

**REPORT OF CORPORATE DIRECTOR RESOURCES**

**AGENDA ITEM: 5**

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**DRAFT STATEMENT OF ACCOUNTS FOR 2018-19**

**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.

**Background**

3. As Administering Authority, Cardiff Council is responsible for producing the annual Statement of Accounts for the Fund. Draft accounts for 2018/19 have been submitted for audit and were presented to the Council's Audit Committee on 25 June. The accounts are available for public inspection for 20 working days, from 18 June to 15 July.
4. Audited accounts will be presented to Audit Committee on 10 September and Full Council for approval on 12 September. The approved accounts will be published on the Council website by 15 September. The accounts will also be included in the Fund's Annual Report for 2018/19 which will be presented to this Committee for approval on 4 November and published by 1 December.

**Issues**

5. The Income and Expenditure for the Fund is summarised on page 9 of the accounts. Contributions from employers/employees were 6.3% higher than in 2017/18. This is due to an increase in the underlying pensionable pay combined with stepped increases in contribution rates for certain employers from 1 April 2018. Outgoing monthly pension payments were 5.3% higher than in 2017/18, reflecting an increase in the number of pensioners and dependants combined with a 3% inflation-linked pension increase in April 2018. Transfers in and out of the Fund resulted in a net inward transfer of £4.4 million, mainly due to a settlement with RCT Pension Fund in respect of staff transferred in 2015 to the joint Regulatory and Adoption Services managed by Vale of Glamorgan Council. Consequently the Fund's overall cashflows in respect of fund members were a net inflow of £11.5 million over the year.

6. The closing net assets of the Fund as at 31 March 2019 were £2.18 billion, an increase of 5.4% from the 2018 figure of £2.07 billion. The market value of the Fund's investments increased by £114 million and £27 million was received as income (and reinvested).
7. The Fund's overall investment return over the financial year was 5.1% relative to a market benchmark of 5.7%. Market sentiment swung from optimism at the start of the financial year to pessimism in the last quarter of 2018 and back to optimism at the start of 2019, reflecting uncertainties concerning the departure of the UK from the EU, changes in the direction of central bank monetary policies and tensions over US-China trade relations.
8. The performance of manager portfolios during 2018-19 compared with their benchmarks is summarised in the table below:

Manager	Mandate (target against benchmark)	Benchmark return (%)	Portfolio Target (%)	Portfolio Return (%)
Aberdeen Standard	Global bonds (+1%)	2.9	3.9	3.0
BlackRock	UK Equities (passive)	6.4	6.4	6.4
BlackRock	US Equities (passive)	17.7	17.7	17.9
State Street	European Equities (+2%)	2.7	4.7	-0.6
Nikko	Japanese Equities (+3%)	-1.8	1.2	-3.7
Schroders	Asia-Pacific Equities (+3%)	4.0	7.0	6.9
Aberdeen Standard	Emerging Markets Equities (+3%)	0.1	3.1	2.8
Invesco	UK Equities (unconstrained)	6.4	N/A	-4.1
JP Morgan	UK Equities (unconstrained)	6.4	N/A	1.6
Majedie	UK Equities (+2%)	6.4	8.4	3.9
Private Equity Funds (28)	Global Private Equity	6.4	6.4	16.4
UK Property Funds (4)	UK Property	4.8	4.8	3.5
CBRE	Global Property (10% absolute return)	N/A	10.0	12.7

9. Over the last three financial years 2016-19, the average annual return was 9.6% against a benchmark return of 10.0%. Over the past 10 years, the average return was 10.5% against a benchmark of 10.6%.

## Legal Implications

10. The Statement of Accounts is a technical document, the contents of which Legal Services are unable to comment upon. It is noted that the document is still in draft form and will be subject to scrutiny by Audit Committee in September.
11. The body of the report confirms that the approved accounts will be included in the Funds Annual Report and these will to be reported to Committee in November

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

12. Any decision must (a) be within the legal powers of the Council; (b) comply with any procedural requirement imposed by law; (c) be within the powers of the body or person exercising powers on behalf of the Council; (d) be undertaken in accordance with the

procedural requirements imposed by the Council eg. standing orders and financial regulations; (e) be fully and properly informed; (f) be properly motivated; (g) be taken having regard to the Council's fiduciary duty to its tax payers; and (h) be reasonable and proper in all the circumstances and comply with any equalities legislation.

13. 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.
14. 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.
15. 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 2019-22: <http://cmsprd.cardiff.gov.uk/ENG/Your-Council/Strategies-plans-and-policies/Corporate-Plan/Documents/Corporate%20Plan%202018-21.pdf>
16. 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
17. 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>
18. 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.

## **Financial Implications**

19. No direct financial implications arise from this report.

## **Recommendations**

20. That the Committee notes the draft Statement of Accounts for the 2018-19 Financial Year.

## **CHRISTOPHER LEE CORPORATE DIRECTOR RESOURCES**

Link to draft Statement of Accounts:

<http://cardiff.moderngov.co.uk/documents/s31406/7.2%20-%20Appendix%202%20Unaudited%20Draft%20Pension%20Fund%20Statement%20of%20Accounts%202018-19.pdf?LLL=0>