

# CITY AND COUNTY OF SWANSEA

## NOTICE OF MEETING

You are invited to attend a Meeting of the

## PENSION FUND COMMITTEE

**At:** Committee Room 5, Guildhall, Swansea

**On:** Thursday, 9 March 2017

**Time:** 10.00 am

**Chair:** Councillor Rob Stewart

### Membership:

**Councillors:** P Downing, C E Lloyd, J Newbury, D G Sullivan and M Thomas

**Neath Port Talbot Co-opted Member:** Councillor P Rees

**Independent Investment Co-advisors:** V Furniss, N Mills

## AGENDA

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<b>1 Apologies for Absence.</b>	
<b>2 Disclosures of Personal and Prejudicial Interests.</b> <a href="http://www.swansea.gov.uk/DisclosuresofInterests">www.swansea.gov.uk/DisclosuresofInterests</a>	
<b>3 Minutes.</b> To approve & sign the Minutes of the previous meeting(s) as a correct record.	1 - 5
<b>4 Report of the Fund Appointed Actuary.</b>	
a Draft Triennial Valuation Rates and Adjustment Certification 2016.	6 - 9
<b>5 Report(s) of the Section 151 Officer.</b>	
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**8 Investment Summary.**

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**9 Presentations of the Fund Managers: -**

- Blackrock - Hedge fund of funds
- Entrust Permal – Hedge fund of funds



**Huw Evans  
Head of Democratic Services  
1 March 2017**

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**Contact: Democratic Services: - 636923**

## CITY AND COUNTY OF SWANSEA

### MINUTES OF THE PENSION FUND COMMITTEE

HELD AT COMMITTEE ROOM 5, GUILDHALL, SWANSEA ON  
WEDNESDAY, 7 DECEMBER 2016 AT 10.00 AM

**PRESENT:** Councillor P Downing (Vice Chair) Presided

**Councillor(s)**  
C E Lloyd

**Councillor(s)**  
J Newbury

**Councillor(s)**  
M Thomas

**Neath Port Talbot County Borough Council Councillor:**  
P A Rees

**Officer(s)**

Jeffrey Dong	Chief Treasury & Technical Officer
Debbie Smith	Directorate Lawyer
Karen Cobb	Senior Accountant
Pamela Milford	Senior Lawyer
Lynne Miller	Pensions Manager
Jeremy Parkhouse	Democratic Services Officer

**Also Present:**

N Mills	Independent Investment Advisor
V Furniss	Independent Investment Advisor

**Apologies for Absence**

Councillor(s): R C Stewart and D G Sullivan

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 P Downing - agenda as a whole - my brother works for the Council and contributes to the Pension Fund.

**NOTED** that Councillor P Downing had received dispensation from the Standards Committee in this respect.

Councillor C E Lloyd – agenda as a whole – my father is a member of the Local Government Pension Scheme – personal.

Councillor J Newbury - I am in receipt of a Council pension that was passed to me upon my wife's death - personal.

Councillor M Thomas - agenda as a whole - I and my wife are members of the Local Government Pension Scheme - personal.

**NOTED** that Councillor M Thomas had received dispensation from the Standards Committee in respect of his wife.

29 **MINUTES.**

**RESOLVED** that the Minutes of the Special Pension Fund Committee meetings held on 14 July and 18 October and Pension Fund Committee meeting held on 15 September 2016 be approved as correct records.

30 **ANNUAL REPORT 2015/16.**

The Chief Treasury and Technical Officer presented the Annual Report for the City & County of Swansea Pension Fund 2015/16 for approval.

The City & County of Swansea Pension Fund Annual Report 2015/16 was located at Appendix 1.

It was highlighted that the report also contained the activity of the Local Pension Board.

The Committee commented that the Wales Audit Office had audited the accounts and confirmed that there were no significant issues to report.

The Chief Treasury and Technical Officer thanked officers in Finance for their work in producing the Annual Report.

**RESOLVED** that the City & County of Swansea Pension Fund Annual Report be approved.

31 **PENSION ADMINISTRATION TEAM RESTRUCTURE.**

The Chief Treasury and Technical Officer and Principal Pensions Manager presented a report which sought Funding for the Restructure of the Pension Section.

The report outlined the previous review undertaken in 2009, gap analysis, benchmarking figures which provided details of the other Welsh Pension Funds and the proposed structure of the Pensions Section.

It was explained that if the funding was approved, job descriptions would be reviewed and grades ratified by the Job Evaluation team. Staff consultation and a slotting and matching exercise would then be completed by current Pension Section staff. Appropriate staff would be slotted and matched into posts and any vacant posts would be ring-fenced to current pension staff and competitive interviews arranged. Any resulting vacant posts would be liaised with HR regarding recruitment / re-deployment.

The Committee asked questions in relation to Pension staff numbers, staffing costs listed in the Annual Report, how the proposed structure would assist the workload and tackle the backlog of work.

**RESOLVED** that the funding for the restructure of the Pension Section be approved.

32 **PROFESSIONAL ADVICE.**

**NOTED** that Mr Noel Mills and Mr Valentine Furniss left the meeting prior to discussions regarding this item.

The Chief Treasury and Technical Officer presented a report which sought approval for the procurement and appointment of an investment consultant to the City & County of Swansea Pension Fund.

The report outlined the professional advice previously provided by independent consultants to the Pension Fund Committee and highlighted the evolving LGPS governance landscape, particularly in relation to the introduction of the All Wales Investment Pool from 2018 onwards.

It was added that the services of the independent investment advisors had served the fund well to date. However, with the additional burdens and changing landscape outlined, it was considered appropriate to review the advisory requirements needed to take the work of the Pension Committee forward. Comparisons were made with other funds in Wales, along with the merits of employing an investment consultancy.

It was proposed that an investment consultancy be engaged immediately to work alongside existing independent investment advisors in order to enable appropriate handover, with a view to reducing the number of independent advisors from 2 to 1 in the interim, ahead of the implementation of the All Wales Pool in April 2018. It was recommended to retain the services of one of the current independent investment advisors to ensure continuity and appropriate audit and tenure with the current and legacy investment strategy and arrangements. It was added that this provided an appropriate challenge and counterpoint to any given views / recommendations. The new permanent arrangements would include 1 Independent Investment Advisor and 1 Investment Consultancy being in place ahead of the All Wales Pool becoming operational in April 2018.

The Committee asked questions in relation to ongoing costs for professional advice, comparisons / joint use of consultancy services with other pension funds and the proposed timescale to introduce the proposals.

**RESOLVED** that the revised investment advice arrangements in outlined in 4.5 of the report be approved.

33 **EXCLUSION OF THE PUBLIC.**

The Committee 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 Committee 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)**

34 **ALL WALES POOL UPDATE.**

The Chief Treasury & Technical Officer presented a 'for information' report which updated the Committee on the progress of the All Wales Investment Pool.

The Committee commented regarding the potential timescale for the Pool to take effect, the estimated costs provided by Central Government and the content of the letter sent on behalf of the Minister for Local Government.

35 **INFRASTRUCTURE INVESTMENT.**

The Chief Treasury & Technical Officer presented a report which sought to approve the procurement strategy to fulfil the Fund's infrastructure allocation.

**RESOLVED** that the joint procurement exercise alongside the other named pension funds in 4.2 of the report to appoint a core infrastructure manager be approved.

36 **PRIVATE EQUITY AND GLOBAL PROPERTY ALLOCATION.**

The Chief Treasury & Technical Officer presented the Private Equity and Global Property Allocation report which sought approval that the commitment to ensure asset allocation as per the investment strategy be maintained.

**RESOLVED** that the commitments to private equity and global property as identified in 5.1 of the report be approved in order to maintain investment allocations.

37 **INVESTMENT SUMMARY.**

The Chief Treasury Technical Officer provided a "full information" report which presented the investment performance for the quarter year ended 30 September 2016. Attached at Appendix 1 were the quarterly investment summaries for the Pension Fund for the quarter, year and three years ended 30 September 2016.

38 **REPORT OF THE INDEPENDENT INVESTMENT CO-ADVISORS.**

The report presented the economic update and market commentary from the perspective of the appointed Independent Advisors.

Attached at Appendix 1 were the quarterly reports ended 30 September 2016 of the two independent investment advisors, Mr Noel Mills and Mr Valentine Furniss. Mr Furniss also circulated the Index Returns and Currency Movements from 30 September to December 2016.

The Committee asked questions of each Advisor which were responded to accordingly.

The content of each report was noted by the Committee and the independent advisors were thanked for their reports.

39 **PRESENTATIONS.**

- 1) A joint presentation was made by James Lerner and Sian Roberts of Partners Group – Global Property
- 2) A joint presentation was made by Graeme Rutter, Lyndon Bolton and Naomi Green of Schrodgers – UK Property.

Questions in relation to the content of the presentations were asked by the Committee and responses were provided accordingly.

The content of the presentations were noted and the Chair thanked the Fund Managers for attending the meeting.

The meeting ended at 12.20 pm

**CHAIR**

# Agenda Item 4a

## Report of the Statutory Appointed Pension Fund Actuary

Pension Fund Committee – 9 March 2017

### CITY & COUNTY OF SWANSEA PENSION FUND DRAFT TRIENNIAL VALUATION RATES AND ADJUSTMENT CERTIFICATION 2016

<b>Purpose:</b>	To ensure compliance with Local Government Pension Scheme Regulations which necessitate the undertaking of a full triennial actuarial valuation
<b>Reason for Decision:</b>	To approve the triennial rates and adjustment certificate
<b>Consultation:</b>	Legal, Finance and Access to Services.
<b>Recommendation:</b>	That the draft triennial valuation rates and adjustment certification 2016 is approved
<b>Report Author:</b>	Chris Archer, Aon Hewitt
<b>Finance Officer:</b>	Jeff Dong
<b>Legal Officer:</b>	Stephanie Williams
<b>Access to Services Officer:</b>	N/A

#### Triennial Valuation 2016

##### 1 Background

1.1 In line with the Local Government Pension Scheme Regulations, the City & County of Swansea Pension Fund undertook a full triennial actuarial valuation as at 31<sup>st</sup> March 2016, with a view to measuring the pension fund's assets and liabilities and consequently determining appropriate Employer's contribution rates payable for the 3 years commencing 1<sup>st</sup> April 2017. The actuarial rates and adjustment certificate is attached at Appendix 1. The appointed fund actuary Aon Hewitt has met and presented to employers his main assumptions and areas of development around the 2016 valuation. Employers have been consulted about indicative draft results and options for ameliorating increased contribution rates

##### 2 Recommendation

2.1 The Pension Fund Committee is asked to note and approve the attached draft triennial actuarial rates and adjustment certificates 2016, subject to any material changes between this date and 31<sup>st</sup> March 2017 being approved by the S 151 Officer in consultation with the Pension Fund Chairman or his nominated deputy and being reported back to this committee. The final actuarial report shall be presented at the next Pension Fund Committee.



### **3 Legal Implications**

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

### **4 Financial Implications**

4.1 The financial implications arising from this report are outlined in the Employer Contribution Rates payable as outlined in the rates certificate.

### **5 Equality and Engagement Implications**

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

**Background Papers:** None

**Appendices:** Rates & Adjustment Certificates

## Rates and Adjustments Certificate

Actuarial certificate given for the purposes of Regulation 62 of the Local Government Pension Scheme Regulations 2013.

Employer	Primary contribution rate % pensionable pay	Secondary contributions in year commencing 1 April 2017		Secondary contributions in year commencing 1 April 2018		Secondary contributions in year commencing 1 April 2019	
		% Pensionable pay	£s	% Pensionable pay	£s	% Pensionable pay	£s
<b>Scheduled Bodies</b>							
City & County of Swansea	17.9%	5.5%	0	6.5%	0	7.9%	0
Neath Port Talbot County Borough Council	17.8%	7.7%	0	8.5%	0	9.3%	0
Cilybebyll Community Council	27.6%	-0.2%	0	-0.2%	0	-0.2%	0
Coedffranc Community Council	20.3%	-0.1%	5,300	-0.1%	5,500	-0.1%	5,700
Neath Town Council	20.3%	-0.1%	16,200	-0.1%	16,800	-0.1%	17,400
Pelenna Community Council	27.0%	0.0%	1,200	0.0%	1,200	0.0%	1,300
Pontardawe Town Council	23.0%	0.0%	800	0.0%	800	0.0%	900
Gower College	17.9%	3.8%	0	3.9%	0	3.9%	0
Neath Port Talbot College	17.7%	0.0%	119,000	0.0%	123,000	0.0%	127,000
Margam Joint Crematorium Committee	20.3%	-0.1%	9,400	-0.1%	9,700	-0.1%	10,100
Swansea Bay Port Health Authority	5.8%	0.0%	12,600	0.0%	13,000	0.0%	13,500
<b>Admission Bodies</b>							
Celtic Community Leisure	13.2%	0.0%	0	0.0%	0	0.0%	0
Grwp Gwalia Cyf	22.0%	-1.6%	0	-1.6%	0	-1.6%	0
Neath Port Talbot Homes Limited	17.0%	0.0%	329,000	0.0%	340,000	0.0%	352,000
Rathbone Training Ltd (City and County of Swansea)	22.4%	2.8%	0	2.8%	0	2.8%	0
Rathbone Training Ltd (Gower College)	24.3%	0.0%	0	0.0%	0	0.0%	0
Swansea Bay Racial Equality Council	37.0%	0.0%	17,200	0.0%	17,800	0.0%	0
Trinity St Davids	28.0%	0.0%	623,000	0.0%	644,000	0.0%	667,000
Wales National Pool	14.2%	0.0%	0	0.0%	0	0.0%	0

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The contribution rates for the City and County of Swansea, Neath Port Talbot County Borough Council and Gower College have been set as a percentage of pay. However minimum monetary contribution amounts for these employers have been agreed with the Administering Authority, and if the contributions actually received fall below this minimum level in additional payments will be required. These minimums are such that the total contributions in aggregate must be no less than:

City and County of Swansea:	17.9% of pensionable pay plus £8.18M in 2017/18, 17.9% of pensionable pay plus £9.53M in 2018/19, 17.9% of pensionable pay plus £11.37M in 2019/20
Neath Port Talbot County Borough Council:	17.8% of pensionable pay plus £6.18M in 2017/18, 17.8% of pensionable pay plus £6.82M in 2018/19, 17.8% of pensionable pay plus £7.47M in 2019/20
Gower College	17.9% of pensionable pay plus £250,000 in 2017/18, 17.9% of pensionable pay plus 259,000 in 2018/19, 17.9% of pensionable pay plus £268,000 in 2019/20

## Rates and Adjustments Certificate

Actuarial certificate given for the purposes of Regulation 62 of the Local Government Pension Scheme Regulations 2013.

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Employer	Contributions in year commencing 1 April 2017		Contributions in year commencing 1 April 2018		Contributions in year commencing 1 April 2019	
	% Pensionable pay	£s	% Pensionable pay	£s	% Pensionable pay	£s
<b>Scheduled Bodies</b>						
City & County of Swansea	23.4%	0	24.4%	0	25.8%	0
Neath Port Talbot County Borough Council	25.5%	0	26.3%	0	27.1%	0
Cilybebyll Community Council	27.4%	0	27.4%	0	27.4%	0
Coedffranc Community Council	20.2%	5,300	20.2%	5,500	20.2%	5,700
Neath Town Council	20.2%	16,200	20.2%	16,800	20.2%	17,400
Pelenna Community Council	27.0%	1,200	27.0%	1,200	27.0%	1,300
Pontardawe Town Council	23.0%	800	23.0%	800	23.0%	900
Gower College	21.7%	0	21.8%	0	21.8%	0
Neath Port Talbot College	17.7%	119,000	17.7%	123,000	17.7%	127,000
Margam Joint Crematorium Committee	20.2%	9,400	20.2%	9,700	20.2%	10,100
Swansea Bay Port Health Authority	5.8%	12,600	5.8%	13,000	5.8%	13,500
<b>Admission Bodies</b>						
Celtic Community Leisure	13.2%	0	13.2%	0	13.2%	0
Grwp Gwalia Cyf	20.4%	0	20.4%	0	20.4%	0
Neath Port Talbot Homes Limited	17.0%	329,000	17.0%	340,000	17.0%	352,000
Rathbone Training Ltd (City and County of Swansea)	25.2%	0	25.2%	0	25.2%	0
Rathbone Training Ltd (Gower College)	24.3%	0	24.3%	0	24.3%	0
Swansea Bay Racial Equality Council	37.0%	17,200	37.0%	17,800	37.0%	0
Trinity St Davids	28.0%	623,000	28.0%	644,000	28.0%	667,000
Wales National Pool	14.2%	0	14.2%	0	14.2%	0

The contribution rates for the City and County of Swansea and Neath Port Talbot County Borough Council have been set as a percentage of pay. However minimum monetary contribution amounts for these employers have been agreed with the Administering Authority, and if the contributions actually received fall below this minimum level additional payments will be required. These minimums are such that the total contributions must be no less than:

City and County of Swansea:	17.9% of pensionable pay plus £8.18M in 2017/18, 17.9% of pensionable pay plus £9.53M in 2018/19, 17.9% of pensionable pay plus £11.37M in 2019/20
Neath Port Talbot County Borough Council:	17.8% of pensionable pay plus £6.18M in 2017/18, 17.8% of pensionable pay plus £6.82M in 2018/19, 17.8% of pensionable pay plus £7.47M in 2019/20
Gower College	17.9% of pensionable pay plus £250,000 in 2017/18, 17.9% of pensionable pay plus 259,000 in 2018/19, 17.9% of pensionable pay plus £268,000 in 2019/20

# Agenda Item 5a

## Report of the Section 151 Officer

Pension Fund Committee – 9 March 2017

### CITY & COUNTY OF SWANSEA PENSION FUND DRAFT FUNDING STRATEGY STATEMENT 2017

<b>Purpose:</b>	To ensure compliance with Local Government Pension Scheme Regulations which requires a funding strategy statement
<b>Reason for Decision:</b>	To approve the funding strategy statement 2017
<b>Consultation:</b>	Legal, Finance and Access to Services.
<b>Recommendation:</b>	That the funding strategy statement 2017 is approved
<b>Report Author:</b>	Jeff Dong
<b>Finance Officer:</b>	Mike Hawes
<b>Legal Officer:</b>	Stephanie Williams
<b>Access to Services Officer:</b>	N/A

#### Funding Strategy Statement 2017

##### 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 Recommendation**

- 2.1 The Pension Fund Committee is asked to note and approve the attached draft funding strategy statement, subject to any material changes between this date and 31<sup>st</sup> March 2017 being approved by the S 151 Officer and being reported back to this committee..

## **3 Legal Implications**

- 3.1 The relevant legal provisions and guidance are set out in Appendix 1

## **4 Financial Implications**

- 4.1 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

## **5 Equality and Engagement Implications**

- 5.1 There are no equality and engagement implications arising from this report

**Background Papers:** None

**Appendices:** Draft Funding Strategy Statement 2017

# City & County of Swansea Pension Fund Draft Funding Strategy Statement 2017

## SECTION 1 INTRODUCTION

### Overview

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).

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

### Consultation

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.

In addition, the Administering Authority has had regard to the Fund's Statement of Investment Principles / Investment Strategy Statement published under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the Investment Regulations).

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

### Purpose of this Statement

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.

### **Links to investment policy set out in the Statement of Investment Principles**

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 Statement of Investment Principles and the funding strategy set out in this Statement.

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 Statement of Investment Principles 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.

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

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

### **Review of this Statement**

The Administering Authority undertook its latest substantive review of this Statement between February and March 2017.

The Administering Authority will formally review this Statement as part of the triennial valuation as at 31 March 2019 unless circumstances arise which require earlier action.

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

## **SECTION 2**

### **THE AIMS AND PURPOSE OF THE FUND**

#### **Purpose of the Fund**

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**

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, resolution 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

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)

Producing low volatility in employer contribution rates 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.

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.



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.

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

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

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

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

c) To manage employers' liabilities effectively.

The Administering Authority seeks to ensure that all employers' liabilities are managed effectively. In a funding context, this is achieved by seeking regular actuarial advice, ensuring that employers are properly informed and consulted, and through regular monitoring of the funding position and the outlook for employers' contributions.

d) To maximise the total investment return from investments within reasonable risk parameters.

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:

- restricting investment to the levels permitted by the Investment Regulations
- restricting investment to asset classes generally recognised as appropriate for UK pension funds
- analysing the potential volatility and absolute return risks represented by those asset classes in collaboration with Investment Advisors and Fund Managers 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.

## **SECTION 3**

### **RESPONSIBILITIES OF THE KEY PARTIES**

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

Their key responsibilities are as follows:

#### **Administering Authority**

The Administering Authority 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.
- 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
- Prepare and maintain a Statement of Investment Principles / 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.

#### **Individual Employers**

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.
- 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 Statement of Investment Principles or other policies.
- Pay any exit payments as required in the event of their ceasing participation in the Fund

### **Fund Actuary**

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.
- 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.

## **SECTION 4**

### **FUNDING STRATEGY**

#### **Risk Based Approach**

The Fund utilises a risk based approach to funding strategy.

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

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

These three choices, supported by complex risk modelling carried out by the Fund Actuary, define the discount rate, 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**

The Administering Authority's primary aim is long-term solvency. Accordingly, employers' contributions will be set to ensure that 100% of the liabilities can be met over the long term using appropriate actuarial assumptions. The Solvency Target is the amount of assets which the Fund wishes to hold at the end of the Trajectory Period (see later) to meet this aim.

The Fund is deemed to be solvent when the assets held are equal to or greater than 100% of 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, in order to continue to target a funding level of 100%.

For Scheduled Bodies and Admission Bodies with guarantors of sound covenant agreeing to subsume assets and liabilities following exit, appropriate actuarial methods and assumptions are taken to be measurement by use of the Projected Unit method of valuation, and using assumptions such that, if the Fund's financial position continued to be assessed by use of such methods and assumptions, and contributions were paid in accordance with those methods and assumptions, there would be a chance of at least 80% that the Fund would continue to be 100% funded over a reasonable timeframe. The level of funding implied by this is the Solvency Target.

For the purpose of this Statement, the required level of chance is defined as the Probability of Maintaining Solvency.

For Admission Bodies and other bodies whose liabilities are expected to be orphaned following exit, the required Probability of Maintaining Solvency 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.

### **Probability of Funding Success**

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.

Consistent with the 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.

The Administering Authority will not permit contributions to be set following a valuation that have an unacceptably low chance of achieving the Solvency Target at the end of the relevant Trajectory Period.

### **Funding Target**

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.

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 triennial actuarial valuation exercise and is not necessarily 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). The Funding Target will be the same as the Solvency Target only when the methods and assumptions used to set the Funding Target are the same as the appropriate funding methods and assumptions used to set the Solvency Target (see above).

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.

The discount rate, and hence the overall required level of employer contributions, has been set for the 2016 valuation such that the Fund Actuary estimates that there is just under a 70% 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).

### **Application to different types of body**

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

The Administering Authority will adopt a general approach in this regard of assuming indefinite investment in a broad range of assets of higher risk than low risk assets for Scheduled Bodies 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.

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;
- any contingent security available to the Fund or offered by the employer such as a guarantor or bond arrangements, charge over assets, etc.

#### Admission Bodies and certain other bodies whose participation is limited

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

## **Full Funding**

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 and Trajectory Periods**

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

Where a valuation reveals that the Fund is in surplus or deficiency against the Funding Target, employers' contribution rates will 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.

The Trajectory Period and the Recovery Period are not necessarily equal.

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 was used at the valuation at 31 March 2016.

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.

The Administering Authority recognises that a large proportion of the Fund's liabilities are expected to arise as benefit payments over long periods of time. For employers of sound covenant, the Administering Authority is prepared to agree to recovery periods 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 and Trajectory Periods and has agreed with the Fund Actuary a limit of 30 years for both, for employers which are assessed by the Administering Authority as being a long term secure employer.

The Administering Authority's policy is to agree Recovery Periods with each employer which are as short as possible within this framework. For employers whose participation in the fund is for a fixed period it is unlikely that the Administering Authority and Fund Actuary would agree to a Recovery Period longer than the remaining term of participation.

Resulting from the 2016 valuation, a period of 22 years has been used for the City and County of Swansea which is the largest employer in the Fund. Trajectory and Recovery Periods for other employers or employer groups may be different and may not necessarily be the same as each other, in order to suitably balance risk to the fund and cost to the employer.

## **Grouping**

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.

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 look for evidence of homogeneity between employers before considering grouping. For employers whose participation is for a fixed period grouping is unlikely to be permitted.

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

All employers in the Fund are grouped together in respect of the risks associated with payment of lump sum 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. There is a group of employers in the Fund which are pooled together for funding and contribution purposes.

The Town and Community Councils Group consists, at the date of writing this Statement, of the following employers: Margam Joint Crematorium Committee, Coedffranc Community Council, Neath Town Council, Clydach Community Council (no active members), and Briton Ferry Town Council (no active members).

Currently all the employers within the group pay the same percentage of pay primary contribution rate, and deficit contributions are spread across the active employers in proportion to their payroll.

## **Stepping**

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.



## **Inter-valuation funding calculations**

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

## **Asset shares notionally allocated to individual employers**

### **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.

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**

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 consistent with the Funding Target transferred from one employer to the other 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.

In some cases information available will not allow for such cashflow calculations. In such a circumstance:

- Where, in the opinion of the Fund Actuary, the cashflow data which is unavailable is of low materiality, estimated cashflows will be used.
- Where, in the opinion of the Fund Actuary, the cashflow data which is unavailable is material, the Fund Actuary will instead use an analysis of gains and losses to roll forward the notional 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**

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.

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 monitor payrolls and where evidence is revealed of payrolls not increasing at the anticipated rate, the Administering Authority will consider requiring defined streams of monetary contributions rather than percentages of payroll.

## **SECTION 5 SPECIAL CIRCUMSTANCES RELATED TO CERTAIN EMPLOYERS**

### **Interim reviews**

Regulation 64(4) of the Regulations provides the Administering Authority with a power to carry out valuations in respect of employers which are expected to cease at some point in the future, and for the Fund Actuary to certify revised contribution rates, between triennial valuation dates.

The Administering Authority's overriding objective at all times is that, where possible, there is clarity over the Funding Target for that body, and that contribution rates payable are appropriate for that Funding Target. However, this is not always possible as any date of exit may be unknown (for example, participation may be assumed at present to be indefinite), and also because market conditions change daily.

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

- Where the date of exit is known, and is more than three years hence, or is unknown and assumed to be indefinite, interim valuations will generally not be carried out at the behest of the Administering Authority.
- For 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.

Notwithstanding the above guidelines, the Administering Authority reserves the right to request an interim valuation of any employer at any time if Regulation 64(4) applies.

### **Guarantors**

Some employers may participate in the Fund by virtue of the existence of a Guarantor. The Administering Authority maintains a list of employers and their associated Guarantors. The Administering Authority, unless notified otherwise, sees the duty of a Guarantor to include the following:

- If an employer 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.

### **Bonds and other securitization**

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.

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.

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**

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.

In such circumstances the liabilities are known as subsumed liabilities (in that responsibility for them is subsumed by the accepting employer). For such liabilities the Administering Authority will assume that the investments held in respect of those liabilities will be the same as those held for the rest of the liabilities of the accepting employer. Generally this will mean assuming continued investment in more risky investments than Government bonds.

### **Orphan liabilities**

Where an employer is exiting the Fund 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.

The Administering Authority will seek to minimise the risk to other employers in the Fund that any deficiency arises on the orphan liabilities such that this creates a cost for those other employers to make good the deficiency. To give effect to this, the Administering Authority will seek funding from the outgoing employer sufficient to enable it to match the liabilities with low risk investments, generally Government fixed interest and index linked bonds.

To the extent that the Administering Authority decides not to match these liabilities with Government bonds of appropriate term then any excess or deficient returns will be added to or deducted from the investment return to be attributed to the employer's notional assets.

### **Smoothing of contribution rates for Admission Bodies**

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.

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.

Additionally, the Administering Authority may seek agreement from the City and County of Swansea and/or Neath Port Talbot County Borough Council that, should an Admission Body cease participation in the Fund during the relaxation period, it would provide a source of future funding for any deficiency developing in the Fund in respect of residual liabilities of the admission body (this process is called 'Subsumption' for the purposes of this document).

Such action has three implications:

- During any period when the requirement for targeting Full Funding has been relaxed, contribution rates for admission bodies can if necessary be set at a level lower than full funding would require. However, where deficit payments are being deferred, the bodies should be aware that, all things being equal, this will lead to a higher contribution rate in the future. As a minimum, such bodies should pay contributions equal to the cost of benefits accruing for their members calculated on the Funding Target method and assumptions adopted for scheduled bodies and those with a subsumption guarantee.
- Should an Admission Body leave the Fund during a period when contribution rates do not target Full Funding, the funding requirement in any exit valuation carried out under Regulation 64 will be reduced to the extent that contributions, on a cumulative basis, have fallen short of what continued targeting of Full Funding would require. Where the Admission Body has a deficiency, relative to the Full Funding requirement, and also a deficiency relative to this reduced exit valuation requirement, the Admission Body will only be required to make the position good up to the reduced exit valuation requirement. Any consequent shortfall in the Fund relative to the Full Funding requirement will fall as a liability to the City and County of Swansea or Neath Port Talbot County Borough Council, to be met through adjustments to its contribution rate as part of future actuarial valuation exercises.
- Should an Admission Body leave the Fund during a period where the City and County of Swansea 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.

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**

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.

In particular, the exit valuation will distinguish between residual liabilities which will become orphan liabilities, and liabilities which will be subsumed by other employers. For orphan liabilities the Funding Target in the exit valuation will anticipate investment in low risk investments such as Government bonds. For subsumed liabilities the exit valuation will anticipate continued investment in assets similar to those held in respect of the subsuming employer's liabilities.

Regardless of whether the residual liabilities are orphan liabilities or subsumed liabilities, the departing employer will be expected to make good the funding position revealed in the exit valuation. In other words, the fact that liabilities may become subsumed liabilities does not remove the possibility of an exit payment being required.

## **SECTION 6**

### **IDENTIFICATION OF RISKS AND COUNTER MEASURES**

#### **Approach**

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

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.

The main risks to the Fund are considered below:

#### Choice of Solvency and Funding Targets

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.

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.

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.

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

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

- assets not delivering the required return (for whatever reason, including manager underperformance)
- systemic risk with the possibility of interlinked and simultaneous financial market volatility



- insufficient funds to meet liabilities as they fall due
- inadequate, inappropriate or incomplete investment and actuarial advice is taken and acted upon
- counterparty failure

The specific risks associated with assets and asset classes are:

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

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

### Employer risk

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

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

The Administering Authority will consider establishing 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.

### **Liability Risk**

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

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 is practical, monitor changes in the age profile of the Fund membership, early retirements, redundancies and ill health early retirements and, if any changes are considered to be material, as the Fund Actuary to report on their effect on the funding position.

If significant liability changes become apparent between valuations, the Administering Authority

will notify all participating employers of the anticipated impact on costs that will emerge at the next valuation and consider whether any bonds that are in place for Transferee Admission Bodies require review.

## **Regulatory and Compliance Risk**

The risks relate to changes to general and LGPS specific regulations, national pension requirements or HM Revenue and Customs' rules. The Administering Authority will keep abreast of all proposed changes 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.

## **Liquidity and Maturity Risk**

This is the risk of a reduction in cash flows into the Fund, 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 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),
- Scheme changes and higher member contributions in particular may lead to increased opt-outs;

The Administering Authority seeks to maintain regular contact with employers to mitigate against the risk of unexpected or unforeseen changes in maturity leading to cashflow or liquidity issues.

## **Governance Risk**

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), and the related risk of the Administering Authority not being made aware of such changes in a timely manner.

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.

## **Statistical/Financial Risk**

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**

The Administering Authority recognises that utilisation of a 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**

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**

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.

# Agenda Item 5b

## Report of the Section 151 Officer

Pension Fund Committee – 9 March 2017

### REPORTS BREACHES POLICY

<b>Purpose:</b>	The report requests the Committee to approve policy for reporting breaches
<b>Reason for Decision:</b>	Breaches of the law are required to be reported to the Pensions Regulator under paragraphs 241 to 275 of the Pensions Regulator's Code of Practice No. 14 (Governance and administration of public service pension schemes) – "the Code of Practice".
<b>Consultation:</b>	Legal, Finance and Access to Services.
<b>Recommendation(s):</b> 1)	It is recommended that: The Pension Fund Committee approve the policy
<b>Report Author:</b>	Lynne Miller – Principal Pensions Manager
<b>Finance Officer:</b>	Jeff Dong – Chief Treasury & Technical Officer
<b>Legal Officer:</b>	Stephanie Williams
<b>Access to Services Officer:</b>	N/A

#### 1.0 Introduction

- 1.1 Breaches can occur in relation to a wide variety of the tasks normally associated with the administrative function of a pension scheme such as keeping records, internal controls, calculating benefits and making investment or investment-related decisions.
- 1.2 This document sets out the procedures to be adopted by the City and County of Swansea Pension Fund in respect of the Local Government Pension Scheme (LGPS) managed and administered by the City and County of Swansea, in relation to reporting breaches of the law to the Pensions Regulator (tPR).

#### 2. Legal Requirements

- 2.1 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 Those subject to this reporting requirement for public service pension schemes include:

- The Scheme manager
- Members of the Pension Board
- Any person who is otherwise involved in the administration of the scheme
- Employers
- Professional advisers

2.3 Reference to regulations and guidance may need to be made when considering whether or not to report a possible breach. Some of the key legal provisions are included at Appendix A.

### **3. Recording of Breaches**

3.1 Breaches can occur in relation to a wide variety of the tasks normally associated with the administrative function of a pension scheme.

3.2 The City and County of Swansea Pension Fund will maintain a record of all breaches identified so that an assessment against historic breaches, whether reported or unreported can be made. An example of a breach register is included at Appendix B.

3.3 A report will be presented to the Pension Board and Pension Fund Committee on a quarterly basis 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

The report will highlight any new breaches which have arisen since the previous meeting.

### **4. Reporting Breaches procedure**

4.1 In order to ensure that individuals responsible are able to meet their legal obligations, and avoid placing any reliance on others to report, it is important to make sure appropriate procedures are established

4.2 An extract from TPR Code of Practice No. 14 Reporting Breaches of Law, paragraph 245, provides that the procedures established should include the following features:

- a process for obtaining clarification of the law around the suspected breach where needed
- a process for clarifying the facts around the suspected breach where they are not known
- a process for consideration of the material significance of the breach by taking into account its cause, effect, the reaction to it, and its wider implications, including (where appropriate) dialogue with the scheme manager or pension board
- a clear process for referral to the appropriate level of seniority at which decisions can be made on whether to report to the regulator
- an established procedure for dealing with difficult cases
- a timeframe for the procedure to take place that is appropriate to the breach and allows the report to be made as soon as reasonably practicable
- a system to record breaches even if they are not reported to the regulator (the record of past breaches may be relevant in deciding whether to report future breaches, for example it may reveal a systemic issue), and
- a process for identifying promptly any breaches that are so serious they must always be reported.

4.3 Establishing appropriate procedures will also assist in providing an early warning of possible malpractice and reduce risk.

4.4 Where a breach is suspected, further checks should be undertaken to confirm if a breach has occurred.

4.5 It will usually be appropriate to check relevant legal provision as well as with the, Scheme Manager or appropriate Senior Officers to confirm what has happened; however, there are some instances where it would not be appropriate to make further checks, for example, where carrying out further checks would alert those involved or hinder any investigation by the police and/or regulatory authority. In these cases the Regulator should be contacted without delay and the Pension Fund Committee/ Local Pension Board notified.

The City and County of Swansea has a designated Monitoring Officer to ensure it acts and operates within the law. They are considered to have appropriate experience to help investigate whether there is reasonable cause to believe a breach has occurred and to assist if reporting to The Pensions Regulator is appropriate.

It should be noted, however, that the involvement of any Senior Officer is to help clarify the potential reporter's thought process and to ensure this procedure is followed. The reporter remains responsible for the final

decision as to whether a matter should be reported to The Pensions Regulator.

- 4.6 If breaches relate to late or incorrect payment of contributions or pension benefits, the matter should be highlighted to the Head of Finance or Chief Treasury and Technical Officer at the earliest opportunity to ensure the matter is resolved as a matter of urgency.
- 4.7 Where a breach or possible breach is identified, a discussion with the Chair and other Committee and Local Pension Board members should be raised as soon as is reasonably practicable as delay in reporting may exacerbate or increase the risk of the breach.

## 5. **Determining whether the breach is likely to be of material significance**

5.1 The breach is likely to be of material significance to the regulator where it was caused by:

- Dishonesty
- Poor governance or administration
- Slow or inappropriate decision making practices
- Incomplete or inaccurate advice
- Acting (or failing to act) in deliberate contravention of the law

5.2 To decide whether a breach is likely to be of material significance the following should be considered, both separately and collectively:

- Cause of the breach (what made it happen);
- Effect of the breach (the consequence(s) of the breach);
- Reaction to the breach; and
- Wider implications of the breach

5.3 The Pension Regulator has designed a traffic light framework to help decide whether a breach is likely to be of material significance and should be reported:

**Red** – where the cause, effect, reaction and wider implications when considered together are **likely** to be of material significance

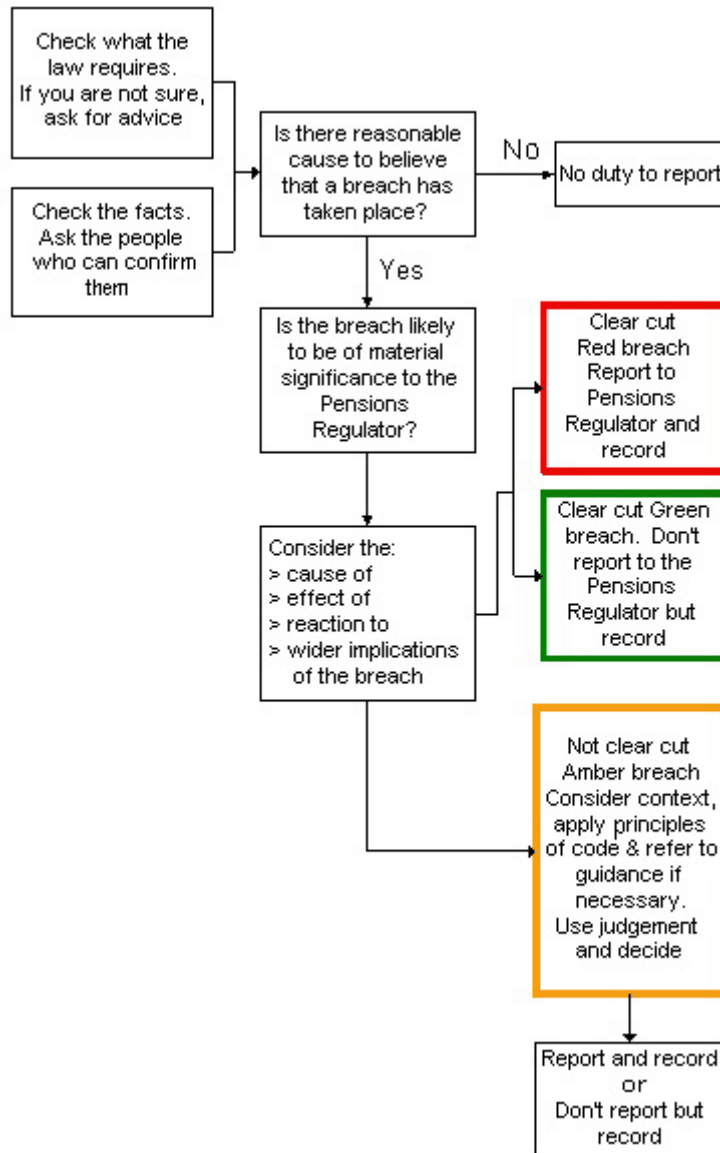
**Amber** – where the cause effect, reaction and wider implications of a breach when considered together **may** be of material significance

**Green** – where the cause, effect, reaction and wider implication of a breach when considered together are **not likely** to be of material significance

The traffic light framework should be used to help assess the material significance of each breach and to formally support and document the decision and additional guidance is provided at Appendix C.

5.4 A decision tree is provided below to show the process for deciding whether or not a breach has taken place and whether it is materially significant and therefore requires to be reported.

**Decision-tree: deciding whether to report**



<http://www.thepensionsregulator.gov.uk/codes/code-related-report-breaches.aspx#decision>

5.5 When deciding if a breach is of material significance, other reported and unreported breaches should also be considered, although any changes to address previously identified problems should also be taken into account.



- 5.6 A breach will not normally be materially significant if it has arisen from an isolated incident, although persistent isolated breaches could be indicative of wider issues.

## **6. Process for submitting a Report to the Regulator**

- 6.1 Where a breach is considered material, a report must be made in writing to the Pensions Regulator as soon as reasonably practicable.

The time taken to reach the judgements on “reasonable cause to believe” and on “material significance” should be consistent with the speed implied by ‘as soon as reasonably practicable’. In particular, the time taken should reflect the seriousness of the suspected breach.

- 6.2 Reports should be in writing, either by post or electronically, and wherever possible reporters should use the standard format available on the Exchange On-line service on the Pensions Regulator’s website.

The report should be dated and include:

- Details of the scheme/scheme manager such as full name and address
- Details of the employer if relevant
- Description of the breach(es) with any relevant dates and whether the concern has been reported before
- The reason the breach is thought to be of material significance to the regulator
- Name, position and contact details of the reporter, and their role in relation to the scheme

Reporters may precede a written report with a telephone call, if appropriate.

## **7. Whistleblowing Protection and Confidentiality**

- 7.1 The Pension Act 2004 makes clear that the statutory duty to report overrides any other duties a reporter may have such as confidentiality and that any such duty is not breached by making a report. The statutory duty does not however override “legal privilege” which means that oral and written communications between a professional legal adviser and their client does not have to be disclosed.

- 7.2 The regulator will take all reasonable steps to maintain confidentiality and protect the identity of the reporter, and will not disclose the information except where lawfully required to do so.

- 7.3 The Employment Rights Act 1996 provides protection for employees making a whistleblowing disclosure to the regulator.

## **8.0 General Issues**

8.1 There are no other variations proposed.

## **9.0 Equality and Engagement Implications**

None

## **10.0 Financial Implications**

10.1 Additional payments maybe be incurred by the Pension Fund

## **11.0 Legal Implications**

11.1 The legal implications are outlined in Code of Practice no.14.

**Background Papers:** None

### **Appendices:**

Appendix A – Key regulations and guidance when considering whether or not to report a possible breach

Appendix B - Example of Breach Register

Appendix C – Guidance to traffic light framework

**Key regulations and guidance when considering whether or not to report a possible breach**

Section 70(1) and 70(2) of the Pensions Act 2004:  
[www.legislation.gov.uk/ukpga/2004/35/contents](http://www.legislation.gov.uk/ukpga/2004/35/contents)

Employment Rights Act 1996:  
[www.legislation.gov.uk/ukpga/1996/18/contents](http://www.legislation.gov.uk/ukpga/1996/18/contents)

Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (Disclosure Regulations):  
[www.legislation.gov.uk/uksi/2013/2734/contents/made](http://www.legislation.gov.uk/uksi/2013/2734/contents/made)

Public Service Pension Schemes Act 2013:  
[www.legislation.gov.uk/ukpga/2013/25/contents](http://www.legislation.gov.uk/ukpga/2013/25/contents)

Local Government Pension Scheme Regulations (various):  
<http://www.lgpsregs.org/timelineregs/Default.html> (pre 2014 schemes)  
<http://www.lgpsregs.org/index.php/regs-legislation> (2014 scheme)

The Pensions Regulator's Code of Practice:  
<http://www.thepensionsregulator.gov.uk/codes/code-governance-administration-publicservice-pension-schemes.aspx>

## Example of Breach Register

Date	Category (e.g. administration, contributions, funding, investment, criminal activity)	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
	Administration	A pension overpayment is discovered. Figures transposed	The administering authority has failed to pay the right amounts to the right person at the right time	Isolated incident - the pensioner could not have known that (s)he was being overpaid	Not reported - The breach is not material to The Pensions Regulator and need not be reported but it will be recorded.	Satisfied that it is an isolated incident. Satisfactory procedures and training in place
	Contributions	Employer doesn't pay contributions within required timescale and AVCs to AVC provider	Loss of investment returns	Previous breaches have occurred with no sign of employer improving	Material significance – report to tPR	Meet with employer to discuss matter to consider a way forward

\*New breaches since the previous meeting should be highlighted

### Guidance to traffic light framework

Certain people involved with the governance and administration of a public service pension scheme must report certain breaches of the law to The Pensions Regulator. These people include scheme managers, members of pension boards, employers, professional advisers and anyone involved in administration of the scheme or advising managers. You should use the traffic light framework when you decide whether to report to us. This is defined as follows:

- **Red** breaches must be reported.

Example: Several members' benefits have been calculated incorrectly. The errors have not been recognised and no action has been taken to identify and tackle the cause or to correct the errors.

- **Amber** breaches are less clear cut: you should use your judgement to decide whether it needs to be reported.

Example: Several members' benefits have been calculated incorrectly. The errors have been corrected, with no financial detriment to the members. However the breach was caused by a system error which may have wider implications for other public service schemes using the same system.

- **Green** breaches do not need to be reported.

Example: A member's benefits have been calculated incorrectly. This was an isolated incident, which has been promptly identified and corrected, with no financial detriment to the member. Procedures have been put in place to mitigate against this happening again.

All breaches should be recorded by the scheme even if the decision is not to report.

When using the traffic light framework you should consider the content of the red, amber and green sections for each of the cause, effect, reaction and wider implications of the breach, before you consider the four together.

As each breach of law will have a unique set of circumstances, there may be elements which apply from one or more of the red, amber and green sections. You should use your judgement to determine which overall reporting traffic light the breach falls into. By carrying out this thought process, you can obtain a greater understanding of whether or not a breach of the law is likely to be of material significance and needs to be reported.

You should not take these examples as a substitute for using your own judgement based on the principles set out in the code of practice as supported by relevant pensions' legislation. They are not exhaustive and are illustrative.

# Agenda Item 5c

## Report of the Section 151 Officer

### Pension Fund Committee – 9 March 2017

#### CITY & COUNTY OF SWANSEA PENSION FUND BUSINESS PLAN 2017/18

<b>Purpose:</b>	To provide a working framework for the Pension Fund's programme of work for 2017/18
<b>Reason for Decision:</b>	To approve the outlined work programme.
<b>Consultation:</b>	Legal, Finance and Access to Services.
<b>Recommendation:</b>	That The City & County of Swansea Pension Fund Annual Business Plan 2017/18 is noted and approved
<b>Report Author:</b>	Jeffrey Dong
<b>Finance Officer:</b>	Mike Hawes
<b>Legal Officer:</b>	Stephanie Williams
<b>Access to Services Officer:</b>	Sherill Hopkins

#### **Business Plan 2017/18**

##### **1 Background**

- 1.1 In line with best practice, the Pension Fund produces a business plan to inform its work programme for the forthcoming 12 month period. The business plan for 2016/17 is attached at Appendix 1

##### **2 Recommendation**

- 2.1 The Pension Fund Committee is asked to note and approve the attached business plan for the year 2016/17 noting the timescale and responsibility for key action points throughout the year. The document is a dynamic document and will be 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 Equality and Engagement Implications**

- 5.1 There are no equality and engagement implications arising from this report

**Background Papers:** None

**Appendices:** Annual Business Plan

**CITY AND COUNTY OF SWANSEA**

**Pension Fund**

**Annual Business Plan  
2017 18**

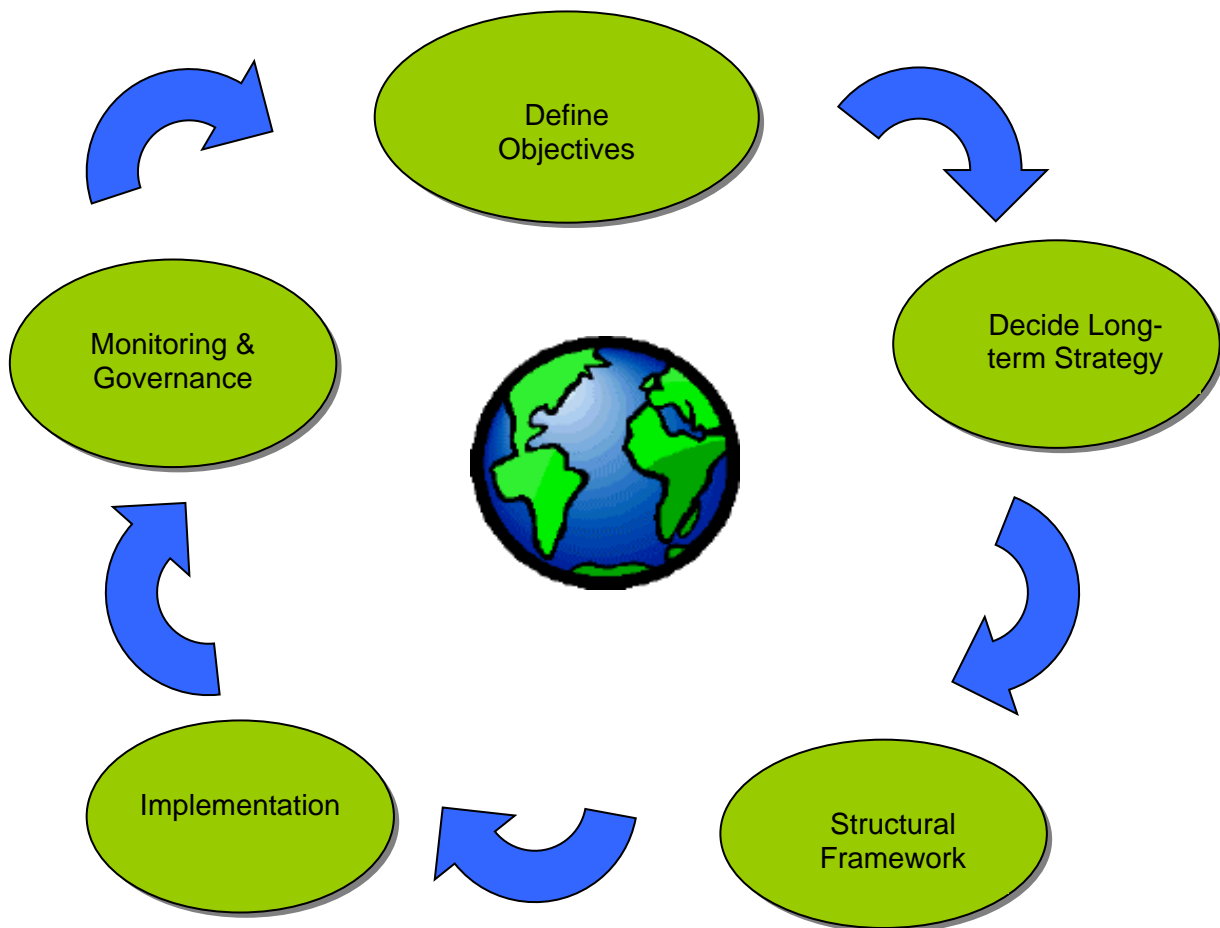


# Local Government Pension Scheme City & County of Swansea

## 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 Section 151 Officer and supported by the Chief Treasury Officer and professional external financial advisors. 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, 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 Statement of Investment Principles are:

- Overall investment policy is to maximise the return on investments within the risk parameters set for the Fund.
- Investment policy is guided by an overall objective of achieving over the long term a return on investments to meet all the Fund's liabilities after taking into account employer and employee contributions, which is consistent with the long-term assumptions used by the Actuary and with the Funding Strategy Statement adopted by the committee.
- Over the short-term the objective is to achieve a return in line with the risk parameters of the mandates of the appointed managers.
- Promote Socially Responsible Investment by appointed managers consistent with maximising the return on the Fund.

The fund currently has the following investment fund structure:

TABLE 1

Asset Class	Asset Allocation	Fund Manager		Benchmark	Performance
		Passive	Active		
UK Equities	34% +/- 5%	14%	20% <b>Schroders</b>	FTSE allshare	+3% p.a. over rolling 3year
Overseas Equities	34% +/- 5%	13% <b>(L&amp;G)</b>	21% <b>JP Morgan and Aberdeen</b>	MSCI World all share (ex UK)  MSCI Frontier Markets Index	+3% p.a. over rolling 3year + p.a. over rolling 3 year
Global Fixed Interest	15% +/- 5%	6% <b>(L&amp;G)</b>	9% <b>Goldman Sachs</b>	Libor	Libor +3%
Property	5% +/- 5%	-	5% <b>Schroders, Partners and Invesco</b>	IPD, cash, absolute	+ 1% p.a. over rolling 3 year
Hedge Funds	5% +/- 5%	-	5% <b>Blackrock and En Trust Permal</b>	LIBOR	+4%
Private Equity	3% +/- 5%	-	3% <b>Harbourvest</b>	FTSE allshare	+3% p.a. over 3 year rolling
Global Tactical Asset Allocation	2% +/- 5%	-	2% <b>Blackrock</b>	LIBOR	+4% over 3 year rolling
Cash	2% +/- 5%	-	2% in house and cash flows of fund managers	7day LIBID	=
<b>TOTAL</b>	100%	33%	67%		

The Pension Fund Committee approved an allocation of 2% of the fund's assets to be invested in core infrastructure investment whilst also approving a discretionary investment ( up to 2% of the assets ) in the asset class which has local economic/growth benefits whilst providing a commercial return to the pension fund also. An OJEU tender process is being implemented to appoint a manager to manage the core infrastructure portfolio( yet to be drawn down). Consideration of the discretionary allocation will be considered as and when appropriate investment opportunities arise to be funded from cash and realisation on a pro rata basis if required..

Performance of the investment managers has historically been measured by The WM Company who have withdrawn from the market, the service is being undertaken in the interim by PIRC, this service shall be reviewed on an All Wales basis. Performance figures are considered by the Pension Fund Committee on a quarterly basis.

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

### **3. Issues addressed in year to 31 March 2017**

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

#### *a. Objectives*

- No changes were made in the Fund's overall objectives, as stated in the Statement of Investment Principles.

#### *b. Investment Strategy*

The Pension Fund Committee approved a 2% allocation to be invested in core infrastructure investments with an up to 2% further discretionary investment in national/local economic growth driving infrastructure investment projects. Following a rigorous search and selection process, the pension Committee appointed Hastings Investment management to manage the core infrastructure portfolio- this will be funded via the redemption of the GTAA portfolio.

#### *c. Structural Framework*

The fund retains the services of ten fund managers who manage the assets of the fund as outlined in Table 1:

#### *d. Implementation*

- Produced annual report and statement of accounts 2015/16
- Held Annual General Consultative Meeting
- FRS17 statement included in accounts
- Held employer triennial valuation consultation meetings

- Held employee roadshows
- Implemented new Administration IT system 'Altair'

*e. Monitoring & Governance*

During the year, the Pension Fund Committee has held quarterly monitoring meetings.

A consultation meeting to consider the 2015/16 Annual Report and Statement of Accounts was held, to which all employing bodies and trade unions were invited.

Meetings have also been held with major employers to discuss the provisional results of the 2016 valuation prior to final certification

The Principal Pensions Officer held several open meetings for employers and members in order to explain the implementation of new regulations (including auto enrolment) and other changes amongst other administration issues.

The Local Pension Board has been established and its first 2 meetings have been held

#### **4. The Business Plan**

*a. Objectives*

The Investment Objectives, Strategy and Risk Profile will be considered when reviewing the Statement of Investment Principles and when considering the revision of the funding strategy statement at the conclusion of the 2016 triennial valuation.

*b. Investment Strategy*

The solvency level of the Fund continues to be carefully monitored. The recent financial crisis and continuing troubles in the Eurozone emphasises the importance for Pension Fund Committee members of continually reviewing the funding level. The strategy will be regularly reviewed to seek to increase returns in line with responsible risk parameters.

Particular areas to be addressed are as follows:

- Review the effectiveness of the implemented structure of the fund
- Review asset allocation and new asset classes
- Review risk parameters
- Review appropriate fund benchmarks
- Implement revised employee contribution rates
- Implement revised employer contribution rates

The pension fund committee has also approved the appointment of new investment consultancy arrangements which are being tendered for in Q2 2017

*c. Structural Framework*

The structural framework of the investment management arrangements of the fund will be materially impacted by the Wales Pool's submission in response to the Government's pooling criteria and agreed establishment of an Authorised Contractual Scheme ( ACS) for the Wales Pool of 8 LGPS funds.

A joint committee has been established along with a signed Inter Authority Agreement and terms of reference for the committee.  
Carmarthenshire County Council has been chosen as the host Authority to undertake secretariat and associated tasks.

#### *d. Implementation & Risk Management*

The Panel will 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.

#### *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.

The Pension Fund Committee will continue to consider issues arising from the Revised Myners' Principles for investment decision making and further improve compliance where required .

The Chairman ( or his nominated Deputy ) of the Pension Fund Committee shall be the Swansea representative on the Joint Chairs Committee of the Wales Pool

An Annual Consultative Meeting will be held to consider the 2016/17 Annual Report.

Further open meetings for employers will be arranged as required to consider revisions to the scheme and the impact of auto enrolment and will consult on further dialogue with CLG in relation to structural reform of the LGPS.

#### *f. Trustee Training*

The Section 151 Officer and Chief Treasury & Technical Officer and advisors will continue to identify suitable Trustee training opportunities, striving to ensure Trustees are appropriately equipped to discharge their role.

Since the publication of the CIPFA skills and knowledge framework, there is a growing pressure 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.

## **5. Business Plan Timetable**

The following table in Appendix 1 set out progress against the 2016/17 business plan and sets out the broad Pension Fund Committee business plan over the next twelve months for 2017/18; the document is a dynamic document which may be subject to review during the year.

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

Review of 2016/17 Business Plan Targets to year ended 31<sup>st</sup> March 2017

Action	Description	Time-scale	Primary Responsibility	Status
1	Formulate Annual Business Plan for 2016/17	Mar 2016	Section 151 Officer, Chief Treasury & Technical Officer	Achieved
2	Implement and manage 2016 Triennial Valuation	March 2017	Section 151 Officer, Chief Treasury & Technical Officer	Ongoing
3	Implement the infrastructure investment	April 2016- March 2017	Section 151 Officer, Chief Treasury & Technical Officer	OJEU commenced
4	Review Statement of Investment Principles in line with Revised Regulations	June 2016	Section 151 Officer, Chief Treasury & Technical Officer, Principal Pension Officer	Achieved
5	Implement revised pension SORP and CIPFA guidance in producing annual report and statement of a/cs	June 2016	Section 151 Officer, Chief Treasury & Technical Officer, Advisors	Achieved
6	Review scheme specific benchmark	Continuous	Section 151 Officer, Chief Treasury & Technical Officer, Advisors, Actuary	Achieved
7	Monitor LGPS Regulation Changes and provide response to consultation where necessary to DCLG	DCLG timetable	Section 151 Officer/ Chief Treasury & Technical	Achieved

			Officer/Principal pensions officer	
8	Review Compliance with Revised Myners Principles for investment decision making.	2016/17	Section 151 Officer, Chief Treasury & Technical Officer	Achieved
9	Implement and support the establishment of the All Wales Pooling Arrangements ( procurement, governance oversight arrangements)	Continuous	Section 151 Officer, Chief Treasury & Technical Officer/Principal Pensions Officer	Achieved
10	Consider and approve Pension Fund Accounts and Annual Report	September 2016	Section 151 Officer, Chief Treasury & Technical Officer	Achieved
11	Review performance of Fund and each individual Manager, taking into account behaviour of world equity markets	July 2016 September 2016 Dec 2016 March 2017	Section 151 Officer/ Chief Treasury & technical Officer/external advisers	Ongoing
12	Review Socially Responsible/Ethical Investment Policy	November 2016	Section 151 Officer/ external advisers/ Chief Treasury & Technical Officer	ongoing
13	Annual consultative meeting with employers re. annual report	November 2016	Section 151 Officer/ Principal pension Officer/Chief Treasury & Technical Officer	Achieved Dec 2016
14	Receive presentations from Fund Managers	July 2016 September 2016 December 2016	Section 151 Officer/ external adviser/Chief Treasury & Technical Officer	Achieved

		March 2017			
15	Implement any amendments as a result of revised regulations	DCLG Timetable	Principal Officer	Pensions	Achieved
16	Review Pension Administration Strategy to ensure compliance with legislation	June 2016	Principal Officer	Pensions	Achieved
17	Review Communication Strategy to ensure fit for purpose and compliance with regulations	June 2016	Principal Officer	Pensions	Achieved
18	Reconciliation of GMPs for Fund members	April 2018	Principal Officer	Pensions	Ongoing
19					
20					
21					
22					



**Business Plan 2017/18 to Year Ending 31 March 2018**

Action	Description	Time-scale	Primary Responsibility
1	Formulate Annual Business Plan for 2017/18	Mar 2017	Section 151 Officer, Chief Treasury & Technical Officer
2	Implement 2016 Triennial Valuation	April 2017	Section 151 Officer, Chief Treasury & Technical Officer
3	Manage the Infrastructure tender exercise	Feb 2017- April 2017	Section 151 Officer, Chief Treasury & Technical Officer
4	Undertake formal Review of Statement of Investment Principles post 2016 triennial valuation	Sep 2017	Section 151 Officer, Chief Treasury & Technical Officer, Principal Pension Officer
5	Implement revised pension SORP and CIPFA guidance in producing annual report and statement of a/cs	June 2017	Section 151 Officer, Chief Treasury & Technical Officer, Advisors
6	Appoint investment consultancy	May 2017	Section 151 Officer, Chief Treasury & Technical Officer, Advisors,
7	Monitor LGPS Regulation Changes and provide response to consultation where necessary to DCLG	DCLG timetable	Section 151 Officer/ Chief Treasury & Technical Officer/Principal pensions officer
8	Review Compliance with Revised Myners Principles for investment decision making.	2017/18	Section 151 Officer, Chief Treasury & Technical Officer
9	Support the All Wales Investment Pool project ( procurement, governance & oversight arrangements)	Continuous	Section 151 Officer, Chief Treasury & Technical Officer/Principal Pensions Officer
10	Consider and approve Pension Fund Accounts and Annual	September 2017	Section 151 Officer, Chief

	Report		Treasury & Technical Officer
11	Review performance of Fund and each individual Manager, taking into account behaviour of world equity markets	July 2017 September 2017 Dec 2017 March 2018	Section 151 Officer/ Chief Treasury & technical Officer/external advisers
12	Review Socially Responsible/Ethical Investment Policy	November 2017	Section 151 Officer/ external advisers/ Chief Treasury & Technical Officer
13	Annual consultative meeting with employers re. annual report	November 2017	Section 151 Officer/ Principal pension Officer/Chief Treasury & Technical Officer
14	Receive presentations from Fund Managers	July 2017 September 2017 December 2017 March 2018	Section 151 Officer/ external adviser/Chief Treasury & Technical Officer
15	Implement any amendments as a result of revised regulations	DCLG Timetable	Principal Pensions Officer
16	Review Pension Administration Strategy to ensure compliance with legislation	June 2017	Principal Pensions Officer
17	Review Communication Strategy to ensure fit for purpose and compliance with regulations	June 2017	Principal Pensions Officer
18	Reconciliation of GMPs for Fund members	April 2018	Principal Pensions Officer

## City &amp; County of Swansea Pension Fund Risk Register 2017/18

Risk	Existing control measures /new control measures	Impact	Likelihood	Assigned	Date	Risk status
<b>CCSPF1- Failure to comply with LGPS Regulation</b>  <b>If there is failure to comply with regulation, there would be adverse audit opinion and loss of trust from employers within scheme</b>	<ul style="list-style-type: none"> <li>• Well trained staff</li> <li>• CPD</li> <li>• Pensions Officer Group</li> <li>• Society of Welsh Treasurers</li> <li>• Internal/external audit regime</li> </ul>	High	Low	JD	2017/18	Green
<b>CCSPF2 – Failure to process accurate pension benefits in a timely manner</b>  <b>If a pension benefit is paid incorrectly there could be a cost to the fund or penalty imposed for lateness of payment</b>	<ul style="list-style-type: none"> <li>• Well trained staff</li> <li>• Established procedure with imbedded checks and segregation of duties in place</li> <li>• Regular KPI monitoring</li> <li>• Use of market leading software Altair</li> <li>• NFI checks</li> <li>• Atmos checks</li> </ul>	High	Low	LM/JD	2017/18	Green
<b>CCS PF3- Failure to collect and account for full receipt of contributions from employers and employees on time</b>  <b>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</b>	<ul style="list-style-type: none"> <li>• Contribution timetable/monitoring procedure</li> <li>• Administering Authority agreement</li> <li>• Escalation and fines for non compliance</li> <li>• Internal audit</li> </ul>	High	Low	JD	2017/18	Green
<b>CCS PF4 – Failure to keep pension records up to date</b> <b>If pension records are not up to date, a wrong benefit may be</b>	<ul style="list-style-type: none"> <li>• Administering Authority agreement with employers to ensure timely passing of information</li> </ul>	High	Medium	LM	2017/18	Amber

calculated and paid	<ul style="list-style-type: none"> <li>• Data accuracy checks undertaken</li> <li>• Data validation on Altair system</li> <li>• Periodic data validation by scheme actuary/NFI</li> <li>•</li> </ul>					
<b>CCSPF 5 Failure to hold personal data securely</b>  <b>If there is breach of data there is a risk to the individual's details and loss of trust in the Authority</b>	<ul style="list-style-type: none"> <li>• Compliance with Data Protection Act 1998</li> <li>• Business Continuity plan</li> <li>• IT Security Policy</li> <li>• Systems and pension payroll audit annually</li> </ul>	High	Low	LM/JD	2017/18	Green
<b>CCSPF6 Loss of funds through fraud or misappropriation by Administrative staff</b>  <b>If funds are lost through fraud or misappropriation by Administrative staff could lead to increase in employer contributions</b>	<ul style="list-style-type: none"> <li>• Segregation of duties</li> <li>• Clear roles and responsibilities and schemes of delegation</li> <li>• Internal external audit</li> </ul>	High	Low	LM	2017/18	Green
<b>CCSPF7 – Loss funds through fraud or misappropriation in investment related functions</b>  <b>If funds are lost through fraud or misappropriation in investment related functions could lead to increase in employer contributions</b>	<ul style="list-style-type: none"> <li>• Segregation of duties</li> <li>• Clear roles and responsibilities and schemes of delegation</li> <li>• Internal/external audit</li> <li>• Regulatory control reports by external fund managers, custodians, fund administrators</li> <li>• FCA registration</li> <li>• Due diligence upon appointment</li> </ul>	High	Low	JD	2017/18	Green
<b>CCSPF8- Liquidity/cashflow risks – insufficient liquid assets with which to meet liabilities as they fall due</b>  <b>If levels of liquidity are insufficient then pension payments may not be able to be met</b>	<ul style="list-style-type: none"> <li>• Weekly pension fund cash investments monitoring</li> <li>• SIP allocation to liquid assets</li> </ul>	High	Low	JD	2017/18	Green
<b>CCSPF 9- Volatility in employer</b>	<ul style="list-style-type: none"> <li>• Engage with expert actuary to</li> </ul>	High	Medium	JD	2017/18	Amber

<b>contribution rates due to decrease/increase in valuation of assets/liabilities</b>	<p>make appropriate assumptions and employ suitable mechanisms to mitigate unaffordable rises</p> <ul style="list-style-type: none"> <li>• Regular monitoring of investment manager performance</li> <li>• Diversified investment asset allocation</li> </ul>					
<b>CCSPF10- Prolonged failure of investment managers to achieve their objective returns</b>	<ul style="list-style-type: none"> <li>• Regular investment monitoring by officers</li> <li>• Regular presentation to pension fund committee</li> <li>• Ability to sack managers</li> <li>• Diversified investment strategy with a number of different managers</li> </ul>	Medium	Medium	JD	2017/18	Green/Amber
<b>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</b>	<ul style="list-style-type: none"> <li>• A comprehensive diversified investment approach is adopted</li> </ul>	High	Low	JD	2017/18	Green
<b>CCSPF 12- Interest rate risk- The risk of exposure to significant interest rate rises</b>	<ul style="list-style-type: none"> <li>• A comprehensive diversified investment approach is adopted</li> </ul>	Medium	Low	JD	2017/18	Green
<b>CCSPF 13 Discount Rate Risk- Volatility in the discount rate used inflates the level of liabilities to be paid</b>	<ul style="list-style-type: none"> <li>• Engage professionally qualified actuary who can mitigate the effects of abnormal discount rates</li> </ul>	High	Medium	JD	2017/18	Amber
<b>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)</b>	<ul style="list-style-type: none"> <li>• A comprehensive diversified investment approach is adopted</li> <li>• Good cashflow management</li> </ul>	High	Low	JD	2017/18	Green
<b>CCSPF 15 – having suitably trained/experienced staff</b>	<ul style="list-style-type: none"> <li>• Training, development and succession planning</li> </ul>	High	Medium	JD/LM	2017/18	Amber

<b>CCPF 16- Having suitably trained knowledgeable Pension Fund Committee Members/Local Pension Board Members</b>	<ul style="list-style-type: none"> <li>• CIPFA Knowledge and Skills framework</li> <li>• Training Plan</li> <li>• Professional Advisors/Officers advising</li> </ul>	High	Low	JD	2017/18	Green

## Pension Fund – Budget 2017/18

	<b>Actual 2015/16</b>	<b>Probable 2016/17</b>	<b>Estimate 2017/18</b>
<b>Membership Numbers</b>			
Contributors	17,469	18,423	19,000
Pensioners	11,745	12,182	12,500
Deferred	11,226	11,593	12,000
	<b>Actual 2015/16 £'000</b>	<b>Probable 2016/17 £'000</b>	<b>Estimate 2017/18 £'000</b>
<b>Income</b>			
Employer Contributions	61,743	62,182	66,129
Employee Contributions	16,649	16,934	17,464
Transfers In	2,451	1,147	2,000
Other Income	119	120	120
Investment Income	26,214	26,500	28,000
	<b>107,176</b>	<b>106,883</b>	<b>113,713</b>
<b>Expenditure</b>			
Pensions Payable	56,555	58,308	58,891
Lump Sum Benefits	16,357	19,500	19,500
Refunds	127	109	110
Transfers Out	4,718	4,397	4,400
	<b>77,757</b>	<b>82,314</b>	<b>82,901</b>
<b>Administrative Expenses</b>			
Support Services	684	684	775
Actuarial Fees	18	100	20
Advisors Fees	43	43	118
External Audit Fees	50	50	50
Performance Monitoring Fees	26	11	26
Printing & Publications	30	30	30
Other	168	168	168
Pension Fund Committee	9	7	10
Pension Board	5	1	5
	<b>1,033</b>	<b>1,094</b>	<b>1,202</b>
<b>Investment Expenses</b>			
Management Fees	4,117	4,475	5,800
Performance Fees	437	430	700
Custody Fees	108	110	110
	<b>4,662</b>	<b>5,015</b>	<b>6,610</b>

# Agenda Item 5d

## Report of the Section 151 Officer

Pension Fund Committee, March 9 2017

### WALES INVESTMENT POOL INTER AUTHORITY AGREEMENT AND JOINT GOVERNANCE COMMITTEE

<b>Purpose:</b>	To receive the Council Report approving the Inter Authority Agreement, Host Authority and establishment of Joint Governance Committee
<b>Report Author:</b>	Jeff Dong Chief Treasury & Technical Officer
<b>Finance Officer:</b>	Mike Hawes Section 151 Officer
<b>Legal Officer:</b>	Stephanie Williams
<b>Access to Services Officer:</b>	N/A
<b>FOR INFORMATION</b>	

**1 Wales Investment Pool- Inter Authority Agreement and Joint Governance Committee**

- 1.1 The report approved at Council on the 23<sup>rd</sup> February 2017 re. the above is attached for information at Appendix 1.

**Background Papers:** None

**Appendices:** Report to Council 23 February 2017 & Draft Inter-Authority Agreement



**Report of the Section 151 Officer**

**Council - 23 February 2017**

**WALES INVESTMENT POOL  
INTER AUTHORITY AGREEMENT AND JOINT GOVERNANCE COMMITTEE**

<b>Purpose:</b>	This report sets out the background to the proposed investment pooling arrangements across the eight Welsh Local Authority Pension Funds and the requirement to formally enter into an agreement between the funds to establish administrative and governance arrangements to manage the pooling arrangements
<b>Policy framework</b>	Financial Governance and Pension Fund Administering Authority responsibilities
<b>Reason for Decision:</b>	Financial Governance and Pension Fund Administering Authority responsibilities
<b>Consultation:</b>	Legal, Finance, Access to Services and Pension Fund Committee
<b>Recommendation(s):</b>	<p>It is recommended that Council:</p> <ol style="list-style-type: none"> <li>1. Notes the content of the draft Inter Authority Agreement attached at Appendix B and delegates authority to the Section 151 Officer in consultation with the Chair of the Pensions Committee and the Interim Head of Legal and Democratic Services to approve and sign the final version of the IAA.</li> <li>2. Approves the establishment of a joint committee (hereinafter referred to as the Joint Governance Committee) on conclusion of the IAA referred to in recommendation 1 above and on the basis of the terms of reference attached.</li> <li>3. Delegates the exercise of certain functions to the Joint Governance Committee as set out in the terms of reference and notes those functions that are reserved to Council.</li> <li>4. Approves the appointment of the Chair of the Pension Fund Committee or his/her nominated Deputy to the Joint</li> </ol>

Governance Committee as The City & County of Swansea representative.

5. Delegates to the nominated representative of the City and County of Swansea authority to act within the terms of reference of the Joint Governance Committee to enable the exercise of any delegated function.
6. Approves that Carmarthenshire County Council (Dyfed Pension Fund) acts as Host Council with the responsibilities set out in the Inter Authority Agreement.
7. Delegates authority to the Section 151 Officer in consultation with the Interim Head of Legal and Democratic Services to agree any further minor amendments to the IAA.

**Report Author:** Mike Hawes Section 151 Officer / Jeff Dong

**Finance Officer:** Ben Smith

**Legal Officer:** Tracey Meredith

**Access to Services Officer:** Sherill Hopkins

## 1 Background

1.1 The City & County of Swansea is the administering authority for the City & County of Swansea Pension Fund ('the Fund') which is part of the Local Government Pension Scheme (LGPS) for England and Wales. The Council's decision making functions relating to Pensions are delegated in the Council's Constitution to the Pension Fund Committee and Council. The Fund currently comprises 22 contributing employing bodies and provides services to 40,000 employees, pensioners and deferred beneficiaries. The fund manages assets of approximately £1.7bn. The objective of the fund is to meet current and future pension liabilities of its members i.e. to pay members' accrued pensions when they fall due in accordance with LGPS Regulations.

1.2 There are 8 LGPS funds in Wales:

- Cardiff & the Vale
- City & County of Swansea
- Clwyd
- Dyfed
- Greater Gwent
- Gwynedd
- Powys

- Rhondda Cynon Taff

In total, the value of the assets of the above funds is approximately £15bn.

- 1.3 The 8 LGPS funds in Wales have a long tradition of working in a collaborative manner overseen by the Pensions Sub Group of The Society of Welsh Treasurers ( SWT). To develop further efficiencies and benefits of collaboration, the Subgroup published a report “Welsh Local Government Pension Funds: Working Together” in 2013 which identified investment management costs as the area where collaboration might yield the most significant savings. The Subgroup then commissioned Mercers Ltd to identify options for collaborative investing and in May 2015 their report recommending a Common Investment Vehicle (CIV) was published.
- 1.4 In the July Budget 2015, the Chancellor announced the Government’s intention to work with Local Government Pension Scheme (the Scheme) administering authorities to ensure that they pool investments to significantly reduce costs while maintaining overall investment performance. Authorities were then invited to submit proposals for pooling which the Government would assess against the criteria in this document. The Chancellor announced that the pools should take the form of up to six British Wealth Funds, each with assets of at least £25bn, which were able to invest in infrastructure and drive local growth.
- 1.5 In December 2015, the Government issued its criteria and guidance for what it expected to see addressed in its received proposals from LGPS funds in respect of their pooling proposals. This was considered by the Pension Fund Committee at its Dec 2015 meeting.
- 1.6 Following extensive work by the SWT Pensions Sub Group and their appointed advisors, Hymans Robertson, a joint submission was formulated in respect of the 8 Welsh Pension Funds. The Pension Fund Committee Chairman’s nominee attended Joint Chairs meetings to agree the submission and the Pension Fund Committee received a formal presentation of the final submission on the 4<sup>th</sup> July 2016. The Final submission was submitted to HM Government on 15<sup>th</sup> July 2016 and is attached at Appendix A

## **2 Submission in respect of the 8 Welsh Pension Funds**

- 2.1 The submission in respect of the 8 Welsh funds although not satisfying minimum criteria in size made a compelling submission in respect of its linguistic, cultural, and regulatory differences which alongside the already fruitful collaborative work undertaken by the SWT Pension Sub Group convinced HM Government to approve the submission in Nov 2016.
- 2.2 The Welsh joint submission proposes the engagement of a Financial Conduct Authority ( FCA) regulated Third Party Pool Operator to provide the Regulatory framework and mechanism with which to manage and reduce investment management expenses for the funds.

### **3 The Inter Authority Agreement & Governance**

- 3.1 It should be emphasised that the proposals contained in the joint submission do not amend the statutory responsibility of each Administering Authority in respect of its ability to set its own asset allocation, funding and investment strategy.
- 3.2 In developing the proposals and taking the work forward to date, the 8 Welsh Pension funds have operated under a Memorandum of Understanding which is not legally binding.
- 3.3 As the project moves into the next stage of engagement with an appointed ACS operator, there is a necessity to formalise the joint governance and decision making framework in which the 8 Pension funds shall work going forward to ensure the long term success and robustness of the work of the Pool.
- 3.4 The Inter Authority Agreement (IAA), which is attached to this report as Appendix B, has been developed as the legal framework for establishing a Joint Governance Committee (JGC) for the Wales Investment Pool. The IAA sets out the governance arrangements for the Pool, the rights and obligations of the eight participating authorities and the powers and responsibilities delegated to the JGC
- 3.5 The responsibilities of the JGC are listed in Schedule 4 of the IAA and include:
- Monitoring of the performance of the Pool Operator
  - Making decisions on asset class sub-funds to be made available by the Operator to implement the individual investment strategies of the eight funds
  - Providing accountability to the participating funds on the management of the Pool
  - Having responsibility for reporting on the Pool to the UK Government and other stakeholders
  - Having oversight of the Officer Working Group
- 3.6 The JGC will operate on a 'One Fund, One Vote' basis

The IAA sets out the terms of reference for the Officer Working Group which will act as advisors to the JGC

- 3.7 Under the new arrangements administering authorities will continue to retain control over setting their investment strategy and detailed asset allocation. This continues to allow the broad risk and return characteristics of the investment strategy to be set in conjunction with each pension fund's overall funding strategy. Funds will then invest in asset sub-funds which will be made available by the Operator of the Welsh Pool

3.8 The IAA can only be amended or terminated with the agreement of all eight constituent authorities

#### **4 Host Authority ( Accountable Body)**

4.1 The IAA provides for one of the eight authorities to act as Host Authority and Accountable Body for the JGC. The Host Authority will provide administrative and secretarial support to the JGC and will implement decisions made by the JGC. The Host Authority will liaise with the Operator on behalf of the participating authorities and will also be responsible for arranging training for members of the JGC.

4.2 It is proposed that Carmarthenshire County Council (administering authority of the Dyfed Pension Fund) act as Host Authority and Accountable Body for the Wales Investment Pool.

#### **5 Project Timetable**

5.1 The tender documentation for the procurement of an ACS Operator is being finalised in readiness for issue with a view to the JCG making an appointment in the Summer of 2017 with planned initial assets being held within the ACS from April 2018.

#### **6 Legal Implications**

6.1 Legal implications are outlined in the IAA

#### **7 Financial Implications**

7.1 Financial implications are outlined in the IAA

#### **8 Equality Impact Assessment Implications**

8.1 None

### **APPENDICES**

Appendix A - Submission by the Wales Pool to the Department for Communities and Local Government (DCLG) In response to the publication in November 2015: LGPS: Investment Reform Criteria and Guidance  
Appendix B- Inter Authority Agreement

### **Background Paper;**

Local Government Pension Scheme: Investment Reform Criteria and Guidance

Dated \_\_\_\_\_ 2017

# DRAFT

## Inter-Authority Agreement between

Carmarthenshire County Council	(1)
City & County of Swansea Council	(2)
City of Cardiff Council	(3)
Flintshire County Council	(4)
Gwynedd Council	(5)
Powys County Council	(6)
Rhondda Cynon Taff County Borough Council	(7)
Torfaen County Borough Council	(8)

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**THIS DEED** is made on

2017

**BY**

- (1) **CARMARTHENSHIRE COUNTY COUNCIL** of [ADDRESS] ("**Carmarthenshire Council**")
- (2) **CITY & COUNTY OF SWANSEA COUNCIL** of [ADDRESS] ("**Swansea Council**").
- (3) **CITY OF CARDIFF COUNCIL** of [ADDRESS] ("**Cardiff Council**").
- (4) **FLINTSHIRE COUNTY COUNCIL** of [ADDRESS] ("**Flintshire Council**").
- (5) **GWYNEDD COUNCIL** of [ADDRESS] ("**Gwynedd Council**")
- (6) **POWYS COUNTY COUNCIL** of [ADDRESS] ("**Powys Council**")
- (7) **RHONDDA CYNON TAFF COUNTY BOROUGH COUNCIL** of [ADDRESS] ("**Rhondda Council**")
- (8) **TORFAEN COUNTY BOROUGH COUNCIL** of [ADDRESS] ("**Torfaen Council**")

(together referred to as the "**Constituent Authorities**" and individually as a "**Constituent Authority**")

#### **BACKGROUND**

- (A) The Constituent Authorities are committed to the development of a formal joint committee pursuant to section 101 and section 102 of the Local Government Act 1972 to ensure the effective operation of the arrangements for asset pooling within the LGPS under a framework of strong internal governance to achieve economies of scale and improved investment infrastructure.
- (B) The Constituent Authorities are all councils responsible for the administration of local government within their areas as set out in the Local Government Act 1972. The Department for Communities and Local Government in its letter dated 23 November 2016 has confirmed that the Constituent Authorities have been granted permission for each Constituent Authority to continue to collaborate with every other Constituent Authority to form a pool of assets in respect of each of their respective funds under the LGPS.
- (C) The Constituent Authorities shall carry on the Pooling Collaboration (as defined below) under the terms of this Agreement to oversee its governance.

## AGREED TERMS

### 1 INTERPRETATION

1.1 The following definitions and rules of interpretation apply in this Agreement.

**Business Day** a day other than a Saturday, a Sunday or a public holiday in England when banks in London are open for business.

**Business Plan** has the meaning given by clause 6.

**CIPFA Guidance** means the guidance published in October 2016 by the Chartered Institute of Public Finance and Accountancy entitled *investment pooling governance principles for LGPS Administering Authorities*.

**Commencement Date** the date upon which all Constituent Authorities have signed this Agreement.

**Constituent Authorities** the parties to this Agreement, and all other administering authorities within the LGPS who are or become parties to this Agreement at any time.

**Financial Year** means in the case of the first Financial Year, the period from the Commencement Date to (and including) the following 31 March. For subsequent Financial Years the period between 1 April and 31 March (inclusive) and for the last Financial Year any lesser period necessary.

**Host Council** means the Constituent Authority appointed in accordance with clause 7 and whose duties are described within that clause.

**Investment Pool** means the pooled investments (whether held in single funds, multiple sub-funds or held in alternative structures outside of a collective investment vehicle) derived from assets held by the Constituent Authorities in their capacity as administering authorities within the LGPS for the purpose of the Pooling Collaboration described by this Agreement.

**Investment Regulations** means the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (SI 2016/946).

**Joint Governance Committee** means the joint committee formed by this Agreement.

**LGPS** the Local Government Pension Scheme established pursuant to regulations made by the Secretary of State in exercise of powers under section 7 and 12 of the Superannuation Act 1972 and the provisions of the PSPA 2013.

**Member** in this Agreement means a member of the Joint Governance Committee appointed in accordance with clause 3.3 or their deputy appointed in accordance with clause 3.4.

**Monitoring Officer** means the person designated by each Constituent Authority for the purposes of section 5 of the Local Government and Housing Act 1989.

**Operator** means the operator of the pooled investment vehicle being an Authorised Contractual Scheme (as defined by the Operator Contract) pursuant to the Operator Contract.

**Operator Contract** means the agreement between the Constituent Authorities and the Operator.

**OWG** means the Officers Working Group described in clause 4.

**Pension Board** means a local pension board or a joint local pension board within the meaning given to each phrase by regulation 106 of the Local Government Pension Scheme Regulations 2013 (SI 2013/2356) and section 5 of the PSPA 2013.

**Pooling Collaboration** means the arrangements for asset pooling under the Investment Pool within a framework of strong internal governance to achieve economies of scale and improved investment in infrastructure carried on by the Constituent Authorities as described by this Agreement.

**Pooling Contribution** means as defined in clause 10.1.

**PSPA 2013** means the Public Service Pensions Act 2013.

**S151 officer** means the person appointed by each Constituent Authority for the purposes of section 151 of the Local Government Act 1972.

**Secretary of State** means the Department for Communities and Local Government or such replacement department which has responsibility for the LGPS.

**Submission** means the document created by the Constituent Authorities entitled "*Submission by the Wales Pool to the Department for Communities and Local Government (DCLG) In response to the publication in November 2015: LGPS: Investment Reform Criteria and Guidance*" dated 15 July 2016.

**Terms of Reference** means the governing framework document concerning the functions and operations of the Joint Governance Committee.

**TUPE** means the Transfer of Undertakings (Protection of Employment) Regulations 2006.

- 1.2 Clause, schedule and paragraph headings shall not affect the interpretation of this agreement.
- 1.3 A **person** includes a natural person, corporate or unincorporated body (whether or not having a separate legal personality).
- 1.4 The schedules form part of this agreement and shall have effect as if set out in full in the body of this agreement. Any reference to this agreement includes the schedules.
- 1.5 A reference to a **company** shall include any company, corporation or other body corporate, wherever and however incorporated or established.
- 1.6 Unless the context otherwise requires, words in the singular include the plural and in the plural include the singular.
- 1.7 Unless the context otherwise requires, a reference to one gender shall include a reference to the other genders.
- 1.8 A reference to a statute or statutory provision is a reference to it as amended, extended or re-enacted from time to time and includes any subordinate legislation made from time to time under it.
- 1.9 A reference to **writing** or **written** includes faxes and email.
- 1.10 Documents in **agreed form** are documents in the form agreed by the parties and initialled by them or on their behalf for identification.
- 1.11 References to clauses and schedules are to the clauses and schedules of this Agreement; references to paragraphs are to paragraphs of the relevant schedule.
- 1.12 Any words following the terms **include, including, in particular** or **for example** or any similar expression shall be construed as illustrative and shall not limit the sense of the words, description, definition, phrase or term preceding them.
- 1.13 Any obligation in this agreement on a person not to do something includes an obligation not to agree or allow that thing to be done.
- 1.14 Any reference to the title of an officer or any of the Constituent Authorities shall include any person holding such office from time to time by the same or any title substituted thereafter or such other officer of the relevant Constituent Authority as that Constituent Authority may from time to time appoint to carry out the duties of the officer referred to.

## **2 COMMENCEMENT AND CESSATION OF THE MEMORANDUM OF UNDERSTANDING**

2.1 The Agreement shall commence on the Commencement Date. For the avoidance of doubt, this Agreement is only effective when each Constituent Authority has executed it and each Constituent Authority shall be of equal status with equal rights except where expressly stated otherwise and shall continue on the terms of this Agreement until the earlier of the following:

- (a) all Constituent Authorities agree in writing to its termination; or
- (b) there is only one remaining Constituent Authority who has not exited this Agreement in accordance with clauses 21 or 22.

2.2 The Constituent Authorities confirm that the memorandum of understanding between them relating to *The procurement of services by the administering authorities of the local government pension scheme in Wales* shall cease to have effect from the Commencement Date.

## **3 FORMATION OF THE JOINT GOVERNANCE COMMITTEE**

3.1 The Constituent Authorities by this Agreement hereby form the Joint Governance Committee pursuant to section 101(5) and 102(1) of the Local Government Act 1972 for the purposes of overseeing and reporting on the performance of the Investment Pool. The Joint Governance Committee shall not be responsible for formulating or revising the investment strategy described by regulation 7 of the Investment Regulations in respect of each or any of the Constituent Authorities.

3.2 Meetings of the Joint Governance Committee are subject to the provisions of the Local Government Act 1972 including the provisions on access to information and meetings held in public.

3.3 The membership of the Joint Governance Committee shall be one elected member nominated by each of the Constituent Authorities provided that the elected member is a member of that Constituent Authority's pensions committee (or equivalent body) for the purposes of the Local Government Pension Scheme Regulations 2013.

3.4 For the purposes of clause 3.3, each Constituent Authority may appoint a named deputy who must be an elected member of the same Constituent Authority's pension committee (or equivalent body) for the purposes of the Local Government Pension Scheme Regulations 2013 as the Member for whom they are acting as deputy .

3.5 The Joint Governance Committee shall undertake its role and act in accordance with the Terms of Reference set out in Schedule 4 and undertake the matters set out in Schedule

3 and shall seek and have regard to the advice of the OWG and any professional advisors appointed in carrying out its functions under this Agreement.

- 3.6 Every meeting shall be governed by the procedure and requirements set out in Schedule 6.
- 3.7 A programme of training will be provided to Members and their deputies having regard to CIPFA Guidance and the training provided to Members in their roles on their respective Constituent Authority pension committees. In order to be eligible to participate in the Joint Governance Committee Members must attend and complete this training within [6 months] of being appointed to the Joint Governance Committee and must thereafter attend update and refresher sessions provided at intervals deemed appropriate by the Joint Governance Committee. If Members do not attend mandatory training sessions, they may be required to undertake such training at the cost of the Constituent Authority the Member represents. Any failure to undertake necessary training shall be a matter for consideration of the relevant Member's Constituent Authority pension committee who shall determine if the Member has complied with that Constituent Authority's code of conduct and whether they should remain appointed to the Joint Governance Committee.

#### **4 OFFICERS WORKING GROUP**

- 4.1 The Joint Governance Committee shall appoint the OWG on the following terms:
- (a) **Purpose:** the OWG shall support and advise the Joint Governance Committee on such matters as the Joint Governance Committee may reasonably request or any matters relating to the Pooling Collaboration which are raised by any Constituent Authority's Section 151 Officer or Monitoring Officer;
  - (b) **Membership:** each Constituent Authority shall nominate up to [two] officers employed by that Constituent Authority as its representatives on the OWG;
  - (c) **Remit:** the remit of the OWG shall be as set out in Schedule 8;
- 4.2 The OWG shall undertake its role and have regard to the Joint Governance Committee terms of reference set out in Schedule 4
- 4.3 Each Constituent Authority's Section 151 Officer and Monitoring Officer shall, where they are not members of the OWG, have the right to attend meetings of the OWG and receive copies of any papers.

#### **5 DECISION MAKING**

- 5.1 The Constituent Authorities have identified the following two categories of decisions together with the means by which they will be taken:

- (a) **"Joint Governance Committee Matter"**: a matter which is to be decided upon at a quorate meeting of the Joint Governance Committee by those present and entitled to vote and any such decision will be binding on all of the Constituent Authorities and such matters are identified in Schedule 3;
- (b) **"Matters Reserved to the Constituent Authorities"**: a matter which will have to be referred to each Constituent Authority for decision (having regard to any recommendation to be made thereon by the Joint Governance Committee) until the matter has been determined by all of the Constituent Authorities. If the Constituent Authorities fail to reach the same decision in respect of such matter then the matter shall be referred under clause 36 (Dispute Resolution) as a dispute for resolution, and such matters are identified in Schedule 2.

## 6 BUSINESS PLAN

6.1 The Joint Governance Committee shall, with the support of the OWG, produce a draft Business Plan to cover the medium term (being up to five years) having regard to the electoral cycle and the operational requirements of the Constituent Authorities for consultation with the Constituent Authorities. The draft Business Plan shall have regard to:

- (a) the strategic objectives of the Pooling Collaboration over the relevant plan period;
- (b) the financial budget for the relevant Business Plan period and/or any annual budget set;
- (c) the delivery plan produced by the Operator in connection with the Investment Pool including any costs or fees proposed by the Operator or any other supplier;
- (d) the requirements on each of the Constituent Authorities in their individual capacity as an administering authority pursuant to the Investment Regulations;
- (e) the requirements of each Constituent Authority's investment strategy;
- (f) the advice of appropriately qualified and authorised and regulated professional advisors;
- (g) the guidance issued from time to time by the Secretary of State as referred to in regulation 7(1) of the Investment Regulations;
- (h) such other matters that the Constituent Authorities may consider necessary to the furtherance of the Pooling Collaboration including (subject to clause 10.2), the proposal and development of ad hoc projects.

- 6.2 Consultation on the draft Business Plan shall be carried out by the OWG (with the Pension Boards, the Operator (where appropriate) and the Constituent Authorities and such other parties as it may deem necessary) who shall report on the outcome of that consultation. The Joint Governance Committee shall hold a meeting to discuss and, having had due regard to the consultation response report and the advice of the appropriately qualified and regulated professional advisors, agree a final Business Plan which may include such revisions to the draft as the Joint Governance Committee considers appropriate.
- 6.3 Following approval by the Joint Governance Committee the Business Plan shall be sent to all Constituent Authorities for their written approval.
- 6.4 The Business Plan will be reviewed by the Joint Governance Committee and the Constituent Authorities annually. Where any revisions are agreed by the Joint Governance Committee the revised Business Plan shall be sent to all Constituent Authorities for their written approval.
- 6.5 For the avoidance of doubt, final approval of the Business Plan shall be treated as a Matter Reserved to the Constituent Authorities (as defined in clause 5).

## **7 HOST COUNCIL**

- 7.1 The Constituent Authorities have agreed, with effect from the Commencement Date, that *[insert name of Host Council]* will be the Host Council for the Pooling Collaboration which shall be carried out for and on behalf of itself and the Constituent Authorities and *[insert name of Host Council]* agrees to act in that capacity subject to and in accordance with and to the extent provided for by the terms of this Agreement. For the avoidance of doubt the role of Host Council includes:-
- (a) to act as the employing authority for any staff engaged in the discharge of the Pooling Collaboration's functions (appointing, employing or accepting the secondment of staff) in accordance with this Agreement;
  - (b) being the point of contact for the purposes of managing the Pooling Collaboration;
  - (c) providing such administrative resources and facilities that may be necessary for the purpose of discharging the Pooling Collaboration and hold all Pooling Contributions;
  - (d) providing such governance and administrative services that may be necessary for the purpose of supporting the Pooling Collaboration including arranging and clerking of meetings;
  - (e) providing training for Members to support their role on the Joint Governance Committee in line with the training plan and in accordance with clause 3.7.



- (f) provide appropriately qualified and experienced officers who will act as the primary legal and financial advisers to the Pooling Collaboration; **[Note: we would envisage that these functions are retained for management by the Joint Governance Committee, but please provide any views on this]**
  - (g) for the purposes of the Pooling Collaboration require their Section 151 Officer and Monitoring Officer (or their substitutes) to undertake oversight and review of the operation of the Pooling Collaboration and decisions of the Joint Governance Committee on behalf of all of the Constituent Authorities; **[For your consideration]**
  - (h) power to enter into contracts for supplies and services as required for the purposes of the Pooling Collaboration;
  - (i) liaise with the Operator on behalf of the Constituent Authorities in the manner and to the extent set out in the Contract Management, Co-ordination and Liaison with the Operator policy and procedure to be approved in accordance with Schedule 5 and to provide any contract management and co-ordination services for the purposes of the Pooling Collaboration set out in that policy and procedure.
- 7.2 [For the avoidance of doubt the duties and responsibilities of the Host Council pursuant to this Agreement shall only bind the Host Council to the extent that they have been resourced by the Constituent Authorities through this Agreement.]
- 7.3 Save and except where otherwise required by law all staff employed by the Host Council pursuant to this Agreement shall be employed on the Host Council's relevant terms and conditions of employment and related staff policies including salary structures.
- 7.4 A replacement Host Council may be appointed by a majority decision of the Constituent Authorities provided that the [current Host Council and] the replacement Host Council agrees.
- 7.5 If the Host Council withdraws from the Pooling Collaboration pursuant to clause 21 (Voluntary Exit) or clause 22 (Compulsory Exit) then a replacement Host Council will be appointed by a majority decision of the Constituent Authorities provided that the replacement Host Council agrees. The withdrawing Host Council will not have the right to vote in regard to any such appointment.
- 7.6 Where TUPE applies in connection with the appointment of any replacement Host Council, then the Constituent Authorities shall comply with the provisions of Schedule 7.
- 7.7 For the duration of this Agreement, the Host Council shall act diligently and in good faith in all its dealings with the other Constituent Authorities.

7.8 For the duration of this Agreement, the Constituent Authorities shall act diligently and in good faith in all their dealings with the Host Council and shall use their reasonable endeavours to assist the Host Council to support the Pooling Collaboration.

## **8 OPERATOR CONTRACT**

8.1 Each Constituent Authority shall promptly execute the Operator Contract in counterpart and return the executed counterpart to the Host Council as soon as reasonably practicable following execution. The Host Council shall as soon as reasonably practicable confirm that the Operator Contract has been duly executed by all Constituent Authorities and is in force and effect.

8.2 The Constituent Authorities authorise the Host Council to carry out its duties pursuant to clause 7.1(i).

8.3 For the avoidance of doubt, any allocation of liability arising under the Operator Contract shall be apportioned between the Constituent Authorities pursuant to the terms of the Operator Contract.

## **9 LIABILITIES AND INDEMNITIES FOR THE HOST COUNCIL**

9.1 Nothing in this Agreement will make the Host Council liable in respect of anything done or omitted to be done by a Constituent Authority up to the Commencement Date.

9.2 .The Host Council shall be indemnified from and against all liabilities, costs, expenses, damages and losses (including but not limited to any direct, indirect or consequential loss, loss of profit, loss of reputation and all interest, penalties and legal costs (calculated on a full indemnity basis) and all other reasonable costs and expenses) arising from the performance of its functions authorised pursuant to clause 7 save in the case of its wilful default or fraud.

## **10 COMMITMENT OF THE CONSTITUENT AUTHORITIES AND CONTRIBUTIONS**

10.1 Subject to clause 10.2, the Constituent Authorities agree to pay the contributions, which shall be calculated equally, of the estimated governance, procurement and administration costs included within the Business Plan (the "**Pooling Contributions**") except where the Business Plan provides otherwise.

10.2 The Constituent Authorities shall meet the costs of ad hoc projects to which they are a party equally between the Constituent Authorities who are parties only and any non-participating Constituent Authorities shall not be liable for any proportion of such costs.

10.3 The Constituent Authorities agree to pay the Pooling Contributions to the Host Council on such dates, and at such frequency, as is determined by the Business Plan. Any costs

incurred prior to the approval of the Business Plan shall be payable on being invoiced by the Host Council.

- 10.4 All Pooling Contributions shall be made by way of payment to the bank account notified to the Constituent Authorities by the Host Council for the purposes of the Pooling Collaboration. The Host Council shall maintain a separate account or accounts as appropriate for all monies received or expended in connection with the Pooling Collaboration in a manner which complies with their accounting arrangements.
- 10.5 Following the termination of this Agreement, once the costs of the Host Council have been met, the sum standing to the credit of the account or accounts in which Pooling Collaboration funds are held shall be returned to the then remaining Constituent Authorities in the proportions in which they were originally contributed.
- 10.6 Where any further contribution is required, or repayments are to be made, the Constituent Authorities shall decide the following:
- (a) the total amount;
  - (b) the apportionment of such contribution or repayment between the Constituent Authorities; and
  - (c) the form of such contribution or repayment.

In the absence of any agreement to the contrary, such contributions or repayments shall be by or to all of the Constituent Authorities equally.

- 10.7 For the avoidance of doubt, any charges incurred in respect of investment management of the Investment Pool shall be attributed to each Constituent Authority by reference to the assets under management for that Constituent Authority and the investment management charges applicable to each sub-fund (or assets held in any alternative investment structure), are not determined by this Agreement. The liability of each Constituent Authority to meet the fees of the Operator shall be determined by the Operator Contract and not this Agreement.

## **11 ACCOUNTS**

- 11.1 The Host Council shall keep proper books of account (which expression shall include any computerised accounting system for the time being used by the Pooling Collaboration) and shall be responsible for ensuring that full and proper entries of all receipts and payments are promptly recorded in them. The books of account shall be kept at the premises of the Host Council and be made available for inspection by all of the Constituent Authorities (who may also take copies). The Host Council shall make available on reasonable request such information as is required by any Constituent Authority to prepare their own accounts or respond to any internal or external audit.

- 11.2 The Host Council shall ensure that the contributions and payments made by each Constituent Authority shall be held in an account in the name of the Host Council which does not breach regulation 6 of the Investment Regulations.
- 11.3 The Host Council shall be responsible for ensuring that the accounts relating to the Pooling Collaboration are audited where and when required by law or other competent authority and shall make copies of the audited accounts available to all of the Constituent Authorities.
- 11.4 The Host Council shall prepare annual accounts in relation to each Financial Year for the Pooling Collaboration in accordance with the Host Council's accounting policies (or such other accounting policy agreed by the Constituent Authorities) by no later than [31 May] in the following Financial Year.
- 11.5 The Joint Governance Committee may hold a reserve of funds for the purposes of meeting the costs of the Pooling Collaboration. Where the reserve exceeds [40%] of the budget for the forthcoming year then the amount by which the reserve exceeds that sum may be repaid to the Constituent Authorities and such repayment shall be in proportion to the total amount contributed by each.

## **12 INVESTMENT MANAGEMENT COSTS**

- 12.1 In accordance with clause 10.8, each Constituent Authority shall bear its own costs in respect of investment management they incur or expect to incur in the Pooling Collaboration which shall include all transition costs for the investment and disinvestment of assets.

## **13 INTELLECTUAL PROPERTY**

- 13.1 Any intellectual property developed by any Constituent Authority for the purposes of the Pooling Collaboration shall be retained by the Constituent Authorities and each Constituent Authority will grant all of the other Constituent Authorities a non-exclusive, perpetual, non-transferable and royalty free licence to use, modify amend and develop it for the purpose of the Pooling Collaboration whether or not the Constituent Authority granting the licence remains a party to this Agreement. All costs and expenses relating to such intellectual property shall be borne by the Constituent Authorities and the other Constituent Authorities shall indemnify the Constituent Authority or Constituent Authorities in whom such property is vested against all liabilities that may arise directly or indirectly in respect of the use of it.

## **14 REPORTS**

- 14.1 The Joint Governance Committee shall oversee the Pooling Collaboration and ensure that it is provided in accordance with the Business Plan.
- 14.2 To ensure that the Constituent Authorities are kept up-to-date with the performance of the Pooling Collaboration, the Joint Governance Committee shall report quarterly and annually to the Constituent Authorities with progress measured against the Business Plan and the objectives of the Investment Pool.

## **15 INSURANCE**

- 15.1 Where the operation of the Pooling Collaboration is not covered by any existing insurance of the Constituent Authorities, the Host Council shall effect and at all times keep in force (for the benefit of the Members of the Joint Governance Committee and the officers appointed to the OWG) such policies of insurance for such amounts as it shall decide. Such policies shall be maintained at the expense of the Constituent Authorities and shall be an administration cost of this Pooling Collaboration for the purposes of of clause 10.1.

## **16 DUTIES AND POWER**

Each Constituent Authority shall at all times:

- (a) use its reasonable skills and endeavours to promote and carry on the Pooling Collaboration for the benefit of the Constituent Authorities, and conduct itself in a proper and responsible manner;
- (b) devote such time and attention as the Constituent Authorities may decide in writing to be necessary and appropriate to the Pooling Collaboration;
- (c) comply with all legislation, regulations, professional standards and other provisions as may govern the conduct of the Pooling Collaboration, or be determined by the Constituent Authorities as standards to be voluntarily applied to the Pooling Collaboration;
- (d) show the utmost good faith to the other Constituent Authorities in all transactions relating to the Pooling Collaboration and give them a true account of, and full information about, all things affecting the Pooling Collaboration;
- (e) inform the Constituent Authorities without delay on becoming party to any legal proceedings in connection with the Pooling Collaboration;
- (f) punctually pay and discharge its present and future debts and financial obligations;

- (g) shall not do or fail to do anything which shall bring any of the other Constituent Authorities, or itself, into disrepute;
- (h) obtain all necessary consents sufficient to carry on their duties to the Pooling Collaboration.

16.2 No action which would otherwise be a breach of this clause shall constitute a breach where the Constituent Authority was required to carry out that action in compliance with a statutory duty or order of any court, tribunal or ombudsman.

## **17 DELEGATION**

17.1 Prior to the commencement of the Pooling Collaboration the Constituent Authorities shall put in place such authorisations as are required within their internal governance arrangements to:

- (a) delegate the making of the decisions set out in Schedule 3 (Joint Governance Committee Matters) to the Joint Governance Committee and shall authorise their Member and that Member's deputy to exercise the Constituent Authority's vote;
- (b) delegate any other matter which is required to comply with the obligations of this Pooling Collaboration, including delegations to its own officers and to the Host Council where required.

17.2 The Constituent Authorities shall review and where necessary amend their delegations throughout the duration of the Pooling Collaboration to ensure that they can comply with the provisions of this Agreement.

17.3 The Joint Governance Committee shall procure that for any purpose for which it may be given power to appoint agents to carry out its duties, the Joint Governance Committee shall act in good faith and with reasonable skill and care in the selection, use and monitoring of such agents.

## **18 OBLIGATIONS ON CONSTITUENT AUTHORITIES**

18.1 Without prejudice to the terms of this Agreement, the Constituent Authorities, on an individual basis, commit to the implementation of the Pooling Collaboration consistently with the Submission (subject to any variation agreed by the Constituent Authorities) and to use their reasonable endeavours to ensure the success of the Pooling Collaboration.

18.2 Nothing in this Agreement shall fetter the discretion of each Constituent Authority to formulate and revise an investment strategy appropriate for their fund within the LGPS pursuant to regulation 7 of the Investment Regulations.

## **19 INDEMNITY**

19.1 Subject to clause 8.3, any Constituent Authority who is in material breach of any of the provisions of this Agreement shall indemnify the other Constituent Authorities from and against all liabilities, costs, expenses, damages and losses, (including but not limited to any direct, indirect or consequential loss, loss of profit, loss of reputation and all interest, penalties and legal costs (calculated on a full indemnity basis) and all other reasonable costs and expenses) resulting from that breach, without prejudice to any other right or remedy of the other Constituent Authorities howsoever arising.

## **20 POLICIES AND PROCEDURES**

20.1 The Joint Governance Committee shall prepare, maintain and adhere to the policies and procedures which are listed in Schedule 5 and any further policies and procedures which the Joint Governance Committee decides are appropriate, in accordance with applicable law and regulation, competent authority, and CIPFA Guidance, and having had regard to applicable guidance specific to local government management of funds or accounting and auditing requirements. The Joint Governance Committee shall provide them to the Constituent Authorities and OWG and provide them to sub-delegates and other necessary parties with the aim of achieving uniformity and efficiency in operating practices.

20.2 Where any policy or procedure provided for under this Agreement requires the Constituent Authorities to address or copy any communication or similar to any contract management or co-ordination function the Joint Governance Committee will advise the Constituent Authorities of that requirement in writing. As of the date of receipt of an advisory under this clause the Constituent Authorities shall address or copy any communication as advised.

## **21 VOLUNTARY EXIT**

21.1 Any Constituent Authority (the "**VE Authority**") may exit from the Pooling Collaboration by giving not less than 18 (eighteen) months' written notice to the Host Council of its intention to exit the Pooling Collaboration and the date of expiration of that notice is the 31 March which next falls after or is coincident with the end of the 18 (eighteen) month notice period provided that the Constituent Authorities may agree with the VE Authority that a different notice period applies (the "**Exit Date**").

21.2 A VE Authority may exit the Pooling Collaboration and be released from its obligations under this Agreement (other than clause 23) provided that:

(a) it has satisfied all of its obligations up to the Exit Date;

- (b) it has satisfied its share of the costs and expenses up to the Exit Date, as well as any necessary costs and expenses to facilitate the exit whether or not incurred after the Exit Date;
  - (c) subject to clause 21.5 below, it redeems all of its investments from the Investment Pool;
  - (d) its representatives on the Joint Governance Committee and the OWG resign on or before the Exit Date.
- 21.3 With effect from the [date of the notice given by the VE Authority pursuant to clause 21.1][Exit Date] the Member (and any nominated deputy for the purposes of clause 3.4) nominated by the VE Authority for the purposes of clause 3.3 shall cease to have any voting rights for the purposes of the Joint Governance Committee and the VE Authority shall cease to be a Constituent Authority.
- 21.4 For the avoidance of doubt, the VE Authority shall remain liable to make the Pooling Contributions which are due prior to the Exit Date.
- 21.5 The Constituent Authorities recognise that there may be circumstances where the VE Authority may not be able to redeem all of its assets from the Investment Pool due to the nature of a particular investment (for example where an investment is illiquid or redeeming the asset would be in breach of contract) (the "**Retained Asset(s)**") provided that the Constituent Authorities and the VE Authority shall work together in good faith to redeem the Retained Asset(s) as soon as reasonably practicable. In such circumstances the VE Authority shall continue to make Pooling Contributions after the Exit Date until all of the Retained Asset(s) are redeemed from the Investment Pool. The Pooling Contributions shall be determined by the Business Plan which shall have regard to the relative value of the Retained Assets when compared to the assets applicable to the Constituent Authorities in the Investment Pool.

## 22 **COMPULSORY EXIT**

- 22.1 The Constituent Authorities (other than the CE Authority) may compulsorily require any Constituent Authority (the "**CE Authority**") to leave the Pooling Collaboration, by the Host Council giving the CE Authority written notice if the CE Authority:
- (a) commits any serious breach or persistent breaches of this Agreement;
  - (b) fails to pay any money owing by it to the Host Council within [14 (fourteen)] days of a written request for payment from the Host Council;
  - (c) fails to account for, or pay over or refund any money received and belonging to the Constituent Authorities within [14 (fourteen)] days after being so required by notice from the Host Council;



- (d) wilfully neglects, refuses or omits to perform its duties, obligations and responsibilities under this Agreement; or
- (e) is guilty of conduct which, in the reasonable opinion of the other Constituent Authorities, is likely to have a serious adverse effect on the Pooling Collaboration;

provided that in each case the CE Authority is first given [25 Business Days] following receipt of the written notice to remedy the breach or issue described in paragraphs (a) to (e) and the CE Authority has failed to remedy such breach or issue or to take reasonable steps to do so.

22.2 The effective date of the CE Authority being required to leave the Pooling Collaboration is the 31 March which next falls after or is coincident with the period of 18 (eighteen) month after the notice given in clause 22.1 above provided that the other Constituent Authorities may notify the CE Authority that a different notice period applies (the "**Compulsory Exit Date**").

22.3 The CE Authority shall exit the Pooling Collaboration from the Compulsory Exit Date and must prior to the Compulsory Exit Date:

- (a) have satisfied all of its obligations up to the Compulsory Exit Date;
- (b) have satisfied its share of the costs and expenses up to the Compulsory Exit Date, as well as any necessary costs and expenses to facilitate the exit whether or not incurred after the Compulsory Exit Date.
- (c) subject to the same circumstances in clause 21.5, it redeems all of its investments from the Investment Pool;
- (d) its representatives on the Joint Governance Committee and the OWG resign [on or before the Compulsory Exit Date].

22.4 With effect from the date of the notice given by the Host Council to the CE Authority pursuant to clause 22.1 the Member (and any nominated deputy for the purposes of clause 3.4) nominated by the CE Authority for the purposes of clause 3.3 shall cease to have any voting rights for the purposes of the Joint Governance Committee and shall cease to be a Constituent Authority.

22.5 For the avoidance of doubt, the CE Authority shall remain liable to make the Pooling Contributions which are due prior to the Compulsory Exit Date and liable to the continuing liability provisions of clause 23.

22.6 The Constituent Authorities recognise that there may be circumstances where the CE Authority may not be able to redeem the Retained Asset(s) provided that the Constituent Authorities and the CE Authority shall work together in good faith to redeem the Retained

Asset(s) as soon as reasonably practicable. In such circumstances the CE Authority shall continue to make Pooling Contributions after the Compulsory Exit Date until all of the Retained Asset(s) are redeemed from the Investment Pool. The Pooling Contributions shall be determined by the Business Plan which shall have regard to the relative value of the Retained Asset(s) when compared to the assets applicable to the Constituent Authorities in the Investment Pool.

## **23 FURTHER PROVISIONS RELATING TO A VE AUTHORITY OR A CE AUTHORITY**

- 23.1 When any Constituent Authority ceases to be a Constituent Authority by virtue of being a VE Authority or a CE Authority, the continuing Constituent Authorities shall publish notice of the change in the Pooling Collaboration and shall give notice in writing of the change in the Pooling Collaboration to all third parties who have in the last 12 (twelve) months had any dealings with the Pooling Collaboration (as advised by the Host Council and whether as suppliers to the Host Council or as clients or customers of it).
- 23.2 The VE Authority or CE Authority (as applicable) irrevocably agree and undertake to execute and deliver within 5 working days of request all deeds and documents and to do all acts and things necessary to give effect to the terms of this Agreement and for vesting in the continuing Constituent Authorities the full benefit of the assets, rights and benefits to be transferred to the continuing Constituent Authorities under this Agreement.

### **Continuing liability**

- 23.3 Where any Constituent Authority exits from this Agreement in accordance with Clause 21 or 22 they shall remain liable to the extent they would have been were they still party to this Agreement for any acts, omissions, costs and expenses arising from acts taken or decisions made during the period in which that Constituent Authority was a party to this Agreement.
- 23.4 Any Constituent Authority who enters this Agreement after the Commencement Date shall have liability for any acts, omissions, costs and expenses arising from acts taken or decisions made from the date of their entry only.

## **24 NEW CONSTITUENT AUTHORITY**

- 24.1 The Constituent Authorities shall consider applications from other administering authorities of funds within the LGPS to join the Pooling Collaboration (a "**New Member Application**").
- 24.2 A New Member Application will be considered on the merits of its business case and the conditions which the Constituent Authorities consider appropriate from time to time.
- 24.3 A New Member Application will only be approved by the Constituent Authorities at their absolute discretion and, subject to regulation 8 of the Investment Regulations, there shall

be no obligation under the terms of this Agreement for a New Member Application to be accepted.

## **25 CONFIDENTIALITY**

25.1 For the purposes of this Agreement, **Confidential Information** means, any information which has been certified as exempt information in accordance with Section 100I of the Local Government Act 1972 and all confidential information (however recorded or preserved) disclosed by a Constituent Authority or its representatives or advisers to another Constituent Authority and his representatives or advisers (except where by law the information cannot be retained as confidential) concerning:

- (a) any information relating to the prospective business, technical processes, computer software or intellectual property rights of the Pooling Collaboration;
- (b) all documents, papers and property that may have been made or prepared by, or at the request of, any Constituent Authority and which are marked as being exempt information or confidential and which come into any Constituent Authority's possession or under its control in the course of the Pooling Collaboration; and
- (c) compilations of two or more items of such information and all information that has been, or may be, derived or obtained from any such information which, at any time, comes into any Constituent Authority's possession or under its control in the course of the Pooling Collaboration and which the Pooling Collaboration regards or could reasonably be expected to regard as confidential, whether or not such information is, in itself, confidential, marked as "confidential" or reduced to tangible form.

25.2 Save as provided otherwise in this agreement either expressly or by implication, each Constituent Authority undertakes that it shall not, at any time, disclose to any person any Confidential Information of the other Constituent Authorities and shall use its reasonable endeavours to keep all Confidential Information of the other Constituent Authorities confidential (whether it is marked as such or not) except as permitted by clause 25.3.

25.3 Each Constituent Authority may disclose the other Constituent Authority's Confidential Information:

- (a) to its representatives or advisers who need to know such information for the purposes of carrying out the Constituent Authority's obligations under or in connection with this Agreement. Each Constituent Authority shall ensure that its representatives or advisers to whom it discloses the other Constituent Authority's Confidential Information comply with this clause.

- (b) as may be required by law, a court of competent jurisdiction or any governmental or regulatory authority including an ombudsman.

## **26 PENSIONS**

- 26.1 The Constituent Authorities are scheduled employers in the LGPS. The employees employed by the Host Council in the Pooling Collaboration will be active members of the LGPS from and including the Commencement Date or later date of commencement of employment subject to the Local Government Pension Scheme Regulations 2013.

## **27 FREEDOM OF INFORMATION**

- 27.1 Each Constituent Authority acknowledges that the other Constituent Authorities and the Joint Governance Committee are subject to the requirements of the Freedom of Information Act 2000 ("**FoIA**") and each Constituent Authority shall where reasonable assist and co-operate with the other Constituent Authorities [(at their own expense)] to enable the other Constituent Authorities to comply with these information disclosure obligations.

- 27.2 Where a Constituent Authority receives a request for information under the FoIA in relation to information which it is holding on behalf of any of the other Constituent Authorities in relation to the Pooling Collaboration, it shall:

- (a) transfer the request for information to the other Constituent Authorities as soon as practicable after receipt and in any event within 2 (two) Business Days of receiving a request for information;
- (b) provide the other Constituent Authorities with a copy of all information in its possession or power in the form that the Constituent Authorities reasonably require within 10 (ten) Business Days (or such longer period as the Constituent Authorities may specify) of the Constituent Authority requesting that information; and
- (c) provide all necessary assistance as reasonably requested by the other Constituent Authorities to enable the Constituent Authority to respond to a request for information within the time for compliance set out in the FoIA.

- 27.3 Where a Constituent Authority receives a request for information under the FoIA which relates to this Agreement or the Pooling Collaboration it shall;

- (a) advise the person making the request that the information is held by another public authority being the Joint Governance Committee and that the request has been passed to that public authority to respond;

- (b) transfer the request for information to the Host Council on behalf of the Joint Governance Committee as soon as practicable after receipt and in any event within 2 (two) Business Days of receiving a request for information;
  - (c) provide the Host Council with a copy of all information in its possession or power in the form that the Host Council reasonably require within 10 (ten) Business Days (or such longer period as the Constituent Authorities may specify) of the Constituent Authority requesting that information; and
  - (d) provide all necessary assistance as reasonably requested by the Host Council to enable the Host Council to respond to a request for information on behalf of the Joint Governance Committee within the time for compliance set out in the FoIA.
- 27.4 The Constituent Authorities or the Host Council shall be responsible for determining in their absolute discretion whether any information requested under the FoIA:
- (a) is exempt from disclosure under the FoIA;
  - (b) is to be disclosed in response to a request for information.
- 27.5 Each Constituent Authority acknowledges that the other Constituent Authorities and the Joint Governance Committee may be obliged under the FoIA to disclose information:
- (a) without consulting with the other Constituent Authorities where it has not been practicable to achieve such consultation; or
  - (b) following consultation with the other Constituent Authorities and having taken their views into account.

## **28 DATA PROTECTION**

- 28.1 The Constituent Authorities shall comply with the Data Protection Act 1998.

## **29 DISSOLUTION**

- 29.1 No Constituent Authority shall be capable of dissolving the Pooling Collaboration unilaterally by means of a notice.
- 29.2 The Pooling Collaboration and this Agreement shall be terminated upon the unanimous agreement of all of the Constituent Authorities.
- 29.3 Each Constituent Authority shall act in good faith in the wind up of the Pooling Collaboration following the unanimous decision to dissolve as soon as reasonably practicable thereafter, and all costs and expenses shall be borne equally by the Constituent Authorities.

### **30 ENTIRE AGREEMENT**

- 30.1 This Agreement constitutes the entire agreement between the parties and supersedes and extinguishes all previous agreements, promises, assurances, warranties, representations and understandings between them, whether written or oral, relating to its subject matter.
- 30.2 Each Constituent Authority acknowledges that, in entering into this Agreement it does not rely on, and shall have no remedies in respect of, any statement, representation, assurance or warranty (whether made innocently or negligently) that is not set out in this agreement.
- 30.3 Each Constituent Authority agrees that it shall have no claim for innocent or negligent misrepresentation (or negligent misstatement) based on any statement in this agreement.
- 30.4 Nothing in this clause shall limit or exclude any liability for fraud.

### **31 NOTICES**

- 31.1 Any notice, demand or communication in connection with this Agreement will be in writing and may be delivered by hand, post or facsimile addressed to the recipient as set out in Schedule 1 or any other address notified to the other party in writing in accordance with this clause as an address to which notices, invoices and other documents may be sent. The notice, demand or communication will be deemed to have been duly served:
- (a) if delivered by hand during business hours, at the time of delivery;
  - (b) if delivered by post, 48 hours after being posted (excluding Saturdays, Sundays and public holidays);
  - (c) if delivered by facsimile during business hours, at the time of transmission, provided that a confirming copy is sent by first class post to the other party within 24 hours after transmission; or
  - (d) if delivered by email or other electronic form of communication during business hours, at the time of transmission provided that a confirming copy is sent by first class post to the other party within 24 hours after transmission.
- 31.2 Where notice is served by hand, facsimile or email outside business hours, it will be deemed to have been served on the next business day.

## **32 CONTRACTS (THIRD PARTY RIGHTS)**

- 32.1 The Constituent Authorities as parties to this Agreement do not wish that any of its terms will be enforceable by virtue of the Contract (Rights of Third Parties) Act 1999 by any person not a party to this Agreement.

## **33 SEVERANCE**

- 33.1 If any provision or part-provision of this Agreement is or becomes invalid, illegal or unenforceable, it shall be modified to the minimum extent necessary to make it valid, legal and enforceable. If such modification is not possible, the relevant provision or part-provision shall be deemed deleted. Any modification to or deletion of a provision of part-provision under this clause shall not affect the validity and enforceability of the rest of this Agreement.
- 33.2 If one Constituent Authority gives notice to the other Constituent Authorities of the possibility that any provision or part-provision of this Agreement is invalid, illegal or unenforceable, the Constituent Authorities shall negotiate in good faith to amend such provision so that, as amended, it is legal, valid and enforceable, and, to the greatest extent possible, achieves the intended result of the original provision.

## **34 AMENDMENTS**

- 34.1 No amendment to this Agreement shall be binding unless it is in writing and signed by a duly authorised representative of each of the Constituent Authorities and expressed to be for the purpose of such amendment.

## **35 GOVERNING LAW AND JURISDICTION**

- 35.1 This agreement and any dispute or claim (including non-contractual disputes or claims) arising out of or in connection with it or its subject matter or formation shall be governed by and construed in accordance with the law of England and Wales as it applies in Wales.
- 35.2 Each party irrevocably agrees that the courts of England and Wales have exclusive jurisdiction to settle any dispute or claim (including non-contractual disputes or claims) arising out of or in connection with this agreement, its subject matter or formation.

## **36 ALTERNATIVE DISPUTE RESOLUTION**

- 36.1 The Constituent Authorities agree:
- (a) to pursue a positive approach towards dispute resolution with an objective of reaching a consensus without formal dispute resolution and/or legal proceedings and maintaining a strong working relationship between the Constituent Authorities;

- (b) that any dispute between the Constituent Authorities in relation to matters covered by this Agreement will be referred to in the first instance to the Chief Executives of the Constituent Authorities who may, at their sole discretion, delegate the dispute to the appropriate senior officer within 10 Business Days of written notice of the dispute;
- (c) that if the Chief Executives or their delegates are not able to resolve the dispute within 5 Business Days of meeting or there is disagreement over a Member matter, then any Member may refer the matter to a mediation facilitated by the [Welsh Local Government Association] or to a suitably qualified and independent person, as recommended by the Chief Executives and the Constituent Authorities agree;
- (d) that where any dispute is agreed to be of a legal or technical nature the parties to the dispute may (but not must) jointly take the opinion of an appropriate expert including opinion of senior legal counsel where appropriate. Such expert opinion must be instructed through the OWG and be instructed within [ ] days of referral to Chief Executives under sub-clause (b) following which the opinion should be delivered within a further [ ] days. that, if after exhausting other methods of dispute resolution, one of the Constituent Authorities commences legal proceedings then this will be subject to the exclusive jurisdiction of the Courts of England and Wales.

All costs are borne equally between the Constituent Authorities which are party to the dispute unless agreed otherwise by the Joint Governance Committee or ordered by the Courts.

***[Please consider what happens where a dispute is not merely contractual but a s151 or monitoring officer considers an action to be ultra vires or maladministration. Do you have a view on this aspect?]***

[This document has been executed as a deed and is delivered and takes effect on the date stated at the beginning of it.]



**Schedule 1**

Contact Details

Carmarthenshire County Council  
[Contact Name and Details]

City & County of Swansea Council  
[Contact Name and Details]

City of Cardiff Council  
[Contact Name and Details]

Flintshire County Council  
[Contact Name and Details]

Gwynedd Council  
[Contact Name and Details]

Powys County Council  
[Contact Name and Details]

Rhondda Cynon Taff County Borough  
[Contact Name and Details]

Torfaen County Borough Council  
[Contact Name and Details]

## **Schedule 2**

### **Matters Reserved to the Constituent Authorities**

- 1 Appointment, termination or replacement of the Operator following the making of a recommendation by the Joint Governance Committee.
- 2 Approval of additional expenditure not included within the Business Plan which exceeds [30] % of the approved budget in the Business Plan in any one Financial Year.
- 3 Formulation, approval or revisions of each respective Constituent Authority's investment strategy for the purposes of regulation 7 of the Investment Regulations.
- 4 Admitting a new administering authority within the LGPS to the Investment Pool as a Constituent Authority.
- 5 Amendment of this Agreement.
- 6 Termination of this Agreement.
- 7 Material change to the nature of the Operator Contract.
8. Approval of the initial strategic objectives to allow preparation of the first Business Plan (which objectives shall reflect the objectives set out in the procurement of the Operator).
- 9 Approval of any evaluation or scoring criteria for any procurement of a replacement Operator.
- 10 Approval of Business Plan which shall include approval of the ongoing strategic objectives of the Investment Pool.
11. Determination of the timing of the transition of the assets held by the LGPS fund for which they are an administering authority into the Pooling Collaboration and the funds or sub-funds operated by the Operator.

### **Schedule 3**

#### **Joint Governance Committee Matters**

Subject to the terms of the Agreement, the Joint Governance Committee shall undertake those matters which are not Matters Reserved to the Constituent Authorities which shall include (without prejudice to the generality of the foregoing):

- 1 Making a recommendation on the appointment, replacement or termination of the Operator to the Constituent Authorities.
- 2 Appointing and replacing service providers, advisers to the Joint Governance Committee (other than the Operator).
- 3 Approving the creation of new pooled vehicles for the Operator.
- 4 Approving the creation of new sub-funds provided by the Operator.
- 5 Approving the termination of sub-funds provided by the Operator.
- 6 Preparing a plan relating to the overall transition of assets in accordance with each Constituent Authority's asset transition plan.
- 7 Approving changes to the Operator Contract which are not material changes to the nature of the Operator Contract.
- 8 Dealing with the necessary general ongoing management of the Pooling Collaboration.
- 9 Delegation of tasks to the OWG, including the preparation of reports and draft documents and the undertaking of consultations.
- 10 Liaison with Pension Boards as appropriate in line with CIPFA Guidance, guidance issued by the Pensions Regulator and other applicable legislation or regulatory guidance.
11. Determining the best means of alternative investment structures for assets where a sub-fund is not being provided by the Operator.

Notwithstanding the above, for the avoidance of doubt, the Joint Governance Committee may not delegate its responsibilities.

## **Schedule 4**

### **Joint Governance Committee - Terms of Reference**

The Joint Governance Committee responsibilities are:

- Making recommendations to the Constituent Authorities on the termination of the Operator Contract before the conclusion of the fixed term contract, where the performance of the Operator is considered unacceptable;
- Ensuring that there are an appropriate range of sub-funds available in order to allow the Constituent Authorities to meet their strategic investment aims. Following representation from any, some or all of the Constituent Authorities, the Joint Governance Committee may direct the Operator to set up a sub-fund in a particular asset class. The Joint Governance Committee must be mindful at all times of the need to balance the requirement to provide a particular sub-fund with the benefits of holding aggregated assets;
- Monitoring the performance of the Operator against the agreed set of key performance indicators;
- Reporting on the performance of the Investment Pool, its costs and other activities, but not limited to, the Constituent Authorities, government, the Scheme Advisory Board and the general public;
- From time to time, to review the appropriateness of the existing structures, including the number and make-up of sub-funds and to make recommendations to the Constituent Authorities as to the respective merits of procuring Operator services by means of a third party or through ownership by the Constituent Authorities of the Operator;
- Liaising with the Operator, in such areas as the Operator seeks the preferences and views of the Joint Governance Committee, on the appointment of suppliers, for example manager preferences or the appointment of depositories;
- Liaising with the Constituent Authorities on the appropriate range of sub-funds to be provided in the Investment Pool;
- From time to time reviewing policies in respect of ethical, social and governance matters and voting rights and where appropriate make recommendations to the Constituent Authorities as to any changes deemed necessary;
- Applying any processes or policies that are assigned to it within this Agreement;

- Recommend a high level plan for initial transition of assets to the pool and further asset transitions in the event, for example, of new sub-funds being created or manager changes within sub-funds;
- Ensuring that the OWG acts within its remit as set out in clause 4 and Schedule 8 of this Agreement;
- Recommending the approval or otherwise of accounts to the Constituent Authorities; Monitoring the implementation and effectiveness of the policies listed in Schedule [5] and initiating reviews of these where required;
- Delivery and ongoing monitoring against the Pooling Collaboration objectives, Business Plan and budgets;
- Approving responses from the Pooling Collaboration in relation to consultations or other matters considered appropriate;
- Seeking advice from professional and authorised and regulated advisers where necessary;
- Agreeing the Business Plan to be put forward to the Constituent Authorities for approval;
- Report to the Constituent Authorities quarterly (and at any other time when the Joint Governance Committee considers it to be necessary) on the matters within their remit including but not limited to the performance of the Operator, the structure of the funds and the ongoing monitoring of the Business Plan;
- Agreeing criteria for the evaluation of bids or tenders for any procurement (other than the first appointment of the Operator) to be put forward for the approval of the Constituent Authorities.

## **Schedule 5**

### Policies and Procedures

- Training and Competence
- Complaints
- Breaches and Errors
- Conflicts of Interests
- Business Continuity Planning
- DSAR/FOI
- Contract Management, Co-ordination and Liaison with the Operator

## **Schedule 6**

### **Joint Governance Committee Procedure**

#### **1 MEMBERSHIP**

- 1.1 The membership of the Joint Governance Committee shall consist of one elected member or their deputy per Constituent Authority.
- 1.2 No substitutes other than deputies shall be allowed.
- 1.3 The Joint Governance Committee shall not include any non-voting or co-opted members.

#### **2 MEETINGS**

- 2.1 Meeting shall be held a minimum of four times per Financial year. The anticipated schedule of meetings and the locations in which they will be held will be agreed in advance of the commencement of the next Financial Year no later than the final meeting of the current Financial Year.
- 2.2 A meeting may be held at such time and place as the Chair of the Joint Governance Committee thinks fit provided that at least two meetings per annum shall be held in rotating locations between the Constituent Authorities to facilitate public access. The Constituent Authorities shall make available suitable accommodation for the holding of such meetings in public including the provision of Welsh Language translation, video-conferencing and webcasting services as appropriate.
- 2.3 All agendas, reports and minutes in relation to the Joint Committee shall be in both Welsh and English, and simultaneous translation of proceedings will be available throughout all meetings of the Joint Committee.
- 2.4 The Joint Governance Committee may decide to allow remote participation in meetings via video-conference or any similar medium. Any Member attending by video-conference shall be held to be in attendance at the meeting for the purposes of this Schedule.
- 2.5 A meeting of the Joint Governance Committee may be called by a proper officer of the Host Council on the request of the Chair. Members must declare any conflict of interest in respect of any business being conducted at the meeting which would likely to be regarded to prejudice the exercise of a person's function as a participant in the meeting.
- 2.6 The Chair is responsible for the running of meetings. The Chair shall invite Members expressing a desire to speak in turn. All discussion and debate shall be held through the Chair and the Chair may draw a discussion to a vote at any time where they consider that every Member has been given a fair opportunity to speak.

2.7 Minutes will be kept of all meetings. The Chair will sign the minutes of the proceedings at the next suitable meeting.

2.8 Notice of meetings

- (a) A notice of meeting specifying the place, date and time of the meeting and containing a statement of the matters to be discussed at the meeting, shall be served on all of the Members of the Joint Governance Committee by the appropriate governance officer of the Host Council;
- (b) Notice of each meeting, copies of the agenda and any reports to be presented at the meeting, shall be given to all Constituent Authorities by the Host Council no later than [14] clear days before the date of the meeting. The Constituent Authorities shall ensure that a minimum of five clear days' notice of all meetings is given in accordance with their normal procedures for notification of Council meetings and all papers made available at all of the Constituent Authorities head offices for inspection for those five days unless certified as confidential in which case agendas and any non-certified items are made available only.
- (c) If a meeting is required to be held with less than 5 days' notice, the Chair must agree it is required urgently, approve the shortened notice period and allow as much notice as possible to be given. Notice should be given in the same manner, and the documents should be made available to all of the Constituent Authorities for as many days as practicable before the meeting.

2.9 Exclusion of the public and press

- (a) Where any item to be discussed forms exempt information the Chair shall move that the public and press are excluded from the meeting for the duration of the discussion and voting on that item. Motions to exclude the press and public do not require to be seconded and shall be determined by simple majority vote of the Members present.
- (b) Where the press and public are excluded under (a) above the Chair may invite any person to remain in the meeting where they consider it to be necessary or appropriate to do so and any members of the OWG present shall be presumed to be invited to remain unless the Chair specifies otherwise.
- (c) Any person may be excluded from a meeting or required to leave a meeting where in the opinion of the Chair they are causing a disturbance to the running of the meeting and have not desisted from doing following a request; or where any person is so disruptive that their conduct if allowed to remain would prevent the meeting from proceeding in a fair and acceptable manner.



- 2.10 The Joint Governance Committee may, through the Chair, invite any person to speak at a meeting.
- 2.11 Officers of the OWG presenting reports to the Joint Governance Committee may be asked questions following such presentation.
- 2.12 Section 151 officers and Monitoring Officers of any Constituent Authority are entitled to attend all meetings including any part of any meeting which is closed to the public and press.

### **3 QUORUM**

- 3.1 The quorum shall be five Members.
- 3.2 Where a quorum is not present within 15 minutes of the start of the meeting and the Chair has not been notified that one or more Members have been delayed but will be attending, the meeting shall not be held and the Host Council will be ask to schedule and give notice of a replacement meeting.
- 3.3 Where, during any meeting there is no quorum present, then the meeting will adjourn immediately. If the Chair has been unable to ascertain within 15 minutes that the quorum can be restored the remaining business will be considered at another time and date fixed by the Chair.

### **4 CHAIR AND VICE CHAIR.**

- 4.1 The Chair and Vice-Chair shall be Members and shall be appointed by vote for a term of 12 calendar months.
- 4.2 In the absence of the Chair, the Vice-chair shall be entitled to exercise all of the functions of the Chair.
- 4.3 The decision of the Chair of the meeting on all points of procedure and order and the Chair's interpretation of any rule in this schedule shall be final and no debate may ensue thereon. The Chair shall be entitled to take the advice of a governance officer in interpreting any rule or objection on procedure.
- 4.4 The Chair may be assisted during meetings by governance officer on procedural matters and such administrative officers as the Chair considers appropriate. Such governance and secretarial officers shall be entitled to remain in the meeting where the public and press are excluded.

### **5 AGENDA**

- 5.1 An agenda shall be produced in advance for each meeting by the Host Council following consultation with the Chair.

- 5.2 The agenda for each meeting shall contain as the first substantive item the approval of the minutes of the previous meeting. The Chair will move that the minutes of the previous meeting be signed as a correct record. The only part of the minutes that can be discussed is their accuracy.
- 5.3 The OWG and the Constituent Authorities may ask the Chair to include any matter on the agenda which they consider should be discussed by the Joint Governance Committee.
- 5.4 The decision on whether to allow discussion on any other matter not on the agenda of a meeting at that meeting shall be made by the Chair.

## **6 MOTIONS**

- 6.1 Any Member may propose a motion. All motions must be seconded. Motions which are opposed shall be put to a vote in accordance with the voting provisions of this schedule.
- 6.2 A Member may raise a point of order at any time. The Chair will hear them immediately. A point of order may only relate to an alleged breach of the provisions of this Schedule, or the law or other competent authority. The Member must indicate the provision or law or regulation and the way in which he/she considers it has been broken. The ruling of the Chair on the matter will be final. The Chair may take advice on the point of order from the appropriate officer.

## **7 VOTING**

- 7.1 The Chair shall seek consensus wherever possible however where a vote is required the provisions of this section shall apply.
- 7.2 Each Member present will have one vote and voting will be by means of a show of hands. In the event of a tied vote, the Chair shall have a casting vote.
- 7.3 All decisions will be determined by simple majority.
- 7.4 In the event that a vote is taken, the voting positions and any abstentions of members will be recorded in the minutes.

## **8 SUB-COMMITTEES AND WORKING GROUPS**

- 8.1 The Joint Governance Committee shall form such sub-committees and working groups as it considers expedient to performing its function. The Joint Governance Committee shall at the time of forming sub-committees or working groups set out the remit of the sub-committees or working groups, what the sub-committees or working groups are required to deliver and the timescale for that delivery.

- 8.2 Sub-committees and working groups shall be entailed to request the input and support of the OWG in the same manner as the Joint Governance Committee.
- 8.3 Each sub-committee and working group shall appoint a chair for that sub-committee or working group, who is to be one of the Members of the sub-committee or working group.
- 8.4 Working groups may invite any person who is not a Member to join the group in order to assist in carrying out its function.
- 8.5 The Chairs of sub-committees and working groups shall report to Joint Governance Committee at each meeting of that committee on the process of the matters within their remit.
- 8.6 Sub-committees and working groups may be disbanded at any time on the vote of the Joint Governance Committee.

## Schedule 7

### TUPE

#### **1 DEFINITIONS**

1.1 The following definitions shall apply in this Schedule:

**Data Protection Legislation** means the Data Protection Act 1998, the Data Protection Directive (95/46/EC), the Regulation of Investigatory Powers Act 2000, the Telecommunications (Lawful Business Practice) (Interception of Communications) Regulations 2000, the Electronic Communications Data Protection Directive (2002/58/EC), the Privacy and Electronic Communications (EC Directive) Regulations 2003 and all applicable laws and regulations relating to the processing of personal data and privacy, including where applicable the guidance and codes of practice issued by the Information Commissioner.

**Expected Transferring Employees** means those Host Council Personnel who are reasonably expected by the Host Council to be a Transferring Employee.

**Future Host Council** means any relevant Constituent Authority who provides services which are identical or substantially similar to any of the Host Council Services (directly or indirectly) following the termination or expiry of this Agreement or the termination of the provision of any of the Host Council Services by the Host Council.

**Host Council Personnel** means the individuals employed or engaged by the Host Council or any other person in the provision of the Host Council Services under this Agreement from time to time.

**Host Council Services** means the services to be provided by the Host Council under this Agreement as more particularly described at clause 7.

**Redundancy Costs** means any notice pay (including payment in lieu of notice), holiday pay and statutory and/or contractual redundancy payments.

**Sub-Contractor** means any person to whom the provision of any of the Host Council Services may be sub-contracted by the Host Council.

**Subsequent Transfer Date** means the date on which responsibility for the provision of the Host Council Services, or any part of the Host Council Services, transfers from the Host Council to the Future Host Council.

**Transferring Employee** means an individual whose contract of employment has effect from and after the Subsequent Transfer Date, by virtue of the operation of TUPE, as if originally made between such person and the Future Host Council.

## **2 NO TRANSFER ON COMMENCEMENT**

- 2.1 The Constituent Authorities agree that the neither the commencement of this Agreement nor the implementation of any of the arrangements contemplated within it shall give rise to a "relevant transfer" within the meaning of TUPE on or around the Commencement Date.

## **3 EMPLOYEE INFORMATION ON TERMINATION**

- 3.1 Subject to the Data Protection Legislation, during the period of twelve months preceding the expiry of this Agreement, or at any time after the Host Council has given notice to withdraw from the Pooling Collaboration or at any time after the Host Council has actually ceased to provide any of the Host Council Services:

- (a) the Host Council shall within 28 days of the reasonable request by any Future Host Council disclose to that Future Host Council details of the number, age and terms and conditions of employment, in relation to any Host Council Personnel assigned to the provision of the Host Council Services or any relevant part of the Host Council Services;
- (b) the Host Council shall not and, if relevant, shall procure that any Sub-Contractor shall not, save in the ordinary course of business, materially vary the terms and conditions of employment or engagement of any Host Council Personnel or redeploy, replace or dismiss any Host Council Personnel, or employ or engage any additional individual in the provision of the Host Council Services, without the prior written consent of the Future Host Council (such consent not to be unreasonably withheld or delayed).

## **4 EMOLUMENTS**

All wages, salaries, bonus and commission payments, contributions to pension schemes, entitlement to holiday pay and any other emoluments (whether monetary or otherwise), tax and national insurance contributions relating to the Transferring Employees shall be paid or borne by the Host Council (or Sub-Contractor) in relation to the period before the Subsequent Transfer Date (and the Host Council shall procure such payment by any Sub-Contractor) and by the relevant Future Host Council thereafter (and the Constituent Authorities shall procure such payment by any Future Host Council), and all necessary apportionments shall be made.

## **5 COMPLIANCE AND INDEMNITIES**

- 5.1 The Host Council shall and/or, if relevant, shall procure that any Sub-Contractor shall:
- (a) comply with its or their obligations to inform and consult the Expected Transferring Employees pursuant to Regulation 13 of TUPE;

- (b) use reasonable endeavours to agree with the Future Service Provider, and deliver to the Expected Transferring Employees prior to the Subsequent Transfer Date, a suitable joint statement regarding the proposed transfer of their employment to the Future Host Council on the Subsequent Transfer Date; and
  - (c) give employees of the Future Host Council such access to the Expected Transferring Employees prior to the Subsequent Transfer Date as the Future Host Council may reasonably require for the purposes of consultation or of effecting an efficient transfer of the Host Council Services and Transferring Employees with effect from the Subsequent Transfer Date.
- 5.2 The Host Council shall indemnify and keep indemnified the Future Host Council against all and any costs, expenses, liabilities, damages and losses arising out of or in connection with any claim, demand, action or proceeding which is made or brought against the Future Host Council in relation to:
- (a) the employment or termination of employment of any Transferring Employee during the period before the Subsequent Transfer Date; or
  - (b) the Host Council's failure or alleged failure to comply with its obligations under Regulation 13 of TUPE, save to the extent that any such failure or alleged failure is as a result of or in consequence of a failure by the Future Host Council to comply with its obligations under Regulation 13(4) of TUPE.
- 5.3 If a claim or allegation is made by any person who is not a Transferring Employee (a **"Non-Disclosed Transferring Employee"**) that his contract of employment has or should have effect as if originally made between himself and the Future Host Council by virtue of the operation or alleged operation of TUPE:
- (a) the Future Host Council shall notify the Host Council in writing as soon as reasonably practicable of any such claim or allegation and the Future Host Council shall then allow the Host Council (or any relevant Sub-Contractor) a period of 10 working days to consult with any such Non-Disclosed Transferring Employee concerning his claim or allegation;
  - (b) the Future Host Council shall give to the Host Council (or any relevant Sub-Contractor) such co-operation or assistance as the Host Council (or relevant Sub-Contractor) may reasonably require;
  - (c) if, following the period of 10 working days referred to in paragraph 4.3(a) above, any Non-Disclosed Transferring Employee continues to assert that his contract of employment has or should have effect as if originally made between himself and Future Host Council, the Future Host Council may, within a further period of 20 working days (or such other period as may be agreed in writing between the

Host Council and Future Host Council), serve notice to terminate the employment or alleged employment of such Non-Disclosed Transferring Employee with immediate effect; and

- (d) subject to the Future Host Council's compliance with this paragraph 5.3, the Host Council shall indemnify and keep indemnified the Future Host Council against all and any costs, expenses, liabilities, damages and losses arising out of or in connection with any claim, demand, action or proceeding which is made or brought by any such Non-Disclosed Transferring Employee in relation to any sums paid or payable to such Non-Disclosed Transferring Employee up to the date of the termination of such Non-Disclosed Transferring Employee's employment or alleged employment, and in relation to such termination.

5.4 The Future Host Council shall indemnify and keep indemnified the Host Council (for itself and any Sub-Contractor) against all and any costs, expenses, liabilities, damages and losses arising out of or in connection with any claim, demand, action or proceeding which is made or brought:

- (a) by any Transferring Employee in relation to any act or omission of the Future Host Council on or after the Subsequent Transfer Date and/or in relation to any events or circumstances relating to the employment or termination of employment of any Transferring Employee occurring or arising on or after the Subsequent Transfer Date;
- (b) in relation to any failure or alleged failure of the Future Host Council to comply with their obligations under Regulation 13 of TUPE; or
- (c) in relation to any substantial change made or proposed by the Future Host Council in the working conditions of any of the Transferring Employees, or any individual who would have been a Transferring Employee but whose employment terminated prior to the Subsequent Transfer Date, where that change is to the detriment of such Transferring Employee(s) or such individual(s).

## **6 REDUNDANCY COSTS**

6.1 The Constituent Authorities shall indemnify and keep indemnified on a joint and several basis the Host Council (for itself and any Sub-Contractor) against all and any Redundancy Costs arising out of or in connection with any claim, demand, action or proceeding which is made or brought against the Host Council (or Sub-Contractor) arising out of or in connection with the termination or alleged termination of employment of any Host Council Personnel by reason of redundancy within 6 months of the Subsequent Transfer Date, where the employment such Host Council Personnel does not transfer to a Future Host Council (under TUPE or otherwise) on the cessation of the provision of any or all of the

Host Council Services, provided that the Host Council shall, or shall procure that any Sub-Contractor shall, use reasonable endeavours to:

- (a) mitigate the amount of any such Redundancy Costs;
- (b) search for and, if available, offer alternative employment within the Host Council's or the Constituent Authorities' (or, as the case may be, the Sub-Contractor's) organisation to any Host Council Personnel at risk of redundancy and shall give that Host Council Personnel a reasonable opportunity to accept any such offer of alternative employment before terminating that Host Council Personnel's employment; and
- (c) comply with any applicable statutory obligations.



**Schedule 8 - Officers Working Group Remit**

The remit of the OWG shall include:

- (a) proposing to the Joint Governance Committee and procuring external support requirements (including legal, governance, tax and other financial support) relevant to the Pooling Collaboration;
- (b) proposals to the Joint Governance Committee on governance arrangements including how the Operator should be held to account by reference to the Operator Contract;
- (c) proposals to the Joint Governance Committee on the most appropriate means of accessing different asset types, the structure of the Investment Pool including the number and make-up of sub-funds and where appropriate use of any external or national investment vehicles;
- (d) proposing high level transition plans for the transfer of assets to pool;
- (e) challenging and contributing to the development of the Pooling Collaboration to enable the Pooling Collaboration and the Joint Governance Committee to achieve its objectives;
- (f) making recommendations to the Joint Governance Committee on the appointment, replacement or termination of the Operator including recommendations on whether to use a third party supplier or an owned entity;
- (g) monitoring and reviewing the performance of the Operator in meeting its objectives, service levels and key performance indicators and reporting to the Joint Governance Committee within the quarterly reports and on other occasions as required;
- (h) receiving reports on performance of the assets and reporting to the Joint Governance Committee;
- (i) external reporting on the pool and its performance no less than quarterly;
- (j) liaison with other pools as required;
- (k) consider and make recommendations to the Joint Governance Committee in relation to the Business Plan, prepare a draft Business Plan for consideration by the Joint Governance Committee, consulting upon the approved draft and reporting on the outcomes of such consultation including proposing any revisions to the draft to the Joint Governance Committee;

- (l) develop and keep under review the programme of training to be delivered to Members ensuring that it complies with all relevant regulations and applicable guidance, which programme of training shall have regard to the training undertaken in Members' roles on their respective Constituent Authority pension committees and shall seek to avoid duplication of training;
- (m) seek advice from professional advisors that are authorised and regulated by competent authorities;
- (n) managing the procurement process for the procurement of any replacement Operator including proposing criteria for the evaluation of bids or tenders
- (o) such other matters as the Joint Governance Committee shall request or delegate to the OWG.

*[Execution clauses to be inserted]*

## Report of the Section 151 Officer

Pension Fund Committee – 9 March 2017

### CLIMATE CHANGE AND A CARBON INVESTMENT POLICY- AN UPDATE

<b>Purpose:</b>	To update the Pension Fund Committee on the previous recommendation to commission a portfolio analysis with a view to formulating a carbon investment policy
<b>Report Author:</b>	Jeff Dong Chief Treasury & Technical Officer
<b>Finance Officer:</b>	Mike Hawes Section 151 Officer
<b>Legal Officer:</b>	Stephanie Williams
<b>Access to Services Officer:</b>	N/A

#### FOR INFORMATION

- 1 Update**
  - 1.1 The pension fund committee approved at its meeting in Sep 2016, to commission an analysis into the impact of carbon investment/ disinvestment on the fund's portfolio. The original report is attached at Appendix 1.
  - 1.2 Following the approval of the report, The Chief Treasury & Technical Officer undertook some due diligence and appraised the options available to undertake what was required. He identified a broad and varied range of offerings from different sources which ranged from desktop analysis against carbon indices to in depth performance analysis and sensitivity analysis across the portfolio as a whole. The costs of the same were also very wide-ranging from £1,500 - £20,000.
- 2 Investment Consultancy Services tender**
  - 2.1 In the interim period, Pension Fund Committee has approved the appointment of an investment consultancy advisor to the committee utilising the LGPS ( Norfolk ) framework for investment consultancy services. The specification of the framework document includes capacity to provide advice on ESG issues, including climate risk.
  - 2.2 This tender is ongoing with tenders being received vis E- tender Wales by the 28<sup>th</sup> February 2017 and evaluation being undertaken on the 14<sup>th</sup> March 2017.

### **3**

#### **Way Forward**

- 3.1 In light of the inclusion of these services in the investment consultancy tender, it is deemed prudent to defer commissioning this piece of work until the appointment of the investment consultancy who will then be requested to undertake the analysis which will be integrated into the overall strategy review they shall be undertaking.

**Background Papers:** None

**Appendices:** Committee Report 15 September 2016

**Item  
Report of the Section 151 Officer**

**Pension Fund Committee, Sep 15<sup>th</sup> 2016**

**CLIMATE CHANGE AND A CARBON INVESTMENT POLICY**

<b>Purpose:</b>	To formulate a carbon investment policy
<b>Reason for Decision:</b>	To approve the commission of a study into the impact of carbon investment/disinvestment on the portfolio
<b>Consultation:</b>	Legal, and Finance
<b>Recommendation(s):</b>	It is recommended that a formal analysis of the impact of carbon investment/disinvestment on the portfolio is commissioned to assist in the formulation of a carbon policy for the City & County of Swansea Pension Fund
<b>Report Author:</b>	Jeff Dong Chief Treasury & Technical Officer
<b>Finance Officer:</b>	Mike Hawes Section 151 Officer
<b>Legal Officer:</b>	Stephanie Williams
<b>Access to Services Officer:</b>	N/A

**1 Background**

- 1.1 Following the COP meeting in Paris, climate change is increasingly in the public eye, as governments around the world look to put in place a legally binding agreement to minimise global warming. The City & County of Swansea Pension Fund routinely receives lobbying from interested parties about its investment policy and strategy, including Friends of the Earth ( Cymru) on the climate change debate which are considered objectively alongside the pension fund's duty to pay LGPS pensions
- 1.2 This Fund recognises that climate change is a key risk, which we are working hard to understand and manage.
- 1.3 The fund also continues to work with the Local Authority Pension Fund Forum

to engage directly with companies on climate change, and to push for greater disclosure and transparency around companies' business models

- 1.4 The fund also continues to make investments in clean tech and renewable energy via its private equity portfolio, where we can find investments that provide appropriate risk adjusted returns net of costs.
- 1.5 In exercising their duties, the Pension Fund Committee must remember their first duty is to pay member's pensions when they retire and that disinvestment from carbon assets without alternatives which provide commensurate returns would create economic uncertainty and would be irresponsible to begin a programme of disinvestment which impacted on the fund's ability to pay people's pensions

## **2 Climate Change**

- 2.1 Developing a responsible investment strategy for an asset owner often requires monitoring and analysing market trends, and trends amongst key players in the capital markets, both in the UK and around the world.
- 2.2 Perhaps on no other issue is this intelligence gathering process more important than on the controversial agenda of climate change.
- 2.3 As more and more data and analytics appear around the climate change agenda, the volume of rhetoric has been steadily increasing. With national newspapers taking sides in the debate about what is actually happening to the world's climate, it wasn't long before asset owners, particularly pension funds, were having to respond.
- 2.4 The climate agenda for pension funds, whilst not new, was in sharp contrast to the usual focus on issues such as equity and fixed income performance, market prices across a range of assets from property to commodities, strong asset manager performance and weak investment returns in volatile markets. But beyond the rhetorical argument, the issue of what pension funds can actually do about climate risks was a relatively unexplored area, with little practical advice around on which to base portfolio construction and investment strategy more generally.

## **3 Carbon Assets**

- 3.1 Expert analysis has shown that the coal, oil and gas in the ground far exceeds the carbon budget remaining to 2050 to have a reasonable chance of limiting global warming to 2 degrees. This scientific conclusion has been confirmed by the IEA, Shell, BP and UCL, amongst others. However many of these companies have not yet explained how they can square the contradiction between recognising the imperative to prevent dangerous levels of climate change, and having a strategy to grow a business based on fossil fuels
- 3.2 The direction of travel is for further constraints on fossil fuel demand – through greater efficiency, air quality measures, cheaper alternatives, new technologies, as well as regulatory and policy instruments aimed specifically at

carbon. A year ago most models assumed Chinese coal demand would continue to grow, yet the data for 2014 and the first half of 2015 shows that it has peaked. The Indian government is seeking to improve domestic coal efficiency and increase solar generation to cease importing coal. This demonstrates that the seaborne coal market is in structural decline, with diversified miners confirming the poor outlook by trying to offload thermal coal assets

- 3.3 This represents a downside from business as usual for fossil fuels. This is unlikely to affect demand across fuels and geographies equally – hence we have produced carbon supply cost curves for each of oil, coal, and gas, with regional analysis for coal and gas markets. The majority of fossil fuel production is used for combustion purposes resulting in greenhouse gas emissions. This is our focus – hence we use the term unburnable carbon, ie hydrocarbons which cannot be burnt unmitigated within a low carbon scenario.
- 3.4 The feedback effect of lower demand and emissions is that less capital expenditure is required to develop new fossil fuel production. This also reduces the long-term equilibrium prices required to cover the costs of marginal production. As a result of lower prices and volumes, projected revenues for the extractives sector fall. Capex approved now will not be producing until post-2020, which could be a very different environment. It therefore makes sense to review high cost, high carbon capex which may not be needed in a low carbon, low demand scenario.
- 3.5 A number of companies have indicated they are betting on business as usual, giving very little probability to any further efforts to constrain emissions, and not allowing for alternatives becoming cheaper all the time. The energy transformation has already started, as evidenced by the decline of the US coal mining sector, (currently filing for bankruptcy), and the EU utilities sector, (currently looking to restructure around new business models). There are already examples of stranded assets – coal mines which are operating at a loss, and power plants which are not likely to repay their capital costs. This is not about declaring assets as worthless – but highlighting that shareholders are not going to get a return from the capital companies are investing on their behalf
- 3.6 To run through each fuel in turn, it becomes clear that this is not about a blanket approach to reviewing hydrocarbon exposure. The world will not stop using fossil fuels overnight, and there will be winners and losers depending on their position and fund managers ( expectedly) argue that engagement with energy companies to invest more efficiently is the answer rather than wholesale disinvestment.

## **4 Conclusion**

- 4.1 It should be recognised there is no easy answer to climate change and adopting an appropriate carbon investment policy, therefore it is recommended to commission an analysis of the current portfolio's carbon

impact with a view to formulating a coherent carbon investment policy.

**5 Legal Implications**

5.1 There are no legal implications arising from this report

**6 Financial Implications**

6.1 The cost of the study will be contained within estimated budget

**7 Equality Impact Assessment Implications**

7.1 None



## Report of the Section 151 Officer

Pension Fund Committee – 9 March 2017

### CITY & COUNTY OF SWANSEA PENSION FUND DRAFT INVESTMENT STRATEGY STATEMENT 2017

<b>Purpose:</b>	To ensure compliance with Local Government Pension Scheme Regulations which requires the publication of an investment strategy statement
<b>Reason for Decision:</b>	To approve the investment strategy statement
<b>Consultation:</b>	Legal, Finance and Access to Services.
<b>Recommendation:</b>	That the investment strategy statement is approved
<b>Report Author:</b>	Jeff Dong
<b>Finance Officer:</b>	Mike Hawes
<b>Legal Officer:</b>	Stephanie Williams
<b>Access to Services Officer:</b>	N/A

#### Investment 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 publish an investment strategy statement which replaces the statement of investment principles

The requirements of the Investment Strategy Statement are set out in Regulation 7 and include:

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

investments.

## **2 Recommendation**

- 2.1 The Pension Fund Committee is asked to note and approve the attached draft investment strategy statement at Appendix 1.

## **3 Legal Implications**

- 3.1 The relevant legal provisions and guidance are set out in Appendix 1

## **4 Financial Implications**

- 4.1 There are no direct financial implications arising out of this report

## **5 Equality and Engagement Implications**

- 5.1 There are no equality and engagement implications arising from this report

**Background Papers:** None

**Appendices:** Investment Fund Strategy & CIPFA Compliance

# City & County of Swansea Pension Fund Investment Strategy Statement

## 1. Introduction

- 1.1 The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999 and its latest revision requires administering authorities to prepare and review from time to time an investment strategy statement outlining the investment policy of the pension fund. The purpose of this document is to satisfy the requirements of these regulations.
- 1.2 The Local Government Pension Scheme ("the scheme") was established in accordance with statute to provide death and retirement benefits for all eligible members.
- 1.3 The Council has delegated the governance and decision making of the scheme to an Pension Fund Committee comprising Members of the Council, a full member from Neath Port Talbot Council who decide on the investment policy most suitable to meet the liabilities of the Scheme and ensure affordable contribution rates having taken appropriate advice from officers, advisors and appointed actuary.
- 1.4 The Pension Fund Committee is supported by the Section 151 Officer, the Chief Treasury Officer, its investment advisers, the Fund's actuary and the Fund's Investment Managers in its investment decision making.
- 1.5 This document outlines the broad investment principles governing the investment policy of the Pension Fund. The Pension Fund Committee has delegated the management of the pension fund's investments to professional investment managers whose activities are constrained by detailed Investment Management Agreements.
- 1.6 The Administering Authority ensures compliance with the Regulations and associated guidance issued by DCLG

## 2. Investment Responsibilities

### 2.1 The Pension Fund Committee has responsibility for:

- approving the Investment Strategy Statement
- monitoring compliance with the Statement and reviewing its contents from time to time,
- to establish and keep under review policies to be applied by the Council in exercising its discretion as an administering Authority under the Local Government Pension Scheme (LGPS) Regulations 1997,
- to make recommendations to the Council from time to time on the financial implications for the Pension Fund of discretions available to the Council as an employing authority under the LGPS Regulations 1997,

- to monitor factors likely to affect the solvency of the Pension Fund between the triennial valuations of the Fund by its independent actuary including specifically, the impact of early retirements approved by all employing bodies within the fund,
- to determine the strategic aims for investment of the Fund and the benchmarks by which performance will be measured,
- to arrange for independent investment advice to be available to the Committee at any time,
- determine asset allocation of the investment fund
- to determine, keep under review and, where appropriate, secure changes in the management arrangements for investment of the Pension Fund,
- to monitor on a regular basis against its objectives and benchmarks the Fund's investment performance,
- to ensure effective communication and liaison with other employing bodies within the City & County of Swansea Pension Fund,
- to respond to consultative documents affecting the Local Government Pension Scheme.

## **2.2 The Investment Managers are responsible for:**

- the investment of the pension fund assets in compliance with prevailing legislation, the constraints imposed by this document and the detailed Investment Management Agreements,
- tactical asset allocation around the strategic benchmark, where appropriate and security selection within asset classes,
- preparation of quarterly report including a review of investment performance,
- attending Meetings of the Pension Fund Committee as requested,
- assisting the Section 151 Officer and Pension Fund Committee in the preparation and review of this document,
- preparation of a quarterly statement of compliance with this document,
- voting shares in accordance with the Council's policy.

## **2.3 The Custodian is responsible for:**

- its own compliance with prevailing legislation,
- providing the administering authority with quarterly valuations of the Scheme's assets and details of all transactions during the quarter,
- providing details in a timely manner to the performance measurer for performance measurement,
- collection of income, tax reclaims, exercising corporate administration cash management.

## **2.4 The Investment Adviser(s) is responsible for:**

- assisting the Pension Fund Committee and Section 151 Officer in the preparation and review of this document,
- assisting the Pension Fund Committee and Section 151 Officer in their regular monitoring of the investment managers performance, and
- assisting the Pension Fund Committee and Section 151 Officer in the selection and appointment of investment managers and custodians

- regular reporting on the performance of the fund managers and providing market commentary as necessary
- assisting and advising the Pension Fund Committee of investment strategies and appropriate asset allocation strategy.
- advising the Pension Fund Committee and the Section 151 Officer in market developments generally and changes in the pension fund investment world.

## 2.5 The Actuary is responsible for:

- providing advice as to the maturity of the Scheme and its funding level in order to aid the Pension Fund Committee in balancing the short term and long term objectives of the pension fund and in compliance with legislation
- Undertaking the statutory periodic valuation
- certifying the employers' contribution rates.
- Assisting in formulating the funding strategy statement

## 2.6 The Section 151 Officer is responsible for:

- ensuring compliance with this document and bringing breaches thereof to the attention of the Pension Fund Committee, and
- ensuring that this document is regularly reviewed and updated in accordance with the Regulations,
- advising the Pension Fund Committee in relation to its duties listed above,
- reporting to the Pension Fund Committee on the fund's compliance with its superannuation regulations as well as the performance of its investments and all other matters to be considered under the Committees responsibilities.
- to apply the policies agreed by the Pension Fund Committee on the Council's behalf in its role as administering authority in response to decisions taken by employing Authorities within the Fund.
- to consult and maintain liaison with the Fund's independent adviser, actuary and performance measurer, whenever appropriate,
- to approve in cases of urgency investment decisions which fund managers are required to refer to the Committee. Such approval may be given after consultation with the independent adviser and the Chair and/or Vice Chair of the Pension Fund Committee,
- to maintain contact with the appointed fund managers and with other fund managers, where appropriate,
- to manage the Cashflow requirements of the Pension scheme and meet cash drawdowns and reinvest distributions as appropriate.
- to manage custody arrangements in liaison with the appointed custodians.

## 3. The Scheme's Liabilities

- 3.1 The Pension Fund is a defined benefit scheme that provides benefits related to final salary and CARE for members. Each member's pension is specified in terms of a formula based on salary and service and is unaffected by the investment return achieved on the

Scheme's assets. Full details of Scheme benefits are set out in the Local Government Pension Scheme.

3.2 All active members of the Scheme are required to make pension contributions which are based upon a fixed percentage of their pensionable pay as defined in the regulations.

3.3 The employing bodies are responsible for meeting the balance of costs necessary to finance the benefits payable from the Scheme. Employers' contribution rates are determined triennially based on the advice of the Scheme's actuary and are subject to inter-valuation monitoring.

#### 4. Investment Policy

4.1 The strategic investment aim of the Pension Fund is to achieve the maximum return consistent with acceptable levels of risk and the long-term nature of the Fund's liabilities in line with the appointed fund actuary's long term assumptions on investment returns

4.2 The investment policy is to appoint expert fund managers with clear performance benchmarks and to place maximum accountability for performance against that benchmark with the fund manager.

4.3 A comprehensive review of the Management Arrangements was undertaken in June 2007 and has been continually assessed and reviewed with the Pension Fund Committee approving an allocation to an investment in infrastructure in December 2013. A 2% allocation has been approved funded by the realisation of the GTAA fund and cashflows. A revised OJEU tender process is underway to appoint the infrastructure manager.

4.4 An aim of the investment policy is to maintain a broad diversity and wide range of investment types as outlined below to manage the volatility of investment returns. The inclusion of each asset class has been determined following extensive review and due diligence and upon advice from professional investment advisors.

Fig 1.

Asset Class	Asset Allocation	Fund Manager		Benchmark	Performance
		Passive	Active		
UK Equities	34% +/- 5%	14%	20% <b>Schroders</b>	FTSE allshare	+3% p.a. over rolling 3year
Overseas Equities	34% +/- 5%	13% <b>(L&amp;G)</b>	21% <b>JP Morgan and Aberdeen</b>	MSCI World all share (ex UK)  MSCI Frontier Markets Index	+3% p.a. over rolling 3year + p.a. over rolling 3 year
Global Fixed Interest	15% +/- 5%	6% <b>(L&amp;G)</b>	9% <b>Goldman Sachs</b>	Libor	Libor +3%
Property	5% +/- 5%	-	5% <b>Schroders, Partners and Invesco</b>	IPD, cash, absolute	+ 1% p.a. over rolling 3 year

<b>Hedge Funds</b>	5% +/- 5%	-	5% <b>Blackrock and En Trust Permal</b>	LIBOR	+4%
<b>Private Equity</b>	3% +/- 5%	-	3% <b>Harbourvest</b>	FTSE allshare	+3% p.a. over 3 year rolling
<b>Global Tactical Asset Allocation</b>	2% +/- 5%	-	2% <b>Blackrock</b>	LIBOR	+4% over 3 year rolling
<b>Cash</b>	2% +/- 5%	-	2% in house and cash flows of fund managers	7day LIBID	=
<b>TOTAL</b>	100%	33%	67%		

## 5. The Expected Return on Investments

- 5.1 The strategic aim of the Fund is to achieve the maximum return consistent with acceptable levels of risk pertinent to each asset class and the long-term nature of the Fund's liabilities.
- 5.2 In order to achieve the strategic aim, the Fund has set relevant asset class specific benchmark against which performance and risk can be measured
- 5.3 The fund has also agreed performance fees for achieving outperformance targets.
- 5.4 The passive manager is required to achieve, over the longer term, a total return close to that of the respective market indices it tracks..

## 6. Risk

### 6.1 Performance Risk

The active managers are required to operate within a risk profile appropriate to each individual asset class in order to achieve agreed outperformance targets.

### 6.2 Asset Risk

Except for pooled/unitised funds, all externally managed assets are held in the Fund's name on its behalf by our appointed global Custodian. Units of pooled funds are listed in the Fund's name by the relevant manager.

### 6.3 Market Risk

The fund operates within the limits required by the Local Government Pension Scheme Investment Regulations and is thus exposed to no greater market risk than the Regulations allow. In accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 and subsequent revisions the limits set out in those regulations will apply.

## **7. Types of Investments to be Held**

7.1 Asset allocation has been determined by an investment review. The mix of assets is outlined in fig 1. The mix of assets is determined to achieve appropriate levels of return consistent with the risk appetite and funding level of the scheme. The diversified portfolio is to mitigate against times of equity underperformance. The balance between the different types of investment will be monitored and will be 're-balanced' if required by the use of derivative overlays to ensure asset allocation alignment as per the Committee's asset allocation decision in fig 1 if deemed appropriate. Acceptable tolerances for the affected asset classes are +/- 5%. At times even these tolerances may be breached as asset volatility is heightened and physical re-balancing must be weighed against the costs of transition.

### **7.3 Stocklending**

Stocklending is not currently undertaken in the portfolio, however it will be considered if analysis of the portfolio identifies stock which can generate additional revenue for the fund. Voting, collateral requirements and due diligence considerations will be paramount in these considerations.

### **7.4 Underwriting**

Underwriting of share issues by the fund managers is permitted.

## **8. Investment Pooling**

8.1 In its joint submission to DCLG, The City & County of Swansea Pension Fund has committed to pooling its assets ( as far as economical and qualitative constraints allow) in the Wales Investment Pool. The first assets to be pooled have been targeted for completion by April 2018. The Wales Pool has already jointly procured a single passive manager for the Welsh funds. These funds currently sit outside of pooling arrangements.

8.2 The Chairman or his identified nominee shall be the Swansea Pension Fund representative on the joint chairs' committee which has governance responsibilities for the Wales Pool which has responsibility in holding the 'Pool Operator' to account. The City & County of Swansea Pension Fund Committee retains the responsibility for setting its own investment strategy, policy and allocation.

## **9. The Realisation of Investments**

It is recognised that as part of its diversification strategy, the pension fund invests in some asset classes for the long term and these are illiquid in their nature e.g. property and private equity. The main asset classes (equities, bonds and cash) will be readily realisable to meet any cash flow demands as required, however it is recognised that the fund is cash positive and normal cash demands can be satisfied from normal cash inflows.

## **10. Social, Environmental and Ethical Considerations**

The Pension Fund Committee's policy is to encourage positive behaviour by companies through its investments. It is believed that influence in this way is currently effective. The



Fund exercises this policy through the external investment managers by contact with company management and through exercising voting rights. It encourages its managers to sign up to the United Nations Principles of Responsible Investing (UNPRI) and is a full member of the Local Authority Pension Fund Forum (LAPFF), a collection organisation of LGPS who engage fund managers and investee companies and promote responsible investor/ownership practices.

In addition, the overriding duty on the Council is to ensure the best returns on investments consistent with acceptable levels of risk. The Committee believes that companies behaving properly will, over time, generally be the ones that also provide good returns.

The question of actively investing in funds badged as 'ethical' or 'socially responsible' remains under consideration and the Pension Fund Committee will continue to monitor the investment performance of such funds as they develop.

## **11. Corporate Governance**

The Investment Managers are required to exercise voting rights on behalf of the Fund when it is in the best interests of the Fund, and in accordance with the Managers' corporate governance policies. The Pension Fund Committee retains the right to instruct the managers at any time to vote according to the Committee's wishes on a particular resolution.

## **12. Principles for Investment Decision Making**

In 2000 the UK Government commissioned a review of institutional investment in the UK, known as 'the Myners Review'.

In response to the Myners' proposals, the Government issued a set of ten investment principles. Subsequently, the Chartered Institute of Public Finance and Accountancy (CIPFA), published the document 'Principles for Investment Decision Making in the Local Government Pension Scheme', which sets out the ten principles and practical guidance on their application to LGPS.

The Appendix 2 to this document sets out the six principles and the fund's compliance with the same.

### **Compliance with CIPFA's 'Principles for Investment Decision Making in the Local Government Scheme in the UK'**

**1. Effective Decision Making**

Compliant. The panel has produced a business plan indicating key milestones and dates for decision in the forthcoming year.

**2. Clear Objectives**

Compliant. Each asset class and manager appointed has been set appropriate benchmark and performance target whilst the fund's overall objective remains : The strategic investment aim of the Pension Fund is to achieve the maximum return consistent with acceptable levels of risk and the long-term nature of the Fund's liabilities

**3. Risk And Liabilities**

Compliant. Asset allocation has been determined by comprehensive investment review approved by the Pension Fund Committee in June 2007, being mindful of strength of covenant of the scheme sponsor and profile of the scheme.

**4. Performance Assessment**

Compliant. Performance is appraised constantly by the in house officers whilst formalised monitoring is undertaken by pension fund committee at quarterly meetings

**5. Responsible Ownership**

Compliant. Explicit investment management arrangements are in place with each appointed manager who is delegated responsibility for discharging corporate responsibility. The Authority is also working with its appointed investment managers to sign up to the UN's Principles of Responsible Investing (UNPRI) and is a full member of LAPFF

**6. Transparency and Reporting**

Compliant. Regular reporting takes place on a quarterly basis with the Pension Committee, whilst a full annual consultative meeting is convened to review the annual report. Regular road shows and meetings are held with employers as and when.

## Report of the Interim Head of Legal & Democratic Services

**Pension Fund Committee – 9 March 2017**

### EXCLUSION OF THE PUBLIC

<b>Purpose:</b>	To consider whether the Public should be excluded from the following items of business.	
<b>Policy Framework:</b>	None.	
<b>Reason for Decision:</b>	To comply with legislation.	
<b>Consultation:</b>	Legal.	
<b>Recommendation(s):</b>	It is recommended that:	
<b>1)</b>	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.	
	<b>Item No.</b>	<b>Relevant Paragraphs in Schedule 12A</b>
	7,8 & 9	14
<b>Report Author:</b>	Democratic Services	
<b>Finance Officer:</b>	Not Applicable	
<b>Legal Officer:</b>	Tracey Meredith – Interim Head of Legal & Democratic Services (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.

## Public Interest Test

No.	Relevant Paragraphs in Schedule 12A
<b>12</b>	<b>Information relating to a particular individual.</b>
	<p>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.</p>
<b>13</b>	<b>Information which is likely to reveal the identity of an individual.</b>
	<p>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.</p>
<b>14</b>	<b>Information relating to the financial or business affairs of any particular person (including the authority holding that information).</b>
	<p>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:</p> <p><b>a)</b> 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</p> <p><b>b)</b> Disclosure of the information would give an unfair advantage to tenderers for commercial contracts.</p> <p>This information is not affected by any other statutory provision which requires the information to be publicly registered.</p> <p>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.</p>

No.	Relevant Paragraphs in Schedule 12A
15	<p><b>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.</b></p>
	<p>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.</p>
16	<p><b>Information in respect of which a claim to legal professional privilege could be maintained in legal proceedings.</b></p>
	<p>No public interest test.</p>
17	<p><b>Information which reveals that the authority proposes:</b>  <b>(a) To give under any enactment a notice under or by virtue of which requirements are imposed on a person; or</b>  <b>(b) To make an order or direction under any enactment.</b></p>
	<p>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.</p>
18	<p><b>Information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime</b></p>
	<p>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.</p>

# Agenda Item 7

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 8

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

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