

|  | Page |
|--|------|
| Introduction                                 | 2    |
| Three Year Profile of Statistics of the Fund | 3    |
| Part A - Administration Report               | 4    |
| Membership                                   | 5    |
| Premature Retirement – Pension Costs         | 5    |
| Administration                               | 6    |
| Legislative Changes                          | 11   |
| Wales Pension Partnership                    | 13   |
| Local Pension Board - Annual Report          | 14   |
| Annual Governance Statement                  | 17   |
| Part B - Statement of Responsibilities       | 49   |
| Independent Auditors Statement               | 50   |
| Statement of Accounts 2017/18                | 51   |
| Notes to the Accounts                        | 54   |
| Part C - Investment Report                   | 85   |
| Budget Forecast                              | 85   |
| Investment Strategy                          | 86   |
| Investment Fund Management                   | 86   |
| Valuation of Investments                     | 87   |
| Distribution of Investments                  | 88   |
| Investment Returns                           | 90   |
| Market Commentary                            | 91   |
| Investment Performance of the Fund           | 91   |
| Part D - Actuarial Report                    | 93   |
| Actuarial Position                           | 93   |
| Valuation Assumptions                        | 94   |
| Certificate of the Actuary                   | 97   |
| Appendices - Investment Strategy Statement   | 110  |
| Funding Strategy Statement                   | 120  |
| Governance Statement                         | 148  |
| Communications Policy                        | 173  |

## **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 2017/18 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 2017/18* 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

|   | 2015/16<br>£'000 | 2016/17<br>£'000 | 2017/18<br>£'000 |
|---|------------------|------------------|------------------|
| <b>Income</b>                                 |                  |                  |                  |
| Contributions (Net)                           | 78,392           | 81,721           | 87,698           |
| Transfer Values (Net)                         | -                | -                | -                |
| <b>Expenditure</b>                            |                  |                  |                  |
| Pensions and Benefits (Net)                   | 72,912           | 76,233           | 77,409           |
| Transfer Values (Net)                         | 2,267            | 909              | 1,261            |
| Other (Net)                                   | 1,041            | 1,067            | 1,308            |
| <b>Net new money</b>                          | <b>2,172</b>     | <b>3,512</b>     | <b>7,720</b>     |
|   | <b>£'000</b>     | <b>£'000</b>     | <b>£'000</b>     |
| <b>Net Asset Value at 31 March</b>            | <b>1,512,629</b> | <b>1,855,882</b> | <b>1,916,510</b> |
| <b>Number of Contributors at 31 March</b>     | <b>17,469</b>    | <b>17,903</b>    | <b>19,671</b>    |
| <b>Number of Pensioners at 31 March</b>       | <b>11,745</b>    | <b>12,200</b>    | <b>12,763</b>    |
| <b>Number of Deferred Members at 31 March</b> | <b>11,226</b>    | <b>11,583</b>    | <b>11,394</b>    |

## **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 1<sup>st</sup> 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 1% applied from 10 April 2017 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 2017/18.

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:

| Ill-Health Retirement    | 2016/17      |                  | 2017/18      |                  |
|--------------------------|--------------|------------------|--------------|------------------|
|                          | No. of Cases | Cost £           | No. of Cases | Cost £           |
| City & County of Swansea | 25           | 2,584,863        | 24           | 2,312,283        |
| Neath Port Talbot CBC    | 20           | 934,782          | 18           | 1,477,949        |
| Tai Tarian               | 2            | 253,063          | 4            | 149,220          |
| Gower College            | 1            | 63,286           | 1            | 47,126           |
| Pobl Group               | 4            | 439,341          | 4            | 149,435          |
| Celtic Community Leisure | 1            | 30,541           | -            | -                |
| Neath Town Council       | -            | -                | 1            | 6,172            |
| <b>Total</b>             | <b>53</b>    | <b>4,305,876</b> | <b>52</b>    | <b>4,142,185</b> |

## (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:

| <b>Early Access to Pension</b>        |                     |                  |                     |                  |
|---------------------------------------|---------------------|------------------|---------------------|------------------|
| <b>Employing Body</b>                 | <b>2016/17</b>      |                  | <b>2017/18</b>      |                  |
|                                       | <b>No. of Cases</b> | <b>Cost £</b>    | <b>No. of Cases</b> | <b>Cost £</b>    |
| City & County of Swansea              | 141                 | 3,090,265        | 119                 | 3,151,461        |
| Neath Port Talbot CBC                 | 65                  | 820,050          | 21                  | 307,212          |
| Gower College Swansea                 | 1                   | 25,350           | -                   | -                |
| NPTC Group                            | 1                   | 44,427           | 2                   | 34,042           |
| University of Wales Trinity St Davids | -                   | -                | 6                   | 113,875          |
| Tai Tarian                            | 1                   | 58,002           | 1                   | 24,358           |
| Pobl Group                            | -                   | -                | 1                   | 11,227           |
| <b>Total</b>                          | <b>209</b>          | <b>4,038,094</b> | <b>150</b>          | <b>3,642,175</b> |

### Administration

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

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

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

### IT systems

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

The Fund has invested in an electronic interface to transfer membership data from employers' payroll systems to the pension administration system. This will be of benefit to both Fund and employer as it will enable clean data to be transferred in a

timely manner thus improving the year end submission and ensuring compliance with the requirements of LGPS 2014 and the Pensions Regulator's Code of Practice for accurate record keeping.

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

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

## **Managing Performance**

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

The Fund aims to:

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

and uses a number of channels to achieve these objectives:

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

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

The documents are available on the Fund's website.

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

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

Performance during 2017/18 has diminished due to late notification of data from Employing Authorities, which is required to calculate benefits. The performance indicators for the Fund in paying benefits within 1 month of receipt of the completed claim forms represents a quality service.

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 2017/18 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 1<sup>st</sup> April 2015. The code provides LGPS Funds with a summary of their key governance and administration duties and the standards of conduct, record keeping and practice expected by the Pensions Regulator.

### **Internal Dispute Resolution Process**

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

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

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

An analysis of the dispute cases raised during the year to 31 March 2018 is as follows:

| <b>Stage</b>                   | <b>No. of Appeals</b> | <b>Appeals upheld</b> |
|--------------------------------|-----------------------|-----------------------|
| Stage 1                        | 4                     | 0                     |
| Stage 2                        | 3                     | 1                     |
| Referred to Pensions Ombudsman | 0                     | 0                     |

## **Communications**

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

During 2017/18, the Fund has continued to develop the way in which it communicates with its stakeholders, with the key communication activity being:

- Roadshows for members to communicate the impact of the change in State Pension and other LGPS matters
- Presentations by Prudential – the Fund’s Additional Voluntary Contribution (AVC) provider
- Distribution of Annual Benefit Statements to both active and deferred members
- Newsletters sent to both Active members and Pensioner members
- Annual consultative meetings to discuss the Fund’s Annual Report and Accounts and to communicate strategic issues and significant legislative changes to operational staff
- Training for and meetings with operational staff and employers with regard to the changes impacting on the LGPS

- Continuing collaboration with the other Welsh Pension Funds to produce key communication material, thereby sharing expertise and costs
- The Fund's website ([www.swanseapensionfund.org.uk](http://www.swanseapensionfund.org.uk)), which covers all aspects of the LGPS for its active members, councillor members, deferred members, pensioners and their dependants as well as an 'Investment and Fund' section which provides details of the governance of the Fund.

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

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

## **Legislative Changes in the LGPS during 2017/18**

### **Cessation of Contracting Out**

The basic state pension and state second pension (S2P) were abolished on 5<sup>th</sup> 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 6<sup>th</sup> April 1978 and 5<sup>th</sup> 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 after which HMRC will no longer respond to any queries in relation to the GMP.

This exercise is extremely challenging and is not to be underestimated and will require considerable work to ensure that the Fund is not left with unwarranted liabilities; therefore, the Fund is currently employing an additional temporary full-time member of staff to deal 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 6<sup>th</sup> April 2014 and reduced further to £1m with effect from 6<sup>th</sup> April 2016. As with previous reductions to the LTA, HMRC has offered protections so that anyone affected by the reduction 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 1<sup>st</sup> April 2014 and remained at this level for 2017/18, which has resulted in more members becoming subject to tax charges on the excess accrued.

### **Other impacting legislation**

**August 2017** – MHCLG have confirmed that they have sought legal advice and current stance is there is no need for the LGPS (Benefits, Membership and Contributions) Regulations 2007 to be amended in light of the Brewster case.

**September 2017** – MHCLG are currently reviewing the Draft LGPS (Amendment) Regulations 2016; there is no indication as to when the consultation will be published.

**November 2017** – The Finance (No. 2) Act 2017 received royal assent and the passage of the Act has two main impacts (a) A reduction of the money purchase annual allowance from £10,000 to £4,000. (b) Changes to the Income Tax (Earnings and Pensions) Act 2003 to mean that a pensions advice allowance payment of up to £500 under the Registered Pensions Schemes (Authorised Payments) (Amendment) Regulations 2009 is exempt from income tax.

**November 2017** – Further to the introduction of The Small Business, Enterprise and Employment Act 2015, which enables the £95k exit payment cap to be introduced; there is no indication as to when the consultation will be published.

**November 2017** – LGA published a legal opinion from Squire Patton Boggs on the implications of the European Unions General Data Protection Regulation (GDPR) for the LGPS Administering Authorities when it comes into effect in May 2018.

**February 2018** – The Occupational Pension Schemes (Employer Debt and Miscellaneous Amendments) Regulations 2018 – the Government published its response to the consultation of the draft regulations, which are due to come into effect on 06 April 2018. The regulation will introduce a new option that will enable employers in multi-employer pension schemes to defer the requirement to pay an employer debt on ceasing to employ an active member. The deferred debt arrangement will be subject to a condition that the employer retains all their previous responsibilities to the scheme.

**February 2018** – The Scheme Advisory Board agreed at its meeting of 26<sup>th</sup> February 2018 to amend the Code of Transparency (7A) to include the provision for alternative

investment managers signing up on the basis that cost data substantially similar in scope and detail to that covered by existing templates if submitted to LGPS clients. Under this provision, investment managers must adopt and make use of relevant Code templates as they become available.

## **Wales Pension Partnership**

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

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

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

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

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

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

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

Following extensive work by the Authorities, a legally binding Inter-Authority Agreement has now been signed by all 8 funds.

Following an extensive public procurement exercise, Link Asset Services with investment advisory services provided by Russell Investments were appointed in January 2018. Transition of the first Wales Pension Partnership assets is expected in Q4 2018.

## **Local Pension Board - Annual Report 2017/18**

### **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**

For the financial year 2017/18, the Board consists of 6 members, 3 member representatives and 3 employer representatives. All members are unpaid volunteers.

| <b>Type</b> | <b>Name</b>       | <b>Organisation</b>            |
|-------------|-------------------|--------------------------------|
| Employer    | Cllr Mike White   | City & County of Swansea       |
| Employer    | Cllr Alan Lockyer | Neath County Borough Council   |
| Employer    | Mr John Andrew    | Tai Tarian                     |
| Member      | Mr Ian Guy        | Union nominated representative |
| Member      | Ms Andrea Thomas  | Union nominated representative |
| Member      | Ms Arlene Chaves  | Union nominated representative |

## **Summary of 2017/18**

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

- Breaches Reporting
- Corporate Class Action Monitoring Service
- MiFID 11
- GMP Reconciliation Exercise
- Investment Beliefs and Environmental, Social Governance Issues
- The Administration Strategy
- The Draft Investment Strategy Statement
- The Draft Funding Strategy Statement
- The Business Plan
- The Annual Report, Statement of Accounts and the Audit Report

In addition the Board agreed Training Recommendations for the year and received updates on the Wales Pension Partnership.

### **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 :

- 5<sup>th</sup> September 2017
- 28<sup>th</sup> September 2017
- 5<sup>th</sup> January 2018

Attendance at the above meetings was recorded at 84% 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 5<sup>th</sup> September 2017, The Chief Treasury and Technical Officer presented a report to determine an annual training programme for Local Pension Board members. The training would ensure compliance with the CIPFA Public Sector Pensions Finance Knowledge & Skills Code of Practice.

Training Undertaken in the last 12 Months :

LGA Trustee Fundamentals

- Day 1
- Day 2
- Day 3

Triennial Valuation Training  
CIPFA Governance Update Training  
Investment Beliefs & ESG Training

The following was identified as suitable training for the Local Pension Board and was approved by the Local Pension Board on the 5<sup>th</sup> September 2017.

LGA Trustee Fundamentals

- Day 1
- Day 2
- Day 3

And for those who have not undertaken :

CIPFA Local Pension Board member training  
Regulated Investment Vehicle Training  
Investment Beliefs & ESG Training  
Transition Management training

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

### **Budget**

The Board agreed a budget of £5k per annum to assist with its operation.  
In 2017/18 the Board incurred costs of £2k.

# ANNUAL GOVERNANCE STATEMENT 2017/18

## 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 has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the new CIPFA/SOLACE Framework '*Delivering Good Governance in Local Government 2016*'. The revised framework applies to all annual governance statements prepared for the financial year 2017/18 onwards. A copy of the Code can be obtained by contacting the Chief Auditor on 01792 636463 or e-mailing [simon.cockings@swansea.gov.uk](mailto:simon.cockings@swansea.gov.uk). This statement explains how the Authority has complied with the Code and also meets the requirements of the Accounts and Audit (Wales) Regulations 2014 to review the effectiveness of its internal control systems at least once a year.

## 2. The Purpose of the Governance Framework

- 2.1 The governance framework comprises the systems and processes, culture and values, by which the Authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.
- 2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised and to manage them efficiently, effectively and economically.
- 2.3 The governance framework has been in place at the City and County of Swansea throughout the year ended 31 March 2018 and up to the date of approval of the Statement of Accounts.

## ANNUAL GOVERNANCE STATEMENT 2017/18

### 3. The Governance Framework

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

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

The Framework also states that

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

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

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

### 4. Background

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

4.2 The new *Delivering Good Governance in Local Government Framework* 2016 edition applies to annual governance statements prepared for the financial year 2017/18 onwards.

4.3 The new Framework introduces 7 new principles as follows:

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

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

## **ANNUAL GOVERNANCE STATEMENT 2017/18**

- Resources are directed in accordance with agreed policies and according to priorities
  - There is sound and inclusive decision making
  - There is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities
- 4.5 The term local Code of Corporate Governance essentially refers to the approved governance structure in place, as there is an expectation that a formally set out local structure should exist, although in practice it may consist of a number of local codes or documents.
- 4.6 To achieve good governance, each local authority should be able to demonstrate that its governance structures comply with the core and sub-principles contained in the Framework. It should therefore develop and maintain a local Code of Corporate Governance reflecting the principles set out in the Framework.
- 4.7 It is also crucial that the Framework is applied in a way that demonstrates the spirit and ethos of good governance, which cannot be achieved, by rules and procedures alone. Shared values that are integrated into the culture of an organisation and are reflected in behaviour and policy are hallmarks of good governance.
- 4.8 The Accounts and Audit (Wales) Regulations 2014 require that a review of effectiveness of the governance arrangements must be undertaken at least annually and reported on within the authority e.g. to the Audit Committee or other appropriate member body and externally with the published accounts of the authority. In doing this, the authority is looking to provide assurance that
- Its governance arrangements are adequate and working effectively in practice
  - Where the reviews of the governance arrangements have revealed significant gaps, which will impact on the authority achieving its objectives, what action is to be taken to ensure effective governance in future.
- 4.9 In 2016/17 a new Annual Governance Statement Group was established, tasked with the compilation of a revised Code of Corporate Governance, as well as a revised Annual Governance Statement. The Group is comprised of the Head of Financial Services & Service Centre (S151 officer), the Head of Legal, Democratic Services & Business Intelligence (Monitoring Officer), the Chief Internal Auditor and the Business Performance Manager. The Group meets periodically to discuss the governance arrangements of the Council and provides updates to the Audit Committee, the Corporate Management Team and Cabinet when necessary.
- 4.10 The key elements of the policies, systems and procedures that comprise the governance framework in the Council are shown on the pages that follow, linked to the 7 fundamental principles.

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

Local government organisations are accountable not only for how much they spend, but also for how they use the resources under their stewardship. This includes accountability for outputs, both positive and negative, and for the outcomes, they have achieved. In addition, they have an overarching responsibility to serve the public interest in adhering to the requirements of legislation and government policies. It is essential that, as a whole, they can demonstrate the appropriateness of all their actions and have mechanisms in place to encourage and enforce adherence to ethical values and to respect the rule of law.

| Sub-Principles                        | Behaviours and Actions that Demonstrate Good Governance in Practice   | City and County of Swansea - Evidence  |
|---------------------------------------|---|--|
| <p><b>Behaving with integrity</b></p> | <p>Ensuring members and officers behave with integrity and lead a culture where acting in the public interest is visibly and consistently demonstrated thereby protecting the reputation of the organisation</p>  | <ul style="list-style-type: none"> <li>• Members Code of Conduct in Constitution which reflects Local Authorities (Model Code of Conduct) (Wales) Order 2016</li> <li>• Officers Code of Conduct in Constitution</li> <li>• Member/Officer Protocol in Constitution</li> <li>• Member led authority principles/document</li> <li>• Council Values – people focused, working together and innovation</li> <li>• Whistleblowing Policy</li> <li>• Data Protection Policy</li> <li>• Money Laundering Policy</li> <li>• HR Policies</li> <li>• Anti-Fraud and Corruption Policy</li> <li>• Financial, land transaction and procurement procedure rules in Constitution</li> <li>• Standards Committee with Annual Report presented to Council</li> <li>• Member Dispute Resolution</li> <li>• Monitoring Officer training on Code</li> <li>• Officers/members declaration of interest</li> <li>• Officer Secondary Employment Policy</li> </ul> |
|                                       | <p>Ensuring members take the lead in establishing specific standard operating principles or values for the organisation and its staff and that they are communicated and understood. These should build on the Principles of Public Life (the Nolan Principles)</p> |  |
|                                       | <p>Leading by example and using these standard operating principles or values as a framework for decision making and other actions</p>  |  |
|                                       | <p>Demonstrating, communicating and embedding the standard operating principles or values through appropriate policies and processes which are reviewed on a regular basis to ensure that they are operating effectively</p>  |  |

| Sub-Principles   | Behaviours and Actions that Demonstrate Good Governance in Practice  | City and County of Swansea – Evidence   |
|--|--|---|
| <b>Demonstrating strong commitment to ethical values</b> | Seeking to establish, monitor and maintain the organisation’s ethical standards and performance  | <ul style="list-style-type: none"> <li>• Council Values – people focused, working together and innovation</li> <li>• Commitment to the Nolan principles</li> <li>• Code of Conduct</li> <li>• Swansea Pledge</li> <li>• Constitution contains comprehensive Procurement and Financial Procedure Rules</li> </ul>  |
|  | Underpinning personal behaviour with ethical values and ensuring they permeate all aspects of the organisation’s culture and operation   |   |
|  | Developing and maintaining robust policies and procedures which place emphasis on agreed ethical values  |   |
|  | Ensuring that external providers of services on behalf of the organisation are required to act with integrity and in compliance with high ethical standards expected by the organisation               |   |
| <b>Respecting the rule of law</b>                        | Ensuring members and staff demonstrate a strong commitment to the rule of the law as well as adhering to relevant laws and regulations   | <ul style="list-style-type: none"> <li>• Member and Officer code of Conduct in Constitution</li> <li>• Role of Head of Paid Service, Section 151 Officer and Monitoring Officer established in Constitution</li> <li>• CIPFA statement on the Role of the Chief Financial Officer</li> <li>• Robust Scrutiny function</li> <li>• Anti-Fraud and Corruption Policy</li> <li>• Audit Committee</li> <li>• Internal Audit Section</li> <li>• Corporate Fraud Team</li> <li>• External Auditors</li> <li>• Annual Audit Letter</li> <li>• Standards Committee</li> <li>• Whistleblowing Policy</li> </ul> |
|  | Creating the conditions to ensure that the statutory officers, other key post holders and members are able to fulfil their responsibilities in accordance with legislative and regulatory requirements |   |
|  | Striving to optimise the use of the full powers available for the benefit of citizens, communities and other stakeholders  |   |
|  | Dealing with breaches of legal and regulatory provisions effectively   |   |
|  | Ensuring corruption and misuse of power are dealt with effectively   |   |

| <b>Principle B – Ensuring openness and comprehensive stakeholder engagement</b>  |  |  |
|--|--|--|
| Local government is run for the public good; organisations therefore should ensure openness in their activities. Clear, trusted channels of communication and consultation should be used to engage effectively with all groups of stakeholders, such as individual citizens and service users, as well as institutional stakeholders. |  |  |
| <b>Sub-Principles</b>  | <b>Behaviours and Actions that Demonstrate Good Governance in Practice</b>   | <b>City and County of Swansea - Evidence</b>   |
| <b>Openness</b>  | Ensuring an open culture through demonstrating, documenting and communicating the organisation’s commitment to openness  | <ul style="list-style-type: none"> <li>• Agendas published in advance of meetings</li> <li>• Minutes published following meetings</li> <li>• Decision making process described in Constitution</li> <li>• Forward Plan published on Internet showing key decisions to be made by Council and Cabinet</li> <li>• Consultation and Engagement Strategy &amp; Consultation Toolkit</li> <li>• Annual budget consultation</li> <li>• Publication Scheme</li> <li>• Freedom of Information Scheme</li> <li>• Challenge Panel and call-in procedure</li> <li>• Public questions at Council and Cabinet</li> <li>• Engagement with hard to reach groups, such as BME, Disability and LGBT communities. As well as engagement with children and young people to meet the requirement of the UNCRC</li> </ul> |
|  | Making decisions that are open about actions, plans, resource use, forecasts, outputs and outcomes. The presumption is for openness. If that is not the case, a justification for the reasoning for keeping a decision confidential should be provided                       |  |
|  | Providing clear reasoning and evidence for decisions in both public records and explanations to stakeholders and being explicit about the criteria, rationale and considerations used. In due course, ensuring that the impact and consequences of those decisions are clear |  |
|  | Using formal and informal consultation and engagement to determine the most appropriate and effective interventions/ courses of action   |  |

| Sub-Principles  | Behaviours and Actions that Demonstrate Good Governance in Practice   | City and County of Swansea - Evidence   |
|---|---|---|
| <b>Engaging comprehensively with institutional stakeholders</b> | Effectively engaging with institutional stakeholders to ensure that the purpose, objectives and intended outcomes for each stakeholder relationship are clear so that outcomes are achieved successfully and sustainably  | <ul style="list-style-type: none"> <li>• Public Service Board and One Swansea Plan/Well-Being Plan</li> <li>• Western Bay</li> <li>• ERW</li> <li>• Community Safety Partnership</li> <li>• Partnership agreements.</li> <li>• Co-production on policy and decision making</li> <li>• Effective use of website and social media.</li> </ul> |
|   | Developing formal and informal partnerships to allow for resources to be used more efficiently and outcomes achieved more effectively   |   |
|   | Ensuring that partnerships are based on: <ul style="list-style-type: none"> <li>• trust</li> <li>• a shared commitment to change</li> <li>• a culture that promotes and accepts challenge among partners</li> </ul> and that the added value of partnership working is explicit |   |

| Sub-Principles  | Behaviours and Actions that Demonstrate Good Governance in Practice  | City and County of Swansea - Evidence   |
|---|--|---|
| <b>Engaging stakeholders effectively, including individual citizens and service users</b> | Establishing a clear policy on the type of issues that the organisation will meaningfully consult with or involve individual citizens, service users and other stakeholders to ensure that service (or other) provision is contributing towards the achievement of intended outcomes | <ul style="list-style-type: none"> <li>• Ward role of Councillors</li> <li>• Consultation and Engagement framework</li> <li>• 'Have Your Say' consultations on Internet</li> <li>• Residents telephone surveys</li> <li>• Consultation principles and toolkit available on Intranet</li> <li>• Role of Consultation Co-Ordinator and Equality Impact Assessments</li> <li>• Co-production</li> <li>• Annual Staff Survey</li> <li>• Complaints Policy and Annual Report.</li> </ul> |
|   | Ensuring that communication methods are effective and that members and officers are clear about their roles with regard to community engagement  |   |
|   | Encouraging, collecting and evaluating the views and experiences of communities, citizens, service users and organisations of different backgrounds including reference to future needs  |   |
|   | Implementing effective feedback mechanisms in order to demonstrate how their views have been taken into account  |   |
|   | Balancing feedback from more active stakeholder groups with other stakeholder groups to ensure inclusivity   |   |
|   | Taking account of the interests of future generations of tax payers and service users  |   |

**Principle C – Defining outcomes in terms of sustainable economic, social and environmental benefits**

The long-term nature and impact of many of local government’s responsibilities mean that it should define and plan outcomes and that these should be sustainable. Decisions should further the authority’s purpose, contribute to intended benefits and outcomes, and remain within the limits of authority and resources. Input from all groups of stakeholders, including citizens, service users and institutional stakeholders, is vital to the success of this process and in balancing competing demands when determining priorities for the finite resources available

| Sub-Principles                  | Behaviours and Actions that Demonstrate Good Governance in Practice  | City and County of Swansea - Evidence   |
|---------------------------------|--|---|
| <p><b>Defining outcomes</b></p> | <p>Having a clear vision which is an agreed formal statement of the organisation’s purpose and intended outcomes containing appropriate performance indicators, which provides the basis for the organisation’s overall strategy, planning and other decisions</p> | <ul style="list-style-type: none"> <li>• Corporate Plan produced annually in accordance with Local Government (Wales) Measure 2009 and ‘Wellbeing Objectives’ in Wellbeing of Future Generations (Wales) Act 2015</li> <li>• Quarterly &amp; annual Performance Monitoring Reports</li> <li>• Annual Performance Review</li> <li>• Single Integrated Plan produced by Public Service Board</li> <li>• Service Plan produced annually by each Head of Service</li> <li>• Monthly Performance and Financial Monitoring meetings held for each Directorate</li> <li>• Corporate Risk Policy and Framework</li> <li>• Corporate, Directorate and Service Risk Registers</li> <li>• Capital Review Programme and workshops with senior staff managing large scale capital projects to ensure an efficient, coordinated and structured approach to capital projects and the City Deal.</li> </ul> |
|                                 | <p>Specifying the intended impact on, or changes for, stakeholders including citizens and service users. It could be immediately or over the course of a year or longer</p>  |   |
|                                 | <p>Delivering defined outcomes on a sustainable basis within the resources that will be available</p>  |   |
|                                 | <p>Identifying and managing risks to the achievement of outcomes</p>   |   |
|                                 | <p>Managing service users’ expectations effectively with regard to determining priorities and making the best use of the resources available</p>   |   |

| Sub-Principles   | Behaviours and Actions that Demonstrate Good Governance in Practice  | City and County of Swansea - Evidence  |
|--|--|--|
| <b>Sustainable economic, social and environmental benefits</b> | Considering and balancing the combined economic, social and environmental impact of policies, plans and decisions when taking decisions about service provision  | <ul style="list-style-type: none"> <li>• Medium Term Financial Plan covering 3 financial years approved annually by Council</li> </ul> |
|  | Taking a longer-term view with regard to decision making, taking account of risk and acting transparently where there are potential conflicts between the organisation's intended outcomes and short-term factors such as the political cycle or financial constraints |  |
|  | Determining the wider public interest associated with balancing conflicting interests between achieving the various economic, social and environmental benefits, through consultation where possible, in order to ensure appropriate trade-offs                        |  |
|  | Ensuring fair access to services   |  |

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

| Sub-Principles                   | Behaviours and Actions that Demonstrate Good Governance in Practice   | City and County of Swansea - Evidence   |
|----------------------------------|---|---|
| <b>Determining interventions</b> | Ensuring decision makers receive objective and rigorous analysis of a variety of options indicating how intended outcomes would be achieved and including the risks associated with those options. Therefore ensuring best value is achieved however services are provided                              | <ul style="list-style-type: none"> <li>• Policy development by Policy Development and Delivery Committees</li> <li>• Scrutiny function</li> <li>• Finance, Legal and Access to Services implications in all Council, Cabinet and Committee reports</li> <li>• Results of consultation exercises</li> <li>• Annual Internal Audit consultation exercise</li> </ul> |
|                                  | Considering feedback from citizens and service users when making decisions about service improvements or where services are no longer required in order to prioritise competing demands within limited resources available including people, skills, land and assets and bearing in mind future impacts |   |

| Sub-Principles                | Behaviours and Actions that Demonstrate Good Governance in Practice  | City and County of Swansea - Evidence   |
|-------------------------------|--|---|
| <b>Planning interventions</b> | Establishing and implementing robust planning and control cycles that cover strategic and operational plans, priorities and targets      | <ul style="list-style-type: none"> <li>• Timetable exists for producing or reviewing plans, priorities etc. on an annual basis</li> <li>• Consultation and Engagement framework</li> <li>• Monthly Performance and Financial Monitoring meetings for each Directorate reviews progress and authorises corrective action where necessary</li> <li>• Quarterly and Annual Performance Monitoring reports to Cabinet including achievement of national and local performance indicators</li> <li>• Medium Term Financial Plan</li> <li>• Annual budget setting process in place including</li> </ul> |
|                               | Engaging with internal and external stakeholders in determining how services and other courses of action should be planned and delivered |   |
|                               | Considering and monitoring risks facing each partner when working collaboratively including shared risks                                 |   |
|                               | Ensuring arrangements are flexible and agile so that the mechanisms for delivering outputs can be adapted to changing circumstances      |   |

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|  | Establishing appropriate local performance indicators (as well as relevant statutory or other national performance indicators) as part of the planning process in order to identify how the performance of services and projects is to be measured                                    | consultation exercise   |
|  | Ensuring capacity exists to generate the information required to review service quality regularly   |   |
|  | Preparing budgets in accordance with organisational objectives, strategies and the medium-term financial plan   |   |
|  | Informing medium and long-term resource planning by drawing up realistic estimates of revenue and capital expenditure aimed at developing a sustainable funding strategy  |   |
| <b>Sub-Principles</b>                              | <b>Behaviours and Actions that Demonstrate Good Governance in Practice</b>  | <b>City and County of Swansea – Evidence</b>  |
| <b>Optimising achievement of intended outcomes</b> | Ensuring the medium term financial strategy integrates and balances service priorities, affordability and other resource constraints  | <ul style="list-style-type: none"> <li>• Quarterly Financial Monitoring reports to Cabinet</li> <li>• Mid-Year Budget Statement to Cabinet</li> <li>• Medium Term Financial Plan</li> <li>• Sustainable Swansea – Fit for the Future</li> </ul> |
|  | Ensuring the budgeting process is all-inclusive, taking into account the full cost of operations over the medium and longer term  |   |
|  | Ensuring the medium-term financial strategy sets the context for ongoing decisions on significant delivery issues or responses to changes in the external environment that may arise during the budgetary period in order for outcomes to be achieved while optimising resource usage |   |
|  | Ensuring the achievement of ‘social value’ through service planning and commissioning.  |   |

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|  | The Public Services (Social Value) Act 2012 states that this is “the additional benefit to the community...over and above the direct purchasing of goods, services and outcomes” |  |
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**Principle E – Developing the entity’s capacity, including the capability of its leadership and the individuals within it.**

Local government needs appropriate structures and leadership, as well as people with the right skills, appropriate qualifications and mindset, to operate efficiently and effectively and achieve their intended outcomes within the specified periods. A local government organisation must ensure that it has both the capacity to fulfil its own mandate and to make certain that there are policies in place to guarantee that its management has the operational capacity for the organisation as a whole. Because both individuals and the environment in which an authority operates will change over time, there will be a continuous need to develop its capacity as well as the skills and experience of the leadership of individual staff members. Leadership in local government entities is strengthened by the participation of people with many different types of backgrounds, reflecting the structure and diversity of communities

| <b>Sub-Principles</b>                   | <b>Behaviours and Actions that Demonstrate Good Governance in Practice</b>  | <b>City and County of Swansea - Evidence</b>  |
|---|---|---|
| <b>Developing the entity’s capacity</b> | Reviewing operations, performance and use of assets on a regular basis to ensure their continuing effectiveness   | <ul style="list-style-type: none"> <li>• Commissioning Review as part of Sustainable Swansea – Fit for the Future strategy</li> <li>• Annual performance review for all staff under the Employee Performance Management Policy. Training and development needs included in review</li> <li>• Departmental service planning including succession plans and service resilience</li> <li>• Engagement with benchmarking groups such as APSE, CIPFA</li> <li>• Service planning process includes workforce planning and this is included in the overarching Workforce Plan</li> <li>• Quarterly financial and performance reports to</li> </ul> |
|   | Improving resource use through appropriate application of techniques such as benchmarking and other options in order to determine how the authority’s resources are allocated so that outcomes are achieved effectively and efficiently |   |
|   | Recognising the benefits of partnerships and collaborative working where added value can be achieved  |   |
|   | Developing and maintaining an effective workforce plan to enhance the strategic allocation of resources   |   |

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|  |  | <p>Cabinet</p> <ul style="list-style-type: none"> <li>• Collaborative working with partners including the Public Service Board, Western Bay.</li> </ul> |
|--|--|---|

| Sub-Principles   | Behaviours and Actions that Demonstrate Good Governance in Practice   | City and County of Swansea - Evidence   |
|--|---|---|
| <p><b>Developing the capability of the entity's leadership and other individuals</b></p> | <p>Developing protocols to ensure that elected and appointed leaders negotiate with each other regarding their respective roles early on in the relationship and that a shared understanding of roles and objectives is maintained</p> <hr/> <p>Publishing a statement that specifies the types of decisions that are delegated and those reserved for the collective decision making of the governing body</p> <hr/> <p>Ensuring the leader and the chief executive have clearly defined and distinctive leadership roles within a structure, whereby the chief executive leads the authority in implementing strategy and managing the delivery of services and other outputs set by members and each provides a check and a balance for each other's authority</p> | <ul style="list-style-type: none"> <li>• Member/Officer Protocol in Constitution</li> <li>• Scheme of Delegation published in Constitution</li> <li>• Cabinet portfolio roles agreed and documented in Constitution</li> <li>• Monthly One to One meetings are held involving the Leader, Cabinet Members, Chief Executive, Corporate Directors, Chief Officers, Heads of Service and 3<sup>rd</sup> tier staff</li> <li>• Councillor Training Programme developed based on a Training Needs Assessment</li> <li>• Annual performance review for all staff under the Employee Performance Management Policy. Training and development needs included in review. Occupational Health and Wellbeing Policy exists with aim of promoting the health and wellbeing of all employees to enable them to achieve their full potential at work</li> </ul> |

| Sub-Principles | Behaviours and Actions that Demonstrate Good Governance in Practice  | City and County of Swansea – Evidence  |
|----------------|--|--|
|                | <p>Developing the capabilities of members and senior management to achieve effective shared leadership and to enable the organisation to respond successfully to changing legal and policy demands as well as economic, political and environmental changes and risks by:</p> <ul style="list-style-type: none"> <li>• ensuring members and staff have access to appropriate induction tailored to their role and that ongoing training and development matching individual and organisational requirements is available and encouraged</li> <li>• ensuring members and officers have the appropriate skills, knowledge, resources and support to fulfil their roles and responsibilities and ensuring that they are able to update their knowledge on a continuing basis</li> <li>• ensuring personal, organisation and system-wide development through shared learning, including lessons learnt from both internal and external governance weaknesses</li> </ul> <p>Ensuring that there are structures in place to encourage public participation</p> | <ul style="list-style-type: none"> <li>• Mandatory corporate induction course for new staff</li> <li>• Mandatory courses for staff i.e. safeguarding</li> <li>• Corporate learning and development courses</li> <li>• Stress and health advice available online</li> <li>• Helping Hands support, information and guidance service.</li> </ul> |

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

**Principle F – Managing risks and performance through robust internal control and string public financial management**

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

| <b>Sub-Principles</b>       | <b>Behaviours and Actions that Demonstrate Good Governance in Practice</b>   | <b>City and County of Swansea - Evidence</b>   |
|-----------------------------|--|--|
| <b>Managing risk</b>        | <p>Recognising that risk management is an integral part of all activities and must be considered in all aspects of decision making</p> <p>Implementing robust and integrated risk management arrangements and ensuring that they are working effectively</p> <p>Ensuring that responsibilities for managing individual risks are clearly allocated</p> | <ul style="list-style-type: none"> <li>• Risk Management Policy with sophisticated risk matrix Framework</li> <li>• Corporate, Directorate and Service risk registers</li> <li>• Monthly review of Corporate Risks by Corporate Management Team</li> <li>• Monthly review of Directorate Risks at PFM meetings</li> </ul>  |
| <b>Managing performance</b> | <p>Monitoring service delivery effectively including planning, specification, execution and independent post-implementation review</p> <p>Making decisions based on relevant, clear objective analysis and advice pointing out the implications and risks inherent in the organisation's financial, social and environmental position and outlook</p>  | <ul style="list-style-type: none"> <li>• Corporate Plan produced annually</li> <li>• Annual Performance Report produced</li> <li>• Quarterly performance monitoring report to Cabinet</li> <li>• Annual Service Plan produced by each Head of Service</li> <li>• Scrutiny function</li> <li>• Monthly Directorate Performance and Financial Monitoring meetings</li> </ul> |

| Sub-Principles                 | Behaviours and Actions that Demonstrate Good Governance in Practice  | City and County of Swansea - Evidence   |
|--------------------------------|--|---|
|                                | <p>Ensuring an effective scrutiny or oversight function is in place which encourages constructive challenge and debate on policies and objectives before, during and after decisions are made, thereby enhancing the organisation's performance and that of any organisation for which it is responsible</p> <p>Providing members and senior management with regular reports on service delivery plans and on progress towards outcome achievement</p> <p>Ensuring there is consistency between specification stages (such as budgets) and post-implementation reporting (e.g. financial statements)</p> |   |
| <b>Robust internal control</b> | <p>Aligning the risk management strategy and policies on internal control with achieving objectives</p> <p>Evaluating and monitoring risk management and internal control on a regular basis</p> <p>Ensuring effective counter fraud and anti-corruption arrangements are in place</p> <p>Ensuring additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the internal auditor</p>  | <ul style="list-style-type: none"> <li>• Audit Committee provides assurance on effectiveness on internal control, risk management and governance</li> <li>• Audit Committee Annual Performance Review</li> <li>• Audit Committee Annual Report to Council</li> <li>• Anti-Fraud and Corruption Policy</li> <li>• Role of Internal Audit Section and Corporate Fraud Team</li> <li>• Internal Audit and Corporate Fraud Annual Plans approved by Audit Committee</li> <li>• Internal Audit and Corporate Fraud Annual Reports to Audit Committee</li> <li>• Annual Governance Statement</li> </ul> |

| Sub-Principles                            | Behaviours and Actions that Demonstrate Good Governance in Practice   | City and County of Swansea - Evidence   |
|---|---|---|
|   | <p>Ensuring an audit committee or equivalent group or function which is independent of the executive and accountable to the governing body:</p> <ul style="list-style-type: none"> <li>• provides a further source of effective assurance regarding arrangements for managing risk and maintaining an effective control environment</li> <li>• that its recommendations are listened to and acted upon</li> </ul> |   |
| <b>Managing data</b>                      | <p>Ensuring effective arrangements are in place for the safe collection, storage, use and sharing of data, including processes to safeguard personal data</p> <p>Ensuring effective arrangements are in place and operating effectively when sharing data with other bodies</p> <p>Reviewing and auditing regularly the quality and accuracy of data used in decision making and performance monitoring</p>       | <ul style="list-style-type: none"> <li>• Data Protection Policy</li> <li>• Information Governance Unit</li> <li>• The Council is signed up to the Wales Accord for Sharing Personal Information (WASPI)</li> <li>• Information management governance arrangements</li> <li>• Senior Information Risk Officer (SIRO) in place</li> <li>• Information Asset Register</li> <li>• Information sharing guidance published</li> </ul>   |
| <b>Strong public financial management</b> | <p>Ensuring financial management supports both long-term achievement of outcomes and short-term financial and operational performance</p> <p>Ensuring well-developed financial management is integrated at all levels of planning and control, including management of financial risks and controls</p>   | <ul style="list-style-type: none"> <li>• Financial Procedure Rules in Constitution</li> <li>• Contract Procedure Rules in Constitution</li> <li>• Accounting Instructions on Intranet</li> <li>• Spending Restrictions document on Intranet</li> <li>• Adoption of the CIPFA Treasury Management in the Public Services: Code of Practice</li> <li>• All borrowing and long term financing is made in accordance with CIPFA's Prudential Code. Treasury Management update reports are made to Audit Committee.</li> </ul> |

**Principle G – Implementing good practices in transparency, reporting and audit to deliver effective accountability**

Accountability is about ensuring that those making decisions and delivering services are answerable for them. Effective accountability is concerned not only with reporting on actions completed but also ensuring that stakeholders are able to understand and respond as the organisation plans and carries out its activities in a transparent manner. Both external and internal audit contribute to effective accountability.

| <b>Sub-Principles</b>                             | <b>Behaviours and Actions that Demonstrate Good Governance in Practice</b>   | <b>City and County of Swansea - Evidence</b>  |
|---|--|---|
| <b>Implementing good practice in transparency</b> | <p>Writing and communicating reports for the public and other stakeholders in an understandable style appropriate to the intended audience and ensuring that they are easy to access and interrogate</p> <p>Striking a balance between providing the right amount of information to satisfy transparency demands and enhance public scrutiny while not being too onerous to provide and for users to understand</p>  | <ul style="list-style-type: none"> <li>• Reports Authors Protocol exists to ensure consistency in reports</li> <li>• Clear Writing guide published on Intranet</li> <li>• The Council's Publication Scheme is available on the website</li> </ul>   |
| <b>Implementing good practices in reporting</b>   | <p>Reporting at least annually on performance, value for money and the stewardship of its resources</p> <p>Ensuring members and senior management own the results</p> <p>Ensuring robust arrangements for assessing the extent to which the principles contained in the Framework have been applied and publishing the results on this assessment including an action plan for improvement and evidence to demonstrate good governance (annual governance statement)</p> | <ul style="list-style-type: none"> <li>• Annual Statement of Accounts audited by external auditor and approved by Council and published on website</li> <li>• Code of Corporate Governance based on CIPFA/SOLACE Framework 2016</li> <li>• Annual Governance Statement</li> <li>• Annual Review of Performance</li> </ul> |

| Sub-Principles                                | Behaviours and Actions that Demonstrate Good Governance in Practice  | City and County of Swansea - Evidence   |
|---|--|---|
|   | <p>Ensuring that the Framework is applied to jointly managed or shared service organisations as appropriate</p> <p>Ensuring the performance information that accompanies the financial statements is prepared on a consistent and timely basis and the statements allow for comparison with other similar organisations</p>  |   |
| <b>Assurance and effective accountability</b> | <p>Ensuring that recommendations for corrective action made by external audit are acted upon</p> <p>Ensuring an effective internal audit service with direct access to members is in place which provides assurance with regard to governance arrangements and recommendations are acted upon</p> <p>Welcoming peer challenge, reviews and inspections from regulatory bodies and implementing recommendations</p> <p>Gaining assurance on risks associated with delivering services through third parties and that this is evidenced in the annual governance statement</p> <p>Ensuring that when working in partnership, arrangements for accountability are clear and that the need for wider public accountability has been recognised and met</p> | <ul style="list-style-type: none"> <li>• External Audit provided by Wales Audit Office</li> <li>• Performance of Internal Audit Section monitored by Audit Committee</li> <li>• Implementation of WAO and Internal Audit recommendations monitored by Audit Committee</li> <li>• Peer Review, Corporate Assessment and Corporate Governance Review action plan monitored by Corporate Management Team</li> <li>• Annual Governance Statement</li> <li>• The Strategic Delivery Unit tracks and monitors all corporate and audit recommendations including peer reviews, which are reviewed by CMT.</li> </ul> |

## 5. Review of Effectiveness

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

## 6 Internal Control Self-Assessment

- Each Head of Service has provided a signed **Senior Management Assurance Statement** for 2017/18 which provides assurance over the internal control, risk management and governance framework for their area of responsibility.
- The **Senior Management Assurance Statement** contains 10 questions covering governance issues and requires a 'Yes', 'No' or 'Partly' answer. The vast majority of answers provided by Heads of Service were 'Yes' with a small number of 'Partly' responses. There were no 'No' assurance responses. The main areas where 'Partly' answers were given related to limitations of central control given the delegated budgets within Education and rectifying contract non compliance. However, in each case assurance was provided that sufficient monitoring was in place so as not to pose a risk to governance.

### 6.1 Internal Sources of Assurance

The following provide assurance based on reports covering 2016/17: as the reports for 2017/18 are not yet available. The 2017/18 reports will be reflected in the next Annual Governance Statement.

- The **Annual Performance Review 2016/17** was approved by Cabinet on 19/10/17 in accordance with the publishing requirements of the Local Government (Wales) Measure 2009. The report showed the results of each performance measure for the 5 Key Priorities ('Improvement Objectives') set out in the Corporate Plan 2015/17 '*Delivering for Swansea*'. The results showed that the Council was 'mainly successful' in achieving the performance measures for 5 of the Key Priorities and that, 'Improvement prospects are good with no major barriers'.
- The **Standards Committee** met on 4 occasions during 2017/18 and the **Standards Committee Annual Report 2016/17** was presented to Council on 26/10/17. The report described the work of the Committee during 2016/17 including an update on the

new model Code of Conduct adopted by Council on 19/05/17 and an update on the new Ethical Framework – new statutory provisions.

- The **Corporate Complaints Policy** was in place throughout 2017/18 and the **Corporate Complaints Annual Report 2016/17** was presented to Cabinet on 19/10/17. The Annual Report noted that in 2016/17 there was a 16% increase in the number of complaints and requests for service handled by the team. Requests for information also remained high. The report also highlighted a number of service improvements, which had been introduced as a result of complaint investigations.
- The **Internal Audit Annual Report 2016/17** was reported to the Audit Committee on 08/08/17 and included the Chief Auditor's opinion that based on the audit reviews undertaken in 2016/17, Internal Audit can give reasonable assurance that the systems of internal control, risk management and governance were operating effectively and that no significant weaknesses were identified.
- The **Audit Committee Annual Report 2016/17** was presented to Council on 14/12/17 and outlined the assurance the Committee had gained over control, risk management and governance from various sources over the course of 2016/17.
- The **Scrutiny Programme Committee and Panels** met throughout 2016/17 and were supported by the Scrutiny Support Team. The **Scrutiny Annual Report 2016/17** was presented to Council on 27/07/17. The report highlighted the work carried out by Scrutiny, showed how Scrutiny had made a difference and supported continuous improvement for the Scrutiny function. The report also highlighted the increase in pre decision scrutiny and the high level of councillor commitment with 104 meetings held.
- The End of Year 2016/17 **Performance Monitoring Report** was approved by Cabinet on 20/07/17, which presented the detailed performance results for 2016/17. In summary, 62% of indicators that had targets met their targets. 73% comparable indicators also showed improvement compared to 2015/16. The results of the review are used to inform executive decisions on resource allocation and to take corrective action to improve performance and efficiency.

The following provides assurance based on reports covering 2017/18:

- The Well-Being Objectives and Statement 2017/2018 were approved by Council on 23/3/17 and carried forward into the Corporate Plan after May elections in line with Well Being of Future Generations (Wales) Act 2015.
- The **Corporate Plan 2017-22** '*Delivering a Successful and Sustainable Swansea 2017-22*' produced in accordance with the Local Government (Wales) Measure 2009 and the 'Wellbeing Objectives' under the Wellbeing of Future Generations (Wales) Act 2015 was approved by Council on 24/8/17. The Plan describes the Council's vision for Swansea, its 5 Well-being Objectives and the organisation values and principles that will underpin the delivery of the priorities and the overall strategy. The Corporate Plan feeds into service planning process across Directorates and the process is managed corporately by the Strategic Delivery Unit to ensure consistency.
- The adoption of the **Council Constitution** was reaffirmed at the Annual Meeting of the Council on 25/05/17. Various reports have been approved by Council throughout 2017/18 making changes to the Constitution.

- The **Audit Committee** met on 7 occasions during 2017/18 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 as required by the Local Government (Wales) Measure 2011. The lay member is also the Chair of the Committee.
- The **Scrutiny Programme Committee** met on 13 occasions in 2017/18 and had overall responsibility for the scrutiny function.
- The annual **Scrutiny Work Planning Conference 2017/18** was held on 19/6/17 and a report on the **Scrutiny Work Programme 2017/18** was agreed by the Scrutiny Programme Committee on 10/7/17.
- The **Constitution Working Group** met twice during 2017/18 to consider issues relating to local authority governor appointments requiring a change to the Council Constitution and nominations to the office of Lord Mayor and Deputy Lord Mayor.
- The **Medium Term Financial Plan 2019/20 – 2021/22** was approved by Council on 6/03/18. The Plan outlined the significant shortfall in funding faced by the Council over the period and the strategy to be adopted to address the shortfall as well as the inherent risks to the success of the adopted strategy.
- The revised **Corporate Risk Management Policy and Framework** was approved by Cabinet in 2017/18 and is being implemented. Audit Committee review the overall status of risk in the Council on a quarterly basis.
- Each Corporate Director held monthly **Performance and Financial Monitoring** meetings where Chief Officers and Heads of Service reported on progress in terms of continuous improvement and budgets.
- Quarterly **Performance Monitoring Reports** were presented to Cabinet during 2017/18, which provided detailed performance tables and identified the Council's performance outturn for the indicators, which had been selected for their suitability to measure performance against the Council's 5 Well-being objectives.
- Quarterly **Financial Monitoring Reports** were presented to Cabinet throughout 2017/18. The reports consistently identified a 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 overspend has now been confirmed and a draw from General Fund reserves of over £3m will be necessary for 2017/18, 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.
- A **Mid Term Budget Statement 2017/18** was presented to Council on 26/10/17 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 2017/18 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.
- All reports presented to Cabinet and Council during 2017/18 had been reviewed by Finance, Legal and Access to Services staff and included the appropriate paragraphs detailing the Financial, Legal and Equality and Engagement Implications of the report.

- The 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:
  - the Statement of Investment Principles
  - Funding Strategy Statement
  - A full actuarial valuation to be carried out every third year
- 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. Board members were appointed and the Board first met on 21/07/15. The Board met on 05/09/17 in 2017/18 and met 3 times during that year.
- The **Pension Fund Committee** met on 5 occasions during 2017/18 and dealt with all issues relating to the governance of the Pension Fund.

## 6.2 External Sources of Assurance

- In determining the breadth of work undertaken during the year, the Auditor General considered the extent of accumulated audit and inspection knowledge as well as other available sources of information including the Council's own mechanisms for review and evaluation. For 2016-17, the Wales Audit Office undertook improvement assessment work at all councils under three themes: governance, use of resources, and improvement planning and reporting. Based on, and limited to, the work carried out by the Wales Audit Office and relevant regulators, the Auditor General determined within the **Annual Improvement Report 2016-17** on Swansea Council that the Council was likely to comply with the requirements of the Local Government Measure (2009) during 2017-18. The Auditor General did not make any formal recommendations. However, a number of proposals for improvement were made. Progress meeting proposals for improvement are monitored by Audit Committee on a six monthly basis.
- In June 2017, the Wales Audit Office issued a report on **Good governance when determining service changes**. The report concluded that the Council has a clear governance framework for determining significant service change but needs to clarify how the impact of change for service users will be evaluated. Proposals for improvement included: Improving public access to information about the Council's Commissioning Review activity and outcomes by linking together all the web site information about the overall programme and signposting its availability; whilst potential financial savings are consistently identified the Council should ensure that the process for concluding a review consistently identifies the intended impact for service users and the means by which that impact will be evaluated in the future.

- Six month status update reports track progress on WAO proposals.
- The Appointed Auditor's **Annual Audit Letter 2016/17** was issued in November 2017 and presented to the Audit Committee on 12/12/17. The letter stated that *'The Council complied with its responsibilities relating to financial reporting and use of resources'*. The letter also stated that an unqualified audit opinion had been issued on the accounting statements confirming that they present a true and fair view of the Authority's and the Pension Fund's financial position and transactions. The letter also stated that *'The Auditor General for Wales is satisfied that the Authority has appropriate arrangements in place to secure economy, efficiency and effectiveness in its use of resources but the financial outlook is very challenging'*.
- The Wales Audit Office published in March 2017 a **Savings Planning Review** of the Council's financial savings arrangements, including how well it is delivering the required savings and whether it has robust approaches to plan, manage and deliver budget savings, at a pace that supports financial resilience. The Wales Audit Office concluded that whilst the Council has a sound financial planning framework, the Council recognises the delay in delivering savings plans to required timescales presents risks to its financial resilience. Proposals were made to strengthen financial planning arrangements by: ensuring that savings plans are sufficiently well developed and risk assessed before inclusion in the budget; assigning responsibility for the delivery of all planned savings to specific managers' services.
- When reviewing the Council's statutory improvement planning and reporting duties under the 2009 Measure, the Wales Audit Office concluded that the Council had complied with its duties and the relevant certificates of compliance were issued.
- The Wales Audit Office on behalf of the Auditor General for Wales presented the **Audit of Financial Statements Report 2016/17** to Audit Committee on 26/09/17 and to Council on 28/09/17. The report highlighted any significant issues to those charged with governance that needed to be considered prior to the approval of the financial statements. The report concluded that the Auditor General intended to issue an unqualified audit report on the financial statements for both the City & County of Swansea and the City and County of Swansea Pension Fund.
- The Wales Audit Office undertook an assessment of the Council's Corporate Plan following publication in August 2017 and issued a Certificate of Compliance as the Council had discharged its duties under the Local Government (Wales) Measure 2009 and Code of Audit Practice.
- The Council is subject to **Statutory External Inspections** by various bodies including Wales Audit Office, ESTYN and CSSIW. ESTYN inspected 11 educational establishments during 2017/18 with inspection reports being provided to the Governing Body in each case. Work continued in 2017/18 to implement the 5 recommendations arising from ESTYN's Education Services for Children and Young People Inspection Report 2013/14. A final update report was taken to Cabinet on 14/12/17 where it was noted that future reports would provide updates on future new and emerging priorities.

- 6.3 The Annual General Meeting of the Council held on 25/05/17 appointed the required number of Councillors to sit on the Boards of the companies included in the Council's Statement of Accounts.
- 6.4 The Council has partnership arrangements in place with the Wales National Pool Swansea, National Waterfront Museum Swansea, Liberty Stadium and the LC. Cabinet agreed a new legal agreement with the Liberty Stadium on 16 November 2017. In addition, partnership arrangements are also in place with the 360 Beach and Watersports Centre, Swansea Indoor Bowls Centre and Swansea Tennis 365 but there is no Council representation on the Board and the Council's financial contribution is nil or limited.
- 6.5 The review of the governance arrangements, which operated for 2017/18 in the City and County of Swansea, has shown that in general, they provide a sound system and there are no suggestions that major issues exist.
- 6.6 The evidence gathered as part of the governance review for 2016/17 i.e. the Internal Control Self-Assessment and the review of internal and external sources of assurance supports the view that the governance arrangements continue to be fit for purpose although a small number of issues were identified where improvements can be made which are highlighted in Section 7.
- 6.7 We have been advised on the implications of the result of the review of the effectiveness of the governance framework and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined below.

## 7 Significant Governance Issues

- 7.1 The following table shows the significant governance issues which were identified during the review of effectiveness undertaken when preparing the Annual Governance Statement 2016/17 and the action taken during the year to address the issues.

| Issue  | Proposed Action  | Action Taken  |
|--|--|---|
| 1.Regionalisation and associated governance issues | Senior Officers time will continue to be devoted to developing regional working and joint committee structures, particularly in relation to the City | Regional legal and financial working groups were set up to consider City Deal structure and governance issues. Work in this area is ongoing and will continue into 2018/19. |

|  |  |   |
|--|--|---|
|  | Deal and any other emerging work. Work in this area is ongoing and will continue into 2017/18.   |   |
| 2.Major Projects (including Capital Schemes)                                   | Significant Officer time will continue to be committed to relevant projects in 2017/18. Wider issues in relation to support to schemes from a Legal, Finance, Procurement and Governance view point will be reviewed and address during 2017/18 in line with the ongoing Capital Commissioning Review.   | A range of officer support and programme management has been provided for major projects with regular updates to CMT/Cabinet. Legal, financial and procurement officers have all been involved in project work including governance considerations.     |
| 3.Ongoing Council restructures and consideration of remaining Officer Capacity | Senior Officers are aware of the governance risks resulting from continued and ongoing reductions in resources. This will be monitored throughout 2017/18. The retention of the Director of Resources position will ensure overall corporate governance and control issues are identified and addressed where necessary. The roles of the Section 151 Officer and the Director will continue to be split to ensure adequate segregation is in place and to allow for arrangements to be effectively challenged throughout 2017/18. | An interim Director of Resources was appointed in 2017/18 to ensure overall corporate governance. Further changes to the senior management structure will mean ongoing monitoring. The roles of s 151 officer and Corporate Director remain segregated. |

|   |  |  |
|---|--|--|
| 4.Risk Management   | A new risk policy and framework will be reported to Council for adoption, which will then be implemented during 2017/18.                             | A revised risk management policy was reported to Cabinet on 17/08/17. Audit committee will receive a quarterly report on the overall status of risk. |
| 5. Public Service Board management and co-ordination                                | Current post-holders are leaving / going to different job. A temporary co-ordinator will be appointed for 1 year after which there will be a review. | A governance review of the PSB will take place in 2018/19.   |
| 6. Wales Audit Office Annual Improvement Report 2015/16 – proposals for improvement | The proposals made by the Wales Audit Office will continue to be addressed during 2017/18.   | Audit Committee reviews progress meeting WAO proposals on a six monthly basis.   |
| 7. Wales Audit Office Savings Planning Review 2016/17 – proposal for improvement    | The proposal made by the Wales Audit Office will continue to be addressed during 2017/18.  | Audit Committee reviews progress meeting WAO proposals on a six monthly basis.   |

7.2 The following table identifies issues, which have been identified during the review of effectiveness, and also highlights any other significant governance issues that need to be considered, together with the proposed actions to be taken during 2018/19 to address the issues.

| <b>Issue</b>                                      | <b>Proposed Action</b>   |
|---|--|
| <b>1. Budgetary pressures within the Council.</b> | Cabinet, CMT and all Heads of service have been reminded that: |

|  |   |
|--|---|
| <p>The Council is facing unprecedented financial pressures and budget savings have to be made by departments in a timely manner.</p>   | <ul style="list-style-type: none"> <li>• No one is authorised to overspend against budget;</li> <li>• All spend must be contained within service budgets at Head of service and Director level;</li> <li>• Any material deviation must be escalated immediately through the monthly monitoring processes to CMT and ultimately to Cabinet if necessary to enable corrective action to be undertaken;</li> <li>• Corrective action requiring a policy decision will go to Cabinet with clear S151 officer advice to reduce spend back to within budget immediately;</li> <li>• Corrective action beyond this point will be determined by the S151 officer having due regard to the wider public interest and statutory intervention powers.</li> </ul> |
| <p><b>2. Sustainable savings</b> – 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.</p> | <p>CMT/Cabinet to continue future budget discussion/proposals with sufficient and adequate information available for consideration.<br/>CMT monitors staff vacancy/recruitment on weekly basis.</p>   |
| <p><b>3. Regional working</b>—with collaboration/merger on national agenda going forward it is essential that not only are governance issues around</p>  | <p>Reports to Cabinet/Council, where appropriate, setting out governance arrangements/benefits.</p>   |

|  |  |
|--|--|
| regional working appropriate and transparent but also that regional working benefits CCS.  |  |
| <b>4. Senior Staff Restructure</b>   | Where appropriate any senior staff restructure needs to be consulted on with the Independent Remuneration Panel Wales. Continuity of good governance needs to be ensured.                        |
| <b>5. Delivery of Leisure Partnership Report</b> 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 is scheduled to go to Council in July 2018.   |
| <b>6. Major projects</b> – significant officer time will continue to need to be dedicated to major projects to ensure transparency around decision making and good governance.   | Revised programme management around Sustainable Swansea, City Deal, City Centre Regeneration, 21 <sup>st</sup> Century Schools and other significant projects with reporting to CMT by exception |

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

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

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

## PART B

### Statement of Responsibilities for the Statement of Accounts

## **The Authority's Responsibilities**

The Authority is required:

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

## **The Section 151 Officer's Certificate**

The Head of Financial Services and Service Centre, Section 151 Officer is responsible for the preparation of the Council's financial statements in accordance with proper practices a set out in the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the Code).

In preparing the financial statements, the Head of Financial Services and Service Centre, Section 151 Officer has:

- selected suitable accounting policies and then applied them consistently except where
- policy changes have been noted in these accounts; made judgements and estimates that were reasonable and prudent and
- complied with the Code.

The Head of Financial Services and Service Centre, Section 151 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.

The financial statements for the Council give a true and fair value of its income and expenditure for the financial year 2017/18 and financial position of the City & County of Swansea Pension Fund as at 31<sup>st</sup> March 2018.

Ben Smith

Head of Financial Services & Service Centre, Section 151 Officer

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

I have examined the pension fund accounts and related notes contained in the 2017 Annual Report of the City & County of Swansea Pension Fund to establish whether they are consistent with the pension fund accounts and related notes included in the Statement of Accounts produced by the

City & County of Swansea for the year ended 31 March 2017 which were authorised for issue on 28 September 2017. The pension fund accounts comprise the Fund Account, the Net Assets Statement.

### **Respective responsibilities of the Administering Authority and the Independent Auditor**

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

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

### **Opinion**

In my opinion the pension fund accounts and related notes included in the Annual Report of the City & County of Swansea Pension Fund are consistent with the pension fund accounts and related notes included in the Statement of Accounts produced by the City & County of Swansea for the year ended 31 March 2017 which were authorised for issue on 28 September 2017 on which I issued an unqualified opinion.

I have not considered the effects of any events between the date on which I issued my opinion on the pension fund accounts included in the authority's Statement of Accounts, 29 September 2017, and the date of this statement.

Anthony Barrett

Date: 29 September 2017

### **For and on behalf of:**

Huw Vaughan Thomas  
Auditor General for Wales  
24 Cathedral Road  
Cardiff  
CF11 9LJ

## STATEMENT OF ACCOUNTS 2017/18

### 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 2018.
- 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 | 90,889 |
| Other                          | 180    |



#### And where it goes.....

|                           | £'000  |
|---------------------------|--------|
| Pensions payable          | 61,207 |
| Lump sum benefits         | 16,202 |
| Refunds and transfers out | 4,553  |
| Administrative Expenses   | 1,387  |

**91,069**

**83,349**

**£'000**

|                             |        |
|-----------------------------|--------|
| Net new money into the Fund | 7,720  |
| Net return on Investments   | 52,908 |

**£ Increase in Fund value**

**60,628**

**£'000**

| 2016/17<br>£'000 | Contributions and benefits :                    |    | 2017/18        |                      |
|------------------|---|----|----------------|----------------------|
|                  |   |    | £'000          | £'000                |
|                  | Contributions receivable :                      |    |                |                      |
| 64,818           | Employers contribution                          | 3  | 70,032         |                      |
| 16,903           | Members contribution                            | 3  | <u>17,666</u>  | 87,698               |
| 3,841            | Transfers in                                    | 4  |                | 3,191                |
| 194              | Other income                                    | 5  |                | <u>180</u>           |
| 85,756           |   |    |                | <u>91,069</u>        |
|                  | Benefits payable :                              |    |                |                      |
| -58,454          | Pensions payable                                | 6  | -61,207        |                      |
| -17,779          | Lump sum benefits                               | 6  | <u>-16,202</u> | -77,409              |
|                  | Payments to and on account of leavers :         |    |                |                      |
| -120             | Refunds of contributions                        | 7  | -101           |                      |
| -4,750           | Transfers out                                   | 7  | <u>-4,452</u>  | -4,553               |
| -1,141           | Management expenses                             | 8  |                | -1,387               |
| <b>3,512</b>     | <b>Net additions from dealing with members</b>  |    |                | <b><u>7,720</u></b>  |
|                  | <b>Returns on investments</b>                   |    |                |                      |
| 29,838           | Investment income                               | 9  |                | 30,891               |
| 315,415          | Change in market value of investments           | 12 |                | 27,954               |
| -5,512           | Investment management expenses                  | 8  |                | <u>-5,937</u>        |
| <b>339,741</b>   | <b>Net returns on investments</b>               |    |                | <b><u>52,908</u></b> |
| <b>343,253</b>   | <b>Net increase in the Fund during the year</b> |    |                | <b><u>60,628</u></b> |
| 1,512,629        | Opening Net Assets of the Fund                  |    |                | 1,855,882            |
| <b>1,855,882</b> | Closing Net Assets of the Fund                  |    |                | <b>1,916,510</b>     |

**Net Assets Statement As At 31<sup>st</sup> March**

| <b>31st March<br/>2017<br/>£'000</b> |  | <b>Note</b> | <b>31st March<br/>2018<br/>£'000</b> |
|--------------------------------------|--|-------------|--------------------------------------|
|                                      | <b>Investments at market value:</b>          |             |                                      |
| 1,780,339                            | Investment Assets                            | 11          | 1,831,794                            |
| 1,664                                | Cash Funds                                   | 12          | 761                                  |
| 67,561                               | Cash Deposits                                | 12          | 77,046                               |
| 3,211                                | Other Investment Balances<br>– Dividends Due | 12          | 3,672                                |
| <b>1,852,775</b>                     | <b>Sub Total</b>                             |             | <b>1,913,273</b>                     |
| 7,402                                | Current Assets                               | 16          | 7,499                                |
| -4,295                               | Current Liabilities                          | 16          | -4,262                               |
| <b><u>1,855,882</u></b>              | <b>Net assets</b>                            |             | <b><u>1,916,510</u></b>              |

The financial statements on pages 51 to 84 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 2017/18 financial year and its position at year-end 31 March 2018. The financial statements have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2017/18* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

### **2. Accounting Policies**

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

#### **(a) Contributions**

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

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

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

#### **(b) Benefits**

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

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

## **Accounting Policies cont'd**

### **(c) Transfers to and from other Schemes**

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

### **(d) Investments**

- i) The net assets statement includes all assets and liabilities of the Fund at the 31<sup>st</sup> March.
- ii) Listed investments are included at the quoted bid price as at 31<sup>st</sup> March.
- iii) Investments held in quoted pooled investment vehicles are valued at the closing bid price at 31<sup>st</sup> 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 31<sup>st</sup> March.
- vi) Accrued interest is excluded from the market value of fixed interest securities but is included in accrued investment income.
- vii) Investment management fees are accounted for on an accrual basis.
- viii) Transaction costs are included in the cost of purchases and sales proceeds.
- ix) Investments held in foreign currencies have been translated into sterling values at the relevant rate ruling as at 31<sup>st</sup> March.
- x) Property Funds/Unit Trusts are valued at the bid market price, which is based upon regular independent valuation of the underlying property holdings of the Fund/Unit Trust.

**(e) Financial Instruments**

Pension Fund assets have been assessed as fair value through profit and loss in line with IAS19.

**(f) Cash and Cash Funds**

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

**(g) Investment Income**

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

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

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

- Actuarial present value of promised retirement benefits

**(i) Critical judgements in applying accounting policies**

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

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 31<sup>st</sup> March 2018 was £67.53 million (£60.68 million as at 31<sup>st</sup> March 2017).

**(j) Other**

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

### 3. Analysis of Contributions

| Total<br>Contributions<br>2016/17<br>£'000 |   | Total<br>Contributions<br>2017/18<br>£'000 |
|--|---|--|
| <b>46,623</b>                              | <b><u>Administering Authority</u></b><br>City & County of Swansea | <b>50,268</b>                              |
|  | <b><u>Admitted Bodies</u></b>                                     |  |
| 364  | Celtic Community Leisure  | 412  |
| 42   | Swansea Bay Racial Equality Council                               | 11   |
| 117  | Wales National Pool   | 118  |
| 2,547                                      | Tai Tarian  | 2,511                                      |
| 676  | Pobl Group  | 553  |
| 11   | Rathbone Training (CCS)   | 5  |
| 36   | Rathbone Training (Gower College)                                 | 31   |
| <b>3,793</b>                               | <b>Total Admitted Bodies</b>                                      | <b>3,641</b>                               |
|  | <b><u>Scheduled Bodies</u></b>                                    |  |
| 8  | Cilybebyll Community Council                                      | 9  |
| 29   | Coedffranc Community Council                                      | 40   |
| 1,737                                      | Gower College   | 2,246                                      |
| 1,699                                      | NPTC Group  | 2,022                                      |
| 71   | Neath Town Council  | 64   |
| 26,087                                     | Neath Port Talbot County Borough Council                          | 27,662                                     |
| 37   | Margam Joint Crematorium Committee                                | 38   |
| 5  | Pelenna Community Council   | 7  |
| 16   | Pontardawe Town Council   | 19   |
| 27   | Swansea Bay Port Health Authority                                 | 16   |
| 1,584                                      | University of Wales Trinity St Davids                             | 1,655                                      |
| 2  | Briton Ferry Town Council   | 5  |
| 2  | Llanrhidian Higher Community Council                              | 3  |
| 1  | Ystalyfera Community Council                                      | 3  |
| <b>31,305</b>                              | <b>Total Scheduled Bodies</b>                                     | <b>33,789</b>                              |
| <b>81,721</b>                              | <b>Total Contributions Receivable</b>                             | <b>87,698</b>                              |

### 3. Analysis of Contributions (continued)

Total Employer/Employee contributions comprise of:

| 2016/17       |                                       |              | 2017/18       |  |
|---------------|---------------------------------------|--------------|---------------|--|
| £'000         |                                       |              | £'000         |  |
| 60,780        | Employers                             | Normal       | 66,390        |  |
| 0             |                                       | Other        | 0             |  |
| 4,038         |                                       | Early Access | 3,642         |  |
| <u>64,818</u> | <b>Total</b>                          |              | <u>70,032</u> |  |
|               |                                       |              |               |  |
| 16,863        | Employees                             | Normal       | 17,627        |  |
| 40            |                                       | Other        | 39            |  |
| <u>16,903</u> | <b>Total</b>                          |              | <u>17,666</u> |  |
| <u>81,721</u> | <b>Total Contributions Receivable</b> |              | <u>87,698</u> |  |

### 4. Transfers In

Transfers in comprise of:

| 2016/17      |   |  | 2017/18      |  |
|--------------|---|--|--------------|--|
| £'000        |   |  | £'000        |  |
| 0            | Group transfers from other schemes      |  | 0            |  |
| 3,841        | Individual transfers from other schemes |  | 3,191        |  |
| <u>3,841</u> | <b>Total</b>                            |  | <u>3,191</u> |  |

### 5. Other Income

Other income comprise of:

| 2016/17    |                         |  | 2017/18    |  |
|------------|-------------------------|--|------------|--|
| £'000      |                         |  | £'000      |  |
| 200        | Bank Interest           |  | 180        |  |
| -6         | Early Access - Interest |  | 0          |  |
| <u>194</u> | <b>Total</b>            |  | <u>180</u> |  |

## 6. Benefits Payable

The lump sum benefits paid comprise of:

| <b>2016/17</b>       |  | <b>2017/18</b>       |
|----------------------|--|----------------------|
| <b>£'000</b>         |  | <b>£'000</b>         |
| 58,454               | Pensions                                     | 61,207               |
| 15,417               | Commutation and lump sum retirement benefits | 14,888               |
| <u>2,362</u>         | Lump sum death benefits                      | <u>1,314</u>         |
| <b><u>76,233</u></b> | <b>Total</b>                                 | <b><u>77,409</u></b> |

## 7. Payments to and on account of leavers

Transfers out and refunds comprise of:

| <b>2016/17</b>      |                                       | <b>2017/18</b>      |
|---------------------|---------------------------------------|---------------------|
| <b>£'000</b>        |                                       | <b>£'000</b>        |
| 120                 | Refunds to members leaving service    | 101                 |
| <u>4,750</u>        | Individual transfers to other schemes | <u>4,452</u>        |
| <b><u>4,870</u></b> | <b>Total</b>                          | <b><u>4,553</u></b> |

## 8. Administrative and Investment Manager Expenses

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

| 2016/17<br>£'000 |  | 2017/18<br>£'000 |
|------------------|--|------------------|
|                  | <b>Administrative Expenses</b>         |                  |
| 690              | Support Services(SLA) & Employee Costs | 755              |
| 18               | Printing & Publications                | 18               |
| 169              | Other                                  | 305              |
| <b>877</b>       |  | <b>1,078</b>     |
|                  | <b>Oversight &amp; Governance</b>      |                  |
| 55               | Actuarial Fees                         | 43               |
| 45               | Advisors Fees                          | 123              |
| 50               | External Audit Fees                    | 45               |
| 10               | Performance Monitoring Services Fees   | 14               |
| 6                | Pension Fund Committee                 | 5                |
| 1                | Pension Board                          | 2                |
| 97               | All Wales Pool Fees                    | 77               |
| <b>264</b>       |  | <b>309</b>       |
| <b>1,141</b>     |  | <b>1,387</b>     |
|                  | <b>Investment Management Expenses</b>  |                  |
| 4,894            | Management Fees                        | 4,402            |
| 494              | Performance Fees                       | 1,400            |
| 124              | Custody Fees                           | 135              |
| <b>5,512</b>     |  | <b>5,937</b>     |
| <b>6,653</b>     | <b>Total</b>                           | <b>7,324</b>     |

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

| <b>2016/17</b> |                         | <b>2017/18</b> |
|----------------|-------------------------|----------------|
| <b>£'000</b>   |                         | <b>£'000</b>   |
| 277            | Partners Group          | 997            |
| 678            | Blackrock               | 972            |
| 1,300          | Schroders Property Fund | 1,420          |
| 733            | Permal                  | 633            |
| 715            | HarbourVest             | 678            |
| <b>3,703</b>   | <b>Total</b>            | <b>4,700</b>   |

## 9. Investment Income

| <b>2016/17</b> |  | <b>2017/18</b> |
|----------------|--|----------------|
| <b>£'000</b>   |  | <b>£'000</b>   |
| 15,596         | U.K. Equities                              | 16,349         |
| 9,169          | Overseas Equities                          | 10,020         |
| 3,854          | Managed Fund – Fixed Interest              | 3,102          |
| 1,289          | Pooled Investment vehicles - Property Fund | 1,483          |
| -70            | Interest and Other Income                  | -63            |
| <b>29,838</b>  | <b>Total</b>                               | <b>30,891</b>  |

The assets under management by Blackrock 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

|  | 31 <sup>st</sup> March 2017 |                   |                  | 31 <sup>st</sup> March 2018 |                   |                  |
|--|-----------------------------|-------------------|------------------|-----------------------------|-------------------|------------------|
|  | UK<br>£'000                 | Overseas<br>£'000 | Total<br>£'000   | UK<br>£'000                 | Overseas<br>£'000 | Total<br>£'000   |
| <b>Equities</b>                                      |                             |                   |                  |                             |                   |                  |
| Quoted   | 414,015                     | 456,711           | 870,726          | 424,093                     | 477,911           | 902,004          |
|  | 414,015                     | 456,711           | 870,726          | 424,093                     | 477,911           | 902,004          |
| <b>Pooled investment vehicles</b>                    |                             |                   |                  |                             |                   |                  |
| Managed Funds:                                       |                             |                   |                  |                             |                   |                  |
| Quoted:  |                             |                   |                  |                             |                   |                  |
| Equity   | 0                           | 16,585            | 16,585           | 0                           | 17,226            | 17,226           |
| Fixed Interest                                       | 0                           | 118,328           | 118,328          | 0                           | 117,508           | 117,508          |
| Unquoted:  |                             |                   |                  |                             |                   |                  |
| Equity   | 149,787                     | 315,506           | 465,293          | 152,177                     | 326,367           | 478,544          |
| Fixed Interest                                       | 60,643                      | 16,349            | 76,992           | 60,950                      | 15,633            | 76,583           |
| Index-linked   | 32,282                      | 0                 | 32,282           | 32,547                      | 0                 | 32,547           |
| Property Unit Trust                                  | 12,053                      | 0                 | 12,053           | 15,831                      | 0                 | 15,831           |
| Property Fund  | 36,162                      | 38,911            | 75,073           | 33,035                      | 36,390            | 69,425           |
| Hedge Fund   | 0                           | 52,318            | 52,318           | 0                           | 54,601            | 54,601           |
| Private Equity                                       | 0                           | 60,689            | 60,689           | 0                           | 67,525            | 67,525           |
| <b>Total pooled investment vehicles</b>              | <b>290,927</b>              | <b>618,686</b>    | <b>909,613</b>   | <b>294,540</b>              | <b>635,250</b>    | <b>929,790</b>   |
| <b>Total equities and pooled investment vehicles</b> | <b>704,942</b>              | <b>1,075,397</b>  | <b>1,780,339</b> | <b>718,633</b>              | <b>1,113,161</b>  | <b>1,831,794</b> |
| Cash Funds   |                             |                   | 1,664            |                             |                   | 761              |
| Cash   |                             |                   | 67,561           |                             |                   | 77,046           |
| Other Investment Balances Due                        |                             |                   | 3,211            |                             |                   | 3,672            |
| <b>Total</b>   |                             |                   | <b>1,852,775</b> |                             |                   | <b>1,913,273</b> |

## 11. Investment Assets (Continued)

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

| <b>31<sup>st</sup> March<br/>2017<br/>£'000</b> | <b>Investment Assets</b>       | <b>31<sup>st</sup> March<br/>2018<br/>£'000</b> |
|---|--------------------------------|---|
| 195,320   | Fixed Interest                 | 194,091   |
| 32,282  | Index Linked Securities        | 32,547  |
| 563,802   | U.K. Equities                  | 576,270   |
| 788,802   | Overseas Equities              | 821,504   |
| 87,126  | Property                       | 85,256  |
| 52,318  | Hedge Funds                    | 54,601  |
| 60,689  | Private Equity                 | 67,525  |
| 0   | Infrastructure                 | 0   |
| <b><u>1,780,339</u></b>                         | <b>Total Investment Assets</b> | <b><u>1,831,794</u></b>                         |

## 12. Reconciliation of movements in investments

|   | Value at<br>31 <sup>st</sup> March<br>2017 | Purchases             | Sales                  | Change in<br>Market<br>Value | Value at<br>31 <sup>st</sup> March<br>2018 |
|---|--|-----------------------|------------------------|------------------------------|--|
|   | £'000                                      | £'000                 | £'000                  | £'000                        | £'000                                      |
| <b>Equities</b>                                     |  |                       |                        |                              |  |
| Aberdeen  | 130,967                                    | 20,036                | -17,083                | 1,685                        | 135,605                                    |
| JPM   | 350,252                                    | 328,051               | -326,437               | 12,409                       | 364,275                                    |
| Schroders   | 406,092                                    | 73,080                | -50,834                | -8,988                       | 419,350                                    |
| L&G/Blackrock                                       | 465,293                                    | 2,789                 | -6                     | 10,468                       | 478,544                                    |
|   | <u>1,352,604</u>                           | <u>423,956</u>        | <u>-394,360</u>        | <u>15,574</u>                | <u>1,397,774</u>                           |
| <b>Property</b>                                     |  |                       |                        |                              |  |
| <b>UK</b>   |  |                       |                        |                              |  |
| Schroders   | 48,215                                     | 6,357                 | -9,448                 | 3,742                        | 48,866                                     |
| <b>Overseas</b>                                     |  |                       |                        |                              |  |
| Partners  | 25,089                                     | 2,189                 | -7,401                 | 2,003                        | 21,880                                     |
| Invesco   | 13,822                                     | 0                     | -638                   | 1,326                        | 14,510                                     |
|   | <u>87,126</u>                              | <u>8,546</u>          | <u>-17,487</u>         | <u>7,071</u>                 | <u>85,256</u>                              |
| <b>Fixed Interest</b>                               |  |                       |                        |                              |  |
| <b>Fixed Interest</b>                               |  |                       |                        |                              |  |
| L&G/Blackrock                                       | 76,992                                     | 0                     | 0                      | -409                         | 76,583                                     |
| Goldman Sachs                                       | 118,328                                    | 3,101                 | 0                      | -3,921                       | 117,508                                    |
|   | <u>195,320</u>                             | <u>3,101</u>          | <u>0</u>               | <u>-4,330</u>                | <u>194,091</u>                             |
| <b>Index-Linked</b>                                 |  |                       |                        |                              |  |
| L&G/Blackrock                                       | 32,282                                     | 0                     | 0                      | 265                          | 32,547                                     |
|   | <u>32,282</u>                              | <u>0</u>              | <u>0</u>               | <u>265</u>                   | <u>32,547</u>                              |
| <b>Hedge Funds</b>                                  |  |                       |                        |                              |  |
| Blackrock   | 27,590                                     | 0                     | -466                   | 1,773                        | 28,897                                     |
| Permal  | 24,728                                     | 0                     | -391                   | 1,367                        | 25,704                                     |
|   | <u>52,318</u>                              | <u>0</u>              | <u>-857</u>            | <u>3,140</u>                 | <u>54,601</u>                              |
| <b>Private Equity</b>                               |  |                       |                        |                              |  |
| HarbourVest   | 60,689                                     | 16,053                | -15,446                | 6,229                        | 67,525                                     |
|   | <u>60,689</u>                              | <u>16,053</u>         | <u>-15,446</u>         | <u>6,229</u>                 | <u>67,525</u>                              |
| <b>Infrastructure</b>                               |  |                       |                        |                              |  |
| First State   | 0  | 0                     | 0                      | 0                            | 0  |
|   | <u>0</u>                                   | <u>0</u>              | <u>0</u>               | <u>0</u>                     | <u>0</u>                                   |
| <b>Cash funds</b>                                   |  |                       |                        |                              |  |
| Schroders   | 1,664                                      | 0                     | -908                   | 5                            | 761  |
|   | <u>1,664</u>                               | <u>0</u>              | <u>-908</u>            | <u>5</u>                     | <u>761</u>                                 |
| <b>TOTAL</b>  | <u><b>1,782,003</b></u>                    | <u><b>451,656</b></u> | <u><b>-429,058</b></u> | <u><b>27,954</b></u>         | <u><b>1,832,555</b></u>                    |
| <b>Cash</b>   | <b>67,561</b>                              |                       |                        |                              | <b>77,046</b>                              |
| <b>Other Investment Balance -<br/>Dividends Due</b> | <b>3,211</b>                               |                       |                        |                              | <b>3,672</b>                               |
| <b>TOTAL</b>  | <u><b>1,852,775</b></u>                    |                       |                        | <u><b>27,954</b></u>         | <u><b>1,913,273</b></u>                    |

## 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 £842k (2016/17 : £264k). 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 passively managed assets previously managed by Legal & General Asset Management transitioned to Blackrock Asset Management as part of the collaborative procurement exercise undertaken as a precursor to the Wales Pension Partnership.

## 13. Concentration of Investments

The following investments represented more than 5% of the Plan's net assets at 31 March 2018:

|   | Value as at the<br>31st March<br>2017<br>£'000 | Proportion<br>of Net Asset<br>% | Value as at the<br>31 <sup>st</sup> March 2018<br>£'000 | Proportion<br>of Net Asset<br>% |
|---|--|---------------------------------|---|---------------------------------|
| L&G/Blackrock UK Equity Index               | 149,787  | 8.1                             | 152,177   | 8.0                             |
| Goldman Sachs Global Libor Plus II          | 118,328  | 6.4                             | 117,508   | 6.1                             |
| L&G/Blackrock North America Equity<br>Index | 146,379  | 7.9                             | 149,143   | 7.8                             |
| JP Morgan North American Equities           | 198,563  | 10.7                            | 209,177   | 10.9                            |

## 14. Realised Profit on the Sale of Investments

| 2016/17<br>£'000 |                              | 2017/18       |
|------------------|------------------------------|---------------|
| 9,312            | U.K. Equities                | 17,609        |
| 39,557           | Overseas Equities            | 56,905        |
| 2,286            | Property Fund                | 3,735         |
| 2                | Cash Fund                    | 2             |
| <b>51,157</b>    | <b>Net Profit / Loss (-)</b> | <b>78,251</b> |

## 15. Fixed Interest and Index Linked Investments

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

| <b>31<sup>st</sup> March<br/>2017</b> |                  | <b>31<sup>st</sup> March<br/>2018</b> |
|---------------------------------------|------------------|---------------------------------------|
| <b>£'000</b>                          |                  | <b>£'000</b>                          |
| 147,948                               | UK Public Sector | 143,791                               |
| 79,654                                | Other            | 82,847                                |
| <b>227,602</b>                        | <b>Total</b>     | <b>226,638</b>                        |

## 16. Current Assets & Liabilities

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

| <b>31<sup>st</sup> March<br/>2017</b> |  | <b>31<sup>st</sup> March<br/>2018</b> |
|---------------------------------------|--|---------------------------------------|
| <b>£'000</b>                          |  | <b>£'000</b>                          |
| <b>Current Assets</b>                 |  |                                       |
| 593                                   | Contributions - Employees                    | 629                                   |
| 2,594                                 | Contributions – Employers                    | 2,430                                 |
| 2,565                                 | Early Access Contributions Debtor            | 2,789                                 |
| 406                                   | Transfer Values                              | 441                                   |
| 1,244                                 | Other  | 1,210                                 |
| <b>7,402</b>                          |  | <b>7,499</b>                          |
| <b>Current Liabilities</b>            |  |                                       |
| -547                                  | Investment Management Expenses               | -529                                  |
| -1,970                                | Commutation and Lump Sum Retirement Benefits | -1,817                                |
| -44                                   | Lump Sum Death Benefits                      | -40                                   |
| -677                                  | Transfers to Other Schemes                   | -751                                  |
| -602                                  | Payroll Deductions - Tax                     | -602                                  |
| -30                                   | Payable Control List                         | -34                                   |
| -425                                  | Other  | -489                                  |
| <b>-4,295</b>                         |  | <b>-4,262</b>                         |
| <b>3,107</b>                          | <b>Net</b>                                   | <b>3,237</b>                          |

## 16. Current Assets and Liabilities (continued)

Analysed as:

| 31 <sup>st</sup> March<br>2017 |                              | 31 <sup>st</sup> March<br>2018 |
|--------------------------------|------------------------------|--------------------------------|
| £'000                          |                              | £'000                          |
|                                | <b>Current Assets</b>        |                                |
| 511                            | Central Government Bodies    | 701                            |
| 6,039                          | Other Local Authorities      | 6,210                          |
| 852                            | Other Entities & Individuals | 588                            |
| <u>7,402</u>                   |                              | <u>7,499</u>                   |
|                                | <b>Current Liabilities</b>   |                                |
| -216                           | Central Government Bodies    | -36                            |
| -739                           | Other Local Authorities      | -661                           |
| -3,340                         | Other Entities & Individuals | -3,565                         |
| <u>-4,295</u>                  |                              | <u>-4,262</u>                  |
| <u>3,107</u>                   | <b>Net</b>                   | <u>3,237</u>                   |

### Early Access Debtor

|                                  | Instalment<br>Due<br>2018/19<br>£'000 | Instalment<br>Due<br>2019/20<br>£'000 | Instalment<br>Due<br>2020/21<br>£'000 | Instalment<br>Due<br>2021/22<br>£'000 | Total<br>£'000 |
|----------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|----------------|
| Early Access<br>Principal Debtor | 2,967                                 | 0                                     | 0                                     | 0                                     | 2,967          |
| Early Access<br>Interest Debtor  | 0                                     | 0                                     | 0                                     | 0                                     | 0              |
| <b>Total (Gross)</b>             | <u>2,967</u>                          | <u>0</u>                              | <u>0</u>                              | <u>0</u>                              | <u>2,967</u>   |

## 17. Capital and Contractual Commitments

As at 31 March 2018 the Scheme was committed to providing additional funding to certain managers investing in unquoted securities. These commitments amounted to £100.7m (2016/17: £70.0m).

## 18. Related Party Transactions

£755k (£690k 16/17) 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 57](#).

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 35 scheduled and admitted bodies. Management of the Pension Scheme Investment Fund is undertaken by a panel. The panel is advised by two independent advisors and an investment consultancy service.

## 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 2016/17, the figures below show the change in value of post-employment benefits provided to these individuals over the accounting year based on the percentage of time on matters relating to the Pension Fund. The value of the benefits has been calculated consistently with those of the whole Fund disclosure provided in [note 18](#), albeit the figures below have been calculated at different dates to those used for the whole fund disclosure.

|  | Increase/(decrease) in IAS19 liability to 31 March 2018 |                                      | Increase/(decrease) in IAS19 liability to 31 March 2017 |                                      |
|--|---|--------------------------------------|---|--------------------------------------|
|  | Amount (£)  | Percentage (%) of year end liability | Amount (£)  | Percentage (%) of year end liability |
| Chief Executive  | 81,000  | 5.2                                  | 333,000   | 28.1                                 |
| Head of Financial Services & Service Centre, Section 151 Officer | 64,000  | 30.7                                 | 28,000  | 16.1                                 |

## Related Party Transactions Cont'd

|   | Short Term Benefits to 31 March<br>2018               |  | Short Term Benefits to 31 March<br>2017               |  |
|---|---|--|---|--|
|   | Remuneration<br>(Including Fees<br>& Allowances)<br>£ | Pension<br>Contributions<br>(23.4%)<br>£ | Remuneration<br>(Including Fees<br>& Allowances)<br>£ | Pension<br>Contributions<br>(22.4%)<br>£ |
| Chief Executive   | 142,814   | 33,418                                   | 162,667   | 31,108                                   |
| Head of Financial Services & Service<br>Centre, Section 151 Officer | 71,951  | 16,764                                   | 6,181   | 1,385                                    |

Notes in relation to 2016/17

- (i) The Chief Executive retired on the 31<sup>st</sup> May 2016. The Director of Place became the Chief Executive on 1<sup>st</sup> June 2016 but was remunerated from 1<sup>st</sup> May 2016 in a one month handover period prior approved by Council decision.
- (ii) The Head of Financial Services & Service Centre (previously Head of Finance & Delivery) was the Director of Resource from the 28<sup>th</sup> April 2016.

Requirements for Officer remuneration and members allowances is detailed in section 3.4 of the Code and can be found in the financial statements of the City & County of Swansea.

### 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 01/04/17<br>£'000 | Purchases at Cost (Contributions In/Out)<br>£'000 | Sale Proceeds<br>£'000 | Change in Market Value<br>£'000 | Value of Funds at 31/03/18<br>£'000 |
|----------------|-------------------------------------|---|------------------------|---------------------------------|-------------------------------------|
| Prudential     | 5,226                               | 1,604   | -1,305                 | 137                             | 5,662                               |
| Aegon          | 1,124                               | 27  | -77                    | 32                              | 1,106                               |
| Equitable Life | 279                                 | 1   | -37                    | 6                               | 249                                 |
| <b>Totals</b>  | <b>6,629</b>                        | <b>1,632</b>                                      | <b>-1,419</b>          | <b>175</b>                      | <b>7,017</b>                        |

## 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 2018 there were 19,671 contributors, 12,763 pensioners and 11,394 deferred pensioners.

| Membership statistics | 31/03/14<br>Number | 31/03/15<br>Number | 31/03/16<br>Number | 31/03/17<br>Number | 31/03/18<br>Number |
|-----------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Contributors          | 15,576             | 16,285             | 17,469             | 17,903             | 19,671             |
| Pensioners            | 10,833             | 11,261             | 11,745             | 12,200             | 12,763             |
| Deferred Pensioners   | 9,663              | 9,801              | 11,226             | 11,583             | 11,394             |
| <b>Total</b>          | <b>36,072</b>      | <b>37,347</b>      | <b>40,440</b>      | <b>41,686</b>      | <b>43,828</b>      |

See Appendix 1 for current year analysis.

## **22. Fair Value of Investments**

### **Financial Instruments**

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

### **Financial Instruments – Gains and Losses**

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

### **Fair Value – Hierarchy**

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

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

The following table shows the position of the Fund's assets at 31st March 2017 and 2018 based upon this hierarchy.

## FAIR VALUE - HIERARCHY

|                                   | 31 March 2017         |                  |                  | 31 March 2018    |                       |                  |                  |                  |
|-----------------------------------|-----------------------|------------------|------------------|------------------|-----------------------|------------------|------------------|------------------|
|                                   | Market Value<br>£'000 | Level 1<br>£'000 | Level 2<br>£'000 | Level 3<br>£'000 | Market Value<br>£'000 | Level 1<br>£'000 | Level 2<br>£'000 | Level 3<br>£'000 |
| <b>Equities</b>                   |                       |                  |                  |                  |                       |                  |                  |                  |
| UK Equities                       | 414,015               | 414,015          | -                | -                | 424,093               | 424,093          | -                | -                |
| Overseas Equities                 | 456,711               | 456,711          | -                | -                | 477,911               | 477,911          | -                | -                |
| <b>Pooled Investment Vehicles</b> |                       |                  |                  |                  |                       |                  |                  |                  |
| Fixed-Interest Funds              | 118,328               | 118,328          | -                | -                | 117,508               | 117,508          | -                | -                |
| UK Equity                         | 149,787               | -                | -                | 149,787          | 152,177               | -                | -                | 152,177          |
| Overseas Equity                   | 332,091               | 16,585           | -                | 315,506          | 343,593               | 17,226           | -                | 326,367          |
| Fixed Interest                    | 76,992                | -                | -                | 76,992           | 76,583                | -                | -                | 76,583           |
| Index-linked                      | 32,282                | -                | -                | 32,282           | 32,547                | -                | -                | 32,547           |
| Property Unit Trust               | 12,053                | -                | -                | 12,053           | 15,831                | -                | -                | 15,831           |
| Property Fund                     | 75,073                | -                | -                | 75,073           | 69,425                | -                | -                | 69,425           |
| Hedge Fund                        | 52,318                | -                | -                | 52,318           | 54,601                | -                | -                | 54,601           |
| Private Equity                    | 60,689                | -                | -                | 60,689           | 67,525                | -                | -                | 67,525           |
| Infrastructure                    | -                     | -                | -                | -                | -                     | -                | -                | -                |
| Cash                              | 69,225                | 69,225           | -                | -                | 77,807                | 77,807           | -                | -                |
| Other Investment Balances -       |                       |                  |                  |                  |                       |                  |                  |                  |
| Dividends Due                     | 3,211                 | 3,211            | -                | -                | 3,672                 | 3,672            | -                | -                |
| <b>Total</b>                      | <b>1,852,775</b>      | <b>1,078,075</b> | <b>-</b>         | <b>774,700</b>   | <b>1,913,273</b>      | <b>1,118,217</b> | <b>-</b>         | <b>795,056</b>   |

## **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.

## **23. Investment Risks (Continued)**

### **Manager Risk**

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

be smaller in nature than main asset class investments but again regular performance reports are received and such investments are reviewed with managers at least once a year.

### **Credit Risk**

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

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

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

- The Fund's active fixed interest bond portfolio is £117,508k is managed (by Goldman Sachs) on an unconstrained basis and has a significant exposure to credit, emerging market debt and loans. At 31st March 2018, the Fund's exposure to non-investment grade paper was 6.3% 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 £67,525k 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 2018 is set out below with their relative exposure to credit risk :

|           | <b>March 2018<br/>£'000</b> | <b>Credit Exposure</b> |
|-----------|-----------------------------|------------------------|
| Permal    | 25,704                      | 0.15%                  |
| Blackrock | 28,897                      | 25.0%                  |

### **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 85.0% 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 2018 by liquidity profile :

|  | Amounts at                  |                            |                        |                         |                   |
|--|-----------------------------|----------------------------|------------------------|-------------------------|-------------------|
|  | 31st March<br>2018<br>£000s | Within 1<br>month<br>£000s | 1-3<br>months<br>£000s | 4-12<br>months<br>£000s | > 1 Year<br>£000s |
| <b>Equities</b>                                      |                             |                            |                        |                         |                   |
| UK Equities  | 424,093                     | 424,093                    | 0                      | 0                       | 0                 |
| Overseas Equities                                    | 477,911                     | 477,911                    | 0                      | 0                       | 0                 |
| <b>Pooled Investment Vehicles</b>                    |                             |                            |                        |                         |                   |
| Fixed-Interest Funds                                 | 117,508                     | 117,508                    | 0                      | 0                       | 0                 |
| UK Equity  | 152,177                     | 152,177                    | 0                      | 0                       | 0                 |
| Overseas Equity                                      | 343,593                     | 343,593                    | 0                      | 0                       | 0                 |
| Fixed Interest                                       | 76,583                      | 76,583                     | 0                      | 0                       | 0                 |
| Index-linked   | 32,547                      | 32,547                     | 0                      | 0                       | 0                 |
| Property Unit Trust                                  | 15,831                      | 0                          | 0                      | 15,831                  | 0                 |
| Property Fund  | 69,425                      | 0                          | 0                      | 33,035                  | 36,390            |
| Hedge Fund   | 54,601                      | 0                          | 0                      | 54,601                  | 0                 |
| Private Equity                                       | 67,525                      | 0                          | 0                      | 0                       | 67,525            |
| Infrastructure                                       | 0                           | 0                          | 0                      | 0                       | 0                 |
| Deposits with banks and other financial institutions | 77,807                      | 77,807                     | 0                      | 0                       | 0                 |
| Other Investment Balances - Dividends Due            | 3,672                       | 3,672                      | 0                      | 0                       | 0                 |
| <b>Total</b>   | <b>1,913,273</b>            | <b>1,705,891</b>           | <b>0</b>               | <b>103,467</b>          | <b>103,915</b>    |

### 23. Investment Risks (Continued)

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

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

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

### **Market Risk**

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

Market risk is comprised of two elements :

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

The table below sets out an analysis of the Fund’s market risk positions at 31 March 2018 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%<br>L&G/Blackrock | 20%<br>Schroders                                    | FTSE allshare   | +3% p.a. over rolling 3 year                              |
| Overseas Equities     | 34% +/- 5%       | 13%<br>L&G/Blackrock | 21%<br>JP Morgan & Aberdeen<br>Aberdeen             | MSCI World all share (ex UK)<br>MSCI Frontier Markets Index | +3% p.a. over rolling 3year<br>+% p.a. over rolling 3year |
| Global Fixed Interest | 15% +/- 5%       | 6%<br>L&G/Blackrock  | 9%<br>Goldman Sachs                                 | Libor   | LIBOR +3%   |
| Property              | 5% +/- 5%        | -                    | 5%<br>Schroders, Partners & Invesco                 | IPD UK Pooled Property Fund Index                           | + 1% p.a. over rolling 3 year, 8% absolute return         |
| Hedge Funds           | 5% +/- 5%        | -                    | 5%<br>Blackrock & EnTrustPermal (formerly Fauchier) | LIBOR   | +4%   |
| Private Equity        | 3% +/- 5%        | -                    | 3%<br>Harbourvest                                   | FTSE allshare   | +3% p.a. over 3 year rolling                              |
| Infrastructure        | 2% +/- 5%        | -                    | 2%<br>First State                                   | 10% Absolute  | 10% Absolute  |
| Cash                  | 2% +/- 5%        | -                    | 2%<br>In house and cash flows of fund managers      | 7day LIBID  | =   |
| <b>TOTAL</b>          | <b>100%</b>      | <b>33%</b>           | <b>67%</b>  |   |   |

The risks associated with volatility in market values are managed mainly through a policy of broad asset diversification. The Fund sets restrictions on the type of investment it can hold through investment limits, in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. The Fund also adopts a specific strategic benchmark (details can be found in the Fund's ISS) and the weightings of the various asset classes within the benchmark form the basis for asset allocation within the Fund. Under normal conditions there is quarterly rebalancing to this strategic benchmark within fixed tolerances. This allocation, determined through the Fund's asset allocation strategy, is designed to diversify and minimise risk through a broad spread of investments across both the main and alternative asset classes and geographic regions within each asset class. Market risk is also managed through manager diversification – constructing a diversified portfolio across multiple investment managers. On a daily basis, managers will manage risk in line with the benchmarks, targets and risk parameters set for the mandate, as well as their own policies and processes. The Fund itself monitors managers on a regular basis (at least quarterly) on all these aspects.

Due to volatility in the equity markets, there was an imbalance of 4.0% over allocation to overseas equities as at 31<sup>st</sup> March 2018.

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

## 23. Investment Risks (Continued)

### Price Risk

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

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

Following analysis of historical data and expected investment returns movement during the financial year and in consultation with the Fund's investment advisors, the Council has determined the following movements in market price risk are reasonably possible. Had the market price of the fund investments increased/decreased in line with the potential market movements, the change in the net assets available to pay benefits in the market price as at 31<sup>st</sup> March 2018 would have been as follows:

#### Price Risk

| Asset Type                 | Value (£'000)    | % Change       | Value on Increase | Value on Decrease |
|----------------------------|------------------|----------------|-------------------|-------------------|
| UK Equities                | 576,270          | 9.3846%        | 630,351           | 522,189           |
| Overseas Equities          | 821,504          | 9.8587%        | 902,494           | 740,514           |
| Total Bonds & Index-Linked | 226,638          | 6.7384%        | 241,910           | 211,366           |
| Alternatives               | 122,126          | 3.6489%        | 126,582           | 117,670           |
| Cash                       | 77,807           | 0.6851%        | 78,340            | 77,274            |
| Property                   | 85,256           | 2.8684%        | 87,701            | 82,811            |
| Other Investment Balances  | 3,672            | 0.0000%        | 3,672             | 3,672             |
| <b>Total Assets*</b>       | <b>1,913,273</b> | <b>6.7433%</b> | <b>2,042,291</b>  | <b>1,784,255</b>  |

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

And as at 31 March 2017

**Price Risk**

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

*\*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 31<sup>st</sup> 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            |
| <b>Total Currency*</b>       | <b>925,419</b> | <b>8.9006%</b> | <b>1,007,787</b>  | <b>843,051</b>    |

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

And as at 31 March 2017

**Currency Risk (by currency)**

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

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

## **23. Investment Risks (Continued)**

### **Interest Rate Risk**

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

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

## **24. Events After the Balance Sheet Date**

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

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

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

## **25. Further Information**

The accounts outlined within the statement represent the financial position of the City and County of Swansea's Pension Fund at 31 March 2018 and any further enquires may be forwarded to the Chief Treasury & Technical Officer, Room 1.4.2, Civic Centre, Oystermouth Road, Swansea SA1 3SN.

**PART C  
INVESTMENT REPORT**

**Pension Fund – Budget 2018/19**

|                                | <b>Actual<br/>2016/17</b> | <b>Actual<br/>2017/18</b> | <b>Estimate<br/>2018/19</b> |
|--------------------------------|---------------------------|---------------------------|-----------------------------|
| <b>Membership Numbers</b>      |                           |                           |                             |
| Contributors                   | 17,903                    | 19,685                    | 20,000                      |
| Pensioners                     | 12,200                    | 12,671                    | 12,800                      |
| Deferred                       | 11,583                    | 11,535                    | 11,550                      |
|                                | <b>Actual<br/>2016/17</b> | <b>Actual<br/>2017/18</b> | <b>Estimate<br/>2018/19</b> |
|                                | <b>£'000</b>              | <b>£'000</b>              | <b>£'000</b>                |
| <b>Income</b>                  |                           |                           |                             |
| Employer Contributions         | 64,818                    | 70,032                    | 72,147                      |
| Employee Contributions         | 16,903                    | 17,666                    | 18,308                      |
| Transfers In                   | 3,841                     | 3,191                     | 3,400                       |
| Other Income                   | 194                       | 180                       | 185                         |
| Investment Income              | 29,838                    | 30,891                    | 32,000                      |
|                                | <b>115,594</b>            | <b>121,960</b>            | <b>126,040</b>              |
| <b>Expenditure</b>             |                           |                           |                             |
| Pensions Payable               | 58,454                    | 61,207                    | 63,043                      |
| Lump Sum Benefits              | 17,779                    | 16,202                    | 16,500                      |
| Refunds                        | 120                       | 101                       | 110                         |
| Transfers Out                  | 4,750                     | 4,452                     | 4,500                       |
|                                | <b>81,103</b>             | <b>81,962</b>             | <b>84,153</b>               |
| <b>Administrative Expenses</b> |                           |                           |                             |
| Support Services               | 690                       | 755                       | 755                         |
| Actuarial Fees                 | 55                        | 43                        | 70                          |
| Advisors Fees                  | 45                        | 46                        | 23                          |
| Consultancy Service            | 0                         | 77                        | 95                          |
| External Audit Fee             | 50                        | 45                        | 45                          |
| Performance & Monitoring Fees  | 10                        | 14                        | 15                          |
| Printing & Publications        | 18                        | 18                        | 18                          |
| Other                          | 169                       | 305                       | 460                         |
| Pension Fund Committee         | 6                         | 5                         | 10                          |
| Pension Board                  | 1                         | 2                         | 5                           |
| Wales Pension Partnership Fees | 97                        | 77                        | 510                         |
|                                | <b>1,141</b>              | <b>1,392</b>              | <b>2,011</b>                |

|                            | <b>Actual<br/>2016/17<br/>£'000</b> | <b>Actual<br/>2017/18<br/>£'000</b> | <b>Estimate<br/>2018/19<br/>£'000</b> |
|----------------------------|-------------------------------------|-------------------------------------|---------------------------------------|
| <b>Investment Expenses</b> |                                     |                                     |                                       |
| Management Fees            | 4,894                               | 4,402                               | 5,000                                 |
| Performance Fees           | 494                                 | 1,400                               | 1,000                                 |
| Custody Fees               | 124                                 | 135                                 | 135                                   |
|                            | <b>5,512</b>                        | <b>5,937</b>                        | <b>6,135</b>                          |

## **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 31<sup>st</sup> March 2018 comprised (Appendix 2):-

- 7 Councillor Members (one member from Neath Port Talbot CBC representing other scheme employers) advised by:
  - Section 151 Officer
  - Chief Treasury & Technical Officer
  - 2 Independent Advisers
  - 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:

| <b>Asset Class</b>           | <b>Manager</b>                  |
|------------------------------|---------------------------------|
| UK Equities                  | Schroders Investment Management |
| Global Equities (ex UK)      | Aberdeen Asset Managers         |
| Global Equities (ex UK)      | JP Morgan Asset Management      |
| Global Bonds                 | Goldman Sachs Asset Management  |
| Global Balanced Passive      | Blackrock Asset Management      |
| Hedge Fund of Funds          | EnTrustPermal                   |
| Hedge Fund of Funds          | Blackrock Asset Management      |
| Private Equity Fund of Funds | HarbourVest                     |
| Property Fund of Funds       | Partners Group                  |
| Property Fund of Funds       | Schroders Investment Management |
| Property Fund (European)     | Invesco Real Estate             |
| Infrastructure               | First State Investments         |

## Valuation of Investments

The value of the Fund's investments of £1,913m together with net assets totalling £3.0m increased from £1,856m to £1,916m during 2017/18.

The increase of £60m is comprised of two elements:

| <b>2016//17</b> |  | <b>2017/18</b> |
|-----------------|--|----------------|
| <b>£'000</b>    |  | <b>£'000</b>   |
| 339,741         | Net Return on Investments  | 52,908         |
| 3,512           | <b>Add</b> Net new money (comprises contributions receivable, transfer values in less benefits paid and transfer values out) | 7,720          |
| <hr/>           |  | <hr/>          |
| <b>343,253</b>  |  | <b>60,628</b>  |

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 2017           |                   |                            | 31 March 2018           |                   |
|-------------------------|-------------------|----------------------------|-------------------------|-------------------|
| £'000                   | %                 |                            | £'000                   | %                 |
| 195,320                 | 10.6              | Fixed Interest Securities  | 194,091                 | 10.1              |
| 32,282                  | 1.7               | Index Linked Securities    | 32,547                  | 1.7               |
| 563,802                 | 30.5              | UK Equities                | 576,270                 | 30.1              |
| 788,802                 | 42.6              | Overseas Equities          | 821,504                 | 43.0              |
| 87,126                  | 4.7               | Property                   | 85,256                  | 4.5               |
| 52,318                  | 2.8               | Hedge Funds                | 54,601                  | 2.9               |
| 60,689                  | 3.2               | Private Equity             | 67,525                  | 3.5               |
| 69,225                  | 3.7               | Cash/Temporary Investments | 77,807                  | 4.0               |
| 3,211                   | 0.2               | Other: Dividends Due       | 3,672                   | 0.2               |
| <b><u>1,852,775</u></b> | <b><u>100</u></b> |                            | <b><u>1,913,273</u></b> | <b><u>100</u></b> |

1718 Distribution of Investments  
Fund Manager Bid Prices

|                         | Blackrock<br>(Passive) | Schroders<br>Equity | Schroders<br>Property | Invesco   | JP Morgan | Aberdeen  | Goldman<br>Sachs | Partners<br>Group | Blackrock<br>(Hedge) | EnTrust<br>Permal | HarbourVest | First<br>State | External<br>Cash | HSBC<br>Cash | Internal<br>Cash | TOTAL     |       |
|-------------------------|------------------------|---------------------|-----------------------|-----------|-----------|-----------|------------------|-------------------|----------------------|-------------------|-------------|----------------|------------------|--------------|------------------|-----------|-------|
|                         | £<br>'000              | £<br>'000           | £<br>'000             | £<br>'000 | £<br>'000 | £<br>'000 | £<br>'000        | £<br>'000         | £<br>'000            | £<br>'000         | £<br>'000   | £<br>'000      | £<br>'000        | £<br>'000    | £<br>'000        | £<br>'000 | %     |
| <b>Equities</b>         |                        |                     |                       |           |           |           |                  |                   |                      |                   |             |                |                  |              |                  |           |       |
| UK                      | 152,177                | 419,350             |                       |           | 1,902     | 2,841     |                  |                   |                      |                   |             |                |                  |              |                  | 576,270   | 30.1% |
| Europe                  | 66,567                 |                     |                       |           | 61,892    | 23,863    |                  |                   |                      |                   |             |                |                  |              |                  | 152,322   | 8.0%  |
| N.America               | 149,143                |                     |                       |           | 209,177   | 48,396    |                  |                   |                      |                   |             |                |                  |              |                  | 406,716   | 21.3% |
| Japan                   | 34,285                 |                     |                       |           | 28,856    | 13,437    |                  |                   |                      |                   |             |                |                  |              |                  | 76,578    | 4.0%  |
| Pacific                 | 29,622                 |                     |                       |           | 19,939    | 10,238    |                  |                   |                      |                   |             |                |                  |              |                  | 59,799    | 3.1%  |
| Emerging Markets        | 46,750                 |                     |                       |           | 42,509    | 36,830    |                  |                   |                      |                   |             |                |                  |              |                  | 126,089   | 6.6%  |
| <b>Property</b>         |                        |                     |                       |           |           |           |                  |                   |                      |                   |             |                |                  |              |                  |           |       |
| UK & Europe             |                        |                     | 48,866                | 14,510    |           |           |                  |                   |                      |                   |             |                |                  |              |                  | 63,376    | 3.3%  |
| Overseas                |                        |                     |                       |           |           |           | 21,880           |                   |                      |                   |             |                |                  |              |                  | 21,880    | 1.2%  |
| <b>Fixed Interest</b>   |                        |                     |                       |           |           |           |                  |                   |                      |                   |             |                |                  |              |                  |           |       |
| Fixed Interest          | 76,583                 |                     |                       |           |           |           | 117,508          |                   |                      |                   |             |                |                  |              |                  | 194,091   | 10.1% |
| Index-Linked            | 32,547                 |                     |                       |           |           |           |                  |                   |                      |                   |             |                |                  |              |                  | 32,547    | 1.7%  |
| <b>Hedge Funds</b>      |                        |                     |                       |           |           |           |                  |                   | 28,897               | 25,704            |             |                |                  |              |                  | 54,601    | 2.9%  |
| <b>Private Equity</b>   |                        |                     |                       |           |           |           |                  |                   |                      |                   | 67,525      |                |                  |              |                  | 67,525    | 3.5%  |
| <b>Infrastructure</b>   |                        |                     |                       |           |           |           |                  |                   |                      |                   |             | 0              |                  |              |                  | 0         | 0.0%  |
| <b>Cash</b>             | -5                     | 3,513               | 6,269                 |           | 4,482     | 5,454     |                  |                   |                      |                   |             |                | 42,002           | 94           | 15,998           | 77,807    | 4.0%  |
| <b>Other Investment</b> |                        |                     |                       |           |           |           |                  |                   |                      |                   |             |                |                  |              |                  |           |       |
| Balances -              |                        | 2,284               | 91                    |           | 1,014     | 283       |                  |                   |                      |                   |             |                |                  |              |                  | 3,672     | 0.2%  |
| Dividends Due           |                        |                     |                       |           |           |           |                  |                   |                      |                   |             |                |                  |              |                  |           |       |
| <b>TOTAL</b>            | 587,669                | 425,147             | 55,226                | 14,510    | 369,771   | 141,342   | 117,508          | 21,880            | 28,897               | 25,704            | 67,525      | 0              | 42,002           | 94           | 15,998           | 1,913,273 | 100%  |
| %                       | 30.7%                  | 22.2%               | 2.9%                  | 0.8%      | 19.4%     | 7.4%      | 6.2%             | 1.1%              | 1.5%                 | 1.4%              | 3.4%        | 0.0%           | 2.2%             | 0.0%         | 0.8%             | 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

|         | <b>City &amp; County of Swansea Fund</b> | <b>Local Authority Average Fund</b> | <b>Relative Performance</b> | <b>Peer Group Ranking</b> | <b>Average Earnings Increase *</b> | <b>RPI*</b> |
|---------|--|-------------------------------------|-----------------------------|---------------------------|------------------------------------|-------------|
|         | %  | %                                   | LA AVG                      |                           | %                                  | %           |
| 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         |
| 2006/07 | 6.6                                      | 6.3                                 | +0.3                        | 32nd                      | 3.5                                | 4.8         |

\*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 +4.5% which was below the long term average but ahead of inflation of 3.3%.

Long term performance of the LGPS has been excellent. The average funds delivered a positive return in 25 of the last 30 years and delivered an annualised performance of 9% p.a.

Asset returns were tightly grouped with bonds, equities and alternatives returning 1%, 4% and 6% respectively for the year. Equities have driven the strong long term performance. Alternatives have performed strongly due in a large part to the good returns from Private Equity. Bonds have performed well over the longer term assisted by “quantitative easing” and strong demands from Pension Funds. Strategic asset allocation had less of an impact than usual – individual fund performance was within a tight range between 2% and 9%. The majority of funds outperformed their benchmark by a small margin.

Property was the best performing of the major asset classes, returning 10% for the year. Active global equity managers added value over the year whilst hedging added value as sterling appreciated over the year. Whilst bond returns were the poorest of the major asset classes absolute return bond strategies outperformed index based portfolios.

UK Equities underperformed all major overseas markets for sterling investors. The average active UK equity manager failed to add value above the benchmark. With an average return under 2% diversified growth funds performed poorly relative to other assets and their benchmarks. Continued low interest rates meant holding any level of cash continued to have a negative impact on return.

Equity exposure fell to its lowest level since the LGPS began, reducing from 62% to 55% of the average fund. Multi asset credit and diversified income strategies gains ground. There has been a continued move away from index based benchmarks towards absolute return benchmarks within alternative assets and within bond allocations. In general there has been a continuation of reduction of size of mandates awarded increasing the number of managers and overall scheme complexity. For the first time there has been a reduction in the level of passive investments, albeit small. There has also been major switches across index tracking managers as funds moved to take advantage of reduced fees negotiated at pool level.

## **Fund Performance**

The fund returned 2.8% for the year, 1.7% below the local authority universe benchmark of 4.5% placing the fund in the 80<sup>th</sup> percentile overall. Equity selection (where the fund ranked 59<sup>th</sup> percentile) was the key factor in the underperformance.

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, however, in 2017/18 this had a broadly neutral impact on relative performance.

Over the longer term the performance has been below the average, the Fund hasn't experienced the outperformance that might have been expected given the high equity content of the investments. More importantly, the Fund has outperformed inflation and actuarial assumptions over all periods.

## PART D

### ACTUARIAL REPORT

#### Statement of the Actuary for the year ended 31 March 2018

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

## Statement of the Actuary for the year ended 31 March 2018 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, HM Treasury, in its response to the consultation on indexation and equalisation of GMPs in public sector schemes, has made an announcement to extend the indexation of GMPs to those reaching State Pension Age on or before 5 April 2021 (previously 5 December 2018). This extension period was not allowed for in the valuation results as the actuarial valuation report was signed off before the announcement, but the increase in liability is not expected to be material.

In addition, amendment Regulations have been laid which provide for exit credits to be repaid to employers on exit, effective from 14 May 2018. It is anticipated that the Administering Authority will consider whether its Funding Strategy Statement should be revised on account of these changes but it is not expected that any surplus repayable to employers on exit will be material.

9. 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.

10. 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

May 2018

93

## **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 31<sup>st</sup> March 2016 is £2,249.7m (31<sup>st</sup> March 2013 £1,936.8m), which compares the market value of the assets at that date of £1,512.6m (31<sup>st</sup> March 2013, £1,277.6m)

## **Definitions**

### **Admission Body**

An employer admitted to the Fund under an admission agreement.

### **Orphan Body**

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

### **Scheduled Body**

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

### **Subsumption and Subsumption Body**

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

## **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 31<sup>st</sup> March 2018 (Continued)

| Employer   | Primary contribution rate<br>% pensionable pay | Secondary contributions (% Pensionable pay and £s) in year commencing 1 April |                       |                       | Total contributions (% Pensionable pay and £s) in year commencing 1 April |                        |                        |
|--|--|---|-----------------------|-----------------------|---|------------------------|------------------------|
|  |  | 2017  | 2018                  | 2019                  | 2017  | 2018                   | 2019                   |
| <b>Schedule 2 Part 1 bodies/ Schedule 2 Part 2 bodies (Scheduled bodies)</b> |  |   |                       |                       |   |                        |                        |
| City & County of Swansea   | 17.9%  | 5.5%  | 6.5%                  | 7.9%                  | 23.4%   | 24.4%                  | 25.8%                  |
| Neath Port Talbot County Borough Council                                     | 17.8%  | 7.7%  | 8.5%                  | 9.3%                  | 25.5%   | 26.3%                  | 27.1%                  |
| 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<br>£5,300  | -0.1% plus<br>£5,500  | -0.1% plus<br>£5,700  | 20.2% plus<br>£5,300  | 20.2% plus<br>£5,500   | 20.2% plus<br>£5,700   |
| Neath Town Council   | 20.3%  | -0.1% plus<br>£16,200   | -0.1% plus<br>£16,800 | -0.1% plus<br>£17,400 | 20.2% plus<br>£16,200   | 20.2% plus<br>£16,800  | 20.2% plus<br>£17,400  |
| Pelenna Community Council  | 27.0%  | £1,200  | £1,200                | £1,300                | 27.0% plus<br>£1,200  | 27.0% plus<br>£1,200   | 27.0% plus<br>£1,300   |
| Pontardawe Town Council  | 23.0%  | £800  | £800                  | £900                  | 23.0% plus £800   | 23.0% plus<br>£800     | 23.0% plus<br>£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<br>£168,400  | 17.7% plus<br>£174,300 | 17.7% plus<br>£180,400 |
| Margam Joint Crematorium Committee   | 20.3%  | -0.1% plus<br>£9,400  | -0.1% plus<br>£9,700  | -0.1% plus<br>£10,100 | 20.2% plus<br>£9,400  | 20.2% plus<br>£9,700   | 20.2% plus<br>£10,100  |
| Swansea Bay Port Health Authority  | 5.8%   | 16.6% plus<br>£0  | 16.6% plus<br>£4,400  | 16.6% plus<br>£9,000  | 22.4% plus<br>£0  | 22.4% plus<br>£4,400   | 22.4% plus<br>£9,000   |

| <b>Schedule 2 Part 3 bodies (Admission bodies)</b> |              |                               |                               |                                 |                                |                                |                                  |
|--|--------------|-------------------------------|-------------------------------|---------------------------------|--------------------------------|--------------------------------|----------------------------------|
| 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<br>£62,300          | 17.0% plus<br>£218,500         | 17.0% plus<br>£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<br>£600            | -0.9% plus<br>£1,300          | £2,000                          | 35.2% plus<br>£600             | 36.1% plus<br>£1,300           | 37.0% plus<br>£2,000             |
| Trinity St Davids                                  | 28.0%        | £389,400                      | £542,300                      | £686,100                        | 28.0% plus<br>£389,400         | 28.0% plus<br>£542,300         | 28.0% plus<br>£686,100           |
| Wales National Pool                                | 14.2%        | -                             | -                             | -                               | 14.2                           | 14.2                           | 14.2                             |
| <b>Total</b>                                       | <b>18.0%</b> | <b>5.5% plus<br/>£653,600</b> | <b>6.3% plus<br/>£974,800</b> | <b>7.3% plus<br/>£1,287,600</b> | <b>23.5% plus<br/>£653,600</b> | <b>24.3% plus<br/>£974,800</b> | <b>25.3% plus<br/>£1,287,600</b> |

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

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

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 1<sup>ST</sup> APRIL  
2016 TO 31<sup>ST</sup> MARCH 2018**

| Contributors                                | Pensioners        | Deferred Benefits | Employer Contribution Rate (% of Pensionable Pay) plus additional annual monetary amount |                   |
|---|-------------------|-------------------|--|-------------------|
| Administering Authority                     | Number @ 31/03/18 | Number @ 31/03/18 | Number @ 31/03/18  |                   |
| City & County of Swansea                    | 11,997            | 5,584             | 5,343  | 23.4%             |
| <b>Scheduled Bodies</b>                     |                   |                   |  |                   |
| Neath Port Talbot County Borough Council.   | 5,540             | 3,767             | 4,426  | 25.5%             |
| Briton Ferry Town Council                   | 1                 | 1                 | 1  | 20.2% (+£1,200)   |
| Cilybebyll Community Council                | 7                 | 1                 | 0  | 22.9%             |
| Clydach Community Council                   | 0                 | 0                 | 1  | -                 |
| Coedffranc Community Council                | 9                 | 3                 | 1  | 20.2% (+£5,300)   |
| Gower College Swansea                       | 564               | 257               | 417  | 21.7%             |
| Llanrhidian Higher Community Council        | 1                 | 0                 | 0  | 18.2%             |
| Lliw Valley BC                              | 0                 | 225               | 20   | -                 |
| Margam Joint Cremation Committee            | 8                 | 13                | 5  | 20.2% (+£9,400)   |
| NPTC Group                                  | 528               | 232               | 414  | 17.7% (+£168,400) |
| Neath Port Talbot Waste Management Co. Ltd. | 0                 | 1                 | 0  | -                 |
| Neath Town Council                          | 12                | 17                | 6  | 20.2% (+£16,200)  |
| Pelenna Community Council                   | 2                 | 2                 | 3  | 27.0% (+£1,200)   |
| Pontardawe Town Council                     | 5                 | 1                 | 0  | 23.0% (+£800)     |
| Swansea Bay Port Health Authority           | 2                 | 11                | 1  | 22.4%             |
| Swansea City Waste Disposal Company         | 0                 | 15                | 3  | -                 |
| University of Wales Trinity St Davids       | 151               | 149               | 225  | 28.0% (+£389,400) |
| West Glamorgan County Council               | 0                 | 2,092             | 229  | -                 |
| West Glamorgan Magistrates Courts           | 0                 | 37                | 15   | -                 |
| West Glamorgan Valuation Panel              | 0                 | 4                 | 0  | -                 |
| Ystalyfera Community Council                | 1                 | 0                 | 0  | 18.2%             |
| <b>Admitted Bodies</b>                      |                   |                   |  |                   |
| BABTIE                                      | 0                 | 3                 | 13   | -                 |
| Celtic Community Leisure                    | 215               | 164               | 36   | 13.2%             |
| Colin Laver Heating Ltd                     | 0                 | 2                 | 2  | -                 |
| Swansea Bay Racial Equality Council         | 1                 | 1                 | 2  | 35.2% (+600)      |
| The Careers Business                        | 0                 | 6                 | 9  | -                 |
| Wales National Pool                         | 64                | 3                 | 66   | 14.2%             |
| West Wales Arts Association                 | 0                 | 2                 | 0  | -                 |
| Cap Gemini                                  | 0                 | 1                 | 4  | -                 |
| Tai Tarian                                  | 403               | 86                | 74   | 17.0% (+£62,300)  |
| Phoenix Trust                               | 0                 | 3                 | 1  | -                 |
| Pobl Group                                  | 155               | 80                | 75   | 20.4%             |
| Rathbone CCS                                | 1                 | 0                 | 2  | 25.2%             |
| Rathbone Gower College                      | 4                 | 0                 | 0  | 24.3%             |
|   | 19,671            | 12,763            | 11,394   |                   |

## Appendix 2

### **Pension Fund Committee 2017/18**

**Chairman** Cllr C Lloyd

**Vice Chairman** Cllr P Downing

#### **Committee Members**

Cllr M B Lewis  
Cllr D G Sullivan  
Cllr W G Thomas  
Cllr M Thomas  
Cllr P Rees (Neath Port Talbot CBC)

#### **Advised by:**

**Council Officers** B Smith, Section 151 Officer (Retired May 2017)  
J Dong, Chief Treasury & Technical Officer

**Financial Advisors** V Furniss  
N Mills

**Consultancy Service** Hymans Robertson LLP

#### **Investment Managers**

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

**Pensions Administration** : Lynne Miller, Pensions Manager, Claire Elliott, Deputy Pensions Manager, City & County of Swansea

**Appointed Actuary** : Aon Hewitt Limited

**Performance Measurement** : PIRC Ltd

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

**Bankers** : Lloyds Bank

**Legal Advisors** : City & County of Swansea Legal Department

**AVC Providers** : Prudential, Aegon and Equitable Life

**Auditors** : Wales Audit Office

## **Local Pension Board 2017/18**

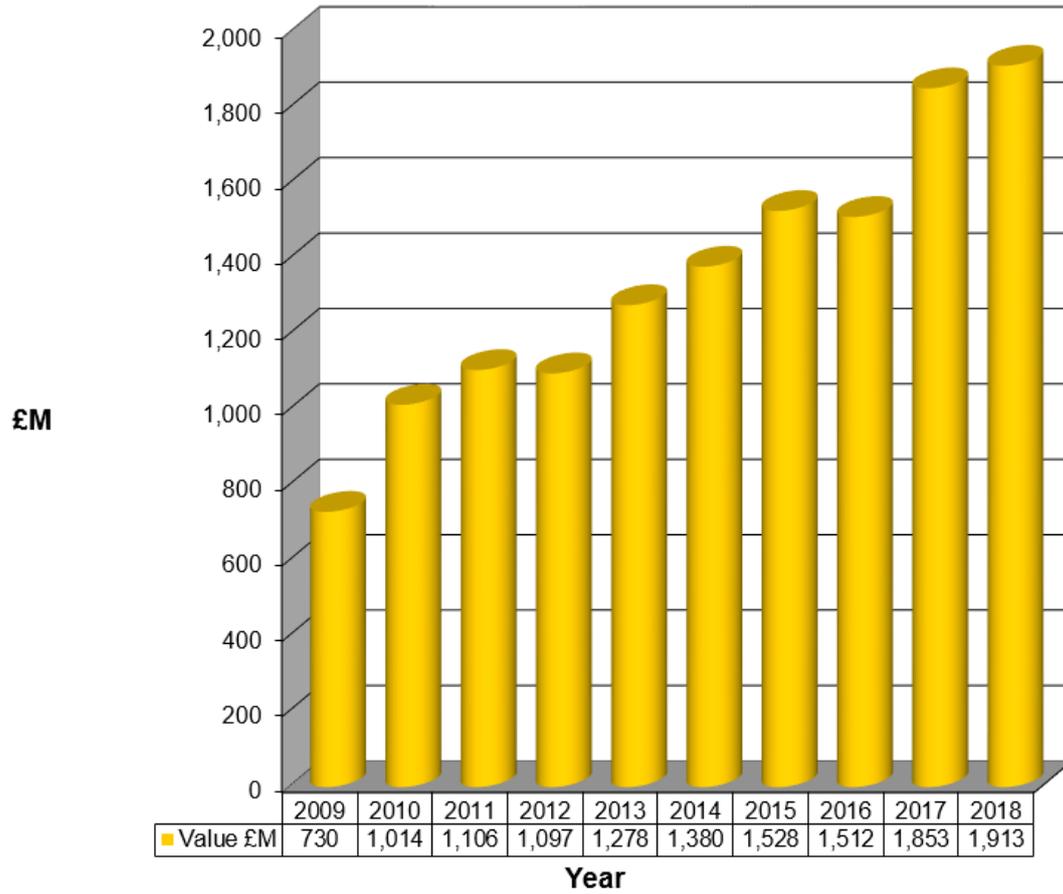
**Chairman** Mr I Guy (NPTCBC)

**Member Representatives** Ms A. Thomas (CCS)  
Ms A Chaves (NPTCBC)

**Employer Representatives** Mr J Andrew ( Tai Tarian)  
Cllr Alan Lockyer (NPTCBC)  
Cllr Mike White (CCS)

### Appendix 3

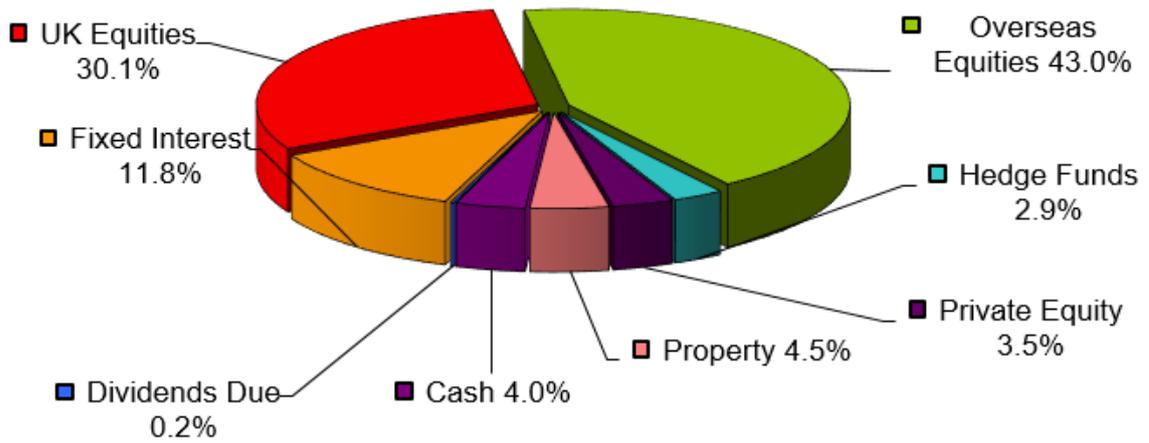
#### Market Value of Investment Assets 2009-2018



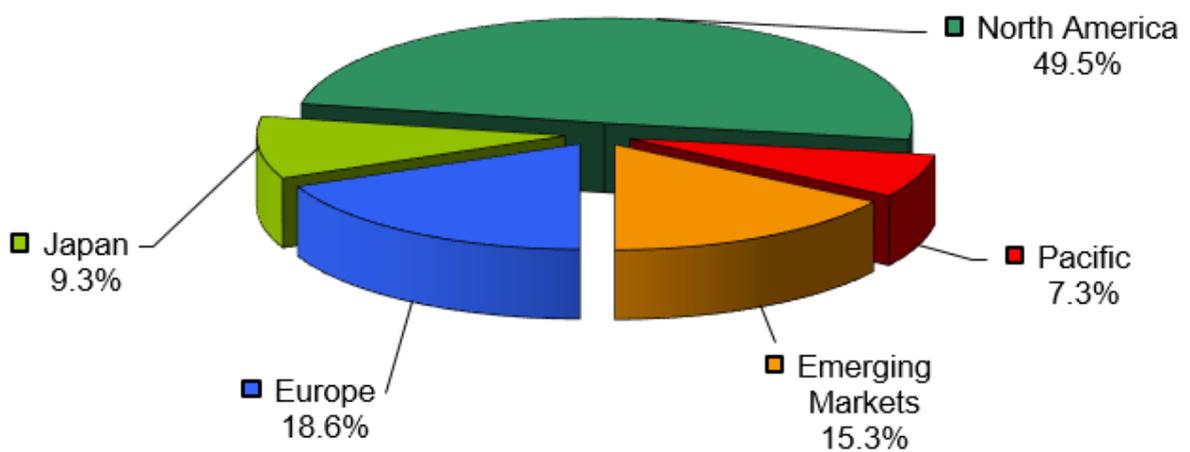
## Portfolio Distribution Summary

| 31 March 2017    |             |  | 31 March 2018    |             |
|------------------|-------------|--|------------------|-------------|
| Market Value     |             |  | Market Value     |             |
| £'000            | %           |  | £'000            | %           |
|                  |             | <b>Fixed Interest Stocks</b>                             |                  |             |
| 195,320          | 10.6        | Fixed Interest   | 194,091          | 10.1        |
| 32,282           | 1.7         | Index Linked   | 32,547           | 1.7         |
| <u>227,602</u>   | <u>12.3</u> |  | <u>226,638</u>   | <u>11.8</u> |
|                  |             | <b>UK Equities &amp; Convertibles</b>                    |                  |             |
| 145,682          | 7.9         | Capital Group  | 158,976          | 8.3         |
| 155,118          | 8.4         | Consumer Group   | 138,172          | 7.2         |
| 102,350          | 5.5         | Financial Group  | 114,860          | 6.0         |
| 10,865           | 0.6         | Unit Trusts  | 12,085           | 0.6         |
| 149,787          | 8.1         | Index Fund   | 152,177          | 8.0         |
| <u>563,802</u>   | <u>30.5</u> |  | <u>576,270</u>   | <u>30.1</u> |
|                  |             | <b>Overseas Securities</b>                               |                  |             |
| 144,965          | 7.8         | Europe   | 152,322          | 8.0         |
| 75,518           | 4.1         | Japan  | 406,716          | 21.63       |
| 390,750          | 21.1        | North America  | 76,578           | 4           |
| 52,704           | 2.8         | Pacific  | 59,799           | 3.1         |
| 124,865          | 6.8         | Emerging Markets   | 126,089          | 6.6         |
| <u>788,802</u>   | <u>42.6</u> |  | <u>821,504</u>   | <u>43.0</u> |
| <u>52,318</u>    | <u>2.8</u>  | <b>Hedge Funds</b>                                       | <u>54,601</u>    | <u>2.9</u>  |
| <u>60,689</u>    | <u>3.2</u>  | <b>Private Equity</b>                                    | <u>67,525</u>    | <u>3.5</u>  |
| <u>87,126</u>    | <u>4.7</u>  | <b>Property</b>  | <u>85,256</u>    | <u>4.5</u>  |
| <u>1,780,339</u> | <u>96.1</u> | <b>Sub Total</b>   | <u>1,831,794</u> | <u>95.8</u> |
|                  |             | <b>Cash held by Managers &amp; Temporary Investments</b> |                  |             |
| 69,225           | 3.7         |  | 77,807           | 4.0         |
|                  |             | <b>Other Investment Balances - Dividends Due</b>         |                  |             |
| 3,211            | 0.2         |  | 3,672            | 0.2         |
| <u>1,552,775</u> | <u>100</u>  | <b>Total</b>   | <u>1,913,273</u> | <u>100</u>  |

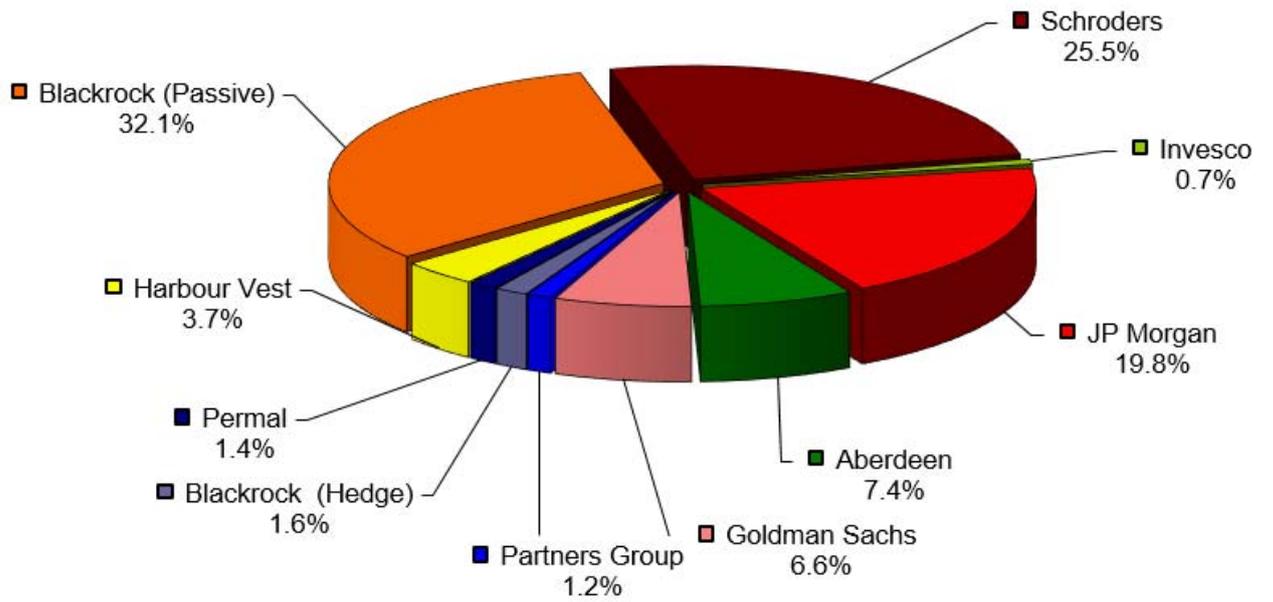
**Analysis of Investments - Market Value 31 March 2018**



**Overseas Investments - Market Value 31 March 2018**



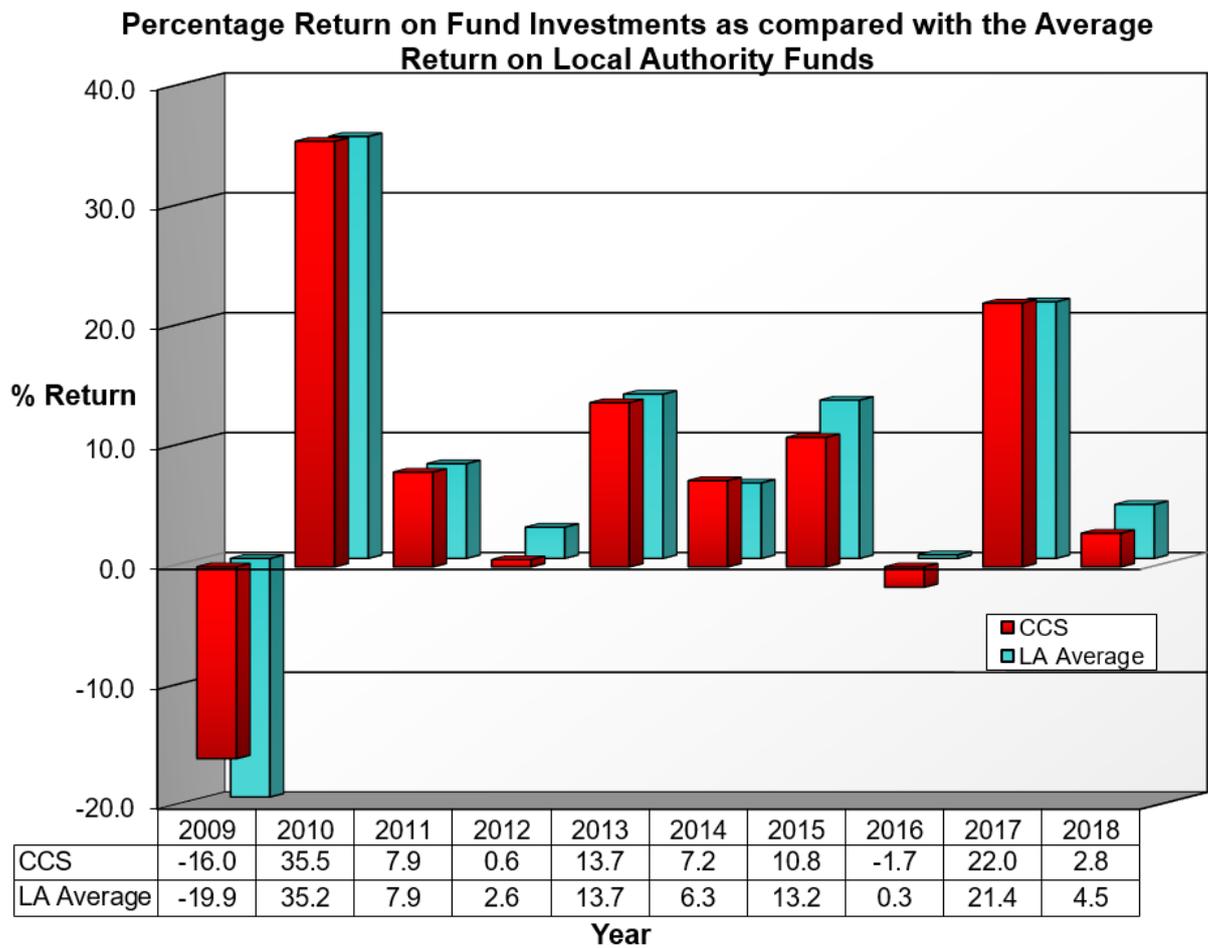
### Fund Manager Breakdown - Market Value 31 March 2018



### Largest Direct Equity Shareholdings by Market Value as at 31st March 2018

|    | <b>Companies</b>             | <b>Sector</b>      | <b>Market Value<br/>£'000s</b> | <b>Proportion of<br/>Direct Equity<br/>Portfolio (%)</b> |
|----|------------------------------|--------------------|--------------------------------|--|
| 1  | Royal Dutch Shell Plc        | Oil & Gas          | 32,935                         | 11.74%   |
| 2  | British American Tobacco Plc | Consumer Goods     | 21,363                         | 7.62%  |
| 3  | BP Plc                       | Oil & Gas          | 19,920                         | 7.10%  |
| 4  | GlaxoSmithKline Plc          | Healthcare         | 18,940                         | 6.75%  |
| 5  | Rio Tinto                    | Basic Materials    | 18,637                         | 6.65%  |
| 6  | HSBC Holdings Plc            | Financials         | 17,814                         | 6.35%  |
| 7  | Lloyds Banking Group         | Financials         | 16,078                         | 5.73%  |
| 8  | Prudential Plc               | Financials         | 13,232                         | 4.72%  |
| 9  | Standard Chartered Plc       | Financials         | 12,918                         | 4.61%  |
| 10 | Vodafone Group               | Telecommunications | 12,426                         | 4.43%  |
| 11 | Unilever Plc                 | Consumer Services  | 11,503                         | 4.10%  |
| 12 | Aviva Plc                    | Financials         | 11,350                         | 4.05%  |
| 13 | AstraZeneca                  | Healthcare         | 11,202                         | 3.99%  |
| 14 | NEX Group                    | Financials         | 10,849                         | 3.87%  |
| 15 | Apple Inc                    | Technology         | 10,063                         | 3.59%  |
| 16 | Tesco Plc                    | Consumer Goods     | 9,324                          | 3.32%  |
| 17 | Burberry Group               | Consumer Goods     | 8,597                          | 3.07%  |
| 18 | Pearson                      | Consumer Services  | 8,019                          | 2.86%  |
| 19 | ITV Plc                      | Broadcasting       | 7,773                          | 2.77%  |
| 20 | Relx Plc                     | Financials         | 7,528                          | 2.68%  |
|    |                              |                    | <b>280,471</b>                 | <b>100.00%</b>   |

## Appendix 5



## Pensions Section Performance Measures

| Service Objective                                      | Performance Indicator   | Target 2017/18 | Actual 2017/18 | Target 2018/19 |
|--|---|----------------|----------------|----------------|
| To calculate all types of pension benefits accurately  | Payment of retirement benefits to members within 1 month after benefit becomes payable.             | 85%            | 49.04%         | 85%            |
|  | Payment of retirement benefits to members within 1 month of the date all information was received.  | 95%            | 98.56%         | 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%            | 68.42%         | 90%            |

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

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

**1. Effective Decision Making**

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

**2. Clear Objectives**

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

**3. Risk And Liabilities**

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

**4. Performance Assessment**

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

**5. Responsible Ownership**

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

**6. Transparency and Reporting**

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

## **City & 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) To comply with regulation 62 of the LGPS Regulations 2013 and specifically to:
- adequately fund benefits to secure the Fund's solvency and long term cost efficiency, which should be assessed in light of the risk profile of the Fund and Employers,
  - while taking account of the desirability of maintaining as nearly constant primary employer contribution rates as possible (and subject to the Administering Authority not taking undue risks) at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies
  - enable overall employer contributions to be kept as constant as possible (and subject to the Administering Authority not taking undue risks) at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies

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

- the regulatory requirement to secure solvency, which should be assessed in light of the risk profile of the Fund and risk appetite of the Administering Authority and employers
- the requirement that the costs should be reasonable to Scheduled Bodies, Admission Bodies, other bodies and to taxpayers (subject to not taking undue risks), and
- maximising income from investments within reasonable risk parameters (see later)

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

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

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

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

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

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

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

c) To manage employers' liabilities effectively.

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

d) To maximise the total investment return from investments within reasonable risk parameters.

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

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

### **SECTION 3 RESPONSIBILITIES OF THE KEY PARTIES**

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

Their key responsibilities are as follows:

#### **Administering Authority**

The Administering Authority will:

- Administer the Fund
- Collect investment income and other amounts due to the Fund as set out in the Regulations including employer and employee contributions and, as far as the Administering Authority is able to, ensure these contributions are paid by the due date (with the due date as specified in the LGPS Regulations, Rates and Adjustments Certificate and any Administering Authority policies)
- Pay from the Fund the relevant entitlements as set out by the Local Government Pension Scheme Regulations 2013.
- Invest surplus monies in accordance with the Investment Regulations.
- Ensure that cash is available to meet liabilities as and when they fall due.

- Manage the valuation process in consultation with the Fund's Actuary
- Ensure it communicates effectively with the Fund Actuary to:
  - Agree timescales for the provision of information and provision of valuation results
  - Ensure provision of data of suitable accuracy
  - Ensure that the Fund Actuary is clear about the content of the Funding Strategy Statement
  - Ensure that participating employers receive appropriate communication throughout the process
  - Ensure that reports are made available as required by relevant guidance and Regulations
- Prepare and maintain a Statement of Investment Principles / Investment Strategy Statement and a Funding Strategy Statement after due consultation with interested parties.
- Monitor all aspects of the Fund's performance and funding and amend these two documents if required.
- Effectively manage any potential conflicts of interest arising from its dual role both as Administering Authority and as Scheme Employer.
- Take measures, as set out in the Regulations, to safeguard the Fund against the consequences of employer default
- Enable the Local Pension Board to review the valuation process as set out in their terms of reference.

### **Individual Employers**

Individual Employers will:

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

## **Fund Actuary**

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

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

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

## **SECTION 4 FUNDING STRATEGY**

### **Risk Based Approach**

The Fund utilises a risk based approach to funding strategy.

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

- what the Solvency Target should be (the funding objective - where the Administering Authority wants the Fund to get to),
- the Trajectory Period (how quickly the Administering Authority wants the Fund to get there), and
- the Probability of Funding Success (how likely the Administering Authority wants it to be now that the Fund will actually achieve the Solvency Target by the end of the Trajectory Period).

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

These three terms are considered in more detail below.

## **Solvency Target and Funding Target**

### **Solvency and Funding Success**

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

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

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

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

### **Probability of Funding Success**

The Administering Authority deems funding success to have been achieved if the Fund, at the end of the Trajectory Period (or the longest employer Recovery Period, if longer), has achieved the Solvency Target. The Probability of Funding Success is the

assessed chance of this happening based on the level of contributions payable by members and employers and asset-liability modelling carried out by the Fund Actuary.

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

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

### **Funding Target**

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

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

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

- Contribution rates are set by use of the Projected Unit valuation method for most employers. The Projected Unit method is used in the actuarial valuation to determine the cost of benefits accruing to the Fund as a whole and for employers who continue to admit new members. This means that the future service (primary) contribution rate is derived as the cost of benefits accruing to employee members over the year following the valuation date expressed as a percentage of members' pensionable pay over that period.
- For employers who no longer admit new members, the Attained Age valuation method is normally used. This means that the future service (primary) contribution

rate is derived as the average cost of benefits accruing to members over the period until they die, leave the Fund or retire.

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

### **Application to different types of body**

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

#### 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 8<sup>th</sup> 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 1<sup>st</sup> 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 identified:

- 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.

## 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.

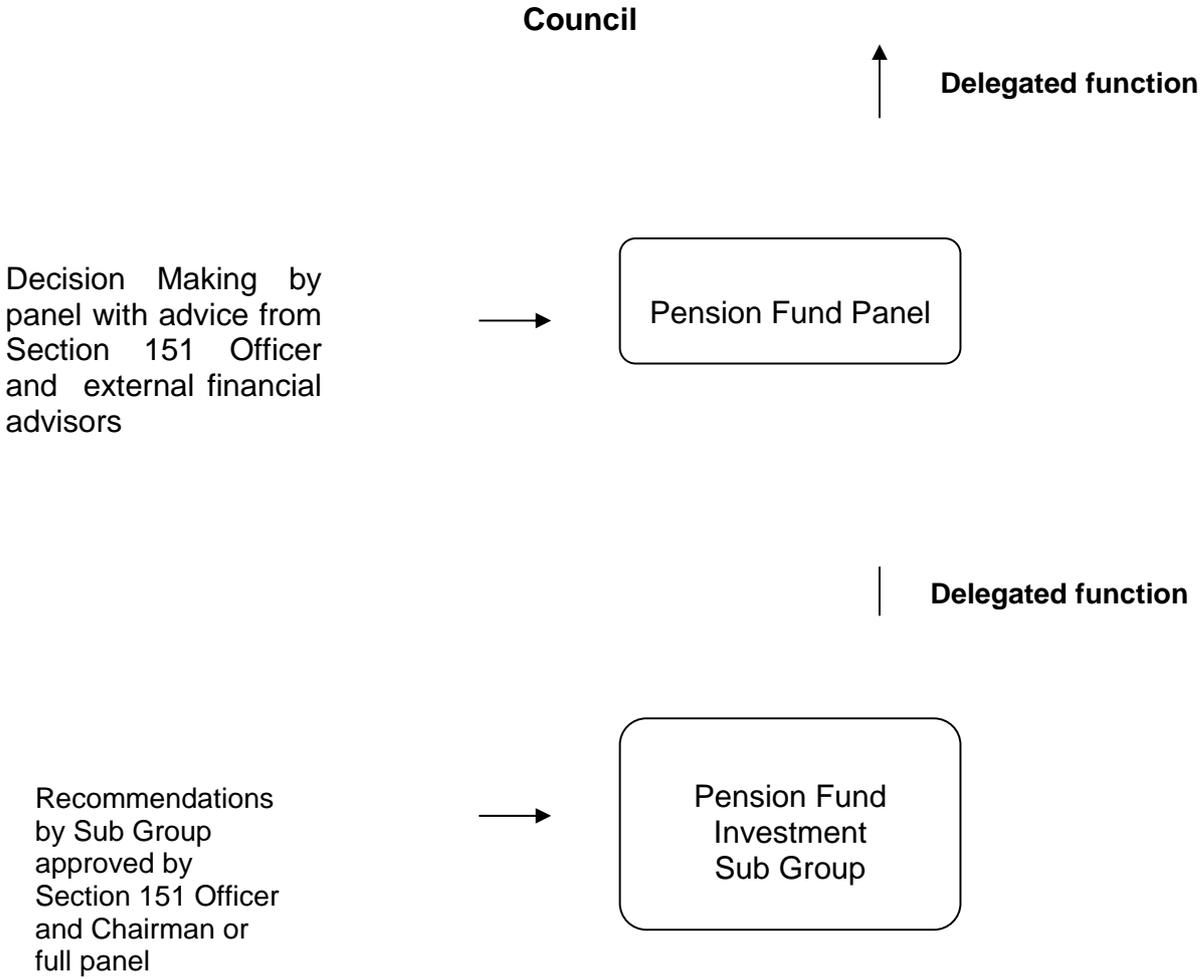
Proper control needs to be exercised over the providers of these specialist services. The Panel should set a comprehensive policy for the Fund which should include asset allocation management, for example the Fund gearing, (proportion of higher risk investments, equities, property etc) to fixed interest 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**



### **Membership of the Pension panel**

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

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

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

### ***The Pension Fund Panel has responsibility for:***

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

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

### **Frequency of Pension panel Meetings**

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

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

### **Operational Procedure of Meetings**

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

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

Agenda items are to include:

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

### **Pension Fund Investment Sub Group**

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

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

to undertake :

### **Investment Management Selection/Monitoring**

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

### **Asset Allocation**

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

### **Pension Fund Investment Sub Group Terms of Reference**

#### **Membership**

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

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

**Responsibility**

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

**Investment manager selection and performance monitoring :**

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

**Cashflow Allocation**

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

**Tactical Asset Allocation**

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

## **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 Constitutions : 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 1<sup>st</sup> 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 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 III – 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.

**Compliance Statement of the City & County of Swansea Pension Fund**

**Principle A – Structure**

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

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

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

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

**Principle B – Representation**

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

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

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

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

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

**Principle C – Selection And Role of Lay Members**

|           | Not Compliant* |  |  | Fully Compliant |   |
|-----------|----------------|--|--|-----------------|---|
| <b>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 :-

**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 |
|-----------|----------------|--|--|--|-----------------|
| <b>a)</b> |                |  |  |  | ✓               |
| <b>b)</b> |                |  |  |  | NA              |
| <b>c)</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 :-

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

**Principle G – Access**

|           | Not Compliant* |  |  |  | Fully Compliant |
|-----------|----------------|--|--|--|-----------------|
| <b>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 :-

**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 :-

## **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](http://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](http://www.lgps.org.uk)

Whilst the website is intended primarily as a means of external communication, access is helpful to staff.

## **Seminars**

Fund Officers regularly attend seminars and conferences held by associated bodies to obtain regulatory information and to further their knowledge and understanding.

This information is later cascaded to all staff so that service delivery is improved.

## **DATA PROTECTION**

To protect any personal information held on computer, the City and County of Swansea Pension Fund, as administered by the City and County of Swansea, is registered under the Data Protection Act 1998. This allows members to check that their details held are accurate.

## **NATIONAL FRAUD INITIATIVE**

This authority is under a duty to protect the public funds it administers, and to this end may use information for the prevention and detection of fraud. It may also share this information with other bodies administering public funds solely for these purposes.

## GENERAL

Whilst this Policy Statement outlines the communication approaches adopted by the City and County of Swansea Pension Fund, there are roles and responsibilities which fall on Scheme members and participating Scheme Employers in ensuring that information necessary to maintain an accurate membership base is provided in a timely manner.

## POLICY REVIEW

This statement will be revised if there is any material change in the City and County of Swansea Pension Fund's communication policy but will be reviewed no less frequently than an annual basis.

### Fund Publications - publication frequency & review periods

| Communication Material          | When Published       | When Reviewed |
|---------------------------------|----------------------|---------------|
| Scheme Booklet                  | Constantly Available | As Required   |
| New Starter Pack                | Constantly Available | As Required   |
| Factsheets (various)            | Constantly Available | As Required   |
| Retirement Guide                | Constantly Available | As Required   |
| Newsletter                      | As required          | As Required   |
| Pension Newsletter              | Annually             | As Required   |
| Annual Benefit Statement        | Annually             | Annually      |
| Employer's Guide                | Constantly Available | Annually      |
| Pension Administration Strategy | Constantly Available | Annually      |
| Customer Charter                | Constantly Available | Annually      |
| Annual Report & Accounts        | Annually             | Annually      |
| Valuation Report                | Tri-Annually         | Tri-Annually  |
| Funding Strategy Statement      | Tri-Annually         | As Required   |