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AGENDA

Committee	PENSIONS COMMITTEE
Date and Time of Meeting	WEDNESDAY, 11 JANUARY 2017, 5.00 PM
Venue	COMMITTEE ROOM 1 COUNTY HALL
Membership	Councillors Elsmore, Evans, Hinchey and Graham Thomas (1 Vacancy)

1 Apologies for Absence

To receive apologies for absence.

2 Declarations of Interest

3 Minutes (Pages 1 - 4)

To approve as a correct record the minutes of the meeting held on 26 September 2016.

4 Wales Investment Pool (Pages 5 - 6)

5 Actuarial Valuation 2016 (Pages 7 - 8)

6 Relationship with the Local Pension Board (Pages 9 - 10)

7 Minutes of Investment Panel meeting of 20 September 2016 (Pages 11 - 14)
(Confidential Item)

8 Date of next meeting

Wednesday 15 February 2017.

Davina Fiore

Director Governance & Legal Services

Date: Thursday, 5 January 2017

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PENSIONS COMMITTEE

28 SEPTEMBER 2016

Present: County Councillor (Chairperson)
County Councillors Elsmore, Hinchey, Margaret Jones and
Graham Thomas

1 : APPOINTMENT OF CHAIRPERSON

Councillor Graham Hinchey was appointed as Chairperson of the Committee; this was proposed by Councillor Elsmore and seconded by Councillor Margaret Jones.

2: COMMITTEE MEMBERSHIP

It was noted that Council on 28 July 2016 appointed Councillors Elsmore, Evans and Hinchey, Margaret Jones and Graham Thomas to the Pensions Committee.

3 : APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Jonathan Evans.

4 : DECLARATIONS OF INTEREST

A declaration of interest was received from Councillor Margaret Jones; this was a personal interest as she contributes to the Council's pension fund.

5 : PENSION COMMITTEE TERMS OF REFERENCE

It was noted that Council on 28 July 2016 agreed the terms of reference to the Pension Committee.

6 : WALES INVESTMENT POOL

Members were advised that the report had been prepared to inform Committee Members of progress with the development of a Wales Investment Pool to manage on a collaborative basis the investment assets of the eight Local Government Pension Scheme (LGPS) funds in Wales and to seek the Committee's approval of the proposed Memorandum of Understanding (MOU) to govern the interim Joint Chairs' Group.

The eight LGPS funds in Wales had been working together for several years to identify areas of potential collaboration, under the direction of the Society of Welsh Treasurers (SWT) Pensions Subgroup. In 2013 the Subgroup published a report "Welsh Local Government Pension Funds: Working Together" which identified investments as the area where collaboration might yield the most significant savings.

The Subgroup then commissioned Mercers Ltd to identify options for collaborative investing and in May 2015 their report recommending a Common Investment Vehicle (CIV) was issued. In September 2015 the eight funds agreed to proceed with establishing a CIV on a voluntary basis and Hymans Robertson were appointed in December 2015 to advise on the procurement of a CIV from a third party provider.

Members were advised that the value of the Wales pool was £13 billion and that after the draft submission being presented in February; DCLG & HM Treasury were content for the Welsh Funds to proceed to develop their Pool proposals. The final submission to DCLG had been presented in July.

Going forward the option for “renting” a pooling structure from a regulated operator rather than building an in-house structure was chosen for the Wales pool. The next step was to establish a Joint Chairs Group as a pre cursor of the Joint Governance Committee.

Members had been provided with a Memorandum of Understanding setting out intended processes.

RESOLVED to:

- I. Note the progress in the development of the Wales Investment Pool.
- II. Approve the draft Memorandum of Understanding.
- III. Delegates authority to the Corporate Director Resources to approve any amendments to the MOU in consultation with the Chair.
- IV. Appoint Councillor Graham Hinchey to represent the Committee on the Joint Chairs Group and subsequently on the Joint Committee.

7 : STRATEGIC POLICY DOCUMENTS FOR THE PENSION FUND

Members were advised that the Pension Committee Terms of Reference set out the Committee’s responsibility for the strategic governance of the Cardiff & Vale of Glamorgan Pension Fund.

This report recommended that the Committee approve policy statements which are reviewed annually or require updating as a consequence of the establishment of the Committee.

Members were advised that the LGPS Regulations require each administering authority to prepare and maintain a number of statements setting out the governance arrangements for the Pension Fund:

- A Governance Compliance Statement (Regulation 55)
- A Funding Strategy Statement (Regulation 58)
- A Communications Policy Statement (Regulation 61)
- A Statement of Investment Principles (Investment Regulation 12)

Members then asked questions and discussed items in closed session as Appendix 4 of this report is not for publication as it contains exempt information of the description in paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972.

RESOLVED:

- I. That the Committee approved the revised Governance Compliance Statement, Communications Policy Statement and Statement of Investment Principles.
- II. That the Committee approved the Strategic Asset Allocation as recommended by the Investment Advisory Panel.

8 : STATEMENT OF ACCOUNTS AND ANNUAL REPORT FOR 2015-16

Members were advised that the Council's Audit Committee considered the Accounts and Auditor's report at its meeting on 19 September and was content with the comments therein.

The final accounts were due to go to Council at the meeting on 29 September 2016.

The audit had now been completed and the auditor's draft 'Audit of Financial Statements Report' for the Pension Fund was attached as Appendix 1. WAO intend to issue an unqualified audit report on the financial statements once they have been provided with the Letter of Representation included at Appendix 1. There were no misstatements which remain uncorrected. The report referred to the main corrections made by management.

WAO's Audit of Financial Statements Report also highlighted a number of qualitative findings as follows:

- "We have no concerns about the qualitative aspects of your accounting practices and financial reporting.
- We did not encounter any significant difficulties during the audit.
- There were no significant matters discussed and corresponded upon with management which we need to report to you.
- There are no other matters significant to the oversight of the financial reporting process that we need to report to you.
- We did not identify any material weaknesses in your internal controls.
- There are no 'other' matters specifically required by auditing standards to be communicated to those charged with governance."

RESOLVED:

- I. That the Committee notes the Auditor's Report.
- II. That the Committee approves the Annual Report for the Fund.

9 : DATE OF NEXT MEETING

It was noted that the next meeting of the Pensions Committee needed to be rescheduled and Members would be asked for their availability to determine a new date.

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CITY OF CARDIFF COUNCIL CYNGOR DINAS CAERDYDD



PENSIONS COMMITTEE: 11 JANUARY 2017

REPORT OF CORPORATE DIRECTOR RESOURCES

WALES INVESTMENT POOL

Reason for this Report

1. The Pension Committee Terms of Reference set out the Committee's responsibility for the strategic governance of the Cardiff & Vale of Glamorgan Pension Fund.
2. This report has been prepared to update Committee Members of progress with the development of the Wales Investment Pool to manage on a collaborative basis the investment assets of the eight Local Government Pension Scheme (LGPS) funds in Wales.

Background

3. The Committee was informed at its meeting on 28 September of the work being directed by the Society of Welsh Treasurers (SWT) Pensions Subgroup towards collaboration between the eight LGPS funds in Wales. The funds submitted their detailed proposals for a Wales Investment Pool to the Department for Communities and Local Government on 15 July 2016.
4. Representatives of the Welsh Funds were asked to meet the Minister for Local Government in London on 16 November to discuss the proposals for the Wales Pool. Following the meeting the minister wrote to the eight administering authorities confirming his acceptance of the proposals.
5. The Committee at its September meeting approved the draft Memorandum of Understanding for the Joint Chairs' Group (JCG) which is overseeing the establishment of the Pool. The JCG is being supported by an Officer Working Group, investment consultants Hymans Robertson and legal advisers Burges Salmon.

Issues

6. The working group is developing the specification for the investment management services to be provided by a Financial Conduct Authority (FCA) regulated Operator. It has been decided that bids will be invited from "lead" providers who will be able to form partnerships with other companies to provide the full range of services required by the Pool. An updated PIN was issued on 8 December 2016 with an anticipated contract notice date of 3 January.

7. The working group is also developing a legally binding Inter Authority Agreement (IAA) to establish a Joint Governance Committee with decision making powers. The monitoring officers of each administering authority have been consulted. The draft IAA will be considered by the Joint Chairs' Group at its next meeting on 11 January. A verbal update on the discussions at the JCG meeting will be given at Committee. The aim will be for the eight authorities to approve the IAA at their Full Council meetings at the end of February or the beginning of March.

Legal Implications

8. The body of the report details the progress made to date in respect of the Wales Investment Pool, in particular the progress of the working group in the procurement of an FCA approved Operator and notes the Officer Working Group is continuing to develop the procurement documentation, which it is understood from the report may not yet be finalised. In addition the report notes the further development of a joint committee which shall be established by an Inter Authority Agreement between all eight fund members. It should be noted that the memorandum of Understanding referred to at paragraph 5 of the report shall cease should the Inter Authority Agreement be concluded by the eight authority pension funds, which it is anticipated will be presented to full Council for consideration of Cardiff position in February.
9. There are no direct legal implications arising from the content of this report however completion of the documentation in due course may raise legal implications. Full legal advice should be sought and the report confirms both technical and legal advisors have been appointed in this regard.

Financial Implications

10. No financial implications arise directly from this report.

Recommendations

11. That the Committee note the progress in the development of the Wales Investment Pool.

CHRISTINE SALTER
CORPORATE DIRECTOR RESOURCES

Background Papers
Report to Council 30 June 2016
Wales Pool submission to the DCLG 15 July 2016
Letter from Minister for Local Government 23 November 2016

CITY OF CARDIFF COUNCIL CYNGOR DINAS CAERDYDD



PENSIONS COMMITTEE: 11 JANUARY 2017

REPORT OF CORPORATE DIRECTOR RESOURCES

ACTUARIAL VALUATION 2016

Reason for this Report

1. To update the Committee concerning the triennial Actuarial Valuation.

Background

2. All LGPS funds are required to obtain an actuarial valuation of their assets and liabilities every three years. The first valuation under the current 2013 Regulations is as at 31 March 2016.
3. The 2016 valuation will also be the first valuation under Section 13 of the Public Service Pensions Act 2013 which requires the Government Actuary's Department (GAD) to carry out a LGPS-wide review following the completion of each triennial valuation.
4. AON Hewitt (formerly Hewitt, Bacon & Woodrow) are one of the four firms of actuaries carrying out valuations for the LGPS and have been the Fund Actuary for the Cardiff & Vale of Glamorgan Pension Fund since 2001.

Issues

5. Following end of year processing and data cleansing, the Pensions section submitted its data to the Actuary on 3 August, in line with the agreed timetable. Additional data was provided so that a study of the Fund's longevity and mortality characteristics based on the post codes of Fund members could be undertaken.
6. The Actuary presented initial results to officers on 7 October. Demographic assumptions had been amended to reflect the outcome of the longevity study – both the postcode analysis and the Fund's historic data indicated that life expectancy factors could be changed to reduce the Fund's projected liabilities. Incidence of ill health retirements has also been lower than assumed in the previous valuation so this assumption has also been revised accordingly. Financial assumptions were largely consistent with those of previous valuations (relative to market conditions) but slightly more prudent. The discount rate (i.e. the required rate of return on investments) was set at 4.6% and the actuaries calculated a "probability of funding success" (a measure of the risks implied by the assumptions) of 72% compared with 71% in 2013.
7. The initial whole of fund outcome is that the Fund's liabilities total £1,952 million compared to assets of £1,653 million, giving a deficit of £299 million and a funding ratio

of 85%. This compares with a deficit of £311 million in 2013 and a funding ratio of 82%. Increases in liabilities from worsening financial assumptions have been offset by reductions from the changes in demographic assumptions and gains from investments and deficit contributions. The average future service contribution rate for employers has increased by 1.2% from 15.4% to 16.6%.

8. The actuary presented an overview of the valuation at the annual Employer's Forum which was held on 1 December 2016.
9. The Actuary will refine the valuation by generating results for each contributing employer. The results will include a deficit figure, based on the employer's liabilities and a notional allocation of fund assets, and the employer specific future service rate. The officers of the Fund will then engage with each employer to discuss affordability issues arising and options for deficit recovery payments. The desirability of being responsive to individual employer circumstances has to be balanced with the requirement for the administering authority to have a consistent funding strategy across the whole Fund. The administering authority also has to be mindful of the consequences of its funding strategy for the GAD Section 13 review.
10. The administering authority is required to maintain and publish its Funding Strategy Statement (FSS) which sets out how the Fund aims to meet the regulatory requirement of ensuring that funds are available to meet pensions liabilities as they fall due whilst keeping employer contribution rates as nearly constant as possible. The FSS will be updated in consultation with the Actuary and Fund employers and submitted to the Committee for approval at its meeting in February.
11. The Valuation report and employers' contribution rates certificate will be issued before 31 March 2017. The GAD review is not expected to be completed until early in 2018.

Legal Implications

12. There are no direct legal implications arising from this report.

Financial Implications

13. There are no direct financial implications arising from this report, however individual employers will need to include additional resources in their budgets for 2017/18 onwards as a result of the exercise.

Recommendations

14. That the Committee notes the progress of the triennial valuation.
15. That the Committee notes the proposed timetable for preparing and publishing the FSS.

CHRISTINE SALTER
CORPORATE DIRECTOR RESOURCES

CITY OF CARDIFF COUNCIL CYNGOR DINAS CAERDYDD



PENSIONS COMMITTEE: 11 JANUARY 2017

REPORT OF CORPORATE DIRECTOR RESOURCES

RELATIONSHIP OF PENSIONS COMMITTEE WITH LOCAL PENSION BOARD

Reason for this Report

1. To ask the Committee to consider its relationship with the Local Pension Board.

Background

2. The Local Pension Board was established by the City of Cardiff Council in January 2015 in compliance with the Public Service Pensions Act 2013. Its role is to assist the Council as Scheme Manager to secure compliance with the LGPS regulations and related legislation and to ensure the effective and efficient governance and administration of the scheme.
3. The Board comprises three employer representatives, three scheme member representatives and an independent chair. The Board meets at least twice a year.

Issues

4. At its last meeting on 18 October 2016 the Board reviewed the changes in the Council's Constitution relating to pensions and noted the Terms of Reference of the Pensions Committee.
5. The Board noted that the Committee's Terms of Reference included the following function:
 - h) Consider any pension compliance matters raised by the Fund's Local Pension Board.
6. The Board requested that the Committee consider how the relationship between the two bodies could be developed to enable both to carry out their respective roles effectively.

Legal Implications

7. There are no direct legal implications arising from this report.

Financial Implications

8. There are no direct financial implications arising from this report.

Recommendations

9. That the Committee considers the development of its relationship with the Pension Board at the Committee meeting and any resulting proposals may be brought back to a later Committee for consideration and or a decision.

**CHRISTINE SALTER
CORPORATE DIRECTOR RESOURCES**

Background Papers
Pension Committee Terms of Reference
Local Pension Board Terms of Reference

By virtue of paragraph(s) 14 of Part(s) 4 and 5 of Schedule 12A of the Local Government Act 1972.

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