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## AGENDA

<b>Committee</b>	PENSIONS COMMITTEE
<b>Date and Time of Meeting</b>	MONDAY, 29 NOVEMBER 2021, 5.00 PM
<b>Venue</b>	REMOTE MEETING
<b>Membership</b>	Councillor Weaver (Chair) Councillors Dilwar Ali, Howells, Lay and Graham Thomas

*Time  
approx.*

### 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 5 - 10*)

To approve as a correct record the minutes of the meetings held on 12 July 2021 and 2 November 2021.

### 4 **Annual Report** (*Pages 11 - 100*)

To consider the Pension Fund 2020/21 Annual Report.

### 5 **Funding Strategy Statement** (*Pages 101 - 138*)

To consider amendments to the Pension Fund's Funding Strategy Statement.

### 6 **Minutes of the Local Pension Board** (*Pages 139 - 144*)

To note the minutes of the Local Pension Board meeting held on 27 April 2021.

**7 Exclusion of the Public**

**Items 8 and 9 are confidential and not for publication by virtue of paragraph 14 of Part 4 and paragraph 21 of Part 5 of Schedule 12A of the Local Government Act 1972. The public will be excluded from the meeting for the presentation of this item in accordance with the same legislation.**

**8 Minutes of the Investment Advisory Panel (Pages 145 - 148)**

To note the minutes of the Investment Advisory Panel meeting held on 8 June 2021.

**9 WPP UK Opportunities Fund (Pages 149 - 162)**

To consider amendments to the WPP UK Opportunities Fund.

**10 Urgent Items (if any)**

**11 Date of next meeting**

The next meeting of the Pension Committee is 7 February 2022 at 5pm.

**Davina Fiore**

**Director Governance & Legal Services**

Date: Tuesday, 23 November 2021

Contact: Andrea Redmond, 02920 72434, a.redmond@cardiff.gov.uk

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PENSIONS COMMITTEE

12 JULY 2021

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

28 : APOLOGIES FOR ABSENCE

None received.

Committee noted that at Full Council on 27 May 2021, Cllr Weaver was appointed as Chairperson to the Committee and Cllrs Dilwar Ali, Howells, Lay and Graham Thomas were appointed as members of the Committee.

Committee noted the Committee's Terms of Reference.

29 : DECLARATIONS OF INTEREST

None received.

30 : MINUTES

The minutes of the meeting held on 17 May 2021 were agreed as a correct record.

31 : WALES PENSION PARTNERSHIP

Committee were advised that this report had 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.

A comprehensive outline of the report was provided to Committee after which the Chairperson invited questions and comments from Members;

Members asked if there was any indication of the likely timescale for the private market work and the co-opted member. Officers advised that the process had started at the July meeting of the JGC. The private market work was quite lengthy it would be a calendar year for sub funds phase 1 and around 18-24 months for phase 2. For the co-opted Member, this would depend if the Inter-Authority agreement needed to go to the constituent Councils or JGC for approval, Officers were awaiting legal advice on this.

The Director added that he wished to acknowledge the work Officers had done during this transition, it had been a hugely complex time and he wished to place on record his thanks to the team.

RESOLVED that: Committee notes the recent developments related to the WPP Investment Pool.

32 : RISK REGISTER

Committee were advised that a Risk Register for the Pension Fund is maintained as part of the Corporate Risk Management process. The Register covers all aspects of management of the Fund including Investments, Funding, Governance and Administration. Committee were asked to review the current Risk Register for the Pension Fund.

Officers outlined the report to Committee after which the Chairperson invited questions and comments.

Members welcomed the opportunity to have a deeper look into the Risk Register alongside the Local Pension Board.

Members considered it would be helpful going forward if changes are flagged up at each meeting.

RESOLVED: That the Committee noted the contents of the Risk Register.

### 33 : STATEMENT OF ACCOUNTS 2020/21

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

The Terms of Reference include considering the Fund's financial statements and agreeing the Annual Report.

As Administering Authority, Cardiff Council is responsible for producing the annual Statement of Accounts for the Fund. The draft unaudited 2020/21 Statement of Accounts for the Cardiff and Vale of Glamorgan Pension Fund is now available to view on the Council website. The Pension Fund Statement of Accounts, along with those for the Council and for the Joint Committees where Cardiff is the Accountable body, will be available for public inspection for a period of 20 working days from Thursday 8 July to Wednesday 4 August 2021.

Following the completion of the public inspection, the audit of the accounts by Audit Wales will commence. Audited Accounts will be presented to the Governance and Audit Committee and then to Full Council for approval during the autumn. The Pension Fund Statement of Accounts form a significant element of the Fund's Annual Report which is due to be approved at the November 2021 meeting of the Pension Committee prior to the statutory publication date of 1 December.

Officers outlined the report to Committee and there were no questions from Members. Officers did explain that there had been some additional volatility in the market as a result of the pandemic.

RESOLVED: That the Committee noted the draft Statement of Accounts for the 2021-20 Financial Year.

34 : MINUTES OF THE INVESTMENT ADVISORY PANEL

**This item was confidential and not for publication by virtue of paragraph 14 of Part 4 and paragraph 21 of Part 5 of Schedule 12A of the Local Government Act 1972. The public were excluded from the meeting for the presentation of this item in accordance with the same legislation.**

RESOLVED: To note the minutes of the Investment Advisory Panel meeting held on 2 March 2021.

35 : URGENT ITEMS (IF ANY)

Members were provided with an update on Over/Underpayments.

36 : DATE OF NEXT MEETING

The next meeting of the Pension Committee is 23 November 2021 at 4pm followed by the informal Joint Meeting with the Local Pension Board

The meeting terminated at 5.37 pm

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## PENSIONS COMMITTEE

2 NOVEMBER 2021

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

### 37 : APOLOGIES FOR ABSENCE

Apologies had been received from Cllrs Lay and Thomas.

### 38 : DECLARATIONS OF INTEREST

None received.

### 39 : AMENDMENTS TO THE INTER AUTHORITY AGREEMENT OF THE WALES PENSION PARTNERSHIP

Committee were advised that The City of Cardiff Council is the administering authority for the Cardiff & Vale of Glamorgan Pension Fund ('the Fund') which is part of the Local Government Pension Scheme (LGPS) for England and Wales. Following a report to Full Council on 30 June 2016, the Council established a Pensions Committee and strategic functions relating to Pensions were delegated to the Committee. Operational and administrative functions are delegated to the Corporate Director Resources.

In February 2017 the Corporate Director Resources presented a report to Council which outlined how the eight LGPS funds in Wales had responded to the MHCLG recommendations for LGPS investment pooling. The report recommendations included that the Council approve the establishment of a Joint Committee, which is known as the Joint Governance Committee (JGC), to become the decision making body of the Wales Pension Partnership (WPP) and oversee its activities.

The February 2017 report also asked Council to note the draft Inter Authority Agreement (IAA) between the eight Constituent Authorities in the WPP with delegated authority to sign the final version of the IAA being passed to the Corporate Director Resources. The IAA sets out the governance arrangements for the WPP, the rights and obligations of the eight participating authorities and the powers and responsibilities delegated to the JGC. The IAA can only be amended or terminated with the agreement of all eight constituent authorities.

#### **Amendments to the Inter Authority Agreement (IAA)**

The WPP is now well established and has made good progress with the establishment of eight investment sub-funds in listed assets covering both Equity (3 sub-funds) and Fixed Income (5 sub-funds) with a further Equity Fund launch due at the end of October 2021. The WPP's attention will now turn to providing investment opportunities for the WPP Constituent Authorities Funds to cover the less liquid, "Private Market" assets. In addition the JGC to seeking to enhance its governance arrangements in accordance with developing best practice. Both these developments

require changes to the IAA with the revised version of the IAA included as Appendix 1.

Private Markets Assets include Property, Infrastructure, Private Equity and Private Credit which have different characteristics to listed assets. As a consequence the route to market to establish Funds in which the Constituent Authorities can invest for these assets is more bespoke and specialist than those that the WPP has successfully adopted for listed equity and fixed income. The JGC, after taking appropriate professional advice, has agreed that specialist “Allocator(s)” with extensive experience and specialist knowledge of Private Markets are appointed to develop these sub-funds for the WPP. The proposed amendment to the IAA will pass the responsibility for future appointments and terminations of the Allocator role to the JGC.

The JGC has for some time been considering how Scheme Member representative could be appointed to the JGC. It is proposed that a Scheme member representative would be able to join the JGC but only as a non-voting member. They would however, be able to receive JGC papers as well as attending and speaking at meetings, including exempt items. The IAA as currently drafted does not make provision for the inclusion of Scheme Member representatives which is now included in the revised version.

In addition to the two amendments outlined above the opportunity has also been taken to undertake a full review of the IAA and as a consequence a number of minor changes will also be made. These changes reflect the practical experience gained since the WPP has been operational and refer to more clearly defining the role of the Officer Working Group (OWG) and the terms of reference of sub-groups that report to it.

RESOLVED: That the Committee recommends that Council approves the IAA Amendments.

40 : URGENT ITEMS (IF ANY)

None received.

41 : DATE OF NEXT MEETING - 29TH NOVEMBER 2021

The meeting terminated at 5.10 pm

**CITY OF CARDIFF COUNCIL  
CYNGOR DINAS CAERDYDD****PENSIONS COMMITTEE: 23 NOVEMBER 2021****REPORT OF CORPORATE DIRECTOR RESOURCES****AGENDA ITEM: 4**

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**PENSION FUND ANNUAL REPORT FOR 2020-21****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 considering the Fund's financial statements and agreeing the Annual Report; and receiving internal and external audit reports on the same.

**Background**

3. The Annual Report for 2020-21 has been completed including the review by Wales Audit.

**Issues**

4. The Auditor has reviewed the contents of the draft Annual Report and issued an Auditor's Statement upon it, confirming that the Annual Report has been reviewed and that the information it contains is consistent with the information in the Statement of Accounts presented to and approved by Full Council on 25 November 2021.
5. The Auditor's Statement appears on page 19 of the 2020/21 Annual Report with the Annual Report appended as Appendix 1.
6. The Annual Report must be published in English and Welsh on the Council's website by the statutory deadline of 1 December.

**Legal Implications**

7. The Annual Report is a technical document, the contents of which Legal Services are unable to comment upon. It is understood by Legal Services that these documents are drafted with assistance from external advisors and on the basis of the information contained in the report there are no concerns raised by the Wales Audit Office.

The recommendation does not appear to raise any specific legal implications however the general legal advice set out below should be considered.

General Legal Advice

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.

The Council also has to satisfy its public sector duties under the Equality Act 2010 (including specific Welsh public sector duties). Pursuant to these legal duties, Councils must in making decisions have due regard to the need to (1) eliminate unlawful discrimination, (2) advance equality of opportunity and (3) foster good relations on the basis of protected characteristics. The Protected characteristics are: age, gender reassignment, sex, race – including ethnic or national origin, colour or nationality, disability, pregnancy and maternity, marriage and civil partnership, sexual orientation, religion or belief – including lack of belief.

The Well-Being of Future Generations (Wales) Act 2015 (“the Act”) places a ‘well-being duty’ on public bodies aimed at achieving 7 national well-being goals for Wales – a Wales that is prosperous, resilient, healthier, more equal, has cohesive communities, a vibrant culture and thriving Welsh language, and is globally responsible.

In discharging its duties under the Act, the Council has set and published well-being objectives designed to maximise its contribution to achieving the national well-being goals. The well-being objectives are set out in Cardiff's Corporate Plan 2021-24.

The well-being duty also requires the Council to act in accordance with ‘sustainable development principle’. This principle requires the Council to act in a way, which seeks to ensure that the needs of the present are met without comprising the ability of future generations to meet their own needs. Put simply, this means that Council decision makers must take account of the impact of their decisions on people living their lives in Wales in the future. In doing so, the Council must:

- Look to the long term
- Focus on prevention by understanding the root causes of problems
- Deliver an integrates approach to achieving the 7 national well-being goals
- Work in collaboration with others to find shared sustainable solutions
- Involve people from all sections of the community in the decisions which affect them

The decision maker must be satisfied that the proposed decision accords with the principles above; and due regard must be given to the Statutory Guidance issued by the Welsh Ministers, which is accessible using the link below: <http://gov.wales/topics/people-and-communities/people/future-generations-act/statutory-guidance/?lang=en>

The Council has to be mindful of the Welsh Language (Wales) Measure 2011 and the Welsh Language Standards when making any policy decisions and consider the impact upon the Welsh language, the report and Equality Impact Assessment deals with all these obligations. The Council has to consider the Well-being of Future Guidance (Wales) Act 2015 and how this strategy may improve the social, economic, environmental and cultural well-being of Wales.

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

### **Recommendations**

9. That the Committee receives the Auditor's Statement on the Pension Fund Annual Report 2020/21; and approves the Annual Report appended as Appendix 1.

**CHRISTOPER LEE**  
**CORPORATE DIRECTOR RESOURCES**

The following Appendix is attached:

Appendix 1 – Pension Fund Annual Report for 2020-21

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Cardiff & Vale of Glamorgan  
**Pension Fund**



# **ANNUAL REPORT AND ACCOUNTS 2020/21**

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

# EXECUTIVE SUMMARY

- The total value of the Fund increased by 24.2% over the year with a valuation of £2.518 billion as at 31 March 2021, compared to the previous year end valuation of £2.028 billion.
- During 2020/21 financial markets recovered from the coronavirus pandemic related falls experienced in the last quarter of 2019/20. The pace of the recovery quicken in the latter half of the year with the successful roll out of the vaccines and continued Global Central Government economic support. The Fund achieved a return on investments for the year of 24.0% (net of fees), 3.7% above the benchmark return of 20.3%.
- The Fund remains in a positive cashflow position with regard to its dealings with members of the Fund with contributions and transfer values received exceeding benefits, refunds and transfer values paid by £6.3 million.
- Total membership of the Fund as at 31.03.2021 includes 16,936 active contributors accounts whilst there are now 12,190 pensioner accounts and 13,755 deferred pensioners.
- The latest triennial valuation of the Fund was as at 31 March 2019 and this valuation saw the funding ration increase to 96% compared to the previous level of 85%. The growth in Fund assets over the 3 year period more than offset the increased liabilities which includes an allowance for additional costs arising from the McCloud judgement. The next triannual valuation will be as at 31 March 2022 and preparatory work will start during 2021/22.
- Summary statistics for the Fund are shown in the Appendix 1.

# NARRATIVE REPORT

Cardiff Council is the Administering Authority for the Cardiff and Vale of Glamorgan Pension Fund (the Fund) which is part of the national Local Government Pension Scheme (LGPS) for England & Wales. The LGPS is the statutory occupational pension scheme for all local government employees (except teachers) and the regulations are determined by the UK Government.

The Council's responsibilities as manager of the Fund are discharged through the Pensions Committee which has oversight of the Fund's strategies and policies. Operational management of the Fund has been delegated to the Corporate Director Resources. The Local Pension Board assists the Council to secure compliance with the LGPS regulations and the requirements of the Pensions Regulator and to ensure the effective and efficient administration of the scheme.

In terms of membership there are currently 16,936 contributing employees and more than 12,100 pensioners and dependents receiving benefits from the Fund as well as 13,755 Deferred Pensioners .

The Pension Fund's net assets rose by 24.2% during 2020/21, from £2.028 billion to £2.518 billion. Investment markets globally showed a strong recovery from the lows of March 2020 when the initial Covid-19 lockdowns were introduced. The extent of the increase underlines the market volatility experienced

during 2020 but as a further pre-Covid-19 comparison the value of the Fund increased by 7.8% compared to the December 2019 valuation of £2.328 billion. Markets during 2020 continued to remain volatile due to the periodic re-introduction of economic lockdowns and the late agreement on the Brexit trade agreement. The return on investment for the year of 24% compared against a benchmark return of 20.3% .

The eight LGPS fund authorities in Wales continued to make progress during the year with the development of the Wales Pension Partnership (WPP). Following its establishment in 2017 three funds – the Global Growth Equity Fund, the Global Opportunities Fund and the UK Equities Opportunities Fund – had been launched prior to April 2020 with the Fund participating in the launch of the UK fund. The launch of the five WPP Fixed Income funds had been delayed by the adverse market conditions early in 2020. These Fixed income funds were launched in August 2020 with the Fund transferring c£620 million from its existing Fixed

Income holding into three of the WPP fixed Income funds - Global Government Bond Fund, Global Credit Fund and the Multi-Asset Credit fund. The Pension Committee at its November 2020 meeting approved the recommendation to transfer the Fund's current Regional Equity holdings into the two WPP Global Equity sub-funds. At the end of the 2020/21 the procurement of a Transition Manager to oversee this transfer was underway with this transfer being completed in July 2021.

The February 2021 meeting of the Pension Committee approved a further investment of c10% of the Fund's value into the BlackRock Low Carbon Tracker fund as a further

demonstration of the Fund's commitment to respond to the concerns of its Employers and other Stakeholders in responding to Climate Change Risks. This transfer will be completed at the same time as the WPP Global Equity transfer.

The Fund's key objective continues to be to deliver an effective and efficient service to over 42,800 contributing employees, pensioners and deferred members, and to minimise the financial burden on contributing employers over the long term.



# MANAGEMENT AND ADMINISTRATION REPORT

## SCHEME MANAGEMENT AND ADVISERS

The Cardiff Council is named in the LGPS Regulations as the Scheme Manager and Administering Authority for the Cardiff & Vale of Glamorgan Pension Fund, the LGPS fund covering the geographical areas of the City of Cardiff and the Vale of Glamorgan.

### Pensions Committee

The Pensions Committee was established by the Council on 30 June 2016 to discharge the Council's functions as Administering Authority. The Committee's role is to provide strategic oversight of the Fund including reviewing its statutory policy statements.

Members in the year to 31 March 2021 were:

Cllr. C. Weaver	(Chair)
Cllr. D. Ali	
Cllr. N. Howells	
Cllr. G. Thomas	
Cllr. C. Lay	

Operational management of the Fund is the responsibility of the Corporate Director Resources under the Council's scheme of delegations.

### Investment Advisory Panel

The Committee and the Corporate Director Resources are advised on investment matters by the Investment Advisory Panel.

Members in the year to 31 March 2021 were:

Cllr C. Weaver	(Chair) Cabinet Member for Finance, Modernisation and Performance, Cardiff Council
Cllr N. Howells	Member, Cardiff Council
Cllr. G. Thomas	Member, Cardiff Council
Mr. S. Bates	Independent Adviser
Ms. C. Burton	Independent Adviser
Mr. C. Lee	Corporate Director Resources, Cardiff Council

### Local Pension Board

The Local Pension Board was established on 29 January 2015 in compliance with the Public Service Pensions Act 2013. The role of the Board is to assist the Council to secure compliance with the LGPS Regulations and to ensure the efficient governance of the Scheme.

Members from 1 April 2020 to 31 March 2021 were:

Michael Prior Independent Chair

Employer Representatives:

David Llewellyn Director of Finance, Cardiff Metropolitan University  
Carys Lord Head of Finance, Vale of Glamorgan Council  
Mark Sims Deputy Chief and Responsible Finance Officer, Barry Town Council

Scheme Member Representatives:

Peter King Unison nominee  
Hilary Williams Unison nominee  
Sheelagh Doolan-Pitt GMB nominee

### **Investment Managers from 1 April 2020 to 31 March 2021 were :**

Aberdeen Standard	Global Bonds (until August 2020) Emerging Market Equities UK Property
BlackRock Investment Management	UK Equities (indexed) US Equities (indexed) Global Low Carbon Equities (indexed) UK Property
State Street Global Advisors	European (excl UK) Equities (active)
Invesco Perpetual	UK Equities (active)
WPP Link Fund Solutions	UK Equities (active) Global Government Bonds (from August 2020) Global Credit (from August 2020) Multi-asset Credit (from August 2020)
Nikko Asset Management	Japanese Equities (active)
Schroders Investment Management	Asia-Pacific (excl Japan) Equities (active) UK Property
UBS	UK Property
CBRE	Global Property
Capital Dynamics	Private Equity
HarbourVest	Private Equity
Pantheon	Private Equity

### **Professional Advisers**

The Fund's professional advisers during the year were:

Actuaries	AON Hewitt Limited
Auditor	Auditor General for Wales
Bankers	NatWest Bank plc
Custodian	Northern Trust
Legal Advisers	Chief Legal Services Officer, Cardiff Council Sacker and Partners
Investment Advisers	Mr. S. Bates and Ms. C. Burton
Scheme Administration	Corporate Director Resources, Cardiff Council
AVC Provider	Prudential Assurance

# FUND ADMINISTRATION

The LGPS is a Defined Benefit Scheme governed by the Superannuation Act 1972 and the various regulations issued by the Ministry for Housing, Communities and Local Government. The Scheme is open to all employees of local authorities except teachers, and the Regulations specify that employees of certain other bodies have the same rights of membership as local authority employees. The Regulations also give administering authorities the power to enter into admission agreements with other

The table below summarises the number of active and ceased employers in the Fund as at 31 March 2021:

	Active	Ceased	Total
Scheduled Body	16	13	29
Admitted Body	27	30	57
<b>Total</b>	<b>43</b>	<b>38</b>	<b>86</b>

A full list of contributing employers is given in Note 21 to the accounts.

Membership of the Fund is summarised in Note 7 to the accounts. In addition to contributors, pensioners and members with deferred benefits, as at 31 March 2021 there were 2,627 undecided leavers i.e. members to whom a refund of contributions or transfer out may be due.

Fund income arises from investment earnings and contributions by employers and employees. Employee rates are set nationally and depend on a member's pensionable pay. During 2020/21 the contribution bands were:

Band	Pensionable Pay Range	Contribution Rate
1	Up to £14,600	5.5%
2	£14,601 to £22,800	5.8%
3	£22,801 to £37,100	6.5%
4	£37,101 to £46,900	6.8%
5	£46,901 to £65,600	8.5%
6	£65,601 to £93,000	9.9%
7	£93,001 to £109,500	10.5%
8	£109,501 to £164,200	11.4%
9	£164,201 or more	12.5%

The contribution bands for 2021/22 are:

Band	Pensionable Pay Range	Contribution Rate
1	Up to £14,600	5.5%
2	£14,601 to £22,900	5.8%
3	£22,901 to £37,200	6.5%
4	£37,201 to £47,100	6.8%
5	£47,101 to £65,900	8.5%
6	£65,901 to £93,400	9.9%
7	£93,401 to £110,000	10.5%
8	£110,001 to £165,000	11.4%
9	£165,001 or more	12.5%

Employers' rates are calculated by the scheme actuary at each triennial valuation. In addition to contributions calculated as a percentage of pensionable pay, for some employers the actuary has also specified cash amounts to be paid during each financial year.

### Pension Increases

Pensions in payment are subject to annual mandatory increases determined by the increase in the Consumer Price Index (CPI) in the twelve months to the previous September. The increases are payable by the Fund and future increases are estimated at each triennial valuation. Any variations are adjusted for a subsequent valuations through the employer's contribution rate of the member's last employer before leaving employment. Increases take effect in the first full week of each financial year. The increase for 2020/21 was 1.7% and the increase for 2021/22 is 0.5%.

CARE benefits accrued by active Fund members since 1 April 2014 are also subject to annual CPI linked adjustments. Accounts brought forward at the start of the financial year were revalued by 1.7% and accounts carried forward into 2021/22 were revalued by 0.5% on 1 April 2021.

### Additional Voluntary Contributions (AVCs)

Prudential Assurance continues as the AVC provider for the Fund. Prudential offer information through their web site <https://www.pru.co.uk/rz/localgov/>

### Administration

The administration of the Fund is carried out by the Pensions Team of Cardiff Council, based in County Hall, Cardiff.

Member records are held on the Altair system provided and hosted by Aquila Heywood. Monthly pensions are paid through the Council's SAP payroll system.

# INVESTMENT POLICY AND PERFORMANCE REPORT

## Investment Powers

The principal investment powers of the Fund are found in the Local Government Pension Scheme (Management & Investment of Funds) Regulations which were issued in 2016. The Regulations give the power for administering authorities to delegate investment decisions to external managers conditional upon proper consideration of a reasonable and sufficient diversification of managers. Periodic reviews of the appointment of, and investments made by, managers are also obligatory. Proper advice is required in determining suitable types of investment.

## Investment Objective

The Fund's 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.

The Fund prudently seeks to fulfil the regulatory requirement to secure the solvency of the Fund over a period of time (i.e. for the value of the Fund's assets to be equal to or greater than its accrued liabilities measured using 'ongoing' actuarial methods and assumptions.) This period together with the funding level is calculated every three years by the actuary following a review of the adequacy of the Fund's assets to meet its liabilities. The Pensions Committee takes the actuarial position and funding level into account when reviewing the Fund's investment strategy.

The 2019 actuarial valuation was completed in March 2020. The Valuation Report is available on the Fund's website here:

<https://www.cardiffandvalepensionfund.org.uk/about-the-fund/actuarial-valuation-reports/>

The Funding Strategy Statement (FFS) approved in January 2020 is included in this report as Appendix 2.

For the 2019 valuation the funding ratio of assets against liabilities was calculated as 96%, an increase on the 2016 ratio of 85%. This was largely due to the growth in Fund assets over the three years, offset by an increase in liabilities due to changes in financial assumptions. The overall funding deficit was reduced from £300 million to £95 million and employer contributions have been set for the next three years with the aim of recovering deficits within 17 years. The contributions include an allowance for possible additional liabilities arising from the 'McCloud'

judgement, which ruled that transitional protection arrangements for certain public sector pension schemes were illegal. The Fund Actuary has advised on suitable employer contribution rates to cover the 3 year period effective from 1 April 2020.

## **Fund Management**

The Investment Advisory Panel aims to meet each manager with an actively managed portfolio annually. It also considers at its quarterly meetings:

- The overall Fund Objective and the level of investment risk
- Overall Fund and individual manager performance
- The Fund's investment management arrangements
- Strategic asset allocation over the major market sectors and geographical areas, including the split between passive and active management

The Pensions Committee reviews and approves the Fund's strategic investment documents and the formal responsibility for operational investment decisions lies with the Corporate Director Resources.

Fund management is structured on a specialist basis, with individual manager's allocated particular sectors or geographical areas (see above for a list of managers and their mandates). Where possible, each manager is given a clear performance target, but generally is also given considerable freedom in how this is achieved. The Fund employs a global custodian to ensure the safekeeping of all publicly traded securities, and to manage the settlement of trades and recovery of taxation. Custody of private equity, property unit trusts and cash is managed in-house as these assets are not publicly traded.

Management fees are the main form of investment expenditure and comprise a combination of ad valorem (varying with the value of funds managed) and performance fees. Custody fees vary with the number of investment transactions made by the fund managers. Fees for the Panel's advisers rise in line with Chief Officers' pay. Revised accounting guidelines from 2015/16 onwards require all management fees to be accounted for as investment expenses regardless of whether they are charged directly or offset against investment returns. Management and Custodian fees for 2020/21 were £6.6m.

## **Investment Strategy Statement**

The LGPS (Management and Investment of Funds) Regulations 2009 required all LGPS funds to prepare and publish a Statement of Investment Principles (SIP). The SIP summarised the Fund's investment objectives and the policies it uses to manage investments. Under the revised Regulations issued during 2016/17 the SIP has been replaced by an Investment Strategy Statement (ISS). The Fund's ISS to commence from 2020/21 financial year was approved by the Pensions Committee on 27 January 2020.

The Investment Strategy Statement effective during 2020/21 is included in this report as Appendix 3 and this document is available on the Fund's website via the following link: <https://www.cardiffandvalepensionfund.org.uk/about-the-fund/key-governance-documents/>

The Fund's investment philosophy is also summarised in the 'Core Investment Beliefs' document which is also available on the website.

## Fund Benchmark and Strategic Asset Allocation

The Fund has agreed its own customised benchmark and Fund Objective which was set to ensure that the Fund's asset allocation policy reflected its own liability characteristics and not the average of a peer group. The Investment Advisory panel regularly review the Fund's overall asset allocation and if appropriate make recommendations to the Pension Committee to amend the asset allocation. The Fund's overall objective strategy is to maximise investment returns and by doing so it is designed to minimise, or at least stabilise, future employer contributions and to avoid large variations in contributions. This current version of the

ISS reflects the increasing significance of the pooling of the Fund's investments through the Wales Pension Partnership (WPP) as well as how Environmental, Social and Governance (ESG) considerations are taken into account with the Fund's investment decisions.

The Fund's 2020/21 Asset Allocation included a 60% allocation to Equities which included the 10% allocation to a Low Carbon Fund and a 30% allocation to Global Equity compared to 15% for UK Equity. The meeting of the Pension Committee in February 2021 approved the recommendation of the Investment Advisory Panel that a further investment of c10% of the Fund's value should be made into the Low Carbon Fund.

A breakdown of the investment portfolio over the last five years is set out in Appendix 1. Changes in market values reflect both changes in investment policy and the relative performance of different markets.

# INVESTMENT PERFORMANCE

During 2020/21 the overall Fund return (net of fees) was 24.0%, 3.7% above the Fund's benchmark return of 20.3%. Market sentiment in 2020/21 showed a strong bounce back from the negative global impact of coronavirus seen in 2019/20.

The performance of the manager portfolios during 2020/21 compared with their benchmarks and targets was as follows:

Manager	Mandate (target against benchmark)	Benchmark Return (%)	Portfolio Target (%)	Portfolio Return (%)
Aberdeen Standard *	Global bonds (+1%)	4.9	5.9	4.4
WPP MAC **	Global Multi Asset Credit	2.6	2.6	6.0
WPP Global Govt. Bonds**	Global Government Bonds	-3.1	-3.1	-2.6
WPP Global Credit **	Global Credit	-3.1	-3.1	-2.6
BlackRock	UK Equities (passive)	26.7	26.7	27.2
BlackRock	US Equities (passive)	42.7	42.7	42.6
BlackRock	Low Carbon (passive)	36.8	36.8	37.3
State Street	European Equities (+2%)	34.8	36.8	38.9
Nikko	Japanese Equities (+3%)	24.8	27.8	35.8
Schroders	Asia-Pacific Equities (+3%)	44.8	47.8	51.6
Aberdeen Standard	Emerging Markets Equities (+3%)	42.8	45.8	57.1
Invesco	UK Equities (unconstrained)	26.7	N/A	26.6
WPP	UK Equities	26.7	40.9	40.9
Private Equity Funds (28)	Global Private Equity	26.7	26.7	9.0
UK Property Funds (4)	UK Property	2.5	2.5	2.7
CBRE	Global Property (10% absolute return)	N/A	10.0	-4.0

\* Performance up to end June 2020

\*\* Performance from August 2020

During 2020/21 the performance of the Fund's quoted equity investments showed a strong bounce-back and high growth following the difficult market environments at the end of 2019/20 as a result of the global impact of the coronavirus. With the move away from "defensive" investments such as government bonds and large companies credit the fund's fixed income assets although generally outperforming benchmarks did not show the same growth. The position was similar with the Fund's less liquid assets where the Private Equity and Property holdings performance was again lagging behind listed equity.

Although it is useful to compare the performance of managers over the past year, the Investment Advisory Panel's reviews

focus on the average performance of active managers over three to five years to ensure that market fluctuations are taken into account.

### Longer Term Fund Performance

The Pension Fund's overall return is best measured over the long term. Over the last ten years the Fund's total return has returned an average annualised 7.7% compared with a Retail Price Index (RPI) benchmark of 2.9%. In the table below the 5 Year average also compares Fund performance with RPI with the 3 year and 1 Year comparisons being against the specific fund benchmark. Using 2020/21 as the base year, comparative returns over different periods are as follows:

	Fund % p.a.	Benchmark % p.a.
1 Year (2020/21)	24.0	20.3
3 Year average (2018/21)	7.1	0.7
5 Year average (2016/21)	8.5	2.9
10 Year average (2011/21)	7.7	2.9



# ACTUARIAL STATEMENT

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the Cardiff and Vale of Glamorgan Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2019 by Aon, in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

## Actuarial Position

1. The valuation as at 31 March 2019 showed that the funding level of the Fund had increased since the previous valuation with the market value of the Fund's assets as at 31 March 2019 (of £2.178 billion) covering 96% of the liabilities allowing, in the case of pre- 1 April 2014 membership for current contributors to the Fund, for future increases in pensionable pay.

2. The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2020 was:

- 18.8% of pensionable pay. This is the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date (the primary rate),

### Plus

- an allowance of 0.9% of pay for McCloud and cost management – see paragraph 9 below,

### Plus

- Monetary amounts to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 17 years from 1 April 2020, equivalent to 1.8% of pensionable pay (or £5.7 million in 2020/21, and increasing by 3.1% p.a. thereafter), which together with the allowance above comprises the secondary rate.
3. In practice, each individual employer's or group of employers' position is assessed separately and contributions are set out in Aon's report dated 30 March 2020 (the "actuarial valuation report"). In addition to the contributions certified, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

Total contributions payable by all employers over the three years to 31 March 2023 are estimated to be:

Year from 1 April	% of pensionable pay	Plus total contribution amount (£M)
2020	20.9%	1.6
2021	20.9%	1.8
2022	20.9%	2.0

4. The funding plan adopted in assessing the contributions for each employer is in accordance with the Funding Strategy Statement. Different approaches were adopted in relation to the calculation of the primary contribution rate, stepping of contribution increases and individual employers' recovery periods as agreed with the Administering Authority and reflected in the Funding Strategy Statement, reflecting the employers' circumstances.

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

<b>Discount rate for periods in service</b>	
Scheduled body employers *	4.3% p.a.
Ongoing Orphan employers	4.3% p.a.
Low risk funding target	1.3% p.a.
<b>Discount rate for periods after leaving service</b>	
Scheduled body employers *	4.3% p.a.
Ongoing Orphan employers	1.6% p.a.
<b>Low risk funding target</b>	<b>1.3% p.a.</b>
<b>Rate of pay increases</b>	<b>3.1% p.a.</b>
<b>Rate of increase to pension accounts</b>	<b>2.1% p.a.</b>
<b>Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)</b>	<b>2.1% p.a.</b>

\* The scheduled body discount rate was also used for employers whose liabilities will be subsumed after exit by a scheduled body.

In addition, the discount rate for already orphaned liabilities (i.e. where there is no scheme employer responsible for funding those liabilities and employer has exited the Fund) was 1.3% p.a.

The assets were valued at market value.

Further details of the assumptions adopted for the valuation, including the demographic assumptions, are set out in the actuarial valuation report.

6. The key demographic assumption was the allowance made for longevity. The post retirement mortality assumption adopted for the actuarial valuation was in line with standard self-administered pension scheme (SAPS) S2N mortality tables with appropriate scaling factors applied based on an analysis of the Fund's pensioner mortality experience and a Fund membership postcode analysis

using Aon's Demographic Horizons™ longevity model, and included an allowance for improvements based on the 2018 Continuous Mortality Investigation (CMI) Projections Model (CMI2018) with sk of 7.5 and parameter A of 0.0 assuming a long term annual rate of improvement in mortality rates of 1.5% p.a. The resulting average future life expectancies at age 65 (for normal health retirements) were:

	Men	Women
Current pensioners aged 65 at the valuation date	22.1	24.5
Current active members aged 45 at the valuation date	23.1	25.9

7. The valuation results summarised in paragraphs 1 and 2 above are based on the financial position and market levels at the valuation date, 31 March 2019. As such the results do not make allowance for changes which have occurred subsequent to the valuation date. The Administering Authority, in conjunction with the Actuary, monitors the funding position on a regular basis.

8. The formal actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2020 to 31 March 2023 were signed on 30 March 2020. Other than as agreed or otherwise permitted or required by the Regulations and reflected in the Funding Strategy Statement as appropriate, employer contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2022 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

9. There are a number of uncertainties regarding the Scheme benefits and hence liabilities:

• **Increases to Guaranteed Minimum Pensions (GMPs):**

The 2019 valuation allows for the extension of the 'interim solution' for public service schemes to pay full inflationary increases on GMPs for those reaching State Pension Age (SPA) between 6 April 2016 and 5 April 2021. On 23 March 2021, the Government published a response to its consultation on the longer term solution to achieve equalisation for GMPs as required by the High Court judgement in the Lloyds Bank case. The response sets out its proposed longer term solution, which is to extend the interim solution further to those reaching SPA after 5 April 2021.

The results of the 2019 valuation do not allow for the impact of this proposed longer term solution. Based on approximate calculations, at a whole of fund level, the impact of providing full pension increases on GMPs for those members reaching State Pension Age after 5 April 2021 is an increase in past service liabilities of between 0.1% to 0.2% across the Fund as a whole.

- **Cost Management Process and McCloud judgement:**

Initial results from the Scheme Advisory Board 2016 cost management process indicated that benefit improvements / member contribution reductions equivalent to 0.9% of pay would be required. However, the cost management process was paused following the Court of Appeal ruling that the transitional arrangements in both the Judges' Pension Scheme (McCloud) and Firefighters' Pension Scheme (Sargeant) constituted illegal age discrimination. Government confirmed that the judgement would be treated as applying to all public service schemes including the LGPS (where the transitional arrangements were in the form of a final salary underpin) and a consultation on changes to the LGPS was issued in July 2020.

The employer contributions certified from 1 April 2020 as part of the 2019 valuation include an allowance of 0.9% of pay in relation to the potential additional costs following the McCloud judgement / cost management process. This was a simplified approach which didn't take account of different employer membership profiles or funding targets and may be more or less than the assessed cost once the details of the LGPS changes arising from the McCloud judgement and the 2016 cost management process have been agreed.

Work on the 2020 cost management process has now been started, and it is possible that further changes to benefits and/or contributions may ultimately be required under that process, although the outcome is not expected to be known for some time.

- **Goodwin:**

An Employment Tribunal ruling relating to the Teachers' Pension Scheme concluded that provisions for survivor's benefits of a female member in an opposite sex

marriage are less favourable than for a female in a same sex marriage or civil partnership, and that treatment amounts to direct discrimination on grounds of sexual orientation. The chief secretary to the Treasury announced in a written ministerial statement on 20 July 2020 that he believed that changes would be required to other public service pension schemes with similar arrangements, although these changes are yet to be reflected in LGPS regulations. We expect the average additional liability to be less than 0.1%, however the impact will vary by employer depending on their membership profile.

10. This Statement has been prepared by the Actuary to the Fund, Aon, for inclusion in the accounts of the Fund. It provides a summary of the results of the actuarial valuation which was carried out as at 31 March 2019. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

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

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

11. The report on the actuarial valuation as at 31 March 2019 is available on the Fund's website at the following address: <https://www.cardiffandvalepensionfund.org.uk/wp-content/uploads/Cardiff-2019-actuarial-valuation-report-FINAL.pdf>

**Aon Solutions UK Limited**  
**May 2021**

# AUDIT REPORT

The independent auditor's statement of the Auditor General for Wales to the members of the County Council of the City and County of Cardiff as the administering authority for the Cardiff and Vale of Glamorgan Pension Fund on the Annual Report.

I have examined the pension fund accounts and related notes contained in the 2020-21 Annual Report of Cardiff and Vale of Glamorgan Pension Fund to establish whether they are consistent, in all material respects, with the pension fund accounts and related notes included in the Statement of Accounts produced by Cardiff and Vale of Glamorgan Pension Fund for the year ended 31 March 2021 which were authorised for issue on 25 November 2021. The pension fund accounts comprise the Fund Account and the Net Assets Statement.

## Opinion

In my opinion the pension fund accounts and related notes included in the Annual Report of Cardiff and 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 Cardiff and Vale of Glamorgan Pension Fund for the year ended 31 March 2021 which were authorised for issue on 25 November 2021 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, 25 November 2021 and the date of this statement.

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

The Administering Authority, the County Council of the City and County of Cardiff, is responsible for preparing the Annual Report. My responsibility is to report my opinion on whether the pension fund accounts and related notes contained in the Annual Report are consistent, in all material respects, with the pension fund accounts and related notes included in the Statement of Accounts of the Pension Fund. I also read the other information contained in the Annual Report and consider the implications for my report if I become aware of any misstatements or material inconsistencies with the pension fund accounts. This other information comprises Executive Summary; Foreword Narrative; Management and Administration Report; Fund Administration Report; Investment Policy and Performance Report; Investment Performance Report; and Actuarial Statement.

**Adrian Crompton,**  
**Auditor General for Wales**  
XX November 2021

24 Cathedral Road  
Cardiff  
CF11 9LJ

## Fund Account

2019/20 £000		Note	2020/21 £000
	<b>Dealings with members, employers and others directly involved in the fund</b>		
	<b>Contributions</b>		
(75,323)	From employers	8	(69,615)
(19,522)	From employees	8	(21,174)
(8,864)	Individual transfers from other schemes or funds		(3,510)
(3,452)	Other income (capitalised payments and interest on deficit funding)		(269)
<b>(107,161)</b>			<b>(94,568)</b>
	<b>Benefits Payable</b>		
70,038	Pensions	9	71,463
19,166	Lump sums, grants and other payments	9	12,941
	<b>Payments to and on account of leavers</b>		
274	Refunds of contributions		86
0	Group transfers to other schemes or funds		0
6,621	Individual transfers to other schemes or funds		3,817
<b>96,099</b>			<b>88,307</b>
<b>(11,062)</b>	<b>Net (additions)/withdrawals from dealings with members of the Fund</b>		<b>(6,261)</b>
8,429	Management expenses	10	8,189
<b>(2,633)</b>	<b>Net (additions)/withdrawals including fund management expenses</b>		<b>1,928</b>
	<b>Returns on Investment</b>		
(27,397)	Investment income	11	(9,810)
180,253	Change in market value of investments	12a	(482,650)
<b>152,856</b>	<b>Net returns on investments</b>		<b>(492,460)</b>
<b>150,223</b>	<b>Net (increase)/decrease in the Fund during year</b>		<b>(490,532)</b>
(2,177,828)	Opening net assets of the scheme		(2,027,605)
<b>(2,027,605)</b>	<b>Closing net assets of the scheme</b>		<b>(2,518,137)</b>

## Net Assets Statement

2019/20 £000		Note	2020/21 £000
1,975,769	Investments at market value	12	2,464,573
38,457	Cash (including derivatives) and investment proceeds due	12	45,502
<b>2,014,226</b>	<b>Total investments</b>		<b>2,510,075</b>
71	UK & overseas tax		78
4,599	Contributions due from employers and deficit funding		4,499
839	Sundry debtors		633
1,642	Pension strain costs due within one year		1,380
<b>7,151</b>	<b>Total current assets</b>		<b>6,590</b>
4,654	Deficit funding (former employers)		2,359
3,688	Pension strain costs due after one year		2,327
<b>8,342</b>	<b>Total non-current assets</b>		<b>4,686</b>
(163)	Unpaid benefits		(267)
(1,214)	Sundry creditors		(1,893)
0	Provision – death grants	20	(320)
<b>(1,377)</b>	<b>Total current liabilities</b>		<b>(2,480)</b>
(737)	Provision - death grants	20	(734)
<b>(737)</b>	<b>Total non-current liabilities</b>		<b>(734)</b>
<b>2,027,605</b>	<b>Net assets of the scheme</b>		<b>2,518,137</b>

# NOTE TO ACCOUNTS

## 1. Description of Fund

The Cardiff and Vale of Glamorgan Pension Fund (the Fund) is part of the LGPS and is administered by Cardiff Council.

### General

The scheme is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016

It is a contributory defined benefit pension scheme administered by Cardiff Council to provide pensions and other benefits for pensionable employees of Cardiff Council and Vale of Glamorgan Council, except for teachers who have a separate scheme. Employees of a range of other scheduled and admitted bodies within the county area are also permitted to join the Fund. The Fund is overseen by the Cardiff and Vale of Glamorgan Pension Fund Committee, which is a committee of Cardiff Council.

### Membership

Membership of the LGPS is automatic for all employees, who can then choose to remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Cardiff and Vale of Glamorgan Pension Fund include the following:

- Scheduled bodies, which are automatically entitled to be members of the Fund
- Admitted bodies, which participate in the Fund by virtue of an admission agreement made between the Fund and the employer. Admitted bodies include, voluntary, charitable and similar not-for-profit organisations, or private contractors undertaking a local authority function following outsourcing to the private sector.

### Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the Local Government Pension Scheme Regulations 2013 and ranged from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2021. Employers' contributions are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2019. Currently, employer contribution rates range from 16.6% to 37.7% of pensionable pay with effect from 1st April 2020.

### Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Prices Index. A range of other benefits are also provided including early retirement, disability pensions and death benefits. For more details, please refer to the Cardiff and Vale of Glamorgan Pension Fund website <https://www.cardiffandvalepensionfund.org.uk/>

## 2. Basis of Preparation

The Statement of Accounts summarises the funds transactions for the 2020/21 financial year and its financial position at 31 March 2021. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year.

The accounts have been prepared on a going concern basis.

## 3. Significant Accounting Policies

### ***Accounting standards that have been issued but not yet adopted***

At the balance sheet date, no accounting standards issued but not yet adopted have been identified.

### ***Income and Expenditure***

Bond and dividend income has been taken into account on the contractual payment date. Property and private equity income is credited on receipt.

The Fund does not account for any benefits payable or receivable in respect of members wishing to transfer from one scheme to another until assets (either cash investments or other form) have been received by the receiving scheme.

All other income and expenditure has been accounted for on an accruals basis, except the liability to pay pensions and benefits in the future, which has been separately disclosed within the notes to the accounts.

### ***Acquisition costs of Investments***

Acquisition costs are included with the original book cost at the time of purchase. At the year end, however, investments on the balance sheet are valued at market value. The difference is recorded in the Accounts as "Change in Market Value of Investments".

### ***Valuation of Investments***

Investments are included in the financial statements on a fair value basis as at the reporting date. The values of investments as shown in the net assets statement have been determined in accordance with the requirements of the Code and IFRS 13. Valuation methods employed by the fund are detailed within Note 14c.

### ***Cash and Cash Equivalents***

Cash is represented by cash in hand, the net balance on all of the Council's bank accounts. It includes deposits with financial institutions, including investment managers and the custodian, that are repayable on notice of not more than 24 hours without significant penalty. It also includes investments maturing and interest received on the first working day of April.

### ***Foreign Currency Transactions***

Overseas investments in foreign currencies have been converted at WM/Reuters closing spot rates of exchange at the end of the reporting period.

## ***Taxation***

<b>Taxation</b>	<b>Treatment</b>
UK Income Tax	The fund is an exempt approved fund able to recover UK Income Tax.
UK Capital Gains Tax	No Capital Gains Tax is Chargeable.
Value Added Tax	Accounts are shown exclusive of VAT. As the Council is the administering Authority, VAT is recoverable on all Fund activities.
Overseas Withholding Tax	Foreign investment income usually suffers withholding tax in the country of origin, some of which may be recoverable. Irrecoverable tax is netted off against income.

#### 4. Critical judgements in applying accounting policies

##### *Unquoted private equity investments*

These are inherently based on forward looking estimates and judgements valued by the investment managers using two main sets of valuation guidelines that apply to private equity; the Private Equity Valuation Guidelines (PEVG) in the US and the International Private Equity and Venture Capital Valuation Guidelines (IPEVCG) outside the US.

##### *Pension fund liability*

This is calculated in accordance with IAS19 every three years by the actuary, with an annual statement in the intervening years. This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary.

#### 5. Assumptions made about the future and other major sources of estimation uncertainty

The Statement of Accounts contains estimated figures based on assumptions made taking

into account historical experience, current trends and other factors. As balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

Item	Uncertainties	Effect if actual results differ from assumptions
<b>Actual present value of promised retirement benefits</b>	Estimations of the liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries increase, changes in mortality rates and expected returns on pension fund assets. The actuary provides the fund with advice regarding the assumptions to be used.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, an increase in the discount rate assumption would result in a decrease in the pension liability. An increase in assumed earnings inflation or assumed life expectancy would increase the value of the liabilities.
<b>Private Equity Valuations</b>	Private equity investments are valued at fair value in accordance with international accounting standards. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £91 million. There is a risk that this investment may be under, or overstated in the accounts. Further information is provided on the sensitivity of these assets within the accounts.
<b>Pooled Property Funds</b>	Valuation techniques are used to determine the carrying amount of pooled property funds.	The total pooled property fund investments in the financial statements are £167 million. Changes in the valuation assumptions used, together with significant changes in rental growth could affect (increase or decrease) the fair value of property-based investments. Further information is provided on the sensitivity of these assets within the accounts.

## 6. Titles of Ownership

Evidences of ownership for the property unit trusts and private equity holdings are held by Cardiff Council. All other evidences of ownership

were held at 31 March 2021 by The Northern Trust Company for the benefit of the Council. Statements of holdings have been provided by Northern Trust.

## 7. Membership

Fund membership at 31 March 2021 is as follows:

2019/20 *		2020/21
48	Contributing employers	43
<b>48</b>	<b>Total contributing employers</b>	<b>43</b>
16,402	Contributors	16,936
11,945	Pensioners	12,190
13,608	Deferred pensioners	13,755
<b>41,955</b>	<b>Total membership</b>	<b>42,881</b>

\*2019/20 contributors figure has been amended to reflect the number of contributors in Note 8.

In addition to the above, there are also members who at year end were not yet categorised as to whether they would be deferring their pension, transferring it to another scheme or requesting a refund of their contributions and accordingly are not actively contributing to the Pension Fund.

## 8. Employing Bodies – Contributions

2020/21	No. of contributors at 31/03/2021	Employers £000	Employees £000	Total £000	Additional lump sum* £000
<b>Administering Body:</b>					
Cardiff Council	10,124	(42,186)	(12,702)	(54,888)	0
<b>Scheduled Bodies:</b>					
Vale of Glamorgan Council	3,854	(14,631)	(4,644)	(19,275)	(8)
Town and Community Councils	54	(239)	(70)	(309)	0
Education Bodies	1,596	(6,831)	(2,537)	(9,368)	(16)
Other Scheduled Bodies **	6	922	(17)	905	10
<b>Admitted Bodies:</b>					
Admitted Bodies	758	(6,650)	(1,204)	(7,854)	(1,860)
<b>Total</b>	<b>16,936</b>	<b>(69,615)</b>	<b>(21,174)</b>	<b>(90,789)</b>	<b>(1,874)</b>

\*Memorandum account; totals included within Employers total.

\*\*Includes payment to Public Sector Ombudsmen for Wales calculated by actuary on exit from the fund of £974,000, actual contributions received were (£52,052).

<b>2019/20</b>	<b>No. of contributors at 31/03/2020</b>	<b>Employers £000</b>	<b>Employees £000</b>	<b>Total £000</b>	<b>Additional lump sum* £000</b>
<b>Administering Body:</b>					
Cardiff Council	10,205	(45,650)	(12,074)	(57,724)	0
<b>Scheduled Bodies:</b>					
Vale of Glamorgan Council	3,832	(15,102)	(3,787)	(18,889)	(6)
Town and Community Councils	56	(275)	(62)	(337)	0
Education Bodies	1,473	(6,487)	(2,437)	(8,924)	(951)
Other Scheduled Bodies	10	(78)	(24)	(102)	0
<b>Admitted Bodies:</b>					
Admitted Bodies	826	(7,731)	(1,138)	(8,869)	(3,844)
<b>Total</b>	<b>16,402</b>	<b>(75,323)</b>	<b>(19,522)</b>	<b>(94,845)</b>	<b>(4,801)</b>

\*Memorandum account; totals included within Employers total.

### **Additional deficit funding**

There was no additional deficit funding in 2020/21 (no additional deficit funding in 2019/20).

## **9. Employing Bodies - Benefits Payable**

<b>2020/21</b>	<b>Retirement Pensions £000</b>	<b>Lump Sums, Grants and Other Payments</b>		
		<b>Lump Sums on Retirement £000</b>	<b>Death Grants £000</b>	<b>Commutation Payments £000</b>
<b>Administering Body:</b>				
Cardiff Council	45,380	6,386	1,724	340
<b>Scheduled Bodies:</b>				
Vale of Glamorgan Council	13,923	2,235	381	102
Town and Community Councils	235	10	0	0
Education Bodies	3,387	400	89	61
Other Scheduled Bodies	2,667	165	34	1
<b>Admitted Bodies:</b>				
Admitted Bodies	5,871	818	185	10
<b>Total</b>	<b>71,463</b>	<b>10,014</b>	<b>2,413</b>	<b>514</b>

2019/20	Retirement Pensions	Lump Sums, Grants and Other Payments		
		Lump Sums on Retirement	Death Grants	Commutation Payments
	£000	£000	£000	£000
<b>Administering Body:</b>				
Cardiff Council	44,584	10,289	1,755	543
<b>Scheduled Bodies:</b>				
Vale of Glamorgan Council	13,659	3,142	456	131
Town and Community Councils	222	29	169	0
Education Bodies	3,231	459	334	19
Other Scheduled Bodies	2,676	301	78	10
<b>Admitted Bodies:</b>				
Admitted Bodies	5,666	1,189	191	71
<b>Total</b>	<b>70,038</b>	<b>15,409</b>	<b>2,983</b>	<b>774</b>

## 10. Management Expenses

*2019/20 £000		2020/21 £000
1,880	Administration costs	1,485
32	Audit fees	29
<b>1,912</b>	<b>Total administration costs</b>	<b>1,514</b>
805	Fixed Interest Securities	243
664	Equities	1,062
459	WPP UK equity fund	797
0	WPP government bond fund	393
0	WPP credit fund	318
0	WPP multi asset credit fund	410
2,748	Equity pooled fund	1,929
99	Pooled property investments	113
1,376	Private equity	1,123
70	Derivatives	0
<b>6,221</b>	<b>Total Management Fees</b>	<b>6,388</b>
151	Custody fees	182
<b>6,372</b>	<b>Total investment management expenses</b>	<b>6,570</b>
145	Oversight and governance costs	105
<b>8,429</b>	<b>Total</b>	<b>8,189</b>

\*2019/20 Management fees have been restated to provide additional information in line with 2020/21 presentation.

## 11. Investment Income

2019/20 £000		2020/21 £000
(10,019)	UK fixed interest securities	(1,901)
(5,445)	Overseas equities	(3,845)
(4,830)	Overseas fixed interest securities	(1,192)
(4,209)	UK equities and private equity funds	(910)
(1,608)	Pooled investments	(1,202)
(948)	Pooled Property Unit Trust Income	(482)
(218)	Interest on UK cash	(230)
(120)	Securities lending	(48)
<b>(27,397)</b>	<b>Total</b>	<b>(9,810)</b>

## 12. Investments at Market Value

*2019/20 £000		2020/21 £000
<b>586,078</b>	<b>Total Fixed Interest Securities</b>	<b>0</b>
<b>164,067</b>	<b>Total equities</b>	<b>238,549</b>
163,824	WPP UK equity fund	230,285
0	WPP government bond fund	252,534
0	WPP credit fund	226,063
0	WPP multi asset credit fund	154,266
<b>163,824</b>	<b>Total WPP pooled funds</b>	<b>863,148</b>
807,885	Equity pooled	1,105,648
<b>971,709</b>	<b>Total pooled funds (incl WPP)</b>	<b>1,968,796</b>
165,246	Pooled property investments	166,559
88,669	Private equity	90,669
<b>1,975,769</b>	<b>Subtotal</b>	<b>2,464,573</b>
3,212	Derivatives: Forward currency contracts	0
<b>3,212</b>	<b>Total derivatives</b>	<b>0</b>
6,730	Fund manager's cash	5,372
26,051	Internal/custodian cash	39,563
2,464	Net investment proceeds due	567
<b>35,245</b>	<b>Total cash</b>	<b>45,502</b>
<b>2,014,226</b>	<b>Total investment assets</b>	<b>2,510,075</b>

\*2019/20 figures have been amended to provide additional information in line with 2020/21 presentation.

In 2019/20 the investments in UK quoted equities & convertibles were transferred to the WPP UK equity fund. During 2020/21 the

investments in Fixed Interest Securities were transferred to the WPP government bond fund, WPP credit fund and WPP multi asset credit fund.

## 12a. Reconciliation in movement in investments

2020/21	Value at 31/03/20	Purchase at cost	Sale proceeds	Change in market value	Value at 31/03/21
	£000	£000	£000	£000	£000
Fixed interest securities	586,078	161,316	(720,282)	(27,112)	0
Equities	164,067	32,814	(28,340)	70,008	238,549
Pooled funds	971,709	628,700	0	368,387	1,968,796
Pooled property unit trusts	165,246	730	0	583	166,559
Private equity	88,669	8,810	(14,269)	7,459	90,669
<b>Sub-total</b>	<b>1,975,769</b>	<b>832,370</b>	<b>(762,891)</b>	<b>419,325</b>	<b>2,464,573</b>
Derivatives	3212	0	0	(3,212)	0
<b>Total derivatives</b>	<b>3212</b>	<b>0</b>	<b>0</b>	<b>(3,212)</b>	<b>0</b>
Managers' cash	6,730				5,372
Internal/custodian cash	26,051				39,563
Net investment proceeds due	2,464				567
<b>Total cash</b>	<b>35,245</b>				<b>45,502</b>
<b>Sub-total</b>	<b>2,014,226</b>			<b>416,113</b>	<b>2,510,075</b>
Net realised movement in cash				66,537	
<b>Total</b>	<b>2,014,226</b>			<b>482,650</b>	<b>2,510,075</b>

2019/20	Value at 31/03/19	Purchase at cost	Sale proceeds	Change in market value	Value at 31/03/20
	£000	£000	£000	£000	£000
Fixed interest securities	565,057	372,524	(377,841)	26,338	586,078
Equities	299,185	69,622	(203,202)	(1,538)	164,067
Pooled funds	1,009,966	478,788	(234,115)	(282,930)	971,709
Pooled property unit trusts	155,944	781	0	8,521	165,246
Private equity	82,224	8,860	(15,434)	13,019	88,669
<b>Sub-total</b>	<b>2,112,376</b>	<b>930,575</b>	<b>(830,592)</b>	<b>(236,590)</b>	<b>1,975,769</b>
Derivatives	(1,243)	2,921,655	(2,914,474)	(2,726)	3,212
<b>Total derivatives</b>	<b>(1,243)</b>	<b>2,921,655</b>	<b>(2,914,474)</b>	<b>(2,726)</b>	<b>3,212</b>
Managers' cash	15,214				6,730
Internal/custodian cash	34,355				26,051
Net investment proceeds due	2,703				2,464
<b>Total cash</b>	<b>52,272</b>				<b>35,245</b>
<b>Sub-total</b>	<b>2,163,405</b>			<b>(239,316)</b>	<b>2,014,226</b>
Net realised movement in cash				59,063	
<b>Total</b>	<b>2,163,405</b>			<b>(180,253)</b>	<b>2,014,226</b>

## Analysis of derivatives

### Objectives and policies for holding derivatives

The holding in derivatives is to hedge liabilities or hedge exposures to reduce risk in the fund. The use of derivatives is managed in line with the investment management agreement

between the fund and the various investment managers. Derivatives listed in 2019/2020 formed part of the Aberdeen investment that transferred to WPP, bringing the value to nil in the 2020/2021 accounts.

## 13. Summary of manager's portfolio values

2019/20		Fund Manager	2020/21	
£000	% of Fund		£000	% of Fund
592,189	29.4	Aberdeen Asset Management	0	0.0
80,398	4.0	Aberdeen Emerging Markets	126,759	5.0
503,671	25.0	Blackrock Investment Management	675,933	26.9
64,256	3.2	Invesco Perpetual	81,320	3.2
87,945	4.4	Nikko	119,533	4.8
82,417	4.1	Schroder Investment Managers	124,955	5.0
159,560	7.9	State Street Global Advisers (SSGA)	221,637	8.8
163,824	8.1	Wales Pension Partnership	863,148	34.4
58,499	2.9	CBRE	56,154	2.2
24,192	1.2	Blackrock - BPF - UK Property	25,282	1.0
28,671	1.4	Schroder UK Real Estate	29,357	1.2
29,702	1.5	Standard Life Property	30,784	1.2
24,182	1.2	UBS Triton Property Fund	24,982	1.0
23,415	1.2	Capital Dynamics	21,737	0.9
28,446	1.4	Harbourvest	32,022	1.3
36,808	1.8	Pantheon	36,910	1.5
2,543	0.1	Cash with custodian	2,678	0.1
23,508	1.2	Internally managed (Cash)	36,884	1.5
<b>2,014,226</b>	<b>100.0</b>	<b>Total</b>	<b>2,510,075</b>	<b>100.0</b>

### 13a. Investments exceeding 5% of net assets

The following investments represent more than 5% of the net assets available to pay benefits (in either 2019/20, 2020/21 or both years).

2019/20		Fund Manager	2020/21	
£000	% of net assets		£000	% of net assets
176,256	8.7	Aberdeen Corporate Bond Fund	0	0.0
112,789	5.5	Aberdeen Target Return Bond Fund	0	0.0
0	0.0	Aberdeen Emerging Markets Equity Fund	126,759	5.00
123,686	6.1	Aberdeen Global Government Bond Fund	0	0.0
106,332	5.2	Aberdeen UK Fixed Interest Gilts	0	0.0
209,032	10.3	BlackRock Aquila Life UK Equities Indexed Fund	265,805	10.6
99,171	4.9	BlackRock Aquila Life US Equities Indexed Fund	141,454	5.6
195,469	9.6	BlackRock Low Carbon Tracker Fund	268,675	10.7
159,560	7.9	SSGA MPF Europe ex UK Equities Active Fund	221,637	8.8
0	0.0	Wales Pension Partnership - Credit Fund	226,063	9.0
0	0.0	Wales Pension Partnership - Government Bond Fund	252,534	10.0
0	0.0	Wales Pension Partnership - Multi Asset Credit Fund	154,266	6.1
163,824	8.1	Wales Pension Partnership - UK Opportunities	230,285	9.1

## 14. Financial Instruments

### 14a. Classification of financial instruments

Value at 31/03/20				Value at 31/03/21		
Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised costs		Fair value through profit and loss	Amortised Cost	Financial liabilities at amortised costs
£000	£000	£000	£000	£000	£000	
586,078	0	0	Fixed interest securities	0	0	0
164,067	0	0	Equities	238,549	0	0
971,709	0	0	Pooled funds	1,968,796	0	0
165,246	0	0	Pooled property trusts	166,559	0	0
88,669	0	0	Private equity	90,669	0	0
130,993	0	0	Derivatives	0	0	0
0	35,245	0	Cash	0	45,502	0
0	20,230	0	Debtors	0	11,276	0
<b>2,106,762</b>	<b>55,475</b>	<b>0</b>	<b>Total financial assets</b>	<b>2,464,573</b>	<b>56,778</b>	<b>0</b>
(127,781)	0	0	Derivatives	0	0	0
0	0	(1,377)	Creditors	0	0	(2,160)
<b>(127,781)</b>	<b>0</b>	<b>(1,377)</b>	<b>Total financial liabilities</b>	<b>0</b>	<b>0</b>	<b>(2,160)</b>
<b>1,978,981</b>	<b>55,475</b>	<b>(1,377)</b>	<b>Net financial assets</b>	<b>2,464,573</b>	<b>56,778</b>	<b>(2,160)</b>

## 14b. Net gains and losses on financial instruments

*31/03/20 £000		31/03/21 £000
(191,863)	Fair value through profit and loss	355,652
<b>(191,863)</b>	<b>Total financial assets</b>	<b>355,652</b>
11,203	Fair value through profit and loss	127,781
407	Amortised cost	(783)
<b>11,610</b>	<b>Total financial liabilities</b>	<b>126,998</b>
<b>(180,253)</b>	<b>Net financial assets</b>	<b>482,650</b>

\*Figures restated between financial assets and financial liabilities.



## 14c. Fair Value - Basis of valuation

Investment	Valuation Method	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
<b>Level 1</b>			
Quoted prices for similar instruments			
<b>Quoted Bonds (Fixed Interest Securities)</b>	Market value based on current yields	Not required	Not required
<b>Market Quoted Investments</b>	Published bid market price at close of business on the final working day of the accounting period	Not required	Not required
<b>Cash and cash equivalents</b>	Carrying value is deemed to be fair value because of the short-term nature of these financial instruments	Not required	Not required
<b>Level 2</b>			
Traded in a market which is not considered to be active, or where valuation techniques are used to determine fair value which use inputs that are based significantly on observable market data.			
<b>Pooled Investments - Quoted Equity</b>	Closing bid price where bid and offer prices are published.	Net Asset Value (NAV) based pricing set on a forward pricing basis	Not required
<b>Derivatives - Forward Currency Contracts</b>	Market forward exchange rates at the year-end date	Exchange rate risk	Not required
<b>Level 3</b>			
Inputs not based on observable market data			
<b>Private Equity Funds</b>	Valuations provided by the general partners to the private equity funds in accordance with International Private Equity and Venture Capital Valuation Guidelines (2012)	Earnings before interest, tax, depreciation and amortisation (EBITDA) multiple, revenue multiple, discount for lack of marketability and control premium	Valuations may be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date (although updated to reflect calls/distributions made during this period), changes to expected cash flows and any differences between unaudited and audited accounts
<b>Pooled Investments - Property Funds</b>	Closing bid price where bid and offer prices are published. Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Valuations may be affected by post balance sheet events, changes to expected cash flows and any differences between unaudited and audited accounts

#### 14d. Fair Value Hierarchy

As detailed above, investments have been classified into three levels according to the quality and reliability of the information used to

determine fair values. The following table provides an analysis of the assets and liabilities of the pension fund based on the level at which the fair value is observable.

Value at 31/03/21	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	Level 1 £000	Level 2 £000	Level 3 £000	£000
Financial assets at fair value	238,549	1,968,796	257,228	2,464,573
Amortised Cost	56,778	0	0	56,778
<b>Total financial assets</b>	<b>295,327</b>	<b>1,968,796</b>	<b>257,228</b>	<b>2,521,351</b>
Financial liabilities at fair value	0	0	0	0
Financial liabilities at amortised cost	(2,160)	0	0	(2,160)
<b>Total financial liabilities</b>	<b>(2,160)</b>	<b>0</b>	<b>0</b>	<b>(2,160)</b>
<b>Net financial assets</b>	<b>293,167</b>	<b>1,968,796</b>	<b>257,228</b>	<b>2,519,191</b>

Value at 31/03/20	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	Level 1 £000	Level 2 £000	Level 3 £000	£000
Financial assets at fair value	750,145	1,102,702	253,915	2,106,762
Amortised Cost	55,475	0	0	55,475
<b>Total financial assets</b>	<b>805,620</b>	<b>1,102,702</b>	<b>253,915</b>	<b>2,162,237</b>
Financial liabilities at fair value	0	(127,781)	0	(127,781)
Financial liabilities at amortised cost	(1,377)	0	0	(1,377)
<b>Total financial liabilities</b>	<b>(1,377)</b>	<b>(127,781)</b>	<b>0</b>	<b>(129,158)</b>
<b>Net financial assets</b>	<b>804,243</b>	<b>974,921</b>	<b>253,915</b>	<b>2,033,079</b>

#### 14e. Reconciliation of fair value measurements within Level 3

2018/19	Market Value at 31/03/20	Transfers into level 3	Transfers out of level 3	Purchases	Sales	Unrealised gains/(losses)	Realised gains/(losses)	Market Value at 31/03/21
	£000	£000	£000	£000	£000	£000	£000	£000
Private equity	88,669	0	0	8,810	(14,269)	7,459	0	90,669
Pooled property unit trusts	165,246	0	0	730	0	583	0	166,559
<b>Total</b>	<b>253,915</b>	<b>0</b>	<b>0</b>	<b>9,540</b>	<b>(14,269)</b>	<b>8,042</b>	<b>0</b>	<b>257,228</b>

## 14f. Sensitivity of Assets Valued at Level 3

Having analysed historical data, current market trends, and consulted with independent investment advisors (Pensions and Investments

Research Consultants Ltd (PIRC)), the fund has determined that the valuations methods described above for Level 3 investments are likely to be accurate to within the following ranges, and has set out the consequential impact below:

	Assessed valuation range (%)	Value at 31/03/20 £000	Value on increase £000	Value on decrease £000
Private Equity	9.4	90,669	99,192	82,146
Pooled Property Trusts	4.2	166,559	173,554	159,564
<b>Total</b>		<b>257,228</b>	<b>272,746</b>	<b>241,710</b>

## 15. Nature and extent of risks arising from financial instruments

The Fund maintains positions in a variety of instruments, as dictated by the Investment Strategy Statement (ISS), and is consequently exposed to credit and liquidity risk, as well as market risk including foreign exchange and interest rate risks.

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities and will be unable to pay the promised benefits to members. The aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk and credit risk to an acceptable level. In addition, the fund manages monitor its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows.

The management of risk is a key objective of the Pension Fund. A policy of diversification of its asset classes and investment managers helps the Pension Fund to lower risk arising from financial instruments. Benchmarks for asset allocation and targets against which investment managers are

expected to perform are further measures which are put in place in order to manage risk.

**Market risk** is the risk that the fair value or future cash flows of an institution will fluctuate because of a change in market price.

In order to manage risk, the Fund invests in a diversified pool of assets, split between a number of managers with different performance targets and investment strategies. In order to mitigate risk, the Fund regularly reviews the pension fund investment strategy together with regular monitoring of asset allocation and investment performance.

**Interest rate risk** is the risk to which the Pension Fund is exposed to fluctuations in interest rates and mainly relates to changes in bonds.

To mitigate the risk and diversify, the Fund holds three fixed interest sub funds managed by WPP.

Interest Rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits. The analysis below shows the effect of a 100 basis point (1%) movement in interest rates on the net assets available to pay benefits:

Asset Type	Carrying Amount as at 31/03/21 £000	Change to the net assets available to pay benefits	
		+ 100bps £000	- 100bps £000
Cash and cash equivalents	45,502	455	(455)
Fixed interest securities	0	0	0
<b>Total</b>	<b>45,502</b>	<b>455</b>	<b>(455)</b>

Asset Type	Carrying Amount 31/03/20 £000	Change to the net assets available to pay benefits	
		+ 100bps £000	- 100bps £000
Cash and cash equivalents	38,457	385	(385)
Fixed interest securities	586,078	5,861	(5,861)
<b>Total</b>	<b>624,535</b>	<b>6,246</b>	<b>(6,246)</b>

**Currency risk** is the risk to which the Pension Fund is exposed to fluctuations in foreign currency exchange rates. Fund managers will also take account of currency risk in their investment decisions.

Following analysis of historical data and consulted with independent investment advisors Pensions

and Investments Research Consultants Ltd (PIRC), the fund's aggregate currency change has been calculated as 8.36%. An 8.36% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure – asset type	Asset Value as at 31/03/21 £000	Change to net assets available to pay benefits	
		+ 8.36% £000	- 8.36% £000
Overseas quoted equities	238,648	19,951	(19,951)
Overseas pooled funds	758,524	63,413	(63,413)
Overseas pooled property	56,155	4,695	(4,695)
<b>Total change in assets available</b>	<b>1,053,327</b>	<b>88,059</b>	<b>(88,059)</b>

Currency exposure – asset type	Asset Value as at 31/03/20 £000	Change to net assets available to pay benefits	
		+ 7.35% £000	- 7.35% £000
Overseas quoted equities	164,067	12,059	(12,059)
Overseas pooled funds	534,597	39,293	(39,293)
Overseas pooled property	58,499	4,300	(4,300)
<b>Total change in assets available</b>	<b>757,163</b>	<b>55,652</b>	<b>(55,652)</b>

**Price risk** is the risk of losses associated with the movement in prices of the underlying assets. By diversifying investments across asset classes and managers, the Pension Fund aims to reduce the exposure to price risk. Diversification of asset classes seeks to reduce correlation of price movements, whilst employing specialist managers enables the Fund to benefit from investment expertise.

Potential price changes are determined based on the observed historical volatility of asset class returns. The potential volatilities are consistent with movement in the change in value of assets over the last three years, applied to the period end asset mix. The total volatility shown below for total assets incorporates the impact of correlation across currencies, which dampens volatility, therefore the value on increase and value on decrease figures for the currencies will not sum to the total figure.

Asset type	Value at 31/03/21 £000	Percentage change %	Value on increase £000	Value on Decrease £000
UK Equities	577,410	18.86	686,310	468,510
Overseas Equities	1,629,935	14.05	1,858,941	1,400,929
Fixed Interest (Bonds)	0	4.59	0	0
Cash and Cash Equivalents	45,502	0.20	45,593	45,411
Private Equity	90,669	9.35	99,147	82,191
Property	166,559	4.16	173,488	159,630
<b>Total Assets</b>	<b>2,510,075</b>	<b>9.90</b>	<b>2,863,479</b>	<b>2,156,671</b>

Asset type	Value at 31/03/20 £000	Percentage change %	Value on increase £000	Value on Decrease £000
UK Equities	437,112	16.30	508,361	365,863
Overseas Equities	698,664	12.32	784,739	612,589
Fixed Interest (Bonds)	586,078	4.28	611,162	560,994
Cash and Cash Equivalents	38,457	0.15	38,515	38,399
Private Equity	88,669	7.52	95,337	82,001
Property	165,246	4.18	172,153	158,339
<b>Total Assets</b>	<b>2,014,226</b>	<b>8.59</b>	<b>2,210,267</b>	<b>1,818,185</b>

\*2019/20 figures have been amended in line with 2020/21 presentation.

**Credit risk** is the risk that a counterparty to a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The Fund reviews its exposure to credit and counterparty risk through its external investment managers. The Fund is also exposed to credit risk through its securities lending programme run by the Fund's custodian, Northern Trust who manages and monitors the counterparty risk, collateral risk and the overall lending programme.

The Pension Fund's bank accounts are held with Lloyds Bank (closed October 2020) and NatWest. Surplus cash is not invested with these but is placed with a selection of AAA Money Market institutions. The Fund's internally managed cash holding under its treasury management arrangements is held with the following institutions:

	Fitch Rating	31/03/20 £000	31/03/21 £000
<b>Money market funds</b>			
Aberdeen Standard Liquidity - Sterling Fund	AAA	11,750	18,800
Blackrock ICS Sterling Liquidity Fund	AAA	11,230	18,120
Deutsche Global Liquidity - Sterling Fund	AAA	0	0
<b>Bank current account</b>			
Lloyds Bank	A	479	0
NatWest	A	49	-40
<b>Total</b>		<b>23,508</b>	<b>36,880</b>

The Pension Fund has experienced no defaults from fund managers, brokers or bank accounts over the past ten years, therefore no expected credit loss provision is required.

**Liquidity risk** represents the possibility that the Fund may not have resources available to meet its financial obligations. The current position of the Fund is that it is cash positive, which reflects

the fact that contributions into the Fund exceed benefits being paid out. The Fund's cash is kept in a separate bank account and the cash position is monitored on a daily basis. Surplus funds are deposited in money market funds on a short term basis. At an investment level, the Funds' investments are substantially made up of listed securities which are considered readily realisable.

## 16. Actuarial Present Value of Promised Retirement Benefits

CIPFA's Code of Practice requires the disclosure of the actuarial present value of promised retirement benefits calculated on an IAS 19 basis, as set out in IAS 26.

Therefore, in addition to the triennial funding valuation, the Fund's actuary undertakes a

valuation of the pension fund liabilities on an IAS 19 basis at the same date. The IAS 19 valuation is carried out using updated actuarial assumptions from those used for setting fund contribution rates and the Fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

The most recent actuarial valuation based on IAS 19 is shown below:

31/03/2016 £m		31/03/2019 £m
2,274	Actuarial Present Value of Promised Retirement Benefits	3,168

## 17. Additional Voluntary Contributions (AVC)

Scheme members may elect to make additional voluntary contributions to enhance their pension benefits. Contributions are made directly from scheme members to the AVC provider and are

therefore not represented in these accounts in accordance with section 4(2)b of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093). However, as the administering authority, we oversee the following AVC arrangements:

2019/20 £000		2020/21 £000
577	AVC paid during the year	303
3,724	Market Value of separately invested AVC's	4,670

*Information received from the primary AVC provider is based on draft figures available.*

## 18. Contractual Commitments

As at 31 March 2021 the Fund had outstanding private equity commitments of a maximum of £38.683 million (£53.466 million at 31 March 2020).

## 19. Securities Lending

At the year end the value of quoted equities on loan was £37.335 million (£311.147 million at March 2020) in exchange for which the custodian held collateral of £40.253 million (£329.301 million at March 2020), the significant reduction is due to the transfer of Aberdeen fixed interest securities to WPP in 2020/21. For the year ending 31 March 2021, the Fund received income of £48,000 from the lending of stock (£120,000 in 2019/20). In addition, the fund received income from WPP of £17,000 from the lending of stock.

## 20. Provisions and Contingent Liabilities

A number of death grants have been identified where the Fund has been unable to trace the next of kin meaning no payment has been made to date. In all of the outstanding cases, there has been difficulty in making contact, meaning that the payments are not likely to be settled within the next financial year.

Due to the uncertainty surrounding the timing of these payments and final amounts payable, a provision for £1,054,017 has been included in the accounts (£737,078 in 2019/20), which consists of £319,601.98 short term (£0 in 2019/20), £591,279 long term and £143,135 of estimated interest (£591,279 long term and £145,799 of estimated interest in 2019/20).

The Fund has no material contingent liabilities.

## 21. Related Party Transactions

Cardiff Council is the administering authority for Cardiff & Vale of Glamorgan Pension Fund. The Pensions Committee includes members of the Council. There are two members of the Pension Fund Committee that are active members of the Pension Fund.

Examples of related party transactions with the Council are:

- Cash invested internally by the Council (for working capital purposes) – see Note 13 Summary of manager’s portfolio values
- Administration expenses charged to the Fund by the Council are shown in Note 10 Management Expenses
- Paragraph 3.9.4.4 of the Code of Practice exempts Local Authorities from the key management personnel disclosure requirements of IAS24 on the basis that requirements for officer remuneration and members’ allowances is detailed in section 3.4 of the Code and can be found in the Cardiff Council Statement of Accounts.

In addition to the related parties, the Investment Panel and the Pensions Board provide advisory support to the Pensions Committee. The Pensions Board includes representatives from participating employers and members of Cardiff Council.

Four members of the Pension Fund Board are active members of the Pension Fund. One of the active members on the Pension Fund Board was also in receipt of pension fund benefits from the Cardiff and Vale of Glamorgan Pension Fund.

## Contributing Employers

The active contributing employers as at 31 March 2021 are detailed below

Administering Body	
Cardiff Council	
Scheduled Bodies	
Councils	Town and Community Councils
Vale of Glamorgan Council	Barry Town Council
Education Bodies	Cowbridge Town Council
Cardiff and Vale College	Lisvane Community Council
Cardiff Metropolitan University	Llantwit Major Council
St David's Sixth Form College	Penarth Town Council
Stanwell Comprehensive	Penllyn Community Council
Other Scheduled Bodies	Pentyrch Community Council
Cardiff Bus	Radyr & Morganstown Community Council
Public Services Ombudsman for Wales*	Wenvoe Community Council
Admitted Bodies	
A and R Cleaning Gabalfa *	Eisteddfod Genedlaethol Cymru
A and R Cleaning Greenway	Glen Cleaning (Barry Comprehensive)
A and R Cleaning High Street *	Glen Cleaning (Eastern High)
A and R Cleaning Lansdowne	Glen Cleaning (Gladstone Primary) *
A and R Cleaning Trowbridge	Glen Cleaning (Llandough)
A and R Cleaning Whitchurch	Greenwich Leisure Limited (GLL)
Adult Learning Wales	Grangetown Primary Cleaning (APP)
Big Fresh Cleaning	Mirus Wales
Cardiff Business Technology Centre	National Trust (Dyffryn)
Cardiff University	One Voice Wales
Careers Wales (Cardiff And Vale)	Play Wales
Children In Wales	Sports Council for Wales
Circle IT (Cowbridge Comprehensive)	St Teilo's Cleaning (APP)
Circle IT (Eastern High)	Wales & West Housing Association*
Colegau Cymru - Colleges Wales	Wales Council For Voluntary Action
Design Commission For Wales	

\*Employers contributing to the Fund in 2019/20 that were not contributing to the Fund

## 22. Events After the Reporting Period

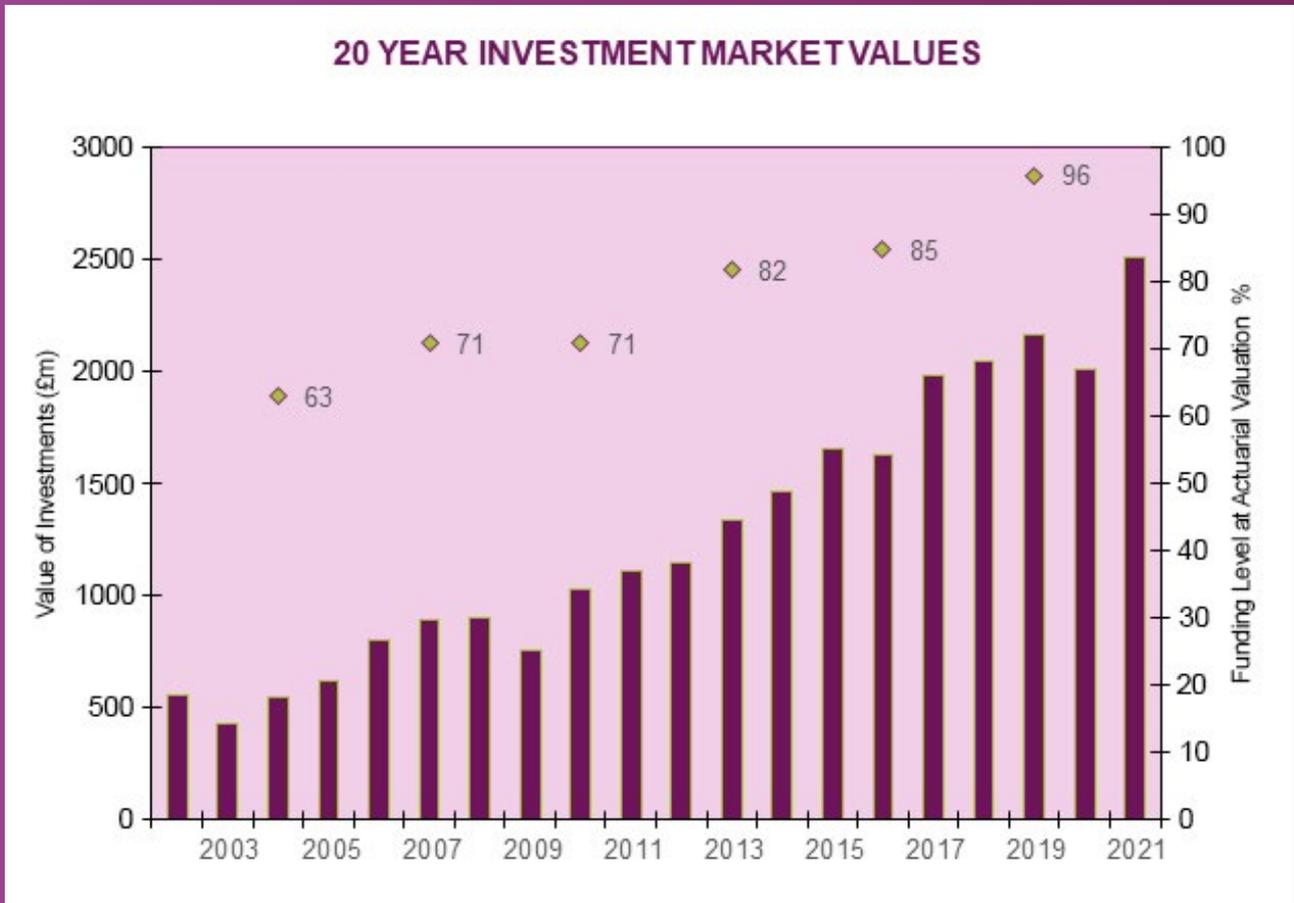
There are no events after the reporting period to report.

## 23. Date of Authorisation of the Accounts for Issue

This Statement of Accounts was authorised for issue on 25th November 2021 by the Corporate Director Resources. Post balance sheet events have been considered up to this date.

# APPENDIX 1

## INVESTMENT DATA



## INVESTMENT ASSET ALLOCATION (BY ASSET CLASS)

Year Ended 31 March		2016	2017	2018	2019	2020	2021
UK Equities	£m	568.5	685.8	620.2	641.6	437.1	577.4
	%	34.9	34.6	30.3	29.7	21.7	23.0
Overseas Equities	£m	588.8	771.1	633.8	667.5	698.7	1003.0
	%	36.2	38.9	30.9	30.9	34.7	40.0
Global Bonds	£m	247.9	279.7	555.6	565.1	586.1	632.9
	%	15.2	14.1	27.1	26.1	29.1	25.2
Private Equity	£m	83.1	88.3	79.3	82.2	88.7	90.7
	%	5.1	4.5	3.9	3.8	4.4	3.6
Property	£m	116.2	126.1	134.2	155.9	165.2	166.6
	%	7.1	6.4	6.5	7.2	8.2	6.6
Cash	£m	22.9	30.8	26.8	51.0	38.5	39.6
	%	1.4	1.6	1.3	2.4	1.9	1.6
Total Value	£m	1627.4	1982.0	2049.7	2163.4	2014.2	2510.1
	%	100	100	100	100	100	100

## TEN LARGEST HOLDINGS BY MARKET VALUE AS AT 31 MARCH 2021

	Country	Value £m	% of the Fund
<b>EQUITIES (DIRECTLY OWNED)</b>			
Taiwan Semiconductor Manufacturing Co	Taiwan	9.4	0.4
Samsung Electronics	South Korea	8.9	0.4
Tencent Holdings	China	8.2	0.3
Alibaba	China	5.5	0.2
Sony Corporation	Japan	5.3	0.2
Nintendo	Japan	4.7	0.2
Toyota Motor Corporation	Japan	4.5	0.2
Novatek microelectronics	Taiwan	4.2	0.2
BHP Group	Australia	3.9	0.2
AIA Group	Hong Kong	3.6	0.1
<b>POOLED FUNDS</b>			
BlackRock Low Carbon Tracker Indexed	Global	268.7	10.7
BlackRock Aquila Life UK Equities Indexed	UK	265.8	10.6
WPP Global Government Bonds	Global	252.5	10.1
WPP UK Opportunities Fund	UK	230.3	9.2
WPP Global Credit Fund	Global	226.1	9.0
SSGA MPF Europe ex UK Equities Active	Europe ex UK	221.6	8.8
WPP Multi Asset Credit Fund	Global	154.3	6.1
BlackRock Aquila Life US Equities Indexed	US	141.5	5.6
Aberdeen Emerging Markets Equity Fund	Global	126.8	5.0
Invesco Perpetual	UK	81.3	3.2

# APPENDIX 2

## FUNDING STRATEGY STATEMENT

JANUARY 2020

### Overview

This Statement has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (the Regulations). It describes Cardiff Council'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 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.

#### **4. 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 wants 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 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 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 groups of employers in the Fund pooled together for funding and contribution purposes.

#### 1. The Town and Community Councils Group

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

#### 2. The Colleges Group.

Currently the employers 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 fixed interest and index linked 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 of FSS: 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.

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## **Appendix 2 of FSS: 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.

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## **Appendix 3 of FSS: 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:
  - o Cardiff Corporation

- o Cardiff City Council and
- o 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:
  - o Cardiff Bus (liabilities attributable to service prior to 26 October 1986) (potentially all the liabilities – currently being considered)
  - o Race Equality First
  - o Cardiff & Co
  - o App Cleaning Limited (St Teilo's School)
  - o GLL
  - o A&R Cleaning (Lansdowne School)
  - o Grangetown Prim Cleaning (App)
  - o Circle IT (Eastern High School)
  - o Glen Cleaning (Eastern High School)
  - o A&R Cleaning (Gabalfa Primary School)
  - o A&R Cleaning (Greenway Primary School)
  - o 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:
  - o St Cyres School
  - o National Trust (employer as part of pooling arrangement has been given a fixed contribution rate of 20.7% of pensionable pay)
  - o Glen Cleaning Barry Comp
  - o Glen Cleaning (Llandough Primary)
  - o Circle IT (Cowbridge)
  - o Glen Cleaning (Gladstone Primary School)
  - o A&R Cleaning (High Street School Barry)

# APPENDIX 3

# 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 - UK & Overseas
- Equities - UK & Overseas (USA, Europe, Far East, 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
- Stock lending

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.

# APPENDIX 4

## COMMUNICATION POLICY STATEMENT

The Cardiff and Vale of Glamorgan Pension Fund strives to provide a high quality and consistent service to our customers in the most efficient and effective way possible, in this ever changing pension environment.

This Policy Document has been prepared and published, by Cardiff Council as Administering Authority of the Cardiff and Vale of Glamorgan Pension Fund. This Policy document has been written in compliance with regulation 61 of the Local Government Pension Regulations 2013 (the LGPS Regulations).

### **The Objectives of the Fund's Communication Strategy are:**

- improve awareness and appreciation of the benefits provided by the pension scheme
- encourage take up of the scheme amongst new and existing employees
- answer all LGPS member pension entitlement questions promptly
- develop the partnership between the Pension Fund's administration team and the employing bodies
- liaise with a range of other groups who have an interest in the scheme

Within the pension fund there are five groups of members with whom the Fund needs to communicate with:

1. Scheme Members
2. Prospective Scheme Members
3. Scheme Employers
4. Representatives of Members
5. Other Bodies

This Policy document sets out how we plan to communicate with all five groups.

The Cardiff and Vale Pension Fund aims to use the most appropriate channel of communication for the audience receiving the information. In some circumstances this may mean using more than one channel.

### **Scheme Members**

Scheme members include:

- **Active members** - currently contributing into the Fund
- **Deferred members** - benefits in scheme but not contributing
- **Pensioners** - receiving a pension

### **Fund Website**

The Fund has developed an extensive website which sets out Scheme rules and regulations in a simple and easy to read format. Information updates and news items are quickly added to notify members of any Scheme changes.

Electronic copies of the Fund's leaflets, forms, booklets, policy documents and reports are also readily available. The Fund's Annual Report and Accounts are available, plus all key governance documents.

### **Annual Report and Accounts**

An electronic copy of the Fund's Annual Report and Accounts is available to all Scheme members on the website. Hard copies are also available on request.

### **Newsletter**

The Fund will issue a newsletter to active Scheme members of the Fund on an ad hoc basis, which will cover current pension topics within the Local Government Pension Scheme and wider pensions industry.

We send an annual newsletter to all pensioners every April, giving them details of their annual pension increase, the payment dates for the new financial year, plus any other relevant pension information.

### **Annual Benefits Statement**

Annual Benefits Statements are sent to all Active members' home addresses showing them the current value of their pension at 31 March. Plus, a projection figure to Normal Pension Age (NPA) and current value of death benefit.

We also send Annual Benefit Statements to our deferred members' which gives them the current value of their pension at every April (the date the pension was last increased in line with the appropriate cost of living index).

Supplementary notes are provided with both Annual benefits Statements and Notes for Guidance are published on our website for additional support.

### **Scheme Literature**

Cardiff and Vale of Glamorgan Pension Fund produce an extensive range of Scheme literature, which are available to all Employers and Scheme

Members in both English and Welsh. All literature is updated regularly, to keep up to date with regulation changes and available on the Pension Fund's website.

### **Pension Increase Statements**

Annual Pension Increase statements are sent to all pensioners informing them of the percentage rate their pension will increase, and also the new pension payment for the new financial year.

### **Retirement Figures**

Deferred members contact us 6 weeks before their retirement date and retirement figures are sent to their home address.

### **Statutory Notifications**

In Compliance with Scheme Regulations, members are notified when any change occurs to their pension record which will affect their pension benefits.

### **Correspondence**

The Fund uses both surface mail and email to receive and send correspondence. Response will be sent in the individuals preferred language of choice.

### **Payment Advice/P60**

All Pensioners are issued with payment advice pay slips every April (together with their Pension Increase newsletter). Payslips are only sent throughout the year if their net pension changes by £10 or more.

P60 notifications are sent out annually (usually in April or May), and provide members with a breakdown of the payments they have received over the last complete financial year.

### **Prospective scheme members**

#### **Scheme Leaflet**

All prospective Scheme members are provided with a Scheme brochure, which explains the

benefits of joining the LGPS. This brochure is sent by the Human Resources Team when their employment contract is sent to new employees.

### **Pension Website**

The Fund's website has a dedicated section for non-members, where it highlights the benefits of the Scheme and the importance of planning for retirement. Giving all non-members the information they need to make an informed decision.

### **Scheme Employers**

The Fund communicates with its participating employers in several ways to help them meet their responsibilities as Scheme Employers.

#### **Annual Employer Forum**

We hold an Employer Forum meeting every year for all Scheme Employers, where Fund Managers discuss:

- Detailed investment update
- Financial and administrative reports
- Any relevant procedural/legislative changes
- Triennial valuation
- Guest speakers who will be able to upskill our Employers

The Communications and Training Officer will make periodic visits to the Employers address to discuss issues as and when they arise.

All Employers need to supply pay and contribution data to the pension scheme, within deadlines and in the format specified by the Pensions Team.

All employers within the Scheme, and their Human Resources functions, play a key role in informing the pension team of the new starters, leavers, retirements etc. Employers are also responsible for providing information on the pension scheme to their employees.

### **Annual Report and Accounts**

The audited accounts of the Cardiff and Vale of Glamorgan Pension Fund are prepared as at 31 March each year and a copy is posted on the Fund website and emailed to each participating employer.

### **Pension Administration Strategy**

The Administration Strategy defines the responsibilities of both the Fund and all Scheme employers in the administration of the Scheme.

The Strategy sets out the level of performance expected from the Cardiff and Vale Pension Fund and all employers, as well as the consequence of not meeting statutory deadline.

### **Website**

The Fund website has a dedicated employer area to provide employers with the guidance needed to effectively discharge their administrative responsibilities, and will include updates and forms which can be downloaded.

### **Updates**

Regulatory and administrative updates are frequently issued to all employers by email.

### **Training**

Bespoke training sessions can be delivered, on request by the dedicated Communication & Training Officer to resolve any administrative issues identified by the employer.

## **Member Representatives**

### **Trade Unions**

Trade Unions in South Wales are valuable ambassadors for the Pension Scheme. They deliver details of the Local Government Pension Scheme's to their members by local representative. They also assist in negotiation under TUPE transfers in order to ensure, whenever possible, continued access to the Local Government Pension Scheme.

A Trade Union Forum is held annually.

Representatives of the local trade union branches receive presentations on the Fund's Annual Report, the performance of its investments and other current issues.

### **Pension Board**

The Fund's Local Pension Board was established on 1st April 2015. The Board includes three scheme member representatives who participate in the Board's role of assisting the Scheme Manager. Each Board member has received appropriate induction and training and will be kept up to date with national and local developments in the LGPS. The names and contact details of the scheme member representatives are available on the Cardiff and Vale Pension Fund website.

### **Other Bodies**

The Pensions Administration Team are also actively involved with other various groups who have an interest in the LGPS.

### **Ministry of Housing, Communities and Local Government (MHCLG)**

This Government Department are responsible for amending the Scheme regulations following consultation with all local authorities, and some employers. The Fund takes part in these exercises as and when necessary.

We also have involvement with the **Local Government Association (LGA)** and **National Association of Pension Funds (NAPF)**. The Fund is also a member of the **Local Authority Pension Fund Forum (LAPFF)**.

### **All Wales Pensions Officer's Group**

Pension Officers from all of the Welsh administering authorities meet regularly to discuss and share information. This ensures uniform interpretation of the LGPS and other prevailing regulations.

### **Wales Pension Partnership Group**

The Fund works closely with other Welsh Pension Funds to evaluate specific partnership arrangements, particularly within the All Wales Pension Funds Communication Working Group. Aiming where possible to deliver the same communications across all 8 Welsh Pension Funds.

### **Seminars**

Fund Officers regularly participate at seminars and conferences held by LGPS related bodies.

## **General Information**

### **Data Protection**

To protect any personal information held on computer, the Cardiff and Vale of Glamorgan Pension Fund, is registered under the Data Protection Act 2018. This allows members to check that their details held are accurate. The Fund's Privacy Notices are published on the Pension Fund website.

### **National Fraud Initiative**

The Authority are under a duty to protect the public funds it administers, and may use information for the prevention and detection of fraud.

### **General**

Whilst this Policy Statement outlines the communication approaches adopted by the Cardiff and Vale of Glamorgan Pension Fund there are roles and responsibilities which fall on Scheme members, perspective scheme members and participating Scheme employers in ensuring that information necessary to maintain an accurate membership base is provided in a timely manner.

### **Policy Review**

This statement will be revised if there are any material changes in Cardiff and Vale of Glamorgan Pension Fund's Communication Policy but will be reviewed on an annual basis.

### **How to get in contact with us**

If you have a question or would like some more information about The Cardiff and Vale of Glamorgan Pension Fund please contact us.

By email: [pensions@cardiff.gov.uk](mailto:pensions@cardiff.gov.uk)

By phone: 029 2087 2334  
open Monday to Thursday  
from 8.30am to 5pm,  
and Friday 8.30am to 4.30pm

By Post: Pensions Team  
Room 252  
County Hall  
Atlantic Wharf  
Cardiff  
CF10 4UW

# APPENDIX 5

## GOVERNANCE COMPLIANCE STATEMENT

This Statement has been prepared and published by the City of Cardiff Council as Administering Authority of the Cardiff & Vale of Glamorgan Pension Fund, in compliance with regulation 55 of the Local Government Pension Scheme Regulations 2013 (as amended) (the “LGPS Regulations”).

## Delegation of Functions

City of Cardiff Council has established a Pensions Committee to discharge its functions under the LGPS Regulations and has delegated

operational management of the Pension Fund to the Corporate Director Resources. The relevant sections in the Council's Constitution are:

### Terms of Reference for Committees:

#### **Pensions Committee**

To discharge the functions of the authority as Administering Authority of the Cardiff & Vale of Glamorgan Pension Fund ('the Fund') as described in the Local Government Pension Scheme (LGPS) Regulations made under the Superannuation Act 1972 (sections 7,12 or 24) and Section 18(3A) of the Local Government and Housing Act 1989; and

To discharge the following specific strategic functions with regards to the Fund, taking account of advice from the Corporate Director Resources and the Fund's professional advisers:-

- a) Determining the Fund's aims and objectives, strategies, statutory compliance statements, policies and procedures for the overall management of the Fund, including in relation to the following areas:
  - i) Governance – approving the Governance Policy and Compliance Statement for the Fund;
  - ii) Funding Strategy – approving the Fund's Funding Strategy Statement including ongoing monitoring and management of the liabilities, giving due consideration to the results and impact of the triennial actuarial valuation and interim reports;
  - iii) Investment strategy - approving the Fund's investment strategy, Statement of Investment Principles and Myners Compliance Statement including setting investment targets and ensuring these are aligned with the Fund's specific liability profile and risk appetite;
  - iv) Communications Strategy – approving the Fund's Communication Strategy;
  - v) Discretions – determining how the various administering authority discretions are operated for the Fund; and
  - vi) Internal Dispute Resolution Procedure – determining how the Scheme Member disputes are administered.
- b) Monitoring the implementation of these policies and strategies as outlined in a) above on an ongoing basis.
- c) Considering the Fund's financial statements as part of the approval process and agreeing the Fund's Annual Report. Receive internal and external audit reports on the same.
- d) Receiving ongoing reports from the Corporate Director Resources in relation to the delegated operational functions.
- e) To provide independent assurance to members of the Fund of the adequacy of the risk management and associated control environment, responsible for the Fund's financial and non-financial performance.
- f) To adhere to the principles set out in the Pensions Regulator Code of Practice and undertake its duties in compliance with the obligations imposed on it.
- g) To receive regular training to enable Committee Members to make effective decisions and be fully aware of their statutory and fiduciary responsibilities and their stewardship role.
- h) Consider any pension compliance matters raised by the Fund's Local Pension Board.

## Specific Delegations to Statutory Officers:

### **FS28**

In accordance with any policy or strategy decided by the Pensions Committee to approve decisions relating to the operational management of the pension fund and the administration of pension benefits.

### **FS51**

To carry out functions relating to local government pensions etc pursuant to Regulations under Section 7, 12 or 24 or the Superannuation Act 1972; and functions relating to pensions, allowances and gratuities pursuant to Regulations under Section 18(3A) of the Local Government and Housing Act 1989.

The administration of the Pension Fund is carried out by the Pensions Section based in County Hall. All significant decisions e.g. the exercise of discretions granted to the administering authority under the LGPS regulations, are made and recorded in accordance with the Council's scheme for delegated decision making. As part of the Resources Directorate, the Section is subject to the Council's policies, procedures and internal controls.

The Pension Committee and Corporate Director Resources are advised on investment matters by an Investment Advisory Panel. The role of the panel is detailed in the Fund's Statement of Investment Principles.

The panel comprises:

- Corporate Director Resources
- Three elected members of City of Cardiff Council
- One elected member of Vale of Glamorgan Council
- Two independent advisers

The panel normally meets four times a year to review the performance of the Fund's investments and to advise on investment strategy. The panel also considers other aspects of the administration of the LGPS which may have implications for investments e.g. the triennial actuarial valuation. The panel receives presentations from each active investment manager annually and also interviews shortlisted managers when new mandates are awarded.

An Employers' Forum is held annually to which all contributing employers of the Fund are invited. The Forum considers the Fund's Annual Report and Accounts and receives presentations on matters such as changes in regulations and actuarial valuations.

A Trade Union Forum is also held annually and considers similar issues with trade union representatives of the main employers.

## Compliance with Statutory Guidance

Compliance Standard	Arrangements in Place/Action Taken	Action Complies with Principle? Yes/No/Partial	Reason for non-Compliance (if applicable)
<b>Principle A – Structure</b>			
<p><i>The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.</i></p>	<p>The Committee’s Terms of Reference and Officer Delegations are clearly set out in the Council’s Constitution</p>	<p>Yes</p>	
<p><i>That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.</i></p>	<p>The two main employers are represented on the Investment Advisory Panel.</p> <p>Other employers attend the annual Employers’ Forum and are represented on the Local Pension Board</p> <p>Scheme members are not represented on the Committee or Panel but are represented at the Trade Union Forum and Local Pension Board.</p>	<p>Partial</p>	
<p><i>That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.</i></p>	<p>Yes</p>	<p>Yes</p>	
<p><i>That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.</i></p>	<p>No – the Committee is a committee of the administering authority.</p>		

Principle B – Representation		
<p><i>That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure.</i></p> <p><i>These include :-</i></p> <p><i>i) employing authorities (including non-scheme employers, eg, admitted bodies);</i></p> <p><i>ii) scheme members (including deferred and pensioner scheme members);</i></p> <p><i>iii) independent professional observers; and</i></p> <p><i>iv) expert advisors (on an ad-hoc basis).</i></p> <p><i>That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.</i></p>	<p>The Committee is a committee of the administering authority.</p> <p>The two unitary authorities employ over 85 % of active members and are represented on the Panel. Other employers are not currently represented</p> <p>Scheme members are not currently represented</p> <p>Two independent advisors attend every Panel meeting</p> <p>All Committee and Panel members have the same access to papers and training opportunities.</p>	<p>Partial</p> <p>Yes</p>
Principle C - Selection and Role of Lay Members		
<p><i>That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.</i></p>	<p>The functions of the Committee are set out in the Council's Constitution.</p> <p>The role of the Investment Advisory Panel is clearly set out in the SIP and other key documents</p>	<p>Yes</p>

Principle D – Voting			
<i>The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees</i>			
Principle E - Training/Facility Time/Expenses			
<i>That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.</i>	Committee and Panel members are advised of training opportunities.	Yes	
<i>That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.</i>	Yes	Yes	
Principle F - Meetings (frequency/quorum)			
<i>That an administering authority's main committee or committees meet at least quarterly.</i>	The Committee meets at least quarterly.	Yes	
<i>That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.</i>	The Investment Advisory Panel meets quarterly	Yes	
<i>That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.</i>	Employers' Forum and Trade Union Forum are held annually	Yes	

<b>Principle G - Access</b>			
<i>That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.</i>	Papers are circulated to all Committee and Panel members in advance of meetings.	Yes	
<b>Principle H - Scope</b>			
<i>That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.</i>	<p>The Committee's role is to consider all strategic issues.</p> <p>The Investment Advisory Panel considers all issues relevant to investment matters.</p> <p>Wider issues are also discussed at the Employers' and TU Forums.</p>	Yes	
<b>Principle I - Publicity</b>			
<i>That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.</i>	All governance documents are published on the Council's website	Yes	

### **Local Pension Board**

The Terms of Reference for the Local Pension Board of the Cardiff & Vale of Glamorgan Pension Fund have been published on the Fund's website: [www.cardiff.gov.uk/pensions](http://www.cardiff.gov.uk/pensions)

**CHRISTINE SALTER**  
**CORPORATE DIRECTOR RESOURCES**  
**September 2016**

# GLOSSARY

Knowledge of basic accountancy terminology is assumed. However, there are certain specialist terms related to local government finance, which are described below:

## Accruals Basis

The accruals principle is that income is recorded when it is earned rather than when it is received, and expenses are recorded when goods or services are received rather than when the payment is made.

## Active / Passive Management

Active management is the traditional form of investment management involving a series of individual investment decisions that seek to maximise returns by exploiting price inefficiencies i.e. 'beat the market'.

Passive management is a low cost alternative where managers normally hold stocks in line with a published index, such as the FTSE All-Share, not seeking to outperform but to keep pace with the index being tracked.

## Actuary

An independent consultant who advises on the long-term viability of the Fund. Every three years the Fund actuaries review the assets and liabilities of the Fund and report to the Council on the financial position and recommended employer contribution rates. This is known as the actuarial valuation.

## Actuarial Gains and Losses

For a defined benefit pensions scheme, the changes in actuarial deficits or surpluses that arise because events have not coincided with the actuarial assumptions made for the last valuation, or the actuarial assumptions have changed.

## Active Member

Current employee who is contributing to a pension scheme.

## Admitted Body

An organisation, whose staff can become members of the Fund by virtue of an admission agreement made between the Council and the organisation. It enables contractors who take on the Council's services with employees transferring, to offer those staff continued membership of the Fund.

## Asset Allocation

Apportionment of investment funds among categories of assets, such as Bonds, Equities, Cash, Property, Derivatives, and Private Equity. Asset allocation affects both risk and return.

## Benchmark

A measure against which the investment policy or performance of an investment manager can be compared.

### **Bonds**

Investments, mainly in government stocks, which guarantee a fixed rate of interest. The securities represent loans which are repayable at a future date but which can be traded on a recognised stock exchange in the meantime.

### **Cash and Cash Equivalents**

Sums of money available for immediate use and deposits with financial institutions repayable without penalty on notice of not more than 24 hours.

### **Chartered Institute of Public Finance & Accountancy (CIPFA)**

CIPFA is the leading professional accountancy body which determines accounting standards and reporting standards to be followed by Local Government.

### **Contingent Liabilities or Assets**

These are amounts potentially due to or from individuals or organisations which may arise in the future but which at this time cannot be determined accurately, and for which provision has not been made in the Council's accounts.

### **Creditors**

Amounts owed by the Council for work done, goods received or services rendered, for which payment has not been made at the date of the balance sheet.

### **Custodian**

Bank or other financial institution that keeps custody of stock certificates and other assets of a client, collects dividends and tax refunds due, and settles any purchases and sales.

### **Debtors**

These are sums of money due to the Council that have not been received at the date of the Balance Sheet.

### **Deferred Pensioner**

A member who has stopped paying into the scheme but is not yet retired.

### **Defined Benefit Scheme (Pensions)**

This is a pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

### **Defined Contribution Scheme (Pensions)**

A Defined Contribution Scheme is a pension or other retirement benefit scheme into which an employer pays regular contributions as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

### **Derivative**

A derivative instrument is a contract whose value is based on the performance of an underlying financial asset, index, or other investment.

### **Emerging Markets**

Relatively new and immature stock markets for equities or bonds. Settlement and liquidity can be less reliable than in the more established 'developed' markets, and they tend to be more volatile.

### **Employer Contribution Rates**

The percentage of the salary of employees that employers pay as a contribution towards the employees' pension.

### **Equities**

Ordinary shares in UK and overseas companies traded on a recognised stock exchange. Shareholders have an interest in the profits of the company and may normally vote at shareholders' meetings.

### **Fair Value**

Fair Value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

### **Financial Assets**

Financial assets are cash, equity instruments within another entity (e.g. shares) or a contractual right to receive cash or another asset from another entity (e.g. debtors) or exchange financial assets or financial liabilities under potentially favourable conditions (e.g. derivatives).

### **Financial Instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. The term 'financial instrument' covers both financial assets and financial liabilities and includes both the most straightforward financial assets and liabilities such as trade receivables and trade payables and the most complex ones such as derivatives and embedded derivatives.

### **Financial Liabilities**

Financial liabilities are contractual obligations to deliver cash or another financial asset (e.g. creditors) or exchange financial assets or financial liabilities under potentially unfavourable conditions (e.g. derivatives).

### **Fixed Interest Securities/Bonds**

Investments, especially in government stocks, with a guaranteed rate of interest. Conventional bonds have fixed rates, whilst Index Linked vary with inflation. They represent loans repayable at a stated future date, and which can be traded on a stock exchange in the meantime.

### **Fund Manager**

A fund that handles investments on behalf of the pension fund according to an agreed investment mandate.

### **Fund of Funds**

A pooled fund that invests in other pooled funds. They are able to move money between the best funds in the industry, and thereby aim to lower stakeholder risk with greater diversification than is offered by a single fund.

### **Impairment**

A reduction in the value of assets below its value brought forward in the Balance Sheet. Examples of factors which may cause such a reduction in value include general price decreases, a significant decline in an asset's market value.

### **Index**

A calculation of the average price of shares, bonds, or other assets in a specified market to provide an indication of the average performance and general trends in the market.

### **ISS**

The Investment Strategy Statement which each LGPS fund is required to prepare and keep under review.

### **Liabilities**

These are amounts due to individuals or organisations which will have to be paid at some time in the future. Current liabilities are usually payable within one year of the Balance Sheet date.

### **LGPS**

The Local Government Pension Scheme, governed by regulations issued by the Department for Communities and Local Government.

### **Materiality**

Information is material if omitting it or misstating it could influence the decisions that users make on the basis of financial information about a specific reporting authority.

### **Pension Fund**

A fund built up from deductions from employees' pay, contributions from employers and investment income from which pension benefits are paid.

### **Pensioner**

A scheme member who received a pension from the Fund.

### **Pooled Funds**

Pooled investment vehicles issue units to a range of investors. Unit's prices move in response to changes in the value of the underlying portfolio, and investors do not own directly the assets in the fund. The main types are: unit trusts, open-ended investment companies (OEICs), insurance linked vehicles and investment trusts.

### **Portfolio**

A collective term for all the investments held in a fund, market or sector. A segregated portfolio is a portfolio of investments of a specific type held directly in the name of the investor e.g. Global Bonds, or a specific market e.g. UK Equities, Far East Equities.

### **Prior Period Adjustments**

These are material adjustments which are applicable to an earlier period arising from changes in accounting policies or for the correction of fundamental errors.

### **Private Equity**

Investments made by specialist managers in all types of unlisted companies rather than through publicly tradable shares.

### **Provisions**

Amounts set aside in respect of liabilities or losses which are likely or certain to be incurred, but in relation to which the exact amount and date of settlement may be uncertain.

### **Related Parties**

Related parties are Central Government, other local authorities, precepting and levying bodies, subsidiary and associated companies, Elected Members, all senior officers from Director and above. For individuals identified as related parties, the following are also presumed to be related parties:

- members of the close family, or the same household; and
- partnerships, companies, trusts or other entities in which the individual, or member of their close family or the same household, has a controlling interest.

### **Return**

The total gain from holding an investment, including both income and any increase or decrease in market value. Returns over periods longer than a year are usually expressed as an average annual return.

### **Scheme Employers**

Local authorities and bodies specified in the LGPS Regulations, whose employees are entitled automatically to be members of the Fund, and Admission Bodies including voluntary, charitable and similar bodies, carrying out work of a public nature, whose staff can become members of the Fund by virtue of an admission agreement with the Council.

### **Scheduled Body**

An organisation that has the right to become a member the Local Government Pension Scheme under the scheme regulations. Such an organisation does not need to be admitted, as its right to membership is automatic.

### **Unit Trust**

A collective investment fund that is priced, bought and sold in units that represent a mixture of the securities underlying the fund.

### **Unrealised Gains / Losses**

The increase or decrease in the market value of investments held by the fund since the date of their purchase. Note: values throughout these accounts are presented rounded to whole numbers. Totals in supporting tables and notes may not appear to cast, cross-cast, or exactly match to the core statements or other tables due to rounding differences.



# FURTHER INFORMATION

Information about the Fund is available on the Fund's website:  
<https://www.cardiffandvalepensionfund.org.uk/>

Further information regarding the scheme can also be found on the LGPS website (<https://lgpsmember.org/>). Any significant changes to the scheme are communicated to members by newsletter.

A statement of each individual's benefits is currently provided automatically on retirement. Annual benefit statements are sent to all active and deferred Fund members based on the benefits accrued to 31 March each year.

Copies of this report are sent to all employers and recognised Trade Unions, and are available to all interested parties on request. Copies of the rules currently governing local government pension funds may also be inspected on request.

Further information on the Pension Fund or any pension matters may be obtained from:

**Pensions Team**  
**Room 252**  
**County Hall**  
**Atlantic Wharf**  
**Cardiff**  
**CF10 4UW**

Telephone: **029 2087 2334**

E-mail: enquiries should be sent to: **Pensions@cardiff.gov.uk**

Email enquiries should be directed as follows:

Scheme Management and Investment Pensions		
Marc Falconer	Pensions Manager	M.Falconer@cardiff.gov.uk
Scheme Management and Investment Pensions		
Karen O'Donoghue-Harris	Principal Pensions Officer	KODonoghue-Harris@cardiff.gov.uk
Nicola Cumper	Senior Pensions Officer	NCumper@cardiff.gov.uk
Wendy Herbert	Senior Pensions Officer	WHerbert@cardiff.gov.uk
Jayne Newton	Communications & Training Officer	Jayne.Newton@cardiff.gov.uk
Hywel Tutton	Senior Technical Officer	Hywel.Tutton@cardiff.gov.uk
Fund Accounting		
Sally Ormiston	Group Accountant	SOrmiston@cardiff.gov.uk

**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 amended FSS is attached as Appendix 1 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 although amendments to the FSS within this three year cycle may be necessary. 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 and other regulatory bodies such as the Scheme Advisory Board (SAB).

**Issues**

5. The Fund's actuaries have prepared the draft FSS (attached as Appendix 1) as a revision of the statement published after the 2019 valuation to incorporate recent updates in the LGPS Regulations in particular those in relation to Employer Flexibilities.
6. The key parts of the FSS to be amended in relation to Employer Flexibilities are in the new Appendices 4 and 5. Appendix 4 is titled "Policy on reviewing employer contributions between triennial actuarial valuations" and outlines the situation in which the Administering Authority will review employer contributions and the process it will follow to undertake those reviews. Appendix 5 is titled "Policy on spreading of exit payments and deferred debt agreements" and considers the appropriate period for the spreading of exit payments and the process for determining this period. Appendix 5 also covers Deferred Debt Agreements (DDA) whereby exiting employers continue to make contributions at the secondary rate and defer the payment of an exit payment and the process to determine whether it is appropriate to enter into a DDA.

7. The document includes updates in other areas to ensure that Employer Flexibilities are appropriately reflected in the drafting as well as taking the opportunity to update the document for a number of other small minor changes primarily to reflect any legislative changes since the last review, for example in relation to the payment of Exit Credits.
8. If the Pension Committee is content to approve the revised FSS document then the next step will be to commence a period of consultation with the draft document to be sent to the Fund's employers, and to the members of the Local Pension Board.
9. If there are no material amendments arising from the consultation then the FSS will be approved and published on the Fund's website. If there are significant amendments arising from the consultation then an amended FSS will be brought back to the Pension Committee for further consideration.
10. Updates to the FSS will also be included in the March 2022 triannual valuation process.

## **Legal Implications**

11. 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.
12. 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.
13. In considering this matter, the decision maker must have regard to the general legal advice set out below should be considered.

### General Legal Advice

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.

The Council also has to satisfy its public sector duties under the Equality Act 2010 (including specific Welsh public sector duties). Pursuant to these legal duties, Councils must in making decisions have due regard to the need to (1) eliminate unlawful discrimination, (2) advance equality of opportunity and (3) foster good relations on the basis of protected characteristics. The Protected characteristics are: age, gender reassignment, sex, race – including ethnic or national origin, colour or nationality, disability, pregnancy and maternity, marriage and civil partnership, sexual orientation, religion or belief – including lack of belief.

The Well-Being of Future Generations (Wales) Act 2015 ("the Act") places a 'well-being duty' on public bodies aimed at achieving 7 national well-being goals for Wales – a

Wales that is prosperous, resilient, healthier, more equal, has cohesive communities, a vibrant culture and thriving Welsh language, and is globally responsible.

In discharging its duties under the Act, the Council has set and published well-being objectives designed to maximise its contribution to achieving the national well-being goals. The well-being objectives are set out in Cardiff's Corporate Plan 2021-24

The well-being duty also requires the Council to act in accordance with 'sustainable development principle'. This principle requires the Council to act in a way, which seeks to ensure that the needs of the present are met without comprising the ability of future generations to meet their own needs. Put simply, this means that Council decision makers must take account of the impact of their decisions on people living their lives in Wales in the future. In doing so, the Council must:

- Look to the long term
- Focus on prevention by understanding the root causes of problems
- Deliver an integrates approach to achieving the 7 national well-being goals
- Work in collaboration with others to find shared sustainable solutions
- Involve people from all sections of the community in the decisions which affect them

The decision maker must be satisfied that the proposed decision accords with the principles above; and due regard must be given to the Statutory Guidance issued by the Welsh Ministers, which is accessible using the link below: <http://gov.wales/topics/people-and-communities/people/future-generations-act/statutory-guidance/?lang=en>

The Council has to be mindful of the Welsh Language (Wales) Measure 2011 and the Welsh Language Standards when making any policy decisions and consider the impact upon the Welsh language, the report and Equality Impact Assessment deals with all these obligations. The Council has to consider the Well-being of Future Generations (Wales) Act 2015 and how this strategy may improve the social, economic, environmental and cultural well-being of Wales.

## **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 November 2021

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

**FUNDING STRATEGY STATEMENT**

**NOVEMBER 2021**

## **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. In addition, the Administering Authority has had regard to the supplementary statutory guidance issued by MHCLG: Guidance on preparing and maintaining policies on review of employer contributions, employer exit payments and deferred debt agreements, and has also considered the Scheme Advisory Board's Guide to Employer Flexibilities.

### **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 Solutions UK Limited, has also been consulted on the content of this Statement.

In addition, the Administering Authority has had regard to the Fund's Investment Strategy Statement (ISS) published under Regulation 7 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 November 2021.

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 or surplus at the date of exit from the Fund
- notifying the body that it must meet any deficiency at exit and determine any exit credit to be paid to the exiting employer. 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.*
12. *Ensure consistent use of policies relating to revising employer contributions between formal actuarial valuations, entering into deferred debt agreements and spreading exit payments and ensure the process of applying those policies is clear and transparent to all fund employers.*

### **Individual Employers**

The individual employers will:

- Deduct contributions from employees' pay
- Pay all ongoing members' and employer's contributions (both percentage of pay, monetary shortfall recovery contributions and any contributions agreed under a deferred debt agreement which are due) as determined by the Fund Actuary, promptly by the 19<sup>th</sup> 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, including any material change in financial circumstances
- 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, in particular in relation to any review of contributions between triennial valuations under Regulation 64A
- 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
- Provide reviews in relation to any decision by the Administering Authority to put in place a deferred debt agreement under Regulation 64(7B) or spread an exit payment under Regulation 64B
- 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.

## 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 wants 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.

For any employers that have entered into a deferred debt agreement, the recovery period will generally be set equal to the remaining period of the deferred debt agreement.

### **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 deficiency.

In certain circumstances, for secure employers considered by the Administering Authority as being long term in nature, contribution adjustments to correct for any disclosed deficiency may be set as a percentage of payroll 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**

As part of each actuarial valuation separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers. The Administering Authority also monitors the position and may amend contributions between valuations as permitted by Regulations 64(4) and 64A. Further details of the Administering Authority's policy in relation to reviewing contributions is set out in Appendix 4.

### **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 certain cases, the Administering Authority may be prepared to agree payment over a period of time as permitted under Regulation 64B. The Administering Authority's policy in relation to spreading of exit debt is set out in Appendix 5.

For employers that exit the Fund on or after 1 April 2019 the Administering Authority will include an approximate allowance in the exiting employer's liabilities for potential additional liabilities arising from the McCloud judgement and cost management process and for the potential costs of GMP equalisation / indexation. In determining this allowance, the Administering Authority will have regard to any relevant guidance prepared by the Scheme Advisory Board and the advice of the Fund Actuary. It will be kept under regular review as further information on the McCloud judgement / Cost Management process and GMP equalisation / indexation becomes available.

### **Exit Credits**

Where an exit valuation discloses that there is a surplus in the Fund in respect of the exiting employer, and an exit credit 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 6 months of the exit date. Where the employer has not provided all the necessary information required by the Administering Authority to enable the Fund Actuary to calculate the final liabilities on exit within 2 months of the exit date, the employer will be deemed to have agreed that the 6 month period should run from the date all the necessary data has been provided.

In determining the amount of any exit credit payable the Administering Authority will take the following factors into consideration:

- (a) the extent to which there is an excess of assets in the Fund relating to that employer over the liabilities (i.e. a surplus);
- (b) the proportion of the surplus which has arisen because of the value of the employer's contributions;
- (c) any representations made by the exiting employer and, where that employer participates in the scheme by virtue of an admission agreement, any body listed in paragraphs (8)(a) to (d)(iii) of Part 3 to Schedule 2 of the Regulations; and
- (d) any other relevant factors, which include any legal, actuarial or other costs incurred by the Administering Authority in relation to the exit, the circumstances in which any subsumption commitment was granted, and any risk sharing arrangements in place. It should be noted that this is not an exhaustive list.

In particular the Administering Authority will not generally pay an exit credit larger than the total of the exiting employer's contributions paid into the Fund, less any costs incurred by the Administering Authority in relation to the exit.

## **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.

### ***Climate Risk***

The systemic risks posed by climate change and the policies implemented to tackle them will fundamentally change economic, political and social systems and the global financial system. They will impact every asset class, sector, industry and market in varying ways and at different times, creating both risks and opportunities for investors. The Administering Authority keeps the effect of climate change on future investment returns under review and will commission advice from the Fund Actuary on the potential effect on funding as required.

### ***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 where employers are unable to meet their obligations to the Fund.

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 monitors employer payments and expects employers to engage with the Fund where their circumstances have changed, noting that contributions can be reviewed between formal valuations if the conditions in Regulations 64A and the terms of the Administering Authority's policy as set out in Appendix 4 are met.

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.

Where it appears likely to the Administering Authority that for an employer the amount of the liabilities arising or likely to arise has changed significantly since the last valuation, the Administering Authority may consider revising an employer's contributions as permitted by Regulation 64A in line with the Administering Authority's policy as set out in Appendix 4.

### ***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 timing of any regulations in relation to the remedy to compensate members for illegal age discrimination following the outcome of the McCloud/Sargeant cases
- The outcome of the cost management process as at 31 March 2016 and 31 March 2020, noting that the Government is currently consulting on proposed changes to the cost management mechanism (which are not expected to be implemented before the 2020 process) and the Government's allocation of McCloud costs to scheme members under the 2016 process is likely to be subject to challenge.
- The Goodwin case in which an Employment Tribunal ruled (in relation to the Teachers' Pension Scheme) that the less favourable provisions for survivor's benefits of a female member in an opposite sex marriage compared to a female in a same sex marriage or civil partnership amounts to direct discrimination on grounds of sexual orientation. Following a written ministerial statement by the chief secretary to the Treasury on 20 July 2020 it is expected that changes will be made to the LGPS Regulations to reflect the ruling, but no changes have yet been proposed.

In determining how these uncertainties should be allowed for in employer contributions the Administering Authority will have regard to guidance issued by the SAB, taking account of the Fund Actuary's advice. At the 2019 valuation a loading equal to 0.9% of pay within the employer contribution rates for all employers certified by the Fund Actuary was included that reflected the possible overall extra costs to the Fund for McCloud / Cost Cap as advised by the Fund Actuary. For new employers commencing participation in the Fund after 1 April 2019, the Administering Authority will apply the same loading to the employer contribution rate as adopted for the 2019 valuation of the Fund. 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 future actuarial valuations, 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 the Administering Authority 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**

**November 2021**

## **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).

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.

For any employers that have entered into a deferred debt agreement it is expected that the Solvency Target will be set by considering the valuation basis which would be adopted once the deferred debt agreement ends. For most such bodies, to minimise the risk to other employers in the Fund, the notional assets related to these liabilities may be assumed to be invested in low risk investments, such as Government bonds.

### **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)

#### **Appendix 4: Policy on reviewing employer contributions between triennial actuarial valuations**

The Regulations require a triennial actuarial valuation of the Fund. As part of each actuarial valuation separate employer contribution rates are assessed by the actuary for each participating employer or group of employers. The Administering Authority also monitors the position and may amend contributions between valuations as permitted by Regulations 64(4) and 64A.

The Administering Authority will consider reviewing employer contributions between formal valuations in the following circumstances:

- it appears likely to the Administering Authority that the amount of the liabilities arising or likely to arise has changed significantly since the last valuation;
- it appears likely to the Administering Authority that there has been a significant change in the ability of the Scheme employer or employers to meet the obligations of employers in the Scheme;
- it appears likely to the Administering Authority the Scheme employer will become an exiting employer; or
- the Scheme employer or employers have requested a review of Scheme employer contributions and have undertaken to meet the costs of that review.

For the avoidance of doubt, the Administering Authority will not consider a review of contributions under Regulation 64A purely on the grounds of a change in market conditions affecting the value of assets and/or liabilities.

In determining whether or not a review should take place under Regulation 64A, the Administering Authority will consider the following factors (noting that this is not an exhaustive list):

- the circumstances leading to the change in liabilities arising or likely to arise, for example due to the restructuring of an employer, a significant outsourcing or transfer of staff, the loss of a significant contract, closure to new entrants, material redundancies, significant pay awards, or other significant changes to the membership due to ill-health retirements or voluntary withdrawals;
- the materiality of any change in the employer's membership or liabilities, taking account of the Fund Actuary's view of how this might affect its funding position, primary or secondary contribution rate;
- whether, having taken advice from the Fund Actuary, the Administering Authority believes a change in funding target or deficit recovery period would be justified, e.g. on provision or removal of any security, subsumption commitment, bond, guarantee, risk-sharing arrangement, or other form of indemnity in relation to the employer's liabilities in the Fund;
- the materiality of any change in the employer's financial strength or longer-term financial outlook, based on information supplied by the employer and supported by a financial risk assessment or more detailed covenant review carried out by the Fund Actuary or other covenant adviser to the Fund;
- the general level of engagement from the employer and its adherence to its legal obligations as set out in the Pension Administration Strategy and elsewhere, including the nature and frequency of any breaches such as failure to pay contributions on time.

For an employer where contributions may be reviewed under Regulation 64(4), the following circumstances may trigger a review, which may be informal as well as a full interim valuation (this is not intended to be a comprehensive list):

- a review has been requested by the relevant guarantor or subsuming employer, or for transferee and Schedule 2 Part 3 (1)(d) admission bodies, the relevant scheme employer;
- a material change in circumstances, such as the date of exit becoming known, the employer closing the scheme to new entrants, material membership movements or material financial information coming to light;

For an employer whose participation is expected to cease within the next 3 years, the Administering Authority will monitor developments and may 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) or 64A applies which may lead to a revised contribution schedule for the employer.

Where contributions are being reviewed for an employer with links to another employer in the Fund, particularly where this is a formal organisational or contractual link, e.g. a formal guarantee, subsumption commitment or risk sharing arrangement is in place, the Administering Authority will consider the potential risk and impact of the contribution review on those other employer(s), taking advice from the Fund actuary as required.

Where, following representations from the employer, the Administering Authority is considering not increasing the employer's contributions following a review, despite there being good reason to do so from a funding and actuarial perspective, e.g. if it would precipitate the failure of the employer or otherwise seriously impair the employer's ability to deliver its organisational objectives or it is expected that the employer's financial position will improve significantly in the near-term, the Administering Authority will consult with any related employers with a view to seeking their agreement to this approach.

In many cases information will be required from the employer, e.g. in relation to its financial position and business plans which could be the catalyst for informing the employer that a review is being proposed. It is expected that in most cases the employer will be aware of the proposed review of their contributions since this will be triggered by an employer's action and employers should be aware of the need to engage with the Fund in relation to any activity which could materially affect their liabilities or ability to meet those liabilities.

In any event, in all cases the Administering Authority will advise the employer that a review is being carried out and share the results of the review and any risk or covenant assessment as appropriate. It should be noted that the fact of a review being carried out does not automatically mean that contributions will be amended (up or down) since that will depend upon the materiality of the changes and other factors such as the outcome of discussions with the employer and any related employer in the Fund and the proximity to the next formal valuation.

The Administering Authority will consult with the employer on the timing of any contribution changes and there will be a minimum of 4 weeks' notice given of any contribution increases. In determining whether, and when, any contribution changes are to take effect the Administering Authority will also consider the timing of contribution changes following the next formal valuation. As a result, contribution reviews are unlikely to be carried out during the 12 month period from the valuation date although if there were any material changes to the expected amount of liabilities arising or the ability of the employer to meet those liabilities during that period, this should be taken into account when finalising the Rates and Adjustments Certificate as part of the valuation.

Where the request for a review comes from the employer, before submitting their request, the employer should consider the regulatory requirements and the Fund's policy as set out above and satisfy themselves that there has been a relevant change in the expected amount of liabilities or their ability to meet those liabilities. The employer should contact the Administering Authority and complete the necessary information requirements for submission to the Administering Authority in support of their application.

The Administering Authority will consider the employer's request and may ask for further information or supporting documentation/evidence as required. If the Administering Authority, having taken actuarial advice as required, is of the opinion that a review is justified, it will advise the employer and provide an indicative cost. In addition, employers should adhere to the notifiable events framework as set out in the Pension Administration Strategy. Employers should be aware that all advisory fees, including actuarial, legal and any other costs incurred by the Fund associated with a contribution review request, whether or not this results in contributions being amended, will be recharged to the employer.

## **Appendix 5: Policy on spreading of exit payments and deferred debt agreements**

### **Spreading of exit payments**

The starting position of the Administering Authority is that an exiting employer will be required to meet any exit liability owed as a single lump sum payment. However, the Administering Authority may allow phased exit payments as permitted under Regulation 64B.

It is envisaged that spreading of exit payments will only be considered at the request of an employer. The Administering Authority will then engage with the employer to consider its application and determine whether spreading the exit payment is appropriate and the terms which should apply.

In determining whether to permit an exit payment to be spread, the Administering Authority will consider factors including, but not limited to:

- the ability of the employer to make a single capital payment;
- whether any security is in place, including a charge over assets, bond, guarantee or other indemnity;
- whether the overall recovery to the Fund is likely to be higher if spreading the exit payment is permitted.

In determining the employer's ability to make a single payment the Administering Authority will seek actuarial, covenant or legal advice as required. Where the Administering Authority considers that the employer is financially able to make a single capital payment it will not normally be appropriate for the exit payment to be spread.

The employer will be required to provide details of its financial position, business plans and financial forecasts and such other information as required by the Administering Authority in order for it to make a decision on whether or not to permit the exit payment to be spread. This information must be provided within 2 months of request.

In determining the appropriate length of time for an exit payment to be spread, the Administering Authority will consider the affordability of the instalments using different spreading periods for the employer. The default spreading period will be up to 3 years but longer periods may be considered where the Administering Authority is satisfied that this doesn't pose undue risk to the Fund in relation to the employer's ability to continue to make payments over the period.

Whilst the Administering Authority's preference would be for an employer to request spreading of any exit payment in advance of the exit date, it is acknowledged that this may not be possible until after the employer has exited the Fund. Where there is a guarantor or subsuming employer, the guarantor/subsuming employer will also be consulted and any agreement to spread the exit deficit may be conditional on the guarantee continuing in force during the spreading period.

The amount of the instalments due under an exit deficit spreading agreement will generally be calculated as level annual amounts allowing for interest over the spreading period in line with the discount rate used to calculate the exit liabilities. Alternatively, monthly payments may be required, or the Administering Authority may require a higher initial

payment with lower annual payments thereafter to reduce the risk to the Fund. Alternative payment arrangements may be made in exceptional circumstances as long as the Administering Authority is satisfied that they don't materially increase the risk to the Fund.

Where it has been agreed to spread an exit payment the Administering Authority will advise the employer in writing of the arrangement, including the spreading period, the annual payments due, any other costs payable including actuarial and legal costs and the responsibilities of the employer during the spreading period. Where a request to spread an exit payment has been denied the Administering Authority will advise the employer in writing and provide a brief explanation of the rationale for the decision.

The Administering Authority will take actuarial, covenant, legal and other advice as considered necessary. In addition, employers will be expected to engage with the Administering Authority during the spreading period and adhere to the notifiable events framework as set out in the Pension Administration Strategy. If the Administering Authority has reason to believe the employer's circumstances have changed such that a review of the spreading period (and hence the payment amounts) is appropriate, it will consult with the employer and a revised payment schedule may be implemented. Whilst this review may also consider the frequency of payments, it should be noted that it is not envisaged that any review will consider changes to the original exit amount nor interest rate applicable. An employer will be able to discharge its obligations under the spreading arrangement by paying off all future instalments at its discretion. The Administering Authority will seek actuarial advice in relation to whether there should be a discount for early payment given interest will have been added in line with the discount rate used for the exit valuation.

#### **Deferred debt agreements (DDAs)**

Under Regulation 64(7A) of the Regulations, an administering authority may enter into a written agreement with an exiting employer for that employer to defer their obligation to make an exit payment and continue to make contributions at the secondary rate.

The Administering Authority's policy in relation to the spreading of exit payments under Regulation 64(7A) is set out below.

In determining whether or not to enter into a DDA with an employer the Administering Authority will take into account the following factors, including but not limited to:

- The materiality of the employer and any exit deficit in terms of the Fund as a whole;
- The risk to the Fund of entering into a DDA, in terms of the likelihood of the employer failing before the DDA has ended, based on information supplied by the employer and generally supported by a financial risk assessment or more detailed covenant review carried out by the Fund Actuary or other covenant adviser;
- The rationale for the employer requesting a DDA, particularly if the Administering Authority believes it would be able to make an immediate payment to cover the exit deficit;
- Whether an up-front payment will be made towards the deficit, and/or any security is, or can be put, in place, including a charge over assets, bond, guarantee or other indemnity, to reduce the risk to other employers.

Where it is expected that the employer's covenant may materially weaken over time the Administering Authority is very unlikely to consider entering into a DDA with that employer. Further, where an employer can demonstrably meet the exit payment in a single instalment, the Administering Authority would be unlikely to enter into a DDA unless it was clear that this wouldn't increase risk to the Fund, e.g. if the employer was fully taxpayer-backed and sufficient assurance was in place that all contributions due, including any residual deficit at the end of the DDA, would be met in full.

It is envisaged that DDAs will only be entered into at the request of an employer. The Administering Authority will engage/consult with the employer to consider the application and determine whether or not a DDA is appropriate and the terms which should apply. As part of its application for a DDA, the Administering Authority will require information from the employer to enable the Administering Authority to take a view on the employer's strength of covenant. Information will also be required on an ongoing basis to enable the employer's financial strength/covenant to be monitored. It is expected that DDAs will be monitored on an annual basis unless circumstances dictate otherwise. Monitoring may be more frequent as the end of the period of the DDA approaches.

The matters which the Administering Authority will reflect in the DDA include:

- An undertaking by the employer to meet all requirements on Scheme employers, including payment of the secondary rate of contributions, but excluding the requirement to pay the primary rate of contributions;
- A provision for the DDA to remain in force for a specified period, which may be varied by agreement of the Administering Authority and the deferred employer;
- A provision that the DDA will terminate on the first date on which one of the following events occurs-
  - the deferred employer enrolls new active members;
  - the period specified, or as varied, elapses;
  - the take-over, amalgamation, insolvency, winding up or liquidation of the deferred employer;
  - the Administering Authority serves a notice on the deferred employer that it is reasonably satisfied that the deferred employer's ability to meet the contributions payable under the deferred debt arrangement has weakened materially or is likely to weaken materially in the next 12 months; or
  - the Fund Actuary assesses that the deferred employer has paid sufficient secondary contributions to cover the exit payment that would have been due if the employer had become an exiting employer on the calculation date.
- The responsibilities of the deferred employer;
- The circumstances triggering a cessation of the arrangement leading to an exit payment (or credit) becoming payable, in addition to those set out in Regulation 64 (7E) and above.

The Administering Authority will monitor the funding position and risk/covenant associated with deferred employers on a regular basis. This will be at least triennially and most likely annually, but the frequency will depend on factors such as the size of the employer and any deficit and the materiality of movements in market conditions or the employer's membership.

The circumstances in which the Administering Authority may consider seeking to agree a variation to the length of the agreement under regulation 64(7D) include:

- Where the exit deficit has reduced (increased) such that it is reasonable to reduce (extend) the length of the recovery period and associated period of the DDA assuming that, in the case of the latter, this does not materially increase the risk to the other employers/Fund;
- Where the deferred employer's business plans, staffing levels, finances or projected finances have changed significantly, but, in the case of a deterioration, the Administering Authority, having taken legal, actuarial, covenant or other advice as appropriate, does not consider that there is sufficient evidence that deferred employer's ability to meet the contributions payable under the DDA has weakened materially, or is likely to weaken materially in the next 12 months; and
- Where the level of security available to the Fund has changed in relation to the DDA, as determined by the Administering Authority, taking legal, actuarial or other advice as appropriate.

At each triennial valuation, or more frequently as required, the Administering Authority will carry out an analysis of the financial risk or covenant of the deferred employer, considering actuarial, covenant, legal and other advice as necessary. Where supported by the analysis and considered necessary to protect the interests of all employers, the Administering Authority will serve notice on the deferred employer that the DDA will terminate on the grounds that it is reasonably satisfied that the deferred employer's ability to meet the contributions payable under the deferred debt arrangement has weakened materially, or is likely to weaken materially in the next 12 months, as set out under regulation 64(7E)(d).

Employers should be aware that all advisory fees incurred by the Fund associated with consideration of a DDA for an exiting employer, whether or not this results in a DDA being entered into, will be recharged to the employer. This will include actuarial, legal, covenant and other advice and the costs of monitoring the arrangement as well as the initial set up. All fees must be paid up front and cannot be added to any secondary contributions payable under the DDA.

It is expected that employers will make a request to consider a DDA before they would otherwise have exited the Fund under Regulation 64(1) and that a DDA should be entered into within 3 months of that date. The employer should continue to make secondary contributions at the prevailing rate whilst the DDA is being considered unless the Administering Authority, having taken actuarial and other advice as appropriate, determines that increased contributions should be payable. In exceptional circumstances, e.g. where there has been a justifiable delay due to circumstances outside of the employer's control, and at the sole discretion of the Administering Authority, a DDA may be entered into more than 3 months after the exit date.

Deferred employers will be expected to engage with the Administering Authority during the period of the DDA and adhere to the notifiable events framework as set out in the Pension Administration Strategy as well as providing financial and other information on a regular basis. This will be necessary to support the effective monitoring of the arrangement and will be a requirement of the DDA.

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**CARDIFF & VALE OF GLAMORGAN PENSION FUND  
LOCAL PENSION BOARD  
27 APRIL 2021**

Present: Mr Michael Prior (Independent Chair)

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

Scheme Member Representatives:  
Mr Peter King (Unison Nominee)  
Ms H Williams (Unison Nominee)

In Attendance: Chris Lee, Corporate Director Resources  
Gary Watkins (OM Revenues)  
Marc Falconer, Pensions Manager  
Karen O'Donoghue-Harris, Principal Pensions Officer

**1: Apologies and Declarations of Interest**

No apologies had been received. There were no declarations of interest.

**2: Minutes of previous meeting and Matters arising**

The minutes of the meeting held on 19 January 2021 were agreed as a correct record.

Matters arising:

Members asked for a verbal update on at the next meeting.

The Chairperson asked that a review of the Climate Change Policy be put as an agenda item for the next LPB meeting.

Members sent their well wishes to Jayne Newton for a speedy recovery.

**3: Pension Board Conflict of Interest Form**

The recording of conflicts of interests, both actual and potential, are an important element in demonstrating that good governance principles are followed by the Pension Board. A conflict of interest is a financial or other interest likely to prejudice the way in which someone carries out their role as a member of a pension board. It doesn't include

a financial or other interest arising merely from them being a member of the scheme or any connected scheme.

Although the Pension Board performs an advisory, rather than a decision making, role the disclosure of conflicts of interest would represent a demonstration of best governance practise. The setting-up of a process to identify, monitor and manage potential conflicts of interest of pension board members is recommended by The Pension Regulator.

Members were presented with draft Form and advised that this would be completed annually unless there were any in-year changes; nil returns would be required and completion of the form would be a prerequisite for new members.

Following a brief discussion on status of membership of the LGPS, changes were recommended to the form in that a box be included to these.

Members asked whether the form would be published/public. It was considered that the form should be kept in the Pension Administration Office.

Members asked about the process for annually renewing the forms and were advised that the Pension Admin section would manage this and remind members.

**RESOLVED:** To approve the conflict of interest pro-forma, subject to the inclusion of a box to indicate status and LGPS membership and that the Board members complete the form for 2021/22 and subsequent financial years.

#### **4. Review of 2021 TPR survey**

TPR asks LGPS Funds to complete an annual survey. Following discussions with the Chair of the Board the completed survey was submitted on 1st March 2021 and was appended to the report.

As this is a survey from TPR the questions are primarily focused on the administration services provided by the Fund. The survey was divided into a number of sections as follows:-

- a. Governance
- b. Managing Risks
- c. Administration and Record-Keeping processes
- d. Cyber Security
- e. Annual Benefit Statements
- f. Resolving Issues
- g. Reporting Breaches
- h. Governance and Administration
- i. Covid-19 Pandemic
- j. Pensions Dashboards
- k. Climate Change (LGPS only)
- l. Perception of TPR
- m. Attribution

Members asked about feedback from the survey and were advised that feedback should come back from the Regulator, which would hopefully show how the fund compares with other funds and could identify some areas for focus in the future.

Members discussed the questions and answers and asked what would be done with the information. A discussion took place around the questions and some areas that the Board had already focussed on such as Communications Policy. Officers noted that some things are dynamic such as Climate Change.

A discussion took place around succession planning and the risk of members' tenures ending at the same time. Officers explained that originally all members were appointed on a 4 year term but there had been movement in membership which meant that going forward there should be around 1 or 2 leaving per year. The Chair considered a review of membership should take place before 4 year tenures end and this could be considered next year.

**RESOLVED: To note the Funds response to the annual TPR survey for 2020.**

## **5. Administration Update**

The Board received a report providing an update on the work being undertaken by the Pension Section. Officers outlined each key point from the report and the Chairperson invited questions and comments from LPB members.

Members noted the issues with workload on retirement estimates, with a member of staff off on sickness absence and asked if the section were able to deal with the workload. Officers advised that they are looking at different options for distributing the work and may look to bring in a temporary member of staff to help.

Members received additional information with regard to McCloud and noted that there was a Ministerial announcement from UK Government on the when the legislation would be implemented, the announcement was due in May 2022. Officers have discussed the possible need for third party resources to undertake the amount of work and backdating that was required. The Chair considered that the Board should keep this under review.

In relation to Exit Payment/Cap Reform, Members asked if there would be another consultation document issued. Officers expected that there would be as if they are looking to change the regulations, they would have to consult on the impact of any changes.

With reference to GMP reconciliation, the Chair asked that a more detailed report be brought to the next meeting of the Board in July to have a better idea of the numbers of people impacted. Officers explained there may be limited additional information by July but there would be more detail going forward.

Members asked about Over/Under Payments, and whether these were separate from the GMP reconciliations. Officers advised that it was a separate piece of work but some reasons may be the same.

Members asked if other funds were having the same issues and Officers advised they were aware of other fund having similar issues. The Chair asked that more details be brought to the Board meeting in July.

In relation to Self Service, Members were advised about the positive feedback received from users who found it very quick to obtain info and how helpful to was to get answers to different scenarios.

Members asked if Trade Unions could help in encouraging take up and Officers welcomed this help when the time was right for Cardiff to roll out, noting that they were starting with smaller employers initially. Members noted that the increased take up would help members and also help administration staff.

## **6: Review of 2021/22 Business Plan**

The purpose of the Business Plan is to set out the key action points for the administration of the Fund over the next financial year in the context of the Fund's goals and objectives over the longer term. The Plan also includes membership statistics for the current and previous three years.

The Plan outlines the key work priorities for the Fund over the next twelve months as well as the achievements over the last financial year; The Plan includes a summary budget for 2021/22.

Members noted the significant increase in numbers of deferred pensioners. Officers explained that previously Status 2 members (someone has left but their benefits have not yet been processed) would not have been included in the figures previously but they are now.

Members made a number of suggestions for inclusion in the Plan going forward including; To include the Climate Change Policy; In the investment summary, illustrate the proportion dealt with by WPP and the Fund; Include the previous years' final survey as well as the current year to see the direction of travel.

Members also asked in relation to management fees, to see a split between WPP and the Fund – this could be kept at an aggregate level in the Plan but more detail given in a report to Board Members.

Members discussed training and the benefits of online training being more accessible, efficient and flexible, noting that going forward some training should still be offered online.

**RESOLVED: To note the draft Business Plan for 2021/22 and agree its submission to the Pension Committee for approval.**

## **7: Review Risk Register**

The Risk Register was previously presented to the Pension Board meeting on 19 January 2021 so the update focuses on changes to the register compared to the version presented to the previous Board meeting:

Risk P18 has been updated to reflect the withdrawal of the proposed Exit Payment Cap regulations but as further regulations for this area are expected in the future this risk has not been closed.

A new risk, P21, for Climate Change and Environmental, Social and Governance (ESG) risk has been added to the Risk Register.

The Chairperson asked that numbers and categories matrix is included in the report going forward.

Members referred to P13 and sought clarification on the one employer not yet to join iConnect and whether all new employers have joined iConnect. Officers clarified that GLL are the employer yet to join but they hoped they would be joining very soon. All new employers have joined.

**RESOLVED: To note the Risk Register and agree its submission to Pension Committee.**

## **8: Wales Pension Partnership and Investment Update**

Officers updated the Board concerning recent Wales Pension Partnership (WPP) and investment matters for the Cardiff & Vale of Glamorgan Pension Fund (Fund).

The Chairperson considered it was assuring to see the recovery over the 12 month period.

Whilst it was considered that the Fund was in a strong positive position going into the Valuation next year, Officers noted that there was lots of work to be done before the valuation including liabilities and scheme changes and that investments was only one aspect.

**RESOLVED: To note the developments with the WPP and the Fund's Investments**

## **9: Any Other Business**

The Chairperson advised that he was unable to attend a Chairs Engagement Forum and asked if any member was interested to take his place to contact him directly for the details.

The Chairperson thanked all those in attendance for their attention and contribution to the meeting.

### **Date of next meetings**

LPB 6<sup>th</sup> July 2021.

Joint Meeting with LPB and Pensions Committee 23<sup>rd</sup> November 2021.

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