is widespread LGPS investment in infrastructure projects in the best financial interests of pension beneficiaries – particularly now that national Scheme costs (investment return being a relevant factor) may dictate an increase in members’ contribution rates or a reduction in accrual rates, via the cost-management mechanism?
- As the Secretary of State will agree/approve individual fund investment strategies; where a Fund is required by the Secretary of State to make changes and those changes result in a lesser return or a loss, will the Secretary of State be responsible for the financial outcome?
- What scope is there, if any, for a Wealth Fund of significantly less than £25bn in value, such as would result via an all Wales CIV?
- Are there any plans / appetite for LGPS matters to be devolved to Cardiff?

## 8 Recommendation

8.1 Committee are asked to note the contents of this report.

<b>Recommendation:</b>		<b>Reason for Recommendation:</b>	
<b>To note the contents of the report.</b>		<b>As per report</b>	
<b>Person(s) To Action Decision:</b>	Pension Fund Manager		

<b>Date By When Decision To Be Actioned:</b>			
<b>Relevant Policy (ies):</b>	N/A		
<b>Within Policy:</b>	N/A	<b>Within Budget:</b>	N/A
<b>Contact Officer Name:</b>	<b>Tel:</b>	<b>Fax:</b>	<b>Email:</b>
Joe Rollin	01597 827641	01597 826290	joe.rollin@powys.gov.uk

<b>Relevant Portfolio Member(s):</b>	Councillor Wyn Jones
<b>Relevant Local Member(s):</b>	N/A

**Mark Evans (Chartered MCIPD)**  
**Pennaeth Gwasanaethau Busnes**  
**Head of Business Services**

Powys Pension Fund  
County Hall  
Llandrindod Wells  
Powys.  
LD1 5LG

LGPS Reform  
DCLG  
By Email

*If calling please ask for / Os yn galw gofynnwch am*

Joe Rollin

*Tel / Ffôn:* 01597 - 827641

*Fax / Ffacs:* 01597 - 826290

*Website:* [www.powyspensionfund.org](http://www.powyspensionfund.org)

*Email /Ebost:* [joe.rollin@powys.gov.uk](mailto:joe.rollin@powys.gov.uk)

*Your ref / Eich cyf:*

*Our ref / Ein cyf:* BS/PEN/JR

*Date / Dyddiad:* January 2016

Dear Sirs

## **LGPS REFORM CONSULTATION RESPONSE**

I refer to the consultation documents issued on 25<sup>th</sup> November 2015 and hereby submit the formal response of the Powys Pension Fund.

The consultation specifically requested that consultees address a range of questions posed. In response, the Powys Pension Fund answers as follows:

Whilst the deregulation of investment matters is achievable through the proposed mechanism, there are concerns around the issue of prudence – particularly given that there is no freedom for administering authorities in reality, since failure to adhere to guidance will result in the intervention of the Secretary of State, even where the individual Fund liabilities may require a strategic investment approach that differs from that recommended by the guidance and therefore deemed unsuitable by the Secretary of State.

Given that the introduction of these changes are proposed to become effective from 1<sup>st</sup> April 2016, coinciding with a valuation year in England and Wales, it is considered that transitional arrangements lasting 12 months would aid Funds greatly.

There seems little need for the regulations to spell out that derivatives should only be used as a risk management tool when the guidance that is proposed to be issued with the regulations will have a statutory authority.

It is suggested that when the Secretary of State is determining whether or not an intervention is to be undertaken that he/she has due regard to and accepts evidence from, the specialist advisers used by the Fund concerned in making the decision that has given rise to the possible intervention.

In addition, I raise the following matters of concern / areas that require clarification:

- Is the Government clear about the role of elected members in the pooled fund structure? How can their responsibility be realistic when the continuity prevalent in current structures will be diluted and even broken?
- Will the Government provide assurances to cover infrastructure risk if LGPS assets are directed to fund national infrastructure projects?
- Given that LGPS assets have a specific role within the stewardship of the Scheme locally in matching liabilities, is the Government fully confident that the move to pooled structures will not undermine the Scheme's long-term viability?
- Is widespread LGPS investment in infrastructure projects in the best financial interests of pension beneficiaries – particularly now that national Scheme costs (investment return being a relevant factor) may dictate an increase in members' contribution rates or a reduction in accrual rates, via the cost-management mechanism?
- As the Secretary of State will agree/approve individual fund investment strategies; where a Fund is required by the Secretary of State to make changes and those changes result in a lesser return or a loss, will the Secretary of State be responsible for the financial consequences?
- What scope is there, if any, for a Wealth Fund of significantly less than £25bn in value, such as would result via the proposed Welsh CIV?
- Are there any plans for the devolution of LGPS matters to the Wales Assembly Government?

Finally, I can confirm that the Powys Pension Fund is content for this response to be published as part of the wider consultation process.

yours faithfully

**County Councillor A G Thomas**  
**Chair, Powys Pension Fund**







# PIC9- 2016

## CYNGOR SIR POWYS COUNTY COUNCIL

### Pensions and Investment Committee 11<sup>th</sup> February 2016

**REPORT BY:** Strategic Director of Resources

**SUBJECT:** LGPS Reform – Project Pool

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**REPORT FOR:** Information

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#### **1 Introduction**

- 1.1 On 25<sup>th</sup> January, a group of 24 English LGPS Funds published the results of some work that they had undertaken entitled 'Findings of Project Pool'. The report looks into how LGPS assets might be pooled in practice. Copies of the full report (that runs to 173 pages) can be provided by the Pension Fund Manager on request.

#### **2 Background**

- 2.1 The report is based on an analysis covering £140bn of LGPS assets. It was supported by Hymans Robertson and by 40 investment management firms.

#### **3 Main Findings**

- 3.1 The analysis concluded that the best way to pool is through multi-asset pools including actively-managed listed equities and bonds. The report suggests that this would achieve the majority of the fee savings desired whilst still enabling individual funds to retain some control over their individual assets.
- 3.2 For some asset types such as infrastructure, greater benefits are likely to be gained by collaboration across the wider LGPS. While the creation of a national infrastructure investment platform seems sensible, this will take time and should not be rushed.
- 3.3 The proposed pooling approach will deliver estimated annual savings of c. £190m - £300m over the longer-term, after allowing for asset growth of between 3% and 5% per year.

#### **4 Recommendations**

- 4.1 Committee are asked to note the contents of this report.

<b>Recommendation:</b>	<b>Reason for Recommendation:</b>
To note the report published on 25 <sup>th</sup> January 2016 entitled 'Findings of Project Pool'.	As per report

<b>Person(s) To Action Decision:</b>	Pension Fund Manager		
<b>Date By When Decision To Be Actioned:</b>			
<b>Relevant Policy (ies):</b>	N/A		
<b>Within Policy:</b>	N/A	<b>Within Budget:</b>	N/A
<b>Contact Officer Name:</b>	<b>Tel:</b>	<b>Fax:</b>	<b>Email:</b>
Joe Rollin	01597 827641	01597 826290	joe.rollin@powys.gov.uk

<b>Relevant Portfolio Member(s):</b>	Councillor Wyn Jones
<b>Relevant Local Member(s):</b>	N/A

# PIC10- 2016

## CYNGOR SIR POWYS COUNTY COUNCIL

### Pensions and Investment Committee 11<sup>th</sup> February 2016

**REPORT BY:** Strategic Director of Resources

**SUBJECT:** Pooling – Passive Bonds

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**REPORT FOR:** Information

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#### **1 Introduction**

1.1 Committee will recall that at the meeting on 30<sup>th</sup> September 2015 approval was given for the Pension Fund's passive global equity portfolio to be included in the Welsh investment pooling process.

#### **2 Developments**

2.1 Since the Committee considered this matter last, it has become apparent that the other Welsh Funds are also considering the inclusion of their passive bond portfolios in the pooling process – in order to realize further fee savings.

2.2 In the light of this and with a need for a decision on the matter being required before this meeting could be held and in accordance with the Pension Fund's Governance Policy on delegation, a decision was taken by the Section 151 Officer on 13<sup>th</sup> November 2015, with the approval of both the Chair and Vice Chair of this Committee, that the Pension Fund's passive bond portfolios be included in the Welsh pooling process.

#### **3 Recommendation**

3.1 Committee are asked to note the contents of this report.

<b>Recommendation:</b>	<b>Reason for Recommendation:</b>
<b>To note the decision of the Section 151 Officer on 13<sup>th</sup> November, with the agreement of the Chair and Vice Chair, to include the Pension Fund's passive bond portfolios in the Welsh pooling process.</b>	<b>As per report</b>

<b>Person(s) To Action Decision:</b>	Pension Fund Manager
<b>Date By When Decision To Be Actioned:</b>	

<b>Relevant Policy (ies):</b>	N/A		
<b>Within Policy:</b>	N/A	<b>Within Budget:</b>	N/A
Contact Officer Name:	Tel:	Fax:	Email:
Joe Rollin	01597 827641	01597 826290	joe.rollin@powys.gov.uk

<b>Relevant Portfolio Member(s):</b>	Councillor Wyn Jones
<b>Relevant Local Member(s):</b>	N/A

# PIC11- 2016

## CYNGOR SIR POWYS COUNTY COUNCIL

### Pensions and Investment Committee 11<sup>th</sup> February 2016

**REPORT BY:** Strategic Director of Resources

**SUBJECT:** Risk Register

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**REPORT FOR:** Information

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#### **1 Introduction**

- 1.1 The purpose of this report is to present to Committee a definitive Risk Register in respect of the Powys Pension Fund. Maintaining a Risk Register meets the best practice guidance issued to LGPS Funds by the Scheme Advisory Board in 2015.

#### **2 Key Considerations**

- 2.1 The significance of risks is measured by the interaction of the likelihood of occurrence (“probability”) and the potential impact of such an occurrence (“impact”). This Risk Register uses the Council’s standard approach, which produces a risk status of Red, Amber or Green (RAG).
- 2.2 No ‘Red’ risks have been identified. Of the four ‘Amber’ risks identified (PEN019, PEN021, PEN027 and PEN028), two of them (PEN019 and PEN021) can only be partially mitigated by reducing the probability whilst the impact remains unchanged. For the other two (PEN027 and PEN028) further mitigation is not possible due to them being completely outside of the Fund’s control.
- 2.3 The Risk Register will be reviewed annually.

#### **3 Recommendations**

- 3.1 Committee are asked to note the contents of the attached document.

<b>Recommendation:</b>	<b>Reason for Recommendation:</b>
<b>To note the contents of the Risk Register.</b>	<b>Appropriate information</b>

<b>Person(s) To Action</b>	Pension Fund Manager
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<b>Decision:</b>			
<b>Date By When Decision To Be Actioned:</b>		immediately	
<b>Relevant Policy (ies):</b>	N/A		
<b>Within Policy:</b>	N/A	<b>Within Budget:</b>	N/A
Contact Officer Name:	Tel:	Fax:	Email:
Joe Rollin	01597 827641	01597 826290	joe.rollin@powys.gov.uk

<b>Relevant Portfolio Member(s):</b>	Councillor Wynne Jones
<b>Relevant Local Member(s):</b>	N/A

Risk Register

Risk Referen	Date Identified	Source	Service Area	Risk Identified	Potential Consequence	Inherent Risk			Current Controls	Risk Owner	Portfolio Holder	Proposed Further Actions / Controls	Residual Risk		
						P	I	Risk Rating					P	I	Risk Rating
PEN001	01/11/15		Pensions Administration	Failure to pay pensions and lump sums on time	Financial difficulty for the scheme member concerned, reputational risk to the Pension Fund, and additional cost to the employer where interest is payable as a result of late payment.	M	L	Low	Maintenance and update of Altair and Trent systems, sufficient staff resources and training. Quality assurance processes in place to check work done.	C Hurst	W Jones	Review of process as part of the ongoing review of pensions administration processes following the implementation of the 2014 Scheme.	M	L	Low
PEN002	01/11/15		Finance	Failure to collect and account for pension contributions being paid over to the Fund on time by Fund employers.	Adverse audit opinion, potential delays to Fund employer FRS17/IAS19 reporting; and potential delay to production of annual report and accounts.	L	M	Low	Contributions received monitored on a monthly basis by Fund accounting staff.	J Thomas	W Jones	Requirement that each end of scheme year, Fund employers certify that they have paid over contributions at the correct rates and on time.	L	M	Low

Risk Register

Risk Reference	Date Identified	Source	Service Area	Risk Identified	Potential Consequence	Inherent Risk			Current Controls	Risk Owner	Portfolio Holder	Proposed Further Actions / Controls	Residual Risk			
						P	I	Risk Rating					P	I	Risk Rating	
Tudalen 33	PEN003	01/11/15		Finance	Insufficient Fund cashflow to meet liabilities as they fall due.	Immediate injections of cash from Fund employers would be required where Fund assets cannot be liquidated quickly. For now the Fund is cashflow positive but will not remain so for much longer, therefore requiring the use of investment income to subsidise the payment of pension benefits rather than being reinvested as now.	H	M	Medium	Funding strategu statement. Have this year (2015) commissioned Fund actuary to undertake a Fund cashflow forecast based on a) Fund maturity and b) impact of need for major employer (Powys CC) to reduce budget by a further £27M over next two years or so.	J Thomas	W Jones	Following completion of the fund actuary's cashflow forecast, review strategic asset allocation to ensure that cashflow remains positive (on a targeted and monitored basis) whilst at the same time ensuring that the Fund is not forced to liquidate assets on an unplanned basis.	M	L	Low
	PEN004	01/11/15		Pensions Sdministratio n	Inability to deliver service as a result of loss of pensions administration system	Failure to provide service	L	L	Low	Business Continuity Plan for the Pensions administration service.	C. Hurst	W Jones	Keep Business Continuity Plan under review	L	L	Low
	PEN005	01/11/15		Pension Fund	Inability to deliver service as a result of the loss of key personnel	Failure to provide service at all, or at an acceptable level	L	M	Low	Business Continuity Plan in place for the pensions administration service	J Rollin	W Jones	Keep Business Continuity Plan under review	L	M	Low



Risk Register

Risk Referen	Date Identified	Source	Service Area	Risk Identified	Potential Consequence	Inherent Risk			Current Controls	Risk Owner	Portfolio Holder	Proposed Further Actions / Controls	Residual Risk		
						P	I	Risk Rating					P	I	Risk Rating
PEN006	01/11/15		Pension Fund	Loss of funds through fraud or misappropriation	Financial loss to the Fund	L	M	Low	Internal and External Audit regularly test that appropriate controls are in place and are working effectively. Due diligence is carried out whenever a new investment manager is appointed.	J Rollin	W Jones	None	L	M	Low
PEN007 Tudalen 33	01/01/15	FSS	Pension Fund	Significant rise in employer contribution rates for Fund employers with strong covenants, as consequence of increases in liabilities.	Employer contribution rates rise to unacceptable levels, putting upward pressure on Council Tax rates and the ability of Powys County Council to continue to deliver services to its communities.	L	M	Low	Employers have Discretionary Powers Policies that help to control liabilities. In reality, little can actually be done in mitigation due to the fact that liabilities are largely determined by bond yields that are outside of the Fund's control.	J Rollin	W Jones	Investigate further liability mitigations such as ill health strain insurance; developing guidance to assist employers to manage liability increases derived from their actions or inactions; and, work closely with the Fund actuary to determine appropriate valuation assumptions and deficit recovery strategies.	L	M	Low

Risk Register

Risk Reference	Date Identified	Source	Service Area	Risk Identified	Potential Consequence	Inherent Risk			Current Controls	Risk Owner	Portfolio Holder	Proposed Further Actions / Controls	Residual Risk			
						P	I	Risk Rating					P	I	Risk Rating	
Tudalen 34	PEN008	01/01/15	FSS	Pension Fund	Significant rises in employer contribution rates for Fund employers with weak covenants as a consequence of increases in liabilities.	Employer contribution rates rise to unsustainable levels that cause employers to become insolvent	L	H	Medium	Employers have Discretionary Powers Policies that help to control liabilities. In reality, little can actually be done in mitigation due to the fact that liabilities are largely determined by bond yields that are outside of the Fund's control.	J Rollin	W Jones	In process of developing risk sharing arrangements to enable employers with weak covenants to attain a degree of certainty over the level of employer contribution rates.	L	M	Low
	PEN009	01/01/15	FSS	Pension Fund	Significant rises in employer contribution rates for employers with strong covenants as a result of poor/negative investment returns.	Employer contribution rates rise to unacceptable levels that result in Powys County Council being unable to provide appropriate services for its communities.	L	M	Low	Use expert specialist consultants to help set and monitor investment strategy and investment manager performance and selection. Quarterly investment performance reports presented to Pension Fund.	J Rollin	W Jones	Continual monitoring of performance; review of asset allocation strategy, including consideration of alternative asset classes and non-market led assets.	L	M	Low

Risk Register

Risk Referen	Date Identified	Source	Service Area	Risk Identified	Potential Consequence	Inherent Risk			Current Controls	Risk Owner	Portfolio Holder	Proposed Further Actions / Controls	Residual Risk		
						P	I	Risk Rating					P	I	Risk Rating
PEN010	01/01/15	FSS	Pension Fund	Significant rises in employer contribution rates for employers with weak covenants as a result of poor/negative investment returns.	Employer contribution rates rise to unsustainable levels that result in employers with weak covenants becoming insolvent.	L	H	Medium	Use expert specialist consultants to help set and monitor investment strategy and investment manager performance and selection. Quarterly investment performance reports presented to Pension Fund.	J Rollin	W Jones	Continual monitoring of performance; review of asset allocation strategy, including consideration of alternative asset classes and non-market led assets.	L	M	Low
PEN011	01/01/15	FSS	Pension Fund	Failure to comply with LGPS and other statutory regulations.	Payment of incorrect pension benefits; provision of incorrect benefit estimates; failure to comply with governance standards; failure to meet HMRC tax requirements. Resulting in: loss of customer satisfaction / confidence; IDRPs and Ombudsman appeals; TPR fines for non-compliance.	H	L	Medium	Rigorous checking and authorisation procedures in respect of pension benefit calculations and payments; and, regular review of governance compliance policy.	J Rollin	W Jones	Closer partnership working with employer payrolls to facilitate accurate data receipts; increased compliance oversight provided by newly established Pensions Board.	M	L	Low

Tidalen 35

Risk Register

Risk Referen	Date Identified	Source	Service Area	Risk Identified	Potential Consequence	Inherent Risk			Current Controls	Risk Owner	Portfolio Holder	Proposed Further Actions / Controls	Residual Risk		
						P	I	Risk Rating					P	I	Risk Rating
PEN012	25/01/16		Pensions Administration	Failure to hold scheme member's personal data securely.	Poor data quality; compromised data; fines	L	M	Low	Compliance with Powys County Council Data Protection and ICT policies.	C Hurst	W Jones	Data protection audit in conjunction with TPR data quality standards to be undertaken	L	M	Low
PEN013	01/04/15	TPR	Pension Fund	Failure to maintain and hold up to date and accurate pension records.	Payment of incorrect pension benefits; late payment of benefits; assessment of incorrect liability values. Resulting in loss of customer confidence and satisfaction; IDRPs and Ombudsman appeals; and, incorrect assessment of employer contribution rates.	M	M	Medium	Pensions team work with employer payrolls to ensure data quality; data validation checks undertaken by team at each year end; validation checks carried out at each actuarial valuation (triennially) by the Fund actuary.	C Hurst	W Jones	Additional data validation and quality checks to be implemented as required by the TPR code of practice.	L	M	Low

Tudalen 36

Risk Register

Risk Reference	Date Identified	Source	Service Area	Risk Identified	Potential Consequence	Inherent Risk			Current Controls	Risk Owner	Portfolio Holder	Proposed Further Actions / Controls	Residual Risk			
						P	I	Risk Rating					P	I	Risk Rating	
Tudalen 37	PEN014	25/01/16	CIPFA	Pension Fund	Lack of expertise of Pension Fund Officers and Service Director	Poor decision making in relation to principal functions of the Pension Fund , particularly in relation to investments.	L	H	Medium	Officers ensure that they receive appropriate training and are required to keep up to date with developments in pensions matters, as part of their periodic Individual Performance Reviews and by attending relevant conferences and seminars, by reading and through discussions with consultants and peers.	J Rollin	W Jones	Formalised Officer training via individual training plans based on the CIPFA 'Knowledge and Skills' framework, as is the the procedure for members of both Pensions & Investment Committee and the Pensions Board.	L	M	Low
	PEN015	25/01/16	CIPFA	Pension Fund	Over-reliance on key Officers	Whe senior Officers leave or are term sickness, large knowledge gaps remain.	M	H	Medium	In the short term, knowledge gaps can be filled by using our external colleagues from other Welsh Funds and buying in assistance from consultants.	J Rollin	W Jones	Formalise succession planning by including in Officer individual training plans for less senior Officers.	M	L	Low

Risk Register

Risk Referen	Date Identified	Source	Service Area	Risk Identified	Potential Consequence	Inherent Risk			Current Controls	Risk Owner	Portfolio Holder	Proposed Further Actions / Controls	Residual Risk		
						P	I	Risk Rating					P	I	Risk Rating
Tudalen 38	PEN016	25/01/16	Pensions Administration	Failure to communicate effectively with stakeholders.	Scheme members unaware of their rights under the LGPS and make poor decisions in relation to pension rights. Employers unaware of the scheme regulations, the procedures and their responsibilities, resulting in poor or inappropriate decision-making and may adversely effect the flow of pensions data to the Pension Fund.	L	M	Low	the Pensions Support Manager is tasked with responsibilities in relation to scheme and Fund communications, as part of their Job Description. In addition, the Fund has a clear communications policy as well as a regularly updated website.	C Hurst	W Jones	No further action proposed.	L	M	Low
	PEN017	26/01/16	Pensions Administration	Failure to provide the pensions service in accordance with principles of equality.	Some stakeholders may be unable to access the service fully or at all. In the worst case scenario, this could result in court action against the Fund.	M	M	Medium	The Fund maintains a Welsh Language register in respect of scheme members and employers.	C Hurst	W Jones	To utilise technology to enable access to service and information for stakeholders with disabilities, other language needs etc.	L	M	Low

Risk Register

Risk Reference	Date Identified	Source	Service Area	Risk Identified	Potential Consequence	Inherent Risk			Current Controls	Risk Owner	Portfolio Holder	Proposed Further Actions / Controls	Residual Risk		
						P	I	Risk Rating					P	I	Risk Rating
PEN018	01/01/15	FSS	Pension Fund	Failure to collect payments due from ceasing employers with no active members.	Failure to collect cessation payments from ceasing employers results in relevant liabilities being funded by the Powys Pension Fund and the active employers.	L	M	Low	The Fund undertakes periodic reviews of the strength of employer covenants. For existing employers, the Fund requires that a guarantor, bond or 'risk sharing agreement' is in place. For all new employers, the Fund insists on either a guarantor or a bond being in place.	J Rollin	W Jones	No further action planned.	L	M	Low
PEN019	25/01/16	SAB	Pension Fund	Lack of expertise of members of Pensions & Investment Committee	Poor decision making in relation to all aspects of the Fund, particularly those in relation to investment.	M	H	Medium	On 16th July 2015 the Fund adopted the CIPFA Knowledge and Skills Framework to inform its training plans for members of Pensions & Investment Committee (and the Pension Board).	J Rollin	W Jones	Rollout of individual training plans for all members over the coming year (2016/17).	L	H	Medium

Tudalen 39

Risk Register

Risk Referen	Date Identified	Source	Service Area	Risk Identified	Potential Consequence	Inherent Risk			Current Controls	Risk Owner	Portfolio Holder	Proposed Further Actions / Controls	Residual Risk			
						P	I	Risk Rating					P	I	Risk Rating	
Tudalen 40	PEN020	01/01/15	FSS	Pension Fund	Pension Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities over the long-term.	Increased employer contribution rates.	L	M	Low	Only anticipate long-term returns on a relatively prudent basis to reduce the risk of under-performance. Also monitors and analyses progress every three years for each employer. In addition, the Fund receives quarterly funding updates to help monitor the position.	J Rollin	W Jones	No further action planned.	L	M	Low
	PEN021	01/01/15	FSS	Pension Fund	Inappropriate long-term investment strategy.	Failure to meet funding objectives.	L	H	Medium	Use of a Fund specific benchmark, as recommended by the Fund's investment consultant.	J Rollin	W Jones	Nothing further planned	L	H	Medium



Risk Register

Risk Referen	Date Identified	Source	Service Area	Risk Identified	Potential Consequence	Inherent Risk			Current Controls	Risk Owner	Portfolio Holder	Proposed Further Actions / Controls	Residual Risk		
						P	I	Risk Rating					P	I	Risk Rating
PEN022	01/01/15	FSS	Pension Fund	Active investment manager under-performance relative to the benchmark.	Failure to meet funding objectives.	L	M	Low	Short-term (quarterly) investment monitoring analyses market performance and active managers relative to their index benchmark.	J Rollin	W Jones	Nothing further planned	L	M	Low
PEN023	01/01/15	FSS	Pension Fund	To permit deficits to be eliminated over a recovery period rather than immediately, introduces the risk that action to restore solvency is insufficient between successive measurements.	Increased employer deficit recovery payments.	L	M	Low	It is the practice to discuss every such situation with the Pension Fund actuary, for each individual employer. Moreover deficit recovery periods are generally restricted to no more than 25 years, or 40 years in very exceptional circumstances.	J Rollin	W Jones	No further action planned.	L	M	Low

Tudalen 41

Risk Register

Risk Referen	Date Identified	Source	Service Area	Risk Identified	Potential Consequence	Inherent Risk			Current Controls	Risk Owner	Portfolio Holder	Proposed Further Actions / Controls	Residual Risk		
						P	I	Risk Rating					P	I	Risk Rating
PEN024	01/01/15	FSS	Pension Fund	Permitting contribution rate changes to be introduced by annual steps rather than immediately, introduces a risk that action to restore solvency is insufficient between successive measurements.	Increased employer contribution rates.	L	M	Low	Each individual employer situation is discussed with the Pension Fund actuary, with stepping restricted to three years, or 6 years, in very exceptional circumstances.	J Rollin	W Jones	No further action proposed.	L	M	Low

Tudalen 42

Risk Register

Risk Referen	Date Identified	Source	Service Area	Risk Identified	Potential Consequence	Inherent Risk			Current Controls	Risk Owner	Portfolio Holder	Proposed Further Actions / Controls	Residual Risk		
						P	I	Risk Rating					P	I	Risk Rating
PEN025	01/01/16	FSS	Pension Fund	Pensioners living longer and, changing retirement patterns.	Increased employer contribution rates.	L	M	Low	Mortality assumptions are set with some allowance for future increases in life expectancy. The Fund actuary investigates these matters at each valuation or more frequently where appropriate. If significant demographic changes were to occur between valuations, the Pension Fund will advise employers accordingly and notify them of the likely impact on their contribution rates, reviewing bond values, as required.	J Rollin	W Jones	No further action proposed.	L	M	Low

Tudalen 43

Risk Register

Risk Reference	Date Identified	Source	Service Area	Risk Identified	Potential Consequence	Inherent Risk			Current Controls	Risk Owner	Portfolio Holder	Proposed Further Actions / Controls	Residual Risk		
						P	I	Risk Rating					P	I	Risk Rating
PEN026	01/01/16	FSS	Pension Fund	Deteriorating patterns of ill health or other early retirements.	Increase in employer contribution rates and deficit recovery payments.	L	M	Low	Employers are required to pay the capital costs of early retirements (pension strain), upfront for all cases. Ill health retirements and costs are monitored against Fund allowances.	J Rollin	W Jones	No further action proposed.	L	M	Low
PEN027	01/01/15	FSS	Pension Fund	Fall in the returns on Government bonds.	Increase to the value placed on Fund liabilities.	M	M	Medium	Allowing for a risk-based approach should limit the impact of short-term changes in returns on Government bonds. Some investment in bonds also helps to mitigate this risk. Monitoring (quarterly) helps to give an early warning of significant changes.	J Rollin	W Jones	No further action proposed.	M	M	Medium

Tudalen 44

Risk Register

Risk Referen	Date Identified	Source	Service Area	Risk Identified	Potential Consequence	Inherent Risk			Current Controls	Risk Owner	Portfolio Holder	Proposed Further Actions / Controls	Residual Risk		
						P	I	Risk Rating					P	I	Risk Rating
PEN028	01/01/15	FSS	Pension Fund	Pay and price inflation significantly more than anticipated.	Increased employer contribution rates and deficit recovery payments.	M	M	Medium	Employers 'pay' for their own salary awards and are reminded of the geared effect on salary-linked pension liabilities. Particularly where bias towards longer serving employees may be considered.	J Rollin	W Jones	No further action proposed.	M	M	Medium
PEN029 Tudalen 45	26/01/16	SAB	Pensions Administration	Failure to reconcile all relevant active, deferred and pensioner member GMP records against the data held by DWP in respect of the cessation of contracting out, by April 2018.	Increase in Fund liabilities; increased employer contribution rates and deficit recovery payments; and, payment of incorrect pension benefits.	M	M	Medium	In process of assessing how best to deal with the work required. Unlikely to be possible to complete with current in-house resources - due to current 'core' business volumes and specialist nature of work required. Therefore evaluating external partnerships.	J Rollin	W Jones	Appoint external partners to a) identify scale of work required; b) bank 'quick wins'; complete reconciliations by April 2018.	M	L	Low

Mae'r dudalen hon wedi'i gadael yn wag yn fwriadol

# PIC12- 2016

## CYNGOR SIR POWYS COUNTY COUNCIL

### Pensions and Investment Committee 11<sup>th</sup> February 2016

**REPORT BY:** Strategic Director of Resources

**SUBJECT:** Appointment of Pension Fund Medical Adviser

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**REPORT FOR:** Information

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- 1 Committee are asked to note that following a short procurement exercise, Caer Health Services Ltd have been appointed to provide the Pension Fund and the participating employers with medical advice and services in relation to pensions matters.
- 2 The appointment was effective from 4<sup>th</sup> January 2016 and follows the retirement of Dr Dale Archer, an independent Occupational Health Specialist who had provided the service previously.
- 3 Committee are asked to note the contents of this report.

<b>Recommendation:</b>	<b>Reason for Recommendation:</b>
To note the appointment of Caer Health Services Ltd to provide medical advice and services to the Powys Pension Fund.	As per report

<b>Person(s) To Action Decision:</b>	Pension Fund Manager		
<b>Date By When Decision To Be Actioned:</b>			
<b>Relevant Policy (ies):</b>	N/A		
<b>Within Policy:</b>	N/A	<b>Within Budget:</b>	N/A
Contact Officer Name:	Tel:	Fax:	Email:
Joe Rollin	01597 827641	01597 826290	joe.rollin@powys.gov.uk

<b>Relevant Portfolio Member(s):</b>	Councillor Wyn Jones
<b>Relevant Local Member(s):</b>	N/A

Mae'r dudalen hon wedi'i gadael yn wag yn fwriadol



# PIC13- 2016

## CYNGOR SIR POWYS COUNTY COUNCIL

### Pensions and Investment Committee 11<sup>th</sup> February 2016

**REPORT BY:** Strategic Director of Resources

**SUBJECT:** Powys Dance

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**REPORT FOR:** Information

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#### **1 Introduction**

- 1.1 Committee are asked to note that Powys Dance have become a Pension Fund employer following the transfer of the service from Powys County Council to a newly created charitable trust.

#### **2 Legislation**

- 2.1 Paragraph 1(d)(i) of Part 3 of Schedule 2 to the Local Government Pension Scheme Regulations 2013 [SI. 2013 No. 2356] provides that a Pension Fund may enter into an admission agreement with a body who provides a service that was formerly provided by a Scheme employer, as a consequence of a transfer of undertakings. In addition, the requirements of the Welsh Authorities Staff Transfers (Pensions) Direction 2012 applies in this case. The admission agreement discharges those requirements.

#### **3 Actuarial Assessment**

- 3.1 The Pension Fund's Actuary has advised that initially, Powys Dance should pay an employer contribution rate of 22.1% of pensionable payroll. One employee is covered by the admission agreement, which is closed.

#### **4 Recommendation**

- 4.1 To note the contents of this report.

<b>Recommendation:</b>	<b>Reason for Recommendation:</b>
<b>To note the admittance of Powys Dance to the Powys Pension Fund.</b>	<b>As per report</b>

<b>Person(s) To Action Decision:</b>	Pension Fund Manager
<b>Date By When Decision To Be Actioned:</b>	
<b>Relevant Policy (ies):</b>	N/A

<b>Within Policy:</b>	N/A	<b>Within Budget:</b>	N/A
Contact Officer Name:	Tel:	Fax:	Email:
Joe Rollin	01597 827641	01597 826290	joe.rollin@powys.gov.uk
<b>Relevant Portfolio Member(s):</b>	Councillor Wyn Jones		
<b>Relevant Local Member(s):</b>	N/A		

## CYNGOR SIR POWYS COUNTY COUNCIL

### Pensions and Investment Committee 11<sup>th</sup> February 2016

**REPORT BY:** Strategic Director of Resources

**SUBJECT:** Property Services and Building Control

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**REPORT FOR:** Information

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#### **1 Introduction**

- 1.1 Committee are asked to note that Powys County Council have made the following decisions in relation to the pension arrangements for the alternative delivery models to be used in respect of Property Services and the Building Control Service.

#### **2 Legislation**

- 2.1 Both models will result in the transfer of current County Council staff to the new organisations and therefore the requirements of the Welsh Authorities Staff Transfers (Pensions) Direction 2012 will apply. This requires that the pension rights of transferred local authority staff are protected. In these cases this will be discharged by the new organisations entering into admission agreements with the Pension Fund to enable transferred staff to remain in membership of the local government pension scheme.

#### **3 Property Services**

- 3.1 The delivery model proposed for this service is a joint venture company and is likely to involve the transfer of approximately 110 County Council staff. As has been its policy in recent years, the County Council has determined that the past service position of transferring staff will be 100% funded on the transfer date – thereby transferring no deficit liability to the new organisation.
- 3.2 In addition, the County Council has also determined that it will not provide a guarantee to underwrite the pensions covenant to be given by the joint venture company, and nor will it enter into a risk sharing agreement. Therefore, in order to protect the Fund against loss due insolvency, the joint venture company will be required to purchase and maintain a bond, at a value to be agreed by the Pension Fund actuary.

#### **4 Building Control**

- 4.1 The delivery model proposed for this service is an 'arms-length' company to be wholly owned by the County Council and is likely to involve the transfer of 6 County Council staff. As for Property Services, the County Council has determined that the past service position of transferring staff will be 100% funded on the transfer date – thereby transferring no deficit liability to the new organisation.
- 4.2 In addition, the County Council has also determined that it will provide a guarantee to underwrite the pensions covenant to be given by the new company in the form of a risk sharing agreement.

#### **5 Recommendation**

- 5.1 To note the contents of this report.

<b>Recommendation:</b>	<b>Reason for Recommendation:</b>
To note the arrangements in relation to Property Services and Building Control.	As per report

<b>Person(s) To Action Decision:</b>	Pension Fund Manager		
<b>Date By When Decision To Be Actioned:</b>			
<b>Relevant Policy (ies):</b>	N/A		
<b>Within Policy:</b>	N/A	<b>Within Budget:</b>	N/A
Contact Officer Name:	Tel:	Fax:	Email:
Joe Rollin	01597 827641	01597 826290	joe.rollin@powys.gov.uk

<b>Relevant Portfolio Member(s):</b>	Councillor Wyn Jones
<b>Relevant Local Member(s):</b>	N/A

# PIC16- 2016a

## CYNGOR SIR POWYS COUNTY COUNCIL

### Pensions and Investment Committee 11<sup>th</sup> February 2016

**REPORT BY:** Strategic Director of Resources

**SUBJECT:** Correspondence Received – Collaboration Update

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**REPORT FOR:** Information

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- 1 On 2<sup>nd</sup> November, the Society of Welsh Treasurers (Pensions Sub Group) sent the attached letter to the Department of Communities and Local Government giving an update on the current position regarding the development of collaborative initiatives between the 8 Welsh LGPS Funds.
- 2 Committee are asked to note the contents of the attached document.

<b>Recommendation:</b>	<b>Reason for Recommendation:</b>
To note the contents of the SWT letter to DCLG dated 2 <sup>nd</sup> November 2015.	Appropriate information

<b>Person(s) To Action Decision:</b>	Pension Fund Manager		
<b>Date By When Decision To Be Actioned:</b>	immediately		
<b>Relevant Policy (ies):</b>	N/A		
<b>Within Policy:</b>	N/A	<b>Within Budget:</b>	N/A
<b>Contact Officer Name:</b>	<b>Tel:</b>	<b>Fax:</b>	<b>Email:</b>
Joe Rollin	01597 827641	01597 826290	joe.rollin@powys.gov.uk

<b>Relevant Portfolio Member(s):</b>	Councillor Wynne Jones
<b>Relevant Local Member(s):</b>	N/A

Mae'r dudalen hon wedi'i gadael yn wag yn fwriadol

Your re/Eich  
cyf:  
Our ref/Ein GHR/P2.27  
cyf:  
Date/Dyddiad: November 2015

Please contact/Cysyllter â  
Direct line/Llinell 01495 742625  
union:  
Direct fax/Llinell ffacs: 01495 642670  
Email/Ebost: graeme.russell@torfaen.gov.uk

Chris Megainey  
Deputy Director, Workforce, Pay and Pensions  
Department for Communities and Local Government  
SE quarter, 2nd floor  
Fry Building  
2 Marsham Street  
London SW1P 4DF

Dear Chris,

**Society of Welsh Treasurers-Pensions Sub Group**  
**Collaborative Working**

I write on behalf and with the agreement of the 8 Pension Fund Treasurers in Wales in respect of the work taking place around collaboration and pooling of investments. The group recognises the requests thus far from Ministers and from DCLG in respect of pooling discussions and seeking improvements in efficiencies and economies and has been participating in the wider debate on these matters wherever possible.

Whilst recognising that further details may emerge this month around Ministers' expectations for such collaborative proposals, the Welsh group wanted to ensure you were fully aware of, and sighted on the current work that has already taken place in Wales.

In summary, we are currently moving forward with two projects. The first is a joint procurement for our passive investments, which account for about a quarter of our total assets, and we anticipate will be in place before the end of the financial year. The second is the larger project to enable us to invest collectively across other asset classes, which we anticipate could be operational around the end of 2016/17, or shortly thereafter. We have concluded that this is the optimum solution for Wales based on research and evidence from various sources over a number of years. To assist you with an understanding of why we have come to this conclusion I have set out below further details on the background, timeline, research and next steps

**Background in Wales**

Collaboration across the 8 LGPS pension funds in Wales is not new. Opportunities for networking have always been utilised at both Chief Officer and Practitioner level given the specialist nature of the function involved. This has for a number of years been illustrated more

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**1**

overtly through networking and communications mechanisms such as the production of an All Wales Annual Benefit Statement provided to scheme members for a number of years.

More recently in Wales the benefit of closer collaboration is now making progress having begun with the Society of Welsh Treasurers (SWT-Pensions Sub Group) commissioning a report from Price Waterhouse Coopers that was published in October 2010 on whether there was a case for closer collaboration or even merger across functions or funds to support the longer term affordability and sustainability of the Welsh Funds. This has universal support from all 8 Pension Committees.

In a broader national and also Welsh context, subsequent steps included:

- **10<sup>th</sup> March 2011** Final Hutton Review Report
  - DCLG consultations on the “new “ LGPS scheme
- 2013**
- **March 2013**-SWT Working Together Outline Business case(incl. stakeholder consultation)This report concluded that collaboration rather than merger was the way forward and that the greatest benefit would be in respect of investments rather than administration or governance structures.
  - **Oct 2013**- Invitation by SWT for consultants to prepare options and then full business case
  - **Nov 2013**- Tenders received and evaluated
  - Preferred consultant identified but “Imminent” DCLG announcements on future direction deferred progress until “direction of travel” was clear
- Sept 2014**
- DCLG Cost savings and Efficiency consultations(incl. passive vs active debate)
  - DCLG Governance consultations(introduction of pension boards by April 2015)
- 2014**
- London collaborative initiative and development of Collective Investment Vehicle
  - Other collaborative initiatives in SW England, together with Pensions Administration initiatives in London and South East
  - Use of Frameworks for consultancy, actuary’s etc... led by Norfolk for a national framework together with some other regional examples
  - WAO value for money review in Wales of the LGPS
- May 2015**
- SWT commissioned report on Full Business Case published
  - WG commissioned report published by WAO/PwC
  - July Budget announcement that *“The government will work with Local Government Pension Schemes administering authorities to ensure that they pool investments to significantly reduce costs, while maintaining overall investment performance. The government will invite local authorities to come forward with their own proposals to meet common criteria for delivering savings. A consultation to be published later this year will set out those detailed criteria as well as backstop legislation which will ensure that those administering authorities that do not come forward with sufficiently ambitious plans are required to pool”*

It is recognised that the Government expect efficiencies and savings through collaboration and pooling, and if Local Government ideas and proposals do not go far enough, Government will



have powers to prescribe the blueprint to be followed.

Building on the chronology above, the clear desire however within Wales is to continue the direction of travel we have adopted to date which we believe accords with Central Government expectations whilst recognising the physical geography and economic and political context within Wales.

### **The Current Welsh Position**

The SWT have continued to make steady progress in assessing the potential for collaboration in Wales around investments and what form that might take. In 2015, a key step has been the commissioning of a detailed report from Mercers. The purpose of the report was the development of a detailed business case for the establishment of a common investment fund for the eight current Welsh Pension Funds. The vision behind this was to create a vehicle to maximise efficiencies (both in investment fees and investment returns) by having participants' investment needs optimised through such a vehicle, as previously demonstrated in earlier reports.

The report was produced by Mercers (available on request) who were also tasked to:

- a) identify how in practice such an arrangement can be implemented;
- b) refine further the financial savings and costs that could be anticipated; and
- c) identify any practical difficulties which would need to be overcome.

The Executive Summary version of the report is attached for ease of reference but their final recommendations fully endorsed and agreed across all 8 Welsh Funds included the following:

- a) Pursue a collaborative approach in order to avail of key benefits that include economies of scale and reduced costs, increased consistencies, enhanced governance and operational management across the Welsh Funds.
- b) Select a single passive provider for passive global equities to obtain immediate cost savings. (A pooling structure would not be required to achieve these gains)
- c) Establish a pooling framework to extend collaboration beyond passive global equities
- d) Adopt a regulated pooling vehicle along with a model that supports leveraging the infrastructure of a third party provider (rather than building such infrastructure internally). In addition, the paper suggests that the Welsh Funds look to appoint a provider with appropriate experience who can provide an optimal level of governance and operational support, reducing both the risk and cost of developing internal resources and capabilities to operate the new framework.
- e) Agree a set of next steps to take forward the project, including a workshop/training session and development of a project plan, including the potential tender process to assess suitable partners/providers to support the new collaborative framework.

A further meeting of the SWT Pensions Sub Group in June 2015 agreed the essential next steps were to:

- a) Fully engage elected members on Pension Committees to bring them up to date

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**3**

You are welcome to correspond in Welsh or English / Mae chi'n gyswrtu yn Gymraeg neu Saesneg  
Civic Centre, Pontypool, Torfaen NP4 6YB Tel: 01495 762200 Fax 01495 755513  
Y Ganolfan Ddinesig, Pont-y-pŵl Torfaen NP4 6YB Ffon 01495 762200 Ffacs 01495 755513

with reports to their next meetings in September.

- b) procure an advisor/strategic partner to appoint a provider with appropriate experience who can provide an optimal level of governance and operational support, reducing both the risk and cost of developing internal resources and capabilities to operate the new framework.
- c) establish a sub group of investment officers to look at a single passive provider for passive global equities to obtain immediate cost savings.

In parallel to these steps, under the auspices of the Welsh Governments Workforce Partnership Council, the Wales Audit Office initiated at the request of Welsh Government a value for money review of the Welsh LGPS very early in 2015. The project brief was short as follows:

*To provide an independent review of the benefits, risks and issues of merging – if that were in future to provide possible – local government pension scheme funds in Wales (into either a single or small number of funds), over and above changes already being considered to improve their governance and administration.*

*This review should draw on existing studies and information sources, as well as being informed by discussions with relevant experts and stakeholders, (e.g. Welsh local government pension fund administrators, the Society of Welsh Treasurers, recognised local authority trade unions)*

The report was researched and drafted with the support of PwC and stakeholders groups as referred to in the Brief were engaged as part of the final stages of production of the report. The report was submitted to Welsh Government in May with the following key recommendations:

- a) There is a strong case for the Welsh Government and the Welsh Local Government Association to support the establishment of a CIV for all eight funds in Wales. This approach would incur start-up costs, and the Society of Welsh Treasurers should be asked to provide analysis of those costs.
- b) A Wales CIV could be established over the next two years, in advance of local government reorganisation on the assumption of appropriate commitment by relevant stakeholders including the funds themselves/existing administering authorities.
- c) Following local government reorganisation, participation in the CIV, by the eight administering authorities responsible for the funds, should be reviewed. If participation in a CIV was not at an optimal level to secure the maximum investment returns after a pre-determined time period, then the Welsh Government should consider merging the existing eight funds into a single LGPS fund for Wales using an appropriate legal channel.
- d) There is also a strong case for considering further either an earlier merger of the eight funds in Wales or, if available, a joint committee approach. These possibilities might create more investment efficiency than a Wales CIV but are not within the sole control of the Welsh Government. The latter would depend on recommendations by the LGPS Scheme Advisory Board (SAB) and both would depend on decisions by DCLG.
- e) These recommendations have to be considered in the light of the wider considerations taking place. For example, DCLG's forthcoming response to the consultation, which may result in optional or mandatory participation in CIV(s) and

advice given by the Governance and Standards Sub-Committee of the SAB, which may open up a joint committee route for the eight funds in Wales. Accordingly, given the state of flux shortly after the General Election, these recommendations are highly time sensitive and actions should be taken only after further consideration.

In essence, the direction of travel of this report is supportive of DCLG pronouncements but also the direction already embarked upon by the SWT. It does however add emphasis at a Welsh level to the momentum already created at national level.

### **Next Steps**

Since the publication of these reports and the further DCLG requirements, all 8 Welsh Pension Funds have taken a report to their Pension Committees in September and agreed:

- i. to progress a procurement process for the selection of a single passive provider for passive global equities to obtain immediate cost savings. This process has now started.
- ii. To establish a pooling framework (a collective investment vehicle) to extend collaboration beyond passive global equities
- iii. To appoint an external advisor to advise the Funds in sourcing a CIV provider with appropriate experience who can provide an optimal level of governance and operational support, reducing both the risk and cost of developing internal resources and capabilities to operate the new framework. An advert is out to tender at present for the advisor.  
([http://www.sell2wales.gov.uk/search/show/search\\_view.aspx?ID=OCT107695](http://www.sell2wales.gov.uk/search/show/search_view.aspx?ID=OCT107695))

The Government's expectations are clearly understood in Wales and have been echoed and emphasised by the WAO report commissioned by Welsh Government. However notwithstanding more recent announcements and not wishing to pre-judge ministerial direction, the Welsh Funds want to ensure that DCLG had sight of the progress that has already been made in Wales and the robust proposals already in train. There is a clear intent and momentum in developing a Welsh solution capable of achieving efficiency and cost savings in respect of pension investments.

The Welsh Pension Funds believe that the approach being followed will:

- Produce benefits in a relatively short timescale given the work, analysis and results previously produced and with political agreement across the Funds in Wales on the direction of travel already in place
- Achieve savings that could be "significant" and that could sensibly be translated into a meaningful service equivalent for local government services and thus value for money in Wales.
- Enable governance arrangements that are manageable and practical so that the pooling proposals remain related to the locally administered funds and show a level of clear accountability to local decision making.

I apologise for the length of this correspondence but all 8 Welsh Funds deemed it important to set out the current position but also the journey travelled thus far.

Please let me know if you wish to clarify anything at this stage or you require further details.

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**THIS DOCUMENT IS AVAILABLE IN LARGER PRINT UPON REQUEST**

**5**

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Civic Centre, Pontypool, Torfaen NP4 6YB Tel: 01495 762200 Fax 01495 755513  
Y Ganolfan Ddinesig, Pont-y-pŵl Torfaen NP4 6YB Ffon 01495 762200 Ffacs 01495 755513

m:\resources\pensions and employee services\management\ghrp2.27 welsh pension funds\full business case\letter to dclg re collaboration update 02 nov 2015 clean .doc

Yours sincerely



**Graeme Russell**  
**HEAD OF HUMAN RESOURCES AND PENSIONS**

**CC**

Dafydd Edwards, Head of Finance, Gwynedd Council  
Christine Salter, Corporate Director Resources, Cardiff Council  
Nigel Aurelius, Assistant Chief Executive (Resources), Torfaen CBC  
Chris Moore, Director of Corporate Services, Carmarthenshire CC  
Chris Lee, Director of Resources, Rhondda Cynon Taff Council  
Gary Ferguson, Corporate Finance Manager, Flintshire CC  
Mike Hawes, Head of Finance and Delivery, City and County of Swansea Council  
David Powell, Strategic Director – Resources, Powys CC.

# PIC16- 2016b

## CYNGOR SIR POWYS COUNTY COUNCIL

### Pensions and Investment Committee 11<sup>th</sup> February 2016

**REPORT BY:** Strategic Director of Resources

**SUBJECT:** Correspondence Received - Infrastructure

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**REPORT FOR:** Information

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- 1 On 7<sup>th</sup> October, the Department for Communities and Local Government copied the attached letter to all LGPS administering authorities, following the Chancellor's speech at the Conservative Party conference on 5<sup>th</sup> October.
- 2 In addition to and as a consequence of the Chancellor's speech, Aon Hewitt have produced the attached briefing: UK Infrastructure Announcement – October 2015.
- 3 Committee are asked to note the contents of the attached documents.

<b>Recommendation:</b>	<b>Reason for Recommendation:</b>
To note the contents of the DCLG letter to LGA dated 7 <sup>th</sup> October 2015.	Appropriate information

<b>Person(s) To Action Decision:</b>	Pension Fund Manager		
<b>Date By When Decision To Be Actioned:</b>	immediately		
<b>Relevant Policy (ies):</b>	N/A		
<b>Within Policy:</b>	N/A	<b>Within Budget:</b>	N/A
Contact Officer Name:	Tel:	Fax:	Email:
Joe Rollin	01597 827641	01597 826290	joe.rollin@powys.gov.uk

<b>Relevant Portfolio Member(s):</b>	Councillor Wynne Jones
<b>Relevant Local Member(s):</b>	N/A

Mae'r dudalen hon wedi'i gadael yn wag yn fwriadol



Department for  
Communities and  
Local Government

Jeff Houston  
Head of Pensions  
Local Government Association  
Smith Square  
London SW1P 3HZ

**Chris Megainey**  
*Deputy Director*  
*Workforce, Pay and Pensions*

**Department for Communities and Local  
Government**  
2<sup>nd</sup> floor, SE quarter  
2 Marsham Street  
London SW1P 4DF

Tel: 0303 44 43145

[chris.megainey@communities.gsi.gov.uk](mailto:chris.megainey@communities.gsi.gov.uk)

7 October 2015

Dear Jeff,

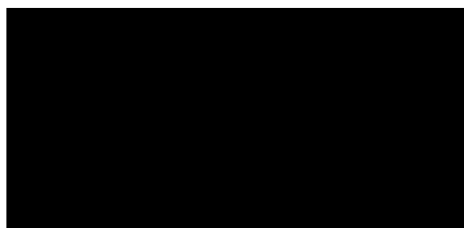
On Monday, the Chancellor of the Exchequer unveiled a major four point plan to get Britain building for the future, announcing changes to the way vital infrastructure projects are planned, determined and funded.

The Secretary of State, Greg Clark, wrote to Lord Porter after the July Budget, setting out how we intended to work with local government pension scheme administering authorities to bring forward proposals to invest collectively and deliver savings. The Chancellor's announcement at the Conservative Party Conference builds on the discussions that we have been taking forward with the sector following the Budget, but places infrastructure investment, alongside delivering efficiencies, at the heart of the policy.

The LGPS Funds as currently constituted are too small and fragmented to have the capacity and capability to be a major investor in UK infrastructure. This is why the Chancellor announced that we are going to work with administering authorities to bring together investments into up to six pools spread across the country, creating the conditions to save hundreds of millions in costs and invest billions in infrastructure in the regions.

The Government remains keen to see authorities take the lead in identifying the best way to deliver savings and drive infrastructure investment and, as announced at the Budget, we will shortly be inviting administering authorities to bring forward proposals to deliver pooled investments that meet published criteria. I look forward to continuing to work with you, local authorities and the investment management industry over the next few weeks as we finalise those criteria.

I am copying this letter to each administering authority in England and Wales.



**CHRIS MEGAINEY**

Tudalen 63

Mae'r dudalen hon wedi'i gadael yn wag yn fwriadol



# UK Infrastructure Announcement

*October 2015*



## Introduction

This paper provides an overview of the Chancellor's recent announcement regarding infrastructure investment in the UK. It looks at the UK infrastructure market and includes some considerations for the Local Government Pension Scheme (LGPS).

## Overview

On 5 October 2015, the Chancellor of the Exchequer announced a major plan to catalyse infrastructure investment in the UK. There were several components to the plan; the most relevant to LGPS funds was further clarity regarding the Chancellor's view on pooling, specifically:

- The existing English and Welsh LGPS funds should be pooled into up to six British wealth funds. Each wealth fund will develop the expertise to invest into infrastructure projects with the aim of saving money on fees to external managers.

Other components of the plan included:

- The government will be endeavouring to raise around £5 billion from the sale of State assets, with the proceeds recycled to help fund new infrastructure projects.
- A new independent National Infrastructure Commission ("NIC"), chaired by Lord Adonis, has been created to offer unbiased analysis of the UK's long-term infrastructure needs. The NIC will initially focus on high speed rail, London's public transport infrastructure and national energy infrastructure. The NIC is expected to publish advice to the Government by the Budget in 2016.

## The UK infrastructure market

We believe this announcement is a positive step for the UK infrastructure industry.

Particularly, we believe the creation of an independent commission to offer unbiased advice to the government on infrastructure needs is a key initiative. There can be political inertia in infrastructure delivery and while the commission is

unproven, the establishment of the NIC is an important initial step. Similar commissions have been established in other parts of the world (eg Infrastructure Victoria in Australia).

The other key announcement is the pooling of money from LGPS funds. As well as reducing costs, the plan is also to change the way pension savings are invested. It is proposed that the British wealth funds will follow a similar approach as international schemes and invest more in infrastructure. Currently, LGPS infrastructure allocations are low, averaging around 1% (according to WM Q2 Quarterly Review) compared with, for example, the Australian and Canadian pension plans (some of which have allocations between 10-20%). These plans tend to have global infrastructure programmes, with a preference for OECD countries.

While the Chancellor's plans may mobilise more money to invest in UK infrastructure from UK institutions, we believe it is more important to address the supply of investible projects to create more deal flow for institutional investors, including LGPS funds who are typically seeking long term, stable, inflation-linked cash flows.

There is already a high amount of capital chasing deals in the UK, including capital from infrastructure funds, overseas pension funds and sovereign wealth funds. Coupled with a limited supply of projects, this has led to high prices for assets and a reduction in expected returns from new investments. An example is the social infrastructure sector, where uncertainty over PF2, the successor to PFI, has impacted the pipeline of primary projects. This has in turn affected the supply of operational projects, where there is typically a recycling of capital from construction firms to institutional investors. We hope that the establishment of the NIC will contribute to the development of new investible projects over the medium to long term. The £5 billion asset sale programme referred to above is small in the context of demand for UK infrastructure assets.

## LGPS considerations

We are supportive of infrastructure investment across our client base, including LGPS funds. This is due to the potential for access to long term, uncorrelated, inflation-linked cash flows (typically with a cash yield in excess of 5% pa). A key reason to consider infrastructure in a portfolio is to diversify from other asset classes. An infrastructure allocation can also be used to seek growth or for liability matching purposes. We do not generally expect infrastructure to deliver private equity-like returns but to show uncorrelated, stable returns.

Unless there are specific limiting features, we are generally supportive of a 5-10% allocation to infrastructure for LGPS funds. We typically advise LGPS funds to seek diversified exposure to the asset class. This includes investing across different strategies, sectors, geographies and vintage years. Investors typically have a preference for brownfield infrastructure, for example Heathrow Airport in a UK context, to provide access to immediate yield in addition with brownfield assets generally being of a lower risk profile compared with new infrastructure developments. Greenfield investments, for example CrossRail in a UK context, have tended to feature in a minority of portfolios. However, there may be more interest from LGPS funds to invest in greenfield projects if mechanisms are in place to de-risk the construction period and to deliver yield at an early stage to investors. We have seen such a Government support package in the Thames Tideway Tunnel deal.

George Osborne's announcement envisages direct investment into infrastructure projects by the LGPS. Accessing infrastructure via direct investment has the advantages of control over investment decisions, capital structure and governance as well as saving fees paid to external managers. To date, this method to access infrastructure has not been available to many LGPS funds due to the scale, governance and in house skills required to source, assess, structure deals and then invest in assets and companies directly.

The creation of the British wealth funds could therefore mean a significant change in how LGPS funds access the infrastructure asset class. However, there a number of important considerations which require further discussion by the various stakeholders:

- There may be a variation in objectives between central Government and the LGPS. Central Government may wish the proposed wealth funds to invest in new infrastructure projects for the benefit of the UK economy. However, this may not be consistent with the objectives of the LGPS funds, which, as mentioned above, typically seek to diversify their investment portfolios across geographies and weight their portfolios into brownfield assets. We note that sovereign wealth funds tend to diversify their investments away from the home economy (eg diversifying away from the oil sector in the case of the Middle East SWFs).
- Given the wider pooling debate within the LGPS, there is still uncertainty about what level of decisions, for example the amount to allocate to infrastructure and where to invest, will be taken by each of the six proposed British Wealth Funds versus those that remain with the LGPS administering authority. Currently the administering authority of the individual LGPS fund has a fiduciary duty to employers and members.
- If the desire is for the wealth funds to invest directly, it is likely that skills will need to be hired in. These individuals will need to be appropriately incentivised to induce them to join the platforms.
- Finally, consideration should be given as to how the investment strategies will differ across the six proposed wealth funds and how these strategies overlap. It would be a suboptimal outcome if they are bidding against each other for projects. Another consideration will be how their strategies will overlap or otherwise with the Pensions Infrastructure Platform.

## About Aon

Aon plc (NYSE:AON) is a leading global provider of risk management, insurance and reinsurance brokerage, and human resources solutions and outsourcing services. Through its more than 66,000 colleagues worldwide, Aon unites to empower results for clients in over 120 countries via innovative and effective risk and people solutions and through industry-leading global resources and technical expertise. Aon has been named repeatedly as the world's best broker, best insurance intermediary, reinsurance intermediary, captives manager and best employee benefits consulting firm by multiple industry sources. Visit [www.aon.com](http://www.aon.com) for more information on Aon and [www.aon.com/manchesterunited](http://www.aon.com/manchesterunited) to learn about Aon's global partnership and shirt sponsorship with Manchester United.

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[www.aon.com](http://www.aon.com)



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For more information, please contact your consultant:

**Louis-Paul Hill**

**Aon Hewitt** | Consulting | Global Investment Practice  
25 Marsh Street | Bristol | BS1 4AQ  
t 0117 900 4440 | m 07929 724 430  
[louis-paul.hill@aonhewitt.com](mailto:louis-paul.hill@aonhewitt.com) | [aonhewitt.com](http://aonhewitt.com)

**Hans Holmen**

**Aon Hewitt** | Consulting | Global Investment Practice  
The Aon Centre | The Leadenhall Building  
EC3V 4AN | London | United Kingdom  
Direct: +44 (0)20 7086 9441 | Mobile: +44 (0) 7540 715882  
[hans.holmen@aonhewitt.com](mailto:hans.holmen@aonhewitt.com) | [aonhewitt.co.uk](http://aonhewitt.co.uk)

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The Aon Centre, The Leadenhall Building,  
122 Leadenhall Street, London, EC3V 4AN

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Mae'r dudalen hon wedi'i gadael yn wag yn fwriadol

# PIC16- 2016c

## CYNGOR SIR POWYS COUNTY COUNCIL

### Pensions and Investment Committee 11<sup>th</sup> February 2016

**REPORT BY:** Strategic Director of Resources

**SUBJECT:** Correspondence Received – Lancashire & LPFA

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**REPORT FOR:** Information

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- 1 On 7<sup>th</sup> December, the Pension Fund received the attached letter (dated 3<sup>rd</sup> December) from the Lancashire County Pension Fund and the London Pension Fund Authority, regarding their Asset Liability Management (ALM) partnership. The correspondence gives a summary of the partnership arrangement and invites the Pension Fund to consider participation in the arrangement.
- 2 As Committee is aware, the Pension Fund is currently involved in the creation of a Welsh Collective Investment Vehicle. However, given that the Welsh CIV may fall foul of the Government's pooling size requirements (pooled funds of approx.. £25bn) it is proposed that this letter be kept on file pending further clarification from DCLG.
- 2 Committee are asked to note the contents of the attached document.

<b>Recommendation:</b>	<b>Reason for Recommendation:</b>
To note the contents of the letter from the LCPF / LPFA ALM Partnership dated 3 <sup>rd</sup> December 2015.	Appropriate information

<b>Person(s) To Action Decision:</b>	Pension Fund Manager		
<b>Date By When Decision To Be Actioned:</b>	immediately		
<b>Relevant Policy (ies):</b>	N/A		
<b>Within Policy:</b>	N/A	<b>Within Budget:</b>	N/A
Contact Officer Name:	Tel:	Fax:	Email:
Joe Rollin	01597 827641	01597 826290	joe.rollin@powys.gov.uk

<b>Relevant Portfolio Member(s):</b>	Councillor Wynne Jones
<b>Relevant Local Member(s):</b>	N/A

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**your pension our world**

2<sup>nd</sup> Floor, 169 Union Street  
London. SE1 0LL

Tel: 020 7369 6118



3rd December, 2015

Mr David Powell  
Strategic Director - Resources & Section 151 Officer  
Powys Pension Fund  
County Hall  
Llandrindod Wells  
Powys. LD1 5LG

Dear Mr Powell

**Asset pooling and liability management within the LGPS – a route to achieving this**

Following the latest announcement from Government on LGPS reform, issued on 25th November, 2015, we wanted to take the opportunity to contact you and colleagues within Powys Pension Fund to introduce the independent Asset Liability Management (ALM) partnership structure that Lancashire County Pension Fund (LCPF) and London Pensions Fund Authority (LPFA) have jointly developed.

In the announcement Government said, *“Authorities are also strongly encouraged to learn from those who have already begun to develop collective investment vehicles, such as the London Boroughs or Lancashire and the London Pensions Fund Authority”*.

Although LCPF and LPFA pioneered the ALM partnership structure, our intention from the outset has always been to open it to other like-minded LGPS funds. Government, in seeking these reforms within a tight timescale, has accelerated our plans. We want to share with you what we have done and, if the ALM partnership structure is of interest to you, to have a discussion.

**We believe that the ALM partnership structure offers a highly effective route to delivering what Government is asking of the LGPS sector, without pension fund partners’ sovereignty being undermined in any way, nor funds losing local accountability.**



## **The background to the ALM partnership structure**

The ALM partnership structure allows funds to pool assets to achieve economies of scale and to deploy the tools and knowledge to better manage liabilities on a joint basis, whilst retaining local accountability and maintaining the sovereignty of all pension fund partners. The structure is appropriately regulated by the FCA, providing a high level of assurance for all stakeholders. Further information on the structure and the benefits we identified are included in the attached paper.

When we started on the journey to create the ALM partnership structure some two years ago, we knew at the outset it would be a complicated, complex, time-consuming and expensive entity to develop. This reinforced our determination to create a working and FCA-approved proof of concept, starting with just two funds, before taking it to other partners.

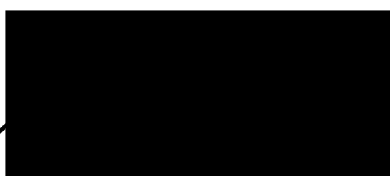
We have now succeeded and created an independent ALM partnership structure, for which all FCA approvals (both for the Authorised Contractual Scheme itself and for the investment subsidiary) should be in place during the first quarter of 2016. It is up and running and will be ready for multiple fund involvement comfortably within Government's timeline, without participating funds having to go through the complex legal, regulatory and operational hoops that LCPF and LPFA have done to get this far.

There are a number of ways for funds to get involved, which will depend on each fund's strategic aims. However, **all** investor funds will benefit equally from the operational benefits to be derived from pooling.

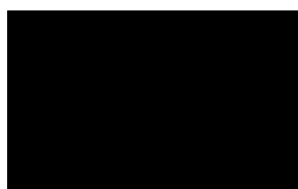
### **Next steps**

The attached provides more information about the ALM partnership structure and what LCPF and LPFA have learned about the potential benefits and savings to be made. There are also some discussion points around the different ways that funds can participate. If this approach is of interest and you would like to find out more about it, please contact either George Graham at LCPF or Susan Martin at LPFA to arrange a discussion. You will find their contact details in the attachment.

Kind regards



**Sir Merrick Cockell**  
Chairman, London Pensions Fund Authority



**Cllr Jennifer Mein**  
Leader, Lancashire County Council

Enc.





December 2015

## ASSET LIABILITY MANAGEMENT PARTNERSHIP

### AN INNOVATIVE ROUTE TO POOLED ASSET AND LIABILITY MANAGEMENT

#### Introduction

The Lancashire County Pension Fund (LCPF) and London Pension Fund Authority (LPFA) have developed a collaboration concept in which multiple LGPS funds can participate in order to deliver on Government's drive for asset pooling by the sector to create significant wealth funds - an Asset Liability Management (ALM) partnership. This is a single organisation, which can provide the full range of pension services functions within a single collaborative agreement and from within local government.

This ALM partnership is the first of its kind within the LGPS. It currently operates with the interim name of the Lancashire and London Pensions Partnership (LLPP).

**Although LCPF and LPFA have pioneered the ALM partnership structure, the intention from the outset has always been to open it to other like-minded LGPS funds. Government, in seeking this pooling reform of the LGPS sector within a tight timescale, has accelerated our plans for increased collaboration.**

#### About an ALM partnership

In brief, an ALM partnership allows funds to pool assets to achieve economies of scale and to deploy the tools and knowledge to better manage liabilities on a joint basis. Essentially, an Authorised Contractual Scheme (ACS) creates a vehicle to pool investments. Importantly, the structure ensures individual funds retain their local accountability, keeping control of strategic decisions such as employer contribution rates, strategic asset allocation and setting risk appetite. The sovereignty of all pension fund partners is also maintained. The structure is appropriately regulated by the FCA, providing a high level of assurance for all stakeholders.

Benefits of this approach include:

- improved returns from resulting scale;

- in-house liability management experience which underpins investment strategy;
- reduced pension deficits (potentially by more than would have been achieved by the funds acting independently);
- access to in-house centres of expertise in LGPS management;
- increased access to a wider range of asset classes; and,
- greater access to large scale infrastructure deals.

## **The vision of ALM partnership collaboration with other funds**

With a long term goal of growing the ALM partnership to have c£40bn of assets under management, the next step is for closer collaboration with other funds. Growing by collaborating will enable participating funds to access investment opportunities that are currently unobtainable or complicated to access on a small scale, such as larger scale direct infrastructure investments. The vision is a group of funds collaborating to:

- Achieve enhanced investment, liability and administration outcomes, whilst retaining local accountability and maintaining the sovereignty of all pension fund partners. Participating funds will continue to be responsible for key strategic decisions, such as employer contribution rates, strategic asset allocation and setting risk appetite.
- Create a state-of-the-art pensions services organisation, which through newly-created corporate structures:
  - Manages the liabilities of the administering authorities;
  - Pools the pension fund assets where appropriate;
  - Enables joint management by the partnership of those assets not pooled, and,
  - Combines pension administration services (if required).

## **Why the ALM route? Our experiences to date**

LPFA and LCPF started on the ALM partnership journey some two years ago. Independently, both funds had reached the conclusion that collaboration with other funds could lead to significant benefits for all involved. We came together and decided that the ALM partnership model was the route to delivering what we wanted for our respective funds.

Specifically, we saw a combined structure providing sufficient scale to enable us to attract and retain relevant in-house specialist expertise across the partnership's operations, from investment management and liability modelling, to governance, fiduciary oversight, risk management and administration. This would include absorbing relevant specialists as appropriate from any other incoming funds – the ALM partnership would not seek to lose already prized expertise and experience in a particular investment area or other technical or specialist field. With this essential strength-in-depth and sustainability built into the ALM partnership's DNA, it will also have the necessary skills and information to appoint the best

third-party providers for what it seeks to achieve and to work more efficiently and effectively with them, be they fund managers, technology providers or other suppliers.

Since then, we have made significant investment in time, effort and money to develop the ALM partnership model, using our two funds to create a working proof of concept for multiple funds to be involved. The structure has been submitted to the FCA for approval and we expect to receive the necessary approvals in the first quarter of 2016. *Note: we will not seek any contribution from funds that join the ALM partnership towards our joint set-up costs.*

Benefits we have identified arising from the ALM partnership structure include:

#### ***Liability Management***

Improved understanding of pension fund liabilities and closer engagement with fund employers enables funds to plan their cash flow and determine the returns required from their assets. Real time information on liabilities through sophisticated software and expert in-house analysis reduces triennial valuation costs and time.

Furthermore, strengthening employer covenants reduces liabilities immediately and over time. For example, one of the partners has increased the fund's security by over £360 million through more effective management of employer risk and sector specific covenant checks.

#### ***Investment Management***

Based on just the experience of the two funds collaborating thus far, we believe that in investment management terms the ALM partnership will:

- Result in fee reductions, offer us access to different types and a greater amount of direct investment, cost reductions in administration and more effective liability management.
- Achieve c£30m savings in investment management fees alone over five years. This will be achieved through larger allocations and by making use of existing specialist in-house asset management skills, specifically in global equities, private equity and infrastructure/property.
- The increased scale will achieve enhanced investment outcomes of around £20m-£30m from their current levels.

#### ***Shared Services***

Pensions administration services will be delivered through a shared service route. Achievement of scale in this area provides the opportunity to reduce unit costs while retaining high levels of expertise.

The potential is there for the ALM partnership to be the largest LGPS administration grouping (with only two funds involved thus far, it is already the largest fire scheme grouping). This will give the partnership greater influence when negotiating with software providers on key systems, the ability to develop bespoke software, the maintenance of high quality data and the provision of detailed technical support and advice to all stakeholders.

## **An overview of how funds can get involved in the ALM partnership**

LGPS Funds' involvement in the structure could be by one of a number of routes according to individual fund strategic aims:

- **As a full shareholder partner** with equal representation on the Board and a role in the governance of the structure. It is envisaged that a full shareholder position will be reserved for funds of a significant size who want to play a role in the governance of the partnership.
- In the event that a group of smaller funds seek participation at Board level, it may also be possible to reserve a portion of the shareholding for such a group who would elect one voting member to the Board.
- **As an investor in the Authorised Contractual Scheme (ACS) only.** Counsel's opinion has been sought and the advice is that this route is possible without the need for the investing fund to run a procurement process. An investor group could be established to represent funds participating this way.
- **As an administration shared service partner (if required by funds).** In effect, this is a Local Government Shared Services option, which would be initiated under Lancashire County Council's shared services powers. No procurement process would be required.
- Potentially, **as a shareholder partner in the administration subsidiary.** Funds that wanted to play a part in the governance of the administration subsidiary could potentially be offered a shareholding. This participation route also avoids the need for a procurement process.

### **Ensuring all investors benefit equally**

It is a guiding principal of the ALM partnership is that all investors should benefit equally.

The operational benefits associated with the scale that pooling creates will be equally applicable to all investors. It will not be the case that shareholders will derive greater level of operational benefits than the investors.

Any surpluses will be retained to improve the services to all partners and to reduce the cost to partners of the services, through retrospective rebates, and prospective price reductions.



## **Next steps**

We are keen to talk to funds who would like to explore the possibility of collaborating in this ALM partnership structure. Please email or telephone George Graham or Susan Martin to arrange a one-to-one meeting at your offices.

### **Contact details:**

**George Graham, Director**  
Lancashire County Pension Fund  
Email: [George.Graham@lancashire.gov.uk](mailto:George.Graham@lancashire.gov.uk)  
Telephone: 01772 538102

**Susan Martin, Chief Executive Officer**  
London Pensions Fund Authority  
Email: [Susan.Martin@lpfa.org.uk](mailto:Susan.Martin@lpfa.org.uk)  
Telephone: 020 7369 6077



# PIC16- 2016d

## CYNGOR SIR POWYS COUNTY COUNCIL

### Pensions and Investment Committee 11<sup>th</sup> February 2016

**REPORT BY:** Strategic Director of Resources

**SUBJECT:** Correspondence Received – LGPS Pooling (UNISON)

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**REPORT FOR:** Information

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- 1 On 22<sup>nd</sup> December, the Pension Fund received the attached letter from UNISON, regarding the Council's intentions in respect of the pooling of the Powys Pension Fund.
- 2 As Committee is aware, the Pension Fund is currently involved in the creation of a Welsh Collective Investment Vehicle. However, given that there remain matters requiring clarification by DCLG, no firm decisions can yet be made. Therefore a holding letter has been sent to UNISON stating out the Pension Fund's current position.
- 3 Committee are asked to note the contents of the attached document.

<b>Recommendation:</b>	<b>Reason for Recommendation:</b>
To note the contents of the letter from UNISON dated 22 <sup>nd</sup> December 2015.	Appropriate information

<b>Person(s) To Action Decision:</b>	Pension Fund Manager		
<b>Date By When Decision To Be Actioned:</b>	immediately		
<b>Relevant Policy (ies):</b>	N/A		
<b>Within Policy:</b>	N/A	<b>Within Budget:</b>	N/A
Contact Officer Name:	Tel:	Fax:	Email:
Joe Rollin	01597 827641	01597 826290	joe.rollin@powys.gov.uk

<b>Relevant Portfolio Member(s):</b>	Councillor Wynne Jones
<b>Relevant Local Member(s):</b>	N/A

Mae'r dudalen hon wedi'i gadael yn wag yn fwriadol

Our ref: DM/rp

Your ref:

When telephoning please ask for:

Dominic MacAskill

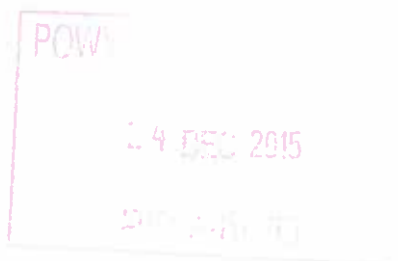


The Courtyard  
Wind Street  
Swansea  
SA1 1DP

Tel: 08000 857 857  
Fax: 01792 483948

e-mail: [cymruwales@unison.co.uk](mailto:cymruwales@unison.co.uk)  
web: [www.unison.org.uk/cymruwales](http://www.unison.org.uk/cymruwales)

Powys Pension Fund  
Pensions Manager  
Powys County Council  
County Hall  
Llandrindod Wells  
Powys  
LD1 5LG



22 December 2015

Dear Sir/Madam

**Re: LGPS Pooling**

As you know the government has requested LGPS funds come up with their proposals to pool their assets into Common Investment Vehicles (CIV) with assets under management no less than £25bn.

The DCLG has asked for initial proposals to be submitted by the end of February 2016.

We would like to know what your authority is planning to do and would request that we are consulted on these issues. We are particularly concerned that whatever forms the CIV take there is trade union nominated scheme member representation on it.

I look forward to your early response.

Yours sincerely,



Dominic MacAskill  
**REGIONAL MANAGER**

[http://teams.unison.org.uk/regions/CymruWales/campaigning/Protect our Pensions/DM 15.12.22 PowysPensionFund.doc](http://teams.unison.org.uk/regions/CymruWales/campaigning/Protect%20our%20Pensions/DM%2015.12.22%20PowysPensionFund.doc)

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# PIC16- 2016e

## CYNGOR SIR POWYS COUNTY COUNCIL

### Pensions and Investment Committee 11<sup>th</sup> February 2016

**REPORT BY:** Strategic Director of Resources

**SUBJECT:** Correspondence Received – Scheme Advisory Board

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**REPORT FOR:** Information

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- 1 On 8<sup>th</sup> October, the national LGPS Scheme Advisory Board sent the attached letter to all LGPS administering authorities, on the potential for censure by the Pensions Regulator where Fund's fail to meet their statutory obligations.
- 2 Committee are asked to note the contents of the SAB's letter.

<b>Recommendation:</b>	<b>Reason for Recommendation:</b>
To note the contents of the SAB letter to LGPS Funds dated 8 <sup>th</sup> October 2015.	Appropriate information

<b>Person(s) To Action Decision:</b>	Pension Fund Manager		
<b>Date By When Decision To Be Actioned:</b>	immediately		
<b>Relevant Policy (ies):</b>	N/A		
<b>Within Policy:</b>	N/A	<b>Within Budget:</b>	N/A
Contact Officer Name:	Tel:	Fax:	Email:
Joe Rollin	01597 827641	01597 826290	joe.rollin@powys.gov.uk

<b>Relevant Portfolio Member(s):</b>	Councillor Wynne Jones
<b>Relevant Local Member(s):</b>	N/A

Mae'r dudalen hon wedi'i gadael yn wag yn fwriadol



# Scheme Advisory Board

8 October 2015

For the attention of LGPS administering authorities in England & Wales  
LGPS Fund Chairs of Pension Committees  
Chief Executives  
Chief Financial Officers

Dear colleague,

## **Risk of censure by The Pensions Regulator (TPR)**

I am writing on behalf of The Local Government Pension Scheme Advisory Board ([SAB](#)), a body set up under Section 7 of the Public Service Pensions Act 2013, to remind you of the need to meet your statutory scheme duties, and to highlight the potential risk of censure faced by administering authorities, and the Section 101 Committees with the delegated oversight of the pensions function, if those duties are not met.

This fact was evidenced in a survey recently conducted by the Local Government Association which found that only seven of the 73 administering authorities that responded would meet the statutory requirement to publish all Annual Benefit Statements by 31<sup>st</sup> August.

The SAB recognises the current pressure on resources faced by administering authorities. However, LGPS administering authorities must ensure that sufficient resources are maintained to meet the statutory obligations placed on them to manage the scheme. Where sufficient resources are not provided, there are a number of potentially negative outcomes including:

- Censure by the Pensions Regulator (TPR) for non-compliance with the requirements of the Public Service Pensions Act 2013 and other primary legislation.
- Findings against the authority by the Pensions Ombudsman.
- Failure to fulfil financial responsibilities in accordance with Accounts and Audit (England) regulations 2011.
- Failure of internal control systems for financial and investment activities (Accounts and Audit (England) regulations 2011 and CIPFA/LASAAC code of practice).
- Overpayment or underpayment of pension amounts.
- Incomplete data leading to valuation assumptions which could result in increased employer contributions.
- Incorrect tax liabilities for the authority, participating employers, and scheme members.

# Scheme Advisory Board

Given the current financial strain on councils, it is important to be clear that the cost of those resources necessary for delivering the administering authority role is met from the pension fund (under Regulation 4(5) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009). There should therefore be no direct impact on the authority's revenue account costs.

The requirement for a new design of benefit statement is only one of a number of areas of increased demands on administering authorities others include:

- A new scheme design introduced in April 2014.
- New local governance arrangements (pension boards) which came into effect in April 2015.
- Ending of contracting out in April 2016 (estimated to cost between £30m and £100m across all LGPS funds).

Pensions (and the LGPS in particular) remain an area of significant change and high profile, as evidenced in the Summer Budget announcement on pooled investments, both within government and the media. Administering authorities will therefore come under an increasing level of scrutiny with regard to compliance and should ensure they have the necessary capacity in place.

As ever, the SAB welcomes feedback from the LGPS community particularly with regards to the administration of the Scheme by administering authorities. Please contact the SAB Secretariat, (email [elaine.english@local.gov.uk](mailto:elaine.english@local.gov.uk)) if you would like to share your views in respect of this matter or to find out more about the work of the Board.

Yours faithfully,



**Joanne Segars**

Chair, Scheme Advisory Board

[www.lgpsboard.org](http://www.lgpsboard.org)

# PIC17- 2016

## POWYS PENSIONS BOARD

Held at County Hall, Llandrindod Wells

on 27<sup>th</sup> November 2015

PRESENT:

Gerard Moore (Chair)

Mick Hutchison (Member Representative)

Geoff Petty and Wayne Thomas (Employers Representatives)

Joe Rollin (Secretary to the Board)

Dan Paley (Financial Reporting & Policy Accountant)

		Action
1.	<b>Apologies</b>  None received.	
2.	<b>Declarations of Interest</b>  Those who were members of the Local Government Pension Scheme declared an interest.	
3.	<b>Minutes</b>  The minutes of the last meeting held on 31 <sup>st</sup> July 2015 were agreed as a correct record subject to the correction of errors under item 4, deletion of the word “agreed” in the third paragraph and item 8 deletion of the word “questioning” in the first paragraph.	
4.	<b>Matters Arising</b>	
a)	<b>Terms of Reference of Powys Pension Board</b>  The Board was advised that the Pensions and Investment Committee had approved the amendments to the Terms of Reference that the Board had requested.  <b>Resolved that the amendments to Powys Pension Board are noted that the Chairman is authorised to sign the document.</b>	<b>Chair</b>

b)	<p><b>Annual Report &amp; Accounts 2013/14</b></p> <p>The Board received details of the Direct Administration Fees that had been asked for at the last meeting. The Board noted the increase in actuarial fees due to the outsourcing of County Council services and questioned whether this expense should be borne by the Pension Fund when it was the Council that was outsourcing services. The Secretary was asked to raise this with the Council's Strategic Director – Resources.</p>	<b>Secretary</b>
c)	<p><b>FSS (Actuarial Valuation)</b></p> <p>Dealt with under item 8 below.</p>	
d)	<p><b>Governance Compliance Statement</b></p> <p>Dealt with under item 9 below.</p>	
e)	<p><b>Scheme Communications Strategy</b></p> <p>Dealt with under item 10 below.</p>	
f)	<p><b>Quarterly Investment Update</b></p> <p>The Board was pleased to note that the Pensions and Investment Committee had accepted its recommendation on the presentation of investment performance data and that Aon Hewitt had incorporated this information in their last report to the Committee.</p>	
g)	<p><b>Board Work Programme</b></p> <p>Dealt with under item 15 below.</p>	
5.	<p><b>Confidential Matters</b></p> <p><b>Resolved to exclude the public for item 6 below on the grounds that there would be disclosure to them of exempt information of a commercially sensitive nature.</b></p>	
6.	<p><b>Quarterly Investment Update</b></p> <p>The Board received the Aon Hewitt report on the performance of fund managers for the quarter ended 30 June 2015. Members welcomed the new format used in the report showing the allocation of funds between managers.</p> <p>Members asked about the Aon Hewitt fee structure and the</p>	

	<p>Aon Hewitt discount referred to in the appendix to the report. The Secretary was asked check with Aon Hewitt the basis on which the discount was arrived at as the Board felt that without this information there may be a perception of a lack of transparency. Members felt that it would be useful to see how these fees compared with other pension funds and the Chairman advised that the Scheme Advisory Body was a useful source for this information.</p> <p>Members noted that most of the Fund’s managers were missing their targets even while matching or outperforming the benchmark which may mean that the targets were not being set correctly. The Secretary was asked to raise this with Aon Hewitt.</p> <p>The Chairman suggested that it would be useful for members of the Pensions and Investment Committee to have training on stock lending so that they understood the risks and rewards and he asked the Secretary to raise this with the Wales pension fund managers group to see if training could be organised nationally. Alternatively, the Chairman offered to undertake the training for Powys members.</p>	<p><b>Secretary</b></p> <p><b>Secretary</b></p> <p><b>Secretary</b></p>
<p><b>7.</b></p>	<p><b>Powys Pension Fund Annual Report &amp; Accounts 2014/15</b></p> <p>The Board received the Pension Fund accounts for 2014/15 and noted the increasing gap between the number of active scheme members and pensioners and deferred members.</p> <p>The Chair recommended that the Council review its Compliance Statement and consider including more detail, particularly in relation to Performance Assessment.</p> <p>The Secretary advised that the Investment Strategy Statement would replace both the Compliance Statement and the Statement of Investment Principles in 2016 and that this would give an opportunity to look the wording.</p> <p>The Chairman sought and was given reassurance that the Council and the Pension Fund had segregated bank accounts. He suggested that comment on page 26 “The Council has immediate access to its pension Fund cash holdings” needed to be reworded to reflect this.</p>	<p><b>Financial Reporting &amp; Policy Accountant</b></p> <p><b>Financial Reporting &amp; Policy Accountant</b></p>
<p><b>8.</b></p>	<p><b>Actuarial Valuation 2016</b></p>	

	<p>The Secretary advised that the timetable for the 2016 actuarial valuation had been agreed with the Actuary. The initial results were expected in time for the Fund employers meeting in November 2016 and the final report by 31 December 2016. The Secretary would keep the Board updated.</p> <p>The Secretary confirmed the arrangements for Council staff being transferred under TUPE and advised that they were written to at the time of transfer and informed of their right to join the pension scheme if they were not already members.</p>	
<b>9.</b>	<p><b>Governance Compliance Statement</b></p> <p>The Board was advised that the Governance Compliance Statement had been approved by the Pensions and Investment Committee on 30 September. The Clerk was asked to check whether this had to be approved by the Council.</p> <p>The Chairman noted that Appendix A included a reference to the annual business plan being approved. The Secretary advised that there wasn't one and he was asked to consult with the Section 151 Officer to see if this reference should therefore be deleted.</p>	<p><b>Clerk – it is confirmed that the Committee has full delegated authority to approve.</b></p> <p><b>Secretary</b></p>
<b>10.</b>	<p><b>Scheme Members Communications Strategy</b></p> <p>The Board was advised that the Communications Strategy Statement had been approved by the Pensions and Investment Committee on 30 September.</p>	
<b>11.</b>	<p><b>Commentary on Board Creation Compliance</b></p> <p>The Chairman advised that he had sought advice from the LGPS Scheme Advisory Board that there was nothing to prevent membership of more than one Pension Board and it had been confirmed that this was the case.</p> <p>The Board noted that its establishment was in accordance with the statutory requirements.</p>	
<b>12.</b>	<p><b>Procedure for Reporting Breaches of the Law to the Pensions Regulator</b></p>	

	<p>The procedure had been adopted by the Pensions and Investment Committee on 30 September.</p> <p>The Chairman noted that there was no system in place for recording breaches that were not significant enough to report to the Regulator and it was agreed that the Secretary would establish one.</p>	<b>Secretary</b>
<b>13.</b>	<p><b>Investment Manager Internal Controls</b></p> <p>The Board was advised that the annual review of assurance reports on the internal controls of organisations it invests with had been carried out. Nine of the Fund Managers reports were unqualified while another two included minor qualifications relating to controls not operating effectively for periods covered by the reports.</p>	
<b>14.</b>	<p><b>Internal Audit Report</b></p> <p>The Committee received the report of the County Council's Internal Auditor on the Pension Scheme and the action plan that had been agreed in response.</p>	
<b>15.</b>	<p><b>Board Work Programme</b></p> <p>It was agreed to defer this to the next meeting.</p>	
<b>16.</b>	<p><b>Cessation of contracting out: Update</b></p> <p>The Secretary advised that the initial matching exercise for pensioners and deferred members with HMRC had found 75% of data mismatched. The figures for active members was likely to be the same. Given the scale of mismatches the Council was unlikely to be able to undertake the exercise in-house and would therefore look to contract out with either public or private funds.</p>	
<b>17.</b>	<p><b>Board Member Training</b></p> <p>There was one training needs assessment outstanding from the Board and one for the Pensions and Investment Committee.</p> <p>The Board indicated their preference for in-house training events, preferably held in Llandrindod Wells.</p>	

<b>18.</b>	<b>Date of Next Meeting</b>  It was agreed to go ahead with the next meeting on 22 <sup>nd</sup> January. Geoff Petty advised that he may have a work commitment on that day and would have to send his apologies.	
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Gerard Moore  
Chair





	<p><b>Paragraph 38:</b> Joe Rollin confirmed that he was the designated person to take responsibility for ensuring that arrangements were in place to support Board members.</p> <p><b>Paragraph 41:</b> The Board discussed the implications of an Ombudsman’s ruling in respect of employer’s liability for not advising staff of tax implications when they became re-employed.</p> <p><b>Paragraph 42:</b> The Chair suggested that an annual review of the Board’s terms of reference be built into the work programme.</p> <p><b>Paragraph 45:</b> It was noted that it had been some time since the Pensions and Investment Committee had considered the Council’s AVC arrangements. It was suggested that the current provider be asked to give a presentation to a joint session of the Committee and Board. The Secretary would discuss this with the Chair of the Committee and Section 151 Officer.</p> <p><b>Paragraph 46:</b> The Secretary would provide the Board Members with an up to date list of the documents that they needed in order to be conversant with the Scheme.</p> <p><b>Paragraph 60:</b> Board members were asked to keep the Secretary informed of any training they undertook so their training logs could be kept up to date.</p> <p><b>Publication of Pension Board Information</b> <b>Paragraph 97:</b> It was agreed that Pensions Board agendas and minutes should be published on the Pensions Fund website.</p> <p><b>Managing Risks</b> <b>Paragraph 100:</b> The Secretary advised that he was hoping that the Risk Register would be ready to be considered at the next meeting of the Pensions and Investment Committee on 11<sup>th</sup> February.</p> <p><b>Ongoing Monitoring of Data</b> <b>Paragraph 137:</b> The Secretary confirmed that he was confident of meeting the deadline for publishing Annual Benefits Statements but he did have concerns over the accuracy of some of the data as he was aware that payroll systems were struggling to cope with different schemes</p>	<p><b>Secretary</b></p> <p><b>Secretary</b></p> <p><b>Secretary</b></p> <p><b>Secretary</b></p> <p><b>Board Members</b></p> <p><b>Secretary</b></p>
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	<p>since the introduction of Care Average Revalued Earnings (CARE). Pensions and Payroll staff would work closely together to ensure that the information was as accurate as possible. The Board noted the importance of getting this information correct as awards were locked 12 months after being made. The Board discussed what could be done and suggested that the Council's Internal Audit Service be asked to undertake a sample check. The Secretary also suggested that Pensions and Payroll staff be asked to attend a Board meeting to brief members. The Board also noted that there was a role for the Trade Unions to play in encouraging their members to check their Annual Benefits Statements and query anything that they did not understand.</p> <p><b>Date Improvement Plan</b>  <b>Paragraph 141:</b>  The Secretary confirmed that every year end the employers identified poor quality or missing data. This was a matter for the employers rather than the Board.</p> <p><b>Other Legal Requirements</b>  <b>Paragraph 146:</b>  The Secretary confirmed that the Scheme complied with Data Protection legislation and other legal requirements.</p> <p><b>Developing a record for monitoring the payment of contributions</b>  <b>Paragraph 157:</b>  The Secretary would report on any problems with contributions from employers, otherwise the Board would assume compliance.</p> <p><b>Benefit Statements</b>  <b>Paragraph 188:</b>  The Board agreed that scheme members needed to take more of an interest in their Annual Benefits Statement and if necessary take independent advice.</p> <p><b>Reporting Breaches of the Law</b>  <b>Paragraph 241:</b>  The Board noted that the process for reporting any breaches of the law had been approved at the last meeting.</p> <p><b>Whistleblowing Protection and Confidentiality</b>  <b>Paragraph 272:</b>  The Secretary confirmed that the Council's Whistleblowing policy included pensions.</p>	<b>Secretary</b>
4.	<p><b>Board Work Programme</b>  The Chair asked Members to let the Secretary know if they had any items they wanted to be included on the next agenda.</p>	

<b>5.</b>	<b>Date of Next Meeting</b> The next meeting was scheduled for 4 <sup>th</sup> March. Alternative dates were considered but none suited everyone. Wayne Thomas sent his apologies for 4 <sup>th</sup> March.	
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Gerard Moore  
Chair

# PIC19- 2016

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# PIC20- 2016

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