Pension Fund Annual Report 2015/16

Powys

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Chairman's Statement

Over the past year, the Powys Pension Fund has struggled to find growth in the face of volatile world equity markets; low oil and other commodity prices; very low interest rates; and, continuing geopolitical uncertainties. Over the year, the Fund's net asset value has increased marginally to £501,778k.

The Pension Fund has not made any significant changes to its asset allocation strategy during the year but has taken a number of decisions in relation to the re-balancing of assets and has changed one manager. A decision taken in March 2014 to invest in the Hermes Property Fund was finalised last summer, the Pension Fund having been queued for over 12 months. In the autumn of 2015 and following a downgrading of their 'buy' rating by the Pension Fund's investment consultants, a decision was taken to replace Aberdeen Asset Management as one of the Pension Fund's active global equity managers. After a manager selection process, the Pension Fund appointed Carnegie Asset Management and Hosking Partners. Investment in the new managers will be made early in 2016/17.

As required by the Public Service Pensions Act 2013, the Pension Fund established a local Pension Board by 21 January 2015. Details of the Board's work can be found in Appendix 2. In addition, the minutes of the meetings of the Powys Pension Board may be viewed online in the Forms and Publications section of the Pension Fund's website:

www.powyspensionfund.org

Over the year the Pension Fund has, with the other Welsh LGPS Funds, investigated the merits of 'pooling' pension fund assets with a view to reducing costs via economies of scale. Work on a Wales Collective Investment Vehicle (CIV) continues whilst the pooling of passive global equity and fixed income mandates has progressed over the year, culminating in March 2016 with the appointment of BlackRock to manage passive assets on a pooled basis for all 8 Welsh LGPS Funds.

The prospects for the Pension Fund for the coming year are likely to be both interesting and challenging. The key event for 2016/17 will be the triennial valuation which will determine the contribution rates to be paid by participating employers with effect from 1 April 2017. With continuing downward pressure on public spending under the Government's austerity agenda, valuation results are likely to be of even more significance than usual. In addition, the results of the Government consultation on reform of LGPS investments – including the proposal to pool more LGPS Fund assets to create a number of 'British Wealth Funds' with a focus on infrastructure investment are expected later in 2016.

I trust that you will find this report interesting and informative. Should you have any comments on this report or any aspect of the Pension Fund or the Local Government Pension Scheme, see Appendix 3 for details of how to contact us.

Cllr Tony Thomas
Chair of the Pensions and Investment Committee

Pension Board Report

Constitution, Representation and Attendance

The Powys County Council LGPS Local Pension Board ("the Board") was constituted under the Public Service Pensions Act 2013 and held its first meeting on 31 July 2015. It consists of two representatives of the Scheme employers, and two representatives of the Scheme members, who can vote. In addition it has a non-voting independent Chair. The Board met on four occasions during the year, and each meeting was quorate. Such meetings are open to the public, other than when considering exempt items.

To facilitate the operations of the Board, the Chair is invited as an observer to meetings of the Powys County Council Pensions and Investment Committee ("the Committee").

Functions and Operation of the Board

The two primary functions of a Local Pension Board are to assist the Administering Authority to:

- Ensure effective and efficient governance and administration of the LGPS;
- Ensure compliance with relevant laws and regulation.

It therefore has a monitor/assist/review purpose, rather than being a decision making body. It could be seen as being a critical friend. As such, the general approach of the Board is to seek assurances with evidence from the Fund that it is meeting its objectives, producing its required statements, managing its risks, etc. so as to achieve the overall objectives as set out in paragraph 2.1 above.

In so doing, the Board is helping manage the reputational risk of the Fund, and of the Administering Authority. This is more critical now that the LGPS in England and Wales has both the Department for Communities and Local Government (DCLG) and the Pensions Regulator as its regulators.

The Board operates under Terms of Reference which were initially agreed by Powys County Council in January 2015. However, the Committee subsequently supported a recommendation from the Board for some slight modifications. This can be found online at www.powyspensionfund.org

The Board is supported by the Board Secretary. This role is performed by the Pension Fund Manager.

The Board is not a Committee of the Council, but is established under the Public Service Pensions Act 2013. Members of the Board can be fined by the Pensions Regulator, as indeed can the Administering Authority for serious breaches of the law.

The establishment and initial meetings of the Board coincided with the period of greatest pressure on senior staff in the recent history of the LGPS, with the Administering Authority having to respond to the DCLG by 19 February 2016 on two critical consultation documents: the proposed pooling of LGPS investments, and draft revised Investment and Management of Funds Regulations. These developments placed a relatively higher level of workload on smaller funds like Powys. It was clear that an over-ambitious Board could have the opposite effect to its purpose of "assisting the Administering Authority" by over-commissioning reports from the Board Secretary. The Board therefore endeavoured to perform its function effectively, but in a less intrusive way.

In 2015/2016 the direct costs of operating the Board, covering travel and training expenses relating to Board members and the fees and expenses of the Independent Chair amounted to £9,827. These costs do not include any indirect costs relating to officer time nor any apportioned costs for the use of the Council's premises, systems or services recharged to the Fund by the Council. There was a specific budget of £39,343. The Board is mindful of delivering value for money, and endeavours to work in a cost-effective manner. Should the Board feel the need to bring in an external specialist, it can do so with the agreement of the Board Secretary. Whilst no such external expertise was bought in during 2015/16, the Board did receive presentations by senior pensions and payroll staff of the Administering Authority, which helped the Board assess strengths, vulnerabilities and challenges in this area.

Detailed Work of the Board

Scheme documents

The Board has examined the range of scheme documents expected to be in place. It has reported where it found gaps or where there was a need to update, and recognised that the significant time requirements of responding to the two major DCLG consultations has inevitably impacted on previously-scheduled work.

The Fund has introduced the following during 2015/2016:

- Reporting Breaches Procedure

The Fund has reviewed/updated the following during 2015/2016:

- Governance Policy and Compliance Statement;
- Scheme Members Communication Strategy
- Risk Register

Risk management and register/key person risk officers and Members

A separate Risk Register is produced for the Fund. The detailed assessment of the likelihood of each risk occurring and its impact had been judged in the light of the existence of the Board as an additional scrutiny resource.

Review of Investment Performance Monitoring Information presented to Committee

The Board reviewed the quarterly investment performance monitoring reports presented by the Fund's Investment Advisors from the perspectives of ease of readability, understanding and interpretation. Various recommendations were made which were accepted by both the Committee and Investment Advisors and are now in practice.

The Pensions Regulator

Whilst it is generally felt that the LGPS is comparatively well governed, nevertheless the Pensions Regulator examines the Scheme on an ongoing basis and has, for example, highlighted delays in LGPS Funds producing Annual Benefit Statements (ABS's). The Board is pleased to note that Powys was one of only a handful of Administering Authorities which produced its March 2015 ABS's by the due date of 31 August.

A key achievement of the Board has been to undertake, with the Board Secretary, a review of the Fund against the expectations as reflected in the Pension Regulator's Code of Practice 14. The assessment identified aspects the Fund needs to improve within the following year, including:

- The preparation and maintenance of a list of key Fund documents, policies and statements
- The establishment and maintenance of a register of reportable and non-reportable breaches of the law, in accordance with guidance issued by the Pensions Regulator

Reporting and Recording Breaches

The Board, as with other branches of the Fund, has a responsibility to report breaches of law to the Pensions Regulator. Procedures are in place for this important requirement. The Committee accepted a recommendation from the Board relating to the administrative arrangements for the related function of the recording breaches, which relates to less serious incidents. There have been no breaches thus far.

Scheme Advisory Board (SAB)

The SAB has a two way role: giving advice both upwards to the DCLG and down to individual funds. There is expected to be a two way flow of information between the SAB and individual Funds and it is the aim of the Board to be seen as an example of good practice. The SAB examined the establishment and Terms of Reference of Local Pension Boards and Powys Pension Fund complied with the requirements and timescales.

Externalities

Any Board is aware that any Fund is vulnerable to criticism from the Pensions Regulator and the Scheme Advisory Board if there are failings attributable to any employer participating in the Fund, for example, caused by the late submission of data, or of poor quality data from a Fund employer delaying the production of ABS's or the Triennial Valuation.

The Board may express its concerns should it find that the reputational risk is threatened by a shortage of appropriate resources to administer the Fund effectively, be it a temporary challenge such as managing the Guaranteed Minimum Pension (GMP) reconciliation exercise, or any longer term issues. In so doing, it will be mindful of the age of austerity.

The Board made an accepted recommendation relating to the funding of additional actuarial costs when any Fund employer, including the Council, may seek to transfer functions and staff to another organisation.

The Board received various reassurances during the year from the Board Secretary, including in the areas of employer covenants, Internal Dispute Resolution Procedures, Pension Ombudsman cases, cessation of contracting out, cash flow and segregated bank accounts.

References have already been made to the impact of the workload requirement to respond to two major DCLG consultations. More fundamentally, the decisions on investment pooling represent probably the most significant individual decision by the Administering Authority for decades. The Board has been kept informed of progress in this key, but complex development.

The Chair of the Board presented the constitution and role of the Board at the Annual Employers meeting.

Training

Each Board member has to be conversant with the details of the Local Government Pension Scheme, which translates as having a good working knowledge. The training policy for Board members is based on an individual training needs analysis (TNA) and is therefore being individually tailored. This allows use of both the CIPFA Framework and the Pension Regulator's Toolkit. In addition, Board members are informed of external training opportunities such as CIPFA Pensions Network events and the annual LGA/LGPS Trustees Conference.

Where timely and appropriate, service providers such as asset managers provide joint training to Committee and Board members. Details of this can be seen in appendices 1 and 2.

Workplan

The agenda for the first four meetings of the Board emerged naturally as the Board scanned the statutory documents, reports to the Committee, and reports, reviews and compliance requirements of both the Scheme Advisory Board and the Pensions Regulator.

A 2016/17 workplan will show the separate activity areas of:

- Accounts;
- Administration, including Key Performance Indicators;
- Audit and Risk Management, including the Risk Register
- Governance; including reporting and recording breaches
- Pooling developments: implications for Administering Authorities
- Investments;
- Triennial Actuarial Valuation as at 31 March 2016;
- Training.

There is flexibility to allow for any additional reviews by the Scheme Advisory Board and the Pensions Regulator, plus other developments.

The Board is also mindful of the fact that some Members of the Pensions and Investments Committee may stand down at the next local elections scheduled for May 2017. The Board will invite the Administering Authority to consider how the Board can be of assistance as the new Committee builds up its expertise.

The Chair of Powys County Council's LGPS Local Pension Board wishes to thank his fellow Board members who have volunteered their time and energies for their new roles. Thanks are also expressed to the Board Secretary, Chairman and Vice Chairman of the Pensions and Investments Committee, and to the Cabinet Manager for Legal, Scrutiny and Democratic Services.

Gerard Moore
Independent Chair
Powys County Council LGPS Local Pension Board

Fund Administration Report

Scheme Details

Powys County Council is the Administering Authority for the Powys Pension Fund. The Pension Fund provides pension entitlements under the Local Government Pension Scheme (“LGPS”) to all eligible employees of Powys County Council and other participating bodies. Membership of the LGPS is not mandatory and excludes teachers, police officers and fire fighters, for whom specific separate pension schemes are available. The LGPS is a statutory public service defined benefit pension scheme based on final salary for benefits accrued up to 31 March 2014 and Career Average Revalued Earnings (“CARE”) for benefits accrued from 1 April 2014. Contributions payable by employees and the benefits due to them are prescribed by the Local Government Pension Scheme Regulations.

Additional Voluntary Contribution (AVC) Scheme

Since 6th April 1988, it has been a legal requirement for all pension schemes to provide members with access to an in-house AVC Scheme. The Powys Pension Fund’s appointed providers are the Equitable Life Assurance Society, the Standard Life Assurance Company and Prudential plc. Members are able to pay contributions into a variety of AVC arrangements offered by the providers, to secure additional pension benefits. The AVC investments are excluded from the Pension Fund Accounts.

Changes to Scheme Rules

During 2015 there have been two statutory instruments issued that have changed the rules governing the LGPS. The first was the Local Government Pension Scheme (Amendment) (Governance) Regulations 2015 which came into force on 28 January 2015. These regulations set out the requirements for the Powys Pension Fund to create and establish a local pension board, as required by the Public Service Pensions Act 2013.

The second set of changes were contained in the Local Government Pension Scheme (Amendment) Regulations 2015 which came into force on 11th April 2015. These regulations clarify a number of matters contained within the 2013 Scheme Regulations which introduced the provisions for the new CARE scheme from 1 April 2014.

The Pensions Regulator

In April 2015 the Pensions Regulator published the Code of Practice no. 14: Governance and Administration of Public Service Pension Schemes. The Code applies to all schemes established under the Public Service Pensions Act 2013 and is directed at scheme managers and members of pension boards of public service schemes. The Code contains four parts:

- Governing your scheme
- Managing risks
- Administration
- Resolving issues

Pension Fund officers and the Powys Pension Board will oversee and monitor the performance of the Powys Pension Fund against the Code.

Altair

Since January 2011 the Pensions Team's main administration system has been Altair. This system is used for holding membership data, the calculation of pension benefits, the generation of scheme documents and the data extracts required at each actuarial valuation. In addition, the Team also uses Civica Electronic Document Management (EDM) that provides document management and workflow monitoring facilities.

Performance Standards

The Pensions Team has a number of service standards that it seeks to meet in order to ensure that it is providing an efficient and timely service to members of the LGPS. The standards are:

New Active Members

Membership Certificate: We aim to issue a Membership Certificate to a new member within one month of receiving a completed notification from the member's employer.

Transfers In: We aim to acknowledge the member's request for transfer details and calculate the estimated benefits that a transfer value will buy and issue a quotation within 10 days of receiving details from the previous scheme and any additional essential information required from Her Majesty's Revenue & Customs. We aim to request payment of the transfer value within 5 days of receiving confirmation from the member that the transfer is to proceed. We aim to confirm the actual benefits purchased by the transfer value within 10 days of receiving payment from the previous scheme.

Existing Active Members

Annual Benefit Statements: Provided pay details are received from employers promptly after the year end and provided we hold all of the relevant information, we will make available each year an Annual Benefit Statement to each member showing the estimated current value of accrued benefits, the value of prospective benefits at normal retirement age, the estimated current value of death-in-service benefits and, for tax purposes the amount of Annual Allowance used by the change in benefit value since the previous year.

Paying Extra Contributions: We aim to provide information within 10 days of receiving a request from a member wishing to pay extra contributions.

Retirements: We aim to send details of the benefits payable and pay the member's tax-free cash lump sum within 10 days of receiving all of the information required from the member's employer and/or the member.

Deaths: We aim to send details of the benefits payable within 10 days of receiving all of the information required from the late member's employer and we will pay the lump sum death grant within 10 days of receiving Grant of Probate (or other appropriate documentation) or authorisation from two delegated officers.

Early Leavers: We aim to send details of the benefit options available within 30 days of receiving all of the information required from the employer.

Refunds: We aim to pay a refund by the end of the month following receipt of the member's formal request for payment.

Transfers Out: We aim to issue a quotation, guaranteed for 3 months, within 10 days of receiving the member's request and confirmation of the member's contracted-out rights from Her Majesty's Revenue & Customs (where appropriate). We aim to pay a transfer value within five days of receiving confirmation from the member that the transfer is to be made and all of the information we require to make payment.

Deferred Members

Annual Benefit Statements: We aim to make available to each deferred member a Benefit Statement annually, showing the current value of the member's preserved benefits.

Deferred Benefits into Payment: Provided we hold an address which has been confirmed we will write to the member setting out the benefit options available to them, at least 30 days prior to the date benefits become payable.

Communications

An effective communications strategy is vital for any organisation that strives to provide a high quality and consistent service to its customers. The complexity of pensions in general and the LGPS in particular, places communications at the heart of a high quality service provision. Communication material is produced locally and on an all Wales basis in collaboration with the 7 other Welsh LGPS Pension Funds.

Powys Pension Fund communicates with all stakeholders, as defined in specific legislation. Communication is increasingly distributed via electronic means, with all documents available on www.powyspensionfund.org, whilst staff can be contacted via pensions@powys.gov.uk. A named Pension Technician is allocated to each member of the Scheme. Details of which can been found in Appendix 3.

Appropriately qualified members of staff from the Pensions Section or external advisers will deliver presentations to groups of stakeholders and conduct individual meetings as required. The Pension Fund’s objective in respect of communication is to comply with relevant legislation and ensure that individual members and employers receive accurate and timely information about their pension arrangements.

Scheme Statistics and Performance

Membership Trends

The graph below shows the membership of the Fund as at 31 March. Deferred members are former employees of the contributing authorities who have yet to draw their pensions.

Table 1 Membership of the Fund as at the 31 March between 2011 and 2016 broken down by type

		2011	2012	2013	2014	2015	2016
	Contributor	6,391	6,383	6,462	6,639	6,555	6,273
	Pensioner	3,310	3,535	3,699	3,803	4,059	4,223
	Deferred	5,605	5,891	5,824	5,401	5,713	6,369
	Total	**15,306**	**15,809**	**15,985**	**15,843**	**16,327**	**16,865**

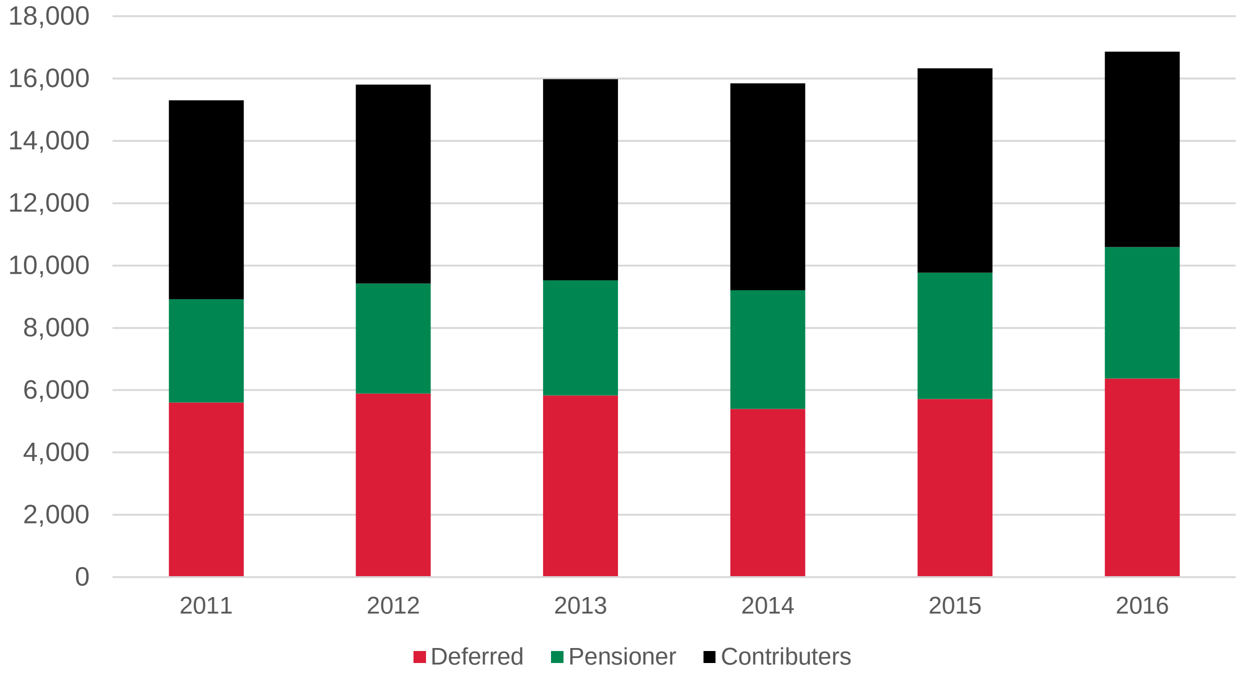

Figure 1 Stacked bar chart showing the membership of the Fund as at 31 March between 2011 and 2016 as per Table 1

My Powys Pension Engagement

My Powys Pension was launched at the end of February 2015 as the new way for scheme members to monitor and engage with their pension. Below is a chart which shows the percentage of scheme members (excluding councillors) who have registered to this service since it was launched.

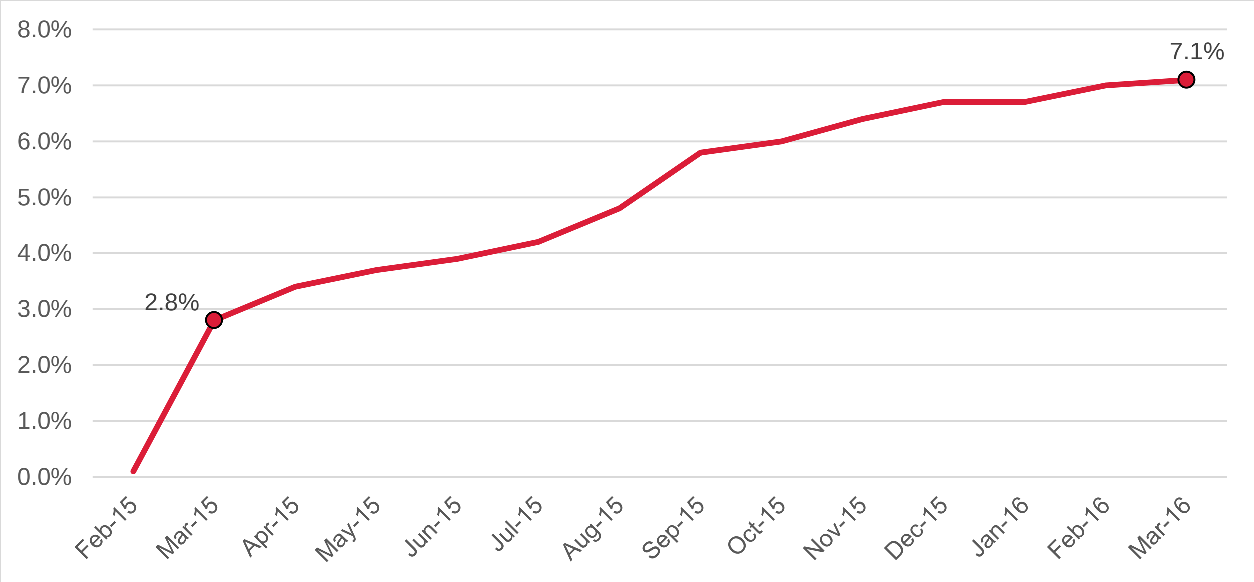

Figure 2 Line graphs showing the percentage of Scheme members (excluding councillors) using the My Powys Pension service over time

By the end of financial year 2014/15, 2.8% of scheme members (excluding councillors) had registered to use My Powys Pension. This had grown to 7.1% by the end of financial year 2015/16.

Website traffic

The hosts of our websites are able to track how many visits they receive, including new visitors and how many webpages have been viewed. The below is a summary of their data over each financial year.

Table 2 My Powys Pension website traffic over the past three financial years

Financial Year	Visits	New Visits	Page Views	Avg. Pages per Visit
2013/14	2,121	1,202	11,869	5.60
2014/15	2,098	1,076	9,685	4.62
2015/16 (*)	1,973	1,103	8,555	4.34

(*) Please note that figures for December 2015 were not provided. As such to facilitate a comparison between the years, it has been assumed that the figures would be similar to an average of the preceding 3 months.

Workflow Performance

As covered in Performance Standards on page 12, the below table shows the workload placed on the Pensions Team and how many of the various requests have been fulfilled. The 'Performance' percentage is calculated by dividing the number of tasks completed in the given year by those raised in the same year. As such if some of the completed tasks were originally raised in the previous year, this may exceed 100%.

Table 3 Performance of pension staff in relation to raised and completed tasks

	2013/14	2014/15	2015/16
Brought Forward	827	1,051	1,130
Started	7,706	7,561	8,167
Completed	7,482	7,482	8,215
Carried Forward	1,051	1,130	1,082
Performance	**97%**	**99%**	**101%**

Funding and Valuation

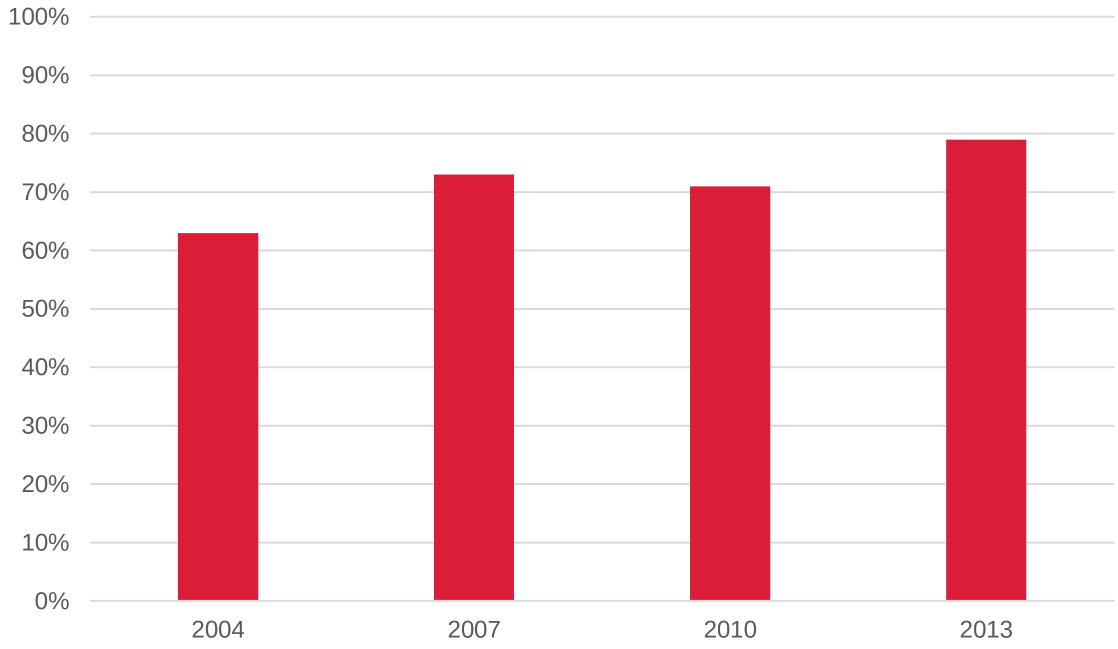

Figure 3 Bar chart showing the pension funding levels as a percentage of accrued liabilities

The aim of the funding is to accumulate current contributions at a level sufficient to provide known benefits at some time in the future. In short therefore, the scheme benefits are financed by contributions from employees and employers together with income from investments. Both the employees' contributions and the benefits to be provided by the scheme are fixed by the Government as set out in the Local Government Pension Scheme Regulations, leaving the employers' rate of contribution as the only element which can be deliberately adjusted

The employers' rate of contribution is assessed by the Actuary to the Fund who reviews the future income and liabilities of the Fund. These reviews, or actuarial valuations, are required by law with a major review being undertaken every third year. The next valuation of the Fund will be completed in autumn 2016.

The actuarial valuation as at 31 March 2013 showed the assets held at the valuation date were sufficient to cover only 79% of the accrued liabilities assessed on an ongoing basis. While this is an improvement on the 71% achieved as at 31 March 2010, it is the long-term goal to achieve 100% funding and efforts continue to be made to address this. The level of funding has no impact on members' benefits which are guaranteed by law.

Investment Report

The prime requirement in managing the Fund is to ensure adequate diversification of its assets over different asset classes and different geographical areas. The right balance must be struck between the desire for enhanced returns and potential 'risk' of volatility in those returns i.e. the investment policy of the Fund is aimed at maximising returns within the acceptable limits of risk. There is no ideal split for any fund, so the portfolio balance needs to be regularly monitored and adjusted in line with the economic, financial and market indicators.

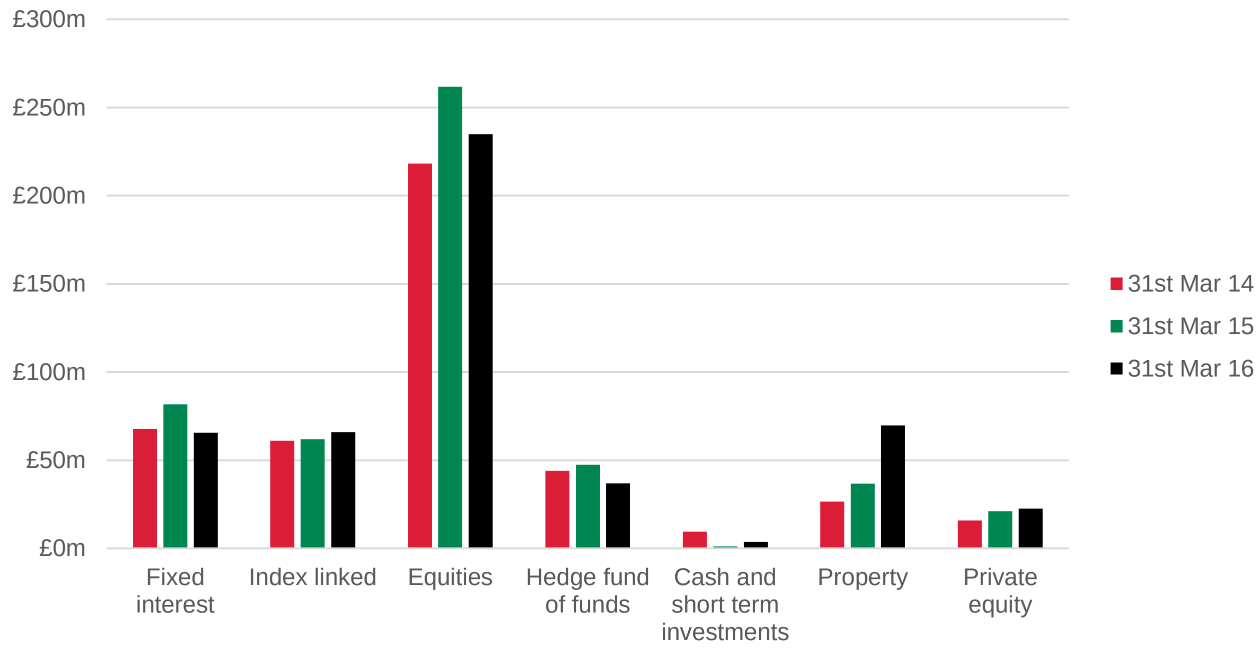

Figure 4 Bar chart showing the market values by asset class over the past three years

The investment style of the Fund is to appoint external expert fund managers with clear performance benchmarks and place accountability for performance against those benchmarks on the fund managers. The benchmarks can be seen in Appendix 4, The Statement of Investment Principles, 7.2.The Chief Financial Officer must ensure that the management of the Fund falls within the requirements of the Local Government Pension Scheme Regulations.

Performance Review

Table 4 Comparison of estimated returns against inflation

	1 Year %	**3 Years %**	**5 Years %**
Powys Overall Return Annualised Rolling Return pa	0.5	6.5	7.9
Inflation CPI	0.1	1.1	2.0
Average Earnings Index	2.4	2.1	2.1

Given the long-term nature of the Fund, perhaps the most significant column above is that detailing the comparisons over five years. Inflation and average earning percentages are taken from the Office for National Statistics data.

The performance of each of the current Fund Managers for 2015/16 is shown in the table below. The Fund Managers have been given a rolling 3-year specific performance target measured against the benchmark return in the relevant asset class. The targets include a minimum acceptable performance level.

Table 5 A comparison of actual against benchmarked performance for each Fund Manager

Mandate	Fund Performance %	Performance Benchmark %
Aberdeen Asset Management (Global Equity)	(6.1)	0.3
Aviva Investors (UK Property)	10.6	11.0
BlackRock Global Investors (Balanced)	0.2	0.5
BlackRock Global Investors (Index-Linked Funds)	1.8	1.8
CBRE Investors (European Property)	10.1	1.6
GAM (Hedge Fund of Funds)	(1.4)	(5.4)
Goldman Sachs (Hedge Fund of Funds)	(6.8)	0.6
HarbourVest Partners VII Buyout (Private Equity)	17.3	(0.4)
HarbourVest Partners VIII - Buyout (Private Equity)	17.6	(0.4)
HarbourVest Partners VIII -Venture (Private Equity)	21.5	(0.4)
HarbourVest Partners IX - Buyout (Private Equity)	18.1	(0.4)
HarbourVest Partners IX -Venture (Private Equity)	24.4	(0.4)
HarbourVest Partners HIPEP VII (Private Equity)	4.2	(0.4)
Hermes Investment Management (Property)	*	*
Insight Bonds Plus (Fixed Interest)	(3.6)	0.4
Insight UK Corporate Bonds (Fixed Interest)	(0.1)	0.6
MFS (Global Equity)	1.2	(0.3)
Permal (Hedge Fund of Funds)	(8.5)	0.6
Schroders (Global Equity)	(3.5)	(0.3)
Schroders (Property)	2.1	10.6
Standard Life Investments (Private Equity)	(4.9)	(0.4)
Overall Fund	2.0	

* Denotes full year figure not available

During 2015/16 the Fund invested £12.1m in a pooled property fund with Hermes funded by a £7.1m disinvestment from GAM and £5m from BlackRock. Of the £24.9m capital commitment (Note 18) outstanding as at 31 March 2015, £4.7m was drawn down in 2015/16.

Investment manager structure as a percentage of fund total, as at 31 March 2016

Table 6 Percentage split of investments

	Manager						
	Blackrock	Aberdeen, Schroders & MFS	Insight Investments	Permal, GAM & Goldman Sachs	Aviva, CBRE, Schroders & Hermes	Standard Life & Harbourvest	
Asset Class	Passive %	Active %	Active %	Active %	Active %	Active %	Total %
Equities	25.0	22.0					47.0
Fixed Interest	4.9		8.2				13.1
Index Linked	13.2						13.2
Property					14.0		14.0
Private Equity						4.5	4.5
Hedge Fund				7.4			7.4
Cash/ Other	0.8						0.8
Total	43.9	22.0	8.2	7.4	14.0	4.5	100.0

The strategic asset allocation is as follows:

Table 7 Asset allocation as a percentage

2014/15		2015/16
47%	Equities	47%
30%	Fixed interest and index linked securities	30%
10%	Property	10%
5%	Private equity	5%
8%	Hedge fund of funds	8%
100%	**Total**	**100%**

The current strategic asset allocation is 70% return seeking and 30% risk reducing (matching assets). This strategy was determined with the aid of the funds Investment Advisors.

The strategic asset allocation is the ideal target and cannot be achieved until the scheme is fully funded in all areas. It does not reflect the actual investments held at the year-end. The current structure aims to have a 70:30 split between return seeking and liability matching assets.

AON Hewitt Limited currently operates a Medium Term Asset Allocation (MTAA) project for the Fund. It utilises all of the Fund's assets excluding Private Equity. The MTAA service has the target of increasing the return achieved by these assets by 0.5% per annum by deliberately allocating assets away from the strategic allocation to take advantage of market over/under valuations during the medium term. The MTAA service has an artificial benchmark of 52% equity, 33% bonds and 15% alternatives. The market value of assets spread between the fund managers as at 31 March 2016 is shown on the next page.

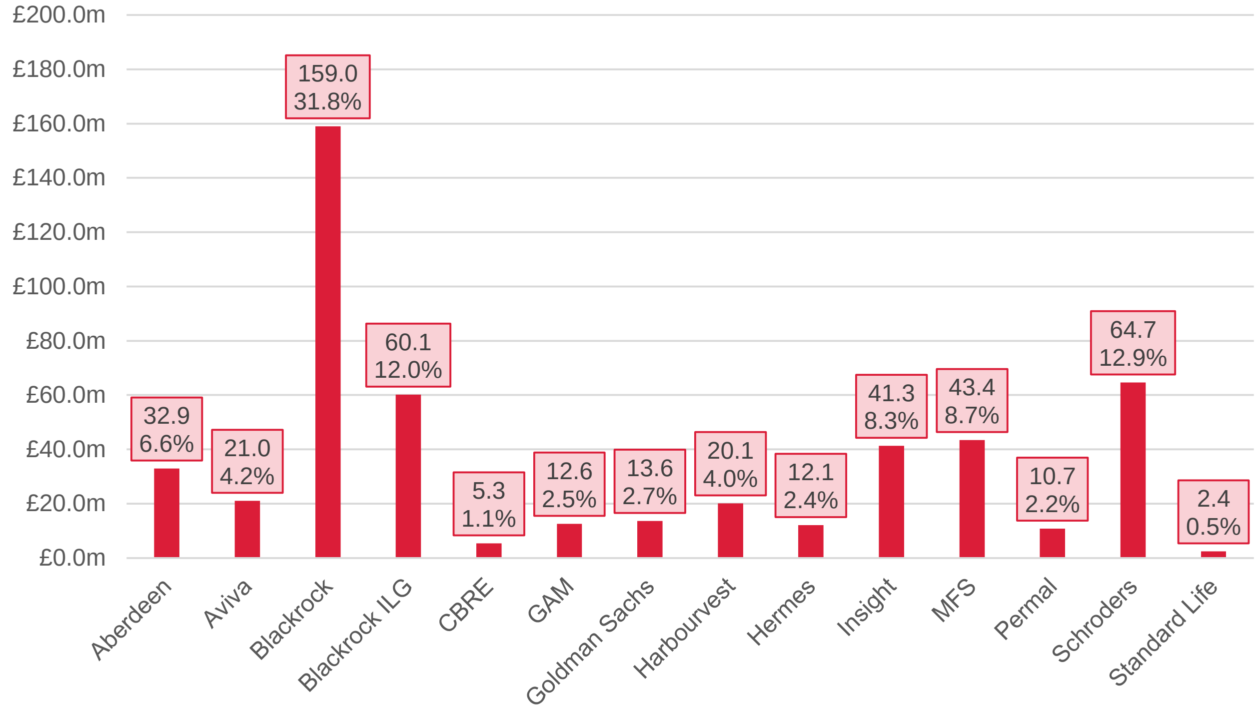

Figure 5 Chart showing the market value of Fund assets by manager

Net Assets Statement

As at 31 March

Table 8 Net assets as at 31 March

2015 £'000		Note	2016 £'000
511,707	Investments	12	499,332
1,898	Current Assets	13	3,229
(12,007)	Current Liabilities	13	(783)
501,598	Net Asset as at 31 Mar		501,778

The accounts show cash held with the Investment Managers as investments as recommended in the Statement of Recommended Practice, Financial Reports for Pension Schemes.

Pension Fund Account

Table 9 Movements on the Pension Fund account

2014/15 £'000		Note	2015/16 £'000
	Contributions and benefits		
(22,730)	Contributions receivable	4	(23,026)
(1,162)	Transfers in	5	(1,038)
(60)	Other income	6	(48)
(23,952)	Total income		(24,112)
24,746	Benefits payable	7	24,019
2,677	Payments to and on account of leavers	8	997
3,258	Administrative expenses	9	3,723
30,681	Total expenditure		28,739
6,729	Net (additions)/withdrawals from dealing with members		4,627
	Returns on investments		
(4,015)	Investment income	10	(5,175)
-	Taxes on income	11	19
(67,630)	Changes in the market value of investments	12	349
(71,645)	Net profit on investments		(4,807)
(64,916)	Net (increase)/decrease in the fund		(180)
436,682	Opening net assets		501,598
501,598	Closing net assets		501,778

Notes to the Pension Accounts

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Note 1: Basis of Preparation

The financial statements have been prepared in accordance with the requirements of the 2015/16 CIPFA Code of Practice on Local Authority Accounting in the United Kingdom which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The financial statements summarise the transactions of the scheme and deal with the net assets at the disposal of the trustees. They do not take account of obligations to pay pensions and benefits which fall due after the end of the scheme year. The actuarial position of the scheme, which does take account of such obligations, is dealt with in the statement by the actuary included in the annual report and these financial statements should be read in conjunction with it.

Note 2: Accounting Policies

Contributions and Benefits

Contributions are accounted for on an accruals basis. Benefits payable represents the benefits entitlement up to the end of the reporting period.

Transfers to other Schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with The Local Government Pension Scheme Regulations.

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contribution to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In.

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

Refunds to Leavers

These are accounted for when due.

Investment Management Expenses

Each fund manager receives a fee for their services based on the market value of the assets they manage.

Investment Income

Interest income

Interest income is recognised in the fund account as it accrues.

Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Change in Market Value

Changes in market value of investments comprise reinvested investment income and all realised and unrealised profits/losses during the year.

Foreign Currency Transactions

Assets and liabilities held in a foreign currency are translated at the rate of sterling quoted at year-end. Income and expenditure arising during the year is translated into sterling at the rate quoted on the date of receipt or payment. Resulting exchange gains or losses are recognised through the revenue account.

Valuation of Assets

No property is directly held by the fund. The market value used for quoted investments is the bid market price ruling on the final day of the accounting period. Fund Managers value unquoted securities at the year-end in line with generally accepted guidelines to ascertain the fair value of the investment. Change in Market value also includes income which is reinvested in the fund, net of applicable tax. Fixed interest securities are recorded at net market value based on their current yields. Fair value for limited partnerships is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership. It is not the intention of the fund to dispose of unquoted investments before maturity.

Cash and cash equivalents

Cash comprises cash in hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to cash and that are subject to minimal risk of changes in value.

Taxation

The fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

Financial Liabilities

The fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. From this date, any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

Actuarial present value of promised retirement benefits

The actuarial value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under IAS 26, the fund has opted to disclose the actuarial value of promised retirement benefits by way of a note to the net assets statement (note 21).

Administrative expenses

All staff costs of the pension administration team and other overheads are apportioned to the fund in accordance with Council policy.

Contingent Liabilities

Contingent liabilities are possible liabilities whose existence will only be confirmed by future events and are not recognised until the realisation of the loss is virtually certain.

Additional Voluntary Contributions (AVC's)

Members of the Pension Fund may make additional voluntary contributions (AVCs) in order to obtain improved benefits on retirement. The AVC investments are excluded from the Financial Statements of the Powys Pension Fund, in accordance with section 4(2)b of the Local Government Pension Scheme (Management & Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (note 15).

Note 3: Critical Judgements in Applying Accounting Policies

Unquoted private equity investments

It is important to recognise the subjective nature of determining the fair value of private equity investments. They are inherently based on forward looking estimates and judgements involving many factors. Unquoted private equity investments are valued by the investment managers using acceptable guidelines. The value of these investments at 31 March 2016 was £22.5m (31 March 2015: £21.0m).

An analysis of investments can be found later in Note 12a.

Pension fund liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in the statement of the actuary. This estimate is subject to significant variances based on changes to the underlying assumptions.

Note 4: Contributions Receivable

Table 10 Value of contributions received by category

2014/15 £'000	By Category	2015/16 £'000
18,000	Employers	18,251
4,730	Employees	4,775
22,730		23,026

Table 11 Value of contributions received by authority

2014/15 £'000	By Authority	2015/16 £'000
21,586	Powys County Council (administering body)	21,557
765	Scheduled bodies	761
379	Admitted bodies	708
22,730		23,026

Table 12 Value of contributions received by type

2014/15 £'000	By Type	2015/16 £'000
11,374	Employers normal contributions	11,569
4,730	Employees normal contributions	4,775
616	Employers additional contributions	495
5,980	Employers deficit reduction contributions	6,187
30	Employers augmentation	-
22,730		23,026

Note 5: Transfers In

Table 13 Value of pension transfers received from other schemes

2014/15 £’000		2015/16 £’000
1,162	Individual transfers from other schemes	1,038

Note 6: Other Income

Table 14 Value of other income received

2014/15 £’000		2015/16 £’000
14	Administrative fees received	21
46	Additional allowances recovered	27
60		48

Note 7: Benefit Payable

Table 15 Value of benefits payable split by type

2014/15 £’000		2015/16 £’000
19,716	Pensions	20,139
4,447	Commutations and lump sum retirement benefits	3,196
583	Lump sum death benefits	684
24,746		24,019

Benefits can be further analysed:

Table 16 Value of benefits payable split by authority

2014/15 £’000		2015/16 £’000
20,939	Powys County Council (administering authority)	20,137
2,971	Scheduled bodies	2,754
836	Admitted bodies	1,128
24,746		24,019

Note 8: Payments to and on Account of Leavers

Table 17 Value of payments made to and on account of leavers

2014/15 £’000		2015/16 £’000
35	Refunds to members leaving service	52
1	Payments to members joining state scheme	2
2,641	Individual transfers to other schemes	943
2,677		997

Note 9: Management Expenses

Table 18 Value of management expenses incurred

2014/15 £'000		2015/16 £'000
777	Administration expenses	906
2,368	Investment management expenses (see Note 9a)	2,706
113	Oversight and governance costs	111
3,258		3,723

Oversight and governance costs include the costs of establishing and operating the new local pension board. This was a statutory requirement placed on all pension fund administering authorities with effect from 1 April 2015.

Note 9a: Investment Management Expenses

Table 19 Value of management expenses

2014/15 £'000		2015/16 £'000
2,102	Management fees	2,340
266	Investment advice	366
2,368		2,706

Note 10: Investment Income

Table 20 Value of investment income by type

2014/15 £'000		2015/16 £'000
(935)	Fixed interest securities	(901)
(2,872)	Private equity income	(3,035)
(203)	Pooled property investments	(1,225)
(5)	Interest on cash deposits	(5)
-	Other investment income	(9)
(4,015)		(5,175)

Note 11: Taxes on Income

Table 21 Value of taxes on income

2014/15 £'000		2015/16 £'000
-	Withholding tax – Private Equity	19
-		19

Note 12: Investments

Table 22 Value of investment values and movements during financial year 2015/16

	Value as at 1 Apr 15	Purchases at Cost	Sales Proceeds	Fees included in Nav	Disposals Income	Change in Market Value	Value as at 31 Mar 16
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fixed Interest Securities	81,706	18,300	(35,323)	(73)	-	941	65,551
Index linked Securities	62,035	-	(3,000)	-	-	6,828	65,863
Equities (pooled funds)	261,837	9,323	(27,000)	(262)	-	(9,023)	234,875
Property (pooled funds)	36,571	32,099	(2,025)	(423)	-	3,552	69,774
Private Equity	21,050	4,913	(5,301)	(426)	3,035	(762)	22,509
Hedge Fund of Funds	47,357	-	(8,000)	(513)	-	(1,910)	36,934
Cash & Short Term Investments	1,151	6,900	(4,250)	-	-	25	3,826
	511,707	71,535	(84,899)	(1,697)	3,035	(349)	499,332

Table 23 Value of investment values and movement during financial year 2014/15

	Value as at 1 Apr 14	Purchases at Cost	Sales Proceeds	Fees included in Nav	Disposals Income	Change in Market Value	Value as at 31 Mar 15
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fixed Interest Securities	67,800	18,300	8,420	(73)	-	4,099	81,706
Index linked Securities	60,977	5,135	15,325	-	-	11,248	62,035
Equities (pooled funds)	218,146	36,480	34,880	(252)	-	42,343	261,837
Property (pooled funds)	26,593	10,187	3,293	(224)	283	3,025	36,571
Private Equity	15,845	4,824	4,816	(438)	2,589	3,046	21,050
Hedge Fund of Funds	43,977	-	-	(463)	-	3,843	47,357
Cash & Short Term Investments	9,415	-	8,290	-	-	26	1,151
	442,753	74,926	75,024	(1,450)	2,872	67,630	511,707

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year. Some transaction costs are included in the cost of purchases and sales proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees.

These transaction costs incurred in the year are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the scheme. All equity investments held by the fund are now in unit trusts.

Note 12a: Analysis of Investments

Table 24 Value of investments by type

2014/15 £'000		2015/16 £'000
	Fixed interest securities	
81,706	Pooled funds	65,551
81,706		65,551
	Index linked securities	
62,035	UK quoted	65,863
261,837	**Equities – Pooled**	234,875
47,357	**Hedge Fund of Funds**	36,934
21,050	**Private Equity**	22,509
36,571	**Property**	69,774
130	**Cash**	147
1,021	**Liquidity Funds**	3,679
511,707		499,332

Note 12b: Investments Analysed by Fund Manager

Table 25 Values and percentages of investments by fund managers

31 Mar 15			31 Mar 16	
Market Value £'000	%		Market Value £'000	%
34,985	6.8	Aberdeen Asset Management Ltd	32,942	6.6
19,186	3.7	Aviva Investors Pensions Ltd	21,001	4.2
231,618	45.3	BlackRock Global Investors Ltd	219,146	43.9
6,838	1.3	CBRE Ltd	5,321	1.1
20,903	4.1	GAM Fund Management Ltd	12,573	2.5
14,731	2.9	Goldman Sachs Asset Management Ltd	13,631	2.7
17,812	3.5	HarbourVest Partners LLC	20,138	4.0
-	-	Hermes Fund Managers Ltd	12,110	2.4
63,076	12.3	Insight Investment Ltd	41,314	8.3
42,873	8.4	MFS International Ltd	43,395	8.7
11,723	2.3	Permal Investment Management Services Ltd	10,731	2.2
44,725	8.7	Schroders Investment Management Ltd	64,660	12.9
3,237	0.6	Standard Life Investments Ltd	2,370	0.5
511,707			499,332	

The following investments represent more than 5% of the net assets of the scheme:

Table 26 Values and percentages of securities held

31 Mar 15 Market Value £'000	%	Security	31 Mar 16 Market Value £'000	%
34,985	6.8	Aberdeen Life World Equity Fund	32,942	6.6
69,046	13.5	Blackrock Aquila Life US Equity Index Fund	70,639	14.1
36,055	7.0	Insight Bonds Plus fund	15,260	3.1
27,021	5.3	Insight UK Corporate All Maturities Bond Fund	26,053	5.2
42,873	8.4	MFS Global Equity Fund	43,395	8.7
34,177	6.7	Schroder Life QEP Active Value Fund	33,318	6.7
10,548	2.1	Schroder UK Real Estate Fund	31,342	6.3

Note 13: Current Assets and Liabilities

Table 27 Value of current assets and liabilities as at the year end

2014/15 £'000		2015/16 £'000
	Current Assets	
88	Contributions due from employers and members	121
1,341	Cash balances	2,506
469	Sundry debtors	602
1,898		3,229
	Current Liabilities	
(11,732)	Benefits payable	(73)
(275)	Sundry creditors	(710)
(12,007)		(783)

Amounts unpaid at the year end are subsequently paid within a reasonable time frame, i.e. the majority of the balances are paid within a 3 month period. Current liabilities in 2014/15 included a provision of £9.96m for the bulk transfer of Coleg Powys to the Swansea fund and £1.3m to Greater Manchester Pension Fund in respect of Probation Services. These were settled in 2015/16.

Note 14: Related Party Transactions

Details of Members and officers of the Council represented on the Pensions and Investment Committee are shown in Appendix 1. Their combined contributions into the scheme totalled £27k in 2015/16 (£33k in 2014/15). The Chairman of the Committee is in receipt of a pension from the Fund.

The Fund is administered by Powys County Council. Consequently there is a relationship between the Authority and the Fund.

The Authority incurred costs of £863k in 2015/16 (2014/15: £763k) in relation to the administration of the Fund and was subsequently reimbursed by the Fund. The £99k increase between 2014/15 and 2015/16 was due of the new structure in Pensions admin.

The Authority is also the single largest employer of members in the Fund and contributed £16,687k to the Fund in 2015/16 (2014/15: £16,528k) in employers contributions and deficit recovery payments.

Governance

The makeup of the Pensions and Investment Committee can be seen in Appendix 1.

The Strategic Director - Resources, Mr David Powell, who has the role of Section 151 Officer for the Authority, plays a key role in the financial management of the Fund and is also an active member of the Fund.

Councillors are required to declare their interest at each meeting.

The Committee members and Strategic Director - Resources accrue their benefits in line with the regulations encompassing councillors and employees of the employing bodies of the Fund.

For the full Governance Statement please see Appendix 5.

Note 15: Additional Voluntary Contributions (AVC)

Members of the Pension Fund may make additional voluntary contributions (AVCs) in order to obtain improved benefits on retirement. The AVC investments are excluded from the Financial Statements of the Powys Pension Fund, in accordance with section 4(2)b of the Local Government Pension Scheme (Management & Investment of Funds) Regulations 2009 (SI 2009/3093). However, as administering authority we oversee the following AVC arrangements:

Table 28 Value of AVCs received in financial year 2015/16 by authority

2015/16 **Contributions received**	**Standard Life £'000**	**Prudential £'000**	**Equitable Life £'000**	**Total £'000**
Powys County Council	61	188	1	250
BBNP	1	7	-	8

Table 29 Fund value of AVCs

Fund Value	**Standard Life £'000**	**Prudential £'000**	**Equitable Life £'000**	**Total £'000**
As at 31 Mar 16	1,039	302	126	1,467

Note 16: Contingent Liabilities

No contingent liabilities were known to exist at the Balance Sheet date.

Note 17. Post Balance Sheet Events

The accounts outlined in these financial statements represent the financial position of the Fund as at 31 March 2016. Since this date, the performance of the global markets may have affected the financial value of pension fund investments.

It may be some time before the impact of BREXIT on the Pension Fund becomes clear. At this stage it is impossible to predict what could happen to investments with any degree of accuracy, however LGPS funds have the advantage of being long term investors and are well equipped to ride out short term volatility. Over the longer term there is more stability and consistent performance.

Note 18: Capital Commitments

Table 30 Value of capital commitments

2014/15 £'000	Private Equity and Property mandate	2015/16 £'000
1,019	Standard Life (Private Equity)	899
23,870	Harbourvest (Private Equity)	19,012
24,889		19,911

Note 19: Stock Lending

As set out in the Statement of Investment principles, the Fund, custodian or investment managers do not engage in stock lending on behalf of the Fund.

Note 20: Financial Instruments

Note 20A: Fair value of financial instruments & liabilities

The table below summarises the carrying values of the financial assets & liabilities compared with their fair values.

Table 31 Fair value of assets and liabilities by type

31 Mar 15			31 Mar 16	
Cost £'000	Fair value through profit and loss £'000		Cost £'000	Fair value through profit and loss £'000
		Financial Assets		
73,631	81,706	Fixed interest securities	62,753	65,551
49,208	62,035	Index linked securities	52,013	65,862
166,128	261,837	Equities (pooled funds)	152,696	234,876
32,999	36,571	Property (pooled funds)	63,265	69,774
9,902	21,050	Private equity	18,727	22,509
41,349	47,357	Hedge fund of funds	33,669	36,934
1,145	1,151	Cash & short term investments	3,679	3,826
1,898	1,898	Current assets	3,230	3,230
376,260	513,605	Total financial assets	390,032	502,562
		Financial Liabilities		
(12,007)	(12,007)	Current liabilities	(783)	(783)
(12,007)	(12,007)		(783)	(783)

Current Liabilities at 31 March 2015 have been restated to include a £1.3m provision to Greater Manchester Pension Fund is respect of Probation Services.

Note 20B: Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Level 2

Financial instruments at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The private equity values are based on valuations provided by the general partners to the private equity funds in which the Powys Pension Fund has invested.

The hedge fund values are based on the net asset value provided by the fund manager.

The tables below show the financial assets and liabilities of the Pension Fund grouped into levels 1 to 3, based on the level at which the fair value is observable.

Table 32 Fair values of the Fund as at the end of financial year 2015/16

Value as at 31 Mar 16	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Investments	370,115	69,774	59,443	499,332
Current assets	3,229	-	-	3,229
Current liabilities	(783)	-	-	(783)
Net financial assets	372,560	69,774	59,443	501,778

Table 33 Fair values of the Fund as at the end of financial year 2014/15

Restated Value as at 31 Mar 15	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Investments	417,276	26,024	68,407	511,707
Current assets	1,898	-	-	1,898
Current liabilities	(12,007)	-	-	(12,007)
Net financial assets	407,167	26,024	68,407	501,598

Current Liabilities at 31 March 2015 have been restated to include a £1.3m provision to Greater Manchester Pension Fund is respect of Probation Services.

Note 21: Actuarial Present Value of Promised Retirement Benefits

CIPFA's Code of Practice requires the disclosure for the year ending 31 March 2016 of the actuarial valuation of promised retirement benefits as set out in IAS 26. The actuarial present value should be calculated on an IAS 19 basis. IAS 26 is the accounting standard that sets out the requirements for accounting and reporting in respect of retirement and the requirements for accounting and reporting of promised retirement benefit plans following the move to financial reporting of the Pension Fund Accounts under the IFRS.

The actuarial present value of the promised retirement benefits were as follows

As at	£'000
31 March 2013	632,400
31 March 2010	568,800

Note 22: Nature and Extent of Risks Arising from Financial Instruments

Risk and Risk Management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members.) Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The council manages these investment risks as part of its overall pension fund risk management programme. Responsibility for the Fund's risk management strategy rests with the Pension Fund Committee.

Market Risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's risk management is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis. Specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

Equity futures contracts and exchange traded option contracts on individual securities may also be used to manage market risk on equity investments. It is possible for over-the-counter equity derivative contracts to be used in exceptional circumstances to manage specific aspects of market risk.

Other Price Risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short are unlimited.

The Fund's investment managers mitigate this price risk through diversification.

Other Price Risk – Sensitivity Analysis

The following movements in market price risk are reasonably possible for 2016/17 as determined by State Street. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates remain unchanged.

Table 34 Assumed sensitivity of invested funds for financial year 2016/17

Asset type	Potential Market Movement (+/-)
Overseas Equities	9.7%
Global Pooled Equities	10.0%
Total Bonds including Index Linked	6.0%
Cash	0.0%
Property	4.6%
Alternatives	3.7%

The table below shows the Fund's value at 31 March 2016 should the investments increase/decrease in line with the above.

Table 35 A model of the possible effects on the Fund's value using the assumed variations from Table 33

Asset Type	Value as at 31 Mar 16 £'000	Percentage Change %	Value on Increase £'000	Value on Decrease £'000
Fixed Interest Securities	65,551	6.0%	69,464	61,638
Index Linked Securities	65,863	6.0%	69,795	61,931
Equities - Pooled	234,875	10.0%	258,339	211,411
Hedge Fund of Funds	36,934	3.7%	38,312	35,556
Private Equity	22,509	3.7%	23,349	21,669
Property	69,774	4.6%	72,984	66,564
Cash	3,826	0.0%	3,826	3,826
Total Assets	499,332		536,069	462,595

Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate and return are monitored by the Council and its investment advisors as part of the monthly and quarterly reporting and assessment of interest rate return against benchmark.

A 0.25% volatility associated with interest rates is considered likely, based on the Authorities Treasury Management advisors latest advice. The Fund's exposure to interest rate movements as at 31 March 2015 and 31 March 2016 is set out below.

Table 36 Values of assets exposed to interest rate fluctuations

As at 31 Mar 15 £'000	Asset Type	As at 31 Mar 16 £'000
1,151	Cash Instruments	3,826
1,341	Cash balances	2,506
81,706	Fixed interest securities	65,551
84,198	Total	71,883

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 0.25% change in interest rates.

Table 37 A model of the possible effects on the Fund's value using the above assumed interest variations above

Asset Type	Value as at 31 Mar 16 £'000	Plus 0.25% £'000	Minus 0.25% £'000
Cash instruments	3,826	3,836	3,816
Cash balances	2,506	2,512	2,499
Fixed interest securities	65,551	65,715	65,387
Total assets	71,883	72,063	71,702

Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the fund (£UK). The fund holds both monetary and non-monetary assets denominated in currencies other than £UK.

The fund's currency rate risk is routinely monitored by the Council and its investment advisors in accordance with the Fund's risk management, including monitoring the range of exposure to currency fluctuations.

The fund's currency exposure as at 31 March 2015 and 31 March 2016 is set out below.

Table 38 Value of assets exposed to currency fluctuations

As at 31 Mar 15 £'000		As at 31 Mar 16 £'000
21,050	Private equity	22,509
21,050	Total	22,509

An 8.2% volatility associated with exchange rates is considered likely, based on the fund advisor's analysis of historical movements in the month end exchange rates over a 3 year period.

This analysis assumes that all other variables, in particular interest rates, remain constant.

An 8.2% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Table 39 A model of the possible effects on the Fund's value using the assumed currency fluctuations above

Asset Type	Value as at 31 Mar 16 £'000	Plus 8.2% £'000	Minus 8.2% £'000
Private equity	22,509	24,355	20,663
Total	22,509	24,355	20,663

Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.

In essence the fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Credit risk on over-the-counter derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised rating agency.

Deposits are not made with banks and financial institutions unless they are rated independently and meet the council's credit criteria. The council has also set limits as to the maximum percentage of the deposits placed with any one class of financial institution.

The council believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits over the past five financial years. The table below shows the funds cash holding as at 31 March 2015 and 31 March 2016.

Table 40 Cash balances held in banks and their associated credit rating

	Rating	As at 31 Mar 15 £'000	As at 31 Mar 16 £'000
Bank Current Account			
HSBC	AA-	45	80
Bank Deposit Account			
HSBC	AA-	1,296	2,426

Liquidity risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The Council therefore takes steps to ensure that the pension fund has adequate cash resources to meet its commitments. This will particularly be the case for meeting the pensioner payroll costs; and also cash to meet investment commitments.

The Fund has immediate access to its pension fund cash holdings.

The fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert in to cash. As at 31 March 2016 the value of illiquid assets was £129.2m, which represented 25.9% of the total fund assets - (31 March 2015 - £105m, which represented 20.5% of the total fund assets).

Management prepares periodic cash flow forecasts to understand and manage the timing of the fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the fund investment strategy.

All financial liabilities at 31 March 2016 are due within one year.

Refinancing risk

The key risk is that the Council will be bound to replenish a significant proportion of its pension fund financial instruments at a time of unfavourable interest rates. The Council does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

Note 23: Accounting Standards That Have Been Issued but Have Not Yet Been Adopted.

There are no accounting standards that have been issued but have yet to be adopted.

Audit report of the Auditor General to the members of Powys Pension Fund

Auditor General for Wales' statement to the Members of Powys Pension Fund

I have examined the pension fund accounts and related notes contained in the 2015-16 Annual Report of Powys Pension Fund to establish whether they are consistent with the pension fund accounts and related notes included in the Statement of Accounts produced by Powys County Council for the year ended 31 March 2016 which were authorised for issue on 30 September 2016. The pension fund accounts comprise the Fund Account and the Net Assets Statement.

Respective responsibilities of the Administering Authority and the Auditor General for Wales

The Administering Authority, Powys County Council, is responsible for preparing the Annual Report. My responsibility is to report my opinion on the consistency of the pension fund accounts and related notes contained in the Annual Report with the pension fund accounts and related notes included in the Statement of Accounts of the Administering Authority. I also read the other information contained in the Annual Report and consider the implications for my report if I become aware of any misstatements or material inconsistencies with the pension fund accounts. This other information comprises the Chairman's Statement, Pension Fund Board Report, Fund Administration Report, Investment Report and the Statement of the Actuary.

I conducted my work based on the requirements of Bulletin 2008/3 issued by the Financial Reporting Council. My report on the pension fund accounts and related notes included in the Statement of Accounts produced by Powys County Council describes the basis of my opinion on those accounts.

Opinion

In my opinion the pension fund accounts and related notes included in the Annual Report of Powys Pension Fund are consistent with the pension fund accounts and related notes included in the Statement of Accounts produced by Powys County Council for the year ended 31 March 2016 which were authorised for issue on 30 September 2016 on which I issued an unqualified opinion.

I have not considered the effects of any events between the date on which I issued my opinion on the pension fund accounts included in the authority's Statement of Accounts, 30 September 2016 and the date of this statement.

For and on behalf of

Huw Vaughan Thomas

Auditor General for Wales

22 November 2016

24 Cathedral Road

Cardiff

CF11 9LJ

Statement of the Actuary for the Year Ended 31 March 2016

Introduction

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the Powys County Council Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2013 by Aon Hewitt Limited, in accordance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008.

Actuarial Position

1. The valuation as at 31 March 2013 showed that the funding ratio of the Fund had increased since the previous valuation with the market value of the Fund's assets at that date (of £425M) covering 79% of the liabilities in respect of service prior to the valuation date allowing, in the case of current contributors to the Fund, for future increases in pensionable pay.
2. The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2014 is:
    - 15.3% of pensionable pay. This is the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date.

      Plus
    - Monetary amounts to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 25 years from 1 April 2014, amounting to £5.6M in 2014/15, and increasing by 3.9% p.a. thereafter.
3. In practice, each individual employer's position is assessed separately and contributions are set out in Aon Hewitt Limited's report dated 31 March 2014 (the "actuarial valuation report"). In addition to the contributions shown above, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.
4. The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement in force at that time. Different approaches adopted in implementing contribution increases and individual employers' recovery periods are set out in the actuarial valuation report.

5. The valuation was carried out using the projected unit actuarial method for most employers and the main actuarial assumptions used for assessing the funding target and the contribution rates were as follows.

Discount rate for periods in service	5.3% p.a.
Discount rate for periods after leaving service	5.3% p.a.
Rate of pay increases	3.9% p.a.
Rate of increase to pension accounts	2.4% p.a.
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.4% p.a.

The assets were valued at market value.

Further details of the assumptions adopted for the valuation were set out in the actuarial valuation report.

6. The valuation results summarised above are based on the financial position and market levels at the valuation date, 31 March 2013. As such the results do not make allowance for changes which have occurred subsequent to the valuation date.

7. The formal actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2014 to 31 March 2017 were signed on 31 March 2014. Contribution rates will be reviewed at the next actuarial valuation of the Fund due as at 31 March 2016 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

8. The actuarial valuation of the Fund as at 31 March 2016 is currently underway and the Regulations require the formal report on the valuation and the Rates and Adjustments Certificate setting out employer contributions for the period from 1 April 2017 to 31 March 2020 to be signed off by 31 March 2017.

9. This Statement has been prepared by the current Actuary to the Fund, Aon Hewitt Limited, for inclusion in the accounts of the Fund. It provides a summary of the results of their actuarial valuation which was carried out as at 31 March 2013. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

This Statement must not be considered without reference to the formal actuarial valuation report which details fully the context and limitations of the actuarial valuation.

Aon Hewitt Limited does not accept any responsibility or liability to any party other than our client, Powys County Council, the Administering Authority of the Fund, in respect of this Statement.

10. The report on the actuarial valuation as at 31 March 2013 is available on the Fund's website at the following address: http://www.powyspensionfund.org/about-us/forms-and-publications.aspx

Aon Hewitt Limited
16 June 2016

Appendix 1: Pensions and Investment Committee

The Pensions & Investment Committee is the principal decision-making body for the Pension Fund responsible for management, investment and administration issues. The Committee is governed by its constitution which sets out the Committee's authority, its membership and its overall mode of operation.

Members of the Committee are drawn from Powys County Council as the administering authority with the addition of two further (non-voting) members representing Fund Employers and Scheme Members. The Committee receives advice and guidance from both Officers of Powys County Council and external professional advisers.

During 2015/16 the membership of the Committee was as follows:

County Councillor A G Thomas (Chair)
County Councillor P J Ashton (Vice Chair)
County Councillor G P Vaughan
County Councillor E A Jones
County Councillor T G Turner
Mr A M C Weale (Fund Employers)
Mr G E Jones (Scheme Members) – resigned March 2016

Officers and Advisors:

Mr D Powell (s.151 Officer and Strategic Director of Resources)
Mr J Rollin (Pension Fund Manager)
Mrs R Pinder – Aon (Investment Consultant)
Mr C Archer – Aon (Actuary)
Burges Salmon (Legal Advisers)

Over the year the Committee met on 5 occasions, Member attendance is shown in the following table:

Table 41 Schedule of Committee meetings and the attendance of committee members

	16 Jul 15	**30 Sep 15**	**21 Oct 15**	**14 Jan 16**	**11 Feb 16**	**Attendance**
AG Thomas		✓	✓	✓	✓	80%
PJ Ashton	✓		✓	✓	✓	80%
GP Vaughan	✓	✓		✓	✓	80%
EA Jones		✓	✓			40%
TG Turner	✓		✓			40%
AMC Weale			✓	✓		40%
GE Jones						0%
Attendance	**43%**	43%	71%	57%	43%	

Members of the Committee have also taken part in Pension Fund training and attended relevant seminars and conferences as detailed below:

Table 42 Schedule of training events and the attendance of committee members

	Shroders Investment 24 Apr 15	General Investment Training 25 Jun 15	LGPS Trustees 25 Jun 15	GSAM Conference 4 Nov 15	Pension Fund AGM 8 Dec 15	CIPFA Network 27 Jan 16	LGC Investment Conference 4 Mar 16	Attendance
AG Thomas	✓	✓		✓	✓			57%
PJ Ashton		✓	✓	✓			✓	57%
GP Vaughan		✓						14%
EA Jones		✓		✓				29%
TG Turner								0%
AMC Weale		✓		✓		✓		43%
GE Jones	✓							14%
Attendance	29%	71%	14%	57%	14%	14%	14%	

Appendix 2: Pension Board

The Pension Board is the local pension board for the Pension Fund responsible for the oversight, scrutiny and where appropriate, assisting the Pensions & Investment Committee. The Board was established with effect from 1 April 2015 in accordance with the requirements of the Public Service Pensions Act 2013. The Board is governed on a day-to-day basis by its Terms of Reference which sets out the Board's remit and its membership requirements.

The Board has an independent Chair (who regularly attends Pensions & Investment Committee as an observer) together with two representatives each of Fund Employers and Scheme Members. The Board receives support and advice from Officers of Powys County Council and may seek advice and information from external professional advisers. During 2015/16 the membership of the Board was as follows:

- Mr G Moore (Independent Chair)
- Mr W Thomas (Fund Employer Representative)
- Mr G Petty (Fund Employer Representative) – took up post June 2015
- Mr J Byrne (Scheme Member Representative)
- Mr M Hutchison (Scheme Member Representative)

Over the year the Board met on 4 occasions, Member attendance is shown in the following table:

Table 43 Schedule of Board meetings and the attendance of board members

	31 Jul 15	27 Nov 15	22 Jan 16	4 Mar 16	Attendance
G Moore	✓	✓	✓	✓	100%
W Thomas	✓	✓	✓		75%
G Petty	✓	✓	✓	✓	100%
J Byrne	✓				25%
M Hutchison	✓	✓	✓	✓	100%
Attendance	100%	80%	80%	60%	

Members of the Board have also taken part in Pension Fund training and attended relevant seminars and conferences as detailed below:

Table 44 Schedule of training events and the attendance of board members

	Gen. Inv Training 29 May 15	Board Training 9 Jun 15/ 20 Jul 15	CIPFA Network 14 July 15	Pension Fund AGM 8 Dec 15	Attendance
G Moore	✓	✓	✓	✓	100%
W Thomas	✓				25%
G Petty		✓			25%
J Byrne	✓	✓	✓	✓	100%
M Hutchison	✓	✓	✓	✓	100%
Attendance	80%	80%	60%	60%	

Appendix 3: Fund Employers

Powys County Council administers the scheme for employees and ex-employees of the following bodies:

Table 45 A list of bodies scheduled and admitted bodies included under the Powys Pension Fund

Scheduled Bodies	Admitted Bodies
Brecon Beacons National Park Authority, Brecon Town Council, Knighton Town Council, Llandrindod Wells Town Council, Llanidloes Burial Joint Committee, Llanidloes Town Council, Newtown and Llanllwchaiarn Town Council, Powys County Council, Powys Magistrates Courts' Committee, Powys Probation Committee, Welshpool Town Council, Ystradfellte Community Council, Ystradgynlais Town Council	BUPA Care Homes, Careers Wales Powys, Celtica, Development Board for Rural Wales, Freedom Leisure, MENCAP, Menter Maldwyn, Mirus Wales, Powys Association of Voluntary Organisations, Powys Dance, Powys Valuation Panel, Presteigne Shire Hall Museum Trust, Theatr Brycheiniog, Wales European Centre

Community Councils and various other statutory bodies have the right to be included in the Fund. Other bodies can be admitted at the discretion of the County Council.

Contact List and Communications

A copy of this report is available to anyone on demand, subject to a small administration charge. A full copy of the report can be viewed at www.powyspensionfund.org. Should you have any comments on the financial statement or any other pension matter please contact the appropriate officer in the following list:

Pension Scheme

Pensions Administration Manager	Mr C Hurst	01597 827640

Accounts & Investment

Pension Fund Accounts	Mr D Paley	01597 826042
Investments	Mr S Offa	01597 826727

Fund Governance & Other Matters

Pension Fund Manager	Mr J Rollin	01597 827641

Appendix 4: Statement of Investment Principles

1. Introduction

1.1 Local Government Pension Scheme (LGPS) Funds are required to publish a Statement of Investment Principles (SIP)[1] which must include the Fund's policy on the following:

- The types of investment to be held;
- The balance between different types of investment;
- Risk, including the ways in which risks are to be measured and managed;
- The expected return on investments;
- The realisation of investments;
- The extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments;
- The exercise of the rights (including voting rights) attaching to investments, if the authority has any such policy and
- Stock lending.

1.2 In response to the Treasury report Updating the Myners Principles: A Response to Consultation (October 2008), LGPS administering authorities are required to prepare, publish and maintain statements of compliance against a set of six principles for pension fund investment, scheme governance, disclosure and consultation. These principles have been adopted by CLG (the central government department with responsibility for oversight of the LGPS) and replace the ten Myners principles published in 2001 (see Appendix A).

1.3 The SIP will be regularly reviewed and updated as necessary.

1.4 A copy of the SIP will be made available on request to any interested party.

2. Overall Responsibility

2.1 The County Council is the designated statutory body responsible for administering the Powys Pension Fund on behalf of its constituent scheduled and admitted bodies

2.2 Elected members have a fiduciary duty to the Fund, scheme members and local council taxpayers in relation to the LGPS. Functions may be delegated to Officers but they retain overall responsibility for the management of the Fund and it’s investment strategy and individual decisions about investments. The County Council is responsible for setting investment policy, appointing suitable persons to implement that policy and carrying out monitoring and reviews of investment and performance. The County Councils Constitution delegates these functions to the Pensions & Investment Committee.

2.3 The Investment Regulations permit the appointment of one or more investment managers to manage the fund on their behalf, provided that the investment managers are suitably qualified by their ability and practical experience of financial matters to make investment decisions for them, and to their compliance with other specific requirements of the regulations.

[1] Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009 No.3093)

2.4 Administering Authorities are required to take proper advice to enable them to fulfil their obligations, “Proper advice” is defined in the regulations as “the advice of a person who is reasonably believed to be qualified by his ability and practical experience of financial matters”.

2.5 The County Council has delegated the decision-making responsibilities to the Pensions and Investment Committee. The Section 151 Officer and external fund advisors offer advisory support. The Committee has co-opted two non-voting members, one staff representative nominated by the Trade Unions and one representative nominated by the Outside Bodies Employers.

2.6 Decisions affecting the Fund’s investment strategy are taken with appropriate advice from the Fund’s advisers. Only persons or organisations with the necessary skills, information and resources take decisions affecting the Fund. The members of the Pension and Investment Committee will ensure they receive training as and when deemed appropriate, to enable them to evaluate critically any advice they receive.

2.7 The County Council has in place arrangements for the provision of specialist advice relating to actuarial matters (including the triennial valuation) and investment matters (including asset allocation and manager appointment).

2.8 The County Council has appointed independent specialists to provide actuarial and investment advice and is prepared to pay sufficient fees to attract a broad range of both kinds of providers when tendering.

2.9 The County Council will use suitable means to assess the advice received from its advisers in terms of its contribution to the decision making process.

2.10 Investment Committee

2.10.1 Powys County Council delegates responsibility for the Administrating Authority role to the Pensions & Investment Committee. This includes investing the Funds assets. The Committee is supported by the Fund Administrator and Investment Advisors.

2.10.2 The Committee is responsible in respect of investment matters:

a. To determine the overall strategy relating to the investment of the Pension Fund’s assets and to meeting the Fund’s liabilities.

b. To keep under review the performance of the Pension Fund and the Fund’s managers.

c. To approve the appointment of advisers and fund managers.

d. To publicise its stewardship role to all Scheduled and Admitted Bodies of the Powys Pension Fund and to all contributors and beneficiaries in accordance with the Fund’s Communication Strategy.

2.11 Investment Managers

2.11.1 Each Investment Manager will be responsible for:

a. Discretionary management of their portfolio, in accordance with the terms of their management agreement, having regard to the need for diversification of investments so far as appropriate and the suitability of investments.

b. Providing the Committee with quarterly statements of the assets together with a quarterly report on their actions and future intentions, and any changes to the processes applied to their portfolio.

c. Providing the designated provider with the information necessary to calculate performance statistics.

2.12 Investment Consultant

2.12.1 The Investment Consultant will be responsible for providing prompt, consistent and competent advice and support through one or two named representatives, in respect of investment matters when so requested by the Committee. Advice and support is likely to be sought in regard of:

a. Reviews of the Statement of Investment Principles.

b. Presentation and interpretation of investment performance measurement results.

c. The Potential impact of:

- any changes in the investment managers' organisations that could affect the interests of the Fund
- any changes in the investment environment that could present either opportunities or problems for the Fund.

d. Investment manager selection, retention and termination;

e. Benchmark adjustments;

f. The appropriate content of investment management and other related agreements;

g. Appropriate investment structures for the Fund in the light of the Fund's liability profile. This will involve working with the Fund's Actuary.

h. Ad-hoc project work as required including research reviews of Investment managers.

3. Investment Objectives

3.1 The long term investment objectives of the fund are to:

- Maximise investment returns over the long term within an acceptable level of risk.
- Ensure that sufficient assets are readily available to meet liabilities as they fall due.
- Aim for long-term stability in the employers' contribution rates.
- Achieve and maintain funding levels at, or close to, 100% of the Fund's liabilities.

3.2 Risk is mainly concerned with the possibility of a deficiency in the Fund or a substantial increase, or volatility, in future employer contribution rates.

3.3 Whilst stability of the employers' rate has a high priority, absolute cost to the employer is also important. This implies that:

- The cost of administering the Fund will be constrained by the adoption of best management practice
- Employers will adopt appropriate policies in those areas where they have discretion and where costs of their actions fall on the Fund;
- The Fund will, as far as is practicable, and through the Fund's Actuary, avoid cross subsidisation between the Fund's individual employers;
- The Fund's overall investment policy will be aimed at superior investment returns relative to the growth of liabilities. This implies that the Fund will take a controlled active risk relative to its liability profile.

4. The Types of Investment to be held

4.1 The County Council seeks to achieve its investment objectives through investing in a suitable mixture of real and monetary assets. A mixture across the asset classes should provide the level of returns required by the fund to meet its liabilities at an acceptable level of risk and at an acceptable level of cost.

4.2 In making asset allocation decisions the County Council will consider the following asset classes:

- UK Equities
- Overseas Equities
- Private Equity
- Property
- Fixed Interest Securities
- Index Linked Securities
- Cash and Currency
- Other Assets, such as hedge funds.

4.3 In reaching its decisions on asset allocation the County Council will:

- Take proper advice from specialist, independent advisers and give consideration to the desirability of receiving advice based on an asset / liability study.
- Consider the extent to which the assets should match the liabilities.
- Consider the volatility of returns which it is prepared to accept.
- Determine the split between matching and returning seeking assets before it gives consideration to any other asset class.
- Have due regard to the diversification and suitability of investments.

5. The Balance between Different Types of Investments

5.1 The current strategic asset allocation is 70% return seeking and 30% risk reducing (matching assets). This strategy was determined with the aid of our Investment Advisors.

5.2 The current Medium Term Asset Allocation (MTAA) project utilises all of the Fund's assets excluding Private Equity. The MTAA service has the target of increasing the return achieved by these assets by 0.5% p.a. by deliberately allocating assets away from the strategic allocation to take advantage of market over/under valuations during the medium term. This service has run from 2009. The Pensions & Investment Committee has recently decided to extend the project period, with regular reviews as they see fit. The MTAA service has an artificial benchmark of 52% equity / 33% bond / 15% alternatives. It operates within tolerance bands so the difference between the actual allocation and the strategic allocation will not deviate beyond these set limits. For further information on the MTAA project, please see Appendix B.

5.3 The current strategic benchmark is as follows:

Table 46 Benchmark asset split of the Fund

Asset Class	%		Benchmark Index
Equities	47		
Active		19	Split one third MSCI World and two thirds MSCI World (NDR) due to different manager benchmarks
Passive		28	FTSE Developed World
Bonds	30		
Corporate Bonds		6	iBoxx Sterling Non-Gilts All Maturities
Index-linked Gilts		15	FTSE UK Index-linked over 5 years
Gilts		3	FTSE UK Gilts All Stock
Absolute Return Bonds		6	3 Month GBP LIBOR
Property	10		IPD Index
Private Equity	5		MSCI AC World ex UK
FoHF	8		3 Month LIBOR
	100		

6. Risk

6.1 The Committee recognises that risk is inherent in any investment activity and it seeks to manage the level of risk that it takes in an appropriate manner.

6.2 The operational risk to the Fund is minimised by:

- The use of a regulated, external, third party, professional custodian for custody of assets.
- Having formal contractual arrangements with investment managers.
- Having access to the internal audit service of Powys County Council.
- The activities of the Investment Managers being governed by detailed Investment Management Agreements. Investment Managers are expected to have regards to these principles and legislative requirements, in particular the LGPS (Management and Investment of Funds) Regulations 2009 (SI 2009 No.3093).
- Having formal agreements in place with admitted bodies.

6.3 The investment risks to the Fund are managed by:

- Diversification of types of investment.
- Diversification of Investment Managers.
- The setting of a Fund-specific benchmark informed by Asset-Liability modelling of liabilities.
- The appointment of independent professional advisors.
- The appointed expert Investment Managers being given clear performance benchmarks and maximum accountability for performance against those benchmarks over appropriate time-scales.
- Investment Managers being required to implement appropriate risk management measures and to operate in such a manner that will ensure the likelihood of not achieving the performance target is kept within defined acceptable limits.

6.3.1 Investment Managers are permitted to use authorised financial instruments in appropriate circumstances following prior discussion and approval. Approval will not be withheld without clear justification.

6.4 Statistics for measuring the performance of the Fund are provided by the WM Company on a quarterly, annual and 3, 5 and 10-year basis to allow regular monitoring against the prescribed benchmarks and against peer groups.

6.5 The Investment Managers are required to produce a quarterly investment report and to attend Pension and Investment Committee meetings as appropriate.

6.6 The independent investment adviser who attends each Pensions and Investment Committee meeting produces a separate report on investment performance quarterly, based on performance calculated by WM Performance Services. WM provide a performance measurement service of the Fund.

6.7 The Pensions and Investment Committee regularly monitors the investment performance of the Fund in both absolute terms and against the specific benchmarks set. A review of overall, or asset class specific benchmarks will be undertaken if the Pensions and Investment Committee considers it appropriate.

6.8 The County Council requires the Investment Managers to provide details of the commission payments they receive on asset transactions (including soft commissions if applicable) and how they assess their overall trading efficiency. By discussing these matters with the Investment Managers, the County Council seeks to gain a full understanding of the transaction-related costs that the Fund incurs, and to understand the options open to the County Council in relation to those costs.

6.9 Appropriate performance data will be included in the annual report and statement of accounts for the Pension Fund and in the annual members' newsletter.

7. The Expected Return on Investments

7.1 The Investment Managers have been given specific performance targets measured against the index return in the relevant asset class. The County Council recognises that these targets will not be met in all periods under consideration, but expects that the Managers will meet them in the vast majority of periods under consideration.

7.2 The performance targets for the Investment Managers are shown in the table below:

Table 47 List of investment managers and their associated benchmark and objectives

Investment Manager	Mandate	Benchmark	Objective
Aberdeen	Global Equity	MSCI World	To outperform the benchmark by 3% p.a. (gross of fees) over rolling 3 year periods
MFS	Global Equity	MSCI World (NDR)	To outperform the MSCI World Index over full market cycles while maintaining a consistent style discipline
Schroders	Global Equity	MSCI World (NDR)	To outperform the MSCI World Index by 3 - 4% p.a. over a market cycle
BlackRock	Balanced	Composite benchmark	To track the benchmark
Aviva Investors	UK Property	IPD/PPFI All Balanced Funds Medium Index	To outperform the benchmark by 1% p.a. over rolling 3 year periods.
Hermes Fund Managers	UK Property	IPD Other Balanced Funds Index	To outperform the benchmark by 0.5% p.a. on a rolling three year basis
Schroders	UK Property	IPD UK All Balanced Funds Index	To outperform the benchmark by 0.5% p.a. on a rolling three year basis
CB Richard Ellis	European Property	UK Retail Price Index[1]	Provide investors with a return of 8 - 10% p.a., net of fees and expenses.
Insight Asset Management	UK Corporate Bonds	iBoxx Sterling Non-Gilt All Maturities Index	To outperform the benchmark by 0.75% p.a., net of fees
Insight Asset Management	Absolute Return Bonds	3 month GBP LIBOR	To outperform the benchmark by 2% gross of fees
Standard Life Investment	Private Equity (European)	MSCI World	To outperform the benchmark by 5% pa over a rolling three year period.
HarbourVest Partners	Private Equity (US)	MSCI World	No stated objective, just to produce returns which place HarbourVest in the top quartile in the industry
Goldman Sachs	Hedge Fund of Funds	3 month USD LIBOR	To outperform the benchmark by 4 – 9% p.a. net of fees
Fauchier Partners	Hedge Fund of Funds	3 month GBP LIBOR	To outperform the benchmark by 5% p.a. over a rolling five year period by investing in a diversified portfolio of hedge funds.
GAM	Hedge Fund of Funds	3 month GBP LIBOR	To achieve an absolute return of 8-13% p.a. over the long term.

[1] The IPD UK Pooled Property Index will also be used for comparison purposes

7.3 The managers' benchmarks are based on market indices. The indices used were considered in consultation with the investment adviser and Investment Managers and carefully chosen with regard to their strategic suitability. The limits on the levels of divergence from these indices set out in the investment mandates were chosen with regard to the Investment Managers' overall performance objectives.

8. The Realisation of Investments

8.1 General investment principles require that issues of liquidity and marketability be considered in making any investment decision. Current employer and employee contributions are expected to broadly match or exceed pension income. Thus it is not expected that there will be any need to realise investments in the near future other than to seek higher returns.

8.2 The vast majority of the Pension Fund’s assets are readily marketable. However some investments, such as property and private equity, are less easy to realise in a timely manner. This relative illiquidity is not considered to have any significant adverse consequences for the fund.

8.2.1 The Council would inform the Investment Managers of any projected need to withdraw funds in order to enable the fund managers to plan an orderly realisation of assets if this proves necessary.

9. Socially Responsible Investment

9.1 The County Council has delegated responsibility for the selection, retention and realisation of investments to the investment managers.

9.2 The County Council’s policy is to invest part of the Fund’s assets on a passive basis. The County Council does not consider it appropriate for a passive investment manager to take account of social, environmental or ethical considerations in the selection, retention and realisation of investments.

9.3 The County Council’s policy in respect of the actively managed portion of the Fund’s assets is that the extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments is left to the discretion of the active investment managers. However the County Council expects that the active investment managers in the exercise of their delegated duties will take the extent to which social, environmental or ethical issues may have a financial impact on the portfolio into account.

10. The Exercise of the Rights Attaching to Investments

10.1 The County Council supports the principle of good corporate governance. It has reviewed and accepted the corporate governance policies of its Investment Managers who exercise its voting rights. Votes are cast by proxy. Managers provide reports when any voting rights are exercised. Only direct investments in traded equity shares carry such voting rights.

11. Corporate Governance

11.1 The County Council supports the principle of good corporate governance. It has reviewed and accepted the corporate governance policies of its Fund Managers who exercise its voting rights. Votes are cast by proxy. Each Fund Manager is required to report its actions on a quarterly basis.

12. Stock lending

12.1 The Fund, custodian or investment managers do not engage in stock lending on behalf of the Fund.

13. Monitoring and Implementing of Investment Policy

13.1 Monitoring and Review

13.1.1 The Committee will meet on a quarterly basis with the Investment Advisors to review and discuss the operation of each investment manager's portfolio, including past and future policy decisions. The performance of the investment managers will be monitored by the Committee on a quarterly basis at the Investment Committee meetings.

13.1.2 The Committee, in conjunction with the Investment Consultant, will review the allocation of assets between the passive and specialist portfolios, property and other asset classes.

13.1.3 The appointments of the investment managers will be subject to review at the meeting held to consider the performance results from the designated provider. The review will be based on the monitoring of the Investment managers' processes as well as their performance.

13.1.4 The investment managers' appointments, whilst subject to annual monitoring, would generally be reviewed over rolling 3 year periods, in line with their performance benchmarks.

13.1.5 If an investment manager performance prompts concerns then the Committee may ask the manager to come to a meeting for a special review meeting.

Appendix A: Principles for Institutional Investment Decision Making

Compliance with CIPFA Principles for Investment Decision Making in LGPS

Table 48 List of CIPFA principles and Fund's compliance

Principle	Compliance
Effective Decision Making	The Fund considers that its practices are compliant with the CIPFA principles
Clear objectives	The Fund considers that its practices are compliant with the CIPFA principles
Risk and Liabilities	The Fund considers that its practices are compliant with the CIPFA principles
Performance Assessment	The Fund considers that its practices are compliant with the CIPFA principles
Responsible Ownership	The Fund considers that its practices are compliant with the CIPFA principles
Transparency and Reporting	The Fund considers that its practices are compliant with the CIPFA principles

Appendix B: Background to Medium Term Asset Allocation

Philosophy

The Committee recognises that it is possible to take advantage of excessive over/under valuations of markets in order to target additional returns. The Committee in conjunction with the Investment Consultants seek to identify opportunities to allocate investments away from the strategic benchmark that are designed to add additional return relative to the benchmark return over the medium term (around 1 to 3 years).

Process

A thorough fundamental analysis of economics and financial markets is carried out to identify and incorporate general investor expectations into views of the different markets. In particular, attention is paid to establishing consensus views and profit is taken from positions which differ from the consensus. A range of appropriate timing indicators are utilised in order to achieve the best entry and exit levels to and from asset classes.

In terms of the practical application, once an opportunity has been identified the Fund's Investment Consultant will notify the Pensions & Investment Committee. The Committee decides whether to pursue the opportunity and if so will work with the Investment Consultant to complete any necessary asset transitions. The Investment Consultants liaise with the investment managers and follow each transaction as it happens to make sure each trade goes through smoothly.

Risk management

Considerable lengths are taken to assess what correlations are likely to be in the future so as to ensure asset allocation views are truly diversified. The style of the MTAA project is to have a limited number of meaningful positions rather than either a small number of large positions or a large number of small positions. The overall objective is to achieve an additional return of 0.5% p.a. of assets involved in the MTAA project. The Investment Consultant will provide regular reporting to the Pensions & Investment Committee.

Appendix 5: Governance Statement

Pension and Investment Committee

1. Composition.

1.1 The Council will appoint 5 Members of the Council to the Pension and Investment Committee to achieve as far as reasonably practicable a political balance on the committee. The Committee will then co-opt two non-voting members, one staff representative nominated by the Trades Unions and one representative nominated by the Outside Bodies Employers.

1.2 The Council shall appoint the Chair of the Committee at the Annual Meeting, and shall fill any vacancy between Annual Meetings at an ordinary meeting. The Chair of the Committee is entitled to a special responsibility allowance.

SECTION 1: The Governance Policy Statement for the Powys County Council Pension Fund

1 Overall Constitutional Arrangements.

1.1 The Powys County Council Pension Fund is a local government pension fund. The prime legislation governing the fund is the Superannuation Act 1972 and regulations made there-under.

1.2 Powys County Council is the administering authority for the Powys County Council Pension Fund. The governance arrangements of the County Council (including the Constitution, Financial Regulations and Contract Standing Orders) apply to the management of the Pension Fund.

2 Scheme of Delegation.

2.1 The County Council will appoint the members of the Pension and Investment Committee. The Committee will consist of 7 members.

2.2 The Pension and Investment Committee will meet once every 3 months with special meetings and training workshops as necessary.

2.3 The Pension and Investment Committee will be advised by the Council's Investment Adviser (currently Aon Hewitt) and the Council's Actuary (currently Aon Hewitt).

2.4 Members of the Pension and Investment Committee will be required to undertake at least 10 hours training and demonstrate competency in accordance with Section 4 of this Appendix.

3 Consultation

3.1 The Pension and Investment Committee will engage with stakeholders through the following:

- At least annually the committee will invite outside bodies to a meeting.
- A triennial meeting between contributing employers and the actuary to discuss the results of the actuarial valuation.
- Annual benefit statements are sent to all members annually.

4 Review of the Governance Policy Statement

4.1 In line with the Regulations, this Statement will be revised and published by the Administering Authority following any material change in the governance policy.

5 Contacts

5.1 Any questions, queries or observations on this Statement should be addressed to:

David Powell,
Strategic Director –
Resources,
Powys County Council,
County Hall,
Llandrindod Wells,
Powys
LD1 5LG

SECTION 2: Terms of Reference

Pension Administration Functions

- To appoint the Fund's Actuary;
- To receive the triennial actuarial valuation and such other valuations that may arise from time to time and set employers' contribution rates arising there-from.
- To manage, monitor and review the overall arrangements for the administration of the Local Government Pension Scheme (LGPS).
- To respond to consultations in respect of the LGPS.
- To undertake the following functions of the LGPS:
    - To act as Scheme Trustees in relation to the Powys County Council Additional Voluntary Contributions (AVC) Scheme
    - To exercise the discretionary powers available to an administering authority under the provisions of the LGPS regulations
    - To develop, publish and review policies as required by the LGPS regulations.

Investment Functions

- To determine long-term investment policy.
- To approve the Council's Funding Strategy Statement and Statement of Investment Principles.
- To review the fund's investment structure at least triennially, having regard to the Fund's liabilities and the advice of the Fund's Investment Adviser and the Section 151 Officer.
- To appoint and dismiss investment managers, consultants and advisers.
- To review investment performance at least once every 3 months.
- To appoint the Fund's custodian for its assets and to periodically review custody arrangements.
- To appoint the Performance Measurement Service for the fund.

General

- To approve the annual business plan, Statement of Investment Principles and Governance Compliance Statement.
- Assess and approve the annual pension fund accounts, external audit opinion and management representation in relation to annual audit findings.
- To receive internal audit reports on Pension Fund matters.
- Meetings are open to the public except for exempt and confidential items as defined by the Local Government Act 1972. Copies of reports and minutes are available on the Council's website.

SECTION 3: Functions Delegated to the Section 151 Officer

Pension Administration Functions

- To manage the administration of LGPS.
- To undertake the following functions of the LGPS:
  - Award of Death Grants in accordance with the Council's agreed policy.
  - Ensure compliance with the Pensions Act 1995
  - Ensure compliance with the Finance Acts 2004 and 2005, in particular the meeting of HMRC Reporting Requirements
  - Provide active and deferred members of the Scheme with Annual benefit Statements;
  - Manage, monitor and review arrangements in respect of the scheme's internal dispute resolution procedure.

Investment Functions

- To undertake regular monitoring and reconciliation of investments and to report matters of significance to the Pensions and Investment Committee.
- To undertake tendering exercises for Fund services and Investment Managers in accordance with the Council's overall governance arrangements and the Pension and Investment Committee's instructions and to present the Committee with shortlists for appointment.

General

- To produce the Fund's Annual Accounts in accordance with proper practice.
- To authorise, within limits, expenditure from the Fund.
- To authorise cash or asset movements between the Council, the Fund, custodian and investment managers.
- When necessary, the exercise of the Fund's voting rights by instruction to the investment managers and custodian, after consultation with the Chairman and Vice-Chairman of the Pension and Investment Committee.
- The Pension and Investment Committee has delegated the use of the voting rights attached to its shareholdings to the investment managers but retains a right to exercise those rights on its own account in exceptional circumstances.
- The Section 151 officer may authorise officers in his / her service to exercise, on his / her behalf, functions delegated to him / her. Any decisions taken under this authority shall remain the responsibility of the Section 151 Officer and must be taken in his / her name and he / she shall remain accountable and responsible for such decisions.

SECTION 4: Trustee Training Plan

Members of the Pension and Investment Committee will be expected to develop the following proficiencies.

To be achieved within 12 months of appointment to the Committee:

- Understanding of the role of the Committee and the quasi-trustee role of its Members.
- A basic understanding of the Local Government Pension Scheme (LGPS), to include;
    - the scheme's benefits;
    - the discretionary powers available to an administering authority
    - the scheme's funding, including the Actuarial valuation;
    - the roles of the administering authority, scheduled and admitted employers.
- A basic understanding of the roles of the following:
    - The Section 151 Officer;
    - The Investment Adviser;
    - The Actuary;
    - The Investment Managers;
    - The Custodian;
    - The Investment Measurement Service.
- A basic understanding of the relationship between the Fund's assets and liabilities, including the Funding Strategy Statement.
- A basic understanding of the investments of the Fund and the use of benchmarks to measure performance, including the Statement of Investment Principles.

Thereafter, Committee Members will be expected to undertake training to develop their competencies in the above areas and to remain abreast of relevant developments in the LGPS and investment opportunities. Members will need to demonstrate that they have completed at least 10 hours training and development per annum and a record will be kept for this purpose. A budget will be available to facilitate training.

Training may take the following forms:

- External courses, conferences and seminars;
- Internal courses and sessions facilitated by Council officers, advisers to the Fund and Investment Managers;
- Reading relevant literature.

If Members do not meet the training requirements, this will be referred to the County Council.

Appendix 6: Funding Strategy Statement

1. Introduction

This is the Funding Strategy Statement (FSS) of the Powys County Council Pension Fund.

It has been prepared by the Administering Authority in collaboration with the Fund Actuary, Aon Hewitt Limited, and after consultation with the Fund's employers and investment advisors and is effective from 31 March 2013. A single strategy is produced for the Pension Fund. The FSS compliments the triennial Actuarial Valuation and the Statement of Investment Principles as follows:

Actuary's Valuation Report	Funding Strategy Statement (FSS)	Statement of Investment Principles (SIP)
Defines what employer contributions should be made to meet current and future pension payments.	States how solvency and risk will be managed in relation to liabilities.	How and where the fund will be invested and managed.

1.1 Regulatory Framework

This statement, originally prepared in accordance with Regulation 76A of the Local Government Pension Scheme Regulations 1997, has been reviewed in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) (the LGPS 2013 Regulations).

As required by Regulation 58(4) of the LGPS 2013 Regulations, the Statement has been prepared having regard to guidance published by CIPFA in March 2004. The Statement also has regard to updated guidance published by CIPFA on 3 October 2012.

Members' benefits and contributions are also set out in the LGPS 2013 Regulations. The members' contributions do not cover the full cost of benefits and the shortfall or liability is met by the participating employers within the fund. The FSS set outs how this liability will be funded in the long term.

1.2 Purpose of this Funding Strategy Statement

The main purpose of the FSS is to document the processes by which the Administering Authority:

- Establishes a **clear and transparent fund-specific strategy** which will identify how employers' pension liabilities are best met going forward;
- Supports the regulatory framework to maintain as nearly **constant employer contribution rates** as possible;
- Takes a **prudent longer-term view** of funding the Fund's liabilities.

These objectives are desirable individually, but may be mutually conflicting.

This statement sets out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions, and prudence in the funding basis. The focus of the FSS is on those actions which are in the best long term interests of the Fund.

1.3 Reviews of FSS

The FSS will be reviewed in detail at least every three years in line with triennial valuations being carried out. It will be circulated to employers prior to the completion of each valuation. It will only need to be updated in between valuations if there has been material change. Small updates can be attached to the original approved.

1.4 Links to Investment Strategy

Funding and investment strategy are inextricably linked. Investment strategy is set by the Administering Authority, after consultation with the employers and after taking investment advice.

The Authority has produced this FSS having taken an overall view of the level of risk inherent in the investment policy set out in the Statement of Investment Principles (SIP) published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (the Investment Regulations) and the funding policy set out in this Statement. The Administering Authority will continue to review both documents to ensure that the overall risk profile remains appropriate including, where appropriate, asset liability modelling or other analysis techniques.

2. Purpose and Aims of the Fund

2.1 Purpose of the Fund

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

2.2 Aims of the Fund

The aims of the Fund in relation to the Funding Strategy include:

- To ensure the long-term solvency of the Fund. The Fund Solvency should be assessed in light of the risk profile of the Fund and the risk appetite of the Administering Authority and employers;
- To ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- To maximise the returns from investments within reasonable risk parameters;
- To manage employers liabilities effectively through regular review of contributions and additional contributions for early retirement;
- To try to maintain stability of employer contributions, and (subject to the Administering Authority not taking undue risks) at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies.

3. Responsibilities of Key Parties

The LGPS Regulations set out the responsibilities of the key parties and are summarised below.

3.1 The Administering Authority should:-

- administer the Fund
- collect investment income and other amounts due to the Fund including employer and employee contributions and exit payments from employers whose participation in the Fund has ceased. The administering authority will ensure all individual employers are aware that they must pay contributions in accordance with Regulations 67 to 71 of the LGPS 2013 Regulations;
- invest surplus monies in accordance with the regulations;
- pay from the Fund the relevant entitlements as set out in the LGPS 2013 Regulations;
- ensure that cash is available to meet liabilities as and when they fall due;
- manage the valuation process in consultation with the fund's actuary;
- prepare and maintain a FSS and a SIP, both after proper consultation with interested parties;
- monitor all aspects of the fund's performance and funding and amend the FSS/SIP as necessary;
- effectively manage any potential conflicts of interest arising from its dual role as both Administering Authority and as a Scheme Employer.

3.2 Individual Employers should:-

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the Fund's actuary, promptly by the 19th day of the month following the month in which the member paid the contribution. Unless an agreed arrangement is in place, late payments will incur interest of 1% above base rate.
- develop a policy on certain discretions and exercise discretions within the regulatory framework, ensuring that the Administering Authority has copies of current policies covering those discretions;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain;
- notify the administering authority promptly of all changes to membership or, as maybe proposed, which affect future funding;
- noting and if desired responding to any consultation regarding the FSS, the SIP, or other policies.

3.3 The Fund Actuary should:-

- prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the Administering Authority and having regard to the FSS
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters, on exit valuations on cessation of admission agreements

or when an employer ceases to employ any active members, and in connection with bonds and other forms of security against employers default.

Such advice will take account of the funding position and FSS, as well as other relevant matters when instructed to do so.

The Fund Actuary will assist the Administering Authority in assessing whether employer contributions need to be revised between actuarial valuations as required by the Regulations.

The Fund Actuary will ensure that the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to his or her role in advising the Administering Authority.

4 Funding Strategy

4.1 Risk Based Approach

The Fund utilises a risk based approach to funding strategy.

A risk based approach entails carrying out the actuarial valuation on the basis of the assessed likelihood of meeting the funding objectives, rather than relying on a 'deterministic' approach which gives little idea of the associated risk. In practice, three key decisions are required for the risk based approach:

- what the Solvency Target should be (the funding objective - where the Administering Authority wants the Fund to get to),
- the Trajectory Period (how quickly the Administering Authority wants the Fund to get there), and
- the Probability of Funding Success (how likely the Administering Authority wants it to be now that the Fund will actually achieve the Solvency Target by the end of the Trajectory Period).

These three choices, supported by complex risk modelling carried out by the Fund Actuary, define the appropriate levels of contribution payable now and, by extension, the appropriate valuation approach to adopt now. Together they measure the amount of risk in the funding strategy.

These three terms are considered in more detail below.

4.2 Solvency Target

The Administering Authority's primary aim is long-term solvency. Accordingly, employers' contributions will be set to ensure that 100% of the liabilities can be met over the long term. The Solvency Target is the amount of assets which the Fund wishes to hold at the end of the Trajectory Period (see later) to meet this aim.

The Fund is deemed to be solvent when the assets held are equal to or greater than 100% of the Solvency Target, where the Solvency Target is the value of the Fund's liabilities evaluated using appropriate actuarial methods and assumptions.

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

4.2.1 Scheduled Bodies and Admission Bodies with guarantors agreeing to subsume assets and liabilities following exit

The Administering Authority will adopt a general approach in this regard of assuming indefinite investment in a broad range of assets of higher risk than risk free assets for scheduled bodies and certain other bodies. With regard to Admission Bodies the guarantor must have been judged to be of suitable covenant by the Administering Authority (see section on Guarantors in section 5).

For these bodies, appropriate actuarial methods and assumptions are taken to be measurement by use of the Projected Unit method of valuation, and using assumptions such that, if the Fund had reached the Solvency Target and its financial position continued to be assessed by use of such methods and assumptions, and contributions were paid in accordance with those methods and assumptions, there would be a chance of at least 80% that the Fund would continue to be 100% funded after a period of 25 years. The level of funding implied by this is the Solvency Target. For the purpose of this Statement, the required level of chance is defined as the Probability of Maintaining Solvency.

4.2.2 Admission Bodies and other bodies whose liabilities are expected to be orphaned

For admission bodies the Administering Authority will have regard to the potential for participation to cease (or to have no contributing members), the potential timing of such exit from the Fund, and any likely change in notional or actual investment strategy as regards the assets held in respect of the admission body's liabilities at the date of exit (i.e. whether the liabilities will become 'orphaned' or a guarantor exists to subsume the notional assets and liabilities). For most bodies where liabilities will become orphaned, the chance of achieving solvency will be set commensurate with assumed investment in an appropriate portfolio of Government index linked and fixed interest bonds after exit.

If the liabilities for such bodies are deemed to be small compared to the liabilities of the whole Fund (and therefore the risk related to these liabilities is small) then the Administering Authority may decide to use the Funding Target and Solvency Target used for Scheduled Bodies for practical reasons.

4.2.3 Orphan Liabilities

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

If these liabilities are deemed to be small compared to the liabilities of the whole Fund (and therefore the risk related to these liabilities is small) then the Administering Authority may decide to use the Funding Target and Solvency Target used for Scheduled Bodies for practical reasons.

4.3 Probability of Funding Success

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

Consistent with the aim of enabling employers' contribution rates to be kept as nearly constant as possible, the required chance of achieving the Solvency Target at the end of the relevant Trajectory Period for each employer or employer group can be altered at successive valuations within an overall envelope of acceptable risk.

The Administering Authority will not permit contributions to be set following a valuation that have an unacceptably low chance of achieving the Solvency Target at the end of the relevant Trajectory Period.

4.4 Funding Target

The Funding Target is the amount of assets which the Fund needs to hold at the valuation date to pay the liabilities at that date as indicated by the chosen valuation method and assumptions. It is a product of the triennial actuarial valuation exercise and is not necessarily the same as the Solvency Target. It is instead the product of the data, chosen assumptions, and valuation method. The valuation method including the components of Funding Target, future service costs and any adjustment for the surplus or deficiency simply serve to set the level of contributions payable, which in turn dictates the chance of achieving the Solvency Target at the end of the Trajectory Period (defined below). The Funding Target will be the same as the Solvency Target only when the methods and assumptions used to set the Funding Target are the same as the appropriate funding methods and assumptions used to set the Solvency Target (see above).

Consistent with the aim of enabling employers' contribution rates to be kept as nearly constant as possible:

- contribution rates are set by use of the Projected Unit valuation method for most employers. The Projected Unit method is used in the actuarial valuation to determine the cost of benefits accruing to the Fund as a whole and for employers who continue to admit new members. This means that the contribution rate is derived as the cost of benefits accruing to employee members over the year following the valuation date expressed as a percentage of members’ pensionable pay over that period.
- for employers who no longer admit new members, the Attained Age valuation method is normally used. This means that the contribution rate is derived as the average cost of benefits accruing to members over the period until they die, leave the Fund or retire.

4.5 Full Funding and Solvency

The Fund is deemed to be fully funded when the assets held are equal to or greater than 100% of the Funding Target. When assets held are greater than this amount the Fund is deemed to be in surplus, and when assets held are less than this amount the Fund is deemed to be in deficiency.

The Fund is deemed to be solvent when the assets held are equal to or greater than 100% of the Solvency Target.

4.6 Recovery and Trajectory Periods

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

For simplicity, the Trajectory Period is set to be the same as the Recovery period for the largest employer in the Fund.

The Administering Authority recognises that a large proportion of the Fund’s liabilities are expected to arise as benefit payments over long periods of time. For employers of sound covenant, the Administering Authority is prepared to agree to recovery periods which are longer than the average future working lifetime of the membership of that employer. In general for employers that are closed to new entrants and are of sufficient term the recovery period is set with regard to the estimated future working lifetime of the active membership (i.e. the estimated period of time until the last active member leaves or retires). The Administering Authority recognises that such an approach is consistent with the aim of keeping employer contribution rates as nearly constant as possible. However, the Administering Authority also recognises the risk in relying on long recovery and trajectory periods when the employer has a deficiency and has agreed with the Fund actuary a limit of 25 years in these circumstances, which can be extended in exceptional circumstances for employers of sound covenant to an absolute limit of 40 years. The Administering Authority’s policy with regard to employers with a deficit (surplus) is to agree recovery periods with each employer which is as short (long) as possible within this framework. The Administering Authority may encourage employers with a surplus not to take any reduction in their contribution rate to assist with stability requirements.

For employers whose participation in the Fund is for a fixed period it is unlikely that the Administering Authority and Fund actuary would agree to a recovery period longer than the remaining term of participation.

4.7 Phasing in of Contribution Rates

Phasing in periods will be influenced by the perceived credit worthiness of the employer when there is a deficiency. The Administering Authority's policy is that in the normal course of events no more than 3 annual steps will be permitted. Further steps may be permitted in extreme cases, but the total is unlikely to exceed 6 steps. No limit will be set to phasing in contribution rates when the employer has a surplus.

4.8 Grouping

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

The Administering Authority recognises that grouping can give rise to cross subsidies from one employer to another over time. Employers may be grouped entirely, such that all of the risks of participation are shared, or only partially grouped such that only specified risks are shared. The Administering Authority's policy is to consider the position carefully at initial grouping and at each valuation and to notify each employer that is grouped that this is the case, which other employers it is grouped with and details of the grouping method used. If the employer objects to this grouping, it will be offered its own contribution rate.

All employers in the Fund are grouped together in respect of the risks associated with payment of lump sum benefits on death in service – in other words, the cost of such benefits is shared across the employers in the Fund. Such lump sum benefits at no fault of the employer can cause funding strains which could be significant for some of the smaller employers without insurance or sharing of risks. The Fund, in view of its size, does not see it as cost effective or necessary to insure these benefits externally and this is seen as a pragmatic and low cost approach to spreading the risk.

4.9 Notional Sub Funds (assets shares notionally allocated to employers)

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

This subdivision is for funding purposes only. It is purely notional in nature and does not imply any formal subdivision of assets, nor ownership of any particular assets or groups of assets by any individual employer or group.

The notional sub fund allocated to each employer will be rolled forward allowing for all cashflows associated with that employer's membership, including contribution income, benefit payments, transfers in and out and investment income allocated as set out below. In general no allowance is made for the timing of contributions and cashflows for each year are assumed to be made half way through the year with investment returns assumed to be uniformly earned over that year. Further adjustments are made for:

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

In some cases information available will not allow for such cashflow calculations. In such a circumstance:

- Where, in the opinion of the actuary, the cashflow data which is unavailable is of low materiality, estimated cashflows will be used
- Where, in the opinion of the actuary, the cashflow data which is unavailable is material, or the results of the cashflow approach appears to give unreliable results perhaps because of unknown internal transfers, the actuary will instead use an analysis of gains and losses to roll forward the notional sub fund. Analysis of gains and losses methods are less precise than use of cashflows and involve calculation of gains and losses to the surplus or deficiency exhibited at the previous valuation. Having established an expected surplus or deficiency at this valuation, comparison of this with the liabilities evaluated at this valuation leads to an implied notional asset holding.

4.10 Fund Maturity

To protect the Fund, and individual employers, from the risk of increasing maturity producing unacceptably volatile contribution adjustments as a percentage of pay the Administering Authority will normally require defined capital streams from employers in respect of any disclosed funding deficiency.

In certain circumstances, for secure employers considered by the Administering Authority as being long term in nature, contribution adjustments to correct for any disclosed deficiency may be set as a percentage of payroll. To protect the Fund against the risk of payroll failing to grow at the assumed rate, the Administering Authority will monitor payrolls where this approach is agreed.

5. Special Circumstances related to certain employers

5.1 Interim Reviews

Regulation 64(4) of the LGPS 2013 Regulations provides the Administering Authority with a power to carry out valuations in respect of employers expected to exit the Fund at some point in the future, and for the Fund Actuary to certify revised contribution rates, between triennial valuation dates.

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

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

- Where the date of exit is known, and is more than 3 years hence, or is unknown and assumed to be indefinite, interim valuations will generally not be carried out at the behest of the Administering Authority.
- For transferee admission bodies falling into the above category, the Administering Authority sees it as the responsibility of the Relevant Scheme Employer to instruct it if an interim valuation is required. Such an exercise would be at the expense of the Relevant Scheme Employer unless otherwise agreed.
- A material change in circumstances, such as the date of exit becoming known, material membership movements or material financial information coming to light may cause the Administering Authority to informally review the situation and subsequently formally request an interim valuation.
- For an employer whose participation is due to cease within the next 3 years, the Administering Authority will monitor developments and may see fit to request an interim valuation at any time.

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

5.2 Guarantors

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

- If an exiting employer defaults on any of its financial obligations to the Fund, the Guarantor is expected to provide finance to the Fund such that the Fund receives the amount certified by the Fund Actuary as due, including any interest payable thereon.
- If the Guarantor is an employer in the Fund and is judged to be of suitable covenant by the Administering Authority, the Guarantor may defray some of the financial liability by subsuming the residual liabilities into its own pool of Fund liabilities. In other words, it agrees to be a source of future funding in respect of those liabilities should future deficiencies emerge.

During the period of participation of the employer a guarantor can at any time agree to the future subsumption of any residual liabilities of an admission body. The effect of that action could be to reduce the Funding and Solvency Target for the employer, which could probably lead to reduced contribution requirements.

5.3 Bonds and other securitization

Paragraph 6 of Part 3 of Schedule 2 of the LGPS 2013 Regulations creates a requirement for a new Admission Body to carry out to the satisfaction of the Administering Authority (and the Scheme Employer in the case of an Admission Body admitted under paragraph 1(d)(i)) an assessment taking account of actuarial advice of the level of risk on premature termination by reason of insolvency, winding up or liquidation.

Where the level of risk identified by the assessment is such as to require it the admission body shall enter into an indemnity or bond with an appropriate party. Where it is not desirable for an admission body to enter into an indemnity or bond, the body is required to secure a guarantee in a form satisfactory to the Administering Authority from an organisation who either funds, owns or controls the functions of the admission body.

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

- In the case of Admission Bodies admitted under paragraph 1(d) and other Admission Bodies with a Guarantor, and so long as the Administering Authority judges the relevant Scheme Employer or Guarantor to be of sufficiently sound covenant, any bond exists purely to protect the relevant Scheme Employer on default of the admission body. As such, it is entirely the responsibility of the relevant Scheme Employer or Guarantor to arrange any risk assessments and decide the level of required bond. The Administering Authority will be pleased to supply some standard calculations provided by the Fund Actuary to aid the relevant Scheme Employer, but this should not be construed as advice to the relevant Scheme Employer on this matter.
- In the case of Admission Bodies admitted under paragraph 1(e), or under paragraph 1(d) where the Administering Authority does not judge the Relevant Scheme Employer to be of sufficiently strong covenant, and other Admission Bodies with no Guarantor or where the Administering Authority does not judge the Guarantor to be of sufficiently strong covenant, the Administering Authority must be involved in the assessment of the required level of bond to protect the Fund. The admission will only be able to proceed once the Administering Authority has agreed the level of bond cover. The Administering Authority will supply some standard calculations provided by the Fund Actuary to aid the relevant Scheme Employer form a view on what level of bond would be satisfactory. The Administering Authority will also on request supply this to the Admission Body or Guarantor. This should not be construed as advice to the Scheme Employer, Guarantor or Admission Body.
- The Administering Authority notes that levels of required bond cover can fluctuate and will review, or recommends the Scheme Employer reviews, the required cover regularly, at least once a year.

5.4 Subsumed Liabilities

Where an admission body is ceasing participation in the Fund such that it will no longer have any contributing members, it is possible that another employer in the Fund (the 'accepting employer') has agreed to provide a source of future funding in respect of any emerging deficiencies in respect of those liabilities.

In such circumstances the liabilities are known as subsumed liabilities (in that responsibility for them is subsumed by the accepting employer). For such liabilities the Administering Authority will assume that the investments held in respect of those liabilities will be the same as those held for the rest of the liabilities of the accepting employer. Generally this will mean assuming continued investment in more risky investments than Government bonds.

5.5 Orphan Liabilities

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

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

However, if these liabilities are deemed to be small compared to the liabilities of the whole Fund (and therefore the risk related to these liabilities is small) then the Administering Authority may decide to use the Funding Target used for Scheduled Bodies for practical reasons.

Any excess or deficient returns on the notional or actual assets attributable to these liabilities relative to the Funding Target will be added to or deducted from the investment return to be attributed to the notional assets of all employers in the Fund.

5.6 Exit Valuations

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

In particular, the exit valuation may distinguish between residual liabilities which will become orphan liabilities, and liabilities which will be subsumed (see above) by other employers.

For subsumed liabilities the exit valuation will anticipate continued investment in assets similar to those held in respect of the subsuming employer's liabilities.

For orphan liabilities the exit valuation could anticipate investment in low risk investments such as Government bonds or be calculated in the same way as subsumed liabilities, as considered appropriate.

Regardless of whether the residual liabilities are orphan liabilities or subsumed liabilities, the departing employer will be expected to make good the funding position revealed in the exit valuation. In other words, the fact that liabilities may become subsumed liabilities does not remove the possibility of a exit payment being required.

6. Key Risks & Controls

6.1 Types of Risk

The Administering Authority's has an active risk management programme in place. The measures that the Administering Authority has in place to control key risks are summarised below under the following headings:

6.2 Investment Risks

Risk	Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term
Control	Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing. Analyse progress at three yearly valuations for all employers. The Administering Authority will request quarterly funding updates between the completion of the valuation report and the date of the next valuation to monitor the position.
Risk	Inappropriate long-term investment strategy
Control	Set Fund-specific benchmark in accordance with appropriate advice.
Risk	Active investment manager underperformance relative to benchmark
Control	Short term (quarterly) investment monitoring analyses market performance and active managers relative to their index benchmark. The Fund Actuary will be asked to evaluate the implications if there is significant underperformance.

Risk	Effect of possible increase in employer's contribution rate on service delivery and admission/ scheduled bodies
Control	Seek feedback from employers on scope to absorb short-term contribution rises. Mitigate impact through deficit spreading and phasing in of contribution rises. Consult employers on possibility of paying more (extra administration and higher regular contributions) to enable employer-specific investment strategies to give greater certainty of cost.
Risk	Potential cashflow implications of increasing maturity of the Fund, for example as a result of reduced numbers of staff working in local government or through outsourcing
Control	Regularly review position including communication with employers about their plans. Plan investments to ensure sufficient liquidity.

6.3 Solvency Risks

Risk	Permitting surpluses or deficiencies to be eliminated over a recovery period rather than immediately introduces a risk that action to restore solvency is insufficient between successive measurements.
Control	It is policy to discuss the risks inherent in each situation with the Fund Actuary and to limit the permitted length of recovery period to no longer than 25 years in the vast majority of circumstances, and no longer than 40 years under any circumstances.
Risk	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.
Control	The risks inherent in each situation are discussed with the Fund Actuary and to limit the number of permitted steps to three annual steps or, in exceptional circumstances, to six annual steps.

6.4 Liability Risks

Risk	Pensioners living longer and changing retirement patterns.
Control	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary investigates these matters at each valuation or if appropriate more frequently and will report on developments. If significant demographic changes become apparent between valuations, the Administering Authority will notify all participating employers on the anticipated costs that will emerge at the next valuation and will review the bonds that are in place for the Transferee Admitted Bodies.

Risk	Deteriorating patterns of ill health and other early retirements
Control	Employers are charged the extra capital cost of early retirements following each individual decision. Ill health retirements will be monitored.
Risk	Demographic experience differing from the assumptions used by the actuary
Control	The Administering Authority will ensure that the Fund Actuary investigates these matters at each valuation, or more frequently if appropriate.
Risk	Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities
Control	Allowing for a risk-based approach should limit the impact of short term changes in returns on Government bonds on the liabilities. Some investment in bonds also helps to mitigate this risk. Inter-valuation monitoring, as set out above, gives early warning of changing liability values.
Risk	Pay and price inflation significantly more than anticipated
Control	Employers pay for their own salary awards and are reminded of the geared effect on salary-linked pension liabilities of any bias in pensionable pay rises towards longer-serving employees.

6.5 Regulatory Risk

Risk	Changes to regulations.
Control	The Administering Authority will keep abreast of all proposed changes and where possible express their opinion during consultation periods after careful consideration. The Fund Actuary is asked to assess the impact on costs of any changes and where these are likely to be significant, the Administering Authority will notify Employers of the possible impact and the timing of any change.

6.6 Employer Risk

Risk	Administering Authority being unaware of structural changes in an employer's membership (e.g. large fall in employee members or a large number of retirements).
Control	The Administering Authority monitors membership movements on an annual basis, via a report from the administrator to the Pension Fund Committee. The Actuary may be instructed to consider revising the rates and Adjustments certificate to increase an employer's contributions under Regulation 64(4) or 64(7) of the LGPS 2013 Regulations between triennial valuations.

Risk	The risk of being unable to collect contributions from employers with no contributing members (e.g.risk associated with employers with a small number of declining contributing members).
Control	The Administering Authority monitors membership movements on an annual basis as set out above. The Actuary may be instructed to consider revising the rates and Adjustments certificate to increase an employer's contributions under Regulation 64(4) of the LGPS 2013 Regulations between triennial valuations.
Risk	Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body and losing the opportunity to call in a debt.
Control	In addition to the Administering Authority monitoring membership movements on an annual basis, it requires employers to inform it of forthcoming changes
Risk	An employer ceasing to exist with insufficient funding or adequacy of a bond.
Control	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, wherever possible. Requiring a bond or some other security to protect the scheme from the existing deficit and the extra cost of early retirements on redundancy if the employer failed. Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission.

Appendix 7: Communications Policy

1. Introduction

1.1 Regulation 61 of the Local Government Pension Scheme 2013 (as amended) [SI 2013 No. 2356] requires an administering authority to prepare, publish and maintain a statement that sets out strategy for communication and promotion of the Local Government Pension Scheme.

1.2 The Statement is required to include details of policy for communicating with Scheme members and their representatives; propective Scheme members; and Scheme employers.

1.3 In particular, the Statement must set out policy on the provision of information and publicity about the Scheme to Scheme members, their representatives and Scheme employers; the format, frequency and method of distributing such information or publicity; and the promotion of the Scheme to prospective members and their employers.

1.4 The Statement must be reviewed and published following any material change relevant to the policy.

1.5 An effective communications strategy is vital for any organisation that strives to provide a high quality and consistent service to its customers. The complexity of pensions in general and the LGPS in particular, places communications at the heart of a high quality service provision.

1.6 There are six distinct groups with whom Powys Pension Fund needs to communicate:

- Pension Fund Trustees
- Scheme Members
- Prospective Scheme Members
- Scheme Employers
- Pension Fund Officers and Staff
- Other Stakeholders

1.7 Set out in this Statement are the mechanisms which are used to communicate with each of these groups, together with a strategy for widening and improving communications and to promote the Scheme amongst non-members.

2. Pension Fund Trustees

2.1 The Trustees of Powys Pension Fund (the members of the Pensions & Investment Committee - five Powys County Council Elected Members plus two non-voting members representing other participating Scheme employers and Scheme members) receive information, primarily in the form of written reports and correspondence, that cover investment, actuarial and administration issues. Committee members also attend conferences and seminars on the LGPS.

2.2 Completion of appropriate training for Pension Fund Trustees is a mandatory requirement for new members of the Committee. Additional knowledge and training is to be provided via Pension Fund Officers and advisers. Full details are set out in the Knowledge & Skills Framework Policy appended to the Pension Fund's Governance Policy & Compliance Statement.

3. Scheme Members

3.1 Newsletters – are sent out to all active and pensioner members covering LGPS and related issues, as and when required.

3.2 Benefit Statements – sent to all active and deferred members (where a current home address is held) annually. Statements include State Scheme benefits and are produced in conjunction with the Department for Work and Pensions.

3.3 Scheme Literature – A range of Scheme literature and information covering many aspects of the LGPS is produced by Powys Pension Fund and is supplied direct to employers and Scheme members, as required.

3.4 Pay Advices – Powys Pension Fund issues pay advices to all its Fund pensioners twice per year, or more often where pay amounts vary from month-to-month.

3.5 Pensions Increases – all Fund pensioners are advised of their annual pension increase via a personalised letter sent in April each year.

3.6 Correspondence – the Pension Fund utilises both surface mail and email to send and receive correspondence with Scheme members.

3.7 Telephone – much of the Pension Fund's communication with individual Scheme members is conducted by telephone.

3.8 Pensions Clinics – The Pension Fund provides a periodic clinic service where Scheme members have the opportunity to discuss their individual pension issues on a face-to-face basis.

3.9 Welsh Language – wherever possible the Pensio Fund provides access to Scheme documents in the medium of Welsh.

3.10 Website - a full range of Pension Fund and LGPS information is available via the Pension Fund's dedicated bespoke website at www.powyspensionfund.org.

3.11 My Powys Pension – an online system that is available to all active and deferred Scheme members. It enables members to interact with their pension records; log changes to basic data (eg changes to address etc.); and perform pension benefit forecasts.

3.12 Powys Pension Fund has both facebook and twitter accounts through which it is able to communicate further with Scheme members who prefer to receive information via these media platforms.

4. Prospective Scheme Members(next)

4.1 Scheme Guide – All prospective Scheme members are provided with Scheme information on being appointed to their employments.

4.2 Website - a full range of Pension Fund and LGPS information is available via the Pension Fund's dedicated bespoke website at www.powyspensionfund.org.

4.3 The Pension Fund's intention is to request formal notification of non-joiners from Scheme employers. The information will be used to market the Scheme with dedicated literature. (Targeted for implementation by March 2017).

4.4 Pensions Clinics – The Pension Fund provides a periodic clinic service where prospective Scheme members have the opportunity to discuss their individual pension issues on a face-to-face basis.

5. Scheme Employers

5.1 Employers' Guide – An Employers' Guide is issued to each employer to assist them in the administration associated with participation in the Scheme.

5.2 Ill Health Retirements – The Pension Fund has made available to all participating employers access to the Pension Fund's approved Occupational Health Physician for the purposes associated with ill health benefits.

5.3 Employer Meetings and Reports – Periodic Employer meetings are held at least annually. Typically these are used to communicate a variety of Pension Fund matters of specific interest to employers, such as the results of triennial valuations. In addition, employers receive copies of the Pension Fund's Annual Report & Accounts, Statement Of Investment Principles, Funding Strategy Statement and Governance Policy & Compliance Statement.

5.4 Technical Updates – These are sent to employers from time to time to advise them of significant changes to the Scheme and associated legislation.

5.5 Website - a full range of Pension Fund and LGPS information is available via the Pension Fund's dedicated bespoke website at www.powyspensionfund.org.

5.6 It is envisaged that technical updates for employers will be regularised in the form of a quarterly briefing paper, to include, in addition to Scheme changes, matters of national debate and interest on the future development of pensions in general and the LGPS in particular. (Targeted for implementation by March 2017).

5.7 Powys Pension Fund has both facebook and twitter accounts through which it is able to communicate further with employers who prefer to receive information via these media platforms.

6. Pension Fund Officers and Staff

6.1 Team Meetings – Pensions Administration meets quarterly at which team members consider procedural issues; plan work and developments for the coming quarter and beyond; and, at which the team is kept abreast of Scheme developments and changes.

6.2 Technical Information – Bulletins and Circulars issued by the Local Government Association together with guidance and consultation documents from the Department for Communities and Local Government are available to all Pension Fund Officers and Staff for information. In addition, periodic in-house procedural guidance, procedure notes and technical explanations are provided, as required.

6.3 Intranet and Internet – All staff have been enabled to use the corporate

6.4 E-mails – All staff have access to email facilities.

6.5 Pension Fund Manager – The Pension Fund Manager maintains an open-door policy and attempts to make himself available to all staff at all times.

7. Other Stakeholders

7.1 All Wales Pension Officers' Group – Pension Officers from the 8 administering authorities in Wales meet regularly in order to ensure uniform interpretation of the LGPS and other associated regulations. The group's views are passed up to the national level via the Local Government Pensions Committee's Technical Group Meetings (an arm of the Local Government Association) that are held quarterly.

7.2 All Wales Communications Group – Pensions Officers from the 8 administering authorities in Wales meet periodically in order to devise, develop and promote the use of common Scheme literature.

7.3 CLASS Group – As a user of the Altair Pensions Administration System, the Pension Fund is a member of the local authority CLASS Group and attends both regional user groups and national meetings.

7.4 National Fraud Initiative – The Pension Fund has participated in the National Fraud Initiative since 1998 and continues to do so. This has helped to avoid the overpayment of pension benefits to both deceased and re-employed pensioners.

7.5 Taxpayers and the General Public – all the principal Pension Fund documents including the Annual Report & Accounts, Actuarial Valuation Reports, Statement of Investment Principles, Funding Strategy Statement, Governance Policy & Compliance Statement and this Statement, are available to the public via the Pension Fund's website at www.powyspensionfund.org or on request.

8. Contacts

8.1 Any questions, queries or observations on this Statement; or, on matters relating to the investment of the Powys Pension Fund; or, on the governance of the Pension Fund, should be addressed to:

Mr J Rollin
Pension Fund Manager
Powys County Council
County Hall
Llandrindod Wells
Powys LD1 5LG

Tel: 01597 827641

Email: joe.rollin@powys.gov.uk

8.2 Questions or queries concerning membership, benefits or information in respect of the Local Government Pension Scheme, should be directed to:

Mr C Hurst
Pensions Administration Manager
Powys County Council
County Hall
Llandrindod Wells
Powys LD1 5LG

Tel: 01597 827640

Email: chris.hurst@powys.gov.uk

8.3 All other enquiries should be addressed to:

The Pensions Section
Powys County Council
County Hall
Llandrindod Wells
Powys LD1 5LG

Email: pensions@powys.gov.uk

Glossary of Terms

Accrual
An accrual is a sum (provision) shown in the accounts to cover income or expenditure for the accounting period but which was not actually paid or received as at the date of the Balance Sheet.

Actuary
An actuary is a person who works out insurance and pension premiums, taking into account factors such as life expectancy.

Actuarial Valuation
This is when an actuary checks what the pension scheme assets are worth and compares them with the scheme's liabilities. They then work out how much the contributions from employers and members must be so that there will be enough money in the scheme when people receive their pensions.

Additional Voluntary Contributions
An option to secure additional pension benefits by making regular payments in addition to the % of basic earnings payable.

Admitted Bodies
Voluntary and Charitable bodies that fulfil certain conditions can apply to allow their employees to become members of the Local Government Pension Scheme.

Audit
An audit is an independent examination of the Council's activities.

Balance Sheet
This is a statement of our assets, liabilities and other balances at the date of the Balance Sheet.

Contingent Liabilities
Contingent liabilities exist where it is probable that a future event will result in a material cost to the Council and can be estimated with reasonable accuracy.

Creditor
A Creditor is someone we owed money to at the date of the Balance Sheet for work done, goods received or services rendered.

Current Asset
These are short-term assets that are available for use in the following accounting year.

Current Liabilities
These are short-term liabilities that are due for payment by the Council in the following accounting year.

Current Service Costs (Pension)
The increase in the liability of a defined benefit pensions scheme as a result of employee's service in the current period.

Debtor
A debtor is an organisation/individual that owes the Council money at the Balance Sheet date.

Equities - Pooled
The Pension Fund invests in equities through unit Trusts. It has no direct investments in equities.

Financial Reporting Standards (FRS's)
Financial regulations to be followed as set by the Accounting Standards Board.

Financial Year
This is the accounting period. For local authorities it starts on 01 April and ends on the 31 March in the following year.

Gilt Edged Stocks
These are investments in government or local Authority stocks. They are regarded as risk-free.

Liability
A liability is an amount payable at some time in the future.

Past Service Costs (Pension)
For a defined benefit pension scheme, this is the extra cost resulting from changes or improvements to the proportion of retirement benefit that relates to an employees past service.

Post Balance Sheet Events
Post Balance Sheet events are items that have arisen after the Balance Sheet date. The items did not occur at the time the Balance Sheet was prepared but have subsequently been discovered. To give a fair representation they may need to be disclosed.

Securities
These are investments such as stocks and bonds.