



County Hall
Cardiff
CF10 4UW
Tel: (029) 2087 2000

Neuadd y Sir
Caerdydd
CF10 4UW
Ffôn: (029) 2087 2000

AGENDA

Committee	PENSIONS COMMITTEE
Date and Time of Meeting	MONDAY, 27 JANUARY 2020, 5.00 PM
Venue	COMMITTEE ROOM 2 - COUNTY HALL
Membership	Councillor Weaver (Chair) Councillors Dilwar Ali, Howells, Lay and Graham Thomas

1 Apologies for Absence

To receive apologies for absence.

2 Declarations of Interest

To be made at the start of the agenda item in question, in accordance with the Members' Code of Conduct.

3 Minutes *(Pages 3 - 4)*

To approve as a correct record the minutes of the meeting held on 28 November 2019.

4 Wales Pension Partnership *(Pages 5 - 6)*

To receive an update on the Wales Pension Partnership

5 Funding Strategy Statement *(Pages 7 - 34)*

To consider the Funding Strategy Statement for 2020-23

6 Investment Strategy Statement *(Pages 35 - 44)*

To consider the Investment Strategy Statement for 2020-21

7 Overpayment and Underpayment Policy *(Pages 45 - 56)*

To consider proposals for a Policy for the administration of overpayments and underpayments to Pension Fund members.

By receiving this Agenda Pack electronically you have saved the Authority approx. £1.80 in printing costs

This document is available in Welsh / Mae'r ddogfen hon ar gael yn Gymraeg

8 Minutes of the Local Pension Board *(Pages 57 - 60)*

To note the minutes of the Local Pension Board meeting held on 18 June 2019.

9 Exclusion of the Public

The following item is confidential and exempt from publication as it contains exempt information of the description contained in paragraph 14 of Part 4 and paragraph 21 of Part 5 of Schedule 12A of the Local Government Act 1972. The public may be excluded from the meeting by resolution of the Committee pursuant to Section 100A(4) of the Local Government Act 1972 during discussion of this item.

10 Minutes of the Investment Advisory Panel *(Pages 61 - 64)*

To note the minutes of the Investment Advisory Panel meeting held on 24 September 2019.

11 Urgent Items (if any)

12 Date of next meeting

There is an informal meeting on 28 April 2020 which is a Joint Meeting with the Local Pension Board, to be held in Syndicate Room A, City Hall, time TBC.

The next formal meeting of the Pensions Committee is 18 May 2020 at 5.00pm.

Davina Fiore

Director Governance & Legal Services

Date: Tuesday, 21 January 2020

Contact: Andrea Redmond,

02920 72434, a.redmond@cardiff.gov.uk

PENSIONS COMMITTEE

28 NOVEMBER 2019

Present: Councillor Weaver(Chairperson)
Councillors Dilwar Ali, Howells and Lay

35 : APOLOGIES FOR ABSENCE

Apologies were received from Councillor G Thomas.

36 : DECLARATIONS OF INTEREST

No declarations of interest were received.

37 : MINUTES

The minutes of the meeting held on the 4 November 2019 were agreed as a correct record and signed by the Chairperson.

38 : ANNUAL REPORT 2018-19

The Chairperson advised that a draft version of the Annual Report was considered at the last meeting and was submitted to the Wales Audit Office for their comments.

Officers directed the meeting to the Auditor's comments which had been included at page 16 of the updated Annual report as follows:

"In my opinion the pension fund accounts and related notes included in the Annual Report of Cardiff & Vale of Glamorgan Pension Fund are consistent, in all material respects, with the pension fund accounts and related notes included in the Statement of Accounts produced by the County Council of the City and Council of Cardiff for the year ended 31 March 2019 which were authorised for issue on 12 September 2019 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 pension fund's Statement of Accounts 13 September 2019 and the date of this statement."

Officers continued that no further changes to the Annual report had been made and recommended it for approval.

There were no further comments.

RESOLVED:

That the Annual Report and Accounts 2018/19 be approved.

39 : URGENT ITEMS (IF ANY)

No urgent items were received.

40 : DATE OF NEXT MEETING

The date, time and venue of the next meeting is to be confirmed.

The meeting terminated at 4.05 pm

**CARDIFF COUNCIL
CYNGOR CAERDYDD****PENSIONS COMMITTEE: 27 JANUARY 2020****REPORT OF CORPORATE DIRECTOR RESOURCES****AGENDA ITEM: 4**

WALES PENSION PARTNERSHIP**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 the Committee on progress towards the establishment of pooled investment arrangements for the eight LGPS funds in Wales under the oversight of the Wales Pensions Partnership.

Background

3. The Committee has received regular updates on the development of the Wales Pension Partnership by the eight LGPS administering authorities in Wales. The proposals for a Wales Investment Pool were approved by the Minister for Local Government in November 2016.
4. A Joint Governance Committee (JGC) has been established by the eight administering authorities to provide oversight of the Pool. The JGC is supported by the Officer Working Group (OWG) comprising the Treasurers and Investment Officers of the eight funds. Link Fund Solutions have been appointed as the Pool Operator and Russell Investments will provide consultative services including advice on fund design and manager selection. Carmarthenshire Council have been approved as the Host Authority, providing administrative support to the WPP.
5. The first two sub funds of the WPP Authorised Contractual Scheme (ACS) were launched in January 2019 with assets of approximately £4 billion. A third sub fund was launched in September with assets totaling £638m.

Issues

6. As at 31 December 2019, Cardiff & Vale Pension Fund's holdings in the WPP UK Equities Fund totaled £234 million.
7. Five fixed income sub funds have been approved by the JGC and will be launched during the first half of 2020. Cardiff currently holds assets totaling £601 million in fixed income.

8. Work is ongoing to develop pooling solutions for further asset classes. Initial proposals for an Emerging Markets Equities sub fund were presented to the OWG in November. A sub-group of the OWG has been established to explore options for Private Markets including property, private equities and infrastructure. Cardiff currently holds assets totaling £103 million in Emerging Markets equities, £160 million in property and £85 million in private equity.
9. Following the publication of the WPP's Responsible Investment Policy, further work is being undertaken to review the approaches of the eight fund authorities to addressing climate change and fossil fuel investment issues. The review will assist in the development of WPP policy objectives to facilitate the implementation of individual authorities' requirements through the WPP where possible.

Legal Implications

10. This report has been prepared to update the Committee on progress in the establishment of pooled investment arrangements for the eight LGPS funds in Wales and as such does not raise any direct legal implications.
11. In considering this matter the decision maker must have regard to the Council's wider obligations under the Wellbeing of Future Generations (Wales) Act 2015, the Welsh Language (Wales) Measure 2011 and the Welsh Language Standards.
12. Any decision must (a) be within the legal powers of the Council; (b) comply with any procedural requirement imposed by law; (c) be within the powers of the body or person exercising powers on behalf of the Council; (d) be undertaken in accordance with the procedural requirements imposed by the Council eg. standing orders and financial regulations; (e) be fully and properly informed; (f) be properly motivated; (g) be taken having regard to the Council's fiduciary duty to its tax payers; and (h) be reasonable and proper in all the circumstances and comply with any equalities legislation.

Financial Implications

13. The costs of the WPP will be apportioned between the constituent authorities in accordance with the Inter Authority Agreement. All costs allocated to Cardiff will be charged to the Pension Fund.

Recommendations

14. That the Committee notes the recent developments in the establishment of the WPP Investment Pool.

CHRISTOPHER LEE
CORPORATE DIRECTOR RESOURCES

CARDIFF COUNCIL CYNGOR CAERDYDD



PENSIONS COMMITTEE: 27 JANUARY 2020

REPORT OF CORPORATE DIRECTOR RESOURCES

AGENDA ITEM: 5

FUNDING STRATEGY STATEMENT

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. The Terms of Reference include the review and approval of the Fund's Funding Strategy Statement (FSS). The draft FSS is attached as an appendix to this report.

Background

3. The Funding Strategy Statement (FSS) sets out how the administering authority aims to meet the regulatory requirements to ensure that funds are available to meet pensions liabilities as they fall due whilst keeping employer contributions as constant as possible.
4. The FSS is normally reviewed every three years as part of the Triennial Valuation following consultation with the Fund Actuary. The administering authority must also consult with "such persons as it considers appropriate" and have regard to guidance published by CIPFA, the Chartered Institute of Public Finance and Accountancy.

Issues

5. The actuaries have prepared the draft FSS (attached as Appendix 1) as a revision of the statement published after the 2016 valuation.
6. The FSS has been updated to reflect a number of technical changes as advised by the actuaries. The most significant changes are an additional section covering Exit Credits (page 16) and an expanded Regulatory Risk section (page 18) addressing the ongoing uncertainties associated with the LGPS benefit structure i.e. GMP equalization, the McCloud/Sargent cases regarding age discrimination in transitional protections in public sector schemes, and the cost management process. To comply with MHCLG guidance the FSS sets out the allowance made in the 2019 valuation for these uncertainties.
7. The section regarding grouping of employers for the purpose of setting contribution rates has been supplemented by a new Appendix 3.
8. The revised draft document has also been sent to the Fund's employers, and the members of the Local Pension Board.

9. The FSS is to be approved and published before the completion of the actuarial valuation. The Actuary's report and certificate of contribution rates must be signed by 31 March 2020.

Legal Implications

10. The FSS must be revised and published in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended), whenever there is a material change in policy on the matters set out in the FSS.
11. The recommendation seeks approval of the FSS. This is a technical document the content of which Legal Services are unable to comment upon. However, Legal Services understand that the Fund employers and the Fund Actuary have been consulted and that their views have been considered when formulating the FSS.
12. In considering this matter, the decision maker must have regard to the Council's wider obligations under the Wellbeing of Future Generations (Wales) Act 2015, the Welsh Language (Wales) Measure 2011 and the Welsh Language Standards.
13. Any decision must (a) be within the legal powers of the Council; (b) comply with any procedural requirement imposed by law; (c) be within the powers of the body or person exercising powers on behalf of the Council; (d) be undertaken in accordance with the procedural requirements imposed by the Council e.g. standing orders and financial regulations; (e) be fully and properly informed; (f) be properly motivated; (g) be taken having regard to the Council's fiduciary duty to its tax payers; and (h) be reasonable and proper in all the circumstances and comply with any equalities legislation

Financial Implications

14. No financial implications arise directly from this report.

Recommendations

15. That the Committee approves the revised Funding Strategy Statement.

CHRISTOPHER LEE
CORPORATE DIRECTOR RESOURCES

Appendix 1 Funding Strategy Statement

**THE CARDIFF & VALE OF GLAMORGAN
PENSION FUND**

FUNDING STRATEGY STATEMENT

JANUARY 2020

Introduction

Overview

This Statement has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (the Regulations). It describes City and County of Cardiff's strategy, in its capacity as Administering Authority (the Administering Authority), for the funding of the Cardiff and Vale of Glamorgan Pension Fund (the Fund).

As required by Regulation 58(4)(a), the Statement has been reviewed (and where appropriate revised) having regard to guidance published by CIPFA in September 2016.

Consultation

In accordance with Regulation 58(3), all appropriate persons (including Fund employers) have been consulted on the contents of this Statement and their views have been considered in formulating it. However, the Statement describes a single strategy for the Fund as a whole.

The Fund Actuary, Aon Hewitt Limited, has also been consulted on the content of this Statement.

In addition, the Administering Authority has had regard to the Fund's Statement of Investment Principles / Investment Strategy Statement (ISS) published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the Investment Regulations).

Purpose of this Statement

The purposes of this Funding Strategy Statement are to set out the processes by which the Administering Authority:

- Establishes a clear and transparent funding strategy, specific to the Fund, to meet employer's pension liabilities going forward.
- Aims to meet the regulatory requirement in relation to the desirability of maintaining as nearly constant a primary contribution rate as possible.
- Ensures the regulatory requirement to set contributions so as to ensure the solvency and long-term cost efficiency of the Fund are met.
- Takes a prudent longer-term view of funding the Fund's liabilities.

noting that whilst the funding strategy applicable to individual employers or categories of employers must be reflected in the Funding Strategy Statement its focus should at all times be on those actions which are in the best long term interests of the Fund.

Well-being of Future Generations (Wales) Act 2015

The Well-being of Future Generations (Wales) Act 2015 requires each public body (including local authorities) in Wales to act "in accordance with the sustainable development principle". This means acting in a manner which seeks to ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs. The obligations under the Act of City of Cardiff Council, Vale of Glamorgan Council and the other scheme employers to which the Act applies have been recognised in this statement by giving priority to the long-term cost efficiency of the Fund.

Link to investment policy set out in the Investment Strategy Statement

The Investment Strategy Statement (ISS) is a statement of the principles governing the Fund's investment decisions. Among other things, it covers policy on the types of investments to be held, the balance between different types of investments, risk and the expected return on investments.

In keeping with the contents of this Statement, the ISS states that the policy of the Fund is to ensure that all payments made are at minimal cost to employing bodies. The investment objective is to maximise returns and minimise or at least stabilise employer contributions over the long term within an acceptable level of risk.

The Administering Authority has produced this Statement having taken an overall view of the level of risk inherent in the investment policy set out in the ISS and the funding strategy set out in this Statement. The assets that most closely match the cashflows of the Fund are fixed interest and index-linked Government bonds of appropriate term relative to the liabilities. The Fund's asset allocation as set out in the ISS invests a significant proportion of the Fund in assets such as equities which are expected, but not guaranteed, to produce higher returns than Government bonds in the long term. The Administering Authority has agreed with the Fund Actuary that the Funding Target on the ongoing basis will be set after making some allowance for this higher anticipated return. However, the Administering Authority recognises that outperformance is not guaranteed and that, in the absence of any other effects, if the higher expected returns are not achieved, the solvency position of the Fund may deteriorate, particularly where the liabilities are being measured by reference to prevailing gilt yields, as is the case for orphan liabilities

The investment returns required to meet the funding strategy are compatible with the investment policy set out in the ISS.

An Investment Advisory Panel reviews overall Fund risk. Priority is given to strategic asset allocation based on consideration of the full range of investment opportunities, and having regard to the diversification and suitability of investments. Within individual asset classes the Panel has adopted a specialist structure with a mixture of management approaches. Managers have clear targets and maximum accountability for performance.

The Fund's solvency objective is thus embedded in its strategic asset allocation policy and linked directly to the ISS, and the risks of different strategies. The Administering Authority has produced this Statement having taken an overall view of the level of risk inherent in the investment policy set out in the ISS and the funding strategy set out in this Statement.

The funding strategy recognises the investment targets and the inherent volatility arising from the investment strategy, by being based on financial assumptions which are consistent with the expected return on the investments held by the Fund, and by including measures that can be used to smooth out the impact of such volatility.

The Administering Authority will continue to review both documents to ensure that the overall risk profile remains appropriate including, where appropriate, commissioning asset liability modelling or other analysis techniques.

Review of this Statement

The Administering Authority undertook its latest substantive review of this Statement in January 2020.

The Administering Authority plans to formally review this Statement as part of each triennial valuation of the Fund unless circumstances arise which require earlier action.

The Administering Authority will monitor the funding position of the Fund on an approximate basis at regular intervals between actuarial valuations and will discuss with the Fund Actuary whether any significant changes have arisen that require action.

Aims and Purpose of the Fund

The main aims of the Fund in relation to the funding strategy are:

1. To manage employers' liabilities effectively

The Administering Authority seeks to ensure that all employers' liabilities are managed effectively. In a funding context, this is achieved by:

- seeking regular actuarial advice
- ensuring that employers are properly informed and consulted
- through regular monitoring of the funding position and the outlook for employers' contributions, and
- appropriate segregation of employers for funding purposes.

2. To ensure that sufficient resources are available to meet all liabilities as they fall due

The Administering Authority recognises the need to ensure that the Fund has, at all times, sufficient liquid assets to be able to pay pensions, transfer values, costs, charges and other expenses. It is the Administering Authority's policy that such expenditure is met, in the first instance, from incoming employer and employee contributions to avoid the expense of disinvesting assets. The Administering Authority monitors the position monthly to ensure that all cash requirements can be met.

3. Enable primary contribution rates to be kept as nearly constant as possible and (subject to the Administering Authority not taking undue risks) at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies, while achieving and maintaining fund solvency and long-term cost efficiency, which should be assessed in light of the risk profile of the Fund and employers, and the risk appetite of the Administering Authority and employers alike.

Producing low volatility in employer contribution rates may require investment in assets which 'match' the employer's liabilities. In this context, 'match' means assets which behave in a similar manner to the liabilities as economic conditions alter. For the liabilities represented by benefits payable by the Local Government Pension Scheme, such assets would tend to comprise fixed interest and index linked gilt edged investments, where the liabilities are being measured by reference to prevailing gilt yields as is the case for orphan liabilities.

Other classes of assets, such as shares and property, are perceived to offer higher long term rates of return, on average, and consistent with the aim to seek returns from investments within reasonable risk parameters, the Administering Authority invests a substantial proportion of the Fund in such assets. However, these assets are more risky in nature, and that risk can manifest itself in volatile returns over short term periods, and a failure to deliver the anticipated returns in the long term.

This short term volatility in returns can produce volatility in the measured funding

position of the Fund at successive actuarial valuations, with knock on effects on employer contribution rates. The impact on employer rates can be mitigated by use of smoothing adjustments at each valuation.

The Administering Authority recognises that there is a balance to be struck between the investment policy adopted, the smoothing mechanisms used at valuations, and the resultant stability of employer contribution rates from one valuation period to the next.

The Administering Authority also recognises that the position would be potentially more volatile for Admission Bodies with short term contracts where utilisation of smoothing mechanisms is less appropriate.

To seek returns from investments within reasonable risk parameters

The Administering Authority recognises the desirability of seeking investment returns within reasonable risk parameters through investment in unmatched investments. Investment returns higher than those available on Government stocks are sought through investment in other asset classes such as equities and property. The Administering Authority ensures that risk parameters are reasonable by:

- restricting investment to the levels permitted by the Investment Regulations
- limiting default risk by restricting investment to asset classes generally recognised as appropriate for UK pension funds
- analysing the volatility and absolute return risks represented by those asset classes in collaboration with the Investment Adviser and Fund Managers, and ensuring that they remain consistent with the risk and return profiles anticipated in the funding strategy
- limiting concentration risk by developing a diversified investment strategy, and
- monitoring the mis-matching risk: that the investments do not move in line with the Fund's liabilities.

Purpose of the Fund

The purpose of the Fund is to:

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses as defined in the Regulations and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

Responsibilities of the key parties

The three parties whose responsibilities to the Fund are of particular relevance are the Administering Authority, the individual employers and the Fund Actuary.

Their key responsibilities are as follows:

Administering Authority

The Administering Authority's key responsibilities are:

1. *To operate a pension fund*

2. *To collect investment income and other amounts due to the Fund as set out in the Regulations including employer and employee contributions and, as far as the Administering Authority is able to, ensure these contributions are paid by the due date*

Individual employers must pay contributions in accordance with Regulations 67 to 71. The Administering Authority will ensure that all employers are aware of these requirements and also the requirements of the Pensions Act 1995.

The Administering Authority will monitor the receipt of contributions to ensure they are received in accordance with agreed arrangements. The Administering Authority also has an absolute discretion on the timing of payments relating to bulk transfers or early retirements. Where employers are not adhering to any arrangements this will be brought to their attention. Outstanding contributions or other monies not received by due date may be charged interest in accordance with the Regulations at Base Rate + 1%.

The Administering Authority will ensure, where appropriate, that action is taken to recover assets from Admission Bodies whose Admission Agreement has ceased (and from other employers whose participation in the Fund has ceased) by

- requesting that the Fund Actuary calculates any deficiency at the date of exit from the Fund
- notifying the body that it must meet any deficiency at exit. The Administering Authority's policy is set out later in this Statement.

3. *Invest surplus monies in accordance with the Regulations*

The Administering Authority will comply with the Investment Regulations.

4. *Pay from the Fund the relevant entitlements as set out by the Regulations.*

5. *Ensure that cash is available to meet liabilities as and when they fall due*

The Administering Authority discharges this duty in the manner set out in the Aims of the Fund above.

6. *Take measures as set out in the Regulations to safeguard the Fund against the consequences of employer default.*

7. *Manage the valuation process in consultation with the Fund Actuary*

The Administering Authority ensures it communicates effectively with the Fund Actuary to:

- agree timescales for the provision of information and of valuation results
- ensure provision of data of suitable accuracy
- ensure that the Fund Actuary is clear about the content of the Funding Strategy Statement
- ensure that participating employers receive appropriate communication throughout the process
- ensure that reports are made available as required by relevant Guidance and Regulations

8. *Prepare and maintain an ISS and a Funding Strategy Statement after due consultation with interested parties*

The Administering Authority will ensure that both documents are prepared and maintained in the required manner.

9. *Monitor all aspects of the Fund's performance and funding, and amend these two documents if required*

The Administering Authority monitors investment performance and the funding position of the Fund quarterly. The ISS will be formally reviewed annually, and the Funding Strategy Statement every three years, as part of the valuation cycle, unless circumstances dictate earlier amendment.

10. *Effectively manage any potential conflicts of interest arising from its dual role as both Administering Authority and as a Scheme Employer.*

11. *Enable the local pension board to review the valuation process as set out in their terms of reference.*

Individual Employers

The individual employers will:

- Deduct contributions from employees' pay
- Pay all ongoing members' and employer's contributions (both percentage of pay and monetary shortfall recovery contributions which are due) as determined by the Fund Actuary, promptly by the 19th day of the month
- 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
- Pay for additional membership or pension, augmentation, early release of benefits or other one off strain costs in accordance with agreed arrangements
- Notify the Administering Authority promptly of all changes to membership, or other changes which affect future funding
- Note and if desired respond to any consultation regarding the Funding Strategy Statement, the ISS, or other policies
- Pay any exit payments on ceasing participation in the Fund

The Fund Actuary

The Fund Actuary will prepare advice and calculations and provide advice on:

- Funding strategy and the preparation of the Funding Strategy Statement and will prepare actuarial valuations, including the setting of employers' contribution rates at a level to ensure fund solvency and long-term cost efficiency and issue of a Rates and Adjustments Certificate, after agreeing assumptions with the Administering Authority and having regard to the Funding Strategy Statement.
- Prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters such as pension strain costs, ill health retirement costs, compensatory added years cost, etc.
- Assist the Administering Authority in assessing whether employer contributions need to be revised between valuation as permitted or required by the Regulations

- Provide advice and valuations on the exiting of employers from the Fund.
- Provide advice to the Administering Authority on bonds and other forms of security against the financial effect on the Fund of employer default
- Ensure that the Administering Authority is aware of any professional guidance or other professional requirements that may be of relevance to his or her role in advising the Fund.

Such advice will take account of the funding position and Funding Strategy Statement, 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.

Funding Strategy

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. 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 discount rate (investment return assumption) to be adopted and, by extension, the appropriate employer contributions payable. Together they measure the riskiness of the funding strategy.

Further details of these three terms are set out in Appendix 1.

Application to different types of body

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

- **Scheduled Bodies and certain other bodies of sound covenant**
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 low risk assets for Scheduled Bodies and certain other bodies which are long term in nature.
- **Admission Bodies and certain other bodies whose participation is limited**
For Admission Bodies, bodies closed to new entrants and other bodies whose participation in the Fund is believed to be of limited duration through known constraints or reduced covenant, and for which no access to further funding would be available to the Fund after exit, the Administering Authority will have specific regard to the potential for participation to cease (or to have no contributing members), the potential timing of such exit, and any likely change in notional or actual investment strategy as regards the assets held in respect of the body's liabilities at the date of exit (i.e. whether the liabilities will become 'orphaned' or whether a guarantor exists to subsume the notional assets and liabilities).

Recovery Periods

Where a valuation reveals that the Fund is in surplus or deficiency against the Funding Target, employers' contributions will be adjusted to target restoration of full funding over a period of years.

The Recovery Period applicable for each employer is set by the Fund Actuary in

consultation with the Administering Authority 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.

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 longer than the average future working lifetime of the membership of that employer. 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 Periods and has agreed with the Fund Actuary a limit of 30 years for employers which are assessed by the Administering Authority as being a long term secure employer.

The Administering Authority's policy is to agree Recovery Periods to recover any deficit with each employer which are as short as possible within this framework. 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.

Stepping

Consistent with the requirement to keep employer contribution rates as nearly constant as possible, the Administering Authority will consider, at each valuation, whether new contribution rates should be payable immediately, or reached by a series of steps over future years (this could be an increase or decrease in employer contribution rates). The Administering Authority will discuss with the Fund Actuary the risks inherent in such an approach, and will examine the financial impact and risks associated with each employer. The Administering Authority's policy is that in the normal course of events no more than three equal annual steps (i.e. the valuation period) will be permitted. Further steps may be permitted in extreme cases, but the total number of steps is unlikely to exceed six steps.

Grouping or Pooling

In some circumstances it may be desirable to group or pool 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, or
- small outsourcings which have been undertaken on a pass-through approach where it makes sense for the service provider / contractor to be given either the same contribution rate as the outsourcing body or the fixed contribution rate agreed contractually, or
- employers have been grouped for practical or commercial reasons.

The Administering Authority recognises that grouping of employers can give rise to cross subsidies from one employer to another over time. The Administering Authority's policy is to consider the position carefully at each valuation and to notify each employer that is grouped that this is the case, and which other employers it is grouped with. If the employer objects, it will be set its own contribution rate. For employers with more than 50 contributing members, the Administering Authority would look for evidence of homogeneity

between employers before considering grouping. For employers whose participation is for a fixed period (e.g. certain admission bodies) grouping is unlikely to be permitted.

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.

Where employers are grouped together entirely for funding purposes, this will only occur with the consent of the employers involved.

All employers in the Fund are grouped together in respect of the risks associated with payment of lump sum and dependants' pension benefits on death in service and for benefits payable in ill health retirement – in other words, the cost of such benefits is shared across all the employers in the Fund. Such benefits 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.

There are two main groups of small employers in the Fund pooled together for funding and contribution purposes.

1. The Town and Community Councils Group.

Currently all the employers participating within the group pay the same percentage of pay contribution rate.

2. The Colleges Group.

Currently the employers participating within the group pay a common primary (future service) contribution rate and a deficit contribution amount equal to a proportion of the group's total monetary deficit contributions.

In addition, there are a number of service providers or other employers pooled with either Cardiff Council or Vale of Glamorgan Council for contractual or commercial reasons.

Full details of the groups / pools, the participants at the date of writing this Statement and the way they operate is set out in Appendix 3.

Inter-valuation funding calculations

In order to monitor developments, the Administering Authority may from time to time request informal valuations or other calculations. Generally, in such cases the calculations will be based on an approximate roll forward of asset and liability values, and liabilities calculated by reference to assumptions consistent with the most recent preceding valuation. Specifically, it is unlikely that the liabilities would be calculated using individual membership data, and nor would the assumptions be subject to review as occurs at formal triennial valuations.

Notional Sub-Funds for individual 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.

Details of how the sub-funds are rolled forward are set out in Appendix 2.

Fund maturity

To protect the Fund, and individual employers, from the risk of increasing maturity and declining payrolls producing unacceptably volatile contribution adjustments as a percentage of pay the Administering Authority will normally require monetary contributions from employers in respect of any disclosed funding surplus or 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 surplus or deficiency may be set as a percentage of payroll but may have regard for assumed projected payroll provided by the employer. Such an approach carries an implicit assumption that the employer's payroll will increase at an assumed rate. If payroll fails to grow at this rate, or declines, insufficient corrective action will have been taken. To protect the Fund against this risk, the Administering Authority will monitor payrolls and where evidence is revealed of payrolls not increasing at the anticipated rate, the Administering Authority will consider requiring monetary contributions rather than percentages of payroll.

Where an employer is assessed to be in surplus and contributions are to be set below the cost of future accrual this will be implemented via a reduction in the percentage of pensionable pay rate rather than via a negative monetary amount (subject to a minimum overall contribution rate of zero).

Special Circumstances related to certain employers

Interim reviews

Regulation 64(4) of the Regulations provides the Administering Authority with a power to carry out valuations in respect of employers which are 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 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 three 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 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 that is likely to exit within the next three years, the Administering Authority will keep an eye on 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 Regulation 64(4) applies.

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 employer exits the Fund and 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 employer. The effect of that action would be to reduce the Funding and Solvency Targets for the employer, which would probably lead to reduced contribution requirements.

Bonds and other securitization

Schedule 2 Part 3 Para. 6 of the 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 a body admitted under Schedule 2 Part 3 Para. 1(d)(i) of the Regulations) 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 Schedule 2 Part 3 Para. 1(d) of the Regulations 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 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 Schedule 2 Part 3 Para 1(e) of the Regulations, or under Para 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 at least once a year.

Subsumed liabilities

Where an employer is exiting the Fund, it is possible that another employer in the Fund agrees 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.

Orphan liabilities

Where an employer is exiting the Fund, unless any residual liabilities are to become subsumed liabilities, the Administering Authority will 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 arises on the orphan liabilities such that this creates a cost for those other employers to make good the deficiency. To give effect to this, the Administering Authority will seek funding from the outgoing employer sufficient to enable it to match the liabilities with low risk investments, generally Government bonds.

To the extent that the Administering Authority decides not to match these liabilities with

Government bonds of appropriate term then any excess or deficient returns will be added to or deducted from the investment return to be attributed to the employer's notional assets.

Exit of an employer from the Fund

Where an employer exits the Fund, an exit valuation will be carried out in accordance with Regulation 64. That valuation will take account of any activity as a consequence of 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 will distinguish between residual liabilities which will become orphan liabilities, and liabilities which will be subsumed by other employers. For orphan liabilities the Funding Target in the exit valuation will anticipate investment in low risk investments such as Government bonds. For subsumed liabilities the exit valuation will anticipate continued investment in assets similar to those held in respect of the subsuming employer's liabilities.

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 an exit payment being required.

The Administering Authority's policy is that in the normal course of events any deficiency that exists at exit of an admission body will be payable immediately as a single payment. In extreme cases the Administering Authority may be prepared to agree payment over a period of years. However this period is very unlikely to exceed five years and any decision will be at the Administering Authority's discretion.

Exit Credits

Where an exit valuation discloses that there is a surplus in the Fund in respect of the exiting employer, and this surplus is due to be paid to the exiting employer, the Administering Authority will, unless otherwise agreed with the employer, pay the exit credit to the employer within 3 months of the later of the exit date and the date when the employer has provided all the necessary information required by the Administering Authority to enable the Fund Actuary to calculate the final liabilities on exit.

In relation to employers exiting on or after 14 May 2018, where there is an agreement between the departing employer and its subsuming body that a condition of the subsumption commitment is there is no return of surplus to the departing employer on exit, and the Administering Authority is provided with written instruction to this effect, all of the former employer's assets and liabilities in the Fund will be transferred to the subsuming body, without an exit credit being paid to the departing employer. In the absence of satisfactory evidence of such an arrangement being in place, the Administering Authority will pay any exit credit to the departing employer as required by the Regulations.

Identification of risks and counter measures

Approach

The Administering Authority seeks to identify all risks to the Fund and to consider the position both in aggregate and at an individual risk level. The Administering Authority will monitor the risks to the Fund, and will take appropriate action to limit the impact of these wherever possible. The main risks to the Fund are:

Investment risk

This covers items such as the performance of financial markets and the Fund's investment managers, asset reallocation in volatile markets, leading to the risk of investments not performing (income) or increasing in value (growth) as forecast. Examples of specific risks would be:

- assets not delivering the required return (for whatever reason, including manager underperformance)
- systemic risk with the possibility of interlinked and simultaneous financial market volatility
- insufficient funds to meet liabilities as they fall due
- inadequate, inappropriate or incomplete investment and actuarial advice is taken and acted upon
- counterparty failure

The specific risks associated with assets and asset classes are:

- equities – industry, country, size and stock risks
- fixed income - yield curve, credit risks, duration risks and market risks
- alternative assets – liquidity risks, property risk, alpha risk
- money market – credit risk and liquidity risk
- currency risk
- macroeconomic risks

The Administering Authority reviews each investment manager's performance quarterly and annually considers the asset allocation of the Fund by carrying out an annual review meeting with its Investment Advisors, Fund Managers and Fund Actuary. The Administering Authority also annually reviews the effect of market movements on the Fund's overall funding position.

Employer risk

These risks arise from the ever-changing mix of employers, from short-term and ceasing employers, and the potential for a shortfall in payments and/or orphaned liabilities.

The Administering Authority will put in place a Funding Strategy Statement which contains sufficient detail on how funding risks are managed in respect of the main categories of employer (e.g. scheduled and admission bodies) and other pension fund stakeholders.

The Administering Authority will maintain a knowledge base on employers, their basis of participation and their legal status (e.g., charities, companies limited by guarantee,

group/subsidiary arrangements) and will use this information to inform the Funding Strategy Statement.

Liability risk

The main risks include interest rates, pay and price inflation, life expectancy, changing retirement patterns and other demographic risks. The Administering Authority will ensure that the Fund Actuary investigates these matters at each valuation or, if appropriate, more frequently, and reports on developments. The Administering Authority will agree with the Fund Actuary any changes necessary to the assumptions underlying the measure of solvency to allow for observed or anticipated changes.

If significant liability changes become apparent between valuations, the Administering Authority will notify all participating employers of the anticipated impact on costs that will emerge at the next valuation and consider whether any bonds in place for Admission Bodies require review.

Regulatory risk

The risks relate to changes to general and LGPS specific regulations, national pension requirements or HM Revenue and Customs' rules.

The Administering Authority will keep abreast of all proposed changes. If any change potentially affects the costs of the Fund, the Administering Authority will ask the Fund Actuary to assess the possible impact on costs of the change. Where significant, the Administering Authority will notify Employers of the possible impact and the timing of any change.

There are a number of uncertainties associated with the benefit structure at the current time including:

- How Government will address the issues of GMP indexation and equalisation for the LGPS beyond expiry of the current interim solution from 6 April 2021
- The remedy to compensate members for illegal age discrimination following the outcome of the McCloud/Sargeant cases. Whilst the Government's application for leave to appeal has been denied there is currently still uncertainty relating to the remedy and exactly how this will apply to the LGPS
- The outcome of the cost management process and whether the agreement reached in relation to the Scheme Advisory Board (SAB) process for member contributions to be reduced and benefits enhanced to achieve an additional cost of 0.9% of pay will change as a result of the McCloud/Sargeant ruling

In determining how these uncertainties should be allowed for in employer contributions from 1 April 2020 the Administering Authority will have regard to guidance issued by the SAB, taking account of the Fund Actuary's advice. At present the Administering Authority considers an appropriate course of action for the 2019 valuation is to include a loading equal to 0.9% of pay within the employer contribution rates for all employers certified by the Fund Actuary that reflects the possible overall extra costs to the Fund for McCloud / Cost Cap as advised by the Fund Actuary. It is possible that the allowance within contribution rates might be revisited by the Administering Authority and Fund Actuary at future valuations (or, if legislation permits, before future valuations) once the implications for Scheme benefits and employee contributions are clearer.

In addition, a consultation document was issued by MHCLG entitled "Local Government Pension Scheme: Changes to the Local Valuation Cycle and the Management of Employer Risk" dated May 2019. This included a proposal to change the LGPS local fund valuations to quadrennial cycles. The Administering Authority will have regard to any changes in the Regulations as a result of this consultation and consider any actions required at the 2019 valuation, taking account of the Fund Actuary's advice.

Liquidity and maturity risk

The LGPS is going through a series of changes, each of which will impact upon the maturity profile of the LGPS and have potential cash flow implications. The increased emphasis on outsourcing and other alternative models for service delivery may result in the following:

- active members leaving the LGPS
- transfer of responsibility between different public sector bodies
- scheme changes which might lead to increased opt-outs
- spending cuts and their implications

All of these may result in workforce reductions that would reduce membership, reduce contributions and prematurely increase retirements in ways that may not been taken into account in previous forecasts.

The Administering Authority's policy is to require regular communication between itself and employers and to ensure reviews of maturity at overall Fund and employer level where material issues are identified.

Governance risk

This covers the risk of unexpected structural changes in Fund membership (for example the closure of an employer to new entrants or the large scale withdrawal or retirement of groups of staff), and the related risk of the Administering Authority not being made aware of such changes in a timely manner.

The policy is to require regular communication between itself and employers and to ensure regular reviews of such items as bond arrangements, financial standing of non-tax raising employers and funding levels.

Christopher Lee
Corporate Director Resources

January 2020

Appendix 1: Method and assumptions used in calculating the funding target

Solvency Target

The Administering Authority's primary aim is the long-term solvency of the Fund. Accordingly, employers' contributions will be set to ensure that 100% of the liabilities can be met over the long term using appropriate actuarial assumptions.

The Fund is deemed to be solvent when the assets held are equal to or greater than the value of the Fund's liabilities assessed using appropriate actuarial methods and assumptions. The Administering Authority believes that its funding strategy will ensure the solvency of the Fund because employers collectively have the financial capacity to increase employer contributions should future circumstances require, in order to continue to target a funding level of 100%.

For Scheduled Bodies, and certain other bodies where a Scheme Employer of sound covenant has agreed to subsume its assets and liabilities following the exit of the employer from the Fund, the Solvency Target is set at a level advised by the Fund Actuary as a prudent long-term funding objective for the Fund to achieve at the end of the Trajectory Period, based on continued investment in a mix of growth and matching assets intended to deliver a return above the rate of increases to pensions and pension accounts (CPI).

This then defines the Solvency Target.

For certain Admission Bodies, bodies closed to new entrants and other bodies whose participation in the Fund is believed to be of limited duration through known constraints or reduced covenant, and for which no access to further funding would be available to the Fund after exit from the Fund the Solvency Target will be set by considering the valuation basis which would be adopted should the employer leave the Fund. For most such bodies, the Solvency Target will be set commensurate with assumed investment in an appropriate portfolio of Government bonds after the employer has exited the Fund.

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 asset-liability modelling carried out by the Fund Actuary.

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.

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 and the valuation data. The valuation calculations, including future service contributions and any adjustment for surplus or deficiency, set the level of contributions payable and dictate the chance of achieving the Solvency Target at the end of the Trajectory Period (defined below).

Consistent with the aim of enabling the primary rate of employers' contributions 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 future service 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.

Full Funding and Solvency

The Fund is deemed to be fully funded when the assets held are equal to 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.

Trajectory Periods

The Trajectory Period in relation to an employer is the period between the valuation date and the date on which solvency is targeted to be achieved.

Appendix 2: Notional Sub-Funds for individual employers

Roll-forward of sub-funds

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 outgo, 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 Fund Actuary will assume an estimated cashflow equal to the value of the cash equivalent transfer value based on appropriate factors set by the Government Actuary's Department.
- Allowance for lump sum death in service and other benefits shared across all employers in the Fund (see earlier)
- 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 Fund Actuary, the cashflow data which is unavailable is of low materiality, estimated cashflows will be used
- Where, in the opinion of the Fund Actuary, the cashflow data which is unavailable is material, the Fund 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 relative 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.
- Analysis of gains and losses methods will also be used where the results of the cashflow approach appears to give unreliable results perhaps because of unknown internal transfers.

Attribution of investment income

Where the Administering Authority has agreed with an employer that it will have a tailored asset portfolio notionally allocated to it, the assets notionally allocated to that employer will be credited with a rate of return appropriate to the agreed notional asset portfolio.

Where the employer has not been allocated a tailored notional portfolio of assets, the assets notionally allocated to that employer will be credited with the rate of return earned by the Fund assets as a whole, adjusted for any return credited to those employers for whom a tailored notional asset portfolio exists.

Appendix 3: Groups / Pooling

Town and Community Councils Group

The active participants of the Group, at the date of writing this Statement, are:

- Cowbridge Town Council
- Llantwit Major Town Council
- Penarth Town Council
- Barry Town Council
- Radyr & Morganstown Community Council
- Lisvane Community Council
- Wenvoe Community Council
- Penllyn Community Council
- Pentyrch Community Council

In addition, there are liabilities related to the following bodies which currently have no active members. These liabilities remain part of the liabilities of the group:

Barry Memorial Hall
Dinas Powys Community Council
Sully Community Council

Currently the active participants of the group pay the same percentage of pay contribution rate which includes a contribution towards the deficiency of the group.

If a Town or Community Council has no contributing members it will become an exiting employer under Regulation 64(1) unless a suspension notice has been issued (a suspension notice can be issued for a period of up to three years if there is a reasonable likelihood an active member will join the Fund within the suspension period (Regulations 64(2A) to 64(2C)).

Given the liabilities are generally small the Administering Authority will not expect an exiting employer to make an exit payment or receive any exit credit unless the exiting employer has a material impact on other employers in the Group. The assets and liabilities relating to the exiting employer will remain part of the Group.

Similarly, there will not be an expectation that an employer with a suspension notice will make any contributions during the suspension period unless it has a material impact on other employers in the Group.

Colleges Group

The active participants, at the date of writing this Statement, are:

- St David Catholic College
- Cardiff and Vale College (including former liabilities relating to Coleg Glan Hafren and Barry College)
- Cardiff Metropolitan University (including former liabilities relating to University of Wales Institute, Cardiff)

The contribution rate is a common primary (future service) contribution rate and a contribution to the group's deficiency expressed as a monetary amount (generally calculated in proportion to the employer's payroll at the valuation date but another approach could be used in the future if the Administering Authority felt it was appropriate).

If a College or University has no contributing members it will become an exiting employer under Regulation 64(1) unless a suspension notice has been issued (a suspension notice can be issued for a period of up to three years if there is a reasonable likelihood an active member will join the Fund within the suspension period (Regulations 64(2A) to 64(2C)).

An exit valuation will be calculated for an exiting employer based on its share of the group's assets (as determined by the Administering Authority based on advice provided by the Fund Actuary).

Cardiff Council Pooling Group

The Cardiff Council Group, at the date of writing this Statement, contains liabilities in respect of:

- Current and former employees of Cardiff Council
- Former employees of:
 - Cardiff Corporation
 - Cardiff City Council and
 - South Glamorgan County Council (72.37% only)
- Employers who have been pooled with as a result of, or subsumed following cessation of, outsourcing of services or restructuring exercises:
 - Cardiff Bus (liabilities attributable to service prior to 26 October 1986) (potentially all the liabilities – currently being considered)
 - Race Equality First
 - Cardiff & Co
 - App Cleaning Limited (St Teilo's School)
 - GLL
 - A&R Cleaning (Lansdowne School)
 - Grangetown Prim Cleaning (App)
 - Circle IT (Eastern High School)
 - Glen Cleaning (Eastern High School)
 - A&R Cleaning (Gabalfa Primary School)
 - A&R Cleaning (Greenway Primary School)
 - A&R Cleaning (Trowbridge Primary School)

Vale of Glamorgan Council Pooling Group

The Vale of Glamorgan Council Group, at the date of writing this Statement, contains liabilities in respect of:

- Current and former employees of Vale of Glamorgan Council
- Former employees of South Glamorgan County Council (27.63% only)
- Employers who have been pooled with as a result of, or subsumed following cessation of, outsourcing of services or restructuring exercises:
 - St Cyres School
 - National Trust (employer as part of pooling arrangement has been given a

fixed contribution rate of 20.7% of pensionable pay)

- Glen Cleaning Barry Comp
- Glen Cleaning (Llandough Primary)
- Circle IT (Cowbridge)
- Glen Cleaning (Gladstone Primary School)
- A&R Cleaning (High Street School Barry)

PENSIONS COMMITTEE: 27 JANUARY 2020

REPORT OF CORPORATE DIRECTOR RESOURCES

AGENDA ITEM: 6

INVESTMENT STRATEGY STATEMENT

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. The Terms of Reference include the review and approval of the Fund's Investment Strategy Statement (ISS). The draft ISS is attached as an appendix to this report.

Background

3. The LGPS (Management and Investment of Funds) Regulations 2016 ('The Investment Regulations') came into force on 1 November 2016. The Investment Regulations require each LGPS administering authority to formulate and publish an investment strategy by 1 April 2017.
4. The Fund's initial Investment Strategy Statement (ISS) was approved by the Committee on 15 March 2017.

Issues

5. The Investment Regulations require an administering authority to review its ISS at least every three years.
6. A number of developments have occurred since the initial ISS was prepared which need to be reflected in an updated statement:
 - The launch of the Wales Pension Partnership
 - The amendments to the Strategic Asset Allocation approved by the Pensions Committee in July 2019 and expected to be fully implemented by 31 May 2020.
 - The development of the Fund's investment strategy to incorporate concerns on climate change risk and investment in fossil fuel producers.
7. Other proposed amendments include:
 - Removal of references to stock lending by the Fund's Custodian as the Fund will no longer directly hold segregated assets suitable for lending
 - Removal of references to currency hedging on Overseas Equities

8. The draft ISS is attached as Appendix 1 and the Strategic Asset Allocation for 2020-21 is attached as Appendix 2.

Legal Implications

9. Pursuant to the Local Government Pension Scheme (Management & Investment of Funds) Regulations 2016, Regulation 7 the Administering Authority ("Authority") is required, to formulate an investment strategy which must be in accordance with any guidance issued by the Secretary of State.
10. The Authority must in accordance with the Investment Regulations review and if necessary revise the ISS from time to time, and at least every 3 years, and publish a statement of any revisions. The Authority must invest, in accordance with its investment strategy, any fund money that is not needed immediately to make payments from the fund.
11. The recommendation seeks approval of the ISS. This is a technical document the content of which Legal Services are unable to comment upon. However, Legal Services understand that the Fund Investment /Advisory Panel have been consulted and that the Funds advisors have made recommendations, which have been incorporated into the ISS as attached in the Appendix hereto.
12. In considering this matter, the decision maker must have regard to the Council's wider obligations under the Wellbeing of Future Generations (Wales) Act 2015, the Welsh Language (Wales) Measure 2011 and the Welsh Language Standards.
13. Any decision must (a) be within the legal powers of the Council; (b) comply with any procedural requirement imposed by law; (c) be within the powers of the body or person exercising powers on behalf of the Council; (d) be undertaken in accordance with the procedural requirements imposed by the Council e.g. standing orders and financial regulations; (e) be fully and properly informed; (f) be properly motivated; (g) be taken having regard to the Council's fiduciary duty to its tax payers; and (h) be reasonable and proper in all the circumstances and comply with any equalities legislation

Financial Implications

14. No financial implications arise directly from this report.

Recommendations

15. That the Committee approves the revised Investment Strategy Statement.

CHRISTOPHER LEE
CORPORATE DIRECTOR RESOURCES

Appendix 1 Investment Strategy Statement
Appendix 2 Strategic Asset Allocation 2020-21

**THE CARDIFF & VALE OF GLAMORGAN
PENSION FUND**

INVESTMENT STRATEGY STATEMENT

JANUARY 2020

Introduction

Cardiff Council ('the Council') is the administering authority for the Cardiff & Vale of Glamorgan Pension Fund ('the Fund')

The Local Government Pension Scheme (Management & Investment of Funds) Regulations 2016 ("the Investment Regulations") require administering authorities to formulate and publish an investment strategy.

The Investment Strategy Statement (ISS) required by Regulation 7 of the Regulations must include:

- (a) A requirement to invest money in a wide variety of investments;
- (b) The authority's assessment of the suitability of particular investments and types of investments;
- (c) The authority's approach to risk, including the ways in which risks are to be measured and managed;
- (d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
- (e) The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
- (f) The authority's policy on the exercise of rights (including voting rights) attaching to investments.

The ISS must also set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment.

The ISS must comply with guidance issued from time to time by the Secretary of State, currently the guidance issued in July 2017.

The Terms of Reference of Cardiff Council's Pensions Committee ('the Committee') include determining the authority's investment strategy. This statement sets out the strategy for the 2020-21 financial year and has been prepared in consultation with the Fund's Investment Advisory Panel ('the Panel').

A Investment of money in a wide variety of investments

A properly diversified portfolio of assets should include a range of asset classes to help reduce overall portfolio risk. If a single investment class is not performing well, performance should be balanced by other investments which are doing better at that time. A diversified portfolio also helps reduce volatility.

The Committee aims to meet the requirement for a diversified portfolio by reviewing its Strategic Asset Allocation on an annual basis. The Asset Allocation is approved by the

Committee on the advice of the Panel. The Panel considers a wide range of investment opportunities before making its recommendations.

Current asset classes included in the allocation are:

- Conventional & Index Linked Fixed Interest – Global
- Equities – Global, UK & Emerging Markets
- Private Equity (via pooled funds of funds)
- Property funds – UK & Global

The following investment related activities are also permitted:

- Derivatives and other financial instruments within pre-agreed limits for the purpose of efficient portfolio management or for specific purposes such as currency hedging
- Underwriting, provided the underlying stock is suitable on investment grounds and complies with existing investment criteria

The Asset Allocation targets and variance limits currently in force together with the portfolio benchmarks and targets are summarised in Appendix 1.

Investment Limits

The Investment Regulations in force between 2009 and 2016 set statutory limits for different types of investments. The 2016 Investment Regulations removed these limits but the Fund will continue to operate within the limits in column 2 of Schedule 1 to the 2009 Regulations in respect of any assets not yet transitioned to the Wales Pensions Partnership.

B Suitability of particular investments and types of investments

The investment policy of the Fund is intended to ensure that all statutory payments made from the Fund are at minimal cost to employing bodies.

The overall investment objective is to maximise investment returns and to minimise or at least stabilise future employer contributions over the long term within an acceptable level of risk. Investment returns are defined as the overall rates of return (capital growth and income combined). It is also recognised that investments are intended to preserve and enhance the Fund's value.

The statutory requirement is to move towards 100% funding of the Fund's accrued liabilities over a period of time. This period together with the funding level is calculated every three years and agreed with the Actuary following a review that assesses the adequacy of the Fund's assets to meet its liabilities. The Panel takes the actuarial position and funding level into account in formulating its advice.

The Committee sets its own customised benchmark to ensure that the Fund's asset allocation policy reflects its own characteristics and not the average of a peer group. The benchmark was originally set in 2004 in line with a long term Fund Objective of a 75/25 Equities/Bonds asset allocation split. The allocation to Bonds was increased in 2017 to reflect an improvement in the Fund's projected funding level. The Panel will regularly review the overall asset allocation and consider appropriate opportunities for a further asset-liability study.

C Risk

A detailed schedule of the main risks to the Fund is set out in the Funding Strategy Statement. Risks arising from investments are monitored by the Investment Advisory Panel. The Fund recognises the risks arising from holding a higher proportion of equities and other return seeking assets than would be held under a liability-driven strategy but considers that these risks are mitigated by the strong covenant of the Fund's principal employers and the stable maturity profile of its membership.

Investment Risk is the risk that the Fund's managers fail to achieve the rate of investment return assumed in setting their mandates. The primary control over investment risk is the diversification of assets across markets and asset classes. Correlations amongst these will vary over time, but the underlying risk of exposure to a specific capital market is mitigated to some extent by a diversifying strategy such as that followed by the Fund.

The individual specialist fund managers manage the risk of variation from benchmarks consistent with the targets they have been given. Relative risk levels for active managers are reported quarterly and discussed annually by the Panel. The Panel recognises that tracking error itself can be a volatile measure of the risks being taken by a manager and that ex post statistics may vary considerably from ex ante estimates. As such, its predictive value needs to be treated with care. The tracking error is therefore used as a guide when considering overall manager performance.

Liquidity Risk is the risk that the Fund cannot meet its immediate liabilities because it has insufficient assets. The Fund monitors its liquidity position carefully to ensure that it is not a seller of long term assets to make benefit payments. At least 80% of the Fund's assets are held in publicly listed equities and bonds which can be readily realised. Investments in property and private equity are long term investments which the Fund is less likely to be able to realise in a short period.

Operational risks arise through the implementation of the Fund's investment strategy. These risks are set out below:

- Transition risk – the Fund may incur unexpected costs in relation to the transition of assets between managers and/or asset classes. When carrying out significant transitions, the fund takes professional advice and considers the use of specialist transition managers in order to mitigate this risk when it is cost effective to do so.
- Custody risk – the Fund must ensure that it retains the economic rights to all Fund assets, when held in custody or being traded. It does this through the use of a global custodian (Northern Trust) for custody of assets, the use of formal contractual arrangements for all investments and by maintaining independent investment accounting records.

- Credit default risk – a counterparty related to a Fund investment could fail to meet its obligations. The Fund's investment managers are required under their asset management contracts to manage counterparty risk on behalf of the Fund.

D Pooling of Investments

The Cardiff & Vale of Glamorgan Pension Fund is one of the eight funds participating in the Wales Pension Partnership (WPP). The proposed structure and basis on which the WPP operates was set out in the July 2016 submission to the Department for Communities and Local Government. The proposals were approved by the Minister for Local Government in November 2016.

Assets to be invested in the WPP

The Committee's intention is to invest the Fund's assets through the WPP as and when suitable pooled investment solutions become available. By 1 June 2020 it is expected that the allocations to active Global Equities, active UK Equities and Global Bonds will have been invested via WPP sub-funds. Pooling solutions for Emerging Market Equities and Alternative Assets are under development.

The Fund's allocations to passive Equities have been invested through pooled funds managed by BlackRock following a collaborative procurement carried out in 2016 with the other seven funds in Wales.

It is anticipated that the Fund's existing private equity investments will not be transitioned into the Pool but will be replaced by suitable pooled or collaborative investments as they mature over the next 10-15 years.

Structure and governance of the Wales Pension Partnership

The WPP has appointed Link Fund Solutions to establish and operate a collective investment vehicle for the sole use of the LGPS funds in Wales. Link have established an Authorised Contractual Scheme (ACS) on behalf of the WPP and are developing a range of sub-funds in which the assets of the eight participating pension funds can be invested. Link are supported by Russell Investments who advise on sub-fund design and manager selection. Northern Trust have been appointed as the ACS Custodian.

A Joint Governance Committee (JGC) was established in 2017 to oversee the Operator. The JGC comprises one elected member from each constituent administering authority and is supported by an Officer Working Group. Carmarthenshire Council acts as Host Authority to provide administrative and secretarial support to the WPP.

The Terms of Reference of the JGC and the roles of the Officer Working Group and Host Authority have been set out in a legally binding Inter Authority Agreement approved and executed by the eight administering authorities. The responsibilities of the JGC include:

- Monitoring the performance of the Pool Operator

- Making decisions on asset class sub-funds to be made available by the Operator to implement the individual investment strategies of the eight funds
- Providing accountability to the participating funds on the management of the WPP
- Having responsibility for reporting on the WPP to the UK Government and other stakeholders
- Having oversight of the Officer Working Group

The eight administering authorities retain control over setting their investment strategy and asset allocation.

E How social, environmental or corporate governance considerations are taken into account

The Committee seeks to identify investment opportunities which do not conflict with its fiduciary duties to seek an optimum return, whilst wishing at the same time to take account of social, environmental and ethical concerns and issues. It recognises the concerns of the Council and other stakeholders regarding climate change and will develop its investment strategy in response to those concerns. Subject to being consistent with its fiduciary duties and regular assessments by the Panel of the impact of investment decisions, the Committee will consider:

- Increasing its allocation to the Low Carbon Tracker fund
- Engaging with investment managers and companies through WPP and LAPFF
- Disinvestment from companies representing a continuing risk who do not respond positively to engagement
- Positive investment in companies developing clean technology

The Committee will expect the investment managers appointed via the WPP to adopt the relevant stewardship principles (either the UN Principles for Responsible Investing or the UK Stewardship Code) and to report on their compliance.

The Fund is a member of the Local Authorities Pension Fund Forum (LAPFF) to enable it to act collectively with other LGPS funds on corporate governance issues.

F The exercise of rights (including voting rights) attaching to investments

The long term investment interests of LGPS funds are enhanced by the highest standards of corporate governance and corporate responsibility amongst the companies in which they invest. Poor governance can negatively impact shareholder value.

The Fund will participate in the development of voting and engagement policies for the WPP which promote high standards of corporate governance, including transparency and accountability by companies for the environmental and social impacts of their business activities.

CARDIFF & VALE OF GLAMORGAN PENSION FUND

Asset Allocation for 2020-21

Page 43

Asset Class		Target Allocation	Variance Limits	Benchmark	Target Return	Target Tracking Error
		%	%			
Equities						
Global	<i>Low Carbon Tracker</i>	10	+/- 4	MSCI World Low Carbon Target	Index +/- 0.25%	0
	<i>Active</i>	30	+/- 5	MSCI AC World	Index +2%	3-6%
UK	<i>Passive</i>	5	+/- 2	FTSE All Share	Index +/- 0.25%	0
	<i>Active</i>	10	+/- 4	FTSE All Share	Index +2%	3-6%
Emerging Markets	<i>Active</i>	5	+/- 2	MSCI Emerging Markets	Index +3%	4-8%
Total Equities		60	+/- 10			
Bonds & Cash						
Global Bonds	<i>Global Government</i>	11	+/- 4	FTSE World Government Bond (GBP Hedged)	Index +1%	0-3%
	<i>Global Credit</i>	9.5	+/- 4	Bloomberg Barclays Global Aggregate Credit (GBP Hedged)	Index +1%	0-3%
	<i>Multi-Asset Credit</i>	7	+/- 3	3-month GBP LIBOR	Index +4%	0-3%
Cash		0	+ 2	Local Authority 7 day	Index	
Total Bonds & Cash		27.5	+/- 5			
Other Assets						
Property	<i>UK</i>	5	+/- 2	MSCI UK QPFI All Balanced Property Funds	Index	
	<i>Global</i>	2.5	+/- 1	N/A	Absolute Return 10% p.a.	
Private Equity	Global	5	+/- 2			
Total Other Assets		12.5	+/- 4			

This page is intentionally left blank

PENSIONS COMMITTEE: 27 JANUARY 2020

REPORT OF CORPORATE DIRECTOR RESOURCES

AGENDA ITEM: 7

OVERPAYMENT AND UNDERPAYMENT POLICY

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. The Terms of Reference include determining policies and procedures for the overall management of the Fund.

Background

3. The Fund makes monthly pension payments to nearly 12,000 pensioners and dependents. The total value paid each month is approximately £5.9 million.
4. Overpayments and underpayments of pension can occur for a variety of reasons. It is important that the Fund has a clear policy on how overpayments and underpayments are managed once they are identified.

Issues

5. The proposed Overpayment and Underpayment Policy is attached as Appendix 1.
6. The document sets out the purpose and scope of the Policy in sections 3 and 5. Sections 6 and 7 describe the various circumstances in which overpayments may occur, including:
 - the death of a scheme member
 - cessation of children's pensions
 - incorrect information supplied by a member's employer
 - administration errors
 - errors relating to the application of a Guaranteed Minimum Pension (GMP)
 - errors relating to the application of an annual Pensions Increase
7. The Policy makes a distinction between situations in which the member can be said to be reasonably aware of the overpayment and those in which it can be said that the member cannot have known of the overpayment. This distinction is critical to the prospects of recovery as there are legal defences available to a recipient of an incorrect payment who has acted in good faith on the presumption that they were entitled to the payment.

8. Sections 8 to 14 outline the processes to be followed in recovering or writing off an overpayment and the proposed delegations to senior officers to approve write off in particular cases.
9. Section 15 covers the process for rectification of underpayments when they are identified.
10. Section 16 outlines the processes currently in place to minimise the risk of overpayments occurring.

Legal Implications

11. There are a number of legal defences that a recipient of a mistaken overpayment may be able to rely on in order to resist a recovery action. Further, the costs of litigation in respect of some matters may exceed any likely recovery. There may also be circumstances where it is considered that mistaken overpayments should not be pursued for other reasons. The Policy provides sufficient flexibility to allow the Council to use its discretion when deciding whether or not to take action to recover a mistaken overpayments in those circumstances.

Financial Implications

12. Overpayments in excess of £250 which are written off in accordance with the Policy may be treated as Unauthorised Payments by HMRC, depending on the circumstances in which the error arose. Unauthorised Payments are subject to a Scheme Sanction Charge of 15% of the amount paid. The charge is payable to HMRC from the Fund.

Recommendations

13. That the Committee approves the Overpayment and Underpayment Policy.
14. That the Policy is effective immediately and applies to any cases currently under review.

CHRISTOPHER LEE
CORPORATE DIRECTOR RESOURCES

Appendix 1 Overpayment and Underpayment Policy



Cardiff & Vale of Glamorgan
Pension Fund

Overpayment and Underpayment Policy

Contents

Introduction	2
Policy objectives	2
Purpose of the policy	2
Effective date and reviews	3
Scope	3
Managing overpayments of pension on the death of a scheme member	3
Managing overpayments of children's pensions failing to cease at the appropriate time	4
Managing overpayments of pension on incorrect information supplied by the employer in respect of the scheme member	4
Managing overpayments of pension on incorrect rate of pension paid by the Fund and the member can reasonably be aware of the overpayment	5
Managing overpayments of pension on incorrect rate of pension being paid by the Fund and the member cannot have known of the overpayment	6
Discretion to write off overpayments	6
Recovery	7
Length of time to recover overpayments	7
Claims of inability to repay overpayments	7
Monitoring repayments	7
Authority to write off overpayments	8
Overpayments due to Fraud or Corruption	8
Underpayments	8
Prevention	8
Policy Monitoring	9

1. Introduction

- 1.1** This is the Overpayment and Underpayment Pension Policy for Cardiff and Vale of Glamorgan Pension Fund, which is managed by Cardiff Council (the Administering Authority).
- 1.2** Overpayments of pension can occur for a variety of reasons. It is important that the Fund has a clear policy on how overpayments of pension are managed once they are identified.
- 1.3** Cardiff and Vale of Glamorgan Pension Fund (The Fund) recognises the need to take a pro-active approach to identifying any errors made administratively and also have robust controls in place to recognise potential fraudulent activity that could trigger overpayments.

2. Policy objectives

2.1 The policy objectives aim to ensure the Fund:

- Has robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies, whilst ensuring compliance with appropriate legislation and statutory guidance
- Is managed in a fair and equitable manner, having regard to what is in the best interest of the Fund's stakeholders, particularly the scheme members and employers
- Delivers benefits to, and income is collected from, the right people at the right time in the right amount
- Identifies errors as soon as possible
- Rectifies overpayments with the cooperation of the individual
- Encourages individuals to take an active role in checking payslips/payments for obvious errors; and
- Avoids the need to escalate issues through the Internal Dispute Resolution Procedure (IDRP), where possible, by managing the process effectively

3. Purpose of the policy

- 3.1** The policy is designed to provide assurance to Fund members, Employer's and other key Fund stakeholders that:
 - all overpayments are treated in a fair and equitable manner
 - due consideration has been taken to recover overpayments that have occurred but acknowledges that there may be legal reasons and/or other

circumstances which mean that an overpayment may not, in practice, be able to be recovered (in whole or in part); and

- steps are in place to prevent and also investigate potential fraudulent activity

4. Effective date and reviews

4.1 The policy was reviewed and became effective from (insert date approved).

5. Scope

5.1 The policy applies to:

- All members and former members, which in this policy includes survivor and pension credit members of the Cardiff and Vale of Glamorgan Pension Fund who have received one or more payments from that Fund;
- Executors of the Estates of deceased Cardiff and Vale of Glamorgan Pension Fund members
- Beneficiaries of Cardiff and Vale of Glamorgan Pension Fund members where those beneficiaries have received one or more payments from that Fund
- Administrators of the scheme; and
- The Pensions Committee

6. Type of overpayments

6.1 Managing overpayments of pension on the death of a scheme member

- Understandably, notification of a death of a pensioner member of the scheme does not always happen immediately and as such it is not always possible to stop payment of the pension after a point in the payroll month and so an overpayment can occur
- Should an overpayment of pension occur as a result of the death of a scheme member, the Fund will generally seek to recover overpayments that are greater than £100.00 (gross) in value unless there are legal reasons and/or other circumstances which mean that the overpayment may not, in practice, be able to be recovered (in whole or in part). A value of £100.00 or less in the instance of the death of a scheme member has been deemed by the Fund as uneconomical to pursue. In such circumstances, the Fund's approach will be that the sum written off is treated as a liability against the scheme member's former employer
- All correspondence regarding an overpayment will be handled sensitively in the initial stages due to the circumstances surrounding how the overpayment has occurred
- An invoice will be raised by the Fund to recover an overpayment which is greater than £100.00 upon the death of a scheme member

6.2 Managing overpayments of children's pensions failing to cease at the appropriate time

- An eligible child as defined by the LGPS Regulations 2013, is entitled to receive a pension until such a time as their circumstances change and they are no longer eligible to receive a pension from the Fund
- In these cases the individual in receipt of the pension is responsible for informing The Fund of a change in circumstances to ensure the pension is ceased at the appropriate time, failure to do so would result in an overpayment. Should an overpayment of pension occur as a result of late notification of change of circumstances, the Fund will generally seek to recover overpayments that are greater than
- £100.00 (gross) in value unless there are legal reasons and/or other circumstances which mean that the overpayment may not, in practice, be able to be recovered (in whole or in part). A value of £100.00 or less has been deemed by the Fund as uneconomical to pursue. In such circumstances, the Fund's approach will be that the sum written off is treated as a liability against the scheme member's former employer
- An invoice will be raised by the Fund to recover the overpayment which is greater than £100.00 as a result of the late notification of the change in circumstances. The invoice will be sent to the individual whose bank account the child's pension was being paid into

6.3 Managing overpayments of pension following incorrect information supplied by the employer in respect of the scheme member

- Should an overpayment of pension occur as a result of inaccurate information provided by the scheme member's employer on retirement, the Fund will generally seek to recover
- monies that are greater than £100.00 in value unless there are legal reasons and/or other circumstances which mean that the overpayment may not, in practice, be able to be recovered (in whole or in part). A value of £100.00 (gross) or less has been deemed by the Fund uneconomical to pursue due to the administrative time involved
- Overpayments that are greater than £100.00 in value will be recovered through the scheme member's ongoing pension as this allows for the appropriate adjustment for tax. The pension will be reduced to the correct level for the next available monthly pension payment after a 4 week notice period. The scheme member will be notified in writing of the error and the course of action to be taken
- Where there is no ongoing pension from which to deduct the overpaid amount, an invoice will be arranged by the Fund to recover the overpayment which is greater than £100.00 in value

6.4 Managing overpayments of pension as a result of the incorrect rate of pension paid by the Fund and the member can be said to be reasonably aware of the overpayment.

- There are a number of reasons why a pension could be paid at an incorrect higher rate. The most common reasons are detailed in the table below but it should be noted that this is not an exhaustive list

	Type of overpayment	How overpayment has occurred
1	Administration error upon creation of payroll record	Incorrect (overstated) rate of pension inputted onto payroll record but member informed in writing of the correct rate of pension to be paid.
3	Entitlement to pension ceasing	Non notification that a child's pension is no longer payable as the child aged 18 or above is no longer in full time education or vocational training.
4	Entitlement to current rate of pension ceasing	A Pension Sharing Order or Earmarking Order being received after the implementation date meaning that the pension has been overpaid since that implementation date.
5	Failure to action an alteration to the payroll record/reduction in pension	Failing to implement the change from the higher short term dependents pension to the lower long term rate.

If the scheme member has been notified of the correct rate of pension in writing and is receiving a higher amount, it can be said that the member can reasonably be aware that they are being over paid as the scheme member has been notified of the correct rate in writing.

6.5 The Fund will therefore generally seek to recover monies that are greater than £100.00 gross in value unless there are legal reasons and/or other circumstances which mean that the overpayment may not, in practice, be able to be recovered (in whole or in part). A value of £100.00 or less has been deemed by the Fund as uneconomical to pursue due to the administrative time involved.

6.6 The amount will be recovered from the scheme member's ongoing pension as this allows for the appropriate adjustment for tax. The pension will also be reduced to the correct level for the next available monthly pension payment after a 4 week notice period, and will be notified in writing of the error and the course of action to be taken.

6.7 Where there is no ongoing pension from which to deduct the overpaid amount, an invoice will be arranged by the Fund to recover the overpayment which is greater than £100.00 in value.

7 Managing overpayments of pension following an incorrect rate of pension being paid by the Fund and it can be said that the member cannot have known of the overpayment

7.1 The table below illustrates how an overpayment of a member's pension can occur without the member being aware. It should be noted that the table below is not an exhaustive list;

	Type of overpayment	How overpayment has occurred
1	Administration error upon calculation and notification of benefit entitlement (includes dependants' pensions)	Incorrect (overstated) rate of pension inputted onto payroll record and member informed in writing of the, incorrect, rate of pension to be paid.
2	Incorrect level of Guaranteed Minimum Pension (GMP) being paid	New information from HMRC leads to a revised rate of GMP to be used which, due to the different way cost of living increases are applied to GMP and the excess over GMP, means that, overall, a lower level of pensions increase should have been paid.
3	Pensions Increase	Pensions Increase inaccurately applied to the elements of a pension in payment.

7.2 In circumstances where the overpayment had been a result of an error where the Pensioner could not have been aware of the error, we would notify the pensioner of the overpayment, pension payments would be corrected, however, the amount overpaid would not recovered.

8 Discretion to write off overpayments

8.1 For all scenarios mentioned above, Officers have the ability to exercise discretion in the event of legal reasons and/or exceptional circumstances and to ensure no individual is unfairly treated. If the pursuing recovery of an overpayment was to cause hardship and/or if there are legal reasons as to why the overpayment may not be recovered (in whole or in part) this would be taken into account as would the cost effectiveness of recovery. All applications made to write off of an overpayment will be investigated on a case by case basis and final decision will be made by the appropriate officer listed in section 16 dependent upon the amount potentially being written off. Overpayments where hardship has been established will be submitted for write off through the appropriate channels.

9 Recovery

9.1 The Limitation Act 1980 states that "*An action founded on simple contract shall not be brought after the expiration of six years from the date on which the cause of action accrued*". However, section 32(1) of the Act effectively 'postpones' the date by which an administering authority may make a claim to recover monies in certain circumstances. It states "*the period of limitation shall not begin to run until the plaintiff has discovered the fraud, concealment or mistake (as the case may be) or could with reasonable diligence have discovered it*". The potential effect of section

32(1) in relation to any overpayment and its recovery will be considered on a case-by-case basis.

9.2 Therefore the Fund will generally seek to recover overpayments that have been discovered within the last 6 years with the relevant postponement applied if applicable in line with the Limitation Act unless there are legal reasons and/or other circumstances which mean that the overpayment may not, in practice, be able to be recovered (in whole or in part).

9.3 Examples of limitation periods and how they operate in relation to overpayments are included in appendix 1 of this policy.

9.4 It should be borne in mind that where the Fund seeks to recover overpayments, there may be arguments raised as to why the overpayment should not be recovered (in whole or in part). These will need to be considered on a case-by-case basis and, if successful, may affect the ability of the Fund to recover the overpayment (in whole or in part).

10 Length of time to recover overpayment

10.1 The Fund will allow a pension overpayment to be recovered over the same amount of time as the overpayment occurred. For example, if overpayments were made for a 3 month period, the recovery period to repay the overpayment will be 3 months. In the event that reasonable arguments are advanced that the recovery period should be extended, the Fund can at its discretion allow an extension based on the individual's circumstances; such an extension would generally not exceed a further 50% of the period in which the overpayment occurred with scope for this period to be extended based on the scheme member's circumstances.

11 Claims of inability to repay overpayments

11.1 In cases where it is claimed that an overpayment cannot be repaid officers of the Fund will enter into negotiations with the scheme member/next of kin and an analysis of the cost effectiveness of pursuing the overpayment will be undertaken on a case-by-case basis. For large overpayments, where appropriate the Fund will seek legal advice. This approach will reduce the number of Internal Dispute Resolution Procedures applications and referrals to the Pensions Ombudsman. For any cases that do reach the Pensions Ombudsman, Cardiff and Vale of Glamorgan Pension Fund would have demonstrated engagement and negotiation with the complainant. For all overpayments where hardship has been proven all or part of the debt will be written off depending on individual circumstances.

12 Monitoring repayments

12.1 In cases where recovery is not being made through the payroll and an invoice has been raised, the responsibility for chasing the payment rests with the Council's Debt Recovery Team. If a final reminder is issued, officers are notified and a decision is made by the Pensions Manager and Principal Pensions Officer to decide whether to take legal action, taking into consideration the amount and circumstances against the potential of legal action.

13 Authority to write off overpayments

13.1 In line with the Council's Scheme of Delegation, the Fund will apply the following levels of authority when writing off overpayments:

Total value of overpayment	Authority to write off overpayment
No more than £100.00 (gross) on death of a pensioner No more than £100.00 (gross) on any other overpayment type	Automatic write off
Up to no more than £5,000.00 (gross)	Pensions Manager
Up to no more than £10,000.00	Revenue Services Manager
£10,000.00+ (gross)	Cardiff Council Section 151 Officer

14 Overpayments due to Fraud or Corruption

On rare occasions members' benefits may be overpaid due to:

- Fraud by the member or their estate
- Fraud by the employer
- Fraud by a pensions officer
- Other criminal activity such as blackmail or corruption

Where an overpayment is discovered to have been made due to fraud or any other criminal act, the pension will be suspended and an attempt will be made to recover the overpayment of pension and lump sum immediately.

Cardiff Council will involve internal audit in such cases and the settlement of overpayments may be resolved by the Courts of Law.

15 Underpayments

15.1 Should an underpayment to pension occur, any underpayment of pension will be rectified in the next available pay period after underpayment has been identified.

15.2 Interest will be paid on the underpaid amount(s) in line with LGPS Regulations. Interest will be paid on pension payments which are more than 1 year late, and on lump sum payments which are more than 1 month late. Interest payable is calculated at one per cent above base rate on a day to day basis from the due date of payment and compounded on a three-monthly basis.

16 Prevention

16.1 The Fund has in place processes in order to minimise the risk of overpayments occurring.

16.2 The National Fraud Initiative is conducted every two years; it compares files of pensioners with the Department for Work and Pensions database of the deceased and highlights matches for investigation. Cardiff and Vale of Glamorgan Pension Fund actively participates in this initiative.

- 16.3** Cardiff and Vale of Glamorgan Pension Fund participates in overseas life existence checks to ensure only legitimate pensions are being paid and to reduce the likelihood of fraudulent activity. Mortality screening checks are carried out on a monthly basis through Atmos. Monthly notifications are received from Tell Us Once (a government service that allows you to easily tell several departments in one go that someone has died. The service is provided by most local authorities on behalf of the Department for Work and Pensions)
- 16.4** A report is run periodically on the pension administration system to identify individuals in receipt of a child's pension, further investigations are then carried out for children that are identified as over the age of 18 to ensure they are still entitled to receive a pension.
- 16.5** Cardiff and Vale of Glamorgan Pension Fund includes reminders in its correspondence that the Fund must be advised of changes in circumstances or the death of a scheme member. If a payslip is returned to the Payroll Team they carry on making payments but stop all correspondence to that address. If money is returned by the bank Payroll will send a letter to the home address to investigate.
- 16.6** Fund officers have a robust system in place for identifying changes to the payroll that need to be processed for a particular payroll month. The process incorporates payroll deadlines and ensures changes are made in a correct and timely manner. This would be in circumstances such as a change from a short term dependant's pension to a long term pension.

17 Policy Monitoring

- 19.1** This policy will be reviewed formally on an annual basis, but can be reviewed more frequently and amended if appropriate at the request of the Pensions Committee.



**CARDIFF & VALE OF GLAMORGAN PENSION FUND
LOCAL PENSION BOARD
18 JUNE 2019**

Present: Mr Michael Prior (Independent Chair)

Employers Representatives:
Carys Lord (Vale of Glamorgan)
David Llewellyn (Finance Director, Cardiff Met. University)

Scheme Member Representatives:
Mr Peter King (Unison Nominee)
Mr Ken Daniels (GMB Nominee)

In Attendance: Chris Lee, Corporate Director Resources
Gary Watkins (OM Revenues)
Gareth Henson, Pensions Manager
Karen O'Donoghue-Harris, Principal Pensions Officer
Mandy Farnham, Democratic Services

Apologies:

Ms H Williams (Unison Nominee)

1: Declarations of Interest

No declarations of interest were received.

2: Minutes of previous meeting and Matters arising

The minutes of the meeting held on 29 January 2019 were agreed as a correct record and signed by the Chairperson.

Matters arising:

Minute number 3 – The final meeting with the Pensions Regulator took place on 4 April, the report that was to be provided after that meeting has not yet been received.

In relation to the Guaranteed Minimum Pension Reconciliation it was noted that there was nothing further to report at this time.

Minute number 4 – The authority has met the deadlines imposed however, HMRC have moved the time line to 31 August 2019.

3: Wales Pension Partnership

The Board was provided with an update on the participation of the Cardiff & Vale of Glamorgan Pension Fund in collaborative investing with the other seven LGPS funds in Wales. Cardiff & Vale Fund has reviewed its investments and have now agreed to participate in the UK Active Equities fund with 10% of the total fund assets (approximately £220 million). The remaining active equities assets (except Emerging Markets) will be transferred to the WPP Global Growth Equity fund (approximately £650 million). That figure is derived from UK Active, UK Passive, US Passive, Europe, Japan and Asia Pacific funds. The transition will be progressed over the coming months.

The Board discussed the timescale for the transition which has not yet been confirmed, any proposals will go to the next meeting of the JGC is scheduled for 28 June 2019 in County Hall, Cardiff. Papers will be published on Carmarthenshire Council's public website with the exception of any restricted items.

A Responsible Investment Policy (RIP) is being developed by the WPP, and an officer working group has been set up to establish a framework policy which will cover responsible investment. Different pension funds will have different priorities and investment strategies. It was noted that the policy was sufficiently generic and broad to allow funds to develop their own policies under the overall umbrella.

The Board were advised that the current investment strategy policy has been changed for this year, a proportion of passive investments will be moved to a low carbon tracker fund, however there is further work to be done looking at the impact of fossil fuel investment.

RESOLVED – THAT the developments in the Wales Pension Partnership are noted and that, as this is the start of the process in relation to the RIP, a further report be prepared to update the Board.

4: Financial Review 2017/18 and Draft Statement of Accounts

The Board was provided with the draft Statement of Accounts for the financial year 2018/19 and a summary of the Pension Fund's investment performance. The Board were advised that the audit would be completed and the accounts published by the end of September.

The Board discussed the increase of contributions, due to an increase in the underlying pensionable pay combined with a stepped increase in contribution rates. Outgoing monthly pension payments had also increased due to a growing cohort of pensioners. The transfers in and out on a daily basis are a volatile area.

The Board referred to the quite large holdings in private equity, it was a holding specific to Cardiff and currently there are no pooled arrangements for that asset class. At the present time each LGPS pension fund has taken a decision as to whether or not to invest in private equity funds, not all funds have.

RESOLVED – THAT the Fund's draft Statement of Accounts and Investment Performance for 2018/19 be noted.

5: Review of Engagement with the Pensions Regulator

The Board received an update concerning the engagement exercise carried out by the Pensions Regulator (TPR) between November 2018 and April 2019.

Cardiff was chosen at random; there were no specific worries or concerns however, it was made clear that if during any part of the process there were any concerns, TPR reserved the right to undertake an in depth review.

The engagement was carried out through a series of meetings and conferences calls which covered a wide range of issues. The meeting timetable was tight and after each meeting the case works prepared an 'observation letter' summarising the discussions. It was made clear that there should be pension fund specific processes and documentation. Those policies and procedures are now being reviewed.

TPR have not yet completed the final report, it will not relate solely to Cardiff – it will be a general report which will be shared with the Board.

In relation to the specific recommendations the Board queried whether specific training will be required in relation to the use of TPR's Public Service Toolkit.

RESOLVED – THAT

- (i) the conclusion of the TPR engagement process and the agreed action points be noted;
- (ii) The summary report prepared be provided to the Board in due course; and
- (iii) Consideration be given to the training in relation to the use of TPR's Public Service Toolkit.

6: Update on Administration Development work

The Board were updated on the work being carried out by the Pensions Section and in particular the workload of the Pensions Administration teams.

The Board noted the exceptional volumes of tasks completed in June and October/November 2018 were due to specific exercises related to the launch of iConnect and the recording of frozen refunds. A detailed performance on staff is being conducted to ascertain a measure of productivity and quality and a review of the Sections processes has resulted in a number of recommendations for improvement.

The Board discussed Member Self Service (MSS) which will enable Fund members to access data held on their personal records. There will be limited update facilities and options to calculate benefits due on retirement. However, the software provider are undertaking some updating of the system as it is not particularly user friendly. It is planned that MSS will go live in March 2020.

RESOLVED – THAT the work being undertaken by the Pensions Administration Section and progress is noted.

7: Board Member Training

The Board discussed training, it was noted that the next LGPS Governance Conference would be held in York.

The Board felt that training in relation to the public sector toolkit and cyber security would be beneficial.

RESOLVED – THAT Jayne Newton, Communications and Training Officer to provide further suggestions for training.

8: Risk Register 2019/20

The Board was advised of an update to the 2019/2020 Risk Register, namely that Cyber Security has been added to the register to reflect the recent engagement with the Pensions Regulator. This is a red risk category; the concern is about access to the database. It has to be restricted – staff have restricted access.

RESOLVED – THAT the update to the Risk Register

9: Any Other Business

The Board were advised that as this is a valuation year, the meeting with the actuary has taken place with the information now being complied. The target date for that is 2 August 2019. It is anticipated that figures will be provided towards the end of September.

The final report is usually published in March, with presentations to the Board and Panel thereafter. Arrangements are being made for the actuary to provide verbal information to the Board about outcomes.

10: Date of next meeting

The date of the next meeting is to be confirmed.

By virtue of paragraph(s) 14, 21 of Part(s) 4 and 5 of Schedule 12A of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank