



## City and County of Swansea

### Notice of Meeting

You are invited to attend a Meeting of the

## Pension Fund Committee

**At:** Committee Room 6 - Guildhall, Swansea

**On:** Thursday, 11 July 2019

**Time:** 10.00 am

**Chair:** Councillor Clive Lloyd

**Membership:**

Councillors: J P Curtice, P Downing, M B Lewis, D G Sullivan and W G Thomas

Neath Port Talbot Council Co-opted Member: P Rees

Advisors: N Jellema, W Marshall and N Mills

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### Agenda

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- 2 **Apologies for Absence.**
- 3 **Disclosures of Personal and Prejudicial Interests.**  
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**Next Meeting:** Thursday, 12 September 2019 at 10.00 am

*Huw Evans*

**Huw Evans**  
**Head of Democratic Services**  
**Thursday, 4 July 2019**

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**Contact: Democratic Services: - 636923**

# Agenda Item 4



City and County of Swansea

## Minutes of the Pension Fund Committee

Committee Room 6 - Guildhall, Swansea

Thursday, 14 March 2019 at 10.00 am

**Present:** Councillor C E Lloyd (Chair) Presided

**Councillor(s)**

J P Curtice

**Councillor(s)**

D G Sullivan

**Councillor(s)**

W G Thomas

**Neath Port Talbot Council Co-opted Member**

P Rees

**Advisors**

N Jellema

W Marshall

N Mills

Advisor - Hymans Robertson

Advisor - Hymans Robertson

Independent Investment Advisor

**Officer(s)**

Karen Cobb

Jeffrey Dong

Jeremy Parkhouse

Stephanie Williams

Senior Accountant

Interim Deputy Chief Finance Officer and Deputy S151 Officer.

Democratic Services Officer

Principal Lawyer

**Apologies for Absence**

Councillor(s): P Downing and M B Lewis

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## 42 Disclosures of Personal and Prejudicial Interests.

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

Councillors J P Curtice, C E Lloyd and W G Thomas - agenda as a whole – member of the Local Government Pension Scheme - personal.

Councillor P Rees - agenda as a whole – Daughter-in-law is a member of the Local Government Pension Scheme - personal.

Councillor D G Sullivan - agenda as a whole – Daughter-in-law works for the Authority and I am in receipt of a pension administered by Dyfed County Council Pension Scheme - personal.

**Officers:**

K Cobb, J Dong, J Parkhouse and S Williams – Agenda as a whole – Member of Local Government Pension Scheme – personal.

**43 Minutes.**

**Resolved** that the Minutes of the Pension Fund Committee meetings held on 29 November and 18 December 2018 be approved and signed as correct records.

**44 Administering Authority Discretions.**

The Interim Deputy Section 151 Officer presented a report which sought approval of the discretions available to the City & County of Swansea Administering Authority under the relevant Local Government Pension Scheme Regulations. This was to ensure compliance with the Local Government Pension Scheme Regulations.

A list of all the discretions that the Administering Authority exercises, or chooses not to exercise was provided at Appendix A. Discretions that were new or had been reviewed as a result of the implementation of revisions, were emboldened for ease of reference.

It was added that not all discretions needed to be published. However, it was the intention, for reasons of transparency, to publish the decisions taken in relation to all the available discretions. The discretions would be published on the Pension Fund's website and would be circulated to Employer's participating in the Fund.

Furthermore, whilst the list of discretions outlined the general position, the Council had to consider every application on its merit and it may depart from the list in extraordinary or justifiable circumstances.

The Regulations also required the Employers, who participated in the Local Government Pension Scheme (LGPS) to formulate, publish and review areas of the Scheme where they may exercise their discretion. The Pension Section was actively working with Employers to ensure compliance.

**Resolved** that the updated LGPS Administering Authority Discretions for the City & County of Swansea Pension Fund attached at Appendix A, be approved.

**45 Admission Body Application - Parkwood Leisure.**

The Interim Deputy Section 151 Officer presented a report which sought to approve the admission body application for Parkwood Group to ensure compliance with the Local Government Pension Scheme Regulations 2013 (as amended).

It was outlined that following a procurement exercise undertaken by the Authority, Parkwood Group were awarded the contract to run Plantasia. They would be responsible for the operation of the leisure facility and this included the day to day operation, staffing, customer service, health and safety and marketing of the facilities. It had been determined that these services satisfied the criteria required for

admitted body status under LGPS Regulations. The contract for services commenced on the 1<sup>st</sup> February 2019.

It was added that under the contract conditions, it was proposed that the current workforce be transferred under TUPE arrangements from the current employer, the City & County of Swansea to Parkwood Group. In order to preserve the pension rights of the transferred staff, it was also proposed that Parkwood Group be granted Admitted Body status to the City & County of Swansea Pension Fund and that the admission agreement be granted on a closed scheme basis, to include only the named staff in schedule 1 of the admission agreement.

**Resolved** that: -

- 1) The Admission Body Application of Parkwood Group, subject to completion of a satisfactory Admission Agreement be approved;
- 2) The Deputy S. 151 Officer be given authority to finalise the Admission Agreement as outlined in this report, with the Pension Fund's appointed Legal Advisers.

#### **46 Breaches Report.**

The Interim Deputy Section 151 Officer presented a 'for information' report which presented any breaches which had occurred in the period in accordance with the Reporting Breaches Policy.

Appendix A provided the details of breaches that occurred since the previous Pension Fund Committee in November 2018. The details of the breaches and the actions taken by the Management were highlighted.

#### **47 Business Plan 2019/20.**

The Interim Deputy Section 151 Officer presented the City & County of Swansea Pension Fund Annual Business Plan 2019/20 to provide a working framework for the Pension Fund's programme of work for 2019/20. The Business Plan for 2018/19 was attached at Appendix 1.

**Resolved** that the City & County of Swansea Pension Fund Annual Business Plan 2019/20 be noted and its contents approved.

#### **48 Minister for Housing Communities and Local Government (MHCLG) Draft Guidance on Asset Pooling - Wales Pension Partnership Response.**

The Interim Deputy Section 151 Officer presented a report which sought approval of the joint response of City & County of Swansea Pension Fund and the Wales Pension Partnership Response to the MHCLG Consultation on LGPS Asset Pooling.

The draft Ministry of Housing, Communities and Local Government (MHCLG) guidance on some pooling principles circulated for consultation was provided at Appendix 1.

It was added that the appointed consultants of the Pension Fund advised a large number of LGPS funds, had appraised the guidance, made some observations and provided feedback to their clients. This was provided at Appendix 2. Appendix 3 provided the first draft response to the consultation on draft pooling guidance.

**Resolved** that the attached joint response at Appendix 3 be approved.

**49 Exclusion of the Public.**

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

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

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

**(Closed Session)**

**50 Wales Pension Partnership (WPP) Stock Lending Policy.**

The Interim Deputy Section 151 Officer presented a report which sought approval of the Wales Pension Partnership Stock lending programme.

It was outlined that the City & County of Swansea Pension Fund had previously approved a stock Lending policy within its portfolio with a view to enhancing investment income. With the planned transition (of the majority) of listed assets into the Wales Pension Partnership (WPP) ACS Pool, it was necessary to formulate and approve a Stock Lending Policy / Programme for the Wales Pension Partnership.

The benefits of stock lending were highlighted at Appendix 1. Appendix 2 provided the proposed stock lending programme for the Wales Pension Partnership.

**Resolved** that the Wales Pension Partnership Stock Lending Programme at Appendix 2 be approved.

**51 Wales Pension Partnership (WPP) - Tranche 3 Fixed Income.**

The Interim Deputy Section 151 Officer presented a report which sought to approve the tranche 3 (fixed income) sub funds structure of the Wales Pension Partnership (WPP).

It was explained that the Tranche 3 sub funds were scheduled to be the active fixed income sub funds. After many months of sub fund design and consideration by the 8

member funds, in conjunction with their advisors Russell, had developed the structure recommended for approval. Appendix 1 provided the proposed sub fund structure for the Tranche 3, fixed income.

**Resolved** that: -

- 1) The sub fund structures at Appendix 1 be approved;
- 2) Delegated approval be given to the Deputy S 151 Officer / Investment Consultants / Independent Advisors to allocate across the funds in consultation with the Chair of the Committee.

## **52 Report of the Investment Consultant.**

William Marshall and Nick Jellema, Hymans Robertson presented the quarterly investment and the market update of the appointed investment consultants to the fund, including an update paper on the equity protection programme.

Appendix 1 provided the investment strategy implementation paper, Appendix 2 the Equity Protection Update and Appendix 3 the quarterly investment report from Hymans Robertson.

Reference was made to the Equity Protection Summary at Table 1 in Appendix 2. An update was provided on the implementation of the Equity Protection programme, with implementation due to commence 18 March 2019.

Various questions were asked by the Committee, which were responded to accordingly. The Investment Consultants were thanked for their update.

**Resolved** that the that the deployment of the de-risking strategy outlined in Appendix 1 be delegated to officers / investment consultants in consultation with the Chair of the Pension Fund Committee, be approved.

## **53 Report of the Independent Advisor.**

The "For Information" report presented the economic update and market commentary from the perspective of Mr Noel Mills, Appointed Independent Investment Advisor.

The quarterly report ending 31 December 2018 was attached at Appendix 1.

The content of the report was noted by the Committee and various questions were asked, which were responded to accordingly. The Appointed Independent Investment Advisor was thanked for his report.

## **54 Investment Summary.**

The Interim Deputy Section 151 Officer provided a "For Information" report, which presented the investment performance for the quarter, year and 3 years ended 31 December 2018.

The quarterly investment summaries for the Pension Fund for the quarter, year and 3 years ended 30 December 2018 were attached at Appendix 1.

**Resolved** that the report be noted.

The meeting ended at 11.25 am

**Chair**





WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru  
Auditor General for Wales

## 2019 Audit Plan – City and County of Swansea Pension Fund

Audit year: 2018-19

Date issued: March 2019

Document reference: 1149A2019-20

This document has been prepared as part of work performed/to be performed in accordance with statutory functions. Further information on this is provided in Appendix 1.

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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.

Mae'r ddogfen hon hefyd ar gael yn Gymraeg. This document is also available in Welsh.

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# 2019 Audit Plan

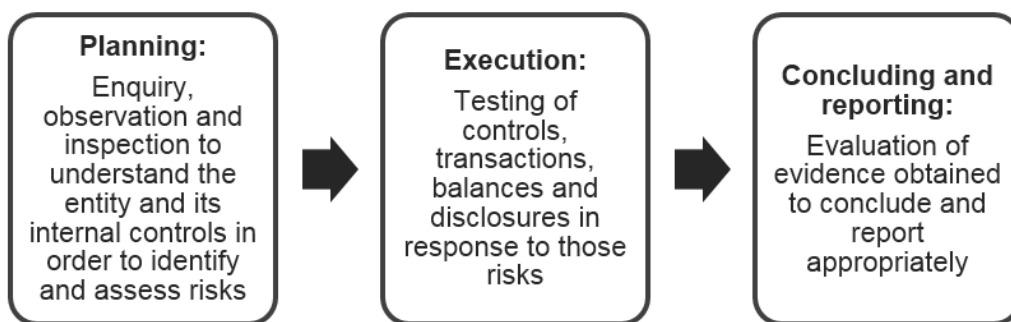
## Summary

- 1 As your external auditor, my objective is to carry out an audit which discharges my statutory duties as Auditor General and fulfils my obligations under the Code of Audit Practice to examine and certify whether City and County of Swansea Pension Fund (the Pension Fund) accounting statements are 'true and fair'.
- 2 The purpose of this plan is to set out my proposed work, when it will be undertaken, how much it will cost and who will undertake it.
- 3 There have been no limitations imposed on me in planning the scope of this audit.
- 4 My responsibilities, along with those of management and those charged with governance, are set out in [Appendix 1](#).

## Audit of Pension Fund accounts

- 5 The audit work I undertake to fulfil my responsibilities responds to my assessment of risks. This understanding allows us to develop an audit approach which focuses on addressing specific risks whilst providing assurance for the Pension Fund accounts as a whole. My audit approach consists of three phases as set out in [Exhibit 1](#).

### Exhibit 1: my audit approach



- 6 The risks of material misstatement which I consider to be significant and which therefore require special audit consideration, are set out in [Exhibit 2](#) along with the work I intend to undertake to address them. Also included are other key areas of audit attention my team will be focusing on.

Exhibit 2: Financial audit risks

Financial audit risks	Proposed audit response
<b>Significant risks</b>	
<p><b>Management Override</b></p> <p>The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk [ISA 240.31-33].</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> <li>• test the appropriateness of journal entries and other adjustments made in preparing the financial statements;</li> <li>• review accounting estimates for biases; and</li> <li>• evaluate the rationale for any significant transactions outside the normal course of business.</li> </ul>
<b>Other areas of audit attention</b>	
<p><b>All Wales Pension Partnership</b></p> <p>The eight Pension Funds in Wales have created an ‘all-Wales’ pooled investment vehicle which will be overseen and reported on by a joint governance committee the Wales Pension Partnership. An inter-authority agreement has been signed by the Welsh Pension Funds and the joint committee will be producing financial statements for the 2018-19 financial year.</p> <p>We understand that the Pension Fund has transferred £907 million of funds into this new arrangement during 2018-19.</p>	<p>My audit team will review the accounting arrangements supporting the transfer of funds into the new arrangement coupled with any additional disclosures required.</p> <p>My team will also be working with the auditors of the joint governance committee to assess the most effective of obtaining the relevant assurances on the valuation and ownership of the funds transferred.</p>
<p><b>Investment Management</b></p> <p>The systems and records of the investment managers generate account entries made to the Pension Fund Account and Net Assets Statement.</p> <p>The investment managers provide internal control reports on the investments held on behalf of the Pension Fund. These are independently audited and provide the Pension Fund with assurance on a wide range of controls, eg valuation of the investment portfolio held.</p> <p>There is a risk that the internal controls’ reports will not be available in the necessary timescales and, when received, highlight specific control weaknesses.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> <li>• assess the investment managers as a service organisation;</li> <li>• check that investments have been made in accordance with the Statement of Investment principles;</li> <li>• obtain direct confirmation from the investment managers and custodian of year-end investment balances and holdings; and</li> <li>• assess whether the investment managers’ internal control reports for all investment managers provide assurance over a wide range of relevant controls, including valuation of investments held.</li> </ul>

Financial audit risks	Proposed audit response
<p><b>Private Equity Investments</b>  Year-end valuation of private equity investments is provided by investment managers which is based upon forward-looking estimates and judgements and industry guidelines. As there is no quoted market process, there is a greater risk for the reasonableness of valuation bases of these investments.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> <li>confirm the investment valuation to audited financial statements; and</li> <li>seek additional assurance over the valuation basis from control assurance reports.</li> </ul>
<p><b>New accounting standard</b>  IFRS 9 financial instruments applies from 1 April 2018 and brings in a new principles-based approach for the classification and measurement of financial assets. It also introduces a new impairment methodology for financial assets based on expected losses rather than incurred losses. This will result in earlier recognition of expected credit losses.</p>	<p>My audit team will assess the likely impacts of IFRS 9 and undertake work to respond to any identified risks of material misstatement.</p>

- 7 I do not seek to obtain absolute assurance that the Pension Fund accounting statements are true and fair but adopt a concept of materiality. My aim is to identify material misstatements, that is, those that might result in a reader of the accounts being misled. When setting materiality for account balances and transactions, we take into consideration both quantitative and qualitative aspects such as legal and regulatory requirements and political sensitivity. For the purposes of our audit planning, we have identified related party transactions and fees paid to fund managers as sensitive areas of disclosure. The levels at which I judge such misstatements to be material will be reported to the Pension Fund Committee and the Audit Committee and to those charged with governance for City and County of Swansea Council (the Council), as the administering authority of the Pension Fund as a whole, prior to completion of the audit.
- 8 For reporting purposes, I will generally treat any misstatements below a trivial level (set at 5% of materiality as not requiring consideration by those charged with governance and therefore I will not report them.
- 9 My fees and planned timescales for completion of the audit are based on the following assumptions:
- the financial statements are provided in accordance with the agreed timescales, to the quality expected and have been subject to a robust quality assurance review;

- information provided to support the financial statements is in accordance with the agreed audit deliverables document<sup>1</sup>;
- appropriate accommodation and facilities are provided to enable my audit team to deliver my audit in an efficient manner;
- all appropriate officials will be available during the audit;
- you have all the necessary controls and checks in place to enable the Responsible Financial Officer to provide all the assurances that I require in the Letter of Representation addressed to me; and
- Internal Audit's planned programme of work is complete, and management has responded to issues that may have affected the financial statements.

## Statutory audit functions

- 10 In addition to the audit of the accounts, I have statutory responsibilities to receive questions and objections to the accounts from local electors. These responsibilities are set out in the Public Audit (Wales) Act 2004:
- Section 30 Inspection of documents and questions at audit; and
  - Section 31 Right to make objections at audit.
- 11 Audit fees will be chargeable for work undertaken in dealing with electors' questions and objections. Because audit work will depend upon the number and nature of any questions and objections, it is not possible to estimate an audit fee for this work.
- 12 If I do receive questions or objections, I will discuss potential audit fees at the time.

## Fee, audit team and timetable

### Fee

- 13 Your estimated fee for 2019 is set out in [Exhibit 3](#). There have been some small changes to my fee rates for 2019 however my audit teams will continue to drive efficiency in their audits to ensure any resulting increases will not be passed onto you. This represents a 2.4% decrease compared to your actual 2018 fee, which we have achieved by managing the skill mix of the audit team and reducing the number of audit days compared to 2018.

<sup>1</sup> The agreed audit deliverables document sets out the expected working paper requirements to support the financial statements and include timescales and responsibilities.

### Exhibit 3: audit fee

	Proposed fee for 2019 (£) <sup>2</sup>	Actual fee for 2018 (£)	Proposed fee for 2018
Audit of Pension Fund accounts	£42,710	£43,755	£45,000

- 14 Planning will be ongoing, and changes to my programme of audit work and therefore my fee, may be required if any key new risks emerge. I shall make no changes without first discussing them with the Chief Finance Officer.
- 15 Further information on my [fee scales and fee setting](#) can be found on our website.

### Audit team

- 16 The main members of my team, together with their contact details, are summarised in [Exhibit 4](#).

### Exhibit 4: my audit team

Name	Role	Contact number	E-mail address
Anthony Veale	Engagement Lead – Financial Audit	02920320585	Anthony.Veale@audit.wales
Jason Garcia	Financial Audit Manager	07792 015416	Jason.Garcia@audit.wales
David Williams	Financial Audit Team Leader	07812 670234	David.Williams@audit.wales

- 17 I can confirm that my team members are all independent of the Pension Fund and its officers. In addition, I am not aware of any potential conflicts of interest that I need to bring to your attention.

### Timetable

- 18 I will provide reports, or other outputs as agreed, to the Pension Fund Committee, the Audit Committee and Council, covering the areas of work identified in this document. My key milestones are set out in [Exhibit 5](#).

<sup>2</sup> The fees shown in this document are exclusive of VAT, which is not charged to you.



## Exhibit 5: timetable

Planned output	Work undertaken	Report finalised
<b>2019 Audit Plan</b>	December 2018 to February 2019	March 2019
<b>Financial accounts work:</b> <ul style="list-style-type: none"><li>• Audit of Financial Statements Report</li><li>• Opinion on Financial Statements</li><li>• Opinion on Pension Fund Annual Report</li><li>• Financial Accounts Memorandum</li></ul>	February to August 2019 September 2019 October 2019 October 2019	September 2019 September 2019 October 2019 October 2019
<b>2020 Audit Plan</b>	October to December 2019	January 2020

## Future developments to my audit work

- 19 Details of other future developments including the Wales Audit Office's Good Practice Exchange (GPX) seminars and my planned work on the readiness of the Welsh public sector for Brexit are set out in [Appendix 2](#).

# Appendix 1

## Respective responsibilities

The Council is the administering authority of the Pension Fund. This Audit Plan has been prepared to meet the requirements of auditing standards and proper audit practices. It provides the Council with an outline of the financial audit work required for the Pension Fund accounts.

As amended by the Public Audit (Wales) Act 2013, the Public Audit (Wales) Act 2004 sets out my powers and duties to undertake your financial audit. It is my responsibility to issue a certificate and report on the Pension Fund accounting statements which includes an opinion on their 'truth and fairness', providing assurance that they:

- are free from material misstatement, whether caused by fraud or error;
- comply with the statutory and other applicable requirements; and
- comply with all relevant requirements for accounting presentation and disclosure.

My audit work does not relieve management and those charged with governance of their responsibilities which include:

- the preparation of the financial statements and Annual Report in accordance with applicable accounting standards and guidance;
- the keeping of proper accounting records;
- ensuring the regularity of financial transactions; and
- securing value for money in the use of resources.

Management agrees to provide me with:

- access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- additional information that I may request from management for the purpose of the audit; and
- unrestricted access to persons within the authority from whom I determine it necessary to obtain audit evidence.

Management will need to provide me with written representations to confirm:

- that it has fulfilled its responsibilities for the preparation of the financial statements;
- that all transactions have been recorded and are reflected in the financial statements;
- the completeness of the information provided to me for the purposes of the audit; and
- to support other audit evidence relevant to the financial statements or specific assertions in the financial statements if I deem it necessary or if required by ISAs.

# Appendix 2

## Other future developments

### A. Good Practice Exchange

The Wales Audit Office's GPX helps public services improve by sharing knowledge and practices that work. Events are held where knowledge can be exchanged face to face and resources shared online. The main areas of work are regarding financial management, public-sector staff and governance. Further information, including details of forthcoming GPX events and outputs from past seminars can be found on the [GPX section of the Wales Audit Office website](#).

### B. Brexit: preparations for the United Kingdom's departure from membership of the European Union

In accordance with Article 50 of the Treaty of Rome, on 29 March 2019 the United Kingdom will cease to be a member of the European Union. Negotiations are continuing, and it currently remains unclear whether agreement will be reached on a transition period to 31 December 2020, or whether a 'no deal' immediate exit will take place next March.

The Auditor General has commenced a programme of work looking at the arrangements that the devolved public sector in Wales, including all NHS bodies, is putting in place to prepare for, and respond to, Britain's exit from the European Union. This will take the form of a high-level overview to establish what is being put in place across the Welsh public sector, and what the key issues are from the perspectives of different parts of the Welsh public service.

The Auditor General intends to carry out this initial work in two tranches. In autumn 2018, he will compile a baseline summary of arrangements being put in place. On 29 February, the Auditor General issued a report<sup>3</sup> on preparations in Wales for a 'no deal' Brexit. This will be followed up by further audit fieldwork during the rest of 2019.

<sup>3</sup> The Auditor General Report on preparations for a 'no-deal' Brexit is available [here](#).

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# Agenda Item 6a



## Report of the Section 151 Officer

Pension Fund Committee - 11 July 2019

### City & County of Swansea Pension Fund Draft Statement of Accounts 2018/19

<b>Purpose:</b>	To approve the draft statement of accounts for the City & County of Swansea Pension Fund 2018/19
<b>Reason for Decision:</b>	To comply with governance/reporting guidelines.
<b>Consultation:</b>	Legal, Finance and Access to Services.
<b>Recommendation:</b>	That The City & County of Swansea Pension Fund Draft Statement of Accounts 2018/19 is approved subject audit
<b>Report Author:</b>	J Dong
<b>Finance Officer:</b>	J Dong
<b>Legal Officer:</b>	S Williams
<b>Access to Services Officer:</b>	R Millar

### City & County of Swansea Pension Fund Draft Statement of Accounts 2018/19

#### 1 Background

- 1.1 The City & County of Swansea Pension Fund Statement of Accounts have always formed a distinct and separate component of the Statement of Accounts of the City & County of Swansea as a whole. It has been determined by Welsh Government in consultation with CIPFA, that they are no longer required to be presented as a whole document but shall now be presented separately. The Pension Fund Committee now has the delegated authority to approve the City & County of Swansea Pension Fund Statement of Accounts

#### 2 Audit

- 2.1 The Wales Audit Office have commenced their audit of the Pension Fund Draft Statement of Accounts 2018/19 in line with their audit plan presented to Pension Fund Committee earlier in the year. Their report shall be presented to Pension Fund

Committee at the conclusion of the audit later in the year (September 2019).

### **3 Recommendation**

- 3.1 The Pension Fund Committee is asked to approve the City & County of Swansea Pension Fund Draft Statement of Accounts 2018/19 as attached at Appendix 1 which are subject to audit.

### **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 – Draft Statement of Accounts 2018/19







## **Chief Financial Officers Certificate and Statement of Responsibilities for the Financial Statements of the City and County of Swansea Pension Fund.**

I hereby certify that the Financial Statements presents a true and fair view of the financial position of the City and County of Swansea Pension Fund at the accounting date and its income and expenditure for the year ended 31<sup>st</sup> March 2019.

Ben Smith  
Chief Financial Officer

### **The Authority's Responsibilities**

The Authority is required to:

- Make arrangements for the proper administration of the City and County of Swansea 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 Chief Financial Officer
- Manage the affairs of the City and County of Swansea Pension Fund to secure economic, efficient and effective use of resources and safeguard its assets; and
- Approve the Financial Statements.

### **The Chief Financial Officer's Responsibilities**

The Chief Financial Officer is responsible for the preparation of the City and County of Swansea Pension Fund's financial statements in accordance with proper practices as set out in the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code).

In preparing these financial statements, the Chief Finance Officer has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent
- Complied with the local authority code.

The Chief Financial Officer has also:

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

### **Date of Authorisation for Issue**

The 2018/19 Financial Statements were authorised for issue on XXXXXX by Ben Smith, Chief Financial Officer who is the Section 151 Officer of the Council. This is the date up to which events after the Balance Sheet date have been considered.

The 2018/19 Financial Statements were formally approved by Pension Fund Committee on XXXXX

Clive Lloyd  
Chairman

# The independent auditor's report of the Auditor General for Wales to the members of City and County of Swansea as administering authority for City and County of Swansea Pension Fund

## Report on the audit of the financial statements

### Opinion

I have audited the financial statements of City and County of Swansea Pension Fund (the Pension Fund) for the year ended 31 March 2018 under the Public Audit (Wales) Act 2004. The Pension Fund's financial statements comprise the fund account, the net assets statement and the related notes, including a summary of significant accounting policies. 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 2017-18 based on International Financial Reporting Standards (IFRSs).

In my opinion the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2018, and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18.

### Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the pension fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the responsible financial officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the pension fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## **Other Information**

The responsible financial officer is responsible for the other information in the annual report. The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my report, I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information to identify material inconsistencies with the audited financial statements 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.

## **Report on other requirements**

### **Opinion on other matters**

In my opinion, based on the work undertaken in the course of my audit. The information contained in the Introduction and Appendices 1 - 5 of the financial statements for the financial year for which the financial statements are prepared is consistent with the financial statements and the annual report has been prepared in accordance with the Local Government Pension Scheme Regulations 2013.

### **Matters on which I report by exception**

In the light of the knowledge and understanding of the pension fund and its environment obtained in the course of the audit, I have not identified material misstatements in the annual report.

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 financial 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.

## **Certificate of completion of audit**

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

## **Responsibilities**

### **Responsibilities of the responsible financial officer for the financial statements**

As explained more fully in the Statement of Responsibilities for the financial statements, the responsible financial officer is responsible for the preparation of the financial statements, which give a true and fair view, and for such internal control as the responsible financial officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the responsible financial officer is responsible for assessing the pension fund's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

## **Auditor's responsibilities for the audit of the financial statements**

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of my auditor's report.

Anthony Barrett  
For and on behalf of the Auditor General for Wales

24 Cathedral Road  
Cardiff  
CF11 9LJ

Date :

# CITY & COUNTY OF SWANSEA PENSION FUND

## Fund Account For The Year Ended 31st March

<b>2017/18</b>		<b>2018/19</b>		
<b>£'000</b>		<b>£'000</b>	<b>£'000</b>	
	<b>Contributions and benefits</b>			<b>Notes</b>
	Contributions receivable :			
70,032	Employers contribution	74,944		3
17,666	Members contribution	18,456		3
		<hr/>		
3,191	Transfers in		5,037	4
180	Other income		374	5
<hr/>			<hr/>	
91,069			98,811	
	Benefits payable :			
-61,207	Pensions payable	-65,016		6
-16,202	Lump sum benefits	-17,063	-82,079	6
		<hr/>		
	Payments to and on account of leavers :			
-101	Refunds of contributions	-183		7
-4,452	Transfers out	-6,136	-6,319	7
-1,387	Management Expenses		-1,718	8
<hr/>			<hr/>	
7,720	<b>Net additions from dealing with members</b>		<b>8,695</b>	
			<hr/>	
	<b>Returns on investments</b>			
30,891	Investment income		31,229	9
27,954	Change in market value of investments		86,204	12
-5,937	Investment management expenses		-5,580	8
<hr/>			<hr/>	
52,908	<b>Net returns on Investments</b>		<b>111,853</b>	
<hr/>			<hr/>	
60,628	<b>Net Increase In the fund during the year</b>		<b>120,548</b>	
			<hr/>	
1,855,882	Opening Net Assets of the Fund		1,916,510	
1,916,510	Closing Net Assets of the Fund		2,037,058	

# CITY & COUNTY OF SWANSEA PENSION FUND

## Net Assets Statement As At 31 March

<b>31st March 2018</b>		<b>31st March 2019</b>
<b>£'000</b>	<b>Notes</b>	<b>£'000</b>
<b>Investments at market value:</b>		
1,831,794 Investment Assets	11	1,969,049
761 Cash Funds	12	767
77,046 Cash Deposits	12	65,017
3,672 Other Investment Balances - Dividends Due	12	0
<b>1,913,273 Sub Total</b>		<b>2,034,833</b>
7,499 Current Assets	16	6,806
-4,262 Current Liabilities	16	-4,581
<b><u>1,916,510 Net assets</u></b>		<b><u>2,037,058</u></b>

The financial statements on pages 1 to 51 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 Note 18 of this statement, 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 2018/19 financial year and its position at year-end 31 March 2019. The financial statements have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2018/19* 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 principal 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.

#### **(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.

## **2. Accounting Policies (continued)**

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

iii) Investments held in 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.



## 2. Accounting Policies (continued)

### 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 as 31 March 2019 for which there is 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.

Unquoted private equity investments - these are inherently based on forward looking estimates and judgements valued by the investment managers using two main sets of valuation guidelines that apply to private equity; the Private Equity Valuation Guidelines (PEVG) in the US and the International Private Equity and Venture Capital Guidelines (IPEVCG) outside the US. The value of the unquoted private equities at at 31st March 2019 was £79.64 million (£67.53 million as at 31st March 2018).

### j) Other

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

# CITY & COUNTY OF SWANSEA PENSION FUND

## 3. Analysis of Contributions

Total Contributions		Total Contributions
2017/18 £'000		2018/19 £'000
<b><u>Administering Authority</u></b>		
<b>50,268</b>	City & County of Swansea	<b>51,971</b>
<b><u>Admitted Bodies</u></b>		
412	Celtic Community Leisure	397
11	Swansea Bay Racial Equality Council	5
118	Wales National Pool	131
2,511	Tai Tarian	2,525
553	Pobl Group	590
5	Rathbone Training Ltd (CCS)	5
31	Rathbone Training Ltd (Gower College)	28
<b>3,641</b>	<b>Total Admitted Bodies</b>	<b>3,681</b>
<b><u>Scheduled Bodies</u></b>		
9	Cilybebyll Community Council	11
40	Coedffranc Community Council	51
2,246	Gower College Swansea	2,611
2,022	NPTC Group	2,183
64	Neath Town Council	69
27,662	Neath Port Talbot County Borough Council	30,802
38	Margam Joint Crematorium Committee	50
7	Pelenna Community Council	7
19	Pontardawe Town Council	18
16	Swansea Bay Port Health Authority	29
1,655	University of Wales Trinity St Davids	1,624
5	Briton Ferry Town Council	6
3	Llanrhidian Higher Community Council	3
3	Ysalyfera Community Council	3
0	Wealdon Leisure	273
0	Parkwood Leisure	8
<b>33,789</b>	<b>Total Scheduled Bodies</b>	<b>37,748</b>
<b>87,698</b>	<b>Total Contributions Receivable</b>	<b>93,400</b>

# CITY & COUNTY OF SWANSEA PENSION FUND

## 3. Analysis of Contributions (continued)

Total Employer/Employee contributions comprise of:

<b>2017/18</b>		<b>2018/19</b>
<b>£'000</b>		<b>£'000</b>
<b>66,390</b>	Employers	<b>72,420</b>
<b>0</b>	Normal	<b>0</b>
<b>3,642</b>	Other	<b>2,524</b>
<b>70,032</b>	Early Access	<b>74,944</b>
	<b>Total</b>	
<b>17,627</b>	Employees	<b>18,418</b>
<b>39</b>	Normal	<b>38</b>
<b>17,666</b>	Other	<b>18,456</b>
	<b>Total</b>	
<b>87,698</b>	<b>Total Contributions Receivable</b>	<b>93,400</b>

# CITY & COUNTY OF SWANSEA PENSION FUND

## 4. Transfers In

Transfers in comprise of:

2017/18		2018/19
£'000		£'000
0	Group transfers from other schemes	0
3,191	Individual transfers from other schemes	5,037
<u>3,191</u>	<b>Total</b>	<u>5,037</u>

## 5. Other Income

Other income comprise of:

2017/18		2018/19
£'000		£'000
180	Bank Interest	374
0	Early Access - Interest	0
<u>180</u>	<b>Total</b>	<u>374</u>

## 6. Benefits Payable

By category

2017/18		2018/19
£'000		£'000
61,207	Pensions	65,016
14,888	Commutation and lump sum retirement benefits	15,271
1,314	Lump sum death benefits	1,792
<u>77,409</u>	<b>Total</b>	<u>82,079</u>

## 7. Payments to and on account of leavers

Transfers out and refunds comprise of:

2017/18		2018/19
£'000		£'000
101	Refunds to members leaving service	183
4,452	Individual transfers to other schemes	6,136
<u>4,553</u>	<b>Total</b>	<u>6,319</u>

# CITY & COUNTY OF SWANSEA PENSION FUND

## 8. Administrative and Investment Management Expenses

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

2017/18 £'000		2018/19 £'000
	<b>Administrative Expenses</b>	
755	Support Services (SLA) & Employee Costs	757
18	Printing & Publications	15
305	Other	625
<b>1,078</b>		<b>1,397</b>
	<b>Oversight &amp; Governance</b>	
43	Actuarial Fees	36
123	Advisors Fees	103
45	External Audit Fees	44
14	Performance Monitoring Service	14
5	Pension Fund Committee	6
2	Pension Board	0
77	All Wales Pool Fees	118
<b>309</b>		<b>321</b>
<b>1,387</b>		<b>1,718</b>
	<b>Investment Management Expenses</b>	
4,402	Management Fees	4,491
1,400	Performance Fees	668
135	Custody Fees	167
842	Transaction Costs	254
<b>6,779</b>		<b>5,580</b>
<b>8,166</b>	<b>Total</b>	<b>7,298</b>

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:

2017/18 £'000		2018/19 £'000
272	Partners Group	96
972	Blackrock	331
1,420	Schroders Property Fund	671
633	Permal	1,224
678	HarbourVest	943
<b>3,975</b>	<b>Total</b>	<b>3,265</b>

# CITY & COUNTY OF SWANSEA PENSION FUND

## 9. Investment Income

2017/18	2018/19
£'000	£'000
16,349 U.K. Equities	15,414
10,020 Overseas Equities	10,165
3,102 Managed Fund - Fixed Interest	3,818
1,483 Pooled Investment vehicles - Property Fund	1,845
-63 Interest and other Income	-13
<b><u>30,891 Total</u></b>	<b><u>31,229</u></b>

The assets under management by Blackrock and Wales Pension Partnership 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 and 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.

# CITY & COUNTY OF SWANSEA PENSION FUND

## 11. Investment Assets

	31st March 2018			31st March 2019		
	UK £'000	Global £'000	Total £'000	UK £'000	Global £'000	Total £'000
<b>Equities</b>						
<b>Quoted</b>	424,093	477,911	902,004	0	0	0
	<b>424,093</b>	<b>477,911</b>	<b>902,004</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Pooled Investment vehicles</b>						
<b>Managed Funds:</b>						
<b>Quoted:</b>						
Equity	0	17,226	17,226	0	14,489	14,489
Fixed Interest	0	117,508	117,508	0	118,199	118,199
<b>Unquoted:</b>						
Equity	152,177	326,367	478,544	161,963	1,318,648	1,480,611
Fixed Interest	60,950	15,633	76,583	63,300	16,703	80,003
Index-Linked	32,547	0	32,547	34,385	0	34,385
Property Unit Trust	15,831	0	15,831	19,528	0	19,528
Property Fund	33,035	36,390	69,425	36,430	33,089	69,519
Hedge Fund	0	54,601	54,601	0	54,168	54,168
Private Equity	0	67,525	67,525	0	79,646	79,646
Infrastructure	0	0	0	0	18,501	18,501
Private Debt	0	0	0	0	0	0
<b>Total pooled Investment vehicles</b>	<b>294,540</b>	<b>635,250</b>	<b>929,790</b>	<b>315,606</b>	<b>1,653,443</b>	<b>1,969,049</b>
<b>Total equities and pooled Investment vehicles</b>	<b>718,633</b>	<b>1,113,161</b>	<b>1,831,784</b>	<b>315,606</b>	<b>1,653,443</b>	<b>1,969,049</b>
<b>Cash Funds</b>			761			767
<b>Cash</b>			77,046			65,017
<b>Other Investment Balances Due</b>			3,672			0
<b>Total</b>			<b>1,913,273</b>			<b>2,034,833</b>

# CITY & COUNTY OF SWANSEA PENSION FUND

## 11. Investment Assets (continued)

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

<b>31st March 2018 £'000</b>	<b>Investment assets</b>	<b>31st March 2019 £'000</b>
194,091	Fixed interest	198,202
32,547	Index linked securities	34,385
576,270	U.K. equities	161,963
821,504	Global Equities	1,333,137
85,256	Property	89,047
54,601	Hedge Funds	54,168
67,525	Private Equity	79,646
0	Infrastructure	18,501
0	Private Debt	0
<b><u>1,831,794</u></b>	<b>Total Investment assets</b>	<b><u>1,969,049</u></b>



# CITY & COUNTY OF SWANSEA PENSION FUND

## 12. Reconciliation of movements in Investments

		Value at 31st March 2018	Purchases	Sales	Change in Market Value	Value at 31st March 2019
		£'000	£'000	£'000	£'000	£'000
<b>Equities</b>						
	Aberdeen	118,378	26,407	-144,296	-489	0
	Aberdeen FF	17,227	423	0	-3,161	14,489
	JPM	364,275	168,654	-527,738	-5,191	0
	Schroders	419,350	57,868	-462,786	-14,432	0
	Blackrock	478,544	0	0	39,791	518,335
	WPP	0	930,076	-24,262	56,462	962,276
		<b>1,397,774</b>	<b>1,183,428</b>	<b>-1,159,082</b>	<b>72,980</b>	<b>1,495,100</b>
<b>Property</b>						
UK	Schroders	48,866	8,302	-2,061	851	55,958
Overseas	Partners	21,880	897	-4,271	285	18,791
	Invesco	14,510	0	-676	464	14,298
		<b>85,256</b>	<b>9,199</b>	<b>-7,008</b>	<b>1,600</b>	<b>89,047</b>
<b>Fixed Interest</b>						
Fixed Interest	Blackrock	76,583	0	0	3,420	80,003
	Goldman	117,508	3,818	0	-3,127	118,199
		<b>194,091</b>	<b>3,818</b>	<b>0</b>	<b>293</b>	<b>198,202</b>
Index-Linked	Blackrock	32,547	0	0	1,838	34,385
		<b>32,547</b>	<b>0</b>	<b>0</b>	<b>1,838</b>	<b>34,385</b>
<b>Hedge Funds</b>						
	Blackrock	28,897	0	-235	102	28,764
	Permal	25,704	0	-230	-70	25,404
		<b>54,601</b>	<b>0</b>	<b>-465</b>	<b>32</b>	<b>54,168</b>
<b>Private Equity</b>						
	HarbourVest	67,525	16,476	-14,214	9,859	79,646
		<b>67,525</b>	<b>16,476</b>	<b>-14,214</b>	<b>9,859</b>	<b>79,646</b>
<b>Infrastructure</b>						
	First State	0	19,136	-231	-404	18,501
		<b>0</b>	<b>19,136</b>	<b>-231</b>	<b>-404</b>	<b>18,501</b>
<b>Private Debt</b>						
	Alcentra	0	0	0	0	0
		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Cash funds</b>						
	Schroders	761	0	0	6	767
		<b>761</b>	<b>0</b>	<b>0</b>	<b>6</b>	<b>767</b>
<b>Total</b>		<b>1,832,555</b>	<b>1,232,057</b>	<b>-1,181,000</b>	<b>86,204</b>	<b>1,969,816</b>
<b>Cash</b>		<b>77,046</b>				<b>65,017</b>
<b>Other Investment Balances - Dividends Due</b>		<b>3,672</b>				<b>0</b>
<b>TOTAL</b>		<b>1,913,273</b>			<b>86,204</b>	<b>2,034,833</b>

# CITY & COUNTY OF SWANSEA PENSION FUND

## 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 £254k (2017/18 : £842k). 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 disclosed. During the year, the actively managed global equity assets previously managed by Schroders Investment Management, Aberdeen Standard Investment Management and JP Morgan Asset Management transitioned to the Wales Pension Partnership, as part of the ongoing pooling arrangements (See Appendix 3).

## 13. Concentration of Investments

The following investments represented 5% or more of the Fund's net assets at 31st March 2019:

	Value as at the 31st March 2018 £'000	Proportion of Net Asset %	Value as at the 31st March 2019 £'000	Proportion of Net Asset %
Blackrock UK Equity Index	152,177	8.0	161,963	8.0
Goldman Sachs Global Libor Plus II	117,508	6.1	118,199	5.8
Blackrock North America Equity	149,143	7.8	175,447	8.6
JP Morgan North American Equities	209,177	10.9	0	0.0
WPP Global Opportunities Fund	0	0.0	942,888	46.3

## 14. Realised Profit on the Sale of Investments

2017/18 £'000	2018/19 £'000
17,609 U.K. Equities	26,385
56,905 Overseas Equities	17,343
3,735 Property Fund	1,047
2 Cash Fund	0
<b><u>78,251</u> Net Profit</b>	<b><u>44,775</u></b>

# CITY & COUNTY OF SWANSEA PENSION FUND

## 15. Fixed Interest and Index Linked Investments

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

<b>31st March</b>	<b>31st March</b>
<b>£'000</b>	<b>£'000</b>
143,791 UK Public Sector	154,065
82,847 Other	78,522
<b>226,638</b>	<b>232,587</b>
<b>226,638</b>	<b>232,587</b>

## 16. Current Assets and Liabilities

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

<b>31st March</b>	<b>31st March</b>
<b>2018</b>	<b>2019</b>
<b>£'000</b>	<b>£'000</b>
<b>Current Assets</b>	
629 Contributions - Employees	697
2,430 Contributions - Employers	2,734
2,789 Early Access Contributions Debtor	1,600
441 Transfer Values	758
1,210 Other	1,017
<b>7,499</b>	<b>6,806</b>
<b>7,499</b>	<b>6,806</b>
<b>Current Liabilities</b>	
-529 Investment Management Expenses	-566
-1,817 Commutation and lump sum retirement benefits	-2,025
-40 Lump sum death benefits	-199
-751 Transfers to Other Schemes	-665
-602 Payroll Deductions - Tax	-662
-34 Payable Control List	-6
-489 Other	-458
<b>-4,262</b>	<b>-4,581</b>
<b>-4,262</b>	<b>-4,581</b>
<b>3,237 Net</b>	<b>2,225</b>

# CITY & COUNTY OF SWANSEA PENSION FUND

## 16. Current Assets & Liabilities (continued)

### Early Access Debtor

	Instalment Due 2019/20 £'000	Instalment Due 2020/21 £'000	Instalment Due 2021/22 £'000	Instalment Due 2022/23 £'000	Total £'000
Early Access Principal Debtor	1,699	0	0	0	1,699
Early Access Interest Debtor	0	0	0	0	0
<b>Total (Gross)</b>	<b>1,699</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,699</b>

## 17. Capital and Contractual Commitments

As at 31st March 2019 the Scheme was committed to providing funding to appointed managers investing in unquoted securities. These commitments amounted to £88.7m (2017/18 : £100.7m).

# CITY & COUNTY OF SWANSEA PENSION FUND

## 18. Statement of the Actuary for the year ended 31 March 2019

### 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, 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 31st March 2016 (of £1,512.6M) covering 80% of the liabilities allowing, in 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's report dated 31 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 is in accordance with the Funding Strategy Statement. Different approaches adopted in implementing contribution increases and individual Employers' recovery periods were 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 financial actuarial assumptions used for assessing the funding target and the contribution rates were as follows.

# CITY & COUNTY OF SWANSEA PENSION FUND

## 18. Statement of the Actuary for the year ended 31 March 2019 (continued)

<u>Discount rate for periods in service</u>	
Scheduled body employers *	4.6% p.a.
Orphan body employers **	4.6% p.a.
<u>Discount rate for periods after leaving service</u>	
Scheduled body employers *	4.6% p.a.
Orphan body employers **	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 already orphaned 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 31 March 2017. Other than as permitted or required by the Regulations, employer 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. Since the date the valuation report was signed, there have been a number of developments in respect of the Local Government Pension Scheme (LGPS) :

### **Increases to GMPs :**

HM Treasury, in its response to the consultation on indexation and equalisation of GMPs in public sector schemes, announced an extension of the indexation of GMPs to those reaching State Pension Age on or before 5 April 2021 (previously 5 December 2018). This extension period was not allowed for in the valuation results as the actuarial valuation report was signed off in advance of this announcement, but the increase in liability is not expected to be material.

In addition, on 26 October 2018 the High Court ruled in the Lloyds Banking Group case that schemes are required to equalise male and female members' benefit for the effect of unequal GMPs. Our understanding is that this will not alter HM Treasury's approach to GMP equalisation in the LGPS.

## **CITY & COUNTY OF SWANSEA PENSION FUND**

### **18. Statement of the Actuary for the year ended 31 March 2019 (continued)**

#### **Cost Management Process and McCloud Judgement**

Legislation requires HM Treasury and the LGPS Advisory Board to undertake periodic valuations to monitor the cost of the LGPS to ensure it remains sustainable and affordable. Initial results from the Scheme Advisory Board process indicated that benefit improvements / member contribution reductions would be required. However, the cost management process has been paused following the Court of Appeal ruling that the transitional arrangements in both the Judges' Pension Scheme (McCloud) and Firefighters' Pension Scheme (Sergeant) were age discriminatory; these cases could have knock on implications for the LGPS (potentially increasing the liabilities) which also had transitional arrangements

9. The actuarial valuation of the Fund as at 31 March 2019 is currently underway and the Regulations require the formal report on the valuation and the Rates and Adjustment Certificate setting out employer contributions commencing from 1 April 2020 to be signed off by 31 March 2020. Asset values have increased in value since 2016, on its own leading to an improvement in the funding level due to higher than assumed investment returns. Liability values and employer contributions, as well as being affected by the items listed in paragraph 8 above, will depend upon membership factors, changes to expectations of future returns and other assumptions (including allowance for the slow down in longevity improvements) and any changes to funding strategy made as part of the 2019 valuation.

10. This statement has been prepared by the current Actuary to the Fund, Aon, 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 valuations.

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

11. The report on the actuarial valuation as at 31 March 2016 is available on the Fund's website at the following address : <http://www.swanseapensionfund.org.uk/wp-content/uploads/2012/01/Actuarial-Valuation-Report-as-at-31-March-2016.pdf>

## **18. Statement of the Actuary for the year ended 31 March 2019 (continued)**

### **Actuarial Present Value of Promised Retirement Benefits**

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 (eg if future investment returns are less than 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 its own assets and liabilities. In this document this is known as subsumption. In this document the admission body or other employer being subsumed is referred to as a subsumption body and its liabilities are known as subsumed liabilities.



# **CITY & COUNTY OF SWANSEA PENSION FUND**

## **18. Actuarial Present Value of Promised Retirement Benefits - Statement of the Actuary for the year ended 31 March 2019 (continued)**

### **Rates & Adjustment Certificate**

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

In accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013 ("the 2013 Regulations"), we certify that contributions should be paid by Employers at the following rates for the period 1st April 2017 to 31st March 2020.

- i) An aggregate primary rate of 18.0% pa of Pensionable Pay.
- ii) Individual adjustments (i.e. secondary contribution rates) which, when added to or subtracted from the primary rate, produce the following minimum Employer contribution rates.

# CITY & COUNTY OF SWANSEA PENSION FUND

## 18. Actuarial Present Value of Promised Retirement Benefits - Statement of the Actuary for the year ended 31 March 2019 (continued)

Employer	Primary contribution rate % pensionable pay	Secondary contributions (% Pensionable pay and £s) in year commencing 1 April			Total contributions (% Pensionable pay and £s) in year commencing 1 April		
		2017	2018	2019	2017	2018	2019
<b>Schedule 2 Part 1 bodies/ Schedule 2 Part 2 bodies (Scheduled bodies)</b>							
City & County of Swansea	17.9%	5.5%	6.5%	7.9%	23.4%	24.4%	25.8%
Neath Port Talbot County Borough Council	17.8%	7.7%	8.5%	9.3%	25.5%	26.3%	27.1%
Cilybeyll Community Council	27.6%	-4.7%	-2.3%	0.1%	22.9%	25.3%	27.7%
Coedffranc Community Council	20.3%	-0.1% plus £5,300	-0.1% plus £5,500	-0.1% plus £5,700	20.2% plus £5,300	20.2% plus £5,500	20.2% plus £5,700
Neath Town Council	20.3%	-0.1% plus £16,200	-0.1% plus £16,800	-0.1% plus £17,400	20.2% plus £16,200	20.2% plus £16,800	20.2% plus £17,400
Pelenna Community Council	27.0%	£1,200	£1,200	£1,300	27.0% plus £1,200	27.0% plus £1,200	27.0% plus £1,300
Portardawe Town Council	23.0%	£800	£800	£900	23.0% plus £800	23.0% plus £800	23.0% plus £900
Gower College	17.9%	3.8%	3.9%	3.9%	21.7%	21.8%	21.8%
NPTC Group	17.7%	£168,400	£174,300	£180,400	17.7% plus £168,400	17.7% plus £174,300	17.7% plus £180,400
Margam Joint Crematorium Committee	20.3%	-0.1% plus £9,400	-0.1% plus £9,700	-0.1% plus £10,100	20.2% plus £9,400	20.2% plus £9,700	20.2% plus £10,100
Swansea Bay Port Health Authority	5.8%	16.6% plus £0	16.6% plus £4,400	16.6% plus £9,000	22.4% plus £0	22.4% plus £4,400	22.4% plus £9,000
<b>Schedule 2 Part 3 bodies (Admission bodies)</b>							
Celtic Community Leisure	13.2%	-	-	-	13.2%	13.2%	13.2%
Grwp Gwallia Cyl	22.0%	-1.6%	-1.6%	-1.6%	20.4%	20.4%	20.4%
Neath Port Talbot Homes Ltd	17.0%	£62,300	£218,500	£374,700	17.0% plus £62,300	17.0% plus £218,500	17.0% plus £374,700
Rathbone Training Ltd (City & County of Swansea)	22.4%	2.8%	2.8%	2.8%	25.2%	25.2%	25.2%
Rathbone Training Ltd (Gower College)	24.3%	-	-	-	24.3%	24.3%	24.3%

Swansea Bay Racial Equality Council	37.0%	-1.8% plus £600	-0.9% plus £1,300	£2,000	35.2% plus £600	36.1% plus £1,300	37.0% plus £2,000
Trinity St Davids	28.0%	£389,400	£542,300	£686,100	28.0% plus £389,400	28.0% plus £542,300	28.0% plus £686,100
Wales National Pool	14.2%	-	-	-	14.2	14.2	14.2
<b>Total</b>	<b>18.0%</b>	<b>5.5% plus £653,600</b>	<b>6.3% plus £974,800</b>	<b>7.3% plus £1,287,600</b>	<b>23.5% plus £653,600</b>	<b>24.3% plus £974,800</b>	<b>25.3% plus £1,287,600</b>

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

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

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The contributions shown above 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 may be adjusted to take account of any amounts payable, in respect of surplus or 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.

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 and Employers will be notified of such contributions separately by the Administering Authority.

Additional contributions may be payable by any Employers which have ceased to participate in the Fund since 31 March 2016 and these will be certified separately.  
Contribution rates for Employers commencing participation in the Fund after 31 March 2016 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

30 March 2017

**Aon Hewitt Limited**  
25 Marsh Street  
Bristol BS1 4AQ



**Laura Hamilton FIA**  
Fellow of the Institute and Faculty of Actuaries

## 19. Related party transactions

£757k (£755k 2017/18) was paid to the City & County of Swansea for the recharge of Administration, I.T., Finance and Directorate & Legal Services during the year.

Contributions received from admitted and scheduled bodies as detailed on page 8.

The City & County of Swansea acts as administering Authority for the City and 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.

The Pension Fund currently has 37 scheduled and admitted bodies. Management of the Pension Scheme Investment Fund is undertaken by a panel. The panel is advised by two independent advisors.

### Key Management Personnel

The key management personnel of the Fund are the Chief Executive and the Chief Finance Officer (Section 151 Officer). As required by 3.9.4.2 of the CIPFA code of practice 2016/17, the figures below show the change in value of post-employment benefits provided to these individuals over the accounting year based on the percentage of time on matters relating to the Pension Fund. The value of the benefits has been calculated consistently with those of the whole Fund disclosure provided in Note 18, albeit the figures below have been calculated at different dates to those used for the whole fund disclosure.

	Increase/(decrease) in IAS19 liability to 31 March 2019		Increase/(decrease) in IAS19 liability to 31 March 2018	
	Amount £	Percentage (%) of year end liability	Amount £	Percentage (%) of year end liability
Chief Executive	77,000	4.3	81,000	5.2
Chief Finance Officer	77,000	20.7	64,000	30.7

# CITY & COUNTY OF SWANSEA PENSION FUND

## 19. Related Party Transactions Cont'd

	Short Term Benefits to 31 March 2019		Short Term Benefits to 31 March 2018	
	Remuneration (Including Fees & Allowances) £	Pension Contributions (24.4%)	Remuneration (Including Fees & Allowances) £	Pension Contributions (23.4%)
Chief Executive	145,670	35,543	142,814	33,418
Interim Chief Executive	10,869	-	-	-
Head of Financial Service & Service Centre, Section 151 Officer	26,449	6,559	71,951	16,764
Chief Finance Officer	65,917	15,538	-	-

(i) The Chief Executive is on long term sick therefore an interim Chief Executive has been appointed.

(ii) The Interim Chief Executive commenced on the 13th February 2019 on a temporary contract and is not a contributor to the Pension Fund.

(iii) The Head of Financial Services and Service Centre is the Section 151 Officer and became the Chief Finance Officer on the 30th July 2018.

# CITY & COUNTY OF SWANSEA PENSION FUND

## 19. Related Party Transactions Cont'd

There are 7 councillor members of the pension 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.

## 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. AVCs are not included in the accounts in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (SI 2016/946) but are disclosed as a note only.

AVC Provider	Value of Funds at 1st April 2018	Purchases at Cost (Contributions In/Out)	Sale Proceeds	Change In Market Value	Value of Funds at 31st March 2019
	£'000	£'000	£'000	£'000	£'000
Prudential	5,664	1,606	-1,016	133	6,387
Aegon	1,106	24	-149	51	1,032
Equitable Life	279	1	-38	7	249
<b>Totals</b>	<b>7,049</b>	<b>1,631</b>	<b>(1,203)</b>	<b>191</b>	<b>7,668</b>

# CITY & COUNTY OF SWANSEA PENSION FUND

## 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 2019 there were 19,912 contributors, 14,684 pensioners and 11,870 deferred pensioners.

<b>Membership statistics</b>	<b>31st March 2015</b>	<b>31st March 2016</b>	<b>31st March 2017</b>	<b>31st March 2018</b>	<b>31st March 2019</b>
	<b>Number</b>	<b>Number</b>	<b>Number</b>	<b>Number</b>	<b>Number</b>
Contributors	16,285	17,469	17,903	19,671	19,912
Pensioners	11,261	11,745	12,200	12,763	14,684
Deferred Pensioners	9,801	11,226	11,583	11,394	11,870
<b>Total</b>	<b>37,347</b>	<b>40,440</b>	<b>41,686</b>	<b>43,828</b>	<b>46,466</b>

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 the three former segregated equity mandates which were transitioned into the WPP Global Opportunities fund during the year. 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 & Losses

Gains and losses on financial instruments have been disclosed within note 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 table on the following page shows the position of the Fund's assets at 31st March 2018 and 2019 based upon this hierarchy:



# CITY & COUNTY OF SWANSEA PENSION FUND

## 22. Fair Value of Investments (continued)

	31 March 2018			31 March 2019				
	Market Value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	Market Value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
<b>Equities</b>								
UK Equities	424,093	424,093			0	0		
Overseas Equities	477,911	477,911			0	0		
<b>Pooled Investment Vehicles</b>								
Fixed-Interest Funds	117,508	117,508			118,199	118,199		
UK Equity	152,177			152,177	161,963			161,963
Global Equity	343,593	17,226		326,367	1,333,137	14,489		1,318,648
Fixed Interest	76,583			76,583	80,003			80,003
Index-linked	32,547			32,547	34,385			34,385
Property Unit Trust	15,831			15,831	19,528			19,528
Property Fund	69,425			69,425	69,519			69,519
Hedge Fund	54,601			54,601	54,168			54,168
Private Equity	67,525			67,525	79,646			79,646
Infrastructure	-			-	18,501			18,501
Private Debt	-			-	-			-
Cash	77,807	77,807			65,784	65,784		
<b>Other Investment Balances -</b>								
Dividends Due	3,672	3,672			0	0		
<b>Total</b>	<b>1,913,273</b>	<b>1,118,217</b>	<b>-</b>	<b>795,856</b>	<b>2,034,833</b>	<b>198,472</b>	<b>-</b>	<b>1,836,361</b>

## 23. INVESTMENT RISKS

As demonstrated above, the Fund maintains positions indirectly via its investment 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 2016 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

### Manager Risk

The Fund is also well diversified by managers. 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.

## 23. INVESTMENT RISKS (continued)

### 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 investments 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 £118,199k is managed (by Goldman Sachs) on an unconstrained basis and has a significant exposure to credit, emerging market debt and loans. At 31st March 2019, the Fund's exposure to non-investment grade paper was 7.1% 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 Fund's private equity investments of £79,646k 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 2019 is set out below with their relative exposure to credit risk.

	<b>March 2019</b> <b>£'000</b>	<b>Credit Exposure</b>
<b>EnTrustPermal</b>	<b>25,404</b>	<b>0.14%</b>
<b>Blackrock</b>	<b>28,764</b>	<b>19.1%</b>

### 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.

# CITY & COUNTY OF SWANSEA PENSION FUND

## 23. INVESTMENT RISKS (continued)

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 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 85% 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 least – 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 specific period (usually 10 years), although they can be sold on the secondary market, usually at a discount.

The table below analyses the value of the Fund's investments at 31st March 2019 by liquidity profile.

	Amounts at 31st March 2019 £000s	Within 1 month £000s	1-3 months £000s	4-12 months £000s	> 1 Year £000s
<b>Equities</b>					
UK Equities	0	0	0	0	0
Global Equities	0	0	0	0	0
<b>Pooled Investment Vehicles</b>					
Fixed-Interest Funds	118,199	118,199	0	0	0
UK Equity	161,963	161,963	0	0	0
Overseas Equity	1,333,137	1,333,137	0	0	0
Fixed Interest	80,003	80,003	0	0	0
Index-linked	34,385	34,385	0	0	0
Property Unit Trust	19,528	0	0	19,528	0
Property Fund	69,519	0	0	36,430	33,089
Hedge Fund	54,168	0	0	54,168	0
Private Equity	79,646	0	0	0	79,646
Infrastructure	18,501	0	0	0	18,501
Private Debt	0	0	0	0	0
Deposits with banks and other financial institutions	65,784	65,784	0	0	0
Other Investment Balances - Dividends Due	0	0	0	0	0
<b>Total</b>	<b>2,034,833</b>	<b>1,793,471</b>	<b>0</b>	<b>110,126</b>	<b>131,236</b>

## 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 88% of the portfolio is realisable within 1 month and 94% 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 risks by exceeding market performance.

The table on the following page sets out an analysis of the Fund's market risk positions at 31 March 2019 by showing the percentage invested in each asset class and through each manager within each main asset class, the index used as a benchmark and the target set for managers against this benchmark.

# CITY & COUNTY OF SWANSEA PENSION FUND

## 23. INVESTMENT RISKS (continued)

Asset Class	Asset Allocation	Fund Manager		Benchmark	Performance target
		Passive	Active		
UK Equities	34% +/- 5%	14% Blackrock			
Global Equities	34% +/- 5%	13% Blackrock	41% Wales Pension Partnership Aberdeen	MSCI All World Index Net MSCI Frontier Markets Index	+2% p.a. over rolling 3 year +3% p.a. over rolling 3 year
Global Fixed Interest	15% +/- 5%	6% Blackrock	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 & EnTrustPermal	LIBOR	+4%
Private Equity	3% +/- 5%	-	3% Harbourvest	FTSE allshare	+3% p.a. over 3 year rolling
Infrastructure	2% +/- 5%	-	2% First State	10% Absolute	10% Absolute
Private Debt	1% +/- 1%	-	Alcentra	7% Absolute	7% Absolute
Cash	2% +/- 5%	-	2% In house and cash flows of fund managers	7day LIBID	=
<b>TOTAL</b>	<b>100%</b>	<b>33%</b>	<b>67%</b>		

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 2016. The Fund also adopts a specific strategic benchmark (details can be found in the Fund's ISS summarised above) 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, 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.

# CITY & COUNTY OF SWANSEA PENSION FUND

## 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 the financial instruments. Possible losses from shares sold short is unlimited.

Following analysis of historical data and expected investment return movement during the financial year, and in consultation with the fund's investment advisors, the council has determined that 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 31 March 2019 would have been as follows:

#### Price Risk

Asset Type	Value (£'000)	% Change	Value on Increase	Value on Decrease
UK Equities	161,963	8.9407	176,444	147,482
Overseas Equities	1,333,137	8.9407	1,452,329	1,213,945
Total Bonds & Index-Linked	232,587	4.3676	242,746	222,428
Alternatives	152,315	4.1457	158,629	146,001
Cash	65,784	0.4562	66,084	65,484
Property	89,047	1.6382	90,506	87,588
Other Investment Balances	-	-	-	-
<b>Total Assets*</b>	<b>2,094,893</b>	<b>6.3664</b>	<b>2,164,380</b>	<b>1,905,286</b>

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

and as at 31st March 2018:

#### Price Risk

Asset Type	Value (£'000)	% Change	Value on Increase	Value on Decrease
UK Equities	576,270	9.3846%	630,351	522,189
Overseas Equities	821,504	9.8587%	902,494	740,514
Total Bonds & Index-Linked	226,638	6.7384%	241,910	211,366
Alternatives	122,126	3.6489%	126,582	117,670
Cash	77,807	0.6851%	78,340	77,274
Property	85,256	2.8684%	87,701	82,811
Other Investment Balances	3,672	0.0000%	3,672	3,672
<b>Total Assets*</b>	<b>1,919,273</b>	<b>6.7493%</b>	<b>2,042,291</b>	<b>1,784,255</b>

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

# CITY & COUNTY OF SWANSEA PENSION FUND

## 23. INVESTMENT RISKS (continued)

### 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 31 March 2019:

#### Currency Risk (by currency)

Currency	Value (£'000)	% Change	Value on Increase	Value on Decrease
Australian Dollar	-	-	-	-
Brazilian Real	-	-	-	-
Canadian Dollar	-	-	-	-
Danish Krone	-	-	-	-
EURO	67,565	8.1810%	73,092	62,038
Hong Kong Dollar	-	-	-	-
Indian Rupee	-	-	-	-
Indonesian Rupiah	-	-	-	-
Israeli Shekel	-	-	-	-
Japanese Yen	34,860	13.6681%	39,625	30,095
Malaysian Ringgit	-	-	-	-
Mexican Peso	-	-	-	-
Norwegian Krone	-	-	-	-
Chinese Renminbi Yuan	-	-	-	-
Philippine Peso	-	-	-	-
Russian Rouble	-	-	-	-
Singapore Dollar	-	-	-	-
South African Rand	-	-	-	-
South Korean Won	-	-	-	-
Swedish Krona	-	-	-	-
Swiss Franc	-	-	-	-
Taiwan Dollar	-	-	-	-
Thai Baht	-	-	-	-
Turkish Lira	-	-	-	-
US Dollar	63,801	9.9412%	70,144	57,458
North America Basket	175,447	8.7574%	190,812	160,082
Europe Basket	68,418	8.4071%	74,170	62,666
Asia Pacific ex Japan Basket	31,043	10.0177%	34,153	27,933
Emerging Basket	61,093	8.7726%	66,452	55,734
<b>Total Currency*</b>	<b>502,227</b>	<b>6.0865%</b>	<b>532,795</b>	<b>471,659</b>

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



# CITY & COUNTY OF SWANSEA PENSION FUND

## 23. INVESTMENT RISKS (continued)

and as at 31 March 2018:

### Currency Risk (by currency)

Currency	Value (£'000)	% Change	Value on Increase	Value on Decrease
Australian Dollar	12,754	11.9590%	14,279	11,229
Brazilian Real	6,448	19.5325%	7,707	5,189
Canadian Dollar	14,915	10.1648%	16,431	13,399
Danish Krone	8,519	9.0295%	9,288	7,750
EURO	98,970	9.0253%	107,902	90,038
Hong Kong Dollar	10,385	9.7118%	11,394	9,376
Indian Rupee	7,010	9.9899%	7,710	6,310
Indonesian Rupiah	2,721	11.7331%	3,040	2,402
Israeli Shekel	2,381	8.6439%	2,587	2,175
Japanese Yen	76,578	15.0243%	88,083	65,073
Malaysian Ringgit	3,012	12.8014%	3,398	2,626
Mexican Peso	2,557	11.2462%	2,845	2,269
Norwegian Krone	3,135	10.9104%	3,477	2,793
Chinese Renminbi Yuan	13,249	8.7271%	14,405	12,093
Philippine Peso	540	9.5360%	591	488
Russian Rouble	368	17.1503%	431	305
Singapore Dollar	7,038	9.2831%	7,691	6,385
South African Rand	2,149	18.0691%	2,537	1,761
South Korean Won	10,096	11.7641%	11,284	8,908
Swedish Krona	14,153	9.5884%	15,524	12,782
Swiss Franc	14,336	10.3255%	15,816	12,856
Taiwan Dollar	5,611	9.2155%	6,128	5,094
Thai Baht	4,942	10.0781%	5,440	4,444
Turkish Lira	1,029	15.3513%	1,187	871
US Dollar	293,215	9.7245%	321,729	264,701
<b>North America Basket</b>	<b>149,143</b>	<b>9.5450%</b>	<b>163,379</b>	<b>134,907</b>
<b>Europe Basket</b>	<b>66,567</b>	<b>6.5784%</b>	<b>70,946</b>	<b>62,188</b>
<b>Asia Pacific ex Japan Basket</b>	<b>29,622</b>	<b>9.1550%</b>	<b>32,334</b>	<b>26,910</b>
<b>Emerging Basket</b>	<b>63,976</b>	<b>9.4406%</b>	<b>70,016</b>	<b>57,936</b>
<b>Total Currency*</b>	<b>925,419</b>	<b>8.9006%</b>	<b>1,007,787</b>	<b>843,051</b>

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

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

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.

## Cost Management Process and McCloud Judgement

Legislation requires HM Treasury and the LGPS Advisory Board to undertake periodic valuations to monitor the cost of the LGPS to ensure it remains sustainable and affordable. Initial results from the Scheme Advisory Board process indicated that benefit improvements / member contribution reductions would be required. However, the cost management process has been paused following the Court of Appeal ruling that the transitional arrangements in both the Judges' Pension Scheme (McCloud) and Firefighters' Pension Scheme (Sergeant) were age discriminatory; these cases could have knock on implications for the LGPS (potentially increasing the liabilities) which also had transitional arrangements when the new scheme was introduced with effect from April 2014. The Government Actuary's Department ( GAD) has estimated the total scheme liability at 1% .

## 25. Further Information

Further information about the fund can be found in Appendices 2 to 4. Information can also be obtained from the Deputy Chief Finance Officer, Civic Centre, Oystermouth Road, Swansea SA1 3SN or on [www.swanseapensionfund.org.uk](http://www.swanseapensionfund.org.uk).

## 26. Financial Position

The accounts outlined within the statement represent the financial position of the City and County of Swansea Pension Fund at 31st March 2019.

# CITY & COUNTY OF SWANSEA PENSION FUND

Appendix 1

## SCHEDULE OF EMPLOYING BODIES AND CONTRIBUTION RATES FOR THE PERIOD 1<sup>ST</sup> APRIL 2018 TO 31<sup>ST</sup> MARCH 2019

Administering Authority	Contributors Number @ 31/03/19	Pensioners Number @ 31/03/19	Deferred Benefits Number @ 31/03/19	Employer Contribution Rate (% of Pensionable Pay) plus additional annual monetary amount
City & County of Swansea	11,980	6,729	5,552	24.4%
<b>Scheduled Bodies</b>				
Neath Port Talbot County Borough	5,565	3,956	4,474	26.3%
Briton Ferry Town Council	1	2	0	20.2% (+£1,300)
Cilybebyll Community Council	7	1	1	25.3%
Clydach Community Council	0	0	1	-
Coedffranc Community Council	9	3	2	20.2% (+£5,500)
Gower College Swansea	600	279	436	21.8%
Llanrhidian Higher Community Council	1	0	0	18.2%
Lliw Valley BC	0	205	17	-
Margam Joint Crematorium Committee	9	12	4	20.2% (+ £9,700)
NPTC Group	576	271	454	17.7% (+ £174,300)
Neath Port Talbot Waste Management	0	1	0	-
Neath Town Council	12	17	6	20.2% (+ £16,800)
Pelenna Community Council	2	2	3	27.0% (+£1,200)
Pontardawe Town Council	4	2	0	23.0% (+£800)
Swansea Bay Port Health Authority	1	11	1	22.4% (+£4,400)
Swansea City Waste Disposal Company	0	15	3	-
University of Wales Trinity St Davids	130	158	239	28.0% (+£542,300)
West Glamorgan County Council	0	2,713	195	-
West Glamorgan Magistrates Courts	0	38	13	-
West Glamorgan Valuation Panel	0	4	0	-
Ystalyfera Community Council	1	0	0	18.2%
<b>Admitted Bodies</b>				
BABTIE	0	6	9	-
Celtic Community Leisure	185	38	177	13.2%
Colin Laver Heating Limited	0	2	2	-
Swansea Bay Racial Equality Council	1	1	4	36.1% (+£1,300)
The Careers Business	0	8	6	-
Wales National Pool	95	5	75	14.2%
West Wales Arts Association	0	1	0	-
Capgemini	0	1	4	-
Tai Tarian	351	108	107	17.0% (+£218,500)
Phoenix Trust	0	1	3	-
Pobl Group	141	91	80	20.4%
Wealdon Leisure	228	3	0	25.8%
Parkwood Leisure	8	0	0	25.8%
Rathbone CCS	1	0	2	25.2%
Rathbone Gower College	4	0	0	24.3%
<b>Total</b>	<b>19,912</b>	<b>14,684</b>	<b>11,870</b>	

**Legislative Changes In the Local Government Pension Scheme (LGPS) during 2018/19****Statutory Instruments**

**1 April 2018- THE AUTOMATIC ENROLEMENT (EARNINGS TRIGGER AND QUALIFYING EARNINGS BAND) ORDER 2018** prepared by the Department for Work and Pensions and laid before Parliament by command of her Majesty. This sets our revised amounts for the 2018/19 tax year for the upper and lower thresholds of the automatic enrolement qualifying earnings band, and rounded figures for the earnings trigger and qualifying earnings band. It has been concluded that the amounts for the qualifying earnings band should continue to be aligned with the National Insurance Contributions Lower and Upper Earnings Limits for the tax year 2018/19 and that the automatic enrolement earnings trigger should remain at £10,000.

**01 April 2018 - The Guaranteed Minimum Pensions Increase Order 2018** - This order specifies 3.0% as the percentage by which that part of any guaranteed minimum pension attributable to earnings factors for the tax years 1988-89 to 1996-97 and payable by contracted-out, defined benefit occupational pension schemes. This is the amount by which this is to be increased by under Section 109(3) of the Pension Schemes Act 1993 (c.48)

**1 April 2018 - LGPS Additional Pension purchase limit applicable for 2018/19 In England and Wales** - Regulations 16(6) and 31(2) of the LGPS Regulations 2013 state that the additional pension limit is increased on 1 April each year as if it were a pension beginning on 1 April 2013 to which the Pensions (Increase) Act 1971 applied. The pensions increase due at the 1 April 2018 is that from 10 April 2017 (since the 2018 PI date is the 9 April 2018) and so the current additional pension limit of £6,755 is increased by 1% to £6,822 from the 1 April 2018.

**6 April 2018 - Annual allowance and lifetime allowance limits applicable from 6 April 2018** - The Finance Act 2004 (Standard Lifetime Allowance) Regulations 2018 [SI 2018/206] amends the Lifetime Allowance limit to £1,030,000 with effect from the 6 April 2018. The Annual Allowance, as defined by the Finance Act 2004 (as amended), remains unchanged at £40,000 for 2018/19.

**9 April 2018 - New State Pension (nSP) - updated guidance** - April 2018, DWP published revisions to their guidance on the nSP. The new State Pension is for people who reach State Pension age on or after 6 April 2016. The revisions take into account the new values for earnings, national insurance contributions and the new amount of nSp for 2018/19.

## **CITY & COUNTY OF SWANSEA PENSION FUND**

### **Legislative Changes in the Local Government Pension Scheme (LGPS) during 2018/19 Cont'd**

**9 April 2018 - The Public Service Pension Revaluation Order 2018** in accordance with the Pensions Increase (Review) Order 2018 - This Order came into force April 2018 and makes provision for the annual increase of official pensions (as defined in the Pensions (Increase) Act 1971). The Order provides for an increase of 3 per cent from 9 April 2018 for all official pensions, except for those which have been in payment for less than a year, which will receive a pro-rata increase.

**May 2018 - The Local Government Pension Scheme (Amendment) Regulations 2018 [SI 2018/493]** - The above regulations were laid before parliament on 19 April 2018 and come into force on 14 May 2018, with the exception of the provisions listed in regulation 3(3), which come into force on 1 April 2014. The regulations amend the Local Government Pension Scheme Regulations 2013 [SI 2013/2356] and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 [SI 2014/525] adding clarity, and addressing issues that were raised during the 2016 consultation, as good stewardship of the regulatory framework of the scheme.

**10 May 2018 - Financial Guidance and Claims Act 2018** - May 2018, the Financial Guidance and Claims Act 2018 ('the Act') received Royal Assent and introduced a new Single Financial Guidance Body (SFGB). In addition, the Act made provision about the funding of debt advice in Scotland, Wales and Northern Ireland, and regulated the claims management services.

**May 2018 - Data Protection Act 2018** - The Data Protection Bill received Royal Assent to become the Data Protection Act 2018 on 23 May 2018. The Data Protection Act 2018 (Commencement No 1 and Transitional and Savings Provisions) Regulations 2018 [SI 2018/625] has also been published.

The Data Protection Act 2018 includes the provisions of the GDPR. There are some small differences but UK law on data protection is now largely the same as that of the GDPR.

**June 2018 - Manage and Register Pension Schemes service** - On 4th June, HMRC launched the first phase of their new Manage and Register Pension Schemes service. This service will eventually replace Pension Schemes Online for the ongoing management and registration of all UK registered pension schemes.

**June 2018 - Consultation on clarifying and strengthening trustees' investment duties** - On 18th June 2018, DWP commenced a consultation entitled *Pension trustees: clarifying and strengthening investment duties*. The consultation seeks views on the draft Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2018 and does not contain proposals which would directly impact the LGPS, as it covers trust-based pension schemes alone. However, the draft regulations have been consulted upon to tackle issues that also affect the LGPS and we understand the Scheme Advisory Board for England and Wales intend to respond to the consultation.

# **CITY & COUNTY OF SWANSEA PENSION FUND**

## **Legislative Changes In the Local Government Pension Scheme (LGPS) during 2018/19 Cont'd**

**18 October 2018 - Financial Conduct Authority and The Pensions Regulator launch Joint regulatory strategy** - October 2018, the Financial Conduct Authority and The Pensions Regulator launched a joint regulatory strategy to strengthen their relationship and take joint action to deliver better outcomes for pension savers and those entering retirement.

**29 October 2019** - The Chancellor of the Exchequer confirmed a reduction to the **Scape Discount rate** from CPI +2.8% to CPI +2.4% date effective 29th October 2018. The SCAPE discount rate is used to set the employer contribution rates in the unfunded public service pension schemes and determine the actuarial factors used across the entire public service pension schemes.

**7 November 2018 - Launch of the cost transparency initiative (CTI)** - The Cost Transparency Initiative (CTI) was launched in November 2018. The CTI is a new independent group (operating with the FCA operating as an observer) working to improve cost transparency for institutional investors with the responsibility for progressing the work already undertaken by the Institutional Disclosure Working Group (IDWG).

The CTI is supported by the Pensions and Lifetime Savings Association (PLSA), the Investment Association (IA) and the local Government Pension Scheme Advisory Board England & Wales (LGPS SAB).

**18 December 2018 - The LGPS (Miscellaneous Amendment) Regulations 2018 [SI2018/1366]** - The above regulations were laid before parliament December 2018 and come into force on 10 January 2019. The Regulations amend the LGPS 2013 Regulations and the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 by:

- Introducing a general power for the Secretary of State to issue statutory guidance
- Allow early access to benefits between the age of 55 and the members normal retirement date
- Survivors of registered civil partners or same sex marriages are provided with benefits that replicate those provided to widows.

The regulations amend the LGPS 2013 Regulations and the LGPS ( Transitional Provisions, Savings and Amendment) Regulations 2014.

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

The Wales Pension Partnership governance arrangements have included the establishment of a Joint Governance Committee (JGC) comprising elected members from each administering authority, supported by an Officer Working Group (OWG). It has also appointed a Financial Conduct Authority (FCA) regulated Authorised Contractual Scheme (ACS) Operator, Link Asset Services, with Investment Advisory Services provided by Ruseell Investments, to supply the necessary infrastructure for establishing a pooling vehicle and to administer the Pool on behalf of the 8 funds.

The passive investments of the WPP (Circa £3.3b / 19% of WPP) are now effectively managed within the pool. These are held by the WPP authorities in the form of insurance life funds, managed by Blackrock.

### **Wales Pension Partnership cont'd**

The active global equities assets were transitioned during the year, with WPP establishing 2 global equities sub funds, WPP Global Growth and WPP Global Opportunities ( circa £3.5bn).

The JGC formally approved in September 2018 the next phase of sub-funds, which will be active UK & European (ex UK) equities, with a planned launch date of May 2019, for those funds invested in these assets

Initial proposals for a range of fixed income funds have also been approved by pension fund committee, awaiting final JGC approval, with transition of assets programmed for 2019/20.

Options for the remainder of the management of the remainder of the portfolio shall be considered in 2019/20.



### **Investment Fund Management**

The investment of the Fund is the responsibility of the Pension Fund Committee. The Committee as at 31st March 2019 comprised of :

- 7 Council Members (one member from Neath Port Talbot CBC representing other scheme members) advised by:
  - Section 151 Officer
  - Deputy Section 151 Officer
  - 1 Independent Adviser.
  - Investment Consultancy Service

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.

The fund has implemented a fully diversified investment approach with a view to reducing the volatility of investment returns, whilst maintaining above benchmark growth. The fund employs the services of specialist managers to outperform in each asset class invested in.

The investment managers currently are:

- Global Equities - Wales Pension Partnership & Blackrock
- UK Equities - Blackrock
- Global Balanced Index Tracking - Blackrock
- Global Bonds - Goldman Sachs Asset Management and Blackrock
- Fund of Hedge Funds - BlackRock and Permal
- Fund of Private Equity Funds - Harbourvest
- European Property Fund - Invesco
- Fund of Property Funds - Partners Group and Schroders Investment Management
- Fund of Infrastructure Funds - First State Investments (UK) Ltd
- Fund of Private Debt - Alcentra Ltd

### **Other Fund Documents**

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

- **Investment Strategy Statement**
- **Governance Statement**
- **Funding Strategy Statement**
- **Communication Policy**
- **Administration Strategy Statement**
- **Environmental, Social, Governance Policy**

are available on request from the City & County of Swansea Pension Fund website  
<http://www.swanseapensionfund.org.uk/>



# Agenda Item 6b



## Report of the Section 151 Officer

### Pension Fund Committee – 11 July 2019

#### Admission Body Application – The Wallich

<b>Purpose:</b>	To approve the admission body application for The Wallich.
<b>Reason for Decision:</b>	To ensure compliance with the Local Government Pension Scheme Regulations 2013 (as amended).
<b>Consultation:</b>	Legal, Finance and Access to Services.
<b>Recommendation:</b>	It is recommended that:  1.The Pension Fund Committee approves the Admission Body Application of The Wallich, subject to completion of a satisfactory Admission Agreement (which recognises the start date of the contract)  2. The Deputy Chief Finance Officer is given delegated authority to finalise the Admission Agreement with appointed legal advisors as outlined in this report.
<b>Report Author:</b>	J Dong
<b>Finance Officer:</b>	J Dong
<b>Legal Officer:</b>	S Williams
<b>Access to Services Officer:</b>	R Millar

## 1 Background

- 1.1 The Local Government Pension Regulations 2013 permit an Administering Authority to make an admission agreement with :

*“a body which provides a public service in the United Kingdom which operates otherwise than for the purposes of gain and has sufficient links with a Scheme employer for the body and the Scheme employer to be regarded as having a community of interest”*

- 1.2 The City & County of Swansea Pension Fund already has a number of such employers admitted into the scheme e.g Celtic Community Leisure and Rathbone Training, Freedom Leisure.

## **2 The Wallich**

- 2.1 Following a service review exercise by scheduled employer, Neath Port Talbot County Borough Council (NPT CBC) undertaken previously, Tai Tarian (previously called Neath Port Talbot Homes) were appointed to run housing services on behalf of NPTCBC. An element of that service supporting those affected by homelessness has subsequently been re-tendered and The Wallich have been appointed for a 3 year term.

- 2.2 The Wallich are a genuine not for profit organisation with HMRC approved exempt charity status. They have been providing accommodation and support services for homeless people since 1978, starting with a 20-bed hostel in Cardiff and expanding to a multi-project agency working in mostly all Local Authorities in Wales. They specialise in providing services for people with multiple, complex needs; people who, because of their high support needs, are often excluded from other services and have difficulty in accessing accommodation. The range of services The Wallich offers is as diverse as the client group they work with and the underlying aim is to ensure all people have access to support appropriate to their needs. Long term solutions, rather than short term fixes, are developed in partnership with the client. Over 30 years' experience of working with vulnerable people have resulted in working practices which have evolved into a unique and effective way of working with their clients.

- 2.3 The contract for services commenced on the 1<sup>st</sup> July 2017 to run for 3 years.

## **3 Admission Agreement**

- 3.1 Under the contract conditions, the current eligible workforce are transferred under TUPE arrangements from the current employer, Tai Tarian to The Wallich. In order to preserve the pension rights of the transferred staff, it is proposed that The Wallich are granted Admitted Body status to the City & County of Swansea Pension Fund. It is proposed that the admission agreement is granted on a closed scheme basis, to include only the named staff in schedule 1 of the admission agreement.

- 3.2 The admission agreement shall require the requisite indemnity bond or sponsoring employer guarantee is secured from the sponsoring employer, Neath Port Talbot County Borough Council. The Administering Authority shall also undertake the appropriate risk assessment of the admitted body, The Wallich.

## **4 Legal Implications**

- 4.1 An Admission Agreement will need to be prepared as outlined in this report with the appropriate indemnity included.

## **5 Financial Implications**

- 5.1 There are no financial implications arising directly 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:** None.



# Agenda Item 6c



## Report of the Section 151 Officer

Pension Fund Committee – 11 July 2019

### Breaches Report

Purpose:	The report presents any breaches which have occurred in the period in accordance with the Reporting Breaches Policy.
Report Author:	Claire Elliott
Finance Officer:	Jeff Dong
Legal Officer:	Stephanie Williams
Access to Services Officer:	N/A
<b>For Information</b>	

#### 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 in March 2019, 1.56% of retirement lumps sums have not been paid within the benchmark (it should be noted that 100% of payments were made within 1 month when all documentation was received). The % of non-payment of retirement lump sums within the specified benchmark was due to the members not returning completed pension election forms within a timely manner. Communication sent to members at time of retirement has been reviewed to ensure that the importance of timely return of required documents is highlighted and reminder triggers put in place.
- 2.5 The Fund requires that employers pay employee and employer contributions to the Fund on a monthly basis and no later than the 19<sup>th</sup> 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.
- 2.6 Included for the first time, is some performance data in respect of processing refunds. In most cases, the sums are quite small and the problem is locating the member/former member to process the refund, quite often they may have moved address or even passed away.
- 2.7 The target asset allocation to global equities and UK equities has been superceded by the transition to WPP Opportunities, notwithstanding the same the existing specified limit has been breached. The Pension Fund Committee has previously approved a de-risking programme which shall re-allocate those assets into real/yielding assets. Meanwhile an equity protection programme has been implemented in March 2019.

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

**Background papers:** None.

**Appendices:** Appendix A: Breaches Report.

City and County of Swansea Breach Register

Appendix A

City and County of Swansea Breach Register

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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 31 <sup>st</sup> March 2017, the allocation was 43%	There is resulting over allocation to global equities	<p>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.</p> <p>There is a planned investment review for 2017/18 which shall review asset allocations on a long term basis</p>	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	The administering authority has accrued interest payments on the retirement lump sums under the	This was due to members not returning relevant documentation in a timely manner	.		

		retirement	2013 LGPS regulations				
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	Gwrp 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 Gwrp 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	
Page 19 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 income	Employers are contacted once breach has occurred		Employers are contacted as soon as the deadline for submission of contributions has	

						passed	
Sept – Nov 2017	Administration	52.28% of retirement lump sums not paid within 1 month of normal retirement or 2 months of early retirement; 6.60% was not paid within 1 month of receipt of member option return	The administering authority has accrued interest payments on retirement lump sums, paid more than one month after their due date, under the 2013 LGPS regulations	This was mainly 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	
Sept – Nov 2017	Contributions	2 Employers have not paid contributions within required timescale	Minimal loss of investment income	Employers are contacted once breach has occurred		Employers are contacted as soon as the deadline for submission of contributions has passed	
Dec 17 – May 18	Administration	60.19% of retirement lump sums not paid within 1 month of normal retirement or 2 months of early retirement; 94.34% was paid within 1 month of receipt of member option return	The administering authority has accrued interest payments on retirement lump sums, paid more than one month after their due date, under the 2013 LGPS regulations	This was due to members not returning relevant documentation in a timely manner or deferred benefits coming into payment.		Communication to members regarding retirement options reviewed to ensure the importance of returning documents in a timely manner is emphasised	

Dec 17- May 18	Contributions	3 Employers have not paid contributions within required timescale	Loss of investment income	Employers are contacted once breach has occurred		Employers are contacted as soon as the deadline for submission of contributions has passed	
Mar 18- May 18	Contributions	3 Employers have not paid contributions within required timescale	Loss of investment income	Employers are contacted once breach has occurred		An exercise will be undertaken in June 18 to remind all Employers of the deadline date for submission of contributions.	
30/04/2018	Administration	Ystalyfera Community Council have not submitted their annual return for year-end by 30/04/2018.	Delay in year-end reconciliation exercise and possibility of failure to issue Annual Benefit Statements to Ystalyfera members	Unable to contact employer by phone and no response to numerous emails.		Recommend face-to-face visit	
Jun – Aug 2018	Administration	45% of retirement lump sums not paid within 1 month of normal retirement or 2 months of early retirement; 81% was paid within 1 month of	The administering authority has accrued interest payments on retirement lump sums, paid more than one month after their due date, under the	This was due to a high % of old deferred benefits coming into payment and members not returning relevant documentation in a timely manner		Members are reminded of the need to return pension options in a timely manner	

		receipt of member option return	2013 LGPS regulations				
Jun-Aug 18	Contributions	3 Employers have not paid contributions within required timescale	Loss of investment income	Employers are contacted once breach has occurred		An exercise was be undertaken in June 18 to remind all Employers of the deadline date for submission of contributions.	
Sep – Nov 2018	Administration	77.69% of retirement lump sums not paid within 1 month of normal retirement or 2 months of early retirement; 98.48% was paid within 1 month of receipt of member option return	The administering authority has accrued interest payments on retirement lump sums, paid more than one month after their due date, under the 2013 LGPS regulations	The abnormally high % due to the introduction of the Amendment Regs re deferred benefit members with pre 2014 membership (change to earliest retirement age) with a high number of members failing either to return the pension election forms within a timely manner or providing a current address		Member coms highlight the necessity of notification of a change of address	
Sep-Nov 2018	Contributions	4 Employers have not paid contributions within required	Loss of investment income	Employers are contacted once breach has occurred		An exercise was undertaken in June 18 to remind all	

		timescale				Employers of the deadline date for submission of contributions.	
Dec 2018 – Feb 2019	Administration	5.13% of retirement lump sums not paid within 1 month of normal retirement or 2 months of early retirement; 100% was paid within 1 month of receipt of member option return	The administering authority has accrued interest payments on retirement lump sums, paid more than one month after their due date, under the 2013 LGPS regulations	% due to members failing to return pension election forms in a timely manner		Members are reminded of the need to return pension options in a timely manner	
Dec 2018 – Feb 2019	Contributions	2 Employers have not paid contributions within required timescale	Loss of investment income	Employers are contacted once breach has occurred		Employers are contacted as soon as the deadline for submission of contributions has passed	
Mar 2019	Investment asset allocation	The Investment Strategy Statement outlines an indicative allocation of 34% +/- 5% to Global Equities. At 31 <sup>st</sup> March 2019, the allocation was	There is a resulting over allocation to global equities	The breach is being addressed on an averaged in basis via the de-risking programme into yielding/real assets. Meanwhile an equity protection programme has	It is recognised that investment into these other assets shall take time ( mitigated by the equity protection programme)	Allocations shall be amended as assets are implemented	✓

		74%		been implemented whilst this is rolled out.			
Mar – June 2019	Administration	1.56% of retirement lump sums not paid within 1 month of normal retirement or 2 months of early retirement; 100% was paid within 1 month of receipt of member option return	The administering authority has accrued interest payments on retirement lump sums, paid more than one month after their due date, under the 2013 LGPS regulations	% due to members failing to return pension election forms in a timely manner	.	Communication to members regarding retirement options reviewed to ensure the importance of returning documents in a timely manner is emphasised	✓
Page 6 of 9 Apr – June 2019	Administration	Frozen refunds unclaimed for this period equates to 95.83%	In accordance with current Scheme Regulations, no further interest will accrue on or after 5-year anniversary. Should the member enter re-employment membership cannot be aggregated, the member will not be able to transfer the benefit out and if a refund is claimed there	High % due to member not making a positive election to claim refund	Information has been reported in the breach register	Member was written to 3 months prior to the date of the 5-year anniversary of date of leaving	✓



			will be tax implications as this is deemed to be an unauthorised payment				

\*New breaches since the previous meeting should be highlighted

# Agenda Item 6d



## Report of the Section 151 Officer

Pension Fund Committee – 11 July 2019

### Trustee Training

#### CIPFA Code of Practice, Public Sector Finance Knowledge and Skills

#### The Pension Regulator Knowledge and Understanding Duty on Committee Members

Purpose:	To determine an annual training programme for Trustees and Officers of the Pension Fund.
Reason for Decision:	To ensure compliance with the CIPFA Public Sector Pensions Finance Knowledge & Skills Code of Practice and the Pension Regulator Knowledge and Understanding Requirements.
Consultation:	Legal, Finance and Access to Services.
Recommendation:	It is recommended that:  1. The outline training plan in 3.7 and 3.8 be approved and further opportunities which are identified during the year be delegated to the Deputy S 151 Officer for approval.
Report Author:	J Dong
Finance Officer:	J Dong
Legal Officer:	S Williams
Access to Services Officer:	R Millar

## 1 Introduction

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

- 1.2 One of Myners' main conclusions was that many pension fund trustees lack the necessary investment expertise to act as strong and discerning customers of the investment consultants and fund managers who sell them services.
- 1.3 In order to address the distortions identified, Myners recommended that pension fund trustees voluntarily adopt, on a 'comply or explain' basis, a series of principles codifying best practice for decision-making in relation to investment. These principles would be a powerful force for behavioural change. The central tenets included:
- decisions should be taken only by those with the right skills and expertise, and trustee boards should ensure they have access to appropriate skills and resources;
  - fund managers should be set clear objectives and timescales;
  - the performance of all managers should be measured, and trustees should assess their own performance;
  - trustees should engage with investee companies where it is in the interests of their fund members so to do; and
  - the investment strategy and returns of the fund should be reported annually to members and the public.
- 1.4 The Government agreed that the principles represent a clear and coherent approach, which will help the pensions industry respond to the challenges it faces, and from which everyone – consumers, industry and Government, but especially pension funds themselves – stands to benefit. The Government committed to reviewing after two years the extent to which the principles had been effective in bringing about behavioural change.

## **2 Progress**

- 2.1 The Government has concluded that the voluntary approach is beginning to work, but considerably more efforts are needed to ensure that problem areas identified by the review are satisfactorily addressed. It believes that pension funds would better serve their members' and sponsors' interests if the best practice embodied in the Myners principles were to be strengthened and amplified, particularly in relation to trustee expertise and the process of investment decision-making.
- 2.2 Strengthening trustee skills and expertise is fundamental to achieving Myners' goals. The Pensions Act requires all trustees and officers to have appropriate knowledge and understanding of funding, investment, and relevant legal and scheme-specific issues. The Pensions Regulator will be responsible for enforcing this legal requirement, and the Occupational Pensions Regulatory Authority (OPRA) has developed a detailed code of practice to provide trustees with guidance.
- 2.3 The Government proposed that the Myners principle in relation to effective

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

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

#### **3.1 CIPFA Code**

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

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

1. Organisations responsible for the financial administration of public sector pension schemes recognise that effective financial management, decision-making and other aspects of the financial administration of public sector pension schemes can only be achieved where the those involved have the requisite knowledge & skills.
2. Organisations have in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of pension scheme finance knowledge and skills for those in the organisation responsible for financial administration and decision-making.
3. The associated policies and practices are guided by reference to the requirements outlined in the CIPFA Pensions Finance Knowledge & Skills framework.
4. The organisation has designated a named individual to be responsible for ensuring that policies are implemented.

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

1. This organisation adopts the key recommendations of the Code of Practice
2. This organisation recognises that effective financial administration and decision making can only be achieved where those involved have the requisite knowledge and skills
3. accordingly that organisation will ensure that it has formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of the relevant knowledge and skills
4. The policies and practices will be guided by reference to CIPFA knowledge and skills framework
5. The organisation will report on an annual basis how these policies have

been put into place

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

### 3.4 The Pension Regulator

Key points

- You must have the required knowledge and understanding of scheme rules, documents recording scheme administration policies and pensions law.
- You should have adequate training to meet the knowledge and understanding requirements.

### 3.5 Knowledge and understanding requirements

You must:

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

Scheme rules and administration policies

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

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

### 3.6 The City & County of Swansea Pension Fund Policy Statement

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

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

The majority of the Pension Committee have been in post for some time now and have formally undertaken initial introductory training in the LGPS and are consolidating that knowledge with continuous development.

It is recognised that there is a relatively new member of the pension fund committee and induction training has been given and officers continue to work with the member to acquire the competence required.

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

3.7 In 2018/19, the following Trustee training was undertaken by elected members:

1. LGE ( Local Government Employers) Trustee Fundamentals day 1, 2 & 3
2. LGC Investment Summit
3. Residential Housing as an asset class
4. Equity Protection
5. ESG and Impact Investing
6. LAPFF AGM

In 2019/20, the following training has been identified as appropriate training to be undertaken by members of the Committee along with any appropriate training opportunities which present themselves during the year to be agreed by the Section 151 Officer:

1. WPP Investment Beliefs Workshop
2. WPP ESG Beliefs Workshop
3. LGE ( Local Government Employers) Trustee Fundamentals day 1, 2 & 3
4. LGC Investment Summit
5. Communications training
6. LAPFF AGM
7. CIPFA trustee training

3.8 The determination of the training requirements for officers shall be delegated to the Deputy Section 151 Officer.

#### **4 Financial Implications**

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

#### **5 Legal Implications**

5.1 The underlying legal framework is set out in the Report

#### **6 Equality Impact Assessment Implications**

6.1 An EIA Screening has been undertaken and no E&EIs have been identified

**Background papers:** None.

**Appendices:** None.

# Agenda Item 6e



## Report of the Section 151 Officer

Pension Fund Committee – 11 July 2019

### HMT & MHCLG Consultation on the Cap on Exit Payments and Valuation Cycle and Reform

<b>Purpose:</b>	To approve the consultation response
<b>Reason for Decision:</b>	To ensure the views of the Pension Fund Committee of the Administration Authority are submitted to MHCLG for consideration
<b>Consultation:</b>	Legal, Finance and Access to Services.
<b>Recommendation:</b>	It is recommended that:  <ol style="list-style-type: none"><li>1. The Pension Fund Committee retrospectively approves the consultation response of the Administering Authority in respect of the cap on exit payments.</li><li>2. The Pension Fund Committee approves the consultation response of the fund's appointed actuary in respect of the Valuation Cycle and Reform.</li></ol>
<b>Report Author:</b>	J Dong
<b>Finance Officer:</b>	J Dong
<b>Legal Officer:</b>	S Williams
<b>Access to Services Officer:</b>	R Millar

#### 1 Background

- 1.1 The Ministry of Housing Communities and Local Government (MHCLG) and HM Treasury (HMT) routinely circulates consultation re. developments and amendments to both the administration Regulations and Investment Regulations in the local government pension scheme. **(LGPS)**. The LGPS is not a devolved function and is still administered from Westminster.

## **2 Exit Payment Cap £95k**

- 2.1 The Government proposes to cap exit payments in the public section to an absolute limit of £95k and seeks consultation on the regulations to implement. This was implemented following a number of high profile public sector workers receiving large exit payments when they have been perceived to have failed in their roles. The draft statutory instrument and consultation response is attached at Appendix 1.
- 2.2 The Government's definition of exit payment includes any additional pension contributions required to enable early access to a member's benefits unreduced when subject to early retirement when made redundant aged 55 or over. To clarify exit payment would include redundancy ( member received cash payment) and any additional pension contributions ( the pension fund receives the payment). The arbitrary limit of £95k would encompass very modestly paid public sector workers who have long service and a number of variables along the way as highlighted within the proposed response.
- 2.3 The remainder of the response identifies technical issues with how the 2 components of the exit payment cap need to be assessed and dealt with and some of the weaknesses of the proposal.
- 2.4 The LGA and WLGA have also submitted responses echoing these themes
- 2.5 Due to the timing of the consultation, the response was approved by the Chairman of the Pension Fund Committee on the 2<sup>nd</sup> July 2019.

## **3 Valuation Cycle**

- 3.1 The MHCLG issued consultation on proposals to vary the current 3 year valuation cycle and proposals re. exit payments and protecting rights of membership of employees of certain employers.
- 3.2 The fund's appointed actuary has provided its response to the consultation. Attached at Appendix 2 is the consultation and the actuary's proposed response.

## **4 Legal Implications**

- 4.1 The consultation responses shall be considered by HM Treasury and any amendments to the legislation shall be implemented.

## **5 Financial Implications**

- 5.1 There are no financial implications arising directly 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 - Draft statutory instrument and consultation response.  
Appendix 2 - Consultation and the actuary's proposed response.



*Draft Regulations laid before Parliament under section 161(4) of the Small Business, Enterprise and Employment Act 2015, for approval by resolution of each House of Parliament.*

D R A F T   S T A T U T O R Y   I N S T R U M E N T S

**2019 No. 000**

**EMPLOYMENT**

**The Restriction of Public Sector Exit Payments Regulations  
2019**

*Made - - - -*

*Coming into force in accordance with regulation 1(2)*

The Treasury makes the following Regulations in exercise of the powers conferred by sections 153A(1), (2), (4) and (8)(a), 153B(1)(c) and (4)(a), 153C(1), (5) and 8(a) and 161(2) of the Small Business, Enterprise and Employment Act 2015(a).

A draft of these Regulations has been laid before Parliament and has been approved by a resolution of each House of Parliament in accordance with section 161(4) of that Act.

**Citation and commencement**

1. These Regulations may be cited as the Restriction of Public Sector Exit Payments Regulations 2019.

(1) These Regulations come into force on the day after the day on which they are made.

**Application**

2. These Regulations apply where an exit payment(b) is made—

(a) by a public sector authority listed in Part 1 of the Schedule; or

(b) to a holder or former holder of an office listed in Part 2 of the Schedule.

**Interpretation**

3. In these Regulations—

“the Act” means the Small Business, Enterprise and Employment Act 2015;

“ACAS” means the Advisory, Conciliation and Arbitration Service;

“ACAS arbitration scheme” means the arbitration scheme set out in the Schedule to the ACAS Arbitration (Great Britain) Order 2004(c);

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(a) 2015 c.26. Sections 153A, 153B and 153C were inserted by section 41(1) of the Enterprise Act 2016 (c.12).

(b) For the definition of “an exit payment” see regulation 3.

(c) S.I. 2004/753.

“Conciliation agreement” means any agreement to refrain from instituting or continuing legal proceedings where an ACAS conciliation officer has taken any action under any of sections 18A to 18C of the Employment Tribunals Act 1996(a);

“Devolved Welsh authority” has the meaning in section 157A of the Government of Wales Act 2006 (b);

“exit payment” means a payment of a description prescribed in regulation 6(1);

“exit payment cap” means either the amount specified in section 153A(1) of the Act or the substituted amount referred to in section 153A(9) of that Act;

“fire and rescue authority” has the meaning in section 1 of the Fire and Rescue Services Act 2004(c);

“fixed term contract” has the meaning in regulation 1(2) of the Fixed-term Employees (Prevention of Less Favourable Treatment) Regulations 2002(d);

“hours worked” by a person means the basic hours the person is required to work under the terms of a contract in respect of their employment or office;

“local authority” means—

- (a) a county council;
- (b) in relation to Wales only, a county borough council;
- (c) a district council;
- (d) a London borough council;
- (e) the Common Council of the City of London in its capacity as a local authority; or
- (f) the Council of the Isles of Scilly;

“redundancy” has the meaning in section 139 of the Employment Rights Act 1996(e);

“relevant Minister” means either—

- (a) a Minister of the Crown; or
- (b) in relation to a relevant Welsh exit payment, the Welsh Ministers;

“relevant public sector authority” means—

- (a) a body listed in Part 1 of the Schedule; or
- (b) a body responsible for determining the level of remuneration payable to the holder of a public sector office listed in Part 2 of the Schedule;

“relevant public sector exit” occurs when—

- (a) an employee leaves the employment of a public sector authority listed in Part 1 of the Schedule; or
- (b) a holder of a public sector office listed in Part 2 of the Schedule leaves office;

“relevant redundancy payment” means—

- (a) a payment to a person of statutory redundancy pay to which the person is entitled under section 135 of the Employment Rights Act 1996(f); or
- (b) in a case where a person is not, solely as a result of section 159 of that Act, entitled to statutory redundancy pay, a payment to the person of an amount equivalent to the statutory redundancy pay to which the person would have been entitled but for section 159 of that Act;

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(a) 1996 c.17. Sections 18A to 18C were added by the Enterprise and Regulatory Reform Act 2013 c.24 Pt 2s.7(1).

(b) 2006 c.31. Section 157A was added by the Wales Act 2017 c.4 Pt. 1 s. 4(1).

(c) 2004 c.21. S.1 is moved under a new heading entitled “Fire and rescue authorities” by Policing and Crime Act 2017 c.3 Sch.1(1) para 2.

(d) S.I. 2002/2034;

(e) 1996 c.18. Section 139 was amended by paragraph 31 of Schedule 21 to the Education Act 2002 (c.32) and paragraph 41(4) of Schedule 2(2) to the Local Education Authorities and Children’s Service Authorities (Integration of Functions) Order 2010 S.I. 2010/1158.

(f) 1996 c.18.

“relevant Welsh exit payment” has the meaning in section 153B(6) of the Act;

“salary” in respect of any employment or service in an office means the annual value of remuneration, including any benefit in kind, a person was entitled to receive under the terms of a contract in respect of the employment or office on the date that the person left the employment or ceased to hold the office;

“settlement agreement” means any agreement to refrain from instituting or continuing legal proceedings which satisfies the conditions in section 203(3) of the Employment Rights Act 1996(a);

“statutory redundancy pay” means an amount calculated in accordance with section 162 of the Employment Rights Act 1996(b);

“the Schedule” means the schedule to these Regulations.

### **Restrictions on exit payments**

4. Subject to regulations 6, 7 and 8–

- (a) a relevant public sector authority must not make an exit payment exceeding the exit payment cap in respect of a relevant public sector exit;
- (b) where two or more relevant public sector exits occur in respect of the same person within any period of 28 consecutive days, the total amount of the exit payments made to that person in respect of those exits shall not exceed the exit payment cap.

5. For the purposes of regulation 4(b), the exit payments will be treated as having been paid in the following sequence–

- (a) where the relevant public sector exits do not occur on the same day, in chronological order;
- (b) in any other case, in the following order–
  - (i) in descending order of salary;
  - (ii) where the salaries are equal, in the descending order of hours worked;
  - (iii) where the salaries and hours worked are equal, in descending order of the person’s length of the service in the employment or as holder of the office; or
  - (iv) where the salaries, hours worked and length of service in the employment or as holder of the office are equal, in the order determined by the relevant Minister.

### **Exit payments**

6. In this regulation a reference to an exit payment made to a person includes a reference to an exit payment made in respect of that person to another person.

(1) The following descriptions of payment are exit payments paid to a person, unless the payment falls within regulation 7–

- (a) subject to regulation 8, any payment on account of dismissal by reason of redundancy;
- (b) any payment made to reduce or eliminate an actuarial reduction to a pension on early retirement or in respect to the cost of a pension scheme of such a reduction not being made;
- (c) any payment made pursuant to an award of compensation under the ACAS arbitration scheme or a settlement or conciliation agreement;
- (d) any severance payment or ex gratia payment;
- (e) any payment in the form of shares or share options;
- (f) any payment on voluntary exit;
- (g) any payment in lieu of notice due under a contract of employment;

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(a) 1996 c 18.

(b) 1996 c. 18. Section 162 was amended by section 1(2)(a) of the Employment Rights (Dispute Resolution) Act 1998 (c.8), paragraph 1 of Schedule 9 to the Employment Relations Act 1999 (c.26) and S.I. 2006/1031.

- (h) any payment made to extinguish any liability to pay money under a fixed term contract;
- (i) any other payment made, whether under a contract of employment or otherwise, in consequence of termination of employment or loss of office.

**Payments exempt from restriction.**

7. The following descriptions of payment are not exit payments—

- (a) any payment made in respect of death in service;
- (b) any payment made in respect of incapacity as a result of accident, injury or illness (not including injury to feelings);
- (c) any payment made under—
  - (i) rule B7(5A), Schedule 2 of the Firemen’s Pension Scheme Order 1992(a) where the relevant fire and rescue authority has determined that an individual be paid a lump sum;
  - (ii) rule 6, Part 3, Schedule 1 of the Firefighters’ Pension Scheme (England) Order 2006(b) where the relevant fire and rescue authority has determined that an individual should be retired with an early retirement pension initiated by that authority in accordance with the Addendum to the Fire and Rescue National Framework for England on firefighters’ fitness prepared in accordance with section 21 of the Fire and Rescue Services Act 2004(c);
  - (iii) rule 6, Part 3, Schedule 1 of the Firefighters’ Pension Scheme (Wales) Order 2007(d) where the relevant fire and rescue authority has determined that an individual should be retired with an early retirement pension;
  - (iv) regulation 62 of the Firefighters’ Pension Scheme (England) Regulations 2014(e) where the relevant fire and rescue authority has determined that an individual should be retired with an early retirement pension initiated by that authority in accordance with the Addendum to the Fire and Rescue National Framework for England on firefighters’ fitness prepared in accordance with section 21 of the Fire and Rescue Services Act 2004(f);
  - (v) regulation 71 of the Firefighters’ Pension Scheme (Wales) Regulations 2015 (employer initiated retirement) (g) where the relevant fire and rescue authority has determined that an individual should be retired with an early retirement pension initiated by the authority;
- (d) a service award paid to a member of the judiciary in accordance with the determination of the Lord Chancellor dated 31 March 2006(h);
- (e) a service payment made in respect of annual leave due under a contract of employment but not taken;
- (f) any payment made in compliance with an order of any court or tribunal;
- (g) a payment in lieu of notice due under a contract of employment that does not exceed one quarter of the relevant person’s salary.

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(a) SI 1992/129. Rule B7(5A), Schedule 2 was amended by the Firefighters’ Pension Scheme (Amendment) (No.2) (England) Order 2013/1392 Sch. 1 para.2(i).

(b) Order 2006/3432. Pt 3 rule 6(4) inserted by the Firefighters’ Pensions Scheme (England) (Transitional and Consequential Provisions) Regulations 2015/589 Sch.2 para.3(f).

(c) 2004 c 21. Section 21 was added by Policing and Crime Act 2017 c. 3 Sch.1(1) para.9.

(d) Order 2007/1072. Pt 3 rule 6(4) inserted by the Firefighters’ Pension Scheme (Wales) (Transitional and Consequential Provisions) Regulations 2015/1016 Sch.2 para.3(f).

(e) S.I. 2014/2848. Regulation 62(3) added by the Firefighters’ Pension Scheme (England) (Transitional and Consequential Provisions) Regulations 2015/589 Sch.1 para.5(b).

(f) 2004 c.21. Section 21 was added by the Policing and Crime Act 2017 c.3 Sch.1(1) para.9.

(g) S.I. 2015/622. Regulation 71(3) added by the Firefighters’ Pension Scheme (Wales) (Transitional and Consequential Provisions) Regulations 2015/1016 Sch.1 para5(b).

(h) A copy of the determination can be found at: [https://jac.judiciary.gov.uk/sites/default/files/sync/basic\\_page/moj\\_jupra\\_1993\\_scheme\\_guide\\_nov2014\\_web\\_3.pdf](https://jac.judiciary.gov.uk/sites/default/files/sync/basic_page/moj_jupra_1993_scheme_guide_nov2014_web_3.pdf).

### **Prohibition on reduction of statutory redundancy pay or equivalent**

**8.** A relevant public sector authority must not reduce the amount of a relevant redundancy payment in respect of a relevant public sector exit.

(1) Accordingly, if—

- (a) a person is entitled to a relevant redundancy payment and one or more other exit payments in respect of a relevant public sector exit; and
- (b) the total amount of the exit payments in respect of the exit would exceed the exit payment cap;

the relevant public sector authority must reduce the amount of one or more of the other exit payments.

(2) Where this regulation applies, a payment of a relevant redundancy payment by a relevant public sector authority may cause the total amount of exit payments payable to the person to exceed the exit payment cap, but only if all other exit payments by the relevant public sector authority to which the person is entitled to have been reduced to zero.

### **Non-cash exit payments**

**9.** Where these regulations prevent a relevant public sector authority from making an exit payment of the type described in regulation 6(1)(b) the relevant public sector authority must, as an alternative, make a cash payment of an amount not exceeding the amount of that exit payment.

(1) This regulation is subject to regulation 4(a).

### **Requirement to inform**

**10.** This regulation applies to a person—

- (a) who has left employment or office in circumstances amounting to a relevant public sector exit; and
- (b) who is entitled to receive an exit payment in respect of that relevant public sector exit.

(2) The person must as soon as reasonably practicable on or after the day on which the exit occurs inform in writing all other relevant public sector authorities which the person is an employee of or which are responsible for determining the level of remuneration payable to the person as a holder of a public sector office listed in Part 2 of the Schedule—

- (a) that the person is entitled to an exit payment;
- (b) the type of exit payment;
- (c) the amount of the exit payment;
- (d) the date that the person left the employment or office to which the exit payment relates; and
- (e) the identity of the relevant public sector authority that is obliged to make the exit payment.

### **Relaxation of the restriction on exit payments**

**11.** The power in section 153C(1) of the Act (relaxation of restriction) is exercisable, in relation to exit payments made by—

- (a) a devolved Welsh authority, by the Welsh Ministers instead of by a Minister of the Crown;
- (b) a local authority in England, by the full council of that local authority;
- (c) a fire and rescue authority, by the fire and rescue authority; and
- (d) the Greater London Authority, by the London Assembly.

**Power to relax to be exercised following compliance with Treasury directions or with consent**

12. The power in section 153C(1) of the Act must not, unless it is exercised with the consent of the Treasury, be exercised without compliance with any directions given by the Treasury applicable to the exercise of the power.

(1) This regulation does not apply in relation to payments made by a devolved Welsh authority.

**Duties to keep records in respect of relaxation of the restriction**

13.—(1) A person who exercises the power in section 153C(1) of the Act must keep a written record of—

- (a) the fact the power has been exercised;
- (b) the name of the person in respect of whom the power was exercised;
- (c) the amount and type of the exit payment in respect of which the power was exercised;
- (d) the date on which the power was exercised; and
- (e) the reasons why the power was exercised.

(2) A record under paragraph (1) must be kept for 3 years beginning with the day on which the decision is taken to exercise the power in section 153C(1) of the Act.

(3) At the end of each financial year in which the power in section 153C(1) of the Act was exercised, each relevant public sector authority must publish a list detailing—

- (a) the amounts and types of exit payments made by the relevant public sector authority in respect of which the power was exercised;
- (b) the dates on which the power was exercised; and
- (c) the reasons why the power was exercised.

Date

*Name*  
*Name*  
Two of the Lords Commissioners of Her Majesty's Treasury



# Consultation on Valuation Cycle and Management of Employer risk

June 2019

MHCLG has published a policy [consultation](#) setting out proposals to transition the local valuation cycle for the LGPS in England and Wales from triennial to quadrennial; together with proposals to introduce greater flexibility for exiting employers; give HE/FE the option to choose whether or not to admit new employees; and to improve the exit credit provisions to reflect experience since 14 May 2018. This Spotlight sets out Aon's views on the consultation, considering our clients' perspectives (i.e. administering authorities, scheme employers and contractors) and is intended to help stakeholders formulate their own response.

## Introduction

The consultation brings together a number of changes, most of which we welcome. The proposal to move the local valuation cycle (which sets employer contributions) from triennial to quadrennial to align with the scheme valuations (carried out by GAD for cost management purposes) has been well trailed although the rationale is weak when considered from a local, funding perspective. MHCLG does, however, appear to recognise this and has proposed a number of potential mitigations, including interim valuations.

The suggested changes to the exit regime for employers and giving greater flexibility and choice for the HE/FE sector in determining whether or not to admit new employees to the scheme were strongly supported by employers and administering authorities during Aon's consultation for the Tier 3 project for the Scheme Advisory Board. The proposals will not be welcomed by everyone, particularly member representatives, but given the strength of feeling of many employers we believe it is important for the issues to be raised and debated openly and transparently, which this consultation should facilitate.

The consultation also proposes to address what has proved to be a material oversight in the introduction of the requirement to repay an exit credit to an outgoing employer, i.e. the failure to allow administering authorities to consider any risk sharing or other arrangements which are not consistent with any surplus being repaid on exit.

Our response to the original consultation on 19 August 2016 made clear the potential complexities associated with pre-existing arrangements, so we are pleased that this is being addressed, although it would of course have been preferable for the issue to have avoided in the first place. Many administering authorities have put exit credits on hold but clarity will be needed on what should happen where exit credits have already been paid but where risk sharing arrangements were in place – will steps need to be taken to reclaim these payments?

This Spotlight sets out Aon's views on the proposals and questions posed in the consultation. We hope it will assist stakeholders in formulating their own responses to the consultation.

The consultation closes on 31 July 2019.

## Valuation Cycle

The consultation proposes to move the local valuation cycle (which sets employer contributions) from triennial to quadrennial to align with the scheme valuations which are carried out by GAD.

**Question 1: As the Government has brought the LGPS scheme valuation onto the same quadrennial cycle as the other public service schemes, do you agree that LGPS fund valuations should also move from a triennial to a quadrennial cycle?**

We do not agree that the case has been made to move the local valuations from triennial to

quadrennial. The consultation states that this will *deliver great stability in employer contribution rates and reduce costs*.

There are already mechanisms in place to deliver stability of employer contributions via Regulation 62 of the LGPS Regulations 2013 and CIPFA guidance on Preparing and Maintaining a Funding Strategy Statement. In our experience administering authorities do generally make use of various mechanisms available to them to keep contributions stable so we are unconvinced by MHCLG's argument.

We also don't believe the proposals will reduce costs (at least not locally) given:

- it is not clear that auditors will accept accounting figures based on membership data and demographic assumptions which are up to 5 years out of date (so more frequent full valuations may be needed for employer accounting and possibly Fund accounting under IAS26)\*
- to the extent that interim valuations are carried out, (noting that a power to carry out an interim valuation is specifically proposed within the document), whether at a whole of fund level or for individual employers, this will increase costs

\* the accounting standards require that an employer *shall determine the net defined benefit liability (asset) with sufficient regularity that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the end of the reporting period* and the CIPFA guidance specifically states that this *shall be interpreted to mean that between the formal actuarial valuations every three years there shall be approximate assessments in intervening years* (although it also refers to four years for police and firefighters' pension schemes). It will be important to consider the views of both private sector and public sector auditors as they may have very different viewpoints. It would be potentially embarrassing for MHCLG if NAO's view is that three yearly valuations are required for accounting purposes and this could increase costs overall.

We are not privy to costs charged by GAD for their actuarial work and advice so it is possible that the proposed change would lead to cost savings for MHCLG and/or HMT.

We believe that the rationale would be stronger if the LGPS were only comprised of long-term, secure employers fully backed by taxpayers for which contributions could be set for 4 years without the risk of employer failure with insufficient funds. However, as budget-setting becomes more short-term it's questionable whether those employers would favour contributions being set for 4 years or for more regular reviews. In addition, there are a number of non-taxpayer backed employers, principally community admission bodies and HE/FE scheduled bodies, some of which are increasingly short-term and whose covenant is less strong than the Tier 1 employers.

Many administering authorities have been developing much more robust risk management policies in relation to employer risk and moving to a quadrennial valuation cycle where contributions are only reviewed every 4 years would represent a backwards step. It could even increase costs if it meant interim valuations were carried out every 2 years for these employers.

In addition, as the LGPS is a funded scheme there is an additional element which doesn't affect the unfunded schemes, i.e. investment performance. Whilst administering authorities do set investment strategy on a long-term basis, they also tend to review strategy triennially alongside the actuarial valuation. Less frequent reviews may lead to missed opportunities to refine strategy to maximise the risk/reward trade-off, leading to a cost to employers and taxpayers.

**Question 2: Are there any other risks or matters that you think need to be considered, in addition to those identified above, before moving funds to a quadrennial cycle?**

Following on from our comments above, we believe MHCLG should consider what evidence is available to support its assertion that the move to a quadrennial cycle would lead to greater stability of contributions and lower costs before proceeding. In particular, we believe it would be prudent to understand employers' and auditors'



requirements in relation to accounting under FSR102 and IAS19.

Our principal objection to the move from triennial to quadrennial valuations is that it may weaken fund governance. Funds following best practice already carry out annual data validation checks and reviews of contributions for short term employers. However, whilst tPR's requirements in relation to data scoring should assist in relation to annual assessments of data quality, if there is no formal requirement for interim valuations the proposed mitigations may have no effect. We consider these points in more detail below in response to questions 5 and 6.

We are aware that the cost management process is under review, but alignment of the scheme and local valuations on a triennial cycle has not proved to be helpful for the 2019 local valuations. A further consideration should therefore be the timing of benefit/member contribution changes following the cost management process, and how these align with local valuation calculations. The aim should be to avoid a repeat of the current situation, where the 2019 valuations are to be carried out without knowing what the benefit structure of the LGPS as at the valuation date will be.

### Question 3: Do you agree the local fund valuation should be carried out at the same date as the scheme valuation?

We can understand why MHCLG may believe this will be helpful, e.g. that the calculations could be based on the same set of data, but we do not believe that this will bring the hoped for benefits. We are aware that GAD had some material concerns in relation to the quality of the data as at 31 March 2014 (needed to establish the baseline for cost management calculations) and that it was thought that accuracy would have been improved had the date coincided with a local funding valuation. However, if funds are adhering to the new tPR requirements data accuracy should be improved regardless of the local valuation date. To the extent that there are concerns this isn't happening, extending the local valuation cycle may simply make the issue worse, as it will be longer between formal valuation data validation exercises.

In addition, GAD requires the split of membership movements between pre and post-2014 benefits and other data which is not needed for local valuations. It is therefore not clear that aligning the valuation cycle will necessarily improve the quality of the additional data required by GAD.

MHCLG doesn't cite this within the consultation document, but if quality of data is perceived to be an issue, we do not believe that aligning the valuation cycle is the right response.

It will also mean a further year between the cost management calculations and implementation of member contributions or benefit changes which could lead to greater changes to costs and hence more likelihood of the HMT cost management cost being outside of the 2% corridor which triggers member contributions or benefit changes.

### Question 4: Do you agree with our preferred approach to transition to a new LGPS valuation cycle?

We agree that approach b) (completion of the 2019 valuation with a three year Rates and Adjustments Certificate followed by another valuation as at 31 March 2022 and a two year Certificate) is preferred to a five year gap between the 2019 valuation and the next.

Approach a) has the disadvantages relating to scheme governance, potential larger changes in contribution rates due to additional intervaluation experience, and accounting implications referred to above, exacerbated by the period being 5 years rather than 4 years.

### Question 5: Do you agree that funds should have the power to carry out an interim valuation in addition to the normal valuation cycle?

We have long argued for powers to amend employer contributions between formal triennial valuations beyond the very limited circumstances currently set out in Regulation 64. We are therefore supportive of the introduction of a broader power to carry out an interim valuation and believe that this is vital to support administering authorities' risk management should local valuations be moved to a quadrennial cycle.

### Question 6: Do you agree with the safeguards proposed?

We are aware that previous provisions permitting interim valuations were removed due to concerns about these valuations being timed to enable employers to take advantage of favourable market conditions. We therefore agree with the proposal that the circumstances in which an interim valuation would be carried out should be properly documented within the Funding Strategy Statement ("FSS").

An interim valuation is not defined within the consultation document but appears to encompass both an approximate update as well as what might more traditionally be viewed as an interim valuation (which would be based on full membership data but may not require updated demographic assumptions)<sup>1</sup>. Of more importance is perhaps what the outcome of the interim valuation might be. Our assumption is that it should be carried out across the fund as a whole, which we would support given that for non-unitised funds this is required to ensure assets are appropriately allocated to employers. However, it presumably does not follow that contributions must be amended for all employers.

### Question 7: Do you agree with the proposed changes to allow a more flexible review of employer contributions between valuations?

We believe that more flexibility is already needed to amend contributions between valuations so we welcome proposals to facilitate this. As we have noted on many occasions, it is very unclear how Regulation 64(6) can be used currently given the circumstances appear to be limited to liabilities being higher than expected for active members compared to the assumptions set out in the Rates and Adjustments Certificate by virtue of Regulation 62(8). Any proposals which seek to clarify Regulation 64 must be therefore be a positive step in the right direction.

It will be important to be able to amend contributions more frequently than quadrennially for all non-permanent employers (in practice principally the non-taxpayer-backed, Tier 3

employers). But as the consultation suggests, employer contribution reviews may be needed in other areas too, such as following a merger or take-over and this should be extended to material transfers of staff to or from any employer, whether involving another scheme or employer within the fund.

Our suggestion would be that any proposals should explicitly allow contributions to be changed:

- if an employer closes the fund to new entrants (this can currently be achieved via Regulation 64(4) but an explicit power would be preferable and arguably more transparent), including where one employer within a group or pool closes to new entrants
- if there is a material transfer of staff to or from an employer (noting this has become common in certain sectors, such as movements between MATs, and mergers of colleges and housing associations), or following a material outsourcing or insourcing
- if there is a change in covenant, including but not limited to a material change in the level or source of funding of an employer. (It is important that employers provide such information proactively to funds rather than it being for the administering authority to seek out such information)
- where an employer pays contributions above the level specified in the Rates and Adjustments certificate in any year then arguably remaining deficit contributions should be reduced. However, protections maybe needed to prevent payment of additional contributions to trigger a full review when market conditions are favourable, perhaps by limiting contributions reductions to those justified by the additional payment.

Other situations where contributions should be reviewed should be at the discretion of the administering authority and set out in the FSS.

We are less supportive of the reference to a scheme employer being able to request a reassessment because it believes this would lead

*the demographic assumptions and scheme experience*

<sup>1</sup> We have formed this view based on the following wording: *it may not be necessary to revisit all of*

to a reduction in its contribution rate unless there are safeguards around it, as this provision may lead to employers picking the timing to request such a review, or pay a lump sum deficit contribution to trigger a review, to coincide with favourable market conditions. This would negate MHCLG's objective of stability of contributions and acknowledgement that safeguards are needed to avoid interim valuations being timed to reduce contributions. Therefore, we believe that any provision to allow employers to request reviews of contribution rates should not be so wide ranging that it is open to such manipulation.

**Question 8: Do you agree that Scheme Advisory Board guidance would be helpful and appropriate to provide some consistency of treatment for scheme employers between funds in using these tools?**

We agree that it would be helpful and appropriate for there to be guidance on use of the new flexibilities, whether from CIPFA or the Scheme Advisory Board. If administering authorities' policies on interim valuations are to be set out in the FSS (which seems logical) we don't believe that SAB guidance **in addition to** CIPFA guidance would be helpful. It would be far more practical if all the guidance on the FSS were in the same place, ideally in the statutory guidance referred to in Regulation 58 (which currently refers to the 2012 version of the CIPFA guidance which has been superseded by the 2016 version).

We don't believe that administering authorities need to have identical policies, noting that this is not compatible with local decision-making nor the diversity of funding levels and employers within funds. However, it would be helpful for funds and employers alike if the *process* by which administering authorities' policies were derived were governed by a single set of principles set out within national guidance.

Assuming that the regulations are permissive and do not contain detailed requirements, both the content and the extent of adherence to the guidance will be important. We would therefore strongly encourage MHCLG to make provision for statutory guidance (which would be automatic if this were provided via the CIPFA guidance on the FSS). We also wonder whether there should be

some sort of certification, e.g. within the annual report, that the guidance has been adhered to.

**Question 9: Are there other or additional areas on which guidance would be needed? Who do you think is best placed to offer that guidance?**

We would caution against the guidance being too prescriptive in relation to the exceptional circumstances in which an interim valuation could be carried out or in relation to the process for triggering an interim valuation. It would be helpful for there to be examples but the current uncertainties, including cost management, the outcome of McCloud, and GMP indexation and equalisation, could not have been predicted but might all lead to contributions needing to be reviewed for some or all employers between quadrennial valuations.

We are not sure what is intended by the reference to "*what level of professional advice is appropriate to deliver the interim valuation*". Our assumption is that an interim valuation should not be undertaken without having been signed off by the Fund Actuary. We would be keen to better understand MHCLG's intentions here.

It will be important that it is clear that it is administering authorities and not employers who have the final say on reviewing employer contributions. Employers may request interim valuations for accounting purposes and administering authorities should be able to accede to those requests without then being obliged to review the employer's contributions.

As members of the Institute and Faculty of Actuaries and employed by a firm regulated by the Financial Reporting Council we are subject to the profession's Code of Conduct and Technical Actuarial Standards. Whilst we fully recognise the need for local authorities to demonstrate best value, including in relation to pension fund costs, we would be very uncomfortable if an external party were to dictate what constitutes a "*proportionate level of actuarial advice*" since our work and advice must always comply with our professional standards. In our experience administering authorities are very clear in their requirement to seek best value, and significant cost savings have been achieved via the National

Framework, so we are rather disappointed that MHCLG appears to believe it needs to dictate or somehow limit the level of actuarial advice required by administering authorities.

Other areas which the guidance could cover include:

- Situations it is expected funds should include in their FSS as requiring an interim valuation
- Timescales: "as at" dates for interim valuations, timescales for signing off interim valuations and timing of implementing new contribution rates
- Situations that shouldn't, on their own, trigger an interim valuation

In terms of who is best placed to offer guidance, the key consideration we believe should help determine this is knowledge and experience of administering the LGPS and in particular the limitations of the current approach and potential unintended consequences and pitfalls in implementing any new flexibilities. The ability to develop guidance in a timely fashion should also be considered. We would also note that the guidance could be quite wide-ranging and the organisation which is best placed to provide guidance on interim valuations may not be best placed to provide advice on employer covenant assessments, and vice versa. Finally, as noted in our response to question 8, we think it would be sensible to avoid having CIPFA and SAB guidance which both relate to the provisions of the FSS.

## Flexibility on exit payments

There are a couple of potential misunderstandings on MHCLG's part in this section, as follows:

- exit payments from the LGPS are not calculated on a full buy-out basis. This is private sector terminology and not applicable in the LGPS because liabilities cannot be transferred to an insurance company. They are, however, often but not always, calculated on a "low risk", or "gilts" basis, in particular to reduce the chances that ongoing employers will have to meet any future deficits arising on "orphan" liabilities (i.e. liabilities for which no

individual employer has future funding responsibility).

- liabilities on exit need not be "significantly higher than their ongoing contributions". The approach Aon takes to ongoing funding is to advise administering authorities to ensure a degree of consistency between how ongoing contributions are set and how exit valuations are carried out, in particular for admission bodies, although affordability and other issues mean that an exit payment can and often does still arise. There are still situations where ongoing contributions are set using a materially higher discount rate which ignores the exit position, particularly now exit valuations can be carried out for scheduled bodies.

### Question 10: Do you agree that funds should have the flexibility to spread repayments made on a full buy-out basis and do you consider that further protections are required?

Our understanding is that this is already possible, given that the LGPS in England and Wales has an identical provision to Regulation 61(6) in Scotland – Regulation 64(4), although as this regulation applies before exit it is not clear how it interacts with Regulation 64(2). Administering authorities we advise regularly use this provision to review contributions for short-term employers between formal triennial valuations. However, we are not aware that it is widely used to permit spreading exit payments, often on the grounds that for most community admission body exits there are real concerns about whether the body will continue to exist for long enough to make spreading a justifiable approach for the fund.

The consultation refers to use of legal side agreements but in our experience use of legal side agreements has been aimed at achieving a solution akin to the deferred employer route rather than to simply spread the exit payment.

That's not to say that we are dismissive of the suggestion of additional flexibility and are of the view that the current regulations are unclear and could be improved upon. Further, in situations where secure scheduled bodies exit leaving orphan liabilities this flexibility may be useful (e.g.

it was the approach taken following the magistrates transfer to the PCSPS).

Finally, it would be useful if MHCLG could clarify that it is not their intention to consider encouraging the spreading of exit payments in circumstances where liabilities are not being valued on a low risk/gilts basis, i.e. a weaker ongoing funding target is being used in the exit valuation. From an administering authority perspective we would not typically be supportive of extending flexibility in such cases since, particularly where the exiting employer is a contractor, it is not obvious that any bond would cover payment of an exit debt in instalments and hence spreading the payment would automatically increase risk for the fund/other employers.

However, scheme employers and contactors may have a different view and are likely to want the flexibility to spread repayments over a suitable period, in which case a maximum spreading period for the LGPS as a whole could be helpful in order to provide consistency across funds. The consultation uses a 3-year period as an example and this could be a suitable maximum timeframe.

The greater the disconnect between the ongoing funding basis for determining employer contribution payments and the basis used for the exit valuation the greater the rationale for permitting the spreading of the exit deficit since this could be significant and not accounted for in contractors' budgets.

Administering authorities may feel more comfortable allowing contractors (and other admission bodies) to spread exit payments if appropriate security is in place, e.g. a bond or continuation of the guarantee provided by the letting authority.

#### Question 11: Do you agree with the introduction of deferred employer status into LGPS?

Yes. We have previously suggested similar provisions to those introduced in the private sector would be useful for the LGPS as set out in our Spotlight dated May 2017. Feedback from administering authorities and employers during the evidence gathering for the Tier 3 review has strengthened our view that such provisions would be helpful.

As ever, the devil will be in the detail and it will be important for any proposed regulatory provisions and associated guidance to be robust and subject to a further, detailed consultation. We would be particularly keen to ensure that any regulatory changes flow through to Regulation 62 and other relevant regulations.

We would also observe that if a deferred debt arrangement can only be entered into when an employer "has just, or is about to become an exiting employer" this may make it more difficult for administering authorities to develop their funding strategy to cope with the possibility of these arrangements. Employers not admitting new entrants may wish to have clarity years in advance of their potential exit that they will be able to continue to participate as a deferred employer and may be hoping to reduce certified contributions as a result. Given the uncertainty of the timing of any exit and the employer's covenant at that point, it may not be prudent for administering authorities to reduce employer contributions in anticipation of them becoming a deferred employer. Thus whilst it will assist in reducing the effect of a one-off exit payment being required, it may not have the desired effect of reducing ongoing contributions in the meantime.

#### Question 12: Do you agree with the approach to deferred employer debt arrangements set out above? Are there ways in which it could be improved for the LGPS?

We agree that any deferred employer arrangements need to include safeguards for the administering authority. We have seen legal side agreements which appear to commit the administering authority to continue to adopt "an ongoing basis" (i.e. the funding target adopted for local authorities) during the period of the agreement which appears to significantly favour the employer to the detriment of the fund (the only benefit to the fund being that there is an ongoing employer which would meet future funding risks). If the employer had sufficient resources at the point of exit to pay a gilts basis exit valuation entering into such an agreement would, in our view, represent poor risk management by the fund.

However, viewing the proposed changes through the lens of a contractor/other employer we can see

that being able to request deferred status may be beneficial and justifiable in certain circumstances. Assuming letting authorities support that view (noting that if the deemed employer route is implemented there may be far fewer transferee admission bodies exits in future), the option to spread exit payments could be made available for employers to request as long as suitable guidance is provided to administering authorities on how to assess such requests.

As well as the provisions set out in 3.3(iii) of the consultation document, we would like to see provisions that

- termination could be triggered on significant deterioration of covenant without an associated insolvency event, as by that point it could be too late to recover the full remaining exit debt
- either the employer or the fund can trigger termination without agreement of the other party providing that this then leads to an exit valuation being carried out

As we have previously mentioned to MHCLG officials and colleagues at LGA, there is a difference of opinion between administering authorities as to whether or not operating different investment strategies for different employers is consistent with the LGPS Regulations. Where deferred debt arrangements are being entered into, and the liabilities will become orphan when the arrangement ends (we think it unlikely administering authorities will wish to enter into open-ended agreements), a "flight plan" approach whereby the funding and investment strategy are regularly reviewed in light of the longer-term target of being fully funded on a gilts basis may be appropriate, particularly for larger employers. In order to ensure consistency of understanding of what is possible within the Regulations, it would be useful if specific reference could be made to an alternative investment strategy being permitted for deferred employers. This may be of benefit to both the fund and employer in terms of risk management.

**Question 13: Do you agree with the above approach to what matters are most appropriate for regulation, which for statutory guidance and which for fund discretion?**

Whilst we agree that key obligations and entitlements should be in Regulations, we think that it would be useful for the Regulations to list the considerations which must be included in any deferred debt arrangement, like the list of matters to be included within an admission agreement in Part 3 of Schedule 2. This would ensure greater consistency as well as providing a minimum standard for such arrangements.

Ultimately it should be for administering authorities, having taken appropriate advice, to weigh up the risks and competing interests of stakeholders so we agree that these matters should be for fund discretion. However, if SAB guidance is only "advisory" the risk will remain of some administering authorities entering into arrangements without as thorough an assessment or understanding of the various risks as would be best practice. As these proposals represent a material shift in how employer exits are dealt with, we believe the guidance should be statutory rather than advisory. It should be noted that a deeper risk analysis does not imply a more risk averse approach leading to infrequent use of deferred employer arrangements. Such analysis could in fact provide administering authorities with the confidence to enter into such arrangements. Statutory guidance could therefore be in the interests of exiting employers if it results in more administering authorities being willing to enter into deferred employer arrangements. Given changes to the Regulations implemented earlier this year we note that it seems that only the Secretary of State can issue statutory guidance. We are not sure if that was intended to preclude SAB from developing guidance which is then adopted and issued by the Secretary of State; it would be useful if MHCLG could confirm.

In any event, regardless of who is responsible for the guidance we would strongly suggest that it is developed in collaboration with LGPS practitioners who have experience of implementing legal side-agreements. SAB's approach of using appropriately skilled working groups to take forward initiatives has generally worked well but we believe it is absolutely vital here if the detailed policy is to be provided in guidance and it is to be effective and operate as intended.

#### Question 14: Do you agree options 2 and 3 should be available as an alternative to current rules on exit payments?

As noted above our view is that 2 is already available but further clarity on the regulatory provisions and implementation would be welcome.

We also agree with the introduction of deferred debt arrangements, albeit with strong safeguards for funds and supporting guidance to ensure greater consistency, whilst retaining local discretion.

#### Question 15: Do you consider that statutory guidance or Scheme Advisory Board guidance will be needed and which type of guidance would be appropriate for which aspects of the proposals?

As noted above we believe that guidance is needed and in relation to the deferred debt provision in particular, that it should have statutory force rather than be advisory only.

### Exit credits

We are not dismissive of the concept of introducing symmetry between surpluses and deficits on exit and understand the earlier changes were intended to address the concerns of employers that they would pay for a deficit but couldn't benefit from a surplus.

However, in our response to the previous consultation we did highlight that a blanket change affecting all exits could lead to material problems and issues with **existing** admissions and in particular risk sharing and other arrangements between the contracting parties. We therefore welcome proposals to try to address those issues.

However, we are concerned about MHCLG's assertion that "an exit credit may be payable if..., the employer is in surplus on a full buy-out basis". That is not our understanding of the regulatory changes implemented with effect from 14 May 2018, noting that the Regulations do not prescribe the approach to use in valuing liabilities on exit.

#### Question 16: Do you agree that we should amend the LGPS Regulations 2013 to provide that administering authorities must take into

#### account a scheme employer's exposure to risk in calculating the value of an exit credit?

We agree that changes are required to remove the unintended consequences of the 14 May 2018 amendments. However, it is worth noting that there is a very wide range of risk sharing arrangements in place so it is not as simple as saying that if pass through is in place no exit credit is payable. In addition, by putting the onus on the administering authority, the fund will then be adjudicating on what is, in many cases, a contractual arrangement between two employers.

For example, where a cap and collar arrangement is in place there has clearly been risk sharing but it is not the case that the contractor has borne no risk. We assume it is not MHCLG's intention for partial exit credits to be paid? That could be extremely difficult to implement and would likely lead to disputes between employers as to how much risk had been taken and hence how much of any surplus should be repaid.

#### Question 17: Are there other factors that should be taken into account in considering a solution?

There are a number of ways in which an employer may bear less pension risk:

- Risk sharing arrangements that split pension risks between the two employers including cap and collar arrangements or where specific risks (e.g. excessive pay increases) are left with the employer
- There are different types of "pass through" arrangement – the employer may pay a fixed contribution rate or pay the awarding authority's contribution rate for the duration of the contract, and in this latter case some pension risk is being borne by the employer as their contribution rate will fluctuate
- In order to prevent costs increasing on outsourcing it is common for scheme employers to offer a commitment to absorb any assets and liabilities after the contractor exits the fund (often after the contractor has made good any exit debt). In such cases the exit valuation (and other valuations) would typically be carried out on the ongoing funding target used for the awarding authority, i.e. a

weaker basis than that used where orphan liabilities are left in the fund. While not conventional risk sharing, it could be argued that a contractor in this situation is benefiting from the arrangement so should be viewed as bearing less pension cost/risk.

As the contract price and other terms and conditions will have been determined on whatever basis was agreed at the outset, we believe a better solution than requiring an assessment of the extent to which the contractor has borne any risk would be to amend the Regulations so that no exit credits are payable for transferee admissions entered into before the date of the regulatory changes. As noted above, we suspect that trying to determine how much risk the contractor has taken will be very contentious and it is not clear that the administering authority is best placed to determine this where the risk sharing arrangement is documented outside of the admission agreement in a contract to which the fund is not party.

Alternatively (and this would have broadly the same effect in most cases) the changes could state that the administering authority can determine (as part of its funding strategy) that an exit credit is only due for existing admissions if the contractor is in surplus on a low risk/gilts basis on exit. This would be comparable to the private sector situation where payment of surplus on exit is only permitted if the assets attributable to the exiting employer exceed the estimated cost of the liabilities on a 'full buy out' or 'self sufficiency' approach (plus estimated administration and other costs).

Other factors to take into consideration could include the costs of administering the exit. For example, would it be appropriate for those costs to be deducted before an exit credit is paid so that the other employers do not have to pick up the tab where there has been material additional work or external advice required by the fund?

## Employers required to offer LGPS membership

### Question 18: Do you agree with our proposed approach?

Based on the feedback of many (but by no means all) HE/FE sector representatives during our data gathering for the SAB's Tier 3 review we agree that many in the sector will welcome the ability to control pension costs.

It is a policy decision for MHCLG on which employers must and which can participate in the LGPS but given the changes in the sector it does now appear arguable that HE/FE is not "public sector" and hence should not be required to admit new members.

If such changes were to be made we would suggest that:

- closing the scheme to new members should be facilitated via an admission agreement rather than a move to Part 2 of Schedule 2 (designating employers) since there is then a contractual agreement between the fund and the employer which governs the employer's participation. Thought would be needed as to the other requirements of admission bodies (e.g. the guarantee requirements) since not all of these would be relevant to the HE/FE sector
- consideration should be given to the treatment of sixth form academies since we assume they will not be given similar flexibility – whether or not this is an issue will depend upon whether it is likely that there will be further conversions from sixth form colleges to academy status

Employers should also be aware that choosing this approach may not immediately reduce their pension costs. Indeed contributions may even increase in the short term, as administering authorities are likely to want to recalculate the employer contribution rate, allowing for the fact the employer is now closed to new entrants and potentially altering the funding basis to reflect the shorter term nature of the participation of the employer.



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Ministry of Housing,  
Communities &  
Local Government

# Local Government Pension Scheme: Changes to the Local Valuation Cycle and the Management of Employer Risk

Policy consultation



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# Scope of the consultation

<p>Topic of this consultation:</p>	<p>This consultation seeks views on policy proposals to amend the rules of the Local Government Pension Scheme 2013 in England and Wales.</p> <p>It covers the following areas:</p> <ol style="list-style-type: none"> <li>1. Amendments to the local fund valuations from the current three year (triennial) to a four-year (quadrennial) cycle</li> <li>2. A number of measures aimed at mitigating the risks of moving from triennial to quadrennial cycles</li> <li>3. Proposals for flexibility on exit payments</li> <li>4. Proposals for further policy changes to exit credits</li> <li>5. Proposals for policy changes to employers required to offer LGPS membership</li> </ol>
<p>Scope of this consultation:</p>	<p>MHCLG is consulting on changes to the regulations governing the Local Government Pension Scheme (LGPS).</p>
<p>Geographical scope:</p>	<p>These proposals relate to the Local Government Pension Scheme in England and Wales only.</p>
<p>Impact Assessment:</p>	<p>The Ministry's policies, guidance and procedures aim to ensure that any decisions, new policies or policy changes do not cause disproportionate negative impacts on particular groups with protected characteristics, and that in formulating them, the Ministry has taken due regard to its obligations under the Equality Act 2010 and the Public Sector Equality Duty. We have made an initial assessment under the duty and do not believe there are equality impacts on protected groups from the proposals in sections 1 to 4 which set out changes to valuations, flexibilities on exit payments and in relation to exit credits payable under the scheme, as there will be no change to member contributions or benefits as a result.</p> <p>Our proposals in section 5 to remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer new employees access to the LGPS may result in a difference in treatment between the staff of an institution who are already in the LGPS when the change comes into force (who would have a protected right to membership of the LGPS) and new employees (who would not). It will be up to each institution to consider the potential equalities impacts when making a decision on which, if any, new employees should be given access to the scheme.</p> <p>Question 19 asks for views from respondents on equalities impacts and on any particular groups with protected characteristics who would be disadvantaged by the proposals contained in this consultation.</p>

When we bring forward legislation, a fuller analysis will include the equality impacts of any final policy proposals.

## Basic Information

To:	Any changes to the LGPS rules are likely to be of interest to a wide range of stakeholders, such as local pension funds, administering authorities, those who advise them, LGPS employers and local taxpayers.
Body/bodies responsible for the consultation:	Local Government Finance Reform and Pensions, Ministry of Housing, Communities and Local Government
Duration:	This consultation will last for 12 weeks from 8 May 2019 to 31 July 2019
Enquiries:	For any enquiries about the consultation please contact:  <a href="mailto:LGpensions@communities.gov.uk">LGpensions@communities.gov.uk</a>
How to respond:	<p>Please respond by email to:</p> <p><a href="mailto:LGpensions@communities.gov.uk">LGpensions@communities.gov.uk</a></p> <p>Alternatively, please send postal responses to: LGF Reform and Pensions Team Ministry of Housing, Communities and Local Government 2nd Floor, Fry Building 2 Marsham Street London SW1P 4DF</p> <p>When you reply, it would be very useful if you could make it clear which questions you are responding to.</p> <p>Additionally, please confirm whether you are replying as an individual or submitting an official response on behalf of an organisation and include:</p> <ul style="list-style-type: none"> <li>- your name,</li> <li>- your position (if applicable),</li> <li>- the name of organisation (if applicable),</li> <li>- an address (including post-code),</li> <li>- an email address, and</li> <li>- a contact telephone number.</li> </ul>

# Introduction

This consultation contains proposals on a number of matters relating to the Local Government Pension Scheme (LGPS) in England and Wales.

Amongst these, it is proposed to amend the local fund valuation cycle of the LGPS from the current three year (triennial) cycle to a four year (quadrennial) one. The Government has moved the LGPS scheme valuation to a quadrennial cycle<sup>1</sup>, and our consultation is intended to ensure that scheme and local valuations are aligned. Views are sought on whether this is the right approach and the best way of transitioning the LGPS to a quadrennial local valuation cycle.

The LGPS is a locally administered funded pension scheme, established primarily to provide retirement benefits to individuals working in local government in England and Wales. Local fund valuations are used to set employer contribution rates and to assess whether funds are on target to meet their pension liabilities as they fall due in the years ahead. In making our proposals, we aim to ensure that a lengthening of the valuation cycle would not materially increase the risks that pension funds and their employers face. We are therefore proposing mitigation measures that would allow LGPS funds to act between valuations and address any issues as they arise, specifically:

- We propose the introduction of a power for LGPS funds to undertake interim valuations. This would allow LGPS administering authorities to act when circumstances change between valuations and undertake full or partial valuations of their funds.
- We also propose the widening of a power that allows LGPS administering authorities to amend an employer's contribution rate in between valuations, so that contribution rates can be adjusted following the outcome of a covenant check or where liabilities are estimated to have significantly reduced.

Views are sought on the detail of these measures and what LGPS funds should put in their funding strategy statements regarding these matters.

These measures are intended to help funds manage their liabilities and ensure that employer contributions are set at an appropriate level. However, for some employers, a significant issue is the cost of exiting the scheme which can be prohibitive. Current regulations require that when the last active member of an employer leaves the scheme, the employer must pay a lump sum exit payment calculated on a full buy-out basis. We are seeking views on two alternative approaches that would reduce the cliff-edge faced by employers:

- To introduce a 'deferred employer' status that would allow funds to defer the triggering of an exit payment for certain employers who have a sufficiently strong

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<sup>1</sup> <https://www.gov.uk/government/publications/public-service-pensions-actuarial-valuations>

covenant. Whilst this arrangement remains in place, deferred employers would continue to pay contributions to the fund on an ongoing basis:

- To allow an exit payment calculated on a full buy-out basis to be recovered flexibly – i.e. over a period of time. This may be of use where an administering authority does not feel that granting deemed employer status would be appropriate but that some level of flexibility is in the interests of the fund and other employers.

We also seek views on an issue that has come to light in recent months. In 2018, the LGPS Regulations 2013 were amended<sup>2</sup> to allow the payment of ‘exit credits’ to scheme employers who are in surplus at the time their last active member leaves the scheme. This followed a consultation on the introduction of exit credits undertaken by the Department in 2016<sup>3</sup>. However, it has since been highlighted that the amendments can cause issues where an LGPS employer has outsourced a service and used contractual arrangements to share risk with their contractor. Views are sought on a mechanism via which we can address this issue.

And finally, given the LGPS’s funded nature, with liabilities potentially falling back on local authorities and other public bodies in a particular area in the event an employer cannot meet its obligations, the Government is conscious of the need to ensure that scheme participation requirements remain appropriate. Changes in the higher education and further education sectors have taken place in recent years and we are consulting on proposals that would remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer membership of the LGPS to their non-teaching staff. Instead, reflecting their status as non-public sector, autonomous organisations, we propose it will be for each institution to determine whether to offer the LGPS to new employees or not.

Under our proposals, current active LGPS members and those eligible for active membership in an employment with a further education corporation, sixth form college corporation or higher education corporation in England would have a protected right to membership of the scheme.

Your comments are invited on the questions contained in sections 1 to 5. **The closing date for responses is 31 July 2019.**

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<sup>2</sup> S.I. 2018/493

<sup>3</sup> <https://www.gov.uk/government/consultations/local-government-pension-scheme-regulations>



# Changes to the Local Government Pension Scheme (LGPS) valuation cycle

## 1.1 Changes to the local fund valuation cycle

The Government has brought the LGPS scheme valuation onto the same quadrennial cycle as the other public service schemes<sup>4</sup>.

Aligning the LGPS scheme valuation with other public sector schemes allows for outcomes of each valuation to be looked at in parallel and for Government to make consistent decisions for the public sector as a whole.

Each LGPS fund also carries out a local valuation which is used to assess its financial health and to determine local employer contributions. Currently the valuation cycle of the scheme and of individual funds align. This will no longer be the case as the scheme nationally has moved to a quadrennial cycle. We therefore propose that LGPS funds should also move from triennial to quadrennial valuation cycles.

Moving the LGPS local fund valuations to quadrennial cycles would deliver greater stability in employer contribution rates and reduce costs. The Scheme Actuary's review of local valuations under s13 of the Public Service Pensions Act 2013 would also move to a quadrennial cycle.

However, we recognise that there are potential risks that changes in employer contribution rates may be greater as a result of longer valuation periods and that longer valuation periods could also lead to reduced monitoring of any risks and costs. Section 2 of this consultation sets out proposals to mitigate these matters.

If we move to quadrennial local fund valuations, we propose to produce draft regulations making the necessary amendments to the LGPS Regulations 2013, amending regulation 62(2), 62(3) and other consequential regulations in due course.

**Question 1 – As the Government has brought the LGPS scheme valuation onto the same quadrennial cycle as the other public service schemes, do you agree that LGPS fund valuations should also move from a triennial to a quadrennial valuation cycle?**

**Question 2 - Are there any other risks or matters you think need to be considered, in addition to those identified above, before moving funds to a quadrennial cycle?**

**Question 3 - Do you agree the local fund valuation should be carried out at the same date as the scheme valuation?**

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<sup>4</sup> <https://www.gov.uk/government/publications/public-service-pensions-actuarial-valuations>

### 1.3 Transition to a new LGPS valuation cycle

Given that LGPS funds and the other public sector schemes have carried out a valuation as at 1 April 2016, now is the best opportunity to achieve consistency. If missed, it would be 2028 before valuations of all the schemes align again. On the assumption that scheme and fund valuations are carried out at the same date, potential approaches are as follows:

- a) For the next fund valuation to complete as anticipated, using data as at 31 March 2019, giving rates and adjustment certificates for the **coming five years** (i.e. from 1 April 2020-2025) but with the administering authority having the option to perform an interim valuation if circumstances require changes to contribution rates. Further fund valuations would be done using data as at 31 March 2024 and every four years thereafter.
- b) For the next fund valuation to complete as anticipated, using data as at 31 March 2019, giving rates and adjustment certificates for the **coming three years** (i.e. from 1 April 2020-2023). The following valuation would be done with fund data as at 31 March 2022 but giving new rates and adjustments certificates for **only two years**. Further fund valuations would be done using data as at 31 March 2024 and every four years thereafter.

Our proposal is to adopt approach b) as it provides continuity and potentially gives LGPS funds greater funding certainty than a five-year cycle would provide.

**Question 4 - Do you agree with our preferred approach to transition to a new LGPS valuation cycle?**

# Dealing with changes in circumstances between valuations

## 2.1. Ability to conduct an interim valuation of local funds

With a longer valuation period of four years, there is greater scope for changes in assets and liabilities between valuations with a consequent potential increase in risks. In relation to the value of assets, this might include a significant downturn in value or increased volatility in returns. In relation to liabilities, this could be due to a sustained lower level of interest rates. The Government Actuary considered the potential impact of volatility of asset returns and changes in economic conditions on funds in their report on the 2016 local valuations<sup>5</sup>. The results showed that funds could face significant pressure on employer contributions in some future scenarios.

As part of a package of mitigation measures, we are proposing to introduce a new power to enable funds to conduct an interim valuation to reassess their position and, where appropriate, adjust the level of contributions outside of the regular cycle. This would not affect the timing of the next quadrennial fund valuation or the scheme valuation. It would, however, allow administering authorities to manage risk and avoid the need for very sharp corrections if maintaining the longer review cycle. This is consistent with the aim of the current regulations in preserving as much stability as possible in contribution rates across valuations (see Reg 66(2)(b) of the 2013 LGPS Regulations).

Depending on the trigger for the interim valuation, different levels of actuarial advice might be needed. For example, it may not be necessary to revisit all of the demographic assumptions and scheme experience where the trigger is a major financial down-turn shortly after the last valuation was completed. Funds will want to assure themselves that they have access to such data and analysis as is proportionate to the nature of the trigger and the time elapsed since the previous valuation.

Allowing an interim valuation gives greater adaptability should longer-term trends emerge that it would be prudent to address ahead of the next scheduled valuation.

To limit the risk that interim valuations could be timed to take advantage of short-term market conditions and undermine the cost and administrative advantages of a longer valuation cycle, we propose that interim valuations may take place only for the reasons set out in an authority's Funding Strategy Statement. In exceptional circumstances not envisaged in the Funding Strategy Statement, a fund could apply for a direction from the Secretary of State to carry out an interim valuation. The Secretary of State would also have a power to require interim valuations of funds either on representation from funds, scheme employers or of his own motion.

We propose to include in the regulations, supported by statutory guidance, certain protections so that decisions on whether to undertake an interim valuation should only be

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<sup>5</sup> <https://www.gov.uk/government/publications/local-government-pension-scheme-review-of-the-actuarial-valuations-of-funds-as-at-31-march-2016>

made by the administering authority having due regard to the views of their actuary and following consultation with the Local Pension Board. Where an administering authority undertakes an interim valuation it would also be obliged to notify the Secretary of State of the reasons for it and the conclusions reached. The costs of the valuation would be recovered in the usual way from all employers. As interim valuations should not be necessary frequently, the cost is likely to be more than offset by the move to four-yearly valuations.

**Question 5 - Do you agree that funds should have the power to carry out an interim valuation in addition to the normal valuation cycle?**

**Question 6 - Do you agree with the safeguards proposed?**

## **2.2. Review of employer contributions**

A four-year valuation cycle would also mean fewer opportunities to respond to changes in the financial health of scheme employers. This means that the assessment made at the time of the valuation about that employer being able to meet all of its obligations to the fund, most importantly to make contributions (often referred to as an employer's "covenant strength"), might be out of date.

CIPFA's guidance on maintaining a Funding Strategy Statement<sup>6</sup> requires funds to identify the employer risks that inevitably arise from managing a large and often changing group of scheme employers. In their related guidance on *Managing Risk in the Local Government Pension Scheme* (2018) they emphasise the importance of maintaining a knowledge base to track and identify risk levels for each employer. It further suggests that employers be categorised into groups depending on the level of risk they present to the fund as a whole.

We understand that some funds already carry out frequent reviews of their employers' covenant strength. Currently, the LGPS regulations provide funds with a limited number of tools to manage or reduce any risks identified. These tools include:

- At each valuation specifying secondary rate contributions that target a funding level that has been set with regard to the covenant strength of that employer (as allowed by Regulation 62(7) of the 2013 LGPS Regulations);
- Requiring adequate security for new admission bodies (as required in Part 3 of Schedule 2 to the 2013 LGPS Regulations);
- Increasing the security where existing admitted bodies wish to make changes to their admission agreement (as allowed for in Part 3 of Schedule 2 to the 2013 LGPS Regulations);
- Reviewing employer contributions where there is evidence that the employer is likely to exit the scheme (Regulation 64(4) of the 2013 LGPS Regulations);

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<sup>6</sup> Preparing and Maintaining a Funding Strategy Statement, published September 2016

- Reviewing employer contributions where there is evidence that the liabilities of that employer have increased substantially (see Regulations 64(6)(b) of the 2013 LGPS Regulations).

Whilst a four-yearly review of employer contributions would be sufficient for statutory or tax-payer backed employers, we recognise that for some scheme employers, and in particular admitted bodies, it may be prudent to allow funds to amend contribution rates more frequently. That would be driven by a change in the deficit recovery period and/or funding target level for a single employer, or group of employers, where this was felt necessary to protect other employers in the scheme or the solvency of the fund itself.

This would include giving funds the ability to offer employers a reduction in their contribution rate if they were able to make a one-off deficit reduction payment or there was a significant change in the composition of their workforce following a merger. We propose to introduce the ability for an employer to request a reassessment of its contribution rate where it believes that its liabilities have reduced.

We propose that funds would need to specify in their Funding Strategy Statement those employers (generally statutory or tax-raising employers) for whom the regular assessment of employer contributions through valuations is sufficient and what events would trigger reassessment through covenant reviews for other employers.

As these reassessments of employer contributions are designed to protect the interest of all employers and the scheme as a whole, the costs of conducting them anticipated in the Funding Strategy Statement, or triggered by a particular event or concern over covenant, would normally be met by the fund as a whole. However, where a scheme employer requested a reassessment because it believed that this would lead to a reduction in its contribution rate, then this would be paid for by the employer concerned.

**Question 7 – Do you agree with the proposed changes to allow a more flexible review of employer contributions between valuations?**

**2.3. Guidance on setting a policy**

As set out above we are proposing that the regulations would require funds to include their policy on interim valuations and reviews of employer contributions in their Funding Strategy Statement. We would also anticipate that CIPFA would want to reflect these new tools to manage risk in the guidance which it offers to funds on drafting an Funding Strategy Statement and in managing risk. However, to help ensure consistency of approach between funds, we also propose that in setting their policy they would also be required to have regard to advice that we would invite the Scheme Advisory Board to provide. This would include advice in the following areas:

- The exceptional circumstances where the case for an interim valuation could be made to the Secretary of State;
- The process for triggering and timescale for completing interim valuations;

- Best practice in working with scheme employers and other interested parties where an interim valuation is undertaken;
- What level of professional advice is appropriate to deliver the interim valuation.

In relation to action being taken to review employer contributions we would similarly ask the Scheme Advisory Board to consider guidance on the following areas:

- How to work with employers when a request is made for a review of its employer contributions;
- The process for carrying out employer covenant reviews and how to work with employers where the fund feels that further action is needed;
- Communicating with all scheme employers on how risk is being managed and how the cost of reviews will be met;
- What comprises a proportionate level of actuarial and other professional advice.

**Question 8 – Do you agree that Scheme Advisory Board guidance would be helpful and appropriate to provide some consistency of treatment for scheme employers between funds in using these new tools?**

**Question 9 – Are there other or additional areas on which guidance would be needed? Who do you think is best placed to offer that guidance?**

# Flexibility on exit payments

## 3.1 Introduction

We know that some smaller and less financially robust employers are finding the current exit payment regime in LGPS onerous. Rather than protecting the interests of members, it may mean employers continue to accrue liabilities that they cannot afford. It can also create the risk that some employers could be driven out of business as a result of inability to meet a substantial exit payment when they finally come to leave. This can have implications for other jobs, the delivery of local services and future support for the scheme.

These problems arise because employer debt is calculated at full buy-out basis<sup>7</sup> on the employer's total accrued liabilities to the scheme, and the amount due up-front or in a short period of time if the last active member leaves an employer can be significantly higher than their on-going contributions. If an employer does not have a source of capital available with which to pay the employer debt, they can effectively find themselves tied to the scheme indefinitely, even if this is not the most prudent way to proceed for all those concerned.

The current regime is designed to protect those scheme employers who remain in the scheme when one or more other employers have ceased to employ active members and who may be left with orphan liabilities. Any changes to the employer debt regime would have to be carefully considered to ensure that they would not result in an increased risk to members or remaining scheme employers.

In recognition of these and other issues, the Scheme Advisory Board has commissioned AON to look at the potential funding, legal and administrative issues presented by the participation of what it calls Tier 3 employers<sup>8</sup> in the scheme, and to identify options to improve the situation. A working group has been established by the Scheme Advisory Board with a view to making recommendations to the Secretary of State later in the year. It is hoped that the Scheme Advisory Board working group will be able to include this consultation in its deliberations.

We have also heard from many in the sector that the time is right to bring LGPS more in line with wider practice in the private pensions sector. Deferred debt arrangements in the private sector enable an employer in a multi-employer pension scheme, who fulfils certain conditions, to defer their obligation to pay an employer debt on ceasing to employ an active scheme member. The arrangement requires the employer to retain all their previous responsibilities to the scheme and continue to be treated as if they were the employer in

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<sup>7</sup> Exit payments are currently based on that employer's share of the deficit in the scheme calculated on a 'full-buy out basis' (i.e. the amount that would need to be paid to an insurer to take on the pension scheme's liabilities).

<sup>8</sup> Scheme Advisory Board defines Tier 3 bodies as being those which are not tax-payer backed ("Tier 1"), academies ("Tier 2") or admitted bodies performing services under contract to local authorities ("Tier4")

relation to that scheme. A key consideration in considering whether to introduce a similar arrangement into LGPS will be how to ensure that employers wanting to take advantage of this option have sufficient and appropriate assets to cover their liabilities and that the arrangement will not adversely affect other employers.

We therefore propose to grant funds more flexibility to manage an employer's liabilities in this situation, by spreading exit payments over a period or by allowing an employer with no active members to defer exit payments in return for an ongoing commitment to meet their existing liabilities.

### **3.2 Flexibility in recovering exit payments**

This proposal aims to enable scheme employers which are ceasing to employ any active members with the flexibility, in agreement with the administering authority, to spread exit payments over a period, where this would also be in the interests of the fund and other employers.

This option would be available in situations where an administering authority considered that some flexibility over the repayment programme would be in the best interests of the fund and other employers. We understand that some funds have been attempting to achieve a similar objective through side-agreements with employers at the time of exit. However, we feel that it would be more appropriate to regularise this approach and put it on a firm legislative footing.

In order to implement this new flexibility we have considered the model implemented by the Scottish Public Pensions Agency. This allows administering authorities to adjust an exiting employer's contributions to ensure that the exit payment due is made by the expected exit date or spread over such a period as the fund considers reasonable. This is set out in their Regulation 61(6)<sup>9</sup>:

*“(6) Where in the opinion of an administering authority there are circumstances which make it likely that a Scheme employer (including an admission body) will become an exiting employer, the administering authority may obtain from an actuary a certificate specifying the percentage or amount by which, in the actuary's opinion—*

*(a) the contribution at the primary rate should be adjusted; or*

*(b) any prior secondary rate adjustment should be increased or reduced,*

*with a view to providing that assets equivalent to the exit payment that will be due from the Scheme employer are provided to the fund by the likely exit date or, where the Scheme employer is unable to meet that liability by that date, over such period of time thereafter as the administering authority considers reasonable.”*

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<sup>9</sup> In the Local Government Pension Scheme (Scotland) Regulations 2018



This is a permissive model that gives administering authorities considerable flexibility to use their judgement and local knowledge in balancing the competing interests involved.

We propose to follow this approach but would welcome views from consultees on whether some additional protections are required, such as a maximum time limit over which exit payments could be spread (perhaps three years).

For the avoidance of doubt, we propose that the exit payment in these circumstances would continue to be calculated as now on a full buy-out basis.

**Question 10 – Do you agree that funds should have the flexibility to spread repayments made on a full buy-out basis and do you consider that further protections are required ?**

### **3.3 Deferred employer status and deferred employer debt arrangements**

These proposals aim to enable scheme employers who are ceasing to employ any active members to defer exit payments in return for an ongoing commitment to meet their existing liabilities, in agreement with the fund. This commitment would protect the fund and other employers. This will be of particular help to smaller employers (such as charities) in managing their obligation to make an exit payment when they cease to employ an active member of the scheme.

Drawing on the model of the S75 approach that was recently introduced by DWP for private sector<sup>10</sup> defined benefit multi-employer funds, we have set out a possible model for the LGPS. We would welcome views from consultees on how to develop the model to best reflect the needs of all parties participating in LGPS.

#### **i) Definition of deferred employer status**

Employers taking advantage of this ability to maintain a link with the scheme, despite no longer having active members, would become “deferred employers”. A deferred employer is defined as an employer who, at the point that their last active member leaves the scheme, enters into a deferred employer debt arrangement with the administering authority, and that arrangement has not been terminated by a ‘relevant event’ (see section iii below).

#### **ii) Basis on which a deferred employer debt arrangement would be offered**

To enter into a deferred employer debt arrangement, the fund would need to be satisfied that the employer has just, or is about to, become an exiting employer as defined in LGPS regulations and has a sufficient covenant not to place the fund under undue risk. When DWP consulted on the equivalent provisions for private sector schemes (referred to earlier) they considered the introduction of a test whereby employers could only be eligible

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<sup>10</sup> These are the employer debt arrangements made under S75 of the Pensions Act 1995. More information is available here: <https://www.gov.uk/government/consultations/the-draft-occupational-pension-schemes-employer-debt-amendment-regulations-2017>

for the equivalent of a deferred employer debt arrangement if they were already funded above a prescribed level. In line with the decision DWP took in relation to private sector DB schemes, we have considered and rejected the option of setting such a minimum level of funding. We believe that this will be a relevant factor in scheme managers' assessment of covenant and risk and therefore needs to be weighed alongside all the other evidence available.

### **iii) Termination of a deferred employer debt arrangement**

In order to protect the fund, we would expect any deferred employer debt arrangement to set out in the following circumstances which would trigger termination, to be known as "relevant events":

- the employer has new active members;
- the employer and scheme manager both agree to terminate the agreement and an exit payment falls due;
- the scheme manager assesses that the covenant has significantly deteriorated and a relevant event occurs (insolvency, voluntary winding up, CVA);
- the employer restructures and the covenant value is significantly affected in the view of the scheme manager. Restructuring for these purposes occurs where the employer's corporate assets, liabilities or employees pass to another employer;
- the fund serves notice that the employer has failed to comply with any of its duties under LGPS regulations or other statutory provisions governing the operation of a pension fund.

### **iv) Responsibilities of the deferred employer**

An employer in a deferred employer debt arrangement would still be an employer for scheme funding and scheme administration purposes. Funds will continue to carry out regular actuarial valuations to establish whether or not their funding position is on track according to the funding strategy they have adopted, and to put in place a recovery plan where any shortfalls are identified. Deferred employers will be required to make secondary contributions as part of this plan and this requirement will apply to any employer who has entered into a deferred debt arrangement.

We will expect administering authorities to adopt a robust policy to be set out in their Funding Strategy Statement, following consultation with employers and their Local Pension Board and having regard to any guidance issued by CIPFA or the Secretary of State. Our intention is to give funds some flexibility to use their judgement and local knowledge to reach suitable arrangements that balances the competing interests involved.

We would expect administering authorities to offer deferred employer debt arrangements when this is in the interests of the other fund employers and where there is not expected to be a significant weakening of the employer covenant within the coming 12 months.

**Question 11 – Do you agree with the introduction of deferred employer status into LGPS?**

**Question 12 – Do you agree with the approach to deferred employer debt arrangements set out above? Are there ways in which it could be improved for the LGPS?**

### **3.4 Proposed approach to implementation of deferred employer debt arrangements**

We do not intend to legislate for every aspect of the model above. Our starting point is that the key obligations and entitlements of parties should be in the regulations. Statutory guidance can be helpful in putting more flesh on the bones and ensuring that there is consistency in application. On the assessment of risk and in balancing competing interests of scheme stakeholders we consider that the Scheme Advisory Board is better placed to offer real-world, credible guidance to funds. We would welcome views from consultees about the appropriate balance to be struck between legal requirements to be set out in regulations, statutory guidance issued under regulation 2(3A) of the 2013 Regulations, and guidance from the Scheme Advisory Board.

**Question 13 – Do you agree with the above approach to what matters are most appropriate for regulation, which for statutory guidance and which for fund discretion?**

### **3.5 Summary of options for management of employer exits**

Implementing the proposals above on exit payments would make the following set of options available to administering authorities when dealing with employer exits:

1. Calculate and recover an exit payment as currently for employers ready and able to leave and make a clean break;
2. Agree a repayment schedule for an exit payment with employers who wish to leave the scheme but need to be able to spread the payment;
3. Agree a deferred employer debt arrangement with an employer to enable them to continue paying deficit contributions without any active members where the scheme manager was confident that it would fully meet its obligations.

We expect that employers will want to see a level of transparency and consistency in the use which administering authorities make of this new power. We expect that that statutory or Scheme Advisory Board guidance will be necessary in addition to a change to regulations and welcome views on which type of guidance would be appropriate for which aspects of the proposals.

**Question 14 – Do you agree options 2 and 3 should be available as an alternative to current rules on exit payments?**

**Question 15 – Do you consider that statutory or Scheme Advisory Board guidance will be needed and which type of guidance would be appropriate for which aspects of these proposals?**

## Exit credits under the LGPS Regulations 2013

### 4.1 Introduction of exit credits in May 2018

In April 2018, the Government made changes<sup>11</sup> to the LGPS Regulations 2013 allowing exit credits to be paid from the Scheme for the first time. Following the amendments, which were effective from 14 May 2018, where the last active member of a scheme employer leaves the LGPS, an exit credit may be payable if an actuarial assessment shows that the employer is in surplus on a full buy-out basis at the time of their exit. Prior to the changes, the 2013 Regulations had only provided that a scheme employer would be responsible for any shortfall and where such a shortfall occurred they would be responsible for paying an exit payment.

The amendments to allow exit credits to be paid from the Scheme were intended to address this imbalance. They also followed prior concerns that the lack of such a provision meant some scheme employers who were nearing their exit were reluctant to pre-fund their deficit out of concern that, if they contributed too much, they would not receive their excess contributions back. Accordingly, the government consulted on addressing this via the introduction of exit credits in May 2016<sup>12</sup>, as part of a wider consultation exercise.

Feedback from the consultation exercise was broadly supportive of this change. Responses focussed on two technical issues:

- Some respondents suggested that our proposed timescales for payment of an exit credit were too tight (at one month).
- Some also suggested that we should include a clarifying provision noting that where an exit credit had been paid there could be no further claim on the fund.

Both concerns were addressed in the final regulations, which provided that funds would have three months to pay an exit credit and that no further payment could be made to a scheme employer from an administering authority after an exit credit had been paid.

### 4.2 Exit credits and pass-through

In the period since the 2013 Regulations were amended, some concerns have been raised about a consequential impact of the introduction of exit credits, specifically where a scheme employer has outsourced a service or function to a service provider. In such

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<sup>11</sup> S.I. 2018/493

<sup>12</sup> <https://www.gov.uk/government/consultations/local-government-pension-scheme-regulations>

situations, scheme employers often use a 'pass-through' approach to limit the service provider's exposure to pensions risk to obtain a better contract price. Where pass-through is used, service contracts, or side agreements to service contracts between LGPS employers and their service providers will often be used to set out the terms that apply.

It has been drawn to our attention that where LGPS employers entered into a contract with a service provider before the introduction of exit credits, the terms of the pass-through agreement may cause unforeseen issues to arise. This may occur where an employer has entered into a side agreement with a service provider which includes pass-through provisions, and under this side agreement, the authority has agreed to pay the service provider's LGPS employer contributions for the life of the contract as well as meet any exit payment at the end of the contract. When the contract ceases, the service provider (as the scheme employer) may be significantly in surplus and entitled to an exit credit, even though the employer has borne the costs and the risk in relation to the service provider's liabilities through the life of the contract.

This situation would clearly not have been what was intended when the contract was agreed. It would be unfair for a service provider to receive an exit credit in such a situation and it is our intention to make changes that would mean that service providers cannot receive the benefit of exit credits in such cases.

### **4.3 Proposal to amend LGPS Regulations 2013**

We therefore propose to amend the 2013 Regulations to provide that an administering authority must take into account a scheme employer's exposure to risk in calculating the value of an exit credit. There would be an obligation on the administering authority to satisfy itself if risk sharing between the contracting employer and the service provider has taken place (for example, via a side agreement which the administering authority would not usually have access to). If the administering authority is satisfied that the service provider has not borne any risk, the exit credit may be calculated as nil.

We also intend that such a change would be retrospective to the date that the LGPS Regulations 2013 were first amended to provide for the introduction of exit credits – i.e. to 14 May 2018. This would ensure that where a service provider has not borne pensions risk but has become entitled to an exit credit, they should not receive the benefit of that exit credit.

By making this change retrospective, the revised exit credit provisions would apply in relation to all scheme employers who exit the scheme on or after 14 May 2018.

In the event of any dispute or disagreement on the level of risk a service provider has borne, the appeals and adjudication provisions contained in the LGPS Regulations 2013 would apply.

It should also be noted that the government is consulting on the introduction of a new way for service providers to participate in the LGPS<sup>13</sup>. Use of the deemed employer approach,

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<sup>13</sup> <https://www.gov.uk/government/consultations/local-government-pension-scheme-fair-deal-strengthening-pension-protection>

if introduced, would also prevent exit credits becoming payable to service providers where they have not borne contribution or funding risks.

**Question 16 – Do you agree that we should amend the LGPS Regulations 2013 to provide that administering authorities must take into account a scheme employer’s exposure to risk in calculating the value of an exit credit?**

**Question 17 – Are there other factors that should be taken into account in considering a solution?**

# Employers required to offer LGPS membership

## 5.1 Further education corporations, sixth form college corporations and higher education corporations

Under the LGPS Regulations 2013, further education corporations, sixth form college corporations and higher education corporations in England and Wales are required to offer membership of the LGPS to their non-teaching staff.

In recent years, a number of changes have taken place in the further education and higher education sectors.

- In 2012, the Office for National Statistics took further education and sixth form college corporations in England out of the General Government sector, reflecting changes introduced by the Education Act 2011 which, in the view of the ONS, took public control away from such organisations.
- The Technical and Further Education Act 2017 provided for the introduction of a new statutory insolvency regime for further education and sixth form college corporations in England and Wales meaning, for the first time, it will be possible for such bodies to become legally insolvent. The Government expects cases of insolvency to be rare.
- The Higher Education and Research Act 2017 established a new regulatory framework and a new single regulator of higher education in England, the Office for Students (the OfS). The OfS adopts a proportionate, risk-based approach to regulating registered higher education providers consistent with its regulatory framework.

Reflecting the independent, non-public sector status, of further education, sixth form colleges, and the autonomous, non-public sector status of higher education corporations, these bodies are responsible for determining their own business models and for ensuring that their financial positions are sound. As such, these bodies may value greater flexibility in determining their own pension arrangements for their own workforces. Indeed, some respondents to the Department for Education consultation '[Insolvency regime for further education and sixth form colleges](#)', held in 2017-18, requested that the obligation to offer LGPS to all eligible staff be removed.

The LGPS is, unlike many public service pension schemes, a “funded scheme”. This means that employee and employer contributions are set aside for the payment of pensions and are invested to maximise returns. It is a statutory scheme, with liabilities potentially falling back on other LGPS employers in the event of an employer becoming insolvent. The costs associated with meeting the liabilities of a failed organisation could therefore fall back on local authorities and other scheme employers, meaning there may be a direct impact on the finances of public bodies in a particular area if an organisation fails.

Given the nature of the LGPS and the changes in the further education and higher education sectors, it is right to consider whether it is still appropriate for LGPS regulations to require that these employers offer the LGPS for all eligible staff.

We propose to remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer new employees access to the LGPS.

Under our proposals each corporation would have the flexibility to decide whether to offer the LGPS to all or some eligible new employees. We recognise that corporations will continue to view offering LGPS as a valuable and important tool in recruitment and retention strategies, but the flexibility as to when to use the tool should be for the corporations themselves.

We also propose that those already in employment with a further education, sixth form college or a higher education corporation in England and who are eligible to be a member of the LGPS before the regulations come into force have a protected right to membership of the scheme. These employees would retain an entitlement to membership of the scheme for so long as they remain in continuous employment with the body employing them when the regulations come into force. These employees would also retain an entitlement to membership of the scheme following a compulsory transfer to a successor body, for example, following the merger of two corporations.

Further and higher education policy is devolved to the Welsh Government. Whilst some of the changes in the sectors highlighted here apply to bodies in Wales as well as in England, at the moment, the Welsh Government does not propose to change the requirements of the LGPS Regulations 2013 in relation to further education corporations and higher education corporations in Wales. These bodies will continue to be required to offer membership of the LGPS to their non-teaching staff.

**Question 18 – Do you agree with our proposed approach?**



# Public sector equality duty

## 6.1 Consideration of equalities impacts

The Ministry's policies, guidance and procedures aim to ensure that any decisions, new policies or policy changes do not cause disproportionate negative impacts on particular groups with protected characteristics, and that in formulating them the Ministry has taken due regard to its obligations under the Equality Act 2010 and the Public Sector Equality Duty. We have made an initial assessment under the duty and do not believe there are equality impacts on protected groups from the proposals in sections 1 to 4 which set out changes to valuations, flexibilities on exit payments and in relation to exit credits payable under the scheme, as there will be no change to member contributions or benefits as a result.

Our proposals in section 5 to remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer new employees access to the LGPS may result in a difference in treatment between the staff of an institution who are already in the LGPS when the change comes into force (who would have a protected right to membership of the LGPS), and new employees (who would not). It will be up to each institution to consider the potential equalities impacts when making their decision on which, if any, new employees should be given access to the scheme.

**Question 19 – Are you aware of any other equalities impacts or of any particular groups with protected characteristics who would be disadvantaged by the proposals contained in this consultation?**

# Summary of consultation questions

**Question 1 – As the Government has brought the LGPS scheme valuation onto the same quadrennial cycle as the other public service schemes, do you agree that LGPS fund valuations should also move from a triennial to a quadrennial valuation cycle?**

**Question 2 - Are there any other risks or matters you think need to be considered, in addition to those identified above, before moving funds to a quadrennial cycle?**

**Question 3 - Do you agree the local fund valuation should be carried out at the same date as the scheme valuation?**

**Question 4 - Do you agree with our preferred approach to transition to a new LGPS valuation cycle?**

**Question 5 - Do you agree that funds should have the power to carry out an interim valuation in addition to the normal valuation cycle?**

**Question 6 - Do you agree with the safeguards proposed?**

**Question 7 – Do you agree with the proposed changes to allow a more flexible review of employer contributions between valuations?**

**Question 8 – Do you agree that Scheme Advisory Board guidance would be helpful and appropriate to provide some consistency of treatment for scheme employers between funds in using these new tools?**

**Question 9 – Are there other or additional areas on which guidance would be needed? Who do you think is best placed to offer that guidance?**

**Question 10 – Do you agree that funds should have the flexibility to spread repayments made on a full buy-out basis and do you consider that further protections are required?**

**Question 11 – Do you agree with the introduction of deferred employer status into LGPS?**

**Question 12 – Do you agree with the approach to deferred employer debt arrangements set out above? Are there ways in which it could be improved for the LGPS?**

**Question 13 – Do you agree with the above approach to what matters are most appropriate for regulation, which for statutory guidance and which for fund discretion?**

**Question 14 – Do you agree options 2 and 3 should be available as an alternative to current rules on exit payments?**

**Question 15 – Do you consider that statutory or Scheme Advisory Board guidance will be needed and which type of guidance would be appropriate for which aspects of these proposals?**

**Question 16 – Do you agree that we should amend the LGPS Regulations 2013 to provide that administering authorities must take into account a scheme employer's exposure to risk in calculating the value of an exit credit?**

**Question 17 – Are there other factors that should be taken into account in considering a solution?**

**Question 18 – Do you agree with our proposed approach?**

**Question 19 – Are you aware of any other equalities impacts or of any particular groups with protected characteristics who would be disadvantaged by the proposals contained in this consultation?**

# About this consultation

This consultation document and consultation process have been planned to adhere to the Consultation Principles issued by the Cabinet Office.

Representative groups are asked to give a summary of the people and organisations they represent, and where relevant who else they have consulted in reaching their conclusions when they respond.

Information provided in response to this consultation, including personal data, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 2018 (DPA), the General Data Protection Regulation, and the Environmental Information Regulations 2004).

If you want the information that you provide to be treated as confidential, please be aware that, as a public authority, the Department is bound by the Freedom of Information Act and may therefore be obliged to disclose all or some of the information you provide. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

The Ministry of Housing, Communities and Local Government will process your personal data in accordance with the law and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties. A full privacy notice is included at Annex A.

Individual responses will not be acknowledged unless specifically requested.

Your opinions are valuable to us. Thank you for taking the time to read this document and respond.

Are you satisfied that this consultation has followed the Consultation Principles? If not or you have any other observations about how we can improve the process please contact us via the [complaints procedure](#).

# Annex A

## Personal data

The following is to explain your rights and give you the information you are be entitled to under the Data Protection Act 2018.

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

### **1. The identity of the data controller and contact details of our Data Protection Officer**

The Ministry of Housing, Communities and Local Government (MHCLG) is the data controller. The Data Protection Officer can be contacted at [dataprotection@communities.gov.uk](mailto:dataprotection@communities.gov.uk)

### **2. Why we are collecting your personal data**

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

### **3. Our legal basis for processing your personal data**

The Data Protection Act 2018 states that, as a government department, MHCLG may process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

Section 21 of the Public Service Pension Act 2013 requires the responsible authority, in this case the Secretary of State, to consult such persons as he believes are going to be affected before making any regulations for the Local Government Pension Scheme. MHCLG will process personal data only as necessary for the effective performance of that duty

### **3. With whom we will be sharing your personal data**

We do not anticipate sharing personal data with any third party.

### **4. For how long we will keep your personal data, or criteria used to determine the retention period.**

Your personal data will be held for two years from the closure of the consultation.

### **5. Your rights, e.g. access, rectification, erasure**

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right:

- a. to see what data we have about you
- b. to ask us to stop using your data, but keep it on record
- c. to ask to have all or some of your data deleted or corrected

d. to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at <https://ico.org.uk/>, or telephone 0303 123 1113.

- 6. Your personal data will not be sent overseas**
- 7. Your personal data will not be used for any automated decision making.**
- 8. Your personal data will be stored in a secure government IT system.**

**Swansea Council /City & County of Swansea Pension Fund Response to Consultation on Exit Payments Cap**

	<p><b>Question 1</b>  <b>Does draft schedule 1 to the regulations capture the bodies intended (described in section 2.1 above)? If not, please provide details.</b></p> <p>In general, we believe the schedule captures the bodies intended, as described in section 2.1. Specifically, in relation to employers participating in the LGPS, we appreciate the exclusion of further and higher education establishments along with housing management companies, given they are no longer considered to be under the umbrella of the public sector.</p> <p>We do have some concern that any newly created public sector body will not be covered by the cap until it is added to the Schedule. While the expectation is that they would voluntarily restrict exit payments there is no guarantee this would be the case, leading to the possibility of a two-tier situation arising. It would be preferable if, as a consequence of their formation, any new public-sector body is automatically added to the schedule within any legal documentation setting them up.</p>
	<p><b>Question 2</b>  <b>Do you agree with the current list of bodies in scope, for the first round of implementation? If not, please provide reasons.</b></p> <p>For Local Government purposes it would appear that the relevant organisations set out in Part 1 to schedule 2 to the Local Government Pension Scheme Regulations 2014 have been included in the first phase, along with a small number of those organisations included within Part 2 of that Schedule. We do wonder, however, if explicit reference is required in order to capture entities falling within paragraphs 5 and 6 of Part 2 of Schedule 2, namely:-</p> <p><i>5. An entity connected with a body listed in paragraphs 1 to 5 of Part 1 of this Schedule where "connected with" has the same meaning as in section 212(6) of the Local Government and Public Involvement in Health Act 2007.</i></p> <p><i>6. A company under the control of a body listed in paragraphs 6 to 24 of Part 1 of this Schedule where "under the control" has the same meaning as in section 68 or, as the case may be, 73 of the Local Government and Housing Act 1989 (except that any direction given by the Secretary of State must be disregarded, and any references to a local authority treated as references to such a body).</i></p>
	<p><b>Question 3</b>  <b>Do you agree with the exemptions outlined? If not, please provide evidence.</b></p> <p><b>Stated exemptions</b></p> <p>As previously stated, we appreciate that further and higher education establishments and housing management companies are no longer considered to be public sector, so thereby exempt from the cap. We make no explicit comment on the other organisations that are planned to be exempt from the cap, given they have no direct involvement in the LGPS.</p>

We agree with the principle behind the specific Fire Scheme lump sum exemption, as this would not increase the actuarial value of a firefighter's pension as a result.

**Inclusion of early retirement strain**

We are still **strongly opposed**, with the desire to include pension strain costs as part of the exit cap where an individual's employment ceases on the grounds of redundancy or business efficiency aged 55 or over. Our opposition seems particularly relevant given that the draft Regulations confirm the exit cap would remain at £95k even though regulation 153A(9) of the Small Business, Enterprise and Employment Act 2015 allows Regulations to change the level of the cap.

This is particularly relevant in the "local government in Wales context" where there is a projected period of transition to the Regional Working model which has as some of its key drivers: efficiencies, ongoing cost reduction and therefore by implication a reduction in local headcount.

We would argue that cost of living increases will mean that over time more members will be affected by the cap ( **if pension strain costs are included**). The key issue here is that many council (and other) employees will be caught by this cap on early retirement simply by virtue of having a reasonable length of service, and not due to them receiving a particularly large salary or exit remuneration package. We feel that the inclusion of early retirement pension strain will unduly affect a large number of employees whom the general public would never consider to be "fat cats". On a very simplified basis, some examples of LGPS members who will or will not be caught by these proposals are as follows, noting that in all four cases the member's LGPS pension would be a similar amount (broadly £15,000 p.a.):

<b>Member</b>	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>
Salary	£30,000	£45,000	£90,000	£150,000
Exit age	55	55	60	64
Service	30 years	20 years	10 years	6 years
Early retirement pension strain*	£112,000	£112,000	£58,000	£12,000
Scope for other exit remuneration**	Nil	Nil	£37,000	£83,000
Limit member's pension? ***	Y	Y	N	N

The strain cost is calculated differently in different Funds; for simplicity we have used the actual current strain factors in place for a typical Fund.

\*\*The shortfall of the early retirement strain vs the proposed £95,000 cap

\*\*\*If the early retirement strain exceeds the proposed £95,000 cap, then there should be scope for the member's pension to be deferred and/or reduced, under the current proposals: see "Interaction with LGPS Regulations" below.

It can be seen from the above that some counter-intuitive situations will arise: members with lower salaries will be caught by these proposals whereas much higher paid members will not, depending on the early retirement age and length of service. Observers will be surprised to see that four individuals on



the same pension will be affected very differently from how the proposals are being put forward, i.e. that **very highly paid staff could escape the impact whilst much lower paid staff could be caught.**

**Interaction with LGPS Regulations** If funding strain is to be included as currently set out then we believe further amendments to the LGPS should be considered, in addition to those already provided for within paragraph 5 of Schedule 6 to the Enterprise Act 2016. We appreciate that this would fall to MHCLG to take forward, but we believe consideration should be given to enable the scheme member to choose to defer payment of an immediate, possibly reduced, pension where employment is terminated on the grounds of redundancy or business efficiency rather than having a permanent reduction to their retirement benefits imposed on them.

Any further changes to the LGPS Regulations would of course need to be drafted in such a way as to apply only to those individuals who are impacted by the exit cap – i.e. we would not expect individuals employed by further or higher education establishments or housing management companies to be worse off as a result of changes to the scheme rules aimed specifically at those who are affected.

#### **Question 4**

**Does the guidance adequately support employers and individuals to apply the draft regulations as they stand? If not, please provide information on how the guidance could be enhanced.**

We are concerned that there are several instances where the wording of the draft Regulations, Guidance and Directions appears to be contradictory. For the application of the exit cap to work effectively it is important that any ambiguity or uncertainty is cleared up ahead of the exit cap being introduced.

Examples include:-

- The option to exercise a discretion on account of workplace reforms requires clarification between the wording of the HMT Directions (“workplace reform”) and the supporting Guidance (“urgent workplace reform”) and what this means.

- Relaxing the cap – clarity is required when certain types of approval are required. Specifically for local government in England the guidance suggests approval would be required from the sponsoring Department (e.g. MHCLG) and HM Treasury, although this is not reflected in the draft Regulations or the HM Treasury Direction.

- Recording and reporting – there is no specific requirement within the draft Regulations for employers to record instances where an exit payment is capped, although the guidance makes a recommendation they do so. We see no reason why this can’t be mandated in the Regulations themselves.

Additional comments regarding the Regulations, Guidance and Directions are set out below: -

### **New employers**

We believe it is inconsistent that any newly created public sector body set up as part of a machinery of government change is not automatically covered by the cap until included in Schedule 1. While this might only be a procedural issue, we do wonder if it introduces the risk of an individual moving from an employer covered by the cap to one where they are not as a means of circumventing the cap and gaining an advantage over others.

### **Pension strain**

As we have previously stated, pension strain isn't about receiving a bigger pension, as suggested in the guidance, but a consequence of receiving the accrued pension for longer. So while individuals may be receiving a pension for longer, for many who may be impacted by the cap this will not be any sort of windfall.

Looking specifically at the calculation of the strain cost, the draft Regulations themselves do not specify how this is to be done. Within the LGPS strain costs are calculated by each Fund's appointed actuary. This has the advantage of accounting for specific demographic and funding approach differences that exist across funds, resulting in different factors being used by different funds.

The guidance suggests, however, that for the purposes of the exit cap, strain costs should be calculated by the scheme actuary.

If the LGPS retained its current position the early retirement strain cost will vary from one fund to the next, due to different factors being used by different funds. This raises the prospect of two members in identical circumstances in separate LGPS funds, where one is caught by the cap and one isn't. The different factors could be due to different actuarial advice, or to the factors having been set at different times in the past.

While the "obvious" answer might be to adopt a single set of strain factors across the LGPS in order to ensure consistency across the scheme, the fact there are significant demographic differences across the funds means that some employers could overpay strain cost and as a result reduce their contributions while others could be underpaying, leading to an increase in employer contributions.

It is possible that a single set of factors could be used only for the purposes of applying the cap with local factors being used to calculate the actual strain cost. However, this would result in duplication, complexity and could lead to challenge if it results in a member's exit payment is over £95,000 on a single factor basis but less on the locally determined basis.

If factors were only to be made consistent across public sector employers, a different inconsistency would then arise between public sector and non-public sector employees retiring in identical circumstances. Either way, **these proposals including early retirement pension strain will give rise to inconsistencies. There is also the discrepancy between treatment of early retirements in the unfunded schemes and the LGPS; it is crucial to ensure similar treatment throughout the public sector, and that LGPS members are not in a worse position than their NHS/civil servant/teacher counterparts.**

**Pay in lieu of notice**

There is the risk of confusion where the pay in lieu of notice is exempt from the cap where it is less than a quarter of the person's salary.

**Order of priority**

The draft Regulations don't as suggested, prescribe an order of priority where an individual receives one or more exit payment in respect of a single event (e.g. statutory and/or enhanced redundancy, pay in lieu of notice, pension strain, etc.). We believe both the Regulations and guidance need attention to rectify this.

**LGPS**

For the cap to work effectively in local government, specific amendments are required to the LGPS Regulations. It is unclear, however, what would happen between the enforcement of these Regulations and any changes being made to the LGPS. There is a risk of conflict between two separate statutory instruments which could lead to potential unfair dismissal claims if an individual is adversely impacted by any delay in changes to the LGPS.

For example, the LGPS requires an individual to receive the immediate payment of unreduced pension on redundancy/efficiency retirement, but these proposed Regulations say they can't. It is unclear how an employer could make a payment of up to £95k as an alternative.

**Employers not covered by the cap**

We are not sure how likely it is that public sector authorities not currently impacted by the cap will voluntarily adopt commensurate arrangements.

**Exceeding the cap**

The assumption is that employers would cap contractual redundancy lump sums (i.e. any discretionary element over and above the statutory amount) and allow individuals to receive payment of their pension top up payment in full (capped at £95k) in circumstances where the pension strain exceeded the cap. We believe there should be greater flexibility for individuals to choose whether they defer payment of their pension and receive a cash alternative or suffer an appropriate reduction to their pension, rather than have a solution imposed on them.

**Compliance**

No specific comment on this element of the guidance.

**Transparency**

No specific comment on this element of the guidance, as it seems to fit in with the current reporting requirement relating to exit payments paid during a financial year.

**Individual responsibilities**

We appreciate the requirement for employees to notify public sector employers where they have been impacted by the exit cap, but have concerns

where an employer could be subject to sanction where they are not informed by an individual but subsequently end up making an exit payment or exit payments that ultimately exceed the £95k cap. We wonder if stronger sanction is required for individuals who fail to inform, rather than punishing an employer and leaving it to them to decide what steps to take in recovery of any payments made.

### **Relaxation of the Cap**

For local government we would need to see what guidance MHCLG proposes in this area to know how effective it may be. At this stage it is unclear how this will link, if at all, to the need set out in the proposed guidance for local government employers to also obtain HM Treasury approval in all discretionary cases.

If HMT approval is required for all cases of discretionary exceptions then we wonder if they are resourced to receive potentially significant numbers of requests across the full breadth of central and local government, particularly given the continuing effects of austerity measures in recent years.

### **Scope of relaxation powers**

We do have a slight concern that the need to sign off each discretionary exemption could introduce unwanted bureaucracy and delay, particularly in cases of hardship or urgent workplace reforms. The guidance itself also doesn't provide much detail on the process to be followed, timescales, etc. which we think might be expected to be included.

### **Mandatory relaxation**

Generally, we agree with the circumstances where a mandatory relaxation would apply.

On TUPE, however, we do wonder if this exclusion could mean an individual who is outsourced being better off financially than an individual remaining employed by a public sector employer. Additionally, we wonder if TUPE could be abused as a means of circumventing the cap.

### **Discretionary relaxation**

We agree that employers should have the option available to them to relax the application of the cap, particularly on grounds of hardship or where an arrangement had been already agreed ahead of the cap being introduced.

The option to exercise a discretion on account of workplace reforms does, however, require clarification between the wording of the HMT Directions ("workplace reform") and the supporting Guidance ("urgent workplace reform") and what this means.

We believe that what constitutes urgent workplace reform should be clearly defined, rather than be open to interpretation. We assume that if not achieved via this guidance it would be up to each Government Department to set this out in supplementary guidance.

### **Question 5**

**Is the guidance sufficiently clear on how to apply the mandatory and discretionary relaxation of the regulations, especially in the case of whistleblowers?**

In principle the discretionary waiver option is welcome, but in practice there is the danger that it may be applied only for those individuals for whom the government intends to be impacted by the exit cap. As a result the cap would be implemented for those lower-paid individuals whose early retirement strain

	<p>cost is the only reason they breach the cap (without being considered “undeserving” in any commonly accepted sense).</p> <p>In order for the guidance to provide the necessary detail employers require it would be helpful if more specific detail were included around specific elements such as:</p> <ul style="list-style-type: none"> <li>• the actual process to be followed when considering mandatory or discretionary relaxations;</li> <li>• what is expected to be included within any business case for discretionary relaxation.</li> </ul> <p>As previously stated it is also unclear with local authorities whether they would need to seek HM Treasury approval in each case, or is this a Full Council responsibility or a MHCLG responsibility.</p>
	<p><b>Question 6</b>  <b>Is there further information or explanation of how the regulations should be applied which you consider should be included in the guidance? If so, please provide details.</b></p> <p>Please see our responses previously given to Question 5 above.</p>
	<p><b>Question 7</b>  <b>Are there other impacts not covered above which you would highlight in relation to the proposals in this consultation document?</b></p> <p>As stated in our response to question 3 above we are concerned at the lack of any indexation of the exit cap, either from 2015 to date or once it has eventually come in to effect. While we appreciate the underlying policy intention to restrict excessive payouts in public sector, we believe the cap as currently intended to be implemented will impact even moderate earners with long service, rather than the higher earners we believe are the intended target of the cap. If the level of the cap is not indexed appropriately then it will increasingly impact those earners who would not be regarded as the intended audience for this measure. <b>This in turn leads to difficulties for public sector bodies to manage their workforces and introduce necessary changes to the delivery of services to compensate.</b></p> <p>From an LGPS perspective it is also imperative that the timing of these draft Regulations and associated guidance and Directions work together with any changes required to the LGPS Regulations, in order to prevent any inconsistencies and reduce the risk of future unfair dismissal claims as a result.</p> <p>As we have stated, in particular in our answer to Question 3, we have concerns that the inclusion of pension strain costs as proposed would have an adverse impact on moderate earners, for whom we believe this measure is not the intended audience. If the government’s aim is to restrict unduly generous packages, we would suggest it is necessary to apply a separate test for the early retirement strain cost element.</p> <p>This could be achieved by:</p>

	<p>a) applying a cap only to those on pensionable pay above a certain level, or</p> <p>b) applying a two-tier cap, one for the discretionary non-pension element and the other including the early retirement strain cost. The second cap could be set in such a way as to reduce the likelihood that those earning below a certain pay level would be affected. For instance, our broad analysis suggests that if the relevant pay level was to be, say £90,000, then this would require the second combined cap to be set at something like three times the proposed level, or</p> <p>c) keep the cap at its proposed level, but restrict its application to only discretionary elements of the exit package. Any non-discretionary elements would sit outside the cap e.g. such as the right under LGPS Regulations to access unreduced pension benefits if retirement is compulsory.</p>
	<p><b>Question 8</b>  <b>Are you able to provide information and data in relation to the impacts set out above?</b></p> <p>We have outlined some sample figures in our response to Question 3, regarding the impact of including early retirement pension strain within the £95,000 cap.</p>

# Agenda Item 6f



## Report of the Section 151 Officer

Pension Fund Committee – 11 July 2019

### **Low Carbon Index – Update (Environmental, Social, Governance (ESG) Policy)**

<b>Purpose:</b>	To update the Pension Fund Committee on the low carbon transition component of the Environmental, Social, Governance (ESG) Policy
<b>Policy Framework:</b>	Environmental, Social Governance Policy
<b>Consultation:</b>	Legal, Finance and Access to Services.
<b>Report Author:</b>	Jeffrey Dong
<b>Finance Officer:</b>	Jeffrey Dong
<b>Legal Officer:</b>	Stephanie Williams
<b>Access to Services Officer:</b>	R Millar
<b>For Information</b>	

#### **1 Background**

1.1 The Committee has taken a number of steps to understand the impact of ESG issues on the Fund. In November 2017, Hymans Robertson delivered a detailed training session covering responsible investing, ESG and climate change. Hermes Equity Ownership Service also delivered a presentation highlighting examples of the positive change they had delivered through engaging with companies' management and placing shareholder votes on their clients' behalf. The Committee and Board considered their "investment beliefs" in the context of ESG matters and the results have recently been used to develop the ESG policy previously approved at the March 2018 Committee Meeting.

#### **1.2 Carbon**

As part of the Fund's ESG focus, the Committee commissioned MSCI to undertake an analysis of the portfolio's carbon exposure. MSCI has

information on each global stocks' carbon related exposure (or is in a position to make an assumption<sup>i</sup>). Using this information, MSCI is able to compare the carbon exposure of the Fund's holdings with a range of reference benchmarks.

- 1.3 MSCI was provided with the individual holdings data from each of the Fund's equity managers (ex-Aberdeen's' frontier markets mandate due to lack of comparable industry benchmark data) and with specific details on each of the mandates in terms of their benchmarks and allocations<sup>ii</sup>. MSCI then compared the portfolio versus the broad global market capitalisation index (e.g. the MSCI ACWI as a proxy for the global stockmarket) and versus a low carbon version of the global index (this index has the same performance objective of the broad market capitalisation index, but has a general aim of being overweight to companies with low emissions relative to sales and low potential emissions).
- 1.4 The results of the study indicated that the current portfolio was 9% underweight carbon assets. The Committee agreed to target a 50% underweight position within the next 5 years in its revised ESG Policy. It was presented that the most operationally efficient way to implement a carbon reduction programme was via a low carbon passive index. The Pension Fund Committee approved the transition of its approx. £0.5bn Blackrock market cap weighted index tracking equity assets into the Blackrock Low Carbon Index tracking fund which would go a considerable way in meeting its commitment to reduce the fund's carbon footprint by 50% by 2022.
- 1.5 Transition of those assets commenced on the 3<sup>rd</sup> July 2019 and shall be completely transitioned by the end of the month.

## **2 Swansea Council's Notice of Motion on Climate Emergency**

- 2.1 The Administering Authority of The City & County of Swansea Pension Fund is Swansea Council. At its Council meeting on the 27<sup>th</sup> June 2019, it approved a notice of motion declaring a climate emergency. In its notice of motion, the ground breaking work and commitment of the Pension Fund Committee to reduce its carbon footprint was referenced. Attached at Appendix 1 is the Environmental, Social, Governance Policy which has been formulated as a result of the initial training, further information gathering, receiving presentations from interest groups and subsequent committee discussion and decision-making.

## **2 Legal Implications**

- 2.1 There are no legal implications arising directly from this report

## **3 Financial Implications**

- 3.1 There are no financial implications arising directly from this report. It is recognised there shall be marginal tracking variance between the low carbon index and the market weighted index.



- 4        **Equality and engagement Implications**
- 4.1     There are no equality implications arising from this report

**Background Papers:** None.

**Appendix 1-** City & County of Swansea ESG Policy.

## ESG Policy - City and Council of Swansea Pension Fund

### Introduction

The Committee recognise that environmental, social and corporate governance ('ESG') issues can influence the Fund's long-term returns and reputation. Given this, the Committee aims to be aware of, and monitor, financially material ESG factors.

The day to day management of the Fund is delegated to professional investment managers. Regular meetings are held with the Fund's managers where they are expected to provide a summary of actions that they have taken, or are taking, to consider ESG factors on a day to day basis.

In line with investment regulations, and to guide them in the strategic management of the Fund's assets, the Committee has adopted an Investment Strategy Statement ('ISS').

The Committee commits to an ongoing development of its ESG policy to ensure it reflects latest industry developments and regulations. The Committee together with their investment consultant will review the ESG policy annually at the same time as reviewing their ISS.

The Committee has agreed a series of beliefs which have been incorporated into their ISS. These beliefs strengthen their position in regard to considering ESG factors and provide a framework for their engagement through their Fund managers.

In the appendix of this document we discuss the results of the Fund's 2017 "carbon foot-printing" exercise, which informed some of the considerations included within this policy.

## Statement of Responsible Investment

The Committee considers the Fund's approach to responsible investment in two key areas:

- 1 **Sustainable investment / ESG factors** – considering the financial impact of environmental, social and governance (“ESG”) factors on its investments.
- 2 **Effective Stewardship** – acting as responsible and active investors, through considered voting of shares, and engaging with investee company management as part of the investment process.

The following principles set out the Fund's approach:

- The Committee recognises that their duty is to act in the best financial interests of the Fund's beneficiaries. The Committee believes that ESG issues can have a material financial impact on the long term performance of its investments and consideration of such factors is a part of their fiduciary duty.
- The Committee has a number of ESG related beliefs which are integrated into the Fund's overall belief statement. The Committee recognises that successful engagement can protect and enhance the long-term value of the Fund's investments. This engagement can apply across a range of assets.
- The Committee endorses the principles embedded in the UK Stewardship Code.
- The Committee encourages engagement by their investment managers with investee companies on ESG factors to positively influence company behaviour and enhance the value of the holdings. In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.
- Investment managers are expected to take account of ESG factors as part of their investment analysis and decision-making process. Further, ESG issues will be an explicit factor in considering the appointment of any new investment manager, mandate and benchmark.
- Investment managers are expected to incorporate reporting on ESG factors into their regular reporting. This includes information on voting and engagement, in addition to details on how the investment managers assess and manage ESG factors in relation to their respective mandates. The Committee encourages their investment managers to develop their reporting and monitoring of ESG factors over time.
- The Committee believes that they will have greater influence on the future direction of companies if they remain invested. Overall engagement activities are viewed by the Committee as a key element of the broader approach to responsible investing. Remaining invested provides the Fund with a voice on how companies are generating their revenues and how they will change in the future. The Committee view divestment as being the ultimate sanction.
- The Committee intends to make use of collaboration with other funds to pursue their engagement policy. To help with this, the Fund is a member of the Local Authority Pension Fund Forum (“LAPFF”), one of the UK's leading collaborative shareholder engagement group.
- The Committee seeks greater transparency of the ESG relative aspects associated with their underlying investments. This includes the extent of the Fund's equity investments' carbon exposure and the Fund's exposure to stocks that may gain from a change in industry carbon policy.
- The Committee has made a commitment to reduce the Fund's listed equity portfolio's carbon exposure, as part of this, it has set a target of the Fund's equities being 50% lower when compared to the global stockmarket by 2022 (MSCI AC World index, measured in terms of carbon emissions per \$m invested).
- The Committee may consider portfolio 'tilts' in line with ESG or responsible investment objectives.
- Training and education is likely to form a key element in developing the Fund and its Committee position on ESG related matters.

### Voting policy

The Committee and the Officers work closely with the Fund's investment managers to support good corporate behaviour.

The managers are required to exercise their voting rights on behalf of the Fund when it is in the best interests of the Fund. Voting will be in accordance with the managers' corporate governance policies. The Committee also retains the right to instruct managers at any time to vote according to the Committee's wishes on a particular resolution (acknowledging that there may be limitations as to how this would work for pooled investments).

The Committee review their managers' voting guidelines on a regular basis (at least biannual) to determine their appropriateness for the Fund.

All managers are expected to report their voting records on a quarterly basis. The Committee is committed to disclose voting records to the Fund's membership on an annual basis through the Fund's website.

In making any future manager appointments, the Committee will assess the managers' voting policy as part of the due diligence process and will instruct the appointed manager accordingly. The Committee will also liaise closely with the Wales Pool Operator to ensure that they also adopt this approach.

### Engagement policy

The Committee believe that engagement is a positive activity and encourage the Fund's investment managers to engage where they believe that value can be added or risk can be reduced.

The Committee believes that all engagements should have well-defined objectives. The Fund's investment managers are to report on the objectives of any engagement activity, along with the consequent success or failure of any actions taken on, at least, an annual basis. The Committee will publish a summary of engagement activity undertaken by their managers on an annual basis. The Committee will also publish other collaborative activity carried out over the year e.g. as part of the membership with LAPFF.

The Committee supports engagement activity that seeks to achieve:

- Greater disclosure of information on the ESG related risks that could affect the value of an investment;
- Transparency of an investments' carbon exposure and how such companies are preparing for the transition to a low carbon economy.<sup>1</sup>

The Committee encourage their investment managers to actively participate in collaborative engagements with other investors where this is deemed to be in the best interests of the Fund. Managers are to report on their collaborations on an annual basis.

The Committees' investment consultant is required to provide input and analysis to assist the Committee in assessing the Fund's investment managers' performance from an ESG engagement perspective. This includes working closely with the Officers to develop the appropriate training arrangements.

The Committee liaise closely with the Wales Pool Operator to ensure that they also adopt the approaches set in this policy. The Fund's investment managers are encouraged to sign up to the appropriate industry initiatives, including the UK Stewardship Code, LGPS Cost Transparency and the Principles of Responsible Investment. The Fund is not currently signed up to the UK Stewardship Code or the PRI but is investigating the possibility.

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<sup>1</sup> As stated, the Committee has a desire to reduce the Fund's listed equity portfolio's carbon exposure and, as part of this, it has set a target of the Fund's equities being 50% lower when compared to the global stockmarket by 2022 (MSCI AC World index, measured in terms of carbon emissions per \$m invested). The Committee will aim to carry out a carbon foot-printing exercise of their equities at least on a triennial basis. The first of these reviews took place in 2017 (the results are discussed in the appendix to this paper).

## Appendix 1: Carbon exposure – 2017 review

*Paper issued by Hymans Robertson in March 2018*

### Background

#### Environmental Social and Governance (“ESG”)

The Committee has taken a number of steps to understand the impact of ESG issues on the Fund. In November 2017, Hymans Robertson delivered a detailed training session covering responsible investing, ESG and climate change. Hermes Equity Ownership Service also delivered a presentation highlighting examples of the positive change they had delivered through engaging with companies’ management and placing shareholder votes on their clients’ behalf. The Committee and Board considered their “investment beliefs” in the context of ESG matters and the results have recently been used to develop the ESG policy outlined in this paper

#### Carbon

As part of the Fund’s ESG focus, the Committee commissioned MSCI to undertake an analysis of the portfolio’s carbon exposure. MSCI has information on each global stocks’ carbon related exposure (or is in a position to make an assumption<sup>2</sup>). Using this information, MSCI is able to compare the carbon exposure of the Fund’s holdings with a range of reference benchmarks.

MSCI was provided with the individual holdings data from each of the Fund’s equity managers (ex-Aberdeen’s’ frontier markets mandate due to lack of comparable industry benchmark data) and with specific details on each of the mandates in terms of their benchmarks and allocations<sup>3</sup>. MSCI then compared the portfolio versus the broad global market capitalisation index (e.g. the MSCI ACWI as a proxy for the global stockmarket) and versus a low carbon version of the global index (this index has the same performance objective of the broad market capitalisation index, but has a general aim of being overweight to companies with low emissions relative to sales and low potential emissions).

In the remainder of this paper, we consider the results from this analysis and set out potential next steps for the Fund.

### Output of the analysis

#### Overview

The analysis focuses on the Fund’s equity exposure at 31 March 2017. This date was shown as it ties in with Fund’s year end.

The main objective was to get an understanding of the Fund’s carbon exposure. However, it also created an opportunity to consider the positions being taken by the Fund’s active managers, relative to their benchmark. The Fund’s passive manager’s exposure will be broadly in line with the underlying benchmark. However, the analysis gives the opportunity to compare the carbon exposure of the standard global benchmark versus its low carbon equivalent.

The analysis also includes some information regarding the Fund’s exposure to clean technology, which are expected to benefit from any move towards a more low carbon economy.

<sup>2</sup> Further details on the assumptions made are included in MSCI’s reports.

<sup>3</sup> To tie in with MSCI’s benchmark range a number of pragmatic compromises were made, including comparing the Aberdeen and JP Morgan portfolios versus the global index, rather than a global ex UK index and Schrodgers’ UK mandate versus a European benchmark. These compromises will impact the relative position of the results, but they should have no impact on the absolute results, not the key themes coming out the analysis. The date was based on the Fund’s holdings at 31 March 2017.

### Key carbon metrics

The key metrics can be defined as:

- **Carbon emissions** - the carbon emission (tonnes of CO<sub>2</sub>) per \$million invested. *Sum of ((\$investment in issuer/issuers' market cap) \* issuer's emissions) – results shown as per \$m invested*
- **Carbon intensity** – a measure of a portfolio's carbon efficiency and is defined as the total carbon emissions of the portfolio as a proportion of portfolio sales. This is a useful metric in allowing the comparison of emissions across companies of different sizes and industries. *Sum of issuers' carbon emissions/ Sum of issuers' \$m sales*
- **Weighted average carbon intensity** – the sum product of the constituent weights and carbon intensity. *Sum of portfolio weights\*carbon intensity*

Each of these metrics have merit. For the purpose of this paper, we define carbon emissions as the “carbon footprint”, but the other metrics could also have been defined in this way.

### Results

#### Carbon focused

Overall, the results are encouraging. As shown in chart 1, the Fund's total equity holdings had a carbon footprint 9% lower than the MSCI ACWI and the weighted average carbon intensity is 16% lower. However, Chart 1, also highlights that the MSCI Low Carbon benchmark has an 80% smaller carbon footprint than the MSCI ACWI index highlighting that the choice of the underlying benchmark can have a significant impact on investors' carbon emissions.

Chart 1: Carbon emission metrics

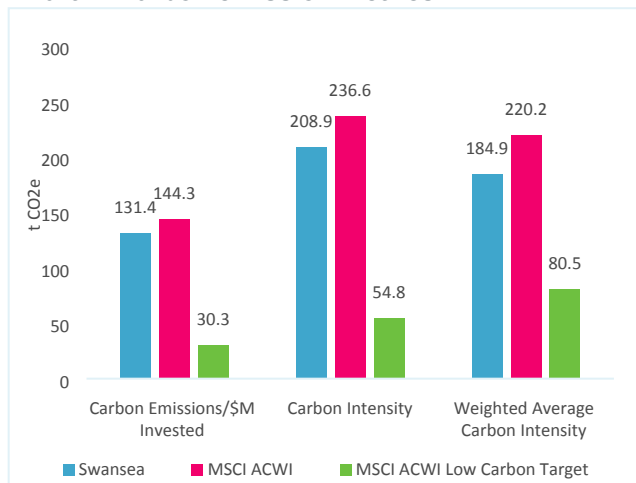


Chart 2: Weighted average intensity at manager level <sup>4</sup>

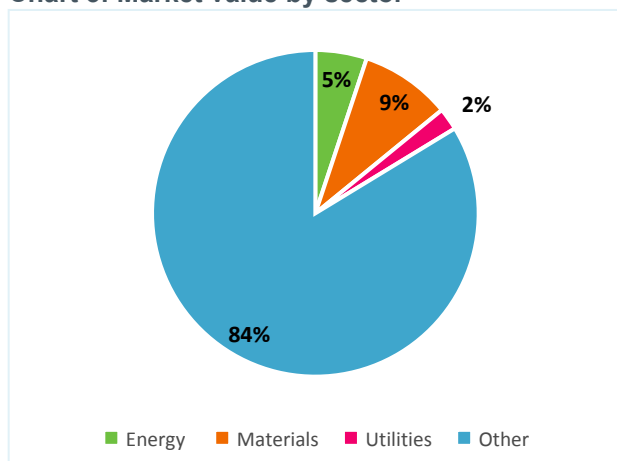
Details of each of the Fund's active managers' weighted average are shown in Chart 2. Each manager has delivered a portfolio with a lower position than their respective market capitalisation benchmark. Interestingly, although the Fund's two global managers (Aberdeen and JP Morgan) have similar weighted average exposure, there were notable differences in the carbon emissions (with JP Morgan notable higher due (c80% higher) to a number of their underlying Materials holdings, including Posco and Alco Corporation). Aberdeen's weighted average results were negatively impacted by the manager's Real Estate exposure (most notably Swire Pacific) and Materials exposure, including Praxair and Potash Corp.

<sup>4</sup> In chart 2, Schroder's results are shown against the MSCI Europe and MSCI Europe Low Carbon

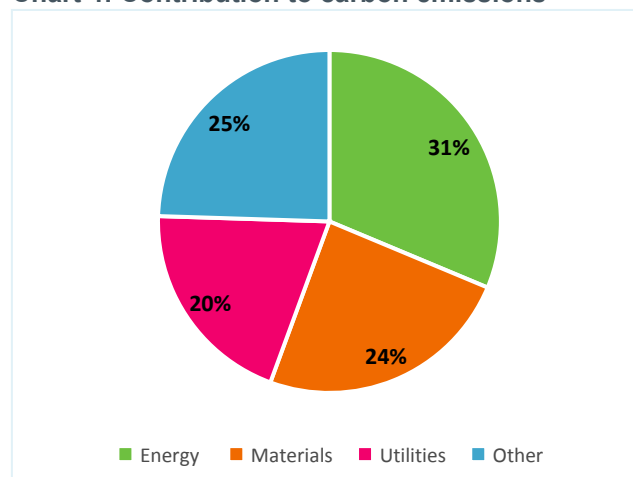
Schroder's carbon footprint is lower than the benchmark index, albeit the holdings in Royal Dutch Shell and Carnival were notable contributors to the mandate's carbon intensity.

Considering the analysis at a sector level, the Fund's exposure to the materials, energy and utilities sectors contribute to the majority of the Fund's carbon footprint. Together, these sectors contribute to 75% of the Fund's carbon emissions despite only comprising 16% of the Fund's equity portfolio. This is illustrated in Charts 3 and 4 below.

**Chart 3: Market value by sector**



**Chart 4: Contribution to carbon emissions**



In such exercises, the energy, materials and utilities sectors are typically those with the highest carbon intensity although a company is not "bad" simply because it happens to operate within a carbon intensive sector. It is important to recognise that some sub-sectors will have very low carbon intensity. For example the utilities sector includes both water companies (low carbon intensity) and electricity companies (high carbon intensity).

### Scope 1 and Scope 2

Carbon emissions are typically shown in three main "scopes"

- Scope 1: Direct "emissions from sources owned or controlled by the organisation"
- Scope 2: Indirect "emissions from the consumption of purchased electricity, steam or other energy generated upstream"
- Scope 3: Other indirect e.g. employee commuting.

To date, the majority of the industry focus is on Scopes 1 and 2 (as was the results of MSCI's analysis). The Fund's exposure is c 80% from Scope 1, which is slightly less than the MSCI ACWI, which is 84%. Only 58% of the MSCI ACWI Low carbon index comes from Scope 1. This notable change in the benchmark splits between scopes 1 and 2 reflects some of the main sector differences between the two benchmarks.

### Carbon risk management relative to industry

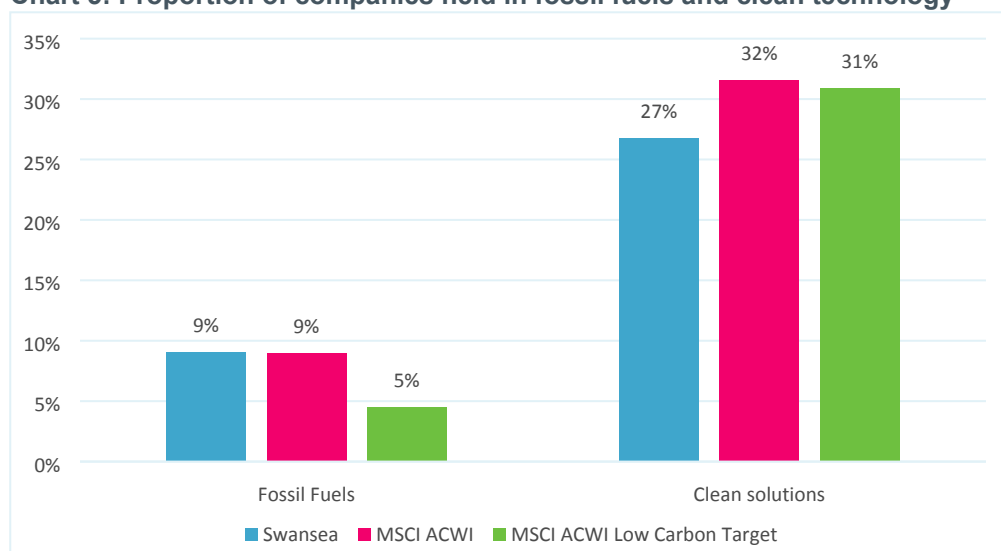
MSCI also included their views on companies' position relative to their industry in dealing with managing carbon risk (MSCI rates companies as Leaders, Average or Laggards). In terms of the top ten contributors to each active managers' weighted carbon intensity:

- Two of Aberdeen's Materials holdings (Maple Leaf and Tenaris) are viewed as being a laggards. We recommend that you follow up on these holdings with the manager.
- None of JP Morgan's or Schroders were viewed as laggards.

### Thermal coal, oil and gas reserves

MSCI also considered the proportion of the portfolio which is made up by companies that own thermal coal, oil and gas reserves, three areas that are thought to be most at risk of being “stranded” assets. Chart 5 (left hand side) below shows that the Fund’s portfolio is 0.2% overweight, relative to the MSCI ACWI, in companies that own Fossil Fuel Reserves. The key contributors to this are the Fund’s holdings in Shell, BP, Lukoil and Rosneft (JP Morgan are notable investors in the latter two stocks).

**Chart 5: Proportion of companies held in fossil fuels and clean technology**



### Clean technology

In terms of focusing on stocks that may benefit from a change in industry carbon policy, chart 5 (right hand side) also analyses companies involved in “clean technology” solutions based on their sales in the following categories: Alternative Energy, Energy Efficiency, Green Building, Pollution Prevention, and Sustainable Water. Relative to the global index, the Fund has less exposure to stocks that generate revenue from these categories (of the Fund’s 27% exposure, the majority is in stocks with 0-20% of their revenue is from these categories).



### Summary and next steps

The information from MSCI acts as a useful guide to the Fund's carbon exposure. There are a number of potential next steps for the Committee to consider, which should be considered alongside the Fund's engagement policy and investment beliefs, in particular:

#### Agree objectives

By carrying out this process, the Committee has achieved one of its objectives of understanding the Fund's carbon exposure (this puts the Fund ahead of any many other funds in doing such an exercise, a recent Greenwich Associates survey suggested that just 5% of UK pension funds had considered such an exercise).

Based on previous discussions, we understand that there is a desire to reduce the Fund's carbon exposure, albeit no specific targets have been discussed, or specifics e.g. emissions, carbon intensity or fossil fuel exposure.

**Details of the specific measures can be considered in more detail over the course of 2018, what is key is that if a target is introduced a consistent method is adopted to allow the Fund's progress to be considered over time.**

#### Reference index

We propose that the MSCI AC World index is used as the reference index. This is a commonly used index to represent "global stockmarkets" and is commonly used as a benchmark for global equity portfolios.

#### Target levels

If we focus on carbon emissions, the analysis discussed in this paper indicates that Fund already has c9% less carbon intensity than the index. The extent of your desire to put a target in place (exposure relative to the reference index), and if so, the size of this target should be subject to further discussion with you. However, we anticipate it being in the region of 20%-50% (amount to be defined following discussions with you) of the reference index achieved over an appropriate timescale (e.g. 5 years).

#### Review Fund benchmarks

The impact of benchmark choice is most notable for the Fund's passive mandates, where the manager's objective is to replicate the underlying index. MSCI's analysis shows the significant difference in the MSCI ACWI and the MSCI Low Carbon benchmarks. There are now a range of low carbon/ESG benchmarks that the Fund could consider. We recommend further training takes place on these during 2018, with the potential that a proportion (potentially all) of the Fund's passive assets are benchmarked against such a benchmark.

#### Challenge active managers

The results have flagged the Fund's exposure to specific higher carbon stocks. The Fund's managers should be asked to explain their rationale for holding such stocks, most notably

- Aberdeen: Challenge on engagement with Maple Leaf and Tenaris and understand how firm takes carbon risks into account for Swire Pacific.
- JP Morgan: Challenge on stock selection in energy and materials. How are carbon risks being priced into stock selection decisions.

#### Feed into pooling

Post pooling the Pool's operator will be responsible for appointing the underlying active managers. The Committee should seek details as to their process for assessing manager's ESG capabilities and willingness to provide carbon reporting.

### **Repeat exercise**

It is important that you assess what progress is made relative to any objectives. However, there needs to be a balance between frequency of analysis, and cost of doing the analysis. We believe every two years should be broadly sufficient, albeit you may wish to receive more frequent updates from your active managers.

### **Consider broader assessment**

Carbon is just one ESG element. There is scope to consider broadening this review to include other ESG related aspects e.g. human rights, labour rights, governance. This would work in a similar way to the process for carbon monitoring i.e. the Fund's underlying holdings compared to a broader universe using a providers underlying scoring.

Where possible this assessment should also be broadened out to the Fund's other asset classes i.e. not just equities.

We look forward to discussing his paper with you in March.

Prepared by:-

Jordan Irvine, Associate Investment Consultant

William Marshall, Partner

For and on behalf of Hymans Robertson LLP

### **General Risk Warning**

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an overseas investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

# Agenda Item 6g



## Report of the Section 151 Officer

Pension Fund Committee – 11 July 2019

### Wales Pension Partnership (WPP) Responsible Investment (RI) Policy

<b>Purpose:</b>	To approve the Responsible Investment Policy (RI) of the Wales Pension partnership (WPP)
<b>Policy Framework:</b>	Investment Management Regulations
<b>Consultation:</b>	Legal, Finance and Access to Services.
<b>Recommendation:</b>	The WPP RI Policy is approved.
<b>Report Author:</b>	Jeffrey Dong
<b>Finance Officer:</b>	Jeffrey Dong
<b>Legal Officer:</b>	Stephanie Williams
<b>Access to Services Officer:</b>	R Millar

#### 1 Background

- 1.1 The Pension Fund Committee has taken a number of steps to understand the impact of ESG issues on the Fund. In November 2017, Hymans Robertson delivered a detailed training session covering responsible investing, ESG and climate change. Hermes Equity Ownership Service also delivered a presentation highlighting examples of the positive change they had delivered through engaging with companies' management and placing shareholder votes on their clients' behalf. The Committee and Board considered their "investment beliefs" in the context of ESG matters and the results have recently been used to develop the ESG policy previously approved at the March 2018 Committee Meeting. It should be noted that Swansea was well ahead of its peers in Wales in adopting an ESG low carbon target approach.

#### 2 Wales Pension Partnership ( WPP)

- 2.1 It is recognised as best practice that WPP ( at a Pool level) has a clearly defined RI Policy which can be implemented across its funds. It is noted that

each member fund of WPP is at different stages of their consideration of the whole ESG/RI agenda. The WPP Policy is therefore formulated with a view to not tying an individual fund to a restrictive or binding commitment. Attached at Appendix 1 is the RI Policy of The WPP.

**3 Legal Implications**

3.1 There are no legal implications arising directly from this report

**4 Financial Implications**

4.1 There are no financial implications arising directly from this report.

**5 Equality and engagement Implications**

5.1 There are no equality implications arising from this report.

**Background papers:** None.

**Appendices:** Appendix 1 - RI Policy of The WPP.

## **Wales Pension Partnership Responsible Investment Policy**

### **1 Introduction and oversight**

- 1.1 The Wales Pension Partnership (“WPP”) is the pooling arrangement for the assets of the eight Welsh Local Government Pension Scheme funds (“Constituent Authorities”).
- 1.2 The investment arrangements of WPP are overseen by a Joint Governance Committee (“JGC”) and supported by an Officer Working Group (“OWG”) and implemented through pooled funds managed by its “Investment Managers”.
- 1.3 This document sets out WPP’s policy on responsible investment for all assets invested within the WPP. This policy has been developed by WPP in consultation with the Constituent Authorities.
- 1.4 WPP’s objective in preparing and implementing this policy is to be able to:
  - 1.4.1 demonstrate to its stakeholders that the WPP is a Responsible Investor; and
  - 1.4.2 enable the Constituent Authorities to substantially deliver their own Responsible Investment and Social Impact policies through the WPP.
- 1.5 WPP recognises that responsible investment considerations pose financially material risks to the assets of Constituent Authorities held within WPP. Such considerations are relevant in relation to both the way the assets of Constituent Authorities are invested and in the exercise of stewardship responsibilities.
- 1.6 This policy will be reviewed by WPP on an annual basis and, if necessary, changes to the policy will be proposed to and agreed by the JGC and OWG. In order to inform the policy review, WPP will consult with or otherwise obtain the views and requirements of all Constituent Authorities.
- 1.7 In developing and implementing this policy, WPP will have regard to the Well-being of Future Generations (Wales) Act 2015, the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and any relevant guidance provided by the Scheme Advisory Board (“SAB”), the Ministry of Housing Communities and Local Government (“MHCLG”) and the Welsh Government.

### **2 Ambition and beliefs**

- 2.1 WPP’s long-term ambition is to demonstrate leadership on RI practices in managing assets for and on behalf of the Constituent Authorities. WPP, in conjunction with the OWG & JGC, will update its annual business plan to ensure that sufficient time and resources are provided to implement the requirements of this policy.
- 2.2 WPP recognises that the development of beliefs represents best practice for asset owners. In consultation with the Constituent Authorities, the WPP has developed and agreed the following responsible investment beliefs which serve to underpin its decision-making and governance processes.
  - 2.2.1 The RI behaviours we want to see demonstrated by all our stakeholders must be led by WPP;

- 2.2.2 Integration of ESG factors, including climate change, into investment processes is a prerequisite for any strategy given the potential for financial loss;
  - 2.2.3 WPP is most effective as an investor engaging for change from within, particularly in collaboration with other like-minded investors, as opposed to a campaigner lobbying for change from outside.
  - 2.2.4 Our impact on corporate behaviours will be greatest when we speak with one voice;
  - 2.2.5 Effective oversight of RI practices requires clear disclosure and measurement of comprehensive data.
- 2.3 WPP recognises that these beliefs represent a starting point for the guidance of its approach to responsible investment. Although WPP does not expect to regularly change these beliefs, it will test the ongoing appropriateness of them on a periodic basis in light of changing best practice and developing knowledge.

### **3 Investment strategy**

- 3.1 The Constituent Authorities are individually responsible for setting investment strategy for their own funds which reflect their membership profile and funding position. The investment strategy is the high-level split between asset classes including but not limited to equities, debt, property and infrastructure. The role of WPP is to provide a means for each Constituent Authority to implement its agreed strategy.
- 3.2 WPP openly encourages the Constituent Authorities to develop their own RI policy as part of their investment strategy. WPP has developed and may periodically amend this RI policy to ensure that it complements those of the Constituent Authorities.
- 3.3 WPP will consult with Constituent Authorities on at least an annual basis to determine their individual investment requirements and longer-term aspirations, including strategies which either meet the responsible investment requirements of Constituent Authorities or have the potential to deliver benefit within the regions covered by the Constituent Authorities. WPP will use this information to prioritise the development and launch of future investment solutions/funds within the WPP.
- 3.4 In conjunction with its advisers the WPP will also consider opportunities arising from a greater understanding of ESG factors. These opportunities could include impact and/or sustainability themed strategies, as well as social beneficial investments. WPP may propose such opportunities directly for consideration by Constituent Authorities.

### **4 Climate change**

- 4.1 Climate change presents a systemic risk that has the potential to affect economies, financial returns and demographics. The risks arising from climate change may arise from environmental, social, governance or other factors and are generally characterised as follows:
  - 4.1.1 Physical risks, such as damage to property from flooding or lower precipitation giving rise to crop failure;
  - 4.1.2 Transition risks, being the financial risks arising from changes in policy and technology to adjust to a lower-carbon economy; and

- 4.1.3 Liability risks, being the potential costs arising from parties who have suffered loss or damage due to climate change seeking compensation from those they hold responsible.
- 4.2 Climate change is increasingly being recognised by regulatory bodies and legislators as an issue that must be explicitly addressed by asset owners and investment managers. The uncertainty arising from climate change has implications for Constituent Authorities through the investments made within WPP.
- 4.3 WPP will engage with its providers to ensure that a common mechanism for monitoring climate related risks can be developed in respect of all WPP assets. Through this, WPP aims to provide support to Constituent Authorities in developing and implementing their own climate risk management policies.
- 4.4 WPP will encourage, through its delegates, all investee companies to disclose in line with the requirements of the Taskforce for Climate Related Financial Disclosures.
- 4.5 In developing its ongoing approach to responsible investment, WPP will consult further with Constituent Authorities with a view to developing a WPP-specific climate risk policy.

## **5 Exclusions**

- 5.1 WPP has not adopted a policy of exclusionary practices within its underlying active manager portfolios. However, the WPP recognises that the Constituent Authorities may individually adopt an exclusionary policy.
- 5.2 WPP recognises that active investment management is by its very nature exclusionary and therefore expects that all the investment managers employed within WPP will properly consider climate-related and other ESG risks in decision making within their respective portfolios.
- 5.3 Constituent Authorities have the ability to invest in passive or other rules-based strategies through WPP's passive Investment Manager which may follow an exclusionary approach.

## **6 Implementation of strategy**

- 6.1 WPP expects that the Investment Managers employed to manage WPP assets will take account of ESG-risks as part of their investment analysis and decision-making process. WPP further expects that its Investment Managers can demonstrate they are 'best-in-class' with regards to their integration of responsible investment considerations.
- 6.2 WPP expects that, in all relevant circumstances, its Investment Managers will be signatories to the Principles for Responsible Investment ("PRI") and the Financial Reporting Council ("FRC") UK Stewardship Code.
- 6.3 WPP will engage with its Investment Managers on an ongoing basis to ensure that ESG factors are transparently reflected in decision making processes and that the approach taken to the management of ESG factors can be properly evidenced. WPP expects that such processes extend beyond reliance purely on third party ratings/data.
- 6.4 Within rules-based or index tracking mandates managed, WPP recognises the influence of benchmarks on the selection of assets. Where appropriate, WPP will work with its Investment

Managers and Constituent Authorities to ensure that the potential implications and impact of ESG factors on different approaches are properly understood.

## **7 Stewardship**

- 7.1 WPP believes that failing to exercise voting or other rights attached to assets could be contrary to the interest of the beneficiaries of the Constituent Authorities. WPP also believes that successful engagement with investee companies can protect and enhance the long-term value of the Constituent Authorities' investments within WPP.

### **Voting**

- 7.2 WPP has agreed a set of voting principles with its Operator which is responsible for the implementation of these principles. The Operator has instructed the underlying active investment managers within pooled funds to apply these voting principles on a comply or explain basis in respect of their portfolio(s).
- 7.3 WPP recognises that its passive Investment Manager may adopt a single voting policy across their pooled funds and WPP will review the appropriateness of such a policy on a periodic basis. WPP will engage with its passive Investment Manager to consider how WPP's voting principles can be extended to assets managed by its passive Investment Manager.
- 7.4 WPP will receive a report on all voting activity, including details of any votes which have not been cast and explanations where votes have not been cast in accordance with the agreed principles on a quarterly basis. WPP will discuss any issues of concern with its Investment Managers or other delegates as necessary.
- 7.5 WPP will review the voting principles in conjunction with its advisers and Investment Managers on an annual basis. WPP has also agreed an ambition to appoint a single proxy voting adviser to ensure that voting on all shares held within WPP is undertaken on a consistent basis.
- 7.6 All the Constituent Authorities are members of the Local Authority Pension Fund Forum ("LAPFF"). As members, the Constituent Authorities receive LAPFF Alerts when there is a campaign to vote in a certain way. WPP and its Constituent Authorities will give consideration to all such LAPFF Alerts and, where possible, instruct its Investment Managers to vote in line with the LAPFF Alert unless there is sufficient reason not to.

### **Stock lending**

- 7.7 WPP has agreed that stock lending will be permitted within WPP's actively managed pooled funds, subject to consultation with Constituent Authorities in respect of each underlying sub-fund at the point of set up. However, WPP will not lend 100% of the holding in any single stock so WPP can express its views and make a policy stance on any topic it deems worthy though its right to vote.
- 7.8 WPP recognises that stock lending may inhibit the full application of its voting policy as votes may not be cast on stock on loan. WPP will continue to monitor the impact of this policy stance over time and revise its policy if required.

### **Shareholder engagement**



7.9 WPP considers that, in many cases, its Investment Managers are best placed to engage with investee company management due to:

- the practical constraints of the investment structure;
- the resources available to these managers which are funded by the fees paid through WPP; and
- the existence of relationships between investment managers and the underlying investee companies.

7.10 The Investment Managers are ultimately accountable to WPP for all engagement activity; they should be able to demonstrate, when challenged, the reason for any engagement activity and the objectives of the engagement. Further to this Investment Managers should be able to justify the approach taken to achieve their objectives and explain the timeframe over which the engagement is expected to take place and the consequences should engagement be unsuccessful.

7.11 WPP adopts an evidence-based approach to assessing engagement activity by managers. WPP will receive a report on engagement activity undertaken by investment managers on a quarterly basis. WPP will discuss any issues of concern with the Investment Managers.

7.12 WPP has agreed to explore the possibility of employing a single engagement provider in conjunction with the prospective consideration of a proxy voting agent.

## **8 Collaboration**

8.1 WPP believes that collaboration has an important role in helping the WPP achieve its RI objectives. WPP will continually assess potential collaboration opportunities and will inform and seek input from the Constituent Authorities on any such opportunity that it deems to be relevant.

8.2 WPP together with all Constituent Authorities are members of LAPFF and engagement takes place with companies on behalf of members of the Forum.

8.3 WPP has an ambition to work collaboratively with other like-minded investors and representative bodies in order to maximise the influence of WPP's assets on investee companies. WPP will seek to identify investor led responsible investment initiatives and collaborations that can be actively supported.

8.4 WPP will encourage underlying investment managers to participate in or support collaborative engagements where it is deemed to be in the best overall financial interests of Constituent Authorities.

8.5 WPP will continue to collaborate with the cross-pool RI collaboration project at any suitable opportunity.

## **9 Monitoring, Reporting and Measurement**

9.1 WPP aims to be aware of, and monitor, financially material ESG-related risks and issues within WPP assets. In consultation with Constituent Authorities, Advisers and the Investment Managers, WPP will develop appropriate monitoring metrics for its portfolios. Such metrics

are expected to include climate-related risk exposures. WPP expects that such metrics will be incorporated within quarterly reporting to Constituent Authorities.

- 9.2 WPP requires that the responsible investment credentials of all appointed Investment Managers are subject to annual review. In conjunction with the relevant parties, the WPP will develop an appropriate reporting framework for its Investment Managers.
- 9.3 On an annual basis, the WPP will prepare and publish a stewardship report detailing the actions undertaken in fulfilment of this policy and the results achieved.

## **10 Other**

- 10.1 WPP recognises the need for ongoing education for Constituent Authorities on a broad range of investment matters, including responsible investment. As part of its annual business planning, WPP will ensure there is at least one formal training session is directly focused on Responsible Investment.
- 10.2 WPP is investigating, and will seek guidance from the Constituent Authorities, on whether it should become a signatory to the PRI and the updated FRC UK Stewardship Code. WPP will also explore the possibility of incorporating the United Nations' Sustainable Development Goals into its RI beliefs and its monitoring and measurement mechanisms.
- 10.3 WPP expects that all investment managers employed on behalf of WPP will disclose costs in accordance with the SAB Code of Transparency.
- 10.4 WPP will review the adherence of all parties to this policy on an annual basis. WPP will publish the results of their assessment as part of their annual stewardship and governance report.

## **11 Further Information**

- 11.1 If you require any further details on the RI Policy please contact .....and refer to the WPP website.

Version 1.0  
May 2019

## Glossary

Engagement refers to the process of interaction between an investor (or its delegate) and the management of an investee company with the objective of creating change in how the underlying company is managed or governed.

ESG is used to collectively describe a series of different risk factors arising from Environmental (e.g. resource scarcity, waste management, pollution, energy efficiency), Social (e.g. health & safety, workforce diversity, working conditions, data protection) and Governance (e.g. board structure, business ethics, shareholder rights, executive compensation) issues.

Impact is a term generally used to describe the social or environmental outcome arising from a particular investment or investment decision, being distinct from the associated financial outcome.

Investment Managers refers to those investment managers appointed directly or indirectly by WPP for the purposes of managing assets on behalf of WP.

Operator means Link Fund Solutions as the appointed operator of the Authorised Contractual Scheme through which sub-funds are implemented for WPP.

Principles for Responsible Investment is a global network of asset owners, asset managers and service providers which has the objective of advancing responsible investment practices.

Proxy Voting Agent means an entity which is instructed to advise on and/or cast votes on resolutions on behalf of an asset owner.

Responsible investment refers to investment practices that integrate the consideration of ESG factors into investment management processes and ownership practices, recognising that these factors can have a material impact on financial performance.

Stewardship describes the activities of investors in exercising the rights and responsibilities that come with asset ownership. These practices can include voting on shares and engaging with company management but also includes the oversight of those to whom such responsibilities are delegated.

UK Stewardship Code is a set of principles and provisions produced by the Financial Reporting Council which sets out best practice in stewardship activities by Asset Owners and Asset Managers.

UN Sustainable Development Goals are a set of 17 global goals for 2030 set by the UN General Assembly in 2015.

# Agenda Item 7



## Report of the Chief Legal Officer

Pension Fund Committee – 11 July 2019

### Exclusion of the Public

<b>Purpose:</b>	To consider whether the Public should be excluded from the following items of business.	
<b>Policy Framework:</b>	None.	
<b>Consultation:</b>	Legal.	
<b>Recommendation(s):</b>	It is recommended that:	
<b>1)</b>	The public be excluded from the meeting during consideration of the following item(s) of business on the grounds that it / they involve(s) the likely disclosure of exempt information as set out in the Paragraphs listed below of Schedule 12A of the Local Government Act 1972 as amended by the Local Government (Access to Information) (Variation) (Wales) Order 2007 subject to the Public Interest Test (where appropriate) being applied.	
	<b>Item No's.</b>	<b>Relevant Paragraphs in Schedule 12A</b>
	7-11	14
<b>Report Author:</b>	Democratic Services	
<b>Finance Officer:</b>	Not Applicable	
<b>Legal Officer:</b>	Tracey Meredith – Chief Legal Officer (Monitoring Officer)	

#### 1. Introduction

- 1.1 Section 100A (4) of the Local Government Act 1972 as amended by the Local Government (Access to Information) (Variation) (Wales) Order 2007, allows a Principal Council to pass a resolution excluding the public from a meeting during an item of business.
- 1.2 Such a resolution is dependant on whether it is likely, in view of the nature of the business to be transacted or the nature of the proceedings that if members of the public were present during that item there would be disclosure to them of exempt information, as defined in section 100I of the Local Government Act 1972.

## **2. Exclusion of the Public / Public Interest Test**

- 2.1 In order to comply with the above mentioned legislation, Cabinet will be requested to exclude the public from the meeting during consideration of the item(s) of business identified in the recommendation(s) to the report on the grounds that it / they involve(s) the likely disclosure of exempt information as set out in the Exclusion Paragraphs of Schedule 12A of the Local Government Act 1972 as amended by the Local Government (Access to Information) (Variation) (Wales) Order 2007.
- 2.2 Information which falls within paragraphs 12 to 15, 17 and 18 of Schedule 12A of the Local Government Act 1972 as amended is exempt information if and so long as in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.
- 2.3 The specific Exclusion Paragraphs and the Public Interest Tests to be applied are listed in **Appendix A**.
- 2.4 Where paragraph 16 of the Schedule 12A applies there is no public interest test. Councillors are able to consider whether they wish to waive their legal privilege in the information, however, given that this may place the Council in a position of risk, it is not something that should be done as a matter of routine.

## **3. Financial Implications**

- 3.1 There are no financial implications associated with this report.

## **4. Legal Implications**

- 4.1 The legislative provisions are set out in the report.
- 4.2 Councillors must consider with regard to each item of business set out in paragraph 2 of this report the following matters:
  - 4.2.1 Whether in relation to that item of business the information is capable of being exempt information, because it falls into one of the paragraphs set out in Schedule 12A of the Local Government Act 1972 as amended and reproduced in Appendix A to this report.
  - 4.2.2 If the information does fall within one or more of paragraphs 12 to 15, 17 and 18 of Schedule 12A of the Local Government Act 1972 as amended, the public interest test as set out in paragraph 2.2 of this report.
  - 4.2.3 If the information falls within paragraph 16 of Schedule 12A of the Local Government Act 1972 in considering whether to exclude the public members are not required to apply the public interest test but must consider whether they wish to waive their privilege in relation to that item for any reason.

**Background Papers:** None.

**Appendices:** Appendix A – Public Interest Test.

## Public Interest Test

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

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

# Agenda Item 8a

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

Document is Restricted



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

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# Agenda Item 8b

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

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

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# Agenda Item 9

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

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

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# Agenda Item 10

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

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# Agenda Item 11

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

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