Cyngor Abertawe
Swansea Council

City and County of Swansea

Notice of Meeting

You are invited to attend a Meeting of the

Local Pension Board

At:	**Committee Room 6, Guildhall, Swansea**
On:	**Thursday, 13 February 2020**
Time:	**10.00 am**
Chair:	**Ian Guy**

Membership:
Employer Representatives
A Lockyer, D Mackerras and T M White

Local Pension Board Members
A Chaves and D White

Agenda

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Huw Evans

Huw Evans
Head of Democratic Services
Thursday, 6 February 2020

Contact: Democratic Services - 01792 636923

Cyngor **Abertawe**
Swansea Council

Agenda Item 3

City and County of Swansea

Minutes of the Local Pension Board

Committee Room 6, Guildhall, Swansea

Tuesday, 15 October 2019 at 10.00 am

Present: I Guy (Chair) Presided

Employer Representatives

D Mackerras	T M White	A Lockyer

Officer(s)

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

Apologies for Absence
None.

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16 Disclosures of Personal and Prejudicial Interests.

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

I Guy – Agenda as a whole – Member of Local Government Pension Scheme – personal.

Councillor A Lockyer – Agenda as a whole – Member of Local Government Pension Scheme – personal. My wife and son are also Members of the Local Government Pension Scheme – personal.

D Mackerras – Agenda as a whole - Member of Local Government Pension Scheme – personal.

Councillor T M White – Agenda as a whole – Member of Local Government Pension Scheme and my daughter is a Member of Local Government Pension Scheme – personal.

Officers:

K Cobb - Agenda as a whole – Member of Local Government Pension Scheme – personal.

J Dong – Agenda as a whole – Member of Local Government Pension Scheme – personal.

C Isaac – Agenda as a whole – Member of Local Government Pension Scheme – personal.

J Parkhouse – Agenda as a whole – Member of Local Government Pension Scheme and Minute No.6 – Draft Statement of Accounts 2018/19 – Clerk of Llanrhidian Higher Community Council – personal.

17 Minutes.

Resolved that the Minutes of the Local Pension Board meeting held on 25 July 2019 be signed and approved as a correct record.

Noted – The Chair referred to the recent LAPF Investment Awards where the Pension Fund won the best Local Government Scheme in the UK for Best Approach to Sustainable Investing. The award follows the work to reduce the carbon footprint of the Fund by cutting the amount of cash invested in companies with high carbon intensity.

18 Presentation - Extinction Rebellion.

The Chair explained that the Extinction Rebellion Disinvestment Team were not available for the meeting.

Resolved that the item be deferred to the next scheduled meeting on 12 December 2019.

19 ISA 260 Report.

David Williams, Wales Audit Office (WAO) presented the ISA 260 Report which set out for consideration the matters arising from the audit of the financial statements of the Pension Fund for 2018-19 that required reporting under ISA 260.

WAO commended the Authority's Finance Team and received the draft financial statements for the year ended 31 March 2019 on 21 May 2019, which was prior to the agreed deadline of 3 June 2019.

It was added that the Auditor General intended to issue an unqualified audit report on the financial statements once the Authority had provided a Letter of Representation based on that set out in Appendix 1. The proposed audit report was set out at Appendix 2.

It was explained that there were no misstatements identified in the financial statements, which remained uncorrected. The misstatements corrected by management were attached at Appendix 3. Reference was also made to Note 18 – Statement of the Actuary which had been amended to include disclosures relating to two recent legal judgements.

The Auditors had no concerns about qualitative aspects of accounting practices and financial reporting, did not encounter any significant difficulties during the audit, had no significant matters to report that had been discussed and corresponded upon with management, had no other matters significant to the oversight of the financial reporting process that required reporting, did not identify any material weaknesses in internal controls and had no other issues to report.

The recommendations arising from the financial audit were provided in Appendix 4. Management had responded to them and progress would be monitored during the 2019-20 audit. They highlighted that controls over the year end reconciliations between pension and payroll systems could be further improved.

The Board discussed scheduled bodies, particularly i-connect member returns, the quality of data, lack of resources of smaller bodies, need to report accurately and the implications of the McCloud / Guaranteed Minimum Pensions (GMP) judgments.

The Chair thanked the WAO Representative for providing the report and thanked the Deputy Chief Finance Officer / Deputy S151 Officer and Senior Accountant for their work and that of the Finance staff on the accounts.

Resolved that the report be noted.

20 City and County of Swansea Pension Fund 2018-19 - Audit Enquiries to Those Charged with Governance and Management.

David Williams, Wales Audit Office (WAO) presented the Audit Enquiries to Those Charged with Governance and Management letter to the Section 151 Officer. The letter requested the views of the Authority on specific areas of governance to assist the WAO in understanding the Pension Fund and its business processes in support of their work in providing an audit opinion on the 2018-19 financial statements.

The responses provided by the Authority for 2017-18 were also provided and an update on the arrangements for 2018-19 requested.

Resolved that the contents of the letter be noted.

21 Statement of Accounts 2018/19 - City and County of Swansea Pension Fund.

The Deputy Chief Finance Officer / Deputy S151 Officer presented 'for information' the Statement of Accounts for the City and County of Swansea Pension Fund 2018/19 which had been approved by the Pension Fund Committee on 12 September 2019.

It was added that the Pension Fund Committee had been given delegated authority to approve the Pension Fund Statement of Accounts and the Local Pension Board had previously received and discussed the Draft Statement of Accounts.

The Wales Audit Office (WAO) had completed their audit of the Pension Fund Statement of Accounts 2018/19 in line with their audit plan presented to the Local Pension Board earlier in the year. The Pension Fund Statement of Accounts 2018/19 were provided at Appendix 1.

22 AVC's Equitable Life Buyout.

The Deputy Chief Finance Officer / Deputy S151 Officer presented a 'for information' report which informed the Board on the pending transfer of legacy AVC assets managed by Equitable Life to Utmost Life and Pension (formerly Reliance Life) and ongoing communication with affected members.

It was explained that Equitable Life were appointed AVC providers from 1992-2001 and there were currently 78 (active and deferred) City and County of Swansea Pension Fund members with policies totalling £238,000 as at 31 March 2019. 19 pensioners currently had policies in payment. Equitable Life was transferring of all its remaining business to Utmost Life and Pension (formerly Reliance Life).

Affected members had been contacted by Equitable Life directly and The Administering Authority also wrote out to affected members outlining the proposals and highlighting some of the risks, decisions and considerations. This was provided at Appendix 1.

Administering Authorities, as scheme policy holders, had also been asked to approve the 'Scheme' and to 'Change the Articles' to make Utmost Life and Pension (formerly Reliance Life) the sole Member of Equitable and were able to object to the transfer of Equitable Life's business to Utmost Life and Pensions.

The Board discussed the potentially very attractive uplift, the correspondence sent to members advising them fully on the implications of the change, the decision-making process and responses received from members.

23 Competition and Markets Authority Reporting.

The Deputy Chief Finance Officer / Deputy S151 Officer presented a 'for information' report which updated the Board on pending requirements to set measurable objectives for appointed investment consultants.

The report provided the requirements, the importance of objectives, establishing objectives for consultants, measuring success in practice and reporting compliance.

It was added that the Pension Scheme Trustees should establish objectives for their consultants no later than 10 December 2019. The Deputy Chief Finance Officer / Deputy S151 Officer would develop draft objectives for the appointed investment consultants and report these to the Pension Fund Committee meeting in November.

The Chair commented that the idea was excellent and he awaited a further update to the Board.

24 Altair Administration System.

The Deputy Chief Finance Officer / Deputy S151 Officer presented a 'for information' report which noted the transition of the Aquila Heywood Altair Pension Administration system from a server based system to a cloud based hosted system.

It was outlined that Aquila Heywood's Altair LGPS Software system had been used by The City & County of Swansea Pension Fund since 2010. The Altair LGPS software system was used by over 90% LGPS funds in the UK. Currently there are 2 other known suppliers with only a handful of clients each.

The current adopted use of the software package was via a traditional physical load of the software and data on physical servers located on a Swansea Council site. It was the responsibility of the administration authority (Swansea Council) to maintain and ensure operation of the system and test and implement all new upgrades/patches as required.

The current version of Altair required an upgrade in the next 6 months, which would require the upgrade and transfer to a new server and Wales Audit Office had identified the need for server upgrade as a systemic risk. Swansea Council was also currently undertaking a corporate review of how it delivered its major ICT services to its clients and was due to receive a report in September 2019 recommending its Oracle system be migrated from the current server based model to a hosted cloud based solution.

Aquila Heywood had submitted a business case proposal and migration plan, provided at Appendix 1, to migrate the current server based software to a fully cloud based hosted system of the software, incorporating the new v10 upgrade. The benefits and potential costs of migrating were fully outlined.

The Board requested further details of the additional technical advice provided to the Pension Fund Committee in this respect.

Resolved that further details of the technical advice provided be circulated to the Board.

25 Breaches Report.

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

Appendix A provided the details of breaches that had occurred since the previous Pension Fund Committee in July 2019. The details of the breaches and the actions taken by Management were highlighted.

26 Exclusion of the Public.

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

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

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

(Closed Session)

27 Wales Pension Partnership - Update.

The Deputy Chief Finance Officer / Deputy S151 Officer presented a 'for information' report which updated the Board on the progress of the Wales Pension Partnership (WPP) asset pooling.

Appendix 1 provided the progress and update report provided by the ACS Operator Link Asset Services.

Referenced within the update was the projected transition of the tranche 3 fixed income fund by the FCA in Q4 2019. In addition, the Officer Working Group had formed a sub-group made up of practitioners to progress tranche 4 – private markets.

The Board discussed future training requirements and the transfer of assets into the WPP.

28 Report of the Investment Consultant.

The Deputy Chief Finance Officer / Deputy S151 Officer presented a 'for information' report on behalf of Hymans Robertson, which presented the Quarter 2 2019 Investment Monitoring Report.

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

The meeting ended at 11.40 am

Chair

Cyngor Abertawe Swansea Council

Report of the Section 151 Officer

Local Pension Board – 13 February 2020

City & County of Swansea Pension Fund Annual Report 2018/19

Purpose:	The report presents the Annual Report for the City & County of Swansea Pension Fund.
Reason for Decision:	To comply with governance/reporting guidelines.
Consultation:	Legal, Finance and Access to Services.
Recommendation:	It is recommended that: -
1) The City & County of Swansea Pension Fund Annual Report is approved.	
Report Author:	J Dong
Finance Officer:	J Dong
Legal Officer:	S Williams
Access to Services Officer:	R Millar
For Information	

City & County of Swansea Pension Fund Annual Report 2018/19

1 Background

1.1 The draft financial statement of the City & County of Swansea Pension Fund was previously presented to the Pension Fund Committee in July 2019. Those financial statements were audited by the fund's appointed auditors Wales Audit Office and their summary ISA 260 report was presented at Committee on the 12th September 2019.

1.2 As required by regulation, the fund is also required to produce an annual report, providing some additional information and explanatory notes in relation to the activity of the fund during the year. The financial statements in the Annual Report have been adjusted as per audit findings and recommendation by the appointed auditor WAO.

2 Audit

2.1 The Wales Audit Office have completed their audit of the Annual Report 2018/19 in line with their audit plan presented to Pension Fund Committee earlier in the year.

3 Legal Implications

3.1 There are no legal implications arsing 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 and engagement implications arising directly from this report.

Background Papers: None.

Appendices: Appendix 1 – Annual Report 2018/19.

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Introduction

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

The report for 2018/19 includes the accounts for the year, an outline of the City & County Council Pension Fund together with details of membership and changes to basic scheme details that have either taken place during the year or are proposed for the future. In addition, the report includes the Actuarial Statement applicable for the year and a report on Investments and Investment performance for the year.

The accounts included in the report have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2018/19* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

Three Year Profile of Statistics of the Fund

	2016/17 £'000	2017/18 £'000	2018/19 £'000
Income			
Contributions (Net)	81,721	87,698	93,400
Transfer Values (Net)	-	-	-
Expenditure			
Pensions and Benefits (Net)	76,233	77,409	82,079
Transfer Values (Net)	909	1,261	1,099
Other (Net)	6,579	7,245	7,106
Net new money	(2,000)	1,783	3,116
	£'000	**£'000**	**£'000**
Net Asset Value at 31 March	1,855,882	1,916,510	2,044,038
Number of Contributors at 31 March	17,903	19,671	19,888
Number of Pensioners at 31 March	12,200	12,763	13,229
Number of Deferred Members at 31 March	11,583	11,394	11,874

PART A

ADMINISTRATION REPORT

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

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

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

The principal benefits provided by the Fund are:

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

Pensions are increased under the Pensions Increase Act each April, in line with the official rate of inflation, the Consumer Price Index (CPI) as at the previous 30 September. The rate for the year ending last September was 3% applied from 9 April 2018 to qualifying pensions.

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

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

Membership

Membership of the Fund is largely comprised of:

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

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

Membership of the Fund continues to grow and the latest statistics at Appendix 1 shows the total membership of the Fund in 2018/19.

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

Premature Retirement - Pension Costs

(a) Ill Health Retirement

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

	2017/18		2018/19	
Ill-Health Retirement	**No. of Cases**	**Cost £**	**No. of Cases**	**Cost £**
City & County of Swansea	24	2,312,283	29	1,806,264
Neath Port Talbot CBC	18	1,477,949	11	1,086,188
Tai Tarian	4	149,220	4	1,278,688
Gower College	1	47,126	2	188,049
Pobl Group	4	149,435	-	-
University of Wales TSD	-	-	1	192,736
Neath Town Council	1	6,172	-	-
Total	**52**	**4,142,185**	**47**	**4,551,925**

(b) Early Retirement

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

Early Access to Pension				
Employing Body	**2017/18**		**2018/19**	
	No. of Cases	**Cost £**	**No. of Cases**	**Cost £**
City & County of Swansea	119	3,151,461	86	1,741,109
Neath Port Talbot CBC	21	307,212	33	668,729
NPTC Group	2	34,042	1	14,135
University of Wales Trinity St Davids	6	113,875	-	-
Tai Tarian	1	24,358	-	-
Pobl Group	1	11,227	7	99,604
Total	**150**	**3,642,175**	**127**	**2,523,577**

Administration

The Pension Section comprises of 16 permanent full-time equivalent staff, including the Pensions Manager and undertakes all aspects of the day-to-day administration of the Fund e.g. setting up new members; making changes to members' records as they occur; calculating deferred benefits; transfers of pension rights in to and out of the LGPS and paying benefits at retirement.

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

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

IT systems

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

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

The system is being implemented on a rolling programme, with 90.86% of the Fund's active membership now fully implemented. A number of smaller employers are looking to utilise the on-line returns facility.

"My Pension Online" the on-line digital service that allows members to access their member record to allow for basic amendments such as change of address is subject to an upgrade, this will allow members to access their information easier. The Pensions Section is actively promoting the service and to reduce its carbon footprint have undertaken an exercise to encourage scheme members to opt for their annual benefit statement online as opposed to receiving a hardcopy.

Managing Performance

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

The Fund aims to:

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

and uses a number of channels to achieve these objectives:

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

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

The documents are subject to review and are available on the Fund's website.

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

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

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

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

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

- The Fund also uses an address tracing and mortality screening system to improve address quality and identify potential mortality cases across the deferred and pensioner membership in the UK and also undertook a similar exercise during 2018/19 with regard to its pensioner members who reside overseas.

The Pensions Regulator Code of Practice

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

Internal Dispute Resolution Process

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

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

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

An analysis of the dispute cases raised during the year to 31 March 2019 is as follows:

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

Communications

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

During 2018/19, the Fund has continued to develop the way in which it communicates with its stakeholders, with the key communication activity being:

- Roadshows for members to promote the LGPS and hot topics

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

- Newsletters sent to both Active members and Pensioner members

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

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

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

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

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

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

In accordance with the requirements of The Pension Regulators to monitor and improve member data the City and County of Swansea Pension Fund has undertaken reviews of the quality of data held; confirmation of the results below. This has been broken down into the following two data categories:

- **Common Data** – basic data items used to identify scheme members
- **Scheme Specific Data** (formerly Conditional Data) – key data to running the Scheme and meeting legal obligations

Date data quality check undertaken	Data Area	Data Score	AIM
June 2018	Common Data	94.4%	100%
	Scheme Specific Data	72.1%	100%
June 2019	Common Data	97.1%	100%
	Scheme Specific Data	88.1%	100%

Legislative Changes in the LGPS during 2018/19

Cessation of Contracting Out

The basic state pension and state second pension (S2P) were abolished on 5th April 2016 and replaced by a single-tier pension.

For LGPS members, this has meant an increase in National Insurance (NI) contributions for both members and their employers as the previous rebate allowed, to contract-out pension schemes out of S2P, now no longer applies.

An additional implication of the cessation of contracting out is that members of all pension schemes, which had contracted-out status, have a Guaranteed Minimum Pension (GMP), which relates to the part of their pension between 6th April 1978 and 5th April 1997 for which they were contracted out. The GMP is not an additional amount but is an amount which the Scheme must ensure at least equals the members equivalent LGPS pension at State Pension Age.

To ensure that pension scheme records reconcile with those of HMRC, the formerly contracted-out pension schemes, including the LGPS, are undertaking an exercise to ensure the correct information is held on members' records. The reconciliation exercise has to be completed by December 2018, however to address outstanding queries, this has been extended to end June 2019. HMRC will no longer respond to any queries in relation to the GMP after this date.

This exercise has proved to be extremely challenging and has led to considerable work to ensure that the Fund does not incur unwarranted liabilities. To allow for this the Fund has outsourced the exercise to a third party who are dealing specifically with the reconciliation exercise.

Tax Reform

The last few years has seen major steps taken by the Government to reduce tax free allowances on pension accrual.

The Lifetime Allowance (LTA), which is the total amount an individual can hold in all their pension savings, reduced to £1.25m from 6th April 2014 with further reductions applied. From 2018/19 onwards, the lifetime allowance will increase each year in line with inflation and for the tax-year 2018/19 this was £1.03m. As with previous reductions to the LTA, HMRC has offered protections so that anyone affected by the reductions can apply to protect previously earned pension benefits.

In addition, HMRC also limits the amount by which the total value of a person's pension benefits can increase in a year. The Annual Allowance limit reduced to £40,000 with effect from 1st April 2014 and remained at this level for 2018/19, which has resulted in more members becoming subject to tax charges on the excess accrued.

Other impacting legislation

Statutory instruments

1 April 2018 - THE AUTOMATIC ENROLMENT (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 out revised amounts for the 2018/19 tax year for the upper and lower thresholds of the automatic enrolment 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 enrolment earnings trigger should remain at £10,000.

1 April 2018 -The Guaranteed Minimum Pensions Increase Order 2018 - This Order specifies 3.0 per cent 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 the 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.

9 April 2018 – The Public Service Pension Revaluation Order 2018 in accordance with the Pension 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 Saving 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.

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 2018 - 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
- Providing that 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 Authority 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 4th July 2016.

The Pool will not be a merger of the 8 funds. Each fund will retain its distinct identity and 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 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 Russell 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 WPP (Circa £3.3bn / 19% of WPP) are now effectively managed within the Pool. These are held by the WPP authorities in the form of insurance funds, managed by Blackrock.

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

Local Pension Board - Annual Report 2018/19

Introduction

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

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

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

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

Details of Membership

The Board consists of 6 members, 3 member representatives and 3 employer representatives. All members are unpaid volunteers. During 2018/19 the Board was made up of the following members :

Type	Status	Name	Organisation
Employer	Current	Cllr Mike White	City & County of Swansea
Employer	Current	Cllr Alan Lockyer	Neath County Borough Council
Employer	Finished	John Andrew	Tai Tarian
Employer	New Member	Mr David Mackerras	Pelenna Community Council
Member	Current	Mr Ian Guy	Union nominated representative
Member	Current	Ms Arlene Chaves	Union nominated representative
Member	New Member	Mr David White	Union nominated representative

Summary of 2018/19

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

- Breaches Reporting
- Internal Control Reports
- Resourcing of the Pensions Administration Section
- GDPR Rules and Update
- Investment Beliefs and Environmental, Social Governance Policy
- Administration Authority Discretions
- Investment Strategy Statement
- The Business Plan
- The Annual Report, Statement of Accounts and the Audit Report
- Admission Bodies and admittance into the Fund
- Wales Pension Partnership – Asset Pooling Updates
- Equity Protection Mandate and Manager Selection
- Quarterly Investment Managers Reports

In addition the Board agreed Training Recommendations for the year.

Attendance at Meetings

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

- 30th April 2018
- 5th November 2018
- 24th January 2019
- 28th March 2019

Attendance at the above meetings was recorded at 58% by the appointed Board members.

Skills & Development Activities

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

Local Pension Board Member Training

At the meeting of the Local Pension Board on the 27th September 2018, The Chief Treasury and Technical Officer presented a report as part of the Business Plan outlining the importance of member training. The training ensures compliance with the CIPFA Public Sector Pensions Finance Knowledge & Skills Code of Practice and the requirements for tPR.

Training Undertaken in the last 12 months included :

Investing in Residential Housing
Investment Beliefs & ESG Training
Equity Protection/Downside Protection
Governance in LGPS

The following was identified as suitable training for future members of the Local Pension Board :

LGA Trustee Fundamentals

- Day 1
- Day 2
- Day 3

Any other training identified by the Deputy Section 151 officer which is considered appropriate.

Budget
The Board agreed a budget of £5k per annum to assist with its operation.
In 2018/19 the Board incurred no explicit charges.

1. Scope of Responsibility

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

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

1.3 The City and County of Swansea adopted a Code of Corporate Governance on 24 August 2017, which is consistent with the principles of the new CIPFA/SOLACE Framework '*Delivering Good Governance in Local Government 2016'.* A copy of the Code can be found on the Council's website.

2. The Purpose of the Governance Framework

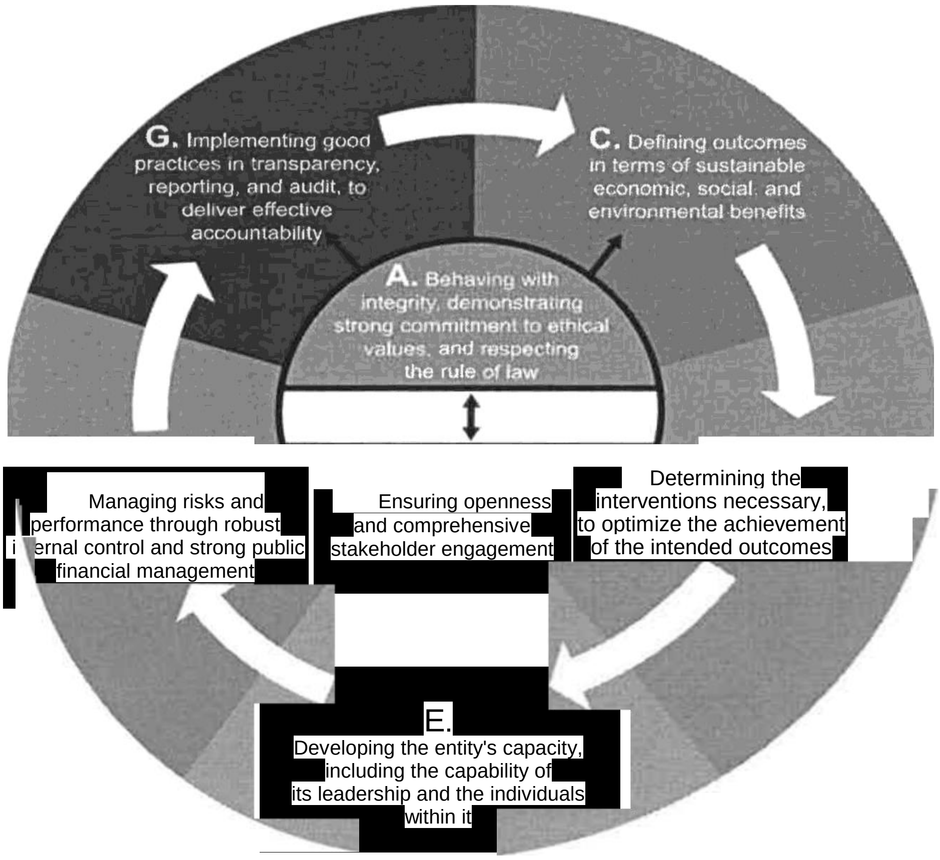
2.1 The governance framework comprises the systems and processes, culture and values, by which the Authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Authority to monitor the achievement of its strategic objectives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

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

2.3 The governance framework has been in place at the City and County of Swansea throughout the year ended 31 March 2019 and up to the date of approval of the Statement of Accounts.

3. The Governance Framework

3.1 The Council has adopted a Code of Corporate Governance based on the "*Delivering Good Governance in Local Government"* framework published by CIPFA and SOLACE in 2016.



3.2 This Statement explains how the Council has complied with the Governance Framework and meets the requirements of the Accounts and Audit (Wales) Regulations 2014 (as amended by the Accounts and Audit (Wales) (Amendment) Regulations 2018. The Council aims to achieve a good standard of governance by adhering to the 7 key principles of the CIPFA/Solace 2016 Guidance.

3.3 The 7 key principles are:

A) Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
B) Ensuring openness and comprehensive stakeholder engagement.
C) Defining outcomes in terms of sustainable economic, social and environmental benefits.

D) Determining the interventions necessary to optimise the achievement of the intended outcomes.
E) Developing the entity's capacity, including the capability of its leadership and the individuals within it.
F) Managing risks and performance through robust internal control and strong public financial management.
G) Implementing good practices in transparency, reporting and audit to deliver effective accountability.

3.4 The application of the principles of good governance is summarised below which sets out supporting information for the 7 key principles.

Principle A

Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

Sub Principles:

Behaving with Integrity	Demonstrating strong commitment to ethical values	Respecting the rule of law

How we do this:

Behaving with Integrity

- The behaviour and expectations of officers/members is set out in the Constitution, Officer and Member Code of Conduct and Protocol
- The Monitoring Officer provides training on the code of conduct and ensures the highest standards of conduct by the authority, members and officers
- The Standards Committee is responsible for monitoring and scrutinising the standards of members
- Member led authority principles with training to senior officers and Cabinet members
- Compliance with a suite of policies/rules set out in the Constitution
- The Constitution sets out requirements as to gifts and hospitality and there are regular reminders circulated to both officers and members
- Adoption of Member Dispute Resolution Protocol
- Officers/members declarations of interest
- Officer Secondary Employment Policy

Demonstrating strong commitment to ethical values

- The Council's appraisal and recruitment system based on competencies, training and objectives underpin personal behaviours with ethical values
- Commitment to working to promote high standards of performance based on the Nolan principles
- Adoption of Welsh Government ethical ways of working
- The Swansea Pledge
- The Constitution contains comprehensive Procurement and Financial Procedure Rules

Respecting the rule of law

- The Statutory officers and members ensure compliance with legislative and regulatory requirements via a robust framework including the scheme of delegation, induction training, standing procedures and rules set out in the Constitution
- Reports to Committees have legal/finance clearance
- Robust Scrutiny and Call-In function
- Robust audit challenge
- External challenge from auditors, Ombudsman and other external agencies
- The Monitoring Officer ensures the council complies with statute and reports on any maladministration
- An effective anti-fraud and corruption framework supported by a suite of policies i.e. whistleblowing

Principle B

Ensuring openness and comprehensive stakeholder engagement

Sub Principles:

Openness	Engaging comprehensively with institutional stakeholders	Engaging stakeholders effectively, including individual citizens and

How we do this:

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Openness

- The Council is committed to ensuring an open culture evidenced by open meetings and publication of agendas and minutes
- A Forward Plan showing key decisions to be made by Council and Cabinet is published
- There is appropriate Consultation and Engagement supporting the decision making process including annual budget consultation, co-production, engagement with trade unions and engagement with Disability and LGBT communities.
- There are Public questions at Council and Cabinet
- There is engagement with children and young people to meet the requirement of the UNCRC
- There is pre-decision scrutiny of Cabinet decisions and Call-In procedure
- Corporate and Directorate risks are published

Engaging comprehensively with institutional stakeholders

- The Council adopts a Team Swansea approach working as a whole council and effectively engages with stakeholders to ensure successful and sustainable outcomes by:
  - targeting communications
  - effective use of social media
  - formal and informal meetings with key stakeholder groups i.e. External auditors, Welsh Government, Health board
- The Council has an extensive range of partnerships to support the delivery of the Council's objectives including:
  - The Public Services Board
  - The Safer Swansea Partnership
- The Council has adopted the Community/Town Council Charter and facilitates the Community/Town Council forum meetings with the 24 Councils.

Engaging stakeholders effectively, including individual citizens and

- The Council has appropriate structures in place to encourage public participation which is used to inform proposals and key decisions including:
- A Consultation and Engagement framework
- "Have your Say" consultations on website
- The Scrutiny Programme Committee invites stakeholder contributions and participation
- An Annual Staff Survey with responses considered by CMT/Senior Management
- A Complaints Policy and Annual Report to assess organisational learning and change
- The appointment of Councillor Champions who provide a voice for under represented groups

Principle C

Defining outcomes in terms of sustainable economic, social and environmental benefits

Sub Principles:

Defining outcomes	Sustainable economic, social and environmental benefits

How we do this:

Defining outcomes

- The Council has a clear vision which is set out in the Corporate Plan *Delivering a Successful & Sustainable Swansea* which prioritises 6 well-being objectives. The sixth well-being objective *Natural Resources and Biodiversity* was added during the 2-18/22 refresh of the Corporate Plan
- Delivery of the Corporate Plan is monitored through the Council's Performance Management Framework with quarterly performance monitoring by CMT/Cabinet
- There is an Annual Performance Review
- Annual Service Plans address the sustainability of service delivery along with key corporate priorities
- There is monthly Performance and Financial Monitoring meetings held for each Directorate
- There is a Corporate Risk Management Policy ensuring consistent application of risk registers and terminology and audit scrutiny

Sustainable economic, social and environmental benefits

- The Council takes a long term and sustainable view and balances the economic, social and environmental impact of policies and plans by:
  - Medium Term Financial Planning covering 3 financial years approved annually by Council
  - Refresh of the Corporate Plan annually
  - Annual service planning
- The Council's *Sustainable Swansea: Fit for the Future* programme seeks to modernise and transform the council to meet the longer term challenges and ensure sustainable provision of services
- There is public and stakeholder engagement

Principle D

Determining the interventions necessary to optimise the achievement of the intended outcomes

Sub Principles:

Determining interventions	Planning interventions	Optimising achievement of intended outcomes

How we do this:

Determining interventions

- The Council ensures that decision makers receive objective and rigorous analysis of options with intended outcomes and risks by:
  - written reports from Officers
  - report clearance by legal, finance and Access to Services officers
  - embedding of impact assessment in decision making process
  - clear option appraisals reflected in reports detailing impact, risk and any best value considerations
- The results of consultation exercises are fully considered by decision makers with consultation responses set out in report
- Consultation on budget proposals is extensive and includes roadshows with staff
- The Council has a Corporate Risk Management Policy

Planning interventions

- The Council has established robust planning and control cycles covering strategic and operational plans, priorities and targets which is achieved through:
  - a timetable for producing and reviewing plans on an annual basis.
  - Working with a consultation and engagement framework
  - quarterly and annual performance monitoring including achievement of national and local performance indicators
- There is robust Medium Term Financial Planning
- There is an Annual budget setting process in place including an extensive consultation exercise

Optimising achievement of intended outcomes

- The Council ensures the medium term financial strategy integrates and balances service priorities, affordability and other resource constraints by setting out any shortfall in resources and spending requirements in the context of service priorities
- To ensure that the budget process is all inclusive there is regular engagement with members with robust scrutiny by the Service Improvement & Finance Scrutiny Performance Panel
- Sustainable Swansea – Fit for the Future
- The Council ensures the achievement of "social value" through the effective commissioning of service in compliance with CPR's e.g. Beyond Bricks and Mortar (community benefit clauses in council contracts)

Principle E

Developing the entity's capacity, including the capability of its leadership and the individuals within it.

Sub Principles:

Developing the entity's capacity	Developing the capability of the entity's leadership and other individuals

How we do this:

- The Council aims to ensure that Members and Officers have the right skills, knowledge and mind set to operate efficiently and effectively to achieve intended outcomes by:
  - adopting a comprehensive induction training programme for members and officers
  - a Councillor Training Programme based on a Training Needs Assessment
  - annual performance review of staff
  - adoption of a mentoring scheme
- Operational capacity is supported by the Transformation & Future Council objective to help tackle rising demand and reducing revenue budget
- The Organisational Development Strategy aims to develop the right staff with the right skills to work in a sustainable way
- There is engagement with benchmarking groups such as APSE, CIPFA
- There is collaborative and partnership working including the Public Service Board, ERW.

- Effective shared leadership and understanding of roles and objectives is supported by:
  - The Leader and Chief Executive have clearly defined leadership roles
  - The Chief Executive Appraisal and Remuneration Committee have responsibility for the appraisal of the Chief Executive
  - there has been member led training with both senior officers and cabinet members
  - there are regular 1-2-1 meetings with the Leader, Cabinet members, Chief Ex, CMT and Heads of Service
  - the Transformation and Future Council objective and the Organisational Development Strategy
- The Constitution sets out the Scheme of Delegation which is regularly reviewed
- Annual appraisal and performance review
- A review of senior management roles report to Council in July 2018.

Principle F

Managing risks and performance through robust internal control and string public financial management

Sub Principles:

How we do this:

Managing risk

- Risk management is an integral part of decision making supported by:
- A revised Corporate Risk Management Policy with clear nominated officer responsibility
- Quarterly review of risks by CMT
- Monthly review of Directorate Risks at PFM meetings
- The publication of Corporate & Directorate Risks allowing greater scrutiny
- The Audit Committee regular review of risks

Managing performance

- There are quarterly performance monitoring reports to Cabinet
- Each Head of Service produces an Annual Service Plan setting out clear objectives and SWOT analysis of their service
- There are regular reports as to performance indicators and milestones against intended outcomes
- There is robust scrutiny challenge by pre decision scrutiny, inquiries and Call-In.
- Monthly Directorate Performance and Financial Monitoring meetings

Robust internal control

- The Audit Committee provides independent and objective assurance on effectiveness of internal control, risk management and governance arrangements
- The Council is dedicated to tackling fraud and corruption and has an Anti-Fraud and Corruption Policy and Whistleblowing Policy
- The Audit Committee receives an annual report on the fraud function and Anti-Fraud Plan
- The Internal Audit Plan is approved by Audit Committee

Managing data

- The Council demonstrates effective safeguarding of personal data and information by:
- The appointment of a Data Protection Officer
- The adoption of a Data Protection Policy
- An Information Governance Unit and Senior Information Risk Officer
- An information asset register
- The Council is signed up to the Wales Accord for Sharing Personal Information (WASPI)
- Data Protection training is mandatory

Strong public financial management

- The Council ensures both long term achievement of outcomes and short term performance through the delivery of the Medium Term Financial Plan
- Financial management is integrated at all levels of planning and control by:
  - financial implications are included in all decision making reports
  - there is a specific Corporate risk around Financial Control and Sustainable Swansea owned by the S151 officer

Principle G

Implementing good practices in transparency, reporting and audit to deliver effective accountability

Sub Principles:

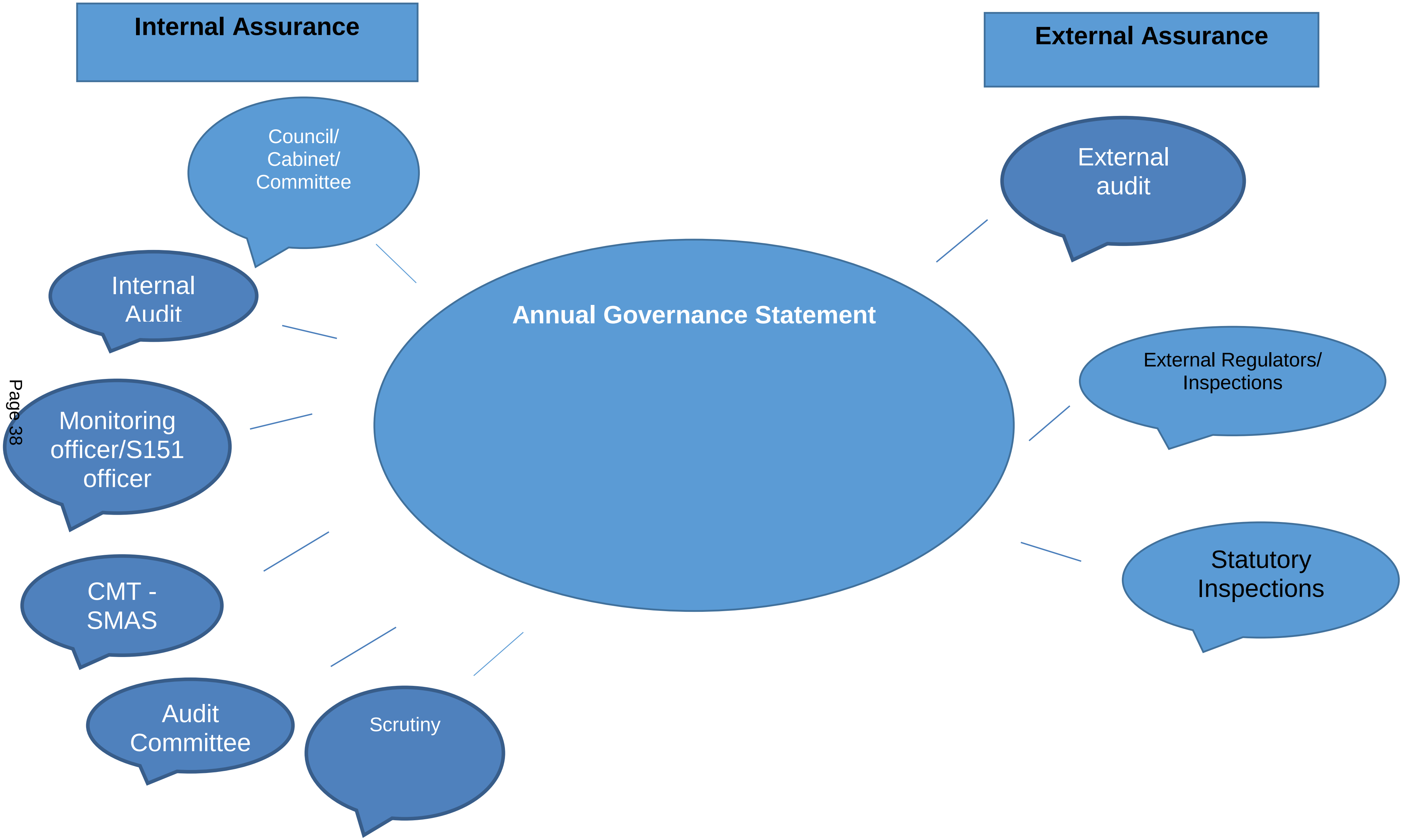
Implementing good practice in transparency	Implementing good practices in reporting	Assurance and effective accountability

How we do this

- The Council aims to present understandable and transparent reports for both stakeholders and the public which is supported by:-
  - A Report Authors Protocol which ensures consistency in reports
  - A Clear Writing guide for officers
  - All reports are signed off by Cabinet member, legal, finance and access to services officers
  - The Council has a Publication Scheme which is available on the website
  - Where possible exempt reports are split so that the main report can be heard in public with confidential information being a separate exempt report
  - Reports are published on the website and agendas are published in the Welsh Language

- The Council reports at least annually on performance as evidenced by:
  - Quarterly reports to Cabinet on performance
  - An annual Review of Performance report setting out how the Council has performed in meeting its Corporate Objectives
  - The Annual Statement of Accounts audited by external auditor and approved by Council and published demonstrates how the Council has achieved performance, value for money and the stewardship of resources
- Senior Managers complete Senior Management Assurance Statements (SMAS) reflecting performance against governance, risk management and internal control. The SMAS contribute to the Annual Governance Statement
- The Council have adopted the Code of Corporate Governance based on CIPFA framework

- Through the assurance mechanisms set out below the Council can demonstrate effective accountability:
- The Internal Audit work plan provides assurance on the council's control mechanisms, risk management and governance arrangements which is monitored by the Audit Committee
- All agreed actions from Internal Audit reviews are monitored
- Implementation of WAO and Internal Audit recommendations monitored by Audit Committee
- Peer Review and inspection from regulatory bodies and external compliance reviews which are reported to CMT/Cabinet and used to improve service delivery
- There is scrutiny and audit review of WAO reports and action plans.
- Assurance on risks associated with delivery of services through third parties is achieved by:
  - Commissioning and monitoring arrangements and compliance with Contract Procedure Rules
  - SMAS reflect risk assessments in relation to partnership/third party working


Internal Assurance
External Assurance
Council/ Cabinet/ Committee
Internal Audit
Monitoring officer/S151 officer
CMT - SMAS
Audit Committee
Scrutiny
Annual Governance Statement
External audit
External Regulators/ Inspections
Statutory Inspections

4. Review of Effectiveness

4.1 The City and County of Swansea annually reviews the effectiveness of its governance framework including the system of internal control.

(a) Statements from Corporate Management Team (CMT), Statutory Officers, the Internal Audit Manager and the Audit Committee.
(b) External organisations i.e. Wales Audit Office and regulators
(c) Core evidence mapped to Council, Cabinet and Committees

4.2 The following highlights the review of the governance framework in order to compile the Annual Governance Statement and sets out the assurance of CMT, officers and external organisations.

INTERNAL SOURCES OF ASSURANCE

5 Corporate Management Team/SMAS

5.1 The Senior Management Assurance Statements (SMAS) form part of the governance assessment framework. Through the SMAS each Director responds to 20 good governance statements covering:

- Risk Management
- Partnership/Collaboration governance
- Compliance with Policies/Rules/Legal & Regulatory requirements
- Programme and Project Assurance
- Budget Monitoring
- Planning and Decision Making
- Internal Control Environment
- Fraud & Financial Impropriety
- Performance Measurement & Management

5.2 The Directors assess assurance using a 5 points maturity scale for their areas of responsibility ranging from “not in place” to “embedded”. Directors are expected to consult with their Heads of Service to support a directorate approach to each statement.

5.3 The Four SMAS from the Directors of Corporate Resources, People, Place and Education were challenged and reviewed at CMT. The Director of People submitted a SMAS split into Social Services – Adult and Social Services – Child & Family.

5.4 The 20 assurance statements summarised by 9 categories showed an overall “strong application” of good governance across the assurance areas. The greatest maturity was reported in budget monitoring with a 60% “embedded” and 40% “strong application” rating. Risk Management maturity was strong with a rating of 88% strong or embedded application and the 12% mixed application was supported by an assurance that training was in place to embed in 2019/20.

5.5 The maturity assessment highlighted opportunities to enhance the categories relating to Performance Measurement and Management for which there was a higher incidence of “mixed application” which have been identified in the significant governance risks for 2019/20.

5.6 CMT reviewed the SMAS and draft Annual Governance Statement on 8 May and 10 May 2019. Having considered and discussed the outcomes of the SMAS and noting the "mixed application" responses overall CMT considered the assurance level to be strong. The significant governance issues for 2019/20 as identified by CMT are those set out below.

6. The Monitoring Officer

- The Chief Legal Officer is the Monitoring Officer with a specific duty to ensure that the Council, Officers and Members maintain the highest ethical standards of conduct. The Standards Committee has the responsibility for monitoring the ethical standards of conduct and to deal with any breaches of the Code referred to the Committee by the Public Service Ombudsman (PSOW).

- In 2018/19 the Monitoring Officer was notified of 6 complaints relating to members conduct by the PSOW. The PSOW decided not to investigate 5 of those complaints and the remaining complaint the PSOW found that there was no evidence of a failure to comply with the Code of Conduct. There are regular PSOW bulletins circulated to all councillors as to Code of Conduct issues.

- During 2018/19 the Standards Committee interviewed the Leaders of the Opposition, the Chairs of Planning, Democratic Services and Licensing Committees and the Chief Executive. Following the Leaders attendance at committee the Standards Committee will reflect their views in the Annual Report.

- An audit of officer gifts and hospitality was undertaken in 2018/19 with recommendations to improve consistency across departments. Members and officers are required to register their personal interests, gifts and hospitality with regular reminders sent out by the Head of Democratic Services. A Gifts and Hospitality Policy is currently under review.

- The Monitoring Officer has not had to issue any statutory Section 5 Local Government and Housing Act 1989 reports during 2018/19.

- A number of amendments to the Constitution were adopted by Council including a new Call-In procedure enabling greater scrutiny of Cabinet decisions. Further work is being undertaken by the Monitoring Officer in terms of publication of officer delegated decisions and changes to procedure rules.

- The Deputy Chief Executive has overall responsibility for governance and as part of his strengthening of governance arrangements has presented the assurance framework to audit committee.

7. The **S151 Officer**

- Quarterly **Financial Monitoring Reports** were presented to Cabinet throughout 2018/19. The reports consistently identified a service revenue budget overspend at year end based on available information and stressed the need for expenditure to be contained within the budget set by Council. That service overspend has now been confirmed (at just under £3m) and a draw from Specific Reserves of similar sum (as reported from as early as first quarter) will be necessary for 2018/19, a position that is clearly unsustainable and unrepeatable in future years, given the S151 Officer has already ruled reserves to be at the absolute minimum. On a more positive note the equally fully planned substantial underspending on capital financing (around £7m) facilitated, in part, by the in-year review, and approval by Council, of the Minimum Revenue Provision policy has enabled similar sum to be added to the capital equalisation reserve which is a prudent way of planning for and addressing some of, the future certain increased costs of financing the ambitious mid-term capital programme.

- A **Mid Term Budget Statement 2018/19** (verbal) and **Review of Reserves** (written) was presented to Council on 25/10/18 which provided a strategic and focussed assessment of the current year's financial performance and an update on strategic planning assumptions over the next 3 financial years. The conclusion of the Statement was that the Council would struggle to deliver within the overall resources identified to support the budget in 2019/20 and beyond. The likely projected outturn was dependent upon the willingness and ability of the Council to reduce and restrict ongoing expenditure across all areas.
- The Revenue and Capital Budgets were approved by Council on 28/02/19. They continued to set out an ambitious programme of approved capital spending plans and future contingent capital spending plans (partly financed by the Swansea Bay City Deal but predominantly by unsupported borrowing) which would require challenging budget savings to be delivered to help facilitate that major capital investment and economic regeneration stimulus.
- The **Medium Term Financial Plan 2020/21 – 2022/23** was approved by Council on 28/02/19. The Plan outlined the significant shortfall in funding faced by the Council over the period and the strategy to be adopted to address the shortfall as well as the inherent risks to the success of the adopted strategy.
- Each Corporate Director held monthly **Performance and Financial Monitoring** meetings where Chief Officers and Heads of Service reported on progress in terms of continuous improvement and budgets.
- The **Wales Audit Office Annual Management Letter** dated 29 November 2018 (and referred to below) noted that whilst the Council have appropriate arrangements in place to secure economy, efficiency and effectiveness in their use of resources, the Council continues to "face significant financial challenges". This reflected external auditor concerns around ongoing service overspending, actual delivery of efficiency savings to the planned timetable and the substantial future capital programme aspirations.
- The Council is the Administering Authority for the City and County of Swansea Pension Fund (the Pension Fund) and Swansea Bay Port Health Authority (SBPHA). The governance arrangements detailed in this Annual Governance Statement apply equally to the Council's responsibilities to the Pension Fund and SBPHA. There are further specific requirements for the Pension Fund which are:

  - Investment Strategy Statement
  - Internal Dispute Resolution Process
  - Funding Strategy Statement
  - Administration Strategy Statement
  - A full actuarial valuation to be carried out every third year
  - Communications Strategy Statement

8. Chief Internal Auditor's Internal Control Opinion

8.1 The system of internal control is designed to help the Council manage and control the risks which could affect the achievement of the Council's objectives. However it is not possible to eliminate all risks completely.

8.2 This means that Internal Audit can only provide 'reasonable' assurance that the systems of internal control within the areas of the Council reviewed are operating adequately and effectively.

8.3 A pleasing trend which has been identified for the past two years of an increase in the number of audits receiving a high level of assurance has continued this year. There has also been a small decrease in the number of audits with a substantial, moderate or limited level of assurance.

8.4 There are 14 audits which are classed as fundamental audits. The fundamental audits are the systems that are considered to be so significant to the achievement of the Council's objectives that they are audited ether annually or bi-annually. Following the audits completed in 2018/19, 12 of the 14 fundamental audits have a high level of assurance, one has a substantial level of assurance (Accounts Payable) and one has a moderate level of assurance (Accounts Receivable). It is disappointing to note that one of the fundamental audits received a moderate assurance rating in 2018/19. The reasons provided by the service for the weaknesses identified in this area were in relation to reduced resources. As noted in the previous Internal Audit Annual Report, continuity and maintenance of core grip with changing, and more often diminishing, resources was a recognised clear challenge across the Authority and this continues to be the case.

8.5 Despite this, it should be noted that of the 14 fundamental audits, 12 have a high assurance level and one has a substantial assurance level. In addition, the increase in the number of audits receiving a high level of assurance in the overall audit universe and the results of the work undertaken in 2018/19 provides reasonable assurance that across the Authority, the systems of internal control are operating effectively.

8.6 Throughout the year, a significant amount of effort has been directed at further strengthening the systems of risk management across the Authority. Audit Committee now have access to the Corporate Risk Register and also receive regular update reports from the Strategic Delivery and Performance Manager outlining the status of key risks to further strengthen assurance in this area. The Corporate Management Team and Risk Owners have also reviewed the risk register entries regularly throughout the year to ensure the register is up to date and all mitigating controls have been captured and remain effective.

8.7 In addition, the appointment in year of the Deputy Chief Executive, tasked with overarching responsibility for ensuring existing corporate governance arrangements are effective, has further strengthened assurances in this area.

8.8 Overall, based on the work undertaken in 2018/19, I am satisfied that Internal Audit can provide reasonable assurance that the systems of risk management, internal control and governance established by the Council are operating effectively and that no significant weaknesses were identified in 2018/19 which would have a material impact on the Council's financial affairs or the achievement of its objectives.

9. The **Audit Committee**

9.1 The Audit Committee considered the Annual Governance Statement with the Statement of Accounts on 13 August 2019.

9.2 Over the last year the Audit Committee has committed to progressing the necessary action to address any Wales Audit Office recommendations. The Committee has reviewed progress against those recommendations with the aim of developing and strengthening the Committee's effectiveness in fulfilling the Committee's terms of reference. Most notably the Committee received:

- A presentation by the Deputy Chief Executive that outlined the Council's Assurance Framework;
- The Council's Risk Register was received on 14 August 2018 and the Directorate Risk Register on 11 December 2018.

9.3 The presentation on the Assurance Framework and the reporting on the Council's risks is a significant step forward in improving the Committee's ability to reflect on the effectiveness of governance, risk management and control that supports and informs the Council's Annual Governance Statement.

9.4 The Committee has noted that the Risk Management process across the Council remains under development and officers are progressing to pilot a new electronic risk management process/system. However, the associated roll out of the new system and the delivery of training needs remains a challenge.

9.5 The Committee has received reports regularly from the Chief Internal Auditor, that included confirmation of the outcome of the External Quality Assessment of performance against the Public Sector Internal Audit Standards. The External Quality Assessor suggested the production of an assurance map as an improvement to the audit planning process. It is pleasing to report that the Chief Internal Auditor has progressed with this recommendation and reported in February 2019 the draft assurance map with the audit methodology for the development of the Internal Audit Annual Plan.

9.6 The Committee has noted that the Auditor General stressed that the Council must continue to risk assess its efficiency savings plans, to review and update its medium term financial strategy and to carefully monitor its reserves. The Audit Committee would like to see robust saving delivery plans from Directors/Heads of Service as an additional level of assurance.

9.7 It was noted that a recovery plan should be developed on how the Council plans to deal with overspends and that the Audit Committee should be provided with regular budget variation reports.

9.8 Looking forward to 2019/20, the financial challenges facing the Council will continue as will the need to increase performance. Within this context, the importance of an effective Audit Committee remains critical and the Committee is committed to enhancing its effectiveness through an ongoing training programme, delivering against the Wales Audit Office efficiency improvements and liaising with Officers to enhance the information that the Committee receives. The Committee will keep the Work Programme under regular review and will ensure that the Work Programme contains the critical challenges that the Council faces.

EXTERNAL SOURCES OF ASSURANCE

10. External Auditors

- The Wales Audit Office finalised their review of the 22 councils in Wales as to how fit for the future their scrutiny functions were. The "Overview and Scrutiny – Fit for the Future" report for Swansea issued in July 2018 summarised that "*the Council's scrutiny function is well-placed to respond to future challenges, but could improve arrangements for pre-decision scrutiny and strengthen its evaluation of the impact of scrutiny activity.*"

- The Wales Audit Office Annual Improvement Report 2017/18 was issued in September 2018 and based on the Wales Audit Office work carried out; the Auditor General believed that the Council was likely to comply with the requirements of the Local Government Measure 2009 during 2018/19.

- The Wales Audit Office Use of Local Government Data was issued on 4 January 2019 with a number of recommendations including further training. The Council's Data Protection Officer is working on the recommendations including an action plan around improvements.

- The Appointed Auditor's **Annual Audit Letter 2017/18** was issued on 29 November 2018 and presented to the Audit Committee on 11 December 2018. The letter stated that the Council had made good progress in bringing forward the production of the financial statements. The letter also stated that *'The Auditor General for Wales is satisfied that the Authority has appropriate arrangements in place to secure economy, efficiency and effectiveness in its use of resources but the Council continues to face significant financial challenges'.* The letter further adds that "*To achieve a balanced budget for 2019/20 the Council must continue to risk assess its efficiency savings plans and implement robust arrangements to secure their delivery".* No significant issues were identified on work carried out on certification of grant claims and returns that would impact on the 2017/18 accounts or key financial systems.

- The Wales Audit Office on behalf of the Auditor General for Wales presented the **Audit of Financial Statements Report 2017/18** to Audit Committee on 11/9/18 and to Council on 20/09/18. The report highlighted any significant issues to those charged with governance that needed to be considered prior to the approval of the financial statements. The Auditor General issues an unqualified audit report on the financial statements and the report concluded that the financial statements for both the City & County of Swansea and the City and County of Swansea Pension Fund gave a true and fair view of the financial position of the Council and had been properly prepared.

11. STATUTORY EXTERNAL INSPECTIONS/REGULATORS

The Council is subject to Statutory External Inspections by various bodies including ESTYN and Care Inspectorate Wales (CIW).

CIW inspected a number of services during 2018/19 including regional arrangements. They inspected services for children living in Swansea and published their report in October 2018. CIW found good quality practice with positive outcomes and identified areas for development and action to be monitored through ongoing performance review.

In October 2018 CIW also published a report into Foster Swansea Service which identified a well-managed service with quality assurance mechanisms in place. A number of recommendations for improvement were also made.

A Joint inspection took place of Youth Offending Services in Western Bay with a report published in March 2019 with a number of recommendations.

The **Estyn** profile of school inspections for 2018-2019 is very positive in all sectors. The secondary profile is one of the best in Wales. Between the summer term 2018 and spring term 2019 11 schools were inspected by Estyn in Swansea. 10 schools were judged to be good or excellent in all the five areas that are inspected under the current framework. One school was judged adequate in the area of leadership and management but good in all other areas and is under Estyn review as a result. All inspection results and recommendations as well as other intelligence is discussed in monthly PFM meetings and appropriate support and challenge through the advisory team is identified as a result.

In February 2019 the Swansea Pupil Referral Unit (PRU) was inspected by Estyn who noted that the PRU provides a nurturing and supportive learning environment, which meets the wide range of pupil needs well. Standards, well-being, teaching and learning, care and support and leadership were all judged as good.

Estyn made two recommendations. Firstly to ensure that teachers make effective use of assessment outcomes to plan suitable next steps in their pupils' learning and to inform their individual education plans. Secondly to improve the provision to develop pupils' Welsh language skills across the curriculum, particularly for those transferring from Welsh medium schools. The PRU will continue to be accountable to the Management Committee and EOTAS Steering Group to ensure the vision for improved services for learners educated otherwise than at school is implemented and outcomes are improved further.

Overall the picture for Swansea compared to other authorities is very positive and against the trend of inspection results across Wales.

CORE EVIDENCE

12. Council & Cabinet

The following provide assurance based on reports covering 2018/19. In some instances reports from 2017/18 are reflected in the Annual Governance Statement as the reports for 2018/19 are not yet available

- Council adopted a revised Corporate Plan 2018/22 *Delivering a Successful and Sustainable Swansea* on 25 October 2018. The annual review of the Well-being Objectives resulted in the addition of a sixth Objective – *Maintaining and enhancing Swansea's Natural Resources and Biodiversity* which aligns with the Public Service Boards' Well-being Objective "Working with Nature". The Corporate Plan sets out the Council's values and principles underpinning the delivery of the objectives and sets out how the Council will monitor progress through quarterly and annual performance monitoring reports.

- Performance on delivery of the Council's Well-being Objectives is monitored quarterly by Cabinet. Quarterly Reports contain outturn compliance with performance indicators and an overview of performance for each Objective provided by Directors/Heads of Service. The End of Year Performance Monitoring Report for 2017/18 was presented to Cabinet in July 2018.

- The Annual Review of Performance 2017/18 was approved by Cabinet on 18/10/18 in accordance with the publishing requirements of the Local Government (Wales) Measure 2009. The report showed the results of each performance measure for the 5 Key Priorities ('Improvement Objectives') set out in the Corporate Plan 2017/22. The results showed that overall the Council has made significant progress undertaking the steps to meet its Well-being Objectives but that there were areas for development and lessons learnt.

- The Corporate Complaints Policy is in line with the Welsh Government Model Complaints Policy and was in place throughout 2018/19. It enables the public to tell the Council what they think about services. The Corporate Complaints Annual Report 2017/18 was presented to Cabinet on 17/1/2019. The report reflects the greater emphasis on prompt resolution of complaints and includes compliments about services. Whilst the total of complaints to the Public Service Ombudsman for Wales increased from 54 to 62 only 1 was upheld, 10 were resolved by quick fix/voluntary settlement, 1 was not upheld and the remaining referrals were either out of jurisdiction, premature or closed after initial consideration. There was an assurance that there were no s 16 Public Interest reports during the year.

- The Audit Committee Annual Report 2017/18 was presented to Council on 25/10/18 and outlined the assurance the Committee had gained over control, risk management and governance from various sources over the course of 2017/18. In particular, the report focused on the Performance Review facilitated by the Wales Audit Office and the key findings forming part of an ongoing Action Plan.

- The Equality Review Report 2017/18 was reported to Cabinet on 20 September 2018, which highlighted progress against the Equality Objectives. The report highlighted work linked to the core principles i.e. co-production, engagement and embedding of children's rights.

- The Welsh Language Annual Report 2017/18 went to Cabinet on 21 June 2018 and reflected progress and compliance on the 169 Welsh Language Standards with which the Council has to comply. The report contained an overview of activity and how the Council internally promotes the Welsh Language Standards with tools and information.

- There were a number of key reports presented to Cabinet/Council during 2018/19 including The Local Development Plan, which was approved by Council on 28 February 2019, and the Homelessness Strategy and Action Plan 2018-22 approved by Cabinet on 15 November 2018.

13. Committees

1.1 The **Scrutiny Programme Committee and Panels** met throughout 2018/19 and were supported by the Scrutiny Support Team. The **Scrutiny Annual Report 2017/18** was presented to Council on 25/10/18. The report highlighted the work carried out by Scrutiny, showed how Scrutiny had made a difference and supported continuous improvement for the Scrutiny function. The Scrutiny Programme Committee met on 16 occasions. In total, there were 91 panel and working group meetings during the year with 2 Inquiries relating to Equalities and the Natural Environment. Two Inquiry Panels reconvened to follow up actions agreed by Cabinet – CAMHS and Tackling Poverty. There was also pre decision scrutiny undertaken on a number of Cabinet reports and a high level of councillor commitment. The Council Constitution was also amended to provide for Call-in of Cabinet decisions by Scrutiny. The Call-In procedure was used on one occasion.

- There are well established links between the scrutiny function and Estyn, in respect of Education Services and School Improvement, and similarly with CIW (Care Inspectorate Wales), in respect of Audit Services and Child & Family Services. Scrutiny Performance Panels are routinely provided with relevant reports from Estyn and CIW, and are discussed as required. In November 2018 the Scrutiny Programme Committee agreed that Wales Audit Office reports should go to scrutiny and support the developing relationship. All Wales Audit Office local performance audit reports and relevant national Wales Audit Office reports (those with implications for local government) are included in the Scrutiny Work Programme and there is co-ordination with the Audit Committee. Regional scrutiny continues with ERW and City Deal.

- The **Standards Committee** met on 3 occasions during 2018/19 and the **Standards Committee Annual Report 2017/18** was presented to Council on 20/9/18. The Committee is chaired by an independent person and is responsible for monitoring the ethical standards of the authority and maintaining the highest standards of conduct by elected councillors. The Committee commenced discussions with the Political Group Leaders as to ethical values within the council and this work is largely finalised and hopefully will form part of the Annual Report for 2018/19. The Standards Committee were also instrumental in ensuring the Ombudsman's Code of Conduct Casebook was considered and circulated to all members by the Monitoring Officer. There were only 6 cases of alleged breach of the code of conduct referred to the Ombudsman with 5 not investigated and one where no evidence was found of failure to comply. The Members Internal Dispute Resolution Process has not yet been utilised, underpins the strong commitment to, and provides assurance that the Council's Code of Conduct is adhered to.

- The **Audit Committee** met on 10 occasions during 2018/19 and followed a structured work-plan, which covered all areas of the Committee's responsibilities with the aim of obtaining assurance over the areas included in its terms of reference. The Committee includes a lay member who is also the Chair of the Committee. The Committee receive all Wales Audit Office reports once reported to Scrutiny Programme Committee. The Committee may decide to track or prioritise specific proposals or recommendations in addition to the oversight provided by Scrutiny. This arrangement provides additional assurance that the Council responds and puts in place action plans to address any recommendations. The Committee also receives quarterly updates on the overall status of risk within the Council to give assurance that the risk management process is being followed. The Committee have chosen to track 3 corporate risks – Financial Control & Sustainable Swansea, City Centre and Decision to leave the EU monthly.

- During 2015/16 the governance structure for the Pension Fund was amended to include the Local Pension Board, in compliance with the Public Service Pensions Act 2013. The role of the Board is to assist the Council as Scheme Manager and Administering Authority to secure compliance with LGPS regulations and other legislation relating to the scheme. Terms of Reference for the Board were established and appropriate Board members were appointed. The Board convened meetings on 6 occasions during 2018/19.

- The **Pension Fund Committee** met on 6 occasions during 2018/19 and dealt with all issues relating to the governance of the Pension Fund. The Chair of the Pension Fund Committee also represents the Council on the Joint Governance Committee of the Wales Pension Partnership, a collaborative working arrangement between the 8 local government pension funds in Wales.

  The **Democratic Services Committee** met on 3 occasions and considered the Social Media Guide for Councillors, the Councillors' Handbook and Personal Safety.

Significant Governance Issues

The following table shows the significant governance issues which were identified during the review of effectiveness undertaken when preparing the Annual Governance Statement **2017/18** and the action taken during the year to address the issues.

Issue	Action Taken
1. Budgetary pressures within the Council. The Council is facing unprecedented financial pressures and budget savings have to be made by departments in a timely manner.	• The budget position is tracked on a monthly basis at P&FM, CMT and FSTG to monitor progress and highlight risk. • The sustainable development principals within Sustainable Swansea – Fit for the Future is embedded in to the budget setting process • The introduction of the reshaping board to further challenge for non delivery of savings • Linked to corporate risk CR80.
2. **Sustainable savings** – there needs to be full consideration and robust business case underpinning savings proposals particularly relating to staff cuts. With wellbeing of future generations in mind sustainability of service, delivery together with mitigation of risks should be part of any proposals.	• CMT/Cabinet consider savings proposals in the context of equality impact assessments and well-being of future generations assessments so that any service delivery implications are assessed and monitored • Any risk associated with any saving proposal would be highlighted on the risk register as appropriate.
3. **Regional working**– with collaboration/merger on national agenda going forward it is essential that not only are governance issues around regional working appropriate and transparent but also that regional working benefits CCS.	• Governance arrangements around regional and collaborative working are considered with advice from the legal/finance departments and associated governance documentation being drafted. • An Annual report on Regional Working will be presented to Cabinet and will include reference to the benefits to CCS. This will

	include City Deal, Western Bay and ERW and any new regional collaborations.
4. **Workforce capacity and performance-** Directorates have seen a reduction in staff resources and it is essential that workforce performance is monitored through an effective system of appraisal which supports and upskills existing officers.	• This is achieved by ongoing staff development through workforce planning and an appraisal system to ensure staff are performing and are being supported in their role • Where appraisals are not undertaken there are regular 1-2-1's and support to staff
5. **Delivery of Leisure Partnership Report** to be done on an annual basis. This should include reference to activity with other entities within the group structure as part of the review of effectiveness of the system of internal control.	A combined Annual Leisure Partnership Report for 2015/16 and 2016/17 was reported to Council in July 2018.
6. **Major projects** – significant officer time will continue to need to be dedicated to major projects to ensure transparency around decision making and good governance.	There was revised programme management around Sustainable Swansea, City Deal, City Centre Regeneration, 21st Century Schools and other significant projects with reporting to CMT by exception including the following project boards: - Regeneration Programme Board - Housing Futures Programme Board - Property Investment Board - 21st Century Schools Project Board

The following table identifies issues which have been identified during the review of effectiveness, and also highlights any other significant governance issues that need to be considered, together with the proposed actions to be taken during **2019/20** to address the issues.

Significant Governance Issue linked to Framework	Action to be taken
Maintaining sufficient financial discipline (revenue service spending) to deliver Corporate Objectives and Sustainable Swansea (red risk on Corporate Register) The Council will continue to face unprecedented financial challenge. It is essential that approved service savings are made in a timely way with full risks and impact being understood.	• Launch of Reshaping Board to monitor and challenge failure to deliver savings/overspending by Heads of Service • Robust challenge by CMT/Corporate Directors through P&FM • Development of an integrated impact assessment approach to inform budget decisions and longer term sustainability of service provision.
Engagement and communication The views of the public, service users, staff and external partners must be taken into account in decisions impacting upon them. It is essential that there are sufficient structures in place to encourage and enable public participation.	• Ensure that there is adequate resources to enable participation • A renewed Engagement and Consultation Strategy • Develop a Co-Production Strategy • An integrated Impact Assessment process embedded in decision making around budget savings (to include Equality implications and Well-being of Future Generations considerations)
Performance Reviews Whilst there is a strong performance management system with regular supervision/training of staff evidenced across the authority there is evidence of inconsistency associated with the IT appraisal use.	• Review the corporate appraisal system to ensure it is fit for purpose
Project Governance It remains the position that significant officer time will need to be dedicated to major projects with which the Council is involved. Consideration will need to be given to adequately resourcing project teams to ensure strong and transparent governance arrangements are in place.	• All project leads should consider in advance the requirement for legal/finance/other input and ensure sufficient resources are made available for such assistance • Organisational capacity must be considered in preparation of business cases for project delivery • Significant project risks to be reported to CMT
Decision to Leave the European Union Any consequences of leaving the European Union will have to be planned,	• Formation of Brexit Steering Group • Testing/Review of Business Continuity

monitored and managed.	Plans • Communication with partners/ stakeholders
Partnership/Collaboration/Regional Working Governance As there is increased drive for partnership/regional working the council will need to focus on ensuring the appropriate governance arrangements and benefit to Swansea residents.	• Ensuring adequate governance arrangements are in place • Reports to CMT/Cabinet/Council where appropriate reflecting on governance and benefit • Ensuring adequate scrutiny and audit arrangements are in place • Robust business case consideration

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

Signed .... Chief Executive
Date 29/8/2019

Signed .... Leader
Date 29.8.19

PART B

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 31st March 2019.

12/09/19

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 if 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 12th September 2019 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 12th September 2019.

Clive Lloyd
Chairman

The independent auditor's statement of the Auditor General for Wales to the members of City and County of Swansea Pension Fund on the Annual Report

I have examined the pension fund accounts and related notes contained in the 2018-19 Annual Report of City and County of Swansea Pension Fund to establish whether they are consistent, in all material respects, with the pension fund accounts and related notes included in the Statement of Accounts produced by City and County of Swansea Pension Fund for the year ended 31 March 2019 which were authorised for issue on 12 September 2019. The pension fund accounts comprise the Fund Account and the Net Assets Statement.

Opinion

In my opinion the pension fund accounts and related notes included in the Annual Report of City and County of Swansea Pension Fund are consistent, in all material respects, with the pension fund accounts and related notes included in the Statement of Accounts produced by City and County of Swansea Pension Fund for the year ended 31 March 2019 which were authorised for issue on 12 September 2019 on which I issued an unqualified opinion.

I have not considered the effects of any events between the date on which I issued my opinion on the pension fund accounts included in the pension fund's Statement of Accounts, 12 September 2019 and the date of this statement.

Respective responsibilities of the Administering Authority and the Auditor General for Wales

The Administering Authority, City and County of Swansea, is responsible for preparing the Annual Report. My responsibility is to report my opinion on whether the pension fund accounts and related notes contained in the Annual Report are consistent, in all material respects, with the pension fund accounts and related notes included in the Statement of Accounts of the Pension Fund. I also read the other information contained in the Annual Report and consider the implications for my report if I become aware of any misstatements or material inconsistencies with the pension fund accounts. This other information comprises the three-year profile of statistics of the fund, Administration Report, the Investment Report, the Actuarial Report, the Investment Strategy Statement, the Funding Strategy Statement, the Governance Statement, the Communications Policy and the Economic and Social Government Policy.

Anthony J Barrett
For and on behalf of the Auditor General for Wales
29th October 2019

24 Cathedral Road
Cardiff
CF11 9LJ

STATEMENT OF ACCOUNTS 2018/19

1. Introduction

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

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

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

- The Net Assets Statement which gives a snapshot of the financial position of the Fund as at 31 March 2019.

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

2. Summary of transactions for the year

Where the money comes from:-

	£'000
Contributions and transfers in	98,437
Other	374
	98,811

And where it goes……..

	£'000
Pensions payable	65,016
Lump sum benefits	17,063
Refunds and transfers out	6,319
Management Expenses	11,759
	100,157

	£'000
Net new money into the Fund	-1,346
Net return on Investments	128,874
Increase in Fund value	**127,528**

Fund Account For The Year Ended 31st March

2017/18 £'000		Note	2018/19 £'000	£'000
	Contributions and benefits :			
	Contributions receivable :			
70,032	Employers contribution	3	74,944	
17,666	Members contribution	3	18,456	93,400
3,191	Transfers in	4		5,037
180	Other income	5		374
91,069				98,811
	Benefits payable :			
-61,207	Pensions payable	6	-65,016	
-16,202	Lump sum benefits	6	-17,063	-82,079
	Payments to and on account of leavers :			
-101	Refunds of contributions	7	-183	
-4,452	Transfers out	7	-6,136	-6,319
-7,324	Management expenses	8		-11,759
1,783	**Net additions from dealing with members**			**-1,346**
	Returns on investments			
30,891	Investment income	9		31,229
27,954	Change in market value of investments	12		97,645
58,845	**Net returns on investments**			**128,874**
60,628	**Net increase in the Fund during the year**			**127,528**
1,855,882	Opening Net Assets of the Fund			1,916,510
1,916,510	Closing Net Assets of the Fund			**2,044,038**

Net Assets Statement As At 31st March

31st March 2018 £'000		Note	31st March 2019 £'000
	Investments at market value:	**Note**	
1,831,794	Investment Assets	11	1,976,028
761	Cash Funds	12	767
77,046	Cash Deposits	12	65,017
3,672	Other Investment Balances – Dividends Due	12	0
1,913,273	**Sub Total**		**2,041,812**
7,499	Current Assets	16	6,806
-4,262	Current Liabilities	16	-4,580
1,916,510	**Net assets of the Scheme available to fund benefits at the period end**		**2,044,038**

The financial statements on pages 47 to 79 summarise the transactions of the Fund and deal with the net assets at the disposal of the Pension Fund Committee. The financial Statements do not take account of liabilities and other benefits which fall due after the period end. The actuarial position of the Fund, which does take account of such liabilities, is dealt with in the Statement of the Actuary in the Annual Report of the Pension Fund and a summary is included in Part D of this report and these accounts should be read in conjunction with this information.

Notes to the Financial Statements

1. Basis of preparation

The financial statements summarise the fund's transactions for the 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 principle accounting policies, which have been applied consistently (except as noted below), have been adopted in the preparation of the financial statements:

(a) Contributions

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

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

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

(b) Benefits

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

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

(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.

Accounting Policies cont'd

A bulk transfer involves a group of employees changing to a new employer in a different Fund or moving along with their existing employer to a new Fund. It is usually triggered by a contract being transferred, a service being restructured or a merger or acquisition involving an LGPS employer. They are accounted for on a cash basis, or on an accrual basis where the liability hasn't been settled before the date of agreement.

(d) Investments

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

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

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

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

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

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

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

viii) Transaction costs are disclosed in Note 8 – Administrative and Investment Management Expenses.

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) Management Expenses

The Fund discloses its pension fund management expenses in accordance with CIPFA guidance Accounting for Local Government Pension Scheme Management Expenses (2016). All items of expenditure are charged to the Fund on an accrual basis.

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

(h) 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.

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

The Statement of Accounts contains estimated figures that are based on assumptions made by the council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the net asset statement at 31st March 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

- Actuarial present value of promised retirement benefits

(j) 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 as at 31st March 2019 was £86.62 million (£67.53 million as at 31st March 2018).

(k) Other

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

3. Analysis of Contributions

Total Contributions 2017/18 £'000		Total Contributions 2018/19 £'000
	Administering Authority	
50,268	City & County of Swansea	**51,971**
	Admitted Bodies	
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	RathboneTraining (CCS)	5
31	RathboneTraining (Gower College)	28
3	Llanrhidian Higher Community Council	3
3	Ystalyfera Community Council	3
0	Wealdon Leisure	273
0	Parkwood Leisure	8
3,647	**Total Admitted Bodies**	**3,968**
	Scheduled Bodies	
9	Cilybebyll Community Council	11
40	Coedffranc Community Council	51
2,246	Gower College	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
33,783	**Total Scheduled Bodies**	**37,461**
87,698	**Total Contributions Receivable**	**93,400**

3. Analysis of Contributions (continued)

Total Employer/Employee contributions comprise of:

2017/18 £'000		2018/19 £'000
	Employers	
66,390	Normal	71,444
0	Other	976
3,642	Early Access	2,524
70,032	**Total**	**74,944**
	Employees	
17,627	Normal	18,418
39	Other	38
17,666	**Total**	**18,456**
87,698	**Total Contributions Receivable**	**93,400**

4. Transfers In

Transfers in comprise of:

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

5. Other Income

Other income comprise of:

2017/18 £'000		2018/19 £'000
180	Interest on Cash Deposits	374
0	Early Access - Interest	0
180	**Total**	**374**

6. Benefits Payable

The lump sum benefits paid comprise of:

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

7. Payments to and on account of leavers

Transfers out and refunds comprise of:

2017/18 £'000		2018/19 £'000
101	Refunds to members leaving service	183
0	Bulk Transfer	905
4,452	Individual transfers to other schemes	5,231
4,553	**Total**	**6,319**

During 2018/19 a bulk transfer was made to the Principal Civil Service Pension Scheme (PCSPS) in respect of 7 members.

8. Administrative and Investment Manager Expenses

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

2017/18 £'000		2018/19 £'000
	Administrative Expenses	
755	Support Services(SLA) & Employee Costs	757
18	Printing & Publications	15
305	Other	625
1,078		**1,397**
	Oversight & Governance	
43	Actuarial Fees	36
123	Advisors Fees	103
45	External Audit Fees	43
14	Performance Monitoring Services Fees	14
5	Pension Fund Committee	6
2	Pension Board	0
77	All Wales Pool Fees	118
309		**320**
1,387		**1,717**
	Investment Management Expenses	
4,402	Management Fees	4,491
1,400	Performance Fees	668
135	Custody Fees	167
0	Transaction Costs	4,716
5,937		**10,042**
7,324	**Total**	**11,759**

Transaction costs are being reported for the first time in 2018/19, a charge of £842k was incurred in transaction costs in 2017/18, however, this was disclosed in the accounts but not actually charged to the accounts in 2017/18.

Costs have incurred as a result of moving investments from segregated equity managers into WPP during January 2019. The transition costs amounted to £4,462k, this figure is included in Transaction costs.

The above represents direct fees payable to the appointed fund managers, however, the following investments are appointed via a fund of funds/manager of managers approach which have their own underlying manager fees.

The table below represents the expenses payable in respect of these underlying manager fees. The returns for these mandates are net of underlying manager costs, this is reflected in Note 12 within the Change in Market Value. For additional transparency the fees included were:

2017/18 £'000		2018/19 £'000
997	Partners Group	96
972	Blackrock	331
1,420	Schroders Property Fund	671
633	EnTrustPermal	1,224
678	HarbourVest	943
4,700	**Total**	**3,265**

9. Investment Income

2017/18 £'000		2018/19 £'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
30,891	**Total**	**31,229**

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

b) Overseas

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

11. Investment Assets

	31st March 2018 UK £'000	31st March 2018 Overseas £'000	31st March 2018 Total £'000	31st March 2019 UK £'000	31st March 2019 Overseas £'000	31st March 2019 Total £'000
Equities						
Quoted	424,093	477,911	902,004	0	0	0
	424,093	477,911	902,004	0	0	0
Pooled investment vehicles						
Managed Funds:						
Quoted:						
Equity	0	17,226	17,226	0	14,489	14,489
Fixed Interest	0	117,508	117,508	0	118,199	118,199
Unquoted:						
Equity	152,177	326,367	478,544	161,963	1,299,260	1,461,223
Fixed Interest	60,950	15,633	76,583	79,090	16,703	95,793
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	86,625	86,625
Infrastructure	0	0	0	0	18,501	18,501
Derivatives	0	0	0	0	3,598	3,598
Total pooled investment vehicles	294,540	635,250	929,790	331,396	1,644,632	1,976,028
Total equities and pooled investment vehicles	**718,633**	**1,113,161**	**1,831,794**	**331,396**	**1,644,632**	**1,976,028**
Cash Funds			761			767
Cash			77,046			65,017
Other Investment Balances Due			3,672			0
Total			**1,913,273**			**2,041,812**

11. Investment Assets (Continued)

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

31st March 2018 £'000	Investment Assets	31st March 2019 £'000
194,091	Fixed Interest	213,992
32,547	Index Linked Securities	34,385
576,270	U.K. Equities	161,963
821,504	Overseas Equities	1,313,749
85,256	Property	89,047
54,601	Hedge Funds	54,168
67,525	Private Equity	86,625
0	Infrastructure	18,501
0	Derivatives	3,598
1,831,794	**Total Investment Assets**	**1,976,028**

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
Equities					
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	910,076	-28,724	61,536	942,888
	1,397,774	1,163,428	-1,163,544	78,054	1,475,712
Property					
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
	85,256	9,199	-7,008	1,600	89,047
Fixed Interest					
Fixed Interest					
Blackrock	76,583	0	0	3,420	80,003
Goldman Sachs	117,508	3,818	0	-3,127	118,199
	194,091	3,818	0	293	198,202
Index-Linked					
Blackrock	32,547	0	0	1,838	34,385
	32,547	0	0	1,838	34,385
Hedge Funds					
Blackrock	28,897	0	-235	102	28,764
Permal	25,704	0	-230	-70	25,404
	54,601	0	-465	32	54,168
Private Equity					
HarbourVest	67,525	16,476	-14,214	16,838	86,625
	67,525	16,476	-14,214	16,838	86,625
Infrastructure					
First State	0	19,136	-231	-404	18,501
	0	19,136	-231	-404	18,501
Equity Protection					
Russell	0	20,000	0	-612	19,388
	0	20,000	0	-612	19,388
Cash Funds					
Schroders	761	0	0	6	767
	761	0	0	6	767

Total	**1,832,555**	**1,232,057**	**-1,185,462**	**97,645**	**1,976,795**
Cash	77,046				65,017
Other Investment Balances -					
Dividends Due	3,672				0
Total	1,913,273			97,645	2,041,812

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 £4,716k (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 identifiable. 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 as reported on page 61.

13. Concentration of Investments

The following investments represented more than 5% of the Plan's net assets at 31 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 Index	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**
17,609	U.K. Equities	26,385
56,905	Overseas Equities	17,343
3,735	Property Fund	1,047
2	Cash Fund	0
78,251	Net Profit / Loss (-)	**44,775**

15. Fixed Interest and Index Linked Investments

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

31st March 2018 £'000		31st March 2019 £'000
143,791	UK Public Sector	154,065
82,847	Other	78,522
226,638	**Total**	**232,587**

16. Current Assets & Liabilities

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

31st March 2018 £'000		31st March 2019 £'000
	Current Assets	
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
7,499		**6,806**
	Current Liabilities	
-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	-457
-4,262		**-4,580**
3,237	**Net**	**2,226**

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
Total (Gross)	**1,699**	**0**	**0**	**0**	**1,699**

17. Capital and Contractual Commitments

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

18. Related Party Transactions

£757k (£755k 17/18) paid to the City & County of Swansea for the recharge of Administration, I.T., Finance and Legal Services during the year.

Contributions received from admitted and scheduled bodies are detailed on page 53.

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

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

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 an independent advisors and an investment consultancy service.

Related Party Transactions Cont'd

Key Management Personnel

The key management personnel of the Fund are the Chief Executive and the Head of Financial Services & Service Centre, Section 151 Officer. As required by 3.9.4.2 of the CIPFA code of practice 2018/19, 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

	Short Term Benefits to 31 March 2019		Short Term Benefits to 31 March 2018	
	Remuneration (Including Fees & Allowances) £	**Pension Contributions (23.4%) £**	**Remuneration (Including Fees & Allowances) £**	**Pension Contributions (22.4%) £**
Chief Executive	145,670	35,544	142,814	33,418
Interim Chief Executive	10,869	-	-	-
Head of Financial Services & Service Centre, Section 151 Officer	26,446	6,453	71,951	16,764
Chief Finance Officer	65,917	16,004	-	-

Notes in relation to 2018/19

(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 & Service Centre is the Section 151 Officer and became Chief Finance Officer on the 30th July 2018.

Governance

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

19. Other Fund Documents

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

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

20. Additional Voluntary Contributions

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

The Pension Fund accounts do not include the assets held by The Prudential, Equitable Life or Aegon. AVC's are not included in the accounts in accordance 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 01/04/18	Purchases at Cost (Contributions In/Out)	Sale Proceeds	Change in Market Value	Value of Funds at 31/03/19
	£'000	£'000	£'000	£'000	£'000
Prudential	5,662	1,606	-1,016	133	6,385
Aegon	1,106	24	-149	51	1,032
Equitable Life	249	1	-22	10	238
Totals	**7,017**	**1,631**	**-1,187**	**194**	**7,655**

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 19,888 contributors, 13,229 pensioners and 11,874 deferred pensioners.

Membership statistics	31/03/15 Number	31/03/16 Number	31/03/17 Number	31/03/18 Number	31/03/19 Number
Contributors	16,285	17,469	17,903	19,671	19,888
Pensioners	11,261	11,745	12,200	12,763	13,229
Deferred Pensioners	9,801	11,226	11,583	11,394	11,874
Total	**37,347**	**40,440**	**41,686**	**43,828**	**44,991**

See Appendix 1 for current year analysis.

22. Fair Value of Investments

Financial Instruments
The Fund invests mainly through pooled vehicles with the exception of three 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 and Losses
Gains and losses on Financial Instruments have been disclosed within notes 9, 12 and 14 of the Pension Fund accounts.

IFRS9 introduced a new classification under the code :

- recognition of expected loss allowances for financial assets at amortised cost, fair value through comprehensive income (FVOCI) assets, lease receivables, contract assets, loan commitments and financial guarantees.
- the option of additional disclosures for hedge accounting.

As the assets and liabilities held by the Pension Fund are already classed as fair value through profit and loss (FVTPL) and this is expected to continue, consequently there are no changes to the measurement or classification of investment assets and liabilities.

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 – where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Comprise quoted equities, quoted bonds and unit trusts.

- Level 2 – where quoted market prices are not available, or where valuation techniques are used to determine fair value based on observable data.

- Level 3 – where at least one input that could have a significant effect on the instrument's valuation is 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.

	31 March 2018				31 March 2019			
	Market Value	Level 1	Level 2	Level 3	Market Value	Level 1	Level 2	Level 3
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Equities								
UK Equities	424,093	424,093			0	0		
Overseas Equities	477,911	477,911			0	0		
Pooled Investment Vehicles								
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	1,313,749	14,489	1,299,260	
Fixed Interest	76,583			76,583	95,793		95,793	
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	86,625			86,625
Infrastructure					18,501			18,501
Derivatives					3,598	3,598		
Cash	77,807	77,807			65,784	65,784		
Other Investment Balances - Dividends Due	3,672	3,672			0	0		
Total	**1,913,273**	**1,118,217**	-	**795,056**	**2,041,812**	**202,070**	**1,591,401**	**248,341**

23. Investment Risks

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

Procedures for Managing Risk

The principal powers to invest are contained in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 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 manager. 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 investment are through pooled vehicles and a number of these are involved in derivative trades of various sorts, including futures, swaps and options. Whilst the Fund is not a direct counterparty to such trades and so has no direct credit risk, clearly all derivative transactions incorporate a degree of risk and the value of the pooled vehicle, and hence the Fund's holding, could be impacted negatively by failure of one of the vehicle's counterparties. However, part of the operational due diligence carried out on potential manager appointees concerns itself with the quality of that manager's risk processes around counterparties and seeks to establish assurance that these are such as to minimise exposure to credit risk.

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

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

- The Fund's active fixed interest bond portfolio is £118,199k 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 Funds private equity investments of £86,625k 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 :

	March 2019 £'000	**Credit Exposure**
EnTrustPermal	25,404	0.14%
Blackrock	28,764	19.1%

Liquidity Risk

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

Specifically on investments, the Fund holds through its managers a mixture of liquid, semi-liquid and illiquid assets. Whilst the Fund's investment managers have substantial discretionary powers regarding their individual portfolios and the management of their cash positions, they hold within their pooled vehicles a large value of very liquid securities, such as equities and bonds quoted on major stock exchanges, which can easily be realised. Traditional equities and bonds now comprise 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 worst – often weekly or fortnightly.

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

23. Investment Risks (Continued)

The table below analyses the value of the Fund's investments at 31st March 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
Equities					
UK Equities	0	0	0	0	0
Global Equities	0	0	0	0	0
Pooled Investment Vehicles					
Fixed-Interest Funds	118,199	118,199	0	0	0
UK Equity	161,963	161,963	0	0	0
Overseas Equity	1,313,749	1,313,749	0	0	0
Fixed Interest	95,793	95,793	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	86,625	0	0	0	86,625
Infrastructure	18,501	0	0	0	18,501
Derivatives	3,598	3,598	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
Total	**2,041,812**	**1,793,471**	**0**	**110,126**	**138,215**

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 risk by exceeding market performance.

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

23. Investment Risks (Continued)

Asset Class	Asset Allocation	Fund Manager		Benchmark	Performance target
		Passive	Active		
UK Equities	34% +/- 5%	14% **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	=
TOTAL	100%	33%	67%		

It is recognised that at the balance sheet date the asset allocation was non-aligned with the above asset allocation post transition of assets to the Wales Pension Partnership, however the allocation was aligned for the majority of the financial year. The ISS shall be reviewed and updated at the September meeting of the Pension Fund Committee.

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) and the weightings of the various asset classes within the benchmark form the basis for asset allocation within the Fund. Under normal conditions there is quarterly rebalancing to this strategic benchmark within fixed tolerances. This allocation, determined through the Fund's asset allocation strategy, is designed to diversify and minimise risk through a broad spread of investments across both the main and alternative asset classes and geographic regions within each asset class. Market risk is also managed through manager diversification – constructing a diversified portfolio across multiple investment managers. On a daily basis, managers will manage risk in line with the benchmarks, targets and risk parameters set for the mandate, as well as their own policies and processes. The Fund itself monitors managers on a regular basis (at least quarterly) on all these aspects.

23. Investment Risks (Continued)

Price Risk

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

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

Following analysis of historical data and expected investment returns movement during the financial year and in consultation with the Fund's investment advisors, the Council has determined the following movements in market price risk are reasonably possible. Had the market price of the fund investments increased/decreased in line with the potential market movements, the change in the net assets available to pay benefits in the market price as at 31st March 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	1,313,749	8.9407	1,431,208	1,196,290
Total Bonds & Index-Linked	248,377	4.3676	259,225	237,529
Alternatives	162,892	4.1457	169,645	156,139
Cash	65,784	0.4562	66,084	65,484
Property	89,047	1.6382	90,506	87,588
Other Investment Balances	-	-	-	-
Total Assets*	**2,041,812**	**6.3664**	**2,171,803**	**1,911,821**

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

And as at 31 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
Total Assets*	**1,913,273**	**6.7433%**	**2,042,291**	**1,784,255**

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

Currency Risk

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

In consultation with the Fund's investment advisors, the Council has determined that the following movements in currencies are reasonably possible. The following represents a sensitivity analysis associated with foreign exchange movements as at 31st March 2019 :

Currency Risk (by currency)

Currency	Value (£'000)	% Change	Value on Increase	Value on Decrease
Australian Dollar	-	-	-	-
Brazilian Real	-	-	-	-
Canadian Dollar	-	-	-	-
Danish Krone	-	-	-	-
EURO	69,058	8.1810%	74,708	63,408
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	69,287	9.9412%	76,175	62,399
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
Total Currency*	**509,206**	**6.0865%**	**540,199**	**478,213**

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

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	9.6360%	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	9.6884%	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
North America Basket	149,143	9.5450%	163,379	134,907
Europe Basket	66,567	6.5784%	70,946	62,188
Asia Pacific ex Japan Basket	29,622	9.1550%	32,334	26,910
Emerging Basket	63,976	9.4406%	70,016	57,936
Total Currency*	**925,419**	**8.9006%**	**1,007,787**	**843,051**

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

Interest Rate Risk

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

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

24. Events After the Balance Sheet Date

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

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

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

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 beneficiary 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 LPGS (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 the attached appendices. Information can also be obtained from the Deputy Chief Finance Officer, Room 1.4.1, Civic Centre, Oystermouth Road, Swansea SA1 3SN or on www.swanseapensionfund.org.uk.

26. Financial Position

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

PART C
INVESTMENT REPORT

Pension Fund – Budget 2019/20

	Actual 2017/18	Actual 2018/19	Estimate 2019/20
Membership Numbers			
Contributors	19,671	19,888	20,000
Pensioners	12,763	13,229	13,300
Deferred	11,394	11,874	12,000

	Actual 2017/18 £'000	Actual 2018/19 £'000	Estimate 2019/20 £'000
Income			
Employer Contributions	70,032	79,944	82,000
Employee Contributions	17,666	18,456	19,500
Transfers In	3,191	5,037	3,200
Other Income	180	374	390
Investment Income	30,891	31,229	32,000
	121,960	**135,040**	**137,090**
Expenditure			
Pensions Payable	61,207	65,016	66,239
Lump Sum Benefits	16,202	17,063	17,500
Refunds	101	183	190
Transfers Out	4,452	6,136	5,500
	81,962	**88,398**	**89,429**
Administrative Expenses			
Support Services	755	757	757
Actuarial Fees	43	36	50
Advisors Fees	46	24	15
Consultancy Service	77	79	80
External Audit Fee	45	43	43
Performance & Monitoring Fees	14	14	15
Printing & Publications	18	15	18
Other	305	625	460
Pension Fund Committee	5	6	6
Pension Board	2	0	2
Wales Pension Partnership Fees	77	118	150
	1,387	**1,717**	**1,596**

	Actual 2017/18 £'000	Actual 2018/19 £'000	Estimate 2019/20 £'000
Investment Expenses			
Management Fees	4,402	4,491	4,500
Performance Fees	1,400	668	700
Custody Fees	135	167	170
Transaction Costs	842	4,716	2,500
	6,779	**10,042**	**7,870**

Investment Strategy

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

Fund monies that are not currently needed to meet pension and benefit payments are invested in approved securities and the Fund receives income from these investments. The powers to invest are contained within the Local Government Pension Scheme Regulations.

Investment Fund Management

The investment of the Fund is the responsibility of the Pension Fund Committee. The Committee as at 31st March 2019 comprised (Appendix 2):-

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

- Section 151 Officer
- Deputy Chief Finance Officer
- 1 Independent Advisor
- 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.

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

The Fund's current managers are:

Asset Class	Manager
Global Equities	Wales Pension Partnership
UK Equities	Blackrock Asset Management
Global Balanced Index Tracking	Blackrock Asset Management
Global Bonds	Goldman Sachs Asset Management and Blackrock Asset Management
Fund of Hedge Fund	EnTrustPermal, Blackrock Asset Management
Fund of Private Equity Funds	HarbourVest
European Property Fund	Invesco Real Estate
Fund of Property Funds	Partners Group, Schroders Investment Management
Fund of Infrastructure Funds	First State Investments (UK) Ltd
Fund of Private Debt	Alcentra Ltd

Valuation of Investments

The value of the Fund's investments of £2,042m together with net assets totalling £2.0m increased from £1,916m to £2,044m during 2018/19.

The increase of £128m is comprised of two elements:

2017//18 £'000		**2018/19 £'000**
58,845	Net Return on Investments	128,874
1,783	Add Net additions from dealing with members	-1,346
60,628		**127,528**

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

Distribution of Investments

The following table shows the distribution of the Fund's investments at 31 March 18 at Bid price Market Values.

31 March 2018 £'000	%		31 March 2019 £'000	%
194,091	10.1	Fixed Interest Securities	213,992	9.7
32,547	1.7	Index Linked Securities	34,385	1.7
576,270	30.1	UK Equities	161,963	7.9
821,504	43.0	Overseas Equities	1,313,749	65.1
85,256	4.5	Property	89,047	4.4
54,601	2.9	Hedge Funds	54,168	2.7
67,525	3.5	Private Equity	86,625	4.3
0	0	Infrastructure	18,501	0.9
0	0	Derivatives	3,598	0.1
77,807	4.0	Cash/Temporary Investments	65,784	3.2
3,672	0.2	Other: Dividends Due	0	0.0
1,913,273	**100**		**2,041,812**	**100**

2018/19 Distribution of Investments - Fund Manager Bid Price	Blackrock (Passive)	Wales Pension Partnership	Schroders Property	Invesco	Aberdeen Frontier Fund	Goldman Sachs	Partners Group	Blackrock (Hedge)	EnTrustPermal	Harbour Vest	First State	External Cash	Custodian Cash	Internal Cash	TOTAL	%
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	
Equities																
UK	161,963														161,963	**7.9%**
Europe	68,418														68,418	**3.4%**
N America	175,447														175,447	**8.6%**
Japan	34,860														34,860	**1.7%**
Pacific	31,043														31,043	**1.5%**
Emerging Markets	46,604				14,489										61,093	**3.0%**
Pooled - Global		942,888													942,888	**46.1%**
Equity Protection - Equity		15,790													15,790	**0.8%**
Equity Protection - Derivatives		3,598													3,598	**0.1%**
Property																
UK & Europe			55,958	14,298											70,256	**3.5%**
Overseas							18,791								18,791	**0.9%**
Fixed Interest																
Fixed Interest	80,003					118,199									198,202	**9.7%**
Index-Linked	34,385														34,385	**1.7%**
Hedge Funds								28,764	25,404						54,168	**2.7%**
Private Equity										86,625					86,625	**4.3%**
Infrastructure											18,501				18,501	**0.9%**
Cash	-11		1,858									31,002	2,288	30,647	65,784	**3.2%**
TOTAL	**632,712**	**962,276**	**57,816**	**14,298**	**14,489**	**118,199**	**18,791**	**28,764**	**25,404**	**86,625**	**18,501**	**31,002**	**2,288**	**30,647**	**2,041,812**	**100.0%**
	31.0%	**47.1%**	**2.8%**	**0.7%**	**0.7%**	**5.8%**	**0.9%**	**1.4%**	**1.3%**	**4.3%**	**0.9%**	**1.5%**	**0.1%**	**1.5%**	**100.0%**	

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

Investment Returns

	City & County of Swansea Fund	Local Authority Average Fund	Relative Performance	Peer Group Ranking	Average Earnings Increase *	RPI*
	%	%	LA AVG		%	%
2018/19	6.1	6.6	-0.5	52nd	1.9	2.44
2017/18	2.8	4.5	-1.7	58th	2.6	3.3
2016/17	22.0	21.4	+0.6	27th	2.6	3.14
2015/16	-1.7	0.3	-2.0	72nd	2.2	1.6
2014/15	10.8	13.2	-2.4	89th	4.4	0.9
2013/14	7.2	6.3	+0.9	35th	1.9	2.45
2012/13	13.7	13.7	-0.1	43rd	-0.7	3.28
2011/12	0.6	2.6	-2.0	92nd	0.8	3.6
2010/11	7.9	7.9	0.0	51st	2.2	5.3
2009/10	35.5	35.2	+0.3	42nd	7.8	4.15
2008/09	-16.0	-19.9	+3.9	12th	1.5	-0.4
2007/08	-0.5	-2.2	+1.7	19th	4.5	3.8

*Data Source : Moneyfacts/ONS

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

Market Commentary- Local Authority Universe

The average local authority pension fund return was +6.6% which was below the long term average of 8% but way ahead of inflation.

A year of global political uncertainty, a burgeoning trade war between the US and China and no resolution to the Brexit issue. Despite this, investment returns, though volatile, were positive and the average Authority fund produced a return of almost 7% for the year.

This was slightly below the long term average of around 8% p.a. but this return was ahead of inflation and actuarial assumptions.

Asset class returns were tightly grouped with bonds, property and equities returning 4%, 6%, and 7% respectively for the year.

Private equity was the best performing asset class at 15% followed by infrastructure at 12%. Absolute return investments all performed relatively poorly averaging only 1% for the year.

There were many headwinds facing investors over the last year. Unease over historically high levels of markets, political uncertainty, the escalating trade war between the US and China and the ongoing unresolved issues around how, or even if, the UK would leave Europe all impacted sentiment and made for a volatile year. Despite this, over the last twelve months the average Local Authority pension fund has returned a very respectable 6.6%. While this return is below the 30 year average of 8.4% p.a. it is well ahead of inflation and of actuarial assumptions which are currently around 4% p.a.

Fund Performance

The fund returned 6.1% for the year, 0.5% below the local authority universe benchmark of 6.5% placing the fund in the 52nd percentile overall, still well ahead of inflation and actuarial assumptions. It was major underperformance across asset classes that led to the overall underperformance for the year, not one single asset class.

The Fund has a different asset structure from the average fund, it has a large overweighting to equities, which increased over the year and it has a commensurate underweight position across all other assets, this had a marginal positive impact on the performance of the fund.

Over the longer term the performance is slightly below the average, however performance has improved in recent times and following the transition of the majority of the listed assets into the Wales Pension Partnership, the increased diversification of manager risk shall lead to improved manager performance.

PART D

ACTUARIAL REPORT

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 31 March 2016 (of £1,512.6M) covering 80% of the liabilities in respect of service prior to the valuation date allowing, in the case of pre-1 April 2014 membership for current contributors to the Fund, for future increases in pensionable pay.

2. The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2017 was:

   - 18.0% of pensionable pay. This was the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date, (the primary rate).

   Plus

   - Monetary amounts to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 22 years from 1 April 2017 (the secondary rate), equivalent to 7.0% of pensionable pay (or £20.1M in 2017/18, and increasing by 3.5% p.a. thereafter).

3. In practice, each individual employer's or group of employers' position is assessed separately and contributions are set out in Aon's report dated 30 March 2017 (the "actuarial valuation report"). In addition to the contributions shown above, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

4. The funding plan adopted in assessing the contributions for each individual employer or group was in accordance with the Funding Strategy Statement in force at the time. The approach adopted, and the recovery period used for each employer was agreed with the administering authority reflecting the employers' circumstances.

5. The valuation was carried out using the projected unit actuarial method for most employers and the main actuarial assumptions used for assessing the funding target and the contribution rates were as follows.

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

Statement of the Actuary for the year ended 31 March 2019 Cont'd

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

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

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

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

The assets were valued at market value.

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

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

7. The formal actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2017 to 31 March 2020 were signed on 30 March 2017. 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) and the most material are commented on below :

McCloud Judgement

In December 2018 the Court of Appeal ruled against the Government in the "McCloud / Sergeant" judgement which found that the transitional protection arrangements put in place when the firefighters' and judges' pension schemes were reformed amounted to illegal age discrimination. The ruling potentially has implications for all public sector schemes which were reformed around the same time and could lead to members who were discriminated against being compensated.

The Government applied to the Supreme Court for permission to appeal this judgement, but the Supreme Court rejected the Governments' request on the 27 June 2019, and on the 15 July the Chief Secretary to the Treasury announced in a written statement confirming that the Government believes that the difference in treatment will need to be remedied across all public service schemes, including the LGPS. The next stage is for the case to be referred to the Employment Tribunal to agree the remedy, following appropriate consultation.

GMP Equalisation and Indexation

On 26 October 2018 the High Court ruled in the Lloyds Bank case that equalisation for the effect of unequal Guaranteed Minimum Pension (GMPs) is required. The ruling confirmed that the trustees have a duty to "to equalise benefits for men and women so as to alter the results which is at present produced in relation to GMP's.

In March 2016 the Government introduced an interim solution for members in public sector schemes with GMPs who were set to lose out from the removal of the Additional State Pension (AP). This was done by paying full increases on GMP pensions for individuals reaching State Pension Age (SPA) from 5 April 2016 through 5 December 2018 (GMP rules do not require schemes to pay any increases on GMPs earned before April 1988 and cap increases at 3% p.a. on GMPs earned after April 1988). This additional liability was included in the liabilities disclosed.

In January 2018 the interim solution was extended for individuals reaching SPA before 5 April 2021. Further, the Government has indicated that it is committed to continuing to compensate all members of public sector pension schemes reaching SPA after 5th April 2021.

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 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 valuation.

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

11. The report on the actuarial valuation as at 31 March 2016 is available from the Fund's website at the following address : http:/www.swanseapensionfund.org.uk/investment-and-fund/actuarial-valuations/

Aon Hewitt Limited

July 2019

Actuarial Present Value of Promised Retirement

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

As set out in the Statement of the Actuary, there has been some material developments in respect of the Local Government Pension Scheme (LGPS) and we comment on the estimated impact of these on an IAS19 basis as follows :

McCloud Judgement

Whilst the remedy is uncertain, a prudent approach would be to assume it is equivalent to extending the "best of both" underpin to all members. The Governments Actuary's Department (GAD), under instruction of the LGPS Scheme Advisory Board (England and Wales) was asked to calculate the worst case scenario impact at Scheme level, and in their paper entitled "Local Government Pension Scheme Potential impact of McCloud / Sergeant ruling on pensions accounts disclosure" dated 10 June 2019, they state that using an effective date of 31st March 2019, financial assumptions appropriate for accounting purposes and a salary increase assumption of CPI + 1.5% (as used for the City & County of Swansea Pension Fund), the estimated worst case scenario impact will be a 3.2%

increase in the active liabilities. This was very much an estimate, is based on the Scheme as a whole and made no allowance for “high fliers” who could distort these figures. The figures the City & County of Swansea Pension Fund could be different to the GAD assessment but we feel gives a reasonable indication of the increase in liabilities. Based on an approximate assessment as at 31 March 2019, this would be equivalent to an increase in the actuarial present value of promised benefits of around £50m.

GMP Equalisation and Indexation

If HM Treasury’s solution to GMP equalisation in public service schemes were to extend to the interim solution indefinitely, the impact is estimated to be an increase in defined benefits obligation of 0.3% for an average mature employer in the LGPS (England and Wales) (which includes the liability for members reaching SPA after 5 December 2018 which is not included in the liabilities disclosed). Based on an approximate assessment as at 31 March 2019, this would be the equivalent to an increase in the actuarial present value of promised benefits of around £10m.

Definitions

Admission Body

An employer admitted to the Fund under an admission agreement.

Orphan Body

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

Scheduled Body

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

Subsumption and Subsumption Body

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

Rates & Adjustment Certificate

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

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

18. Actuarial Present Value of Promised Retirement Benefits – Statement of the Actuary for the year ending 31st 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
Schedule 2 Part 1 bodies/ Schedule 2 Part 2 bodies (Scheduled bodies)							
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%
Cilybebyll 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
Pontardawe 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

Schedule 2 Part 3 bodies (Admission bodies)							
Celtic Community Leisure	13.2%	-	-	-	13.2%	13.2%	13.2%
Grwp Gwalia Cyf	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
Total	**18.0%**	**5.5% plus £653,600**	**6.3% plus £974,800**	**7.3% plus £1,287,600**	**23.5% plus £653,600**	**24.3% plus £974,800**	**25.3% plus £1,287,600**

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. Theses 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.

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

Laura Hamilton FIA
Fellow of the Institute and Faculty of Actuaries

30 March 2017

Aon Hewitt Limited
25 Marsh Street
Bristol BS1 4AQ

Appendix 1

SCHEDULE OF EMPLOYING BODIES AND CONTRIBUTION RATES FOR THE PERIOD 1ST APRIL 2018 TO 31ST MARCH 2019

	Contributors	Pensioners	Deferred Benefits	Employer Contribution Rate (% of Pensionable Pay) plus additional annual monetary amount
Administering Authority	**Number @ 31/03/19**	**Number @ 31/03/19**	**Number @ 31/03/19**	
City & County of Swansea	11,982	5,950	5,556	24.4%
Scheduled Bodies				
Neath Port Talbot County Borough Council.	5,546	3,965	4,464	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	607	281	440	21.8%
Neath Town Council	12	17	6	20.2% (+£16,800)
Lliw Valley BC	0	203	17	-
Margam Joint Cremation Committee	9	12	4	20.2% (+£9,700)
NPTC Group	580	271	457	17.7% (+£174,300)
Neath Port Talbot Waste Management Co. Ltd.	0	1	0	-
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	2	22.4%(+£4,400)
Swansea City Waste Disposal Company	0	15	3	-
University of Wales Trinity St Davids	131	158	236	28.0% (+£542,300)
West Glamorgan County Council	0	2,024	197	-
West Glamorgan Magistrates Courts	0	38	13	-
West Glamorgan Valuation Panel	0	4	0	-
Admitted Bodies				
BABTIE	0	6	9	-
Celtic Community Leisure	178	39	179	13.2%
Colin Laver Heating Ltd	0	2	2	-
Swansea Bay Racial Equality Council	1	1	4	36.1% (+£1,300)
The Careers Business	0	8	6	-
Wales National Pool	96	5	76	14.2%
West Wales Arts Association	0	1	0	-
Cap Gemini	0	1	4	-
Tai Tarian	335	109	107	17.0% (+£218,500)
Phoenix Trust	0	1	3	-
Pobl Group	139	93	80	20.4%
Llanrhidian Higher Community Council	1	0	0	18.2%
Ystalyfera Community Council	1	0	0	18.2%
Rathbone CCS	1	0	2	25.2%
Rathbone Gower College	4	0	0	24.3%
Freedom Leisure	231	3	0	25.8%
Parkwood Leisure	10	0	0	25.8%
	19,888	13,229	11,874	

Appendix 2

Pension Fund Committee 2018/19

Chairman	Cllr C E Lloyd
Vice Chairman	Cllr P Downing
Committee Members	Cllr M B Lewis Cllr D G Sullivan Cllr W G Thomas Cllr J P Curtice Cllr P Rees (Neath Port Talbot CBC)
Advised by: **Council Officers**	B Smith, Chief Finance Officer & Section 151 J Dong, Deputy Chief Finance Officer
Financial Advisors	N Mills
Consultancy Service	Hymans Robertson LLP
Local Pension Board (as at 31st March 2019)	Cllr A Lockyer Cllr M White Ms Arlene Chaves Mr David Mackerras Mr David White Mr Ian Guy

Investment Managers

- Global Equities – Wales Pension Partnership
- Global Balanced Index Tracking - Blackrock
- Global Bonds - Goldman Sachs Asset Management
- Fund of Hedge Funds - Blackrock and EnTrustPermal
- Fund of Private Equity Funds - HarbourVest
- Fund of Property Funds - Partners Group, Schroders Investment Management
- European Property Fund- Invesco Real Estate Europe Fund
- Fund of Infrastructure Fund – First State
- Fund of Private Debt - Alcentra

Pensions Administration : Claire Elliott, Pensions Manager, City & County of Swansea

Appointed Actuary : Aon Hewitt Limited

Performance Measurement : PIRC Ltd

Global Custodians : Global Institutional Fund Services (HSBC Security Services)

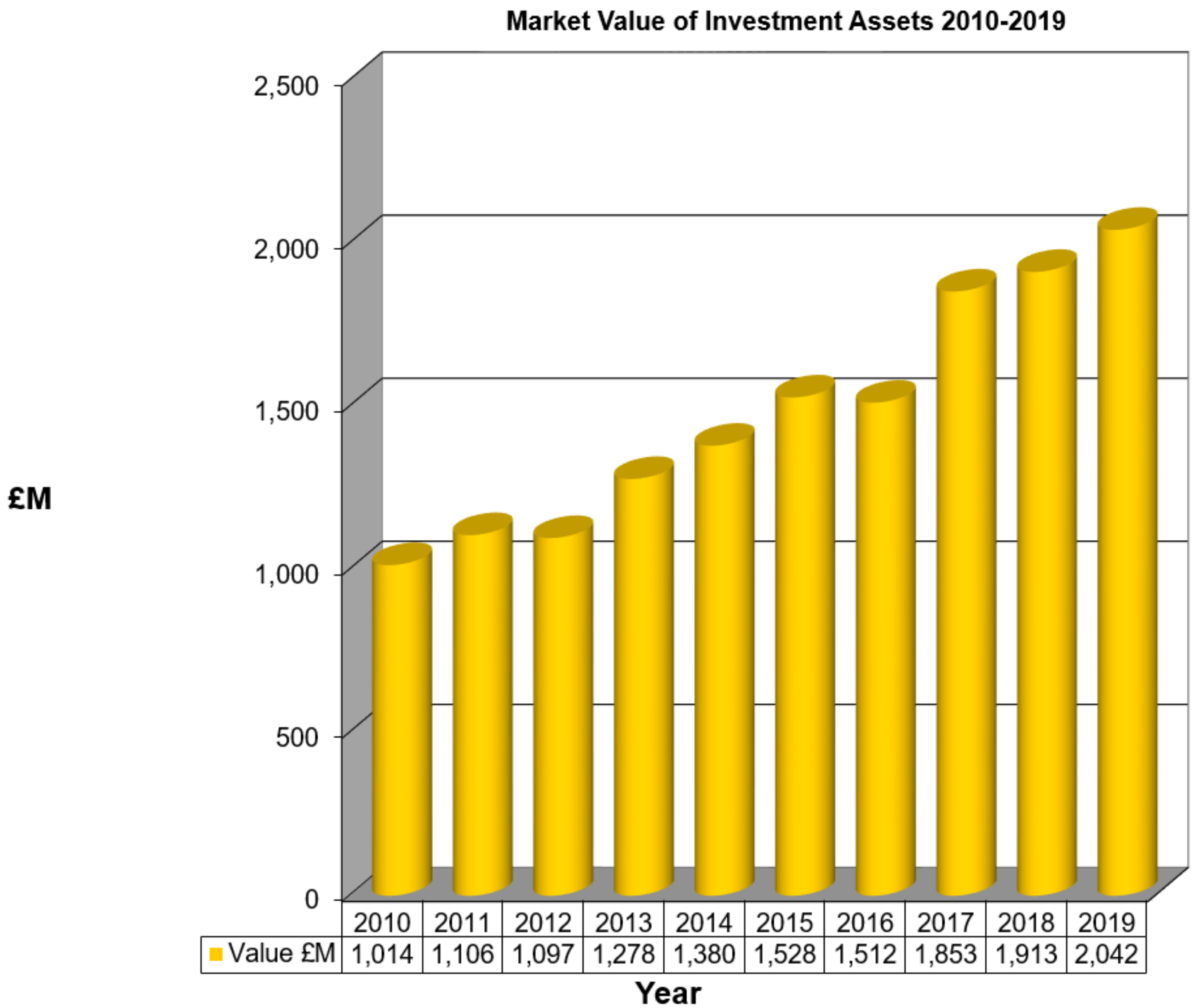
Bankers : Lloyds Bank

Legal Advisors : City & County of Swansea Legal Department, Dolmans Solicitors

AVC Providers : Prudential, Aegon and Equitable Life

Auditors : Wales Audit Office

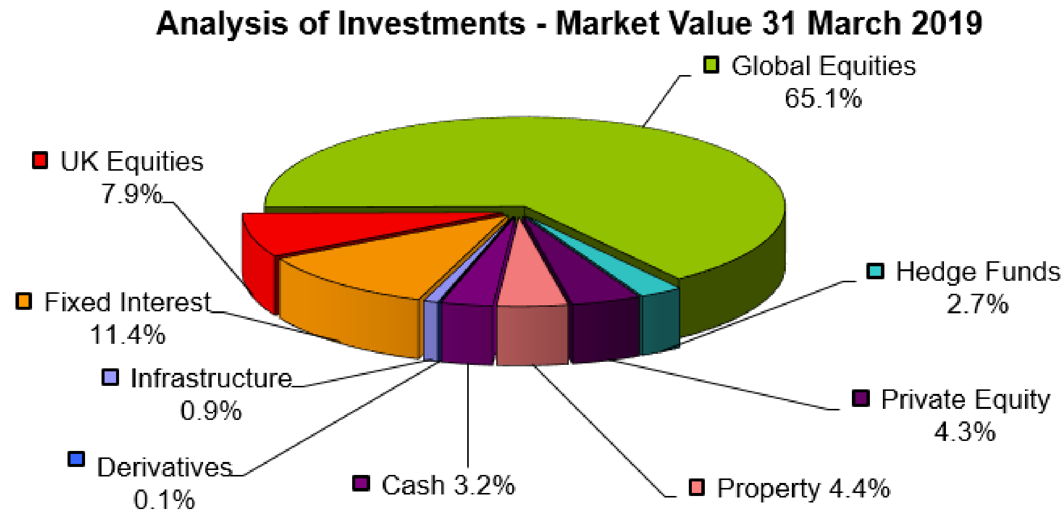
Appendix 3

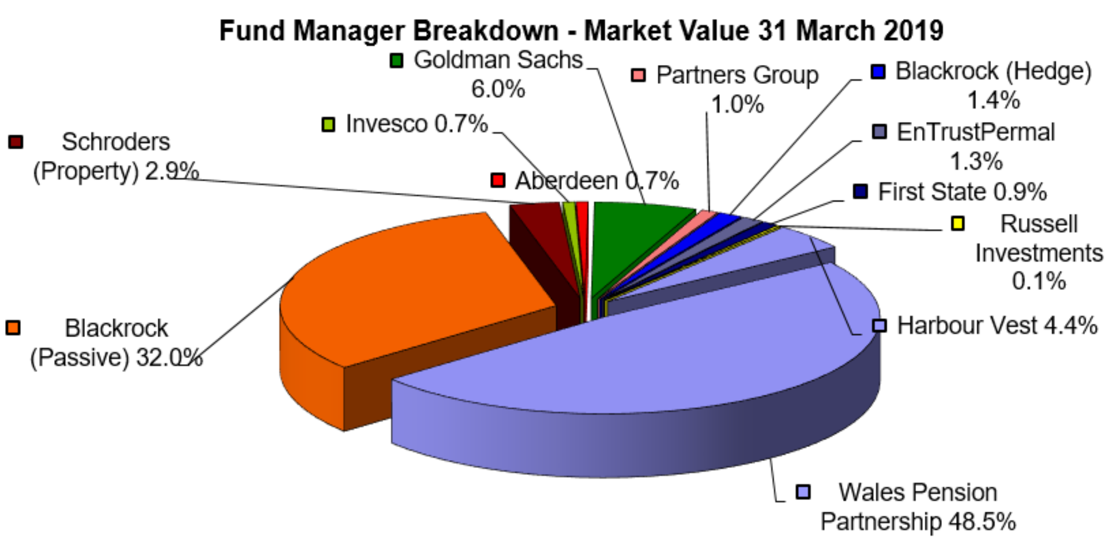

Market Value of Investment Assets 2010-2019
£M
2,500
2,000
1,500
1,000
500
0
2010 2011 2012 2013 2014 2015 2016 2017 2018 2019
Value £M 1,014 1,106 1,097 1,278 1,380 1,528 1,512 1,853 1,913 2,042
Year

Portfolio Distribution Summary

31 March 2018 Market Value £'000	%		31 March 2019 Market Value £'000	%
		Fixed Interest Stocks		
194,091	10.1	Fixed Interest	213,992	9.7
32,547	1.7	Index Linked	34,385	1.7
226,638	11.8		248,377	11.4
576,270	30.1	**UK Equities**	161,963	7.9
821,504	43.0	**Global Equities**	1,313,749	65.1
54,601	2.9	**Hedge Funds**	54,168	2.7
67,525	3.5	**Private Equity**	86,625	4.3
85,256	4.5	**Property**	89,047	4.4
0	0	**Infrastructure**	18,501	0.9
0	0	**Derivatives**	3,598	0.1
1,831,794	**95.8**	**Sub Total**	**1,976,028**	**96.8**
77,807	4.0	**Cash held by Managers & Temporary Investments**	65,784	3.2
3,672	0.2	**Other Investment Balances - Dividends Due**	0	0
1,913,273	**100**	**Total**	**2,041,812**	**100**

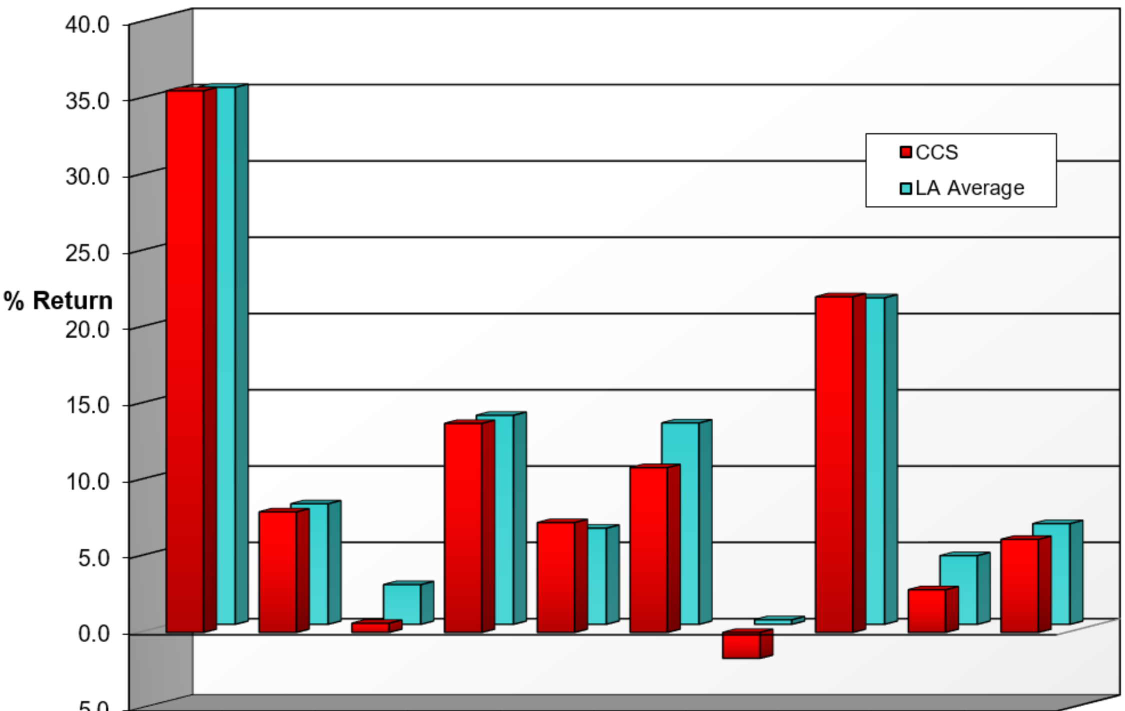
Appendix 4 (ii)





Appendix 5

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



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
CCS	35.5	7.9	0.6	13.7	7.2	10.8	-1.7	22.0	2.8	6.1
LA Average	35.2	7.9	2.6	13.7	6.3	13.2	0.3	21.4	4.5	6.6

Year

Appendix 6

Pensions Section Performance Measures

Service Objective	Performance Indicator	Target 2018/19	Actual 2018/19	Target 2019/20
To calculate all types of pension benefits accurately	Payment of retirement benefits to members within 1 month after benefit becomes payable.	85%	51.51%	85%
	Payment of retirement benefits to members within 1 month of the date all information was received.	95%	99.9%	95%
To deal with transfers both into and out of the scheme	Quotation of transfer value to new pension provider for deferred members within 3 months of request	90%	86.67%	90%

Appendix 7

City & County of Swansea Pension Fund

Investment Strategy Statement

1. Introduction

1.1 The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999 and its latest revision requires administering authorities to prepare and review from time to time an investment strategy statement outlining the investment policy of the pension fund. The purpose of this document is to satisfy the requirements of these regulations.

1.2 The Local Government Pension Scheme ("the scheme") was established in accordance with statute to provide death and retirement benefits for all eligible members.

1.3 The Council has delegated the governance and decision making of the scheme to an Pension Fund Committee comprising Members of the Council, a full member from Neath Port Talbot Council who decide on the investment policy most suitable to meet the liabilities of the Scheme and ensure affordable contribution rates having taken appropriate advice from officers, advisors and appointed actuary.

1.4 The Pension Fund Committee is supported by the Section 151 Officer, the Chief Treasury Officer, its investment advisers, the Fund's actuary and the Fund's Investment Managers in its investment decision making.

1.5 This document outlines the broad investment principles governing the investment policy of the Pension Fund. The Pension Fund Committee has delegated the management of the pension fund's investments to professional investment managers whose activities are constrained by detailed Investment Management Agreements.

1.6 The Administering Authority ensures compliance with the Regulations and associated guidance issued by DCLG

2. Investment Responsibilities

2.1 The Pension Fund Committee has responsibility for:

- approving the Investment Strategy Statement
- monitoring compliance with the Statement and reviewing its contents from time to time,
- to establish and keep under review policies to be applied by the Council in exercising its discretion as an administering Authority under the Local Government Pension Scheme (LGPS) Regulations 1997,
- to make recommendations to the Council from time to time on the financial implications for the Pension Fund of discretions available to the Council as an employing authority under the LGPS Regulations 1997,
- to monitor factors likely to affect the solvency of the Pension Fund between the triennial valuations of the Fund by its independent actuary including specifically, the impact of early retirements approved by all employing bodies within the fund,
- to determine the strategic aims for investment of the Fund and the benchmarks by which performance will be measured,
- to arrange for independent investment advice to be available to the Committee at any time,
- determine asset allocation of the investment fund
- to determine, keep under review and, where appropriate, secure changes in the management arrangements for investment of the Pension Fund,
- to monitor on a regular basis against its objectives and benchmarks the Fund's investment performance,
- to ensure effective communication and liaison with other employing bodies within the City & County of Swansea Pension Fund,
- to respond to consultative documents affecting the Local Government Pension Scheme.

2.2 The Investment Managers are responsible for:

- the investment of the pension fund assets in compliance with prevailing legislation, the constraints imposed by this document and the detailed Investment Management Agreements,
- tactical asset allocation around the strategic benchmark, where appropriate and security selection within asset classes,
- preparation of quarterly report including a review of investment performance,
- attending Meetings of the Pension Fund Committee as requested,

- assisting the Section 151 Officer and Pension Fund Committee in the preparation and review of this document,
- preparation of a quarterly statement of compliance with this document,
- voting shares in accordance with the Council's policy.

2.3 **The Custodian is responsible for:**

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

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

- assisting the Pension Fund Committee and Section 151 Officer in the preparation and review of this document,
- assisting the Pension Fund Committee and Section 151 Officer in their regular monitoring of the investment managers performance, and
- assisting the Pension Fund Committee and Section 151 Officer in the selection and appointment of investment managers and custodians
- regular reporting on the performance of the fund managers and providing market commentary as necessary
- assisting and advising the Pension Fund Committee of investment strategies and appropriate asset allocation strategy.
- advising the Pension Fund Committee and the Section 151 Officer in market developments generally and changes in the pension fund investment world.

2.5 **The Actuary is responsible for:**

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

2.6 **The Section 151 Officer is responsible for:**

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

3. The Scheme's Liabilities

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

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

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

4. Investment Policy

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

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

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

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

Fig 1.

		Asset Allocation	Fund Manager		Benchmark	Performance
Asset Class			**Passive**	**Active**		
UK Equities		34% +/- 5%	14% **L&G/ Blackrock**	20% **Schroders**	FTSE allshare	+3% p.a. over rolling 3year
Overseas Equities		34% +/- 5%	13% **L&G/ Blackrock**	21% **JP Morgan and Aberdeen** **Aberdeen Frontier Fund**	MSCI World all share (ex UK) MSCI Frontier Markets Index	+3% p.a. over rolling 3year + p.a. over rolling 3 year
Global Fixed Interest		15% +/- 5%	6% **L&G/ Blackrock**	9% **Goldman Sachs**	Libor	Libor +3%
Property		5% +/- 5%	-	5% **Schroders, Partners and Invesco**	IPD, cash, absolute	+ 1% p.a. over rolling 3 year
Hedge Funds		5% +/- 5%	-	5% **Blackrock and Permal (formerly Fauchier)**	LIBOR	+4%
Private Equity		3% +/- 5%	-	3% **Harbourvest**	FTSE allshare	+3% p.a. over 3 year rolling
Infrastructure		2% +/- 5%	-	2% **First State**	10% Absolute	10% Absolute
Cash		2% +/- 5%	-	2% in house and cash flows of fund managers	7day LIBID	=
TOTAL		100%	33%	67%		

5. The Expected Return on Investments

5.1 The strategic aim of the Fund is to achieve the maximum return consistent with acceptable levels of risk pertinent to each asset class and the long-term nature of the Fund's liabilities.

5.2 In order to achieve the strategic aim, the Fund has set relevant asset class specific benchmark against which performance and risk can be measured

5.3 The fund has also agreed performance fees for achieving outperformance targets.

5.4 The passive manager is required to achieve, over the longer term, a total return close to that of the respective market indices it tracks..

6. Risk

6.1 Performance Risk

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

6.2 Asset Risk

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

6.3 Market Risk

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

7. Types of Investments to be Held

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

7.3 **Stocklending**

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

7.4 **Underwriting**

Underwriting of share issues by the fund managers is permitted.

8. Investment Pooling

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

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

9. The Realisation of Investments

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

10. Social, Environmental and Ethical Considerations

The Pension Fund Committee's policy is to encourage positive behaviour by companies through its investments. It is believed that influence in this way is currently effective. The Fund exercises this policy through the external investment managers by contact with company management and through exercising voting rights. It encourages its managers to sign up to the United nations Principles of Responsible Investing (UNPRI) and is a full member of the Local Authority Pension Fund Forum (LAPFF) , a collection organisation of

LGPS who engage fund managers and investee companies and promote responsible investor/ownership practices.

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

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

11. Corporate Governance

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

12. Principles for Investment Decision Making

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

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

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

Appendix 1

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

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

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

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

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

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

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

Appendix 8

City & County of Swansea Pension Fund
Funding Strategy Statement

SECTION 1
INTRODUCTION

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

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

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

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

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

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

- establishes a clear and transparent funding strategy, specific to the Fund, which will identify how employer's pension liabilities are best met going forward.

- supports the regulatory requirement in relation to the desirability of maintaining as nearly constant a primary rate of contributions as possible.

- ensures that the regulatory requirements to set contributions as to ensure the solvency and long-term cost efficiency of the Fund are met.

- takes a prudent longer-term view of funding the Fund's liabilities.

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

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

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

The assets that most closely match the liabilities of the Fund are fixed interest and index-linked Government bonds of appropriate term relative to the liabilities. The Fund's asset allocation as set out in the Statement of Investment Principles invests a significant proportion of the Fund in assets such as equities which are expected but not guaranteed to produce higher returns than Government bonds in the long term. The Administering Authority has agreed with the Fund Actuary that the Funding Target on the ongoing basis will be set after making some allowance for this higher anticipated return. However, the Administering Authority recognises that outperformance is not guaranteed and that, in the absence of any other effects, if the higher expected returns are not achieved the solvency position of the Fund will deteriorate.

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

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

Review of this Statement

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

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

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

SECTION 2
THE AIMS AND PURPOSE OF THE FUND

Purpose of the Fund

The purpose of the Fund is to:

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

Aims of the Fund

The main aims of the Fund are:

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

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

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

- the regulatory requirement to secure solvency, which should be assessed in light of the risk profile of the Fund and risk appetite of the Administering Authority and employers

- the requirement that the costs should be reasonable to Scheduled Bodies, Admission Bodies, other bodies and to taxpayers (subject to not taking undue risks), and

- maximising income from investments within reasonable risk parameters (see later)

Producing low volatility in employer contribution rates requires material investment in assets which ‘match’ the employer’s liabilities. In this context, ‘match’ means assets which behave in a similar manner to the liabilities as economic conditions alter. For the liabilities represented by benefits payable by the Local Government Pension Scheme, such assets would tend to comprise gilt edged investments.

Other classes of assets, such as stocks, are perceived to offer higher long term rates of return, on average, and consistent with the requirement to maximise the returns from investments within reasonable risk parameters, the Administering Authority invests a substantial proportion of the Fund in such assets. However, these assets are more risky in nature, and that risk can manifest itself in volatile returns over short term periods, and a failure to deliver anticipated returns in the long term.

This short term volatility in investment returns can produce a consequent volatility in the measured funding position of the Fund at successive actuarial valuations, with knock on effects on employer contribution rates. The impact on employer rates can be mitigated by use of smoothing adjustments at each valuation.

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

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

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

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

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

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

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

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

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

SECTION 3
RESPONSIBILITIES OF THE KEY PARTIES

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

Their key responsibilities are as follows:

Administering Authority

The Administering Authority will:

- Administer the Fund
- Collect investment income and other amounts due to the Fund as set out in the Regulations including employer and employee contributions and, as far as the Administering Authority is able to, ensure these contributions are paid by the due date (with the due date as specified in the LGPS Regulations, Rates and Adjustments Certificate and any Administering Authority policies)
- Pay from the Fund the relevant entitlements as set out by the Local Government Pension Scheme Regulations 2013.
- Invest surplus monies in accordance with the Investment Regulations.
- Ensure that cash is available to meet liabilities as and when they fall due.
- Manage the valuation process in consultation with the Fund's Actuary
- Ensure it communicates effectively with the Fund Actuary to:
    - Agree timescales for the provision of information and provision of valuation results
    - Ensure provision of data of suitable accuracy
    - Ensure that the Fund Actuary is clear about the content of the Funding Strategy Statement
    - Ensure that participating employers receive appropriate communication throughout the process
    - Ensure that reports are made available as required by relevant guidance and Regulations
- Prepare and maintain a Statement of Investment Principles / Investment Strategy Statement and a Funding Strategy Statement after due consultation with interested parties.
- Monitor all aspects of the Fund's performance and funding and amend these two documents if required.
- Effectively manage any potential conflicts of interest arising from its dual role both as Administering Authority and as Scheme Employer.
- Take measures, as set out in the Regulations, to safeguard the Fund against the consequences of employer default
- Enable the Local Pension Board to review the valuation process as set out in their terms of reference.

Individual Employers

Individual Employers will:

- Deduct contributions from employees' pay.
- Pay all ongoing contributions, including their employer's contribution as determined by the Fund Actuary, and where relevant set out in the rates and adjustment certificate, promptly by the due date.
- Develop a policy on certain discretions and exercise those discretions within the regulatory framework.
- Pay for additional membership or pension, augmentation, early release of benefits or other one off strain costs in accordance with agreed arrangements.
- Notify the Administering Authority promptly of all changes to membership, or other changes which affect future funding
- Note and if desired respond to any consultation regarding the Funding Strategy Statement, the Statement of Investment Principles or other policies.
- Pay any exit payments as required in the event of their ceasing participation in the Fund

Fund Actuary

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

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

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

SECTION 4
<u>FUNDING STRATEGY</u>

Risk Based Approach

The Fund utilises a risk based approach to funding strategy.

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

- what the Solvency Target should be (the funding objective - where the Administering Authority wants the Fund to get to),

- the Trajectory Period (how quickly the Administering Authority wants the Fund to get there), and

- the Probability of Funding Success (how likely the Administering Authority wants it to be now that the Fund will actually achieve the Solvency Target by the end of the Trajectory Period).

These three choices, supported by complex risk modelling carried out by the Fund Actuary, define the discount rate, and by extension, the appropriate levels of contribution payable. Together they measure the riskiness of the funding strategy.

These three terms are considered in more detail below.

Solvency Target and Funding Target

Solvency and Funding Success

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

The Fund is deemed to be solvent when the assets held are equal to or greater than 100% of the Solvency Target, where the Solvency Target is the value of the Fund's liabilities evaluated using appropriate methods and assumptions. The Administering Authority believes that its funding strategy will ensure the solvency of the Fund because employers collectively have the financial capacity to increase employer contributions should future circumstances require, in order to continue to target a funding level of 100%.

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

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

Probability of Funding Success

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

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

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

Funding Target

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

The Funding Target is the amount of assets which the Fund needs to hold at the valuation date to pay the liabilities at that date as indicated by the chosen valuation method and assumptions. It is a product of the triennial actuarial valuation exercise and is not necessarily the same as the Solvency Target. It is instead the product of the data, chosen assumptions, and valuation method. The valuation method including the components of Funding Target, future service costs and any adjustment for the surplus or deficiency simply serve to set the level of contributions payable, which in turn dictates the chance of achieving the Solvency Target at the end of the Trajectory Period (defined below). The Funding Target will be the same as the Solvency Target only when the methods and assumptions used to set the Funding Target are the same as the appropriate funding methods and assumptions used to set the Solvency Target (see above).

Consistent with the aim of enabling employers' primary contribution rates to be kept as nearly constant as possible:

- Contribution rates are set by use of the Projected Unit valuation method for most employers. The Projected Unit method is used in the actuarial valuation to determine the cost of benefits accruing to the Fund as a whole and for employers who continue to admit new members. This means that the future service (primary) contribution rate is derived as the cost of benefits accruing to employee members over the year following the valuation date expressed as a percentage of members' pensionable pay over that period.

- For employers who no longer admit new members, the Attained Age valuation method is normally used. This means that the future service (primary) contribution rate is derived as the average cost of benefits accruing to members over the period until they die, leave the Fund or retire.

The discount rate, and hence the overall required level of employer contributions, has been set for the 2016 valuation such that the Fund Actuary estimates that there is just under a 70% chance that the Fund would reach or exceed its Solvency Target after a Trajectory Period of 25 years (on the assumption that Recovery Periods were less than 25 years for all employers).

Application to different types of body

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

Scheduled Bodies and certain other bodies of sound covenant

The Administering Authority will adopt a general approach in this regard of assuming indefinite investment in a broad range of assets of higher risk than low risk assets for Scheduled Bodies whose participation in the Fund is considered by the Administering Authority to be indefinite and certain other bodies which are long term in nature i.e. Admission bodies with a subsumption commitment from such Scheduled Bodies.

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

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

Admission Bodies and certain other bodies whose participation is limited

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

Full Funding

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

Recovery and Trajectory Periods

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

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

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

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

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

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

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

Grouping

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

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

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

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

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

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

Stepping

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

Inter-valuation funding calculations

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

Asset shares notionally allocated to individual employers

Notional asset shares

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

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

Roll-forward of notional asset shares

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

Further adjustments are made for:

- A notional deduction to meet the expenses paid from the Fund in line with the assumption used at the previous valuation.
- Allowance for any known material internal transfers in the Fund (cashflows will not exist for these transfers). The Fund Actuary will assume an estimated cashflow equal to the value of the liabilities determined consistent with the Funding Target transferred from one employer to the other unless some other approach has been agreed between the two employers.
- Allowance for lump sum death in service and any other benefits shared across all employers (see earlier).
- An overall adjustment to ensure the notional assets attributed to each employer is equal to the total assets of the Fund which will take into account any gains or losses related to the orphan liabilities.

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

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

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

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

Fund maturity

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

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

SECTION 5
SPECIAL CIRCUMSTANCES RELATED TO CERTAIN EMPLOYERS

Interim reviews

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

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

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

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

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

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

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

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

Guarantors

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

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

Bonds and other securitization

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

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

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

- In the case of Transferee Admission Bodies admitted under Paragraph 1(d) of Part 3, Schedule 2 of the Regulations and other Admission Bodies with a Guarantor, and so long as the Administering Authority judges the relevant Scheme Employer or Guarantor to be of sufficiently sound covenant, any bond exists purely to protect the relevant Scheme Employer or Guarantor on default of the Admission Body. As such, it is entirely the responsibility of the relevant

Scheme Employer or Guarantor to arrange any risk assessments and decide the level of required bond. The Administering Authority will be pleased to supply some standard calculations provided by the Fund Actuary to aid the relevant Scheme Employer, but this should not be construed as advice to the relevant Scheme Employer on this matter.

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

Subsumed liabilities

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

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

Orphan liabilities

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

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

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

Smoothing of contribution rates for Admission Bodies

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

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

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

Such action has three implications:

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

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

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

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

Cessation of participation i.e. Exiting the Fund

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

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

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

SECTION 6
IDENTIFICATION OF RISKS AND COUNTER MEASURES

Approach

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

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

The main risks to the Fund are considered below:

Choice of Solvency and Funding Targets

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

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

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

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

Investment Risk

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

- assets not delivering the required return (for whatever reason, including manager underperformance)
- systemic risk with the possibility of interlinked and simultaneous financial market volatility
- insufficient funds to meet liabilities as they fall due
- inadequate, inappropriate or incomplete investment and actuarial advice is taken and acted upon
- counterparty failure

The specific risks associated with assets and asset classes are:
- equities – industry, country, size and stock risks
- fixed income - yield curve, credit risks, duration risks and market risks
- alternative assets – liquidity risks, property risk, alpha risk
- money market – credit risk and liquidity risk
- currency risk
- macroeconomic risks

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

Employer risk

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

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

The Administering Authority will consider establishing a knowledge base on their employers, their basis of participation and their legal status (e.g., charities, companies limited by guarantee, group/subsidiary arrangements) and will use this information to inform the Funding Strategy Statement.

Liability Risk

The main risks include interest rates, pay and price inflation, life expectancy, changing retirement patterns and other demographic risks. The Administering Authority will ensure that the Fund Actuary investigates these matters at each valuation or, if appropriate, more frequently, and reports on developments. The Administering

Authority will agree with the Fund Actuary any changes which are necessary to the assumptions underlying the measure of solvency to allow for observed or anticipated changes.

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

If significant liability changes become apparent between valuations, the Administering Authority will notify all participating employers of the anticipated impact on costs that will emerge at the next valuation and consider whether any bonds that are in place for Transferee Admission Bodies require review.

Regulatory and Compliance Risk

The risks relate to changes to general and LGPS specific regulations, national pension requirements or HM Revenue and Customs' rules. The Administering Authority will keep abreast of all proposed changes to Regulations and LGPS benefits. If any change potentially affects the costs of the Fund, the Administering Authority will ask the Fund Actuary to assess the possible impact on costs of the change. Where significant, the Administering Authority will notify employers of the possible impact and the timing of any change.

Liquidity and Maturity Risk

This is the risk of a reduction in cash flows into the Fund, or an increase in cash flows out of the Fund, or both, which can be linked to changes in the membership and, in particular, a shift in the balance from contributing members to members drawing their pensions. Changes within the public sector and to the LGPS itself may affect the maturity profile of the LGPS and have potential cash flow implications. For example,

- Budget cuts and headcount reductions could reduce the active (contributing) membership and increase the number of pensioners through early retirements;
- An increased emphasis on outsourcing and other alternative models for service delivery may result in falling active membership (e.g. where new admissions are closed),
- Public sector reorganisations may lead to a transfer of responsibility between different public sector bodies, (e.g. to bodies which do not participate in the LGPS),
- Scheme changes and higher member contributions in particular may lead to increased opt-outs;

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

Governance Risk

This covers the risk of unexpected structural changes in the Fund membership (for example the closure of an employer to new entrants or the large scale withdrawal or retirement of groups of staff), and the related risk of the Administering Authority not being made aware of such changes in a timely manner.

The Administering Authority's policy is to require regular communication between itself and employers, and to ensure regular reviews of such items as bond arrangements, financial standing of non-tax raising employers and funding levels.

Statistical/Financial Risk

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

Smoothing Risk

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

Recovery Period Risk

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

Stepping Risk

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

Administering Authority's policy are set out earlier in this statement.

Appendix 9

Local Government Pension Scheme (LGPS) - Governance Arrangements

Introduction

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

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

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

The City & County of Swansea Pension Fund Governance Arrangements

In accordance with the guidance issued, an evaluation of current local governance arrangements has been undertaken (Appendix C) which measures compliance against the nine main principles indentified:

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

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

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

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

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

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

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

Appendix A

City & County of Swansea Pension Fund

Governance Policy Statement

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

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

Constitutional Framework

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

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

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

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

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

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

Pension Fund Management can be divided into two main areas:

1. Investment Management

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

- **Investment managers** who are responsible for managing the performance of the investment fund on a day-to-day basis. This will include making decisions on what to buy and sell and buying and selling itself, within the context of a broad investment policy laid down by the Administering Authority.
- **Investment advisers** who may assist in setting the broader policy, evaluating fund manager performance and so on.
- **Custodians** whose role is to safeguard the existence of assets and to ensure the Fund has proper title to them.
- **Actuaries** who evaluate overall fund management strategy, including the extent to which the Fund is fully funded, fund performance, assess the likely impact of future trends (e.g. Investment outlook, death rates etc) and advise on appropriate rates of employers contributions to ensure continued financial health for the scheme. They may also be asked for advice on overall fund management strategy. The Myners review suggested that this should be viewed as separate service from the actuarial contract (in much the same way that auditors shouldn't give advice that they may later be required to audit).
- **Performance measurers** who analyse fund performance, provide detailed statistical analysis of overall pension fund performance and its components, and report the results to officers and the pensions Panel.

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

2. Fund Administration

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

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

Pension Fund Governance: Structure Overview

Council

Delegated function

Decision Making by panel with advice from Section 151 Officer and external financial advisors

Pension Fund Panel

Delegated function

Recommendations by Sub Group approved by Section 151 Officer and Chairman or full panel

Pension Fund Investment Sub Group

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

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

Position	*Nominated by/ filled by*	*Currently in post*
Chairman	***Lead Political Group***	***Cllr C Lloyd***
Vice Chairman	***Lead Political Group***	***Cllr P Downing***
Committee Member	***Lead Political Group***	***Cllr M Lewis***
Committee Member	***Lead Political Group***	***Cllr J Curtice***
Committee Member	***Opposition Political Group***	***Cllr W Thomas***
Committee Member	***Opposition Political Group***	***Cllr G Sullivan***
Committee Member	***Neath Port Talbot CBC***	***Cllr Peter Rees***
Lead Officer Member	***Deputy Section 151 Officer***	***J Dong***
Independent Adviser(s)/ Investment Consultants	***Suitably qualified professionals***	***Noel Mills Hymans Robertson***

The Pension Fund Committee has responsibility for:

- approving the Investment Strategy Statement,
- monitoring compliance with the Statement and reviewing its contents from time to time,
- approving the funding strategy statement,
- approve the ESG Policy
- approving the corporate governance arrangements of the Fund,

- to establish and keep under review policies to be applied by the Council in exercising its discretion as an administering Authority under the Local Government Pension Scheme (LGPS) Regulations 1997,
- to make recommendations to the Council from time to time on the financial implications for the Pension Fund of discretion's available to the Council as an employing authority under the LGPS Regulations 1997,
- to monitor factors likely to affect the solvency of the Pension Fund between the triennial valuations of the Fund by its independent actuary including specifically, the impact of early retirements approved by all employing bodies within the Fund,
- to determine the strategic aims for investment of the Fund and the benchmarks by which performance will be measured,
- to arrange for independent investment advice to be available to the Panel at any time,
- to determine, keep under review and, where appropriate, secure changes in the management arrangements for investment of the Pension Fund,
- to monitor on a regular basis against its objectives and benchmarks the Fund's investment performance,
- to approve attendance of the Panel or any of its Members or Officers at Regional or National meetings arranged to assist Members of Pension panels to fulfil their trustee responsibilities,
- to ensure effective communication and liaison with other employing bodies within the City & County of Swansea Pension Fund,
- to respond to consultative documents affecting the Local Government Pension Scheme.
- to consider and approve all policy in relation to Administering Authority Discretions.

Frequency of Pension panel Meetings

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

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

Operational Procedure of Meetings

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

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

Agenda items are to include:

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

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

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

to undertake :

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

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

Pension Fund Investment Sub Group Terms of Reference

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

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

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

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

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

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

Appendix B

GOVERNANCE COMPLIANCE STATUTORY GUIDANCE

PART I

INTRODUCTION

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

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

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

BACKGROUND

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

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

6. The word "trustee" is often used in a very general sense to mean somebody who acts on behalf of other people but in pensions law it has a more specific meaning. Certain occupational pension schemes, primarily in the private sector, are established under trust law. Under a trust, named people ("trustees") hold property on behalf of other people (called beneficiaries). Trustees owe a duty of care to their beneficiaries and are required to act in their

best interests, particularly in terms of their investment decisions. Although those entrusted to make statutory decisions under the LGPS are, in many ways, required to act in the same way as trustees in terms of their duty of care, they are subject to a different legal framework and to all the normal duties and responsibilities of local authority councillors. But they are not trustees in the strict legal sense of that word.

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

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

9. It is also relevant to note that under The Local Authorities (Functions and Responsibilities) (England) Regulations 2000 (SI 2000 No 2853) and The Local Authorities Executive Arrangements (Functions and Responsibilities) (Wales) Regulations 2001 (Welsh SI 2001 No 2291), statutory decisions taken under schemes made under sections 7, 12 or 24 of the Superannuation Act 1972, are not the responsibility of the Executive arrangements introduced by the Local Government Act 2000. This means, for example, that the executive cannot make decisions in relation to discretions to be exercised under the LGPS, or make decisions relating to the investment of the Pension Fund and related matters. These functions have continued to be subject to the same legislative framework as they were before the passing of the Local Government Act 2000, including delegations under section 101 of the Local Government Act 1972. Such delegations vary from local authority to local authority depending on local circumstances. However, the Secretary of State has advised that where such decisions were delegated to committees or to officers, then those delegations should continue. (see paragraphs 5.10 and 5.11 of the Statutory Guidance to English Local Authorities – New Council Consitutions : Guidance Pack Volume 1).

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

voting rights, provided that they are eligible to be committee members (eligibility rules are set out in section 15 of the Local Government and Housing Act 1989).

STATUTORY BACKGROUND

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

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

“Governance compliance statement

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

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

(b) if they do so—

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

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

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

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

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

(3) An administering authority must—

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

(b) publish the statement as revised.

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

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

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

PURPOSE

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

TERMINOLOGY

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

POSITION OF NON-LOCAL AUTHORITY ADMINISTERING AUTHORITIES

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

SUGGESTED READING

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

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

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

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

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

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

PART II - THE PRINCIPLES

Part II/A - Structure

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

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

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

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

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

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

Part II/B - Representation

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

20. The number of stakeholders affected by the local management of the pension scheme and governance of pension funds is vast and it is accepted that it would be impractical to expect individual panel structures to encompass every group or sector that has an interest in the

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

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

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

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

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

Part II/C - Selection and role of lay members

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

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

subject to the requirements of the Local Government Act 1972, private interests can be reflected in proceedings.

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

Part II/D – Voting

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

Elected members of the administering authority

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

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

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

Lay members of advisory panels, etc

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

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

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

Part II/E – Training/Facility time/Expenses

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

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

28. If all stakeholders represented on LGPS panels or panels are to satisfy the high standards set out in the Myners' set of investment principles, it follows that equal opportunity for training, and hence facility time, should be afforded to all lay members. They too should have access to the resources that would enable them to evaluate the expert advice commissioned by the main investment panel and to comment accordingly. But the way that is achieved at local level is not a matter for national prescription, in particular, the policy adopted by individual administering authority or local authority on the reimbursement of expenses incurred by panel or panel members. On this basis, the best practice standard which administering authorities are required to measure themselves focuses on the extent to which they have a clear and transparent policy on training, facility time and reimbursement of expenses and whether this policy differs according to the type of member, for example, elected member or scheme member representative.

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

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

Part II/F – Meetings (frequency/quorum)

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

meetings. But as a matter of best practice, it is expected that secondary meetings should be held at least bi-annually.

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

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

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

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

Part II/G - Access

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

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

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

Part II/H – Scope

33. Traditionally, LGPS panels have focussed on the management and investment of the funds under their supervision, with questions arising from the main scheme dealt with by officers with delegated authority under the council's constitution. In recent times, however, and reflecting the trend towards de-centralisation, administering authorities have become responsible for formulating a significant number of policy decisions on issues like abatement, compensation and the exercise of discretions under the scheme's regulations. These are key decisions which should be subject to the rigorous supervision and oversight of the main panel. And with the prospect of some form of cost sharing arrangement to be in place by March 2009, it is clear that there are other key scheme issues, outside the investment field, that main panels may need to address in the future. Given the not insignificant costs involved in running funds, LGPS panels and panels need to receive regular reports on their scheme

administration to ensure that best practice standards are targeted and met and furthermore, to satisfy themselves and to justify to their stakeholders that the Fund is being run on an effective basis. This would involve reviewing the panel's governance arrangements and the effective use of its advisers to ensure sound decision making. Here, the use of an independent professional observer, free of conflicts of interest, would enable a wholly objective approach to be taken to the stewardship of the Fund.

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

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

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

Part II/I – Publicity

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

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

Appendix C

Compliance Statement of the City & County of Swansea Pension Fund

Principle A – Structure

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

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

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

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

Principle B – Representation

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

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations) **a ii)** It has been the held opinion that employers within the scheme bear the investment/contribution risk, with scheme members' contributions being guaranteed and quantified by statute therefore negating the necessity of any member representation on a panel which primarily dealt with investment issues. This approach shall be reviewed in light of proposals re. scheme members sharing the risk in proposals due in 2013.

Please use this space if you wish to add anything to explain or expand on the ratings given above :- **a i)** A representative from a non admin authority employer has full-voting representation on the main panel.

<u>Principle C – Selection And Role of Lay Members</u>

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

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

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

Principle D – Voting

	Not Compliant*				Fully Compliant
a)					✓

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

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

Principle E – Training/Facility Time/Expenses

	Not Compliant*				Fully Compliant
a)					✓
b)					✓

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

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

given above :-

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

Principle F – Meetings (frequency/quorum)

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

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

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

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

Principle G – Access

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

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

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

Principle H – Scope

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

* Please use this space to explain the reason for non-compliance (regulation

73A(1)(c)/1997 Regulations)

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

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

Principle I – Publicity

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

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

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

Appendix 10

Communications Policy Statement

Introduction

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

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

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

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

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

SCHEME MEMBERS

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

Annual Report and Accounts

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

Newsletter

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

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

Annual Benefit Statements

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

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

Scheme Literature

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

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

Correspondence

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

Payment Advice/P60

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

Employee Surgeries/Presentations

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

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

Pre-Retirement Courses

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

Existence Validation – Life Certificate Exercise

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

Website

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

PROSPECTIVE SCHEME MEMBERS

Scheme Leaflet

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

Corporate Induction Courses

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

Trade Unions

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

Website

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

SCHEME EMPLOYERS

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

Annual Report and Accounts

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

Employer Meetings

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

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

Pension Administration Strategy

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

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

Employer’s guide

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

Updates

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

Training

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

Website

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

OTHER BODIES

All Wales Pensions Officer’s Group

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

Wales Pension Partnership Group

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

Trade Unions

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

Seminars

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

National Information Forum

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

FUND STAFF

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

Induction

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

Training and Support

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

Both general and pension specific training is provided in-house, by the dedicated Communications & Training Officer or by specialists, where applicable, as part of the

Fund's commitment to continual improvement as well as encouraged to obtain the professional qualification of pension administration and management.

Fund Meetings

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

Internet

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

E-mails

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

The Local Government Pension Panel

National Website: www.lgps.org.uk

Whilst the website is intended primarily as a means of external communication, access is helpful to staff.

Seminars

Fund Officers regularly attend seminars and conferences held by associated bodies to obtain regulatory information and to further their knowledge and understanding.

This information is later cascaded to all staff so that service delivery is improved.

DATA PROTECTION

To protect any personal information held on computer, the City and County of Swansea Pension Fund, as administered by the City and County of Swansea, is registered under the Data Protection Act 1998. This allows members to check that their details held are accurate.

NATIONAL FRAUD INITIATIVE

This authority is under a duty to protect the public funds it administers, and to this end may use information for the prevention and detection of fraud. It may also share this information with other bodies administering public funds solely for these purposes.

GENERAL

Whilst this Policy Statement outlines the communication approaches adopted by the City and County of Swansea Pension Fund, there are roles and responsibilities which fall on Scheme members and participating Scheme Employers in ensuring that information necessary to maintain an accurate membership base is provided in a timely manner.

POLICY REVIEW

This statement will be revised if there is any material change in the City and County of Swansea Pension Fund's communication policy but will be reviewed no less frequently than an annual basis.

<u>Fund Publications - publication frequency & review periods</u>

Communication Material	When Published	When Reviewed
Scheme Booklet	Constantly Available	As Required
New Starter Pack	Constantly Available	As Required
Factsheets (various)	Constantly Available	As Required
Retirement Guide	Constantly Available	As Required
Newsletter	As required	As Required
Pension Newsletter	Annually	As Required
Annual Benefit Statement	Annually	Annually
Employer's Guide	Constantly Available	Annually
Pension Administration Strategy	Constantly Available	Annually

Customer Charter	Constantly Available	Annually
Annual Report & Accounts	Annually	Annually
Valuation Report	Tri-Annually	Tri-Annually
Funding Strategy Statement	Tri-Annually	As Required

Appendix 11

Economic and Social Governance 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.[1]

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.

Appendix 1: Carbon exposure – 2017 review

Paper issued by Hymans Robertson in March 2018

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[1] 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).

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[2]). 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[3]. 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

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[2] Further details on the assumptions made are included in MSCI's reports.

[3] 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 Schroders' 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.

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.

Key carbon metrics

The key metrics can be defined as:

- **Carbon emissions** - the carbon emission (tonnes of CO2) 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

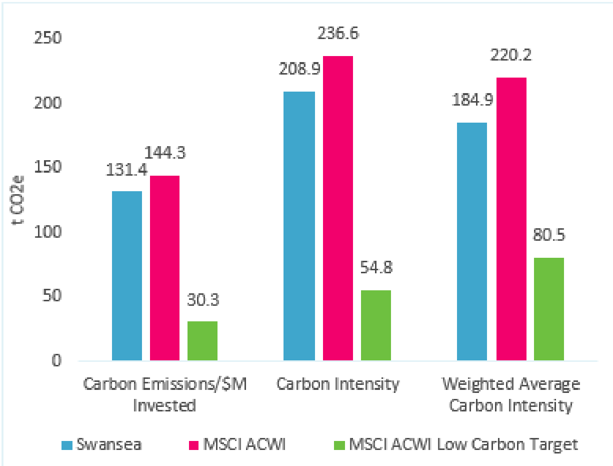
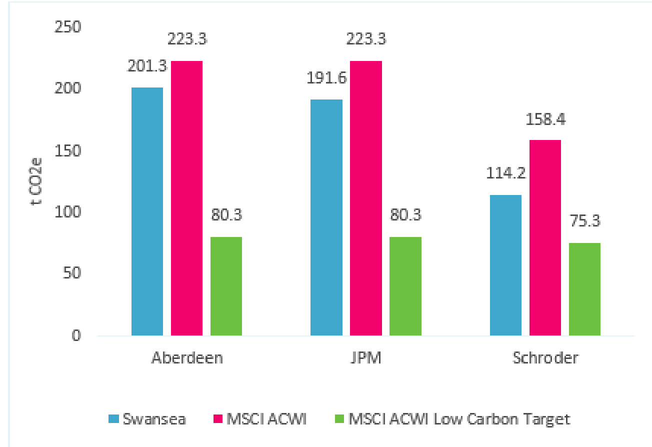


Chart 2: Weighted average intensity at manager level [4]



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.

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

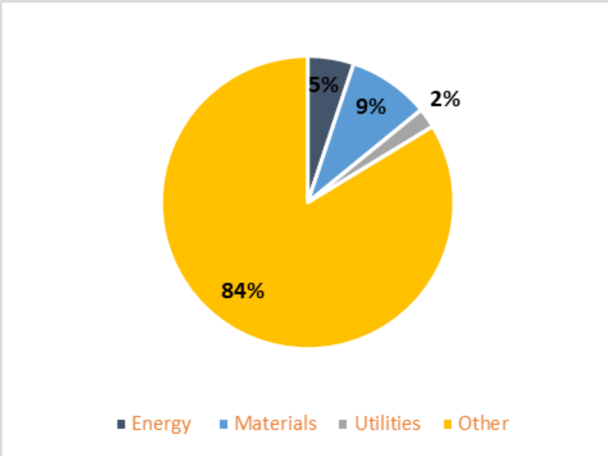
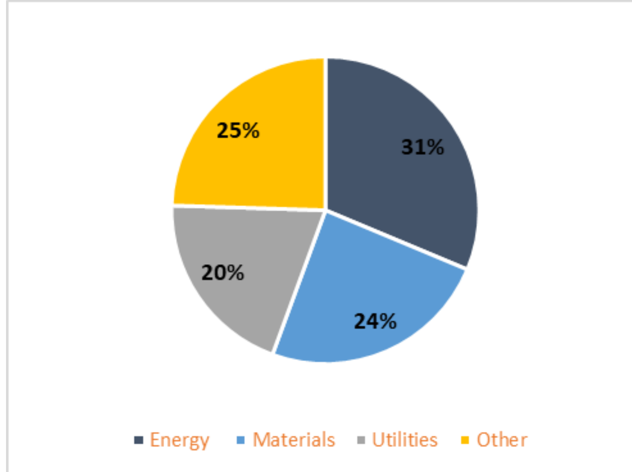


Chart 4: Contribution to carbon emissions



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

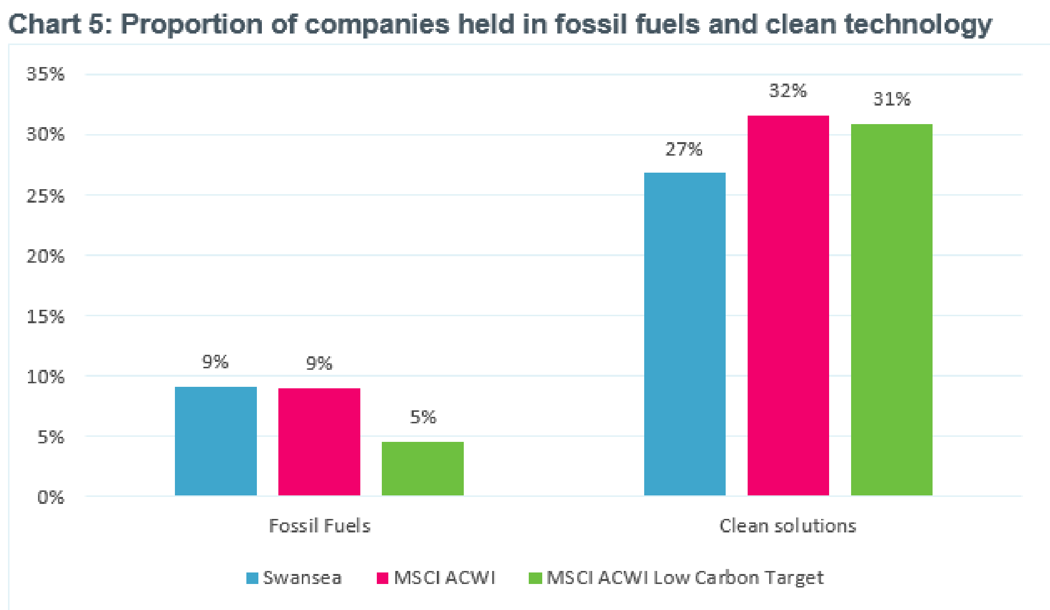
MSCI also included their views on companies' position relative to their industry in dealing with managing carbon risk (MSCI rates companies as Leaders, Average or Laggards). In terms of the top ten contributors to each active managers' weighted carbon intensity:

- 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 achieve 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.

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.

Glossary

Active Management - A mark through either Asset Allocation, Market Timing or Stock Selection (or a combination of these). Directly contrasted with Passive Management.

Actuary - An independent consultant who advises on the viability of the Fund. every three years the actuary reviews the assets and liabilities of the Fund and reports to the County Council as administering authority on the financial position and the recommended employers contribution rates. This is known as the actuarial valuation.

Asset Class - A specific area/type of Investment e.g. uK equities, overseas equities, Fixed Income, Cash.

Benchmark Return - The benchmark return is the return that would be achieved if the Fund Manager had not deviated from the weightings of each asset class given to them by the Investment Panel, and had achieved returns in each of these asset classes consistent with the average return of all local Authority Funds for that class. The Benchmark weightings of asset classes is outlined within the Investment Strategy Statement.

Corporate Governance - Issues relating to the way in which a company ensures that it is attaching maximum importance to the interests of its shareholders and how shareholders can influence management.

Equities - ordinary shares in uK and overseas companies traded on a recognised stock exchange. Shareholders have an interest in the profits of the company and are normally entitled to vote at shareholders' meetings.

Fixed Interest Securities - Investments in mainly government stocks, which guarantee a fixed rate of interest. The securities represent loans which are repayable at a stated future date but which can be traded on the Stock exchange in the meantime.

Fund Manager - A person or company to whom the Investment of the whole or part of the assets of a fund is delegated by the Trustees.

Investment - An asset acquired for the purpose of producing income and Capital Gain for its owner.

Independent Investment Adviser - A professionally qualified individual or company whose main livelihood is derived from providing objective, impartial Investment advice to companies, pension funds or individuals, for a stated fee.

Market Indicators –
(i) The movement in Stock market are monitored continuously by means of an Index made up of the current prices of a representative sample of stock.
(ii) Change in the rates at which currencies can be exchanged.

Market Value -The price at which an investment can be sold at a given date.

Out performance/Under performance - The difference in returns gained by a particular fund against an 'Average' Fund or an Index over a specified time period ie a Target for a fund may be out performance of a Benchmark over a 3-year period.

Passive Management - (also called Indexation/Index Tracking) A style of Investment Management which aims to construct a Portfolio in such a way as to provide the same Return as that of a chosen Index i.e. Stocks are purchased to be as representative as possible of the make-up of the Index. Contrasts with Active Management.

Performance - A measure, usually expressed in percentage terms, of how well a fund has done over a particular time period - either in absolute terms or as measured against the 'Average' Fund or a particular Benchmark.

Performance Measurement - A service designed to help investors evaluate the performance of their investments. This usually involves the comparison of a fund's performance with a selected Benchmark and/or with a universe of similar funds. The main Performance Measurement Companies are The WM Company, which the Dyfed Pension Fund uses, and CAPS.

Portfolio - A collective term for all the investments held in a fund, market or sector.

Preserved Benefits - The pension benefits payable from normal retirement age to a member of the Fund who has ceased to contribute as a result of leaving employment or opting out of the Pension scheme before normal retirement age.

Return - The total gain from holding an investment over a given period, including income and increase (decrease) in market value.

Risk - Generally taken to mean the Variability of Returns. Investments with greater risk must usually promise higher returns than more 'stable' investments before investors will buy
them.

Transfer Value - Payments made between funds when contributors leave service with one employer and decide to take the value of their contributions to their new fund.

Unrealised Increase/Decrease In Market Value – The increase/(decrease) in market value, since the purchase date, of those investments held at the year end.

Agenda Item 4b

Cyngor Abertawe
Swansea Council

Report of the Section 151 Officer

Local Pension Board - 13 February 2020

Competition and Markets Authority (CMA) – Setting Objectives for Investment Consultants

Purpose:	To present the report on setting measurable objectives for appointed investment consultants as required by CMA requirements
Policy Framework:	To comply with CMA requirements
Consultation:	Legal, Finance and Access to Services.
Report Author:	Jeff Dong
Finance Officer:	Jeff Dong
Legal Officer:	Stephanie Williams
Access to Services Officer:	R Millar
For Information	

1 Background

1.1 At the end of 2018, the Competition and Markets Authority ("CMA") published its report following a review of the investment consulting and fiduciary management markets. Earlier this year, following on from this review, the CMA issued an order, setting out requirements for the appointment and governance of fiduciary managers, and for Pension Scheme Trustees (Pension Scheme Trustees means the trustees or managers of Occupational Pension Schemes that have their main administration in the United Kingdom. The CMA requirements extend to both Trust-based schemes, and Local Government Pension Schemes (i.e. Pension Committees) to set objectives for their investment consultants.

2 What are the requirements?

2.1 The CMA has stipulated that Pension Scheme Trustees should set objectives for their investment consultants, and that such objectives should be:

1 ‘closely linked’ to the pension scheme’s strategic objectives

2 reviewed at least every three years, and after a significant change to the investment strategy or objectives

3 established no later than 10 December 2019 (i.e. 6 months following the date of the final Order published by the CMA) or prior to appointment of a new investment consultant

The CMA has set out specific actions that must be carried out by trustees using fiduciary managers. We can provide separate guidance addressing these requirements should this be relevant for your scheme.

3 The Importance Of Objectives

3.1 Establishing long term objectives is part of a well organised and well managed governance approach. Provided that appropriate resources are allocated to support longer term goals, having clear, structured and measurable objectives can greatly enhance the chances of long term success for your scheme

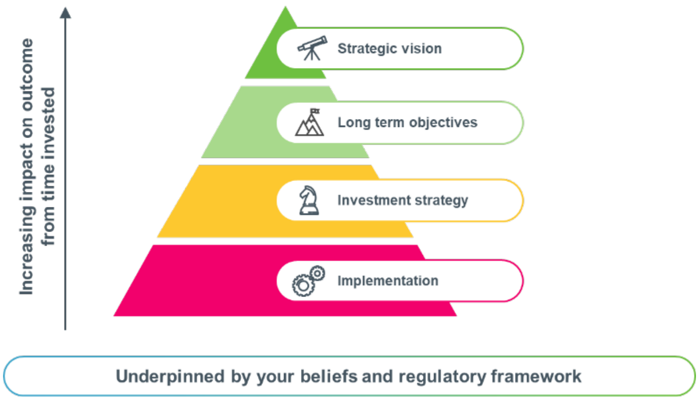
3.2 The extension to set objectives for investment consultants could be regarded as a natural progression towards all stakeholders being aligned towards a common goal. Indeed, we believe that best practice would be to establish objectives for <u>all key service providers</u> supporting Pension Scheme Trustees in achieving their longer-term goals, not just your investment consultants

4 Establishing Objectives For Consultants

4.1 In their accompanying explanatory, the CMA states that objectives for consultants should include a clear definition of the outcome expected, and timescales for achieving this. In addition, objectives should be measurable thereby supporting reporting to Pension Scheme Trustees.

Your funding and investment objectives will reflect your strategic vision and specific circumstances.

And so the objectives for your investment consultant should equally be tailored to reflect this.



We envisage that such objectives can be set in the context of the governance model illustrated.

4.2 By way of an example, a pension scheme may have the following long-term investment objective:

- *“Achieve the returns from investments to meet the long-term funding objective whilst keeping risk within acceptable levels to support stable* *and affordable contributions from the employer".*

A corresponding objective for investment consultants may be:

- *For DB schemes, to "Provide advice on the investment strategy to deliver a target net return of XX% over gilts on the scheme's investments with as little risk as possible, in order to support full funding by 20XX and stable and affordable contributions from the employer."*

4.3 In addition to strategic advice, trustees will typically look for their consultant to provide advice around the implementation of the strategy. This might be captured by objectives around the following:

- Effectiveness of strategy to meet cashflows and liquidity requirements
- Effectiveness and efficiency of implementation of the strategy

Other broad areas that we believe you may wish to capture in the objectives, but which are less directly measurable, include:

- Efficiency in the governance of the strategy
- Provision of regulatory updates and meeting compliance requirements
- Ongoing monitoring of the investment arrangements
- Quality and timeliness of advice to enable timely, informed decision making

5 Measuring Success in Practice

5.1 One of the key challenges of measuring success is that many methods and metrics for assessing performance are typically short-term in nature and can be unhelpful for the purpose of measuring 'success' of long-term objectives. In some cases, these methods and metrics could lead to counterproductive decisions and hence hinder success when not considered in the context of what trustees are trying to achieve over the long term.

5.2 Trustees should align the measurement of investment consultants to appropriate time periods. Based on the example above, such measures for DB schemes may include:

- *Strategy*: measure over rolling 5 year periods, the contribution from the investment strategy toward achieving the agreed long term strategic targets, and the extent to which progress has remained within expected tolerances given the agreed risk profile.
- *Implementation*: measure over rolling 3 year periods the return on the Scheme's assets relative to the Scheme's composite benchmark return and target return, net of fees.

6 Reporting Compliance

6.1 As set out in their Order, the CMA has established that those subject to the new requirements should report on their compliance on an annual basis. This covers both the adherence to setting objectives for consultants and assessing the extent to which investment consultants are on track to meet those objectives.

6.2 In addition to this, if applicable, Pension Scheme Trustees will also be required to report on the appointment and governance of fiduciary managers.

6.3 Pension Scheme Trustees will be required to submit their first round of compliance reporting no later than 12 months and 4 weeks after the date that the relevant requirements came into force. This translates into a deadline of early January 2021.

6.4 On 29 July 2019, the Department for Work and Pensions ("DWP") released its consultation to turn the CMA's requirements into legislation. As part of their draft legislation, the DWP has specified that trustees (excluding LGPS) would be expected to report compliance annually via the Pensions Regulator's scheme return. The Pensions Regulator is also consulting on draft guidance, focussing mainly on how trustees should assess the performance of their investment consultants relative to objectives.

6.5 The Ministry for Housing, Communities and Local Government is expected to clarify how the requirements will translate to the LGPS.

7 Legal Implications

7.1 There are no direct legal implications arising from this report

8 Financial Implications

8.1 There are no financial implications arising directly from this report.

9 Equality and engagement Implications

9.1 There are no equality implications arising from this report.

Background Papers: None.

Appendices: Appendix 1 – Investment Consultant Performance Objectives.

APPENDIX 1

Investment Consultant Performance Objectives

1		**Demonstration of value added advice services**
	1.1	Help the trustee to implement an investment strategy which adds value through the integration of ESG (including climate change) and stewardship considerations in their investment manager appointments.
	1.2	Enable the Pension Fund Committee to access a wider range of o opportunities and portfolios of assets (and/or build portfolios of assets).
	1.3	Assisting the Committee in setting well-defined strategic objectives for the Fund: - Achieving full funding with an acceptable degree of risk. - Ensuring sufficient liquidity of assets to meet pension cashflows.
	1.4	Providing strategic advice to ensure a strategy consistent with Fund's objectives.
	1.5	Advising on cost-efficient implementation of the investment strategy at all times.
2		**Delivery of specialist services**
	2.1	Help the Pension Fund Committee to decide on an appropriate risk and performance objectives.
	2.2	Help the Pension Fund Committee to decide' in consultation with key stakeholders, to do the following: • to help the Pension Fund Committee to develop and define their investment beliefs, ESG Policies, RI Policies, Voting Policies • to help the Pension Fund Committee to review their investment governance arrangements and terms of reference for any subcommittees or delegated authorities.
3		**Proactivity of advice**
	3.1	Advise the Pension Fund Committee on new investment opportunities or emerging risks.
	3.2	Advise the Pension Fund Committee on market pricing opportunities to mitigate or manage risk.
	3.3	Deliver training to enable the Pension Fund Committee to engage with new investment opportunities, emerging risks or opportunities to manage risk.

	3.4	Advise on any changes in the investment governance arrangements or delegated authorities which are necessary to enable the Pension Fund Committee to best access the emerging opportunities.
4		**Support with member engagement and communication**
	4.1	Through the use of communication and behavioural techniques, help the Pension Fund Committee effectively engage with their membership to better understand their needs.
5		**Support with scheme management and compliance**
	5.1	On a regular (quarterly) basis, monitor the performance of the scheme's investment strategies and also the performance of the scheme's investment managers.
	5.1	Produce investment reports, briefing papers and investment advice in advance of trustee meetings and on a timely basis.
	5.3	Assist the Pension Fund Committee with the review and update as appropriate the scheme's Investment Strategy Statement.
	5.4	Provide periodic written advice on any direct investments held.
	5.5	Provide trustee training as required.
	5.6	Ensure compliance of the scheme's investment arrangements with the regulations.
6		**Relationship and service standards**
	6.1	Agree any changes of (named) investment consultant(s) and meeting covers with the Deputy Chief Finance Officer in advance.
	6.2	Maintain fees in line with tender submission
	6.3	Agree fee budget with officers for any significant piece of work.
	6.4	Clear understanding of the scheme's goals and objectives.
	6.5	Appropriate quality and quantity of resourcing to meet the needs and requirements of the scheme.
	6.6	Strong positive working relationship with the Pension Fund Committee
	6.7	Appropriate conflicts of interest or management and mitigation of any conflicts.
7		**Support with additional matters arising**
	7.1	Provide advice and assistance to the Pension Fund Committee on any other investment issues arising (for example following court rulings affecting the scheme).

Report of the Section 151 Officer

Local Pension Board - 13 February 2020

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
For Information	

1. Introduction

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

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

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

2. Breaches

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

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

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

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

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

2.4 Since the last report in September 2019, 1.67% 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 19th of the month after which the contributions have been deducted. There have been a number of instances during the reporting period where breaches have occurred. In each case, Treasury Management staff have written to the employers to request payment and provide a reminder of the responsibilities to submit on time.

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

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

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 2019	Investment asset allocation	The Investment Strategy Statement outlines an indicative allocation of 34% +/- 5% to Global Equities. At 31st March 2017, the allocation was 43%	There is resulting over allocation to global equities	The asset class in question returned 33% during the year which has caused the uplift in valuation- the best performing asset class during the year. There is a planned investment review for 2018/19 which shall review asset allocations on a long term basis	Noting the volatility of asset values and the pending asset allocation review, it is determined imprudent to incur material transaction costs to address the allocation imbalance. A longer term allocation shall be derived from the pending investment review.	Allocations shall be reviewed as part of the investment review	
Mar – May 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	The administering authority has accrued interest payments on retirement lump sums, paid more than one month after their due	% 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	

		within 1 month of receipt of member option return	date, under the 2013 LGPS regulations			timely manner is emphasised	
30/04/2018	Administration	All annual returns for year-end by 30/04/2018 have been submitted.	N/A	N/A		N/A	
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 will be tax implications as this is deemed to be an unauthorised payment	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	

Jun-August 2019	Administration	1.67% 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 delay in payment of 1 members AVC fund value from the Prudential		Communication to members highlighting a possible delay in the payment of their retirement benefits if the member continues paying AVCs up to and including the last month of employment	
Jul-August 2019	Administration	Frozen refunds unclaimed for this period equates to 81.25% …. This equates to a monetary value of £1,581.92	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 will be tax implications as this is deemed to be an	High % due to member not making a positive election to claim refund	Information has been reported in the breach register	Member was written to 3 months prior to the date of the 5-year anniversary of date of leaving	

			unauthorised payment. The above is subject to change and we are waiting for confirmation that the above Regulation has been amended to support this. Going forward there will be no further requirement to report non-payment of refunds as the 5 year anniversary ruling will be removed.				
Apr – July 2019	Contributions	2 Employers have not paid contributions within required timescale	Loss of investment returns	Employers are contacted once breach has occurred		Employers are contacted as soon as the deadline for submission of contributions has passed	
Sept-Nov 2019	Administration	1.67% 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	% due to delay in payment of 1 members AVC fund value from the Prudential		Communication to members highlighting a possible delay in the payment of their retirement benefits if the member	✓

		100% was paid within 1 month of receipt of member option return	after their due date, under the 2013 LGPS regulations			continues paying AVCs up to and including the last month of employment	
Sept-Nov 2019	Administration	Frozen refunds unclaimed for this period equates to 83.34% …. This equates to a monetary value of £3,524.06	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 will be tax implications as this is deemed to be an unauthorised payment. The above is subject to change and we are waiting for confirmation that the above Regulation has	High % due to member not making a positive election to claim refund	Information has been recorded in the breach register	Members were written to as at time of leaving and 3 months prior to the date of the 5-year anniversary of date of leaving	✓

			been amended to support this. Going forward there will be no further requirement to report non-payment of refunds as the 5 year anniversary ruling will be removed.				
Sept – Nov 2019	Contributions	3 Employers have not paid contributions within required timescale	Loss of investment returns	Employers are contacted once breach has occurred		Employers are contacted as soon as the deadline for submission of contributions has passed	✓

*New breaches since the previous meeting should be highlighted

Report of the Section 151 Officer

Local Pension Board – 13 February 2020

Administering Authority - Resourcing

Purpose:	To present a report on the recommended resourcing enhancements outlined within the report
Policy Framework:	LGPS Regulations (Administration) & LGPS Regulations (Investments)
Consultation:	Legal, Finance and Access to Services.
Report Author:	Jeffrey Dong
Finance Officer:	Jeffrey Dong
Legal Officer:	Stephanie Williams
Access to Services Officer:	Rhian Millar
For Information	

1 Introduction

1.1 The Administering Authority function comprises of largely two sides of the business in respect of the management of the assets (investments) of the pension fund and dealing with the liabilities (pension payments) of the pension fund each equally important but with separate and distinct skillsets. The Pension Administration Section is responsible for day to day dealings with members and employers and the accurate calculation and payment of members' benefits which involves the accurate maintenance and update of members' records, whereas the pension fund Investment team is responsible for the management and investment of the assets and the payment of pensions and lump sums.

2 Pension Administration

2.1 Pensions are universally accepted as being technically complex and highly regulated where the level of change has been significant over the past decade and more, affecting all areas of Fund administration and shows no sign of diminishing. It is of note that currently 4 LGPS arrangements are locally administered covering:

- LGPS to 2008
- LGPS 2008
- LGPS 2014 (main scheme and 50/50 section)
- Elected member arrangements

With the exception of the elected member arrangements, the other LGPS arrangements are not stand-alone but form a hybrid scheme with the introduction of the new LGPS 2014 CARE Scheme and the requirement to maintain previous versions of the Final Salary LGPS Schemes in parallel

2.2 The practical administration of the LGPS as a consequence of the implementation of LGPS 2014 and the Public Services Pensions Act 2013 (PSPA 2013) has become more technically complex resulting in increased time per case required thus making the workload heavier for pension section staff, which, along with the complexity leads to the risks identified above. It is already impacting on staff as sickness levels have already risen by 81% for the current year compared to 2015/16, with just over 20% of the sickness being stress related.

2.3 For example, prior to LGPS 2014 and PSPA 2013, if a new member had previous local government membership the choice was simply whether or not to aggregate the two periods of service. The advent of the new Scheme with the retention of the Final Salary link and PSPA 2013 now provides the member with at least 8 options and usually results in considerable time explaining the options to the member or complete member disengagement.

2.4 This is just one example of the increased complexity and cases such as these, along with an increase in member expectations due to increased awareness of pensions have all added to the complexities and the additional time required to carry out not only the core administration but to also provide the necessary advice and guidance to employers and scheme members

Scheme membership volumes have increased by 33% since 31/03/2008, when membership was previously analysed for the 2009 restructure. However, this does not represent the full picture as the membership profile includes large number of part and variable time members (currently 52% of active membership base) and members with more than one membership record, which have more resource demands than a stable full-time officer member. Although IT enhancements have assisted with this issue they cannot fully address it, therefore there is still a requirement for manual intervention and member engagement.

2.5 This, along with automatic enrolment and the continuing high profile of pensions, has resulted in high membership movements covering new starters and movements to deferred or pensioner status, significantly increasing sectional and individual workload allocation. In 2016/17 this affected over 6000 records which represent approximately 15% of the whole Fund compared to 3500 (10.29%) in 2012/13 before the advent of LGPS 2014 and automatic enrolment.

2.6 Latterly, the numbers of employers has increased within the schemes alongside the changes to the scheme regulation thereby increasing the necessity to have excellent communication channels with our employers/members so they can comply with scheme regulation. Similarly It is hoped that improved communication channels shall also help performance in respect of the processing and paying pensions in light with statutory guidelines

2.7 The creation of the role of a Senior Pensions Communications Officer would assist the section in addressing these evolving demands. It is proposed that this role could be filled from internal resources. The subsequent role profile would be job evaluated and appropriate HR advised recruitment and selection processes would be adopted to appoint to this role.

3 Pension Fund Investment Team

3.1 The successful management of the investments of the pension fund is now a highly complex and material business, with the responsibility for the successful management of £2.2bn of assets and the payment of £82m of pension benefits a year, the main areas of responsibility are:

1. Investment sourcing
2. Investment due diligence
3. Investment strategy design
4. The deployment of capital
5. Investment monitoring
6. compliance with investment regulation
7. Management of cashflows
8. Investment accounting/annual reporting
9. External audit management
10. developing and monitoring investment policies
    a. ESG
    b. Responsible Investment
11. Funding strategy
12. Liability matching
13. Reporting to Pension Fund Committee
14. Support the development of the Wales Pension Partnership Investment Pool

3.2 It is proposed that the creation of the role of Pension Fund Investment and Accounting Manager be created and filled from existing resources would assist and help to address the increasingly complex workload. The subsequent role profile would be job evaluated and appropriate HR advised recruitment and selection processes would be adopted to appoint to this role.

4 Legal Implications

4.1 HR & OD shall be consulted and the most appropriate recruitment and selection process shall be adopted to fill these roles

5 Financial Implications

5.1 The financial implications arising from this report can be met from the pension fund resourcing budget. The projected likely impact of the resourcing proposals in 2.7 and 3.2 would be approximately £9k at 19/20 pay rates when top of scales are reached.

6 Equality Impact Assessment Implications

6.1 There are no equality implications arising from this report.

Background Papers: None.

Appendices: None.

Agenda Item 5

Cyngor Abertawe
Swansea Council

Report of the Chief Legal Officer

Local Pension Board – 13 February 2020

Exclusion of the Public

<table>
<tr><td colspan="2">Purpose:</td><td>To consider whether the Public should be excluded from the following items of business.</td></tr>
<tr><td colspan="2">Policy Framework:</td><td>None.</td></tr>
<tr><td colspan="2">Consultation:</td><td>Legal.</td></tr>
<tr><td colspan="2">Recommendation(s):</td><td>It is recommended that:</td></tr>
<tr><td>1)</td><td colspan="2">The public be excluded from the meeting during consideration of the following item(s) of business on the grounds that it / they involve(s) the likely disclosure of exempt information as set out in the Paragraphs listed below of Schedule 12A of the Local Government Act 1972 as amended by the Local Government (Access to Information) (Variation) (Wales) Order 2007 subject to the Public Interest Test (where appropriate) being applied.</td></tr>
<tr><td></td><td>Item No’s.</td><td>Relevant Paragraphs in Schedule 12A</td></tr>
<tr><td></td><td>6-10</td><td>14</td></tr>
<tr><td colspan="2">Report Author:</td><td>Democratic Services</td></tr>
<tr><td colspan="2">Finance Officer:</td><td>Not Applicable</td></tr>
<tr><td colspan="2">Legal Officer:</td><td>Tracey Meredith – Chief Legal Officer (Monitoring Officer)</td></tr>
</table>

1. Introduction

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

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

2. Exclusion of the Public / Public Interest Test

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

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

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

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

3. Financial Implications

3.1 There are no financial implications associated with this report.

4. Legal Implications

4.1 The legislative provisions are set out in the report.

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

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

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

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

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

Appendix A

Public Interest Test

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

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

Agenda Item 6

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

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Agenda Item 7

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Agenda Item 8

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Agenda Item 9

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