

Report of the Section 151 Officer

Local Pension Board - 23 March 2017

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

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

FOR INFORMATION

1 Background

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

Background Papers: None.

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

Report of the Section 151 Officer

Pension Fund Committee – 9 March 2017

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

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

Business Plan 2017/18

1 Background

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

2 Recommendation

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

3 Legal Implications

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

4 Financial Implications

- 4.1 There are no financial implications arising from this report

5 Equality and Engagement Implications

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

CITY AND COUNTY OF SWANSEA

Pension Fund

**Annual Business Plan
2017 18**

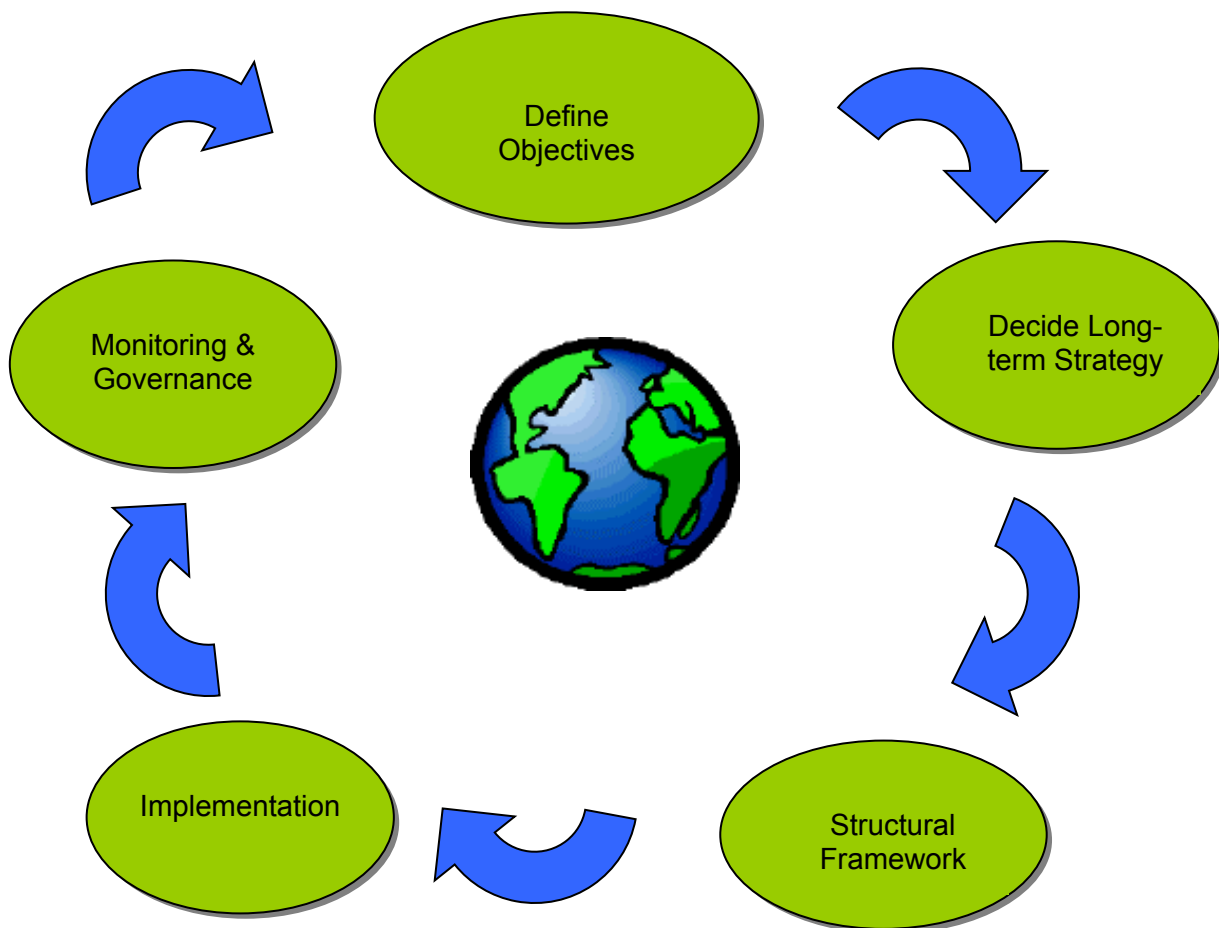


Local Government Pension Scheme City & County of Swansea

Business Plan

1. Decision-making Framework

The Pension Fund Committee have the delegated responsibility to manage the investment arrangements of the Fund to meet the overall investment objectives identified in the Statement of Investment Principles. Investment decisions are taken by the Committee as advised by the Section 151 Officer and supported by the Chief Treasury Officer and professional external financial advisors. The Pension Fund Committee use the following framework to formulate their policy in all aspects relating to the management of the Fund's assets.



This Plan relates to the management of the Fund's assets over the medium-term, with a detailed plan of issues to be addressed in the next twelve months.

2. Summary of Investment Arrangements

The primary investment objectives of the Pension Fund Committee as stated in the Statement of Investment Principles are:

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

The fund currently has the following investment fund structure:

TABLE 1

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

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

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

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

3. Issues addressed in year to 31 March 2017

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

a. Objectives

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

b. Investment Strategy

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

c. Structural Framework

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

d. Implementation

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

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

e. Monitoring & Governance

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

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

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

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

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

4. The Business Plan

a. Objectives

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

b. Investment Strategy

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

Particular areas to be addressed are as follows:

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

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

c. Structural Framework

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

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

d. Implementation & Risk Management

The Panel will implement decisions taken in respect of the strategy described above and has identified and shall monitor risks identified in Appendix 2 in the Pension Fund Risk Register.

e. Monitoring & Governance

The Governance arrangements of the CCS pension fund have been formally reviewed in line with regulations and the Council's constitution has been amended to reflect the same.

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

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

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

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

f. Trustee Training

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

Since the publication of the CIPFA skills and knowledge framework, there is a growing pressure for Pension Fund Committee Trustees to demonstrate acceptable levels of competency to discharge their roles.

The Trustees, in turn are to ensure their own training requirements are being met and are asked to make themselves available for training when required.

5. Business Plan Timetable

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

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

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

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

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

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

Business Plan 2017/18 to Year Ending 31 March 2018

Action	Description	Time-scale	Primary Responsibility
1	Formulate Annual Business Plan for 2017/18	Mar 2017	Section 151 Officer, Chief Treasury & Technical Officer
2	Implement 2016 Triennial Valuation	April 2017	Section 151 Officer, Chief Treasury & Technical Officer
3	Manage the Infrastructure tender exercise	Feb 2017- April	Section 151 Officer, Chief

		2017	Treasury & Technical Officer
4	Undertake formal Review of Statement of Investment Principles post 2016 triennial valuation	Sep 2017	Section 151 Officer, Chief Treasury & Technical Officer, Principal Pension Officer
5	Implement revised pension SORP and CIPFA guidance in producing annual report and statement of a/cs	June 2017	Section 151 Officer, Chief Treasury & Technical Officer, Advisors
6	Appoint investment consultancy	May 2017	Section 151 Officer, Chief Treasury & Technical Officer, Advisors,
7	Monitor LGPS Regulation Changes and provide response to consultation where necessary to DCLG	DCLG timetable	Section 151 Officer/ Chief Treasury & Technical Officer/Principal pensions officer
8	Review Compliance with Revised Myners Principles for investment decision making.	2017/18	Section 151 Officer, Chief Treasury & Technical Officer
9	Support the All Wales Investment Pool project (procurement, governance & oversight arrangements)	Continuous	Section 151 Officer, Chief Treasury & Technical Officer/Principal Pensions Officer
10	Consider and approve Pension Fund Accounts and Annual Report	September 2017	Section 151 Officer, Chief Treasury & Technical Officer
11	Review performance of Fund and each individual Manager, taking into account behaviour of world equity markets	July 2017 September 2017 Dec 2017 March 2018	Section 151 Officer/ Chief Treasury & technical Officer/external advisers
12	Review Socially Responsible/Ethical Investment Policy	November 2017	Section 151 Officer/ external advisers/ Chief Treasury & Technical Officer

13	Annual consultative meeting with employers re. annual report	November 2017	Section 151 Officer/ Principal pension Officer/Chief Treasury & Technical Officer
14	Receive presentations from Fund Managers	July 2017 September 2017 December 2017 March 2018	Section 151 Officer/ external adviser/Chief Treasury & Technical Officer
15	Implement any amendments as a result of revised regulations	DCLG Timetable	Principal Pensions Officer
16	Review Pension Administration Strategy to ensure compliance with legislation	June 2017	Principal Pensions Officer
17	Review Communication Strategy to ensure fit for purpose and compliance with regulations	June 2017	Principal Pensions Officer
18	Reconciliation of GMPs for Fund members	April 2018	Principal Pensions Officer

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

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

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

CCSPF 9- Volatility in employer contribution rates due to decrease/increase in valuation of assets/liabilities	<ul style="list-style-type: none"> Engage with expert actuary to make appropriate assumptions and employ suitable mechanisms to mitigate unaffordable rises Regular monitoring of investment manager performance Diversified investment asset allocation 	High	Medium	JD	2017/18	Amber
CCSPF10- Prolonged failure of investment managers to achieve their objective returns	<ul style="list-style-type: none"> Regular investment monitoring by officers Regular presentation to pension fund committee Ability to sack managers Diversified investment strategy with a number of different managers 	Medium	Medium	JD	2017/18	Green/Amber
CCSPF11- Price Risk- the volatility of the price of the quoted investments held exposes the fund to the risk of price movements in the market	<ul style="list-style-type: none"> A comprehensive diversified investment approach is adopted 	High	Low	JD	2017/18	Green
CCSPF 12- Interest rate risk- The risk of exposure to significant interest rate rises	<ul style="list-style-type: none"> A comprehensive diversified investment approach is adopted 	Medium	Low	JD	2017/18	Green
CCSPF 13 Discount Rate Risk- Volatility in the discount rate used inflates the level of liabilities to be paid	<ul style="list-style-type: none"> Engage professionally qualified actuary who can mitigate the effects of abnormal discount rates 	High	Medium	JD	2017/18	Amber
CCSPF 14 Foreign Exchange Risk- The risk of fluctuation the value of foreign currencies (the fund holds foreign investments whilst its liabilities are payable in sterling)	<ul style="list-style-type: none"> A comprehensive diversified investment approach is adopted Good cashflow management 	High	Low	JD	2017/18	Green

CCSPF 15 – having suitably trained/experienced staff	<ul style="list-style-type: none"> • Training, development and succession planning 	High	Medium	JD/LM	2017/18	Amber
CCPF 16- Having suitably trained knowledgeable Pension Fund Committee Members/Local Pension Board Members	<ul style="list-style-type: none"> • CIPFA Knowledge and Skills framework • Training Plan • Professional Advisors/Officers advising 	High	Low	JD	2017/18	Green

Pension Fund – Budget 2017/18

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

