Business Plan 2016/7 to 2018/9 – Q3 Update
Funding and Investments

Key Tasks

Key:

	Complete
	On target or ahead of schedule
	Commenced but behind schedule
	Not commenced
xN	Item added since original business plan
xM	Period moved since original business plan due to change of plan /circumstances
~~x~~	Original item where the period has been moved or task deleted since original business plan

Funding and Investments (including accounting and audit) Tasks

Ref	Key Action –Task	2016/17 Period				Later Years	
		Q1	Q2	Q3	Q4	2017/18	2018/19
F1a to j	Triennial Actuarial Valuation and associated tasks	x	x	x	x		
F2a to d	Asset Pooling	x	x	x	x	x	x
F3	Produce Investment Strategy Statement		x	x	xM		
F4	Flight-path "Health check" Review			x	x	x	
F5	AVC Review			x	x	x	
F6	Review of Investment Strategy			x	x	x	x

Funding and Investments (including accounting and audit) Task Descriptions

F1a – Triennial Actuarial Valuation

What is it?

It is the formal actuarial valuation of the Fund detailing the solvency position and other financial metrics. It is a legal requirement of the LGPS Regulations. It determines the contribution rates payable by the employers to fund the cost of benefits and make good any existing shortfalls as set out in the separate Funding Strategy Statement.

Timescales and Stages

Effective date:	31 March 2016
Initial whole Fund results (expected):	Q1 2016/17
Individual Employer results (expected):	Q2&3 2016/17
Deadline for agreement of all contributions and sign-off:	31 March 2017

Resource and Budget Implications

Exercise will be performed by the Fund Actuary and it will determine contribution requirements for all participating employers from 1 April 2017. It is a major exercise for the Fund and will take a lot of input from the Administration and Investment teams. Employers will be formally consulted on the funding strategy as part of the process. The Fund Actuary's costs in relation to this exercise are included in the 2016/17 budget.

F1b – Review of Fund policy around employer risk management

What is it?

The Fund agreed a policy in 2013 relating to the admission of employers into the Fund and to how termination of participation is dealt with, the primary aim of the policy being to protect the Fund against incurring any unfunded liabilities as far as possible.

The policy has different requirements depending on the nature of the admitted employer but includes the use of pre-admission risk assessments, contingent security where deemed necessary, monitoring of the employer and termination funding. The detail and application of this policy should be regularly reviewed, especially in light of regulatory changes, to ensure it remains appropriate and is not exposing the Fund to funding risk. In addition as part of this review the Fund will look to implement a process to monitor covenant and funding risk for employers. The level of detail needed will depend on the specific employer type.

The Fund is subject to funding risks in respect of employers who cease to participate without the Fund being able to recover the full exit contributions due under the Regulations. This can be mitigated by increasing contributions and/or requesting a contingent bond or guarantee to be provided to protect against the possibility of an unrecoverable debt. A risk-monitoring framework would identify and monitor participating employers who may be more likely than average to pose such a risk. This would monitor funding positions and covenant strength on a proportionate basis to flag any potential issues at an early stage. The governance around the framework would include ensuring employers are aware they should inform the Fund of any significant changes in membership numbers or underlying demographics.

Timescales and Stages

Review existing policy:	Q2 2016/17
Implement changes:	Q3 2016/17

Resource and Budget Implications

Fund Actuary will liaise with the Fund to review policy and process, updating documentation appropriately as well as implementing the covenant monitoring where appropriate. The Fund Actuary's costs in relation to this exercise are included in the 2016/17 budget.

F1c – Further refine operational structure applying for admissions and terminations

What is it?

The admission and termination policies are in force but the administration team may need assistance when dealing with queries from employers or implementing the policies. In particular, a review of the admission and termination policies, any checklists and information provided to employers will be required.

Timescales and Stages

Review of Fund policies to be performed during 2016/17 alongside the drafting of the Funding Strategy Statement:

- Initial review Q2 2016/17
- Review commences 2016/17 Q2 and closes during Q3 2016/17
- The policies will be formally signed off Q4 2016/17

Ongoing assistance also provided as and when required.

Resource and Budget Implications

The Fund Actuary will carry out the review and will assist the administration team with any implementation requirements. The Fund Actuary's costs in relation to this exercise are included in the 2016/17 budget.

F1d – Consider funding impact of 2016 end of contracting out

What is it?

With effect from April 2016 contracting-out ceases and employers and employees will be required to pay higher National Insurance contributions (respectively by 3.4% and 1.4% of earnings between the Lower Earnings Limit and the Upper Accrual Point). Employers will be considering how to mitigate the additional employment cost. The LGA is negotiating with HMT on a national basis in terms of rebating some of the costs, given the LGPS benefit structure cannot be changed to offset the cost for employers.

In addition, consideration also needs to be given to whether the LGPS will pay Post 88 GMP pension increases for members who reach their State Pension Age after 5 April 2016. This will be considered and costed as part of the 2016 valuation process as it could have funding implications.

Timescales and Stages

Legislation effective 6 April 2016

Consider potential impacts/costs further as part of the 2016 triennial valuation as part of affordability considerations for employers Q2 and Q3 2016/17.

Resource and Budget Implications

Budget implications for employers are potentially significant and will affect the affordability of normal pension Fund contributions. Employers are likely to also assess their own costs based on their total payroll, but may request information from the Fund. The Fund Actuary's costs in relation to this exercise are included in the 2016/17 budget.

F1e – Test data quality in advance of the valuation

What is it?

The formal actuarial valuation requires data to be of a high quality. The Fund's data will be compared against a number of checks to ensure that there are no areas of concern or areas that would significantly affect the results of the valuation. Any issues that arise will be highlighted to the Fund so that it can be rectified.

Timescales and Stages

Perform checks on Fund data Q4 2015/16 and Q1 2016/17
(subject to software providers implementing the data extract facility).

Resource and Budget Implications

Exercise will be performed by the Fund Actuary in advance of 31 March 2016. The administration team will be required to provide the data extract and work with the Fund Actuary if there are any areas of improvement required with the data. Tests will also be performed to check that there are no problems with the data extract itself. The Fund Actuary's costs in relation to this exercise are included in the 2016/17 budget.

F1f – Consider the potential impact of Alternative Delivery Models (ADMs) on Fund profile and maturity

What is it?

As part of the 2016 valuation, the Fund will need to consider what impact ADMs (including those in the pipeline) have had i.e. on the Council that they have transferred from and on the Fund as a whole. As a result of ADMs, there will be more employers in the Fund and more resources required in the running of it.

Timescales and Stages

To be performed Q2 and Q3 2016/17
(alongside the 2016 actuarial valuation. In particular an analysis of cash flow projections will be performed in different scenarios.)

Resource and Budget Implications

Exercise will be performed by Fund officers and the Fund Actuary. The Fund Actuary's costs in relation to this exercise are included in the 2016/17 budget.

F1g – Review the Funding Strategy Statement

What is it?

The Fund is required to prepare a Funding Strategy Statement and this should be reviewed whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles. The FSS will need to be updated to reflect any changes to policy that emerge as part of the actuarial valuation and also the updated results and assumptions.

Timescales and Stages

To be performed during 2016/17 alongside the 2016 actuarial valuation:

- The initial drafting of the strategy will take place Q2 2016/17
- The consultation will commence during Q2 and with close during Q3
- The strategy will be formally signed off by the Committee Q4 2016/17

Resource and Budget Implications
Exercise will be performed by Fund officers and the Fund Actuary. Employers will be formally consulted as part of the process. The Fund Actuary's costs in relation to this exercise are included in the 2016/17 budget.

F1h – Provide information required in relation to Section 13 of the Public Service Pensions Act 2013
What is it?
Section 13 of the Public Service Pensions Act 2013 provides for a review of the LGPS valuations and employer contribution rates to check that they are appropriate and requires remedial steps to be taken where it is considered appropriate. The Government Actuary's Department (GAD) will undertake this review based on Fund data received from each Scheme Actuary based on the results of the 2016 actuarial valuations. A report will be provided upon completion of the GAD analysis.

Timescales and Stages
The data request is expected to be received from GAD	Q4 of 2016/17

Resource and Budget Implications
Exercise will be performed by the Fund Actuary as part of the 2016 actuarial valuation. The results will be provided to the GAD. The Fund Actuary's costs in relation to this exercise are included in the 2016/17 budget.

F1i – Review the Fund's KPI's and perform updated calculations
What is it?
The LGPS Scheme Advisory Board (SAB) is undertaking a mandatory exercise to benchmark the performance of all LGPS funds in England and Wales (linked to 2016 triennial valuations). A suite of self-assessment key indicators (KPIs) have been derived. Additional calculations will be required in order for the Fund to assess itself against these KPIs.

Timescales and Stages
To be performed	Q2 and Q3 of 2016/17

Resource and Budget Implications
Exercise will be performed by Fund officers and the Fund Actuary. The Fund Actuary's costs in relation to this exercise are included in the 2016/17 budget.

F1j – Cost Control
What is it?
Under the new framework, the costs of the LGPS must be periodically assessed to ensure that the reforms are affordable and sustainable. There will be two mechanisms used to do this:

- the employer cost cap process as operated by HM Treasury, and
- the future cost cap process as operated by the LGPS Scheme Advisory Board

Both processes could lead to changes to the scheme design or to the level of members' contributions if the costs of the LGPS are shown to have moved sufficiently from the target.

Timescales and Stages
Information expected to be provided to the GAD	Q3 2016/17

Resource and Budget Implications

Exercise will be performed by the Fund Actuary and sent on directly to the Government Actuary's Department in the required format. The Fund Actuary's costs in relation to this exercise are included in the 2016/17 budget.

F2a – Asset Pooling Responses

What is it?

This comprises the completed (detailed) submission to Government regarding the CPF's plans for Asset Pooling. The initial submission will have been submitted in Q4 2015/16 as this is required by 19 February 2016.

The CPF should also review, and have the ability to comment on, the submission document from the applicable Asset Pool to Government as and when this submission is drafted.

Timescales and Stages

Develop submission documents	Q1 and Q2 2016/17
Completed submission must be issued to Government by	15 July 2016

Resource and Budget Implications

These documents will be produced from a range of the current Fund advisers: JLT as Investment Adviser and Mercer as De-Risking Adviser. Advisor's estimated costs in relation to this exercise are included in the 2016/17 budget.

F2b - Decision regarding assets to be moved to All Wales Passive Collaboration and eventual transition

What is it?

The agreement to run an All Wales Passive search has been taken and Aon Hewitt has been appointed to run this project. Upon completion there will be a decision as to how much of the CPF asset portfolio will be moved into the equity and bond asset allocation positions established as a result of the exercise.

Timescales and Stages

Aon Hewitt exercise is to be undertaken	Q4 2015/16
Anticipated completion	Q1 2016/17
Transition of applicable CPF assets anticipated	Q2/Q3 2016/17

Resource and Budget Implications

This exercise will be conducted by Aon Hewitt and JLT as Investment Adviser as well as the Pension Fund Manager and Finance Manager(s). Advisor's estimated costs in relation to this exercise are included in the 2016/17 budget

F2c - Preliminary plans for implementation of transition of applicable assets to Pooling vehicle

What is it?

This relates to Asset Pooling and will be dependent on two key points:

i) The response by Government to the CPF Asset Pooling submission (and how much of the CPF asset portfolio can remain to be managed as is)

ii) The final decision in respect of the Asset Pooling vehicle and how quickly this is established

Timescales and Stages

This is expected to impact both on 2016/17 (Q4) and beyond (2017/18 and thereafter).

Resource and Budget Implications
This review will be jointly carried out by JLT as Investment Adviser, the Pension Fund Manager and Finance Manager(s). Advisor's estimated costs in relation to this exercise are included in the 2016/17 budget. There might be additional advisor costs depending on the final pooling arrangements.

F2d - Changes in procedures to accounting for assets included in Pool

What is it?
This relates to Asset Pooling and how the accounting policies/reporting for the CPF's assets that are held in the Pool will be outside of the current (Officer led) arrangements. There will be a requirement to discuss the treatment of accounting reporting/responsibilities with the Asset Pool, post establishment.

Timescales and Stages
This is expected to impact both on 2016/17 (Q4) and beyond (2017/18 and thereafter).

Resource and Budget Implications
Communication/discussions with the Asset Pool will be jointly carried out by the Pension Finance Managers.

F3 – Produce Investment Strategy Statement

What is it?
As part of the planned changes to the existing Investment Regulations, each LGPS Fund will be required, having taken proper advice, to produce an Investment Strategy Statement which covers a range of specified areas.

Timescales and Stages
ISS must be produced no later than six months after new regulations come into force (currently drafted as 1 October 2016).

Resource and Budget Implications
This document will be produced by JLT as Investment Adviser with the finalised content agreed with the Pension Fund Manager and Finance Manager(s). The Investment Adviser's estimated costs in relation to this exercise are included in the 2016/17 budget.

F4 – Flight-path Health-check Review

What is it?
The Administering Authority implemented a “Flightpath” risk management investment strategy with effect from 1 April 2014, with the aim of more effectively controlling and limiting interest and inflation risks (as these factors can lead to significant changes to liability values and therefore the deficit). The overall funding Flightpath strategy is to consider and structure the investment strategy to determine a balance between return-seeking and risk-hedging assets. Further details are in the Fund's Statement of Investment Principles (SIP) and Funding Strategy Statement (FSS).

Ongoing monitoring includes a “traffic light” analysis of whether the Flightpath and hedging mandate are operating in line with expectations or if any actions are required. However annually the strategy will require a “health-check” to ensure its aims remain appropriate and it is still fit for purpose.

Timescales and Stages

A “Health check” will be carried out alongside the 2016 actuarial valuation which will consider any changes needed in the derivation of the overall discount rate. This will include consideration of the yield and funding triggers. The health-check is expected to be done at least annually thereafter.

Key stages include:

- Initial consideration of LDI portfolio in light of proposed 2016 valuation approach – Q1 2016/17
- Refresh hedging strategy using updated benefit cashflow projections from the valuation – Q3 2016/17
- Detailed consideration of trigger strategy in light of updated information – Q3 and Q4 2016/17
- Implement any necessary changes to align funding, investment and risk management strategies – Q4 2016/17

Resource and Budget Implications

To be led by the officers, Fund Actuary and investment advisors, with the findings being implemented by the Advisory Panel under the delegations. The Advisors' estimated costs in relation to this exercise are included in the 2016/17 budget.

F5 – AVC Review

What is it?

This is to review the offering to members for the investment of Additional Voluntary Contributions (AVCs) and their suitability. This should normally be carried out every three to five years. The review of Prudential will include analysis of:

- The range of investment funds and recommendations for change if required
- The performance of the investment funds
- The administration of and communications from the providers
- The competitiveness of the charges/services

Provision of an update to members with holdings with Equitable Life will also be completed given the recent changes proposed.

Timescales and Stages

Carry out review	2016/7 Q3/4
Consider impact of results of the review	2017/8

Resource and Budget Implications

This review will be carried out by Mercer and then considered by the Advisory Panel and reported to PFC. The Adviser's estimated costs in relation to this exercise are included in the 2016/17 budget.

F6 – Review of Investment Strategy

What is it?

This relates to the triennial review of the Investment Strategy once the Actuarial Valuation has been finalised and the Funding Strategy agreed. If required, there may be a need to undertake a light touch review (asset modelling scenarios) of the Fund’s strategy and asset allocation position to feed into the actuarial valuation process.

Timescales and Stages

This is expected to take place early in 2017/18 following completion of the 31 March 2016 AVR.

Should there be a requirement for an initial light touch review during the actuarial valuation process this will take place as and when the preliminary actuarial valuation data is available (anticipated to be Q3 2016/17.

Resource and Budget Implications

The majority of work will be carried out by JLT as Investment Adviser together with the CPF Manager and Finance Manager(s) prior to final submission of proposals to Advisory Panel and Pension Fund Committee. The Investment Adviser's estimated costs in relation to this exercise are included in the 2016/17 budget.