City and County of Swansea

Notice of Meeting

You are invited to attend a Meeting of the

Local Pension Board

At: **Multi-Location Meeting - Gloucester Room, Guildhall / MS Teams**

On: **Wednesday, 19 April 2023**

Time: **10.00 am**

Chair: **Ian Guy**

Membership:
Employer Representatives
C R Doyle and S A Knoyle

Local Pension Board Members
R Broad and David White

Watch Online: **http://bit.ly/3GWeAEf**

Agenda

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3	**Minutes.** To approve & sign the Minutes of the previous meeting(s) as a correct record.	**1 - 4**
4	**Report(s) of the Section 151 Officer**	
a	City & County of Swansea Pension Fund - Draft Funding Strategy Statement. (For Information)	**5 - 38**
b	AON Presentation - City & County of Swansea Pension Fund Actuarial Valuation as at 31 March 2022.	**39 - 58**
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Next Meeting: To Be Confirmed.

Huw Evans

Huw Evans
Head of Democratic Services
Thursday, 13 April 2023

Contact: Democratic Services: - 636923

City and County of Swansea

Minutes of the Local Pension Board

Remotely via Microsoft Teams

Thursday, 12 January 20233 at 10.00 am

Present: I Guy (Chair) Presided

Employer Representatives
C R Doyle

Local Pension Board Member Representatives
David White

Officer(s)

Jeffrey Dong	Deputy Chief Finance Officer / Deputy Section 151 Officer.
Karen Cobb	Senior Accountant
Jeremy Parkhouse	Democratic Services Officer
Carolyn Isaac	Lawyer

28 Disclosures of Personal and Prejudicial Interests.

In accordance with the Code of Conduct adopted by the City and County of Swansea, the following interests were declared: -

Councillor C R Doyle declared a personal interest in the whole agenda as members of the Pension Fund.

Ian Guy and David White declared personal interests in the whole agenda as members of the Pension Fund.

Karen Cobb, Jeff Dong, Jeremy Parkhouse and Carolyn Isaac declared personal interests in the whole agenda as members of the Pension Fund.

29 Minutes.

Resolved that the Minutes of the Local Pension Board meetings held on 5 October and 25 November 2022 be approved and signed as correct records.

Noted - the Chair congratulated the Pension Fund on its success at the LAPF Awards in winning the Climate Change Strategy of the Year award.

30 Audit of Accounts Report - City & County of Swansea Pension Fund.

Jeff Dong, Deputy Chief Finance Officer / Deputy Section 151 Officer presented the Audit of Accounts Report – City andCounty of Swansea Pension Fund which summarised the main findings from the audit of the 2021-22 accounts.

It was added that Audit Wales intended to issue an unqualified audit opinion on this year's accounts once the Council had provided a Letter of Representation based on Appendix 1. The proposed Audit report was provided at Appendix 2.

There were no misstatements identified in the accounts which remained uncorrected. Details of the misstatements corrected by Management were provided at Appendix 3. There were no other significant issues arising.

The Chair thanked the Officer for the report and praised him, Karen Cobb, Senior Accountant and Finance Department staff for all their work.

31 City & County of Swansea Pension Fund Triennial Valuation As At 31 March 2022.

The Deputy Chief Finance Officer / Deputy Section 151 Officer presented the Board with the initial results of the City and County of Swansea Pension Fund Actuarial Valuation as at 31 March 2022.

Details provided in the presentation included: -

- Valuation process and assumptions.
- Initial whole fund 2022 results.
- Expectations for employer results and contributions.
- Summary, next steps and questions.

The Board asked questions of the Officer, which were responded to accordingly. The Pensions Admin Team were praised for the timeliness and quality of the data submitted. The top decile investment performance since last valuation and achieving over 100% funding of the Pension Fund for the first time was noted and the work of the Deputy Section 151 Officer and the Pensions Admin Team was praised.

32 City & County of Swansea Pension Fund Annual Report and Statement of Accounts 2021/22.

The Deputy Chief Finance Officer / Deputy Section 151 Officer provided a 'for information' report which presented the annual report & statement of accounts for the City & County of Swansea Pension Fund 2021/22.

It was outlined that the City & County of Swansea Pension Fund had always produced separate statement of accounts and annual report in respect of the financial year in question, which were subject to public audit. However in consultation with Audit Wales, it had been determined to consolidate both documents into one and streamline the production / audit process.

It was added that Officers presented the draft Annual Report and Statement of Accounts 2021/22 at the Local Pension Board in September 2022 and Appendix 1 provided the final version, which was the subject of the ISA 260 report with audit opinion and audit findings presented by Audit Wales.

The Board commented upon the excellent results provided and the staff within Financial Services were thanked and congratulated for their work and commitment.

33 Breaches Report.

The Deputy Chief Finance Officer / Deputy S151 Officer presented a 'for information' report which presented any breaches which had occurred in the period in accordance with the Reporting Breaches Policy.

Appendix A provided the details of breaches that had occurred since the previous Local Pension Board. The details of the breaches and the actions taken by Management were noted.

34 Wales Pension Partnership Annual Update.

The Deputy Chief Finance Officer / Deputy S151 Officer presented a 'for information' report to the Pension Fund Committee which provided a snapshot of the work that the Wales Pension Partnership (WPP) had undertaken over the previous twelve months.

35 Pension Administration Resources.

The Deputy Chief Finance Officer / Deputy Section 151 Officer provided a 'for information' report which informed the Board of the changes required to the current staffing levels to recognise the scheme administration and investment monitoring challenges and Regulatory changes, to ensure that the structure is fit for purpose to meet the objectives of the fund.

36 Exclusion of the Public.

The Board was requested to exclude the public from the meeting during consideration of the item(s) of business identified in the recommendation(s) to the report on the grounds that it / they involved the likely disclosure of exempt information as set out in the exclusion paragraph of Schedule 12A of the Local Government Act 1972, as amended by the Local Government (Access to Information) (Variation) (Wales) Order 2007 relevant to the item(s) of business set out in the report.

The Board considered the Public Interest Test in deciding whether to exclude the public from the meeting for the items of business where the Public Interest Test was relevant as set out in the report.

Resolved that the public be excluded for the following items of business.

(Closed Session)

37 Net Zero Workshop Summary.

The Deputy Chief Finance Officer / Deputy S151 Officer presented a 'for information' report which provided a summary of the Net Zero – October 2022 workshop. He focussed upon the '3-dimensional' framework used to help achieve its Net Zero and wider objectives.

38 Wales Pension Partnership - Update.

The Deputy Chief Finance Officer / Deputy S151 Officer presented a 'for information' report to update the Pension Fund Committee on the progress and work of the Wales Pension Partnership (WPP).

39 Investment Summary.

The Deputy Chief Finance Officer / Deputy S151 Officer presented a 'for information' report which presented the asset valuation and investment performance for the quarter, year and 3 years ended 30 September 2022.

40 Report(s) of the Independent Advisors.

The Deputy Chief Finance Officer / Deputy S151 Officer presented a 'for information' report which provided the Quarter 3 2022 Investment Monitoring Report.

The content of the report was noted by the Committee and various questions were asked, which were responded to accordingly.

The meeting ended at 11.36 a.m.

Chair

Cyngor Abertawe
Swansea Council

Report of the Section 151 Officer

Local Pension Board – 19 April 2023

City & County of Swansea Pension Fund
Draft Funding Strategy Statement

Purpose:	For information, to ensure compliance with Local Government Pension Scheme Regulations which requires a funding strategy statement
Report Author:	Jeff Dong
Finance Officer:	Jeff Dong
Legal Officer:	Stephanie Williams
Access to Services Officer:	N/A
For Information	

Funding Strategy Statement

1 Background

1.1 In line with the Local Government Pension Scheme Regulations, the City & County of Swansea Pension Fund is required to produce a funding strategy statement in consultation with its scheme employers and appointed actuary and advisors.

The main purpose of this Funding Strategy Statement is to set out the processes by which the Administering Authority:

- establishes a clear and transparent funding strategy, specific to the Fund, which will identify how employer's pension liabilities are best met going forward.
- supports the regulatory requirement in relation to the desirability of maintaining as nearly constant a primary rate of contributions as possible.
- ensures that the regulatory requirements to set contributions 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 must be reflected in the Funding Strategy Statement / Investment Strategy Statement, its focus should at all times be on those actions which are in the best long term interests of the Fund.

2 Legal Implications

2.1 The relevant legal provisions and guidance are set out in Appendix 1.

3 Financial Implications

3.1 The financial implications arising from this report are outlined in the Employer Contribution Rates payable as outlined in the rates certificate included in the Triennial Valuation Report also on this agenda.

4 Equality and Engagement Implications

4.1 There are no equality and engagement implications arising from this report

Background Papers: None.

Appendices: Appendix 1 – Draft Funding Strategy Statement.

CITY AND COUNTY OF SWANSEA
DINAS A SIR ABERTAWE

City & County of Swansea Pension Fund
Funding Strategy Statement – January 2023

1. INTRODUCTION

Overview

1.1 This Statement, originally prepared in accordance with Regulation 76A of the Local Government Regulations 1997 has been reviewed in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (the LGPS Regulations). The Statement describes City and County of Swansea's strategy, in its capacity as Administering Authority (the Administering Authority), for the funding of the City and County of Swansea Pension Fund (the Fund).

1.2 As required by Regulation 58(4)(a), the Statement has been prepared having regard to:

- the statutory guidance published by CIPFA for this purpose.

  This Statement has regard to the updated guidance published in September 2016 and not the original guidance issued in October 2012 as referred to in the LGPS Regulations at time of writing the Statement;

- 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

- the Investment Strategy Statement (ISS) published under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended) ("The Investment Regulations").

The Administering Authority has also considered the Scheme Advisory Board's Guide to Employer Flexibilities in developing the FSS and associated policies at Appendix 1 and Appendix 2.

Consultation

1.3 In accordance with Regulation 58(3), the Administering Authority has consulted such persons as it considers appropriate on the contents of this Statement and their views have been taken into account in formulating the Statement. However, the Statement describes a single strategy for the Fund as a whole.

1.4 The Fund Actuary, Aon Solutions UK Limited, has also been consulted on the contents of this Statement.

Purpose of this Statement

1.5 The main purpose of this Funding Strategy Statement is to set out the processes by which the Administering Authority:

- establishes a clear and transparent funding strategy, specific to the Fund, which will identify how employer's pension liabilities are best met going forward.
- supports the regulatory requirement in relation to the desirability of maintaining as nearly constant a primary rate of contributions as possible.

- ensures that the regulatory requirements to set contributions 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.
- makes use of the provisions of Regulation 64(7A), 64A and 64B.

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

Links to investment policy set out in the Investment Strategy Statement

1.6 The Authority has produced this Funding Strategy Statement having taken an overall view of the level of risk inherent in the investment policy set out in the Investment Strategy Statement and the funding strategy set out in this Statement.

1.7 The assets that most closely match the liabilities 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 Investment Strategy Statement 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 will deteriorate.

1.8 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.

1.9 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

1.10 The Administering Authority undertook its latest substantive review of this Statement in **January 2023.**

1.11 The Administering Authority will formally review this Statement as part of the next funding valuation following the 31 March **2022** valuation, currently expected to be as at 31 March **2025**, unless circumstances arise which require earlier action.

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

2. THE AIMS AND PURPOSE OF THE FUND

Purpose of the Fund

2.1 The purpose of the Fund is to:

- invest monies in respect of contributions, transfer values and investment income to produce a Fund in order to:
- pay Scheme benefits, transfer values, costs, charges and expenses as defined in the LGPS Regulations and as required in the Investment Regulations over the long term and in so doing:
- to smooth out the contributions required from employers over the long term.

Aims of the Fund

2.2 The main aims of the Fund are:

a) To comply with regulation 62 of the LGPS Regulations 2013 and specifically to:

- adequately fund benefits to secure the Fund's solvency and long term cost efficiency, which should be assessed in light of the risk profile of the Fund and Employers
- while taking account of the desirability of maintaining as nearly constant primary employer contribution rates as possible (and subject to the Administering Authority not taking undue risks) at reasonable cost to the taxpayers, scheduled (as defined in Part 1 or deemed employers as per Part 4 of Schedule 2 of the LGPS Regulations), resolution (as defined in Part 2 of Schedule 2 of the LGPS Regulations), and admitted bodies
- enable overall employer contributions to be kept as constant as possible (and subject to the Administering Authority not taking undue risks) at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies

2.3 The Administering Authority recognises that the requirement to keep total employer contributions as nearly constant as possible can run counter to the following requirements:

- the regulatory requirement to secure solvency, which should be assessed in light of the risk profile of the Fund and risk appetite of the Administering Authority and employers
- the requirement that the costs should be reasonable to Scheduled Bodies, Admission Bodies, other bodies and to taxpayers (subject to not taking undue risks), and
- maximising income from investments within reasonable risk parameters (see later)

2.4 Producing low volatility in **the funding position** requires material 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 gilt edged investments.

2.5 Other classes of assets, such as stocks, are perceived to offer higher long term rates of return, on average, and consistent with the requirement to maximise the 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 anticipated returns in the long term.

2.6 This short term volatility in investment returns can produce a consequent 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.

2.7 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.

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

2.9 <u>b) To ensure that sufficient resources are available to meet all liabilities as they fall due.</u>

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 on a monthly basis to ensure that all cash requirements can be met.

2.10 <u>c) To manage employers' liabilities effectively.</u>

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, and through regular monitoring of the funding position and the outlook for employers' contributions.

2.11 <u>d) To maximise the total investment return from investments within reasonable risk parameters.</u>

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

- complying with any restrictions set out in the Investment Regulations
- restricting investment to asset classes generally recognised as appropriate for UK pension funds
- analysing the potential volatility and absolute return risks, and funding risk represented by those asset classes in collaboration with Investment Advisors and Fund Managers, the Fund Actuary and the Wales Pension Partnership and ensuring that they remain consistent with the risk and return profiles anticipated in the funding strategy
- limiting concentration of risk by developing a diversified investment strategy
- monitoring the mis-matching risk that the investments do not move in line with the Fund's liabilities.

3. RESPONSIBILITIES OF THE KEY PARTIES

3.1 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

3.2 The Administering Authority will:

- Administer the Fund
- 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 (with the due date as specified in the LGPS Regulations, Rates and Adjustments Certificate and any Administering Authority policies)
- Pay from the Fund the relevant entitlements as set out by the Local Government Pension Scheme Regulations 2013.
- Invest surplus monies in accordance with the Investment Regulations **and the Fund's Investment Strategy Statement.**
- Ensure that cash is available to meet liabilities as and when they fall due.
- Manage the valuation process in consultation with the Fund's Actuary
- Ensure it communicates effectively with the Fund Actuary to:
    - Agree timescales for the provision of information and provision 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
    - Provide information required by the Government Actuary's Department in relation to Section 13 of the Public Service Pensions Act 2013
- Prepare and maintain an Investment Strategy Statement and a Funding Strategy Statement after due consultation with interested parties.
- Monitor all aspects of the Fund's performance and funding and amend these two documents if required.
- Effectively manage any potential conflicts of interest arising from its dual role both as Administering Authority and as Scheme Employer.
- Take measures, as set out in the Regulations, to safeguard the Fund against the consequences of employer default
- Enable the Local Pension Board to review the valuation process as set out in their terms of reference.
- Ensure consistent use of policies relating to revising employer contributions between formal 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

3.3 Individual Employers will:

- Deduct contributions from employees' pay.
- Pay all ongoing contributions, including their employer's contribution as determined by the Fund Actuary, and where relevant set out in the rates and adjustment certificate, promptly by the due date (including contributions due under a Deferred Debt Agreement).
- Develop a policy on certain discretions and exercise those discretions within the regulatory framework.
- 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 Investment Strategy Statement or other policies.
- Pay any exit payments as required in the event of their ceasing participation in the Fund

Fund Actuary

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

- Funding strategy and the preparation of the Funding Strategy Statement
- Actuarial valuations including the setting of employers' contribution rates and issue of a Rates and Adjustments Certificate, after agreeing assumptions with the Administering Authority and having regard to the Funding Strategy Statement and the LGPS Regulations.
- Bulk transfers and individual benefit-related matters such as pension strain costs, ill health retirement costs, compensatory added years costs, etc.
- Valuations on the cessation of admission agreements or when an employer ceases to employ active members i.e. the exiting of employers from the Fund.
- Bonds and other forms of security for the Administering Authority against the financial effect on the Fund and of the employer's default.
- Assisting the Administering Authority in assessing whether employer contributions need to be revised between actuarial valuations as permitted or required by the Regulations, in particular in relation to any review of contributions between triennial valuations under Regulations 64(4) and 64A.
- Provide views in relation to any decision by the Administering Authority to put in place a Deferred Debt Agreement under Regulation 64(7A) or spread an exit payment under Regulation 64B.
- Ensure that the Administering Authority is aware of any professional guidance requirements which may be of relevance to his or her role in advising the Administering Authority.

Such advice will take account of the funding position and Funding Strategy Statement of the Fund, along with other relevant matters.

4. FUNDING STRATEGY

Risk Based Approach

4.1 The Fund utilises a risk based approach to funding strategy.

A risk based approach entails carrying out the actuarial valuation on the basis of the assessed likelihood of meeting the funding objectives. In practice, three key decisions are required for the risk based approach:

- what the Solvency Target should be (the funding objective - where the Administering Authority wants the Fund to get to),
- the Trajectory Period (how quickly the Administering Authority wants the Fund to get there), and
- the Probability of Funding Success (how likely the Administering Authority wants it to be now that the Fund will actually achieve the Solvency Target by the end of the Trajectory Period).

These three choices, supported by complex risk modelling carried out by the Fund Actuary, define the discount rates **(investment return assumptions) which underpin the liabilities/employer funding targets**, and by extension, the appropriate levels of contribution payable. Together they measure the riskiness of the funding strategy.

These three terms are considered in more detail below.

Solvency Target and Funding Target

Solvency and Funding Success

4.2 The Administering Authority's primary aim is long-term solvency. Accordingly, employers' contributions will be set to ensure **that the** liabilities can be met over the long term using appropriate actuarial assumptions. The Solvency Target is the amount of assets which the Fund, having taken advice from the Fund Actuary, wishes to hold at the end of the Trajectory Period (see later) to meet this aim.

4.3 The Fund is deemed to be solvent when the assets held are equal to or greater **than the** Solvency Target, where the Solvency Target is the value of the Fund's liabilities evaluated using appropriate 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**, i.e. if the funding level falls below 100%.**

4.4 For secure tax raising Scheduled Bodies and Admission Bodies with guarantors of sound covenant agreeing to subsume assets and liabilities following exit, the Solvency Target will use appropriate actuarial methods and assumptions that are believed appropriate in the long term for those Bodies. For the **2022** valuation the Solvency Target will be set using an assumed rate of return of 2% in excess of the assumed long term annual increase in the Consumer Prices Index, which is intended to be a prudent outperformance assumption based on assumed future asset holdings.

4.5 For non **-** tax raising Scheduled Bodies the Solvency Target may (dependent on circumstances) be set at a more prudent level than that used for Scheduled Bodies and Admission Bodies with guarantors of sound covenant agreeing to subsume assets and liabilities following exit.

4.6 For Admission Bodies and other bodies whose liabilities are expected to be orphaned following exit, the required Solvency Target will be set at a more prudent level dependent on circumstances. For most such bodies, the chance of achieving solvency will be set commensurate with assumed investment in an appropriate portfolio of Government index linked and fixed interest bonds after exit.

4.7 For deferred employers 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, the Solvency Target will be set commensurate with assumed investment in Government bonds at the end of the period of the Deferred Debt Agreement.

Probability of Funding Success

4.8 The Administering Authority deems funding success to have been achieved if the Fund, at the end of the Trajectory Period (or the longest employer Recovery Period, if longer), has achieved the Solvency Target. The Probability of Funding Success is the assessed chance of this happening based on the level of contributions payable by members and employers and asset-liability modelling carried out by the Fund Actuary.

4.9 Consistent with the Administering Authority's aim of enabling employers' total contributions to be kept as nearly constant as possible, the required chance of achieving the Solvency Target at the end of the relevant Trajectory Period for each employer or employer group can be altered at successive valuations within an overall envelope of acceptable risk.

4.10 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.

Trajectory Periods

4.11 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.

4.12 Maintaining a stable Trajectory Period avoids undue volatility when setting long term assumptions for the Fund, where the Administering Authority would in ideal circumstances look to reduce the Recovery Period over time in order to achieve Full Funding. A Trajectory Period of 25 years will be used for the valuation at 31 March **2022.**

Funding Target

4.13 In order to satisfy the legislative requirement to secure long term cost efficiency the Administering Authority's aim is for employer contributions to be set so as to make provision for the cost of benefit accrual, with an appropriate adjustment for any surplus or deficiency. This is achieved through the setting of a Funding Target.

4.14 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. It is a product of the actuarial valuation exercise and is not the same as the Solvency Target. It is instead the product of the data, chosen assumptions, and valuation method. The valuation method including the components of Funding Target, future service costs and any adjustment for the surplus or deficiency simply serve to set the level of contributions payable, which in turn dictates the chance of achieving the Solvency Target at the end of the Trajectory Period (defined below).

4.15 Consistent with the aim of enabling employers' primary contribution rates 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 (primary) 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 future service (primary) contribution rate is derived as the average cost of benefits accruing to members over the period until they die, leave the Fund or retire.

4.16 The discount rate, and hence the overall required level of employer contributions, has been set for the **2022** valuation such that the Fund Actuary estimates that there is an **83.5%** Probability of Funding Success – i.e. an **83.5%** chance that the Fund would reach or exceed its Solvency Target after a Trajectory Period of 25 years (on the assumption that Recovery Periods were less than 25 years for all employers).

4.17 **For all funding targets an allowance will be made for future pension increases and revaluation of pension accounts using an assumption for future CPI increases which is derived consistently with the modelling underpinning the discount rates. At the 2022 valuation this is a long-term best estimate CPI assumption of 2.3% p.a. Allowance may also be made for any short-term inflationary pressures where this is considered appropriate and prudent. At the 2022 valuation an adjustment of 10% will be added to the liabilities for employers subject to the Scheduled Body and Subsumption Funding Targets. This adjustment will be reviewed at future calculation dates to ensure it remains appropriate in light of prevailing market conditions.**

Application to different types of body

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

Scheduled Bodies and certain other bodies of sound covenant

4.19 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 secure tax raising Scheduled Bodies whose participation in the Fund is considered by the Administering Authority to be indefinite and certain other bodies which are long term in nature i.e. Admission bodies with a subsumption commitment from such Scheduled Bodies. This is known as the scheduled and subsumption body funding target.

4.20 For other Scheduled Bodies the Administering Authority may without limitation, take into account the following factors when setting the funding target for such bodies:

- the type/group of the employer
- the business plans of the employer;
- an assessment of the financial covenant of the employer including its long term commitment to participate in the Fund;
- any contingent security available to the Fund or offered by the employer such as a guarantor or bond arrangement, charge over assets, etc.

4.21 Where, by virtue of having taken account of some or all of the above factors, the Administering Authority adopts a less risky (more prudent) funding target than the scheduled and subsumption body funding target for any scheduled bodies, this is known as the intermediate funding target.

Admission Bodies and certain other bodies whose participation is limited

4.22 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 (e.g. where no subsumption commitment is in place from a secure tax raising Scheduled Body) 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. This is known as the (ongoing) orphan admission bodies funding target. It is not the same as the exit basis.

Deferred employers where a Deferred Debt Agreement is in place

4.23 For deferred employers where a Deferred Debt Agreement is in place the funding target will take into account any likely change in the notional or actual investment strategy as regards the assets held in respect of the body's liabilities at the date the Deferred Debt Agreement is expected to end and any other factors considered to be relevant by the Administering Authority on the advice of the Actuary, which may include, without limitation:

- the agreed period of the Deferred Debt Agreement;
- the type/group of the employer;
- the business plans of the employer;
- an assessment of the financial covenant of the employer;
- any contingent security available to the Fund by the employer such as a guarantor or bond arrangements, charge over assets, etc

Further details of the Administering Authority's policy for Deferred Debt Agreements are set out in Appendix 1.

Full Funding

4.24 The Fund is deemed to be fully funded when the assets held are equal to 100% of the Funding Target, where the funding target is assessed based on the sum of the appropriate funding targets across all the employers / groups of employers. 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.

Recovery Periods

4.25 Where a valuation reveals that the Fund is in surplus or deficiency against the Funding Target, employers' contribution rates **may** be adjusted to target restoration of fully funding the solvent position over a period of years (the Recovery Period). The Recovery Period to an employer or group of employers is therefore the period over which any adjustment to the level of contributions in respect of a surplus or deficiency relative to the Funding Target used in the valuation is payable.

4.26 The Recovery Period applicable for each participating employer is set by the Administering Authority in consultation with the Fund Actuary 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, and whether the employer is in surplus or deficit on the appropriate Funding Target.

4.27 Where an employer is in surplus, and where an employer's expected exit date is unknown or expected to be later than the date the revised rates and adjustments certificate will come into force following the next valuation, this surplus will only lead to an adjustment in an employer's contributions to the extent that this surplus is in excess of 10% of the value of that employer's liabilities valued relative to the appropriate Funding Target (i.e. to the extent that the employer's funding level is greater than 110%). Note that where an employer is subject to a temporary relaxation of the requirement for Full Funding, or subject to the subsumption funding target by virtue of a temporary subsumption commitment from City and County of Swansea and/or Neath Port Talbot County Borough Council (see below), the Administering Authority will have regard to the contribution requirement that would have applied without this temporary commitment when determining the extent to which any surplus can lead to contribution reductions.

4.28 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, and where the employer is in deficit, the Administering Authority may be prepared to agree to Recovery Periods which are 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 where employers are in deficit, 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.

4.29 Where employers are in deficit, the Administering Authority's policy is to agree Recovery Periods with each employer which are **typically shorter where possible** within the above framework. Recovery Periods for employers or employer groups may differ in order to suitably balance risk to the fund and cost to the employer. 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 deferred employers the Recovery Period is limited to the period of the Deferred Debt Agreement.

4.30 Resulting from the **2022** valuation, a Recovery Period of up to **16** years was used for **employers who were in deficit**, with an average Recovery Period of just under **16** years across all participating employers. For employers in surplus, **an average Recovery Period of just under 19 years was used.**

Grouping

4.31 In some circumstances it may be desirable to group employers within the Fund together for funding purposes (i.e. to calculate employer contributions). 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.

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

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

4.33 All employers in the Fund are grouped together in respect of the risks associated with payment of lump sum benefits on death in service – in other words, the cost of such benefits is shared across the employers in the Fund. Such lump sum 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.

4.34 There is a group of employers in the Fund which will be pooled together for funding and contribution purposes at the **2022** valuation.

4.35 From 1 April 2022 it is expected that the Town and Community Councils Group will consist of the following employers - Briton Ferry Town Council, Cilybebyll Community Council, Coedffranc Community Council**, Llangyfelach Community Council, Llanrhidian Higher Community Council**, Margam Joint Crematorium Committee, Mumbles Town Council, Neath Town Council, Pelenna Community Council, Pontardawe Town Council and Ystylafera Community Council, and any new small councils will join this group going forward.

4.36 Under the pooling approach these employers will pay a common percentage of pay as their primary contribution rate and will share experience (subject to each employer not taking action which adversely and materially, as determined by the Administering Authority, affects the group's liabilities in which case the Administering Authority may ensure that employer meets the additional liabilities it has created by such action). Each employer in the group will be responsible for meeting any deficit (or benefit from any surplus) allocated to the employer i.e. this will be outside the experience sharing mechanism. Any deficit recovery plan will be based on the specific employer's circumstances.

4.37 In the event that an employer in the group has no active members consideration will be given to first issuing a 'suspension notice' which under the regulations can defer the exit valuation for up to three years if in the reasonable opinion of the administering authority the employer is likely to have one or more active members contributing to the fund within the period specified in the suspension notice. In the event of an exit valuation, the assets and liabilities following exit will be subsumed by the group and the exited employer will not be required to pay any further contributions unless it admits an employee into the Fund, in which case it is expected that the employer will re-join the group as a participating employer. Further, no exit credit will be paid to the exiting scheme employer, unless the exiting scheme employer is in surplus when liabilities are calculated using a Funding Target that anticipates investment in low risk investments such as Government bonds.

However, if the exiting employer is likely to have a material impact on the contribution rate payable by the remaining employers then the Administering Authority may decide that the exiting employer should make additional payments to the Fund over a period of time to protect the remaining employers from such increases.

Stepping

4.38 Again, consistent with the requirement to keep primary employer contribution rates and overall employer contributions as nearly constant as possible, the Administering Authority will consider, at each valuation, whether new contribution rates should be payable immediately, or should be reached by a series of steps over future years. 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 will be permitted. Further steps may be permitted in extreme cases in consultation with the Fund Actuary, but the total is very unlikely to exceed six steps.

Pre-Payment of contributions

4.39 **The Administering Authority may, after considering the advice of the Fund Actuary, permit particular employers to pay contributions early as a lump sum that would otherwise be payable over the following year (or a longer period not exceeding three years). An appropriate discount as determined by the Fund Actuary, would be applied to the contributions to reflect the early payment. A true-up adjustment may be required if the early payment of contributions based on an estimated payroll results in lower contributions being paid into the Fund (after allowing for the discount) than would otherwise have been the case.**

Inter-valuation funding calculations

4.40 In order to monitor developments for the Fund as a whole, 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 funding valuations.

Asset shares notionally allocated to individual employers

4.41 Notional asset shares
In order to establish contribution levels for individual employers or groups of employers it is convenient to notionally subdivide the Fund as a whole between the employers (or group of employers where grouping operates), as if each employer had its own notional asset share within the Fund.

4.42 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.

Roll-forward of notional asset shares

4.43 The notional asset share 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 liabilities determined using a cash equivalent transfer value basis unless some other approach has been agreed between the two employers.
- Allowance for lump sum death in service and any other benefits shared across all employers (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.

4.44 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 or where estimated cashflows can be produced with reasonable accuracy, estimated cashflows will be used.
- Where, in the opinion of the Fund Actuary, the cashflow data which is unavailable is material or difficult to estimate with necessary accuracy, the Fund Actuary may instead use an analysis of gains and losses to roll forward the notional asset share. 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.

Fund maturity

4.45 To protect the Fund, and individual employers, from the risk of increasing maturity producing unacceptably volatile contribution adjustments as a percentage of pay the Administering Authority will normally require defined capital streams from employers in respect of any disclosed funding deficiency.

4.46 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. 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 consider requiring top up payments where deficit contributions fall below a minimum level, or further alternative approaches as it deems appropriate.

5. SPECIAL CIRCUMSTANCES RELATED TO CERTAIN EMPLOYERS

Interim reviews

5.1 Regulation 64(4) of the Regulations provides the Administering Authority with a power to carry out valuations in respect of employers where there are circumstances which make it likely that an employer will become an exiting employer, and for the Fund Actuary to certify revised contribution rates, between funding valuation dates.

5.2 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.

5.3 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 Transferee 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 whose participation is due 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.

5.4 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.

5.5 Regulation 64A of the Regulations provides the Administering Authority with a power to obtain a revision of the rates and adjustments certificate in certain other circumstances. Further details of the Administering Authority's policy in relation to Regulation 64A is set out in Appendix 2.

Guarantors

5.6 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 and monitors the exposure of the Guarantors. The Administering Authority, unless notified otherwise, sees the duty of a Guarantor to include the following:

- If an employer ceases 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.

New employers

Initial Rate

5.7 When a new employer joins the Fund, the Fund's Actuary determines the initial employer contribution rate payable.

5.8 An interim contribution rate may be set pending a more accurate calculation by the Fund's Actuary of the employer contribution rate payable. The Administering Authority will determine these interim contribution rates following each Actuarial Valuation and at any other time at its discretion.

5.9 The employer contribution rate will be set in accordance with the Funding Strategy Statement, taking into consideration elements such as:

- Any past service or transferred liabilities
- Whether the new employer is open or closed to new entrants
- The funding target that applies to the employer
- The funding level on commencement and, where there is a surplus or deficit, whether the admission agreement is fixed term or not, whether open or closed and the period of any fixed term contract period or average future working lifetime of the employee membership (as appropriate)
- Other relevant circumstances as determined by the Administering Authority on the advice of the Fund Actuary

New Admission Bodies

5.10 Where the Administering Authority makes an admission agreement with a body (the New Body), the default stance of the Fund is that the relevant Scheme employer, as defined in Part 3 of Schedule 2 of the LGPS Regulation 2013, will be required to subsume the liabilities (see below) at the point that the New Body no longer has any contributing members. This will be set out within the Admission Agreement or side agreement, and apply to both the liabilities of the initial transferring membership and, in the case of an open admission agreement, any liabilities of the New Body relating to members that commence participation after the initial transfer under the terms of the Admission Agreement.

5.11 Unless agreed otherwise (between the relevant Scheme employer and the New Body) the New Body would be required to target sufficient assets to fully fund the liabilities subsumed by the relevant Scheme employer at exit on the assumptions applicable to the relevant Scheme employer.

Bonds and other securitization

5.12 Paragraph 6 of Part 3, Schedule 2 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 Transferee Admission Body admitted under paragraph 1(d)(i) of that Part) an assessment taking account of actuarial advice of the level of risk on premature termination by reason of insolvency, winding up or liquidation.

5.13 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 that either funds, owns or controls the functions of the admission body.

5.14 The Administering Authority's approach in this area is as follows:

- In the case of Transferee Admission Bodies admitted under Paragraph 1(d) of Part 3, Schedule 2 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 or Guarantor 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 be pleased to 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 Transferee Admission Bodies admitted under Paragraph 1(d) of Part 3, Schedule 2 of the Regulations, or under Paragraph 1(e) of Part 3, Schedule 2 of the Regulations, 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 that the Scheme Employer reviews, the required cover at least once a year.

Subsumed liabilities

5.15 Where an employer is exiting the Fund such that it will no longer have any contributing members, 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.

5.16 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 a mix of growth and matching assets.

Orphan liabilities

5.17 Where an employer is exiting the Fund such that it will no longer have any contributing members, 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.

5.18 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.

5.19 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 between the exit date of the employer and each subsequent funding valuation of the Fund. Assets will then be reallocated within the Fund to ensure the orphan liabilities remain 100% funded on a low risk basis after taking account of any outstanding exit payments payable to, or due from the exiting employer, with any investment profit or loss allocated to the contributing employers in proportion to their notional asset share.

Smoothing of contribution rates for Admission Bodies

5.20 The Administering Authority recognises that a balance needs to be struck as regards the financial demands made of Admission Bodies. On the one hand, the Administering Authority requires all Admission Bodies to be fully self funding, such that other employers in the Fund are not subject to levels of expense as a consequence of the participation of those Admission Bodies. On the other hand, in extreme circumstances, requiring achievement of Full Funding over a short time horizon may precipitate failure of the body in question, leading to significant costs for other participating employers.

5.21 In circumstances which the Administering Authority judges to be extreme, the Administering Authority will engage with the City and County of Swansea and Neath Port Talbot County Borough Council, as the dominant employers in the Fund, with a view to seeking agreement that the requirement that contribution rates target Full Funding can be temporarily relaxed, or alternatively one or both employers agree to subsume the relevant Admission Bodies on exit.

5.22 Should an Admission Body leave the Fund during a period where the City and County of Swansea and/or Neath Port Talbot County Borough Council has agreed to subsumption of residual liabilities, the exit funding requirement will be reduced to reflect the Fund's continuing access to funding, should a deficiency emerge in the future in respect of those liabilities (see cessation of participation for subsumed liabilities below).

5.23 At subsequent valuations the position will be reassessed with a view to returning Admission Bodies to paying contributions which target Full Funding.

Cessation of participation i.e. Exiting the Fund

5.24 Where an employer becomes an exiting employer, an exit valuation will be carried out in accordance with Regulation 64. That valuation will take account of any activity as a consequence of exiting regarding any existing contributing members (for example any bulk transfer payments due) and the status of any liabilities that will remain in the Fund. When employees do not transfer to another employer they will retain pension rights within the Fund, i.e. either as a deferred pensioner or immediately taking retirement benefits.

5.25 The assumptions adopted to value the departing employer’s liabilities for the exit valuation (including on termination of any Deferred Debt Agreement) will depend upon the circumstances. In particular, the exit valuation will distinguish between residual liabilities which will become orphan liabilities, and liabilities which will be subsumed by long-term other employers.

5.26 For orphan liabilities the Funding Target in the exit valuation will anticipate investment in low risk investments such as Government bonds. This is to protect the other employers in the Fund, as upon exit, the employer's liabilities will become "orphan" liabilities within the Fund, and there is no recourse to that (former) employer if a deficit emerges in relation to these liabilities after the exit date. Any deficit or surplus in the Fund in respect of the employer will generally be due to the Fund as a termination contribution (but see 5.29 below), or payable by the Fund to the employer as an exit credit respectively, where the exit date is on or after 14 May 2018.

5.27 For subsumed liabilities the exit valuation will be determined on the basis that the scheme employer, or in the case of grouped employers, the remaining contributing group employers, providing the subsumption commitment will subsume all assets and liabilities from the exiting scheme employer. No exit credit will be paid to, or any exit debt required from, the exiting scheme employer, unless the exiting scheme employer is in surplus when liabilities are calculated using a Funding Target that anticipates investment in low risk investments such as Government bonds. The assets and liabilities will be subsumed within those of the employer, or employers, providing the subsumption commitment, with future contribution requirements for this employer, or group of employers, being reassessed at each actuarial valuation.

5.28 In addition, the Administering Authority may, at its discretion, include additional margins for prudence compared to the approach used for determining ongoing contributions, for example in relation to regulatory uncertainty (which at the date of this Statement includes uncertainty associated with the McCloud case, the Goodwin case, cost management process and indexation and equalisation of GMP).

5.29 Following the above process, any deficit in the Fund in respect of the Employer will be due to the Fund as a termination contribution unless it is agreed by the Administering Authority and the other parties involved that:

- the assets and liabilities relating to the employer will transfer within the Fund to another participating employer;
- the employer and Administering Authority will enter into a Deferred Debt Agreement**; or**
- the exit payment can be spread over a reasonable period as permitted by regulation 64B

Details of the approach to be adopted for such an assessment on exit, including how any exit credit may be determined and the conditions in which the Administering Authority will consider agreeing to enter into a Deferred Debt Agreement or to permit spreading of any exit payments are set out in Appendix 1.

Exit payments and exit credits

5.30 Further information on the Administering Authority's policy on exit payments, and exit credits is set out in Appendix 1.

Deferred Debt Agreements

5.31 Regulation 64(7A) permits the Administering Authority to enter into a written agreement with an existing Scheme employer for that employer to defer their obligation to make an exit payment and continue to make contributions at the secondary rate ("a Deferred Debt Agreement").

The Administering Authority's policy in relation Deferred Debt Agreements is set out in Appendix 1.

6. IDENTIFICATION OF RISKS AND COUNTER MEASURES

Approach

6.1 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 both before, and after, they emerge wherever possible.

6.2 The Administering Authority will ensure that funding risks are included within their overarching risk management framework and strategy, linking to their risk register and risk management policy as appropriate and includes defining a role for the Local Pension Board within this framework.

6.3 The main risks to the Fund are considered below:

Choice of Solvency and Funding Targets

6.4 The Administering Authority recognises that future experience and investment income cannot be predicted with certainty. Instead, there is a range of possible outcomes, and different assumed outcomes will lie at different places within that range**.**

6.5 The more optimistic the assumptions made in determining the Solvency and Funding Targets, the more that outcome will sit towards the 'favourable' end of the range of possible outcomes, the lower will be the probability of experience actually matching or being more favourable than the assumed experience, and the lower will be the Solvency and Funding Targets calculated by reference to those assumptions.

6.6 The Administering Authority will not adopt assumptions for Scheduled Bodies and certain other bodies which, in its judgement, and on the basis of actuarial advice received, are such that it is less than 55% likely that the strategy will deliver funding success (as defined earlier in this document). Where the probability of funding success is less than 65% the Administering Authority will not adopt assumptions which lead to a reduction in the aggregate employer contribution rate to the Fund.

6.7 The Administering Authority's policy will be to monitor an underlying 'low risk' position (making no allowance for returns in excess of those available on Government stocks) to ensure that the Funding Target remains realistic.

Investment Risk

6.8 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

6.9 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
- environmental; social and corporate governance risks

6.10 **The Fund mitigates these risks through diversification, investing in a wide variety of markets and assets, and through the use of specialist managers with differing mandates in addition to access to the range of managers via the Wales Pension Partnership investment pool.**

6.11 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 and Fund Managers. The Administering Authority also annually reviews the effect of market movements on the Fund's overall funding position.

6.12 **If there are significant market movements between the valuation date and the date the valuation is signed off, the Administering Authority, on the advice of the Fund Actuary, may consider what allowance should be made, if any, when finalising employer contributions.**

Employer risk

6.13 These risks arise from the ever-changing mix of employers, from short-term and ceasing employers, and the potential for a **deficit** in payments and/or orphaned liabilities where employers are unable to meet their obligations to the Scheme. **Public sector spending challenges and inflation may have adverse consequences for employer finances and their ability to make contributions.** The Administering Authority monitors employer payments and expects employers in financial difficulty to engage with the Fund, noting that contributions can be reviewed between formal valuations if the conditions in Regulation 64A and the terms of the Administering Authority's policy, as set out in Appendix 2, are met.

6.14 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.

6.15 The Administering Authority will maintain a knowledge base on their 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.

Climate change

6.16 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 returns under review** and will commission modelling or advice from the Fund Actuary on the potential effect on funding as required.

6.17 **The Administering Authority has commissioned scenario analysis modelling on the potential effect on funding from the Fund's Actuary which will be reported in the 2022 valuation report. This modelling is expected to meet the Government Actuary's requirements for the 2022 valuations as well as supporting the Fund's reporting under DLUHC's proposed new TCFD (Taskforce on Climate-Related Financial Disclosures) regime for LGPS funds.**

Liability risk

6.18 The main risks include discount rates, pay and price inflation, changing retirement patterns, mortality and other demographic risks. Some of these risks will affect the amount of benefit payments; others will affect the value of benefit payments, i.e. level of assets deemed to be required to meet those benefit payments (the funding target).

6.19 The Administering Authority will ensure that the Fund Actuary investigates demographic, pay and pension increase experience at each valuation and reports on developments. The demographic assumptions are intended to be best estimate, informed by Fund experience and wider evidence where needed, e.g. the mortality assumptions are informed by a postcode analysis carried out by the Fund Actuary's specialist longevity team and the projections model released by the Continuous Mortality Investigation of the Institute and Faculty of Actuaries. If the Administering Authority becomes aware of any material changes in population mortality which may also be reflected in the Fund's experience it will ask the Fund Actuary to report on the effect on the funding position and employer contributions.

6.20 The Fund Actuary will also provide quarterly funding updates to assist the Administering Authority in its monitoring of the financial liability risks. The Administering Authority will, as far as practical, monitor changes in the age profile of the Fund membership, early retirements, redundancies and ill health early retirements in the Fund and, if any changes are considered to be material, ask the Fund Actuary to report on their effect on the funding position and employer contributions.

6.21 **Allowance has been made for prevailing high levels of consumer price inflation in the calculation of the liabilities as at 31 March 2022 as set out in paragraph 4.17 above.** If significant changes in the value of the liabilities become apparent between valuations, **including inflation above the levels allowed for in the 2022 valuation**, the Administering Authority may consider revising an employer's contributions as permitted by Regulation 64A and will notify the affected employers of the anticipated impact on costs that will emerge. In addition, the Administering Authority may consider whether to require a review of the bonds that are in place for Admission Bodies. It will also consider the extent to which such changes can or should be allowed for in exit valuations, taking advice from the Fund Actuary.

Regulatory and Compliance Risk

6.22 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 to Regulations and LGPS benefits. 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.

6.23 There are a number of consultations which have been issued in recent years, some of which represent proposed changes which were first raised a number of years ago, **including a cap on exit payments by public sector employers and new Fair Deal arrangements.** Some of these may affect funding and pose a risk to the Fund. The Government has also consulted on changes to the valuation cycle although the Administering Authority understands that the 2022 valuation is going ahead as previously planned.

6.24 There are a number of additional uncertainties associated with the benefit structure at the time of the latest formal review of this Statement, including:

6.25 The timing and detail of any final regulations in relation to the McCloud/Sargeant cases which ruled that the transitional protections implemented in the Firefighters' and Judges' Pension Schemes are illegal age discrimination.

For the purposes of the 2022 valuation, an approximate employer specific allowance will be made in respect of the McCloud remedy based upon a high-level analysis of the employer's fund membership. Members' benefits will be valued as

required by relevant legislation as in force as at 31 March 2022, except for the following assumptions:

i. It will be assumed that the current underpin (which only applies to those members within 10 years of their Normal Pension Age at 31 March 2012) will be revised and apply to all members who were active in the scheme on or before 31 March 2012 and who join the 2014 Scheme without a disqualifying service gap.
ii. The period of protection will apply from 1 April 2014 to 31 March 2022 but will cease when a member leaves active service or reaches their final salary scheme normal retirement age (whichever is sooner).
iii. Where a member remains in active service beyond 31 March 2022, the comparison of their benefits will be based on their final salary when they leave the LGPS or when they reach their final salary scheme normal retirement age (whichever is sooner).
iv. Underpin protection will apply to qualifying members who leave active membership of the LGPS with an immediate or deferred entitlement to a pension.
v. The underpin will consider when members take their benefits, so they can be assured they are getting the higher benefit.

6.26 The outcome of the cost management process as at **31 March 2020 (and the Judicial Review of the 2016 process).**

6.27 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.

Liquidity and Maturity Risk

6.28 This is the risk of a reduction in cash flows into the Fund (including investment income – e.g. potentially resulting from changes in investment holdings), or an increase in cash flows out of the Fund, or both, which can be linked to changes in the membership and, in particular, a shift in the balance from contributing members to members drawing their pensions. Changes in the funding position and hence (secondary) employer contributions can also affect the cashflow position since it is not always possible to deliver complete stability of contributions. Timing of contribution payments by employers can also impact on liquidity requirements where flexibility is granted by the Administering Authority. Changes within the public sector and to the LGPS itself may affect the maturity profile of the LGPS and have potential cash flow implications. For example,

- Budget cuts and headcount reductions could reduce the active (contributing) membership and increase the number of pensioners through early retirements;
- An increased emphasis on outsourcing and other alternative models for service delivery may result in falling active membership (e.g. where new admissions are closed),
- Public sector reorganisations may lead to a transfer of responsibility between different public sector bodies, (e.g. to bodies which do not participate in the LGPS),
- **Lower member contribution rates or a change in the contribution bands, agreed as part of the Cost Management Process or otherwise, may lead to lower contribution income if not immediately matched by higher employer contributions,**
- An increase in **opt-outs and** the take-up of the 50/50 option (whether on affordability grounds **which may currently be considered to be an increased risk due to current cost of living pressures)** will reduce member contributions to the Fund.
- **Improved funding positions may lead to employer contribution rates being reduced.**

6.29 The Administering Authority seeks to maintain regular contact with employers to mitigate against the risk of unexpected or unforeseen changes in maturity or other changes leading to cashflow or liquidity issues. The Administering Authority also commissions the Fund Actuary to provide projections of benefit payments and contributions based at each valuation and monitors the cashflow position on a regular basis.

Governance Risk

6.30 This covers the risk of unexpected structural changes in the Fund membership (for example the closure of an employer to new entrants or the large scale withdrawal or retirement of groups of staff), or establishment of a wholly owned company which does not participate in the Fund, or only partially participates, and the related risk of the Administering Authority not being made aware of such changes in a timely manner.

6.31 The Administering Authority's 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. The Fund will consider commissioning triennial reviews of any bonds as part of its risk management.

Statistical/Financial Risk

6.32 This covers such items such as the performances of markets, Fund investment managers, asset reallocation in volatile markets, pay and /or price inflation varying from anticipated levels or the effect of possible increases in employer contribution rate on service delivery and on Fund employers. The Administering Authority policy will regularly assess such aspects to ensure that all assumptions used are still justified.

Smoothing Risk

6.33 The Administering Authority recognises that utilisation of any smoothing adjustment in the solvency measurement introduces an element of risk, in that the smoothing adjustment may not provide a true measure of the underlying position. Where such an adjustment is used, the Administering Authority will review the impact of this adjustment at each valuation to ensure that it remains within acceptable limits.

Recovery Period Risk

6.34 The Administering Authority recognises that permitting surpluses or deficiencies to be eliminated over a recovery period rather than immediately introduces a risk that action to restore solvency is insufficient between successive measurements. The Administering Authority will discuss the risks inherent in each situation with the Fund Actuary and to limit the permitted length of recovery period where appropriate. Details of the Administering Authority's policy are set out earlier in this Statement.

Stepping Risk

6.35 The Administering Authority recognises that permitting contribution rate changes to be introduced by annual steps rather than immediately introduces a risk that action to restore solvency is insufficient in the early years of the process. The Administering Authority will limit the number of permitted steps as appropriate. Details of the Administering Authority's policy are set out earlier in this statement.

APPENDIX 1: Policy on Exit payments, Exit credits and Deferred Debt Agreements

An employing authority can cease participation in the following circumstances:

- an active employer ceases to be a Scheme employer (including ceasing to be an admission body participating in the Fund), or has no active members contributing to the Fund and does not enter into a Deferred Debt Agreement,
- a deferred employer ceases to participate where the Deferred Debt Agreement ends.

Where participation ceases, an exit valuation will be carried out in accordance with Regulation 64.

Further details on the approach and assumptions are set out in section 5 of the Funding Strategy Statement.

If there are liabilities which cannot be recovered from the exiting employer or any bond/indemnity these will fall to be met by the Fund as a whole (i.e. all other employers) unless there is a guarantor, successor body or subsumption commitment within the Fund.

Employers should be aware that advisory and other costs incurred by the Administering Authority in relation to the exit of an employer from the Fund will be re-charged to the exiting employer.

Exit payments

Any deficit would normally be levied on the departing employer as a single capital payment although, the Administering Authority may allow phased payments as permitted under Regulation 64B. The Administering Authority's policy in relation to the spreading of exit payments under Regulation 64B is set out below.

It is envisaged that spreading of exit payments will only be considered at the request of an employer. The Administering Authority will then engage/consult with the employer to consider its application and determine whether or not spreading the exit payment is appropriate and the terms which should apply.

In determining whether or not 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 three years but longer periods of up to ten years will 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 a final decision by the employer (and the Administering Authority) on whether this will be financially beneficial/appropriate may not be possible until the employer has exited. Exiting employers will be advised of the exit deficit and the spreading of any payment will only be considered at the request of the employer. Where there is a guarantor, the guarantor 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. Where the exit amount is significant, 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; interest rates applicable; other costs payable (Employers will be asked to pay all advisory costs associated with the spreading agreement as well as calculation of the exit deficit (these costs will not be spread)) 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 generally review spreading agreements as part of its preparation for each triennial valuation and 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 Pensions 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 or not 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.

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 2013 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.

Suspension notices

Regulation 64(2A) permits the suspension of an employer's liability to make an exit payment for up to 3 years where the Administering Authority believes that the employer is likely to have one or more active members contributing to the Fund within the period specified in the suspension notice. In that case, the Fund will advise the employer of the exit amount calculated by the Actuary and serve a written suspension notice on the employer. Whilst under such a suspension notice, the employer must continue to pay any deficit payments certified to the Fund as if it were an ongoing employer and the actuary will recalculate any deficit and contributions due at the next Actuarial Valuation. If there are no new members by the time the suspension notice expires the Fund Actuary will carry out an exit valuation as at the date the suspension notice expires. **For the avoidance of doubt, when a Town or Community Council exits the Fund their liabilities will be subsumed by the Town and Community Councils Group.**

Deferred Debt Agreements (DDAs)

Regulation 64(7A) permits the Administering Authority to enter into a written agreement with an exiting Scheme employer for that employer to defer their obligation to make an exit payment and continue to make contributions at the secondary rate ("a deferred debt agreement").

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 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; and
- 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. In any case, the Administering Authority will engage/consult with the employer to consider 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.

Employers should be aware that all advisory fees incurred by the Fund associated with a request for a DDA, whether or not this results in an agreement being entered into, and its ongoing monitoring, will be recharged to the employer.

The Administering Authority will provide a standard form of agreement for DDAs, which it will require employers (and any guarantors) to sign up to. 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-
  a. The deferred employer enrols new active members;
  b. The period specified, or as varied, elapses;
  c. The take-over, amalgamation, insolvency, winding up or liquidation of the deferred employer;
  d. 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
  e. 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

It is expected that the consultation process with the employer will include discussions on the precise details of the DDA, although the purpose of providing a standard form of agreement is to make the process easier, and quicker and therefore it is not envisaged that there will be material changes to this standard.

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

- 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. Estimated costs can be provided on request. 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 Pensions 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.

APPENDIX 2: Policy on reviewing employer contributions between formal valuations under Regulation 64A

1. Background

This Document explains the policies and procedures of the City and County of Swansea Pension Fund (“the Fund”), administered by City and County of Swansea (“the Administering Authority”), in relation to any amendment of employer contributions between formal valuations as permitted by Regulation 64A.

This Policy supplements the general funding policy as set out in the Funding Strategy Statement and should be read in conjunction with that statement. It is intended to provide transparency and consistency for employers in use of the flexibilities within the Regulations.

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; or
- 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 purely on the grounds of a change in market conditions or demographic assumptions affecting the value of assets and/or liabilities.

2. Factors used to determine when a review is appropriate

In determining whether or not a review should take place, 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 whether this is the result of a decision by the employer, such as a significant outsourcing or transfer of staff, closure to new entrants, material redundancies or significant pay awards, or other factors such as ill-health retirements, voluntary withdrawals or the loss of a significant contract
- the materiality of any change in the employer's membership or liabilities, taking account of the Actuary's view of how this might affect its funding position, primary or secondary contribution rate
- whether, having taken advice from the Actuary, the Administering Authority believes a change in ongoing funding target or deficit recovery period would be justified, e.g. on provision or removal of any security, subsumption commitment, bond, guarantee, 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 Pensions Administration Strategy Statement and elsewhere, including the nature and frequency of any breaches such as failure to pay contributions on time and data quality issues due to failure to provide new starter or leaver forms

3. Assessment of the risk/impact on other employers

In determining whether or not a review should take place, the Administering Authority will generally focus on the materiality of any potential changes in the context of the employer concerned; its financial position and current contribution levels. As a matter of principle, the Administering Authority does not consider that a review is not justified just because an employer is small in the context of the Fund as a whole, noting that failure to act could make discussions at the next formal valuation more difficult and compound the risk to the Fund. However, in determining the extent and speed of any changes to the employer's contributions the Administering Authority will consider the effect on the overall funding position of the Fund, i.e. other Fund employers.

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

4. Employer involvement and consultation

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 other 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. 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/linked employer in the Fund and the proximity to the next formal valuation.

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/linked employers (including any guarantor or employer providing a subsumption commitment) and, where appropriate, the largest employers in the Fund with a view to seeking their agreement to this approach.

5. Process for requesting a review

Before requesting a review, employers 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 Deputy Chief Finance Officer, Jeffrey Dong, Jeffrey.dong@swansea.gov.uk 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. Employers should be aware that all advisory fees 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.

6. Other considerations

The Administering Authority may carry out a review at any time during the valuation cycle where it becomes aware that a review is required. In such cases the employer will be expected to provide the requested information within one month of request and the review will be completed within 6 weeks of the provision of all requested information, or completion of the risk/covenant assessment if later.

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 take into account the timing of contribution changes flowing from 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 flowing from the valuation.

City and County of Swansea Pension Fund Actuarial Valuation as at 31 March 2022

Cronfa Bensiwn Dinas a Sir Abertawe Prisiad Actiwaraidd ar y 31 o Fawrth 2022

Valuation results presentation to Pension Fund Committee

Cyflwyniad canlyniadau y prisiad i'r Pwyllgor Cronfa Bensiwn

Prepared for: City and County of Swansea Pension Fund
Prepared by: Laura Caudwell FIA and Arkady Gibas
Date: 15 March 2023

QAS Institute and Faculty of Actuaries ® Quality Assurance Scheme

AON

Agenda
Agenda

Valuation process and assumptions

Proses a thybiaethau y prisiad

2022 valuation results

Canlyniadau prisiad 2022

Valuation process and assumptions

Proses a thybiaethau y prisiad

What is a triennial actuarial valuation?
Beth yw prisiad actiwaraidd pob tair blynedd?

1. Assess financial health *Asesu iechyd ariannol*

A/L = funding level (ratio); A – L = Shortfall or surplus *A/L = lefel cyllid (cymhareb); A – L = Diffyg neu gwarged*

A

L

Assets
Asedau

Market value from Fund accounts

Gwerth cyfrifon y Gronfa yn ôl y farchnad

Past service liabilities
Rhwymedigaethau gwasanaeth blaenorol

Calculated by Actuary:

Cyfrifiwyd gan yr Actwari:

Use Fund specific data

Defnyddiwyd data penodol o'r Gronfa

Make assumptions about the future

Gwneud tybiaethau am y dyfodol

Past service contributions
Cyfraniadau gwasanaeth blaenorol

Calculated to eliminate the surplus or deficit over the recovery period

Cyfrifwyd i ddileu y diffyg neu gwarged dros y cyfnod adfer

Future service liabilities
Rhwymedigaethau gwasanaeth y dyfodol

Employer contributions to meet cost of new benefits ("common" contribution rate)

Cyfraniadau cyflogwyr ar gyfer buddiannau newydd (cyfradd cyfraniadau "cyffredinol")

2. Set employer contributions
Gosod cyfraniadau cyflogwyr

Past plus future service contributions

Cyfraniadau gwasanaeth blaenorol a'r dyfodol

Mar 31

Maw 31

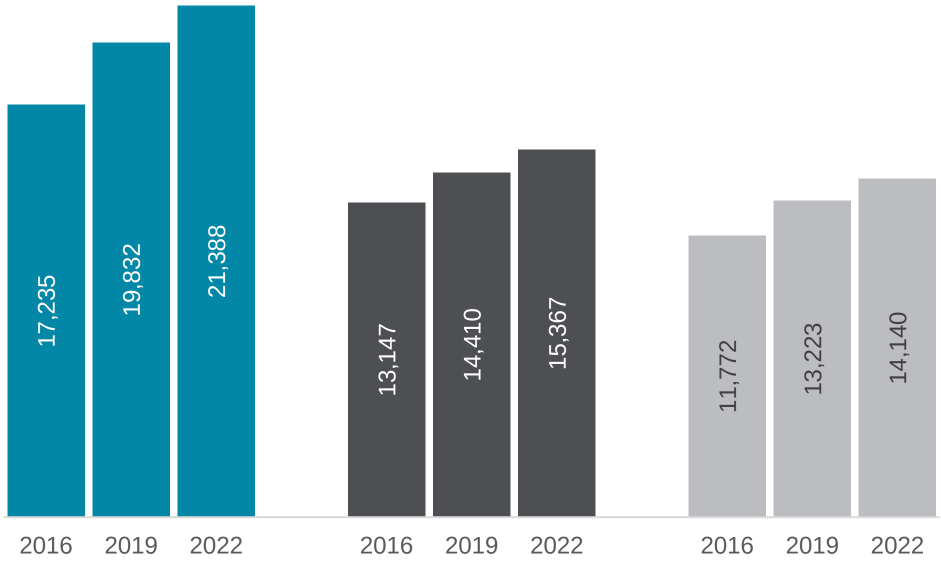
Regulatory requirement (Reg 62) / Gorchymyn rheoleiddiol (Rheol 62)

LGPS Regulations require the Administering Authority to obtain and valuation and rates and adjustments certificate every three years, to be finalised within a year of the valuation date.

Mae Rheoliadau LGPS yn galw ar yr Awdurdod Gweinyddol i gael prisiad a chytuno ar gyfraniadau pob tair blynedd. Rhaid i'r gwaith orffen o fewn blwyddyn i ddyddiad y prisiad.

AON

Data, experience and assumptions
Data, profiadau a thybiaethau



Average ages (unweighted)
Oedran canolrifol (amhwysol)

	Actives *Aelodau Actif*	Deferreds *Aelodau Gohiriedig*	Pensioners *Pensiynwyr*
2016	44.6	43.8	70.1
2019	44.7	44.8	70.5
2022	45.4	45.6	71.4

Financial experience affecting benefit payments
Profiadau ariannol sy'n effeithio ar daliadau buddion

	Tybiad 2019 assumption	Experience *Profiad*	*Tybiad* 2022 assumption
CPI increase *Cynnydd CPI*	2.1% pa	1.7%, 0.5%, 3.1%	2.3% pa[1]
Pay growth *Cynnydd cyflog*	3.6% pa[2]	c3.3% pa	3.8% pa[2]

(1) Plus a liability adjustment of 10% to allow for short-term inflation
Yn cynnwys addasiad rhwymedigaethol o 10% i ganiatau am chwyddiant tymor byr
(2) Plus an age-related promotional pay scale
Yn cynnwys graddfa cyflog sy'n ddibynnol ar oedran

Assumptions best estimate except discount rate
Amcangyfrif gorau, heblaw cyfradd llog

Elements of funding strategy
Elfennau sy'n dylanwadu ar strategaeth cyllid

Prudence
Cynildeb

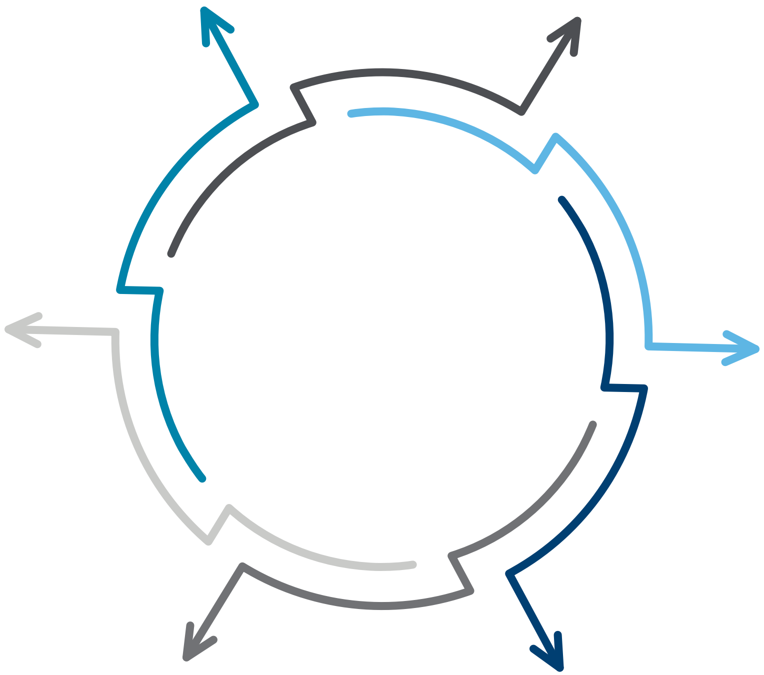
Built into the calculation of the liabilities (funding target)
Wedi ei ystyru pan yn cyfrifo rhwymedigaetha (targed ariannu)

Employer risk
Risg cyflogwr

Higher risk employers have a more prudent funding target
Mae cyflogwyr sydd â risg uchel yn derbyn targed ariannu mwy cynnil

Deficit recovery period
Cyfnod adfer i'r diffyg

Average future working lifetime / contract length
Cyfartaledd oes gweithio dyfodol / hyd cytundeb



Security
Diogelwch

Guarantee, bond or indemnity, commitment to subsume
Gwarant, bond neu indemniad, ymrwymiad i ymostwng

Risk/cost sharing
Rhannu risg/cost

Pooling of risks between employers
Rhannu risgiau rhwng cyflogwyr

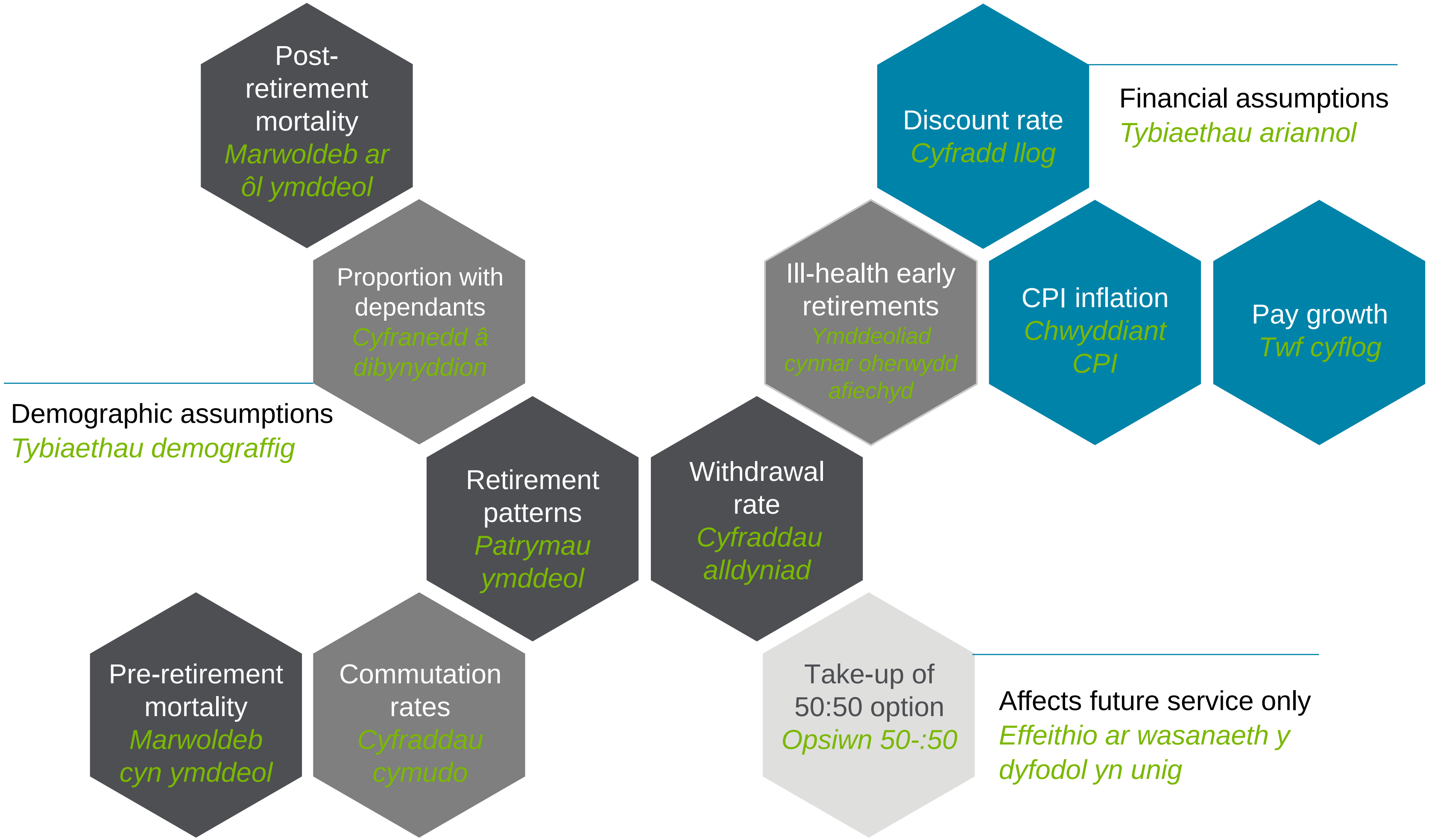
Smoothing
Llyfnu

Stabilisation / stepping
Sefydlogi / camu

All affect the level of employer contributions actually payable
Mae'r elfennau hyn yn effeithio ar gyfraniad y cyflogwyr

Funding strategy varies by Fund (and employers)
Mae'r strategaeth cyllid yn amrywio yn dibynnu ar y Gronfa (a chyflogwyr)

Valuation of liabilities – assumptions
Tybiaethau prisiad y rhwymedigaethau



Post-retirement mortality
Marwoldeb ar ôl ymddeol

Base mortality
Marwoldeb sylfaenol

Analysed using Demographic Horizons™

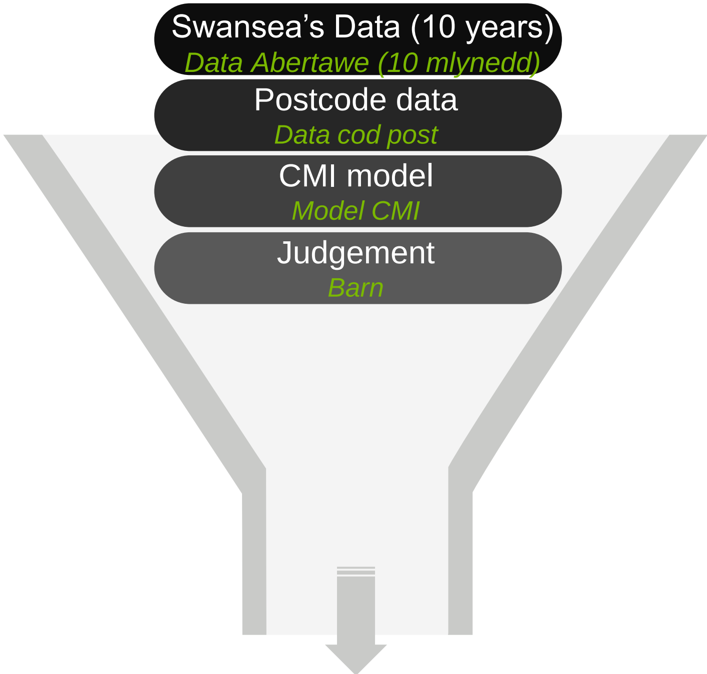
Dadansoddi gyda Demographic Horizons™

Combination of Swansea Pension Fund experience and postcode data

Cyfuniad profiad y Gronfa a data cod post

Adjustment for experience over pandemic

Addasu i brofiad y pandemig



Best estimate Fund-specific assumptions

Tybiaethau amcangyfrif gorau i'r Gronfa

Future improvements
Gwelliannau'r dyfodol

Short-term - (CMI 2021, updated from CMI 2018) plus

Tymor byr – (CMI 2021, diweddaru o CMI 2018) a

Long-term – 1.5% per annum (same as 2019)

Tymor hir – 1.5% y flwyddyn (fel 2019)

Allowance for pandemic

Lwfans am y pandemig

Life expectancy from age 65 (normal health retirements)
Disgwyliad byw o oed 65 (ymddeol arferol)

Years *Blynyddoedd*	2019*	2022	Change *Gwahaniaeth*
Males (active currently 45) *Gwrywod (gweithwyr 45 mlwydd oed)*	23.4	22.8	-0.6
Males (currently 65) *Gwrywod (65 mlwydd oed)*	22.4	22.1	-0.3
Females (active currently 45) *Menywod (gweithwyr 45 mlwydd oed)*	25.9	25.7	-0.2
Females (currently 65) *Menywod (65 mlwydd oed)*	24.4	24.6	+0.2

Key takeaway
Ffactor allweddol

The overall impact on liabilities of our proposed mortality assumption changes is a liability reduction of less than 1%.

Rhwymedigaethau wedi gostwng llai na 1% o ganlyniad i newid y tybiaeth marwoldeb.

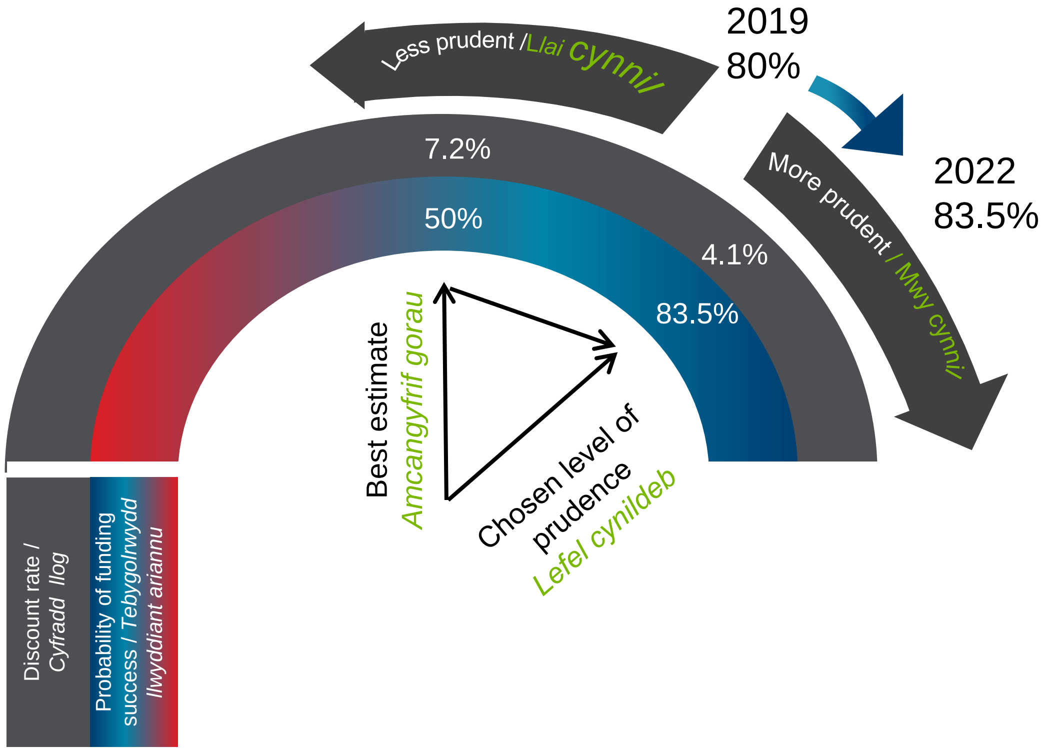
**Life expectancy for a member aged 45/65 at 31 March 2022 using the 2019 valuation assumptions*

Disgwiliad byw aelod sy'n 45/65 mlwydd oed ar 31 Mawrth 2022 yn defnyddio tybiaethau 2019

AON

Setting the discount rate – most employers
Gosod y cyfradd llog – mwyafrif y cyflogwyr

- Expected returns based on the Fund's investment strategy
  Enillion disgwyledig yn seiliedig ar strategaeth buddsoddiad
- Risk based – level of prudence – "probability of funding success"
  Seiliedig ar risg – lefel cynildeb – "tebygolrwydd llwyddiant ariannu"



Sensitivity to discount rate
Sensitifrwydd i'r cyfradd llog

Discount rate *Cyfradd llog*	Cost now of paying £100 in 20 years' time *Cost heddiw o dalu £100 mewn 20 mlynedd*
4.6%	£41 (c10% lower / *llai*)
4.1%	£45
3.6%	£49 (c10% higher / *uwch*)

Supported by Aon's Capital Market Assumptions
Cefnogwyd gan Dybiaethau Aon o'r Farchnad Gyflafaf
Level of risk in strategy reduced compared to 2019 strategy
Mae'r lefel o risg yn y strategaeth yn llai o'i gymharu â strategaeth 2019

Summary of key financial assumptions
Crynodeb o'r prif dybiaethau ariannol

% p.a.	2019	2022
Probability of Funding Success /*Tebygolrwydd llwyddiant ariannu*	80%	83.5%
Discount rate – scheduled / subsumption employer bodies / *Cyfradd llog cyflogwyr sefydlog tymor hir*	4.25%	4.10%
Discount rate - ongoing orphan bodies/ *Cyfradd llog cyflogwyr llai sefydlog*		
In service / ***Mewn gwaith***	4.25%	4.10%
Left service / ***Wedi gadael gwaith***	1.60%	0.80%
CPI pension increases / *Cynnydd CPI ar bensiynau*	2.10%	2.30%
Post 88 GMP pension increases (p.a.) where SPA pre 2016 / *Cynnydd Post 88 GMP ar bensiynau (p.a.) ble mae SPA cyn 2016*	1.90%	2.00%
Pay growth[1] *Cynnydd cyflog*	3.60%	3.80%
Short-term inflation loading / *Lwfans chwyddiant tymor byr*	n/a	10%

(1) Plus an age-related promotional pay scale. / *Yn cynnwys graddfa cyflog sy'n ddibynnol ar oedran*

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Long term (in service) discount rate slightly lower than in 2019 (reduced 0.15% p.a.)
Cyfradd llog tymor hir (mewn gwaith) ychydig yn llai nag yn 2019 (0.15% y flwyddyn yn llai)

Long term best estimate inflation assumption slightly increased (additional allowance for current high levels of inflation)
Tybiaeth amcangyfrif chwyddaint tymor hir ychydig yn uwch (lwfans ychwanegol oherwydd lefelau uchel chwyddiant ar hyn o bryd)

Assumptions subject to agreement by Pension Fund Committee
Tybiaethau i'w cadarnhau gan Bwyllgor y Gronfa Bensiwn

2022 valuation results

Canlyniadau prisiad 2022

2022 whole fund past service position
Sefyllfa gwasanaeth blaenorol y Gronfa yn 2022

£M	2019	2022
Value of past service benefits for: *Gwerth buddion gwasanaeth blaenorol i:*		
Actives / *Aelodau Actif*	958.4	1,327.5
Deferreds / *Aelodau Gohiriedig*	259.6	336.1
Pensioners / *Pensiynwyr*	1,016.6	1,257.8
Value of liabilities / *Gwerth Rhwymedigaethau*	2,234.6	2,921.4
Value of assets / *Gwerth Asedau*	2,044.0	2,924.2
Past service surplus/(deficit) / *Gwarged/(diffyg) gwasanaeth blaenorol*	(190.6)	2.9
Funding ratio / *Lefel cyllid*	92%	100%

83.5% Probability of Funding Success

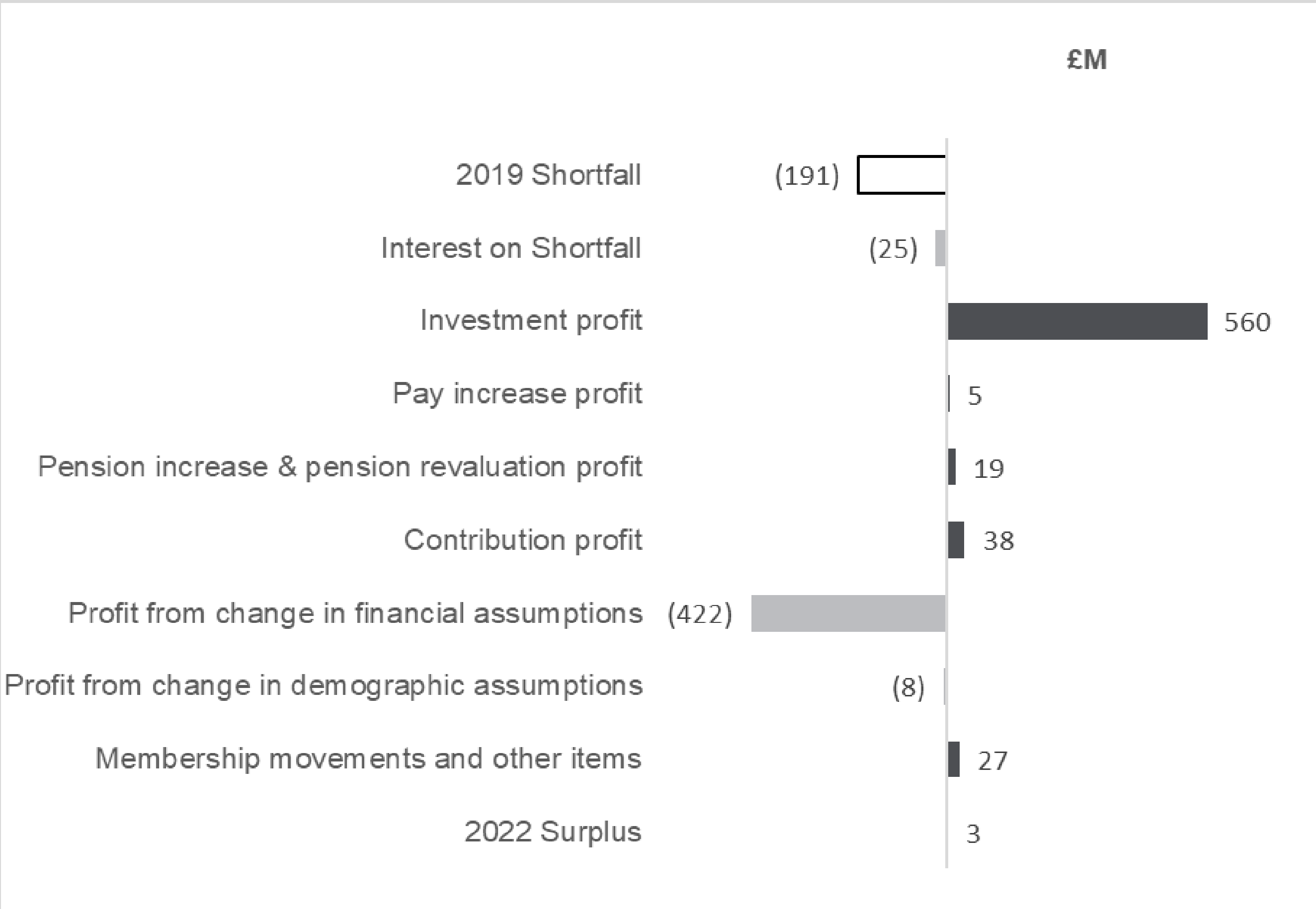
Tebygolrwydd o lwyddiant yw 83.5%

Additional short-term inflation allowance / risk margin in 2022 results (applying to scheduled body / subsumption funding target only)

Mae lwfans ychwanegol wedi ei gynnwys ar gyfer chwyddiant tymor byr / maint y risg yng nghanlyniadau 2022 (cyflogwyr sefydlog tymor hir)

Change in funding position (2019 to 2022)
Newid yn y sefyllfa ariannu (2019 i 2022)

The deficit of £191M at the 2019 valuation has changed to a surplus of c£3M at the 2022 valuation.
Mae'r diffyg o £191M yn y sefyllfa ariannu yn 2019 wedi newid i warged o tua £3M yn 2022.



Diffyg 2019
Llog ar y diffyg
Elw buddsoddiad
Elw cynnydd cyflog
Elw cynydd ac ailbrisiad pensiwn
Elw cyfraniad
Elw o newid tybiaethau ariannol
Elw o newid tybiaethau demograffig
Symudiadau aelodau ac eitemau eraill
Gwarged 2022

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Investment gains partially offset by changes in financial assumptions
Elw buddsoddiad wedi ei rhannol gwrthbwyso gan newid yn y tybiaethau ariannol

2022 whole fund employer contributions
Cyfraniadau cyflogwyr 2022

% of Pensionable Pay / *% Cyflog Pensiynadwy*	2019	2022
Value of benefits accruing / *Gwerth buddion yn cronni*	26.0%	27.1%
Expenses / *Treuliau*	0.5%	0.5%
Member contributions / *Cyfraniadau aelodau*	(6.3%)	(6.3)%
Net employer cost (Primary Rate) / *Cost i'r cyflogwr*	20.2%	21.3%
Surplus only recovered above / *Yr unig warged wedi ei adennil uchod*	110%	110%
Past service (Secondary) contribution rate / *Cyfradd cyfraniad gwasanaeth blaenorol (Eilradd)*	3.3%	0.0%
Allowance for regulatory uncertainty / *Lwfans ar gyfer ansicrwydd rheoleiddiol*	1.5%	n/a
Total employer rate as % Pay / *Cyfradd cyflogwr, % o tal*	25.0%	21.3%

Notes:

- *Value of benefits accruing includes value of death in service lump sum benefit.*

  Mae gwerth y buddion sy'n cronni yn cynnwys cyfandaliad buddion marwolaeth mewn swydd.
- *The employer rate certified in 2019 included an uplift for regulatory uncertainties (McCloud and Cost Management). In the 2022 valuation, the expected McCloud cost is included wholly within the past service liabilities because the remedy period ended on the valuation date.*

  Roedd cyfradd cyflogwyr 2019 yn cynnwys lwfans am ansicrwydd rheoleiddiol (McCloud a Rheoli Cost). Ym mhrisiad 2022, mae cost McCloud wedi'i gynnwys o fewn rhwymedigaethau gwasanaeth blaenorol gan fod y cyfnod rhwymedi wedi gorffen ar ddyddiad y prisiad.
- *The 2019 valuation contribution rates were based on a 19 year deficit recovery period*

  Roedd cyfraddau cyfraniadau prisiad 2019 wedi'u selio ar gyfnod rhwymedi o 19 mlynedd

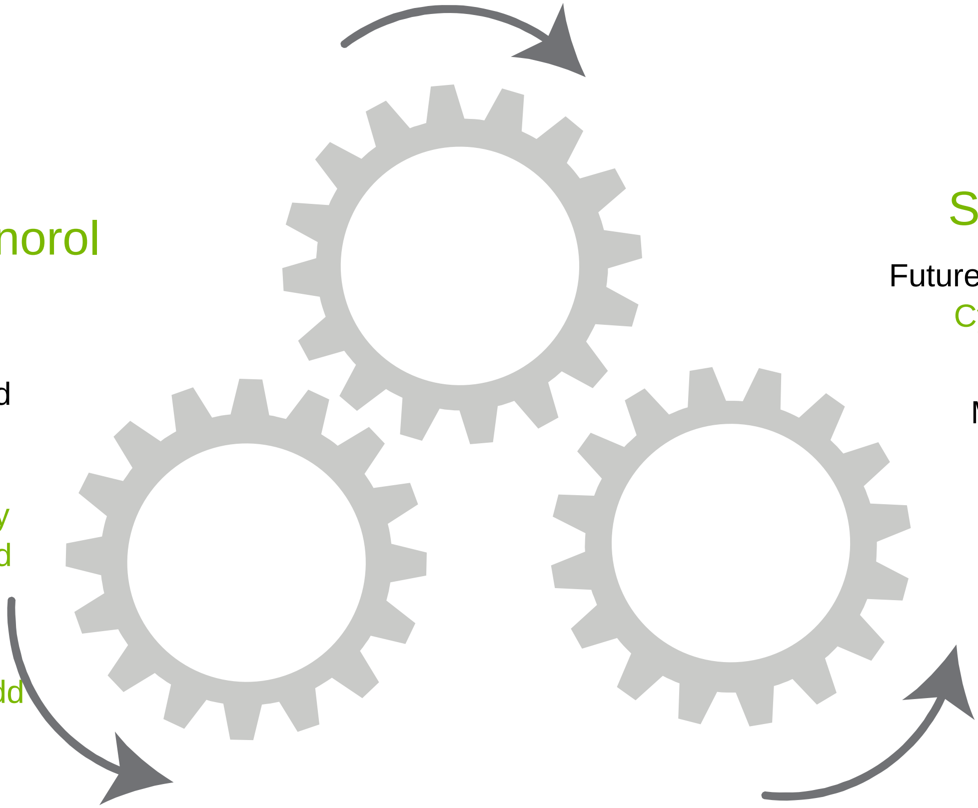
Results for scheduled and subsumption body employers
Canlyniadau ar gyfer cyflogwyr sefydlog yn y tymor hir

Past service position
Sefyllfa gwasanaeth blaenorol

Funding level has improved
Lefel cyllid wedi gwella

Almost all employers over 100% funded so no longer need to pay deficit contributions
Mae bron pob cyflogwr dros 100%, felly nid oes rhaid talu cyfraniadau oherwydd diffyg

Surplus to be recovered over 19 years
Gwarged i'w hadennill o fewn 19 mlynedd



Future service position
Sefyllfa gwasanaeth y dyfodol

Future service (primary) rate has increased
Cynnydd yng nghyfradd (cynradd) gwasanaeth y dyfodol

McCloud now all in past service
McCloud i gyd o fewn y gwasanaeth blaenorol

Individual employer rates apply (other than future service / primary rates for the Town and Community Councils Group) – almost all employers see a reduction in contributions
Mae cyfraddau cyflogwyr unigol yn cael eu gweithredu (heblaw am gyfraddau gwasanaeth y dyfodol / sylfaenol ar gyfer Grŵp Cynghorau Tref a Chymuned) – mae bron pob cyflogwr yn profi gostyngiad yng nghyfraniadau

Ongoing orphan employer is subject to different strategy = higher contributions
Mae cyflogwr amddifad cyfredol yn dilyn strategaeth gwahanol = cyfraniadau uwch

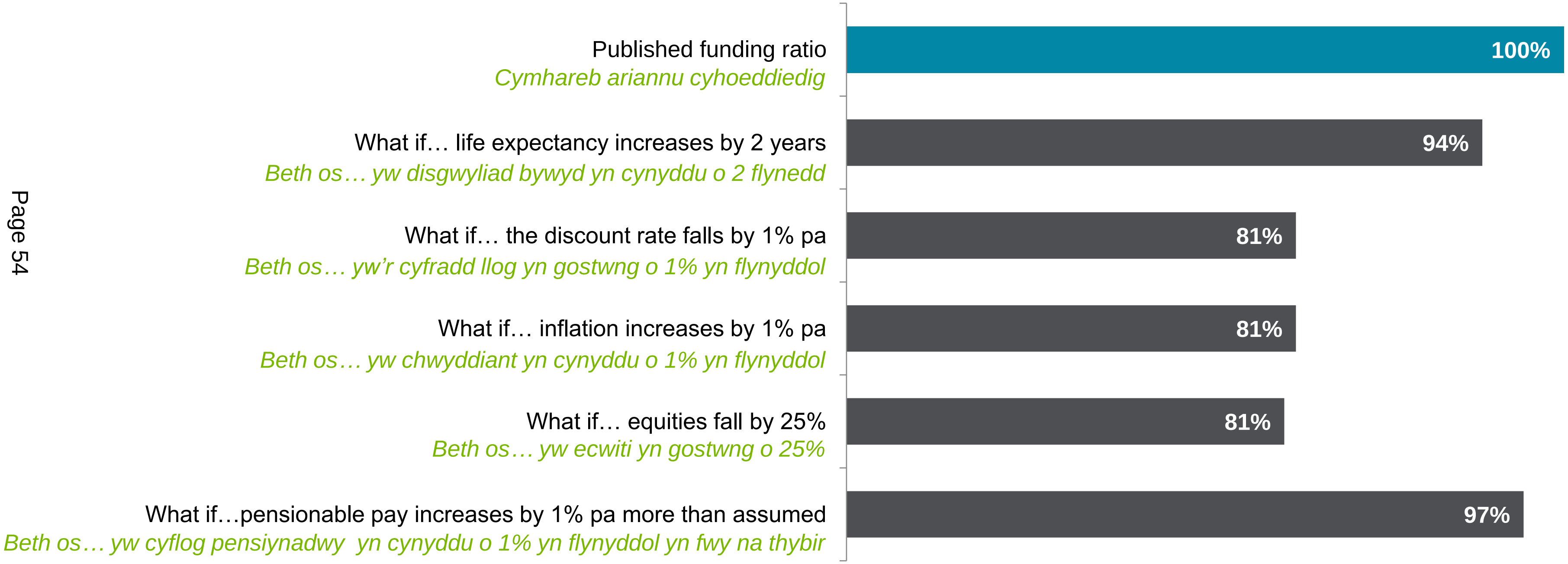
Risks and uncertainties
Risgiau ac ansicrwydd

The Fund faces a number of key risks

The chart below shows approximate impact of changes to assumptions / fund experience

Mae’r Gronfa yn wynebu nifer o risgiau allweddol

Mae’r siart yn amcangyfrif yr effaith o newid tybiaethau / profiad y Gronfa



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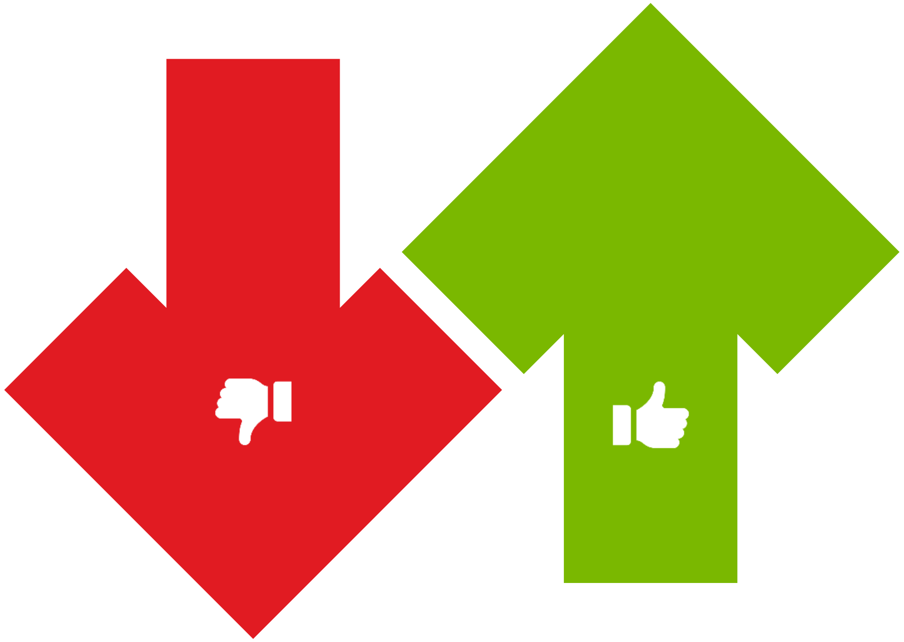
Short-term inflation uncertainty is a key consideration for the 2022 valuation
Mae ansicrwydd chwyddiant tymor byr yn ystyriaeth allweddol o fewn prisiad 2022

The scenarios considered are not ‘worst case’ scenarios, and could occur in combination (rather than in isolation)
Gall y senarios ddigwydd mewn cyfuniad (yn hytrach nag ar wahan), a rhaid pwysleisio nad yw’r senarios yn dangos y sefyllfa gwaethaf posib.

Market movements since 31 March 2022
Symudiadau y farchnad ers 31 Mawrth 2022

Assets
Asedau

Investment return -4%
(to 31 December)
Elw buddsoddiad -4%
(i 31 Rhagfyr)



2023 PI
CP 2023

To be 10.1% (set based on Sept CPI increase)
10.1% (wedi ei selio ar CPI mis Medi)

Liabilities
Rhwymedigaethau

Group net discount rate up c0.45% (31 December 2022)
Cyfradd llog wedi cynyddu tua 0.45% (31 Rhagfyr 2022)

We have considered post valuation experience when setting employer contributions, keeping in mind the overriding objective of stability of contributions.
Rydym wedi ystyried profiad ar ôl 31 Mawrth 2022 pan yn cyfrifo cyfranidau cyflogwyr, gan gofio'r nôd pennaf o gadw'r cyfraniadau yn sefydlog.

Any questions?
Unrhyw gwestiwn?

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Report of the Section 151 Officer

Local Pension Board - 19 April 2023

City & County of Swansea Pension Fund Business Plan 2023/24

Purpose:	To provide a working framework for the Pension Fund's programme of work for 2023/24. It is presented to Local Pension Board for Information.
Consultation:	Legal, Finance and Access to Services.
Report Author:	Jeff Dong
Finance Officer:	Jeff Dong
Legal Officer:	Stephanie Williams
Access to Services Officer:	Rhian Millar
For Information	

Business Plan 2023/24

1 Background

1.1 In line with best practice, the Pension Fund produces a business plan, risk register, budget and asset allocation to inform its work programme for the forthcoming 12 month period. The business plan, budget, risk register, asset allocation for 2023/24 is attached.at Appendix 1,2,3 and 4.

2 Proposal

2.1 The Pension Fund Committee approved the attached business plan, budget, risk register and asset allocation for the year 2023/24 noting the timescale and responsibility for key action points throughout the year. The document is a dynamic document and is revised and amended throughout the year as necessary.

3 Legal Implications

3.1 The relevant legal provisions and guidance are set out in the Appendix.

4 Financial Implications

4.1 There are no financial implications arising from this report.

5 Integrated Impact Assessment Implications

5.1 The Council is subject to the Equality Act (Public Sector Equality Duty and the socio-economic duty), the Well-being of Future Generations (Wales) Act 2015 and the Welsh Language (Wales) Measure, and must in the exercise of their functions, have due regard to the need to:

- Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Acts.
- Advance equality of opportunity between people who share a protected characteristic and those who do not.
- Foster good relations between people who share a protected characteristic and those who do not.
- Deliver better outcomes for those people who experience socio-economic disadvantage.
- Consider opportunities for people to use the Welsh language.
- Treat the Welsh language no less favourably than English.
- Ensure that the needs of the present are met without compromising the ability of future generations to their own needs.

The Well-being of Future Generations (Wales) Act 2015 mandates that public bodies in Wales must carry out sustainable development. Sustainable development means the process of improving the economic, social, environmental and cultural well-being of Wales by taking action, in accordance with the sustainable development principle, aimed at achieving the 'well-being goals'.

Our Integrated Impact Assessment (IIA) process ensures we have paid due regard to the above. It also takes into account other key issues and priorities, such as poverty and social exclusion, community cohesion, carers, the United Nations Convention on the Rights of the Child (UNCRC) and Welsh language.

An integrated impact assessment screening has been undertaken and it concludes that there are no equality impact implications arising from this report.

Background Papers: None.

Appendices:

Appendix 1- Business Plan 2023/24

Appendix 2 – Risk Register

Appendix 3 – Asset Allocation

Appendix 4 – Budget

CITY AND COUNTY OF SWANSEA

Cyngor **Abertawe**
Swansea Council

Pension Fund

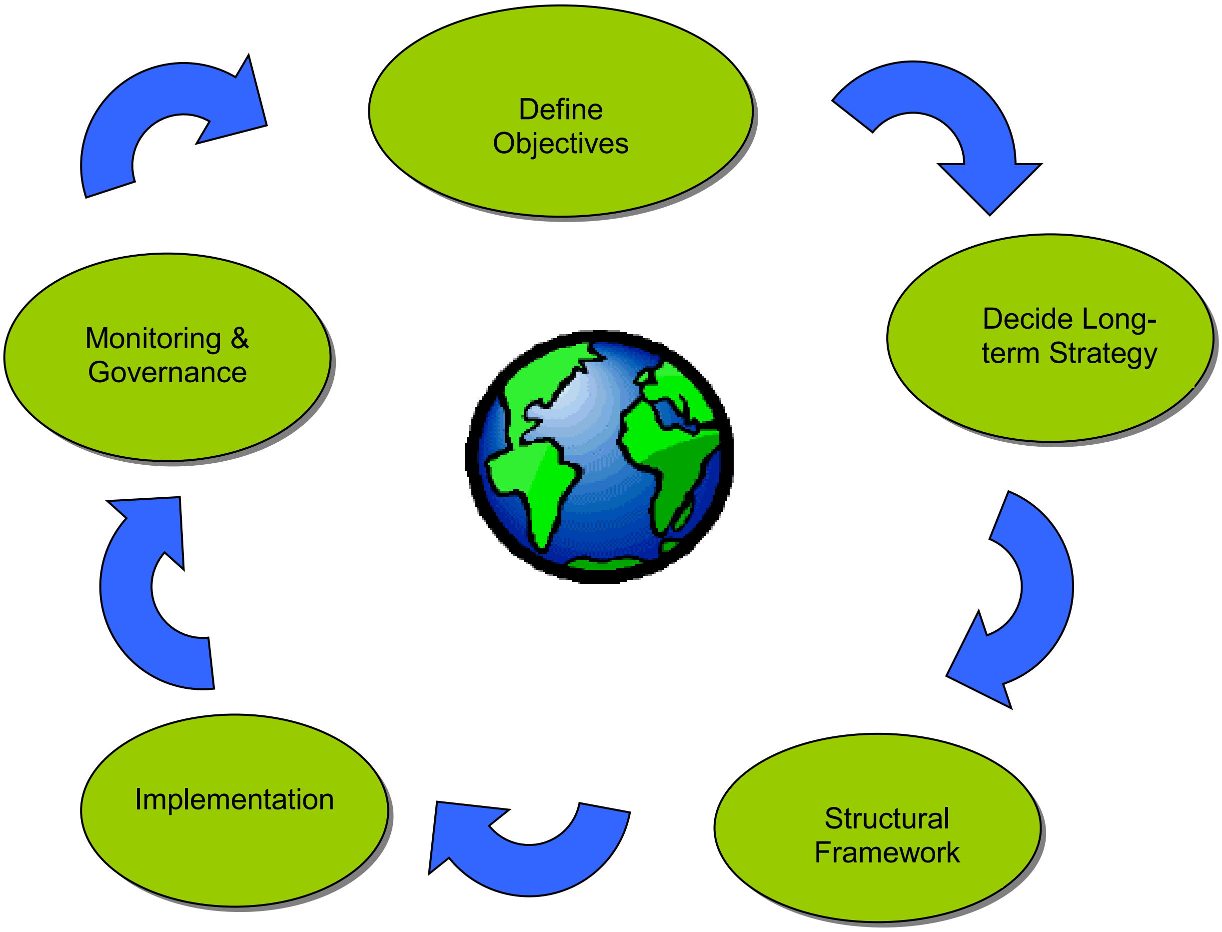
Annual Business Plan 2023/24

Local Government Pension Scheme
City & County of Swansea

Business Plan

1. Decision-making Framework

The Pension Fund Committee have the delegated responsibility to manage the investment arrangements of the Fund to meet the overall investment objectives identified in the Statement of Investment Principles. Investment decisions are taken by the Committee as advised by the Deputy S151 Officer and professional external investment consultants. The Pension Fund Committee use the following framework to formulate their policy in all aspects relating to the management of the Fund's assets.



This Plan relates to the management of the Fund's assets over the medium-term/long term, with a detailed plan of issues to be addressed in the next twelve months.

2. Summary of Investment Arrangements

The primary investment objectives of the Pension Fund Committee as stated in the Investment Strategy Statement are:

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis. This funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

The Committee aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary and/or inflation increases.

The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund. This benchmark is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities.

It is intended that the Fund's investment strategy will be reviewed approximately every three years and as appropriate in the interim.

The Fund's investment strategy was last reviewed during 2019. A full analysis including both a quantitative (using asset liability modelling) and qualitative analysis was underatken. This approach helps to ensure that the investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferreds and active members), together with the level of surplus or deficit (relative to the funding basis used). Details of the assumptions used in the quantitative analysis was considered prior to the Committee agreeing any strategic changes.

The Committee monitors investment strategy on an ongoing basis, focusing on factors including, but not limited to:

- Suitability, given the Fund's level of funding and liability profile
- The level of expected risk
- Outlook for asset returns

The Committee also monitors the Fund's actual allocation on a regular basis to ensure it does not notably deviate from the target allocation and is considering a formal rebalancing framework alongside potential changes to the Fund's longer term strategic asset allocation, however it is recognised that as it transitions to the yielding asset portfolio there shall be periods of variation and deviation.

Performance of the investment managers are collated by by PIRC on a whole LGPS basis, this service shall be reviewed on an All Wales basis in due course. Performance of the managers are considered by the Pension Fund Committee on a quarterly basis, with reports and analysis being provided by Hymans.

Each of the external managers provides quarterly reports on performance and makes presentations to Committee as and when required.

3. Issues addressed in year to 31 March 2023

In the last twelve months the Pension Fund Committee has addressed the following investment issues:

a. Objectives

- The fund reviewed its objectives as outlined in the revised Investment Strategy Statement

.

b. Investment Strategy

The Pension Fund Committee monitored its investment strategy and asset allocation as outlined in The Investment Strategy paper previously , providing an update on progress re. the de-risking strategy and formulating its plan to achieve its net zero by 2037 ambitions. It has also committed significant capital to renewable energy (solar and wind) and timberland and agriculture during the year. It has also committed to investing in residential housing with funds committing to endeavour identifying opportunities in the Swansea area and is currently evaluating a number of local levelling up opportunities

c. Structural Framework

The Wales Pension Partnership (WPP) has successfully transitioned its active global equities assets (including Swansea) into the WPP ACS. The successful transition of Swansea's active £121m fixed income assets took place in Sep 2020. Work is ongoing in relation to the private market assets in the portfolio with a timetable for implementation to be agreed in 2023/24.

d. Implementation

- Produced annual report and statement of accounts 2021/22
- Held Annual General Consultative Meeting
- Transitioned active bonds into WPP active fixed income sub funds
- Implemented Swansea specific low carbon overlay re. WPP Global equity assets
- Implemented Equity Protection proxy programme (trade finance)
- Implemented Timberland and Agriculture allocation
- Implemented triennial valuation
- Held employee roadshows

e. Monitoring & Governance

During the year, the Pension Fund Committee has held quarterly monitoring meetings with reports from the investment consultant and officers in hybrid manner

Similarly, The Local Pension Board has held quarterly hybrid meetings (reviewing the work of the pension fund committee

The Joint Governance Committee (JGC) of the WPP has also met 4 times during the year virtually.

A consultation meeting to consider the 2021/22 Annual Report and Statement of Accounts was held, to which all employing bodies and trade unions were invited.

The Pension Admin Manager held several meetings for employers and members in order to explain the implementation of new regulations, share best practice and improve data submission portals and preparatory work ahead of the triennial valuation 2022 and other changes amongst other administration issues.

f. Environmental, Social, Governance (ESG)

The Pension Fund Committee has formally adopted and approved its Responsible Investment Policy and Environmental, Social Governance (ESG) Policy. The Fund has successfully transitioned £0.5bn of assets into the Blackrock low carbon fund and was recognised in its responsible investment approach by winning the LAPF Best Approach to Sustainable Investment Approach Award 2019. It has also lobbied and worked with peers in WPP to implement carbon reduction programmes in its portfolios. Consequently, the WPP has submitted its prospectus for the carbon reduction overlay for the WPP Global equities opportunities fund to the FCA for consideration. Swansea is currently also concluding due diligence on a number of impact investments including renewable power (solar and wind) and affordable/community housing. The fund also was shortlisted for the LAPF Awards in 2020 for best investment innovation (equity protection) and best approach for sustainable investment (carbon reduction overlay).

4. The Business Plan

a. Objectives

The Investment Objectives, Strategy and Risk Profile shall be considered when reviewing the Investment Strategy Statement and when considering the revision of the funding strategy statement that was adopted for the 2019 valuation.

b. Investment Strategy

The solvency level of the Fund continues to be carefully monitored and following the Triennial Valuation 2022 has achieved 100% funding whilst reducing assumption risk and discount rate and reducing the recovery period The ongoing uncertainty for the world economies and recovery from the effects of the global Covid 19 pandemic/Ukraine crisis and global inflation means that Pension Fund Committee members shall continuously review the funding level. The strategy will be regularly reviewed to seek to reduce the risk within the portfolio in light of recent gains.

Particular areas to be addressed are as follows:

- Review the effectiveness of the implemented structure of the fund
- Review de-risking strategy
- Review the profile of the Equity protection programme
- Review asset allocation and new asset classes
- Review risk parameters
- Re- balance more efficiently
- Review appropriate fund benchmarks

c. Structural Framework

The structural framework of the investment management arrangements of the fund has been materially changed by the establishment of the WPP. The joint governance committee has met 4 times during the year and has engaged formally with the chairs of the 8 local Pension Boards and has held a number of joint training session during the year.

d. Implementation & Risk Management

The Committee shall implement decisions taken in respect of the strategy described above and has identified and shall monitor risks identified in Appendix 2 in the Pension Fund Risk Register. A programme to reduce risk in the equity portfolio as the fund reallocates to a variety of yielding real assets was the implementation of an equity protection programme, the progress of which has been reported regularly since inception. The programme has now matured and due to unattractive pricing a proxy programme of trade finance has been implemented to provide the uncorrelated compensating returns whilst the real assets portfolio is deployed.

e. Monitoring & Governance

The Governance arrangements of the CCS pension fund have been formally reviewed in line with regulations and the Council's constitution has been amended to reflect the same, with the Pension Fund Committee having governance responsibilities for the pension fund and the Local Pension Board providing the oversight and assistance to the Pension Fund Committee to discharge its role.

The Pension Fund Committee will continue to consider issues arising from all the guidance for investment decision making and further improve compliance where required. The Pension Fund Committee awaits the outcome of the scheme governance review guidance due to be published by the scheme advisory board (SAB).

The Chairman (or his nominated Deputy) of the Pension Fund Committee shall be the Swansea representative on the Joint Governance Committee of the Wales Pension Partnership. Following the considerable support of the Chairman of the Pension Fund

Committee, the JGC of the WPP has approved the appointment of a Scheme Member Representative of the JGC.

An Annual Consultative Meeting with stakeholders was held to consider the 2021/22 Annual Report and receive and consider the Triennial Valuation Results 2022.

Further open meetings for employers shall be arranged as required to consider revisions to the scheme and the impact of Mc Cloud remedy impact and will consult on further dialogue with DLHC in relation to structural reform of the LGPS.

f. Trustee/Officer Training

The Deputy S151 Officer and advisors will continue to identify suitable Trustee training opportunities as outlined in the Trustee Training plan and in tandem with the WPP training plan, striving to ensure Trustees are appropriately equipped to discharge their role.

Since the publication of the CIPFA skills and knowledge framework and TPR toolkit , there is a continuing requirement for Pension Fund Committee Trustees to demonstrate acceptable levels of competency to discharge their roles.

The Trustees, in turn are to ensure their own training requirements are being met and are asked to make themselves available for training when required.

Similarly officers are required to demonstrate competency and experience in discharging their roles and the Deputy S151 Officer shall continue to identify training opportunities for the officers of the fund.

The appointed investment consultant, Hymans launched the LGPS National Knowledge Assessment (NKA) self assessment toolkit to gauge the level of competency of both Committees and Boards. Both members of the Committee and Local Pension Board have undertaken the assessment and the results and feedback shall inform the items identified for training. The Training Plan Report 2023/24 is also being considered on this agenda.

5. Business Plan Timetable

The following table in Appendix 1 sets out the progress achieved against the 2022/23 business plan and sets out the broad Pension Fund Committee business plan over the next twelve months for 2023/24, the document is a dynamic document which is subject to review during the year. The business plan also includes a projected budget for the forthcoming year in respect of the main areas of income and expenditure and in Appendix 3. Appendix 2 outlines the high level risk register.

The action plan shall, where appropriate, forms the basis of the agenda items at the Pension Fund Committee meetings.

APPENDIX 1

Review of 2022/23 Business Plan Targets to year ended 31st March 2023

Action	Description	Time-scale	Primary Responsibility	Status
1	Formulate Annual Business Plan for 2022/23	Mar 2022	Deputy S 151 Officer	Achieved
2	Implement revised FSS following Valuation 2022	April 2023	Deputy S 151 Officer /actuary	Achieved
3	Undertake 2022 Triennial Valuation	April 2022-Nov 2022	Deputy S 151 Officer /actuary	Achieved
4	Undertake formal Review of Investment Strategy Statement	Mar 2023	Deputy S 151 Officer / Investment Consultant	Deferred until after valuation
5	Implement revised pension SORP and CIPFA guidance in producing annual report and statement of a/cs	June 2022	Deputy S 151 Officer	Achieved
6	Finalise GMP reconciliation	Apr 2022	Deputy S 151 Officer	Not achieved /ongoing target completion date April 2024
7	Monitor LGPS Regulation Changes and provide response to consultation where necessary to DLHC	MHCLG timetable	Deputy S 151 Officer	Achieved
8	Implement Mc Cloud Remedy	2022/23	Deputy S 151 Officer	Ongoing as operational impact of remedy is appraised and developed with software providers
9	Support the WPP Investment project (procurement, governance & oversight arrangements, prospectus design, sub fund design, tax, transition management)	Continuous	Deputy S 151 Officer	Achieved & Ongoing

10	Consider and approve Pension Fund Accounts and Annual Report and progress though external audit process	November 2022	Deputy S 151 Officer	Achieved
11	Review performance of WPP fund managers and Swansea fund managers ,	July 2022 September 2022 Dec 2022 March 2023	Deputy S 151 Officer	Ongoing
12	Continue to implement the fund's ESG Policy in respect of reduced carbon exposure and responsible investments	2022/23	Deputy S 151 Officer	Achieved and ongoing
13	Annual consultative meeting with employers re. annual report	November 2022	Deputy S 151 Officer	Achieved Nov 2021
14	Receive presentations from Fund Managers/WPP ACS Operator/advisors	July 2022 September 2022 December 2022 March 2023	Deputy S 151 Officer	Achieved
15	Implement any amendments as a result of revised regulations	MHCLG Timetable	Deputy S 151 Officer	Achieved
16	Review Pension Administration Strategy/Discretions to ensure compliance with legislation	Nov 2022	Deputy S 151 Officer	Achieved
17	Review Communication Strategy to ensure fit for purpose and compliance with regulations	Nov 2022	Deputy S 151 Officer	Achieved
18	Implement training plan as a result of the knowledge and skills assessment of pension fund	July 2022	Deputy S 151 Officer	Partly Achieved – continues in 2022/23

	committee and local pension board members via National knowledge assessment (NKA)			
19	Review Governance arrangements pending issuance of SAB guidance	Dec 2022	Deputy S 151 Officer	Ongoing
20	Develop Roadmap to Net Zero for the Investment Portfolio	Dec 2022	Deputy S 151 Officer/Investment Consultant	Net Zero Roadmap adopted in Nov 2021

Business Plan 2023/24 to Year Ending 31 March 2024

Action	Description	Time-scale	Primary Responsibility
1	Formulate Annual Business Plan for 2023/24	Mar 2023	Deputy S 151 Officer
2	Implement 2022 Triennial Valuation	April 2023	Deputy S 151 Officer /actuary
3	Undertake formal Review of Investment Strategy Statement	April 2023- Nov 2023	Deputy S 151 Officer /investment consultant
4	Start Preparatory work to Implement Pensions Dashboard	Jun 2023	Deputy S 151 Officer
5	Implement revised pension SORP and CIPFA guidance in producing annual report and statement of a/cs	June 2023	Deputy S 151 Officer
6	Finalise GMP reconciliation	Apr 2024	Deputy S 151 Officer
7	Monitor LGPS Regulation Changes and provide response to consultation where necessary to DLHC	MHCLG timetable	Deputy S 151 Officer
8	Implement Mc Cloud Remedy	2023/24	Deputy S 151 Officer
9	Support the WPP Investment project (procurement, governance & oversight arrangements, prospectus design, sub fund design, tax, transition management)	Continuous	Deputy S 151 Officer
10	Consider and approve Pension Fund Accounts and Annual Report and progress though external audit process	November 2023	Deputy S 151 Officer

11	Review performance of WPP fund managers and Swansea fund managers ,	July 2023 September 2023 Dec 2023 March 2024	Deputy S 151 Officer
12	Continue to implement the fund's ESG Policy in respect of reduced carbon exposure and responsible investments	2023/24	Deputy S 151 Officer
13	Annual consultative meeting with employers re. annual report	November 2023	Deputy S 151 Officer
14	Receive presentations from Fund Managers/WPP ACS Operator/advisors	July 2023 September 2023 December 2023 March 2024	Deputy S 151 Officer
15	Implement any amendments as a result of revised regulations	MHCLG Timetable	Deputy S 151 Officer
16	Review Pension Administration Strategy/Discretions to ensure compliance with legislation	Nov 2023	Deputy S 151 Officer
17	Review Communication Strategy to ensure fit for purpose and compliance with regulations	Nov 2023	Deputy S 151 Officer
18	Implement training plan as a result of the knowledge and skills assessment of pension fund committee and local pension board members via National knowledge assessment (NKA)	July 2023	Deputy S 151 Officer
19	Review Governance arrangements pending issuance of SAB guidance	Dec 2023	Deputy S 151 Officer
20	Develop Roadmap to Net Zero for the Investment Portfolio	Ongoing	Deputy S 151 Officer/Investment Consultant
21	Review Investment consultant contract	Jun 2023	Deputy S 151 Officer

APPENDIX 2

City & County of Swansea Pension Fund Risk Register 2023/24

Risk	Existing control measures /new control measures	Impact	Likelihood	Assigned	Date	Risk status
CCSPF1- Failure to comply with LGPS Regulation **If there is failure to comply with regulation, there would be adverse audit opinion and loss of trust from employers within scheme**	• Well trained staff • CPD • Pensions Officer Group • Society of Welsh Treasurers • Internal/external audit regime	High	Low	JD	2023/24	Green
CCSPF2 – Failure to process accurate pension benefits in a timely manner **If a pension benefit is paid incorrectly there could be a cost to the fund or penalty imposed for lateness of payment**	• Well trained staff • Established procedure with imbedded checks and segregation of duties in place • Regular KPI monitoring • Use of market leading software Altair • NFI checks • Atmos checks • GDPR	High	Low	JD	2023/24	Green
CCS PF3- Failure to collect and account for full receipt of contributions from employers and employees on time **If there is a failure to collect appropriate contributions there may be a rise in employers contributions and an adverse impact on cashflow and the ability to pay benefits and adverse audit opinion**	• Contribution timetable/monitoring procedure • Administering Authority agreement • Escalation and fines for non compliance • Internal audit	High	Low	JD	2023/24	Green
CCS PF4 – Failure to keep pension records up to date **If pension records are not up to**	• Administering Authority agreement with employers to ensure timely passing of	High	Medium	JD	2023/24	Amber

date, a wrong benefit may be calculated and paid	information • Data accuracy checks undertaken • Data validation on Altair system • Periodic data validation by scheme actuary/NFI •					
CCSPF 5 Failure to hold personal data securely **If there is breach of data there is a risk to the individual's details and loss of trust in the Authority**	• Compliance with GDPR • Business Continuity plan • IT Security Policy • Systems and pension payroll audit annually	High	Low	JD	2023/24	Green
CCSPF6 Loss of funds through fraud or misappropriation by Administrative staff **If funds are lost through fraud or misappropriation by Administrative staff could lead to increase in employer contributions**	• Segregation of duties • Clear roles and responsibilities and schemes of delegation • Internal external audit	High	Low	LM	2023/24	Green
CCSPF7 – Loss funds through fraud or misappropriation in investment related functions **If funds are lost through fraud or misappropriation in investment related functions could lead to increase in employer contributions**	• Segregation of duties • Clear roles and responsibilities and schemes of delegation • Internal/external audit • Regulatory control reports by external fund managers, custodians, fund administrators • FCA registration • Due diligence upon appointment	High	Low	JD	2023/24	Green
CCSPF8- Liquidity/cashflow risks – insufficient liquid assets with which to meet liabilities as they fall due **If levels of liquidity are insufficient then pension payments may not be able to be met**	• Weekly pension fund cash investments monitoring • SIP allocation to liquid assets	High	Low	JD	2023/24	Green

CCSPF 9- Volatility in employer contribution rates due to decease/increase in valuation of assets/liabilities	• Engage with expert actuary to make appropriate assumptions and employ suitable mechanisms to mitigate unaffordable rises • Regular monitoring of investment manager performance • Diversified investment asset allocation	High	Medium	JD	2023/24	Amber
CCSPF10- Prolonged failure of investment managers to achieve their objective returns	• Regular investment monitoring by officers • Regular presentation to pension fund committee • Ability to sack managers • Diversified investment strategy with a number of different managers	Medium	Medium	JD	2023/24	Green/Amber
CCSPF11- Price Risk- the volatility of the price of the quoted investments held exposes the fund to the risk of price movements in the market	• A comprehensive diversified investment approach is adopted	High	Low	JD	2023/24	Green
CCSPF 12- Interest rate risk- The risk of exposure to significant interest rate rises	• A comprehensive diversified investment approach is adopted	Medium	Low	JD	2023/24	Green
CCSPF 13 Discount Rate Risk- Volatility in the discount rate used inflates the level of liabilities to be paid	• Engage professionally qualified actuary who can mitigate the effects of abnormal discount rates	High	Medium	JD	2023/24	Amber
CCSPF 14 Foreign Exchange Risk- The risk of fluctuation the value of foreign currencies (the fund holds foreign investments whilst its liabilities are payable in sterling)	• A comprehensive diversified investment approach is adopted • Good cashflow management	High	Low	JD	2023/24	Green

CCSPF 15 – having suitably trained/experienced staff	• Training, development and succession planning	High	Medium	JD	2023/24	Amber
CCPF 16- Having suitably trained knowledgeable Pension Fund Committee Members/Local Pension Board Members	• CIPFA Knowledge and Skills framework • TPR Toolkit • Training Plan • Professional Advisors/Officers advising	High	Low	JD	2023/24	Green
CCSPF 17- Having adequate cyber security to protect members' data and ability to continue to pay benefits	• Comprehensive firewall and cyber security systems used by the Admin Authority and hosted system providers • Cyber security audit	High	Low	JD	2023/24	Green
CCSPF 18 -						

Asset Allocation as at 31st December 2022 – Appendix 3

Asset Class	Target Asset Allocation	Fund Manager			Benchmark	Performance target
		Passive	Active			
		Asset Allocation as at 31/12/22	Asset Allocation as at 31/12/22	Total		
Global Equities	61% +/- 5%	22% Blackrock - Low Carbon Fund & EM	43% Wales Pension Partnership	65%	MSCI All World Index Net	+2% p.a. over rolling 3 year
Global Fixed Interest	5% +/- 5%	1% Blackrock	4% Wales Pension Partnership	5%	Libor	LIBOR +3%
Property	5% +/- 5%	-	4% Schroders, Partners & Invesco	4%	IPD UK Pooled Property Fund Index	+ 1% p.a. over rolling 3 year, 8% absolute return
Hedge Funds	2% +/- 1%	-	2% Blackrock & EnTrustPermal	2%	Libor	+4%
Private Equity	5% +/- 5%	-	7% Harbourvest, Blackstone	7%	FTSE allshare	+3% p.a. over 3 year rolling
Infrastructure	5% +/- 5%	-	3% First Sentier, Blackrock	3%	10% Absolute	10% Absolute
Residential Housing	5% +/- 5%	-	1% Threadneedle, Man Group	1%	6% Absolute	6% Absolute
Private Debt	5% +/-1%	-	2% Alcentra, CVC, GSAM Broad Street	2%	7% Absolute	7% Absolute
Timberland & Farmland	3% +/-1%	-	0% Manulife - HTFF, Stafford	0%	8-11% Gross IRR	8-11% Gross IRR
Trade Finance	3% +/-1%	-	4% Pemberton, Allianz	4%	USD 3 Month Libor	USD 3 Month Libor +2.5%
Cash In house and FM Cash Global Bond Funds	1% +/- 5%	-	7% In house and FM Cash Fidante, T Rowe Price	7%	7day LIBID SONIA	= SONIA
TOTAL	100%	23%	77%	100%		

In addition to the above allocations, there is a requirement to allocate 5% to Levelling Up projects within the UK and these allocations shall be sub sets of the above and shall be reported separately when material

Appendix 4 - Pension Fund – Budget 2023/24

	Actual 2021/22	Probable 2022/23	Estimate 2023/24
Membership Numbers			
Contributors	21,424	21,462	21,500
Pensioners	14,294	15,635	16,500
Deferred	12,263	12,235	12,240
	47,981	49,332	50,240

	Actual 2021/22 £'000	Probable 2022/23 £'000	Estimate 2023/24 £'000
Income			
Employer Contributions	86,043	94,825	80,000
Employee Contributions	21,485	23,853	26,200
Transfers In	6,415	3,500	3,500
Other Income	5	14	15
Investment Income	27,164	30,000	32,000
	141,112	**152,192**	**141,715**
Expenditure			
Pensions Payable	72,012	75,614	83,251
Lump Sum Benefits	15,235	14,500	14,500
Death Grants	2,645	2,500	2,500
Refunds	131	246	240
Transfers Out	2,675	3,500	3,500
	92,698	**96,360**	**103,991**
Administrative Expenses			
Support Services	793	798	827
Actuarial Fees	35	124	50
Consultancy Service	209	220	220
External Audit Fees	44	44	48
Performance Monitoring Fees	6	6	7
Printing & Publications	17	18	20
Software Licences	295	338	350
Membership Fees	29	32	35
Legal Fees	18	22	24
Other	5	5	6
Pension Fund Committee	2	2	2
Pension Board	2	2	2
Training	2	2	10
Wales Pension Partnership Fees	135	167	206
	1,592	**1,780**	**1,807**
Investment Expenses			
Management Fees	5,894	6,500	6,500
Performance Fees	5,710	6,000	6,000
Custody Fees	284	321	330
Transaction Costs	3,064	3,000	3,000
	14,952	**15,821**	**15,830**

Cyngor Abertawe
Swansea Council

Report of the Section 151 Officer

Local Pension Board – 19 April 2023

Breaches Report

Purpose:	The report presents any breaches which have occurred in the period in accordance with the Reporting Breaches Policy.
Report Author:	Claire Elliott, Pension Manager
Finance Officer:	Jeff Dong – Deputy S 151 Officer
Legal Officer:	Stephanie Williams – Principal Lawyer
Access to Services Officer:	N/A
For Information	

1. Introduction

1.1 The Reporting Breaches policy was adopted with effect from 9 March 2017.

1.2 The policy requires a report to be presented to the Pension Board and Pension Fund Committee on a quarterly basis, highlighting any new breaches which have arisen since the previous meeting and setting out:

- all breaches, including those reported to The Pensions Regulator and those unreported, with the associated dates
- in relation to each breach, details of what action was taken and the result of any action (where not confidential)
- any future actions for the prevention of the breach in question being repeated

1.3 Following the introduction of GDPR requirements and the requirements to report any breaches to the Information Officer and ICO, if required, it has been determined good practice and transparent to also include GDPR breaches also within this report

2. Breaches

2.1 Under the policy, breaches of the law are required to be reported to the Pensions Regulator where there is reasonable cause to believe that:

- A legal duty which is relevant to the administration of the scheme has not been, or is not being, complied with

- The failure to comply is likely to be of material significance to the regulator in the exercise of any of its functions

2.2 The Breaches Report is attached at Appendix A and the following further information is provided.

2.3 Under the LGPS regulations, interest is paid on retirement lump sum payments if the payment is made more than one month after retirement and calculated at one per cent above the base rate on a day to day basis from the due date of payment and compounded with three-monthly rests.

2.4 Since the last report in November 2022, 28.17% of retirement lumps sums have not been paid within the benchmark (it should be noted that 100% of payments were made within 1 month when all documentation was received). The % of non-payment of retirement lump sums within the specified benchmark was due to the members not returning completed pension election forms within a timely manner. Communication sent to members at time of retirement has been reviewed to ensure that the importance of timely return of required documents is highlighted and reminder triggers put in place.

2.5 The basic objective of the General Data Protection Regulation (GDPR) is to enforce stronger data security and privacy rules among organisations when it comes to protecting an individual's personal data. The UK legislation is the Data Protection Act 2018 and mirrors many key principles of the Data Protection Act 1998. Where a breach of a member's personal data happens (a breach of personal data means that a security breach has taken place leading to the accidental or unlawful destruction, loss, alteration, unauthorised disclosure of, or access to personal data, transmitted, stored or otherwise processed. [GDPR Article 4(12)]), the Pension Fund (who complies with Swansea Council GDPR Principles) has an obligation to undertake a full investigation within the initial 72-hours of acknowledging a data breach. When the Fund becomes aware of a breach, the appropriate investigation takes place within the stipulated timeframe and the findings presented to the Data Breach Panel for review. The requirements presented for improved working practices by the Data Breach Panel the Fund has incorporated within the day-to-day working practices. There has been no GDPR breach since last reporting date

2.6 The Fund requires that employers pay employee and employer contributions to the Fund on a monthly basis and no later than the 19th of the month after which the contributions have been deducted. There have been a single instance during the reporting period where breaches have occurred. In this case, Treasury Management staff have written to the employers to request payment and provide a reminder of the responsibilities to submit on time.

2.7 With regards to performance data in respect of processing refunds, in most cases, the sums are quite small and the problem is locating the member/former member to process the refund, quite often they may have moved address or even passed away.

3. Equality and Engagement Implications

N/A

4 Legal Implications

4.1 Where breaches have occurred, the legal implications are outlined in Code of Practice no.14 and GDPR legislation

5. Financial Implications

5.1 Minimal loss of investment income and a possible penalty charge from TPR.

Background papers: None.

Appendices: Appendix A: Breaches Register

Appendix A - City and County of Swansea Breaches Register

Date	Category (e.g. administration, contributions, funding)	Description and cause of breach	Possible effect of breach and wider implications	Reaction of relevant parties to breach	Reported / Not reported (with justification if not reported and dates)	Outcome of report and/or investigations	New Breach (since last report)
Nov 20 – Feb 2021	Administration	19.23% of retirement lump sums not paid within 1 month of normal retirement or 2 months of early retirement; 96.84% of member option forms returned were paid within 1 month of date of return	The administering authority has accrued interest payments on retirement lump sums, paid more than one month after their due date, under the 2013 LGPS regulations .	% due to members retiring from age 55 but before normal pension age and late return of options confirming early access of retirement benefits. % due to a delay in the return of member pension options/completed in full for the month of December.		Communication to members regarding retirement options are constantly reviewed to ensure the importance of returning completed documents in a timely manner is highlighted.	
Nov 20 – Feb 21	Administration	Frozen refunds unclaimed for this period equates to 86% …. This equates to a monetary value of £7,488.70.	Regulations, no further interest will accrue on or after 5-year anniversary. Should the member enter re-employment membership cannot be aggregated, the member will not	High % due to member not making a positive election to claim refund	Information has been recorded within the breach register	Members are written to 3 months prior to the date of the 5-year anniversary of date of leaving	

			be able to transfer the benefit out and if a refund is claimed there will be tax implications as this is deemed to be an unauthorised payment. The above is subject to change and we are waiting for confirmation that the above Regulation has been amended to support this. **Awaiting confirmation of Regulatory change; going forward there will be no further requirement to report non-payment of refunds as the 5 year anniversary ruling will be removed**				
Nov 20 – Feb 21	GDPR Breaches	No breaches to report during this quarter					

Nov 20 – Feb 21	Contributions	1 Employer has not paid contributions within required timescale	Loss of investment returns	Employers are contacted once breach has occurred		Employers are contacted as soon as the deadline for submission of contributions has passed	
Mar 2021	Administration	30.55% of retirement lump sums not paid within 1 month of normal retirement or 2 months of early retirement; 91.89% was paid within 1 month of receipt of member option return	The administering authority has accrued interest payments on retirement lump sums, paid more than one month after their due date, under the 2013 LGPS regulations	A % of late payments was in main due to the Pru failing to disinvest AVC monies and forward payments in a timely manner. The Pru have migrated to a new system and are experiencing ongoing problems. Members failed to return pension election forms in a timely manner/completed in full and late issue of pensionable pay information from the member's employers payroll section, which has led to the late provision of pension options to the member.		The Fund has maintained regular contact with the Pru chasing payments of monies / requesting updates to communicate to members. Communication to members regarding retirement options are subject to review on a regular basis. Members are made aware of the importance of returning completed documents in a timely manner. The Pension Section provide member employer payroll sections with a listing of outstanding termination forms and are reminded of the importance of providing accurate	

						information on a timely basis.	
Mar 2021	Administration	Frozen refunds unclaimed for this period equates to 94.3% …. This equates to a monetary value of £3,189	Regulations state, no further interest will accrue on or after 5-year anniversary. Should the member enter re-employment membership cannot be aggregated, the member will not be able to transfer the benefit out and if a refund is claimed there will be tax implications as this is deemed to be an unauthorised payment. The above is subject to change and we are waiting for confirmation that the above Regulation has been amended to support this. **Awaiting confirmation of Regulatory**	High % due to member not making a positive election to claim refund	Information has been recorded within the breach register	Members are written to 3 months prior to the date of their 5-year anniversary from date of leaving	

			change; going forward there will be no further requirement to report non-payment of refunds as the 5 year anniversary ruling will be removed.				
Mar 2021	GDPR Breaches	No breaches to report					
Apr - Jun 2021	Administration	15.91% of retirement lump sums not paid within 1 month of normal retirement or 2 months of early retirement; 97.78% was paid within 1 month of receipt of member option return	The administering authority has accrued interest payments on retirement lump sums, paid more than one month after their due date, under the 2013 LGPS regulations	A % of late payments was in main due to the Pru failing to disinvest AVC monies and forward payments in a timely manner. The Pru have migrated to a new system and are experiencing ongoing problems. Members failed to return pension election forms in a timely manner/completed in full and late issue of pensionable pay information from		The Fund has maintained regular contact with the Pru chasing payments of monies / requesting updates to communicate to members. Communication to members regarding retirement options are subject to review on a regular basis. Members are made aware of the importance of returning completed documents in a timely manner. The Pension Section provide member employer payroll	

				the member's employers payroll section, which has led to the late provision of pension options to the member		sections with a listing of outstanding termination forms and are reminded of the importance of providing accurate information on a timely basis.	
Apr - Jun 2021	Administration	Frozen refunds unclaimed for this period equates to 84.6% …. This equates to a monetary value of £4,770.17	Regulations state, no further interest will accrue on or after 5-year anniversary. Should the member enter re-employment membership cannot be aggregated, the member will not be able to transfer the benefit out and if a refund is claimed there will be tax implications as this is deemed to be an unauthorised payment. The above is subject to change and we are waiting for confirmation	High % due to member not making a positive election to claim refund	Information has been recorded within the breach register	Members are written to 3 months prior to the date of their 5-year anniversary from date of leaving	

			that the above Regulation has been amended to support this. **Awaiting confirmation of Regulatory change; going forward there will be no further requirement to report non-payment of refunds as the 5 year anniversary ruling will be removed.**				
Apr - Jun 2021	GDPR Breaches	No breaches to report					
Apr 21 – May 21	Contributions	2 Employers have not paid contributions within required timescale	Loss of investment returns	Employers are contacted once breach has occurred		Employers are contacted as soon as the deadline for submission of contributions has passed	
July – August 2021	Administration	7% of retirement lump sums not paid within 1 month of normal retirement or 2 months of early	The administering authority has accrued interest payments on retirement lump sums, paid more	A % of late payments was in main due to the Pru failing to disinvest AVC monies and forward payments		The Fund has maintained regular contact with the Pru chasing payments of monies / requesting updates to communicate to	

		retirement; 100% was paid within 1 month of receipt of member option return	than one month after their due date, under the 2013 LGPS regulations	in a timely manner. The Pru have continued to experience problems with the new system however going forward it is anticipated that these issues should now be resolved. Members failed to return pension election forms in a timely manner		members. Communication to members regarding retirement options are subject to review on a regular basis. Members are made aware of the importance of returning completed documents in a timely manner. The Pension Section provide member employer payroll sections with a listing of outstanding termination forms and are reminded of the importance of providing accurate information on a timely basis.	
July – August 2021	Administration	Frozen refunds unclaimed for this period equates to 94% …. This equates to a monetary value of £16,808.32	Regulations state, no further interest will accrue on or after 5-year anniversary. Should the member enter re-employment membership cannot be aggregated, the member will not	High % due to member not making a positive election to claim refund	Information has been recorded within the breach register	Members are written to 3 months prior to the date of their 5-year anniversary from date of leaving	

			be able to transfer the benefit out and if a refund is claimed there will be tax implications as this is deemed to be an unauthorised payment. The above is subject to change and we are waiting for confirmation that the above Regulation has been amended to support this. **Awaiting confirmation of Regulatory change; going forward there will be no further requirement to report non-payment of refunds as the 5 year anniversary ruling will be removed.**				
July – August	GDPR Breaches	No breaches to report					

2021							
June – July 21	Contributions	1 Employer has not paid contributions within required timescale	Loss of investment returns	Employers are contacted once breach has occurred		Employers are contacted as soon as the deadline for submission of contributions has passed	
Sept – Oct 2021	Administration	14% of retirement lump sums not paid within 1 month of normal retirement or 2 months of early retirement; 100% was paid within 1 month of receipt of member option return	The administering authority has accrued interest payments on retirement lump sums, paid more than one month after their due date, under the 2013 LGPS regulations	% (3 in total) due to late receipt of confirmation of retirement from the members employer / members failing to return pension options in a timely manner		Member coms highlight the importance of returning the completed forms / certificates in a timely manner. Payroll sections are issued with a monthly spreadsheet listing all outstanding termination forms and are reminded of the importance of providing accurate information on a timely basis.	
Sept – Oct 2021	Administration	Frozen refunds unclaimed for this period is 80% …. This equates to a monetary value of £4,826.52	Regulations state, no further interest will accrue on or after 5-year anniversary. Should the member enter re-employment	% due to member not making a positive election to claim refund	Information has been recorded within the breach register	Members are written to 3 months prior to the date of their 5-year anniversary from date of leaving	

			membership cannot be aggregated, the member will not be able to transfer the benefit out and if a refund is claimed there will be tax implications as this is deemed to be an unauthorised payment. The above is subject to change and we are waiting for confirmation that the above Regulation has been amended to support this. **Awaiting confirmation of Regulatory change; going forward there will be no further requirement to report non-payment of refunds as the 5 year anniversary ruling will be**				

			removed.				
Sept – Oct 2021	GDPR breaches	No breaches to report					
August – Sept 21	Contributions	3 Employer have not paid contributions within required timescale	Loss of investment returns	Employers are contacted once breach has occurred		Employers are contacted as soon as the deadline for submission of contributions has passed	
Nov 21 – Feb 2022	Administration	20.6% of retirement lump sums not paid within 1 month of normal retirement or 2 months of early retirement; 97.06% of member option forms returned were paid within 1 month of date of return	The administering authority has accrued interest payments on retirement lump sums, paid more than one month after their due date, under the 2013 LGPS regulations	% due to the late provision of final pensionable pay figures from members employer payroll section / late return of completed option forms by member.		Communications to employers HR / Payroll Section and members regarding the provision of termination forms, final pensionable pay figures is subject to ongoing review and the importance of returning completed forms in a timely manner and the consequences of failure to comply is highlighted	
Nov 21 – Feb 2022	Administration	Frozen refunds unclaimed for this period equates to 75% …. This equates to a monetary value of £7,579.74	Regulations, no further interest will accrue on or after 5-year anniversary. Should the member enter re-employment	High % due to member not making a positive election to claim refund or transfer a cash transfer sum (CTS) to an alternative	Information has been recorded within the breach register	Members are written to 3 months prior to the date of the 5-year anniversary of date of leaving	

			membership cannot be aggregated, the member will not be able to transfer the benefit out and if a refund is claimed there will be tax implications as this is deemed to be an unauthorised payment. The above is subject to change and we are waiting for confirmation that the above Regulation has been amended to support this. **Awaiting confirmation of Regulatory change; going forward there will be no further requirement to report non-payment of refunds as the 5 year anniversary ruling will be**	pension arrangement			

			removed				
Nov 21 – Feb 2022	GDPR Breaches	No breaches to report during this quarter					
Nov 21 – Feb 2022	Contributions	5 Employer have not paid contributions within required timescale – see below for detail	Loss of investment returns	Employers are contacted once breach has occurred		Employers are contacted as soon as the deadline for submission of contributions has passed	
Mar 2022	Administration	12.50% of retirement lump sums not paid within 1 month of normal retirement or 2 months of early retirement; 100% was paid within 1 month of receipt of member option return	The administering authority has accrued interest payments on retirement lump sums, paid more than one month after their due date, under the 2013 LGPS regulations	Members failed to return pension election forms in a timely manner/completed in full and late issue of pensionable pay information from the member's employers payroll section, which has led to the late provision of pension options to the member.		The Fund continues to remind its members of the importance of returning pension option forms in a timely manner. The Pension Section provide member employer payroll sections with a listing of outstanding termination forms on a monthly basis. All communications are subject to review.	
Mar 2022	Administration	Frozen refunds unclaimed for this period equates to 82.36% …. This	Regulations state, no further interest will accrue on or after 5-year	High % due to member not making a positive election to claim refund	Information has been recorded within the breach register	Members are written to 3 months prior to the date of their 5-year anniversary from	

		equates to a monetary value of £1,862.60	anniversary. Should the member enter re-employment membership cannot be aggregated, the member will not be able to transfer the benefit out and if a refund is claimed there will be tax implications as this is deemed to be an unauthorised payment. The above is subject to change and we are waiting for confirmation that the above Regulation has been amended to support this. **Awaiting confirmation of Regulatory change; going forward there will be no further requirement to report non-payment of**			date of leaving	

			refunds as the 5 year anniversary ruling will be removed.				
Mar 2022	GDPR Breaches	No breaches to report					
Apr – Jun 2022	Administration	16.28% of retirement lump sums not paid within 1 month of normal retirement or 2 months of early retirement; 100% was paid within 1 month of receipt of member option return	The administering authority has accrued interest payments on retirement lump sums, paid more than one month after their due date, under the 2013 LGPS regulations	% due to a delay with the return of the completed pension options		The Fund continues to remind its members of the importance of returning pension option forms in a timely manner	
Apr – Jun 2022	Administration	Frozen refunds unclaimed for this period equates to 94.12% …. This equates to a monetary value of £2581.94	Regulations state, no further interest will accrue on or after 5-year anniversary. Should the member enter re-employment membership cannot be aggregated, the member will not be able to transfer the benefit out and if	High % due to member not making a positive election to claim refund	Information has been recorded within the breach register	Members are written to 3 months prior to the date of their 5-year anniversary from date of leaving	

			a refund is claimed there will be tax implications as this is deemed to be an unauthorised payment. The above is subject to change and we are waiting for confirmation that the above Regulation has been amended to support this. **Awaiting confirmation of Regulatory change; going forward there will be no further requirement to report non-payment of refunds as the 5 year anniversary ruling will be removed**				
Apr – Jun 2022	GDPR Breaches	No breaches to report					
March – May 22	Contributions	3 Employer have not paid contributions within required	Loss of investment returns	Employers are contacted once breach has occurred		Employers are contacted as soon as the deadline for submission of	

		timescale – see below for detail				contributions has passed	
July – August 2022	Administration	5% of retirement lump sums not paid within 1 month of normal retirement or 2 months of early retirement; 100% was paid within 1 month of receipt of member option return	The administering authority has accrued interest payments on retirement lump sums, paid more than one month after their due date, under the 2013 LGPS regulations	% due to a delay with the return of the completed pension options		The Fund continues to remind its members of the importance of returning pension option forms in a timely manner	
July – August 2022	Administration	Frozen refunds unclaimed for this period equates to 84.37% …. This equates to a monetary value of £12,043.54	Regulations state, no further interest will accrue on or after 5-year anniversary. Should the member enter re-employment membership cannot be aggregated, the member will not be able to transfer the benefit out and if a refund is claimed there will be tax implications as this is deemed to be an	High % due to member not making a positive election to claim refund	Information has been recorded within the breach register	Members are written to 3 months prior to the date of their 5-year anniversary from date of leaving	

			unauthorised payment. The above is subject to change and we are waiting for confirmation that the above Regulation has been amended to support this. **Awaiting confirmation of Regulatory change; going forward there will be no further requirement to report non-payment of refunds as the 5-year anniversary ruling will be removed**				
July – August 2022	GDPR	No breaches to report					
July – August 2022	Contributions		Loss of investment returns	Employers are contacted once breach has occurred		Employers are contacted as soon as the deadline for submission of contributions has passed	
September – October	Administration	14.29% of retirement lump	The administering	% due to a delay with the return of		The Fund continues to remind its	

2022		sums not paid within 1 month of normal retirement or 2 months of early retirement; 100% was paid within 1 month of receipt of member option return	authority has accrued interest payments on retirement lump sums, paid more than one month after their due date, under the 2013 LGPS regulations	the completed pension options (total number 3)		members of the importance of returning pension option forms in a timely manner	
September – October 2022	Administration	Frozen refunds unclaimed for this period is 89.19% …. This equates to a monetary value of £14,786.48	Regulations state, no further interest will accrue on or after 5-year anniversary. Should the member enter re-employment membership cannot be aggregated, the member will not be able to transfer the benefit out and if a refund is claimed there will be tax implications as this is deemed to be an unauthorised payment. The above is subject to change and	High % due to member not making a positive election to claim refund	Information has been recorded within the breach register	Members are written to 3 months prior to the date of their 5-year anniversary from date of leaving	

			we are waiting for confirmation that the above Regulation has been amended to support this. **Awaiting confirmation of Regulatory change; going forward there will be no further requirement to report non-payment of refunds as the 5-year anniversary ruling will be removed**				
September – October 2022	GDPR	No breaches to report					
September – October 2022	Contributions	2 Employers have not paid contributions within required timescale – see below for detail	Loss of investment returns	Employers are contacted once breach has occurred		Employers are contacted as soon as the deadline for submission of contributions has passed	
November 2022 – February 2023	Administration	28.17% of retirement lump sums not paid within 1 month of normal retirement or 2 months of early	The administering authority has accrued interest payments on retirement lump sums, paid more	% due to a delay with the return of the completed pension options/late provision of pensionable pay		The Fund continues to remind its members/employers of the importance of returning pension option forms/final pensionable pay	✓

		retirement; 100% was paid within 1 month of receipt of member option return	than one month after their due date, under the 2013 LGPS regulations	figures by the members employer		figures in a timely manner	
November 2022 – February 2023	Administration	Frozen refunds unclaimed for this period is 37.10% …. This equates to a monetary value of £11,337.43	Regulations state, no further interest will accrue on or after 5-year anniversary. Should the member enter re-employment membership cannot be aggregated, the member will not be able to transfer the benefit out and if a refund is claimed there will be tax implications as this is deemed to be an unauthorised payment. The above is subject to change and we are waiting for confirmation that the above Regulation has been amended	High % due to member not making a positive election to claim refund	Information has been recorded within the breach register	Members are written to 3 months prior to the date of their 5-year anniversary from date of leaving	✓

			to support this. **Awaiting confirmation of Regulatory change; going forward there will be no further requirement to report non-payment of refunds as the 5-year anniversary ruling will be removed**				
November 2022 – February 2023	GDPR	No breaches to report					✓
November 2022 – February 2023	Contributions	2	2 Employers have not paid contributions within required timescale – see below for detail	Loss of investment returns		Employers are contacted as soon as the deadline for submission of contributions has passed	✓

✓ New breaches since the previous meeting

The details of the late Contributors :

No. of Contributors	Due Date	Date Paid	No of Months	Amount £	Organisation Type	Reason
5	19th Feb	21st Feb	1	2,460.19	Small CC	Personal circumstances
2	19th Nov 19th Dec 19th Jan 19th Feb	6th Dec 3rd Jan 6th Feb 27th Feb	4	466.44 458.00 479.57 458.00	Small CC	Pay by cheque

Cyngor Abertawe
Swansea Council

Report of the Section 151 Officer

Local Pension Board - 19 April 2023

Trustee Training

CIPFA Code of Practice, Public Sector Finance Knowledge and Skills

The Pension Regulator Knowledge and Understanding Duty on Committee Members

Purpose:	To determine an annual training programme for Pension Fund Committee and Local Pension Board members and officers of the Pension Fund To ensure compliance with the CIPFA Public Sector Pensions Finance Knowledge & Skills Code of Practice and the Pension Regulator Knowledge and Understanding Requirements It is presented to Local Pension Board for Information
Consultation:	Legal, Finance and Access to Services.
Report Author:	J Dong
Finance Officer:	J Dong
Legal Officer:	S Williams
Access to Services Officer:	R Millar
For Information	

1 Introduction

1.1 Section 248 of The Pension Act 2004, as amended by Pensions Act 2013 requires that trustees of occupational pension schemes should be trained and have the knowledge and understanding of the law relating to pensions, the role of trustees and the principle of scheme funding, investment management, scheme administration of pension benefits. Whilst there is a legal requirement for a prescribed level of knowledge and understanding for members of a Local Pension Board, this legal requirement does not apply to members of a Pension Fund Committee. Accordingly, the Pensions

Committee have agreed to have regard to the Myner principles, The Pension Regulators' Toolkit, Scheme Advisory Board (SAB) and adopt the CIPFA Knowledge and Skills Framework.

In March 2000, the Chancellor of the Exchequer commissioned Paul Myners to conduct a review of institutional investment in the UK. The review was asked to consider whether there were distortions in institutions' investment decision-making. The efficiency of investment decision-making is an important driver of productivity, helping ensure that capital is allocated effectively and that managers are monitored and held accountable for performance.

1.2 One of Myners' main conclusions was that many pension fund trustees lack the necessary investment expertise to act as strong and discerning customers of the investment consultants and fund managers who sell them services.

1.3 In order to address the distortions identified, Myners recommended that pension fund trustees voluntarily adopt, on a 'comply or explain' basis, a series of principles codifying best practice for decision-making in relation to investment. These principles would be a powerful force for behavioural change. The central tenets included:

- decisions should be taken only by those with the right skills and expertise, and trustee boards should ensure they have access to appropriate skills and resources;

- fund managers should be set clear objectives and timescales;

- the performance of all managers should be measured, and trustees should assess their own performance;

- trustees should engage with investee companies where it is in the interests of their fund members so to do; and

- the investment strategy and returns of the fund should be reported annually to members and the public.

1.4 The Government agreed that the principles represent a clear and coherent approach, which will help the pensions industry respond to the challenges it faces, and from which everyone – consumers, industry and Government, but especially pension funds themselves – stands to benefit. The Government committed to reviewing after two years the extent to which the principles had been effective in bringing about behavioural change.

2 Progress

2.1 The Government has concluded that the voluntary approach is beginning to work, but considerably more efforts are needed to ensure that problem areas identified by the review are satisfactorily addressed. It believes that pension funds would better serve their members' and sponsors' interests if the best practice embodied in the Myners principles were to be strengthened and amplified, particularly in relation to trustee expertise and the process of investment decision-making.

2.2 Strengthening trustee skills and expertise is fundamental to achieving Myners' goals. The Pensions Act requires all trustees and officers to have appropriate knowledge and understanding of funding, investment, and relevant legal and scheme-specific issues. The Pensions Regulator will be responsible for enforcing this legal requirement, and the Occupational Pensions Regulatory Authority (OPRA) has developed a detailed code of practice to provide trustees with guidance.

2.3 The Government proposed that the Myners principle in relation to effective decision-making (principle 1) should be strengthened to align it with the objective standard of expertise set in the Pensions Act; but also to incorporate the review's conclusion that: the role played by the chair of the trustee board; having a critical mass of trustees with investment expertise; and the availability of additional resources to support the trustee board, are all key factors in promoting effective investment decision-making by pension funds. It therefore proposed to add three new elements to the principle. In all pension funds, the chair has a critical role in ensuring that the board as a whole has appropriate skills to address its responsibilities, and sets aside the appropriate time and resources to address investment decision-making.

3 CIPFA Code of Practice & The Pension Regulator's Knowledge & Understanding Requirements

3.1 <u>CIPFA Code</u>
The CIPFA Code of Practice represents a key element in complying with Myners' requirements for knowledge & skills in decision makers in public pension funds.

3.2 The Code of practice is underpinned by 4 key principles:

1. Organisations responsible for the financial administration of public sector pension schemes recognise that effective financial management, decision-making and other aspects of the financial administration of public sector pension schemes can only be achieved where those involved have the requisite knowledge & skills.

2. Organisations have in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of pension scheme finance knowledge and skills for those in the organisation responsible for financial administration and decision-making.

3. The associated policies and practices are guided by reference to the requirements outlined in the CIPFA Pensions Finance Knowledge & Skills framework.

4. The organisation has designated a named individual to be responsible for ensuring that policies are implemented.

3.3 CIPFA recommends that all LGPS organisations adopt the following statements:

1. This organisation adopts the key recommendations of the Code of Practice.

2. This organisation recognises that effective financial administration and decision making can only be achieved where those involved have the requisite knowledge and skills

3. Accordingly that organisation will ensure that it has formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of the relevant knowledge and skills.

4. The policies and practices will be guided by reference to CIPFA knowledge and skills framework.

5. The organisation will report on an annual basis how these policies have been put into place.

6. This organisation has delegated the responsibility for the implementation of the requirements of the CIPFA Code of practice to the Section 151 Officer.

3.4 <u>The Pension Regulator</u>

Key points

- You must have the required knowledge and understanding of scheme rules, documents recording scheme administration policies and pensions law.

- You should have adequate training to meet the knowledge and understanding requirements.

3.5 Knowledge and understanding requirements

You must:

- be conversant with (ie have a working knowledge of) your scheme rules and any document recording policy about the administration of your scheme

- have knowledge and understanding of the law relating to pensions

Scheme rules and administration policies

You must have a working knowledge of your scheme rules and documented administration policies. You should understand them in enough detail to:

- know where they are relevant to an issue
- understand and if necessary challenge any advice that you're given

3.6 The City & County of Swansea Pension Fund Policy Statement

The City & County of Swansea Pension Panel recognises the importance of ensuring that all staff and members charged with the financial management and decision making with regard to the LGPS are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them. The City & County of Swansea Pension Fund formally adopted the CIPFA Pensions Finance Knowledge & Skills Code of Practice in June 2012. It will provide/arrange training for staff and members of the pensions decision making body to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. CIPFA have recognised the necessity to revisit and update this code of practice.

The Pension Committee has designated the Deputy Section 151 officer to be responsible for ensuring that the policies are implemented.

The majority of the Pension Committee and Local Pension Board have been in post for some time now and have formally undertaken initial introductory training in the LGPS and are consolidating that knowledge with continuous development, however an ongoing induction programme shall be required for any new members of the Pension Fund Committee or Local Pension Board if recently appointed.

With the revision of LGPS Governance Regulations and SAB guidance, the importance of minimum Trustee competence, knowledge and skills shall greatly increase

3.7 Hymans, the fund's appointed investment consultant launched the LGPS National Knowledge Assessment (NKA) in 2020 which seeks to assess the knowledge levels of Pension Fund Committees and Local Pension Boards nationwide.

In participating in the assessment, the fund received a full report outlining:

- Own fund results
- Analysis and suggested next steps
- Benchmarked position against other funds
- A tailored recommended training plan

The assessment launched in March 2020 with members of the pension fund committee and local pension board completing the 15-20 minute survey during April and May 2020. The results and subsequent questionnaire were used to inform the plan below. It is recognised that it is taking some lead in time to address all the areas identified for training. It is appreciated the time commitment made by committee/board members can be considerable

3.8 In 2022/23, the following Trustee training was undertaken by members of the Committee:

Topic	Product Knowledge	Date	Attendance by PC and LPB Members
Guidance, Regulatory & Best Practice	Operator Procurement Workshop, Roles & Responsibilities with the ACS.	June 2022	N/A only Chair req'd
Private Markets	Private Markets as an asset class, the role of the Allocator, Active Sustainable Equities.	Sept 2022	58%
Responsible Investment	Responsible Investment Indices and Solutions, Responsible Investment Reporting, the Role of Robeco as Engagement Manager Net Zero Workshop	Dec 2022 Oct 2022	42% 50%
LGPS – Refresher Training	Fund Administration Investment Management	Sept 2022 Oct 2022	66% 42%
Investment Performance & Risk Management	Performance Reporting & Manager Benchmarking. Securities Lending	Quarterly Feb 2023	N/A N/A only Chair req'd

Informed by the National Knowledge Assessment undertaken and outstanding training identified previously, the following training has been identified as appropriate training to be undertaken by members of the Committee and Local Pension Board along with any appropriate training opportunities which present themselves during the year to be agreed by the Deputy Section 151 Officer and to participate in and amend the training below which is separately identified by the WPP training plan which is due to be approved at the next JGC meeting in later in 2023:

1. LGE (Local Government Employers) Trustee Fundamentals day 1, 2 & 3
2. ESG training
3. PLSA Local Authority Conference
4. Pension Governance- the role of the Committee and the Board
5. Pension Accounting & audit standards
6. Actuarial valuation methodologies

3.9 The determination of any additional training for elected members and identifying the requirements for officers shall be delegated to the Deputy Section 151 Officer.

4 Financial Implications

4.1 The financial implications of the report are that costs will be maintained within the training budget of the Pension Fund previously approved and outlined in the business plan

5 Legal Implications

5.1 The underlying legal framework is set out in the Report

6 Integrated Impact Assessment Implications

6.1 The Council is subject to the Equality Act (Public Sector Equality Duty and the socio-economic duty), the Well-being of Future Generations (Wales) Act 2015 and the Welsh Language (Wales) Measure, and must in the exercise of their functions, have due regard to the need to:

- Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Acts.
- Advance equality of opportunity between people who share a protected characteristic and those who do not.
- Foster good relations between people who share a protected characteristic and those who do not.
- Deliver better outcomes for those people who experience socio-economic disadvantage.
- Consider opportunities for people to use the Welsh language.
- Treat the Welsh language no less favourably than English.
- Ensure that the needs of the present are met without compromising the ability of future generations to their own needs.

6.2 The Well-being of Future Generations (Wales) Act 2015 mandates that public bodies in Wales must carry out sustainable development. Sustainable development means the process of improving the economic, social, environmental and cultural well-being of Wales by taking action, in accordance with the sustainable development principle, aimed at achieving the ‘well-being goals’.

6.3 Our Integrated Impact Assessment (IIA) process ensures we have paid due regard to the above. It also takes into account other key issues and priorities, such as poverty and social exclusion, community cohesion, carers, the United Nations Convention on the Rights of the Child (UNCRC) and Welsh language.

6.4 An integrated impact assessment screening has been undertaken and it concludes that there are no equality impact implications arising from this report.

Background Papers: None.

Appendices: None.

Cyngor **Abertawe**
Swansea Council

Report of the Chief Legal Officer

Local Pension Board – 19 April 2023

Exclusion of the Public

Purpose:	To consider whether the Public should be excluded from the following items of business.	
Policy Framework:	None.	
Consultation:	Legal.	
Recommendation(s):	It is recommended that:	
1)	The public be excluded from the meeting during consideration of the following item(s) of business on the grounds that it / they involve(s) the likely disclosure of exempt information as set out in the Paragraphs listed below of Schedule 12A of the Local Government Act 1972 as amended by the Local Government (Access to Information) (Variation) (Wales) Order 2007 subject to the Public Interest Test (where appropriate) being applied.	
	Item No's.	**Relevant Paragraphs in Schedule 12A**
	6a, 7, 8	14
Report Author:	Democratic Services	
Finance Officer:	Not Applicable	
Legal Officer:	Tracey Meredith – Chief Legal Officer (Monitoring Officer)	

1. Introduction

1.1 Section 100A (4) of the Local Government Act 1972 as amended by the Local Government (Access to Information) (Variation) (Wales) Order 2007, allows a Principal Council to pass a resolution excluding the public from a meeting during an item of business.

1.2 Such a resolution is dependant on whether it is likely, in view of the nature of the business to be transacted or the nature of the proceedings that if members of the public were present during that item there would be disclosure to them of exempt information, as defined in section 100I of the Local Government Act 1972.

2. Exclusion of the Public / Public Interest Test

2.1 In order to comply with the above mentioned legislation, Cabinet will be requested to exclude the public from the meeting during consideration of the item(s) of business identified in the recommendation(s) to the report on the grounds that it / they involve(s) the likely disclosure of exempt information as set out in the Exclusion Paragraphs of Schedule 12A of the Local Government Act 1972 as amended by the Local Government (Access to Information) (Variation) (Wales) Order 2007.

2.2 Information which falls within paragraphs 12 to 15, 17 and 18 of Schedule 12A of the Local Government Act 1972 as amended is exempt information if and so long as in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

2.3 The specific Exclusion Paragraphs and the Public Interest Tests to be applied are listed in **Appendix A**.

2.4 Where paragraph 16 of the Schedule 12A applies there is no public interest test. Councillors are able to consider whether they wish to waive their legal privilege in the information, however, given that this may place the Council in a position of risk, it is not something that should be done as a matter of routine.

3. Financial Implications

3.1 There are no financial implications associated with this report.

4. Legal Implications

4.1 The legislative provisions are set out in the report.

4.2 Councillors must consider with regard to each item of business set out in paragraph 2 of this report the following matters:

4.2.1 Whether in relation to that item of business the information is capable of being exempt information, because it falls into one of the paragraphs set out in Schedule 12A of the Local Government Act 1972 as amended and reproduced in Appendix A to this report.

4.2.2 If the information does fall within one or more of paragraphs 12 to 15, 17 and 18 of Schedule 12A of the Local Government Act 1972 as amended, the public interest test as set out in paragraph 2.2 of this report.

4.2.3 If the information falls within paragraph 16 of Schedule 12A of the Local Government Act 1972 in considering whether to exclude the public members are not required to apply the public interest test but must consider whether they wish to waive their privilege in relation to that item for any reason.

Background Papers: None.
Appendices: Appendix A – Public Interest Test.

Appendix A

Public Interest Test

No.	Relevant Paragraphs in Schedule 12A
12	**Information relating to a particular individual.**
	The Proper Officer (Monitoring Officer) has determined in preparing this report that paragraph 12 should apply. Their view on the public interest test was that to make this information public would disclose personal data relating to an individual in contravention of the principles of the Data Protection Act. Because of this and since there did not appear to be an overwhelming public interest in requiring the disclosure of personal data they felt that the public interest in maintaining the exemption outweighs the public interest in disclosing the information. Members are asked to consider this factor when determining the public interest test, which they must decide when considering excluding the public from this part of the meeting.
13	**Information which is likely to reveal the identity of an individual.**
	The Proper Officer (Monitoring Officer) has determined in preparing this report that paragraph 13 should apply. Their view on the public interest test was that the individual involved was entitled to privacy and that there was no overriding public interest which required the disclosure of the individual's identity. On that basis they felt that the public interest in maintaining the exemption outweighs the public interest in disclosing the information. Members are asked to consider this factor when determining the public interest test, which they must decide when considering excluding the public from this part of the meeting.
14	**Information relating to the financial or business affairs of any particular person (including the authority holding that information).**
	The Proper Officer (Monitoring Officer) has determined in preparing this report that paragraph 14 should apply. Their view on the public interest test was that: **a)** Whilst they were mindful of the need to ensure the transparency and accountability of public authority for decisions taken by them in relation to the spending of public money, the right of a third party to the privacy of their financial / business affairs outweighed the need for that information to be made public; or **b)** Disclosure of the information would give an unfair advantage to tenderers for commercial contracts. This information is not affected by any other statutory provision which requires the information to be publicly registered. On that basis they felt that the public interest in maintaining the exemption outweighs the public interest in disclosing the information. Members are asked to consider this factor when determining the public interest test, which they must decide when considering excluding the public from this part of the meeting.

No.	Relevant Paragraphs in Schedule 12A
15	**Information relating to any consultations or negotiations, or contemplated consultations or negotiations, in connection with any labour relations matter arising between the authority or a Minister of the Crown and employees of, or office holders under, the authority.**
	The Proper Officer (Monitoring Officer) has determined in preparing this report that paragraph 15 should apply. Their view on the public interest test was that whilst they are mindful of the need to ensure that transparency and accountability of public authority for decisions taken by them they were satisfied that in this case disclosure of the information would prejudice the discussion in relation to labour relations to the disadvantage of the authority and inhabitants of its area. On that basis they felt that the public interest in maintaining the exemption outweighs the public interest in disclosing the information. Members are asked to consider this factor when determining the public interest test, which they must decide when considering excluding the public from this part of the meeting.
16	**Information in respect of which a claim to legal professional privilege could be maintained in legal proceedings.**
	No public interest test.
17	**Information which reveals that the authority proposes:** **(a) To give under any enactment a notice under or by virtue of which requirements are imposed on a person; or** **(b) To make an order or direction under any enactment.**
	The Proper Officer (Monitoring Officer) has determined in preparing this report that paragraph 17 should apply. Their view on the public interest test was that the authority's statutory powers could be rendered ineffective or less effective were there to be advanced knowledge of its intention/the proper exercise of the Council's statutory power could be prejudiced by the public discussion or speculation on the matter to the detriment of the authority and the inhabitants of its area. On that basis they felt that the public interest in maintaining the exemption outweighs the public interest in disclosing the information. Members are asked to consider this factor when determining the public interest test, which they must decide when considering excluding the public from this part of the meeting.
18	**Information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime**
	The Proper Officer (Monitoring Officer) has determined in preparing this report that paragraph 18 should apply. Their view on the public interest test was that the authority's statutory powers could be rendered ineffective or less effective were there to be advanced knowledge of its intention/the proper exercise of the Council's statutory power could be prejudiced by public discussion or speculation on the matter to the detriment of the authority and the inhabitants of its area. On that basis they felt that the public interest in maintaining the exemption outweighs the public interest in disclosing the information. Members are asked to consider this factor when determining the public interest test, which they must decide when considering excluding the public from this part of the meeting.

Agenda Item 6a

By virtue of paragraph(s) 14 of Schedule 12A
of the Local Government Act 1972
as amended by the Local Government (Access to
Information) (Variation) (Wales) Order 2007.

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Agenda Item 7

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Information) (Variation) (Wales) Order 2007.

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Agenda Item 8

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