Dinas a Sir Abertawe

Hysbysiad o Gyfarfod

Fe'ch gwahoddir i gyfarfod

Pwyllgor Cronfa Bensiwn

Lleoliad: **Ystafell Bwyllgor 6, Neuadd y Ddinas, Abertawe**

Dyddiad: **Dydd Iau, 14 Medi 2017**

Amser: **10.00 am**

Cadeirydd: **Y Cynghorydd Clive Lloyd**

Aelodaeth:
Cynghorwyr: P Downing, M B Lewis, D G Sullivan, W G Thomas a/ac M Thomas
Aelod Cyfetholedig o Gastell-nedd Port Talbot: Y Cynghorydd P Rees
Cynghorwyr: V Furniss, N Mills, W Marshall

Agenda

9	**Adroddiad(au) yr Ymgynghorwyr Annibynnol.**	**289 - 300**
10	**Crynodeb Buddsoddi.**	**301 - 312**
11	**Cyflwyniad(au) Rheolwr y Gronfa:**	

- Schroders – UK Equities.

Cyfarfod nesaf: Dydd Iau, 30 Tachwedd 2017 ar 3.13 pm

Huw Evans

Huw Evans
Pennaeth Gwasanaethau Democrataidd
7 Medi 2017

Cyswllt: Gwasanaethau Democrataidd: - 636923

Cyngor Abertawe
Swansea Council

Agenda Item 3

CITY AND COUNTY OF SWANSEA

MINUTES OF THE PENSION FUND COMMITTEE

HELD AT COMMITTEE ROOM 1, CIVIC CENTRE, SWANSEA ON THURSDAY, 13 JULY 2017 AT 10.00 AM

PRESENT: Councillor C E Lloyd (Chair) Presided

Councillor(s)	Councillor(s)	Councillor(s)
P Downing	D G Sullivan	W G Thomas
M Thomas		

Neath Port Talbot County Borough Council Councillor:
P A Rees

Officer(s)

Karen Cobb	Senior Accountant
Jeffrey Dong	Chief Treasury & Technical Officer
Jeremy Parkhouse	Democratic Services Officer
Ben Smith	Section 151 Officer
Stephanie Williams	Principal Lawyer

Also Present:

N Mills	Independent Investment Advisor
V Furniss	Independent Investment Advisor
W Marshall	Investment Consultant - Hymans Robertson

Apologies for Absence
Councillor(s): M B Lewis

5 **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: -

Councillors

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

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.

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

Minute No.10 – Draft Statement of Accounts 2016/17 - I am a Community Councillor with Llanrhidian Higher Community Council – personal.

Officers

J Parkhouse - Minute No.10 – Draft Statement of Accounts 2016/17 - I am employed as Clerk to Llanrhidian Higher Community Council – personal.

6 **MINUTES.**

RESOLVED that the Minutes of the Pension Fund Committee meetings held on 9 March and 22 June 2017 be approved as correct records.

7 **URGENT ITEM.**

The Chair stated that pursuant to paragraph 100B (4)(b) of the Local Government Act 1972, he considered that the Consideration of Options to Complete the GMP Reconciliation Exercise report should be considered at the meeting as a matter of urgency.

8 **CONSIDERATION OF OPTIONS TO COMPLETE THE GMP RECONCILIATION EXERCISE WITHIN TIMESCALES AVAILABLE.**

Reason for Urgency: To inform the Pensions Committee that an exercise was being undertaken to consider the options available to complete the GMP reconciliation exercise within the required timescales.

The Chief Treasury and Technical Officer presented a 'for information' urgent report as outlined above. He provided the background to the GMP reconciliation exercise and highlighted the timescales and potential risks involved.

The Committee discussed the information provided in the report and noted the progress made.

9 **LOCAL PENSION BOARD MEMBERS' ATTENDANCE AT PENSION FUND COMMITTEE. (FOR INFORMATION)**

The Principle Lawyer presented a 'for information' report that informed Committee Members regarding future arrangements for attendance of Pension Board members at Pensions Committee.

It was outlined that currently, Pension Boards members were not able to attend full meetings of the Pensions Committee and must leave when any exempted items were being discussed, similar to members of the public.

A letter was received by the previous Chair of the Pensions Committee, Councillor R C Stewart, from the Chair of the Pensions Board Councillor Alan Lockyer, which formally requested attendance of a Pension Board representative at the Pensions Committee for the full agenda, including exempt items. The letter stated that this was to comply with their Statutory duties and the representative would report back to the full Pensions Board.

Research provided showed that in Wales, 5 Pensions Committees do not allow full attendance of Pensions Board members and 3 allowed attendance.

Advice was provided by the Head of Legal and Monitoring Officer and the previous Director of Resources in response to the letter. The advice was that Pension Board Members could have access to the confidential papers at the same time they are published for the Pensions Committee and that the Chair or Vice Chair could attend the Committee meeting and stay for exempt reports. However, there may be exceptional cases where they would be asked to leave and this would be explained at the time. Pension Board members would also be required to sign a confidentiality undertaking in relation to attendance at Pensions Committee for exempt items and access to exempt reports.

10 DRAFT STATEMENT OF ACCOUNTS 2016/17.

The Chief Treasury and Technical Officer presented the City and County of Swansea Pension Fund Statement of Accounts 2016/17. He thanked staff within the Treasury and Technical Team for their work on producing the accounts.

It was stated that the City and County of Swansea Pension Fund Accounts form a distinct and separate component of the Statement of Accounts of the City and County of Swansea as a whole. The Wales Audit Office had audited the Pension Fund Statement of Accounts 2016/17 in line with their report would be presented to Pension Fund Committee at the conclusion of the audit later in the year.

The City & County of Swansea Pension Fund Draft Statement of Accounts 2016/17 were attached at Appendix 1.

RESOLVED that the Draft Statement of Accounts 2016/17 be approved.

11 WALES PENSION PARTNERSHIP - UPDATE. (FOR INFORMATION)

The Chief Treasury and Technical Officer presented a 'for information' report that informed the Pension Fund Committee on the progress of the All Wales Investment Pool.

Appendix 1 of the report contained an updated timetable and progress update produced by the Wales Pension Partnership's Advisors, Hymans Robertson.

It was added that the Joint Governance Committee (JCG) had its first formal meeting on 29 June 2017. The remit of the JCG was set out in the IAA. The JCG would oversee the procurement process for the Operator and the formal Joint Committee would make the final recommendation to appoint the bidder who best meets the specification criteria.

The Investment Practitioners Group and Officer Working Group (OWG) had been working in consultation with Hymans Robertson and the appointed legal advisors Burges Salmon, in formulating and finalising the procurement process and documentation. The final Invitation to tender (ITT) was issued in June 2017. The OWG shall make the recommendation to appoint an operator to the JCG in September 2017. This decision would then be approved by each Pension Fund Committee in September 2017.

12 **TRAINING PLAN.**

The Chief Treasury and Technical Officer presented a report that sought to determine an annual training programme for Trustees and Officers of the Pension Fund.

It was added that training was required to ensure compliance with the CIPFA Public Sector Pensions Finance Knowledge & Skills Code of Practice and the Pension Regulator Knowledge and Understanding Requirements.

It was outlined that in 2017/18, the following training had been identified as appropriate training to be undertaken by Members of the Committee, along with any appropriate training opportunities that presented themselves during the year, to be agreed by the Section 151 Officer:

1. Investment Beliefs Workshop
2. ESG Beliefs Workshop
3. LGE (Local Government Employers) Trustee Fundamentals day 1, 2 & 3
4. LGC Investment Summit
5. LAPFF AGM
6. CIPFA trustee training
7. Investment Pooling and the regulatory framework re. an ACS

RESOLVED that the above identified training be agreed.

13 **MIFID II. (FOR INFORMATION)**

The Chief Treasury and Technical Officer and Investment Consultant presented a 'for information' report that informed the Pension Fund Committee on MIFID II and its potential impact on the LGPS nationally and locally.

The potential Impact on the LGPS, the proposed assessment required and the way forward were outlined. The Local Government Association response was provided at Appendix 1.

14 **LGPS CODE OF COST TRANSPARENCY. (FOR INFORMATION)**

The Chief Treasury and Technical Officer presented a 'for information' report that informed the Pension Fund Committee on the new voluntary code of conduct on cost transparency in the fund management industry.

Attached at Appendix 1 was the Code of Conduct for Cost Transparency. It was recognised that the template for completion had only been developed for equity mandates at this stage and the templates for other asset classes were being developed. However, it wass intended to engage the appointed equity managers and (other asset class managers as the templates became available) to sign up to the voluntary code. It was noted that this should become a requisite of any future appointments to the fund or the Wales Pension Partnership Pool.

15 BREACHES POLICY. (FOR INFORMATION)

The Chief Treasury and Technical Officer presented a 'for information' report that informed the Pension Fund Committee of any breaches that had occurred in the Pension Fund in accordance with the Reporting Breaches Policy.

The Breaches Report was attached at Appendix A. Further information was provided in respect of retirement lump sum payments and a breach of failure by one employer (Gwrp Gwalia) to submit data to the Pension Fund by 30 April in order for the end–of-year reconciliation of contributions and pay to be added to members' records.

16 INTERNAL CONTROL REPORTS REVIEW. (FOR INFORMATION)

The Chief Treasury and Technical Officer presented a 'for information' report that informed the Pension Fund Committee of reportable items contained within the internal controls reports of appointed fund managers.

It was added that Asset managers and custodians were subject to heavy regulation from a global, EU and UK context. They were required to report on their systems of internal control, which were subject to external audit and comment by suitably qualified and independent audit companies. The summary of exceptions for the last calendar year was attached at Appendix 1 for the City & County of Swansea's appointed fund managers and custodian.

It was noted that the exceptions had been addressed appropriately by management and were recognised as such with appropriate remedial action being undertaken.

17 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)

18 **ADVISORS' REPORTS. (FOR INFORMATION)**

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 March 2017 of the two independent investment advisors, Mr Noel Mills and Mr Valentine Furniss. Mr Furniss also circulated an Investment Report for the Quarter ended 30 June 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.

19 **INVESTMENT CONSULTANT'S REPORT. (FOR INFORMATION)**

Mr W Marshall, Hymans Robertson, the appointed investment consultant to the fund, presented the investment, market update and review of Fund performance for the quarter ending 31 March 2017. A brief report relating to Quarter 2, 2017 was also provided to the Committee.

The Committee asked questions of the Investment Consultant which were responded to accordingly. The content of the reports were noted by the Committee and the Investment Consultant was thanked for the report.

20 **INVESTMENT SUMMARY. (FOR INFORMATION)**

The Chief Treasury and Technical Officer provided a "for information" report that presented at Appendix 1 the quarterly investment summaries for the Pension Fund for the quarter, year and three years ended 31 March 2017.

21 **FUND MANAGER'S PRESENTATION:**

A joint presentation was made by Craig McDonald and Emily Archer of Harbourvest.

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

The content of the presentation was noted and the Chair thanked the Fund Managers for attending the meeting.

The meeting ended at 12.35 pm

CHAIR

Agenda Item 4a

WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Audit of Financial Statements Report – **City and County of Swansea Pension Fund**

Audit year: 2016-17

Date issued: September 2017

Document reference: 117A2017-18

This document has been prepared as part of work performed in accordance with statutory functions.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000. The section 45 code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor General for Wales and the Wales Audit Office are relevant third parties. Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at infoofficer@audit.wales.

We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

Contents

The Auditor General intends to issue an unqualified audit report on the City and County of Swansea Pension Fund's 2016-17 financial statements, however, there are some issues to report to you prior to their approval.

Summary report

Introduction

1 The Auditor General is responsible for providing an opinion on whether the financial statements give a true and fair view of the financial position of the City and County of Swansea Pension Fund (the Pension Fund) at 31 March 2017 and its income and expenditure for the year then ended.

2 We do not try to obtain absolute assurance that the financial statements are correctly stated, but adopt the concept of materiality. In planning and conducting the audit, we seek to identify material misstatements in your financial statements, namely, those that might result in a reader of the accounts being misled.

3 The gross assets controlled by the Pension Fund amount to £1.8 billion. The quantitative levels at which we judge such misstatements to be material for the Pension Fund are £18.6 million. Whether an item is judged to be material can also be affected by certain qualitative issues such as legal and regulatory requirements and reader sensitivity.

4 International Standard on Auditing (ISA) 260 requires us to report certain matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.

5 This report sets out for consideration the matters arising from the audit of the financial statements of the Pension Fund, for 2016-17 that require reporting under ISA 260. A separate report has been issued covering the City and County of Swansea and the City and County of Swansea Group.

Status of the audit

6 We received the draft financial statements for the year ended 31 March 2017 on 6 June 2017, prior to the agreed deadline of 30 June 2017, and have now substantially completed our audit work.

7 We are reporting to you the more significant issues arising from the audit, which we believe you must consider prior to approval of the financial statements. We have already discussed these issues with the Head of Financial Services and Service Centre.

Proposed audit report

8 It is the Auditor General's intention to issue an unqualified audit report on the Pension Fund's 2016-17 financial statements once you have provided us with a Letter of Representation based on that set out in Appendix 1.

9 The proposed audit report is set out in Appendix 2. The Pension Fund is included within the Council's main financial statements and therefore the opinion shown is that proposed for the Council's main financial statements incorporating the Pension Fund.

Significant issues arising from the audit

Uncorrected misstatements

10 There are no ‘non-trivial’ misstatements from our audit which have not been corrected by management.

Corrected misstatements

11 There are misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process. They are set out with explanations in Appendix 3. These amendments had no impact on the Fund Account but the value of investments in the Net Assets Statement was increased by £2.3 million. There were also a number of other presentational amendments made to the draft financial statements arising from the audit.

Other significant issues arising from the audit

12 In the course of the audit, we consider a number of matters both qualitative and quantitative relating to the accounts and report any significant issues arising to you.

- **We have no concerns about the qualitative aspects of your accounting practices and financial reporting.** We found the information provided to be relevant, reliable, comparable, material and easy to understand. We concluded that accounting policies and estimates are appropriate and financial statement disclosures unbiased, fair and clear.
- **We did not encounter any significant difficulties during the audit.** We received information in a timely and helpful manner and were not restricted in our work.
- **There were no significant matters discussed and corresponded upon with management which we need to report to you.**
- **There are no other matters significant to the oversight of the financial reporting process that we need to report to you.**
- **We did not identify any material weaknesses in your internal controls** However, we have identified that controls over year-end reconciliations between payroll and the pensions systems can be improved. Further details are set out in Appendix 4.
- **There are not any other matters specifically required by auditing standards to be communicated to those charged with governance.**

Recommendations arising from our 2016-17 financial audit work

13 The recommendations arising from our financial audit work are set out in Appendix 4. Management has responded to them and we will follow up progress on them during next year's audit. Where any actions are outstanding, we will continue to monitor progress and report it to you in next year's report.

Independence and objectivity

14 As part of the finalisation process, we are required to provide you with representations concerning our independence.

15 We have complied with ethical standards and in our professional judgment, we are independent and our objectivity is not compromised. There are no relationships between the Wales Audit Office and the Council and the Pension Fund that we consider to bear on our objectivity and independence.

Appendix 1

Final Letter of Representation

Auditor General for Wales

Wales Audit Office

24 Cathedral Road

Cardiff

CF11 9LJ

Representations regarding the 2016-17 financial statements

This letter is provided in connection with your audit of the financial statements of the City and County of Swansea Pension Fund (the Pension Fund) for the year ended 31 March 2017 for the purpose of expressing an opinion on their truth and fairness.

We confirm that to the best of our knowledge and belief, having made enquiries as we consider sufficient, we can make the following representations to you.

Management representations

Responsibilities

We have fulfilled our responsibilities for:

- the preparation of the financial statements in accordance with legislative requirements and the Code; in particular the financial statements give a true and fair view in accordance therewith; and
- the design, implementation, maintenance and review of internal control to prevent and detect fraud and error.

Information provided

We have provided you with:

- full access to:
  - all information of which we are aware that is relevant to the preparation of the financial statements such as books of account and supporting documentation, minutes of meetings and other matters;
  - additional information that you have requested from us for the purpose of the audit; and
  - unrestricted access to staff from whom you determined it necessary to obtain audit evidence.
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- our knowledge of fraud or suspected fraud that we are aware of and that affects the Pension Fund and involves:

- management;
- employees who have significant roles in internal control; or
- others where the fraud could have a material effect on the financial statements.

- our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others.
- our knowledge of all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
- the identity of all related parties and all the related party relationships and transactions of which we are aware.

Financial statement representations

All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the financial statements.

Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

Related party relationships and transactions have been appropriately accounted for and disclosed.

All events occurring subsequent to the reporting date which require adjustment or disclosure have been adjusted for or disclosed.

All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

The financial statements are free of material misstatements, including omissions.
The effects of uncorrected misstatements identified during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Representations by the City and County of Swansea

We acknowledge that the representations made by management, above, have been discussed with us.

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were approved by the Members of the City and County of Swansea on 28 September 2017.

We confirm that we have taken all the steps that we ought to have taken in order to make ourselves aware of any relevant audit information and to establish that it has been communicated to you. We confirm that, as far as we are aware, there is no relevant audit information of which you are unaware.

Signed by:	Signed by:
Head of Financial Services and Service Centre (S151 Officer)	Chair of the Council
Date:	Date:

Appendix 2

Auditor General for Wales' report to the Members of the City and County of Swansea

I have audited the accounting statements and related notes of:

- the City and County of Swansea;
- the City and County of Swansea Group; and
- the City and County of Swansea Pension Fund

for the year ended 31 March 2017 under the Public Audit (Wales) Act 2004.

The City and County of Swansea's accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Movement on the Housing Revenue Account Statement and the Housing Revenue Account Income and Expenditure Statement.

The City and County of Swansea Group's accounting statements comprise the Group Movement in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet and the Group Cash Flow Statement.

The City and County of Swansea Pension Fund's accounting statements comprise the Fund Account and the Net Assets Statement.

The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17 based on International Financial Reporting Standards (IFRSs).

Respective responsibilities of the responsible financial officer and the Auditor General for Wales

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 194, the responsible financial officer is responsible for the preparation of the statement of accounts, including the City and County of Swansea's Group accounting statements and the City and County of Swansea Pension Fund's accounting statements, which gives a true and fair view.

My responsibility is to audit the accounting statements and related notes in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors.

Scope of the audit of the accounting statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements and related notes sufficient to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the City and County of Swansea and the City and County of

Swansea Group and the City and County of Swansea Pension Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the responsible financial officer and the overall presentation of the accounting statements and related notes.

In addition, I read all the financial and non-financial information in the Explanatory Foreword to identify material inconsistencies with the audited accounting statements and related notes and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

Opinion on the accounting statements of the City and County of Swansea

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of the City and County of Swansea as at 31 March 2017 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17.

Opinion on the accounting statements of the City and County of Swansea Group

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of the City and County of Swansea Group as at 31 March 2017 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17.

Opinion on the accounting statements of the City and County of Swansea Pension Fund

In my opinion, the Pension Fund accounts and related notes:

- give a true and fair view of the financial transactions of the City and County of Swansea Pension Fund during the year ended 31 March 2017 and of the amount and disposition of the fund's assets and liabilities as at that date; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17.

Opinion on other matters

In my opinion, the information contained in the Explanatory Foreword is consistent with the accounting statements and related notes.

Matters on which I report by exception

I have nothing to report in respect of the following matters, which I report to you, if, in my opinion:

- adequate accounting records have not been kept;
- the accounting statements are not in agreement with the accounting records and returns; or
- I have not received all the information and explanations I require for my audit;
- the Governance Statement does not reflect compliance with guidance.

Certificate of completion of audit

I certify that I have completed the audit of the accounts of the City and County of Swansea in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Auditor General for Wales' Code of Audit Practice.

For and on behalf of

Huw Vaughan Thomas

Auditor General for Wales

24 Cathedral Road

Cardiff

CF11 9LJ

29 September 2017

Appendix 3

Summary of corrections made to the draft financial statements

During our audit we identified the following misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process.

Exhibit 1: Summary of corrections made to the draft financial statements

Value of correction	Nature of correction
+£2,444,000	The HarbourVest private equity fund was undervalued by £2,444,000 in the draft financial statements. Due to HarbourVest's 90-day reporting period, the Council used an estimated figure provided by HarbourVest. This amendment increased the value of investments in the Net Assets Statement by £2,444,000.
-£100,000	The Aegon AVC fund (which is a disclosure note and is not part of the Pension Fund) was overstated by £100,000 in the draft financial statements. Last year's valuation was used as the required information from Aegon, was not received until after the draft financial statements were prepared. This amendment did not impact on the Net Assets Statement as it is not part of the Pension Fund.
-£113,812	The valuation of Partners Group Investments was overstated by £113,812 in the draft financial statements. The Council used an estimated figure within the draft financial statements due to the late receipt of the SICAR Investment Report. This amendment decreased the value of investments in the Net Assets Statement by £113,812.
Various	The related parties note was updated to include a disclosure on key management personnel. This is a requirement of CIPFA's Code.
Various	Various other minor presentational amendments were made to the draft financial statements.

Appendix 4

Recommendations arising from our 2016-17 financial audit work

We set out our recommendations arising from our audit with management's response. We will follow this up next year:

Exhibit 2: matter arising 1: membership numbers

Matter arising 1 – Membership numbers	
Findings	As reported last year, there was a net difference of 232 member numbers between the closing balance 2015-16 as reported in last year's financial statements and the opening balance for 2016-17 as produced by the membership numbers report produced from the pension systems (Note 21). Information is received from admitted and scheduled bodies relating to the previous financial year throughout 2016-17. The membership numbers report detailing the 2016-17 opening balances was generated on 22 May 2017. The pension database is a 'live' system, opening and closing balances are updated as information is received from external bodies by the administration team. Consequently, timing differences arise in relation to opening and closing balances dependent upon when membership number reports are generated. Throughout 2016-17, admitted and scheduled bodies were encouraged to provide more up-to-date information on deferred pensioner numbers dating back to 2013 to ensure that membership numbers recorded on the pension database were accurate.
Priority	High.
Recommendation	The Council should remind all external bodies of the importance of providing accurate and timely information to the administration team to ensure the accuracy of the figures within the Pension Fund database.
Benefits of implementing the recommendation	Implementation of the recommendation would improve the reconciliation, reporting of and monitoring of membership numbers within the Council and associated bodies.
Accepted in full by management	Yes.
Management response	In line with reminders regarding year-end reconciliation, employers will also be reminded of the necessity of timely notification of accurate member data.
Implementation date	September 2017.

Exhibit 3: matter arising 2: reconciliation of the ALTAIR Database

Matter arising 2 – Reconciliation of the ALTAIR Database	
Findings	As reported last year, there have been delays in completing the year-end reconciliation of the ALTAIR (pensions) database to the payroll systems of some admitted bodies. The reconciliation work has been delayed this year for a number of reasons including a slow response rate from admitted bodies, staff absences and issues arising from the introduction of I-Connect software to interface the payroll and pensions systems.
Priority	High.
Recommendation	The Council must complete the year-end reconciliation of the ALTAIR database to the various payroll systems as soon as possible. Differences need to be resolved with admitted bodies. The Council also needs to reconcile its own records following the introduction of I-Connect.
Benefits of implementing the recommendation	Implementation of the recommendation would resolve any differences between the Council’s records and those held by admitted bodies. This would improve the quality of the information held within the database.
Accepted in full by management	Yes.
Management response	Work is continuing with four of the employers to on-board them to i-Connect. It should be noted that resource has to be provided by the employer for this to be achieved. There is already regular communication with employers regarding the timeliness of submitting data and training offered each year with regard to year-end reconciliation - further training will be built in to the employers’ meeting due to be held in February 2018. The Pension Section will work with the Council to reconcile data provided through i-Connect.
Implementation date	April 2018.

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Swyddfa Archwilio Cymru
24 Heol y Gadeirlan
Caerdydd CF11 9LJ

Ffôn: 029 2032 0500
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Gwefan: www.archwilio.cymru

Agenda Item 5a

Report of the Section 151 Officer

Pension Fund Committee – 14 September 2017

City & County of Swansea Pension Fund
Annual Report 2016/17

Purpose:	To approve the annual report 2016/17for the City & County of Swansea Pension Fund
Consultation:	Legal, Finance and Access to Services.
Recommendation:	That The City & County of Swansea Pension Fund Annual Report is approved
Report Author:	J Dong
Finance Officer:	B Smith
Legal Officer:	S Williams
Access to Services Officer:	S Hopkins

City & County of Swansea Pension Fund Annual Report 2016/17

1 Background

1.1 As required by Regulation, The City & County of Swansea Pension Fund produces an Annual Report on the activities and performance of the pension fund in the last financial year.

2 Audit

2.1 The Wales Audit Office have audited the Pension Fund Annual Report 2016/17 in line with their audit plan presented to Pension Fund Committee earlier in the year. Their audit opinion and ISA 260 report is reported elsewhere on this agenda.

3 Recommendation

3.1 The Pension Fund Committee is asked to approve the City & County of Swansea Pension Fund Annual Report 2016/17 as attached at Appendix 1.

4 Legal Implications

4.1 There are no legal implications arising from this report.

5 Financial Implications

5.1 There are no financial implications arising from this report.

6 Equality and Engagement Implications

6.1 There are no equality and engagement implications arising from this report.

Background Papers: None.

Appendices: Appendix 1 - City & County of Swansea Pension Fund Annual Report 2016/17.

Introduction

The purpose of the Annual Report is to provide information for contributors and other interested parties on the management and administration of the Pension Fund during the year.

The report for 2016/17 includes the accounts for the year, an outline of the City & County Council Pension Fund together with details of membership and changes to basic scheme details that have either taken place during the year or are proposed for the future. In addition, the report includes the Actuarial Statement applicable for the year and a report on Investments and Investment performance for the year.

The accounts included in the report have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2016/17* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The key statistics for the Fund are illustrated in the three year profile of the Fund on page 3.

Three Year Profile of Statistics of the Fund

	2014/15 £'000	2015/16 £'000	2016/17 £'000
Income			
Contributions (Net)	80,506	78,392	81,721
Transfer Values (Net)	161	-	-
Expenditure			
Pensions and Benefits (Net)	73,912	72,912	76,233
Transfer Values (Net)	-	2,267	909
Other (Net)	1,016	1,041	1,067
Net new money	5,739	2,172	3,512
	£'000	**£'000**	**£'000**
Net Asset Value at 31 March	1,539,789	1,512,629	1,855,882
Number of Contributors at 31 March	16,285	17,469	17,903
Number of Pensioners at 31 March	11,261	11,745	12,200
Number of Deferred Members at 31 March	9,801	11,226	11,583

PART A

ADMINISTRATION REPORT

The Pension Fund is governed by Regulations exercised by powers conferred under the Superannuation Act 1972, and includes employees of the City and County of Swansea, Neath Port Talbot County Borough Council and other bodies listed in Appendix 1.

Pension administration continues to adapt to the increased complexity of the Scheme, resulting from the change in the LGPS with effect from 1st April 2014, from a Final Salary scheme, to a Career Average Revalued Earnings (CARE) scheme and other overriding legislation.

The benefits payable and the employees' rates of contribution are set out in the Local Government Pensions Scheme Regulations 2013 (as amended) and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014. The rates of contribution by employing authorities are based on actuarial valuation and are set out in Part D.

The principal benefits provided by the Fund are:

- Retirement pensions
- Tax free lump sums on retirement
- Lump sum death benefits
- Survivors' pensions (including Children)
- Deferred benefits, refunds or transfers of pension rights
- Pensions and lump sums payable on premature retirement due to ill health and early retirement/redundancy.

Pensions are increased under the Pensions Increase Act each April, in line with the official rate of inflation, the Consumer Price Index (CPI) as at the previous 30 September. The rate for the year ending last September was -0.1%. Therefore, no pensions increase was applied from 11 April 2016 to qualifying pensions

The benefits are statutory and are effectively guaranteed by Parliament. They do not depend on investment performance but the actuary will take account of how well the investments perform in setting the employers' contribution rate in the actuarial valuation.

The LGPS 2014 Scheme has not impacted on the provisions for elected member pensions in Wales as their pension arrangement continues on a career average revalued earning basis.

Membership

Membership of the Fund is largely comprised of:

- Active members - contributors who are still working and paying money into the Fund
- Deferred members – former members who have elected to retain their pension rights in the Scheme until such a time as they become payable
- Pensioner members – in receipt of their pension
- Survivor members (including children) – in receipt of a pension in respect of a former member

Membership of the Scheme is automatic and is open to all employees irrespective of the number of hours or weeks worked. Where an employee is not eligible for automatic entry, they may elect to join the Scheme if they wish. All employees also have the right to choose a personal pension as an alternative or in addition to membership of the LGPS.

Membership of the Fund continues to grow and the latest statistics at Appendix 1 shows the total membership of the Fund in 2016/17.

Membership is monitored to assess trends and events, publications and employer engagement are utilised to ensure a robust membership.

Premature Retirement - Pension Costs

(a) Ill Health Retirement

Employers do not have to pay separately for the Pension Fund costs for ill health as the cost is included in the employer's rate as a percentage for such cases; however, the actuarial cost of ill health retirees from current service is calculated for reporting purposes and for the past two years this was:

	2015/16		2016/17	
Ill-Health Retirement	**No. of Cases**	**Cost £**	**No. of Cases**	**Cost £**
City & County of Swansea	19	1,775,567	25	2,584,863
Neath Port Talbot CBC	23	1,389,774	20	934,782
NPT Homes	5	517,046	2	253,063
Gower College	3	157,763	1	63,286
Grwp Gwalia	-	-	4	439,341
Celtic Community Leisure	-	-	1	30,541
Total	**50**	**3,840,150**	**53**	**4,305,876**

(b) Early Retirement

Employers are required to take immediate account of the costs of the financial strain on the Pension Fund where they grant early retirement. The actuarial cost of early retirements for the past two years was as follows:

Early Access to Pension				
Employing Body	**2015/16**		**2016/17**	
	No. of Cases	**Cost £**	**No. of Cases**	**Cost £**
City & County of Swansea	86	1,647,579	141	3,090,265
Neath Port Talbot CBC	56	977,266	65	820,050
Gower College Swansea	7	67,401	1	25,350
NPTC Group	21	141,230	1	44,427
University of Wales Trinity St Davids	5	87,638	-	-
NPT Homes	-	-	1	58,002
Grwp Gwalia	2	22,132	-	-
Total	**177**	**2,943,246**	**209**	**4,038,094**

Administration

The Pension Section comprises of 13 permanent full-time equivalent staff, including the Principal Pensions Manager and undertakes all aspects of the day-to-day administration of the Fund e.g. setting up new members; making changes to members' records as they occur; calculating deferred benefits; transfers of pension rights in to and out of the LGPS and paying benefits at retirement.

The operational staff undertake regular training to ensure they remain up-to-date with their knowledge and understanding of the LGPS and a number of them have also completed or in the process of completing their professional qualification in Pension Administration and Management.

The Pensioner Payroll is administered through the City and County of Swansea payroll system and pensions are paid monthly, in arrears, on the last banking day of each month.

IT systems

The Pension Section administers the LGPS through the pension administration system *altair,* which also includes document imaging and workflow procedures. All member documentation is scanned and indexed on the system.

The Fund has invested in an electronic interface to transfer membership data from employers' payroll systems to the pension administration system. This will be of benefit to both Fund and employer as it will enable clean data to be transferred in a timely manner thus improving the year end submission and ensuring compliance with the requirements of LGPS 2014 and the Pensions Regulator's Code of Practice for accurate record keeping.

The system is being implemented on a rolling programme, with 90.86% of the Fund's active membership now fully implemented.

The Fund has also invested in an on-line digital service, My Pension Online, to enable all scheme members access to information, undertake data amendments, view their scheme details and carry out benefit projections online. The service went live in 2015/16 and the Pension Section is actively promoting the service to scheme members.

Managing Performance

The Pension Fund is dedicated to improving its service delivery and will review the measures in place to monitor performance on an annual basis to identify where improvements may be made.

The Fund aims to:

- Provide a high quality cost effective service to all members and Fund employers
- Be accessible, fair and helpful and treat everyone equally and courteously
- Communicate effectively where possible, using easy to understand language
- Be accountable by monitoring the quality of service and reporting on whether the standards have been achieved and regularly review the target times
- Consult members and fund employers wherever possible taking into account their views before making any changes

and uses a number of channels to achieve these objectives:

- A Pension Administration Strategy has been prepared in accordance with the LGPS regulations. The purpose of the Strategy is to formulate administrative arrangements between the City and County of Swansea Pension Fund and its participating employers to ensure that each employer is fully aware of its role and responsibilities and that the flow of data is improved by having clear communication in place.

To complement the Strategy, a Customer Charter has also been produced which gives information about the level of service the Fund aims to provide.

The documents are available on the Fund's website.

- The Fund has regularly published its own performance indicators. The standards are detailed in Appendix 6.

  Where areas of poor performance are identified, the Pension Section will review the reasons for poor performance and put in place appropriate processes to improve the level of service delivery in the future.

  Performance during 2016/17 has diminished due to late notification of data required to calculate benefits and the additional resources required to operate the complexities of LGPS 2014. This has been addressed by a restructure within the Pensions Section which is effective from 1st April 2017.

  In addition the Section has communicated regularly during the year, with the relevant employers regarding the timeliness of providing retirement and early leaver data and is working with the Fund's largest employers to implement the software to enable data to be transferred to the Fund in a timely manner.

- The Fund continues to regularly participate in the National Fraud Initiative, a data matching exercise to detect and prevent fraud and overpayments across England and Wales. The initiative is organised by the Audit Commission who require the provision of details of pensioners to compare against data provided by other public bodies to ensure:

  - Pensions are not paid to persons who are deceased or no longer entitled to them
  - Occupational pension income is declared when any benefit (e.g. council tax or housing benefit) is applied for
  - The best use of public funds

- The Fund also uses an address tracing and mortality screening system to improve address quality and identify potential mortality cases across the deferred and pensioner membership in the UK and has recently contracted with Western Union to ensure that a similar process, with regard to its pensioner members who reside overseas, can be implemented.

The Pensions Regulator Code of Practice

The Fund complies with the Pensions Regulator Public Service Code of Practice (Governance and Administration of the Public Service Pension Schemes) which came into force with effect from 1st April 2015. The code provides LGPS Funds with a summary of their key governance and administration duties and the standards of conduct, record keeping and practice expected by the Pensions Regulator.

Internal Dispute Resolution Process

If there is a complaint or dispute against either the Fund or a decision made by an employer concerning a matter relating to the LGPS, there is a provision for its resolution known as the Internal Dispute Resolution Process (IDRP). The disputes process follows a set procedure.

Stage 1 appeals are considered by individual employers if the dispute is against decisions made by them, or by the Administering Authority if the dispute is against Pension Fund decisions. Where the appellant remains dissatisfied with the outcome of Stage 1, they may refer the complaint to the Administering Authority for reconsideration under Stage 2 of the appeal process. The Administering Authority has appointed two independent officers to hear applicable Stage 1 and all Stage 2 appeals.

Should the appellant remain dissatisfied after the Stage 2 outcome, they may refer the complaint or dispute to the Pensions Ombudsman for determination.

An analysis of the dispute cases raised during the year to 31 March 2017 is as follows:

Stage	No. of Appeals	Appeals upheld
Stage 1	4	0
Stage 2	1	1
Referred to Pensions Ombudsman	0	0

Communications

The Fund is required to have a formal Communications Policy Statement under the regulations, which sets out the mechanisms used to meet its communication needs (see Appendix 10).

During 2016/17, the Fund has continued to develop the way in which it communicates with its stakeholders, with the key communication activity being:

- Roadshows for members to communicate the impact of the change in State Pension and other LGPS matters

- Presentations by Prudential – the Fund’s Additional Voluntary Contribution (AVC) provider

- Distribution of Annual Benefit Statements to both active and deferred members

- Newsletters sent to both Active members and Pensioner members

- Annual consultative meetings to discuss the Fund’s Annual Report and Accounts and to communicate strategic issues and significant legislative changes to operational staff

- Training for and meetings with operational staff and employers with regard to the changes impacting on the LGPS

- Continuing collaboration with the other Welsh Pension Funds to produce key communication material, thereby sharing expertise and costs

- The Fund’s website (www.swanseapensionfund.org.uk), which covers all aspects of the LGPS for its active members, councillor members, deferred members, pensioners and their dependants as well as an ‘Investment and Fund’ section which provides details of the governance of the Fund.

  The website provides members with access to pension forms and online literature, which assists reducing the Fund’s printing and postage costs

  The website also includes a dedicated employer section that contains all information, including standard forms, which an employer needs to administer the LGPS

Legislative Changes in the LGPS during 2016/17

23 September 2016 – DCLG issued the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 [SI 2016/946], effective from 1 November 2016, to facilitate the pooling of investment funds.

27 May 2016 – DCLG commenced a consultation on draft amendment regulations for the LGPS in England and Wales. Amongst other amendments, the consultation covers Fair Deal and changes to AVC provisions in light of the recent Freedom and Choice reforms. The consultation closed on 20 August 2016 and the government's response is now due.

Other impacting legislation

4 May 2016 – the Enterprise Act 2016 [2016/12] received royal assent, providing the legislative framework for the introduction of the £95k cap on public service exit payments. HM Treasury regulations need to be produced to provide further detail on how the cap will work in practice (and its implementation date). HM Treasury directions are also expected to provide detail of the circumstances in which the cap may be relaxed by permitted bodies.

15 September 2016 – the Finance Act 2016 [2016/24] received royal assent reducing the lifetime allowance for the tax years 2016/17 and 2017/18 to £1million and also introduced the new lifetime allowance protections, namely Individual Protection 2016 and Fixed Protection 2016.

24th January 2017 – HM Treasury issued the Enterprise Act 2016 (Commencement No. 2) Regulations 2017 [SI 2017/70], effective from 1st February 2017. The regulations included changes to the Small Business, Enterprise and Employment Act 2015, which enables the £95k exit payment cap to be introduced; however, the commencement order does not bring the exit payment cap into effect itself, but allows the Government to make regulations providing for the introduction of the cap. HM Treasury plan to undertake a further consultation on draft regulations covering the cap before this becomes effective.

6 March 2017 – the Occupational and Personal Pension Schemes (Automatic Enrolment) (Amendment) Regulations 2017 [SI 2017/79] made provision to add two new circumstances where the employer duties to automatically enrol and re-enrol eligible jobholders are turned into a discretion. The circumstances are when fixed protection 2016 and individual protection 2016 in relation to the lifetime allowance apply to the member.

28 November 2016 – HM Treasury commenced a consultation that proposes options for the indexation of GMP elements for members of public service pension schemes who will reach SPA on and after 6 December 2018. The consultation period closed on 20 February 2017 and a response is now due from the Government.

Wales Pension Partnership

In July 2015 the Chancellor announced the Governments' intention to work with Local Government Pension Scheme administering authorities to ensure that they pool investments to significantly reduce costs while maintaining overall investment performance.

The Wales Pension Partnership comprises the 8 LGPS funds in Wales, namely Cardiff & Vale of Glamorgan Pension Fund, City & County of Swansea Pension Fund, Clwyd Pension Fund, Dyfed Pension Fund, Greater Gwent Pension Fund, Gwynedd Pension Fund, Powys Pension Fund and RCT Pension Fund.

The Chancellor has announced that the pools should take the form of up to six British Wealth Funds, each with assets of at least £25bn, which are able to invest in infrastructure and drive local growth.

The submission in respect of the 8 welsh pension funds to create a Wales Investment Pool was approved by Pension Fund Committee on the 4th July 2016.

The Pool will not be a merger of the 8 funds. Each fund will retain its distinct identity and the administering authorities will remain responsible for complying with LGPS regulations and pension legislation in respect of their members. Annual Statement of Accounts and triennial Actuarial valuations will be prepared for each individual pension fund and each fund will determine its own funding strategy. The Pool will have limited remit and its objectives, as set out in the submission document will be :

- To provide pooling arrangement which will 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 fees.
- To put in place robust governance arrangements to oversee the Pools 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.

The Wales Investment Pool proposals includes the establishment of a Joint Governance Committee comprising elected members from each administering authority, supported by an Officer Working Group. It is proposed to appoint a Financial Conduct Authority (FCA) regulated Operator to supply the necessary infrastructure for establishing a pooling vehicle and to manage the Pool on behalf of the 8 funds.

Following extensive work by the Authorities, a legally binding Inter-Authority Agreement has now been signed by all 8 funds. Consideration is also being given to the needs of the Pool for specialist legal and investment advice.

The final Invitation to Tender (ITT) was issued in June 2017. The Officer Working Group shall make the recommendation to appoint an Operator to the Joint Governance Committee in September 2017.

Local Pension Board - Annual Report 2016/17

Introduction

In April 2016, the LGPS Scheme Advisory Board (SAB) was established as a statutory body, to encourage best practice, increase transparency and co-ordinate technical and statutory issues at national level. To assist each Pension fund achieve these standards each Pension Fund has a new Local Pension Board working to standard guidance set nationally.

It is only the second year of operation for the Local Pension Board so it is appropriate that a high priority was given to developing the Board's knowledge and understanding such that this role could be fulfilled.

In addition 2015 saw the Pensions Regulator's (tPR) role extended from private sector pension to also cover public sector schemes. New procedures have been introduced during the year to meet the requirements of the Pensions Regulator's Code of Practice, including the reporting of statutory and regulatory breaches such as late payment of contributions.

The purpose of the board is not to be involved in the day to day running of the Pension Fund but rather to assist the Administering Authority in the work carried out by the Fund and ensure that it complies with laws and regulations, including the requirements of the Pensions Regulator.

The Regulator has set clear standards which it expects Pension Funds to meet and will place reliance on the Local Pension Board to ensure these standards are met and that they assist the Pension Fund in continually improving its operations. Since the Board was established the Board has attended appropriate training to understand requirements of the role, including the specific requirements of the Pensions Regulator

Details of Membership

For the financial year 2016/17, the Board consists of 6 members, 3 member representatives and 3 employer representatives. All members are unpaid volunteers.

Type	Name	Organisation
Employer	Cllr Jayne Harris	City & County of Swansea
Employer	Cllr Alun Lockyer	Neath County Borough Council
Employer	Mr John Andrew	NPT Homes
Member	Mr Ian Guy	Union nominated representative
Member	Ms Andrea Thomas	Union nominated representative
Member	Ms Arlene Chaves	Union nominated representative

Summary of 2016/17

2016/17 is only the second year since the inception of the Local Pension Board, hence skills development remains a priority.

During the year the Local Pension Board have reviewed the Pension Fund Committee Reports around:

- Update on the All Wales Pooling arrangements
- Review of the revised Investment Strategy Statement
- Review of the Breaches Policy
- Review of the Scheme Administration and Internal Disputes Resolution Policy
- Review of the Internal Audit Report
- Review of the Business Plan
- Review of the Triennial Valuation Certificate
- Update on the Carbon Investment Strategy
- Review of the Annual Report & Statement of Accounts

Breaches Policy

The Local Pension Board have reviewed and revised the draft breaches policy of the City & County of Swansea Pension Fund which has subsequently approved and adopted the Policy. A good example of where the Local Pension Board has assisted the Scheme Manager and added value.

Local Pension Board Governance

During the year, the Chairman of the Local Pension Board has worked alongside the Pension Fund Committee to secure Local Pension Board attendance to Pension Fund Committee for the Chairman of the Local Pension Board or his/her nominee.

Attendance at Meetings
The terms of reference for the Board state that there should be a minimum of 2 meetings per financial year. The Local Pension Board met on the :

- 21st July 2016
- 14th December 2016
- 23rd March 2017
- And attended the Annual Consultative Meeting on the 6th Dec 2016.

Attendance at the above meetings was recorded at 83% by the appointed Board members.

Skills & Development Activities
As the work of the Local Pension Board continues to develop, there is understandably a focus on training and skills and knowledge attainment

Local Pension Board Member Training

At the meeting of the Local Pension Board on the 21st July 2016, The Chief Treasury and Technical Officer presented a report to determine an annual training programme for Local Pension Board members. The training would ensure compliance with the CIPFA Public Sector Pensions Finance Knowledge & Skills Code of Practice.

The following was identified as suitable training for the Local Pension Board and was approved by the Local Pension Board on the 21st July 2016.

PLSA Local Pension Board member training
Regulated Investment Vehicle Training
Investment Beliefs
Transition Management training
Any other training identified by the Section 151 officer which is

The Chair provided feedback regarding the CIPFA Governance training he attended on 12 July 2016. The importance of the role of Local Pension Boards was highlighted and the need to scrutinise effectively.

Budget
The Board agreed a budget of £5k per annum to assist with its operation.
In 2016/17 the Board incurred costs of £1k.

ANNUAL GOVERNANCE STATEMENT 2016/17

1. Scope of Responsibility

1.1 The City and County of Swansea is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Authority also has a duty under the Local Government (Wales) Measure 2009 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

1.2 In discharging this overall responsibility, the City and County of Swansea is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

1.3 The City and County of Swansea has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the new CIPFA/SOLACE Framework '*Delivering Good Governance in Local Government 2016'.* The revised framework applies to all annual governance statements prepared for the financial year 2016/17 onwards. A copy of the Code can be obtained by contacting the Chief Auditor on 01792 636463 or e-mailing simon.cockings@swansea.gov.uk. This statement explains how the Authority has complied with the Code and also meets the requirements of the Accounts and Audit (Wales) Regulations 2014 to review the effectiveness of its internal control systems at least once a year.

2. The Purpose of the Governance Framework

2.1 The governance framework comprises the systems and processes, culture and values, by which the Authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised and to manage them efficiently, effectively and economically.

2.3 The governance framework has been in place at the City and County of Swansea throughout the year ended 31 March 2017 and up to the date of approval of the Statement of Accounts.

3. The Governance Framework

3.1 The Delivering Good Governance in Local Government Framework 2016 Edition produced by CIPFA and SOLACE (the Framework) defines governance as

‘*Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.’*

The Framework also states that

‘To deliver good governance in the public sector, both governing bodies and individuals working for public sector entities must try to achieve their entity’s objectives while acting in the public interest at all times,

Acting in the public interest implies primary consideration of the benefits for society, which should result in positive outcomes for service users and other stakeholders.

3.2 In local government, the governing body is the full council.

4. Background

4.1 The *Delivering Good Governance in Local Government Framework* published by CIPFA and SOLACE in 2007 set the standard for local authority governance in the UK. CIPFA and SOLACE reviewed the Framework in 2015 to ensure it remained fit for purpose and published a revised Framework in spring 2016.

4.2 The new *Delivering Good Governance in Local Government Framework* 2016 edition applies to annual governance statements prepared for the financial year 2016/17 onwards.

4.3 The new Framework introduces 7 new principles as follows:

A) Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
B) Ensuring openness and comprehensive stakeholder engagement.
C) Defining outcomes in terms of sustainable economic, social and environmental benefits.
D) Determining the interventions necessary to optimise the achievement of the intended outcomes.
E) Developing the entity’s capacity, including the capability of its leadership and the individuals within it.
F) Managing risks and performance through robust internal control and string public financial management.
G) Implementing good practices in transparency, reporting and audit to deliver effective accountability.

4.4 The concept underpinning the Framework is that it is helping local government in taking responsibility for developing and shaping an informed approach to governance, aimed at achieving the highest standards in a measured and proportionate way. The Framework is intended to assist authorities individually in reviewing and accounting for their own unique approach. The overall aim is to ensure

- Resources are directed in accordance with agreed policies and according to priorities
- There is sound and inclusive decision making
- There is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities

4.5 The term local Code of Corporate Governance essentially refers to the approved governance structure in place, as there is an expectation that a formally set out local structure should exist, although in practice it may consist of a number of local codes or documents.

4.6 To achieve good governance, each local authority should be able to demonstrate that its governance structures comply with the core and sub-principles contained in the Framework. It should therefore develop and maintain a local Code of Corporate Governance reflecting the principles set out in the Framework.

4.7 It is also crucial that he Framework is applied in a way that demonstrates the sprit and ethos of good governance which cannot be achieved by rules and procedures alone. Shared values that are integrated into the culture of an organisation and are reflected in behaviour and policy are hallmarks of good governance.

4.8 The Accounts and Audit (Wales) Regulations 2014 require that a review of the effectiveness of the governance arrangements must be undertaken at least annually and reported on within the authority e.g. to the Audit Committee or other appropriate member body and externally with the published accounts of the authority. In doing this, the authority is looking to provide assurance that

- Its governance arrangements are adequate and working effectively in practice
- Where the reviews of the governance arrangements have revealed significant gaps which will impact on the authority achieving its objectives, what action is to be taken to ensure effective governance in future.

4.9 In 2016/17 a new Annual Governance Statement Group was established, tasked with the compilation of a revised Code of Corporate Governance, as well as a revised Annual Governance Statement. The Group is comprised of the Head of Financial Services & Service Centre, the Head of Legal, Democratic Services & Business Intelligence, the Chief Internal Auditor and the Business Performance Manager. The Group meets periodically to discuss the governance arrangements of the Council and provides updates to the Audit Committee, the Corporate Management Team and Cabinet when necessary.

4.10 The key elements of the policies, systems and procedures that comprise the governance framework in the Council are shown on the pages that follow, linked to the 7 fundamental principles.

<table>
<tr><th colspan="3">Principle A - Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law</th></tr>
<tr><td colspan="3">Local government organisations are accountable not only for how much they spend, but also for how they use the resources under their stewardship. This includes accountability for outputs, both positive and negative, and for the outcomes they have achieved. In addition, they have an overarching responsibility to serve the public interest in adhering to the requirements of legislation and government policies. It is essential that, as a whole, they can demonstrate the appropriateness of all their actions and have mechanisms in place to encourage and enforce adherence to ethical values and to respect the rule of law.</td></tr>
<tr><th>Sub-Principles</th><th>Behaviours and Actions that Demonstrate Good Governance in Practice</th><th>City and County of Swansea - Evidence</th></tr>
<tr><td rowspan="4">Behaving with integrity</td><td>Ensuring members and officers behave with integrity and lead a culture where acting in the public interest is visibly and consistently demonstrated thereby protecting the reputation of the organisation</td><td rowspan="4">Members Code of Conduct in Constitution which reflects Local Authorities (Model Code of Conduct) (Wales) Order 2016
Officers Code of Conduct in Constitution
Member/Officer Protocol in Constitution
Member led authority principles/document
Council Values – people focused, working together and innovation
Whistleblowing Policy
Anti-Fraud and Corruption Policy
Standards Committee
Standards Committee Annual Report presented to Council
Member Dispute Resolution</td></tr>
<tr><td>Ensuring members take the lead in establishing specific standard operating principles or values for the organisation and its staff and that they are communicated and understood. These should build on the Principles of Public Life (the Nolan Principles)</td></tr>
<tr><td>Leading by example and using these standard operating principles or values as a framework for decision making and other actions</td></tr>
<tr><td>Demonstrating, communicating and embedding the standard operating principles or values through appropriate policies and processes which are reviewed on a regular basis to ensure that they are operating effectively</td></tr>
</table>

Sub-Principles	Behaviours and Actions that Demonstrate Good Governance in Practice	City and County of Swansea - Evidence
Demonstrating strong commitment to ethical values	Seeking to establish, monitor and maintain the organisation's ethical standards and performance	• Council Values – people focused, working together and innovation • Contract Procedure Rules
	Underpinning personal behaviour with ethical values and ensuring they permeate all aspects of the organisation's culture and operation	
	Developing and maintaining robust policies and procedures which place emphasis on agreed ethical values	
	Ensuring that external providers of services on behalf of the organisation are required to act with integrity and in compliance with high ethical standards expected by the organisation	
Respecting the rule of law	Ensuring members and staff demonstrate a strong commitment to the rule of the law as well as adhering to relevant laws and regulations	• Member and Officer code of Conduct in Constitution • Role of Head of Paid Service, Section 151 Officer and Monitoring Officer established in Constitution • CIPFA statement on the Role of the Chief Financial Officer • Anti-Fraud and Corruption Policy • Audit Committee • Internal Audit Section
	Creating the conditions to ensure that the statutory	

	officers, other key post holders and members are able to fulfil their responsibilities in accordance with legislative and regulatory requirements	• Corporate Fraud Team • Internal Audit and Corporate Fraud Annual Reports presented to Audit Committee • External Auditors • Annual Audit Letter • Standards Committee • Whistleblowing Policy
	Striving to optimise the use of the full powers available for the benefit of citizens, communities and other stakeholders	
	Dealing with breaches of legal and regulatory provisions effectively	
	Ensuring corruption and misuse of power are dealt with effectively	

Principle B – Ensuring openness and comprehensive stakeholder engagement		
Local government is run for the public good; organisations therefore should ensure openness in their activities. Clear, trusted channels of communication and consultation should be used to engage effectively with all groups of stakeholders, such as individual citizens and service users, as well as institutional stakeholders.		
Sub-Principles	**Behaviours and Actions that Demonstrate Good Governance in Practice**	**City and County of Swansea - Evidence**
Openness	Ensuring an open culture through demonstrating, documenting and communicating the organisation's commitment to openness	• Agendas published in advance of meetings • Minutes published following meetings • Decision making process described in Constitution • Forward Plan published on Internet showing key decisions to be made by Council and Cabinet • Consultation and Engagement Strategy & Consultation Toolkit
	Making decisions that are open about actions, plans, resource use, forecasts, outputs and outcomes. The presumption is for openness. If that is not the case, a justification for the reasoning for keeping a decision	

	confidential should be provided	• Annual budget consultation • Publication Scheme • Freedom of Information Scheme • Challenge Panel and call-in procedure • Public questions at Council and Cabinet • Engagement with hard to reach groups such as BME, Disability and LGBT communities. As well as engagement with children and young people to meet the requirement of the UNCRC
	Providing clear reasoning and evidence for decisions in both public records and explanations to stakeholders and being explicit about the criteria, rationale and considerations used. In due course, ensuring that the impact and consequences of those decisions are clear	
	Using formal and informal consultation and engagement to determine the most appropriate and effective interventions/ courses of action	

Sub-Principles	Behaviours and Actions that Demonstrate Good Governance in Practice	City and County of Swansea - Evidence
Engaging comprehensively with institutional stakeholders	Effectively engaging with institutional stakeholders to ensure that the purpose, objectives and intended outcomes for each stakeholder relationship are clear so that outcomes are achieved successfully and sustainably	• Public Service Board and One Swansea Plan/Well-Being Plan • Western Bay • ERW • Community Safety Partnership • Partnership agreements.
	Developing formal and informal partnerships to allow for resources to be used more efficiently and outcomes achieved more effectively	
	Ensuring that partnerships are based on: • trust • a shared commitment to change • a culture that promotes and accepts challenge among partners and that the added value of partnership working is explicit	

Sub-Principles	Behaviours and Actions that Demonstrate Good Governance in Practice	City and County of Swansea - Evidence
Engaging stakeholders effectively, including individual citizens and service users	Establishing a clear policy on the type of issues that the organisation will meaningfully consult with or involve individual citizens, service users and other stakeholders to ensure that service (or other) provision is contributing towards the achievement of intended outcomes	• Ward role of Councillors • Consultation and Engagement Strategy • 'Have Your Say' consultations on Internet • Residents telephone surveys • Consultation principles and toolkit available on Intranet • Role of Consultation Co-Ordinator • Annual Staff Survey • Complaints Policy and Annual Report
	Ensuring that communication methods are effective and that members and officers are clear about their roles with regard to community engagement	
	Encouraging, collecting and evaluating the views and experiences of communities, citizens, service users and organisations of different backgrounds including reference to future needs	
	Implementing effective feedback mechanisms in order to demonstrate how their views have been taken into account	
	Balancing feedback from more active stakeholder groups with other stakeholder groups to ensure inclusivity	
	Taking account of the interests of future generations of tax payers and service users	

Principle C – Defining outcomes in terms of sustainable economic, social and environmental benefits
The long-term nature and impact of many of local government's responsibilities mean that it should define and plan outcomes and that these should be sustainable.

<table>
<tr><td colspan="3">Decisions should further the authority’s purpose, contribute to intended benefits and outcomes, and remain within the limits of authority and resources. Input from all groups of stakeholders, including citizens, service users and institutional stakeholders, is vital to the success of this process and in balancing competing demands when determining priorities for the finite resources available</td></tr>
<tr><th>Sub-Principles</th><th>Behaviours and Actions that Demonstrate Good Governance in Practice</th><th>City and County of Swansea - Evidence</th></tr>
<tr><td rowspan="5">Defining outcomes</td><td>Having a clear vision which is an agreed formal statement of the organisation’s purpose and intended outcomes containing appropriate performance indicators, which provides the basis for the organisation’s overall strategy, planning and other decisions</td><td rowspan="5">Corporate Plan produced annually in accordance with Local Government (Wales) Measure 2009 and ‘Wellbeing Objectives’ in Wellbeing of Future Generations (Wales) Act 2015
Quarterly & annual Performance Monitoring Reports
Annual Performance Review
Single Integrated Plan produced by Public Service Board
Service Plan produced annually by each Head of Service
Monthly Performance and Financial Monitoring meetings held for each Directorate
Corporate Risk Policy and Framework
Corporate, Directorate and Service Risk Registers
Capital Review Programme and workshops with senior staff managing large scale capital projects to ensure an efficient, coordinated and structured approach to capital projects and the City Deal.</td></tr>
<tr><td>Specifying the intended impact on, or changes for, stakeholders including citizens and service users. It could be immediately or over the course of a year or longer</td></tr>
<tr><td>Delivering defined outcomes on a sustainable basis within the resources that will be available</td></tr>
<tr><td>Identifying and managing risks to the achievement of outcomes</td></tr>
<tr><td>Managing service users’ expectations effectively with regard to determining priorities and making the best use of the resources available</td></tr>
</table>

Sub-Principles	Behaviours and Actions that Demonstrate Good Governance in Practice	City and County of Swansea - Evidence
Sustainable economic, social and environmental benefits	Considering and balancing the combined economic, social and environmental impact of policies, plans and decisions when taking decisions about service provision	• Medium Term Financial Plan covering 3 financial years approved annually by Council
	Taking a longer-term view with regard to decision making, taking account of risk and acting transparently where there are potential conflicts between the organisation's intended outcomes and short-term factors such as the political cycle or financial constraints	
	Determining the wider public interest associated with balancing conflicting interests between achieving the various economic, social and environmental benefits, through consultation where possible, in order to ensure appropriate trade-offs	
	Ensuring fair access to services	

Principle D – Determining the interventions necessary to optimise the achievement of the intended outcomes
Local government achieves its intended outcomes by providing a mixture of legal, regulatory and practical interventions. Determining the right mix of these courses of action is a critically important strategic choice that local government has to make to ensure intended outcomes are achieved. They need robust decision-making mechanisms to ensure that their defined outcomes can be achieved in a way that provides the best trade-off between the various types of resource input while still enabling effective and efficient operations. Decisions made need to be reviewed continually to ensure that achievement of outcomes is optimised

Sub-Principles	Behaviours and Actions that Demonstrate Good Governance in Practice	City and County of Swansea - Evidence
Determining interventions	Ensuring decision makers receive objective and rigorous analysis of a variety of options indicating how intended outcomes would be achieved and including the risks associated with those options. Therefore ensuring best value is achieved however services are provided	• Policy development by Policy Development and Delivery Committees • Scrutiny function • Finance, Legal and Access to Services implications in all Council, Cabinet and Committee reports • Results of consultation exercises • Annual Internal Audit consultation exercise
	Considering feedback from citizens and service users when making decisions about service improvements or where services are no longer required in order to prioritise competing demands within limited resources available including people, skills, land and assets and bearing in mind future impacts	

Sub-Principles	Behaviours and Actions that Demonstrate Good Governance in Practice	City and County of Swansea - Evidence
Planning interventions	Establishing and implementing robust planning and control cycles that cover strategic and operational plans, priorities and targets	• Timetable exists for producing or reviewing plans, priorities etc. on an annual basis • Consultation and Engagement Strategy • Monthly Performance and Financial Monitoring meetings for each Directorate reviews progress and authorises corrective action where necessary • Quarterly and Annual
	Engaging with internal and external stakeholders in determining how services and other courses of action should be planned and delivered	
	Considering and monitoring risks facing each partner when working collaboratively	

	including shared risks	Performance Monitoring reports to Cabinet including achievement of national and local performance indicators • Medium Term Financial Plan • Annual budget setting process in place including consultation exercise
	Ensuring arrangements are flexible and agile so that the mechanisms for delivering outputs can be adapted to changing circumstances	
	Establishing appropriate local performance indicators (as well as relevant statutory or other national performance indicators) as part of the planning process in order to identify how the performance of services and projects is to be measured	
	Ensuring capacity exists to generate the information required to review service quality regularly	
	Preparing budgets in accordance with organisational objectives, strategies and the medium-term financial plan	
	Informing medium and long-term resource planning by drawing up realistic estimates of revenue and capital expenditure aimed at developing a sustainable funding strategy	

Sub-Principles	Behaviours and Actions that Demonstrate Good Governance in Practice	City and County of Swansea - Evidence
Optimising achievement of intended outcomes	Ensuring the medium term financial strategy integrates and balances service priorities, affordability and other resource constraints	• Quarterly Financial Monitoring reports to Cabinet • Mid-Year Budget Statement to Cabinet • Medium Term Financial Plan • Sustainable Swansea – Fit for the Future
	Ensuring the budgeting process is all-inclusive, taking into account the full cost of operations over the medium and longer term	
	Ensuring the medium-term financial strategy sets the context for ongoing decisions on significant delivery issues or responses to changes in the external environment that may arise during the budgetary period in order for outcomes to be achieved while optimising resource usage	
	Ensuring the achievement of 'social value' through service planning and commissioning. The Public Services (Social Value) Act 2012 states that this is "the additional benefit to the community...over and above the direct purchasing of goods, services and outcomes"	

Principle E – Developing the entity's capacity, including the capability of its leadership and the individuals within it.
Local government needs appropriate structures and leadership, as well as people with the right skills, appropriate qualifications and mindset, to operate efficiently and effectively and achieve their intended outcomes within the specified periods. A local government organisation must ensure that it has both the capacity to fulfil its own mandate and to make certain that there are policies in place to guarantee that its management has the operational capacity for the organisation as a whole. Because

both individuals and the environment in which an authority operates will change over time, there will be a continuous need to develop its capacity as well as the skills and experience of the leadership of individual staff members. Leadership in local government entities is strengthened by the participation of people with many different types of backgrounds, reflecting the structure and diversity of communities		
Sub-Principles	**Behaviours and Actions that Demonstrate Good Governance in Practice**	**City and County of Swansea - Evidence**
Developing the entity's capacity	Reviewing operations, performance and use of assets on a regular basis to ensure their continuing effectiveness	• Commissioning Review as part of Sustainable Swansea – Fit for the Future strategy • Annual performance review for all staff under the Employee Performance Management Policy. Training and development needs included in review • Service planning process includes workforce planning and this is included in the overarching Workforce Plan • Quarterly financial and performance reports to Cabinet
	Improving resource use through appropriate application of techniques such as benchmarking and other options in order to determine how the authority's resources are allocated so that outcomes are achieved effectively and efficiently	
	Recognising the benefits of partnerships and collaborative working where added value can be achieved	
	Developing and maintaining an effective workforce plan to enhance the strategic allocation of resources	

Sub-Principles	Behaviours and Actions that Demonstrate Good Governance in Practice	City and County of Swansea - Evidence
Developing the capability of the entity's leadership and other individuals	Developing protocols to ensure that elected and appointed leaders negotiate with each other regarding their respective roles early on in the relationship and that a shared understanding of roles and objectives is maintained	• Member/Officer Protocol in Constitution • Scheme of Delegation published in Constitution • Monthly One to One meetings are held involving the Leader. Cabinet Members, Chief Executive, Corporate Directors, Chief Officers, Heads of Service and 3rd tier staff • Councillor Training Programme developed based on a Training Needs Assessment • Annual performance review for all staff under the Employee Performance Management Policy. Training and development needs included in review. • Occupational Health and Wellbeing Policy exists with aim of promoting the health and wellbeing of all employees to enable them to achieve their full potential at work
	Publishing a statement that specifies the types of decisions that are delegated and those reserved for the collective decision making of the governing body	
	Ensuring the leader and the chief executive have clearly defined and distinctive leadership roles within a structure, whereby the chief executive leads the authority in implementing strategy and managing the delivery of services and other outputs set by members and each provides a check and a balance for each other's authority	

Sub-Principles	Behaviours and Actions that Demonstrate Good Governance in Practice	City and County of Swansea - Evidence
	Developing the capabilities of members and senior management to achieve effective shared leadership and to enable the organisation to respond successfully to changing legal and policy demands as well as economic, political and environmental changes and risks by: • ensuring members and staff have access to appropriate induction tailored to their role and that ongoing training and development matching individual and organisational requirements is available and encouraged • ensuring members and officers have the appropriate skills, knowledge, resources and support to fulfil their roles and responsibilities and ensuring that they are able to update their knowledge on a continuing basis • ensuring personal, organisation and system-wide development through shared learning, including lessons learnt from both internal and external governance weaknesses	• Mandatory corporate induction course for a new staff • Mandatory courses required for staff • Corporate learning and development courses • Stress and health advice available online • Helping Hands support, information and guidance service.
	Ensuring that there are structures in place to encourage public participation	

Sub-Principles	Behaviours and Actions that Demonstrate Good Governance in Practice	City and County of Swansea - Evidence
	Taking steps to consider the leadership's own effectiveness and ensuring leaders are open to constructive feedback from peer review and inspections	
	Holding staff to account through regular performance reviews which take account of training or development needs	
	Ensuring arrangements are in place to maintain the health and wellbeing of the workforce and support individuals in maintaining their own physical and mental wellbeing	

Principle F – Managing risks and performance through robust internal control and string public financial management		
Local government needs to ensure that the organisations and governance structures that it oversees have implemented, and can sustain, an effective performance management system that facilitates effective and efficient delivery of planned services. Risk management and internal control are important and integral parts of a performance management system and crucial to the achievement of outcomes. Risk should be considered and addressed as part of all decision making activities. A strong system of financial management is essential for the implementation of policies and the achievement of intended outcomes, as it will ensure financial discipline, strategic allocation of resources, efficient service delivery and accountability. It is also essential that a culture and structure for scrutiny is in place as a key part of accountable decision making, policy making and review. A positive working culture that accepts, promotes and encourages constructive challenge is critical to successful scrutiny and successful delivery. Importantly, this culture does not happen automatically, it requires repeated public commitment from those in authority.		
Sub-Principles	**Behaviours and Actions that Demonstrate Good**	**City and County of Swansea - Evidence**

	Governance in Practice	
Managing risk	Recognising that risk management is an integral part of all activities and must be considered in all aspects of decision making	• Risk Management Policy and Framework • Corporate, Directorate and Service risk registers • Monthly review of Corporate Risks by Corporate Management Team • Monthly review of Directorate Risks at PFM meetings
	Implementing robust and integrated risk management arrangements and ensuring that they are working effectively	
	Ensuring that responsibilities for managing individual risks are clearly allocated	
Managing performance	Monitoring service delivery effectively including planning, specification, execution and independent post-implementation review	• Corporate Plan produced annually • Annual Performance Report produced • Quarterly performance monitoring report to Cabinet • Annual Service Plan produced by each Head of Service • Scrutiny function • Monthly Directorate Performance and Financial Monitoring meetings
	Making decisions based on relevant, clear objective analysis and advice pointing out the implications and risks inherent in the organisation's financial, social and environmental position and outlook	

Sub-Principles	Behaviours and Actions that Demonstrate Good Governance in Practice	City and County of Swansea - Evidence
	Ensuring an effective scrutiny or oversight function is in place which encourages constructive challenge and debate on policies and objectives before, during and after decisions are made, thereby enhancing the organisation's performance and that of any organisation for which it is responsible	
	Providing members and senior management with regular reports on service delivery plans and on progress towards outcome achievement	
	Ensuring there is consistency between specification stages (such as budgets) and post-implementation reporting (e.g. financial statements)	
Robust internal control	Aligning the risk management strategy and policies on internal control with achieving objectives	• Audit Committee provides assurance on effectiveness on internal control, risk management and governance • Audit Committee Annual Performance Review • Audit Committee Annual Report to Council • Anti-Fraud and Corruption Policy • Role of Internal Audit Section and Corporate Fraud Team • Internal Audit and Corporate Fraud Annual Plans approved by Audit Committee • Internal Audit and Corporate Fraud Annual Reports to Audit Committee • Annual Governance Statement
	Evaluating and monitoring risk management and internal control on a regular basis	
	Ensuring effective counter fraud and anti-corruption arrangements are in place	
	Ensuring additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the internal auditor	

Sub-Principles	Behaviours and Actions that Demonstrate Good Governance in Practice	City and County of Swansea - Evidence
	Ensuring an audit committee or equivalent group or function which is independent of the executive and accountable to the governing body: • provides a further source of effective assurance regarding arrangements for managing risk and maintaining an effective control environment • that its recommendations are listened to and acted upon	
Managing data	Ensuring effective arrangements are in place for the safe collection, storage, use and sharing of data, including processes to safeguard personal data	• Data Protection Policy • Information management governance arrangements • Senior Information Risk Officer (SIRO) in place • Information Asset Register • Information sharing guidance published
	Ensuring effective arrangements are in place and operating effectively when sharing data with other bodies	
	Reviewing and auditing regularly the quality and accuracy of data used in decision making and performance monitoring	
Strong public financial management	Ensuring financial management supports both long-term achievement of outcomes and short-term financial and operational performance	• Financial Procedure Rules in Constitution • Contract Procedure Rules in Constitution • Accounting Instructions on Intranet • Spending Restrictions document on Intranet
	Ensuring well-developed financial management is integrated at all levels of planning and control, including management of financial risks and controls	

Principle G – Implementing good practices in transparency, reporting and audit to deliver effective accountability		
Accountability is about ensuring that those making decisions and delivering services are answerable for them. Effective accountability is concerned not only with reporting on actions completed but also ensuring that stakeholders are able to understand and respond as the organisation plans and carries out it's a Activities in a transparent manner. Both external and internal audit contribute to effective accountability.		
Sub-Principles	**Behaviours and Actions that Demonstrate Good Governance in Practice**	**City and County of Swansea - Evidence**
Implementing good practice in transparency	Writing and communicating reports for the public and other stakeholders in an understandable style appropriate to the intended audience and ensuring that they are easy to access and interrogate	• Reports Authors Protocol exists to ensure consistency in reports • Clear Writing guide published on Intranet
	Striking a balance between providing the right amount of information to satisfy transparency demands and enhance public scrutiny while not being too onerous to provide and for users to understand	
Implementing good practices in reporting	Reporting at least annually on performance, value for money and the stewardship of its resources	• Annual Statement of Accounts audited by external auditor and approved by Council • Code of Corporate Governance based on CIPFA/SOLACE Framework 2016 • Annual Governance Statement • Annual Review of Performance
	Ensuring members and senior management own the results	
	Ensuring robust arrangements for assessing the extent to which the principles contained in the Framework have been applied and publishing the results on this assessment including an action plan for improvement and evidence to demonstrate good governance (annual governance statement)	

Sub-Principles	Behaviours and Actions that Demonstrate Good Governance in Practice	City and County of Swansea - Evidence
	Ensuring that the Framework is applied to jointly managed or shared service organisations as appropriate	
	Ensuring the performance information that accompanies the financial statements is prepared on a consistent and timely basis and the statements allow for comparison with other similar organisations	
Assurance and effective accountability	Ensuring that recommendations for corrective action made by external audit are acted upon	• External Audit provided by Wales Audit Office • Performance of Internal Audit Section monitored by Audit Committee • Implementation of WAO and Internal Audit recommendations monitored by Audit Committee • Peer Review, Corporate Assessment and Corporate Governance Review action plan monitored by Corporate Management Team • Annual Governance Statement
	Ensuring an effective internal audit service with direct access to members is in place which provides assurance with regard to governance arrangements and recommendations are acted upon	
	Welcoming peer challenge, reviews and inspections from regulatory bodies and implementing recommendations	
	Gaining assurance on risks associated with delivering services through third parties and that this is evidenced in the annual governance statement	
	Ensuring that when working in partnership, arrangements for accountability are clear and that the need for wider public accountability has been recognised and met	

5. Review of Effectiveness

5.1 The City and County of Swansea has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the Authority who have responsibility for the development and maintenance of the governance environment, the Chief Auditor's annual report and also by comments made by the external auditors and other review agencies and inspectorates. The newly formed Annual Governance Statement Group also discuss the governance arrangements in place across the Authority on a regular basis and provide updates to the Audit Committee, the Corporate Management Team and Cabinet when necessary.

5.2 The processes for maintaining and reviewing the effectiveness of the governance framework within the Council include the following broad headings.

6 Internal Control Self-Assessment

- Each Head of Service has provided a signed **Senior Management Assurance Statement** for 2016/17 which provides assurance over the internal control, risk management and governance framework for their area of responsibility.
- The **Senior Management Assurance Statement** contains 10 questions covering governance issues and requires a 'Yes', 'No' or 'Partly' answer. The vast majority of answers provided by Heads of Service were 'Yes' with a small number of 'Partly' responses. There were no 'No' assurance responses. The main areas where 'Partly' answers were given related to monitoring the implementation of recommendations within Adult Services, limitations of central control given the delegated budgets within Education and the possible impact of interim management structures on controls. However, in each case assurance was provided that sufficient monitoring was in place so as not to pose a risk to governance.

6.1 Internal Sources of Assurance

The following provide assurance based on reports covering 2015/16 as the reports for 2015/16 are not yet available. The 2016/17 reports will be reflected in the next Annual Governance Statement.

- The **Annual Performance Review 2015/16** was approved by Cabinet on 20/10/16 in accordance with the publishing requirements of the Local Government (Wales) Measure 2009. The report showed the results of each performance measure for the 5 Key Priorities ('Improvement Objectives') set out in the Corporate Plan 2015/17 '*Delivering for Swansea'.* The results showed that the Council was 'mainly successful' in achieving the performance measures for 5 of the Key Priorities and 'partially successful' in achieving 1 of the Key Priorities.
- The **Standards Committee** met on 4 occasions during 2016/17 and the **Standards Committee Annual Report 2015/16** was presented to Council on 28/07/16. The report described the work of the Committee during 2015/16 including investigations into breaches of the Member's Code of Conduct, annual discussions with Political Group Leaders, Committee Chairs and the Chief Executive, meetings with Community/Town Councils and letters sent by the Committee to the Public Services Ombudsman for Wales.

- The **Corporate Complaints Policy** was in place throughout 2016/17 and the **Corporate Complaints Annual Report 2015/16** was presented to Cabinet on 20/10/16. The Annual Report noted that 2015/16 was the busiest ever recorded for the Complaints Team with a 28% increase in the number of complaints and requests for service handled by the team. Requests for information also increasing by 9.5% in the year. The report also highlighted a number of service improvements which had been introduced as a result of compliant investigations.
- The **Internal Audit Annual Report 2015/16** was reported to the Audit Committee on 30/08/16 and included the Chief Auditor's opinion that based on the audit reviews undertaken in 2015/16, Internal Audit can give reasonable assurance that the systems of internal control were operating adequately and effectively and that no significant weaknesses were identified.
- The **Audit Committee Annual Report 2015/16** was presented to Council on 22/09/16 and outlined the assurance the Committee had gained over control, risk management and governance from various sources over the course of 2015/16.
- The **Scrutiny Programme Committee and Panels** met throughout 2016/17 and were supported by the Scrutiny Support Unit. The **Scrutiny Annual Report 2015/16** was presented to Council on 28/07/16. The report highlighted the work carried out by Scrutiny, showed how Scrutiny had made a difference and supported continuous improvement for the Scrutiny function. The report also provided a summary of some of the things that had been done in year to address the 6 improvement outcomes identified in the 2014/15 report. Two further areas for improvement were also identified to be addressed in 2016/17.
- The **Annual Performance Monitoring Report 2015/16** was approved by Cabinet on 21/07/16 which presented the detailed performance results for 2015/16. In summary, 51 (59%) indicators that had targets set met their targets. 41 (68%) comparable indicators also showed improvement compared to 2014/15. The results of the review are used to inform executive decisions on resource allocation and to take corrective action to improve performance and efficiency.
- The **One Swansea Plan** and Delivery Framework 2015 '*Place, People, Challenges and Change*' were endorsed by the Local Service Board on 15/09/15 as the **Single Integrated Plan**. The purpose of the Plan is to improve the wellbeing of people in Swansea by ensuring that professionals and the public work together. The Plan is developed by the Local Service Board which includes the main public service agencies for the area and representatives of the voluntary and business sector.

The following provides assurance based on reports covering 2016/17

- The **Corporate Plan 2016-17** *'Delivering for Swansea 2016/17'* produced in accordance with the Local Government (Wales) Measure 2009 and the 'Wellbeing Objectives' under the Wellbeing of Future Generations (Wales) Act 2015 was approved by Cabinet on 17/03/16. The Plan describes the Council's vision for Swansea, the 5 key Council priorities and the organisation values and principles that will underpin the delivery of the priorities and the overall strategy.
- The **Well-Being Statement for 2017/18** setting out the well-being objectives for the Council as required by the Well-Being of Future Generations (Wales) Act 2015 was approved by Cabinet on 16/03/17. The Councils 5 key priorities as set out in the Corporate Plan 2016/17 have been carried forward into 2017/18 as the Council's Well-Being Objectives.

- The adoption of the **Council Constitution** was reaffirmed at the Annual Meeting of the Council on 19/05/16. Various reports have been approved by Council throughout 2016/17 making changes to the Constitution.
- The **Audit Committee** met on 12 occasions during 2016/17 and followed a structured workplan which covered all areas of the Committee's responsibilities with the aim of obtaining assurance over the areas included in its terms of reference. The Committee includes a lay member as required by the Local Government (Wales) Measure 2011. The lay member is also the Chair of the Committee.
- The **Scrutiny Programme Committee** met on 14 occasions in 2016/17 and had overall responsibility for the scrutiny function.
- The annual **Scrutiny Work Planning Conference 2016/17** was held on 12/05/16 and a report on the **Scrutiny Work Programme 2015/16** was agreed by the Scrutiny Programme Committee on 13/06/15.
- The **Constitution Working Group** met twice during 2016/17 to consider issues relating to school reorganisation requiring a change to the Council Constitution and nominations to the office of Lord Mayor and Deputy Lord Mayor including changes to protocol.
- The **Medium Term Financial Plan 2018/19 – 2020/21** was approved by Council on 23/02/17. The Plan outlined the significant shortfall in funding faced by the Council over the period and the strategy to be adopted to address the shortfall as well as the inherent risks to the success of the adopted strategy.
- The **Corporate Risk Management Policy and Framework** operated throughout 2016/17. In addition, both the Policy and Framework were in the process of being reviewed and updated during 2016/17. Audit Committee are due to be consulted on the updated documents on the 20/06/17.
- Each Corporate Director held monthly **Performance and Financial Monitoring** meetings where Chief Officers and Heads of Service reported on progress in terms of continuous improvement and budgets.
- Quarterly **Performance Monitoring Reports** were presented to Cabinet during 2016/17 which provided detailed performance tables and identified the Council's performance outturn for the indicators which had been selected for their suitability to measure performance against the Council's 5 key priorities.
- Quarterly **Financial Monitoring Reports** were presented to Cabinet throughout 2016/17. The reports identified a potential revenue budget overspend at year end based on available information and stressed the need for expenditure to be contained within the budget set by Council.
- A **Mid Term Budget Statement 2016/17** was presented to Council on 01/11/16 which provided a strategic and focussed assessment of the current year's financial performance and an update on strategic planning assumptions over the next 3 financial years. The conclusion of the Statement was that the Council would struggle to deliver within the overall resources identified to support the budget in 2016/17. The likely projected outturn was dependent upon the willingness and ability of the Council to reduce and restrict ongoing expenditure across all areas.
- All reports presented to Cabinet and Council during 2016/17 had been reviewed by Finance, Legal and Access to Services staff and included the appropriate paragraphs detailing the **Financial, Legal and Equality and Engagement Implications** of the report.
- The **Pension Fund Committee** met on 6 occasions during 2016/17 and dealt with all issues relating to the governance of the Pension Fund.

6.2 External Sources of Assurance

- The Wales Audit Office undertook a **Corporate Assessment** of the Council in November 2014. The assessment sought to answer the *question 'is the Council capable of delivering its priorities and improved outcome for citizens?'* The **Annual Improvement Report 2014/15** which incorporated the Corporate Assessment report was presented to Council on 23/07/15 and concluded that *'the Council can demonstrate improvement across a range of key services and has developed a clear framework for managing future challenges'*. The report made the following proposals for improvement.
- The Wales Audit Office undertook a **Corporate Assessment follow up** exercise in 2016/17 to review progress against the proposals for improvement noted above. The report issued in July 2016 focused on performance management arrangements and concluded that the Council is making clear progress in developing its performance management arrangements and understands what needs to be done to improve its prospects for further improvement. The **Annual Improvement Report 2015/16** incorporated the findings from the review of performance management arrangements and was presented to Council on 24/11/16.The Wales Audit Office is due to look at governance arrangements during 2017/18.
- The **Wales Audit Office Annual Improvement Report 2015/16** was presented to Council on 24/11/16. The report concluded that '*the Council has continued to improve in its priority areas and its arrangements are likely to support future improvement'.* During the course of the year, the Auditor General did not make any formal recommendations. However, a total of 6 proposals for improvement were made which will be addressed by the Council.
- The Council invited the WLGA to facilitate a **Peer Review** in September 2014. The Peer Review had 3 key areas of focus i.e. Delivery, Change and Governance which were felt to be critical to organisational development and delivery in challenging times. The Peer Review identified both areas of strength and areas for improvement and made 20 recommendations in its report. The Council prepared an action plan to address the recommendations which was approved by Cabinet on 14/04/15. The Director of Corporate Services provided a **Peer Review Progress Update** to the Audit Committee on 19/04/16 which, for each of the 3 key areas of focus, identified what had been achieved and what was still to do. It was recognised that substantial progress had been made although there was still work to do and that going forward it was important to evaluate the impact of the actions taken.
- One of the results of the Corporate Assessment and Peer Review was that the Head of Legal, Democratic Services and Business Intelligence was tasked with undertaking a review of the Council's governance arrangements. To provide external assurance, the WLGA were asked to complete a **Corporate Governance Review**. The final report was presented to the Audit Committee on 28/06/16 with the overall conclusion that there were no significant flaws in the governance arrangements but there were improvements that could be made.
- The findings from the WLGA report were added to the Peer Review/Corporate Assessment Action Plan. A number of the actions were completed during 2016/17 and work will continue in 2017/18 to ensure all findings are addressed.
- The Wales Audit Office undertook a **Financial Resilience Assessment** of all Local Authorities across Wales including the City and County of Swansea. The review concluded that the Council has improved medium-term financial planning, but the

pace at which planned savings are being made is too slow and accountability for delivering all savings proposals had yet to be resolved when the report was presented to Audit Committee on 20/09/16. Overall, the review concluded that the financial planning, control and governance arrangements were at medium risk.

- A **Savings Planning Review** was also undertaken by the Wales Audit Office during 2016/17 which was issued in March 2017. The review concluded that whilst the Council has a sound financial planning framework it recognises the delay in delivering savings plans to required timescales presents risks to its financial resilience. The review made one proposal for improvement which will be addressed in 2017/18.
- The Appointed Auditor's **Annual Audit Letter 2015/16** was issued in November 2016 and presented to the Audit Committee on 03/01/17. The letter stated that *'The Council complied with its responsibilities relating to financial reporting and use of resources'.* The letter also stated that an unqualified audit opinion had been issued on the accounting statements confirming that they present a true and fair view of the Authority's and the Pension Fund's financial position and transactions. The letter also stated that *'The Auditor General for Wales is satisfied that the Authority has appropriate arrangements in place to secure economy, efficiency and effectiveness in its use of resources'.*
- The Wales Audit Office on behalf of the Auditor General for Wales presented the **Audit of Financial Statements Report 2015/16** to Audit Committee on 20/09/16 and to Council on 22/09/16. The report highlighted any significant issues to those charged with governance that needed to be considered prior to the approval of the financial statements. The report concluded that the Auditor General intended to issue an unqualified audit report on the financial statements for both the City & County of Swansea and the City and County of Swansea Pension Fund.
- The Wales Audit Office has delayed the issue of the **Certificate of Compliance** in relation to the audit of the Corporate Plan 2017/18 as the Council plans to act to comply with Local Government Measure 2009 arrangements by September 2017. The assessment is therefore scheduled to take place in August 2017.
- The Council is subject to **Statutory External Inspections** by various bodies including Wales Audit Office, ESTYN and CSSIW. ESTYN inspected 17 educational establishments during 2016/17 with inspection reports being provided to the Governing Body in each case. Work continued in 2016/17 to implement the 5 recommendations arising from ESTYN's Education Services for Children and Young People Inspection Report 2013/14. Progress reports were made to Cabinet throughout the year with the most recent report on 15/12/16 reporting that 1 recommendation had an Amber status (limited progress) and 4 had a Yellow status (good progress).

6.3 The Annual General Meeting of the Council held on 19/05/16 appointed the required number of Councillors to sit on the Boards of the companies included in the Council's Statement of Accounts. A change was made to the representatives on the Inter Authority Agreement for Food Waste board on 01/11/16.

6.4 The Council has partnership arrangements in place with the Wales National Pool Swansea, National Waterfront Museum Swansea, Liberty Stadium and the LC. In addition, partnership arrangements are also in place with the 360 Beach and Watersports Centre, Swansea Indoor Bowls Centre and Swansea Tennis 365 but there is no Council representation on the Board and the Council's financial contribution is nil or limited. The performance of these bodies is regularly monitored.

6.5 The review of the governance arrangements which operated for 2016/17 in the City and County of Swansea has shown that in general they provide a sound system and there are no suggestions that major issues exist.

6.6 The evidence gathered as part of the governance review for 2016/17 i.e. the Internal Control Self-Assessment and the review of internal and external sources of assurance supports the view that the governance arrangements continue to be fit for purpose although a small number of issues were identified where improvements can be made which are highlighted in Section 7.

6.7 We have been advised on the implications of the result of the review of the effectiveness of the governance framework and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined below.

7 Significant Governance Issues

7.1 The following table shows the significant governance issues which were identified during the review of effectiveness undertaken when preparing the Annual Governance Statement 2015/16 and the action taken during the year to address the issues.

Issue	Proposed Action	Action Taken
1. The Council's Code of Corporate Governance should be updated to ensure compliance with the core and sub principles contained in the revised CIPFA/SOLACE Delivering Good Governance in Local Government Framework	The Code of Corporate Governance is to be reviewed in line with the CIPFA/SOLACE Guidance Notes for Welsh Authorities due to be published in September 2016.	The Code of Corporate Governance was updated in line with the CIPFA/SOLACE Guidance. The Annual Governance Statement for 2016/17 is based on the new Code of Corporate Governance.
2. There are potential governance issues as a result of the proposals for the new Business Support	The transition to the new Business Support model will be carefully managed to ensure it is managed effectively and any changes will have due regard to	Full Council agreed a new structure in March 2017 for implementing the new model of business support. The WAO undertook a Governance themed

model across the Council arising from the Corporate Services Commissioning Review.	governance, corporate grip and control.	review of all Councils in Wales and in Swansea during Nov 16. The purpose of the review was to provide assurance that Councils' governance arrangements are well-placed to respond to future challenges and to identify opportunities to strengthen them. The focus of the review was on Councils' governance arrangements for determining service changes. The main question the review sought to answer was: • Does the Council have effective arrangements in place to ensure good governance when determining service changes? In Swansea, WAO focussed their study on the Council's commissioning process as the main means of implementing service change. The Council is waiting for the report to be published.
3. A system should be developed to record relevant delegated decisions made by officers.	An appropriate system will be developed to record delegated officer decisions which could include the use of financial thresholds to ensure consistency across the Council and agreement between Cabinet Members and relevant officers on which delegated decisions should be recorded. The agreed system will be implemented by publishing relevant decisions on the	The Head of Legal, Democratic Services and Business Intelligence commenced a review of this in 2016/17 which is due to be concluded in 2017/18.

	Council website.	
4. The process for producing the Annual Governance Statement should be reviewed to broaden the officer contribution to the process and to ensure that it is a live process throughout the year rather than a retrospective year-end process	A representative group from across the Council will be set up to meet regularly to review the Annual Governance Statement. The group will review the current Annual Governance Statement to identify where the format can be improved to promote a wider understanding and ownership of the Statement.	The Annual Governance Statement Group was set up in 2016/17, tasked with the compilation of a revised Corporate Code of Governance and Annual Governance Statement. The Group meet regularly to discuss governance issues provides updated to the Audit Committee, the Corporate Management Team and Cabinet when necessary.

7.2 The following table identifies issues which have been identified during the review of effectiveness and also highlights any other significant governance issues that need to be considered, together with the proposed actions to be taken during 2017/18 to address the issues.

Issue	Proposed Action
Regionalisation and associated governance issues	Senior Officers time will continue to be devoted to developing regional working and joint committee structures, particularly in relation to the City Deal and any other emerging work. Work in this area is ongoing and will continue into 2017/18.
Major Projects (including Capital Schemes)	Significant Officer time will continue to be committed to relevant projects in 2017/18. Wider issues in relation to support to schemes from a Legal, Finance, Procurement and Governance view point will be reviewed and address during 2017/18 in line with the ongoing Capital Commissioning Review.
Ongoing Council restructures and consideration of remaining Officer Capacity	Senior Officers are aware of the governance risks resulting from continued and ongoing reductions in resources. This will be monitored throughout 2017/18. The retention of the Director of Resources position will ensure overall corporate governance and control issues are identified and addressed where necessary. The roles

	of the Section 151 Officer and the Director will continue to be split to ensure adequate segregation is in place and to allow for arrangements to be effectively challenged throughout 2017/18.
Risk Management	A new risk policy and framework will be reported to Council for adoption, which will then be implemented during 2017/18.
Public Service Board management and co-ordination	Current post-holders are leaving / going to different job. A temporary co-ordinator will be appointed for 1 year after which there will be a review.
Wales Audit Office Improvement Plan 2015/16 – proposals for improvement	The proposals made by the Wales Audit Office will continue to be addressed during 2017/18.
Wales Audit Office Savings Planning Review 2016/17 – proposal for improvement	The proposal made by the Wales Audit Office will continue to be addressed during 2017/18.

7.3 We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed ……………………………. Chief Executive
Date …………………………….

Signed…………………………….. Leader
Date …………………………….

PART B

Statement of Responsibilities for the Statement of Accounts

The Authority's Responsibilities

The Authority is required:

- To make arrangements for the proper administration of the financial affairs of the Pension Fund and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Section 151 Officer.
- To manage its affairs in an economic, efficient and effective manner and to safeguard its assets.

The Section 151 Officer's Responsibilities

The Section 151 Officer of the City and County of Swansea is responsible for the preparation of the Pension Fund's statement of accounts which is required to present fairly the financial position of the Fund at the accounting date and its income and expenditure for the relevant year.

In preparing this statement of accounts, the Section 151 Officer has:

- selected suitable accounting policies and then applied them consistently, made judgements and estimates that were reasonable and prudent
- complied with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

The Section 151 Officer has also :

- kept proper accounting records which were up to date
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

The Section 151 Officer's Certificate

The Statement of Accounts on pages 50 to 81 summarises the Fund's transactions for the 2016/17 financial year and it's position at year-end 31 March 2017. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2016/17* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector and present fairly the financial position of the City and County of Swansea Pension Fund at 31 March 2017 and the income and expenditure for the year there ended.

BS SIGNATURE

Auditor General for Wales' Statement to the Members of the Administering Authority of City & County of Swansea Local Government Pension Fund

I have examined the pension fund accounts and related notes contained in the 2016 Annual Report of the City & County of Swansea Pension Fund to establish whether they are consistent with the pension fund accounts and related notes included in the Statement of Accounts produced by the City & County of Swansea for the year ended 31 March 2016 which were authorised for issue on 22nd September 2016. The pension fund accounts comprise the Fund Account, the Net Assets Statement.

Respective responsibilities of the Administering Authority and the Independent Auditor

The Administering Authority, the City & County of Swansea is responsible for preparing the Annual Report. My responsibility is to report my opinion on the consistency of the pension fund accounts and related notes contained in the Annual Report with the pension fund accounts and related notes included in the Statement of Accounts of the Administering Authority. I also read the other information contained in the Annual Report and consider the implications for my report if I become aware of any misstatements or material inconsistencies with the pension fund accounts.

This other information comprises the administration report, the investment report, the actuarial report, the statement of investment principles, the funding strategy statement, the governance compliance statement and the communications strategy.

I conducted my work based on the requirements of Bulletin 2008/3 issued by the Financial Reporting Council. My report on the pension fund accounts and related notes included in the Statement of Accounts produced by the City & County of Swansea describes the basis of my opinion on those accounts.

Opinion

In my opinion the pension fund accounts and related notes included in the Annual Report of the City & County of Swansea Pension Fund are consistent with the pension fund accounts and related notes included in the Statement of Accounts produced by the City & County of Swansea for the year ended 31 March 2016 which were authorised for issue on 29 September 2016 on which I issued an unqualified opinion.

I have not considered the effects of any events between the date on which I issued my opinion on the pension fund accounts included in the authority's Statement of Accounts, 29 September 2016, and the date of this statement.

Anthony Barrett Date :

For and on behalf of:
Huw Vaughan Thomas
Auditor General for Wales
24 Cathedral Road
Cardiff
CF11 9LJ

STATEMENT OF ACCOUNTS 2016/17

1. Introduction

The City & County of Swansea Pension Fund is administered by the City & County of Swansea. However it is a separate statutory fund and its assets and liabilities, income and expenditure are not consolidated into the accounts of the Authority. That is, the Pension Fund's assets and liabilities are distinct.

The summarised accounts of the Pension Fund shown here comprise three main elements:-

- The Fund Account which shows income and expenditure of the Fund during the year, split between payments to/contributions from members and transactions relating to fund investments.

- The Net Assets Statement which gives a snapshot of the financial position of the Fund as at 31 March 2017.

- The Notes to the Financial Statements which are designed to provide further explanation of some of the figures in the statements and to give a further understanding of the nature of the Fund.

2. Summary of transactions for the year

Where the money comes from:-

	£'000
Contributions and transfers in	85,562
Other	194
	85,756

And where it goes……..

	£'000
Pensions payable	58,454
Lump sum benefits	17,779
Refunds and transfers out	4,870
Administrative Expenses	1,141
	82,244

	£'000
Net new money into the Fund	3,512
Net return on Investments	339,741
Decrease in Fund value	**343,253**

Fund Account For The Year Ended 31st March

2015/16 £'000		Note	2016/17 £'000	2016/17 £'000
	Contributions and benefits :			
	Contributions receivable :			
61,743	Employers contribution	3	64,318	
16,649	Members contribution	3	16,903	81,721
2,451	Transfers in	4		3,841
119	Other income	5		194
80,962				85,756
	Benefits payable :			
-56,555	Pensions payable	6	-58,454	
-16,357	Lump sum benefits	6	-17,779	-76,233
	Payments to and on account of leavers :			
-127	Refunds of contributions	7	-120	
-4,718	Transfers out	7	-4,750	-4,870
-1,033	Management expenses	8		-1,141
2,172	**Net additions from dealing with members**			**3,512**
	Returns on investments			
26,214	Investment income	9		29,838
-50,884	Change in market value of investments	12		315,415
-4,662	Investment management expenses	8		-5,512
-29,332	**Net returns on investments**			**339,741**
-27,160	**Net increase in the Fund during the year**			**343,253**
1,539,789	Opening Net Assets of the Fund			1,512,629
1,512,629	Closing Net Assets of the Fund			**1,855,882**

Net Assets Statement As At 31st March

31st March 2016 £'000		Note	31st March 2017 £'000
	Investments at market value:	**Note**	
1,445,832	Investment Assets	11	1,780,339
99	Cash Funds	12	1,664
62,783	Cash Deposits	12	67,561
3,137	Other Investment Balances – Dividends Due	12	3,211
1,511,851	**Sub Total**		**1,852,775**
6,592	Current Assets	16	7,402
-5,814	Current Liabilities	16	-4,295
1,512,629	**Net assets**		**1,855,882**

The financial statements on pages 50 to 81 summarise the transactions of the Fund and deal with the net assets at the disposal of the Pension Fund Committee. The financial Statements do not take account of liabilities and other benefits which fall due after the period end. The actuarial position of the Fund, which does take account of such liabilities, is dealt with in the Statement of the Actuary in the Annual Report of the Pension Fund and a summary is included in Part D of this report and these accounts should be read in conjunction with this information.

Notes to the Financial Statements

1. Basis of preparation

The financial statements summarise the fund's transactions for the 2016/17 financial year and its position at year-end 31 March 2017. The financial statements have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2016/17* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The financial statements do not take account of liabilities and other benefits which fall due after the period end.

2. Accounting Policies

The following principle accounting policies, which have been applied consistently (except as noted below), have been adopted in the preparation of the financial statements:

(a) Contributions

Normal contributions, both from the employees and from the employer, are accounted for on an accruals basis in the month employee contributions are deducted from the payroll.

Early Access contributions from the employers are accounted for in accordance with the agreement under which they are paid, or in the absence of such an agreement, when received. Under current rules, employers can exercise discretion to give access to a person's pension rights early (other than for ill health). Where this is done, the additional pension costs arising are recharged to the relevant employer and do not fall as a cost to the Fund. Under local agreements some Employers have exercised the right to make these repayments over three years incurring the relevant interest costs. As a result total income is recognised in the Fund Account with amounts outstanding from Employers within debtors.

Other Contributions relate to additional pension contributions paid in order to purchase additional pension benefits.

(b) Benefits

Where members can choose whether to take their benefits as a full pension or as a lump sum with reduced pension, retirement benefits are accounted for on an accruals basis on the later of the date of retirement and the date the option is exercised.

Other benefits are accounted for on an accruals basis on the date of retirement, death or leaving the Fund as appropriate.

Accounting Policies cont'd

(c) Transfers to and from other Schemes

Transfer values represent the capital sums either receivable in respect of members from other pension schemes of previous employers or payable to the pension schemes of new employers for members who have left the Fund. They are accounted for on a cash basis or where Trustees have agreed to accept the liability in advance of receipt of funds on an accruals basis from the date of the agreement.

(d) Investments

i) The net assets statement includes all assets and liabilities of the Fund at the 31st March.

ii) Listed investments are included at the quoted bid price as at 31st March.

iii) Investments held in quoted pooled investment vehicles are valued at the closing bid price at 31st March if both bid and offer price are published; or, if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

iv) Unquoted securities are valued by the relevant investment managers based on the Fund's share of the net assets or a single price advised by the Fund Manager, in accordance with generally accepted guidelines.

v) Unit trusts are valued at the Managers' bid prices at 31st March.

vi) Accrued interest is excluded from the market value of fixed interest securities but is included in accrued investment income.

vii) Investment management fees are accounted for on an accrual basis.

viii) Transaction costs are included in the cost of purchases and sales proceeds.

ix) Investments held in foreign currencies have been translated into sterling values at the relevant rate ruling as at 31st March.

x) Property Funds/Unit Trusts are valued at the bid market price, which is based upon regular independent valuation of the underlying property holdings of the Fund/Unit Trust.

(e) Financial Instruments
Pension Fund assets have been assessed as fair value through profit and loss in line with IAS19.

(f) Cash and Cash Funds
Cash comprises cash in hand and cash deposits. Cash funds are highly liquid investments held with Investment Managers.

(g) Investment Income
Investment income and interest received are accounted for on an accruals basis. When an investment is valued ex dividend, the dividend is included in the Fund account. Distributions from pooled investment vehicles are automatically reinvested in the relevant fund.

(h) Assumptions made about the future and other major sources of estimation uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the net asset statement at 31st March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

- Actuarial present value of promised retirement benefits

(i) Critical judgements in applying accounting policies

The funds liability is calculated every three years by the appointed actuary. The methodology used is in line with accepted guidelines and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the actuary. The estimate is subject to significant variances based on changes to the underlying assumptions.

(j) Other

Other expenses, assets and liabilities are accounted for on an accruals basis.

3. Analysis of Contributions

Total Contributions 2016/17 £'000		Total Contributions 2015/16 £'000
	Administering Authority	
43,983	City & County of Swansea	**46,623**
	Admitted Bodies	
378	Celtic Community Leisure	364
9	Colin Laver Heating Limited	0
18	Swansea Bay Racial Equality Council	42
111	Wales National Pool	117
25	Capgemini	0
2,614	NPT Homes	2,547
895	Grwp Gwalia	676
23	RathboneTraining (CCS)	11
36	RathboneTraining (Gower College)	36
4,109	**Total Admitted Bodies**	**3,793**
	Scheduled Bodies	
7	Cilybebyll Community Council	8
17	Coedffranc Community Council	29
1,662	Gower College	1,737
1,735	NPTC Group	1,699
68	Neath Town Council	71
25,001	Neath Port Talbot County Borough Council	26,087
27	Margam Joint Crematorium Committee	37
5	Pelenna Community Council	5
15	Pontardawe Town Council	16
40	Swansea Bay Port Health Authority	27
1,723	University of Wales Trinity St Davids	1,584
0	Briton Ferry Town Council	2
0	Llanrhidian Higher Community Council	2
0	Ystalyfera Community Council	1
30,300	**Total Scheduled Bodies**	**31,305**
78,392	**Total Contributions Receivable**	**81,721**

3. Analysis of Contributions (continued)

Total Employer/Employee contributions comprise of:

2015/16 £'000		2016/17 £'000
	Employers	
58,800	Normal	60,780
0	Other	0
2,943	Early Access	4,038
61,743	**Total**	**64,818**
	Employees	
16,612	Normal	16,863
37	Other	40
16,649	**Total**	**16,903**
78,392	**Total Contributions Receivable**	**81,721**

4. Transfers In

Transfers in comprise of:

2015/16 £'000		2016/17 £'000
65	Group transfers from other schemes	0
2,386	Individual transfers from other schemes	3,841
2,451	**Total**	**3,841**

5. Other Income

Other income comprise of:

2015/16 £'000		2016/17 £'000
127	Bank Interest	200
-8	Early Access - Interest	-6
119	**Total**	**194**

6. Benefits Payable

The lump sum benefits paid comprise of:

2015/16 £'000		2016/17 £'000
56,555	Pensions	58,454
14,165	Commutation and lump sum retirement benefits	15,417
2,192	Lump sum death benefits	2,362
72,912	**Total**	**76,233**

7. Payments to and on account of leavers

Transfers out and refunds comprise of:

2015/16 £'000		2016/17 £'000
127	Refunds to members leaving service	120
4,718	Individual transfers to other schemes	4,750
4,845	**Total**	**4,870**

8. Administrative and Investment Manager Expenses

All administrative and investment management expenses are borne by the Fund:

2015/16 £'000		2016/17 £'000
	Administrative Expenses	
684	Support Services(SLA) & Employee Costs	690
30	Printing & Publications	18
168	Other	169
882		**877**
	Oversight & Governance	
18	Actuarial Fees	55
43	Advisors Fees	45
50	External Audit Fees	50
26	Performance Monitoring Services Fees	10
9	Pension Fund Committee	6
5	Pension Board	1
0	All Wales Pool Fees	97
151		**264**
1,033		**1,141**
	Investment Management Expenses	
4,117	Management Fees	4,894
437	Performance Fees	494
108	Custody Fees	124
4,662		**5,512**
5,695	**Total**	**6,653**

The above represents direct fees payable to the appointed fund managers, however, the following mandates are appointed via a fund of funds/manager of managers approach and the table below represents the fees payable to underlying managers. Returns for these mandates are net of underlying fee costs. However, for disclosure purposes the fees incurred were :

2015/16 £'000		2016/17 £'000
199	Partners Group	277
353	Blackrock	678
1,230	Schroders Property Fund	1,300
726	Permal	733
706	HarbourVest	715
3,214	**Total**	3,703

9. Investment Income

2015/16 £'000		2016/17 £'000
13,301	U.K. Equities	15,596
8,066	Overseas Equities	9,169
3,909	Managed Fund – Fixed Interest	3,854
936	Pooled Investment vehicles - Property Fund	1,289
2	Interest	-70
26,214	**Total**	**29,838**

The assets under management by Legal and General are managed wholly in a pooled investment vehicle. The pooled investment vehicles are a combination of equity, bond and money market unit funds which operate on an 'accumulation' basis, i.e. all dividends and investment income are automatically reinvested back into their relevant funds and not distributed as investment income. Therefore, the Fund value and change in market value on these funds will reflect both capital appreciation / depreciation plus reinvested investment income.

10. Taxation

a) United Kingdom

The Fund is exempt from Income Tax on interest dividends and from Capital Gains Tax but now has to bear the UK tax on other income. The Fund is reimbursed V.A.T. by H.M. Revenue and Customs and the accounts are shown exclusive of V.A.T.

b) Overseas

The majority of investment income from overseas suffers a withholding tax in the country of origin.

11. Investment Assets

	31st March 2016			31st March 2017		
	UK £'000	**Overseas £'000**	**Total £'000**	**UK £'000**	**Overseas £'000**	**Total £'000**
Equities						
Quoted	342,618	344,274	686,892	414,015	456,711	870,726
Pooled investment vehicles						
Managed Funds:						
Quoted:						
Equity	0	13,386	13,386	0	16,585	16,585
Fixed Interest	0	113,351	113,351	0	118,328	118,328
Unquoted:						
Equity	122,374	235,026	357,400	149,787	315,506	465,293
Fixed Interest	56,862	15,412	72,274	60,643	16,349	76,992
Index-linked	26,923	0	26,923	32,282	0	32,282
Property Unit Trust	13,204	0	13,204	12,053	0	12,053
Property Fund	34,956	36,524	71,480	36,162	38,911	75,073
Hedge Fund	0	48,494	48,494	0	52,318	52,318
Private Equity	0	42,428	42,428	0	60,689	60,689
Total pooled investment vehicles	254,319	504,621	758,940	290,927	618,686	909,613
Total equities and pooled investment vehicles	**596,937**	**848,895**	**1,445,832**	**704,942**	**1,075,397**	**1,780,339**

	31st March 2016	31st March 2017
Cash Funds	99	1,664
Cash	62,783	67,561
Other Investment Balances Due	3,137	3,211
Total	**1,511,851**	**1,852,775**

11. Investment Assets (Continued)

An analysis of investment assets based on class of investment is shown below :

31st March 2016 £'000	Investment Assets	31st March 2017 £'000
185,625	Fixed Interest	195,320
26,923	Index Linked Securities	32,282
464,992	U.K. Equities	563,802
592,686	Overseas Equities	788,802
84,684	Property	87,126
48,494	Hedge Funds	52,318
42,428	Private Equity	60,689
1,445,832	**Total Investment Assets**	**1,780,339**

12. Reconciliation of movements in investments

	Value at 31st March 2016	Purchases	Sales	Change in Market Value	Value at 31st March 2017
	£'000	£'000	£'000	£'000	£'000
Equities					
Aberdeen	100,275	15,056	-13,258	28,894	130,967
JPM	262,540	271,136	-266,026	82,602	350,252
Schroders	337,463	65,696	-58,375	61,308	406,092
L&G	357,400	1,290	-703	107,306	465,293
	1,057,678	353,178	-338,362	280,110	1,352,604
Property					
UK					
Schroders	48,160	4,883	-5,188	360	48,215
Overseas					
Partners	23,906	1,326	-3,780	3,637	25,089
Invesco	12,618	0	-494	1,698	13,822
	84,684	6,209	-9,462	5,695	87,126
Fixed Interest					
Fixed Interest					
L&G	72,274	0	-720	5,438	76,992
Goldman	113,351	3,854	0	1,123	118,328
	185,625	3,854	-720	6,561	195,320
Index-Linked					
L&G	26,923	0	0	5,359	32,282
	26,923	0	0	5,359	32,282
Hedge Funds					
Blackrock	25,733	0	-378	2,235	27.590
Permal	22,761	0	-213	2,180	24,728
	48,494	0	-591	4,415	52,318
Private Equity					
HarbourVest	42,428	13,313	-8,325	13,273	60,689
	42,428	13,313	-8,325	13,273	60,689
Cash funds					
Schroders	99	4,160	-2,597	2	1,664
	99	4,160	-2,597	2	1,664
TOTAL	**1,445,931**	**380,714**	**-360,057**	**315,415**	**1,782,003**
Cash	**62,783**				**67,561**
Other Investment Balance - Dividends Due	**3,137**				**3,211**
TOTAL	**1,511,851**			**315,415**	**1,852,775**

12. Reconciliation of movements in investments (continued)

Transaction costs are included in the cost of purchase and sales proceeds. Identifiable transaction costs incurred in the year relating to segregated investments amounted to £264k (2015/16: £180k). Costs are also incurred by the Fund in relation to transactions in pooled investment vehicles. Such costs are taken into account in calculating the bid/offer spread of these investments and are not separately identifiable.

13. Concentration of Investments

The following investments represented more than 5% of the Plan's net assets at 31 March 2017:

	Value as at the 31st March 2016 £'000	Proportion of Net Asset %	Value as at the 31st March 2017 £'000	Proportion of Net Asset %
L&G UK Equity Index	122,374	8.1	149,787	8.1
Goldman Sachs Global Libor Plus II	113,351	7.5	118,328	6.4
L&G North America Equity Index	108,446	7.2	146,379	7.9

14. Realised Profit on the Sale of Investments

2015/16 £'000		2016/17 £'000
-3,917	U.K. Equities	9,312
2,377	Overseas Equities	39,557
946	Property Fund	2,286
11	Cash Fund	2
-583	Net Profit / Loss (-)	**51,157**

15. Fixed Interest and Index Linked Investments

The fixed interest and index-linked investments are comprised of:

31st March 2016 £'000		31st March 2017 £'000
112,350	UK Public Sector	147,948
100,198	Other	79,654
212,548	**Total**	**227,602**

16. Current Assets & Liabilities

The amounts shown in the statement of Net Assets are comprised of:

31st March 2016 £'000		31st March 2017 £'000
	Current Assets	
603	Contributions - Employees	593
2,084	Contributions – Employers	2,594
2,143	Early Access Contributions Debtor	2,565
306	Transfer Values	406
1,456	Other	1,244
6,592		**7,402**
	Current Liabilities	
-930	Investment Management Expenses	-547
-2,493	Commutation and Lump Sum Retirement Benefits	-1,970
-427	Lump Sum Death Benefits	-44
-328	Transfers to Other Schemes	-677
-602	Payroll Deductions - Tax	-602
-695	Payable Control List	-30
-339	Other	-425
-5,814		**-4,295**
778	**Net**	**3,107**

16. Current Assets and Liabilities (continued)

Analysed as:

31st March 2016 £'000		31st March 2017 £'000
	Current Assets	
573	Central Government Bodies	511
5,310	Other Local Authorities	6,039
709	Other Entities & Individuals	852
6,592		**7,402**
	Current Liabilities	
-48	Central Government Bodies	-216
-1,490	Other Local Authorities	-739
-4,276	Other Entities & Individuals	-3,340
-5,814		**-4,295**
778	**Net**	**3,107**

Early Access Debtor

	Instalment Due 2017/18 £'000	Instalment Due 2018/19 £'000	Instalment Due 2019/20 £'000	Instalment Due 2020/21 £'000	Total £'000
Early Access Principal Debtor	2,728	4	3	0	2,735
Early Access Interest Debtor	1	0	0	0	1
Total (Gross)	**2,729**	**4**	**3**	**0**	**2,736**

17. Capital and Contractual Commitments

As at 31 March 2017 the Scheme was committed to providing additional funding to certain managers investing in unquoted securities. These commitments amounted to £70.0m (2015/16: £81.0m).

18. Related Party Transactions

£690k (£684k 15/16) paid to the City & County of Swansea for the recharge of Administration, I.T., Finance and Legal Services during the year.

Contributions received from admitted and scheduled bodies are detailed on page 56.

The City & County of Swansea acts as administering Authority for the City & County of Swansea Pension Fund (formerly the West Glamorgan Pension Fund).

Transactions between the Authority and the Pension Fund mainly comprise the payment to the Pension Fund of employee and employer payroll superannuation deductions, together with payments in respect of enhanced pensions granted by Former Authorities.

Key Management Personnel

The key management person of the fund is the Director of Resources. The management of the fund only forms part of this role within the Council. Further details of remuneration payable can be found with the Councils Financial Statements. The amount of these payments are immaterial with regard to the costs of the management of the Fund, details of which are found in Note 8.

The Pension Fund currently has 35 scheduled and admitted bodies. Management of the Pension Scheme Investment Fund is undertaken by a panel. The panel is advised by two independent advisors.

Governance

There are 7 Council members of the Pensions Committee who are active members in the City & County of Swansea Pension Fund. The benefit entitlement for the Councillors is accrued under the same principles that apply to all other members of the Fund.

19. Other Fund Documents

The City & County of Swansea Pension Fund is required by regulation to formulate a number of regulatory documents outlining its policy. Attached at the Appendices are :

- Statement of Investment Principles
- Funding Strategy Statement
- Governance Statement
- Communication Policy

20. Additional Voluntary Contributions

Some members of the Fund pay voluntary contributions to the Fund's AVC providers, The Prudential, to buy extra pension benefits when they retire. These contributions are invested in a wide range of assets to provide a return on the money invested. Some members also still invest and have funds invested with the legacy AVC providers, Equitable Life and Aegon.

The Pension Fund accounts do not include the assets held by The Prudential, Equitable Life or Aegon. AVC's are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only.

AVC Provider	Value of Funds at 01/04/16	Purchases at Cost (Contributions In/Out)	Sale Proceeds	Change in Market Value	Value of Funds at 31/03/17
	£'000	£'000	£'000	£'000	£'000
Prudential	4,225	1,719	-1,048	330	5,226
Aegon	1,224	50	-337	187	1,124
Equitable Life	296	2	-38	19	279
Totals	**5,745**	**1,771**	**-1,423**	**536**	**6,629**

21. Membership

The Pension Fund covers City & County of Swansea employees, (except for teachers, for whom separate pension arrangements apply) and other bodies included in the schedule.

Detailed national regulations govern the rates of contribution by employees and employers, as well as benefits payable. At 31st March 2017 there were 17,903 contributors, 12,200 pensioners and 11,583 deferred pensioners.

Membership statistics	31/03/13 Number	31/03/14 Number	31/03/15 Number	31/03/16 Number	31/03/17 Number
Contributors	14,586	15,576	16,285	17,469	17,903
Pensioners	10,432	10,833	11,261	11,745	12,200
Deferred Pensioners	8,815	9,663	9,801	11,226	11,583
Total	**33,833**	**36,072**	**37,347**	**40,440**	**41,686**

See Appendix 1 for current year analysis.

22. Fair Value of Investments

Financial Instruments
The Fund invests mainly through pooled vehicles with the exception of three segregated equity mandates. The managers of these pooled vehicles invest in a variety of financial instruments including bank deposits, quoted equity instruments, fixed interest securities, direct property holdings and unlisted equity and also monitor credit and counterparty risk, liquidity risk, and market risk.

Financial Instruments – Gains and Losses
Gains and losses on Financial Instruments have been disclosed within notes 9, 12 and 14 of the Pension Fund accounts.

Fair Value – Hierarchy
The fair value hierarchy introduced as part of the new accounting Code under IFRS7 requires categorisation of assets based upon 3 levels of asset valuation inputs :

- Level 1 - quoted prices for similar instruments
- Level 2 - directly observable market inputs other than Level 1 inputs
- Level 3 - inputs not based on observable market data.

The following table shows the position of the Fund's assets at 31st March 2016 and 2017 based upon this hierarchy.

FAIR VALUE - HIERARCHY

	31 March 2016				31 March 2017			
	Market Value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	Market Value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Equities								
UK Equities	342,618	342,618	-	-	414,015	414,015	-	-
Overseas Equities	344,274	344,274	-	-	456,711	456,711	-	-
Pooled Investment Vehicles								
Fixed-Interest Funds	113,351	113,351	-	-	118,328	118,328	-	-
UK Equity	122,374	-	-	122,374	149,787	-	-	149,787
Overseas Equity	248,412	13,386	-	235,026	332,091	16,585	-	315,506
Fixed Interest	72,274	-	-	72,274	76,992	-	-	76,992
Index-linked	26,923	-	-	26,923	32,282	-	-	32,282
Property Unit Trust	13,204	-	-	13,204	12,053	-	-	12,053
Property Fund	71,480	-	-	71,480	75,073	-	-	75,073
Hedge Fund	48,494	-	-	48,494	52,318	-	-	52,318
Private Equity	42,428	-	-	42,428	60,689	-	-	60,689
Infrastructure	-	-	-	-	-	-	-	-
Cash	62,882	62,882	-	-	69,225	69,225	-	-
Other Investment Balances - Dividends Due	3,137	3,137	-	-	3,211	3,211	-	-
Total	**1,511,851**	**879,648**	-	**632,203**	**1,852,775**	**1,078,075**	-	**774,700**

Values entered in this table will feed through into next sheets

23. Investment Risks

As demonstrated above, the Fund maintains positions indirectly via its fund managers in a variety of financial instruments including bank deposits, quoted equity instruments, fixed interest securities, direct property holdings, unlisted equity products, commodity futures and other derivatives. This exposes the Fund to a variety of financial risks including credit and counterparty risk, liquidity risk, market risk and exchange rate risk.

Procedures for Managing Risk

The principal powers to invest are contained in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 and require an Administering Authority to invest any Pension Fund money that is not needed immediately to make payments from the Pension Fund. These regulations require the Pension Fund to formulate a policy for the investment of its fund money. The Administering Authority's overall risk management procedures focus on the unpredictability of financial markets and implementing restrictions to minimise these risks. The Pension Fund annually reviews its Investment Strategy Statement (ISS) and corresponding Funding Strategy Statement (FSS), which set out the Pension Fund's policy on matters such as the type of investments to be held, balance between types of investments, investment restrictions and the way risk is managed.

The Fund continues to review its structure. A key element in this review process is the consideration of risk and for many years now the Fund has pursued a policy of lowering risk by diversifying investments across asset classes, investment regions and fund managers. Furthermore alternative assets are subject to their own diversification requirements and some examples are given below :

- Private equity – by stage, geography and vintage where funds of funds are not used
- Property – by type, risk profile, geography and vintage (on closed-ended funds)
- Hedge funds – multi-strategy and/or funds of funds.

23. Investment Risks (Continued)

Manager Risk

The Fund is also well diversified by manager with no single active manager managing more than 25% of Fund assets. On appointment, fund managers are delegated the power to make such purchases and sales as they deem appropriate under the mandate concerned. Each mandate has a benchmark or target to outperform or achieve, usually on the basis of 3-year rolling periods. An update, at least quarterly, is required from each manager and regular meetings are held with managers to discuss their mandates and their performance on them. There are slightly different arrangements for some of the alternative assets. Some private equity and property investment is fund rather than manager-specific, with specific funds identified by the investment sub group after careful due diligence. These commitments tend to be smaller in nature than main asset class investments but again regular performance reports are received and such investments are reviewed with managers at least once a year.

Credit Risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. As noted above almost all the Fund's investment are through pooled vehicles and a number of these are involved in derivative trades of various sorts, including futures, swaps and options. Whilst the Fund is not a direct counterparty to such trades and so has no direct credit risk, clearly all derivative transactions incorporate a degree of risk and the value of the pooled vehicle, and hence the Fund's holding, could be impacted negatively by failure of one of the vehicle's counterparties. However, part of the operational due diligence carried out on potential manager appointees concerns itself with the quality of that manager's risk processes around counterparties and seeks to establish assurance that these are such as to minimise exposure to credit risk.

There has been no historical experience of default on the investments held by the Pension Fund.

Within the Fund, the areas of focus in terms of credit risk are bonds and some of the alternative asset categories :

- The Fund's active fixed interest bond portfolio is £118,328k is managed (by Goldman Sachs) on an unconstrained basis and has a significant exposure to credit, emerging market debt and loans. At 31st March 2017, the Fund's exposure to non-investment grade paper was 7.4% of the actively managed fixed income portfolio.

- On private equity the Fund's investments are almost entirely in the equity of the companies concerned. The Funds private equity investments of £60,689k are managed by HarbourVest in a fund of funds portfolio.

On hedge fund of funds and multi-strategy vehicles, underlying managers have in place a broad range of derivatives. The Fund's exposure to hedge funds through its managers at 31st March 2017 is set out below with their relative exposure to credit risk :

	March 2017 £'000	Credit Exposure
Permal	24,728	0.80%
Blackrock	27,590	23.2%

Liquidity Risk

The Pension Fund has its own bank accounts. At its simplest, liquidity risk is the risk that the Fund will not be able to meet its financial obligations when they fall due, especially pension payments to its members. At a strategic level the Administering Authority, together with its consulting actuary, reviews the position of the Fund triennially to ensure that all its obligations can be suitably covered. Ongoing cash flow planning in respect of contributions, benefit payments, investment income and capital calls/distributions is also essential. This is in place with the Fund's position updated much more regularly.

Specifically on investments, the Fund holds through its managers a mixture of liquid, semi-liquid and illiquid assets. Whilst the Fund's investment managers have substantial discretionary powers regarding their individual portfolios and the management of their cash positions, they hold within their pooled vehicles a large value of very liquid securities, such as equities and bonds quoted on major stock exchanges, which can easily be realised. Traditional equities and bonds now comprise 84.1% of the Fund's value and, whilst there will be some slightly less liquid elements within this figure (emerging market equities and debt for example), the funds investing in these securities offer monthly trading at worst – often weekly or fortnightly.

On alternative assets the position is more mixed. Most are subject to their own liquidity terms or, in the case of property, redemption rules. Closed-ended funds such as most private equity vehicles and some property funds are effectively illiquid for the specified fund period (usually 10 years), although they can be sold on the secondary market, usually at a discount.

23. Investment Risks (Continued)

The table below analyses the value of the Fund's investments at 31st March 2017 by liquidity profile :

	Amounts at 31st March 2017 £000s	Within 1 month £000s	1-3 months £000s	4-12 months £000s	> 1 Year £000s
Equities					
UK Equities	414,015	414,015	0	0	0
Overseas Equities	456,711	456,711	0	0	0
Pooled Investment Vehicles					
Fixed-Interest Funds	118,328	118,328	0	0	0
UK Equity	149,787	149,787	0	0	0
Overseas Equity	332,091	332,091	0	0	0
Fixed Interest	76,992	76,992	0	0	0
Index-linked	32,282	32,282	0	0	0
Property Unit Trust	12,053	0	0	12,053	0
Property Fund	75,073	0	0	36,162	38,911
Hedge Fund	52,318	0	0	52,318	0
Private Equity	60,689	0	0	0	60,689
Infrastructure	0	0	0	0	0
Deposits with banks and other financial institutions	69,225	69,225	0	0	0
Other Investment Balances - Dividends Due	3,211	3,211	0	0	0
Total	**1,852,775**	**1,652,642**	**0**	**100,533**	**99,600**

23. Investment Risks (Continued)

It should be noted that different quoted investments are subject to different settlement rules but all payments/receipts are usually due within 7 days of the transaction (buy/sell) date. Because the Fund uses some pooled vehicles for quoted investments these are often subject to daily, weekly, 2-weekly or monthly trading dates. All such investments have been designated "within 1 month" for the purposes of liquidity analysis. Open-ended property funds are subject to redemption rules set by their management boards. Many have quarterly redemptions but these can be held back in difficult markets so as not to force sales and disadvantage continuing investors. For liquidity analysis purposes, a conservative approach has been applied and all such investments have been designated "within 4-12 months".

Closed-ended funds have been designated illiquid for the purposes of liquidity analysis. However, these closed-ended vehicles have a very different cash flow pattern to traditional investments since the monies committed are only drawn down as the underlying investments are made (usually over a period of 5 years) and distributions are returned as soon as underlying investments are exited (often as early as year 4). In terms of cash flow, therefore, the net cash flow for such a vehicle usually only reaches a maximum of about 60-70% of the amount committed and cumulative distributions usually exceed cumulative draw downs well before the end of the specified period, as these vehicles regularly return 1½ to 2½ times the money invested. At the same time, it has been the Fund's practice to invest monies on a regular annual basis so the vintage year of active vehicles ranges from 2000 to 2013.

This means that, whilst all these monies have been designated closed-ended and thereby illiquid on the basis of their usual "10-year life", many are closer to maturity than implied by this broad designation. As can be seen from the table, even using the conservative basis outlined above, around 89% of the portfolio is realisable within 1 month and 95% is realisable within 12 months.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial institution will fluctuate because of changes in market price. The Fund is exposed to the risk of financial loss from a change in the value of its investments and the consequential danger that its assets will fail to deliver returns in line with the anticipated returns underpinning the valuation of its liabilities over the long term.

Market risk is comprised of two elements :

- The risks associated with volatility in the performance of the asset class itself (beta).
- The risks associated with the ability of managers, where allowed, to move away from index weights and to generate alpha, thereby offsetting beta risk by exceeding market performance.

The table below sets out an analysis of the Fund's market risk positions at 31 March 2017 by showing the amount invested in each asset class and through each manager within each main asset class, the index used as a benchmark, the target set for managers against this benchmark:

23. Investment Risks (Continued)

Asset Class	Asset Allocation	Fund Manager		Benchmark	Performance target
		Passive	Active		
UK Equities	34% +/- 5%	14% **L&G**	20% **Schroders**	FTSE allshare	+3% p.a. over rolling 3 year
Overseas Equities	34% +/- 5%	13% **L&G**	21% **JP Morgan & Aberdeen** **Aberdeen**	MSCI World all share (ex UK) MSCI Frontier Markets Index	+3% p.a. over rolling 3year +% p.a. over rolling 3year
Global Fixed Interest	15% +/- 5%	6% **L&G**	9% **Goldman Sachs**	Libor	LIBOR +3%
Property	5% +/- 5%	-	5% **Schroders, Partners & Invesco**	IPD UK Pooled Property Fund Index	+ 1% p.a. over rolling 3 year, 8% absolute return
Hedge Funds	5% +/- 5%	-	5% **Blackrock & Permal (formerly Fauchier)**	LIBOR	+4%
Private Equity	3% +/- 5%	-	3% **Harbourvest**	FTSE allshare	+3% p.a. over 3 year rolling
Infrastructure	2% +/- 5%	-	2% **To be Appointed**	TBD	TBD
Cash	2% +/- 5%	-	2% In house and cash flows of fund managers	7day LIBID	=
TOTAL	100%	33%	67%		

The risks associated with volatility in market values are managed mainly through a policy of broad asset diversification. The Fund sets restrictions on the type of investment it can hold through investment limits, in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The Fund also adopts a specific strategic benchmark (details can be found in the Fund's SIP) and the weightings of the various asset classes within the benchmark form the basis for asset allocation within the Fund. Under normal conditions there is quarterly rebalancing to this strategic benchmark within fixed tolerances. This allocation, determined through the Fund's asset allocation strategy, is designed to diversify and minimise risk through a broad spread of investments across both the main and alternative asset classes and geographic regions within each asset class. Market risk is also managed through manager diversification – constructing a diversified portfolio across multiple investment managers. On a daily basis, managers will manage risk in line with the benchmarks, targets and risk parameters set for the mandate, as well as their own policies and processes. The Fund itself monitors managers on a regular basis (at least quarterly) on all these aspects.

Due to volatility in the equity markets, there was an imbalance of 3.6% over allocation to overseas equities as at 31st March 2017.

Permanent rebalancing will be considered in light of market reversion and inherent cost of rebalancing.

23. Investment Risks (Continued)

Price Risk

Price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of financial instruments. Possible losses from shares sold short is unlimited.

Following analysis of historical data and expected investment returns movement during the financial year and in consultation with the Fund's investment advisors, the Council has determined the following movements in market price risk are reasonably possible. Had the market price of the fund investments increased/decreased in line with the potential market movements, the change in the net assets available to pay benefits in the market price as at 31st March 2017 would have been as follows:

Price Risk

Asset Type	Value (£'000)	% Change	Value on Increase	Value on Decrease
UK Equities	563,802	9.10%	615,108	512,496
Overseas Equities	788,802	9.70%	865,316	712,288
Total Bonds & Index-Linked	227,602	6.00%	241,258	213,946
Cash	69,225	4.50%	72,340	66,110
Property	87,126	1.20%	88,172	86,080
Alternatives	113,007	3.20%	116,623	109,391
Other Investment Balances	3,211	0.00%	3,211	3,211
Total Assets*	**1,852,775**	**6.50%**	**1,973,205**	**1,732,344**

****The % change for Total Assets includes the impact of correlation across asset classes***

And as at 31 March 2016

Price Risk

Asset Type	Value (£'000)	% Change	Value on Increase	Value on Decrease
UK Equities	464,992	10.86%	515,490	414,494
Overseas Equities	592,686	9.91%	651,421	533,951
Total Bonds & Index-Linked	212,548	2.63%	218,138	206,958
Cash	62,882	0.01%	62,888	62,876
Property	84,684	3.22%	87,411	81,957
Alternatives	90,922	4.12%	94,668	87,176
Other Investment Balances	3,137	0.00%	3,137	3,137
Total Assets*	**1,511,851**	**6.96%**	**1,617,034**	**1,406,668**

****The % change for Total Assets includes the impact of correlation across asset classes***

Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£UK). The Fund holds both monetary and non-monetary assets denominated in currencies other than £UK.

In consultation with the Fund's investment advisors, the Council has determined that the following movements in currencies are reasonably possible. The following represents a sensitivity analysis associated with foreign exchange movements as at 31st March 2017:

Currency Risk (by currency)

Currency	Value (£'000)	% Change	Value on Increase	Value on Decrease
Australian Dollar	7,178	11.20%	7,982	6,374
Brazilian Real	5,592	20.90%	6,761	4,423
Canadian Dollar	5,607	9.10%	6,119	5,095
Danish Krone	2,928	9.00%	3,191	2,665
EURO	100,483	9.00%	109,118	91,184
Hong Kong Dollar	12,098	8.90%	13,180	11,016
Indian Rupee	2,602	9.60%	2,852	2,352
Indonesian Rupiah	2,134	12.30%	2,396	1,872
Israeli Shekel	2,364	8.40%	2,563	2,165
Japanese Yen	75,520	14.90%	86,758	64,282
Mexican Peso	3,165	11.40%	3,527	2,803
Norwegian Krone	1,138	10.60%	1,259	1,017
Chinese Renminbi Yuan	15,645	8.50%	16,972	14,318
Russian Rouble	4,366	23.80%	5,406	3,326
Singapore Dollar	3,692	8.80%	4,017	3,367
South African Rand	3,556	16.50%	4,144	2,968
South Korean Won	12,650	10.40%	13,970	11,330
Swedish Krona	5,828	8.80%	6,340	5,316
Swiss Franc	25,258	11.90%	28,272	22,244
Taiwan Dollar	7,167	8.60%	7,782	6,552
Thai Baht	1,891	9.70%	2,074	1,708
Turkish Lira	1,203	14.60%	1,378	1,028
US Dollar	286,399	9.00%	309,938	258,866
North America Basket	146,379	8.70%	159,165	133,593
Europe ex UK Basket	64,782	8.70%	70,445	59,119
Asia Pacific ex Japan Basket	29,736	8.60%	32,283	27,189
Emerging Basket	59,041	9.20%	64,463	53,619
Total Currency*	**888,402**	**8.40%**	**963,028**	**813,776**

The % change for Total Currency includes the impact of correlation across the underlying currencies

And as at 31 March 2016

Currency Risk (by currency)

Currency	Value (£'000)	% Change	Value on Increase	Value on Decrease
Australian Dollar	5,656	9.26%	6,180	5,132
Brazilian Real	4,458	13.89%	5,077	3,839
Canadian Dollar	8,749	7.89%	9,439	8,059
Danish Krone	2,099	6.83%	2,242	1,956
EURO	90,569	6.77%	96,701	84,437
Hong Kong Dollar	9,619	7.67%	10,357	8,881
Indian Rupee	3,315	10.28%	3,656	2,974
Indonesian Rupiah	1,841	12.46%	2,070	1,612
Israeli Shekel	2,644	6.58%	2,818	2,470
Japanese Yen	50,706	11.68%	56,628	44,784
Mexican Peso	3,050	8.25%	3,302	2,798
Norwegian Krone	1,003	9.40%	1,097	909
Chinese Renminbi Yuan	9,001	7.68%	9,692	8,310
Peruvian New Sol	808	7.44%	868	748
Russian Rouble	4,391	21.00%	5,313	3,469
Singapore Dollar	4,546	6.17%	4,826	4,266
South African Rand	2,620	10.31%	2,890	2,350
South Korean Won	9,431	7.22%	10,112	8,750
Swedish Krona	3,645	7.65%	3,924	3,366
Swiss Franc	18,804	9.95%	20,675	16,933
Taiwan Dollar	5,266	6.59%	5,613	4,919
Thai Baht	799	8.39%	866	732
Turkish Lira	776	10.78%	860	692
US Dollar	204,139	7.78%	220,021	188,257
North America Basket	108,446	7.43%	116,504	100,388
Europe ex UK Basket	50,577	6.46%	53,844	47,310
Asia Pacific ex Japan Basket	21,610	6.52%	23,019	20,201
Emerging Basket	43,069	6.79%	45,993	40,145
Total Currency*	**671,637**	**6.14%**	**712,876**	**630,398**

The % change for Total Currency includes the impact of correlation across the underlying currencies

23. Investment Risks (Continued)

Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Actuary, as part of their triennial valuation and dictated by the Funding Strategy Statement, will only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing. Progress is analysed at three yearly valuations for all employers.

24. Events After the Balance Sheet Date

Events after the balance sheet date are those events both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified :

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events.

- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of those events and their estimated financial effect.

There are no known events that would have a material impact on these accounts.

25. Further Information

The accounts outlined within the statement represent the financial position of the City and County of Swansea's Pension Fund at 31 March 2017 and any further enquires may be forwarded to the Chief Treasury & Technical Officer, Room 1.4.2, Civic Centre, Oystermouth Road, Swansea SA1 3SN.

PART C
INVESTMENT REPORT

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**

Investment Strategy

The Strategic Aim of the Fund is to achieve the maximum return consistent with acceptable levels of risk and the long term nature of the Fund's liabilities.

Fund monies that are not currently needed to meet pension and benefit payments are invested in approved securities and the Fund receives income from these investments. The powers to invest are contained within the Local Government Pension Scheme Regulations that permit a wide range of acceptable investments, but set certain limits, including:

(a) a limit of 10% of the Fund in unlisted securities;

(b) no more than 10% of the Fund may be invested in a single holding (except for government stocks); and

(c) no more than 35% of the Fund may be invested in any one insurance contract.

(d) no more than 35% may be invested in unit trusts managed by any one body.

(e) no more than 10% of the Fund may be deposited with any one bank.

Investment Fund Management

The investment of the Fund is the responsibility of the Pension Fund Committee. The Committee as at 31st March 2017 comprised (Appendix 2):-

- 7 Councillor Members (one member from Neath Port Talbot CBC representing other scheme employers) advised by:

- Section 151 Officer
- Chief Treasury & Technical Officer
- 2 Independent Advisers

The Committee, after taking account of the views of the independent advisers and appointed actuary to the Fund, is responsible for determining broad investment strategy and policy, with appointed professional fund managers undertaking the operational management of the assets.

Following a comprehensive investment review in 2007/08 with a view to implementing a structure which more efficiently and effectively achieves the Fund's objective, the Fund implemented the following structure.

The Fund's current managers are:

Asset Class	**Manager**
UK Equities	Schroders Investment Management
Global Equities (ex UK)	Aberdeen Asset Managers
Global Equities (ex UK)	JP Morgan Asset Management
Global Bonds	Goldman Sachs Asset Management
Global Balanced Passive	Legal & General Asset Management
Hedge Fund of Funds	Permal
Hedge Fund of Funds	Blackrock Asset Management
Private Equity Fund of Funds	HarbourVest
Property Fund of Funds	Partners Group
Property Fund of Funds	Schroders Investment Management
Property Fund (European)	Invesco Real Estate

Valuation of Investments

The value of the Fund's investments of £1,853m together with net assets totalling £3.0m increased from £1,513m to £1,856m during 2016/17.

The increase of £343m is comprised of two elements:

2015//16 £'000		**2016/17 £'000**
-29,332	Net Return on Investments	339,741
2,172	**Add** Net new money (comprises contributions receivable, transfer values in less benefits paid and transfer values out)	3,512
-27,160		**343,253**

The market value of the Fund's investments over the past 10 years is illustrated in Appendix 3.

Distribution of Investments

The following table shows the distribution of the Fund's investments at 31 March 17 at Bid price Market Values.

31 March 2016			31 March 2017	
£'000	**%**		**£'000**	**%**
185,625	12.3	Fixed Interest Securities	195,320	10.6
26,923	1.8	Index Linked Securities	32,282	1.7
464,992	30.7	UK Equities	563,802	30.5
592,686	39.2	Overseas Equities	788,802	42.6
84,684	5.6	Property	87,126	4.7
48,494	3.2	Hedge Funds	52,318	2.8
42,428	2.8	Private Equity	60,689	3.2
62,882	4.2	Cash/Temporary Investments	69,225	3.7
3,137	0.2	Other: Dividends Due	3,211	0.2
1,511,851	100		1,852,775	100

1617 Distribution of Investments
Fund Manager Bid Prices

	L&G	Schroders Equity	Schroders Property	Invesco	JP Morgan	Aberdeen	Goldman Sachs	Partners Group	Blackrock (Hedge)	Permal	Harbour Vest	External Cash	HSBC Cash	Internal Cash	TOTAL	%
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	
Equities																
UK	149,787	406,092			5,096	2,827									563,802	30.5%
Europe	64,782				57,361	22,822									144,965	7.8%
N America	146,379				198,564	45,807									390,750	21.1%
Japan	32,153				30,959	12,406									75,518	4.1%
Pacific	29,736				11,134	11,834									52,704	2.8%
Emerging Markets	42,456				47,138	35,271									124,865	6.8%
Property																
UK & Europe			48,215	13,822											62,037	3.4%
Overseas								25,089							25,089	1.3%
Fixed Interest																
Fixed Interest	76,992						118,328								195,320	10.6%
Index-Linked	32,282														32,282	1.7%
Hedge Funds									27,590	24,728					52,318	2.8%
Private Equity											60,689				60,689	3.2%
Cash		10,809	1,712		2,127	5,576						34,752	94	14,155	69,225	3.7%
Other Investment Balances - Dividends Due		2,140			876	195									3,211	0.2%
TOTAL	574,567	419,041	49,927	13,822	353,255	136,738	118,328	25,089	27,590	24,728	60,689	34,752	94	14,155	1,852,775	100%
%	31.1%	22.6%	2.7%	0.7%	19.1%	7.4%	6.4%	1.3%	1.5%	1.3%	3.2%	1.9%	0.0%	0.8%	100%	

A more detailed sector and geographical analysis of the distribution of the Fund's investments is provided in Appendices 4(i)-(iii).

Investment Returns

	City & County of Swansea Fund	Local Authority Average Fund	Fund Specific Benchmark (FSB)	Relative Performance		Peer Group Ranking	Average Earnings Increase *	RPI*
	%	%	%	LA AVG	FSB		%	%
2016/17	22.0	21.4	20.2	+0.6	+1.8	27th	2.6	3.14
2015/16	-1.7	0.3	0.1	-2.0	-1.8	72nd	2.2	1.6
2014/15	10.8	13.2	11.9	-2.4	-1.1	89th	4.4	0.9
2013/14	7.2	6.3	7.1	+0.9	+0.1	35th	1.9	2.45
2012/13	13.7	13.7	13.9	-0.1	-0.2	43rd	-0.7	3.28
2011/12	0.6	2.6	3.7	-2.0	-3.1	92nd	0.8	3.6
2010/11	7.9	7.9	7.7	0.0	+0.2	51st	2.2	5.3
2009/10	35.5	35.2	34.7	+0.3	+0.8	42nd	7.8	4.15
2008/09	-16.0	-19.9		+3.9		12th	1.5	-0.4
2007/08	-0.5	-2.2		+1.7		19th	4.5	3.8
2006/07	6.6	6.3		+0.3		32nd	3.5	4.8
2005/06	23.9	25.2		-1.3		77th	3.8	2.4

*Data Source: Moneyfacts/ONS

The annual returns on the City and County of Swansea Fund compared with the Local Authority average and against the Fund specific benchmark are illustrated above.

Market Commentary- Local Authority Universe

The average local authority pension fund return was +21.4% well ahead of the 30 year average of +8.7% and well ahead of actuarial assumptions of +5.8%

It was a strong year for equity returns, returning just under +29% in aggregate, with Japan and the Pacific leading the way with +35.3% and +35% respectively with North America continuing its strong returns with +34.3% with emerging markets showing encouraging signs of sustained improvement at +33.3%. Europe and the UK returned +27.3% and +21.4% respectively.

UK equities performed well despite the large fall in the value of Sterling. Whilst initially counterintuitive, this reflects the importance of large overseas earnings of many of the UK quoted companies. The UK returned +21.4% for the year with large companies, as represented by the FTSE100, outperforming their smaller peers (within the FTSE250 and Small Cap indices) for the first time in eight years.

Overseas returns were better still, boosted for those funds who did not hedge their assets, by the marked decline in Sterling following the surprise decision to leave the EU.

Despite the increased political instability and resulting volatility, bond markets produced positive results. Funds achieved an average return from UK government bonds of 10.1% with corporates rather better at 11.7%.

Alternative investments as usual had a mixed time and there was a very wide dispersion of returns across this group. The average fund produced a return of 16.0% from this grouping. Private equity investments delivered close to 20% for the year, Infrastructure almost 18% whilst hedge funds returned 10% with property returning 6.2%.

Fund Performance

The fund returned 22%% for the year, +0.6% ahead of the local authority universe benchmark and +1.8% ahead of its fund specific benchmark, placing the fund in the 27th percentile overall.

The fund's equity investments performed in line with the average for this asset class, whilst the fund's bond investments, whilst outperforming its own performance benchmark lagged behind the local authority average when compared against traditionally weighted portfolios returning +7.5%.

This was offset by the outperformance in the fund's property and private equity portfolios. The fund's property managers performed particularly well returning +14.5%, with the private equity portfolio producing +26.5 % . The fund's hedge funds returned a below average +7.9%.

It is planned to review the long term asset allocation and investment strategy in 2017/18. The revised investment strategy adopted will seek to provide consistent returns over the longer period and seek to reduce the volatility that is inherent in exposure to equity markets alone.

The strategy implemented shall be reviewed with a view to implementing changes which shall be consistent with the fund's investment objectives which is to meet the fund's liabilities and which benefit the Fund in the long term.

Implementation of the revised strategy shall have to considered in the context of the Wales Pension Partnership Investment Pool which is due to be operational in 2017/18.

PART D

ACTUARIAL REPORT

Statement of the Actuary for the year ended 31 March 2017

Introduction

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the City & County of Swansea Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2016 by Aon Hewitt Limited, in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

Actuarial Position

1. The valuation as at 31 March 2016 showed that the funding ratio of the Fund was broadly similar to the funding ratio as at the previous valuation, with the market value of the Fund's assets at 31 March 2016 (of £1,512.6M) covering 80% of the liabilities in respect of service prior to the valuation date allowing, in the case of pre-1 April 2014 membership for current contributors to the Fund, for future increases in pensionable pay.
2. The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2017 was:
   - 18.0% of pensionable pay. This was the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date, (the primary rate).

   Plus

   - Monetary amounts to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 22 years from 1 April 2017 (the secondary rate), equivalent to 7.0% of pensionable pay (or £20.1M in 2017/18, and increasing by 3.5% p.a. thereafter).
3. In practice, each individual employer's or group of employers' position is assessed separately and contributions are set out in Aon Hewitt Limited's report dated 30 March 2017 (the "actuarial valuation report"). In addition to the contributions shown above, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.
4. The funding plan adopted in assessing the contributions for each individual employer or group was in accordance with the Funding Strategy Statement in force at the time. The approach adopted, and the recovery period used for each employer was agreed with the administering authority reflecting the employers' circumstances.
5. The valuation was carried out using the projected unit actuarial method for most employers and the main actuarial assumptions used for assessing the funding target and the contribution rates were as follows.

Discount rate for periods in service Scheduled body employers * Orphan body employers	 4.6% p.a. 4.6% p.a.
Discount rate for periods after leaving service Scheduled body employers * Orphan body employers	 4.6% p.a. 2.5% p.a.
Rate of pay increases	3.5% p.a.
Rate of increase to pension accounts	2.0% p.a.
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.0% p.a.

** The scheduled body discount rate was also used for employers whose liabilities will be subsumed after exit by a scheduled body.*

In addition the discount rate for orphan liabilities (i.e. where there is no scheme employer responsible for funding those liabilities) was 2.1% p.a. in service and left service.

The key demographic assumption was the allowance made for longevity. The post retirement mortality assumption adopted for the actuarial valuation was in line with standard self-administered pension scheme (SAPS) S2P mortality tables with appropriate scaling factors applied based on the mortality experience of members within the Fund and included an allowance for improvements based on the Continuous Mortality Investigation (CMI) Core Projections Model released with Working Paper 91 with Core assumptions, with a long term annual rate of improvement in mortality rates of 1.5% p.a. The resulting average future life expectancies at age 65 were:

	Men	Women
Current pensioners aged 65 at the valuation date	22.8	24.3
Future pensioners aged 45 at the valuation date	24.4	26.1

The assets were valued at market value.

Further details of the assumptions adopted for the valuation were set out in the actuarial valuation report.

6. The valuation results summarised above are based on the financial position and market levels at the valuation date, 31 March 2016. As such the results do not make allowance for changes which have occurred subsequent to the valuation date.

7. The formal actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2017 to 31 March 2020 were signed on 30 March 2017. Contribution rates will be reviewed at the next actuarial valuation of the Fund due as at 31 March 2019 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

8. This Statement has been prepared by the current Actuary to the Fund, Aon Hewitt Limited, for inclusion in the accounts of the Fund. It provides a summary of the results of their actuarial valuation which was carried out as at 31 March 2016. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

This Statement must not be considered without reference to the formal actuarial valuation report which details fully the context and limitations of the actuarial valuation.

Aon Hewitt Limited does not accept any responsibility or liability to any party other than our client, City and County of Swansea, the Administering Authority of the Fund, in respect of this Statement.

9. The report on the actuarial valuation as at 31 March 2016 is available on request from City and County of Swansea, the Administering Authority of the Fund.

Aon Hewitt Limited

May 2017

Actuarial Present Value of Promised Retirement

CIPFA's Code of Practice also requires the actuarial present value of the promised retirement benefits to be disclosed based on IAS26 and using assumptions relevant to IAS19 and not the funding assumptions above. The actuarial present value of the promised retirement benefits on this basis as at 31st March 2016 is £2,249.7m (31st March 2013 £1,936.8m), which compares the market value of the assets at that date of £1,512.6m (31st March 2013, £1,277.6m)

Definitions

Admission Body
An employer admitted to the Fund under an admission agreement.

Orphan Body
This is an admission body or other employer whose participation in the Fund may cease at some future point in time, after which it is expected that the Administering Authority will have no access to future contributions in respect of the employer's liabilities in the Fund once any liability on cessation has been paid.

Scheduled Body
Employers which participate in the Fund under schedule 2 of the Administration Regulations.

Subsumption and Subsumption Body
When an admission body or other employer ceases participation in the Fund, so that it has no employees contributing to the Fund and once any contribution on cessation as required by the regulations has been paid, the Fund will normally be unable to obtain further contributions from that employer (e.g. if future investment returns are less that assumed). It is however possible for another long term employer in the Fund (generally a scheduled body) to agree to be a source of future funding should any funding shortfalls emerge on the original employer's liabilities. The long term employer effectively subsumes the assets and liabilities of the ceasing employer into it's own assets and liabilities. In this document this is know as subsumption. In this document the admission body or other employer being subsumed is referred to as a subsumption body and it's liabilities are known as subsumed liabilities.

Certificate of the Actuary Regarding the Contributions Payable by the Employing Authorities in 2016/17

In accordance with Regulation 36 if the Local Government Pension Scheme (Administration) Regulations 2008 (the "Administration Regulations"), we certify that contributions should be paid by the Employers at the following rates for the period 1 April 2014 to 31 March 2017.

- A common rate of 16.2% of Pensionable Pay.
- Individual adjustments which, when added to or subtracted from the common rate, produce the following Employer contributions rates :

Certificate of the Actuary Regarding the Contributions Payable by the Employing Authorities in 2016/17

Employer		**Year commencing 1st April**		
		2014	**2015**	**2016**
Scheduled Bodies		% Pensionable Pay	% Pensionable Pay	% Pensionable Pay
City and County of Swansea		22.4	22.4	22.4
Neath Port Talbot County Borough Council		22.5	23.0	24.0
Pontardawe Town Council		19.7	19.7	19.7
Cilybebyll Community Council		20.5	20.5	20.5
Pelenna Community Council		21.9	23.6	25.3
Swansea Bay Port Health Authority		22.4	22.4	22.4
Admission Bodies				
Neath Port Talbot Homes		16.2	16.2	16.2
Grwp Gwalia Cyf		20.4	20.4	20.4
Colin Laver Heating Limited		19.7	19.7	19.7
Swansea Bay Racial Equality Council		27.2	30.8	34.3
Celtic Community Leisure		11.1	11.1	11.1
Wales National Pool		14.5	14.5	14.5
Cap Gemini		18.7	18.7	18.7

Employer	**Contribution rate 1 April 2014 to 31 March 2017**	**Additional monetary amount Year Commencing 1 April**		
	% PensionablePay	**2014 £**	**2015 £**	**2016 £**
Scheduled Bodies				
Margam Joint Crematorium Committee	19.2	4,600	4,800	5,000
Coedffranc Community Council	19.2	3,700	3,850	4,000
Neath Town Council	19.2	15,100	15,700	16,300
Neath Port Talbot College	13.9	175,000	184,000	194,000
Gower College Swansea	15.4	164,400	170,800	177,500
Neath Port Talbot College	14.7	151,900	157,800	164,000
Admission Bodies				
Trinity St Davids	22.4	225,000	450,000	481,000

Certificate of the Actuary Regarding the Contributions Payable by the Employing Authorities in 2016/17

The contributions shown represent the minimum contributions to be paid by each Employer. Employers may choose to pay additional contributions from time to time subject to the Administering Authority's agreement.

Where payments due from an Employer are expressed as monetary amounts, the amounts payable by that Employer should be adjusted to take into account of any amounts payable, in respect of a surplus or a shortfall to which those monetary payments relate, by new employers created after the valuation date which have been credited with proportions of the assets and liabilities of the relevant Employer. Any adjustment should be as advised by the Fund Actuary.

Additional contributions may be required in respect of any additional liabilities that arise under the provisions of Regulations 30, 31, 35 and 38 of the 2013 Regulations, payable over a period of up to three years and Employers will be notified of such contributions separately by the Administering Authority.

The contribution rates for the City & County of Swansea and for Neath Port Talbot County Borough Council have been set as a percentage of pensionable pay. However, minimum monetary contributions 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.

Additional contributions may be payable by any Admission Bodies which have ceased to participate in the fund since 31 March 2010 and will be certified separately.

Contribution rates for Employers commencing participation in the Fund after 31 March 2013 will be advised separately.

This certificate should be read in conjunction with the notes overleaf.

Signed on behalf of Aon Hewitt Limited

Chris Archer FIA
Fellow of the Institute and Faculty of Actuaries

Christine Rice FIA
Fellow of the Institute and Fa

31 March 2014

Aon Hewitt Limited
25 Marsh Street
Bristol
BS1 4AQ

Appendix 1

SCHEDULE OF EMPLOYING BODIES AND CONTRIBUTION RATES FOR THE PERIOD 1ST APRIL 2016 TO 31ST MARCH 2017

Administering Authority	Contributors Number @ 31/03/17	Pensioners Number @ 31/03/17	Deferred Benefits Number @ 31/03/17	Employer Contribution Rate (% of Pensionable Pay) plus additional annual monetary amount
City & County of Swansea	10,658	5,289	5,385	22.4%
Scheduled Bodies				
Neath Port Talbot County Borough Council.	5,156	3,617	4,442	24.0%
Briton Ferry Town Council	1	1	1	26.4%
Cilybebyll Community Council	6	0	1	20.5%
Clydach Community Council	0	0	1	-
Coedffranc Community Council	10	3	1	19.2%(+£4,000)
Gower College Swansea	458	237	416	15.4% (+177,500)
Llanrhidian Higher Community Council	1	0	0	18.2%
Lliw Valley BC	0	231	23	-
Margam Joint Cremation Committee	8	12	5	19.2% (+£5,000)
NPTC Group	524	240	392	14.7% (+£164,000)
Neath Port Talbot Waste Management Co. Ltd.	0	1	0	-
Neath Town Council	13	15	8	19.2% (+£16,300)
Pelenna Community Council	2	2	3	25.3%
Pontardawe Town Council	5	1	0	19.7%
Swansea Bay Port Health Authority	1	11	1	22.4%
Swansea City Waste Disposal Company	0	16	3	-
University of Wales Trinity St Davids	168	134	225	22.4% (+£481,000)
West Glamorgan County Council	0	2,163	256	-
West Glamorgan Magistrates Courts	0	38	16	-
West Glamorgan Valuation Panel	0	5	0	-
Ystalyfera Community Council	1	0	0	15.9%

Appendix 1

SCHEDULE OF EMPLOYING BODIES AND CONTRIBUTION RATES FOR THE PERIOD 1ST APRIL 2016 TO 31ST MARCH 2017 (CONT'D)

Administering Authority	Contributors Number @ 31/03/17	Pensioners Number @ 31/03/17	Deferred Benefits Number @ 31/03/17	Employer Contribution Rate (% of Pensionable Pay) plus additional annual monetary amount
Admitted Bodies				
NPT Homes	421	69	72	16.2%
Phoenix Trust	0	1	3	-
Grwp Gwalia	174	65	72	20.4%
Rathbone CCS	2	0	2	25.2%
Rathbone Gower College	4	0	0	28.9%
Babtie	0	3	12	-
Celtic Community Leisure	230	32	160	11.1%
Colin Laver Heating Limited	0	2	2	-
Swansea Bay Racial Equality Council	5	0	2	34.3%
The Careers Business	0	6	9	-
Wales National Pool	55	3	66	14.5%
West Wales Arts Association	0	2	0	-
Cap Gemini	0	1	4	-
	17,903	12,200	11,583	

Appendix 2

Pension Fund Committee 2016/17

Chairman	Cllr R Stewart
Vice Chairman	Cllr P Downing
Committee Members	Cllr J Newbury Cllr C Lloyd Cllr M Thomas Cllr G Sullivan Cllr P Rees (Neath Port Talbot CBC)
Advised by:	
Council Officers	M Hawes, Section 151 Officer (Retired May 2017) J Dong, Chief Treasury & Technical Officer
Financial Advisors	V Furniss N Mills

Investment Managers

- Global Equities - JP Morgan Asset Management, L&G and Aberdeen Asset Management
- UK Equities – Schroders Investment Management and L&G
- Global Balanced Index Tracking - Legal & General
- Global Bonds - Goldman Sachs Asset Management
- Fund of Hedge Funds - Blackrock and Permal Partners
- Fund of Private Equity Funds - HarbourVest
- Fund of Property Funds - Partners Group, Schroders Investment Management
- European Property Fund- Invesco Real Estate Europe Fund

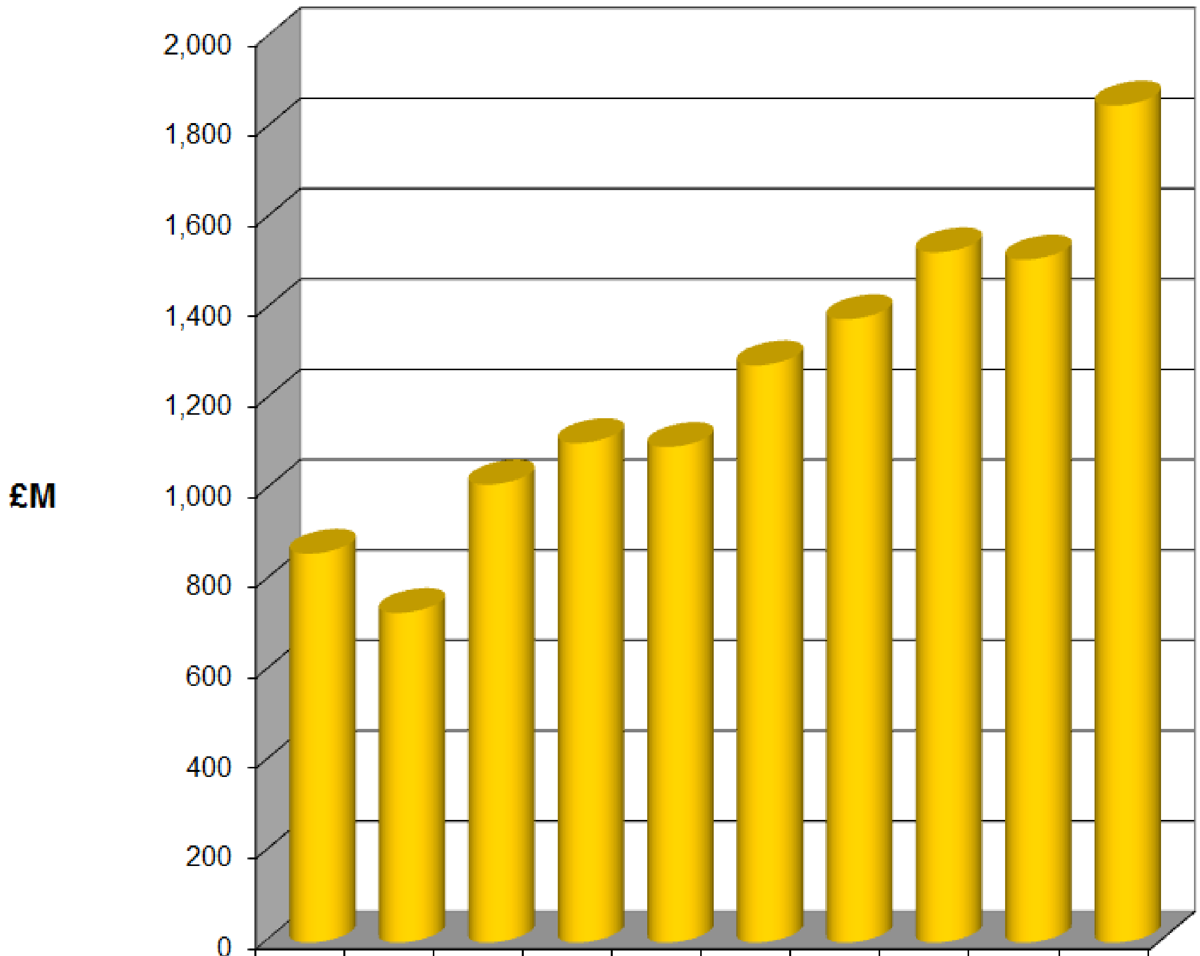
Pension Administration : Lynne Miller, Pensions Manager, City & County of Swansea
Appointed Actuary : Aon Hewitt Limited
Performance Measurement : PIRC Ltd
Global Custodians : Global Institutional Fund Services (HSBC Security Services)
Bankers : Lloyds Bank
Legal Advisors : City & County of Swansea Legal Department
AVC Providers : Prudential, Aegon and Equitable Life
Auditors : Wales Audit Office

Local Pension Board 2016/17

Chairman	Cllr A Lockyer (NPTCBC)
Member Representatives	Ms A. Thomas (CCS) Ms A Chaves (NPTCBC) Mr I Guy (NPTCBC)
Employer Representatives	Mr J Andrew (NPT Homes) Cllr J Harris (CCS)

Appendix 3

Market Value of Investment Assets 2008-2017



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Value £M	861	730	1,014	1,106	1,097	1,278	1,380	1,528	1,512	1,853

Year

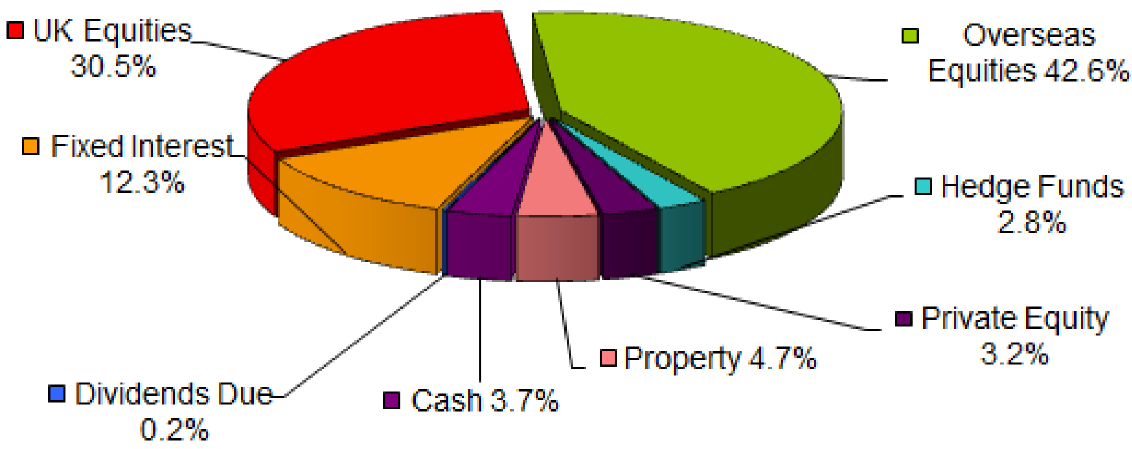
Appendix 4(i)

Portfolio Distribution Summary

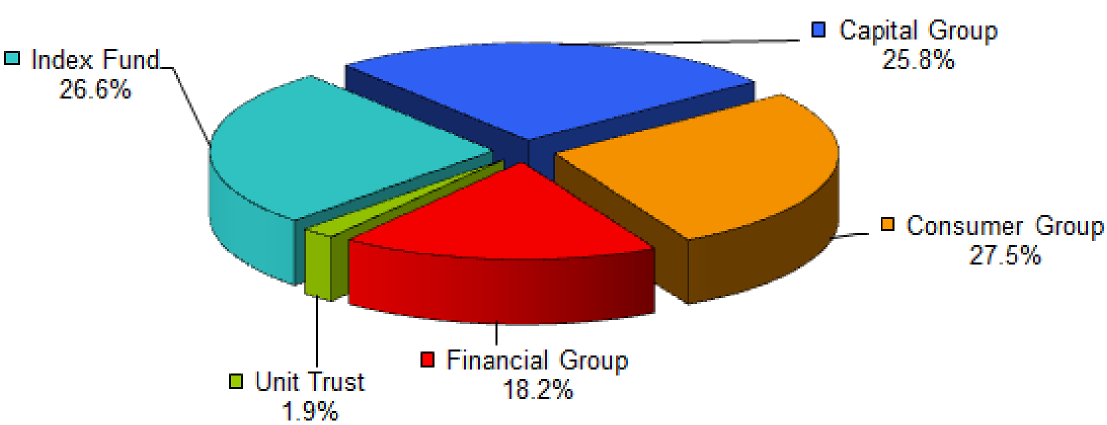
31 March 2016 Market Value £'000	%		31 March 2017 Market Value £'000	%
		Fixed Interest Stocks		
185,625	12.3	Fixed Interest	195,320	10.6
26,923	1.8	Index Linked	32,282	1.7
212,548	14.1		227,602	12.3
		UK Equities & Convertibles		
114,309	7.6	Capital Group	145,682	7.9
138,827	9.2	Consumer Group	155,118	8.4
77,368	5.0	Financial Group	102,350	5.5
12,114	0.8	Unit Trusts	10,865	0.6
122,374	8.1	Index Fund	149,787	8.1
464,992	30.7		563,802	30.5
		Overseas Securities		
116,831	7.7	Europe	144,965	7.8
50,706	3.4	Japan	75,518	4.1
292,248	19.3	North America	390,750	21.1
40,406	2.7	Pacific	52,704	2.8
92,495	6.1	Emerging Markets	124,865	6.8
592,686	39.2		788,802	42.6
48,494	3.2	**Hedge Funds**	52,318	2.8
42,428	2.8	**Private Equity**	60,689	3.2
84,684	5.6	**Property**	87,126	4.7
1,445,832	95.6	**Sub Total**	1,780,339	96.1
62,882	4.2	**Cash held by Managers & Temporary Investments**	69,225	3.7
3,137	0.2	**Other Investment Balances - Dividends Due**	3,211	0.2
1,511,851	**100**	**Total**	**1,852,775**	**100**

Appendix 4 (ii)

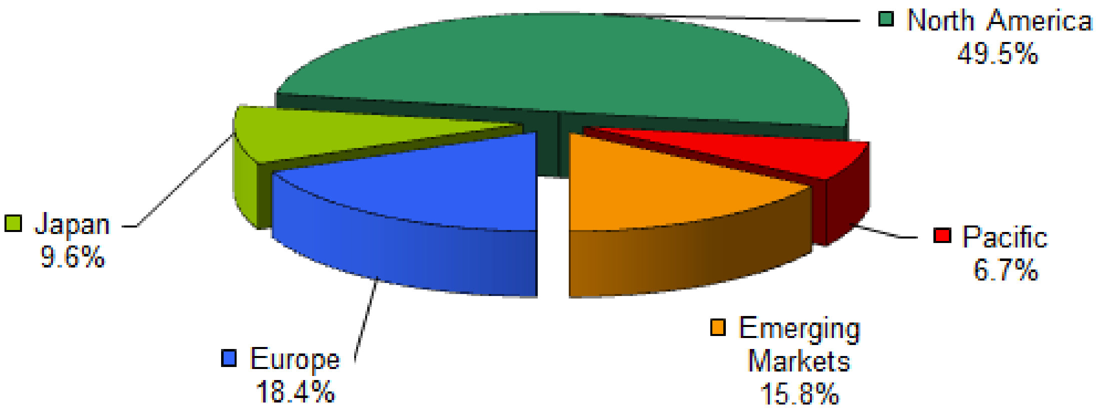
Analysis of Investments - Market Value 31 March 2017



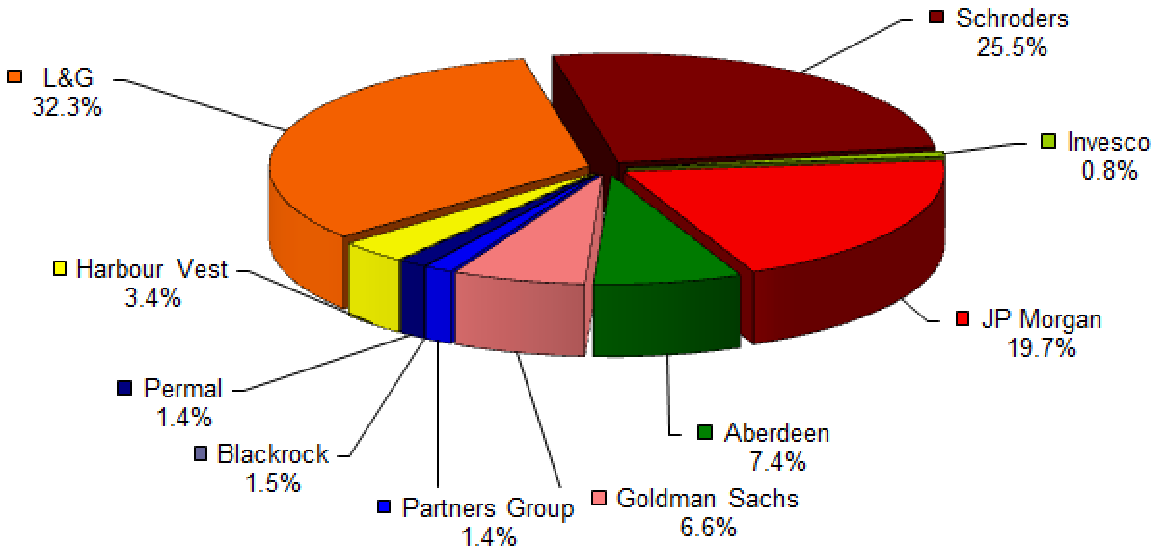
UK Equities by Sector - Market Value 31 March 2017



Overseas Investments - Market Value 31 March 2017



Fund Manager Breakdown - Market Value 31 March 2017

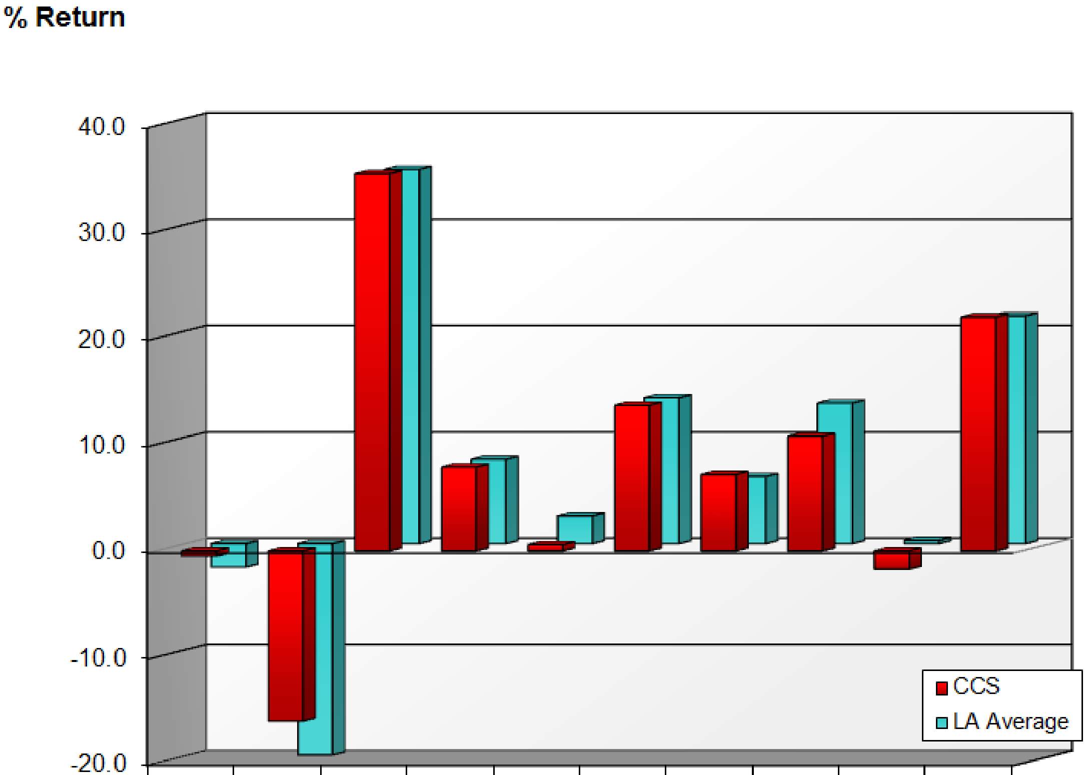


Largest Direct Equity Shareholdings by Market Value as at 31st March 2017

	Companies	Sector	Market Value £'000s	Proportion of Direct Equity Portfolio (%)
1	Royal Dutch Shell Plc	Oil & Gas	31,597	3.63%
2	British American Tobacco Plc	Consumer Goods	23,509	2.70%
3	HSBC Holdings Plc	Financials	17,962	2.06%
4	Rio Tinto Plc	Basic Materials	15,958	1.83%
5	Lloyds Banking Group Plc	Financials	14,970	1.72%
6	Vodaphone Group Ltd	Telecommunications	14,512	1.67%
7	AstraZeneca Plc	Healthcare	14,364	1.65%
8	BP Plc	Oil & Gas	13,917	1.60%
9	Standard Chartered Plc	Financials	13,832	1.59%
10	GlaxoSmithKline Plc	Healthcare	13,558	1.56%
11	Unilever Plc	Consumer Services	12,634	1.45%
12	Prudential Plc	Financials	12,536	1.44%
13	Aviva Plc	Financials	12,176	1.40%
14	Relx Group Plc	Financials	10,981	1.26%
15	ITV Plc	Broadcasting	9,990	1.15%
16	BT Group Plc	Telecommunications	9,814	1.13%
17	Apple Inc	Technology	9,263	1.06%
18	Shire Plc	Healthcare	9,253	1.06%
19	Rentokil Initial Plc	Consumer Goods	9,186	1.05%
20	Tesco Plc	Consumer Goods	8,409	0.97%
			278,421	**31.98%**

Appendix 5

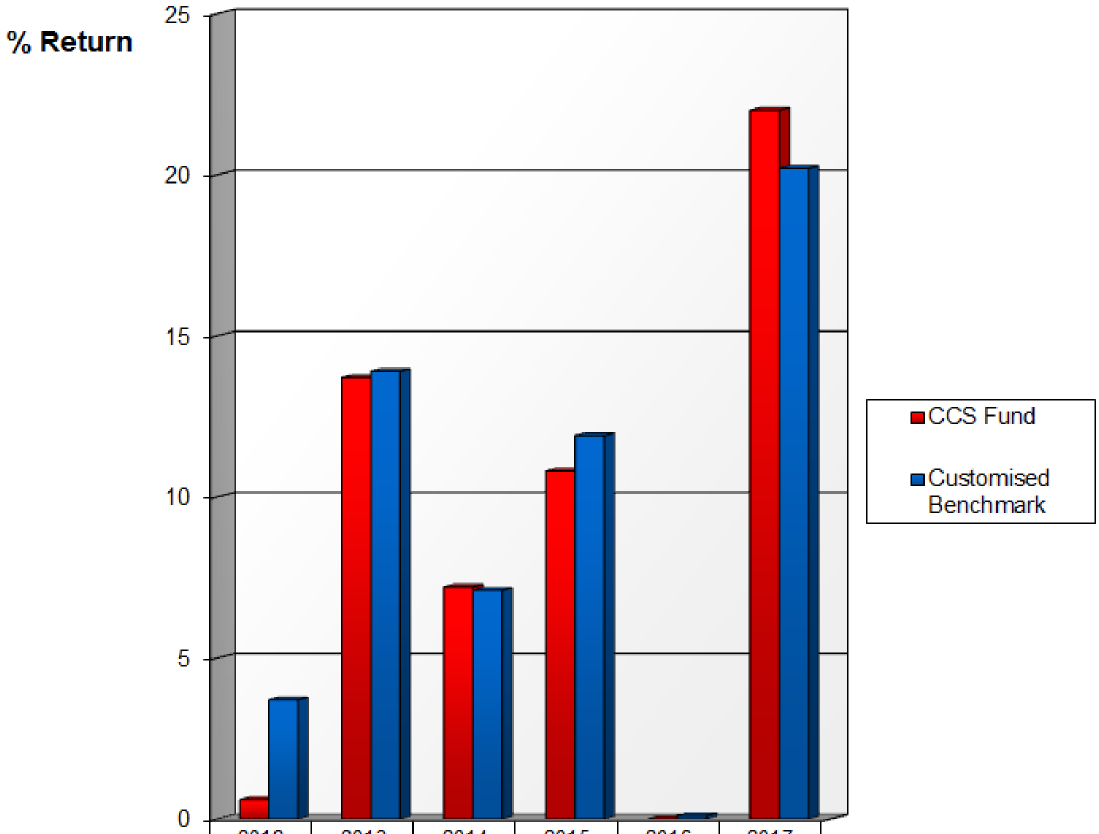
Percentage Return on Fund Investments as compared with the Average Return on Local Authority Funds



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
CCS	-0.5	-16.0	35.5	7.9	0.6	13.7	7.2	10.8	-1.7	22.0
LA Average	-2.2	-19.9	35.2	7.9	2.6	13.7	6.3	13.2	0.3	21.4

Year

Percentage Return on Fund Investments as compared with the Swansea Customised Benchmark



	2012	2013	2014	2015	2016	2017
CCS Fund	0.6	13.7	7.2	10.8	-1.7	22.0
Customised Benchmark	3.7	13.9	7.1	11.9	0.1	20.2

Year

Human Resources – Pensions Section
Performance Measures

Service Objective	Performance Indicator	Target 2016/17	Actual 2016/17	Target 2017/18
To calculate all types of pension benefits accurately	Payment of retirement benefits to members within 1 month after benefit becomes payable.	85%	56.38%	85%
	Payment of retirement benefits to members within 1 month of the date all information was received.	95%	99.39%	95%
To deal with transfers both into and out of the scheme	Quotation of transfer value to new pension provider for deferred members within 3 months of request	90%	69.97%	90%

Appendix 7

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 Permal (formerly Fauchier)**	LIBOR	+4%
Private Equity		3% +/- 5%	-	3% **Harbourvest**	FTSE allshare	+3% p.a. over 3 year rolling
Infrastructure		2% +/- 5%	-	2% **To be Appointed**	TBD	TBD
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 to this document sets out the six principles and the fund's compliance with the same.

Appendix 1

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
DINAS A SIR ABERTAWE

Appendix 8

City & County of Swansea Pension Fund
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.

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

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

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.

Admission Bodies and certain other bodies whose participation is limited

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

Full Funding

The Fund is deemed to be fully funded when the assets held are equal to 100% of the Funding Target, where the funding target is assessed based on the sum of the appropriate funding targets across all the employers / groups of employers. When assets held are greater than this amount the Fund is deemed to be in surplus, and when assets held are less than this amount the Fund is deemed to be in deficiency.

Recovery and Trajectory Periods

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

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

The Trajectory Period and the Recovery Period are not necessarily equal.
Maintaining a stable Trajectory Period avoids undue volatility when setting long term assumptions for the Fund, where the Administering Authority would in ideal circumstances look to reduce the Recovery Period over time in order to achieve full funding. A Trajectory Period of 25 years was used at the valuation at 31 March 2016.

The Recovery Period applicable for each participating employer is set by the Administering Authority in consultation with the Fund Actuary and the employer, with a view to balancing the various funding requirements against the risks involved due to such issues as the financial strength of the employer and the nature of its participation in the Fund.

The Administering Authority recognises that a large proportion of the Fund's liabilities are expected to arise as benefit payments over long periods of time. For employers of sound covenant, the Administering Authority is prepared to agree to recovery periods which are longer than the average future working lifetime of the membership of that employer. The Administering Authority recognises that such an approach is consistent with the aim of keeping employer contribution rates as nearly constant as possible. However, the Administering Authority also recognises the risk in relying on long Recovery and Trajectory Periods and has agreed with the Fund Actuary a limit of 30 years for both, for employers which are assessed by the Administering Authority as being a long term secure employer.

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

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

Grouping

In some circumstances it may be desirable to group employers within the Fund together for funding purposes (i.e. to calculate employer contributions). Reasons might include reduction of volatility of contribution rates for small employers, facilitating situations where employers have a common source of funding or accommodating employers who wish to share the risks related to their participation in the Fund.

The Administering Authority recognises that grouping can give rise to cross subsidies from one employer to another over time. Employers may be grouped entirely, such that all of the risks of participation are shared, or only partially grouped such that only specified risks are shared. The Administering Authority's policy is to consider the position carefully at the initial grouping and at each valuation and to notify each employer that is grouped that this is the case, which other employers it is grouped with and details of the grouping method used. If the employer objects to this grouping, it will be set its own contribution rate. For employers with more than 50 contributing members, the Administering Authority would look for evidence of homogeneity between employers before considering grouping. For employers whose participation is for a fixed period grouping is unlikely to be permitted.

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

All employers in the Fund are grouped together in respect of the risks associated with payment of lump sum benefits on death in service – in other words, the cost of such benefits is shared across the employers in the Fund. Such lump sum benefits can cause funding strains which could be significant for some of the smaller employers without insurance or sharing of risks. The Fund, in view of its size, does not see it as cost effective or necessary to insure these benefits externally and this is seen as a pragmatic and low cost approach to spreading the risk.
There is a group of employers in the Fund which are pooled together for funding and contribution purposes.

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

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

Stepping

Again, consistent with the requirement to keep primary employer contribution rates and overall employer contributions as nearly constant as possible, the Administering Authority will consider, at each valuation, whether new contribution rates should be payable immediately, or should be reached by a series of steps over future years. The Administering Authority will discuss with the Fund Actuary the risks inherent in such an approach, and will examine the financial impact and risks associated with each employer. The Administering Authority's policy is that in the normal course of events no more than three equal annual steps will be permitted. Further steps may be permitted in extreme cases in consultation with the Fund Actuary, but the total is very unlikely to exceed six steps.

Inter-valuation funding calculations

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

Asset shares notionally allocated to individual employers

Notional asset shares

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

This subdivision is for funding purposes only. It is purely notional in nature and does not imply any formal subdivision of assets, nor ownership of any particular assets or groups of assets by any individual employer or group.

Roll-forward of notional asset shares

The notional asset share allocated to each employer will be rolled forward allowing for all cashflows associated with that employer's membership, including contribution income, benefit outgo, transfers in and out and investment income allocated as set out below. In general no allowance is made for the timing of contributions and cashflows for each year are assumed to be made half way through the year with investment returns assumed to be uniformly earned over that year.

Further adjustments are made for:

- A notional deduction to meet the expenses paid from the Fund in line with the assumption used at the previous valuation.

- Allowance for any known material internal transfers in the Fund (cashflows will not exist for these transfers). The Fund Actuary will assume an estimated cashflow equal to the value of the liabilities determined consistent with the Funding Target transferred from one employer to the other unless some other approach has been agreed between the two employers.

- Allowance for lump sum death in service and any other benefits shared across all employers (see earlier).

- An overall adjustment to ensure the notional assets attributed to each employer is equal to the total assets of the Fund which will take into account any gains or losses related to the orphan liabilities.

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

- Where, in the opinion of the Fund Actuary, the cashflow data which is unavailable is of low materiality, estimated cashflows will be used.

- Where, in the opinion of the Fund Actuary, the cashflow data which is unavailable is material, the Fund Actuary will instead use an analysis of gains and losses to roll forward the notional asset share. Analysis of gains and losses methods are less precise than use of cashflows and involve calculation of gains and losses relative to the surplus or deficiency exhibited at the previous valuation. Having established an expected surplus or deficiency at this valuation, comparison of this with the liabilities evaluated at this valuation leads to an implied notional asset holding.

- Analysis of gains and losses methods will also be used where the results of the cashflow approach appears to give unreliable results perhaps because of unknown internal transfers.

Fund maturity

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

In certain circumstances, for secure employers considered by the Administering Authority as being long term in nature, contribution adjustments to correct for any disclosed deficiency may be set as a percentage of payroll. Such an approach carries an implicit assumption that the employer's payroll will increase at an assumed rate. If payroll fails to grow at this rate, or declines, insufficient corrective action will have been taken. To protect the Fund against this risk, the Administering Authority will monitor payrolls and where evidence is revealed of payrolls not increasing at the anticipated rate, the Administering Authority will consider requiring defined streams of monetary contributions rather than percentages of payroll.

SECTION 5
SPECIAL CIRCUMSTANCES RELATED TO CERTAIN EMPLOYERS

Interim reviews

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

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

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

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

- For Transferee Admission Bodies falling into the above category, the Administering Authority sees it as the responsibility of the relevant Scheme Employer to instruct it if an interim valuation is required. Such an exercise would be at the expense of the relevant Scheme Employer unless otherwise agreed.

- A material change in circumstances, such as the date of exit becoming known, material membership movements or material financial information coming to light may cause the Administering Authority to informally review the situation and subsequently formally request an interim valuation.

- For an employer whose participation is due to exit within the next three years, the Administering Authority will keep an eye on developments and may see fit to request an interim valuation at any time.

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

Guarantors

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

- If an employer ceases and defaults on any of its financial obligations to the Fund, the Guarantor is expected to provide finance to the Fund such that the Fund receives the amount certified by the Fund Actuary as due, including any interest payable thereon.
- If the Guarantor is an employer in the Fund and is judged to be of suitable covenant by the Administering Authority, the Guarantor may defray some of the financial liability by subsuming the residual liabilities into its own pool of Fund liabilities. In other words, it agrees to be a source of future funding in respect of those liabilities should future deficiencies emerge.
- During the period of participation of the employer a Guarantor can at any time agree to the future subsumption of any residual liabilities of an employer. The effect of that action would be to reduce the Funding and Solvency Targets for the employer, which would probably lead to reduced contribution requirements.

Bonds and other securitization

Paragraph 6 of Part 3, Schedule 2 of the Regulations creates a requirement for a new Admission Body to carry out to the satisfaction of the Administering Authority (and the Scheme Employer in the case of a Transferee Admission Body admitted under paragraph 1(d)(i) of that Part) an assessment taking account of actuarial advice of the level of risk on premature termination by reason of insolvency, winding up or liquidation.

Where the level of risk identified by the assessment is such as to require it the Admission Body shall enter into an indemnity or bond with an appropriate party. Where it is not desirable for an Admission Body to enter into an indemnity or bond, the body is required to secure a guarantee in a form satisfactory to the Administering Authority from an organisation that either funds, owns or controls the functions of the admission body.

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

- In the case of Transferee Admission Bodies admitted under Paragraph 1(d) of Part 3, Schedule 2 of the Regulations and other Admission Bodies with a Guarantor, and so long as the Administering Authority judges the relevant

Scheme Employer or Guarantor to be of sufficiently sound covenant, any bond exists purely to protect the relevant Scheme Employer or Guarantor on default of the Admission Body. As such, it is entirely the responsibility of the relevant Scheme Employer or Guarantor to arrange any risk assessments and decide the level of required bond. The Administering Authority will be pleased to supply some standard calculations provided by the Fund Actuary to aid the relevant Scheme Employer, but this should not be construed as advice to the relevant Scheme Employer on this matter.

- In the case of Transferee Admission Bodies admitted under Paragraph 1(d) of Part 3, Schedule 2 of the Regulations, or under Paragraph 1(e) of Part 3, Schedule 2 of the Regulations, where the Administering Authority does not judge the relevant Scheme Employer to be of sufficiently strong covenant, and other Admission Bodies with no Guarantor or where the Administering Authority does not judge the Guarantor to be of sufficiently strong covenant, the Administering Authority must be involved in the assessment of the required level of bond to protect the Fund. The admission will only be able to proceed once the Administering Authority has agreed the level of bond cover. The Administering Authority will supply some standard calculations provided by the Fund Actuary to aid the relevant Scheme Employer form a view on what level of bond would be satisfactory. The Administering Authority will also on request supply this to the Admission Body or Guarantor. This should not be construed as advice to the Scheme Employer, Guarantor or Admission Body.
- The Administering Authority notes that levels of required bond cover can fluctuate and will review, or recommends that the Scheme Employer reviews, the required cover at least once a year.

Subsumed liabilities

Where an employer is exiting the Fund such that it will no longer have any contributing members, it is possible that another employer in the Fund agrees to provide a source of future funding in respect of any emerging deficiencies in respect of those liabilities.

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

Orphan liabilities

Where an employer is exiting the Fund such that it will no longer have any contributing members, unless any residual liabilities are to become subsumed liabilities, the Administering Authority will act on the basis that it will have no further access for funding from that employer once any exit valuation, carried out in accordance with Regulation 64, has been completed and any sums due have been paid. Residual liabilities of employers from whom no further funding can be obtained are known as orphan liabilities.

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

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

Smoothing of contribution rates for Admission Bodies

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

In circumstances which the Administering Authority judges to be extreme, the Administering Authority will engage with the City and County of Swansea and Neath Port Talbot County Borough Council, as the dominant employers in the Fund, with a view to seeking agreement that the requirement that contribution rates target Full Funding can be temporarily relaxed.

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

Such action has three implications:

- During any period when the requirement for targeting Full Funding has been relaxed, contribution rates for admission bodies can if necessary be set at a level lower than full funding would require. However, where deficit payments are being deferred, the bodies should be aware that, all things being equal, this will lead to a higher contribution rate in the future. As a minimum, such bodies should pay contributions equal to the cost of benefits accruing for their members calculated on the Funding Target method and assumptions adopted for scheduled bodies and those with a subsumption guarantee.

- Should an Admission Body leave the Fund during a period when contribution rates do not target Full Funding, the funding requirement in any exit valuation carried out under Regulation 64 will be reduced to the extent that contributions, on a cumulative basis, have fallen short of what continued targeting of Full Funding would require. Where the Admission Body has a deficiency, relative to the Full Funding requirement, and also a deficiency relative to this reduced exit valuation requirement, the Admission Body will only be required to make the position good up to the reduced exit valuation requirement. Any consequent shortfall in the Fund relative to the Full Funding requirement will fall as a liability to the City and County of Swansea or Neath Port Talbot County Borough Council, to be met through adjustments to its contribution rate as part of future actuarial valuation exercises.

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

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

Cessation of participation i.e. Exiting the Fund

Where an employer becomes an exiting employer, an exit valuation will be carried out in accordance with Regulation 64. That valuation will take account of any activity as a consequence of exiting regarding any existing contributing members (for example any bulk transfer payments due) and the status of any liabilities that will remain in the Fund.

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

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

SECTION 6
IDENTIFICATION OF RISKS AND COUNTER MEASURES

Approach

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

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

The main risks to the Fund are considered below:

<u>Choice of Solvency and Funding Targets</u>

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.

Appendix 9

Local Government Pension Scheme (LGPS) - Governance Arrangements

Introduction
The City & County of Swansea Pension Fund formally adopted its governance policy at the Pension Fund Panel (subsequently Pension Fund Committee) meeting of the 8th March 2006, attached at Appendix A for information.

Administering Authorities are required by the Department of Communities and Local Government to review the same, with a view to finalising revised arrangements by 1st March 2008.

Following the receipt of the responses to the above exercise, the department for Communities and Local Government have issued governance compliance statutory guidance attached at Appendix B against which Administering Authorities are asked to benchmark local arrangements and produce revised policy statements.

The City & County of Swansea Pension Fund Governance Arrangements
In accordance with the guidance issued, an evaluation of current local governance arrangements has been undertaken (Appendix C) which measures compliance against the nine main principles indentified:

A. Structure
B. Representation
C. Selection and role of lay members
D. Voting
E. Training/Facility time/Expenses
F. Meetings (frequency/quorum)
G. Access
H. Scope
I. Publicity

As can be seen in Appendix C, local arrangements would largely seem to be compliant save for the area of representation where arrangements could be perceived as non compliant.

The above position was discussed at length (subsequent to the publication of the guidance) with the DCLG and the context of the City & County of Swansea Pension Fund's classification of 'no forms of representation'. It was subsequently recognised by the DCLG that the collaborative work undertaken by the CCSPF in undertaking roadshows, AGMs and having an observer member of another scheme employer should subsequently be recognised in the assessment of representation.

This Administering Authority has always contended that representation correlated with the risk undertaken and as scheme member contribution rates are guaranteed by statute, the only investment risk lies with the employers who are represented in the CCSPF by the members from the City & County of Swansea and Neath Port Talbot CBC.

There is also a comprehensive programme of consultative/informative meetings and roadshows with both employers and employees primarily:

- The Annual Consultative meeting
- The Actuarial valuation consultative programme
- Employers roadshows
- Employees roadshows.

Therefore in light of the above, it is the recommendation to retain current corporate governance structures, noting updates for new personnel, with an intention to review the structure when proposed risk sharing mechanisms are introduced which are timetabled for consideration in 2009/10.

Append

City & County of Swansea Pension Fund

Governance Policy Statement

Background
In November 2005, the Government published the Local Government Pension Scheme (Amendment) (No.2) Regulations 2005.

The regulations require administering authorities to prepare and publish a governance policy statement. This statement must indicate its delegated functions of the pension fund and its operational policies.

Constitutional Framework

Under the Council's scheme of Council delegated functions, the functions relating to local government pensions etc. under the regulations section 7, 12, or 24 of the Superannuation Act 1972 have been delegated to the Pension Fund Pension Panel as a full executive function.

Introduction to Pension Fund Governance
Pension Fund management is often seen as secondary to the Administering Authority's main agenda. Yet the financial health of the Pension Fund can exercise an important influence over the health of the entirety of the Authority's finances as well as that of the significant number of other scheduled bodies and admitted bodies within the Fund. Also, a successful pension fund may have some influence in attracting and retaining staff.

In 2000, the Government commissioned a *Review of Institutional investment in the UK* from Paul Myners, Chairman of the Gartmore Fund Management Group. The resultant report (known as the Myners Report) sets out a number of principles codifying best practice in Pension Fund management.

Local Authority pension schemes are usually administered by so-called 'upper tier' authorities, i.e. counties, mets, unitaries and London boroughs. The top level of control is exercised by a Pensions Panel or Pension Fund Panel (the precise nomenclature may vary from authority to authority) comprising host authority members and representation of scheduled and admitted bodies where appropriate. In effect, members of the panel fulfil a quasi trustee function, equivalent to the trustees of a private sector Pension Fund.

Like many local government services, considerable elements of Pension Fund management are outsourced in order to harness the necessary expertise for what is a complex arena. The role of the Pensions Panel, and of officers, as agents of the Council is to determine a strategy, and to ensure that the strategy is properly and fully implemented. In effect, this is a procurement exercise, and as such requires skills that are needed in any procurement situation, for example:

- A clear understanding of what the Fund is aiming to achieve and a strategy for achieving it.
- Understanding the market and choices that can be made.
- Deciding what needs to be provided in-house and what should be outsourced.
- Defining and developing strong specifications for the services to be provided.
- Ensuring clear and open competition.
- Managing relationships, both with in-house providers and contractors.
- Setting rigorous performance measures, and implementing a feedback loop for reporting, evaluating and monitoring contractor performance (whether for services provided in-house or outsourced).

Pension Fund Management can be divided into two main areas:

1. Investment Management

As noted above, many aspects of investment management are carried out by a range of external specialist services, including:

- **Investment managers** who are responsible for managing the performance of the investment fund on a day-to-day basis. This will include making decisions on what to buy and sell and buying and selling itself, within the context of a broad investment policy laid down by the Administering Authority.
- **Investment advisers** who may assist in setting the broader policy, evaluating fund manager performance and so on.
- **Custodians** whose role is to safeguard the existence of assets and to ensure the Fund has proper title to them.
- **Actuaries** who evaluate overall fund management strategy, including the extent to which the Fund is fully funded, fund performance, assess the likely impact of future trends (e.g. Investment outlook, death rates etc) and advise on appropriate rates of employers contributions to ensure continued financial health for the scheme. They may also be asked for advice on overall fund management strategy. The Myners review suggested that this should be viewed

as separate service from the actuarial contract (in much the same way that auditors shouldn't give advice that they may later be required to audit).

- **Performance measurers** who analyse fund performance, provide detailed statistical analysis of overall pension fund performance and its components, and report the results to officers and the pensions Panel.

Proper control needs to be exercised over the providers of these specialist services. The Panel should set a comprehensive policy for the Fund which should include asset allocation management, for example the Fund gearing, (proportion of higher risk investments, equities, property etc) to fixed interest stock (bonds) and broad sector divisions within the major asset classes, (in the case of equities for example, pharmaceuticals, construction, manufacturing, and geographical diversity, for example UK equities, Far East, United States). Any policy on asset allocation must be in accordance with the Local Government Pension Scheme Investment Regulations, which prescribe maximum limits for investments in any one vehicle. It should also put in place proper arrangements for setting targets for fund performance, monitoring compliance with policy and taking action when necessary if performance is not in line with the targets set. The strategy for managing the fund should also take into account the maturity of the fund; that is the proportion of pensioners to active contributors to the scheme.

2. Fund Administration

Administering the Fund includes putting in place sound financial systems to ensure contributions are collected and credited to the Fund; correct levels of pensions are paid out, transfer values are correctly calculated and received/paid, queries/complaints dealt with, continued eligibility criteria are complied with etc. Considerable reliance can be put on core financial controls operated by the Authority through its main financial systems. The payroll system is closely tied in with Pension Fund administration and reliance should be placed on internal audit cover (if their cover is deemed to be adequate). (Note that this may not be applicable in respect of admitted bodies. The administering authority is likely to be heavily dependent on the quality of information submitted by them).

Monitoring by the Pensions Fund Pension panel (The Panel) is key, and appropriate performance indicators should be in place and reported to The Panel on a regular basis (for example administration costs, compliance with statutory time targets for queries and complaints). In line with any local government activity, pension funds should be exposed to rigorous review.

CITY AND COUNTY OF SWANSEA
DINAS A SIR ABERTAWE

Pension Fund Governance: Structure Overview

Council

Delegated

Decision Making by panel with advice from Section 151

Pension Fund Panel

Delegated

Recommendations by Sub

Pension Fund Investment

Membership of the Pension panel
Full voting membership of the Pension Fund Pension Fund Panel is drawn from :

- Council Members of the Administering Authority and Representative Employers within the scheme.
- Council Officers of the Administering Authority.
- Appointed Independent Advisers to the Pension Fund Pension panel.

Position	*Nominated by/ filled by*	*Currently in post*
Chairman	***Lead Political Group***	***Cllr R Stewart***
Vice Chairman	***Lead Political Group***	***Cllr P Downing***
Panel Member	***Lead Political Group***	***Cllr C Lloyd***
Panel Member	***Lead Political Group***	***Cllr M Thomas***
Panel Member	***Opposition Political Group***	***Cllr J Newbury***
Panel Member	***Opposition Political Group***	***Cllr G Sullivan***
Panel Member	***Neath Port Talbot CBC***	***Cllr Peter Rees***
Lead Officer Member	***Section 151 Officer***	***M Hawes***
Asst Officer Member	***Chief Treasury & Technical Officer***	***J Dong***
Independent Adviser(s)	***Suitably qualified professionals***	***Valentine Furniss Noel Mills***

The Pension Fund Panel has responsibility for:

- approving the Statement of Investment Principles,
- monitoring compliance with the Statement and reviewing its contents from time to time,

- approving the funding strategy statement,
- approving the corporate governance arrangements of the Fund,
- 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 discretion's 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 Panel at any time,
- 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 approve attendance of the Panel or any of its Members or Officers at Regional or National meetings arranged to assist Members of Pension panels to fulfil their trustee responsibilities,
- 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.
- to consider and approve all policy in relation to Administering Authority Discretions.

Frequency of Pension panel Meetings

The Pension Fund Pension Fund Panel shall meet quarterly throughout the year. In addition to the above the Pension Fund hosts:

- An Annual General Meeting
- Actuarial valuation consultative meetings
- Member Roadshows
- Employer Roadshows.

Operational Procedure of Meetings
The agenda for the quarterly meetings is determined by the Lead Officer Member of the Pension panel to incorporate timely, relevant issues/matters in relation to the Investments and Administration of the Fund.

Meeting papers for each panel meeting shall be circulated in a timely manner for consideration prior to each meeting.

Agenda items are to include:

- Regulations/Admin Update
- investment performance review
  - fund manager review
  - fund manager face to face
- report of the independent advisors to the Fund.

Pension Fund Investment Sub Group
It is proposed that a Pension Fund Investment Sub Group be convened consisting of :

- The two independent advisors
- One or other of the Chairman of Vice Chairman of the Pension Fund Panel
- Chief Treasury & Technical Officer

to undertake :

Investment Management Selection/Monitoring
To undertake investment manager selection and recommendation and to identify investment opportunities where appropriate and to undertake monitoring of the Fund Managers periodically who are not seen by the full Pension Panel and to make and submit an investment report of the same for full consideration by the Pension Fund Panel at the quarterly meetings.

Asset Allocation
To determine at quarterly intervals the asset allocation of cashflow surpluses and in consultation and with the approval of the Section 151 Officer and the Chairman of the Pension panel implement the same (either through physical investment of the cash or by overlay see item 7.3 and report the allocations to full Pension panel at the next quarterly meeting).

Pension Fund Investment Sub Group Terms of Reference

Membership
The membership of the Pension Fund Investment Sub Group shall comprise :

- Two independent advisors
- One Finance Officer (Chief Treasury & Technical Officer)
- One or other of the Chairman or Vice Chairman of the Pension Fund Panel

Responsibility
The Pension Fund Investment Sub Group is a sub group of the Pension panel and shall report to them on a quarterly basis with responsibility for :

Investment manager selection and performance monitoring :
- To select and engage with fund managers and make formal recommendations to the panel and monitor performance of the fund managers.
- To identify suitable investment opportunities for the Pension Fund and make formal recommendations to the panel.

Cashflow Allocation
- To determine and implement the allocation of the cashflow generated by the Pension Fund with approval from the Section 151 Officer and Chairman of the Panel.

Tactical Asset Allocation
- To determine and implement when appropriate the tactical asset allocation of the Fund (within the overall strategy approved by the Pension panel) using the asset allocation overlay with approval from the Section 151 Officer and Chairman of the Panel.

Append

GOVERNANCE COMPLIANCE STATUTORY GUIDANCE

PART I

INTRODUCTION

1. This guidance is issued to all administering authorities in England and Wales with statutory responsibilities under the Local Government Pension Scheme Regulations 1997 (as amended) and other interested parties listed at Annex B and deals with the compliance standards against which Local Government Pension Scheme ("LGPS") panels are to measure themselves.

2. The guidance includes a combination of descriptive text explaining the rationale of each compliance principle and a description of the relevant statutory provision of the 1997 Regulations (Regulation 73A(1)(c) refers) that requires LGPS administering authorities to measure their governance arrangements against the standards set out in this statutory guidance. Where compliance does not meet the published standard, there is a requirement under Regulation 73A(1)(c) to give, in their governance compliance statement, the reasons for not complying.

3. The Secretary of State will keep the content of the guidance under review in the light of administering authorities and other interested parties' experience of applying the best practice standards. The guidance will be updated as necessary to reflect this and subsequent legislative changes.

BACKGROUND

4. The LGPS is a common scheme throughout England and Wales, administered by 89 individual pension funds, which includes the Environment Agency. In the context of the UK public pensions sector, it is atypical in being funded with assets in excess of £100bn. Viewed in aggregate, the LGPS is the largest funded occupational pension scheme in the UK.

5. As a statutory public service scheme, the LGPS has a different legal status compared with trust based schemes in the private sector. Matters of governance in the LGPS therefore need to be considered on their own merits and with a proper regard to the legal status of the scheme. This includes how and where it fits in with the local democratic process through local government law and locally elected councillors who have the final responsibility for its stewardship and management. The LGPS is also different in the respect that unlike most private sector schemes where scheme members bear some, if not all, of the investment risk, the accrued benefits paid by local authorities are guaranteed by statute and, perhaps more importantly, are ultimately to be paid by the local authority revenue and not from the pension funds themselves. The pension funds exist to defray the costs. On this basis, it is the local authority itself, and local council tax payers, who are the final guarantors of the scheme.

6. The word “trustee” is often used in a very general sense to mean somebody who acts on behalf of other people but in pensions law it has a more specific meaning. Certain occupational pension schemes, primarily in the private sector, are established under trust law. Under a trust, named people (“trustees”) hold property on behalf of other people (called beneficiaries). Trustees owe a duty of care to their beneficiaries and are required to act in their best interests, particularly in terms of their investment decisions. Although those entrusted to make statutory decisions under the LGPS are, in many ways, required to act in the same way as trustees in terms of their duty of care, they are subject to a different legal framework and to all the normal duties and responsibilities of local authority councillors. But they are not trustees in the strict legal sense of that word.

7. Trustees are needed in the private sector to ensure better scheme security, prevent employer-led actions which could undermine a scheme’s solvency and to ensure that investment decisions are not in any way imprudent. But in a statutory scheme like the LGPS, benefits are guaranteed by statute, independent of investment performance. As such, scheme members in the LGPS bear none of the investment risk. The entitlements and benefits payable to scheme members in trust based schemes are, potentially at least, more volatile and dependent ultimately on the effectiveness and stewardship of their trustees. It is because of this greater risk to security that the Pensions Act 1995 first introduced the concept of member nominated trustees to ensure that scheme beneficiaries are part of the decision making process. But even member nominated trustees must act in the interest of the fund/scheme and must not take decisions out of self-interest. The Pensions Act 2004 simply extends that status.

8. Elected councillors have legal responsibilities for the prudent and effective stewardship of LGPS funds and in more general terms, have a clear fiduciary duty in the performance of their functions. Although there is no one single model in operation throughout the 89 LGPS fund authorities in England and Wales, most funds are managed by a formal committee representing the political balance of that particular authority. Under section 101 of the Local Government Act 1972, a local authority can delegate their pension investment functions to the Council, committees, sub-committees or officers, but there are a small number of LGPS fund authorities which are not local authorities and therefore have their own, distinct arrangements.

9. It is also relevant to note that under The Local Authorities (Functions and Responsibilities) (England) Regulations 2000 (SI 2000 No 2853) and The Local Authorities Executive Arrangements (Functions and Responsibilities) (Wales) Regulations 2001 (Welsh SI 2001 No 2291), statutory decisions taken under schemes made under sections 7, 12 or 24 of the Superannuation Act 1972, are not the responsibility of the Executive arrangements introduced by the Local Government Act 2000. This means, for example, that the executive cannot make decisions in relation to discretions to be exercised under the LGPS, or make decisions relating to the investment of the Pension Fund and related matters. These functions have continued to be subject to the same legislative framework as they were before the passing of the Local Government Act 2000, including delegations under section 101 of the Local Government Act 1972. Such delegations vary from local authority to local authority depending on local circumstances. However, the Secretary of State has advised that where such decisions were delegated to committees or to officers, then those delegations should continue. (see

paragraphs 5.10 and 5.11 of the Statutory Guidance to English Local Authorities – New Council Consitutions : Guidance Pack Volume 1).

10. Under section 102 of the Local Government Act 1972, it is for the appointing council to decide upon the number of members of a committee and their terms of office. They may include committee members who are not members of the appointing council and such members may be given voting rights by virtue of section 13 of the Local Government and Housing Act 1989. On this basis, it is open to pension committees to include representatives from district councils, scheme members and other lay member representatives, with or without voting rights, provided that they are eligible to be committeel members (eligibility rules are set out in section 15 of the Local Government and Housing Act 1989).

STATUTORY BACKGROUND

11. In response to proposals issued by the former Office of the Deputy Prime Minister, the Local Government Pension Scheme Regulations 1997 were amended to require LGPS administering authorities to publish details of their governance and stewardship arrangements by 1 April 2006. The purpose of this first step was to gauge progress made in the democratisation of LGPS committees and governance arrangements in general and to assess what action, if any, should be taken to ensure that all committees operate consistently at best practice standards. On 30 June 2007, the 1997 regulations were further amended to require administering authorities to report the extent of compliance against a set of best practice principles to be published by CLG, and where an authority has chosen not to comply, to state the reasons why. The first such statement must be published by 1st March 2008.

12. The relevant provision, shown below, is regulation 73A of the Local Government Pension Scheme Regulations 1997 :

“Governance compliance statement

73A.—(1) An administering authority must prepare a written statement setting out—

(a) whether they delegate their function, or part of their function, in relation to maintaining a pension fund to a committee, a sub-committee or an officer of the authority;

(b) if they do so—

(i) the terms, structure and operational procedures of the delegation;

(ii) the frequency of any committee or sub-committee meetings;

(iii) whether such a panel or sub-committee includes representatives of employing authorities (including authorities which are not Scheme employers) or members, and, if so, whether those representatives have voting rights;

(c) the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying.

(2) An administering authority must publish the first such statement on or before 1st March 2008.

(3) An administering authority must—

(a) revise their statement following a material change in respect of any of the matters mentioned in paragraph (1); and

(b) publish the statement as revised.

(4) In preparing or revising their statement an administering authority must consult such persons as they consider appropriate.

(5) When they publish their statement, or the statement as revised, an administering authority must send a copy of it to the Secretary of State.”.

This regulation will cease to have effect from 1 April 2008 when the 1997 regulations are revoked. After that date, the relevant provision will be under the regulations of the Local Government Pension Scheme (Administration) Regulations 2007.

PURPOSE

13. The purpose of this guidance is two fold. Firstly, Part II of the guidance provides a detailed description of each of the best practice principles against which compliance is to be measured (with each of the principles being set out in bold type) and secondly, it includes guidance on how the compliance statement in Part II should be completed.

TERMINOLOGY

14. Throughout this paper, the distinction is made between those committees or sub-committees that have been formally constituted under 101 of the Local Government Act 1972 (“main committees”) and other committees or panels that have been established outside of that provision (“secondary committees”). Unless reference is made to “elected members”, the word “member” where it appears in the text is used to denote any member of a main or secondary committee, whether elected or not.

POSITION OF NON-LOCAL AUTHORITY ADMINISTERING AUTHORITIES

15. Regulation 73A of the Local Government Pension Scheme Regulations 1997 and this guidance made under powers granted by Regulation 73A(1)(c) of those regulations apply equally to all LGPS administering authorities in England and Wales. It is recognised, however, that a small number of administering authorities are not constituted as local authorities and are not therefore subject to the legal framework imposed on local authorities and their committees by local government legislation. In these cases, the authorities concerned are still required to measure the extent to which they comply with the principles set out in Part II of this guidance and where they are unable to comply, for example, because of their special position, to explain this when giving reasons for being unable to comply.

SUGGESTED READING

16. Although not a formal part of this guidance, it is recommended that administering authorities and other stakeholders should be aware of the contents of the following documents:

a) Good Governance Standards for Public Services (Office for Public Management, Alan Langlands – January 2005)

b) Code of Corporate Governance in Local Government (CIPFA/SOLACE – 2007)

c) Institutional Investment in the UK – A Review (HM Treasury – March 2001)

d) Local Government Pension Scheme : Pension Fund Decision Making – Guidance Note (CIPFA Pensions Panel – 2006)

e) Guidance for Chief Finance Officers : Principles for Investment Decision Making in the Local Government Pension Scheme in the UK (CIPFA Pensions Panel – 2001)

PART II - THE PRINCIPLES
Part II/A - Structure

17. Elected members have legal responsibilities for the prudent and effective stewardship of LGPS pension funds and, in more general terms, have a clear fiduciary duty in the performance of their functions. Although there is no one single model in operation throughout the 89 fund authorities in England and Wales, most funds are managed by a formal panel representing the political balance of that particular authority. Under section 101 of the Local Government Act 1972, a local authority can delegate their statutory functions to the Council, panels, sub-panels or officers, but there are a small number of fund authorities which are not local authorities and therefore have their own, distinct arrangements.

18. The formal panel structures operated by individual pension fund authorities reflect local circumstances and priorities and it is not the remit of this guidance to prescribe a "one size fits all" approach. The evidence collected by Communities and Local Government in 2006 indicated that the overwhelming majority of these panels operate efficiently and effectively despite the variations in their constitution, composition and working practices. The intention is not therefore to level out these differences but instead to ensure that these different structures reflect the best practice principles described below :

a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main panel established by the appointing council.

b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary panel established to underpin the work of the main panel.

c) That where a secondary panel or panel has been established, the structure ensures effective communication across both levels.

d) That where a secondary panel or panel has been established, at least one seat on the main panel is allocated for a member from the secondary panel or panel.

Part II/B - Representation

19. Under section 102 of the Local Government Act 1972, it is for the appointing council to decide upon the number of members of a panel and their terms of office. They may include panel members who are not members of the appointing council and such members may be given voting rights (see Part II/C) by virtue of section 13 of the Local Government and Housing Act 1989. On this basis, it is open to pension panels to include representatives from district councils, scheme member and other lay member representatives, with or without voting rights, provided that they are eligible to be panel members (eligibility rules are set out in section 15 of the Local Government and Housing Act 1989).

20. The number of stakeholders affected by the local management of the pension scheme and governance of pension funds is vast and it is accepted that it would be impractical to expect individual panel structures to encompass every group or sector that has an interest in the decisions that fall to be made under the scheme's regulations. The following principles are therefore intended to ensure that the composition of panels, both formal and secondary, offers all key stakeholders the opportunity to be represented. For example, deferred and pensioner scheme members clearly have an interest in the performance of pension panels but it would be impractical in many cases to expect them to have direct representation on a panel. Instead, there is no reason why a representative of active scheme members couldn't also act on behalf of deferred and pensioner scheme members. Similarly, a single seat in the panel structure could be offered to somebody to represent the education sector as a whole, rather than having individual representatives for FE Colleges, Universities, academies, etc.

21. An independent professional observer could also be invited to participate in the governance arrangement to enhance the experience, continuity, knowledge, impartiality and performance of panels or panels. Such an appointment could improve the public perception that high standards of governance are a reality and not just an aspiration. Moreover, the independent observer would be ideally placed to carry out independent assessments of compliance against the Myners' principles, both in terms of the 2004 follow up report and the latest NAPF consultation on next steps, together with other benchmarks that the Fund authority's performance is measured against. The management of risk is a cornerstone of good governance and a further role for the independent observer would be to offer a practical approach to address and control risk, their potential effects and what should be done to mitigate them and whether the costs of doing so are proportionate.

a) That all key stakeholders are afforded the opportunity to be represented. within the main or secondary panel structure. These include :

i) employing authorities (including non-scheme employers, eg, admitted bodies)
ii) scheme members (including deferred and pensioner scheme members),
iii) independent professional observers, and
iv) expert advisors (on an ad-hoc basis).

b) That where lay members sit on a main or secondary panel, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.

Part II/C - Selection and role of lay members

22. It is important to emphasise that it is no part of the Fund authority's remit to administer the selection process for lay members sitting on main or secondary panels or to ensure their attendance at meetings, unless they wish to do so. Their role is to determine what sectors or groups are to be invited to sit on LGPS panels or panels and to make places available. Effective representation is a two way process involving the Fund authorities providing the opportunity and the representative bodies initiating and taking forward the selection process under the general oversight of the Fund authority.

23. Members of a main decision-making LGPS panel are in the same position as trustees in the private sector. Trustees owe a duty of care to their beneficiaries and are required to act in their best interests at all times, particularly in terms of their investment decisions. They are not there to represent their own local, political or private interest. On a main panel, the interests of the scheme and its beneficiaries must always be put before the interests of individual groups or sectors represented on the panel whereas on secondary panels or panels that are not subject to the requirements of the Local Government Act 1972, private interests can be reflected in proceedings.

a) That panel or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary panel.

Part II/D – Voting

24. Although the 2006 survey conducted by Communities and Local Government revealed that formal votes taken by LGPS panels were rare, it is important to set out the legal basis on which voting rights are, or may be prescribed to elected and lay members.

Elected members of the administering authority

a) All elected members sitting on LGPS panels have voting rights as a matter of course. Regulation 5(1)(d) of the Local Government (Panel and Political Groups) Regulations 1990 (SI No 1553/1990) provides that voting rights will be given to a person appointed to a sub panel of a panel established under the Superannuation Act 1972 who is a member of the authority which appointed the panel.

Elected members of authorities other than the administering authority and lay members.

b) Under sections (13)(1)(a) and (2)(a) of the Local Government and Housing Act 1989, a person who is a member of a panel appointed by an authority under the Superannuation Act 1972 but who is not a member of that authority, shall be treated as a non-voting member of that panel. However, the provisions of section 13(3) and (4) of the 1989 Act allow an administering authority discretion as to whether or not a member of a panel is treated as a voting or non-voting member.

Lay members of advisory panels, etc

c) Because they are not formally constituted panels, secondary panels or panels on which lay members sit are not subject to the restrictions imposed by the Local Government Act 1972 on voting rights. In these circumstances, there is nothing to prevent voting rights being conferred by the administering authority on all lay members sitting on panels or informal panels outside the main decision making panel.

25. The way in which an administering authority decides to exercise its discretion and confer voting rights on lay members is not a matter for which the Secretary of State, under his regulations making powers under the Superannuation Act 1972, has any remit. The issue of whether voting rights should be conferred on district council or scheme member representatives, for example, is a matter for individual administering authorities to consider and determine in the light of the appointing council's constitution. Regulation 73A(1)(b)(iii) of the 1997 Regulations already requires an administering authority to include in their statement details of the extent to which voting rights have been conferred on certain representatives, but does not extend to the need to give reasons where this is not the case.

a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS panels.

Part II/E – Training/Facility time/Expenses

26. In 2001, the Government accepted the ten investment principles recommended by Paul Myners in his report, "Institutional Investment in the UK". The first of those principles," Effective Decision Making", called for decisions to be made only by persons or organisations with the skills, information and resources necessary to take them effectively. Furthermore, where trustees - or in the case of the LGPS, members of formal panels - take investment decisions, that they have sufficient expertise to be able to evaluate critically any advice they take.

27. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended) already requires administering authorities to report the extent of compliance with this principle. But on the wider issue of governance, it is equally important that they report on the extent to which training facilities, etc, are extended to lay members sitting on either main or secondary LGPS panels.

28. If all stakeholders represented on LGPS panels or panels are to satisfy the high standards set out in the Myners' set of investment principles, it follows that equal opportunity for training, and hence facility time, should be afforded to all lay members. They too should have access to the resources that would enable them to evaluate the expert advice commissioned by the main investment panel and to comment accordingly. But the way that is achieved at local level is not a matter for national prescription, in particular, the policy adopted by individual

administering authority or local authority on the reimbursement of expenses incurred by panel or panel members. On this basis, the best practice standard which administering authorities are required to measure themselves focuses on the extent to which they have a clear and transparent policy on training, facility time and reimbursement of expenses and whether this policy differs according to the type of member, for example, elected member or scheme member representative.

a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.

b) That where such a policy exists, it applies equally to all members of panels, sub-panels, advisory panels or any other form of secondary forum.

Part II/F – Meetings (frequency/quorum)
29. From the evidence collected in 2006 by Communities and Local Government, it is clear that the majority of administering authorities who have introduced a multi-level panel structure operate different reporting/meeting cycles for each panel or panel. In the case of main, formal panels, these tend to meet, on average, at least quarterly, though there are a few examples where meetings are held less often. As a general rule, it is expected that main panels should meet no less than quarterly. Although it is important that any secondary panels or panels should also meet on a regular and consistent basis, it is accepted that there should be no compulsion or expectation that there should be an equal number of main and secondary panel meetings. But as a matter of best practice, it is expected that secondary meetings should be held at least bi-annually.

30. Although the overwhelming majority of administering authorities operate effective representation policies, the evidence collected in 2006 by Communities and Local Government revealed a small handful of authorities who restrict membership of their panel's to elected members only. In legal terms, this is permissible, but in terms of best practice, it falls well short of the Government's aims of improving the democratisation of LGPS panels. In those cases where stakeholders, in particular, scheme members, are not represented, it is expected that administering authorities will provide alternative means for scheme employers, scheme members, pensioner members, for example, to be involved in the decision-making process. This may take for the form of employer road-shows or AGMs where access is open to all and where questions can be addressed to members of the main panel.

a) That an administering authority's main panel or panels meet at least quarterly.

b) That an administering authority's secondary panel or panel meet at least twice a year and is synchronised with the dates when the main panel sits.

c) That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.

Part II/G - Access

31. The people to whom the appointing council entrust with taking investment, and other statutory decisions, is a matter for that council to consider and determine. However, it is important that others, outside that formal decision-making process but involved in some capacity in the general governance arrangement, have equal access to panel papers and other documents relied on by the main panel in taking its decisions.

32. The fact that voting rights are not conferred on individual lay members should not put them on any less footing than those members who serve on the main panel with full voting rights. Secondary panels or panels have a clear role to underpin and influence the work of the main panel and can only do so where there is equal access.

a) That subject to any rules in the councils constitution, all members of main and secondary panels or panels have equal access to panel papers, documents and advice that falls to be considered at meetings of the main panel.

Part II/H – Scope

33. Traditionally, LGPS panels have focussed on the management and investment of the funds under their supervision, with questions arising from the main scheme dealt with by officers with delegated authority under the council's constitution. In recent times, however, and reflecting the trend towards de-centralisation, administering authorities have become responsible for formulating a significant number of policy decisions on issues like abatement, compensation and the exercise of discretions under the scheme's regulations. These are key decisions which should be subject to the rigorous supervision and oversight of the main panel. And with the prospect of some form of cost sharing arrangement to be in place by March 2009, it is clear that there are other key scheme issues, outside the investment field, that main panels may need to address in the future. Given the not insignificant costs involved in running funds, LGPS panels and panels need to receive regular reports on their scheme administration to ensure that best practice standards are targeted and met and furthermore, to satisfy themselves and to justify to their stakeholders that the Fund is being run on an effective basis. This would involve reviewing the panel's governance arrangements and the effective use of its advisers to ensure sound decision making. Here, the use of an independent professional observer, free of conflicts of interest, would enable a wholly objective approach to be taken to the stewardship of the Fund.

34. All this points to LGPS panels perhaps becoming more multi-disciplined than they have been in the past, with a consequential impact on, for example, membership and training. For example, if decisions are to be taken by LGPS panels that could impact on the cost-sharing mechanism, it is reasonable to expect scheme member representatives to be present on those decision making panels, given that those decisions could have a direct impact on the position of scheme members under the scheme.

35. Although the future may see LGPS panels having a broader role than at present, individual administering authorities may adopt different strategies to meet these new demands. The more traditional approach might be to extend the scope of existing investment panels to include general scheme and other administrative issues. But already, there is evidence to suggest that some administering authorities have opted instead to establish new sub panels to deal solely with non-investment, scheme issues. The purpose of this guidance is not to prescribe the way in which administering authorities develop and adapt to scheme

developments. Instead, the intention is to increase the awareness that administering authorities and their panels must be flexible and willing to change to reflect scheme changes and wider pensions issues.

a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.

Part II/I – Publicity

36. A key component in improving the democratisation of LGPS governance arrangements is to increase the awareness that opportunities exist for scheme member representatives and LGPS employers, for example, to become part of these arrangements. But the onus for increasing awareness should not rest entirely with the administering authority. It is just as much the role of scheme member representatives and scheme employers to keep abreast of developments in this field and to play an active part in the selection and appointment of panel or panel members. This is best left to local choice and discretion. However, administering authorities are reminded that under Regulation 76B(1)(e) of the 1997 Regulations, the latest version of their Governance Compliance Statement must be included in their Pension Fund Annual Report.

a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.

CITY AND COUNTY OF SWANSEA
DINAS A SIR ABERTAWE

Appendix

Compliance Statement of the City & County of Swansea Pension Fund

Principle A – Structure

	Not Compliant*				Fully Compliant
a)					✓
b)				✓	
c)					N/A
d)					N/A

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations)

Please use this space if you wish to add anything to explain or expand on the ratings given above :-

b) A representative from a non admin authority employer has full-voting representation on the main panel

Principle B – Representation

	Not Compliant*				Fully Compliant
a i)					✓
a ii)	✓				
a iii)					✓

a iv)					✓
b)					✓

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations)

a ii) It has been the held opinion that employers within the scheme bear the investment/contribution risk, with scheme members' contributions being guaranteed and quantified by statute therefore negating the necessity of any member representation on a panel which primarily dealt with investment issues. This approach shall be reviewed in light of proposals re. scheme members sharing the risk in proposals due in 2013.

Please use this space if you wish to add anything to explain or expand on the ratings given above :-

a i) A representative from a non admin authority employer has full-voting representation on the main panel.

Principle C – Selection And Role of Lay Members

	Not Compliant*				**Fully Compliant**
a)					✓

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations)

Please use this space if you wish to add anything to explain or expand on the ratings given above :-

Principle D – Voting

	Not Compliant*				Fully Compliant
a)					✓

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations)

Please use this space if you wish to add anything to explain or expand on the ratings given above :-

Principle E – Training/Facility Time/Expenses

	Not Compliant*				Fully Compliant
a)					✓
b)					✓

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations)

Please use this space if you wish to add anything to explain or expand on the ratings given above :-

a) b) Identifying and providing trustee training is a collaborative process between members of the panel and scheme officers to determine the appropriateness of the same. All appropriate costs/ expenses are approved by the Chief Treasury & Technical Officer and/or the Head of Financial Services within the identified Investment/Admin expenses budget.

Principle F – Meetings (frequency/quorum)

	Not Compliant*				**Fully Compliant**
a)					✓
b)					**NA**
c)					✓

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations)

Please use this space if you wish to add anything to explain or expand on the ratings given above :-

c) These include an Annual General Meeting and scheme member /scheme employer roadshows.

CITY AND COUNTY OF SWANSEA

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Principle G – Access

	Not Compliant*				Fully Compliant
a)					✓

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations)

Please use this space if you wish to add anything to explain or expand on the ratings given above :-

Principle H – Scope

	Not Compliant*			Fully Compliant	
a)					✓

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations)

Please use this space if you wish to add anything to explain or expand on the ratings given above :-

a) The main panel has always considered within its remit all associated Pension Fund matters.

Principle I – Publicity

	Not Compliant*				Fully Compliant
a)					✓

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations)

Please use this space if you wish to add anything to explain or expand on the ratings given above :-

Appendix 10

Communications Policy Statement

Introduction

The City and County of Swansea Pension Fund strives to provide a high quality and consistent service to our customers in the most efficient and effective manner possible, particularly in an ever changing pensions environment.

There are 5 distinct groups with whom the fund needs to communicate.

1. Scheme Members
2. Prospective Scheme Members
3. Scheme Employers
4. Other Bodies
5. Fund Staff

The City and County of Swansea Pension Fund aims to use the most appropriate communication method for the audiences receiving the information. This may involve using more than one method of communication as considered appropriate.

The Policy document has been prepared, as required, by Regulation 106B of the Local Government Pension Scheme Regulations 1997 and sets out the mechanisms which are used to meet those communication needs and is subject to periodic review.

SCHEME MEMBERS

Scheme members include current contributors, those with a deferred benefit and those receiving a pension.

Annual Report and Accounts

A copy of the Fund's Annual Report and Accounts is available to all scheme members on request.

Newsletter

The Fund will issue a newsletter to active Scheme members of the fund on an ad hoc basis, which will cover current pension topics within the LGPS and pensions industry in general.

An annual newsletter will be sent to all pensioners, which includes information on the annual pensions increase, the payment dates of the monthly pension for the forthcoming year and other matters of interest.

Annual Benefit Statements

An Annual Benefit Statement, showing the current and prospective value of members' benefits will be sent directly to the home address of all members who are contributing to the Fund at the previous financial year end.

Benefit Statements, providing the up rated value of benefits, will be sent directly to the home address of deferred members where a current address is known.

Scheme Literature

An extensive range of Scheme literature is produced by the Fund, including an employee's guide to the LGPS, which is provided to all active members upon commencement and to other active members upon request. The guide is updated regularly, usually when regulations are changed.

Further literature is available concerning specific provisions within the LGPS and is provided as and when required when communicating with members or upon request. A list of communications material can be found at Appendix 1.

Correspondence

The Fund utilises both surface mail and e-mail to receive and send correspondence. Response can be made in the individuals preferred language of choice.

Payment Advice/P60

Pensioners are issued with payment advice slips if there is a £10.00 net pay variance from the previous month. P60 notifications, which provide a breakdown of the annual amounts paid, are issued annually in May.

Employee Surgeries/Presentations

Surgeries are available for individual Scheme members or groups by request. Standard or tailored presentations will also be held at employer venues upon request as well as roadshows for regulatory changes.

The Fund's dedicated in-house AVC provider will also perform presentations, which are aimed at improving pension benefits and raising awareness of retirement planning, at employer venues upon request.

Pre-Retirement Courses

The Communication & Training Officer is available to attend pre-retirement courses to inform members who are near retirement about procedures and entitlements.

Existence Validation – Life Certificate Exercise

An on-going exercise is conducted through correspondence and the National Fraud Initiative based on risk assessment in order to establish the continued existence of pensioners in receipt of monthly pension payments.

Website

The website is a prime source of information on the pension scheme, including electronic copies of Scheme literature and policies to ensure timely, up-to-date, and easy to access information for all our stakeholders. It can be accessed at www.swanseapensionfund.org.uk

PROSPECTIVE SCHEME MEMBERS

Scheme Leaflet

Prospective Scheme members are provided with a Scheme leaflet, which sets out the benefits of joining the LGPS upon appointment via the employer.

Corporate Induction Courses

The Communication & Training Officer will attend corporate induction events upon request, in order to present to prospective Scheme members the benefits of joining the LGPS. A "one-on-one" surgery will also be offered to take account individual queries that may be raised at such meetings.

Trade Unions

The Fund will work with the relevant Trade Unions to ensure the Scheme is understood by all interested parties. Training days for branch officers will be provided upon request, and efforts will be made to ensure that all pension related issues are communicated effectively with the Trade Unions.

Website

The Fund's website contains a specific section for prospective joiners or optants out, highlighting the benefits of planning for retirement and what the Scheme provides so that an informed choice can be made.

SCHEME EMPLOYERS

The Fund communicates with its participating employers in several ways to help them meet their responsibilities as Scheme employers.

Annual Report and Accounts

The audited accounts of the City and County of Swansea Pension Fund are prepared as at 31 March each year and a copy is distributed to each participating employer.

Employer Meetings

The Fund will hold an annual consultative meeting to discuss the Funds' Annual Report and Accounts. The meeting will also be used to communicate major strategic issues and significant legislation changes as well as triennial valuation matters.

Periodical meetings will be held to discuss specific issues as they arise.

Pension Administration Strategy

A Pension Administration Strategy has been published, in accordance with the Scheme Regulations, to define the responsibilities of both the Fund and all Scheme employers in the administration of the Scheme.

The Strategy sets out the level of performance expected from the City and County of Swansea Pension Fund and all employers, as well as the consequence of not meeting statutory deadlines.

Employer's guide

An Employer's Guide has been issued to assist the employers in discharging their pension administration responsibilities. This is supported by the dedicated Communication & Training Officer, who will provide assistance in administrative matters whenever necessary.

Updates

Regulatory and administrative updates are frequently issued to all employers via email.

Training

Bespoke sessions can be delivered, on request, by the dedicated Communication & Training Officer to resolve any administrative issues identified by the employer.

Website

The Fund Website has a dedicated employer area to provide employers with the guidance needed to effectively discharge their administrative responsibilities and will include updates as well as forms which can be downloaded.

OTHER BODIES

All Wales Pensions Officer's Group

Pensions Officers from all the Welsh administering authorities meet regularly in order to share information and ensure uniform interpretation of the LGPS and other prevailing regulations.

Wales Pension Partnership Group

The Fund works continuously to collaborate with other Welsh Pension Funds to evaluate specific partnership arrangements, particularly within the All Wales Pension Funds Communication Working Group.

Trade Unions

Trade Unions in South West Wales are valuable ambassadors for the Pension Scheme. They ensure that details of the Local Government Pension Scheme's availability are brought to their members' attention and assist in negotiation under TUPE transfers in order to ensure, whenever possible, continued access to the Local Government Pension Scheme.

Seminars

Fund Officers regularly participate at seminars and conferences held by LGPS related bodies.

National Information Forum

These meetings, which are attended by representatives from the Department of Communities & Local Government (DCLG) and the Local Government Pensions Panel (LGPC), provide an opportunity to discuss issues of common interest and share best practice.

FUND STAFF

There is a responsibility on all staff to ensure effective communication at all levels across the service.

Induction

All new members of staff undergo an induction programme. A periodic appraisal programme is also exercised to review and monitor employee performance and development.

Training and Support

The Fund seeks to continually improve the capacity of staff to communicate effectively and to understand the importance of high-quality communication.

Both general and pension specific training is provided in-house, by the dedicated Communications & Training Officer or by specialists, where applicable, as part of the Fund's commitment to continual improvement as well as encouraged to obtain the professional qualification of pension administration and management.

Fund Meetings

Section and Team meetings are held on a regular basis. Items arising from such meetings are escalated through to Senior Managers and Chief Officers.

Internet

Staff are enabled to use the corporate network in order to access the internet and e-mail facility.

E-mails

Staff can be contacted via their personal CCS email address or via the Fund's central mailbox.

The Local Government Pension Panel

National Website: www.lgps.org.uk

Whilst the website is intended primarily as a means of external communication, access is helpful to staff.

Seminars

Fund Officers regularly attend seminars and conferences held by associated bodies to obtain regulatory information and to further their knowledge and understanding.

This information is later cascaded to all staff so that service delivery is improved.

DATA PROTECTION

To protect any personal information held on computer, the City and County of Swansea Pension Fund, as administered by the City and County of Swansea, is registered under the Data Protection Act 1998. This allows members to check that their details held are accurate.

NATIONAL FRAUD INITIATIVE

This authority is under a duty to protect the public funds it administers, and to this end may use information for the prevention and detection of fraud. It may also share this information with other bodies administering public funds solely for these purposes.

GENERAL

Whilst this Policy Statement outlines the communication approaches adopted by the City and County of Swansea Pension Fund, there are roles and responsibilities which fall on Scheme members and participating Scheme Employers in ensuring that information necessary to maintain an accurate membership base is provided in a timely manner.

POLICY REVIEW

This statement will be revised if there is any material change in the City and County of Swansea Pension Fund's communication policy but will be reviewed no less frequently than an annual basis.

Fund Publications - publication frequency & review periods

Communication Material	When Published	When Reviewed
Scheme Booklet	Constantly Available	As Required
New Starter Pack	Constantly Available	As Required
Factsheets (various)	Constantly Available	As Required
Retirement Guide	Constantly Available	As Required
Newsletter	As required	As Required
Pension Newsletter	Annually	As Required
Annual Benefit Statement	Annually	Annually
Employer's Guide	Constantly Available	Annually
Pension Administration Strategy	Constantly Available	Annually
Customer Charter	Constantly Available	Annually
Annual Report & Accounts	Annually	Annually
Valuation Report	Tri-Annually	Tri-Annually
Funding Strategy Statement	Tri-Annually	As Required

Report of the Section 151 Officer

Pension Fund Committee – 14 September 2017

Reporting Breaches Policy

Purpose: The report presents any breaches which have occurred in the Pension Fund in accordance with the Reporting Breaches Policy.

Report Author: Lynne Miller – Principal Pensions Manager

Finance Officer: Jeff Dong - Chief Treasury & Technical Officer

Legal Officer: Stephanie Williams – Principal Lawyer

Access to Services Officer: N/A

For Information

1. Introduction

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

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

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

2. Breaches

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

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

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

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

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

2.4 Since the last report on 13 July 2017, 32.71% of retirement lumps sums have not been paid within the benchmark; however, further investigation has ascertained that all the late payments were as a result of members not returning the appropriate paperwork in order to make payment. Communication sent to members at time of retirement has been reviewed to ensure that the importance of timely return of required documents is highlighted.

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

3. Equality and Engagement Implications

N/A

4 Legal Implications

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

5. Financial Implications

5.1 Loss of investment returns and a possible penalty charge from TPR.

FOR INFORMATION

Background papers: None

Appendices:

Appendix A: Breaches Report

City and County of Swansea Breach Register **Appendix A**

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	New Breach (since last report)
Mar 2017	Investment asset allocation	The Investment Strategy Statement outlines an indicative allocation of 34% +/- 5% to Global Equities. At 31st March 2017, the allocation was 43%	There is resulting over allocation to global equities	The asset class in question returned 33% during the year which has caused the uplift in valuation- the best performing asset class during the year. There is a planned investment review for 2017/18 which shall review asset allocations on a long term basis	Noting the volatility of asset values and the pending asset allocation review, it is determined imprudent to incur material transaction costs to address the allocation imbalance. A longer term allocation shall be derived from the pending investment review.	Allocations shall be reviewed as part of the investment review	

Mar – Jun 2017	Administration	20.37% of retirement lump sums not paid within 1 month of normal retirement or 2 months of early retirement	The administering authority has accrued interest payments on the retirement lump sums under the 2013 LGPS regulations	This was due to members not returning relevant documentation in a timely manner	.		
Mar – Jun 2017	Contributions	Employers have not paid contributions within required timescale	Loss of investment returns	Employers are contacted once breach has occurred			
30/04/2017	Administration	Grwp Gwalia did not submit their annual return for year-end reconciliation until 22/06/2017 when it should have been provided by 30/04/2017	Delay in year-end reconciliation exercise and possibility of failure to issue Annual Benefit Statements to Grwp Gwalia members	Regular contact maintained with employer throughout the delay. Recommended move to monthly returns via i-Connect		Recommended move to monthly returns via i-Connect	

Jul - Aug 2017	Administration	32.71% of retirement lump sums not paid within 1 month of normal retirement or 2 months of early retirement	The administering authority has accrued interest payments on retirement lump sums, paid more than one month after their due date, under the 2013 LGPS regulations	This was due to members not returning relevant documentation in a timely manner	.	Communication to members regarding retirement options reviewed to ensure the importance of returning documents in a timely manner is emphasised	✓
Jul - Aug 2017	Contributions	2 Employers have not paid contributions within required timescale	Loss of investment returns	Employers are contacted once breach has occurred		Employers are contacted as soon as the deadline for submission of contributions has passed	✓

*New breaches since the previous meeting should be highlighted

Agenda Item 5c

Report of the Section 151 Officer

Pension Fund Committee – 14 September 2017

Markets in Financial Instruments Directive ii (Mifid ii)

Purpose:	To approve the opting up of the City & County of Swansea pension Fund to Professional Investor status under MIFID II
Policy Framework	EU Markets in Financial Instruments Directive II (MIFID II)
Recommendation	It is recommended that the Pension Fund Committee: i. Notes the potential impact on investment strategy of becoming a retail client with effect from 3rd January 2018. ii. Approves the immediate commencement of applications for elected professional client status with all relevant institutions in order to ensure it can continue to implement an effective investment strategy. iii. In electing for professional client status, the committee acknowledges and approves to forgo the protections available to retail clients. iv. Delegates the Section 151 Officer the appropriate approvals for the purposes of completing the applications and determining the appropriate basis of the application
Report Author:	Jeff Dong Chief Treasury & Technical Officer
Finance Officer:	Jeff Dong Chief Treasury & Technical Officer
Legal Officer:	Stephanie Williams
Access to Services Officer:	N/A

1 Background

1.1 The City & County of Swansea Pension Fund Committee received on the 13th July 2017, an information report outlining the forthcoming requirements for Administering Authorities in light of MIFID II (attached at **Appendix 1)** and the approach to be adopted by LGPS funds in addressing the same. Since that date, the FCA in consultation with SAB, LGA and Administering Authorities have agreed a specific election to opt up to professional investor status process for LGPS funds. The recognition of the fund as a professional investor precludes the fund from a number of protections afforded to retail clients. **(Appendix 2)**

2 Electing to Opt Up Process

2.1 MiFID II allows for retail clients which meet certain conditions to elect to be treated as professional clients (to 'opt up'). There are two tests which must be met by the client when being assessed by the financial institution: the quantitative and the qualitative test.

2.2 The Local Government Pension Scheme Advisory Board (SAB) and the Local Government Association (LGA) along with the Department of Communities and Local Government (DCLG) and the Investment Association (IA) have successfully lobbied the FCA to make the test better fitted to the unique situation of local authorities.

2.3 The new tests recognise the status of LGPS administering authorities as providing a 'pass' for the quantitative test while the qualitative test can now be performed on the authority as a collective rather than an individual. A summary of and extracts from the FCA policy statement which set out these new tests is attached as **APPENDIX 2A**

2.4 The election to professional status must be completed with all financial institutions prior to the change of status on 3rd January 2018. Failure to do so by local authorities would result in the financial institution having to take 'appropriate action' which could include a termination of the relationship at a significant financial risk to the authority

2.5 The SAB and the LGA have worked with industry representative bodies including the IA, the British Venture Capital Association (BVCA) and others to develop a standard opt-up process with letter and information templates. This process should enable a consistent approach to assessment and prevent authorities from having to submit a variety of information in different formats

2.6 A flowchart of the process is attached as **APPENDIX 3** and the letter and information templates are attached as **APPENDICES 4 and 5.** Applications can be made in respect of either all of the services offered by the institution (even if not already being accessed) or a particular service only. A local authority may wish to do the latter where the institution offers a wide range of complex instruments which the authority does not currently use and there is no intention to use the institution again once the current relationship has come to an end, for example, if the next procurement is achieved via the LGPS pool. It is recommended that officers determine the most appropriate basis of the application, either via full or single service.

2.7 Authorities are not required to renew elections on a regular basis but will be required to review the information provided in the opt-up process and notify all institutions of any changes in circumstances which could affect their status, for example, if the membership of the committee changed significantly resulting in a loss of experience, or if the relationship with the authority's investment advisor was terminated

3 Wales Pension Partnership Investment Pool

3.1 LGPS pools will be professional investors in their own right so will not need to opt up with the external institutions they use. Local authorities will however need to opt up with their LGPS pool in order to access the full range of services and sub-funds on offer

3.2 In some circumstances, in particular where the pool only offers access to fund structures such as ACS, the pool could use 'safe harbour' provisions resulting from local authorities continuing to be named as professional investors in both the Financial Promotion Order (the "FPO") or in the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order (the "PCISO"). These provisions would enable the promotion and potential sale of units in fund structures to local authorities as retail investors. Elections to professional status will be needed for every financial institution that the authority uses outside of the pool, both existing and new, together with a continuing review of all elections. If all new purchases are made via fund structures within the pool then no new elections will be required, only an ongoing review of the elections made with the pool and any legacy external institutions, the number of which would reduce as assets are liquidated and cash transferred.

4 Recommendation

4.1 It is recommended that the Pension Fund Committee:

i. Notes the potential impact on investment strategy of becoming a retail client with effect from 3rd January 2018.

ii. Approves the immediate commencement of applications for elected professional client status with all relevant institutions in order to ensure it can continue to implement an effective investment strategy.

iii. In electing for professional client status, the committee acknowledges and approves to forgo the protections available to retail clients.

iv. Delegates the Section 151 Officer the appropriate approvals for the purposes of completing the applications and determining the appropriate basis of the application

5 Legal Implications

5.1 The legal implications of non-compliance are indicated within the Directive

6 Financial Implications

6.1 There are no financial implications arising from this report

7 Equality and Engagement Implications

7.1 There are no equality and engagement implications arising from this report.

Background Papers: None.

Appendices:

Appendix 1 – Report to Pension Fund Committee in July 2017;

Appendix 2 - The recognition of the fund as a professional investor precludes the fund from a number of protections afforded to retail clients;

Appendix 2A - A summary of and extracts from the FCA policy statement which set out these new tests;

Appendix 3 - A flowchart of the process.

APPENDIX 1

Item
Report of the Section 151 Officer

Pension Fund Committee, July 13th 2017

MARKETS IN FINANCIAL INSTRUMENTS DIRECTIVE II (MIFID II)

Purpose:	To update the Pension Fund Committee on MIFID II and its potential impact on the LGPS nationally and locally
Report Author:	Jeff Dong Chief Treasury & Technical Officer
Finance Officer:	Jeff Dong Chief Treasury & Technical Officer
Legal Officer:	Stephanie Williams
Access to Services Officer:	N/A
FOR INFORMATION	

1 Background

1.1 The Markets in Financial Instruments Directive ('MiFID'), part of the European Commission's Financial Services Action Plan, is legislation for the regulation of investment services within the European Economic Area which came into force in November 2007. The Directive replaced the Investment Services Directive. It was designed to:

- Achieve harmonisation throughout the economic area
- Aid transparency
- Protect investors
- Improve efficiency
- Increase competition

1.2 The European Commission instigated a review of the directive due to increasing complexity of financial products and issues related to the 2008 financial crisis. The outcome of the review was a revised Directive, MiFID II. The Financial Conduct Authority ('FCA') is now consulting on its third set of implementation proposals for MiFID II, which are due to take effect from 3 January 2018. The proposed changes to the FCA Handbook will have a significant impact on LGPS administering authorities.

2 **Potential Impact on the LGPS**

2.1

The main issue that administering authorities could face is a re-classification from ‘per se professional’ to ‘retail’ client status. If no action were taken, administering authorities could see restrictions as retail clients e.g. in terms of the universe of investment funds they may invest in.

2.2

The good news is that administering authorities will have the opportunity to “opt-up” to ‘elective professional client’, i.e. professional client status. The FCA believes that the ability to access financial markets will not be fundamentally affected by broader changes if classified as a professional client. The specific procedure for opting-up will include both qualitative and quantitative assessments, as outlined in the next section.

3 **Assessment**

3.1 The proposed assessment required to be undertaken by the fund manager of the client involves :

3.2 Qualitative Assessment

The qualitative assessment will require:

“adequate assessment of the expertise, experience and knowledge of the client that gives reasonable assurance, in light of the nature of the transactions or services envisaged, that the client is capable of making his own investment decisions and understanding the risks involved”

The above should not present a major hurdle for the majority of LGPS administering authorities. Indeed, it is expected that those in positions of authority will be suitably qualified and possess the necessary experience to fulfil their roles. Administering authorities will, however, need to have sufficient evidence to demonstrate that the qualitative assessment is satisfied.

3.3 Quantitative Assessment

Quantitative test a), below and one of b) or c) must be satisfied:

a) the size of the client’s financial instrument portfolio, defined as including cash deposits and financial instruments, exceeds **£15m**

b) the client has carried out transactions, in significant size, on the relevant market at an average frequency of 10 per quarter over the previous four quarters

c) the client works or has worked in the financial sector for at least one year in a professional position, which requires knowledge of the transactions or services envisaged

3.4 Given the sizes of funds under management across the local government sector, criteria a) is not likely to present an issue. Criteria b) will present a major issue for the majority of administering authorities, with quarterly transaction activity typically not close to this level. Reliance will need to be placed on the remaining test to ensure an administering authority can consider opting-up to professional client status. It is not entirely clear how changes in team should be reflected in criteria c). For example, it may be possible that the qualitative assessment will need to be re-run each time there is a material personnel change.

4 Financial Conduct Authority Consultation

4.1 The FCA is currently consulting on proposed changes to the FCA handbook in light of the new directive. The full consultation document is available via this link below:

https://www.fca.org.uk/sites/default/files/cp16-29.pdf

The LGA has responded to the consultation on behalf of Administering Authorities, Councils and other public sector bodies affected by the changes. The response is attached at Appendix 1.

5 Way Forward

5.1 In light of the responses it has received from the consultation, the FCA has engaged with the LGA and CIPFA with a view to addressing compliance at a national level or mitigating the impact of the criteria outlined in the initial directive. The City & County of Swansea Pension Fund is confident of satisfying the assessment criteria in either instance.

6 Legal Implications

6.1 The legal implications of non compliance are indicated within the Directive

7 Financial Implications

5.1 There are no financial implications arising from this report

8 Equality and Engagement Implications

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

Warnings - loss of protections as a Professional Client

Professional Clients are entitled to fewer protections under the UK and EU regulatory regimes than is otherwise the case for Retail Clients. This document contains, for information purposes only, a summary of the protections that you will lose if you request and agree to be treated as a Professional Client.

1. **Communicating with clients, including financial promotions**

   As a Professional Client the simplicity and frequency in which the firm communicates with you may be different to the way in which they would communicate with a Retail Client. They will ensure however that our communication remains fair, clear and not misleading.

2. **Information about the firm, its services and remuneration**

   The type of information that the firm provides to Retail Clients about itself, its services and its products and how it is remunerated differs to what the firm provides to Professional Clients. In particular,

   (A) The firm is obliged to provide information on these areas to all clients but the granularity, medium and timing of such provision may be less specific for clients that are not Retail Clients; and

   (B) there are particular restrictions on the remuneration structure for staff providing services to Retail Clients which may not be applicable in respect of staff providing services to Professional Clients;

   (C) the information which the firm provides in relation to costs and charges for its services and/or products may not be as comprehensive for Professional Clients as it would be for Retail Clients, for example, they are required when offering packaged products and services to provide additional information to Retail Clients on the risks and components making up that package; and

   (D) when handling orders on behalf of Retail Clients, the firm has an obligation to inform them about any material difficulties in carrying out the orders; this obligation may not apply in respect of Professional Clients.

3. **Suitability**

   In the course of providing advice or in the course of providing discretionary management services, when assessing suitability for Professional Clients, the firm is entitled to assume that in relation to the products, transactions and services for which you have been so classified, that you have the necessary level of experience and knowledge to understand the risks involved in the management of your investments. The firm will assess this information separately for Retail Clients and would be required to provide Retail Clients with a suitability report.

4. **Appropriateness**

   For transactions where the firm does not provide you with investment advice or discretionary management services (such as an execution-only trade), it may be required to assess whether the transaction is appropriate. In respect of a Retail Client, there is a specified test for ascertaining whether the client has the requisite investment knowledge and experience to understand the risks associated with the relevant transaction. However, in respect of a Professional Client, the firm is entitled to assume that they have the necessary level of experience, knowledge and expertise to understand the risks involved in a transaction in products and services for which they are classified as a Professional Client.

5. **Dealing**

A range of factors may be considered for Professional Clients in order to achieve best execution (price is an important factor but the relative importance of other different factors, such as speed, costs and fees may vary). In contrast, when undertaking transactions for Retail Clients, the total consideration, representing the price of the financial instrument and the costs relating to execution, must be the overriding factor in any execution.

6. **Reporting information to clients**

For transactions where the firm does not provide discretionary management services (such as an execution-only transactions), the timeframe for our providing confirmation that an order has been carried out is more rigorous for Retail Clients' orders than Professional Clients' orders.

7. **Client reporting**

Investment firms that hold a retail client account that includes positions in leveraged financial instruments or contingent liability transactions shall inform the Retail Client, where the initial value of each instrument depreciates by 10% and thereafter at multiples of 10%. These reports do not have to be produced for Professional Clients.

8. **Financial Ombudsman Service**

The services of the Financial Ombudsman Service may not be available to you as a Professional Client.

9. **Investor compensation**

Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Hence, depending on how you are constituted you may not have access to the Financial Services Compensation Scheme.

10. **Exclusion of liability**

The FCA rules restrict the firm's ability to exclude or restrict any duty of liability which the firm owes to Retail Clients more strictly than in respect of Professional Clients.

11. **Trading obligation**

In respect of shares admitted to trading on a regulated market or traded on a trading venue, the firm may, in relation to the investments of Retail Clients, only arrange for such trades to be carried out on a regulated market, a multilateral trading facility, a systematic internaliser or a third-country trading venue. This is a restriction which may not apply in respect of trading carried out for Professional Clients.

12. **Transfer of financial collateral arrangements**

As a Professional Client, the firm may conclude title transfer financial collateral arrangements with you for the purpose of securing or covering your present or future, actual or contingent or prospective obligations, which would not be possible for Retail Clients.

13. **Client money**

The requirements under the client money rules in the FCA Handbook (CASS) are more prescriptive and provide more protection in respect of Retail Clients than in respect of Professional Clients.

It should be noted that at all times you will have the right to request a different client categorisation and that you will be responsible for keeping the firm informed of any change that could affect your categorisation as a Professional Client.

FCA Markets in Financial Instruments Directive II Implementation – Policy Statement II

The matters relating to the reclassification of local and public authorities as retail are covered in Chapter 8 pages 64 to 74 of the full document https://www.fca.org.uk/publication/policy/ps17-14.pdf

Highlights (see highlighted sections following for context)

1. Firms may take a collective view of the expertise, experience and knowledge of committee members, taking into account any assistance from authority officers and external advisers where it contributes to the expertise, experience and knowledge of those making the decisions

2. Governance and advice arrangements supporting those individuals can inform and contribute to the firm's assessment

3. Adherence to CIPFA Codes or undertaking other relevant training or qualifications may assist in demonstrating knowledge and expertise as part of the qualitative test

4. Rules will add a fourth criterion that the client is subject to the LGPS Regulation for their pension administration business. Local authorities must continue to meet the size requirement, as well as one of the two previous criteria or the new fourth criterion

5. Compliance with the LGPS Regulations, including taking proper advice, will contribute to the assessment of knowledge and expertise of the local authority client when making decisions

6. Retain the 10 transactions on average per quarter test as one of the four available criteria for enabling a local authority body to opt up.

7. Firms may reasonably assess that a professional treasury manager has worked in the financial sector for at least one year, if their role provides knowledge of the provision of services envisaged

8. Changed the portfolio size threshold to £10m

9. Proposed transitional arrangements that would allow investment firms to re-assess the categorisation of local authority clients between the 3 July 2017 implementation deadline and 3 January 2018 are being taken forward

Page 67 Our response on the qualitative test

MiFID II requires the qualitative test to be applied to local authorities seeking to opt-up to professional client status, with the test itself unchanged from MiFID. It is important that an investment firm is confident that a client can demonstrate their expertise, experience and knowledge such that the firm has gained a reasonable assurance that the client is capable of making investment decisions and understanding the nature of risks involved in the context of the transactions or services envisioned.

COBS 3.5.4 requires that the qualitative test should be carried out for the person authorised to carry out transactions on behalf of the legal entity. 'Person' in this context may be a single person or a group of persons. We understand that the persons within a local authority who invest on behalf of pension funds are elected officials acting as part of a pensions committee. In those circumstances, firms may take a collective view of the expertise, experience and knowledge of committee members, taking into account any assistance from authority officers and external advisers where it contributes to the expertise, experience and knowledge of those making the decisions. We also understand that typically the person(s) within local authorities who invest the treasury reserves of those authorities are likely to be officers of the authorities, who are delegated authority from elected members and act under an agreed budget and strategy.

Given different governance arrangements, we cannot be prescriptive, but we would stress the importance of firms exercising judgement and ensuring that they understand the arrangements of the local authority and the clear purpose of this test. It remains a test of the individual, or respectively the individuals who are ultimately making the investment decisions, but governance and advice arrangements supporting those individuals can inform and contribute to the firm's assessment.

We agree that adherence to CIPFA Codes or undertaking other relevant training or qualifications may assist in demonstrating knowledge and expertise as part of the qualitative test.

Page 68 Our response on the quantitative test – approach for Local Government Pension Schemes (LGPS)

We recognise that local authority pension schemes are established within the framework of the LGPS Regulations and are subject to the oversight of the Pensions Regulator, as well as the broader public policy in MiFID II, such as ensuring that local authority pension schemes receive appropriate investment services, and that they understand the costs and risks involved with such service.

Some expressed concerns about interpreting the quantitative criteria in light of the common governance of local authority pension scheme administration, and recognise that the drafting of our proposed rules was not sufficient to achieve our policy intention of allowing all local authorities administering LGPS pension funds to have the ability to successfully opt up. Therefore, our rules will add a fourth criterion that the client is subject to the LGPS Regulation for their pension administration business. Local authorities must continue to meet the size requirement, as well as one of the two previous criteria or the new fourth criterion. This will assist all local authority pension fund administrators who wish to opt-up to meet the quantitative test, but maintain the need for local authorities to qualitatively demonstrate their sophistication to become professional clients. We agree with views that compliance with the LGPS Regulations, including taking proper advice, will contribute to the assessment of knowledge and expertise of the local authority client when making decisions.

Page 69 Our response on the quantitative test – undertaking 10 transactions on average per quarter

We accept that some local authorities will not be able to meet this part of the quantitative test (particularly when investing pension funds). However, it continues to be our view that regular and recent experience of carrying out relevant transactions remains a useful proxy for assessing sophistication. We have received no arguments against this view, and so confirm that we will retain this test as one of the four available criteria for enabling a local authority body to opt up.

While theoretically this criterion could be 'gamed' by firms and clients by churning portfolios, we believe it is an unlikely course of action for local authorities who are accountable to the electorate and have specific statutory duties requiring prudent management of their financial affairs. In future, we could scrutinise any firm who appeared to be recommending this course of action to its client and question whether the firm was acting in the client's best interest and whether the firm believed that an artificially higher number of trades contributed to the expertise, experience and knowledge of their client.

Page 70 Our response on the quantitative test – employment in the financial sector for at least 1 year in a professional position

We accept we could be clearer about who this test is applied to, while ensuring it can be applied flexibly to different governance arrangements. We also recognise that employment in the financial sector is a criterion that can only apply to a natural person.

In response, we have amended the proposed drafting in COBS 3.5.3BR(b)(ii) to note that 'the person authorised to carry out transactions on behalf of the client works or has worked in the financial sector for at least one year in a professional position, which requires knowledge of the provision of services envisaged'. This should allow local authorities to delegate authority to make investment decisions on their behalf to professional staff with at least one year's experience. We recognise that this redrafted criterion may not be useful for assessing the collective decision making involved in investing local authority pension funds. However, we think this will be less problematic given our new fourth criterion aimed at LGPS administering authorities.

We do not interpret the term 'financial sector' in a limited way for the purposes of COBS 3.5.3BR(2)(b)(ii), and firms may reasonably assess that a professional treasury manager has worked in the financial sector for at least one year, if their role provides knowledge of the provision of services envisaged. This meets the purpose of the test, to ensure the person acting on behalf of a client has the expertise, experience and knowledge necessary in relation to the investment or service being sold and the risks involved.

Page 71 Our response on the quantitative test – portfolio size threshold

We have changed the portfolio size threshold to £10m. This follows further data and case studies provided by local authorities, Department for Communities and Local Government (DCLG) new data, and wider CP responses.

We believe £10m is closer to our policy goal of restricting the ability of the smallest, and by implication the least sophisticated, local authorities (town and parish councils, and the smallest county and district councils) to opt-up, but giving larger ones the ability to do so more readily, (provided they meet the other criteria).

Based on the number of local authorities we estimated were investing in MiFID scope instruments and understanding the quoted portfolio size in the DCLG dataset for 2014/15, in CP16/29 we estimated that 63 additional local authorities would not be able to opt-up to professional client status for the purposes of engaging in MiFID business as a result of our consulted upon policy.

At a £15m portfolio size threshold, this increased to 78 additional local authorities which would not be able to opt-up to professional client status for the purposes of engaging in MiFID business when we used the new 2015/16 DCLG dataset.

Applying the £10m threshold to data over the following years:

2014/15 – 27 local authorities would not be able to opt-up to professional client status; and the estimated one-off costs for investment firms would decrease from £1.7m to £0.8m and on-going costs from £0.8m to £0.3m.
2015/16 – 42 local authorities would not be able to opt-up, and the one-off costs for investment firms would decrease from £2.0m to £1.1m, and on-going costs would reduce from £0.9m to £0.5m.47

While a local authority's ability to borrow extra funds to 'game' this requirement may be possible, it is questionable whether local authorities would be able to justify this approach while at the same time making budgets and investment strategies available for public scrutiny.

Page 74 Our response on transitional arrangements

MiFID II gives us very limited discretion with regard to transitional arrangements for applying these rules in respect of local authorities and provides no ability to extend the deadline for compliance with this requirement beyond 3 January 2018. We consulted in CP16/43 on proposed transitional arrangements that would allow investment firms to re-assess the categorisation of local authority clients between the 3 July 2017 implementation deadline and 3 January 2018. These proposals are being taken forward (see Chapter 24). However, firms will not be expected to re-consider categorisation of existing clients other than local authorities, where MiFID II rules are the same as existing MiFID rules transposed at COBS 3.

Otherwise, we have made further consequential drafting changes to transitional provisions at COBS TP 1 that were added when MiFID was implemented in 2007, but that are no longer carried across into MiFID II.

More generally, COBS 3.5.8G notes that professional clients have the responsibility to keep investment firms informed about any changes that affect their current categorisation. Further, at COBS 3.5.9R, if the firm becomes aware that the client no longer fulfils the initial conditions that made the client eligible to be an elective professional client, it must take "appropriate action". Neither MiFID II, nor our rules specify what 'appropriate action' is, which will depend on the facts of the case and what would be in the client's best interest. Firms must exercise judgement and consider what would be in the best interests of the client. For example, if a client no longer meets the quantitative test to opt up to professional client status, a firm may decide it is appropriate to cease providing investment services but to do so in a way that minimises losses to the client.

UK Local Authority Client Opt-Up Process

STAGES	TIMELINE	GUIDANCE
Preparatory Stage Finalise standard opt-up process	End July 2017	(i) Finalise industry standard quantitative and qualitative questionnaire; (ii) Finalise request and consent letter from Local Authority to be opted-up; and (iii) Finalise response letter from investment firms agreeing to the opt-up.
Stage 1 Local authorities to complete letter and questionnaire and send to investment firms	August – September 2017	Local authorities to complete and send investment firms: (i) request and consent letter to be opted-up to professional client status; and (ii) completed quantitative and qualitative questionnaire (to allow investment firms to satisfy themselves that the local authority passes the qualitative test).
Stage 2 Investment Firms to validate the information and run the client status assessment	September – October 2017	Investment firms to validate information received from local authorities to determine information is (i) sufficient; and (ii) appropriate. Assess the information received by the local authority and confirm that it: (i) has provided the request and consent letter to be treated as a professional client; and (ii) passes (i) the quantitative test and (ii) the qualitative test Log and store the local authority information and the results of the internal assessment.
Stage 3 Dispatch the confirmation letter to LA clients confirming professional client status	October 2017	If a local authority has provided the request and consent letter and has satisfied the requirements for both: (i) the quantitative test; and (ii) the qualitative test, send a letter confirming the classification of the client as a professional client.
Stage 4 Client re-categorisation	3 January 2018	Once the steps above are complete, as of 3 January 2018, the firm may continue to treat the local authority as a professional client.

Report of the Section 151 Officer

Pension Fund Committee - 14 September 2017

Corporate Actions Monitoring Service

Purpose:	To monitor opportunities to recover losses as a result of violation of US Securities laws
Policy Framework:	LGPS Investment Management Regulations
Consultation:	Legal, Finance and Access to Services.
Recommendation(s):	It is recommended that:
BR&B are engaged as outlined in 4.1 i) and ii)	
Report Author:	Jeffrey Dong
Finance Officer:	Jeffrey Dong
Legal Officer:	Stephanie Williams
Access to Services Officer:	Sherill Hopkins

1 Introduction

1.1 The City & County of Swansea invests over 60% of its assets in listed global equities. The world's largest market for listed equities is the United States. In the United States, over 150 cases alleging violations of the federal securities laws are brought each year. These cases are brought against companies whose shares trade on U.S. exchanges and allege that corporate fraud has taken place. Investors can suffer significant financial losses from fraudulent activity arising from fraudulent accounting or the deliberate failure by companies to disclose information that should have been disclosed to them as investors in the company. Some high profile corporate frauds have received worldwide media coverage, e.g. Enron and WorldCom, although not all frauds are so extreme as to cause the collapse of the entire company.

1.2 In addition to the cases brought in the United States, securities litigation is increasingly a global phenomenon as a result of corporate scandals arising in companies based outside of the United States. For example, securities cases have been brought in the U.K. against RBS and in Germany against Volkswagen.

2 Differences between Investor Cases in the US, the UK and other countries

2.1 There are some significant differences between the legal systems in the

United States and those in the U.K. and other countries, especially in cases where investors have suffered financial losses as a result of alleged fraudulent activity by companies in which they have invested.

(a) Under U.S. law, investors, on behalf of themselves as well as other, similar investors, can take action through the U.S. courts to seek compensation for losses suffered in all such cases of corporate fraud.

(b) In a U.S. class action, all investors, whether institutional or private, who have suffered losses as a result of corporate fraud are members of the 'class' of investors who have so suffered – hence the term class action. The investors who acquired a company's stock during the period when a fraud is alleged to have occurred are automatically included in the class action. They do not need to take any affirmative measures to join it.

(c) In the U.K. and many other countries, there is no class action procedure. Some countries have "group" actions, but each individual investor must typically make an affirmative decision to engage counsel and join a group action. While a class member in a U.S. class action may be entitled to a pro rata share of any recovery that is achieved in a case, investors are precluded from sharing in any recovery in a non-U.S. group action unless they have joined in the litigation of the case.

(d) One key difference between the legal system in the U.S. and those of the U.K. and some other countries is that if a class action is unsuccessful, the plaintiff investor is <u>not</u> liable for the legal costs incurred by the defendant company**.** Another key difference is that in the U.S., attorneys are permitted to litigate cases on a "contingent fee basis." This means that their attorneys' fees are paid out of any recovery achieved for the class and, if the case is unsuccessful, the plaintiffs have no responsibility to pay the attorneys' fees and costs. Thus, in a U.S. class action, the cases are typically funded by the plaintiffs' law firms themselves and there is no need to insure against possible liability for legal costs.

3 Current Participation in U.S. Class Actions

3.1 (a) Class action claims can go back over a period of many years and U.K. institutional investors, such as the City & County of Swansea Pension Fund, who have suffered losses as a result of corporate fraud can benefit significantly from these class actions, <u>but only if claims are filed.</u>

(b) Failure to file a claim can be costly. Compensation awarded by the Courts can only be shared out amongst those who file a claim at the end of the case. Any monies 'left on the table' are shared by those who do claim. The sums involved for a major institutional investor can amount to millions of U.S. dollars. It is therefore a fiduciary duty for institutional investors such as LGPS funds to ensure that all payments due to them under class actions in the U.S. are pursued.

(c) Currently the City & County of Swansea Pension Fund, relies largely on its custodian bank, HSBC, and its Fund Managers (and partly on market awareness) to ensure that U.S. class action claims and any other global claims are lodged where practicable. But, monitoring information sources and the media for these actions can be a time-consuming process. Recently, as a result of being alerted by one of its fund managers, the City & County of Swansea Pension Fund, joined a class action as a result of a class action against the Brazilian Oil company Petrobras, and after protracted legal proceedings, recovered $125,000.

4 Way Forward

4.1 (a) There are a small number of US law firms operating in the UK. Barrack Rodos & Bacine (BR&B), is a U.S. law firm that takes a risk managed approach to securities litigation. BR&B has a proprietary, patented monitoring system – Barrack's Evaluation And Monitoring System (BEAMS®) – which tracks securities class actions in the US and globally, and identifies all those in which a fund may have a potential claim. BEAMS® monitors the progress of all claims until final settlement, which can take several years.

(b) This service takes on the workload of monitoring the Fund's entitlements from class actions globally and is provided entirely free of charge by BR&B.

(c) 15 UK LGPS clients including Rhondda Cynon Taf (RCT), Strathclyde, ten English Counties and three London Boroughs currently use BEAMS®.

(d) To secure the corporate fraud and class action monitoring service free of charge from BR&B the City & County of Swansea Pension Fund would be required to:

i. Authorise the Fund's global custodian to provide BR&B with electronic access to the Fund's dealings, for the past five years (or for as many of those five years as can be made available), current holdings and all future dealings on a read-only basis.

ii. Sign a very short (2 page) letter of agreement with BR&B agreeing that if the City & County of Swansea Pension Fund suffers a loss as a result of fraudulent action by a company, and this fraud is the subject of a class action, the Fund will consider seeking appointment as lead plaintiff or co-lead plaintiff and consider selecting BR&B to represent the Fund as its counsel, on a contingent fee basis. (Any investor who has suffered losses can seek to be the lead plaintiff in such cases but under U.S. law courts usually appoint the investor with the largest financial interest amongst those seeking this leadership role. A U.S. securities class action can be lengthy, and may take several years to reach a court decision or a settlement out of court).

iii. Although the BEAMS service monitors all class actions globally to ensure that claims are made, BR&B will only ask clients to consider acting as a lead plaintiff where they have a significant loss and where the case is deemed to be 'meritorious' and of 'institutional quality'.

iv. Should the Fund decide to actively participate in a class action in a leadership role with BR&B as its counsel, and should the court appoint the Fund as a lead or co-lead plaintiff, with BR&B as lead counsel, BR&B will actively pursue the litigation on the Fund's behalf. If BR&B is successful in creating a fund for the benefit of injured investors, the Firm, after consulting with the Fund, will ask the court to be paid a fee from the fund created.

v. If appointed as lead or co-lead plaintiff, The City & County of Swansea Pension Fund will have no financial obligation in connection with the prosecution of the lawsuit nor will it incur any expenses whatsoever - all costs are met by BR&B. (The contingent fee payable to BR&B for each case will be discussed with the client fund and awarded by the court).

vi. The monitoring agreement with BR&B can be terminated by either party, without cause, by providing the other party with ten days written notice. The BEAMS monitoring service can therefore be in effect taken on trial.

5 Summary

5.1 (a) BR&B is a 'conservative' law firm – only seeking to be involved with the most meritorious cases. They were joint lead counsel in the *WorldCom* case – in which $6.19 billion was recovered for investors. Many of the Firm's clients are U.S. state and municipal pension funds. In addition, fifteen UK LGPS funds currently use BEAMS® (including one of the largest UK local authority funds).

(b) BEAMS® allows for better use of in-house resources and also ensures that the Fund will receive the benefit of the BR&B monitoring service for all class actions both in the US and globally.

(c) Use of this service would help to ensure the Fund meets its fiduciary duty to attempt to recover all claimable sums from corporate fraud cases being pursued in the US Courts and elsewhere.

(e) BEAMS® monitors all cases, not just those cases in which BR&B might be actively representing the Fund.

6 Recommendation

6.1 It is recommended that the BR&B are engaged as outlined in 4.1 i) and ii).

Financial Implications

The financial implications of the report are outlined in 4.1 above.

Legal Implications

There are no direct legal implications arising out of this report.

Equality Impact Assessment Implications

An EIA Screening has been undertaken and no E & EI's have been identified.

Background Papers: None.

Appendices: None.

Report of the Section 151 Officer

Pension Fund Committee – 14 September 2017

Guaranteed Minimum Pension Reconciliation Exercise

Purpose:	To report on the Fund's current position with regard to GMP reconciliation and approve the procedure required to complete the GMP Reconciliation exercise within the timescale available
Policy Framework	N/A
Consultation:	Legal, Finance and Access to Services.
Recommendation(s):	It is recommended that:
1) Approval is given to outsource the GMP Reconciliation exercise to a third party, specialist pensions data analysis and data management provider	
2) The organisation selected via the National LGPS Framework be appointed to complete the GMP Reconciliation exercise	
Report Author:	Lynne Miller
Finance Officer:	Jeff Dong
Legal Officer:	Debbie Smith
Access to Services Officer:	N/A

1.0 Introduction

1.1 A briefing report was provided at the last meeting on 13 July 2017 to update the Committee on the current position regarding the GMP Reconciliation exercise. The report is included at Appendix A. The original report to the Committee on 12 March 2015 is also included at Appendix B.

1.2 This report requests approval for the conclusions reached as a result of a review of the current position and the consideration of the different options available for successful completion of the exercise within the timescale available.

2.0 Exercise objective

2.1 With the introduction of the Single State Pension from 6 April 2016, the contracted-out status, afforded to the City and County of Swansea Pension Fund, in respect of the second tier of the State Pension, ceased.

2.2 Under its contracted-out status, the Fund had to guarantee payment of the equivalent pension that the member would have accrued, if they had not been contracted-out of the second tier of the State Pension. This pension is known as the Guaranteed Minimum Pension (GMP). The Fund is also liable for an element of pensions increase on the GMP for many of its members.

2.3 In 2019, HMRC propose to notify all individuals of their GMP and which Fund is responsible for paying the equivalent amount. Nationwide experience has proved that historic administration arrangements for GMPs has systematically failed and Funds have therefore been advised to reconcile the GMP values held with HMRC to ensure that only the relevant and correct liabilities are held, otherwise incorrect payments may be made or the Fund may have to accept liability for former members for whom they no longer have responsibility.

2.4 Where they believe there are discrepancies between their records and those held by HMRC, Funds may challenge HMRC up until December 2018. This is known as the GMP Reconciliation exercise. In reality, discrepancies will need to be identified and reported to HMRC approximately six months before this date to allow HMRC time to investigate.

2.5 There are four stages to the exercise

- Stage 1 – Initiate exercise, carrying out data collection and analysis.
- Stage 2 – Initial reconciliation, resolving bulk issues (e.g. members who are incorrectly included in HMRC records and vice versa).
- Stage 3 – Individual reconciliations - including identifying any cases that may have been underpaid and overpaid, and ensuring that all records are certified with the correct GMP and contracted out information.
- Stage 4 - Rectification – benefit correction and communication with members affected.

2.6 It is also considered that the exercise assists with the Fund’s obligations under the Pensions Act 2004, the Public Services Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014 and the Public Service Pensions Act 2013 to maintain accurate records in terms of member data.

3.0 Current position of the City and County of Swansea Pension Fund

3.1 At its meeting of 12 March 2015, the Committee approved the purchase of bespoke software from Aquila Heywood, the pension administration system supplier, to assist with the reconciliation. At the same time, approval was also provided to appoint an additional Grade 6 Pension Officer from the existing Pension Section staff and backfill the vacant position. The appointment was on a temporary basis and due to be reviewed in March 2018.

3.2 Although it was recognised that the exercise was resource intensive, at that time, it was considered that outsourcing the exercise to a Third Party administrator would be cost prohibitive.

3.3 The exercise commenced in June 2015 in respect of the Fund's Pensioner and Deferred members and to date the cost to the Fund is:

Appointment of Grade 6 Pension Officer	£51,300
Software costs	£28,913

Plus Scoping Exercise consultation costs

3.4 Work has progressed well through the initial stage of the exercise; however the complexity of the task was recognised at Stage 2 which has proven to be extremely resource intensive.

3.5 Resourcing issues within the Section has meant that there has been no work undertaken on the exercise since March 2017. In addition, due to the exercise proving to be extremely resource intensive and the complex nature and size of the issues, the conclusion had been drawn that completing the exercise in-house is not achievable by the December 2018 deadline.

3.6 In order to review the progress made and consider options available, a scoping exercise was commissioned in June 2017 to assess the Fund's position.

3.7 It was reported that the Fund has completed Stage 1 with 42,187 Pensioner and Deferred records identified as mismatched and has completed just over 25% of Stage 2.

3.8 The 42,187 mismatched records appears to be extremely high when compared with other Funds' mismatched data and includes records for which the Fund believes it no longer holds liability. To try to identify and rectify this number of mismatches in-house would require increased resources and further complex reconciliation, without the benefit of the software used by specialist pensions data analysis and data management providers, to avoid huge financial implications on the Fund.

3.9 For completeness, the Fund has also requested the Active member data from HMRC as well as an updated report regarding the Pensioner and Deferred members.

4.0 Options to complete the exercise within the timescale available

4.1 The scoping exercise report confirmed that there is little chance of completion in-house within the required timescale utilising current resourcing levels. If the Fund were to continue the exercise in-house, an additional eight FTE staff would be required to ensure success of completion to Stage 3. It is also recognised that recruitment would need to be effective immediately, unless existing Section staff could be utilised.

4.2 If the in-house approach were to continue, Staff would need to be employed at a suitable grade to take into account the complex and technical nature of the work involved and therefore if this option were to be considered, it is proposed that seven Grade 7 and one Grade 8 staff would need to be appointed at a cost of approximately £275,000 (including on-costs). This cost excludes the cost of training, recruitment, licenses for pension software and office space and hardware to complete the exercise.

It also excludes the cost of delivering the final stage 4 of the project, which is highly technical and involves the calculation of over and under paid pensions (and recovery amounts) spanning decades. Stage 4 is a 3 to 4 month project, which will also require additional internal resource.

4.3 The in-house approach is not considered an option as, due to ongoing workload constraints and staff resourcing issues, re-allocating existing staff to assist in this exercise would have an extreme detrimental impact on service delivery and performance. In addition, due to the complex nature of the exercise and level of knowledge and expertise that would be required, it would not be prudent to appoint additional staff who do not have a pension administration background. Previous experience has proven that day-to-day pension administration is a difficult area for recruitment.

4.4 It is therefore concluded that the most beneficial method of ensuring successful completion of this exercise is to outsource the exercise to a specialist pensions data analysis and data management provider which would allow the Fund to:

- Benefit from the use of automated systems which have been developed and refined prior to and over the course of the reconciliation exercise
- Reduce the timescales of completing the project
- Reduce the burden placed on the in-house pension team to complete the necessary work

5.0 National LGPS Framework

5.1 In order to assess the administration services available, the Fund signed up to the National LGPS Framework, which is fully compliant with the Public Contracts Regulations 2015. The Framework has been set up to support pensions' administration and reduce the time and costs associated with the procurement process by offering, in this case, Third Party administration services which have already been competitively procured.

5.2 The Framework contains suppliers who have specialist tools and methods that can shorten the effort and give assurance of completion of the exercise.

5.3 To complete the exercise, it will be necessary to call off the Framework by

- Using Direct Award
- Undertaking a mini-competition exercise, or
- Undertaking a full procurement exercise

Under Direct Award approach, a Third Party Administrator could be contracted within a few days, whereas a formal mini-competition could be completed within 4 – 6 weeks and a full procurement exercise 6 – 9 months.

5.4 The entire project including the final rectification needs to be completed in an extremely tight timescale of 15 months (but in reality there is only 11 months to submit the Fund's queries to HMRC, to allow them time to respond). Either the mini-competition or full procurement exercise would put completion of the project at high risk, in addition, officers would also require time to prepare for the procurement and implement the exercise once completed.

5.5 It was therefore considered that Direct Award should be recommended as the best approach.

6.0 Equality and Engagement Implications

There are no equality or engagement implications associated with this report.

7.0 Financial Implications

7.1 See exempt report

8.0 Legal Implications

8.1 See exempt report

Background Papers:

Appendices:

Appendix A – Briefing Report – 13th July 2017

Appendix B – Original Report – 12th March 2015

Appendix A

Report of the Section 1.5.1.Officer
Pension Fund Committee – 13 July 2017

CONSIDERATION OF OPTIONS TO COMPLETE THE GMP RECONCILIATION EXERCISE WITHIN TIMESCALES AVAILABLE

Purpose:	To inform the Pensions Committee that an exercise is being undertaken to consider the options available to complete the GMP reconciliation exercise within the required timescales
Report Author: Lynne Miller – Principal Pensions Manager	
Finance Officer: Jeff Dong - Chief Treasury & Technical Officer	
Legal Officer: Stephanie Williams – Principal Lawyer	
Access to Services Officer: N/A	
FOR INFORMATION	

1. Background

1.1 At the Pension Fund Committee meeting on 12th March 2015, the Committee approved funding to purchase software and appoint a temporary member of staff to achieve Guaranteed Minimum Pension (GMP) reconciliation between Fund and HMRC records to address discrepancies in respect of the GMP values held for members and identify those for which the Fund holds no liability.

1.2 The facility is available until December 2018, after which HMRC will accept no further challenges. Failure to complete the exercise provides a potential additional liability risk to the Fund.

2.

2.1 The reconciliation exercise has proven to be resource intensive.

2.2 The exercise consists of four stages:

- Stage 1 – Initiate exercise, carrying out data collection and analysis.
- Stage 2 – Initial reconciliation, resolving bulk issues (e.g. members who are incorrectly included in HMRC records and vice versa).
- Stage 3 – Individual reconciliations - including identifying any cases that may have been underpaid and overpaid, and ensuring that all records are certified with the correct GMP and contracted out information.

- Stage 4 - Rectification – benefit correction

2.3 The Fund has completed Stage 1 with more than 42,000 records identified as mismatched (this includes records for which the Fund believes it no longer holds liability) and has completed just over 25% of Stage 2.

2.4 There is concern that the reconciliation exercise cannot be completed in the timescales demanded without additional resource. A consultation to review the Fund's position has recently been undertaken and has identified that an additional 8 FTE staff would be required to ensure success.

2.5 Due to ongoing workload constraints, re-allocating existing staff to assist in this exercise would have an extreme detrimental impact on service delivery and performance. In addition, due to the complex nature of the exercise and level of knowledge and experience that would be required it would not be prudent to appoint additional staff who do not have a pension administration background.

2.6 The Fund has therefore signed up to the National LGPS Framework to obtain information about the options available, which include consultancy support and the procurement of the services of a field expert, to complete the exercise within the limited timescale remaining.

2.7 The consideration of the options is ongoing and a further report for approval will be presented to Committee at the earliest opportunity.

3. Equality and Engagement Implications

3.1 None

4. Legal Implications

4.1 Proper procurement processes will need to be undertaken to procure the necessary support.

5. Financial Implications

5.1 Failure to complete the exercise provides a potential additional liability risk to the Fund.

FOR INFORMATION

Background papers: None

Appendices: None

Appendix B

Report of the Section 1.5.1 Officer

Pension Fund Committee – 12 March 2015

CESSATION OF CONTRACTING OUT/RECONCILATION OF GUARANTEED MINIMUM PENSIONS

Purpose:	To approve the purchase of software to assist with the reconciliation of Guaranteed Minimum Pensions (GMPs) against those held by HMRC, the parameters of the GMP reconciliation and appointment of a temporary Grade 4 Assistant Pensions Officer.
Reason for Decision:	To mitigate the risk of potentially significant pension overpayments
Consultation:	Legal, Finance and Access to Services.
Recommendation(s):	It is recommended that:

1) The purchase of GMP Reconciliation software is approved

2) A tolerance level of £2.00 per week difference in the GMP is used where there is a discrepancy

3) Where overpayments to pensioners are identified, the pensions are corrected but not recovered

4) An existing Grade 4 is re-graded to Grade 6 and an additional Grade 4 appointed for the duration of the exercise.

Report Author:	Lynne Miller
Finance Officer:	Jeffrey Dong
Legal Officer:	Nigel Havard
Access to Services Officer:	

1.0 Introduction

1.1 The Pension Scheme is contracted-out of the second tier of the State Pension Scheme (S2P) and therefore allows both employees and employers to pay a lower rate of national insurance contributions.

1.2 A requirement of contracting-out is that at a member's State Pension Age, the Scheme must ensure that the pension in payment is at least equal to the pension the member would have received if they had not been contracted-out. The amount of pension, notified by HMRC, is known as the Guaranteed Minimum Pension (GMP),

1.3 Once a member has reached their State Pension Age, the Scheme is no longer fully liable for pensions increases on the GMP element of their pension as it is then paid by HMRC along with the State Pension.

1.4 The Government have confirmed that contracting-out will cease with effect from April 2016 and require all pension schemes to reconcile their GMP liabilities by December 2018.

2.0 Main Body of Report

2.1 Following the end of contracting-out in April 2016, HMRC will be notifying all individuals affected of the amount of their GMP and which pension scheme has the responsibility for paying it.

2.2 There is potential that a significant pension overpayment could result, where the GMP value is incorrect or the liability is incorrectly placed with a pension scheme. Findings from a National Audit Office's enquiry into five public sector scheme show that a total overpayment on existing deferred and pensioner members within a small pension fund is estimated at around £550,000.

2.3 To try to mitigate this, HMRC have provided the facility for pension schemes to reconcile the GMP values held for their members and identify those for which they believe they have no liability. This facility will be available until December 2018, after which they will accept no further challenges. The schemes with current contracting-out certificates, such as the City and County of Swansea Pension Fund, can access deferred and pensioner records immediately to allow as much time as possible for reconciliation.

2.4 It is proposed that for the reconciliation exercise, there is a £2.00 per week tolerance, where there is a discrepancy, as recommended by the Pensions Regulator. This will reduce the amount of time spent investigating cases where financial impact will be minimal.

Where it is calculated that an underpayment has been made, the pension in payment will need to be recalculated and arrears paid. If there has been an overpayment of pension, because it something that is outside the member's control and it would be impossible for the member to realise they are being overpaid, it is proposed that the pension is corrected but no recovery of the overpayment is made.

2.5 The reconciliation process is anticipated to be resource intensive as schemes initially have to match their records against those held by HMRC before being able to investigate the records that do not reconcile, as well as correcting pensions that are already in payment, where necessary. It is anticipated that the exercise could take up to three years to complete, allowing for other constraints on the Scheme e.g. the triennial valuation due 31st March 2016.

2.6 There are a number of companies, such as Capita and ITM, prepared to undertake the reconciliation process on behalf of pension schemes, but this approach is anticipated to be cost prohibitive. An article concerning GMP reconciliation in Professional Pensions (July, 2010) recommended that schemes should budget for £20 per member for the reconciliation exercise. The total of deferred and pensioner members in the City and County of Swansea Pension Fund currently stands at 20,500. If the exercise was outsourced to an external facilitator, based on £20 per member this would cost the Fund £410,000.

2.7 Heywood, the supplier of the Pension Administration System used by the City and County of Swansea Pension Fund, is offering add-on software to enable the Pension Section to perform the reconciliation process in-house. If purchased, the additional software will integrate with the Pension Administration database over the reconciliation period only.

2.8 In addition to the software, staff resources would need to be allocated.

It has been stressed by the Local Government Pensions Committee of the Local Government Association that it is imperative to ensure that sufficient resource is allocated to the reconciliation exercise due to the potential of high overpayments that could result if the exercise cannot be completed within the restrictive timescale.

2.9 The level of work requires expertise and experience, therefore, it is proposed to utilise one Pensions Officer (Grade 6) full time in the reconciliation exercise. The interaction of the GMP with a member's benefits is part of the day-to-day work of the Pensioner Officer grade and therefore it is considered that this grade is best suited to undertake the reconciliation process. The Section's Technical Officer will provide the technical support.

2.10 In order to ensure that delivery of the day-to-day administration service remains effective, it is proposed that one Assistant Pensions Officer (Grade 4) is upgraded on a temporary basis to a Grade 6 and a temporary Grade 4 is appointed for the duration of the reconciliation exercise.

2.11 If purchased, the software will allow the reconciliation process to be undertaken within the current pension administration system thus:

- Supporting the complexity of reconciling employees with multiple employments

- Identifying the member records affected, including those where the Fund and HMRC differ over responsibility

- Reconciling the member data held against that held by HMRC

- Calculating any GMP liability that is not currently held on a member's record

- Updating any records that match or are within a given tolerance

- Reducing the possibility of a data protection breach

- Accelerating the investigation process by indicating the likely cause of any mismatch

2.12 The software would be charged per annum of use, based on the number of deferred and pensioner members in the Fund. Based on the current 20,500 deferred and pensioner members, the cost would be £9,225 (£0.45 per member) per annum.

2.13 It is also anticipated that the software will also support the reconciliation of active members which will be available from HMRC from 2017. Heywood's have confirmed that the same per member charge will apply.

3.0 General Issues

3.1 There are no general issues.

4.0 Equality and Engagement Implications

There are no equality or engagement implications associated with this report.

5.0 Financial Implications

5.1 If the GMP held on the pension administration system does not reconcile with that held by HMRC there is the potential of significant pension overpayments.

5.2 The software solution is an add-on to existing software at a cost of £9,225 per annum for the duration of the exercise. If approved, an Initiation request form will be forwarded to the Procurement Section.

5.3 A Grade 4 existing member of staff receives temporary higher grade duties and an additional member of staff at Grade 4 be appointed to assist in the reconciliation exercise.

6.0 Legal Implications

6.1 There are no legal implications

Background Papers: None

Appendices: None

Report of the Head of Legal, Democratic Services & Business Intelligence

Pension Fund Committee – 14 September 2017

Exclusion of the Public

<table>
<tr><td colspan="2">Purpose:</td><td colspan="2">To consider whether the Public should be excluded from the following items of business.</td></tr>
<tr><td colspan="2">Policy Framework:</td><td colspan="2">None.</td></tr>
<tr><td colspan="2">Reason for Decision:</td><td colspan="2">To comply with legislation.</td></tr>
<tr><td colspan="2">Consultation:</td><td colspan="2">Legal.</td></tr>
<tr><td colspan="2">Recommendation(s):</td><td colspan="2">It is recommended that:</td></tr>
<tr><td>1)</td><td colspan="3">The public be excluded from the meeting during consideration of the following item(s) of business on the grounds that it / they involve(s) the likely disclosure of exempt information as set out in the Paragraphs listed below of Schedule 12A of the Local Government Act 1972 as amended by the Local Government (Access to Information) (Variation) (Wales) Order 2007 subject to the Public Interest Test (where appropriate) being applied.</td></tr>
<tr><td></td><td>Item No.</td><td colspan="2">Relevant Paragraphs in Schedule 12A</td></tr>
<tr><td></td><td>7-10</td><td colspan="2">14</td></tr>
<tr><td colspan="2">Report Author:</td><td colspan="2">Democratic Services</td></tr>
<tr><td colspan="2">Finance Officer:</td><td colspan="2">Not Applicable</td></tr>
<tr><td colspan="2">Legal Officer:</td><td colspan="2">Tracey Meredith – Head of Legal, Democratic Services & Business Intelligence (Monitoring Officer)</td></tr>
</table>

1. Introduction

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

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

2. Exclusion of the Public / Public Interest Test

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

Act 1972 as amended by the Local Government (Access to Information) (Variation) (Wales) Order 2007.

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

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

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

3. Financial Implications

3.1 There are no financial implications associated with this report.

4. Legal Implications

4.1 The legislative provisions are set out in the report.

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

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

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

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

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

Appendix A

Public Interest Test

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

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

Document is Restricted

Agenda Item 7b

Yn rhinwedd paragraff(au) 14 Atodlen 12A
o Ddeddf Llywodraeth Leol 1972
fel y'i diwygiwyd gan Orchymyn Llywodraeth Leol (Mynediad at Wybodaeth) (Amrywiad) (Cymru) 2007.

Document is Restricted

Yn rhinwedd paragraff(au) 14 Atodlen 12A
o Ddeddf Llywodraeth Leol 1972
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fel y'i diwygiwyd gan Orchymyn Llywodraeth Leol (Mynediad at Wybodaeth) (Amrywiad) (Cymru) 2007.

Agenda Item 8

Document is Restricted

Yn rhinwedd paragraff(au) 14 Atodlen 12A
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fel y'i diwygiwyd gan Orchymyn Llywodraeth Leol (Mynediad at
Wybodaeth) (Amrywiad) (Cymru) 2007.

Document is Restricted

Agenda Item 9

Yn rhinwedd paragraff(au) 14 Atodlen 12A
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Document is Restricted

Agenda Item 10

Yn rhinwedd paragraff(au) 14 Atodlen 12A
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fel y'i diwygiwyd gan Orchymyn Llywodraeth Leol (Mynediad at Wybodaeth) (Amrywiad) (Cymru) 2007.

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Document is Restricted