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AUDIT COMMITTEE Friday, 16th November, 2018

The use of Welsh by participants is welcomed. If you wish to use Welsh please inform us by noon, two working days before the meeting

SUPPLEMENTARY PACK

1.	MINUTES
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To authorise the Chair to sign the minutes of the last meeting held on 12 September 2018 and of the joint meeting with the Finance Scrutiny Panel on 24 October 2018 as correct records.

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Joint Audit and Pensions and Investment Committee - 6 September 2018

MINUTES OF A JOINT MEETING OF THE AUDIT COMMITTEE AND PENSIONS AND INVESTMENT COMMITTEE HELD AT COUNCIL CHAMBER - COUNTY HALL, LLANDRINDOD WELLS, POWYS ON THURSDAY, 6 SEPTEMBER 2018

PRESENT

County Councillors JG Morris (Chairman) M Barnes, Mr J Brautigam, J Charlton, L V Corfield, M J Jones, K Laurie-Parry, K Lewis, P E Lewis, WD Powell, T J Van-Rees and A Williams

Cabinet Portfolio Holders In Attendance: County Councillor A W Davies

Officers: David Powell, Deputy Chief Executive, Stephen Caple, Deputy Head of Financial Services and Dan Paley, Financial Reporting and Policy Accountant

1. APOLOGIES

Apologies for absence were received from County Councillors

2. DECLARATIONS OF INTEREST

There were no declarations of interest.

3. DISCLOSURE OF PARTY WHIPS

There were no disclosures of party whips.

4. DISCUSSION WITH THE ACTUARY

The Joint Meeting received a presentation on the process of a Pension Fund Triennial Actuarial Valuation.

Discussion:

- It is a collaborative process. Quarterly updates are provided by the Actuary. There are initial discussions regarding assumptions and calculations once data has been received.
- The last Valuation was completed on 31 March 2016. New Employer contribution rates took effect from 1 April 2017. The next Valuation will take place on 31 March 2019 and Employer contribution rates will take effect from 1 April 2020 and apply for three years.
- The process is a requirement under the Pension Scheme Regulations
- One of the preferred outcomes of a valuation is to maintain stable Employer contribution rates
- Each Employer within the Fund has a separate contribution rate calculated by the Actuary following a valuation.
- There had been an increase in contribution rates in 2016. A fall in the expected future return on assets led to an increase in contribution rates.

- There had been concerns that the Authority seemed to be constantly trying to catch up with the deficit. Contributions, which appeared to remain static at £6M.
- Deficit contributions can be expressed differently but have always risen in line with expected pay inflation
- The deficit remains the same but assets and liabilities are increasing.
- The recovery period in for Powys County Council in 2013 was 25 years, in 2016 was 22 years
- The Actuary has some flexibility to adjust the recovery period but would not want to see it extended
- In years when good returns are received, these can be used to offset poor years
- There is some discussion regarding contribution rates to enable pressures on the Council to be balanced – it is essential to take a long term view. The Actuary would only sign off the Valuation if they were comfortable with the content and the resulting contribution rates payable
- The Chair of Audit asked for an outline of the process within the Council – the Pension Fund has separate status to Powys County Council but the Section 151 Officer still has a significant role in balancing the requirements of the Fund and duties to current and future pensioners with affordability. This falls outside political debate. Details are contained within budget papers.
- The Chair of the Pensions Board reminded the meeting that there were other employers within the Fund.
- The Actuary agreed that there was now more oversight than there had been previously. Considerations are similar but the weighting has been altered. Regulations had also been changed.
- The Discount Rate had fallen leading to an increase in the contribution rate. At the last Valuation, a discount rate of 4.4% had been used – if the Fund were to be valued today, what rate would be used? The Actuary estimated that this could be between 4 and 4.2%.
- There have been good returns on assets during the period. It is unlikely that this excellent performance can be sustained due to the nature of investment cycles.
- It was also noted that quantitative easing had supported equity and property prices. The Vice Chair of Audit Committee remained concerned that the discount rate might fall to 4% leading to an increase in liabilities.
- The Actuary reported that when assets increased the discount rate generally fell and vice versa and so there should be some stability
- The Actuary was asked if the contributions between employee and employer could be varied – there is no local discretion to vary the rates and employee rates are defined by the regulations
- Members were concerned regarding the effects of Brexit – it was acknowledged that there was more uncertainty than usual but that there may be more clarity by the time work commences on the next Valuation in March 2019
- There are 25 employers within the Fund of which Powys County Council was the largest – all were treated separately as part of the Valuation
- New pooling arrangements had come into place in April 2018 and the Fund was now one of 8 in the Wales Pension Partnership. The Chair of the Pensions and Investment Committee is also Vice Chairman of the

Joint Governance Committee which oversees the governance of the Wales Pension Partnership (WPP)

- The Powys Fund is one of the smallest in the WPP at £624M but hopes to see the benefits of economies of scale in fee reduction and investment returns
- It was noted that there was a high take-up of the pension scheme by Powys employees. The scheme is publicised periodically. New employees are contractually enrolled and must elect to opt out. Any employee not in the scheme is automatically enrolled every 3 years. A 50/50 option was also available.
- Ethical investments had recently been discussed in the press. A pressure body had been agreed by the WLGA. Members asked what weighting was given to ethical investments – the priority for the scheme is return for members although the WPP is taking the issue on board. There is a requirement for a policy statement on ethical and social investments and this is a matter for the Council and its investment advisors. The Section 151 Officer advised Members that the Investment Strategy underpinned decisions. The Powys Pension Fund is also a member of the Local Authority Pension Fund Forum (LAPFF) which also offers advice.
- The Chair of the Pensions Board explained the regulation which requires an explicit explanation for investment decisions and where non-financial decisions are taken. He also cautioned Members on the terminology used.
- If the eight Funds within the WPP had differing views, the WPP would have to form a general consensus. Although Powys had the smallest Fund it has an equal voice within the partnership.
- Will downsizing the work force increase the employer's contribution? A decreasing workforce will lead to a decreasing payroll. The Actuary informed the Committee that the deficit was attributed to pensions already being paid. Current contributors are not paying the pensions of previous employees. However, pensioned employees are living for longer and this will be a factor in the valuation.

The two Committees welcomed the opportunity for the discussion.

County Councillor JG Morris (Chair)

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