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 2019/20 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 2019/20* 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

	2017/18 £'000	2018/19 £'000	2019/20 £'000
Income			
Contributions (Net)	87,698	93,400	99,701
Transfer Values (Net)	-	-	-
Expenditure			
Pensions and Benefits (Net)	77,409	82,079	82,172
Transfer Values (Net)	1,261	1,099	2,828
Other (Net)	7,245	11,568	9,808
Net new money	1,783	(1,346)	4,893
	£'000	**£'000**	**£'000**
Net Asset Value at 31 March	1,916,510	2,044,038	1,998,022
Number of Contributors at 31 March	19,671	19,888	20,050
Number of Pensioners at 31 March	12,763	13,229	15,050
Number of Deferred Members at 31 March	11,394	11,874	11,838

PART A

ADMINISTRATION REPORT

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

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

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

The principal benefits provided by the Fund are:

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

Pensions are increased under the Pensions Increase Act each April, in line with the official rate of inflation, the Consumer Price Index (CPI) as at the previous 30 September. The rate for the year ending last September was 1.7% to applied from 06 April 2020 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 so 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 show the total membership of the Fund in 2019/20.

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:

	2018/19		2019/20	
Ill-Health Retirement	**No. of Cases**	**Cost £**	**No. of Cases**	**Cost £**
City & County of Swansea	29	1,806,264	34	2,152,295
Neath Port Talbot CBC	11	1,086,188	24	1,506,343
Tai Tarian	4	1,278,688	2	75,532
Gower College	2	188,049	1	11,249
University of Wales TSD	1	192,736	-	-
NPTC Group	-	0	2	155,170
Total	**47**	**4,551,925**	**63**	**3,900,589**

(b) Early Retirement

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

Early Access to Pension				
Employing Body	**2018/19**		**2019/20**	
	No. of Cases	**Cost £**	**No. of Cases**	**Cost £**
City & County of Swansea	86	1,741,109	28	908,995
Neath Port Talbot CBC	33	668,729	20	323,064
NPTC Group	1	14,135	1	4,644
University of Wales Trinity St Davids	-	-	6	171,219
POBL Group	7	99,604	-	-
Rathbone	-		2	66,999
Total	**127**	**2,523,577**	**57**	**1,474,921**

Administration

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

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

The Pensioner Payroll is administered through the Swansea Council 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 on to the system and indexed to the appropriate member record.

i-Connect has been in use for several years with 90.86% of the Fund's active membership now fully implemented.

The Pension Regulator continues to push towards full electronic data submissions from all employers. With this in mind the Fund has signed up to the new i-Connect commercial model and invests/promotes the use of an electronic interface to our employers. The interface allows for the transfer of membership data from employers' payroll systems to the pension administration system. This benefits both Fund and employer as it enables clean data to be transferred in a timely manner thus improving the year-end submission and ensuring compliance with the requirements of LGPS 2014 and the Pensions Regulator's Code of Practice for accurate record keeping. Smaller employers are looking to use the on-line returns facility and we are currently in the process of engaging with the employers to support the transition.

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

Further development includes moving to a Cloud based Hosted Service in partnership with Heywood limited who are the current providers of our pension administration system. The Cloud Hosting Service is a highly secure, virtualised service offering a logically separated and ring-fenced server resource, which will lead to significant benefits as a 'one-stop-shop'. Benefits include a full disaster recovery plan, reduction to the ongoing cost of software and licence updates, network and system monitoring, data back-up/restore and is fully GDPR compliant.

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, professional, customer focused service to all members and Fund employers using appropriate technology in a cost effective and resourceful manner
- 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
- Ensuring GDPR compliant at all times

and uses a number of channels to achieve these objectives:

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

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

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

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

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

  In addition, the Section has communicated regularly during the year, with the relevant employers regarding the timeliness of providing retirement and early leaver data and is working closely with the Fund's largest employers to ensure this.

- 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. The Fund works in partnership with Western Union to undertake an annual pensioner member continued eligibility check for our overseas pensioner members. If a member fails to comply with the instruction given the pension in payment will be suspended until proof is received from the member of continued eligibility.

Compliment and Complaints Policy

In accordance with our Communications Policy Statement the aim of the Pension Fund is to provide a high quality cost effective service delivery to all our customers, this applies to prospective, active, deferred and pensioner members along with fund employers and external bodies. We are happy to receive any feedback from our customers whether negative or positive. If however an individual feels that the Section has failed to honour its commitment to provide appropriate customer service upon receipt of any negative feedback a review of concerns presented is undertaken.

Based on member feedback concerning the service delivery received from the Pension Fund as a percentage for the period 01/04/2019 – 31/03/2020 is as follows:

Compliments	83.33%
Complaints	16.66%

Of the complaints raised, 8.33% was in direct relation to the Pension Fund. In all cases, no further action was necessary to advance to the Internal Dispute Resolution Process.

Customer service satisfaction survey

This year the Fund carried out its first customer service satisfaction survey. Both employers and members were asked to complete a survey providing a response as to whether or not we had fulfilled the aims and objectives set out within the Fund's Communication Policy Statement. The results of the survey have been collated and are as follows:

Employing authorities were asked do you agree that the City & County of Swansea Pension Fund…

	Strongly Disagree	Disagree	Agree	Strongly Agree
…offers documentation, guidance and information in a professional manner?			50%	50%
…is proactive in their approach to provide a service to its employers?		17%	50%	33%
…gives an appropriately timed service with regular updates?			83%	17%
…is customer focused and meets the needs of its employers?			83%	17%
… has provided a high quality service to you in your role as employer?			67%	33%

… ensures you are aware of your LGPS employer related roles and responsibilities for the administration of the City & County of Swansea Pension Fund?		17%	47%	36%
… communicates in a clear and concise manner?	2%	2%	44%	52%
… uses the most appropriate means of communication?		17%	50%	33%

Pension members where asked do you agree that the City & County of Swansea Pension Fund…

		Strongly Disagree	Disagree	Agree	Strongly Agree
Administration	…offers documentation, guidance and information in a professional manner?	2.22%	8.89%	35.56%	53.33%
	…is proactive in their approach to provide a service to members?	2.22%	4.44%	46.67%	46.67%
	…gives an appropriately timed service with regular updates?	2.22%	4.44%	44.45%	48.89%
	…is customer focused and meets the needs of its members? *only 44 responses	2.27%	2.27%	50%	45.46%
	… has provided a high quality service throughout your membership?		4.44%	42.23%	53.33%
Communications	… promotes the scheme as valuable and provides sufficient information so you can make informed decisions about your pension?		2.22%	46.67%	51.11%
	… communicates in a clear and concise manner?	2.22%	2.22%	44.45%	51.11%
	… uses the most appropriate means of communication?		6.67%	44.44%	48.89%

	Didn't Say	Active	Deferred	Pensioner
Please tick your membership status	11%	40%	29%	20%

Internal Dispute Resolution Process

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

Individual employers consider Stage 1 appeals if the dispute is against decisions made by them, or by the Administering Authority if the dispute is against a Pension Fund decision. 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 2020 is as follows:

Stage	No. of Appeals	Appeals upheld
Stage 1	2	0
Stage 2	2	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 2019/20, the Fund continued to develop the way in which it engages/communicates with its stakeholders. The key activity being:

- Roadshows for members to promote the LGPS and hot topics
- Attending member pre-retirement courses
- Distribution of Annual Benefit Statements to both active and deferred members
- Newsletters sent to both Active members and Pensioner members
- Annual consultative meetings to discuss the Fund's Annual Report and Accounts and to communicate strategic issues and significant legislative changes to operational staff

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

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

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

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

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

Data quality

The Pension Regulator requires the City and County of Swansea Pension Fund to monitor and improve member data held. The Fund has undertaken a review of the quality of data held; and this year is the third year of participation. Confirmation of the results are below broken down into the following two data categories:

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

Date data quality check undertaken	**Data Area**	**Data Score**	**AIM**
June 2018	Common Data	94.40%	100%
	Scheme Specific Data	72.10%	100%
June 2019	Common Data	97.10%	100%
	Scheme Specific Data	88.10%	100%
June 2020	Common Data	97.1%	100%
	Scheme Specific Data	89.1%	100%

Audit of Fund

The Fund is subject to both internal and external audit of its practices and internal controls on a regular basis. Full compliance is essential in response to reasonable requests. Recommendations presented will be considered and actioned accordingly.

The Pensions Regulator Code of Practice

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

Legislative Changes in the LGPS during 2019/20

Other impacting legislation

Cessation of Contracting Out

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

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

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

To ensure that pension scheme records reconcile with those of HMRC, the formerly contracted-out pension schemes, including the LGPS, are undertaking an exercise to ensure the correct information is held on members' records. The reconciliation exercise initially had to be completed by December 2018; however, to address outstanding queries this has been extended in accordance with HMRC direction.

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

Tax Reform

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

The Lifetime Allowance (LTA), which is the total amount an individual can hold in all their pension savings, reduced to £1.25m from 6th April 2014 with further reductions applied. From 2018/19 onwards, the lifetime allowance has been subject to an increase each year in line with inflation and for the tax-year 2019/20 this is £1.055m. The Fund issues written confirmation to each member who is likely to breach their LTA when they retire.

In addition, HMRC also limits the amount by which the total value of a person's pension benefits can increase in a year. The Annual Allowance limit reduced to £40,000 with effect from 1st April 2014 and remained at this level for 2019/20, which has resulted in more members becoming subject to tax charges on the excess accrued. The Fund undertakes an exercise each year and any member subject to an Annual Allowance breach will be issued with a Pension Saving Statement.

Statutory instruments

12 March 2019 – **The Pensions Increase Review Order 2019** in accordance with the Pension Increase (Review) Order 2019 - This Order came into force 8 April 2019 and makes provision for the annual increase of official pensions (as defined in the Pensions (Increase) Act 1971). The Order provides for an increase of 2.4 per cent from 8 April 2019 for all official pensions, except for those, which have been in payment for less than a year, which will receive a pro-rata increase.

April 2019 - THE PUBLIC SERVICE PENSIONS REVALUATION ORDER 2019 – prepared by HM Treasury and laid before the House of Commons by Command of Her Majesty. This Order specifies the annual percentage change in prices, and earnings, to be applied for the purposes of revaluation required by schemes under the Public Service Pensions Act 2013 ("the Act") in relation to the period 1 April to 31 March and applies to Career Average Revalued Earnings Schemes. . The prices metric that was used for revaluation from April 2018 to 31 March 2019 inclusive is the September 2018 CPI figure, which represents an increase of 2.4%. CPI is the Government's preferred measure of change in prices for the indexation of public service pensions in payment and deferment.

1 April 2019 - LGPS Additional Pension purchase limit applicable for 2019/20 in England and Wales - Regulations 16(6) and 31(2) of the LGPS Regulations 2013 state that the additional pension limit is increased on the 1 April each year as if it were a pension beginning on 1 April 2013 to which the Pensions (Increase) Act 1971 applied. The pensions increase due at the 1 April 2019 is that from 09 April 2018 (since the 2019 PI date is the 8 April 2019) and so the current additional pension limit of £6,822 is increased by 1% to £7,026 from the 1 April 2019.

06 April 2019 - **THE AUTOMATIC ENROLMENT (EARNINGS TRIGGER AND QUALIFYING EARNINGS BAND) ORDER 2019** prepared by the Department for Work and Pensions and laid before Parliament by Command of Her Majesty. This sets out revised amounts for the 2019/20 tax year for the upper and lower thresholds of the automatic enrolment qualifying earnings band, and rounded figures for the earnings trigger and qualifying earnings band. It has been concluded that the amounts for the qualifying earnings band should continue to be aligned with the National Insurance Contributions Lower and Upper Earnings Limits for the tax year 2019/20 and that the automatic enrolment earnings trigger should remain at £10,000.

06 April 2019 - THE SOCIAL SECURITY (CONTRIBUTIONS) (RATES, LIMITS AND THRESHOLDS AMENDMENTS AND NATIONAL INSURANCE FUNDS PAYMENTS) REGULATIONS 2019 prepared by HM Revenue and Customs and laid before Parliament by Command of Her Majesty. This instrument gives effect to the annual re-rating of various National Insurance contributions (NICs) rates, limits and thresholds for the purposes of calculating Class 1, Class 2, Class 3 and Class 4 NICs liability (or voluntary payment) for the tax year beginning 6 April 2019. It also allows for payments of a Treasury Grant not exceeding 5 per cent of the estimated benefit expenditure for the 2019-20 tax year to be paid into the National Insurance Fund.

6 April 2019 -The Guaranteed Minimum Pensions Increase Order 2019 - This Order specifies the percentage by which that part of any guaranteed minimum pension attributable to earnings factors for the tax years 1988-89 to 1996-97 and payable by contracted-out, defined benefit occupational pension schemes. This instrument specifies that the GMP is to be increased by 2.4 per cent from 06 April 2019 in accordance with Section 109(3) of the Pension Schemes Act 1993 (c. 48).

April 2019 - The Employment Rights (Increase of Limits) Order 2019 [SI 2019/324] - comes into force on **6 April 2019**. It increases the maximum 'week's pay' for calculating a statutory redundancy payment from £508 per week to £525 per week where the appropriate date falls on or after 6 April 2019. In the case of entitlement to a redundancy payment by virtue of section 135(1)(a) [dismissal by reason of redundancy] or section 135(1)(b) [lay-off or short time] of the Employment Rights Act 1996, the appropriate date means the relevant date as defined by, respectively, sections 145 or 153 of that Act.

6 April 2019 - Annual allowance and lifetime allowance limits applicable from 6 April 2019 - The Finance Act 2004 (Standard Lifetime Allowance) Regulations 2019 [SI 2019/29] amends the Lifetime Allowance limit to £1,055,000 with effect from the 6 April 2019. The Annual Allowance, as defined by the Finance Act 2004 (as amended), remains unchanged at £40,000 for 2019/20.

June 2019 - The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 – as prepared by the DWP and laid before Parliament by Command of Her Majesty. This instrument updates regulation 29A of the Disclosure Regulations to require schemes to make their policy on the arrangements with asset managers available free of charge on a website to the public.

June 2019 – The Pensions Administration Standards Association (PASA) publish cyber security guidance for pension schemes - On 6 June 2019 PASA announced the publication of its cyber security guidance for pension schemes. The guidance provides practical support for trustees in formulating a robust and effective review of how they safeguard their scheme from cyber security issues. It covers five main sections - Risk Assessment, Governance, Risk Management, Controls and Incident Management.

02 October 2019 – The Pension Regulator Initiative to improve data Quality - On 2 October 2019, the Pensions Regulator (TPR) announced a crackdown on poor record keeping. TPR is in the process of contacting 400 schemes that it believes have not reviewed their data in the past three years. TPR will ask those schemes to conduct a data review within six months. We understand that some LGPS administering authorities are included in that group and that TPR planned to contact those affected by 25 October. TPR will contact a further 1,200 schemes to remind them to carry out data reviews of common and scheme-specific data every year.

November 2019 - The Local Government Pension Scheme (Amendment) Regulations 2019 [SI 2019/1449] - The regulations were laid before Parliament on 5 November 2019 and are effective from 31 December 2019. They amend the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 by introducing survivor benefits payable under the earlier regulations for opposite-sex civil partnerships. A person who is the surviving opposite-sex civil partner of a deceased member will be provided with a survivor pension calculated on the basis that the survivor is a widow or widower, depending on their gender.

November 2019 - **The Civil Partnership (Opposite-sex Couples) Regulations 2019 [SI 2019/1458] -** On 5 November 2019 the Government made the Civil Partnership (Opposite-sex Couples) Regulations 2019 [SI 2019/1458], which are effective from 2 December 2019. This means that an opposite-sex couple can give notice of a proposed civil partnership on 2 December 2019 after which the 28-day waiting period will commence (section 11 of The Civil Partnership Act 2004). This means an opposite sex civil partnership registration can take place from 31 December 2019.

November 2019 - Equitable Life transfers to Utmost Life and Pensions - Following the High Court hearings on 22 and 25 November 2019, court approval to transfer the business of Equitable Life to Utmost Life and Pensions was received on 4 December 2019. Scheme policyholders and 'eligible members' voted overwhelmingly in favour of the proposed changes.

December 2019 – **Pension Schemes Bill** - It was announced during the Queen's Speech on 19 December that the Pension Schemes Bill would be reintroduced. The Bill will create a legislative framework for the introduction of pension's dashboards, to strengthen the Pensions Regulator's powers to take action against employers and introduce regulations covering the right to a pension transfer.

March 2020 – The Local Government Pension Scheme (Amendment) Regulations 2020 – Regulations came into force on 20 March 2020 but the effects are backdated to 14 May 2019 (the date that the Exit Credit Regulations were introduced). The Regulations give Administering Authorities the discretion to pay an exit credit after taking into account factors such as level of risk that the employer was exposed to during the participation of the fund and the value of the contributions paid to the fund.

Wales Pension Partnership

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

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

The progress made over the past twelve months reflects the eight Welsh Constituent Authorities ability to work together to deliver their shared set of objectives. Some significant milestones have been achieved during the year, including work on Investments, Governance, Communications and Training.

The WPP aims to deliver investment solutions that allow each Constituent Authority to implement their own investment strategies with material cost savings, while continuing to deliver investment performance to their stakeholders. The WPP has made significant progress towards delivering on this objective by launching and facilitating three active equity sub-funds, which can be utilised by the Constituent Authorities, namely, Global Growth, Global Opportunities and UK Opportunities. All eight of the Constituent Authorities have made use of at least one of the sub-funds. The WPP will continue to develop sub-funds for the benefit of the Constituent Authorities, in collaboration with Link Fund Solutions Ltd and Russell Investments. The WPP is proud of its progress to date with regard to the pooling of assets and will continue to allocate resources to ensure that all suitable assets are pooled. To date the WPP has "pooled" 50% of its assets and by the end of March 2021 the WPP expects to have "pooled" more than 70%.

The WPP has also continued to develop a robust governance framework by identifying the need for a set of shared beliefs to guide the decision making process and policies. The WPP hosted a Beliefs workshop where all Constituent Authorities collectively formulated the Beliefs Statement, this can be found on the website. The Governance Matrix was also formulated and provides an overview of the WPP's governance structure and outlines the internal bodies that are responsible for key decisions and actions carried out by the partnership. In another progressive move Hymans Robertson LLP were appointed by WPP in January 2020 to provide oversight and advice on the governance arrangements, operator services and strategic investment strategy of the pool.

The WPP believes that Responsible Investment, alongside consideration and evidential management of Environmental, Social and Governance issues, should result in better outcomes for its stakeholders, hence it has been a key priority since the WPP was established in 2017.

Various activities have been carried out this year to work towards the ambition of the WPP becoming a leader in Responsible Investment. The initial focus was on formulating a Responsible Investment Policy. This Policy is representative of the broad range of investment beliefs within the Pool and all of the Constituent Authorities were involved in formulating the policy.

Over the next 12 months, the WPP will continue to deliver on the commitments made in the Policy. This will include the production of a Climate Risk Policy which is in development. The appointment of Robeco UK in March 2020, evidenced WPP's delivery of this commitment and also demonstrated the vow to exercise voting rights in line with the interests of stakeholders and engage with investee companies to enhance the long-term value of the Constituents Authorities' investments within WPP.

Improving the WPP's communication has been a key work stream during the last 12 months, the WPP website was launched in September 2019 and is an excellent tool to learn and understand about the Pool, to keep track of recent activities and to read about the policies, procedures and governance arrangements. The website can be found at :

https://www.walespensionpartnership.org/

In addition, WPP held a communication workshop during the year to study different communication methods and formulated its Communication Policy and subsequently launched a LinkedIn page for informal updates.

To improve levels of engagement with external and internal stakeholders, WPP hosted its first Manager Engagement day which focussed on the global equity managers, this led to a second Manager Engagement day with incumbent Fixed Income managers.

Also, in collaboration with the Constituent Authorities, the WPP was able to formulate its first Annual Training Plan and host its first training day in February 2020.

A work plan of the areas that the WPP will focus on during the 2020/2021 financial year is currently being developed as part of the Annual Business Plan. This includes the launch of the WWP Fixed Income and Emerging Markets sub funds and also the continuing development of the Private Market offerings to include real estate, infrastructure and social impact.

Local Pension Board - Annual Report 2019/20

Introduction

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

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

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

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

Details of Membership

The Board consists of 6 members, 3 member representatives and 3 employer representatives. All members are unpaid volunteers. During 2019/20 the Board was made up of the following members :

Type	**Status**	**Name**	**Organisation**
Employer	Current	Cllr Mike White	City & County of Swansea
Employer	Current	Cllr Alan Lockyer	Neath County Borough Council
Employer	Current	Mr David Mackerras	Pelenna Community Council
Member	Current	Mr Ian Guy (Chair)	Union nominated representative
Member	Finished	Ms Arlene Chaves	Union nominated representative
Member	Current	Mr David White	Union nominated representative
Member	New	Ms Rosemary Broad	Union nominated representative

Summary of 2019/20

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

- Breaches Reporting
- MHCLG Consultations on Exit Payment Cap and Valuation Cycle Employer Risk.
- Blackrock Low Carbon Tracker Fund
- External AVC Provider - Equitable Life Buyout
- Competition and Markets Authority Reporting
- The Actuarial Valuation – 31st March 2019
- Resourcing of the Pensions Finance and Administration Section
- The 2018/19 Annual Report and Statement of Accounts
- The Wales Audit Office Audit Plan and the ISA 260 Audit Report
- Admission of New Employers into the Fund
- Wales Pension Partnership – Asset Pooling Updates
- Wales Pension Partnership – Responsible Investment Policy
- Quarterly Investment Managers Reports

In addition the Board agreed Training Recommendations for the year.

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

- 25th July 2019
- 15th October 2019
- 13th February 2020

The meeting scheduled for the 26th March 2020 was postponed due to Covid19 and subsequently took place on the 23rd July 2020.

Attendance at the above meetings was recorded at 66% by the appointed Board members.

Skills & Development Activities

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

Local Pension Board Member Training

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

Training Undertaken in the last 12 months included :

- Communications Workshop

Wales Pension Partnership Training Day which covered :

- Fund Wrapper and Structures
- Transition and Liquidity
- Asset Classes including Real Estate, Infrastructure and Private Equity
- Impact Investing
- Responsible Investment

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

LGA Trustee Fundamentals

- Day 1
- Day 2
- Day 3

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

Budget
The Board agreed a budget of £5k per annum to assist with its operation.
In 2019/20 the Board incurred £2k in costs.

1. Scope of Responsibility

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

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

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

2. The Purpose of the Governance Framework

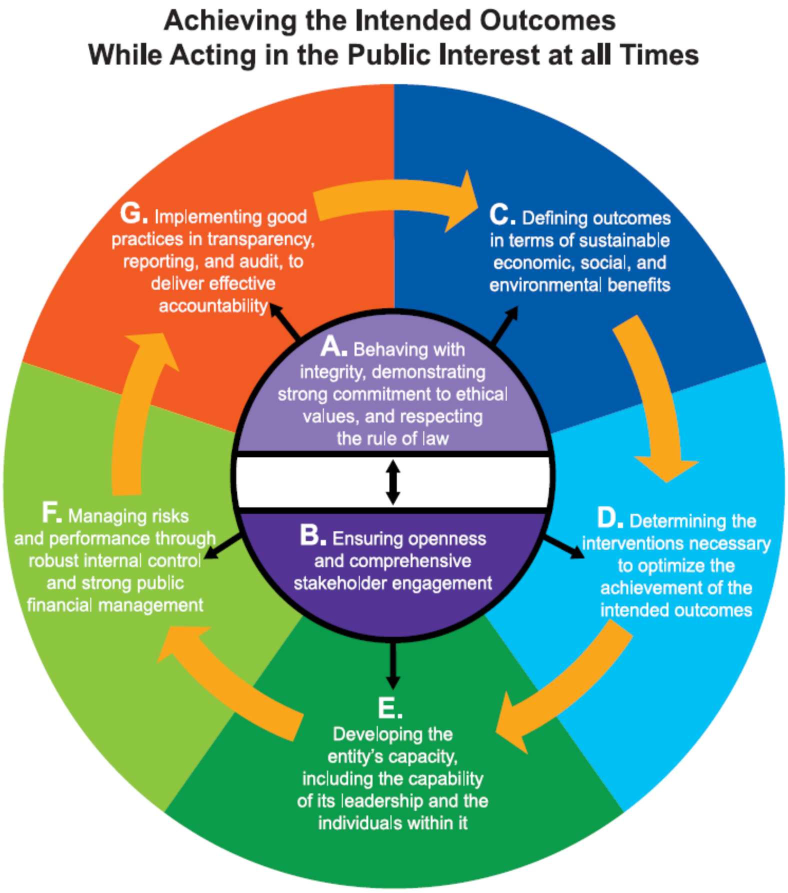
2.1 The governance framework comprises the systems and processes, culture and values, by which the Authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Authority to monitor the achievement of its strategic objectives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

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

2.3 The governance framework has been in place at the City and County of Swansea throughout the year ended 31 March 2020 and up to the date of approval of the Statement of Accounts.

3. The Governance Framework

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



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

3.3 The 7 key principles are:

A) Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
B) Ensuring openness and comprehensive stakeholder engagement.
C) Defining outcomes in terms of sustainable economic, social and environmental benefits.
D) Determining the interventions necessary to optimise the achievement of the intended outcomes.
E) Developing the entity's capacity, including the capability of its leadership and the individuals within it.

F) Managing risks and performance through robust internal control and strong public financial management.

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

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

3.5 **Note - This Governance Statement and the issues set out within are likely to continue to be materially affected by the COVID-19 pandemic. The full-scale of the impact that the Authority faces responding locally and nationally to the crisis remains unclear. In addition, the national lock down arrangements and the prioritisation of the response to COVID-19 has affected the preparation of the Statement. However, it should be noted that the Statutory Governance Chief Officers are resolved to maintain appropriate corporate grip to ensure that sufficient governance is maintained throughout this unprecedented crisis and during the recovery.**

Principle A

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

Sub Principles:

How do this: we

Behaving with Integrity

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

Demonstrating strong commitment to ethical values

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

Respecting the rule of law

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

Principle B

Ensuring openness and comprehensive stakeholder engagement

Sub Principles:

Openness

How we do this:

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

Engaging comprehensively with institutional stakeholders

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

Engaging stakeholders effectively, including individual citizens and

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

Principle C

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

Sub Principles:

How we do this:

Defining outcomes

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

Sustainable economic, social and environmental benefits

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

Principle D

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

Sub Principles:

Determining interventions	Planning interventions	Optimising achievement of intended outcomes

How we do this:

Determining interventions

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

Planning interventions

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

Optimising achievement of intended outcomes

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

Principle E

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

Sub Principles:

How we do this:

Developing the entity's capacity

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

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

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

Principle F

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

Sub Principles:

Managing risk

How we do this :

- Risk management is an integral part of decision making supported by:
- A revised Corporate Risk Management Policy with clear nominated officer responsibility.
- New risk register application.
- Monthly review of risks by CMT.
- Monthly review of Directorate Risks at PFM meetings.
- The publication of Corporate & Directorate Risks allowing greater scrutiny.
- The Audit Committee regular review of risks (see para 8.11)

Managing performance

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

Robust internal control

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

Managing data

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

:

Strong public financial

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

Principle G

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

Sub Principles:

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

How we do this

Implementing good practice in transparency

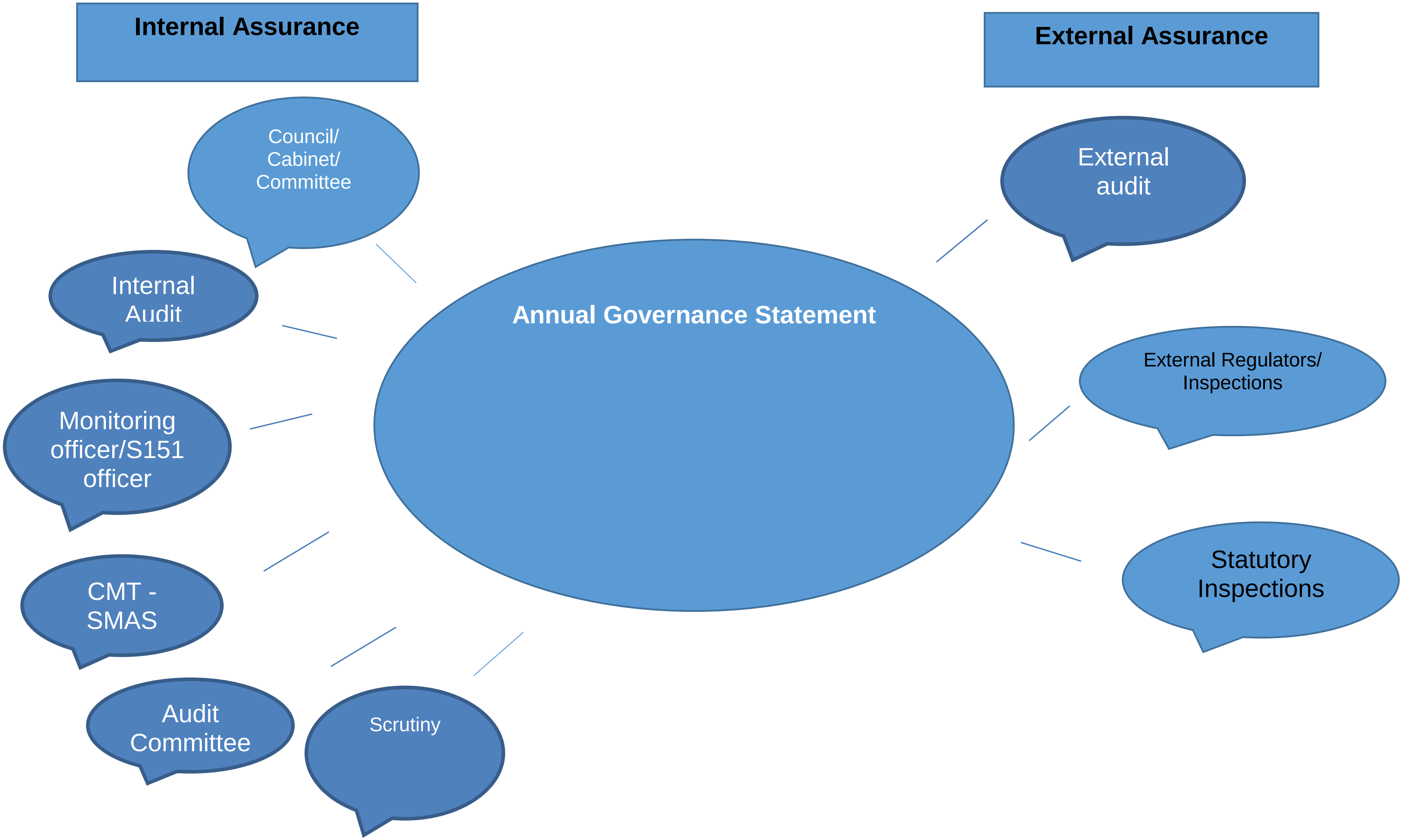
- The Council aims to present understandable and transparent reports for both stakeholders and the public which is supported by:-
- - A Report Authors Protocol which ensures consistency in reports.
  - A Clear Writing guide for Officers.
  - All reports are signed off by Cabinet Member, legal, finance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

Implementing good practices in reporting

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

Assurance and effective accountability

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


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

4. Review of Effectiveness

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

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

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

INTERNAL SOURCES OF ASSURANCE

5 Corporate Management Team/SMAS

5.1 The Senior Management Assurance Statements (SMAS) form part of the governance assessment framework. Through the SMAS each Director responds to 15 good governance statements covering:

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

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

5.3 The Four SMAS from the Directors of Corporate Resources, Social Services, Place and Education are challenged and reviewed at CMT. The Director of Social Services submitted a SMAS for the directorate and a further two, one each for Adult Services and Child & Family.

5.4 The assurance statements summarised by 9 categories showed overall that there were no categories that were deemed as being “Not in place” or with “Limited Application”. A small number (4.6%) of categories were regarded as showing “Mixed Application”. These categories were: Performance Reviews (2); Data breaches / security (2); Partnership Governance (1) and Future Generations Act (1). These have been captured in the significant governance risks for 2020/21 where relevant. However, 69% demonstrated “Strong Application” and 26% were described as “Embedded”.

5.5 The Council established an Annual Governance Group for the purpose of challenging the SMASs and assisting and overseeing the development of the Annual Governance Statement. The Group is led by the Deputy Chief Executive and members include the Council's Section 151 Officer and Monitoring Officer, as well as the Strategic Delivery & Performance Manager and a member of the Audit Committee. The Chief Internal Auditor attends in an advisory capacity. The work of the Group in reviewing the SMASs and finalising the Annual Governance Statement and CMT in reviewing and approving the SMASs and Statement was disrupted by the COVID-19 situation. CMT reviewed the SMAS and draft Annual Governance Statement on 11th May 2020. The Significant Governance Issues for 2020/21 as identified by CMT are those set out below.

6. The Monitoring Officer

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

- In 2019/20 the Monitoring Officer was notified of 14 complaints relating to members conduct by the PSOW. The PSOW decided not to investigate 10 of those complaints. Three complaints were investigated with no outcome yet and 1 complaint is outstanding. There are regular PSOW bulletins circulated to all councillors as to Code of Conduct issues.

- During 2018 and 2019 the Standards Committee interviewed the Leader, Leaders of the Opposition, the Chairs of Planning, Democratic Services and Licensing Committees and the Chief Executive. All those interviewed indicated their support for the Code of Conduct and their commitment to maintaining the highest ethical standards amongst councillors.

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

- The Monitoring Officer has not had to issue any statutory Section 5 Local Government and Housing Act 1989 reports during 2019/20.

- A number of amendments to the Constitution were adopted by Council including a new Call-In procedure enabling greater scrutiny of Cabinet decisions and changes to the Financial Procedure and Contract Procedure Rules. Further work is being undertaken by the Monitoring Officer and Head of Democratic Services in terms of publication of officer delegated decisions. At the outset of COVID-19 it was anticipated that emergency decisions would need to be made rapidly and also set in the context of new emerging legislation which would need to be monitored on a daily basis.

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

7. The S151 Officer

- Quarterly **Financial Monitoring Reports** were presented to Cabinet throughout 2019/20. The reports consistently identified some service revenue budget overspends at year end, albeit reducing throughout the year and by third quarter down to a miniscule margin of variation, so that underspend was as likely as overspend based on available information and stressed the need for service expenditure to be if at all possible contained within the budget set by Council. Towards the year-end the local Health Board settled £5m of long standing debt, for which full bad debt provision had been made, enabling Social Services to record a £5m one off underspend. Total service underspending has now been confirmed (at just under £7.5m) and is an extremely good outcome. On even more positive note the equally fully planned substantial continued underspending on capital financing (£7.5m) and contingency and central inflation (around £6m) has enabled sums to be added to the capital equalisation reserve and carried forward on contingency which is a prudent way of planning for and addressing some of, the future certain increased costs of financing the ambitious mid-term capital programme and the uncertainty of COVID-19.

- No **Mid Term Budget Statement 2019/120** was presented this year given the substantially delayed settlement due to the December General Election but the **Review of Reserves** was presented to Council on 24/10/19 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 potentially struggle to deliver within the overall resources identified to support the budget in 2020/21 and beyond unless the local government settlement was much enhanced (which was duly confirmed by February 2020). The likely projected outturn was dependent upon the willingness and ability of the Council to reduce and restrict ongoing expenditure across all areas.

- The Revenue and Capital Budgets were approved by Council on 05/03/20. They continued to set out an ambitious programme of approved capital spending plans and future capital spending plans (partly financed by the Swansea Bay City Deal but predominantly by unsupported borrowing) which would require budget savings to be delivered to help facilitate that major capital investment and economic regeneration stimulus. These plans are likely to be materially affected by COVID-19. It remains entirely unclear as to the scale of additional spending, the loss of income, and the funding arrangements for reimbursement in part, or in full, that the authority faces in responding both locally, with partners, and supporting the national strategic response to the COVID-19 pandemic. The impact was not directly financially material on the 2019-20 accounts but the national lock down arrangements and the prioritisation of the response to COVID-19 may have impaired our ability to fully prepare the accounts to our normally exceptionally high standards in line with accounting standards. Any necessary deviation caused will be disclosed separately throughout these accounts. The impact will be very financially material for the 2020-21 accounts (many tens of millions of pounds) but its net impact is less clear: by way of exemplification our increased costs, and lost income, will far exceed available reserves so the presumption is that all, or the very vast bulk of all, costs will be reimbursed by partners, Welsh Government or UK government through contributions or grant. The S151 officer triggered the necessary mechanisms for the Emergency Financial Assistance Scheme with Welsh Government in March 2020.

- The **Medium Term Financial Plan 2021/22 – 2023/24** was approved by Council on 05/03/2020. The Plan outlined the range of options around funding faced by the Council over the period, the key reliance on the scale and value of future local government finance settlements and the strategy to be adopted to address the various scenarios as well as the inherent risks to the success of the adopted strategy. All spending and funding assumptions were set before the full substantial economic scale of the COVID-19 pandemic was fully apparent. Whilst the Authority will consider future spending plans in line with projected funding announcements there is no indication at present that any of the assets of the Authority may be impaired as a result of a need to close facilities and reduce the level of service provision.

- Each Corporate Director held monthly **Performance and Financial Monitoring** meetings where Chief Officers and Heads of Service reported on progress in terms of continuous improvement and budgets.

- The **Wales Audit Office Annual Audit Summary 2019** dated March 2020 (and referred to below) noted that the Council has put in place proper arrangements to secure value for money from the resources it uses. Significant challenges remain particularly in terms of delivering timely transformation against the backdrop of a challenging financial position. . This reflected external auditor concerns that the Council continues to face a significant financial challenge and needs to deliver its savings plans at the pace and scale required whilst controlling service spending within budgets. The Council is seeking to address this through a refresh of its programme for transformation to ensure that planned actions are of sufficient scale and pace.

- The Council is the Administering Authority for the City and County of Swansea Pension Fund (the Pension Fund) and Swansea Bay Port Health Authority (SBPHA). The governance arrangements detailed in this Annual Governance Statement apply equally to the Council's responsibilities to the Pension Fund and SBPHA. There are further specific requirements for the Pension Fund which are:

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

8. Chief Internal Auditor's Internal Control Opinion

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

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

8.3 There has been a marginal increase in the number of audits receiving a moderate level of assurance since 2018/19. The Audit Committee has been made aware of the various moderate assurance reports that have been issued in 2019/20 as the summary details of these audits have been included in the quarterly monitoring reports. In addition, the committee has received updates from the relevant client department representatives for all of the moderate reports issued in year. A consistent theme running through the majority of the moderate audits issued in year has been in relation to reduced resources, resulting in a failure to adhere to standard control procedures. There has also been a marginal decrease in the number of audits with a high level of assurance. However, it should be noted that in both cases, the variance only represents 1% of the overall audit universe.

8.4 There are 14 audits which are classed as fundamental audits. The fundamental audits are the systems that are considered to be so significant to the achievement of the Council's objectives that they are audited ether annually or bi-annually. Following the audits completed in 2019/20, 11 of the 14 fundamental audits have a high level of assurance. Two have a substantial level of assurance (Accounts Payable and NNDR/Business Rates) and one has a moderate level of assurance (Accounts Receivable).

8.5 Prior to the most recent audit, the NNDR/Business Rates audit had received consistent high assurance ratings and had therefore been subject to an audit every two years. However, as a result of the findings of the most recent audit in 2019/20, a substantial level of assurance was awarded and as a result this audit will be completed on an annual basis going forward.

8.6 The Accounts Payable audit received a substantial assurance rating in 2019/20 as was also the case in 2018/19 and so this also continues to be audited on an annual basis.

8.7 The Accounts Receivable audit received a moderate assurance rating in both 2018/19 and 2019/20. The Audit Committee have received a number of updates from the client department in relation to the work that is ongoing within the department to address the issues that have been identified. The Audit Committee will continue to receive updates on this throughout 2020/21. (Please note that due to the timing of the draft reports being issued and the onset of the COVID-19 crisis, the NNDR/Business Rates, Accounts Receivable and the Housing and Council Tax Benefits audit reports remain at draft stage at the time of writing this opinion).

8.8 It is disappointing to note that one of the fundamental audits received a second moderate assurance rating in 2019/20. As detailed in updates provided to the Audit Committee from the client department, the reasons for the weaknesses identified in this area are in relation to reduced resources. As noted in previous annual reports, continuity and maintenance of core grip with changing, and more often diminishing, resources was a recognised clear challenge across the Authority and this continues to be the case.

8.9 Despite this it should be noted that of the 14 fundamental system audits, 11 have a high assurance level and two have a substantial assurance level. In addition, the results of the work undertaken in 2019/20 shows that as at the 31/03/20, 94% of all of the audits listed in the audit universe have either a high or substantial assurance rating. This provides reasonable assurance that across the Authority the systems of internal control are operating effectively.

8.10 Throughout the year, a significant amount of effort has been directed at further strengthening the systems of risk management across the Authority. Audit Committee receive regular update reports from the Strategic Delivery and Performance Manager outlining the status of key risks to further strengthen assurance in this area. The Corporate Management Team and Risk Owners have also reviewed the risk register entries regularly throughout the year to ensure the register is up to date and all mitigating controls have been captured and documented. A new Risk Management System has also been introduced in the year which should ensure monitoring and control of risk is greatly improved.

8.11 As per the Terms of Reference, the Audit Committee must be satisfied that they have sufficient information in order to gain assurance over the risk management controls across the Council. Prior to the introduction of the new Risk Management System, the Committee highlighted concerns over the amount of information that was available to Members to allow them to discharge this responsibility. These concerns were also echoed by the Council's External Auditors. It is envisaged that the introduction of the new Risk Management System will facilitate greater scrutiny of the risk management arrangements in place by the Committee. However, it should be noted that at present, the members of the Audit Committee do not have access to the new system.

8.12 In addition, further developments in the year have seen a member of the Audit Committee joining the Governance Group which is tasked with overarching responsibility for ensuring existing corporate governance arrangements are effective. However, it should be noted that there have been very few meetings of the Governance Group throughout 2019/20 and as a result there has been little focus on the Annual Governance Statement throughout the year.

8.13 Each of the Corporate Directors has attended Audit Committee meetings throughout the year to outline governance, risk and control arrangements in place within each directorate. These improvements have further strengthened the overall assurance provided to the Audit Committee.

8.14 At the time of writing this opinion, it is unclear as to the scale of additional spending, loss of income and funding arrangements for reimbursement in part, or in full, that the authority faces in responding both locally, with partners, and supporting the national strategic response to the COVID-19 pandemic. We are also aware that the Council's emergency response has necessitated some rapid changes to working practices, controls and authorisation channels for approval and decision making by Senior Officers and Councillors. However, it should be noted that the Statutory Governance Chief Officers are resolving to maintain appropriate corporate grip to ensure that sufficient recording and reporting mechanisms are maintained throughout this unprecedented crisis.

8.15 The impact of the pandemic was not directly financially or operationally material on the 2019/20 internal audit plan. As a result, the impact of the crisis is not yet reflected in the audit universe as the crisis commenced at the latter end of the financial year. However, it should be noted that the national lock down arrangements and the prioritisation of the response to COVID-19 may have impaired the Council's ability to fully comply with normal operating procedures at all times during March and beyond.

8.16 The impact of the crisis will be financially and operationally material for the whole of 2020/21. It will affect council spending, income, controls and even directly affect our ability to meaningfully deliver the audit plan, particularly during the lock down phase. Throughout this period, the audit team is refocusing its efforts to support the Council to deliver its immediate, urgent response to the crisis. It is hoped that once the current restrictions are eased, the audit team can slowly begin prioritising audit work in the subsequent expected recovery phase.

8.17 The Audit Committee and the Council's External Auditors have raised a number of concerns throughout the year in relation to risk management arrangements and also in relation to the lack of pace with which Directorates have been able to deliver agreed savings targets. These concerns are echoed by the Chief Auditor and the Chief Finance Officer and the programme of planned audits for 2020/21 will seek to provide the Committee with some clarity on these issues.

8.18 Overall, based on the work undertaken in 2019/20, I am satisfied that Internal Audit can provide reasonable assurance that the systems of risk management, internal control and governance established by the Council are operating effectively and that no significant weaknesses were identified in 2019/20 which would have a material impact on the Council's financial affairs or the achievement of its objectives.

9. The Audit Committee

9.1 At the time of writing this report the Council is facing unprecedented and challenging times as a result of the COVID-19 virus. As a result some Audit Committee meetings have been cancelled to enable valuable staff resource to be deployed to areas of greatest need. The Chair acknowledges that Council are endeavouring to maintain continuity of governance arrangements through this challenging time.

9.2 The Chair pays tribute to all staff and officers of the Council as well as the Council Partners' for their commitment and work being achieved to maintain services and support in such challenging circumstances.

9.3 On 11th June 2019 the Audit Committee considered the election of Chair for 2019-20 Municipal Year where it was resolved that Paula O'Connor be elected Chair. At the same meeting Councillor P R Hood-Williams was elected Vice-Chair for the 2019-20 Municipal Year.

9.4 In the 2018/19 Annual Report the Audit Committee gave an ongoing commitment to progressing the necessary action to address the Wales Audit Office recommendations. The Committee at every meeting reviewed progress against those recommendations with the aim of developing and strengthening the Committee's effectiveness in fulfilling the Committee's terms of reference.

9.5 The presentation on the Assurance Framework and the reporting on the Council's Risks was a significant step forward in 2018/19 in improving the Committee's ability to reflect on the effectiveness of governance, risk management and control that supports and informs the Council's Annual Governance Statement. However, the development and roll out of a new electronic risk management system was delayed during the year and the Chair and Audit Committee members have expressed concern that in the absence of a robust system that this will need to be highlighted in the Council's Annual Governance Statement at the year end.

9.6 We have reviewed the work programme at each Committee meeting, taking account of risk and priorities.

9.7 The Chair and Chief Internal Auditor attended the All Wales Audit Committee Chairs network in October 2019. The Network was established across all local Authorities in Wales, to bring together Chairs in an environment where there is opportunity to network, share ideas and problem solve with peers performing similar roles. The WGLA sponsored the event, and agenda items were delivered by WAO and CIPFA, with contributions from Heads of Internal Audit and Chairs. Within the governance item the Network received a particularly informative overview of the proposed changes to the role of the Audit Committee through the Draft Local Government and Elections (Wales) Bill. The Bill proposes to expand the remit of the Committee, through a renaming of the Committee as Governance and Audit Committee, and expanding its responsibilities into areas of performance management. The Bill also proposes changes to the composition of the Committee, with minimum proportions of lay members (1/3 of Committee) and the requirement for a lay chairperson. The Committee will be keen to understand how its responsibilities may increase through the Bill, and to ensure it effectively responds and continues to discharge its role comprehensively. The Wales Audit Office will be asked to deliver a session of practical guidance and support to our next Chairs' Network, scheduled for July 2020. The Network will meet again in July 2020.

9.8 The Audit Committee terms of reference states that the Committee "oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place."

9.9 The Committee received the 2019/20 Internal Audit Plan and Charter on 9th April 2019 and has received reports regularly during the year from the Chief Internal Auditor. The Chair has expressed her gratitude to the Chief Auditor in responding to a request to enhance the detail in the reports to provide further understanding of the work undertaken and the risks identified. During 2019/20 the Chief Auditor reported a number of Moderate Assurance audit reports that resulted in those responsible attending Audit Committee to give assurance that appropriate action was being taken where significant weaknesses in control were identified.

9.10 The Wales Audit Office presented their 2019 Audit Plan to the Audit Committee on 9th April 2019, and has provided the Committee with regular updates to their work. In 2017/18 the Chair suggested that consideration be given to developing a tracker to give focus to improved completion of external audit recommendations. This work is yet to be completed but the Chair acknowledges that Scrutiny Committee has the opportunity to challenge non-implementation of recommendations as well as the Audit Committee.

9.11 The Chair has met during the period with the Deputy Chief Executive, S151 Officer, Monitoring Officer, Chief Internal Auditor and the Wales Audit Office. A meeting is being arranged with the Chief Executive to communicate Audit Committee concerns in a number of key risk areas that include, robustness of Directorates saving plans, workforce pressures, risk management arrangements and reporting of risk to Audit Committee, production of Annual Governance Statement and the role of the Governance Group.

9.12 At the meeting on 9th April 2019 the Committee received the Corporate Fraud Teams Anti-Fraud Plan for 2019/20 that was similar to the plan in 2018/19. The Committee also received the Corporate Fraud Team's Anti-Fraud Plan for 2020/21 at the meeting held on the 1st June 2020. The Corporate Fraud Team informed the Committee that the work of the Team continued to be largely reactive due to the limited resource. The Committee endorsed the plan subject to ongoing review of the resource position by the Council's Corporate Management Team.

9.13 The Strategic Delivery & Performance Manager presented the draft Annual Governance Statement 2019/20 at the meeting in June 2020. A final draft was received at the Audit Committee on 1st June 2020. The Annual Governance Statement was presented to full Council as part of the Statement of Accounts on 10th September 2020.

9.14 The Chair attended the Scrutiny Panel Conference 10th June 2019 and also Scrutiny Panel on 8th July 2019.

9.15 The Committee discussed the concern regarding the cost of the capital programme, the level of reserves, the risk to the Authority and the need to scrutinise the risk. Also, it was noted that a recovery plan should be developed on how the Council plans to deal with overspends and that the Audit Committee should be provided with regular budget variation reports. The Chief Finance Officer / Section 151 Officer agreed to provide this information to future meetings.

9.16 Looking forward to 2020/21, the unprecedented challenges that are ongoing with the COVID-19 virus will clearly have an impact on the Council's governance and finance arrangements during the early to mid-part of the year. The April 2020 meeting of the Audit Committee was cancelled and the meeting in May 2020 is due to be held remotely. However, it is clear that maintaining performance and managing the financial challenges the Council faces will continue as will the need to address the demands emerging from COVID-19. Within this context, the importance of an effective Audit Committee remains critical and the Committee is committed to enhancing its effectiveness through an ongoing training programme, delivering against the Wales Audit Office efficiency improvements and liaising with Officers to enhance the information that the Committee receives. The Committee will keep the Work Programme under regular review and will ensure that the Work Programme contains the critical challenges that the Council faces.

EXTERNAL SOURCES OF ASSURANCE

10. External Auditors

- The WAO audit work in 2018-19 included a follow-up review of the Auditor General for Wales 2015 national report 'Delivering with Less – Leisure Services'. Following a commissioning review of the Council's Cultural services, on 1 October 2018, seven Council leisure centres transferred to Freedom Leisure, a not-for-profit organisation to manage and operate these facilities for a period of 19.5 years. Their review looked at the Council's Cultural services commissioning review and decision-making arrangements in transferring these leisure centres to a not-for-profit organisation. The WAO audit concluded that: the Council has contracted out the future management of its leisure centres, but lacks a full strategic plan to evaluate the leisure service's contribution to achieving the Council's objectives.

- WAO audit work in 2018-19 also included a follow-up review of our 2014 report into the Council's arrangements to support safeguarding of children. WAO also considered the Council's progress in implementing the recommendations contained in the Auditor General's report, 'Review of Corporate Safeguarding Arrangements in Welsh Councils'

(July 2015). Overall, WAO found that: The Council has addressed most of the recommendations in our previous national and local safeguarding reports but should strengthen some aspects of its corporate safeguarding arrangements. WAO made further proposals for improvement to the Council in this regard.

- WAO were satisfied the Council has met its legal duties for improvement planning and reporting and is likely to meet the requirements of the Local Government Measure (2009) during 2019-20.

- WAO undertook the Well-being of Future Generations examination in 2018-19 that considered the extent to which the Council has acted in accordance with the sustainable development principle in developing its new approach to employability, called 'Swansea Working'. WAO concluded that the Council is acting in accordance with the sustainable development principle in developing and implementing the 'step' ('Swansea Working' is an explicit element of Council strategies to tackle poverty and prevention), but there are opportunities to further embed the five ways of working.

- **Wales Audit Office Annual Audit Summary 2019** dated March 2020 (and referred to below) noted that the Council has put in place proper arrangements to secure value for money from the resources it uses. Significant challenges remain particularly in terms of delivering timely transformation against the backdrop of a challenging financial position. This reflected external auditor concerns that the Council continues to face a significant financial challenge and needs to deliver its savings plans at the pace and scale required whilst controlling service spending within budgets. The Council is seeking to address this through a refresh of its programme for transformation to ensure that planned actions are of sufficient scale and pace.

- The Wales Audit Office on behalf of the Auditor General for Wales presented the **Audit of Financial Statements Report 2018/19** to Audit Committee on 13/8/19 and to Council on 29/08/19. The report highlighted any significant issues to those charged with governance that needed to be considered prior to the approval of the financial statements. The Auditor General issued an unqualified audit report on the financial statements and the report concluded that the financial statements for both the City & County of Swansea and the City and County of Swansea Pension Fund, (which was presented to the Pension Fund Committee on the 12/9/19), gave a true and fair view of the financial position of the Council and had been properly prepared.

11. Statutory external inspections/regulators

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

- CIW reported on its inspection of services for children living in Swansea in October 2018. Overall, CIW found good quality practice in Swansea Council children's services, with positive outcomes being achieved for many children and young people. CIW also issued a Local Authority Performance Review and concluded that Swansea Council is a learning organisation and fully aware of its strengths and areas in need of improvements and have a proactive approach to improvement and ensuring positive outcomes; however this is an ongoing significant challenge due to budgetary and workforce issues.

- The Estyn profile of school inspections for 2019-2020 is very positive in all sectors. Between the summer term 2019 and spring term 2020, 13 schools were inspected by Estyn in Swansea. 12 schools were judged to be good or excellent in all of the five areas that are inspected under the current framework. One school was judged adequate in the area of teaching and learning but good in all other areas. All inspection results and recommendations, as well as other intelligence, is discussed in regular meetings and appropriate support and challenge through the advisory team is identified as a result. Overall the picture for Swansea compared to other authorities is very positive and against the trend of inspection results across Wales.

CORE EVIDENCE

12. Council & Cabinet

The following provide assurance based on reports covering 2019/20. In some instances reports from 2018/19 are reflected in the Annual Governance Statement as the reports for 2019/20 are not yet available.

- Council adopted a revised Corporate Plan 2019/22 *Delivering a Successful and Sustainable Swansea* on 25 October 2018. The Corporate Plan for 2019/22 was refreshed and approved at Cabinet on 19th March 2019 and was refreshed again and approved by Cabinet on 19th March 2020. The Corporate Plan sets out the Council's values and principles underpinning the delivery of the objectives and sets out how the Council will monitor progress through quarterly and annual performance monitoring reports.

- Performance on delivery of the Council's Well-being Objectives is monitored quarterly by Cabinet. Quarterly Reports during 2019/20 contain outturn compliance with performance indicators and an overview of performance for each Objective provided by Directors/Heads of Service. The End of Year Performance Monitoring Report for 2018/19 was presented to Cabinet on 15th August 2019. End of Year 2019/20 and Quarter 1 2020/21 Performance reporting has been suspended for the time being during the COVID-19 response; reporting will resume as soon as possible in line with the Council's COVID-19 recovery plans.

- The Annual Review of Performance 2018/19 was approved by Cabinet on 17th October 2019 in accordance with the publishing requirements of the Local Government (Wales) Measure 2009. The report showed the results of each performance measure for the 6 Objectives set out in the Corporate Plan 2018/22. The results showed that overall the Council has made significant progress undertaking the steps to meet its Well-being Objectives but that there were areas for development and lessons learnt.

- The Corporate Complaints Policy is in line with the Welsh Government Model Complaints Policy and was in place throughout 2019/20. It enables the public to tell the Council what they think about services. The Corporate Complaints Annual Report 2018/19 was presented to Cabinet on 23rd January 2020. The report reflects the continued emphasis on prompt resolution of complaints and includes compliments about services. Whilst the total of complaints to the Public Service Ombudsman for Wales increased from 62 to 83 only 1 was upheld, 9 were resolved by quick fix/voluntary settlement, 1 was not upheld and the remaining referrals were either out of jurisdiction, premature or closed after initial consideration. There was an assurance that there were no s 16 Public Interest reports during the year.

- The Audit Committee Annual Report 2018/19 was presented to Council on 24th October 2019 and outlined the assurance the Committee had gained over control, risk management and governance from various sources over the course of 2018/19. In particular, the report highlighted the work that had been undertaken throughout the year in line with the Committee's terms of reference. The report also provided an update on the implementation of the actions arising from the Performance Review facilitated by the Wales Audit Office.

- The Equality Review Report 2018/19 was reported to Cabinet on 19th September 2019, which highlighted progress against the Equality Objectives. The report highlighted work linked to the core principles i.e. co-production, engagement and embedding of children's rights.

- The Welsh Language Annual Report 2018/19 reflected progress and compliance on the 169 Welsh Language Standards with which the Council has to comply. The report contained an overview of activity and how the Council internally promotes the Welsh Language Standards with tools and information. The report concluded that good progress continued to be made on implementing the Welsh language standards during 2018/19 and general feedback indicated that officers were more educated and much more aware of the need for compliance than they were previously.

- There were a number of key reports presented to Cabinet/Council during 2019/20 including reports relating to the Swansea Bay City Deal and a number of Cabinet responses to Scrutiny reports.

13. Committees

- The **Scrutiny Programme Committee (and established Scrutiny Panels and Working Groups)** met throughout 2019/20 and were supported by the Council's Scrutiny Team. The scrutiny function is delivered through the Scrutiny Programme Committee (SPC) together with a number of Scrutiny Inquiry and Performance Panels. The SPC is a group of thirteen Scrutiny Councillors and other members who are co-optees who organise and manage what Scrutiny will look at each year. All scrutiny activity within the council is managed by the committee through a single workplan. Specific work is undertaken both through the committee and by establishing informal panels (for in-depth activities) or working groups.

- The **Scrutiny Annual Report 2018/19** was presented to Council on 24th October 2019. The report highlighted the work carried out by Scrutiny, showed how Scrutiny had made a difference and supported continuous improvement for the Scrutiny function. It shows that the Scrutiny Programme Committee met on 14 occasions. In total, there were 95 panel and working group meetings during that municipal year with 2 Inquiries relating to the Natural Environment (completed) and Equalities (ongoing). Two Inquiry Panels reconvened to follow up actions agreed by Cabinet – CAMHS and Tackling Poverty.

There was also pre decision scrutiny undertaken on a number of Cabinet reports and a high level of councillor commitment.

- There is a strong relationship with audit, inspectors and regulators. There are well-established links between the scrutiny function and Estyn, in respect of Education Services and School Improvement, and similarly with CIW (Care Inspectorate Wales), in respect of Audit Services and Child & Family Services. Respective Scrutiny Performance Panels are routinely provided with relevant reports from Estyn and CIW, and are discussed as required. All Wales Audit Office local performance audit reports and relevant national Wales Audit Office reports (those with implications for local government) are also included in the Scrutiny Work Programme (dealt with by the Committee or relevant Performance Panels) and there is co-ordination with the Audit Committee. Scrutiny considers the Council's response / action plans following WAO reports and follows up progress as necessary. Regional scrutiny continues with ERW and Swansea Bay City Region City Deal. The Swansea Scrutiny Team is providing support for the ERW joint scrutiny arrangement.

- There was a positive external assessment of our scrutiny arrangements from the Wales Audit Office Review of Scrutiny 2018, and Care Inspectorate Wales inspection of Child & Family Service and Foster Swansea. A Scrutiny Improvement Action Plan was agreed by Scrutiny Programme Committee following self-evaluation and consideration of WAO Review of Scrutiny findings.

- The **Standards Committee** met on 3 occasions during 2019/20 and the **Standards Committee Annual Report 2018/19** was presented to Council on 27th November 2019. The Committee is chaired by an independent person and is responsible for monitoring the ethical standards of the authority and maintaining the highest standards of conduct by elected councillors. The Committee commenced discussions with the Political Group Leaders as to ethical values within the council and this work has been finalised and hopefully will form part of the Annual Report for 2019/20. The Standards Committee were also instrumental in ensuring the Ombudsman's Code of Conduct Casebook was considered and circulated to all members by the Monitoring Officer. The Members Internal Dispute Resolution Process has not yet been utilised, which underpins the strong commitment to, and provides assurance, that the Council's Code of Conduct is adhered to.

- The **Audit Committee** met on 8 occasions during 2019/20 and followed a structured work-plan, which covered all areas of the Committee's responsibilities with the aim of obtaining assurance over the areas included in its terms of reference. The Committee includes a lay member who is also the Chair of the Committee. The Committee receive all Wales Audit Office reports once reported to Scrutiny Programme Committee. The Committee may decide to track or prioritise specific proposals or recommendations in addition to the oversight provided by Scrutiny. This arrangement provides additional assurance that the Council responds and puts in place action plans to address any recommendations. The Committee also receives quarterly updates on the overall status of risk within the Council to give assurance that the risk management process is being followed.

- During 2015/16 a Local Pension Board was established, in compliance with the Public Service Pensions Act 2013. The role of the Board is to assist the Council (and Pension Fund Committee) as Scheme Manager and Administering Authority to secure compliance with LGPS regulations and other legislation relating to the scheme. Terms of Reference for the Board were established and appropriate Board members were appointed. The Board convened meetings on 5 occasions during 2019/20.

- The **Pension Fund Committee** establishes and keeps under review policies to be applied by the Council in exercising its discretions as an administering Authority under the Local Government Pension Scheme (LGPS) Regulations. The Committee is Chaired by a Councillor and membership consists of six elected Members, including the Chair, and two lay members. The Committee met on 5 occasions during 2019/20 and dealt with all issues relating to the governance and administration of the Pension Fund. The Chair of the Pension Fund Committee also represents the Council on the Joint Governance Committee of the Wales Pension Partnership, a collaborative working arrangement between the 8 local government pension funds in Wales.

- The **Democratic Services Committee** reviews the adequacy of provision by the authority of staff, accommodation and other resources to discharge Democratic Services functions. The Committee is Chaired by a Councillor and, along with the Chair, membership consists of thirteen elected Members. The Committee met on 3 occasions and considered the Social Media Guide for Councillors, a review of Councillors' Broadband and Telephone and IT, the Councillors' Handbook and Personal Safety.

- The **Policy Development Committees (PDCs)** seek to drive the development of policy for consideration and adoption by Cabinet and or Council as appropriate. The Committees are chaired by a Councillor and, along with the Chair, membership consists of ten elected Members. There were five Committees meeting in 2019/20: Economy & Infrastructure; Education & Skills; Equalities & Future Generations; People, and; Poverty Reduction. During 2019/20, the Committees contribution to the ongoing development of policy included, among others, the Green Infrastructure and River Corridor Development Strategies, the new education curriculum, the new Strategic Equality Plan, the new Consultation & Engagement Strategy, Transition for Children and Young People with a Disability and the Poverty Truth Commission. Due to Covid-19, some of the Council meetings, including PDC meetings, were cancelled or re-arranged although the Welsh Government has temporarily removed the legal requirement for local authorities to hold physical meetings. As such, some meetings will be held remotely and this will continue to be reviewed during 2020/21.

Significant Governance Issues

The following table shows the significant governance issues which were identified during the review of effectiveness undertaken when preparing the Annual Governance Statement **2018/19** and the action taken during the year to address the issues.

Significant Governance Issue linked to Framework	Action taken	Status
Maintaining sufficient financial discipline (revenue service spending) to deliver Corporate Objectives and Sustainable Swansea (red risk on Corporate Register) The Council will continue to face unprecedented financial challenge. It is essential that approved service savings are made in a timely way with full risks and impact being understood.	• Re-shaping Board now moved into CMT/Cabinet Away Day so that both the monitoring of savings and the transformation programme activity can be reviewed with both CMT and the Executive • Robust challenge of financial position continued by CMT / Corporate Directors resulting in positive and improving position going into Q3 • Annual review of Sustainable Swansea underway with revised programme to deliver future savings in years 3 onwards.	• Ongoing
Engagement and communication The views of the public, service users, staff and external partners must be taken into account in decisions impacting upon them. It is essential that there are sufficient structures in place to encourage and enable public participation.	• Co-Production Strategic Framework developed and presented to the Equalities PDC. • Integrated Impact Assessment under development. • The Access to Services team has also produced the Engagement and Consultation Strategy recently approved by CMT. The team also supports all services in ensuring EIAs are completed as part of the budget process and the SDU promotes Future Generations.	• Complete

	Services to consider the Act when Service Planning.	
Performance Reviews Whilst there is a strong performance management system with regular supervision/training of staff evidenced across the authority there is evidence of inconsistency associated with the IT appraisal use.	• New appraisal solution being developed, which will be delivered digitally through the new Oracle Cloud solution in November 2021.	• Ongoing
Project Governance It remains the position that significant officer time will need to be dedicated to major projects with which the Council is involved. Consideration will need to be given to adequately resourcing project teams to ensure strong and transparent governance arrangements are in place.	• Project leads identified. • Organisational capacity identified and funded. • Business Case to Cabinet and CMT. • Monitored through the Project Board and CMT.	• Complete
Decision to Leave the European Union Any consequences of leaving the European Union will have to be planned, monitored and managed.	• Formed a Brexit Steering Group and held meetings. • Service areas have completed assessments on preparedness for Brexit. Business Continuity Plans have been reviewed. • Potential implications on service delivery is a standing item on work team agendas, Leadership team and CMT. • Brexit is a Corporate Risk that is reviewed monthly at CMT.	• Complete
Partnership/Collaboration/Regional Working Governance As there is increased drive for partnership/regional working the council will need to focus on ensuring the appropriate governance arrangements and benefit to Swansea residents.	• Produced and reported to Council on 25/07/19 the Annual Report 2018/29 on Regional Working outlining Governance arrangements, including scrutiny; priorities and progress; challenges and	• Complete

	areas for further development; future plans and opportunities.	

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 **2020/21** to address the issues. **At the time of writing the COVID-19 crisis occurred and so the timescales and actions will be impacted depending on the severity and longevity of the crisis.**

Significant Governance Issue linked to Framework	Action to be taken
Budget pressures (including external and demand-led pressures and overspends) & problems living within budgets.	• Continue robust monitoring of budgets, savings and transformation programme activity at PFM and with both CMT and the Executive. • Annual review of Sustainable Swansea underway with revised programme to deliver future savings in years 3 onwards.
Lack of workforce capacity, capability and resilience and relying on staff goodwill.	• Development of a Workforce Plan to support high performance and enable a skilled, flexible and engaged workforce.
Performance Reviews, i.e. appraisals system / induction training not fit for purpose.	• Continue to develop a new appraisal solution to be delivered digitally through the new Oracle Cloud solution in November 2021. • Address Induction training of new staff as part of the review of the induction process and future policy reviews.
Embed the Future Generation Act principles into the Council's processes and decision making.	• Further development of integrated impact assessments to be undertaken to ensure that legal and regulatory compliance are embedded into the decision making process. • Provision of training/information on the requirements of the Future Generations Act.
Patchy Partnership Governance, including application of risk management.	• Continue to address the challenges and areas for further development as set out within the

	Annual Report on Regional Working.
ICT Disaster recovery.	• Resolve through the move to cloud services, particularly Oracle Cloud in November 2021.
Use and governance of social media accounts	• Complete the review underway of the use of social media and social media access.
Continue to improve risk management arrangements	• Services and risk owners to continue to improve their compliance to the Council's Risk Management Policy and Framework, including monthly risk reviews and improving the quality of risk controls. • Develop the Council's new risk register application to produce reports to help oversee the status of risk.

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

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

I hereby certify that the Financial Statements presents a true and fair view of the financial position of the City and County of Swansea Pension Fund at the accounting date and its income and expenditure for the year ended 31st March 2020

Ben Smith
Chief Financial Officer

The Authority's Responsibilities
The Authority is required to:
- Make arrangements for the proper administration of the City and County of Swansea Pension Fund and to secure that one if its officers has the responsibility for the administration of those affairs. In this Authority, that Officer is the Chief Financial Officer
- Manage the affairs of the City and County of Swansea Pension Fund to secure economic, efficient and effective use of resources and safeguard its assets; and
- Approve the Financial Statements.

The Chief Financial Officer's Responsibilities
The Chief Financial Officer is responsible for the preparation of the City and County of Swansea Pension Fund's financial statements in accordance with proper practices as set out in the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code).
In preparing these financial statements, the Chief Finance Officer has:
- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent
- Complied with the local authority code.

The Chief Financial Officer has also:
- Kept proper accounting records which were up to date; and
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Date of Authorisation for Issue
The 2019/20 Financial Statements were authorised for issue on xxxx 20 by Ben Smith, Chief Financial Officer who is the Section 151 Officer of the Council. This is the date up to which events after the Balance Sheet date have been considered.

The 2019/20 Financial Statements were formally approved by Pension Fund Committee on xxx 20.

Clive Lloyd
Chairman

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

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

Opinion

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

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

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

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

Anthony J Barrett
For and on behalf of the Auditor General for Wales
XXXXX 20

24 Cathedral Road
Cardiff
CF11 9LJ

STATEMENT OF ACCOUNTS 2019/20

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 2020.

- 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	103,80
Other	424
	104,231

And where it goes……..

	£'000
Pensions payable	67,763
Lump sum benefits	14,409
Refunds and transfers out	7,100
Management Expenses	10,066
	99,338

	£'000
Net new money into the Fund	4,893
Net return on Investments	-60,909
Decrease in Fund value	**-56,016**

Fund Account For The Year Ended 31st March

2018/19 £'000		Note	2019/20 £'000	2019/20 £'000
	Contributions and benefits :			
	Contributions receivable :			
74,944	Employers contribution	3	80,425	
18,456	Members contribution	3	19,276	99,701
5,037	Transfers in	4		4,106
374	Other income	5		424
98,811				104,231
	Benefits payable :			
-65,016	Pensions payable	6	-67,763	
-17,063	Lump sum benefits	6	-14,409	-82,172
	Payments to and on account of leavers :			
-183	Refunds of contributions	7	-166	
-6,136	Transfers out	7	-6,934	-7,100
-11,759	Management expenses	8		-10,066
-1,346	**Net additions from dealing with members**			**4,893**
	Returns on investments			
31,229	Investment income	9		8,482
97,645	Change in market value of investments	12		-69,391
128,874	**Net returns on investments**			**-60,909**
127,528	**Net decrease in the Fund during the year**			**-56,016**
1,916,510	Opening Net Assets of the Fund			2,044,038
2,044,038	Closing Net Assets of the Fund			**1,988,022**

Net Assets Statement As At 31st March

31st March 2019 £'000			31st March 2020 £'000
	Investments at market value:	**Note**	
1,976,028	Investment Assets	11	1,941,372
767	Cash Funds	12	773
65,017	Cash Deposits	12	43,669
2,041,812	**Sub Total**		**1,985,814**
6,806	Current Assets	16	6,315
-4,580	Current Liabilities	16	-4,107
2,044,038	**Net assets of the Scheme available to fund benefits at the period end**		**1,988,022**

The financial statements on pages 55 to 90 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 2019/20 financial year and its position at year-end 31 March 2020. The financial statements have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2019/20* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

2. Accounting Policies

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

(a) Contributions

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

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

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

(b) Benefits

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

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

(c) Transfers to and from other Schemes

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

Accounting Policies cont'd

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

(d) Investments

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

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

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

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

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

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

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

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

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

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

(e) Financial Instruments

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

(f) Management Expenses

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

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

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

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

The Statement of Accounts contains estimated figures that are based on assumptions made by the council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the net asset statement at 31st March 2020 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

- Actuarial present value of promised retirement benefits

(j) Critical judgements in applying accounting policies

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

Unquoted private equity investments – these are inherently based on forward looking estimates and judgements valued by the investment managers using two main sets of valuation guidelines that apply to private equity; the Private Equity Valuation Guidelines (PEVG) in the US and the international Private Equity and Venture Capital Guidelines (IPEVCG) outside the US. The value of the unquoted private equities as at 31st March 2020 was £91.9 million (£86.62 million as at 31st March 2019).

(k) Other

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

3. Analysis of Contributions

Total Contributions 2018/19 £'000		Total Contributions 2019/20 £'000
	Administering Authority	
51,971	City & County of Swansea	**55,069**
	Admitted Bodies	
397	Celtic Community Leisure	380
5	Swansea Bay Racial Equality Council	3
131	Wales National Pool	141
2,525	Tai Tarian	2,575
1,624	University of Wales Trinity St Davids	1,836
590	Pobl Group	459
5	RathboneTraining (CCS)	3
28	RathboneTraining (Gower College)	77
273	Wealdon Leisure	573
8	Parkwood Leisure	42
5,586	**Total Admitted Bodies**	**6,089**
	Scheduled Bodies	
11	Cilybebyll Community Council	12
51	Coedffranc Community Council	59
3	Llanrhidian Higher Community Council	4
3	Ystalyfera Community Council	4
0	Mumbles Community Council	7
2,611	Gower College	2,995
2,183	NPTC Group	2,317
69	Neath Town Council	73
30,802	Neath Port Talbot County Borough Council	32,958
50	Margam Joint Crematorium Committee	57
7	Pelenna Community Council	7
18	Pontardawe Town Council	18
29	Swansea Bay Port Health Authority	26
6	Briton Ferry Town Council	6
35,843	**Total Scheduled Bodies**	**38,543**
93,400	**Total Contributions Receivable**	**99,701**

3. Analysis of Contributions (continued)

Total Employer/Employee contributions comprise of:

2018/19 £'000		2019/20 £'000
	Employers	
71,444	Normal	77,663
976	Other	1,287
2,524	Early Access	1,475
74,944	**Total**	**80,425**
	Employees	
18,418	Normal	19,245
38	Other	31
18,456	**Total**	**19,276**
93,400	**Total Contributions Receivable**	**99,701**

4. Transfers In

Transfers in comprise of:

2018/19 £'000		2019/20 £'000
0	Group transfers from other schemes	0
5,037	Individual transfers from other schemes	4,106
5,037	**Total**	**4,106**

5. Other Income

Other income comprise of:

2018/19 £'000		2019/20 £'000
374	Interest on Cash Deposits	420
0	Early Access - Interest	4
374	**Total**	**424**

6. Benefits Payable

The lump sum benefits paid comprise of:

2018/19 £'000		2019/20 £'000
65,016	Pensions	67,763
15,271	Commutation and lump sum retirement benefits	11,868
1,792	Lump sum death benefits	2,541
82,079	**Total**	**82,172**

6 **Benefits Payable Cont'd**

Total Benefits Paid 2018/19 £'000		Total Benefits Paid 2019/20 £'000
	Administering Authority	
58,778	City & County of Swansea	**32,896**
	Admitted Bodies	
50	Celtic Community Leisure	246
4	Swansea Bay Racial Equality Council	5
2	Wales National Pool	12
462	Tai Tarian	939
281	University of Wales Trinity St Davids	946
163	Pobl Group	376
0	RathboneTraining (Gower College)	6
15	The Careers Business	80
1	Cap Gemini	16
21	BABTIE	57
1	West Wales Art Association	4
1	Colin Laver Heating	9
1	Phoenix Trust	1
1,002	**Total Admitted Bodies**	**2,697**
	Scheduled Bodies	
1	Coedffranc Community Council	13
37	Swansea Bay Port Health Authority	159
7	Swansea City Waste Disposal Company	85
236	Gower College	988
174	NPTC Group	1,007
7	Neath Town Council	1
3,671	Neath Port Talbot County Borough Council	20,923
12	Margam Joint Crematorium Committee	117
1	Neath Port Talbot Waste Management	10
1	Pelenna Community Council	4
1	Pontardawe Town Council	4
148	Lliw Valley Borough Council	1,167
1	Briton Ferry Town Council	5
41	West Glamorgan Magistrates Court	216
898	West Glamorgan County Council	7,471
5,236	**Total Scheduled Bodies**	**32,170**
65,016	**Total Benefits Paid**	**67,763**

7 Payments to and on account of leavers

Transfers out and refunds comprise of:

2018/19 £'000		2019/20 £'000
183	Refunds to members leaving service	166
905	Bulk Transfer	0
5,231	Individual transfers to other schemes	6,934
6,319	**Total**	**7,100**

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

8 Administrative and Investment Manager Expenses

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

2018/19 £'000		2019/20 £'000
	Administrative Expenses	
757	Support Services(SLA) & Employee Costs	761
15	Printing & Publications	7
625	Other	447
1,397		**1,215**
	Oversight & Governance	
36	Actuarial Fees	83
103	Advisors Fees	105
43	External Audit Fees	37
14	Performance Monitoring Services Fees	14
6	Pension Fund Committee	6
0	Pension Board	2
118	Wales Pension Partnership	182
320		**429**
1,717		**1,644**
	Investment Management Expenses	
4,491	Management Fees	3,029
668	Performance Fees	1,572
167	Custody Fees	1,133
4,716	Transaction Costs	2,688
10,042		**8,422**
11,759	**Total**	**10,066**

Transaction costs were considerably higher in 2018/19 due to the transition of the segregated equity mandates to the Wales Pension Partnership in January 2019.

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

The table below represents the underlying manager fees, these fees are not charged to the accounts but are disclosed here for transparency. The returns for these mandates are net of underlying manager costs, this is reflected in Note 12 within the Change in Market Value.

2018/19 £'000		2019/20 £'000
96	Partners Group	116
331	Blackrock	505
671	Schroders Property Fund	655
1,224	EnTrustPermal	1,405
943	HarbourVest	1,038
0	WPP Global Opportunities Fund	2,409
3,265	**Total**	**6,128**

Included in the management expenses is the cost of our involvement in the Wales Pension Partnership (WPP) collective Investment Pooling arrangements.

The oversight and governance costs are the annual running costs of the pool which includes the host authority costs and other external advisor costs. These costs are funded equally by all eight of the local authority Pension Funds in Wales. The investment management expenses are fees payable to Link Fund Solutions (the WPP Operator) and include fund manager fees (which also includes the operator fee and other associated costs), transaction costs and custody fees. These costs are based on each Fund's percentage share of WPP pooled assets and are deducted from the Net Asset Value (NAV).

2018/19 £'000		2019/20 £'000
	WPP Oversight and Governance Costs	
126	Running Costs	70
	WPP Investment Management Expenses	
406	Fund Manager Fees	946
4,396	Transaction Costs	2,395
29	Custody Fees	151
4,957	**Total**	**3,562**

In 2018/19 WPP fund manager fees and custody fees only covered the period January 2019 to March 2019.

9 Investment Income

2018/19 £'000		2019/20 £'000
15,414	U.K. Equities	1,675
10,165	Overseas Equities	1,318
3,818	Managed Fund – Fixed Interest	3,406
1,845	Pooled Investment vehicles - Property Fund	2,074
-13	Interest and Other Income	9
31,229	**Total**	**8,482**

The three segregated mandates with JP Morgan, Aberdeen Standard and Schroders Investment Managers for UK and Overseas Equities were transitioned to Wales Pension Partnership in January 2019. The amounts detailed above for equities represents the residual income in the custody accounts after transition.

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

10 Taxation

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

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

11 Investment Assets

	31st March 2019			31st March 2020		
	UK £'000	**Overseas £'000**	**Total £'000**	**UK £'000**	**Overseas £'000**	**Total £'000**
Pooled investment Vehicles						
Managed Funds:						
Quoted:						
Equity	0	14,489	14,489	0	10,126	10,126
Fixed Interest	0	118,199	118,199	0	114,910	114,910
Unquoted:						
Equity	161,963	1,299,260	1,461,223	0	1,383,152	1,383,152
Fixed Interest	79,090	16,703	95,793	90,140	18,867	109,007
Index-linked	34,385	0	34,385	35,111	0	35,111
Property Unit Trust	19,528	0	19,528	20,146	0	20,146
Property Fund	36,430	33,089	69,519	31,142	48,566	79,708
Hedge Fund	0	54,168	54,168	0	49,971	49,971
Private Equity	0	86,625	86,625	0	91,997	91,997
Infrastructure	0	18,501	18,501	0	33,635	33,635
Private Equity	0	0	0	0	11,798	11,798
Derivatives	0	3,598	3,598	0	1,811	1,811
Total pooled investment vehicles	331,396	1,644,632	1,976,028	176,539	1,764,833	1,941,372

	31st March 2019	31st March 2020
Cash Funds	767	773
Cash	65,017	43,669
Other Investment Balances Due	0	0
Total	**2,041,812**	**1,985,814**

11. Investment Assets (Continued)

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

31st March 2019 £'000	Investment Assets	31st March 2020 £'000
213,992	Fixed Interest	223,917
34,385	Index Linked Securities	35,111
161,963	U.K. Equities	0
1,313,749	Overseas Equities	1,393,278
89,047	Property	99,854
54,168	Hedge Funds	49,971
86,625	Private Equity	91,997
18,501	Infrastructure	33,635
0	Private Debt	11,798
3,598	Derivatives	1,811
1,976,028	**Total Investment Assets**	**1,941,372**

12. Reconciliation of movements in investments

	Value at 31st March 2019	Purchases	Sales	Change in Market Value	Value at 31st March 2020
	£'000	£'000	£'000	£'000	£'000
Equities					
Aberdeen FF	14,489	473	0	-4,836	10,126
Blackrock	518,335	507,932	-507,166	-33,989	485,112
WPP	942,888	0	-3,430	-41,418	898,040
	1,475,712	508,405	-510,596	-80,243	1,393,278
Property					
UK					
Schroders	55,958	2,705	-3,841	-3,534	51,288
Overseas					
Partners	18,791	669	-2,429	-423	16,608
Invesco	14,298	17,117	-801	1,344	31,958
	89,047	20,491	-7,071	-2,613	99,854
Fixed Interest					
Fixed Interest					
Blackrock	80,003	0	0	8,521	88,524
Goldman Sachs	118,199	3,406	0	-6,695	114,910
	198,202	3,406	0	1,826	203,434
Index-Linked					
Blackrock	34,385	0	0	726	35,111
	34,385	0	0	726	35,111
Hedge Funds					
Blackrock	28,764	0	-219	-1,912	26,633
EnTrustPermal	25,404	0	-288	-1,778	23,338
	54,168	0	-507	-3,690	49,971
Private Equity					
HarbourVest	86,625	12,974	-16,317	8,715	91,997
	86,625	12,974	-16,317	8,715	91,997
Infrastructure					
First State	18,501	15,874	-2,642	1,902	33,635
	18,501	15,874	-2,642	1,902	33,635
Private Debt					
Alcentra	0	11,751	-1,027	1,074	11,798
	0	11,751	-1,027	1,074	11,798
Equity Protection					
Russell	19,388	0	0	2,906	22,294
	19,388	0	0	2,906	22,294
Cash Funds					
Schroders	767	0	0	6	773
	767	0	0	6	773

Total	**1,976,795**	**572,901**	**-538,160**	**-69,391**	**1,942,145**
Cash	65,017				43,669
Other Investment Balances -					
Dividends Due	0				
Total	**2,041,812**			**-69,391**	**1,985,814**

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 £2,688k (2018/19 : £4,462k). Costs are also incurred by the Fund in relation to transactions in pooled investment vehicles. Such costs are taken into account in calculating the bid/offer spread of these investments and are not separately disclosed.

13. Concentration of Investments

The following investments represented more than 5% of the Plan's net assets at 31 March 2020:

	Value as at the 31st March 2019 £'000	**Proportion of Net Asset %**	**Value as at the 31st March 2020 £'000**	**Proportion of Net Asset %**
Blackrock UK Equity Index	161,963	8.0	-	-
Blackrock North America Equity Index	175,447	8.6	-	-
Blackrock ACS Low Carbon Tracker	-	-	444,867	22.4
Goldman Sachs Global Libor Plus II	118,199	5.8	114,910	5.8
WPP Global Opportunities Fund	942,888	46.3	898,040	45.2

The Blackrock Equity Index Fund was transitioned to the Blackrock Low Carbon Tracker Fund in July 2019.

14. Realised Profit on the Sale of Investments

2018/19 £'000		**2019/20**
26,385	U.K. Equities	0
17,343	Overseas Equities	0
1,047	Property Fund	2,131
44,775	**Net Profit**	**2,131**

15. Fixed Interest and Index Linked Investments

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

31st March 2019 £'000		31st March 2020 £'000
154,065	UK Public Sector	124,072
78,522	Other	114,472
232,587	**Total**	**238,544**

16. Current Assets & Liabilities

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

31st March 2019 £'000		31st March 2020 £'000
	Current Assets	
697	Contributions - Employees	724
2,734	Contributions – Employers	2,969
1,600	Early Access Contributions Debtor	1,091
758	Transfer Values	186
1,017	Other	1,345
6,806		**6,315**
	Current Liabilities	
-566	Investment Management Expenses	-220
-2,025	Commutation and Lump Sum Retirement Benefits	-1,765
-199	Lump Sum Death Benefits	-480
-665	Transfers to Other Schemes	-541
-662	Payroll Deductions - Tax	-623
-6	Payable Control List	0
-457	Other	-478
-4,580		**-4,107**
3,237	**Net**	**2,208**

16. Current Assets & Liabilities (Continued)

Early Access Debtor

	Instalment Due 2020/21 £'000	Instalment Due 2021/22 £'000	Instalment Due 2022/23 £'000	Instalment Due 2023/24 £'000	Total £'000
Early Access Principal Debtor	976	57	57	0	1,090
Early Access Interest Debtor	5	4	4	0	13
Total (Gross)	**981**	**61**	**61**	**0**	**1,103**

17. Capital and Contractual Commitments

As at 31 March 2020 the Scheme was committed to providing additional funding to certain managers investing in unquoted securities. These commitments amounted to £176.4m (2018/19: £88.7m).

As part of the asset re-allocation strategy previously agreed by the Pensions Committee, in 2019/20 new commitments were made to a number of yielding assets (CVC Credit Partners European Direct Credit Lending Feeder Fund £24.3m) and (Blackrock Global Renewable Power Fund 111 £25.8m), an additional commitment to First State EDIF 11 Infrastructure Fund of £35m.

18. Related Party Transactions

£761k (£757k 18/19) 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 61.

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

Related Party Transactions Cont'd

Key Management Personnel

The key management personnel of the Fund are the Chief Executive and the Head of Financial Services & Service Centre, Section 151 Officer. As required by 3.9.4.2 of the CIPFA code of practice 2019/20, 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 2020		Increase/(decrease) in IAS19 liability to 31 March 2019	
	Amount (£)	Percentage (%) of year end liability	Amount (£)	Percentage (%) of year end liability
Chief Executive	65,000	3.6	77,000	4.3
Chief Finance Officer	74,000	15.6	77,000	20.7

	Short Term Benefits to 31 March 2020		Short Term Benefits to 31 March 2019	
	Remuneration (Including Fees & Allowances) £	Pension Contributions (25.8%) £	Remuneration (Including Fees & Allowances) £	Pension Contributions (24.4%) £
Chief Executive	148,584	19,167	145,670	35,544
Interim Chief Executive	13,833	-	10,869	-
Section 151 Officer & Chief Finance Officer	100,467	25,835	26,446	6,453

Notes in relation to 2019/20

(i) The Chief Executive returned to work following long term sickness on 2nd June 2019.
(ii) The Interim Chief Executive post came to an end on 31st May 2019.

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
- ESG 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 01/04/19	Purchases at Cost (Contributions In/Out)	Sale Proceeds	Change in Market Value	Value of Funds at 31/03/20
	£'000	£'000	£'000	£'000	£'000
Prudential	6,386	1,654	-554	-39	7,447
Aegon	1,032	23	-62	-17	976
Equitable Life	238	1	-23	22	238
Totals	**7,656**	**1,678**	**-639**	**-34**	**8,661**

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 2020 there were 20,050 contributors, 15,050 pensioners and 11,838 deferred pensioners.

Membership statistics	**31/03/16 Number**	**31/03/17 Number**	**31/03/18 Number**	**31/03/19 Number**	**31/03/20 Number**
Contributors	17,469	17,903	19,671	19,888	20,050
Pensioners	11,745	12,200	12,763	13,229	15,050
Deferred Pensioners	11,226	11,583	11,394	11,874	11,838
Total	**40,440**	**41,686**	**43,828**	**44,991**	**46,938**

See Appendix 1 for current year analysis.

22. Fair Value of Investments

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

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

IFRS9 introduced a new classification under the code :

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

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

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

- Level 1 – where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Comprise quoted equities, quoted bonds and unit trusts.

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

- Level 3 – where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

The table on the following page shows the position of the Fund's assets at 31st March 2019 and 2020 based upon this hierarchy.

FAIR VALUE - HIERARCHY

	31 March 2019				31 March 2020			
	Market Value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	Market Value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Pooled Investment Vehicles								
Fixed-Interest Funds	118,199	118,199			114,910	114,910		
UK Equity	161,963		161,963		0		0	
Global Equity	1,313,749	14,489	1,299,260		1,393,278	10,126	1,383,152	
Fixed Interest	95,793		95,793		109,007		109,007	
Index-linked	34,385		34,385		35,111		35,111	
Property Unit Trust	19,528			19,528	20,146			20,146
Property Fund	69,519			69,519	79,708			79,708
Hedge Fund	54,168			54,168	49,971			49,971
Private Equity	86,625			86,625	91,997			91,997
Infrastructure	18,501			18,501	33,635			33,635
Private Debt	0			0	11,798			11,798
Derivatives	3,598	3,598			1,811	1,811		
Cash	65,784	65,784			44,442	44,442		
Total	**2,041,812**	**202,070**	-	**248,341**	**1,985,814**	**171,289**	**1,527,270**	**287,255**

23. Investment Risks

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

Procedures for Managing Risk

The principal powers to invest are contained in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and require an Administering Authority to invest any Pension Fund money that is not needed immediately to make payments from the Pension Fund. These regulations require the Pension Fund to formulate a policy for the investment of its fund money. The Administering Authority's overall risk management procedures focus on the unpredictability of financial markets and implementing restrictions to minimise these risks. The Pension Fund annually reviews its Investment Strategy Statement (ISS) and corresponding Funding Strategy Statement (FSS), which set out the Pension Fund's policy on matters such as the type of investments to be held, balance between types of investments, investment restrictions and the way risk is managed.

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

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

Manager Risk

The Fund is also well diversified by manager. On appointment, fund managers are delegated the power to make such purchases and sales as they deem appropriate under the mandate concerned. Each mandate has a benchmark or target to outperform or achieve, usually on the basis of 3-year rolling periods. An update, at least quarterly, is required from each manager and regular meetings are held with managers to discuss their mandates and their performance on them. There are slightly different arrangements for some of the alternative assets. Some private equity and property investment is fund rather than manager-specific, with specific funds identified by the investment sub group after careful due diligence. These commitments tend to be smaller in nature than main asset class investments but again regular performance reports are received and such investments are reviewed with managers at least once a year.

23. Investment Risks (Continued)

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

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

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

- The Fund's active fixed interest bond portfolio is £114,910k is managed (by Goldman Sachs) on an unconstrained basis and has a significant exposure to credit, emerging market debt and loans. At 31st March 2020, the Fund's exposure to non-investment grade paper was 12.5% 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 £91,997k 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 2020 is set out below with their relative exposure to credit risk :

	March 2020 £'000	**Credit Exposure**
EnTrustPermal	23,338	21.11%
Blackrock	26,633	19.00%

Liquidity Risk

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

Specifically on investments, the Fund holds through its managers a mixture of liquid, semi-liquid and illiquid assets. Whilst the Fund's investment managers have substantial discretionary powers regarding their individual portfolios and the management of their cash positions, they hold within their pooled vehicles a large value of very liquid securities, such as equities and bonds quoted on major stock exchanges, which can easily be realised. Traditional equities and bonds now comprise 85% of the Fund's value and, whilst there will be some slightly less liquid elements within this figure (emerging market equities and debt for example), the funds investing in these securities offer monthly trading at worst – often weekly or fortnightly.

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

23. Investment Risks (Continued)

The table below analyses the value of the Fund's investments at 31st March 2020 by liquidity profile :

	Amounts at 31st March 2020 £000s	Within 1 month £000s	1-3 months £000s	4-12 months £000s	> 1 Year £000s
Pooled Investment Vehicles					
Fixed-Interest Funds	114,910	114,910	0	0	0
Overseas Equity	1,393,278	1,393,278	0	0	0
Fixed Interest	109,007	109,007	0	0	0
Index-linked	35,111	35,111	0	0	0
Property Unit Trust	20,146	0	0	20,146	0
Property Fund	79,708	0	0	31,142	48,566
Hedge Fund	49,971	0	0	49,971	0
Private Equity	91,997	0	0	0	91,997
Infrastructure	33,635	0	0	0	33,635
Private Debt	11,798	0	0	0	11,798
Derivatives	1,811	1,811	0	0	0
Deposits with banks and other financial institutions	44,442	44,442	0	0	0
Total	**1,985,814**	**1,698,559**	**0**	**101,259**	**185,996**

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 85% of the portfolio is realisable within 1 month and 90% 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 2020 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		
Global Equities	34% +/- 5%	24% **Blackrock - Low Carbon Fund**	46% **Wales Pension Partnership** **Aberdeen**	MSCI All World Index Net MSCI Frontier Markets Index	+2% p.a. over rolling 3 year +3% p.a. over rolling 3 year
Global Fixed Interest	15% +/- 5%	6% **Blackrock**	6% **Goldman Sachs**	Libor	LIBOR +3%
Property	5% +/- 5%	-	5% **Schroders, Partners & Invesco**	IPD UK Pooled Property Fund Index	+ 1% p.a. over rolling 3 year, 8% absolute return
Hedge Funds	5% +/- 5%	-	3% **Blackrock & EnTrustPermal**	LIBOR	+4%
Private Equity	3% +/- 5%	-	5% **Harbourvest**	FTSE allshare	+3% p.a. over 3 year rolling
Infrastructure	2% +/- 5%	-	2% **First State, Blackrock**	10% Absolute	10% Absolute
Private Debt	1% +/-1%	-	1% **Alcentra, CVC**	7% Absolute	7% Absolute
Cash	2% +/- 5%	-	2% **In house and cash flows of fund managers**	7day LIBID	=
TOTAL	100%	30%	70%		

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

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

23. Investment Risks (Continued)

Price Risk

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

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

Following analysis of historical data and expected investment returns movement during the financial year and in consultation with the Fund's investment advisors, the Council has determined the following movements in market price risk are reasonably possible. Had the market price of the fund investments increased/decreased in line with the potential market movements, the change in the net assets available to pay benefits in the market price as at 31st March 2020 would have been as follows:

Price Risk

Asset Type	Value (£'000)	% Change	Value on Increase	Value on Decrease
Overseas Equities	1,393,278	11.6747	1,555,938	1,230,618
Total Bonds & Index-Linked	259,028	5.4709	273,199	244,857
Alternatives	189,212	3.3028	195,461	182,963
Cash	44,442	2.1298	45,389	43,495
Property	99,854	1.0210	100,874	98,834
Other Investment Balances	-	-	-	-
Total Assets*	**1,985,814**	8.1606	**2,147,869**	**1,823,759**

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

And as at 31 March 2019

Price Risk

Asset Type	Value (£'000)	% Change	Value on Increase	Value on Decrease
UK Equities	161,963	8.9407	176,444	147,482
Overseas Equities	1,313,749	8.9407	1,431,208	1,196,290
Total Bonds & Index-Linked	248,377	4.3676	259,225	237,529
Alternatives	162,892	4.1457	169,645	156,139
Cash	65,784	0.4562	66,084	65,484
Property	89,047	1.6382	90,506	87,588
Other Investment Balances	-	-	-	-
Total Assets*	**2,041,812**	**6.3664**	**2,171,803**	**1,911,821**

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

Currency Risk

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

In consultation with the Fund's investment advisors, the Council has determined that the following movements in currencies are reasonably possible. The following represents a sensitivity analysis associated with foreign exchange movements as at 31st March 2020 :

Currency Risk (by currency)

Currency	Value (£'000)	% Change	Value on Increase	Value on Decrease
Australian Dollar	-	-	-	-
Brazilian Real	-	-	-	-
Canadian Dollar	-	-	-	-
Danish Krone	-	-	-	-
EURO	97,221	6.3371	103,382	91,060
Hong Kong Dollar	-	-	-	-
Indian Rupee	-	-	-	-
Indonesian Rupiah	-	-	-	-
Israeli Shekel	-	-	-	-
Japanese Yen	-	-	-	-
Malaysian Ringgit	-	-	-	-
Mexican Peso	-	-	-	-
Norwegian Krone	-	-	-	-
Chinese Renminbi Yuan	-	-	-	-
Philippine Peso	-	-	-	-
Russian Rouble	-	-	-	-
Singapore Dollar	-	-	-	-
South African Rand	-	-	-	-
South Korean Won	-	-	-	-
Swedish Krona	-	-	-	-
Swiss Franc	-	-	-	-
Taiwan Dollar	-	-	-	-
Thai Baht	-	-	-	-
Turkish Lira	-	-	-	-
US Dollar	76,977	8.5219	83,536	70,417
Pooled Vehicles				
Overseas Equities	898,040	7.3303	963,869	832,210
Low Carbon Index	444,867	7.3303	477,477	412,256
Emerging Mrkts	50,371	6.7856	53,789	46,953
Total Currency*	**1,567,476**	**7.3524**	**1,682,723**	**1,452,228**

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

And as at 31 March 2019

Currency Risk (by currency)

Currency	Value (£'000)	% Change	Value on Increase	Value on Decrease
Australian Dollar	-	-	-	-
Brazilian Real	-	-	-	-
Canadian Dollar	-	-	-	-
Danish Krone	-	-	-	-
EURO	69,058	8.1810%	74,708	63,408
Hong Kong Dollar	-	-	-	-
Indian Rupee	-	-	-	-
Indonesian Rupiah	-	-	-	-
Israeli Shekel	-	-	-	-
Japanese Yen	34,860	13.6681%	39,625	30,095
Malaysian Ringgit	-	-	-	-
Mexican Peso	-	-	-	-
Norwegian Krone	-	-	-	-
Chinese Renminbi Yuan	-	-	-	-
Philippine Peso	-	-	-	-
Russian Rouble	-	-	-	-
Singapore Dollar	-	-	-	-
South African Rand	-	-	-	-
South Korean Won	-	-	-	-
Swedish Krona	-	-	-	-
Swiss Franc	-	-	-	-
Taiwan Dollar	-	-	-	-
Thai Baht	-	-	-	-
Turkish Lira	-	-	-	-
US Dollar	69,287	9.9412%	76,175	62,399
North America Basket	175,447	8.7574%	190,812	160,082
Europe Basket	68,418	8.4071%	74,170	62,666
Asia Pacific ex Japan Basket	31,043	10.0177%	34,153	27,933
Emerging Basket	61,093	8.7726%	66,452	55,734
Total Currency*	**509,206**	**6.0865%**	**540,199**	**478,213**

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

Interest Rate Risk

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

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

24. Events After the Balance Sheet Date

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

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

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

Cost Management Process and McCloud Judgement

Legislation requires HM Treasury and the LGPS Advisory Board to undertake periodic valuations to monitor the cost of the LGPS to ensure it remains sustainable and affordable. Initial results from the Scheme Advisory Board process indicated that beneficiary improvements/member contribution reductions would be required. However, the cost management process has been paused following the Court of Appeal ruling that the transitional arrangements in both the Judges' Pension Scheme (McCloud) and Firefighters' Pension Scheme (Sergeant) were age discriminatory; these cases could have knock on implications for the LPGS (potentially increasing the liabilities) which also had transitional arrangements when the new scheme was introduced with effect from April 2014. The Government Actuary's Department (GAD) has estimated the total scheme liability at 1.5%.

25. Covid 19

As the Covid pandemic started its global spread early in 2020, global financial markets reflected the impending risks, with resultant material falls in valuations of most asset classes in February and March 2020.

LGPS defined benefit pensions are not linked to stock market performance and are set out in statute. Although short term investment values may vary, the LGPS as a long term investor is securely managed to address any longer term impacts.

LGPS Scheme members can therefore be reassured that both their contributions and their pensions, whether in payment or build up to date, will be unaffected.

The lockdown imposed by HM Government on 23rd March 2020, presented operational hurdles for LGPS Administration Authorities, however, with the implementation of contingency planning, leveraging the use of technology, flexible working and professionalism and goodwill of staff, normal business has been maintained. The payment of members' pensions and the processing of pensioners/joiners has been prioritised and maintained throughout this period.

Employer/employee contributions have not been affected during this period and the Administration Authority continues to liaise with employers to manage any cash flow issues which may arise.

26. Further Information

Further information about the fund can be found in the attached appendices. Information can also be obtained from the Deputy Chief Finance Officer, Room 1.4.1, Civic Centre, Oystermouth Road, Swansea SA1 3SN or on www.swanseapensionfund.org.uk.

27. Financial Position

The accounts outlined within the statement represent the financial position of the City and County of Swansea's Pension Fund at 31 March 2020.

PART C
INVESTMENT REPORT

Pension Fund – Budget 2020/21

	Actual 2018/19	Actual 2019/20	Estimate 2020/21
Membership Numbers			
Contributors	19,888	20,025	20,100
Pensioners	13,229	15,050	15,100
Deferred	11,874	11,838	12,000

	Actual 2018/19 £'000	Actual 2019/20 £'000	Estimate 2020/21 £'000
Income			
Employer Contributions	74,944	80,425	82,000
Employee Contributions	18,456	19,276	19,600
Transfers In	5,037	4,106	5,000
Other Income	374	424	450
Investment Income	31,229	8,482	8,500
	130,040	**112,713**	**115,550**
Expenditure			
Pensions Payable	65,016	67,763	68,915
Lump Sum Benefits	17,063	14,409	15,000
Refunds	183	166	170
Transfers Out	6,136	6,934	6,950
	88,398	**89,272**	**91,035**
Administrative Expenses			
Support Services	757	761	765
Actuarial Fees	36	83	40
Advisors Fees	23	18	0
Consultancy Service	80	87	87
External Audit Fee	43	43	43
Performance & Monitoring Fees	14	14	14
Printing & Publications	15	7	7
Other	625	447	450
Pension Fund Committee	6	6	8
Pension Board	0	2	2
Wales Pension Partnership Fees	118	182	180
	1,717	**1,650**	**1,596**

	Actual 2018/19 £'000	Actual 2019/20 £'000	Estimate 2020/21 £'000
Investment Expenses			
Management Fees	4,491	3,029	3,500
Performance Fees	668	1,572	1,000
Custody Fees	167	1,133	1,140
Transaction Costs	4,716	2,688	4,000
	10,042	**8,422**	**9,640**

Investment Strategy

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

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

Investment Fund Management

The investment of the Fund is the responsibility of the Pension Fund Committee. The Committee as at 31st March 2020 comprised (Appendix 2):-

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

- Section 151 Officer
- Deputy Chief Finance Officer
- 1 Independent Advisor (retired November 2019 and not replaced)
- Investment Consultants

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

The fund is regularly reviewed to achieve a structure which efficiently and effectively meets the Fund's objective.

The Fund’s current managers are:

Asset Class	Manager
Global Equities	Wales Pension Partnership, Aberdeen Standard & Blackrock
Equity Protection Mandate	Russell Investments
Global Bonds	Goldman Sachs Asset Management
Fund of Hedge Funds	Blackrock & EnTrustPermal
Fund of Private Equity Funds	HarbourVest
European Property Fund	Invesco
Fund of Property Funds	Partners Group & Schroders Investment Management
Infrastructure Funds	First State Investments & Blackrock
Fund of Private Debt	Alcentra & CVC Credit Partners

Valuation of Investments

The value of the Fund’s investments of £1,986m together with net assets totalling £2.0m decreased from £2,044m to £1,988m during 2019/20.

The decrease of £56m is comprised of two elements:

2018/19 £’000		**2019/20 £’000**
128,874	Net Return on Investments	-60,909
1,346	Add Net additions from dealing with members	4,893
127,528		**-56,016**

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 20 at Bid price Market Values.

31 March 2019			31 March 2020	
£’000	**%**		**£’000**	**%**
213,992	9.7	Fixed Interest Securities	223,917	11.3
34,385	1.7	Index Linked Securities	35,111	1.8
161,963	7.9	UK Equities	0	0.0
1,313,749	65.1	Global Equities	1,393,278	70.2
89,047	4.4	Property	99,854	5.0
54,168	2.7	Hedge Funds	49,971	2.5
86,625	4.3	Private Equity	91,997	4.6
18,501	0.9	Infrastructure	33,635	1.7
0	0.0	Private Debt	11,798	0.6
3,598	0.1	Derivatives	1,811	0.1
65,784	3.2	Cash/Temporary Investments	44,442	2.2
2,041,812	**100**		**1,985,814**	**100**

2019-20 Distribution of Investments
Fund Manager Bid Prices

	Blackrock (Low Carbon)	WPP	Russell	Schroders Property	Invesco	Aberdeen Standard	Goldman Sachs	Partners Group	Blackrock (Hedge)	EnTrust Permal	HarbourVest	First State	Blackrock GRP 111	Alcentra	CVC	External Cash	Custodian Cash	Internal Cash	TOTAL
	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Equities																			
Emerging Markets - Frontier Fund						10,126													10,126
ACS World Low Carbon EQ TRK Fund	444,867																		444,867
Ishares Emerging Markets Index	40,245																		40,245
Global - Pooled		898,040																	898,040
Equity Protection																			0
Equity Protection - Derivatives			1,811																1,811
Property																			
UK & Europe				51,288	31,958														83,246
Overseas								16,608											16,608
Fixed Interest																			
Fixed Interest	88,524	20,483					114,910												223,917
Index-Linked	35,111																		35,111
Hedge Funds									26,633	23,338									49,971
Private Equity											91,997								91,997
Infrastructure												33,635	0						33,635
Private Debt														11,798	0				11,798
Cash				5,607												11,000	319	27,516	44,442
TOTAL	608,747	918,523	1,811	56,895	31,958	10,126	114,910	16,608	26,633	23,338	91,997	33,635	0	11,798	0	11,000	319	27,516	1,985,814
	30.6%	**46.3%**	**0.1%**	**2.9%**	**1.6%**	**0.5%**	**5.8%**	**0.8%**	**1.3%**	**1.2%**	**4.6%**	**1.7%**	**0.0%**	**0.6%**	**0.0%**	**0.6%**	**0.0%**	**1.4%**	**100.0%**

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

Investment Returns

	City & County of Swansea Fund	Local Authority Average Fund	Relative Performance	Peer Group Ranking	Average Earnings Increase	RPI*
	%	%	LA AVG		%	%
2019/20	-4.5	-4.8	0.3	45th	2.3	1.5
2018/19	6.1	6.6	-0.5	52nd	3.3	2.44
2017/18	2.8	4.5	-1.7	58th	2.6	3.3
2016/17	22.0	21.4	+0.6	27th	2.6	3.14
2015/16	-1.7	0.3	-2.0	72nd	2.2	1.6
2014/15	10.8	13.2	-2.4	89th	4.4	0.9
2013/14	7.2	6.3	+0.9	35th	1.9	2.45
2012/13	13.7	13.7	-0.1	43rd	-0.7	3.28
2011/12	0.6	2.6	-2.0	92nd	0.8	3.6
2010/11	7.9	7.9	0.0	51st	2.2	5.3

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 for the year was -4.8%, which was better than expected for many. This was a result of another year of global political uncertainty compounded by the unprecedented effects of COVID19.

The year saw the fastest ever decline in equity markets, albeit from close to record high levels, new lows in oil prices with much of the credit market becoming barely liquid and property and many alternatives difficult to value.

Whilst equities fared worst, funds with higher exposures to more defensive assets performed relatively well. Strategic asset allocation remained broadly static, most of the change to fund weightings came about from relative market movements over the year.

Long term performance of the LGPS remains strong, the average funds has delivered a positive return in 24 of the last 30 years and delivered an annualised performance of 7.9% p.a. Equities have driven the strong long term performance with Alternatives performing strongly, due in a large part to the excellent returns from Private Equity.

Equities remain the largest allocation for most funds, with 80% of this allocation being invested overseas. Alternatives have increased markedly over the decade with Private Equity making up a half of this allocation with infrastructure increasing in recent years and expecting to increase further. Within the bond allocation, there has been a continued move from index based towards absolute return mandates.

Fund Performance

The fund returned -4.5% for the year, which was above the local authority universe benchmark of -4.8% and placing the fund in the 45th percentile overall.

The Fund has a different asset structure from the average fund, the key difference being the large overweight position in equities and it has a commensurate underweight position across all other assets. These differences reduced the relative performance but was recovered by the strong performance of the equity managers and the equity protection strategy.

As part of it long term strategy to reallocate approximately 10% of its growth assets (equities) into a portfolio of yielding assets (infrastructure, residential property, private debt, private mkt stakes)

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

Environmental Social Governance (ESG) Policy Implementation

In continuing to implement the Fund's ESG policy, the fund transitioned its passively managed global equities managed by Blackrock into the Blackrock low carbon equivalent, thereby reducing carbon footprint of these assets by up to 70% against the benchmark index.

Similarly, as part of the re-allocation of approximately 10% of growth assets into yielding assets as described above, the fund made a £30m commitment to the Blackrock Global Renewable Energy Infrastructure fund, whilst the previously appointed infrastructure manager First State continues to deploy assets into renewable energy infrastructure.

It has also made as yet unfunded commitments to two residential community housing funds which seek to deploy mixed tenure housing schemes with the aim of providing affordable rented housing in the Community.

PART D

ACTUARIAL REPORT

Statement of the Actuary for the year ended 31 March 2020

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 2019 by Aon, in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

Actuarial Position

1. The valuation as at 31 March 2019 showed that the funding level of the Fund had increased since the previous valuation with the market value of the Fund's assets as at 31 March 2019 (of £2,044.0M) covering 91.5% of the liabilities allowing, in the case of pre- 1 April 2014 membership for current contributors to the Fund, for future increases in pensionable pay, and for other membership for future pension revaluation and increases.

2. The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2020 was:

   - 20.2% p.a.of pensionable pay. This is 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

   - an allowance of 1.5% p.a. of pensionable pay for McCloud and cost management – see paragraph 9 below,

   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 19 years from 1 April 2020, equivalent to 3.3% p.a. of pensionable pay (or £10.3M in 2020/21, and increasing by 3.6% p.a. thereafter), which together with the allowance above comprises the secondary rate.

3. In practice, each individual employer's or group of employers' position is assessed separately taking into account other factors (see note 4 below) and contributions are set out in Aon's report dated 31 March 2020 (the "actuarial valuation report"). In addition to the contributions certified, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

   Total contributions payable by all employers over the three years to 31 March 2023 are estimated to be:

Year from 1 April	% of pensionable pay	Plus total contribution amount (£M)
2020	25.1	0.57
2021	25.0	0.58
2022	25.0	0.68

Statement of the Actuary for the year ending 31 March 2020 (continued)

4. The funding plan adopted in assessing the contributions for each employer is in accordance with the Funding Strategy Statement. Different approaches were adopted in relation to the calculation of the primary contribution rate, stepping of contribution increases and individual employers' recovery periods as agreed with the Administering Authority and reflected in the Funding Strategy Statement, reflecting the employers' circumstances. This included an agreement that where employers are in surplus, this has only led to an adjustment in contributions to the extent that this surplus is in excess of 10% of the value of that employer's liabilities (i.e. to the extent that the employer's funding level is greater than 110%).

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

Discount rate for periods in service	
Secure scheduled body employers *	4.25% p.a.
Ongoing Orphan employers	4.25% p.a.
Discount rate for periods after leaving service	
Secure scheduled body employers *	4.25% p.a.
Ongoing Orphan employers	1.6% p.a.
Rate of pay increases	3.6% p.a.
Rate of increase to pension accounts	2.1% p.a.
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.1% p.a.

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

In addition, the discount rate for already orphaned liabilities (i.e. where there is no scheme employer responsible for funding those liabilities and employer has exited the Fund) was 1.3% p.a.

The assets were valued at market value.

Further details of the assumptions adopted for the valuation, including the demographic assumptions, are set out in the actuarial valuation report.

6. 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) S2N mortality tables with appropriate scaling factors applied based on an analysis of the Fund's pensioner mortality experience and a Fund membership postcode analysis using Aon's Demographic Horizons™ longevity model, and included an allowance for improvements based on the 2018 Continuous Mortality Investigation (CMI) Core Projections Model (CMI2018), 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 (for normal health retirements) were:

	Men	Women
Current pensioners aged 65 at the valuation date	22.1	24.1
Current active members aged 45 at the valuation date	23.1	25.6

7. The valuation results summarised in paragraphs 1 and 2 above are based on the financial position and market levels at the valuation date, 31 March 2019. As such the results do not make allowance for changes which have occurred subsequent to the valuation date, although we comment on changes in market conditions to 31 March 2020 in paragraph 10 below.

8. The formal actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2020 to 31 March 2023 were signed on 31 March 2020. Other than as agreed or otherwise permitted or required by the Regulations, employer contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2022 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

Statement of the Actuary for the year ending 31 March 2020 (continued)

9. There are a number of uncertainties regarding the Scheme benefits and hence liabilities:

- **Increases to GMPs:**
The 2019 valuation allows for the extension of the 'interim solution' for public service schemes to pay full inflationary increases on GMPs for those reaching State Pension Age (SPA) between 6 April 2016 and 5 April 2021. However, the Government is still exploring various options, including conversion of GMPs to Scheme benefits, in order to achieve equalisation for GMPs as required by the High Court judgement in the Lloyds Bank case.

  The results of the 2019 valuation do not allow for the impact of potentially extending this interim solution indefinitely, providing full pension increases on GMPs for members reaching State Pension Age after 5 April 2021 nor for conversion of GMPs to Scheme benefits. Based on approximate calculations, at a whole of fund level, the impact of providing full pension increases on GMPs for those members reaching State Pension Age after 5 April 2021 is an increase in past service liabilities of between 0.1% to 0.2% across the Fund as a whole.

  - **Cost Management Process and McCloud judgement:**
Initial results from the Scheme Advisory Board cost management process indicated that benefit improvements / member contribution reductions equivalent to 0.9% of pay would be required. However, the cost management process was paused following the Court of Appeal ruling that the transitional arrangements in both the Judges' Pension Scheme (McCloud) and Firefighters' Pension Scheme (Sargeant) constituted illegal age discrimination. Government confirmed that the judgement would be treated as applying to all public service schemes including the LGPS (where the transitional arrangements were in the form of a final salary underpin) and a consultation on changes to the LGPS is expected in June 2020.

  - The employer contributions certified from 1 April 2020 as part of the 2019 valuation include an allowance of 1.5% of pay in relation to the potential additional costs following the McCloud judgement / cost management process. This was a simplified approach which didn't take account of different employer membership profiles or funding targets and may be more or less than the assessed cost once the LGPS changes have been agreed depending upon the precise nature of the new final salary underpin, the members in scope, and how this affects the cost management process.

10. Since the valuation date, Fund asset returns have fallen short of the assumed return of 4.25% over the year to 31 March 2020, on its own leading to a reduction in the funding level. In addition, reduced expectations of future asset returns and falls in gilt yields have led to an decrease in the discount rates, and expected future inflation linked benefit increases have increased, further reducing funding levels and increasing the primary rate. The Actuary, in conjunction with the Administering Authority, will monitor the position on a regular basis and the Administering Authority will take action if it believes necessary.

11. This Statement has been prepared by the Actuary to the Fund, Aon, for inclusion in the accounts of the Fund. It provides a summary of the results of the actuarial valuation which was carried out as at 31 March 2019. 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 Council, the Administering Authority of the Fund, in respect of this Statement.

12. The report on the actuarial valuation as at 31 March 2019 is available on the Fund's website at the following address:

    https://www.swanseapensionfund.org.uk/investment-and-fund/actuarial-valuations/

Aon Hewitt Limited

May 2020

18. Statement of the Actuary for the year ended 31 March 2020 (continued)

Actuarial Present Value of Promised Retirement Benefits

CIPFA's Code of Practice on Local Authority Accounting for 2019/20 sets out that the actuarial present value of promised retirement benefits based on projected salaries be disclosed, consistent with the requirements of IAS19.

The results as at 31st March 2019, together with the results at 31st March 2016 are shown in the table below. The corresponding fair value of Fund assets is also shown in order to show the level of surplus or deficit within the Fund when the liabilities are valued using IAS19 assumptions.

	Value as at 31st March 2019	**Value as at 31st March 2016**
	£M	**£M**
Fair Value of Net Assets	2,044.0	1,512.6
Actuarial present value of the defined benefit obligation (see Notes)	3,215.9	2,249.7
Surplus/(deficit) in the fund as measured for IAS26 purposes	(1,171.9)	(737.1)

McCloud/Sargeant Judgement

The actuarial present value of the defined benefit obligation at 31st March 2019 includes an estimated liability in relation to the McCloud/Sargeant judgment of £35.2m.

The McCloud/Sargeant judgement (December 2018) found that the transitional arrangements put in place when the Firefighters' and Judges' Pension Schemes were reformed constituted illegal discrimination. The Government has since committed to compensate all members of public service schemes who were illegally discriminated against. In relation to the LGPS in England and Wales all members joined the 2014 Scheme for membership after the 1st April 2014, but members within 10 years of normal retirement were given an underpin (or "better of both") promise, so their benefits earned after 1st April 2014 would be at least as valuable in terms of amount and when they could be drawn, as if they had remained in the 2008 Scheme.

The remedy for the LGPS is expected to be consulted upon in the summer. The additional liability included within this note assumes the underpin will be extended to cover all members who were actively participating in the Scheme on 1st April 2012 (and not just those within 10 years of retirement).

Equalisation and Indexation of Guaranteed Minimum Pensions

The actuarial present value of the defined benefit obligation includes an estimated liability in relation to the equalisation and indexation of Guaranteed Minimum Pensions (GMP's) beyond the arrangements already formally in place, which applies to members whose State Pension AGE (SPA) is between 6 April 2016 and 5 April 2021 inclusive. Those arrangements required the LGPS to pay pension increase on GMP's at the full rate of CPI for those members, whereas GMP legislation only requires limited price increases to be applied. The additional liability included in this note assumes those arrangements for fully indexing GMP's will be extended to members whose SPA is after 5 April 2021. This has increased the defined benefit obligation in the region of 0.1% to 0.3%.

18. Statement of the Actuary for the year ending 31 March 2020 (continued)
Actuarial Present Value of Promised Retirement Benefits

Cost Management Process

The actuarial present value of the defined benefit obligation does not allow for any potential additional liability which may arise from the cost management valuations.

Legislation requires HM Treasury and the Scheme Advisory Board (SAB) to undertake periodic valuations to monitor the cost of the LGPS to ensure it remains sustainable and affordable.

HM Treasury and the SAB have paused their reviews following the "McCloud" judgement in the Court of Appeal. The cost cap process will not commence until the remedy as applies to the LGPS has been decided.

On 24 April 2020 a number of Trade Unions filed court proceedings to challenge the Government's decision to pause the cost management process. If successful this could lead to higher liabilities and employer costs although it is not yet known how such changes, and those required due to the McCloud case, will effect the cost management valuation due as at 31 March 2020 which is expected would lead to changes in benefits and/or member contributions in future.

A full detailed report on the IAS26 figures can be found on the Pension Fund website at the following link :

https://www.swanseapensionfund.org.uk/investment-and-fund/actuarial-valuations/

Statement of the Actuary for the year ended 31 March 20 (continued)
Actuarial Present Value of Promised Retirement Benefits

Definitions

Admission Body

An employer admitted to the Fund under an admission agreement.

Orphan Body

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

Scheduled Body

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

Subsumption and Subsumption Body

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

Rates & Adjustment Certificate

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

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

18. Actuarial Present Value of Promised Retirement Benefits – Statement of the Actuary for the year ending 31st March 2020 (Continued)

Employer	Primary contribution rate % pensionable pay	Secondary contributions (% Pensionable pay and £s) in year commencing 1 April			Total contributions (% Pensionable pay and £s) in year commencing 1 April		
		2017	2018	2019	2017	2018	2019
Schedule 2 Part 1 bodies/ Schedule 2 Part 2 bodies (Scheduled bodies)							
City & County of Swansea	17.9%	5.5%	6.5%	7.9%	23.4%	24.4%	25.8%
Neath Port Talbot County Borough Council	17.8%	7.7%	8.5%	9.3%	25.5%	26.3%	27.1%
Cilybebyll Community Council	27.6%	-4.7%	-2.3%	0.1%	22.9%	25.3%	27.7%
Coedffranc Community Council	20.3%	-0.1% plus £5,300	-0.1% plus £5,500	-0.1% plus £5,700	20.2% plus £5,300	20.2% plus £5,500	20.2% plus £5,700
Neath Town Council	20.3%	-0.1% plus £16,200	-0.1% plus £16,800	-0.1% plus £17,400	20.2% plus £16,200	20.2% plus £16,800	20.2% plus £17,400
Pelenna Community Council	27.0%	£1,200	£1,200	£1,300	27.0% plus £1,200	27.0% plus £1,200	27.0% plus £1,300
Pontardawe Town Council	23.0%	£800	£800	£900	23.0% plus £800	23.0% plus £800	23.0% plus £900
Gower College	17.9%	3.8%	3.9%	3.9%	21.7%	21.8%	21.8%
NPTC Group	17.7%	£168,400	£174,300	£180,400	17.7% plus £168,400	17.7% plus £174,300	17.7% plus £180,400
Margam Joint Crematorium Committee	20.3%	-0.1% plus £9,400	-0.1% plus £9,700	-0.1% plus £10,100	20.2% plus £9,400	20.2% plus £9,700	20.2% plus £10,100
Swansea Bay Port Health Authority	5.8%	16.6% plus £0	16.6% plus £4,400	16.6% plus £9,000	22.4% plus £0	22.4% plus £4,400	22.4% plus £9,000

Schedule 2 Part 3 bodies (Admission bodies)							
Celtic Community Leisure	13.2%	-	-	-	13.2%	13.2%	13.2%
Grwp Gwalia Cyf	22.0%	-1.6%	-1.6%	-1.6%	20.4%	20.4%	20.4%
Neath Port Talbot Homes Ltd	17.0%	£62,300	£218,500	£374,700	17.0% plus £62,300	17.0% plus £218,500	17.0% plus £374,700
Rathbone Training Ltd (City & County of Swansea	22.4%	2.8%	2.8%	2.8%	25.2%	25.2%	25.2%
Rathbone Training Ltd (Gower College)	24.3%	-	-	-	24.3%	24.3%	24.3%
Swansea Bay Racial Equality Council	37.0%	-1.8% plus £600	-0.9% plus £1,300	£2,000	35.2% plus £600	36.1% plus £1,300	37.0% plus £2,000
Trinity St Davids	28.0%	£389,400	£542,300	£686,100	28.0% plus £389,400	28.0% plus £542,300	28.0% plus £686,100
Wales National Pool	14.2%	-	-	-	14.2	14.2	14.2
Total	**18.0%**	**5.5% plus £653,600**	**6.3% plus £974,800**	**7.3% plus £1,287,600**	**23.5% plus £653,600**	**24.3% plus £974,800**	**25.3% plus £1,287,600**

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

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

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

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

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

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

Contribution rates for Employers commencing participation in the Fund after 31 March 2016 will be advised separately.

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

Signed on behalf of Aon Hewitt Limited

Chris Archer FIA
Fellow of the Institute and Faculty of Actuaries

Laura Hamilton FIA
Fellow of the Institute and Faculty of Actuaries

30 March 2017

Aon Hewitt Limited
25 Marsh Street
Bristol BS1 4AQ

Appendix 1

SCHEDULE OF EMPLOYING BODIES AND CONTRIBUTION RATES FOR THE PERIOD 1ST APRIL 2019 TO 31ST MARCH 2020

	Contributors	Pensioners	Deferred Benefits	Employer Contribution Rate (% of Pensionable Pay) plus additional annual monetary amount
Administering Authority	**Number @ 31/03/20**	**Number @ 31/03/20**	**Number @ 31/03/20**	
City & County of Swansea	12,028	6,961	5,503	25.8%
Scheduled Bodies				
Neath Port Talbot County Borough Council.	5,702	4,155	4,440	27.1%
Briton Ferry Town Council	1	2	0	20.2% (+£1,300)
Cilybebyll Community Council	7	1	1	27.7%
Clydach Community Council	0	0	1	-
Coedffranc Community Council	11	3	2	20.2%(+£5,700)
Gower College Swansea	619	299	465	21.8%
Neath Town Council	12	17	5	20.2% (+£17,400)
Lliw Valley BC	0	198	13	-
Margam Joint Cremation Committee	9	12	4	20.2% (+£10,100)
NPTC Group	583	290	474	17.7% (+£180,400)
Neath Port Talbot Waste Management Co. Ltd.	0	1	0	-
Pelenna Community Council	2	2	3	27.0%(+£1,300)
Pontardawe Town Council	4	2	0	23.0%(+£900)
Swansea Bay Port Health Authority	1	11	1	22.4%(+£9,000)
Swansea City Waste Disposal Company	0	15	3	-
West Glamorgan County Council	0	2,591	178	-
West Glamorgan Magistrates Courts	0	38	11	-
West Glamorgan Valuation Panel	0	4	0	-
Mumbles Community Council	2	0	0	18.9%
Llanrhidian Higher Community Council	1	0	0	18.2%
Ystalyfera Community Council	1	0	0	18.2%
Admitted Bodies				
BABTIE	0	6	9	-
Celtic Community Leisure	146	40	198	13.2%
Colin Laver Heating Ltd	0	2	2	-
Swansea Bay Racial Equality Council	0	1	4	37.0% (+£2,000)
The Careers Business	0	8	6	-
Wales National Pool	106	5	75	14.2%
West Wales Arts Association	0	1	0	-
Cap Gemini	0	1	4	-
Tai Tarian	328	114	119	17.0% (+£374,700)
Phoenix Trust	0	1	3	-
Pobl Group	136	96	75	20.4%
Rathbone CCS	0	0	3	25.2%
Rathbone Gower College	1	2	1	24.3%
Freedom Leisure	228	3	0	25.8%
Parkwood Leisure	8	1	0	25.8%
University of Wales Trinity St Davids	114	167	235	28.0% (+£686,100)
	20,050	**15,050**	**11,838**	

Appendix 2

Pension Fund Committee 2019/20

Chairman	Cllr C E Lloyd
Vice Chairman	Cllr P Downing
Committee Members	Cllr M B Lewis Cllr D G Sullivan Cllr W G Thomas Cllr J P Curtice Cllr P Rees (Neath Port Talbot CBC)
Advised by: **Council Officers**	B Smith, Section 151 & Chief Finance Officer J Dong, Deputy Chief Finance Officer
Financial Advisors	N Mills
Consultancy Service	Hymans Robertson LLP
Local Pension Board (as at 31st March 2020)	Cllr A Lockyer Cllr M White Ms Rosemary Broad Mr David Mackerras Mr David White Mr Ian Guy

Investment Managers

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

Pensions Administration	Claire Elliott, Pensions Manager, City & County of Swansea
Appointed Actuary	Aon Plc
Performance Measurement	PIRC Ltd
Global Custodians	HSBC Security Services, Northern Trust
Bankers	Lloyds Bank
Legal Advisors	City & County of Swansea Legal Deparment & Dolmans Solicitors
AVC Providers	Prudential, Aegon and Equitable Life
Auditors	Audit Wales

Appendix 3


Market Value of Investment Assets 2011-2020
£M
2,500
2,000
1,500
1,000
500
0
2011 2012 2013 2014 2015 2016 2017 2018 2019 2020
Value £M 1,106 1,097 1,278 1,380 1,528 1,512 1,853 1,913 2,042 1,986

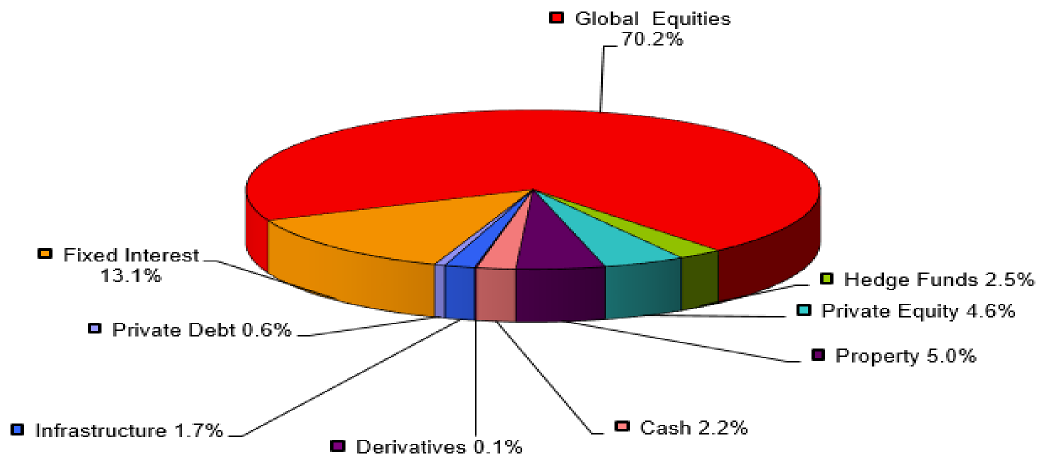
Appendix 4(i)

Portfolio Distribution Summary

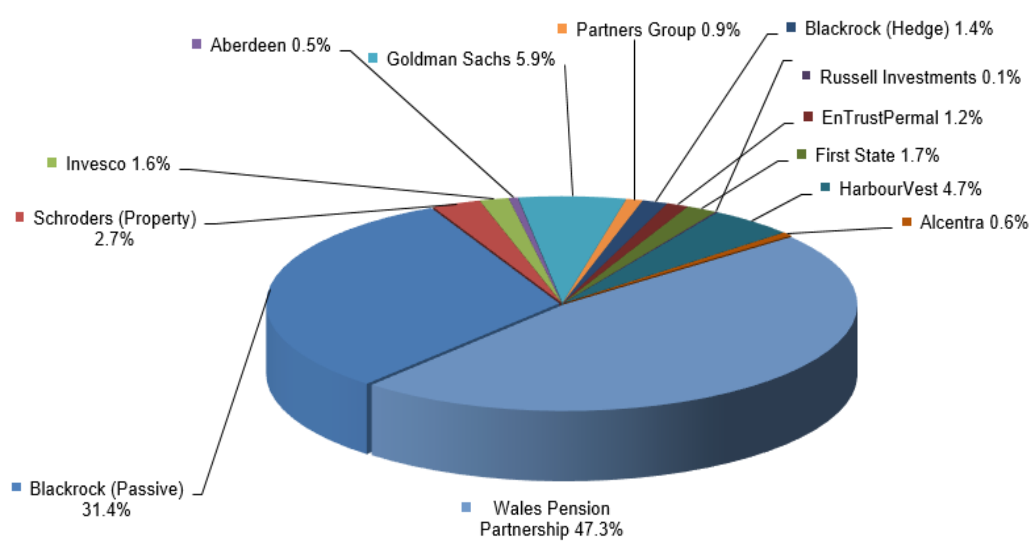
31 March 2019 Market Value £'000	%		31 March 2020 Market Value £'000	%
		Fixed Interest Stocks		
213,992	9.7	Fixed Interest	223,917	11.3
34,385	1.7	Index Linked	35,111	1.8
248,377	11.4		259,028	13.1
161,963	7.9	**UK Equities**	0	0.0
1,313,749	65.1	**Global Equities**	1,393,278	70.2
54,168	2.7	**Hedge Funds**	49,971	2.5
86,625	4.3	**Private Equity**	91,997	4.6
89,047	4.4	**Property**	99,854	5.0
18,501	0.9	**Infrastructure**	33,635	1.7
0	0.0	**Private Debt**	11,798	0.6
3,598	0.1	**Derivatives**	1,811	0.1
1,976,028	**96.8**	**Sub Total**	**1,941,372**	**97.8**
65,784	3.2	**Cash held by Managers & Temporary Investments**	44,442	2.2
0	0.0	**Other Investment Balances - Dividends Due**	0	0.0
2,041,812	**100**	**Total**	**1,985,814**	**100**

Appendix 4 (ii)

Analysis of Investments - Market Value 31 March 2020

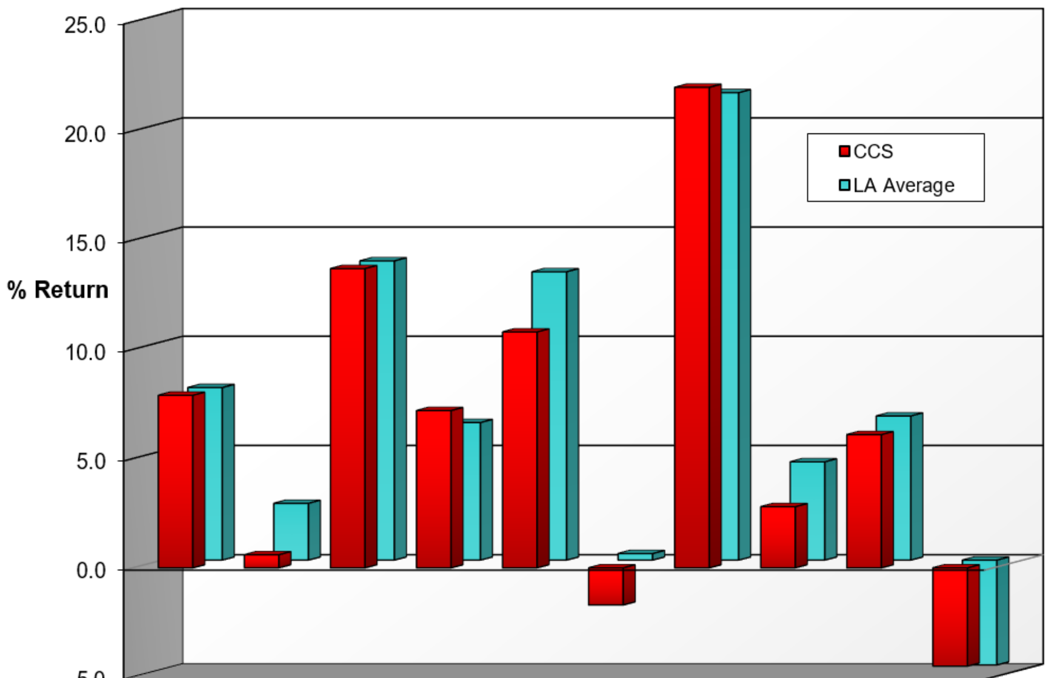


Fund Manager Breakdown - Market Value 31 March 2020



Appendix 5

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



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
CCS	7.9	0.6	13.7	7.2	10.8	-1.7	22.0	2.8	6.1	-4.5
LA Average	7.9	2.6	13.7	6.3	13.2	0.3	21.4	4.5	6.6	-4.8

Year

Pensions Section Performance Measures

Service Objective	Performance Indicator	Actual 2017/18	Actual 2018/19	Actual 2019/20
To calculate all types of pension benefits accurately	Payment of retirement benefits to members within 1 month after benefit becomes payable.	49.04%	85%	64.6%
	Payment of retirement benefits to members within 1 month of the date all information was received.	98.56%	95%	98.06%
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	68.42%	90%	95.92%

Appendix 7

City & County of Swansea Pension Fund

Investment Strategy Statement

Investment Strategy Statement

Introduction and background

This is the Investment Strategy Statement ("ISS") of the City and County of Swansea Pension Fund ("the Fund"), which is administered by City and County Swansea Council, ("the Administering Authority"). The ISS is made in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 ("the Regulations").

The ISS has been prepared by the Fund's Pension Committee ("the Committee") having taken advice from the Fund's investment adviser, Hymans Robertson LLP. The Committee, which comprises of members of the Administering Authority and Neath Port Talbot Council, acts on the delegated authority of the Administering Authority.

The ISS, which was last approved by the Committee on in 2017, is subject to periodic review at least every three years and without delay after any significant change in investment policy. This March 2018 version reflects the strategic changes that were agreed over 2017 and the first quarter of 2018. The Committee has consulted on the contents of the Fund's investment strategy with such persons it considers appropriate.

The Committee seeks to invest in accordance with the ISS, any Fund money that is not needed immediately to make payments from the Fund. The ISS should be read in conjunction with the Fund's Funding Strategy Statement ("FSS").

The suitability of particular investments and types of investments

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis. This funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

The Committee aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary and/or inflation increases.

The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund. This benchmark is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities.

It is intended that the Fund's investment strategy will be reviewed at least every three years either alongside or following actuarial valuations of the Fund.

The Fund's investment strategy was last reviewed during 2017 and 2018. This analysis included both a quantitative (using asset liability modelling) and qualitative analysis. This approach helps to ensure that the investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferreds and active members), together with the level of surplus or deficit (relative to the funding basis used). Details of the assumptions used in the quantitative analysis was considered prior to the Committee agreeing any strategic changes.

The Committee monitors investment strategy on an ongoing basis, focusing on factors including, but not limited to:

- Suitability given the Fund's level of funding and liability profile
- The level of expected risk
- Outlook for asset returns

The Committee also monitors the Fund's actual allocation on a regular basis to ensure it does not notably deviate from the target allocation and is considering a formal rebalancing framework alongside potential changes to the Fund's longer term strategic asset allocation.

Investment Beliefs
The Committee has agreed a set of investment beliefs (shown in the appendix of this paper)). These beliefs aim to help articulate how the Committee's investment objectives are translated into their investment strategy.

Investment of money in a wide variety of investments Asset classes
The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities, fixed interest, index linked bonds, cash, property, infrastructure, hedge funds and commodities either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks.

The Committee reviews the nature of Fund investments on a regular basis, with particular reference to suitability and diversification. The Committee seeks and considers written advice from a suitably qualified person in undertaking such a review. If, at any time, investment in a security or product not previously known to the Committee is proposed, appropriate advice is sought and considered to ensure its suitability and diversification.

The Fund's target investment strategy is set out below. It is anticipated that the maximum amount in each region will be the upper limit based on the ranges set out below. However, there may be times when these limits are breached e.g. at times of market stress, or if Fund is implementing strategic changes and it is deemed more efficient to delay any rebalancing for a period of time. In line with the Regulations, the authority's investment strategy does not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007.

Current Fund Allocation

Asset class	Target allocation %
UK equities	34% +/- 5%
Overseas equities	34% +/- 5%
Private Equity	3% +/- 5%
Hedge Funds	5% +/- 5%
Property	5% +/- 5%
Infrastructure	2% +/- 5%
Global Fixed Interest	15% +/- 5%
Cash	2% +/- 5%
Total	100%

In 2017 the long term expected return of this portfolio was 4.7% p.a. with an expected 1-year volatility of 9.4% p.a. Further details on the Fund's risks, including the approach to mitigating risks, is provided in the following section.

Managers

The Committee has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The Committee, after seeking appropriate investment advice, has agreed specific benchmarks with each Manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. The Funds Investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks (details) of these benchmarks are provided in the Appendix of this paper). Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles. The manager of the passive funds in which the Fund invests holds a mix of investments with each pooled fund that reflects that of their respective benchmark indices.

The approach to risk, including the ways in which risks are to be measured and managed

The Committee is aware that the Fund has a need to take risk (e.g. investing in growth assets) to help it achieve its funding objectives. It has an active risk management programme in place that aims to help it identify the risks being taken and put in place processes to manage, measure, monitor and (where possible) mitigate these risks. One of the Committee's overarching beliefs is to only to take as much investment risk as is necessary.

The principal risks affecting the Fund are set out below, we also discuss the Fund's approach to managing these risks and the contingency plans that are in place:

Funding risks

Asset values may not increase at the same rate as liabilities with an adverse impact on the funding position. A FSS is prepared every three years as part of the triennial valuation. The Fund's investment strategy and performance relative to the growth in the liabilities is monitored on an ongoing basis.

- Financial mismatch – The risk that Fund assets fail to grow in line with the developing cost of meeting the liabilities.
- Changing demographics –The risk that longevity improves and other demographic factors change, increasing the cost of Fund benefits.
- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Fund's liabilities.

The Committee measures and manages financial mismatch in two ways:

1. As indicated above, the Committee has set a strategic asset allocation benchmark for the Fund. This benchmark was set taking into account asset liability modelling which focused on the likelihood of achieving the Fund's longer term funding objectives and with regard to the level of downside risk. This analysis will be revisited as part of the 2019 valuation process.
2. The Committee assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. The Committee also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The Committee also seeks to understand the assumptions used in any analysis and modelling so they can be compared to their own views and the level of risks associated with these assumptions to be assessed.

The Committee seeks to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading. Changes in demographics are considered as part of the Fund's triennial Actuarial valuation.

Asset risks

- Concentration - The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- Currency risk – The risk that the currency of the Fund's assets underperforms relative to Sterling (i.e. the currency of the liabilities).
- Environmental, social and governance ("ESG") – The risk that ESG related factors reduce the Fund's ability to generate the long-term returns.
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

The Committee measure and manage asset risks as follows.

The Fund's strategic asset allocation benchmark invests in a diversified range of asset classes. The Committee has put in place rebalancing arrangements to ensure the Fund's "actual allocation" does not deviate substantially from its target. The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund's asset concentration risk. By investing across a range of assets the Committee has recognised the need for access to liquidity in the short term.

The Fund invests in a range of overseas markets which provides a diversified approach to currency markets; the Committee also assess the Fund's currency risk during their risk analysis. Details of the Fund's approach to managing ESG risks is set out later in this document.

The Committee has considered the risk of underperformance by any single investment manager and have attempted to reduce this risk by appointing more than one manager and having a material proportion of the Fund's assets managed on a passive basis. The Committee assess the Fund's managers' performance on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists.

Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee seeks suitable professional advice.
- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.
- Stock-lending – The possibility of default and loss of economic rights to Fund assets.

The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Fund, or has delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). The Committee has the power to replace a provider should serious concerns exist.

The approach to pooling investments, including the use of collective investment vehicles and shared services

The Fund is a participating scheme in the All Wales Pool. The proposed structure and basis on which the All Wales Pool will operate was set out in the July 2016 submission to Government.

The Fund's intention is to invest its assets through the All Wales Pool as and when suitable Pool investment solutions become available. An indicative timetable for investing through the Pool was set out in the July 2016 submission to Government. They key criteria for assessment of Pool solutions will be as follows:

1. That the Pool enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund.

2. That there is a clear financial benefit to the Fund in investing in the solution offered by the Pool, should a change of provider be necessary.

At the time of preparing this statement the Fund has no assets via the Wales Pension Partnership Pool.

The Chairman (or his identified nominee) shall be the Fund's representative for the Wales Pool which has responsibility for holding the "Pool Operator" to account. The Committee retains responsibility for setting its own investment strategy, policy and allocation.

How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments

It is recognised that ESG factors can influence long term investment performance and the ability to achieve long term sustainable returns. The Committee consider the Fund's approach to responsible investment in two key areas:

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

The Committee takes ESG matters very seriously. The Fund has developed an environmental, social and governance policy which sets out the Fund's position in a number of areas. The Fund has also carried out ESG training, ESG beliefs (as part of the main belief statement) and carbon monitoring of its listed equity exposure.

At the present time the Committee does not take into account non-financial factors when selecting, retaining, or realising its investments. The Fund does not currently hold any assets which it deems to be social investments. To date, the Fund's approach to social investments has largely been to delegate this to their underlying investment managers as part of their overall ESG duties.

At the time of production of the ISS, the Fund has not issued a separate Statement of Compliance with the UK Stewardship Code, but fully endorses the principles embedded in the seven Principles of the Code. In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly. The Fund also encourages its managers to sign up to the Principles of Responsible Investment "PRI".

The Fund, through its participation in the All Wales Pool, will work closely with other LGPS Funds to enhance the level of engagement both with external managers and the underlying companies in which invests. The Committee is also supportive of collaboration to achieve better engagement, as evidenced by the Fund's membership to LAPFF, a collective organisation of LGPS who engage fund managers and investee companies and promote responsible investor/ownership practices.

The exercise of rights (including voting rights) attaching to investments

The Committee has delegated the exercise of voting rights to the investment manager(s) on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the Fund's managers have produced written guidelines of their process and practice in this regard. The managers are strongly encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies under Regulation 7(2)(f). The Committee monitors the voting decisions made by all its investment managers on a regular basis.

March 2018

Appendix 1: Statement of Investment Beliefs

To be completed post Committee discussion on Investment beliefs paper

Appendix 2 : Fund Benchmarks

Asset Class	**Target Allocation %**	**Benchmarks**
UK equities	34% +/- 5%	FTSE all share
Overseas equities	34% +/- 5%	MSCI World ex UK MSCI Frontier markets
Private Equity	3% +/- 5%	FTSE All Share
Hedge Funds	5% +/- 5%	LIBOR
Property	5% +/- 5%	IPD UK Pooled Property fund
Infrastructure	2% +/- 5%	*To be finalised*
Global Fixed Interest	15% +/- 5%	LIBOR
Cash	2% +/- 5%	7 day LIBID
Total	**100%**	

Appendix 8

City & County of Swansea Pension Fund
Funding Strategy Statement 2020

1. INTRODUCTION

Overview

1.1 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).

1.2 As required by Regulation 58(4)(a), the Statement has been prepared having regard to guidance published by CIPFA. This Statement has regard to the updated guidance published in September 2016 and not the original guidance issued in October 2012 as referred to in the LGPS Regulations at time of writing the Statement.

Consultation

1.3 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.

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

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

Purpose of this Statement

1.6 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 Investment Strategy Statement

1.7 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 Investment Strategy Statement and the funding strategy set out in this Statement.

1.8 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 Investment Strategy Statement 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.

1.9 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.

1.10 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

1.11 The Administering Authority undertook its latest substantive review of this Statement in December 2019.

1.12 The Administering Authority will formally review this Statement as part of the next funding valuation following the 31 March 2019 valuation, currently expected to be as at 31 March 2022, unless circumstances arise which require earlier action.

1.13 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.

2. THE AIMS AND PURPOSE OF THE FUND

Purpose of the Fund

2.1 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

2.2 The main aims of the Fund are:

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

- adequately fund benefits to secure the Fund's solvency and long term cost efficiency, which should be assessed in light of the risk profile of the Fund and Employers
- while taking account of the desirability of maintaining as nearly constant primary employer contribution rates as possible (and subject to the Administering Authority not taking undue risks) at reasonable cost to the taxpayers, scheduled (as defined in Part 1 or deemed employers as per Part 4 of Schedule 2 of the LGPS Regulations), resolution (as defined in Part 2 of Schedule 2 of the LGPS Regulations), 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

2.3 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)

2.4 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.

2.5 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.

2.6 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.

2.7 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.

2.8 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.

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

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

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

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

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

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

- complying with any restrictions set out in the Investment Regulations
- restricting investment to asset classes generally recognised as appropriate for UK pension funds
- analysing the potential volatility and absolute return risks, and funding risk represented by those asset classes in collaboration with Investment Advisors and Fund Managers, the Fund Actuary and the Wales Pension Partnership 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.

3. RESPONSIBILITIES OF THE KEY PARTIES

3.1 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

3.2 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 an 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

3.3 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 Investment Strategy Statement or other policies.
- Pay any exit payments as required in the event of their ceasing participation in the Fund

Fund Actuary

3.4 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.

4. FUNDING STRATEGY

Risk Based Approach

4.1 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

4.2 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, having taken advice from the Fund Actuary, wishes to hold at the end of the Trajectory Period (see later) to meet this aim.

4.3 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%.

4.4 For secure tax raising Scheduled Bodies and Admission Bodies with guarantors of sound covenant agreeing to subsume assets and liabilities following exit, the Solvency Target will use appropriate actuarial methods and assumptions that are believed appropriate in the long term for those Bodies. For the 2019 valuation the Solvency Target will be set using an assumed rate of return of 2% in excess of the assumed long term annual increase in the Consumer Prices Index, which is intended to be a prudent outperformance assumption based on assumed future asset holdings.

4.5 For non tax raising Scheduled Bodies the Solvency Target may (dependent on circumstances) be set at a more prudent level than that used for Scheduled Bodies and Admission Bodies with guarantors of sound covenant agreeing to subsume assets and liabilities following exit.

4.6 For Admission Bodies and other bodies whose liabilities are expected to be orphaned following exit, the required Solvency Target *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

4.7 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.

4.8 Consistent with the Administering Authority's 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.

4.9 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.

Trajectory Periods

4.10 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.

4.11 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 will be used for the valuation at 31 March 2019.

Funding Target

4.12 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.

4.13 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 actuarial valuation exercise and is not 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).

4.14 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.

4.15 The discount rate, and hence the overall required level of employer contributions, has been set for the 2019 valuation such that the Fund Actuary estimates that there is an 80% Probability of Funding Success – i.e. and 80% 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

4.16 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

4.17 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 secure tax raising 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. This is known as the scheduled and subsumption body funding target.

4.18 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 arrangement, charge over assets, etc.

4.19 Where, by virtue of having taken account of some or all of the above factors, the Administering Authority adopts a less risky (more prudent) funding target than the scheduled and subsumption body funding target for any scheduled bodies, this is known as the intermediate funding target.

Admission Bodies and certain other bodies whose participation is limited

4.20 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). This is known as the (ongoing) orphan admission bodies funding target. It is not the same as the exit basis.

Full Funding

4.21 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 Periods

4.22 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.

4.23 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, and whether the employer is in surplus or deficit on the appropriate Funding Target.

4.24 Where an employer is in surplus, and where an employer's expected exit date is unknown or expected to be later than the date the revised rates and adjustments certificate will come into force following the next valuation, this surplus will only lead to an adjustment in an employer's contributions to the extent that this surplus is in excess of 10% of the value of that employer's liabilities valued relative to the appropriate Funding Target (i.e. to the extent that the employer's funding level is greater than 110%). Note that where an employer is subject to a temporary relaxation of the requirement for Full Funding, or subject to the subsumpion funding target by virtue of a temporary subsumption commitment from City and County of Swansea and/or Neath Port Talbot County Borough Council (see below), the Administering Authority will have regard to the contribution requirement that would have applied without this temporary commitment when determining the extent to which any surplus can lead to contribution reductions.

4.25 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, and where the employer is in deficit, the Administering Authority may be 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 Periods where employers are in deficit, and has agreed with the Fund Actuary a limit of 30 years for employers which are assessed by the Administering Authority as being a long term secure employer.

4.26 Where employers are in deficit, the Administering Authority's policy is to agree Recovery Periods with each employer which are as short as possible within the above framework. Recovery Periods for employers or employer groups may differ in order to suitably balance risk to the fund and cost to the employer. 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.

4.27 Resulting from the 2019 valuation, a Recovery Period of up to 19 years was used, with an average Recovery Period of just under 19 years across all participating employers.

Grouping

4.28 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.

4.29 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 typically look for evidence of homogeneity between employers before considering grouping.

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

4.30 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.

4.31 There is a group of employers in the Fund which will be pooled together for funding and contribution purposes at the 2019 valuation.

4.32 From 1 April 2019 it is expected that the Town and Community Councils Group will consist of the following employers - Briton Ferry Town Council, Cilybebyll Community Council, Clydach Community Council, Coedffranc Community Council, Margam Joint Crematorium Committee, Neath Town Council, Pelenna Community Council and Pontardawe Town Council, and any new small councils will join this group going forward.

4.33 Under the pooling approach these employers will pay a common percentage of pay as their primary contribution rate and will share experience (subject to each employer not taking action which adversely and materially, as determined by the Administering Authority, affects the group's liabilities in which case the Administering Authority may ensure that employer meets the additional liabilities it has created by such action). Each employer in the group will be responsible for meeting any deficit (or benefit from any surplus) allocated to the employer i.e. this will be outside the experience sharing mechanism. Any deficit recovery plan will be based on the specific employer's circumstances.

4.34 In the event that an employer in the group has no active members consideration will be given to first issuing a 'suspension notice' which under the regulations can defer the exit valuation for up to three years if in the reasonable opinion of the administering authority the employer is likely to have one or more active members contributing to the fund within the period specified in the suspension notice. In the event of an exit valuation, the assets and liabilities following exit will be subsumed by the group and the exited employer will not be required to pay any further contributions unless it admits an employee into the Fund, in which case it is expected that the employer will re-join the group as a participating employer. Further, no exit credit will be paid to the exiting scheme employer, unless the exiting scheme employer is in surplus when liabilities are calculated using a Funding Target that anticipates investment in low risk investments such as Government bonds.

However, if the exiting employer is likely to have a material impact on the contribution rate payable by the remaining employers then the Administering Authority may decide that the exiting employer should make additional payments to the Fund over a period of time to protect the remaining employers from such increases.

Stepping

4.35 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

4.36 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 funding valuations.

Asset shares notionally allocated to individual employers

4.37 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.

4.38 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

4.39 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 using a cash equivalent transfer value basis 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.

4.40 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 or where estimated cashflows can be produced with reasonable accuracy, estimated cashflows will be used.
- Where, in the opinion of the Fund Actuary, the cashflow data which is unavailable is material or difficult to estimate with necessary accuracy, the Fund Actuary may 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

4.41 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.

4.42 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 consider requiring top up payments where deficit contributions fall below a minimum level, or further alternative approaches as it deems appropriate.

5. SPECIAL CIRCUMSTANCES RELATED TO CERTAIN EMPLOYERS

Interim reviews

5.1 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 funding valuation dates.

5.2 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.

5.3 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.

5.4 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

5.5 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 and monitors the exposure of the 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.

New employers

Initial Rate

5.6 When a new employer joins the Fund, the Fund's Actuary determines the initial employer contribution rate payable.

5.7 An interim contribution rate may be set pending a more accurate calculation by the Fund's Actuary of the employer contribution rate payable. The Administering Authority will determine these interim contribution rates following each Actuarial Valuation and at any other time at its discretion.

5.8 The employer contribution rate will be set in accordance with the Funding Strategy Statement, taking into consideration elements such as:

- Any past service or transferred liabilities
- Whether the new employer is open or closed to new entrants
- The funding target that applies to the employer
- The funding level on commencement and, where there is a surplus or deficit, whether the admission agreement is fixed term or not, whether open or closed and the period of any fixed term contract period or average future working lifetime of the employee membership (as appropriate)
- Other relevant circumstances as determined by the Administering Authority on the advice of the Fund Actuary

New Admission Bodies

5.9 Where the Administering Authority makes an admission agreement with a body (the New Body), the default stance of the Fund is that the relevant Scheme employer, as defined in Part 3 of Schedule 2 of the LGPS Regulation 2013, will be required to subsume the liabilities (see below) at the point that the New Body no longer has any contributing members. This will be set out within the Admission

Agreement or side agreement, and apply to both the liabilities of the initial transferring membership and, in the case of an open admission agreement, any liabilities of the New Body relating to members that commence participation after the initial transfer under the terms of the Admission Agreement.

5.10 Unless agreed otherwise (between the relevant Scheme employer and the New Body) the New Body would be required to target sufficient assets to fully fund the liabilities subsumed by the relevant Scheme employer at exit on the assumptions applicable to the relevant Scheme employer.

Bonds and other securitization

5.11 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.

5.12 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.

5.13 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

5.14 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.

5.15 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 a mix of growth and matching assets.

Orphan liabilities

5.16 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.

5.17 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.

5.18 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 between the exit date of the employer and each subsequent funding valuation of the Fund. Assets will then be reallocated within the Fund to ensure the orphan liabilities remain 100% funded on a low risk basis after taking account of any outstanding exit payments payable to, or due from the exiting employer, with any investment profit or loss allocated to the contributing employers in proportion to their notional asset share.

Smoothing of contribution rates for Admission Bodies

5.19 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.

5.20 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, or alternatively one or both employers agree to subsume the relevant Admission Bodies on exit.

5.21 Should an Admission Body leave the Fund during a period where the City and County of Swansea and/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 (see cessation of participation for subsumed liabilities below).

5.22 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

5.23 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. When employees do not transfer to another employer they will retain pension rights within the Fund, i.e. either as a deferred pensioner or immediately taking retirement benefits.

5.24 The assumptions adopted to value the departing employer's liabilities for the exit valuation will depend upon the circumstances. In particular, the exit valuation will distinguish between residual liabilities which will become orphan liabilities, and liabilities which will be subsumed by long-term other employers.

5.25 For orphan liabilities the Funding Target in the exit valuation will anticipate investment in low risk investments such as Government bonds. This is to protect the other employers in the Fund, as upon exit, the employer's liabilities will become "orphan" liabilities within the Fund, and there is no recourse to that (former) employer if a shortfall emerges in relation to these liabilities after the exit date. Any deficit or surplus in the Fund in respect of the employer will generally be due to the Fund as a termination contribution, or payable by the Fund to the employer as an exit credit respectively, where the exit date is on or after 14 May 2018.

5.26 For subsumed liabilities the exit valuation will be determined on the basis that the scheme employer, or in the case of grouped employers, the remaining contributing group employers, providing the subsumption commitment will subsume all assets and liabilities from the exiting scheme employer. No exit credit will be paid to, or any exit debt required from, the exiting scheme employer, unless the exiting scheme employer is in surplus when liabilities are calculated using a Funding Target that anticipates investment in low risk investments such as Government bonds. The assets and liabilities will be subsumed within those of the employer, or employers, providing the subsumption commitment, with future contribution requirements for this employer, or group of employers, being reassessed at each actuarial valuation.

5.27 In addition, the Administering Authority may, at its discretion, include additional margins for prudence compared to the approach used for determining ongoing contributions, for example in relation to regulatory uncertainty (which at the date of this Statement includes uncertainty associated with the McCloud case, cost management process and indexation and equalisation of GMP).

6. IDENTIFICATION OF RISKS AND COUNTER MEASURES

Approach

6.1 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.

6.2 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.

6.3 The main risks to the Fund are considered below:

Choice of Solvency and Funding Targets

6.4 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**.**

6.5 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.

6.6 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.

6.7 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

6.8 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

6.9 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
- environmental; social and corporate governance risks

6.10 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

6.11 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.

6.12 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.

6.13 The Administering Authority will maintain 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.

Climate change

6.14 The systemic risks posed by climate change and the policies implemented to tackle them will fundamentally change economic, political and social systems and the global financial system. They will impact every asset class, sector, industry and market in varying ways and at different times, creating both risks and opportunities for investors. The Administering Authority and Investment Advisory Panel keeps the effect of climate change on future returns under review and will commission modelling or advice from the Fund Actuary on the potential effect on funding as required.

Liability Risk

6.15 The main risks include discount rates, pay and price inflation, changing retirement patterns, mortality and other demographic risks.

6.16 The Administering Authority will ensure that the Fund Actuary investigates demographic, pay and pension increase experience at each valuation and reports on developments. The demographic assumptions are intended to be best estimate, informed by Fund experience and wider evidence where needed, e.g. the mortality assumptions are informed by a postcode analysis carried out by the Fund Actuary's specialist longevity team and the projections model released by the Continuous Mortality Investigation of the Institute and Faculty of Actuaries. If the Administering Authority becomes aware of any material changes in population mortality which may also be reflected in the Fund's experience it will ask the Fund Actuary to report on the effect on the funding position and employer contributions.

6.17 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 practical, monitor changes in the age profile of the Fund membership early retirements, redundancies and ill health early retirements in the Fund and, if any changes are considered to be material, ask the Fund Actuary to report on their effect on the funding position and employer contributions.

6.18 If significant liability changes, including from demographic changes, become apparent between valuations, the Administering Authority will notify the affected employers of the anticipated impact on costs that will emerge at the next valuation and consider whether to require the review of the bonds that are in place for Admission Bodies. It will also consider the extent to which such changes can or should be allowed for in exit valuations, taking advice from the Fund Actuary.

Regulatory and Compliance Risk

6.19 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.

6.20 There are a number of consultations which have been issued in recent years, some of which represent proposed changes which were first raised a number of years ago, including a cap on exit payments by public sector employers, new Fair Deal arrangements and greater flexibility on employer exit from the LGPS. Some of these may affect funding and pose a risk to the Fund. The Government has also consulted on changes to the valuation cycle although the Administering Authority understands that the 2022 valuation is going ahead as previously planned.

6.21 There are a number of additional uncertainties associated with the benefit structure at the time of the latest formal review of this Statement, including:

6.22 How Government will address the issues of GMP indexation and equalisation beyond expiry of the current interim solution from 6 April 2021

6.23 The outcome of the McCloud/Sargeant cases which ruled that the transitional protections implemented in the Firefighters' and Judges' Pension Schemes were illegal age discrimination, and what the remedy might be in the LGPS in terms of its scope and form.

6.24 The outcome of the cost management process and whether the agreement reached in relation to the Scheme Advisory Board (SAB) process for member contributions to be reduced and benefits enhanced to achieve an additional cost of 0.9% of pay.

6.25 Details of the allowance made for these uncertainties in the 2019 valuation are as follows:

McCloud/Cost Cap

6.26 1.5% of pay has been added to employer contributions based on Fund-specific calculations carried out by the Fund Actuary. This figure has been calculated across the Fund as a whole on the scheduled and subsumption body funding target assuming the following remedy:

6.27 Compensation will apply to members who joined the LGPS before 1 April 2014 (see below).

6.28 Benefits will be the better of those accrued in the 2014 Scheme or those accrued in the 2008 Scheme, backdated to 1 April 2014 (i.e. an 'underpin' approach).

6.29 Compensation will apply to members who retire from active service with immediate pension benefits, through normal health or ill health retirement (this is because transitional protections only applied to members retiring from active service with immediate pension).

6.30 The remedy will not apply to spouses' or dependants' benefits. This is because transitional protections only applied to members' benefits

6.31 The cost is split 0.4% of pay in respect of past service and 1.1% of pay in respect of future service where the past service cost has been spread over a recovery period of 19 years.

GMP indexation/equalisation

6.32 There is no allowance for GMP equalisation beyond the extended 'interim' solution announced in January 2018, i.e. for full inflationary increases on GMP to be paid from the Fund for members reaching State Pension Age by 5 April 2021.

Liquidity and Maturity Risk

6.33 This is the risk of a reduction in cash flows into the Fund (including investment income – e.g. potentially resulting from changes in investment holdings), 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 in the funding position and hence (secondary) employer contributions can also affect the cashflow position since it is not always possible to deliver complete stability of contributions. Timing of contribution payments by employers can also impact on liquidity requirements were flexibility is granted by the Administering Authority. 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, for example, lower member contributions as provisionally agreed as part of the Scheme Advisory Board Cost Management Process will lead to lower member contributions which may not be immediately matched by higher employer contributions,
- An increase in the take-up of the 50/50 option (whether on affordability grounds or to avoid tax charges) will reduce member contributions to the Fund

6.34 The Administering Authority seeks to maintain regular contact with employers to mitigate against the risk of unexpected or unforeseen changes in maturity or other changes leading to cashflow or liquidity issues. The Administering Authority also commissions the Fund Actuary to provide projections of benefit payments and contributions based at each valuation and monitors the cashflow position on a regular basis.

Governance Risk

6.35 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), or establishment of a wholly owned company which does not participate in the Fund, or only partially participates, and the related risk of the Administering Authority not being made aware of such changes in a timely manner.

6.36 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. The Fund will consider commissioning triennial reviews of any bonds as part of its risk management.

Statistical/Financial Risk

6.37 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

6.38 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

6.39 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

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

Appendix 9

Local Government Pension Scheme (LGPS) - Governance Arrangements

Introduction

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

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

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

The City & County of Swansea Pension Fund Governance Arrangements

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

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

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

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

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

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

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

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

Appendix A

City & County of Swansea Pension Fund

Governance Policy Statement

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

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

Constitutional Framework

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

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

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

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

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

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

Pension Fund Management can be divided into two main areas:

1. Investment Management

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

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

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

2. Fund Administration

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

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

Pension Fund Governance: Structure Overview

Council

Delegated function

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

Pension Fund Panel

Delegated function

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

Pension Fund Investment Sub Group

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

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

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

The Pension Fund Committee has responsibility for:

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

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

Frequency of Pension panel Meetings

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

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

Operational Procedure of Meetings

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

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

Agenda items are to include:

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

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

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

to undertake :

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

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

Pension Fund Investment Sub Group Terms of Reference

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

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

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

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

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

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

Appendix B

GOVERNANCE COMPLIANCE STATUTORY GUIDANCE

PART I

INTRODUCTION

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

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

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

BACKGROUND

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

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

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

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

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

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

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

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

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

STATUTORY BACKGROUND

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

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

“Governance compliance statement

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

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

(b) if they do so—

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

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

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

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

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

(3) An administering authority must—

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

(b) publish the statement as revised.

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

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

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

PURPOSE

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

TERMINOLOGY

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

POSITION OF NON-LOCAL AUTHORITY ADMINISTERING AUTHORITIES

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

SUGGESTED READING

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

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

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

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

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

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

PART II - THE PRINCIPLES
Part II/A - Structure

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

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

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

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

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

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

Part II/B - Representation

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

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

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

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

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

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

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

Part II/C - Selection and role of lay members

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

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

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

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

Part II/D – Voting

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

Elected members of the administering authority

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

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

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

Lay members of advisory panels, etc

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

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

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

Part II/E – Training/Facility time/Expenses

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

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

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

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

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

Part II/F – Meetings (frequency/quorum)

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

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

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

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

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

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

Part II/G - Access

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

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

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

Part II/H – Scope

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

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

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

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

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

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

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

Appendix C

Compliance Statement of the City & County of Swansea Pension Fund

Principle A – Structure

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

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

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

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

Principle B – Representation

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

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

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

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

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

<u>Principle C – Selection And Role of Lay Members</u>

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

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

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

Principle D – Voting

	Not Compliant*				Fully Compliant
a)					✓

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

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

Principle E – Training/Facility Time/Expenses

	Not Compliant*				Fully Compliant
a)					✓
b)					✓

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

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

given above :-

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

Principle F – Meetings (frequency/quorum)

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

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

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

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

Principle G – Access

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

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

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

<u>Principle H – Scope</u>

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

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

Please use this space if you wish to add anything to explain or expand on the ratings given above :- **a)** The main panel has always considered within its remit all associated Pension Fund matters.

Principle I – Publicity

	Not Compliant*				Fully Compliant
a)					✓

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

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

Appendix 10

Communications Policy Statement

Introduction

The City and County of Swansea Pension Fund endeavours 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.

The Fund aims to communicate with members electronically where an email address has been provided or through the My Pension Online portal. Members who wish to opt out of electronic communication can do so in writing at any time and will receive hardcopy correspondence by post.

Annual Report and Accounts

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

Newsletter

To satisfy disclosure requirements 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 is 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' final salary and Career Average Re-valued Earnings (CARE) benefits will be available online via the Member self-service facility. If a member has elected to 'opt out' from receiving e-coms notifications a hardcopy of the Annual Benefit Statement will be sent directly (this will be to the address held for the member as at time of print) to all members who are contributing to the Fund at the previous financial year end.

Members who have a deferred benefit with the Fund the annual benefit statements, providing the up rated value of benefits, will be available to view online via the member self-service facility. If the member has elected to 'opt out' from receiving e-coms notifications a hardcopy annual benefit statement will be sent directly to the home address 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(s) are updated periodically to reflect any changes to the Scheme Regulations.

Further literature concerning specific provisions within the LGPS and is available online at www.swanseapensionfund.org.uk, upon request or as appropriate when communicating with members. A list of current communication material is listed in Appendix 1.

Correspondence

The Fund utilises both surface mail and e-mail to receive and send communications. Correspondence is available in an individuals preferred language of choice.

Payment Advice/P60

Pensioners will only be issued with a payment advice slip from the Pension Payroll Section 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 available annually in May.

Employee Surgeries/Presentations

Upon request, surgeries are available for individual Scheme members or groups along with standard or tailored presentations to be held at employer venues. Member roadshows confirming regulatory changes will be arranged by the Fund in association with the members employer.

Pre-Retirement Courses

Pre-retirement courses are scheduled by the member's employer however upon request the Pension Fund Communication Officer is available to attend to address any questions that a member(s) who is nearing retirement might have regarding the procedures and entitlements.

Existence Validation – Life Certificate Exercise

In conjunction with the DWP the Fund engages in an on-going National Fraud Initiative exercise based on risk assessment in order to establish the continued existence of pensioners in receipt of monthly pension payments.

Overseas Pensioners

The Fund engages with a third party who specialises in oversees money transfers to undertake an annual continued eligibility exercise to ensure the qualification of continued pension payments to pensioners living overseas.

Website

Extensive information about the LGPS along with Scheme literature, policies and forms are available to download from the City and County of Swansea Pension Fund website (www.swansea.pensionfund.org.uk) for all stakeholders. 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.

The Member Self Service link is available on the website and members are encouraged to sign-up. Benefit Statements and other correspondence are available through this secure online portal.

General Communications

A published telephone number along with general email addresses and full postal address is listed on all correspondence issued.

A member website, offering additional information is available at https://lgpsmember.org/

PROSPECTIVE SCHEME MEMBERS

Scheme Leaflet

In accordance with the Disclosure Regulations, prospective Scheme members are issued with a Short Scheme Guide. The information contained provides an overview of LGPS benefits from day one of membership.

Promotional Leaflet

The Fund has a promotional leaflet 'The Local Government Pension Scheme – Saving for Retirement'. The leaflet is included with joiner packs issued by the employer when the employee commences employment. The leaflet provides information to non-members of the benefits of being a member of the scheme.

Corporate Induction Courses

Corporate Induction Courses are available to employees on-line; any queries that a member might have can be presented either by emailing pensions@swansea.gov.uk or phoning 01792 636655. A response will follow in due course.

Trade Unions

The Fund will work with the relevant Trade Unions to ensure all interested parties understand the Scheme. 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 will contain a specific section for prospective joiners or optants out, highlighting the benefits of planning for retirement and what the Scheme provides to allow the member to make an informed choice.

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 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 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 includes updates as well as forms and notes of guidance, 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 Ministry for Housing, Communities & Local Government (MHCLG) and the Local Government Pensions

Committee (LGPC), provide an opportunity to discuss issues of common interest and share best practice.

Pension Fund Committee

The Pension Fund Committee is notified of any changes in legislation, practices within the Section and investment issues as and when these occur. Meetings take place on a quarterly basis.

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 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. Due to the change to home working. Staff meetings will be held via Microsoft Teams

Internet

The Staff are enabled to use the corporate network in order to access the internet and e-mail facility and communicate with each other and other departments through Microsoft Teams.

E-mails

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

The Local Government Pension Committee

National Website: www.lgps.org.uk

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

Seminars

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

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

Data Protection

To protect any personal information held on computer, the City and County of Swansea Pension Fund, as administered by Swansea Council (the Administering Authority), has adhered to the data protection principles in accord with the Data Protection Act 1998

The General Data Protection Regulation (GDPR) is a new set of European Union (EU) Regulations, which came into force on 25 May 2018. The Regulation changed how organisations process and handle data, with the key aim of giving greater protection and rights to individuals. Please refer to the City and County of Swansea Pension Fund website www.swanseapensionfund.org.uk to view the Funds Privacy Notice. The notice is designed to give you information about the data we hold about you, how we use it, your rights in relation to it and the safeguards that are in place to protect it.

Staff members receive online training in Data Protection every two years.

Freedom of Information Act 2000

The City and County of Swansea Pension Fund complies with the above Act and subsequent policy adopted by Swansea Council.

National Fraud Initiative (NFI)

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

While 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.

LGPS National Insurance Database

The City and County of Swansea Pension Fund participates in the LGPS National Insurance (NI) Database ('the database'). The database has been developed in order that LGPS Administering Authorities can share data to prevent the duplicate payment of death grants. This follows changes to Scheme Regulations by virtue of which a deceased member with multiple periods of LGPS membership will in most cases only have one death grant payable.

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

Appendix 11

Economic and Social Governance Policy - City and Council of Swansea Pension Fund

Introduction

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

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

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

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

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

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

Statement of Responsible Investment

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

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

The following principles set out the Fund's approach:

- The Committee recognises that their duty is to act in the best financial interests of the Fund's beneficiaries. The Committee believes that ESG issues can have a material financial impact on the long term performance of its investments and consideration of such factors is a part of their fiduciary duty.
- The Committee has a number of ESG related beliefs which are integrated into the Fund's overall belief statement. The Committee recognises that successful engagement can protect and enhance the long-term value of the Fund's investments. This engagement can apply across a range of assets.
- The Committee endorses the principles embedded in the UK Stewardship Code.
- The Committee encourages engagement by their investment managers with investee companies on ESG factors to positively influence company behaviour and enhance the value of the holdings. In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.
- Investment managers are expected to take account of ESG factors as part of their investment analysis and decision-making process. Further, ESG issues will be an explicit factor in considering the appointment of any new investment manager, mandate and benchmark.
- Investment managers are expected to incorporate reporting on ESG factors into their regular reporting. This includes information on voting and engagement, in addition to details on how the investment managers assess and manage ESG factors in relation to their respective mandates. The Committee encourages their investment managers to develop their reporting and monitoring of ESG factors over time.
- The Committee believes that they will have greater influence on the future direction of companies if they remain invested. Overall engagement activities are viewed by the Committee as a key element of the broader approach to responsible investing. Remaining invested provides the Fund with a voice on how

companies are generating their revenues and how they will change in the future. The Committee view divestment as being the ultimate sanction.

- The Committee intends to make use of collaboration with other funds to pursue their engagement policy. To help with this, the Fund is a member of the Local Authority Pension Fund Forum ("LAPFF"), one of the UK's leading collaborative shareholder engagement group.
- The Committee seeks greater transparency of the ESG relative aspects associated with their underlying investments. This includes the extent of the Fund's equity investments' carbon exposure and the Fund's exposure to stocks that may gain from a change in industry carbon policy.
- The Committee has made a commitment to reduce the Fund's listed equity portfolio's carbon exposure, as part of this, it has set a target of the Fund's equities being 50% lower when compared to the global stockmarket by 2022 (MSCI AC World index, measured in terms of carbon emissions per $m invested).
- The Committee may consider portfolio 'tilts' in line with ESG or responsible investment objectives.
- Training and education is likely to form a key element in developing the Fund and its Committee position on ESG related matters.

Voting policy

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

The managers are required to exercise their voting rights on behalf of the Fund when it is in the best interests of the Fund. Voting will be in accordance with the managers' corporate governance policies. The Committee also retains the right to instruct managers at any time to vote according to the Committee's wishes on a particular resolution (acknowledging that there may be limitations as to how this would work for pooled investments).

The Committee review their managers' voting guidelines on a regular basis (at least biannual) to determine their appropriateness for the Fund.

All managers are expected to report their voting records on a quarterly basis. The Committee is committed to disclose voting records to the Fund's membership on an annual basis through the Fund's website.

In making any future manager appointments, the Committee will assess the managers' voting policy as part of the due diligence process and will instruct the appointed manager accordingly. The Committee will also liaise closely with the Wales Pool Operator to ensure that they also adopt this approach.

Engagement policy

The Committee believe that engagement is a positive activity and encourage the Fund's investment managers to engage where they believe that value can be added or risk can be reduced.

The Committee believes that all engagements should have well-defined objectives. The Fund's investment managers are to report on the objectives of any engagement activity, along with the consequent success or failure of any actions taken on, at least, an annual basis. The Committee will publish a summary of engagement activity undertaken by their managers on an annual basis. The Committee will also publish other collaborative activity carried out over the year e.g. as part of the membership with LAPFF.

The Committee supports engagement activity that seeks to achieve:

- Greater disclosure of information on the ESG related risks that could affect the value of an investment;
- Transparency of an investments' carbon exposure and how such companies are preparing for the transition to a low carbon economy.[1]

The Committee encourage their investment managers to actively participate in collaborative engagements with other investors where this is deemed to be in the best interests of the Fund. Managers are to report on their collaborations on an annual basis.

The Committees' investment consultant is required to provide input and analysis to assist the Committee in assessing the Fund's investment managers' performance from an ESG engagement perspective. This includes working closely with the Officers to develop the appropriate training arrangements.

The Committee liaise closely with the Wales Pool Operator to ensure that they also adopt the approaches set in this policy. The Fund's investment managers are encouraged to sign up to the appropriate industry initiatives, including the UK Stewardship Code, LGPS Cost Transparency and the Principles of Responsible Investment. The Fund is not currently signed up to the UK Stewardship Code or the PRI but is investigating the possibility.

Appendix 1: Carbon exposure – 2017 review

Paper issued by Hymans Robertson in March 2018

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[1] As stated, the Committee has a desire to reduce the Fund's listed equity portfolio's carbon exposure and, as part of this, it has set a target of the Fund's equities being 50% lower when compared to the global stockmarket by 2022 (MSCI AC World index, measured in terms of carbon emissions per $m invested). The Committee will aim to carry out a carbon foot-printing exercise of their equities at least on a triennial basis. The first of these reviews took place in 2017 (the results are discussed in the appendix to this paper).

Background

Environmental Social and Governance ("ESG")

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

Carbon

As part of the Fund's ESG focus, the Committee commissioned MSCI to undertake an analysis of the portfolio's carbon exposure. MSCI has information on each global stocks' carbon related exposure (or is in a position to make an assumption[2]). Using this information, MSCI is able to compare the carbon exposure of the Fund's holdings with a range of reference benchmarks.

MSCI was provided with the individual holdings data from each of the Fund's equity managers (ex-Aberdeen's' frontier markets mandate due to lack of comparable industry benchmark data) and with specific details on each of the mandates in terms of their benchmarks and allocations[3]. MSCI then compared the portfolio versus the broad global market capitalisation index (e.g. the MSCI ACWI as a proxy for the global stockmarket) and versus a low carbon version of the global index (this index has the same performance objective of the broad market capitalisation index, but has a general aim of being overweight to companies with low emissions relative to sales and low potential emissions).

In the remainder of this paper, we consider the results from this analysis and set out potential next steps for the Fund.

Output of the analysis
Overview

The analysis focuses on the Fund's equity exposure at 31 March 2017. This date was shown as it ties in with Fund's year end.

The main objective was to get an understanding of the Fund's carbon exposure. However, it also created an opportunity to consider the positions being taken by the Fund's active managers, relative to their benchmark. The Fund's passive manager's exposure will be broadly in line with the underlying benchmark. However, the analysis

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[2] Further details on the assumptions made are included in MSCI's reports.

[3] To tie in with MSCI's benchmark range a number of pragmatic compromises were made, including comparing the Aberdeen and JP Morgan portfolios versus the global index, rather than a global ex UK index and Schroders' UK mandate versus a European benchmark. These compromises will impact the relative position of the results, but they should have no impact on the absolute results, not the key themes coming out the analysis. The date was based on the Fund's holdings at 31 March 2017.

gives the opportunity to compare the carbon exposure of the standard global benchmark versus its low carbon equivalent.

The analysis also includes some information regarding the Fund's exposure to clean technology, which are expected to benefit from any move towards a more low carbon economy.

Key carbon metrics

The key metrics can be defined as:

- **Carbon emissions** - the carbon emission (tonnes of CO2) per $million invested. *Sum of (($investment in issuer/issuers' market cap) * issuer's emissions)* – results shown as per $m invested
- **Carbon intensity** – a measure of a portfolio's carbon efficiency and is defined as the total carbon emissions of the portfolio as a proportion of portfolio sales. This is a useful metric in allowing the comparison of emissions across companies of different sizes and industries. *Sum of issuers' carbon emissions/ Sum of issuers'* $m sales
- **Weighted average carbon intensity** – the sum product of the constituent weights and carbon intensity. *Sum of portfolio weights*carbon intensity*

Each of these metrics have merit. For the purpose of this paper, we define carbon emissions as the "carbon footprint", but the other metrics could also have been defined in this way.

Results

Carbon focused
Overall, the results are encouraging. As shown in chart 1, the Fund's total equity holdings had a carbon footprint 9% lower than the MSCI ACWI and the weighted average carbon intensity is 16% lower. However, Chart 1, also highlights that the MSCI Low Carbon benchmark has an 80% smaller carbon footprint than the MSCI ACWI index highlighting that the choice of the underlying benchmark can have a significant impact on investors' carbon emissions.

Chart 1: Carbon emission metrics

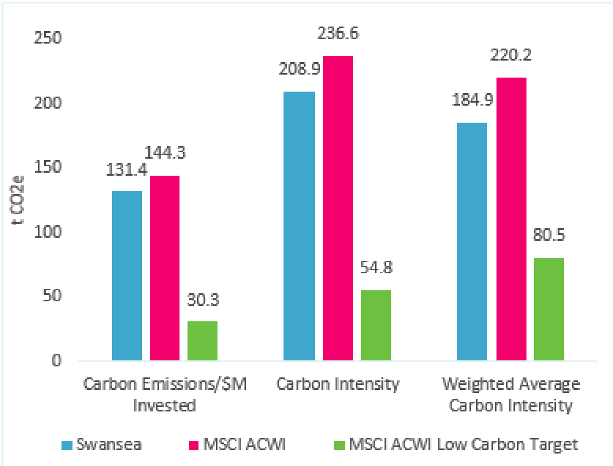
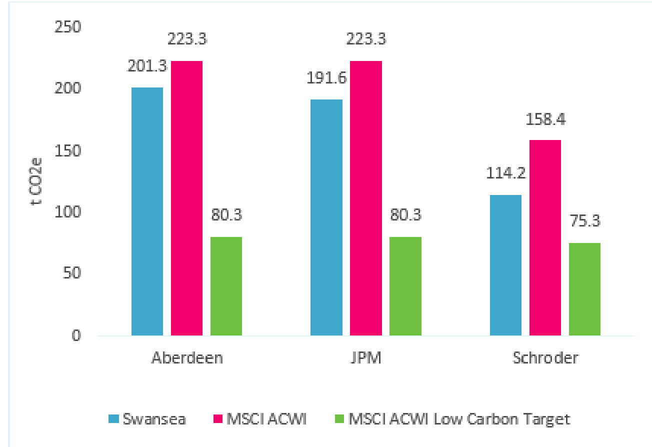


Chart 2: Weighted average intensity at manager level [4]



Details of each of the Fund's active managers' weighted average are shown in Chart 2. Each manager has delivered a portfolio with a lower position than their respective market capitalisation benchmark. Interestingly, although the Fund's two global managers (Aberdeen and JP Morgan) have similar weighted average exposure, there were notable differences in the carbon emissions (with JP Morgan notable higher due (c80% higher) to a number of their underlying Materials holdings, including Posco and Alco Corporation). Aberdeen's weighted average results were negatively impacted by the manager's Real Estate exposure (most notably Swire Pacific) and Materials exposure, including Praxair and Potash Corp.

Schroder's carbon footprint is lower than the benchmark index, albeit the holdings in Royal Dutch Shell and Carnival were notable contributors to the mandate's carbon intensity.

Considering the analysis at a sector level, the Fund's exposure to the materials, energy and utilities sectors contribute to the majority of the Fund's carbon footprint. Together, these sectors contribute to 75% of the Fund's carbon emissions despite only comprising 16% of the Fund's equity portfolio. This is illustrated in Charts 3 and 4 below.

Chart 3: Market value by sector

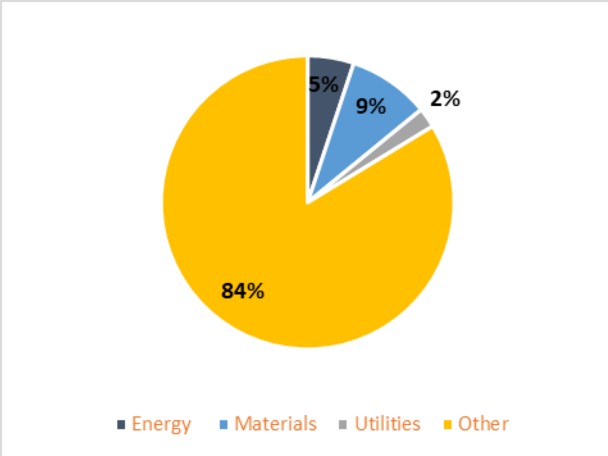
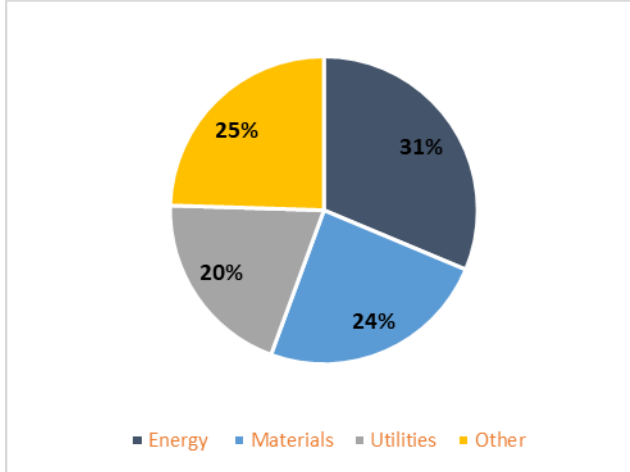


Chart 4: Contribution to carbon emissions



In such exercises, the energy, materials and utilities sectors are typically those with the highest carbon intensity although a company is not "bad" simply because it happens to operate within a carbon intensive sector. It is important to recognise that some sub-sectors will have very low carbon intensity. For example the utilities sector includes both water companies (low carbon intensity) and electricity companies (high carbon intensity).

Scope 1 and Scope 2

Carbon emissions are typically shown in three main "scopes"

- Scope 1: Direct "emissions from sources owned or controlled by the organisation"
- Scope 2: Indirect "emissions from the consumption of purchased electricity, steam or other energy generated upstream"
- Scope 3: Other indirect e.g. employee commuting.

To date, the majority of the industry focus is on Scopes 1 and 2 (as was the results of MSCI's analysis). The Fund's exposure is c 80% from Scope 1, which is slightly less than the MSCI ACWI, which is 84%. Only 58% of the MSCI ACWI Low carbon index comes from Scope 1. This notable change in the benchmark splits between scopes 1 and 2 reflects some of the main sector differences between the two benchmarks.

Carbon risk management relative to industry

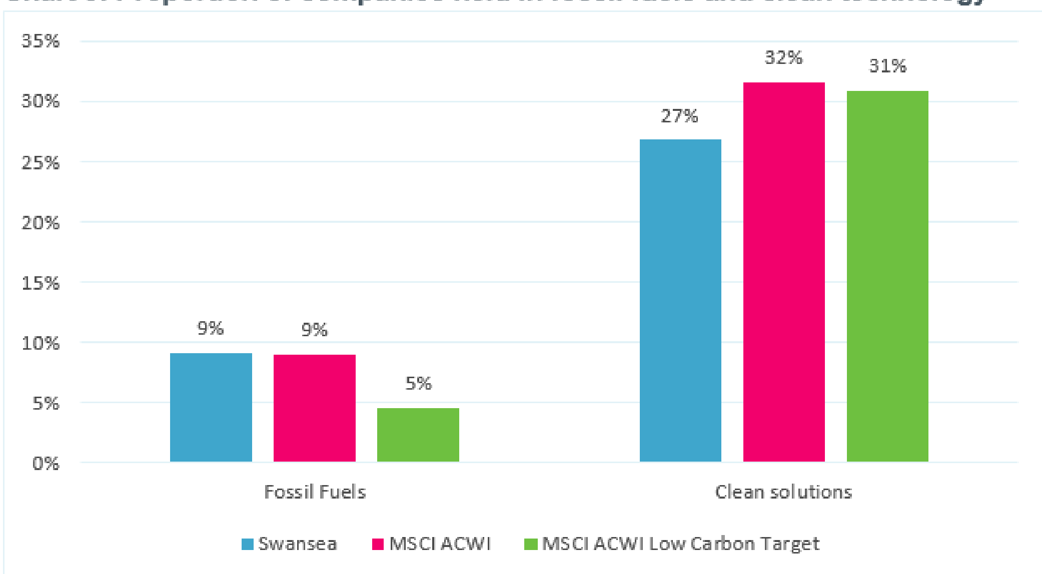
MSCI also included their views on companies' position relative to their industry in dealing with managing carbon risk (MSCI rates companies as Leaders, Average or Laggards). In terms of the top ten contributors to each active managers' weighted carbon intensity:

- Two of Aberdeen's Materials holdings (Maple Leaf and Tenaris) are viewed as being a laggards. We recommend that you follow up on these holdings with the manager.
- None of JP Morgan's or Schroders were viewed as laggards.

Thermal coal, oil and gas reserves
MSCI also considered the proportion of the portfolio which is made up by companies that own thermal coal, oil and gas reserves, three areas that are thought to be most at risk of being “stranded” assets. Chart 5 (left hand side) below shows that the Fund’s portfolio is 0.2% overweight, relative to the MSCI ACWI, in companies that own Fossil Fuel Reserves. The key contributors to this are the Fund’s holdings in Shell, BP, Lukoil and Rosneft (JP Morgan are notable investors in the latter two stocks).

Chart 5: Proportion of companies held in fossil fuels and clean technology

Chart 5: Proportion of companies held in fossil fuels and clean technology



Clean technology
In terms of focusing on stocks that may benefit from a change in industry carbon policy, chart 5 (right hand side) also analyses companies involved in “clean technology” solutions based on their sales in the following categories: Alternative Energy, Energy Efficiency, Green Building, Pollution Prevention, and Sustainable Water. Relative to the global index, the Fund has less exposure to stocks that generate revenue from these categories (of the Fund’s 27% exposure, the majority is in stocks with 0-20% of their revenue is from these categories).

Summary and next steps

The information from MSCI acts as a useful guide to the Fund's carbon exposure. There are a number of potential next steps for the Committee to consider, which should be considered alongside the Fund's engagement policy and investment beliefs, in particular:

Agree objectives

By carrying out this process, the Committee has achieve one of its objectives of understanding the Fund's carbon exposure (this puts the Fund ahead of any many other funds in doing such an exercise, a recent Greenwich Associates survey suggested that just 5% of UK pension funds had considered such an exercise).

Based on previous discussions, we understand that there is a desire to reduce the Fund's carbon exposure, albeit no specific targets have been discussed, or specifics e.g. emissions, carbon intensity or fossil fuel exposure.

Details of the specific measures can be considered in more detail over the course of 2018, what is key is that if a target is introduced a consistent method is adopted to allow the Fund's progress to be considered over time.

Reference index

We propose that the MSCI AC World index is used as the reference index. This is a commonly used index to represent "global stockmarkets" and is commonly used as a benchmark for global equity portfolios.

Target levels

If we focus on carbon emissions, the analysis discussed in this paper indicates that Fund already has c9% less carbon intensity than the index. The extent of your desire to put a target in place (exposure relative to the reference index), and if so, the size of this target should be subject to further discussion with you. However, we anticipate it being in the region of 20%-50% (amount to be defined following discussions with you) of the reference index achieved over an appropriate timescale (e.g. 5 years).

Review Fund benchmarks

The impact of benchmark choice is most notable for the Fund's passive mandates, where the manager's objective is to replicate the underlying index. MSCI's analysis shows the significant difference in the MSCI ACWI and the MSCI Low Carbon benchmarks. There are now a range of low carbon/ESG benchmarks that the Fund could consider. We recommend further training takes place on these during 2018, with the potential that a proportion (potentially all) of the Fund's passive assets are benchmarked against such a benchmark.

Challenge active managers

The results have flagged the Fund's exposure to specific higher carbon stocks. The Fund's managers should be asked to explain their rationale for holding such stocks, most notably

- Aberdeen: Challenge on engagement with Maple Leaf and Tenaris and understand how firm takes carbon risks into account for Swire Pacific.
- JP Morgan: Challenge on stock selection in energy and materials. How are carbon risks being priced into stock selection decisions.

Feed into pooling

Post pooling the Pool's operator will be responsible for appointing the underlying active managers. The Committee should seek details as to their process for assessing manager's ESG capabilities and willingness to provide carbon reporting.

Repeat exercise

It is important that you assess what progress is made relative to any objectives. However, there needs to be a balance between frequency of analysis, and cost of doing the analysis. We believe every two years should be broadly sufficient, albeit you may wish to receive more frequent updates from your active managers.

Consider broader assessment

Carbon is just one ESG element. There is scope to consider broadening this review to include other ESG related aspects e.g. human rights, labour rights, governance. This would work in a similar way to the process for carbon monitoring i.e. the Fund's underlying holdings compared to a broader universe using a providers underlying scoring.

Where possible this assessment should also be broadened out to the Fund's other asset classes i.e. not just equities.

Prepared by:-

Jordan Irvine, Associate Investment Consultant

William Marshall, Partner

For and on behalf of Hymans Robertson LLP

General Risk Warning

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an overseas investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

Glossary

Active Management - A mark through either Asset Allocation, Market Timing or Stock Selection (or a combination of these). Directly contrasted with Passive Management.

Actuary - An independent consultant who advises on the viability of the Fund. every three years the actuary reviews the assets and liabilities of the Fund and reports to the County Council as administering authority on the financial position and the recommended employers contribution rates. This is known as the actuarial valuation.

Asset Class - A specific area/type of Investment e.g. uK equities, overseas equities, Fixed Income, Cash.

Benchmark Return - The benchmark return is the return that would be achieved if the Fund Manager had not deviated from the weightings of each asset class given to them by the Investment Panel, and had achieved returns in each of these asset classes consistent with the average return of all local Authority Funds for that class. The Benchmark weightings of asset classes is outlined within the Investment Strategy Statement.

Corporate Governance - Issues relating to the way in which a company ensures that it is attaching maximum importance to the interests of its shareholders and how shareholders can influence management.

Equities - ordinary shares in uK and overseas companies traded on a recognised stock exchange. Shareholders have an interest in the profits of the company and are normally entitled to vote at shareholders' meetings.

Fixed Interest Securities - Investments in mainly government stocks, which guarantee a fixed rate of interest. The securities represent loans which are repayable at a stated future date but which can be traded on the Stock exchange in the meantime.

Fund Manager - A person or company to whom the Investment of the whole or part of the assets of a fund is delegated by the Trustees.

Investment - An asset acquired for the purpose of producing income and Capital Gain for its owner.

Independent Investment Adviser - A professionally qualified individual or company whose main livelihood is derived from providing objective, impartial Investment advice to companies, pension funds or individuals, for a stated fee.

Market Indicators –
(i) The movement in Stock market are monitored continuously by means of an Index made up of the current prices of a representative sample of stock.
(ii) Change in the rates at which currencies can be exchanged.

Market Value -The price at which an investment can be sold at a given date.

Out performance/Under performance - The difference in returns gained by a particular fund against an 'Average' Fund or an Index over a specified time period ie a Target for a fund may be out performance of a Benchmark over a 3-year period.

Passive Management - (also called Indexation/Index Tracking) A style of Investment Management which aims to construct a Portfolio in such a way as to provide the same Return as that of a chosen Index i.e. Stocks are purchased to be as representative as possible of the make-up of the Index. Contrasts with Active Management.

Performance - A measure, usually expressed in percentage terms, of how well a fund has done over a particular time period - either in absolute terms or as measured against the 'Average' Fund or a particular Benchmark.

Performance Measurement - A service designed to help investors evaluate the performance of their investments. This usually involves the comparison of a fund's performance with a selected Benchmark and/or with a universe of similar funds. The main Performance Measurement Companies are The WM Company, which the Dyfed Pension Fund uses, and CAPS.

Portfolio - A collective term for all the investments held in a fund, market or sector.

Preserved Benefits - The pension benefits payable from normal retirement age to a member of the Fund who has ceased to contribute as a result of leaving employment or opting out of the Pension scheme before normal retirement age.

Return - The total gain from holding an investment over a given period, including income and increase (decrease) in market value.

Risk - Generally taken to mean the Variability of Returns. Investments with greater risk must usually promise higher returns than more 'stable' investments before investors will buy them.

Transfer Value - Payments made between funds when contributors leave service with one employer and decide to take the value of their contributions to their new fund.

Unrealised Increase/Decrease In Market Value – The increase/(decrease) in market value, since the purchase date, of those investments held at the year end.