CITY AND COUNTY OF SWANSEA

NOTICE OF MEETING

You are invited to attend a Meeting of the

LOCAL PENSION BOARD

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

On: **Thursday, 23 March 2017**

Time: **11.00 am**

Chair: **Councillor Alan Lockyer (Neath Port Talbot County Borough Council)**

Membership:
Employer Representatives:
Councillor J E C Harris (City and County of Swansea), J Andrew (Director of Finance NPT Homes).

Local Pension Board Member Representatives:
A Chaves, I Guy, A Thomas.

AGENDA

Next Meeting: To be confirmed.

Huw Evans

Huw Evans
Head of Democratic Services
Thursday, 16 March 2017

Contact: Democratic Services: - 636923

CITY AND COUNTY OF SWANSEA

MINUTES OF THE LOCAL PENSION BOARD

HELD AT COMMITTEE ROOM 6, GUILDHALL, SWANSEA ON WEDNESDAY, 14 DECEMBER 2016 AT 10.00 AM

PRESENT: Councillor A Lockyer (Chair) Presided

Employer Representatives:
J Andrew - Director of Finance NPT Homes
Councillor J E C Harris – City & County of Swansea

Local Pension Board Member Representatives:
A Chaves
I Guy

Officer(s)

Jeffrey Dong	Chief Treasury & Technical Officer
Lynne Miller	Pensions Manager
Stephanie Williams	Principal Lawyer
Karen Cobb	Senior Accountant
Kate Jones	Democratic Services Officer
Jeremy Parkhouse	Democratic Services Officer

Apologies for Absence
A Thomas

16 **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:

J Andrew – Personal – Agenda as a whole - Member of LGPS.

I Guy – Personal – Agenda as a whole - Member of LGPS.

Board members queried declaring previously declared interests.

17 **MINUTES.**

RESOLVED that the Minutes of the Special Local Pension Board meeting held on 4 July 2016 and Local Pension Board meeting held on 21 July 2016 be signed and approved as correct records.

18 **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 ‘information’.

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 Board discussed the following: -

- The requirement for the Board to have full access to Pension Fund Committee papers in order to effectively assist the Committee;
- The requirement for Board members to be allowed to attend Pension Fund Committee meetings, including remaining while exempt items were being considered;
- The possibility of the Board formally meeting with the Pension Fund Committee in order to discuss the role of the Board going forward and to allow the Board to operate to the best of its ability;
- The Board receiving further information / presentations regarding performance investment.

19 **BREACHES POLICY.**

The Chief Treasury and Technical Officer reported on the procedures to be followed in reporting breaches to the Pensions Regulator.

It was outlined that breaches could 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. The report set 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).

Details were provided of the legal requirements, reporting Breaches procedure, clarification of when a breach was suspected and the process for submitting a report to the Regulator.

It was added that a quarterly report would be presented to the Pension Board and Pension Fund Committee 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 Board discussed the following: -

- How breaches would be reported to all listed parties;

- The availability of the policy to scheme members;
- The requirements of the Board in the event of a breach;
- Future reporting periods to the Board;
- Amendments required relating to sequencing at paragraphs 3.3 and 3.4 and to report breaches at least twice a year to the Board.

RESOLVED that: -

1) The Breaches Policy be approved subject to the above amendments;
2) The amended Policy be circulated to the Board.

20 **SCHEME ADMINISTRATION AND INTERNAL DISPUTE RESOLUTION PROCESS.**

The Pension Fund Manager presented a 'for information' report on the processes and procedures of the administration of the Scheme and resolving issues.

The report outlined details of the Pension Administration in the City and County of Swansea Pension Fund, how contributions were maintained, how the fund provided information to members and how issues were resolved. Appendix 1 provided the transactional functions undertaken to maintain member records.

The Board asked questions of the Officer who responded accordingly. Discussions centred around the impact on the Fund of the changes to pensions giving individuals more freedom to manage their pensions and the impact upon resources due to the number of people applying for ER/VR figures.

21 **PENSION ADMINISTRATION RESTRUCTURE.**

The Principal Pensions Manager presented a 'for information' report regarding 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.

The Board commented on cost benefit analysis in relation to balancing regulations against members' benefits.

22 **DATES OF FUTURE MEETINGS. (FOR DISCUSSION)**

The Board discussed the pattern of future meetings and requested that meetings be held quarterly and follow Pension Fund Committee meetings.

RESOLVED that: -

1) The next meeting of the Board be held during the week commencing 20 March 2017;
2) Future Board meetings be held quarterly and follow Pension Fund Committee meetings.

23 **MINUTES OF THE PENSION FUND COMMITTEE - 7 DECEMBER 2016. (FOR INFORMATION)**

The Minutes of the Pension Fund Committee meeting held on 7 December 2016 were provided 'for information'.

The Board requested that the Professional Advice report at Minute No.32 be forwarded.

RESOLVED that the Professional Advice report at Minute No.32 be forwarded to the Board.

24 **EXCLUSION OF THE PUBLIC.**

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

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

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

(CLOSED SESSION)

25 **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.

The meeting ended at 12.06 pm

CHAIR

Report of the Chief Auditor

Local Pensions Board – 23 March 2017

PENSION FUND INTERNAL AUDIT REPORTS 2016/17

Purpose:	This report presents the Internal Audit reports for Pension Fund activities in 2016/17 to the Board.
Policy Framework:	None
Reason for Decision:	To allow the Local Pensions Board to review and discuss the Internal Audit reports
Consultation:	Legal, Finance, Access to Services
Recommendation:	It is recommended that: the Board notes the Internal Audit reports
Report Author:	Paul Beynon
Finance Officer:	Paul Beynon
Legal Officer:	Sandie Richards
Access to Services Officer:	Ann Williams

1. Introduction

1.1 The Local Pension Board has requested details of the internal audits undertaken by the City and County of Swansea's Internal Audit Section in relation to the Pension Fund.

1.2 The Internal Audit Plan includes the following audits of the Pension Fund activities

- Pensions Administration
- Pension Fund Investments
- Pension Fund Other

1.3 The Pensions Administration audit largely covers the aspects of pensions operated by the Pensions Section under the Head of Human Resources and Organisational Development e.g. collection of contributions, new pensioners, transfers etc.

1.4 The Pension Fund Investments audit covers the investment of fund assets by the Treasury and Technical Section via the various fund managers.

1.5 The Pension Fund Other audit is a new audit undertaken for the first time in 2015/16, this audit looks at any aspects not picked up in the other audits e.g.

any income or expenditure included in the Pension Fund accounts not audited elsewhere.

1.6 Both the Pensions Administration and Pension Fund Investments audits are considered to be fundamental audits. Fundamental audits are those, which in consultation with the external auditor, are felt to be so significant that any issues with the systems are likely to have a material impact on the achievement of the Council's or Pension Fund's objectives. For this reason, fundamental audits are audited on a more frequent basis than other audits.

1.7 The Pensions Administration audit is completed annually and the Pension Fund Investments audit is completed every 2 years. The Pension Fund Investments audit was not due for completion in 2016/17.

1.8 At the end of each audit, the Internal Audit Section provides a level of assurance which indicates what assurance can be provided over the system's internal controls and the achievement of the system's objectives. The level of assurance can be high, substantial, moderate or limited.

1.9 The level of assurance provided for the Pension Fund audits in 2016/17 was

- Pensions Administration Substantial
- Pension Fund Other High

1.10 A copy of the final report for the Pensions Administration audit is attached in Appendix 1 and the final report for the Pension Fund Other audit is shown in Appendix 2

2. Equality and Engagement Implications

2.1 There are no equality and engagement implications associated with this report.

3. Financial Implications

3.1 There are no financial implications associated with this report.

4. Legal Implications

4.1 There are no legal implications associated with this report.

Background Papers: None

Appendices:

Appendix 1 Final Internal Audit Report – Pensions Administration 2016/17
Appendix 2 Final Internal Audit Report – Pension Fund Other 2015/16

Appendix 1

CITY & COUNTY OF SWANSEA
FINAL INTERNAL AUDIT REPORT
HUMAN RESOURCES AND ORGANISATIONAL DEVELOPMENT: PENSIONS ADMINISTRATION 2016/17

1. Introduction

1.1 A review has recently been undertaken in respect of the Pension Section, within Human Resources and Organisational Development.

1.2 The Pension Section administers the Pension scheme for the City and County of Swansea, in addition to a number of other externally admitted bodies.

1.3 The scope of the review covered the following areas:-

- Pension and Payroll system parameters
- Rates of contributions received and reconciliation procedures
- Administration of new members to the pension scheme
- AVC's
- Transfers in and out of the scheme
- Deferred pensioners
- Administration of new pensioners
- Administration of continued pensioners
- Child pensions
- ICT, Administration and back up procedures
- Continued entitlement
- Care revaluation

1.4 Detailed findings are recorded below and the recommendations arising are included in the attached Management Action Plan.

2. Work Done / Findings

2.1 Parameters

2.1.1 From 1st April 2014, the Pension Scheme is based on a Career Average, meaning that each year in the scheme, an individual's pension will be worked out based on the pensionable pay in that year. That pension is then added to the individual's Pension account. At the end of each scheme year, the amount in the individual Pension account will be adjusted in-line with the cost of living. The bandings have not changed since the 2015/16 audit, and as such the bands and deduction rates are as follows for 2016/17:

Full Time Pay (2015/16)	Rate	Full Time Pay (2016/17)	Rate
£0-£13,600	5.5%	£0-£13,600	5.5%
£13,601 - £21,200	5.8%	£13,601 - £21,200	5.8%
£21,201 - £34,400	6.5%	£21,201 - £34,400	6.5%
£34,001 - £43,500	6.8%	£34,001 - £43,500	6.8%
£43,501 - £60,700	8.5%	£43,501 - £60,700	8.5%

£60,701 - £86,000	9.9%	£60,701 - £86,000	9.9%
£86,001 - £101,200	10.5%	£86,001 - £101,200	10.5%
£101,201 - £151,800	11.4%	£101,201 - £151,800	11.4%
Over £151,800	12.5%	Over £151,800	12.5%

2.1.2 System parameter prints were obtained from the ORACLE system and satisfactorily examined to confirm that the employee deduction bands and deduction percentages against each band had been correctly implemented on the Payroll system for 2016/17. Testing was also undertaken to confirm that all employee pension deduction parameters were being correctly implemented for all those bodies paid via CCS Payroll. Testing proved satisfactory

2.1.3 Employer deduction parameters were satisfactorily compared with those recorded on the ORACLE system for admitted bodies using CCS Payroll system to confirm the contribution rates were correct.

2.1.4 It was found that both employer and employee contributions are checked as part of the monitoring of contributions received by the Treasury and Technical Section.

2.2 Contributions Received

2.2.1 The Treasury and Technical Section are responsible for keeping records of all contributions received from the admitted bodies. They are also responsible for checking that all employee and employer contributions received have been paid at the correct rate, in accordance with the actuarial certificate and tiered contribution legislation

2.2.2 It should be noted that there is a statutory responsibility for all bodies to make correct and timely pension payments to the Pension Fund. Whilst there is no statutory responsibility on the administering body to confirm that such payments are correct, it is considered best practice to do so. This is currently being done, subject to the points noted in 2.2.3 - 2.2.6

Employee Contributions

2.2.3 In order to provide assurance in regards to the employee contributions received, the Treasury and Technical Section undertake sample checking of contributions received from admitted bodies. A review of the sample testing undertaken by the Section confirmed that at the time of the audit in November 2016, sample testing of employee contributions had been carried out for all admitted bodies.

Employer Contributions

2.2.4 The contributions paid by employers are calculated as a percentage of the total pensionable pay of employees. The Treasury and Technical Section undertake a global check to ensure the total employer contribution received from each admitted body agrees to the actuarial certificate.

2.2.5 A review of the contribution payments made into the scheme found that external members paid by the 19th day of the following month to which the contributions relate. This is required by the Local Government Pension Scheme Regulations. It should be noted that where delays in receipt of contributions are experienced, the Treasury and Technical Section would follow this up with the admitted body as and when required as part of the contribution monitoring procedures.

2.2.6 A review of the information maintained by Treasury and Technical Section detailing the employee and employer contributions received from each admitted body identified a number of minor variances where the expected employer contributions received differed slightly from the actual amounts received. As in previous years all such variances are followed up with the relevant body to ensure total contributions received in year are correct and amounts agree to the actuary valuation report.

Reconciliation Procedures

2.2.7 Contribution data from admitted body payrolls is reconciled to Treasury and Technical Section data, the General Ledger and the Altair Pensions System. Admitted bodies are required to submit annual returns detailing total contribution figures paid in year. These are reconciled to Treasury and Technical Section records, with the Altair system being updated with employee contribution data on an annual basis. As in previous years, the Pensions Section make every effort to reconcile the above data to the Altair system for each admitted body but due to the volume of staff movements between periods in the larger admitted bodies, there are often difficulties in reconciling the data in total for such bodies.

2.2.8 Since the implementation of i-connect, employer and employee contributions are reconciled as part of the uploading process on a monthly basis. At the time of audit, City and County of Swansea; Neath Port Talbot County Borough Council and NPT Homes were using i-connect, although there are plans for other employers to use the system in the near future.

2.2.9 The Pensions Section also undertakes monthly reconciliations of the Altair system data and ORACLE Pensions Payroll data. The number of pensioners and amount of pension paid (£) is reconciled monthly, with cases being investigated and corrections being undertaken as and when required. Note that this is in addition to the data matching exercise undertaken by ATMOS (Address Tracing and Mortality Screening).

2.3 New Members joining the Scheme

2.3.1 A sample of ten new scheme members was selected for testing. The following was found:

a) Only four of the ten records reviewed held copies of member birth certificates on file.
b) Eight records had starter forms or equivalent on file. The remaining records had been created via i-connect
c) There were six records without an employee statement on file. The forms had been sent out to members but had not been returned. It was noted that the employee statement was not sent out until 9th November 2016 to a member who joined the scheme in May 2016.

2.3.2 As noted in previous reviews, birth certificates are requested from new members on entry, but they often fail to provide these. Note that birth certificates are requested when benefits are calculated for transfers out of the scheme or on retirement and as such, the lack of provision of a certificate on entry into the scheme represents minimal risk.

2.4 AVC's/APC's

2.4.1 Prudential continues to be the appointed AVC provider for all new AVC's. The maximum AVC a member can pay is 100% of their pay after allowing for any pension, NI or other deductions. Members apply directly to Prudential to start paying AVC's and acceptance is confirmed to both the Pensions Team and Employee Services independently by Prudential.

2.4.2 Members can also purchase Additional Pension Contributions (APC's) of up to £6,755 per year. Since the introduction of the Additional Annual Leave Purchase Scheme, members have purchased APC's to buy back 'lost' pension.

2.4.3 There was evidence of acceptance of new AVC arrangements on ten member's records that were selected for testing, where agreement was able to be made between the AVC/APC details and the centrally held records.

2.4.4 It was noted that the annual allowance for pension contributions has remained at £40k for 2016/17. This has not had any impact in the current year, as any unused allowance from 'pension input periods' ending in the previous three tax years may be carried forward to increase the annual allowance for the current year. This point is noted here for information purposes only.

2.5 Transfers In and Out of the Scheme

2.5.1 Transfers In

A sample of five transfers in was selected for detailed testing and it was confirmed that:

a) The calculation value was held for all five records.
b) All five files had an SW1 or equivalent on file.
c) Authorisation for the previous fund provider to release details/amounts calculated to CCS were held on all five files.
d) All records held authorisation from the employee to transfer the benefits accrued to the LGPS.
e) All five files held copies of birth certificates or passports as forms of identification.

2.5.2 Transfers Out

A sample of five transfers out was selected for detailed testing and it was confirmed that:

a) All had individual scanned personal files available for review as required.
b) Calculations of the transfer value were on file and had been appropriately recorded as checked in all cases.
c) A payments pro-forma is completed for all payments which are forwarded to Accounts Payable to initiate payment. The completed pro-forma is signed as independently checked by a member of the Pensions Team as evidence of the calculation of the amount of the payment being made. It was found that all payment amounts had been checked as required.
d) All payments made had been appropriately checked and authorised by the Treasury and Technical Section and had been posted correctly to the Ledger.

2.6 New Pensioners

2.6.1 A sample of ten new pensioners retiring after 1st September 2015 was selected for testing. As part of the testing, the pension benefits payable including the commutation of pension to additional lump sum in the ratio of £1 pension to £12 lump sum, were checked to confirm the system parameters had been correctly implemented.

Of the sample of ten, the following was found:

a) All new pensioners had individual scanned personal files, all of which contained the relevant leaver form or equivalent.
b) For the ten files reviewed, copies of the wedding certificate were held on eight files and partner's birth certificates were held on nine files. Marriage certificates / divorce confirmation were not available for two members; however, this does not have any implications for the member or the fund.
c) No significant delays were noted in the processing of the new pensioner details or payment of the first pension.
d) Copies of birth certificates or passports were on file for all files reviewed.
e) One member record did not hold a signed declaration for pension benefit option form. It was noted that there were issues with the scanning facilities in the Section which may have caused the document to scan through behind another. Original documents had been destroyed via confidential waste once scanning had been completed.

2.6.2 The payment request / authorisation sheets for the lump sum payments, for the sample selected above were also reviewed. Testing confirmed:

a) Payment request pro-formas were available for all payments and had been appropriately signed as being prepared and checked by two members of the Pensions Team.
b) All payment pro-formas had been correctly completed and included interest payable where applicable.
c) All payments had also been signed as checked by a member of the Treasury and Technical Section and had been certified by suitably authorised officers within Financial Services, prior to payment via the Accounts Payable.

2.7 Deferred Pensioners

2.7.1 A sample of ten scheme members whose benefits had been deferred was selected for testing. It was found that all of the employees had been in post in excess of three months and therefore benefits had been correctly deferred.

2.7.2 For all ten selected, it was confirmed in letters sent on deferral of benefits that the deferred benefit would be increased in accordance with the Pension Income Review each year.

2.7.3 In addition, it was confirmed that the Pensions Section run monthly reports to identify deferred pensioners approaching the eligible age. Sample testing of two deferred pensioners approaching eligible age confirmed that letters detailing the calculation of the pension options had been sent out or were due to be sent out with option forms, all of which agreed to Altair.

2.7.4 Periodic reports are also being produced to highlight members who had reached, exceeded or were approaching 75 years of age and have not yet claimed their pension.

2.7.5 It was noted that one member was due to reach the age of 75 in November 2016, however, there was no evidence on Altair to confirm that action had been taken to commence pension payments or to inform the individual that their pension benefits must be put into payment before they turn 75 or tax penalties will be incurred from HMRC.

2.8 Continuing Pensioners

2.8.1 Historically there has been an annual increase in the value of pensions paid to continuing pensioners. From April 2016 there was a 0.1% decrease. This decrease is not passed onto existing pensioners.

2.8.2 A sample of five existing pensioners was tested against the ORACLE system to confirm that there had been no increase in the pension paid between 2015/16 and 2016/17. Testing proved satisfactory.

2.9 Child Pensions

2.9.1 A copy of the report (produced monthly) identifying children approaching the age of 18 was reviewed and it was confirmed that procedures are in place to ensure that all children in receipt of a pension and approaching 18 are sent entitlement letters to the legal guardian to confirm continued eligibility post 18 i.e. in full time education. As noted in the previous audit review, the Section have introduced a declaration letter requiring all those in receipt of a child pension to obtain an official stamp / confirmation from the education provider as evidence of continuation in education.

2.9.2 A sample of ten children in receipt of a child's pension was selected for testing. The following points were noted:

a) All records had a copy of applications held on file, although some were held within a linked member's record (usually the parent).
b) Five members were "adults" and medical evidence / evidence of continuing education was held on record to support the application.
c) Nine records held copies of birth certificates on file. One application had been noted by a member of the Pensions Team that the birth certificate was sighted on 6 September 2007.

2.10 ICT, Administration and Back-up

2.10.1 A training pack is in existence to brief staff on the relevant procedures and legislation. The training pack is a set of working documents, updated as necessary whenever new legislation is released. The training pack continues to reflect current legislation and all documents are available to members of the Pensions Team.

2.10.2 The Team are continuing the process of back-scanning all pension files. It was noted during the audit that the all of the files required as part of the testing were available to review on-line via the Altair system.

2.10.3 The Pensions System allows the monitoring of tasks that are outstanding via 'task lists' which show the various tasks outstanding for each user of the system. Staff are asked to monitor their own lists and to follow up any incomplete tasks in a timely manner. Task monitoring reports are produced and followed up on a monthly basis by the Team Leaders.

2.10.4 New users are created on the system upon receipt of a User Creation Request form. It was noted that one User Creation Request form had been completed and approved by appropriate personnel. It was confirmed that access, for two members of staff who are currently absent, had been disabled.

2.10.5 It was noted that users on the system have the necessary permissions to access all records and initiate all functions on the system.

2.10.6 Users continue to be required to change their passwords every three months to coincide with corporate policy.

2.10.7 The system is backed up on a daily basis. E-mails are sent to the Pensions Team confirming whether or not the back-up has been successful.

2.10.8 The Business Continuity Plan was last updated in February 2014. It is currently being reviewed as part of the HR Business Contingency Plan.

2.10.9 Reports are run on a monthly basis for members that have not drawn a pension on reaching age 75. The report also includes those who have passed their 73rd birthday so that the Pension Team are aware of those who are approaching age 75. It was noted that two individuals had reached the age of 75. No evidence was available on Altair to show that action had been taken by the Pension Section to commence pension payments to the individual, or to inform them that their pension benefits must be put into payment before they turn 75 or they will incur tax penalties from HMRC.

2.11 Continued Entitlement

2.11.1 The Pensions Section continues to use the services of a data matching / cleansing company ATMOS for data matching purposes. The company receives monthly reports taken from the Altair system and undertake a number of verification checks where any data matches / queries are returned to the Pensions Section for follow up. Matches may be on a number of key fields, including pensioner name, age, date of birth etc. All cases which meet certain matching criteria are followed up and mortality checks are undertaken by the Pensions Team. Any cases where pension is no longer payable are communicated to the Payroll Section in order to suspend payment.

2.11.2 The Pensions Team also compares pensioner data from the Altair system to the ORACLE system to ensure the two systems reconcile in terms of the number of pensioners, payment amounts (£) and pensioner details. This is carried out on a monthly basis.

2.11.3 As identified in the 2016/17 audit, Western Union Business Solutions has been procured to carry out overseas matching continuance checks. The process has commenced but no reports were available during the audit.

2.11.4 The Accountancy Section monitors un-presented pension cheque payments on a monthly basis. Any cheques that have not been presented within six months are cancelled. Following previous recommendations, a report of unpresented cheque payments is now forwarded to the Employee Services Section to be followed up.

2.11.5 Returned payments would be monitored and followed up by either Employee Services or Accounts Payable as appropriate.

2.11.6 Suspended pensioners on the Payroll System are reviewed on an annual basis. A report of suspended pensioners was generated in November 2016, which showed the number of suspensions as 94. The reports are reviewed by the Pensions Section and appropriate action taken as necessary.

2.11.7 The third tier of retirement on the grounds of ill health requires the employee's case to be reviewed 18 months after retirement. The Pensions Section produces a monthly report from the Altair system listing all third tier ill health cases approaching the 18 month review point. Results are forwarded to the HR department within the employing body for further follow up. It is noted that it is not the responsibility of the Pensions Section to follow up each case, as the onus is on the employing body to do this.

2.11.8 One member on the third tier of ill health retirement and due for review in 2016/17 was tested and it was confirmed that the review had taken place.

2.12 CARE Revaluations

2.12.1 From 1 April 2014, the Pension scheme is based on a career average, meaning that each year in the scheme, an individual's pension will be calculated based on the pensionable pay in that year. That pension is then added to the individual's Pension Account. At the end of the scheme year, the amount in the individual's pension account will be adjusted in line with the cost of living.

2.12.2 For the year ending 2015/16 the change was calculated as a decrease of 0.1%. A sample of 5 active Pension Fund members was selected to confirm that the rate had been applied correctly. No issues were identified.

3. Conclusion

3.1 The Internal Audit Section operates a system of Assurance levels which gives a formal opinion of the achievement of the service's/system's control objectives. The Assurance levels vary over four categories: 'High', 'Substantial', 'Moderate' and 'Limited'.

3.2 Recommendations arising from this review are detailed in the attached Management Action Plan. Each recommendation has been prioritised according to perceived risk – High, Medium, Low and Good Practice. The overall Assurance level is based on the recommendations made in the report.

3.3 The description of each type of recommendation and also the basis for each of the Assurance levels is noted in **Appendix 1**.

3.4 Based on the audit testing undertaken, it was found that many procedures were operating satisfactory but there were some where improvements are needed, resulting in one Low and two Medium Risk recommendations.

3.5 As a result, an Assurance Level of 'Substantial' has been given. This indicates that 'there is a sound system of internal control but there is some scope for improvement as the ineffective controls may put the system objectives at risk'.

3.6 We will contact you in due course to confirm that you have implemented the agreed recommendations.

Appendix 1

Classification of Audit Recommendations

Recommendation	Description
High Risk	Action by the client that we consider **essential** to ensure that the service / system is not exposed to **major risks**.
Medium Risk	Action by the client that we consider **necessary** to ensure that the service / system is not exposed to **significant risks**.
Low Risk	Action by the client that we consider **advisable** to ensure that the service / system is not exposed to **minor risks**.
Good Practice	Action by the client where we consider **no risks** exist but would result in better quality, value for money etc.

Audit Assurance Levels

Assurance Level	Basis	Description
High Assurance	Recommendations for ineffective controls affecting the material areas of the service are not High or Medium Risk. Any recommendations are mainly Good Practice with few Low Risk recommendations.	There is a sound system of internal control designed to achieve the system objectives and the controls are being consistently applied.
Substantial Assurance	Recommendations for ineffective controls affecting the material areas of the service are not High Risk. Occasional Medium Risk recommendations allowed provided all others are Low Risk or Good Practice	There is a sound system of internal control but there is some scope for improvement as the ineffective controls may put the system objectives at risk
Moderate Assurance	Recommendations for ineffective controls affecting the material areas of the service are at least Medium Risk	The ineffective controls represent a significant risk to the achievement of system objectives
Limited Assurance	Recommendations for ineffective controls affecting the material areas of the service are High Risk	The ineffective controls represent unacceptable risk to the achievement of the system objectives

CITY AND COUNTY OF SWANSEA
MANAGEMENT ACTION PLAN
HUMAN RESOURCES AND ORGANISATIONAL DEVELOPMENT: PENSIONS ADMINISTRATION 2016/17

REPORT REF	RECOMMENDATION	CLASS (HR; MR; LR; GP)	AGREED ACTION/ COMMENTS	RESPONSIBILITY FOR IMPLEMENTATION	IMPLEMENTATION DATE
New Members					
2.3.1 c	Employee statements should be issued to new members within eight weeks of joining the scheme.	LR	This was a late notification from the employer. Employers to be reminded of timescales and importance of providing timely information	Pensions Manager / Communications Officer	February 2017
New Pensioners					
2.6.1 e	It should be ensured that all documentation has been scanned and uploaded correctly before destroying original documents.	MR	Issues with scanner feeding multiple papers rather than individual but staff reminded to ensure that all papers have been scanned correctly	Communications Officer	December 2016
Deferred Pensioners					
2.7.5 & 2.10.9	Members approaching age 75 should be informed that Pension Benefits should start prior to their 75th birthday or tax penalties from HMRC may be incurred.	MR	This was due to long term sickness. Set up diary to record timing of reporting requirements	Pensions Manager	March 2017

Appendix 2

CITY & COUNTY OF SWANSEA
FINAL INTERNAL AUDIT REPORT
FINANCE AND DELIVERY: PENSION FUND - OTHER
2015/16

1. Introduction

1.1 A review has been completed of Pension Fund activities undertaken by the Treasury Management and Pension Administration Teams. The City and County of Swansea Pension Fund manages the pensions and pension fund investments of current and former members of the Authority as well as a number of other admitted bodies.

1.2 The audit included testing on the following areas:

- Pension Fund Committee Costs
- Local Pension Board Costs
- Actuary Costs
- Training Expenses
- Conference Expenses
- Mortality Screening Expenses
- Recharging of Actuary Costs (pro-rata) to Admitted Bodies

1.3 It should be noted that the Pension Fund is also subject to a separate audit by the Authority's external auditors, whose audit scope is wider than our remit. In addition to this, separate reviews of Pension Administration and Pension Fund Investments are undertaken by our Internal Audit section, the scope of which is detailed in those particular audits.

1.4 Detailed findings are recorded below, there are no recommendations arising.

2. Work Done / Findings

2.1 A sample of thirteen payments was selected for testing to ensure that the expenditure was appropriate spend for the Pension Fund and adequately controlled and authorised. The following points were noted:

i. All payments appeared to be appropriate spend for the Pension Fund
ii. Twelve invoices had either coding slips or CHAPS payment request forms which had been signed as checked; 1 coding slip was not signed as checked but had been signed as received and certified by two separate individuals.
iii. All thirteen invoices had been signed as received and certified by two separate individuals.
iv. VAT had been applied correctly on relevant invoices
v. HMRC check for Self Employed Contractors / Consultants had been completed for an Independent Adviser.

2.2 Testing was undertaken on two invoices raised in 2015/16. Income had been received in a timely manner.

2.3 It was noted that a procurement exercise had not been completed since 2008 for the work undertaken by External Advisors, as it had been approved by the Section 151 Officer for the contract to continue on a rolling basis. No recommendations have been made regarding this finding due to the impending transfer to the All Wales Pension Fund which will require a new procurement exercise to be undertaken.

3. Conclusion

3.1 The Internal Audit Section operates a system of Assurance levels which gives a formal opinion of the achievement of the service's/system's control objectives. The Assurance levels vary over four categories: 'High', 'Substantial', 'Moderate' and 'Limited'.

3.2 Based on the audit testing undertaken, all of the areas reviewed proved satisfactory, resulting in no recommendations being made.

3.3 As a result, an Assurance Level of 'High' has been given. This indicates that 'there is a sound system of internal control designed to achieve the system objectives and the controls are being consistently applied.'

Appendix 1

Classification of Audit Recommendations

Recommendation	Description
High Risk	Action by the client that we consider **essential** to ensure that the service / system is not exposed to **major risks**.
Medium Risk	Action by the client that we consider **necessary** to ensure that the service / system is not exposed to **significant risks**.
Low Risk	Action by the client that we consider **advisable** to ensure that the service / system is not exposed to **minor risks**.
Good Practice	Action by the client where we consider **no risks** exist but would result in better quality, value for money etc.

Audit Assurance Levels

Assurance Level	Basis	Description
High Assurance	Recommendations for ineffective controls affecting the material areas of the service are not High or Medium Risk. Any recommendations are mainly Good Practice with few Low Risk recommendations.	There is a sound system of internal control designed to achieve the system objectives and the controls are being consistently applied.
Substantial Assurance	Recommendations for ineffective controls affecting the material areas of the service are not High Risk. Occasional Medium Risk recommendations allowed provided all others are Low Risk or Good Practice	There is a sound system of internal control but there is some scope for improvement as the ineffective controls may put the system objectives at risk
Moderate Assurance	Recommendations for ineffective controls affecting the material areas of the service are at least Medium Risk	The ineffective controls represent a significant risk to the achievement of system objectives
Limited Assurance	Recommendations for ineffective controls affecting the material areas of the service are High Risk	The ineffective controls represent unacceptable risk to the achievement of the system objectives

Agenda Item 5

Report of the Section 151 Officer

Local Pension Board – 23 March 2017

THE PENSION REGULATOR CODE OF PRACTICE - GOVERNANCE AND ADMINISTRATION OF PUBLIC SERVICE PENSION SCHEMES -FORWARD CORE WORKPLAN

Purpose:	To approve a core workplan agenda for the Local Pension Board.
Reason for Decision:	To agree a schedule of information and reports to be considered by the Local pension Board.
Consultation:	Legal, and Finance
Recommendation	It is recommended that the forward core workplan for the Local Pension Board be approved.
Report Author:	J Dong
Finance Officer:	M Hawes
Legal Officer:	S Williams
Access to Services Officer:	N/A

1 Background

1.1 The Pensions Regulator has issued draft code of practice guidance note no.14 “ Governance and Administration of Public Service Pension Schemes”.

1.2 The Public Service Pensions Act 2013 introduces the framework for the regulatory oversight of the governance and administration of public service pension schemes by the regulator, expanding its role.

The regulator is issuing this code of practice relating to those specific matters about which it is required to issue a code in relation to public service pension schemes6. This code of practice sets out the legal requirements for public service pension schemes in respect of those specific matters. It contains practical guidance and sets out standards of conduct and practice expected of those who exercise functions in relation to those legal requirements.

The practical guidance sections in this code are not intended to prescribe the process for every scenario. They do, however, provide principles, examples and benchmarks against which scheme managers and members of pension boards can consider whether or not they have understood their duties and obligations and are reasonably complying with them.

If scheme managers and the members of pension boards are, for any reason, unable to act in accordance with the guidance set out in this code, or an alternative approach that meets the underlying requirements, they should consider their statutory duty under section 70 of the Pensions Act 2004 to assess and if necessary report breaches of the law7. Further information can be found in the section of this code on reporting breaches of the law.

2 Using the Code of Practice to inform the core agenda for the work of the Local Pension Board

2.1 The draft code of guidance contains the following main topic areas:

Governing your scheme

- Knowledge and understanding required by pension board members
- Conflicts of interest
- Information to be published about schemes

Managing risks

- Internal controls

Administration

- Scheme record-keeping
- Maintaining contributions
- Information to be provided to members

Resolving issues

- Internal dispute resolution
- Reporting breaches of the law

2.2 It may be useful to adopt these outline areas as the core agenda items for consideration by the Local Pension Board work agenda. It can be seen from analysing the above that the Local Pension Board has received reports outlining the governance about the scheme and it shall receive a number of reports at this meeting about managing risks.

2.3 It is proposed to report to Local Pension Board at its next meeting on Scheme Administration and Resolving issues processes and procedures.

2.4 It is recognised that the Local Pension Board shall include topical and relevant items as appropriate in addition to the above.

3 Additional Items for Workplan Consideration

3.1 Working in tandem with The Pension Fund Committee:

Investment Beliefs Workshop

3.2 Working in tandem with The Pension Fund Committee:

Carbon Investment Policy

4 Legal Implications

4.1 The legal implications are outlined in the Code

5 Financial Implications

5.1 There are no financial implications arising from this report

6 Equality Impact Assessment Implications

6.1 N/A

Background Papers: None.

Appendices: None.

Report of the Section 151 Officer

Local Pension Board - 23 March 2017

TRIENNIAL VALUATION CERTIFICATION

Purpose:	To enable Local Pension Board to note the attached report which was considered at the previous Pension Fund Committee
Consultation:	Legal, Finance and Access to Services.
Report Author:	Jeffrey Dong
Finance Officer:	Mike Hawes
Legal Officer:	S Williams
Access to Services Officer:	N/A
FOR INFORMATION	

1 Background

1.1 The attached report at Appendix A was considered by Pension Fund Committee at its previous meeting.

Background Papers: None.

Appendices: Appendix A – Report to Pension Fund Committee – 9 March 2017.

Appendix A

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

Purpose:	To ensure compliance with Local Government Pension Scheme Regulations which necessitate the undertaking of a full triennial actuarial valuation
Reason for Decision:	To approve the triennial rates and adjustment certificate
Consultation:	Legal, Finance and Access to Services.
Recommendation:	That the draft triennial valuation rates and adjustment certification 2016 is approved
Report Author:	Chris Archer, Aon Hewitt
Finance Officer:	Jeff Dong
Legal Officer:	Stephanie Williams
Access to Services Officer:	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 31st 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 1st 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 31st 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

Empower Results®

Rates and Adjustments Certificate

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

		Secondary contributions in year commencing 1 April 2017		Secondary contributions in year commencing 1 April 2018		Secondary contributions in year commencing 1 April 2019	
Employer	**Primary contribution rate % pensionable pay**	**% Pensionable pay**	**£s**	**% Pensionable pay**	**£s**	**% Pensionable pay**	**£s**
Scheduled Bodies							
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
Admission Bodies							
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

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

Empower Results®

Rates and Adjustments Certificate

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

	Contributions in year commencing 1 April 2017		Contributions in year commencing 1 April 2018		Contributions in year commencing 1 April 2019	
Employer	**% Pensionable pay**	**£s**	**% Pensionable pay**	**£s**	**% Pensionable pay**	**£s**
Scheduled Bodies						
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
Admission Bodies						
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 7

Report of the Section 151 Officer

Local Pension Board - 23 March 2017

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

Purpose:	To enable Local Pension Board to note the attached report which was considered at the previous Pension Fund Committee
Consultation:	Legal, Finance and Access to Services.
Report Author:	Jeffrey Dong
Finance Officer:	Mike Hawes
Legal Officer:	S Williams
Access to Services Officer:	N/A
FOR INFORMATION	

1 Background

1.1 The attached report at Appendix A was considered by Pension Fund Committee at its previous meeting.

Background Papers: None.

Appendices: Appendix A – Report to Pension Fund Committee – 9 March 2017.

APPENDIX A

Report of the Section 151 Officer

Pension Fund Committee – 9 March 2017

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

Purpose:	To ensure compliance with Local Government Pension Scheme Regulations which requires a funding strategy statement
Reason for Decision:	To approve the funding strategy statement 2017
Consultation:	Legal, Finance and Access to Services.
Recommendation:	That the funding strategy statement 2017 is approved
Report Author:	Jeff Dong
Finance Officer:	Mike Hawes
Legal Officer:	Stephanie Williams
Access to Services Officer:	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 31st 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

Appendix 1

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.

<u>Scheduled Bodies and certain other bodies of sound covenant</u>

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.

<u>Admission Bodies and certain other bodies whose participation is limited</u>

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.

Report of the Section 151 Officer

Local Pension Board – 23 March 2017

BREACHES POLICY

Purpose:	To enable Local Pension Board to note the attached report which was considered at the previous Pension Fund Committee.
Consultation:	Legal, Finance and Access to Services.
Report Author:	Jeffrey Dong
Finance Officer:	Mike Hawes
Legal Officer:	S Williams
Access to Services Officer:	N/A
FOR INFORMATION	

1 Background

1.1 The attached report at Appendix A was considered by Pension Fund Committee at its previous meeting.

Background Papers: None

Appendices: Appendix A – Breaches Policy Report to Pension Fund Committee

APPENDIX A

Report of the Section 151 Officer
Pension Fund Committee – 9 March 2017

BREACHES POLICY

Purpose:	The report requests the Committee to approve policy for reporting breaches
Reason for Decision:	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".
Consultation:	Legal, Finance and Access to Services.
Recommendation(s):	It is recommended that:
1)	The Pension Fund Committee approve the policy
Report Author:	Lynne Miller – Principal Pensions Manager
Finance Officer:	Jeff Dong – Chief Treasury & Technical Officer
Legal Officer:	Stephanie Williams
Access to Services Officer:	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

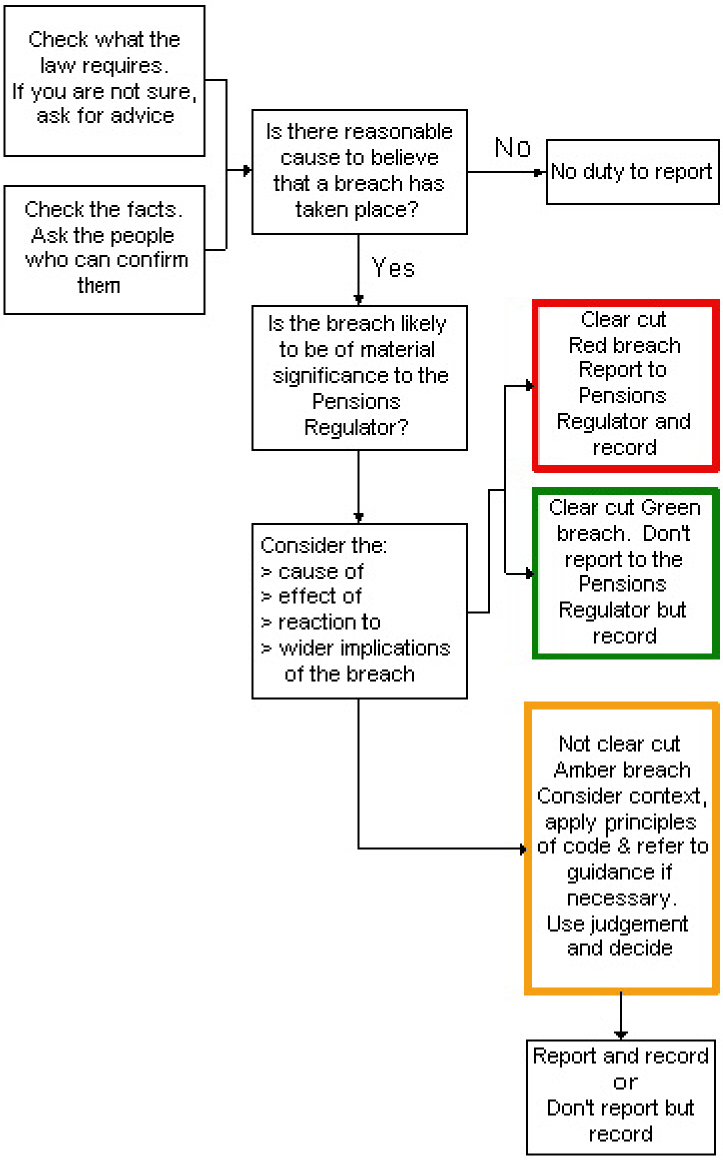
Amber – where the cause effect, reaction and wider implications of a breach when considered together **may** be of material significance

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

Appendix A

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

Employment Rights Act 1996:
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

Public Service Pension Schemes Act 2013:
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

Appendix B

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

Appendix C

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 9

Report of the Section 151 Officer

Local Pension Board - 23 March 2017

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

Purpose:	To enable Local Pension Board to note the attached report which was considered at the previous Pension Fund Committee
Consultation:	Legal, Finance and Access to Services.
Report Author:	Jeffrey Dong
Finance Officer:	Mike Hawes
Legal Officer:	S Williams
Access to Services Officer:	N/A
FOR INFORMATION	

1 Background

1.1 The attached report at Appendix A was considered by Pension Fund Committee at its previous meeting.

Background Papers: None.

Appendices: Appendix A – Report to Pension Fund Committee – 9 March 2017.

APPENDIX A

Report of the Section 151 Officer

Pension Fund Committee – 9 March 2017

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

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

Appendix 1

CITY AND COUNTY OF SWANSEA

Pension Fund

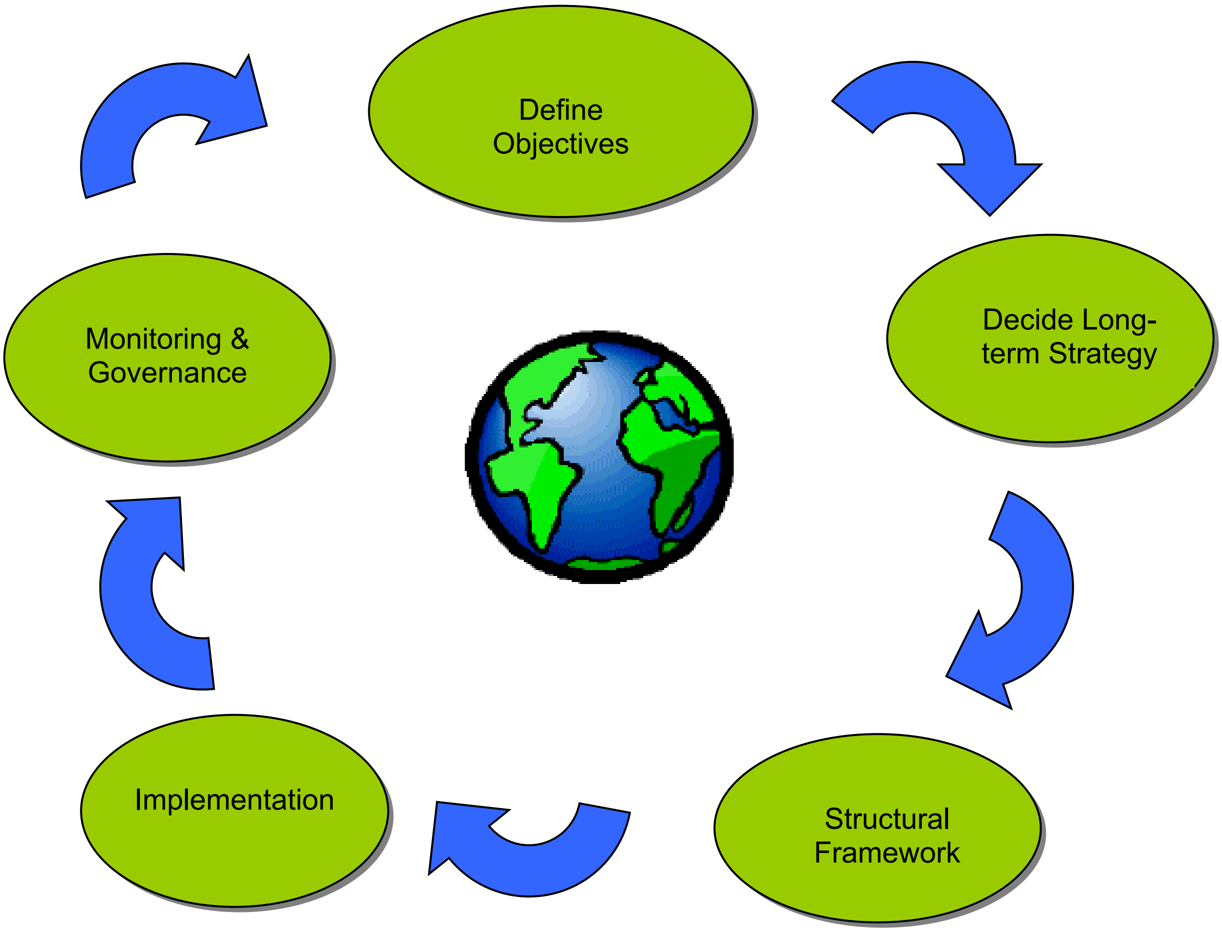
Annual Business Plan
2017 18

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 Allocation	Fund Manager		Benchmark	Performance
Asset Class			**Passive**	**Active**		
UK Equities		34% +/- 5%	14%	20% **Schroders**	FTSE allshare	+3% p.a. over rolling 3year
Overseas Equities		34% +/- 5%	13% **(L&G)**	21% **JP Morgan and Aberdeen**	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% **(L&G)**	9% **Goldman Sachs**	Libor	Libor +3%
Property		5% +/- 5%	-	5% **Schroders, Partners and Invesco**	IPD, cash, absolute	+ 1% p.a. over rolling 3 year
Hedge Funds		5% +/- 5%	-	5% **Blackrock and En Trust Permal**	LIBOR	+4%
Private Equity		3% +/- 5%	-	3% **Harbourvest**	FTSE allshare	+3% p.a. over 3 year rolling
Global Tactical Asset Allocation		2% +/- 5%	-	2% **Blackrock**	LIBOR	+4% over 3 year rolling
Cash		2% +/- 5%	-	2% in house and cash flows of fund managers	7day LIBID	=
TOTAL		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.

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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.

APPENDIX 1

Review of 2016/17Business Plan Targets to year ended 31st 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 Pensions Officer	Achieved
16	Review Pension Administration Strategy to ensure compliance with legislation	June 2016	Principal Pensions Officer	Achieved
17	Review Communication Strategy to ensure fit for purpose and compliance with regulations	June 2016	Principal Pensions Officer	Achieved
18	Reconciliation of GMPs for Fund members	April 2018	Principal Pensions Officer	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	Section 151 Officer, Chief

		2017	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 Report	September 2017	Section 151 Officer, Chief 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

APPENDIX 2

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

Risk	Existing control measures /new control measures	Impact	Likelihood	Assigned	Date	Risk status
CCSPF1- Failure to comply with LGPS Regulation **If there is failure to comply with regulation, there would be adverse audit opinion and loss of trust from employers within scheme**	• Well trained staff • CPD • Pensions Officer Group • Society of Welsh Treasurers • Internal/external audit regime	High	Low	JD	2017/18	Green
CCSPF2 – Failure to process accurate pension benefits in a timely manner **If a pension benefit is paid incorrectly there could be a cost to the fund or penalty imposed for lateness of payment**	• Well trained staff • Established procedure with imbedded checks and segregation of duties in place • Regular KPI monitoring • Use of market leading software Altair • NFI checks • Atmos checks	High	Low	LM/JD	2017/18	Green
CCS PF3- Failure to collect and account for full receipt of contributions from employers and employees on time **If there is a failure to collect appropriate contributions there may be a rise in employers contributions and an adverse impact on cashflow and the ability to pay benefits and adverse audit opinion**	• Contribution timetable/monitoring procedure • Administering Authority agreement • Escalation and fines for non compliance • Internal audit	High	Low	JD	2017/18	Green
CCS PF4 – Failure to keep pension records up to date **If pension records are not up to date, a wrong benefit may be**	• Administering Authority agreement with employers to ensure timely passing of information	High	Medium	LM	2017/18	Amber

calculated and paid	• Data accuracy checks undertaken • Data validation on Altair system • Periodic data validation by scheme actuary/NFI •					
CCSPF 5 Failure to hold personal data securely **If there is breach of data there is a risk to the individual's details and loss of trust in the Authority**	• Compliance with Data Protection Act 1998 • Business Continuity plan • IT Security Policy • Systems and pension payroll audit annually	High	Low	LM/JD	2017/18	Green
CCSPF6 Loss of funds through fraud or misappropriation by Administrative staff **If funds are lost through fraud or misappropriation by Administrative staff could lead to increase in employer contributions**	• Segregation of duties • Clear roles and responsibilities and schemes of delegation • Internal external audit	High	Low	LM	2017/18	Green
CCSPF7 – Loss funds through fraud or misappropriation in investment related functions **If funds are lost through fraud or misappropriation in investment related functions could lead to increase in employer contributions**	• Segregation of duties • Clear roles and responsibilities and schemes of delegation • Internal/external audit • Regulatory control reports by external fund managers, custodians, fund administrators • FCA registration • Due diligence upon appointment	High	Low	JD	2017/18	Green
CCSPF8- Liquidity/cashflow risks – insufficient liquid assets with which to meet liabilities as they fall due **If levels of liquidity are insufficient then pension payments may not be able to be met**	• Weekly pension fund cash investments monitoring • SIP allocation to liquid assets	High	Low	JD	2017/18	Green

CCSPF 9- Volatility in employer contribution rates due to decease/increase in valuation of assets/liabilities	• Engage with expert actuary to make appropriate assumptions and employ suitable mechanisms to mitigate unaffordable rises • Regular monitoring of investment manager performance • Diversified investment asset allocation	High	Medium	JD	2017/18	Amber
CCSPF10- Prolonged failure of investment managers to achieve their objective returns	• Regular investment monitoring by officers • Regular presentation to pension fund committee • Ability to sack managers • Diversified investment strategy with a number of different managers	Medium	Medium	JD	2017/18	Green/Amber
CCSPF11- Price Risk- the volatility of the price of the quoted investments held exposes the fund to the risk of price movements in the market	• A comprehensive diversified investment approach is adopted	High	Low	JD	2017/18	Green
CCSPF 12- Interest rate risk- The risk of exposure to significant interest rate rises	• A comprehensive diversified investment approach is adopted	Medium	Low	JD	2017/18	Green
CCSPF 13 Discount Rate Risk- Volatility in the discount rate used inflates the level of liabilities to be paid	• Engage professionally qualified actuary who can mitigate the effects of abnormal discount rates	High	Medium	JD	2017/18	Amber
CCSPF 14 Foreign Exchange Risk- The risk of fluctuation the value of foreign currencies (the fund holds foreign investments whilst its liabilities are payable in sterling)	• A comprehensive diversified investment approach is adopted • Good cashflow management	High	Low	JD	2017/18	Green

CCSPF 15 – having suitably trained/experienced staff	• Training, development and succession planning	High	Medium	JD/LM	2017/18	Amber
CCPF 16- Having suitably trained knowledgeable Pension Fund Committee Members/Local Pension Board Members	• CIPFA Knowledge and Skills framework • Training Plan • Professional Advisors/Officers advising	High	Low	JD	2017/18	Green

APPENDIX 3

Pension Fund – Budget 2017/18

	Actual 2015/16	Probable 2016/17	Estimate 2017/18
Membership Numbers			
Contributors	17,469	18,423	19,000
Pensioners	11,745	12,182	12,500
Deferred	11,226	11,593	12,000

	Actual 2015/16 £'000	Probable 2016/17 £'000	Estimate 2017/18 £'000
Income			
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
	107,176	**106,883**	**113,713**
Expenditure			
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
	77,757	**82,314**	**82,901**
Administrative Expenses			
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
	1,033	**1,094**	**1,202**
Investment Expenses			
Management Fees	4,117	4,475	5,800
Performance Fees	437	430	700
Custody Fees	108	110	110
	4,662	**5,015**	**6,610**

Agenda Item 10

Report of the Section 151 Officer

Local Pension Board - 23 March 2017

WALES INVESTMENT POOL
INTER AUTHORITY AGREEMENT AND JOINT GOVERNANCE COMMITTEE

Purpose:	To enable Local Pension Board to note the attached report which was considered at the previous Pension Fund Committee
Consultation:	Legal, Finance and Access to Services.
Report Author:	Jeffrey Dong
Finance Officer:	Mike Hawes
Legal Officer:	S Williams
Access to Services Officer:	N/A
FOR INFORMATION	

1 Background

1.1 The attached report at Appendix A was considered by Pension Fund Committee at its previous meeting.

Background Papers: None.

Appendices: Appendix A – Report to Pension Fund Committee 9 March 2017.

APPENDIX A

Item
Report of the Section 151 Officer

Pension Fund Committee, March 9 2017

WALES INVESTMENT POOL
INTER AUTHORITY AGREEMENT AND JOINT GOVERNANCE COMMITTEE

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

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

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

Appendix 1

Report of the Section 151 Officer

Council 23rd February 2017

WALES INVESTMENT POOL
INTER AUTHORITY AGREEMENT AND JOINT GOVERNANCE COMMITTEE

Purpose:	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
Policy framework	Financial Governance and Pension Fund Administering Authority responsibilities
Reason for Decision:	Financial Governance and Pension Fund Administering Authority responsibilities
Consultation:	Legal, Finance, Access to Services and Pension Fund Committee
Recommendation(s):	It is recommended that Council: 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. 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. 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.

	4. Approves the appointment of the Chair of the Pension Fund Committee or his/her nominated Deputy to the Joint 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 Chief Treasury & Technical Officer
Finance Officer:	Ben Smith Chief Finance Officer
Legal Officer:	Tracey Meredith, Interim Head of legal Services
Access to Services Officer:	Sherill Hopkins, Access to Services Officer

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 4th July 2016. The Final submission was submitted to HM Government on 15th 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 Material

Local Government Pension Scheme: Investment Reform Criteria and Guidance

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

Introduction

As Chairs of the pension committees for the eight Welsh local government pension funds, we are delighted to submit this proposal comprising details of the establishment of the Wales Pool.

Within Wales, our work on identifying the opportunity for achieving efficiencies through the pooling of investments predates the announcement of the LGPS wide agenda last year. Prior to the publication of the guidance to the LGPS in November 2015, we had already developed and agreed a detailed business plan which included joint procurement of a single provider for passive management and establishment of a pooling vehicle for collective investment. We have recently implemented the appointment of a single passive manager and are benefiting as a result from significant cost savings effective from April 2016.

In this document, we have confirmed our commitment to appoint a regulated third party operator to provide a series of collective vehicles in order to benefit from economies of scale from the management of Welsh pension fund assets. The arrangements will be provided through a robust governance structure providing clear accountability back to individual funds.

Discussions are continuing on the precise arrangements to be put in place for the different types of investments held by the funds but we are estimating that annual savings – net of all running costs – in the region of £10m p.a. could be achieved.

We are a cohesive group of funds with a long experience of collaborating across a number of policy areas, reflecting the specific economic, social, regulatory and political context within Wales. There is a strong desire within Wales to continue the direction of travel we have adopted to date and to capture fully the benefits which we outline in this proposal.

Cllr. Graham Hinchey, Chair, Investment Advisory Panel, Cardiff and Vale of Glamorgan Pension Fund

Cllr. Rob Stewart, Chair, Pension Fund Committee, City and County of Swansea Pension Fund

Cllr. Alan Diskin, Chair, Pension Fund Committee, Clwyd Pension Fund

Cllr. Wyn Evans, Chair, Pension Fund Panel, Dyfed Pension Fund

Cllr. Mary Barnett, Chair, Pensions Committee, Greater Gwent (Torfaen) Pension Fund

Cllr. Stephen Churchman, Chair, Pensions Committee, Gwynedd Pension Fund

Cllr. A G Thomas, Chair, Powys Pension Fund

Cllr. Mark Norris, Chair, Pension Fund Committee, Rhondda Cynon Taff Pension Fund

Proposal for asset pooling in the LGPS – 15 July 2016

Name of pool	**Wales Pool**
Participating funds	Cardiff and Vale of Glamorgan Pension Fund City and County of Swansea Pension Fund Clwyd Pension Fund Dyfed Pension Fund Greater Gwent (Torfaen) Pension Fund Gwynedd Pension Fund Powys Pension Fund Rhondda Cynon Taff Pension Fund

Any enquiries in relation to this submission should be addressed to:-

- Christine Salter, Corporate Director Resources, City of Cardiff Council
  C.Salter@cardiff.gov.uk; 0292 0872301
- Mike Hawes, Head of Finance and Delivery, City and County of Swansea
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- Gary Ferguson, Corporate Finance Manager, Flintshire County Council
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- Chris Moore, Director of Corporate Services, Carmarthenshire County Council
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- Nigel Aurelius, Assistant Chief Executive (Resources), Torfaen County Borough Council
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- Chris Lee, Group Director Corporate and Frontline Services, Rhondda Cynon Taff County Borough Council
  Christopher.D.Lee@rctcbc.gov.uk; 01443 424026
- Anthony Parnell, Treasury & Pension Investments Manager, Carmarthenshire County Council
  AParnell@carmarthenshire.gov.uk; 01267 224180

Criterion A: Asset pools that achieve the benefits of scale

1. **The size of the pool once fully operational.**	
(a) Please state the total value of assets (£b) to be invested via the pool once transition is complete (based on asset values as at 31.3.2015).	

The total assets of the eight funds participating in the Wales Pool are shown in the table below.

Fund	**Assets (£m)**
Cardiff and Vale of Glamorgan Pension Fund	1,653
City and County of Swansea Pension Fund	1,528
Clwyd Pension Fund	1,377
Dyfed Pension Fund	1,908
Greater Gwent (Torfaen) Pension Fund	2,184
Gwynedd Pension Fund	1,408
Powys Pension Fund	512
Rhondda Cynon Taff Pension Fund	2,228
Total	**12,798**

Asset values are shown as at March 2015.

Our ambition for the Pool is to create appropriate vehicles for collective investment for all participating funds across all asset classes in time.

Assets which are currently held as life policies will be regarded as being within the Pool's governance arrangements but it will be necessary for them to be held outside of the pooled investment vehicles managed by the appointed operator such that the individual funds remain beneficiaries of the relevant policies. However, the investments are regarded as being an integral component of the Pool on the basis that a single manager has been appointed through a collective procurement exercise, and the ongoing monitoring and reporting of the investments will be incorporated into the Pool and fall within the responsibility of the Pool's Joint Governance Committee.

Where funds hold illiquid investments with fixed term lives, it could be very costly to exit from such investments before the realisation of the underlying assets. For that reason, it is proposed that holdings in such funds are retained outside of the Pool until expiry. However, new investments in such assets will be made within the Pool.

Depending on the precise nature of the services available from the appointed operator, it may be possible that one of the participating funds may wish to hold a proportion of their assets outside of the pool. More details are provided in the section below.

2. Assets which are proposed to be held outside the pool and the rationale for doing so.	
(a) Please provide a summary of the total amount and type of assets which are proposed to be held outside of the pool (once transition is complete, based on asset values at 31.3.2015).	
The funds will aim to include all of their assets within the pooling arrangements unless there are technical barriers preventing them from doing so for specific investments.	
(b) Please attach an ANNEX for each authority that proposes to hold assets outside of the pool detailing the amount, type, how long they will be held outside the pool, reason and how it demonstrates value for money.	See Annex 1.

The funds will aim to include all of their assets within the pooling arrangements unless there are technical barriers preventing them from doing so. Annex 1 supplied by Clwyd Pension Fund highlights a couple of mandates where there are some uncertainties on this point.

Funds will hold a small level of operational cash outside of the Pool to help with the efficient management of the fund. Such balances are expected to be modest and will be reviewed on a regular basis.

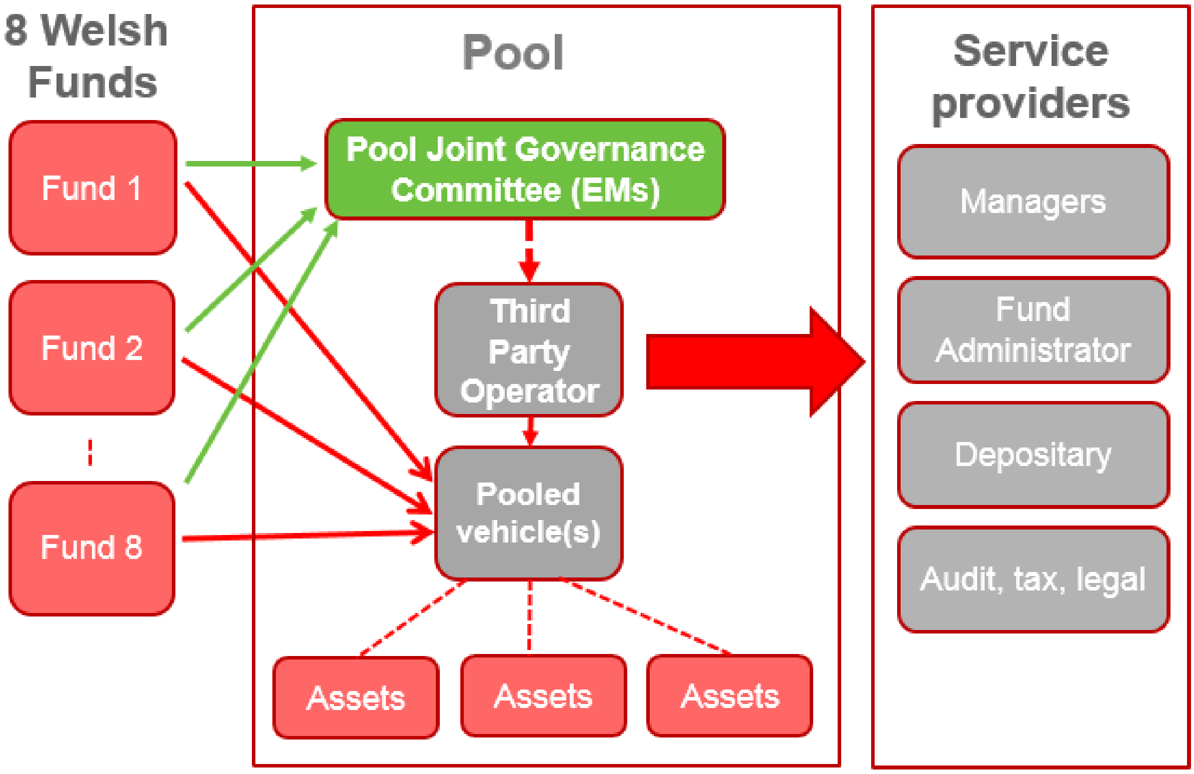
Funds may also wish to have the flexibility to make limited local investments within their own investment strategy should an appropriate opportunity arise, subject to discussions with the other funds within the Pool.

3. **The type of pool including the legal structure.**	
(a) Please set out the type of pool, including legal structure, and confirm that it has been formally signed off by all participating authorities:	
• Details of the FCA authorised structure that will be put in place, and has been signed off by the participating authorities. • Outline of tax treatment and legal position, including legal and beneficial ownership of assets. • The composition of the supervisory body.	
Please confirm that all participating authorities in the pool have signed up to the above. If not, please provide in an Annex the timeline when sign-off is expected and the reason for this to have occurred post July submission date.	

All administering authorities for the participating funds have formally agreed to the nature of the pooling arrangements as described in this section.

We believe that clear and robust governance arrangements are critical in terms of ensuring that the desired objectives of the Pool are achieved.

It is proposed that the Pool appoints a third party operator authorised by the FCA to provide a series of investment sub-funds in which the assets of the participating funds will be invested.



The formal decision to appoint a third party operator of collective vehicles was taken originally by all of the Welsh funds in September 2015 following a detailed report and business plan commissioned from external advisers. In light of the publication of the criteria for LGPS pooling published in November 2015 - and the formation of a number of other LGPS pools within England since that date - that decision has been revisited and re-confirmed by the Wales Pool earlier this year. This does not preclude consideration in future of the option of designing and building our own regulated operator.

A Joint Governance Committee (JGC) will be established to oversee the operator. The Committee will comprise elected members – one from each of the eight participating funds. It is anticipated that this is likely to be the Chairs of the respective Pensions Committees though administering authorities may choose to nominate alternative members if appropriate. This arrangement will provide accountability for the operator back to individual administering authorities.

The remit of the JGC is discussed in more detail in section B3.

The operator will be responsible for selecting and contracting with investment managers for each of the sub-funds as well as appointing other service providers such as depositary asset servicer, and (possibly) an external valuer administrators as necessary.

We anticipate at this stage that listed bonds and equities are likely to be invested through a UK based Authorised Contractual Scheme (ACS) in order to benefit from the tax transparent nature of the vehicle, though we will discuss this issue with the appointed operator. It may be that alternative vehicles are more appropriate for some other asset classes. As well as considering the options with the operator, we will also take external advice on the final proposed approach from a tax efficiency and legal compliance basis.

Under the proposed structure, the depository will hold legal title to the assets of the Pool. The operator will be responsible for managing and operating the Pool, including entering into the legal contracts with the investment managers.

4. How the pool will operate, the work to be carried out internally and services to be hired from outside.
Please provide a brief description of each service the pool intends to provide and the anticipated timing of provision.
(a) To operate in-house :
(a) To procure externally :

The Pool proposes to appoint a third party operator through a detailed procurement process in the second half of 2016. The funds have already discussed the range of services which are likely to be available from different service providers and the differing levels of service provision which might be considered. The detail of those services to be carried out internally and those which will be sourced through the operator will be discussed further and decided finally as part of the selection process.

To operate in-house

- The Pool will be responsible for the design of the initial structure of the ACS and its sub-funds in close cooperation with its chosen operator. The Pool anticipates that it and its chosen operator would work closely together on subsequent changes to existing sub-funds and on the launch of additional sub-funds. The pool recognises that this is subject to the operator having ultimate responsibility for operating and managing the ACS. Decisions on asset allocation will continue to be taken by the individual administering authorities.
- The Pool will be responsible for providing public reporting on the investment performance of the Pool assets and also on the wider area of achieved cost savings.

To procure externally

- The appointed operator will provide and operate a range of investment vehicles to allow collective investment by the participating funds.
- The operator will be responsible for selecting and contracting with investment managers for the management of the underlying assets. They will also be responsible for administration in relation to the vehicles in terms of unit pricing, valuation, handling cash flows in and out of the various sub-funds, trade processing and reporting on performance.
- They will be responsible for due diligence from an audit, legal and tax perspective for the respective sub-funds and also for electing a depositary to the Pool.
- The Pool will also procure independent external legal and tax advice as necessary to support them in their relationship with the operator.

5. The timetable for establishing the pool and moving assets into the pool. Authorities should explain how they will transparently report progress against that timetable and demonstrate that this will enable progress to be monitored.	
(a) Please provide assurance that the structure summarised in 3 above will be in place by 01.04.2018 assuming: x, y and z (add caveats). YES - We expect the pooling structure to be in place ahead of April 2018 assuming that there are no delays encountered with the procurement process and that the appropriate regulated vehicles can be established by the operator within the expected timescales.	
(b) Please provide as an ANNEX a high level timetable for the establishment of the structure and transition of assets as well as the proposed methodology for reporting progress against this timetable.	Attached as ANNEX number 2
(c) Please provide as an ANNEX an outline of how you will approach transition over the years and where possible by asset class (any values given should be as at 31.3.2015.)	Attached as ANNEX number 3
(d) Based on the asset transition plan, please provide a summary of the estimated value of assets (in £b and based on values as at 31.3.2015 and assuming no change in asset mix) to be held within the pool at the end of each 3 year period starting from 01.4.2018.	
Total value of assets estimated to be held in pool as at 31.3.2021: £12.2bn 31.3.2024: £12.4bn 31.3.2027: £12.6bn 31.3.2030: £12.8bn 31.3.2033: £12.8bn We anticipate that 95% of assets will be within the Pool by April 2021.	

Criterion B: Strong governance and decision making

1.	**The governance structure for their pool, including the accountability between the pool and elected councillors and how external scrutiny will be used.**
a)	Please briefly describe the mechanisms within the pool structure for ensuring that individual authorities' views can be expressed and taken account of, including voting rights.
b)	Please list and briefly describe the role of those bodies and/or suppliers that will be used to provide external scrutiny of the pool (including the Pensions Committee and local Pension Board).

The Joint Governance Committee (JGC) will be set up formally as a Joint Committee between the participating administering authorities. Each fund will have one elected member on the Committee. It will operate on the basis of 'One Fund, One Vote', though the intention is that any decisions are reached by consensus wherever possible. A formal Terms of Reference for the Committee will be drawn up.

The Committee will be responsible for ensuring where practical that there are an appropriate range of sub-funds available to allow administering authorities to implement their own desired asset allocation. The JGC will be in regular discussions with the operator as to the specific sub-funds which should be set up within the Pool, both at the outset and on an ongoing basis.

Officers from each administering authority will attend JGC meetings (in a non-voting capacity). The officers already work together as the Pensions Sub Group of the SWT (Society of Welsh Treasurers). The formal terms of reference of this officer group will be revised in light of the new pooling arrangements. The officers will advise the JGC on the establishment and monitoring of the various sub-funds as well as liaise directly with the operator on any day-to-day investment matters.

In the first instance, it is anticipated that the fund representatives on the JGC will report back to their respective individual funds' Pensions committees who will be responsible for satisfying themselves as to the effectiveness of the pooling arrangements overall and the operation of the JGC. However, the local Pensions Boards may also seek reassurance on aspects of the management of the funds' investments.

External scrutiny and formal due diligence of the operator and depositary will also be carried out by the FCA in their role as regulator.

2. The mechanisms by which authorities can hold the pool to account and secure assurance that their investment strategy is being implemented effectively and that their investments are being well managed in the long term interests of their members.	
(a) Please describe briefly the type, purpose and extent of any formal agreement that is intended to be put in place between the authorities, pool and any supervisory body.	
(b) If available please include a draft of the agreement between any supervisory body and the pool as an ANNEX.	
(c) Please describe briefly how that agreement will ensure that the supervisory body can hold the pool to account and in particular the provisions for reporting back to authorities on the implementation and performance of their investment strategy.	

(a) A contractual sponsor agreement will be drawn up between the appointed third party operator and the eight administering authorities. External legal advice will be taken by the Pool on the content and format of the contract.

A formal Terms of Reference will be drawn up for the Joint Governance Committee. This will form the basis for the relationship between the Committee and the individual administering authorities.

(b) The draft will be finalised as part of the procurement process. NOTE: Advice on the procurement process to be used will need to be considered further.

(c) The operator will be appointed on a fixed term contract – with an ability for the JGC to terminate the service early in the event of unacceptable performance by the operator. The work involved in changing operator has been discussed already by the Pool and will be considered in more detail as part of the selection exercise.

Comprehensive reporting requirements for the operator will be agreed as part of the service definition.

3. Decision making procedures at all stages of investment, and the rationale underpinning this. Confirm that manager selection and the implementation of investment strategy will be carried out at the pool level.
(a) Please list the decisions that will be made by the authorities and the rationale underpinning this.
(b) Please list the decisions to be made at the pool level and the rationale underpinning this.

(c) Please list the decisions to be made by the supervisory body and the rationale underpinning this.

Administering authorities

Individual administering authorities will be responsible for:-

- Setting their fund's investment strategy and asset allocation, as each fund will have a different pattern of liabilities, a different mix of participating employers and varying attitudes to risk. The investment strategy is a core component of each individual fund's overall funding strategy.
- Any issues relating to the setting of employer contribution rates and the overall administration of the fund's benefits.
- Nominating an elected member to sit on the JGC.

Joint Governance Committee (JGC)

The Committee will be responsible for:

- Recommending the appointment of and monitoring the performance of, the third party operator.
- Interacting with the operator on the design and structure of the investment sub-funds which should be made available by the operator. The objective will be to make available a sufficient range of funds to allow funds to implement their respective investment strategies whilst also being mindful of the benefits of aggregating assets.
- Reporting on the activities of the Pool as required – to administering authorities and Government as well as public reporting.
- Ensuring compliance of the operator with the terms of the sponsor agreement.

Third Party Operator

The Operator will:

- Establish investment sub-funds in cooperation with the JGC, recognising that the operator has ultimate legal and regulatory responsibility for this function.
- Select and contract with the investment managers for each of the sub-funds, as is required in their role as the regulated investment decision-making body.
- Carry out appropriate due diligence on those investment managers, as well as other service providers.
- Provide an appropriate level of detailed reporting on the performance of the investment sub-funds.
- Provide administration in relation to the underlying sub-funds.
- Meet all relevant regulatory requirements.

4. The shared objectives for the pool and any policies that are to be agreed between participants.
(a) Please set out below the shared objectives for the pool.
(b) Please list and briefly describe any policies that will or have been agreed between the participating authorities.

(c) If available please attach as an ANNEX any draft or agreed policies already in place.	

(a) The objectives of the Pool have been agreed as follows:

- To provide pooling arrangements which allow individual funds to implement their own investment strategies (where practical).
- To achieve material cost savings for participating funds while improving or maintaining investment performance after fees.
- To put in place robust governance arrangements to oversee the Pool's activities.
- To work closely with other pools in order to explore the benefits that all stakeholders in Wales might obtain from wider pooling solutions or potential direct investments.

(b) The participating authorities will agree specific policies as required. These will include, but not be restricted to, the following:-

- The allocation of implementation and ongoing costs between participants.
- The allocation of transition costs incurred from transferring fund assets into aggregated Pool vehicles.
- The criteria applied and agreed with the operator, to establishing new sub-funds for specific asset classes or investment types.
- The approach to Environmental, Social and Governance (ESG) factors within investment and wider issues relating to Responsible Investment.

5. The resources allocated to the running of the pool, including the governance budget, the number of staff needed and the skills and expertise required.	
(a) Please provide an estimate of the operating costs of the pool (including governance and regulatory capital), split between implementation and ongoing. Please list any assumptions made to arrive at that estimate. <u>Please include details of where new costs are offset by reduced existing costs.</u>	
(b) Please provide an estimate of the staff numbers and the skills/expertise required, split between implementation and ongoing. Please state any assumptions made to arrive at that estimate.	

(a) Estimates at this stage are difficult as the precise scope of services to be provided by the third party operator has not been defined.
However, we have provisionally estimated the following:-

- Implementation costs – circa £0.5m-£1m
- Ongoing costs - circa £[redacted]

Implementation costs

The estimate of Implementation Costs excludes transaction costs in relation to transferring investment assets.

Regulatory capital will be provided by the operator (and therefore reflected in operator's charges.)

The estimate comprises the costs of carrying out a procurement exercise for a third party operator and subsequent liaison with the operator regarding the setting up of investment sub-funds. It includes an estimate of the input of internal officer resources across the funds as well as external advice in relation to taxation and legal issues, project management and investment advice on potential fund options, etc.

Ongoing costs

We assume that the running costs of the Pool will predominantly comprise the fees payable to the operator, though there will be additional governance costs relating to officer and Committee time.

The fees payable to the operator will depend on the level of services agreed though we have assumed at this stage a broad range of 1-3 bps (or £1.3m-£3.5m).

Fund officers will also be spending time on additional areas such as managing the operator contract (SLAs etc.), monitoring operator performance (KPIs), overseeing reporting, and providing support and advice to the Pool's Joint Governance Committee.

We expect there to be limited scope to offset current costs though some explicit costs will reduce including work in relation to selecting and contracting with managers and day to day queries on individual mandates. We have estimated that additional officer and governance costs should be less than £0.5m per annum.

Depository and custody costs will transfer from being a direct fund expense to being incurred by the ACS. Other costs and expenses will incurred at the level of the ACS, including those assets services, investment managers, lawyers, auditor and (possibly) valuer. Efficiencies are likely given the larger scale of assets.

(b) The funds have discussed the potential use of internal fund officers to assist with Pool business.

Estimates of the likely workload at this stage are difficult as the precise scope of services to be provided by the operator has not been defined.

The funds are open to the formal allocation of officer time to the Pool should that be seen as advantageous.

6. How any environmental, social and corporate governance policies will be handled by the pool. How the authorities will act as responsible, long term investors through the pool, including how the pool will determine and enact stewardship responsibilities.
(a) Please confirm there will be a written responsible investment policy at the pool level in place by 01.4.2018.

YES - the Pool will have an agreed policy in place by April 2018.

7. How the net performance of each asset class will be reported publicly by the pool, to encourage the sharing of data and best practice.
(a) Please confirm that the pool will publish annual net performance in each asset class on a publicly accessible website, and that all participating authorities will publish net performance of their assets on their own websites, including fees and net performance in each listed asset class compared to a passive index.

YES – the Pool is committed to publishing the above information. We feel there is benefit in there being collaboration between pools in agreeing on the best format for reporting such information as this will allow for greater consistency of overall data.

8. The extent to which benchmarking is used by the authority to assess their own governance and performance and that of the pool.
(a) Please list the benchmarking indicators and analysis that the participating authorities intend to implement to assess their own governance and performance and that of the pool.

The funds have requested and received detailed analysis on their investment costs from independent benchmarking company, CEM Benchmarking.

Once formally established, the Joint Governance Committee will explore the potential for using third party evaluation services to provide independent assessment of different aspects of the Pool's governance and performance.

Criterion C: Reduced costs and excellent value for money

1. A fully transparent assessment of investment costs and fees as at 31 March 2013.	
(a) Please state the total investment costs and fees for each of the authorities in the pool as reported in the Annual Report and Accounts for that year ending 31.03.2013.	
(b) Please state the total investment costs and fees for each of the authorities in the pool as at 31.03.2013 on a fully transparent basis.	
(c) Please list below the assumptions made for the purposes of calculating the transparent costs quoted.	

Total investment costs and fees reported by the eight funds in their Annual Reports and Accounts for March 2013 were £34.385m.

In order to calculate costs on a fully transparent and consistent basis, the funds supplied data to a third party company, CEM Benchmarking. Reports have been produced at an individual fund level and at an aggregate pool level.

The cost information supplied by CEM is as follows:

	March 2013 (bps)	March 2013 (£)
Investment management costs	44.6	£47.6m
Oversight, custody and other costs	2.7	£2.9m
Total costs	47.3	£50.5m

The calculated investment costs include performance related fees for the public market asset classes but exclude carry/performance fees for infrastructure, property and private equity. They exclude non-investment costs, such as pension administration.

Where there have been underlying fees paid within fund-of-funds arrangements and specific data has not been available, CEM have estimated the costs incurred based on their global database of similar arrangements.

2. A fully transparent assessment of current investment costs and fees, prepared on the same basis as 2013 for comparison, and how these will be reduced over time.	
(a) Please state the total investment costs and fees for each of the authorities in the pool as reported in the Annual Report and Accounts for that year ending 31.03.2015.	£m
(b) Please state the total investment costs and fees for each of the authorities in the pool as at 31.03.2015 on a fully transparent basis.	£m
(c) Please list below any assumptions made for the purposes of calculating the transparent costs quoted that differ from those listed in 1(c) above.	

Total investment costs and fees reported by the eight funds in their Annual Reports and Accounts for March 2015 were £56.489m.

In order to calculate costs on a fully transparent and consistent basis, the funds supplied data to a third party company, CEM Benchmarking. Reports have been produced at an individual fund level and at an aggregate pool level.

The cost information supplied by CEM is as follows:

	March 2015 (bps)	March 2015 (£)
Investment management costs	45.6	£58.3m
Oversight, custody and other costs	2.9	£3.7m
Total costs	48.5	£62.0m

Costs have been calculated on the same basis as those in section C1.

3. A detailed estimate of savings over the next 15 years.	
(a) Please provide a summary of the estimated savings (per annum) to be achieved by each of the authorities in the pool at the end of each 3 year period starting from 01.04.2018.	
Total value of savings (per annum) estimated to be achieved by each of the authorities in the pool as at 31.3.2021: £ 31.3.2024: £ 31.3.2027: £ 31.3.2030: £ 31.3.2033: £	
(b) Please list below the assumptions made in estimating the savings stated above (for example if you have used a standard assumption for fee savings in asset class please state the assumption and the rationale behind it).	
(c) Alternatively you may attach an ANNEX showing the assumptions and rationale made in estimating the savings shown.	

Attached as ANNEX number 4.

4. A detailed estimate of implementation costs and when they will arise, including transition costs as assets are migrated into the pool, and an explanation of how these costs will be met.
(a) Please provide a summary of estimated implementation costs, including but not limited to legal, project management, financial advice, structure set-up and transition costs. Please represent these costs in a table, showing when these costs will be incurred, with each type of cost shown separately. Please estimate (using information in Criteria C Section 3) the year in which the pool will break even (i.e. the benefits will exceed additional costs of pooling).

(b) Please list below the assumptions made in estimating the implementation costs stated above (for example if you have assumed a standard cost for each asset class please state the assumption and the rationale behind it).	
(c) Alternatively you may attach an ANNEX showing the assumptions and rationale made in estimating the implementation costs shown.	
(d) Please explain how the implementation costs will be met by the participating authorities.	

Attached as ANNEX number 5.

5. A proposal for reporting transparently against forecast transition costs and savings, as well as for reporting fees and net performance.
(a) Please explain the format and forum in which the pool and participating authorities will transparently report actual implementation (including transition) costs compared to the forecasts above.
(b) Please explain the format and forum in which the pool and participating authorities will transparently report actual investment costs and fees as well as net performance.
(c) Please explain the format and forum in which the pool and participating authorities will transparently report actual savings compared to the forecasts above.

The Pool is committed to publishing the above information. We anticipate there being collaboration between pools in agreeing on the best format for reporting such data as this will allow for greater consistency overall.

The main cost of implementing pooling will arise from the cost of asset transitions. The Pool is likely to use specialist transition managers for this purpose and will receive detailed reports both before and after each transition providing a breakdown of expected costs and then the actual costs incurred. These will be monitored against the original estimates made in this document of the likely level of costs incurred from asset transfers.

Detailed cost analysis by asset class will also be carried out by participating funds in order to measure the actual level of cost savings achieved against the provisional estimates included at this point.

Criterion D: An improved capacity to invest in infrastructure

1. **The proportion of the total pool asset allocation currently allocated to / committed to infrastructure, both directly and through funds, or "funds of funds"**	
(a) Please state the pool's committed allocation to infrastructure, both directly and indirectly, as at 31.3.2015.	
(b) Please state the pool's target asset allocation to infrastructure, both directly and indirectly, as at 31.3.2015.	
Please use the definition of infrastructure agreed by the Cross Pool Collaboration Group Infrastructure Sub-Group.	

(a) Current investments in infrastructure account for 0.3% of Pool assets.

(b) The aggregate target allocation to infrastructure across funds within the Pool is 1% of assets.

2. **How the pool might develop or acquire the capacity and capability to assess infrastructure projects, and reduce costs by managing any subsequent investments through the combined pool, rather than existing fund, or "fund of funds" arrangements.**	
(a) Please confirm that the pool is committed to developing a collaborative infrastructure platform that offers opportunities through the utilisation of combined scale, to build capability and capacity in order to offer authorities (through their Pools) the ability to access infrastructure opportunities appropriate to their risk appetite and return requirements more efficiently and effectively.	
(b) Please confirm that the pool is committed to continuing to work with all the other Pools (through the Cross Pool Collaboration Infrastructure Group) to progress the development of a collaborative infrastructure initiative that will be available to all Pools and include a timescale for implementation of the initiative.	

The Pool has a representative on the Cross Pool Collaboration Infrastructure Group. The officers representing the Pools have agreed that they are committed to working together, to determine current capacity and capability, share and develop experience and skills in infrastructure development, and explore options for a more formal National Initiative on Infrastructure Investing.

In common with most other funds, the infrastructure investments of the Wales funds are managed by external investment managers and are varied across geographies, managers and most significantly risk / return budgets.

The funds within the Pool acknowledge that they currently have less invested in infrastructure than a number of the other pools and are very supportive of the interim conclusions of the Cross Pool Group, namely that:-

- All Pools would at the very least benefit from sharing knowledge and would explicitly seek not to compete against each other.
- Collaboration will be greatly facilitated through working as a small number of Pools rather than 89 funds.
- There will be considerable scope to achieve significant cost savings through collaboration, and this should be an early priority for the National Initiative.
- There will be considerable opportunity to improve governance rights, negotiate better/more appropriate structures (e.g. longer term vehicles, greater UK investments) and gain priority access to co-investment opportunities.
- Given the level of interest in infrastructure, adding to the number of primary market participants and increasing competition would not be advantageous. Thus, working actively with other investors and investing directly as a co investor, is regarded as the appropriate mechanism for the LGPS to make direct infrastructure investments.
- Overall we expect a "hybrid" model to emerge across the Pools, with some investment in funds and some direct investment through co-investments and other bespoke structures, with widespread collaboration to reduce costs and increase capacity.
- It is important that appropriate delegations are in place to ensure decisions can be made quickly when opportunities arise. Individual funds may have specific investment criteria but typically will be managed by the Pools in association with the National Initiative.
- It is anticipated that the National initiative will need to procure the services of a number of market participants rather than just one in order to access all relevant areas of the asset class to satisfy the risk/return requirements of individual funds and Pools.

The Wales Pool is very supportive of the work of the Cross Pool group and looks forward to the group continuing to develop collaboration and work towards a national initiative in the next stage.

3. The proportion the pool could invest in infrastructure, and their ambition in this area going forward, as well as how they have arrived at this position.	
(a) Please state the estimated total target allocation to infrastructure, or provide a statement of potential strategic investment, once the capacity and capability referred to in 2 above is in full operation and mature.	
(b) Please describe the conditions in which this allocation could be realised.	

(a) Our ambition in the short to medium term is to have at least 5% of assets (up from the current 0.3%) invested in infrastructure investments with a longer term aspiration set at 10% - subject to satisfactory investments being available.

However, it is recognised by the Pool that allocations to infrastructure represent asset allocation decisions and are therefore the responsibility of individual funds.

(b) We acknowledge that infrastructure in principle is an attractive investment given the nature of the funds' liabilities.

We anticipate that larger scale will allow the asset class to be accessed at lower cost than at present. Other things being equal, this improves the risk / return characteristics of the asset class to participating funds. National vehicles will also allow for easier access from a governance perspective.

Investments need to be available offering an appropriate level of diversification – global infrastructure rather than purely UK - and suitable access to preferred stages of development (green-field / brown-field etc.). However, the Pool is encouraged by the focus of the Cross Pool group in identifying ways of accessing a wide range of potential investments.

Prospective returns also need to be satisfactory. It is claimed that there is currently a lot of capital chasing opportunities to purchase infrastructure assets in many regions and overpaying for such long term assets would seriously impinge on long term returns to investors.

Annex 1 – section A2

Please attach an ANNEX for each authority that proposes to hold assets outside of the pool detailing the amount, type, how long they will be held outside the pool, reason and how it demonstrates value for money.

Submitted by Clwyd Pension Fund

The Fund will aim to include all of its assets within the pooling arrangements unless there are technical barriers preventing them from doing so. The ability to transfer the assets detailed below will depend on the capabilities of the appointed operator.

Liability Matching Mandate- Flight-path- £329m as at March 2015 – Clwyd Fund

This is a specific strategy to manage the Clwyd Fund's individual liability risks using liability driven investment (LDI). It is a fundamental part of the Clwyd Fund's investment and funding strategy and its implementation is key to the Actuary when determining financial assumptions during the Actuarial Valuation process.

The Clwyd Fund has put in place a strategy based upon long-term management of asset and liability risk, namely volatility on interest rates and inflation. This "flight-path" approach aims to add interest rate and inflation protection on an incremental basis to manage more effectively the move back to 100% funding via a trigger based implementation mechanism

Given the investment and governance complexities involved in implementing a Fund specific LDI portfolio and 'flight-path', this may not be viable under the Wales pooling arrangement. However, the Clwyd Fund remains open-minded to consider a different vehicle or structure provided by the Wales Pool, or a cross pool solution, should a more cost-effective approach become available in the future.

The costs of 'undoing' the arrangements in place would be significant. As a broad rule of thumb, this is likely to be in the order of £2-3m (or 1% of assets in the mandate) and would also require significant officer time and involvement from advisors.

Managed Account Platform – £139m **as at March 2016** – Clwyd Fund

The Clwyd Fund's managed futures and hedge fund allocations are managed tactically by a specialist fund manager through a vehicle that has been specifically created for the LGPS and allows individual LGPS Funds or Pools to design and build their own bespoke strategic allocations.

This replaced the previous (traditional) hedge fund of fund approach **from August 2015,** which had higher fees and less transparency, and did not allow the Clwyd Fund to manage specific investment risks on a bespoke and tactical basis.

Although there are only two LGPS funds currently invested, this new vehicle is being actively marketed across other LGPS funds and pools (with significant engagement to date) and it is anticipated that others will adopt this approach which will trigger further fee breaks for all LGPS investors.

Dependent of the operator and model selected by the Wales Pool this vehicle could be added as a sub-fund to a Wales ACS (or other vehicles established for other asset classes). The provider of the Managed Account Platform has promised the LGPS significant flexibility to enable those LGPS funds that have allocated assets to the vehicle the flexibility to retain their exposure post the creation and implementation of the various Asset Pools. Therefore, we will be asking for engagement from the All Wales Pool with the provider to further understand this flexibility and how it can be used for the benefit of the Clwyd Fund (and other LGPS funds within the vehicle) within the Pooling environment.

However, the Clwyd Fund would also consider any solutions from the Wales Pool which provided the same exposures, transparency and flexibility at a similar cost.

Annex 2 – section A5

Please provide as an ANNEX a high level timetable for the establishment of the structure and transition of assets as well as the proposed methodology for reporting progress against this timetable.

The participating funds will initiate a procurement exercise in the second half of 2016 in order to appoint a third party operator. An Information Day has already been held to consider the range of services which could be available from providers – and wider discussions have been held between the funds on the relative merits of taking particular services. NOTE: Advice on the procurement process to be used will need to be considered further.

The Joint Governance Committee for the Pool will be formally constituted in time to make the formal recommendation in relation to appointment of the operator.

Discussions will then be held with the appointed operator in order to agree the investment sub-funds and the proposed timescale for transferring assets.

The proposed timetable is summarised below.

Establish Shadow Joint Governance Committee	By 30 Sep. 2016
Complete procurement exercise for third party operator Establish formal Governance Committee	By 31 Dec. 2016
Detailed specification of requirements agreed with operator including phasing of asset transition	By 30 June 2017
First transitions of listed assets	By 31 Dec. 2017

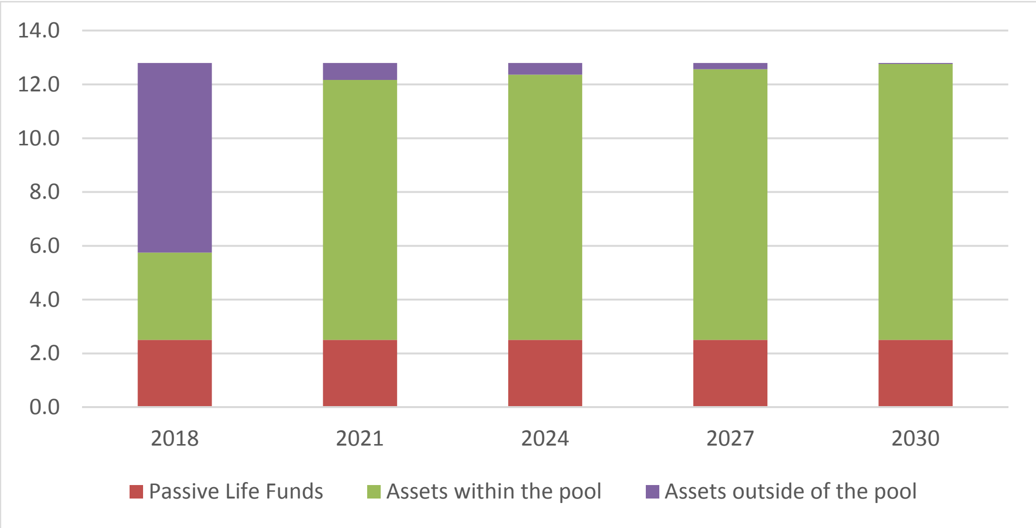
Annex 3 – section A5

Please provide as an ANNEX an outline of how you will approach transition over the years and where possible by asset class (any values given should be as at 31.3.2015.)

The intention is that the implementation of asset pooling will be addressed by the Pool on a phased basis, considering the detailed approach to each of the major asset classes in turn.

However, we anticipate that over 95% of assets will form part of the Pool by April 2021.

We have shown below the estimated movement of assets in aggregate between now and April 2030. This timetable is indicative and will be subject to confirmation following discussions with the appointed operator.



The assumptions underlying the chart above are set out in the table below.

Assets	Rate of transition into Pool
Passive assets	100% by April 2018
Active equities	50% by April 2018 Remainder by April 2021
Active Fixed Income	100% within period April 2018-21
Property	70% by April 2021 (units in liquid funds) Remainder to transfer gradually to 2030 (maturing of fixed life funds)
Liquid alternatives	100% within period 2018-21
Illiquid Alternatives	Gradual transfer over period 2018-2030 as fixed life funds mature

Annex 4 – section C3

Please provide a summary of the estimated savings (per annum) to be achieved by each of the authorities in the pool at the end of each 3 year period starting from 01.04.2018.

By necessity, any forecasts of future costs savings at this point are extremely tentative. Although we are confident that the aggregation of assets will lead to lower management costs, it is difficult to predict the levels of fees which can be obtained until investment managers are obliged to conduct real commercial negotiations about their future business levels.

We have considered possible savings across asset classes as a range of potential outcomes reflecting the uncertainty surrounding the final outcomes. These are shown in the table later in this section. For the purposes of the table below and our projections in Annex 5, we have used the mid-point of those projected ranges.

Actual costs payable will be driven by changes on asset mix, the change in value of assets and the application of performance related fees. The estimated savings below are based on an unchanged asset mix and March 2015 asset values.

Savings will not be achieved on a pro rata basis across participating funds but will depend on the degree of change from their current arrangements and investment costs to the new pooled arrangements.

Total value of savings (per annum) estimated to be achieved as at:

31.3.2021: £8.4m

31.3.2024: £9.8m

31.3.2027: £11.3m

31.3.2030: £12.5m

31.3.2033: £12.5m

The cost savings have been estimated by considering each of the asset classes in which the participating funds currently invest and using the data provided by CEM Benchmarking to find the current level of costs being incurred by investments in these areas. We have then considered the level of savings which might be achievable within each asset class, whilst bearing in mind that we have not yet decided on all of the specific sub-funds which will be put in place.

Asset class	Current cost (bps)	Potential savings (bps)	Total pool assets	Annual estimated potential savings £m	Rationale
Passive (24% of Pool assets)	[redacted]	[redacted]	£3.1bn	1.8-2.0	New reduced fee scale already agreed with single manager and will apply with effect from April 2016.
Active equity (44% of Pool assets)	43.3	5-10	£5.6bn	2.8-5.6	Assets invested in UK and global equity mandates totalling £1.3bn and £2.8bn respectively will be aggregated into 'core' and 'high alpha' mandates. Savings based on reduced number of mandates and increased manager mandate sizes.
Active fixed income (17% of Pool assets)	22.2	2-4	£2.2bn	0.5-0.8	Current mandates in this area vary widely in scope. A small number of new sub-funds are likely to be established to meet the objectives of each fund. Pool savings based on reduced number of mandates but will depend on the final sub-funds provided.
Property (8% of Pool assets)	108.1	20-30	£0.8bn	1.7-2.5	UK property fund holdings could be pooled initially under a single mandate. The long term potential for establishing a direct property mandate is being explored. Savings assume streamlining of any fund-of-fund arrangements in the short term in favour of a managed account and a transition over the long term to holding more direct assets.
Private Equity (3% of Pool assets)	274.6	50-100	£0.4bn	2.1-4.2	Current investments in closed end funds will be allowed to mature outside of the pool. Savings assume a gradual move from a fund-of-funds model to either a single adviser or alternative cross-pool solution
Infrastructure (<1% of Pool assets)	261.8	50-100	£0.1bn	0.3-0.6	Assumes a gradual move from a fund-of-funds model to a single advisor model or use of a national infrastructure investment
Other asset classes			£0.5bn	0-0.1	Individual allocations are very small. Some modest savings may be possible on an ad-hoc basis.

Source of savings estimates: Analysis from Project POOL, Hymans Robertson research universe.

The estimated savings above provide a range of £9.1m to £15.8m. The mid-point of this range implies a total annual savings rate of circa £12.5m p.a. by 2030.

Annex 5 – section C4

Please provide a summary of estimated implementation costs, including but not limited to legal, project management, financial advice, structure set-up and transition costs. Please represent these costs in a table, showing when these costs will be incurred, with each type of cost shown separately. Please estimate (using information in Criteria C Section 3) the year in which the pool will break even (i.e. the benefits will exceed additional costs of pooling).

By appointing a third party operator, the Pool will avoid costs incurred in setting up a regulated body from outset. We anticipate that the costs incurred will be through the allocation of internal officer resource and advisory fees from external parties for services such as legal services, project management, taxation and legal advice. Estimates of the possible level of transition costs are shown later in this section.

In the table below, we have given an indication of potential costs associated with setting up the Wales Pool arrangements.

Costs	Total - three year period to April 2018 £000s	Total - three year period to April 2021 £000s
Internal officer resource	150-250	50-150
Project management	50-150	-
Legal advice	100-200	0-100
Other advisory fees (taxation, procurement, transition, investment etc.)	200-300	0-100
	500 - 900	50-350

Transition costs

Transition costs will be a very significant component of the costs of implementing the pooling arrangements. At this stage, the level of trading that will be required is difficult to estimate. We are still to confirm the exact number of new strategies which will be available within the pooling arrangements and therefore the degree of mandate consolidation which will be required.

For illustration, in the tables below, we have shown the range of costs which might be incurred across the four liquid asset classes in two potential scenarios - where respectively 30% and 70% of assets within terminated mandates require to be traded.

Transition costs associated with the consolidation of the passively managed assets will be covered by the investment manager.

Asset class	Active UK Equity	Active Global Equity	Div. Growth Funds	Active Bonds
Value of assets	£1.3bn	£2.8bn	£0.2bn	£2.1bn
Current number of strategies	8	14	3	10
Potential number of new strategies	4	6	2	5
Value of assets requiring transition	£650m	£1.6bn	£60m	£1bn
Explicit trading costs (exc. market impact and opportunity cost) (in basis points)	33	17.6	20	29.6
Costs if 30% of assets within portfolios require to be traded (60% turnover)	£1.3m	£1.7m	£0.1m	£1.9m
Costs if 70% of assets within portfolios require to be traded (140% turnover)	£3.0m	£3.9m	£0.2m	£4.4m

In the above illustrations, the estimated transition costs range from £5.0m to £11.5m. We have used these figures in our projections below.

In terms of the timing of these transaction costs, we assume that these will be incurred at the time that assets are transferred into the Pool. In practice, there may be some timing differences.

Transaction costs within property can be significant though we are assuming that there will be minimal transition activity in the short / medium term. A long term ambition for the property assets has still to be agreed. A move to a fully direct mandate will incur higher initial costs but generate higher long term savings.

Illiquid assets will not incur transaction costs as they will be allowed to mature without forced realisation of investments.

<u>Break-even analysis</u>

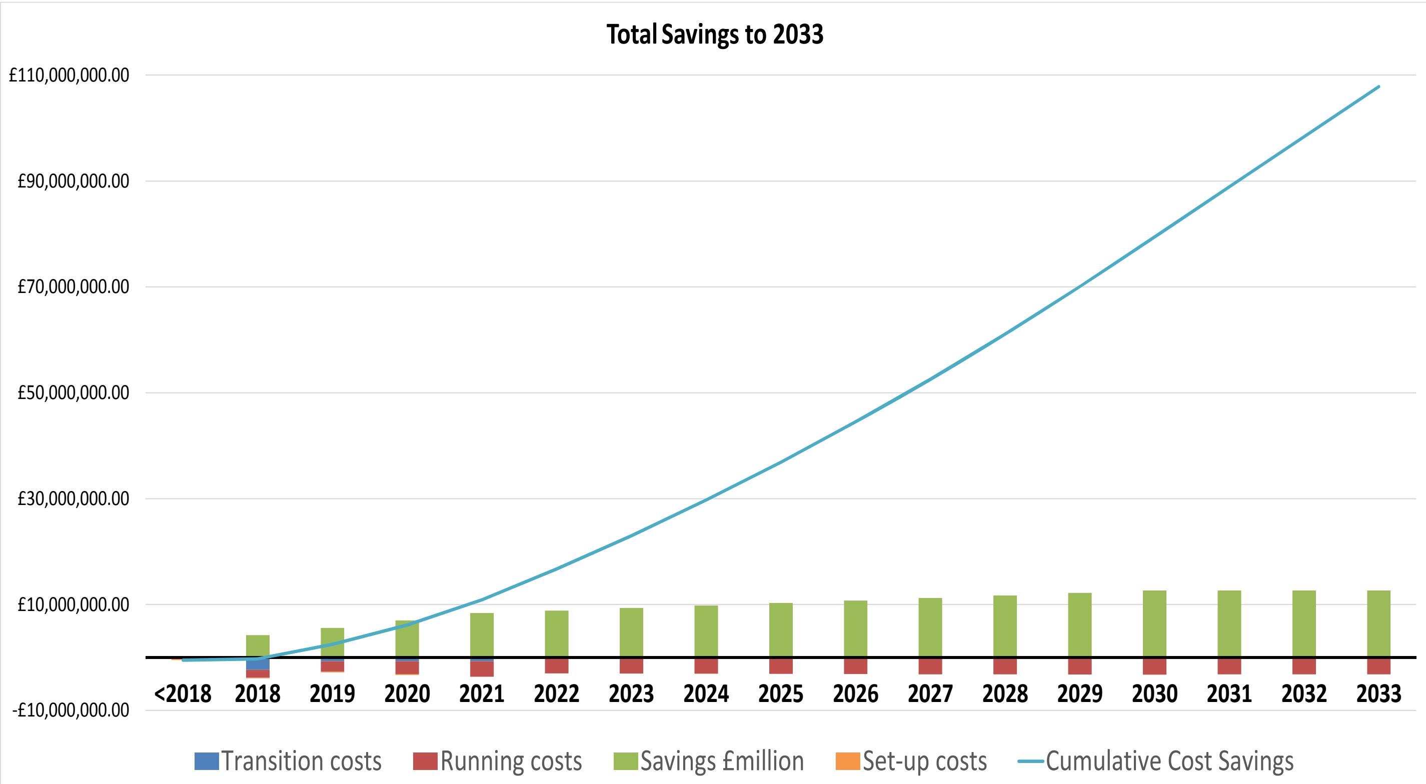
For the purposes of forecasting a break-even point, we have used the following assumptions:-

- The central estimate of cost savings as set out in Annex 4.
- The timing of these cost savings is equivalent to the date of assets entering the Pool - with the exception of property where savings are expected to come through gradually over the 12 year period.
- Running costs of the Pool equivalent to [redacted] of the assets in the Pool at any point, reflecting operator fees and internal resource costs.
- Set-up costs of £1m divided between the periods to April 2018 and to April 2021.
- The two estimates of transition costs above.

With total transition costs of £5m

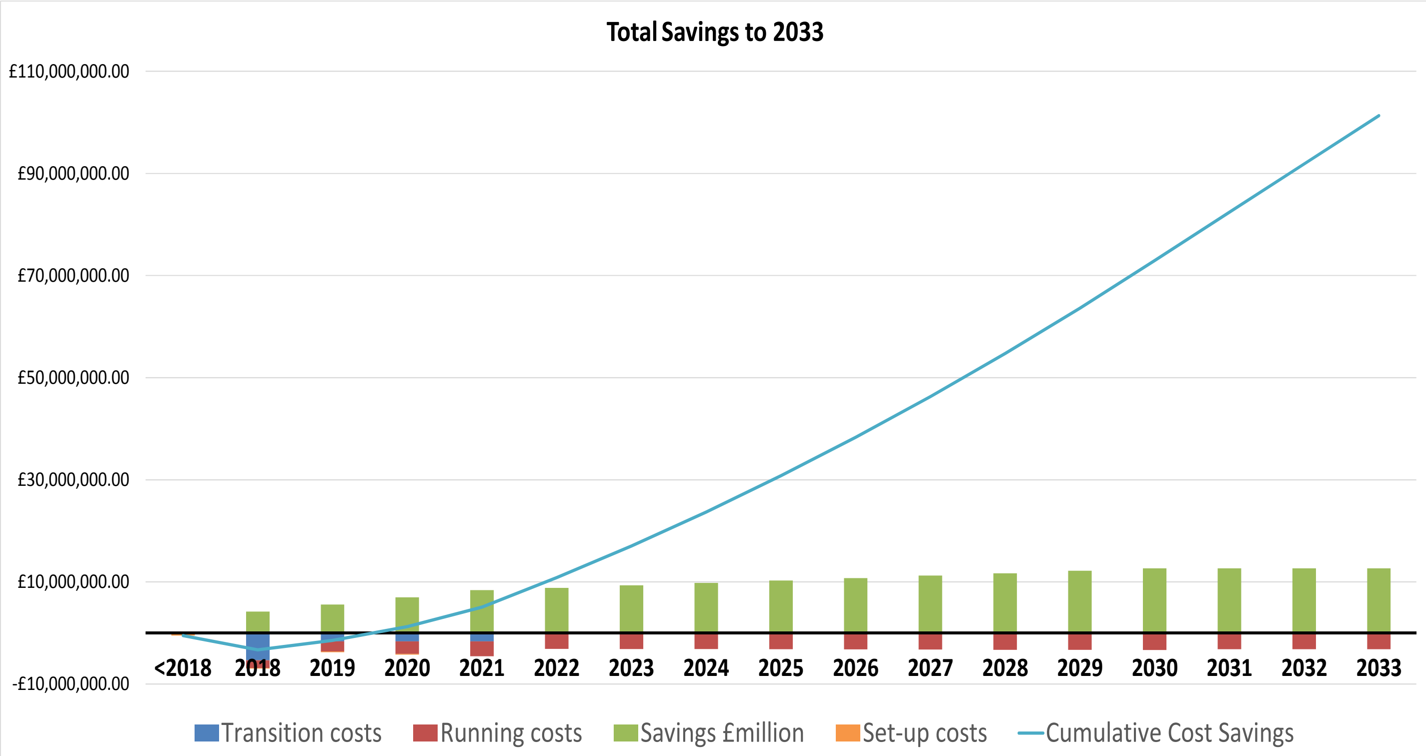
Given the passive fee savings which are already being earned by the Pool with effect from April 2016 and the fact that the Pool will not be incurring the significant costs of setting up its own operator, the benefits of the pooling arrangement flow through quickly – with a break-even point in 2018/19 as shown in the chart below.

By 2033, net annual savings of £9.5m p.a. are being earned with cumulative savings of circa £110m by that date.



With total transition costs of £11.5m

With higher transition costs of £11.5m assumed, the net savings still reach a level of £9.5m p.a. but the break-even date is pushed back to 2019/2020.



Active and passive management

The model above allows the participating funds to consider the impact of changes in assumptions and alternative approaches.

We have been asked to make savings forecasts on the basis of an unchanged asset mix. Each fund will also decide on the extent of its own use of active and passive management.

There are no current plans for individual funds to change their respective allocations to active and passive management. As an indication of the sensitivity of the change in total costs to any such changes, we have shown below the impact of a movement of 5% and 10% of Pool assets respectively moving out of active equity mandates and into passively managed mandates.

- 5% of assets (£638m) – additional cost reduction of [redacted] before transition costs
- 10% of assets (£1.28bn – additional cost reduction of [redacted] before transition costs

However, individual funds will also take into account the expected outcomes in terms of returns net of fees.

Report of the Section 151 Officer

Local Pension Board - 23 March 2017

CLIMATE CHANGE AND A CARBON INVESTMENT POLICY- AN UPDATE

Purpose:	To enable Local Pension Board to note the attached report which was considered at the previous Pension Fund Committee
Consultation:	Legal, Finance and Access to Services.
Report Author:	Jeffrey Dong
Finance Officer:	Mike Hawes
Legal Officer:	S Williams
Access to Services Officer:	N/A
FOR INFORMATION	

1 Background

1.1 The attached report at Appendix A was considered by Pension Fund Committee at its previous meeting.

Background Papers: None

Appendices: Appendix A - Report to Pension Fund Committee – 9 March 2017

APPENDIX A

Report of the Section 151 Officer

Pension Fund Committee, March 9 2017

CLIMATE CHANGE AND A CARBON INVESTMENT POLICY- AN UPDATE

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

28th February 2017 and evaluation being undertaken on the 14th 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.

APPENDIX 1

Item
Report of the Section 151 Officer

Pension Fund Committee, Sep 15th 2016

CLIMATE CHANGE AND A CARBON INVESTMENT POLICY

Purpose:	To formulate a carbon investment policy
Reason for Decision:	To approve the commission of a study into the impact of carbon investment/disinvestment on the portfolio
Consultation:	Legal, and Finance
Recommendation(s):	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
Report Author:	Jeff Dong Chief Treasury & Technical Officer
Finance Officer:	Mike Hawes Section 151 Officer
Legal Officer:	Stephanie Williams
Access to Services Officer:	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

Agenda Item 12

Report of the Section 151 Officer

Local Pension Board – 23 March 2017

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

Purpose:	To enable Local Pension Board to note the attached report which was considered at the previous Pension Fund Committee
Consultation:	Legal, Finance and Access to Services.
Report Author:	Jeffrey Dong
Finance Officer:	Mike Hawes
Legal Officer:	S Williams
Access to Services Officer:	N/A
FOR INFORMATION	

1 Background

1.1 The attached report at Appendix A was considered by Pension Fund Committee at its previous meeting.

Background Papers: None

Appendices: Appendix A – Report to Pension Fund Committee – 9 March 2017

APPENDIX A

Report of the Section 151 Officer

Pension Fund Committee – 9 March 2017

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

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

Appendix 1

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 Allocation	**Fund Manager**		**Benchmark**	**Performance**
Asset Class			**Passive**	**Active**		
UK Equities		34% +/- 5%	14%	20% **Schroders**	FTSE allshare	+3% p.a. over rolling 3year
Overseas Equities		34% +/- 5%	13% **(L&G)**	21% **JP Morgan and Aberdeen**	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% **(L&G)**	9% **Goldman Sachs**	Libor	Libor +3%

Property		5% +/- 5%	-	5% **Schroders, Partners and Invesco**	IPD, cash, absolute	+ 1% p.a. over rolling 3 year
Hedge Funds		5% +/- 5%	-	5% **Blackrock and En Trust Permal**	LIBOR	+4%
Private Equity		3% +/- 5%	-	3% **Harbourvest**	FTSE allshare	+3% p.a. over 3 year rolling
Global Tactical Asset Allocation		2% +/- 5%	-	2% **Blackrock**	LIBOR	+4% over 3 year rolling
Cash		2% +/- 5%	-	2% in house and cash flows of fund managers	7day LIBID	=
TOTAL		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 Committees 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.

Appendix 2

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.

CITY AND COUNTY OF SWANSEA

MINUTES OF THE PENSION FUND COMMITTEE

HELD AT COMMITTEE ROOM 5, GUILDHALL, SWANSEA ON THURSDAY, 9 MARCH 2017 AT 10.00 AM

PRESENT: Councillor P Downing (Vice Chair) presided

Councillor(s)	**Councillor(s)**
C E Lloyd	D G Sullivan

Neath Port Talbot County Borough Council Councillor:
P A Rees

Officer(s)

Jeffrey Dong	Chief Treasury & Technical Officer
Karen Cobb	Senior Accountant
Lynne Miller	Pensions Manager
Jeremy Parkhouse	Democratic Services Officer
Stephanie Williams	Principal Lawyer

Also Present:

N Mills	Independent Investment Advisor
V Furniss	Independent Investment Advisor

40 **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 D G Sullivan - agenda as a whole – My daughter-in-law is a contributory member of the Pension Scheme and I am in receipt of a Local Government Pension - administered by Dyfed Pension Scheme - personal.

41 **MINUTES.**

RESOLVED that the Minutes of the Pension Fund Committee meeting held on 7 December 2016 be approved as a correct record.

42 **DRAFT TRIENNIAL VALUATION RATES AND ADJUSTMENT CERTIFICATION 2016.**

Chris Archer, AON Hewitt the Statutory Appointed Pension Fund Actuary presented a report that sought to ensure compliance with Local Government Pension Scheme Regulations.

It was added that in line with the Local Government Pension Scheme Regulations, the City & County of Swansea Pension Fund undertook a full triennial actuarial valuation as at 31st 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 1st April 2017. The actuarial rates and adjustment certificate was provided at Appendix 1. The appointed fund actuary had met and presented to employers his main assumptions and areas of development around the 2016 valuation. Employers had been consulted about indicative draft results and options for ameliorating increased contribution rates.

The Committee asked questions of the AON Hewitt representative who responded accordingly.

RESOLVED that the draft triennial valuation rates and adjustment certification 2016 be approved.

43 **DRAFT FUNDING STRATEGY STATEMENT 2017.**

The Chief Treasury and Technical Officer provided for approval the Funding Strategy Statement 2017.

It was added that 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 the Funding Strategy Statement was to set out the processes by which the Administering Authority:

- Established a clear and transparent funding strategy, specific to the Fund, which identified how employer's pension liabilities were best met going forward.
- Supported the regulatory requirement in relation to the desirability of maintaining as nearly constant a primary rate of contributions as possible.
- Ensured that the regulatory requirements to set contributions as to ensure the solvency and long-term cost efficiency of the Fund were met.
- Took a prudent longer-term view of funding the Fund's liabilities.

It was noted 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 were in the best long term interests of the Fund.

RESOLVED that the Funding Strategy Statement 2017 be noted and approved, subject to any material changes before 31 March 2017 being approved by the Section 151 Officer and reported back to the Committee.

44 **REPORTS BREACHES POLICY.**

The Principal Pensions Manager presented a report that sought approval of the policy for reporting breaches.

It was explained that breaches of the law were 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". It was added that breaches could 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.

The report outlined 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).

Some of the key legal provisions were included at Appendix A, an example of a breach register was included at Appendix B and guidance to traffic light framework were provided at Appendix C. A report recording breaches would be presented to the Pension Board and Pension Fund Committee on a quarterly basis.

The Committee discussed the information contained within the report.

RESOLVED that the Policy be approved.

45 **BUSINESS PLAN 2017/18.**

The Chief Treasury and Technical Officer presented a report which sought to provide a working framework for the Pension Fund's programme of work for 2017/18. The Business Plan for 2017/18 was attached at Appendix 1.

RESOLVED that: -

1) The Annual Business Plan 2017/18 is noted and approved;
2) The timescale and responsibility for key action points throughout the year be noted.

46 **WALES INVESTMENT POOL - INTER AUTHORITY AGREEMENT & JOINT GOVERNANCE COMMITTEE.**

The Chief Treasury and Technical Officer presented a 'for information' report that provided at Appendix 1 the Council Report of 23 February 2017, which approved the

Inter Authority Agreement, Host Authority and establishment of Joint Governance Committee.

47 CLIMATE CHANGE & CARBON INVESTMENT POLICY - AN UPDATE.

The Chief Treasury and Technical Officer presented a 'for information' report which updated the Committee on the previous recommendation to commission a portfolio analysis with a view to formulating a carbon investment policy.

48 DRAFT INVESTMENT STRATEGY STATEMENT 2017.

The Chief Treasury and Technical Officer presented a report which sought approval of the investment strategy statement. It was outlined that in line with the Local Government Pension Scheme Regulations, the City & County of Swansea Pension Fund was required to publish an investment strategy statement which replaced the statement of investment principles. The requirements of the Investment Strategy Statement were set out in Regulation 7 and were outlined in the report.

The draft Investment Strategy Statement was provided at Appendix 1.

RESOLVED that the draft investment strategy statement 2017 was approved recognising it is a dynamic document which was subject to revision as appropriate, as circumstances required.

49 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)

50 INDEPENDENT INVESTMENT CO-ADVISORS REPORTS.

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 31 December 2016 of the two independent investment advisors, Mr Noel Mills and Mr Valentine Furniss. Mr

Furniss also circulated an investment snapshot to cover the period 31 December 2016 to 9 March 2017.

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.

51 **INVESTMENT SUMMARY.**

The Chief Treasury and Technical Officer provided a "for information" report which presented at Appendix 1 the quarterly investment summaries for the Pension Fund for the quarter, year and three years ended 31 December 2016.

52 **PRESENTATIONS OF THE FUND MANAGERS: -**

1) A joint presentation was made by Peter Hunt, Funmi Osiyemi and John Ware of Blackrock
2) A joint presentation was made by Katie Jupp and Christoph Englisch of Entrust Permal.

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 12.40 pm

CHAIR