

## **Pwyllgor Cronfa Bensiwn**

**Lleoliad:** Ystafell Bwyllgor 6, Neuadd y Ddinas, Abertawe

**Dyddiad:** Dydd Iau, 12 Medi 2019

**Amser:** 10.00 am

**Cadeirydd:** Y Cyngorydd Clive Lloyd

**Aelodaeth:**

Cyngorwyr: J P Curtice, P Downing, M B Lewis, D G Sullivan a/ac W G Thomas

Aelod Cyfetholedig o Gyngor Castell-nedd Port Talbot: P Rees

Ymgynghorwyr: N Jellema, W Marshall a/ac N Mills

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### **Agenda**

**Rhif y Dudalen.**

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|----------|--|------------------|
| <b>1</b> | <b>Ymddiheuriadau am absenoldeb.</b>   |                  |
| <b>2</b> | <b>Datgeliadau o fuddiannau personol a rhagfarnol.</b><br><a href="http://www.abertawe.gov.uk/DatgeliadauBuddiannau">www.abertawe.gov.uk/DatgeliadauBuddiannau</a> |                  |
| <b>3</b> | <b>Cofnodion.</b><br>Cymeradwyo a llofnodi, fel cofnod cywir, gofnodion y cyfarfod(ydd) blaenorol.   | <b>1 - 8</b>     |
| <b>4</b> | <b>Adroddiad(au) Swyddfa Archwilio Cymru.</b>  |                  |
| a        | Adroddiad ISA 260.   | <b>9 - 24</b>    |
| b        | Cronfa Bensiwn Dinas a Sir Abertawe 2018-19 - Ymholiadau Archwilio i'r Rhai sy'n Gyfrifol am Lywodraethu a Rheoli.   | <b>25 - 36</b>   |
| <b>5</b> | <b>Adroddiad(au) Swyddog Adran 151.</b>  |                  |
| a        | Datganiad o Gyfrifon 2018/19 - Dinas a Sir Abertawe.   | <b>37 - 93</b>   |
| b        | Trosglwyddo Cyfraniadau Gwirfoddol Ychwanegol Equitable Life.  | <b>94 - 100</b>  |
| c        | Adroddiad yr Awdurdod Cystadleuaeth a Marchnadoedd.  | <b>101 - 104</b> |
| d        | System Weinyddu Altair.  | <b>105 - 110</b> |
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| <b>7</b> | <b>Diweddariad am Bartneriaeth Pensiwn Cymru.</b>  | <b>121 - 126</b> |

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| 8  | Adroddiad yr Ymgynghorydd Buddsoddi.   | 127 - 161 |
| 9  | Adroddiad gan yr Ymgynghorydd Annibynnol.  | 162 - 166 |
| 10 | Crynodeb Buddsoddi.  | 167 - 168 |
| 11 | <b>Cyflwyniad(au) Rheolwr y Gronfa:</b><br>Blackrock - Ecwitiâu Byd-eang - Cronfa Orlhain Carbon Isel. |           |

**Cyfarfod nesaf:** Dydd Iau, 21 Tachwedd 2019 ar 2.00 pm



**Huw Evans**  
**Pennaeth Gwasanaethau Democrataidd**  
**Dydd Iau, 5 Medi 2019**  
**Cyswllt: Gwasanaethau Democrataidd: - 636923**

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# Agenda Item 3



City and County of Swansea

## Minutes of the Pension Fund Committee

Guildhall, Swansea

Thursday, 11 July 2019 at 10.00 am

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

**Councillor(s)**

P Downing  
W G Thomas

**Councillor(s)**

M B Lewis  
J P Curtice

**Councillor(s)**

D G Sullivan

**Advisors**

N Jellema  
N Mills

Advisor - Hymans Robertson  
Independent Investment Advisor

**Officer(s)**

Karen Cobb  
Jeremy Parkhouse  
Jeffrey Dong

Senior Accountant  
Democratic Services Officer  
Interim Deputy Chief Finance Officer and Deputy S151  
Officer.  
Principal Lawyer

Stephanie Williams

**Apologies for Absence**

Councillor P Rees

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**1 Election of Vice Chair for the 2019-2020 Municipal Year.**

**Resolved** that Councillor P Downing be elected Vice Chair for the 2019-2020 Municipal Year.

**2 Disclosures of Personal and Prejudicial Interests.**

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

Councillor J P Curtice - agenda as a whole – member of the Local Government Pension Scheme - personal.

Councillor P Downing - agenda as a whole - my brother is a member of the Local Government Pension Scheme – personal.

Councillor M B Lewis - agenda as a whole – member of the Local Government Pension Scheme - personal.

Councillor C E Lloyd – agenda as a whole – Both myself and my father are members of the Local Government Pension Scheme - personal.

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

Councillor D G Sullivan - agenda as a whole – Daughter-In-Law is a member of the Local Government Pension Scheme and I am in receipt of a pension administered by the former Dyfed Council - personal.

Councillor W G Thomas - agenda as a whole – member of the Local Government Pension Scheme - personal.

**Officers:**

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

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

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

S Williams – Agenda as a whole – Member of Local Government Pension Scheme – personal.

**3 Minutes.**

**Resolved** that the Minutes of the Pension Fund Committee meeting held on 14 March 2019 be signed and approved as a correct record.

**4 Low Carbon Index Tracking Fund - Update.**

The Interim Section 151 Officer presented a 'for information' report which updated the Committee on the low carbon fund transition component of the Environmental, Social, Governance (ESG) Policy.

It was added that the Committee had taken a number of steps to understand the impact of ESG issues on the Fund and these were outlined in the report.

It was outlined that as part of the Fund's work, the Committee commissioned MSCI to undertake an analysis of the portfolio's carbon exposure. MSCI had information on each global stocks' carbon related exposure and was able to compare the carbon exposure of the Fund's holdings with a range of reference benchmarks. The results of the study indicated that the current portfolio was 9% underweight carbon assets. The Committee agreed to target a 50% underweight position by 2022 in its revised ESG Policy and the most operationally efficient way to start to reach its target was via a low carbon passive index. The Pension Fund Committee previously approved the transition of its approximately £0.5bn Blackrock market cap weighted index tracking equity assets into the Blackrock Low Carbon Index tracking fund, which

would go a considerable way in meeting its commitment to reduce the fund's carbon footprint by 50% by 2022. Transition of those assets commenced on the 3 July 2019 and would be completely transitioned by the end of the month.

In addition, at the Swansea Council meeting held on 27 June 2019, a notice of motion declaring a climate emergency was approved. Within the notice of motion the ground breaking work and commitment of the Pension Fund Committee to reduce its carbon footprint was referenced. Appendix 1 of the report provided the Environmental, Social, Governance Policy which had been formulated as a result of the initial training, further information gathering, receiving presentations from interest groups and subsequent Committee discussion and decision-making.

The Committee commented upon the positive progress made and the ambition to reduce 50% of the Fund's carbon footprint by 2022, whilst still ensuring appropriate investment returns for the Fund's members.

## **5 Wales Pension Partnership (WPP) Draft Responsible Investment Policy.**

The Interim Deputy Section 151 Officer presented a report which sought approval of the Responsible Investment Policy (RI) of the Wales Pension Partnership (WPP).

It is recognised as best practice that WPP had a clearly defined RI Policy which could be implemented across its funds. It had been noted that each member fund of WPP were at different stages of their consideration of the whole ESG/RI agenda. The WPP Policy was therefore formulated with a view to not tying an individual fund to a restrictive or binding commitment. Appendix 1 contained the RI Policy of the WPP.

**Resolved** that the WPP RI Policy is approved.

## **6 2019 Audit Plan – City and County of Swansea Pension Fund.**

The Interim Deputy Section 151 Officer presented the Wales Audit Office (WAO) 2019 Audit Plan which provided the proposed audit work, when it would be undertaken, how much it would cost and who would undertake it.

Appendix 1 sets out the responsibilities of the Auditor, along with those of management and those charged with governance. Exhibit 1 provided the three phases of the audit approach, Exhibit 2 outlined the risks considered significant which required special audit consideration. The proposed audit fee for this work was set out in Exhibit 3 and the timetable of the proposed audits was provided at Exhibit 5. Audit fieldwork was ongoing and a the ISA 260 outlining audit findings/recommendations would be brought to Committee in September 2019

**Resolved** that the contents of the report be noted.

## **7 Draft Statement of Accounts 2018/19.**

The Interim Deputy Section 151 Officer presented a report which sought approval of the draft statement of accounts for the City & County of Swansea Pension Fund 2018/19.

It was added that the Wales Audit Office (WAO) had commenced their audit of the Pension Fund Draft Statement of Accounts 2018/19 in line with their audit plan presented to Pension Fund Committee earlier in the year. Their report will be presented to the Committee in September 2019. The Draft Statement of Accounts 2018/19 were provided at Appendix 1.

The Committee discussed the following: -

- Additional membership due to auto enrolment;
- Positive performance of the Fund;
- Reduction of equity allocation;
- Impact of the Mc Cloud judgement.

**Resolved** that the City & County of Swansea Pension Fund Draft Statement of Accounts 2018/19, which are subject to audit, be approved.

## **8 Admission Body Application - The Wallich.**

The Interim Deputy Section 151 Officer presented a report which sought to approve the admission body application for The Wallich.

It was outlined that following a service review exercise by Neath Port Talbot County Borough Council (NPT CBC) undertaken previously, Tai Tarian (previously called Neath Port Talbot Homes) were appointed to manage housing services on behalf of NPTCBC. An element of that service supported those affected by homelessness had subsequently been re-tendered and The Wallich had been appointed for a 3 year term.

The Wallich, a genuine not for profit organisation with HMRC approved exempt charity status, had been providing accommodation and support services for homeless people since 1978. The contract for services commenced on the 1<sup>st</sup> July 2017 to run for 3 years.

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

The admission agreement requires the requisite indemnity bond or sponsoring employer guarantee be secured from the sponsoring employer, Neath Port Talbot

County Borough Council. The Administering Authority shall also undertake the appropriate risk assessment of the admitted body, The Wallich.

The Committee discussed the details of the application.

**Resolved** that: -

- 1) The Admission Body Application of The Wallich, subject to completion of a satisfactory Admission Agreement (which recognises the start date of the contract), be approved;
- 2) The Deputy Chief Finance Officer be given delegated authority to finalise the Admission Agreement with appointed legal advisors, as outlined in the report.

## **9 Breaches.**

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

Appendix A provided the details of breaches that occurred since the previous Pension Fund Committee in March 2019, including a new requirement in respect of frozen refunds. The details of the breaches and the actions taken by Management were highlighted.

## **10 Trustee Training.**

The Interim Deputy Section 151 Officer presented a report to determine an annual training programme for Trustees and Officers of the Pension Fund.

Paragraph 3.7 of the report provided the training completed in 2018/19 and outlined the proposed training for 2019/20 as follows: -

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

Paragraph 3.8 outlined that the determination of the training requirements for officers be delegated to the Deputy Section 151 Officer.

Noted – Councillor M B Lewis stated that he would only attend local training events.

**Resolved** that: -

- 1) The outline training plan in 3.7 and 3.8 be approved;
- 2) Further opportunities identified during the year be delegated to the Interim Deputy Section 151 Officer for approval.

**11 MHCLG Consultations on Exit Payment Cap and Valuation Cycle / Employer Risk.**

The Interim Deputy Section 151 Officer presented a report which sought retrospective approval of the response to H M Treasury (HMT) and The Ministry of Housing Communities and Local Government (MHCLG) Consultation on the Cap on Exit Payments and Valuation Cycle and Reform.

It was outlined that the Government proposed to cap exit payments in the public sector to an absolute limit of £95k and sought consultation on the regulations to implement. The draft statutory instrument and consultation response was provided at Appendix 1.

The Government's definition of an exit payment included any additional pension contributions required to enable the unreduced early access to a member's benefits when they were subject to early retirement when made redundant at aged 55 or over. To clarify, the exit payment would include redundancy (member received cash payment) and any additional pension contributions (the pension fund receives the payment). The arbitrary limit of £95k would encompass very modestly paid public sector workers who have long service and a number of variables along the way as highlighted within the proposed response.

The remainder of the response identified technical issues relating to how the 2 components of the exit payment cap needed to be assessed and dealt with, plus some of the weaknesses of the proposal. The response was approved by the Chair of the Pension Fund Committee on the 2 July 2019.

In addition, the MHCLG issued consultation on proposals to vary the current 3 year valuation cycle, proposals regarding exit payments and protecting rights of membership of employees of certain employers. The fund's appointed actuary had provided the response to the consultation which was provided at Appendix 2.

**Resolved** that: -

- 1) The Pension Fund Committee retrospectively approves the consultation response of the Administering Authority in respect of the cap on exit payments.
- 2) The Pension Fund Committee approves the consultation response of the fund's appointed actuary in respect of the Valuation Cycle and Reform.

**12 Exclusion of the Public.**

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



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

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

**(Closed Session)**

**13 Fund Manager's Presentation(s):**

A presentation was made by Aidan Quinn, Sasha Mandich, Yacine Zerizef and William Pearce of Russell Investments.

Questions in relation to the content of the presentation were asked by the Committee and responses were provided accordingly.

The content of the presentation was noted and the Chair thanked the Fund Managers for attending the meeting.

**14 WPP - Update.**

The Interim Deputy Section 151 Officer presented a 'for information' report which updated the Committee on the progress of the Wales Pension Partnership asset pooling.

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

Referenced within the update was the projected approval of the tranche 3 fixed income fund by the FCA in Q4 2019.

**15 Residential Housing as an Asset Class.**

The Interim Deputy Section 151 Officer presented a report which sought to approve Residential Housing as an investment asset class.

It was outlined that the Pension Fund currently invested in a wide range of asset classes, including equities, bonds, property, infrastructure, private equity, hedge funds and private debt. However, It did not have an allocation to residential housing.

It was added that the Pension Fund Committee received a day's training on the asset class in February 2019, which included presentations from managers specialising in the market rented sector, social housing, affordable housing and homelessness support housing as investable asset classes.

Appendix 1 provided a summary of the attributes and benefits of adopting residential housing as an asset class.

The Committee discussed structuring the procurement exercise to target certain types of residential housing, the possibility localising matters to benefit the local economy.

The Deputy Section 151 Officer stated that he would seek further advice from the Fund's Investment Consultant / Independent Advisor.

**Resolved** that Residential Housing is adopted as an investment asset class.

**16 Report of the Investment Consultant.**

Nick Jellema, Investment Consultant provided a 'for information' report, which presented the asset valuation and investment performance for the quarter, year and 3 years ended 30 June 2019.

Attached at Appendix 1 were the quarterly investment summaries for the Pension Fund for the quarter, year and 3 years ended 30 June 2019.

**17 Report(s) of the Independent Advisor.**

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

The quarterly report ending 30 June 2019 was attached at Appendix 1.

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

**18 Investment Summary.**

The Interim Deputy Section 151 Officer provided a "For Information" report, which presented the investment performance for the quarter, year and 3 years ended 30 September 2018.

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

**Resolved** that the report be noted.

The meeting ended at 1.00 pm

**Chair**



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru  
Auditor General for Wales

## Audit of Financial Statements Report – **City and County of Swansea Pension Fund**

Audit year: 2018-19

Date issued: September 2019

Document reference: **1486A2019-20**

This document has been prepared as part of work performed in accordance with statutory functions.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000.

The section 45 code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor General for Wales and the Wales Audit Office are relevant third parties. Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at

[infoofficer@audit.wales](mailto:infoofficer@audit.wales).

We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

The team who delivered the work comprised Anthony Veale, Jason Garcia, David Williams and the City and County of Swansea audit team.

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The Auditor General intends to issue an unqualified audit report on your financial statements. There are some issues to report to you prior to their approval.

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# Summary report

## Introduction

- 1 The Auditor General is responsible for providing an opinion on whether the financial statements give a true and fair view of the financial position of City and County of Swansea Pension Fund (the Pension Fund) at 31 March 2019 and its Fund Account for the year then ended.
- 2 We do not try to obtain absolute assurance that the financial statements are correctly stated, but adopt the concept of materiality. In planning and conducting the audit, we seek to identify material misstatements in your financial statements, namely, those that might result in a reader of the accounts being misled.
- 3 The quantitative levels at which we judge such misstatements to be material for the Pension Fund are £20.4 million. Whether an item is judged to be material can also be affected by certain qualitative issues such as legal and regulatory requirements and political sensitivity.
- 4 International Standard on Auditing (ISA) 260 requires us to report certain matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
- 5 This report sets out for consideration the matters arising from the audit of the financial statements of the Pension Fund, for 2018-19, that require reporting under ISA 260. A separate report has been issued covering the City and County of Swansea (including its Group).

## Status of the audit

- 6 We received the draft financial statements for the year ended 31 March 2019 on 21 May 2019 prior to the agreed deadline of 3 June 2019. Whilst we have completed the majority of our audit work at the time of drafting this report, the final review of the audit file is to be completed.
- 7 We are reporting to you the more significant issues arising from the audit, which we believe you must consider prior to approval of the financial statements. The audit team has already discussed these issues with the Chief Finance Officer.

## Proposed audit report

- 8 It is the Auditor General's intention to issue an unqualified audit report on the financial statements once you have provided us with a Letter of Representation based on that set out in [Appendix 1](#).
- 9 The proposed audit report is set out in [Appendix 2](#).

## Significant issues arising from the audit

### Uncorrected misstatements

- 10 There are no misstatements identified in the financial statements, which remain uncorrected.

### Corrected misstatements

- 11 There are misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process. They are set out with explanations in [Appendix 3](#).
- 12 'Note 18 - Statement of the Actuary' has been amended to include disclosures relating to two recent legal judgements. The draft financial statements were prepared before the Supreme Court denied the Government's application for leave to appeal the legal judgement about age discrimination in public sector pension schemes, including the local government pension scheme. These changes surrounded a move from final salary to a career average basis and is referred to as the McCloud judgement.
- 13 There has also recently been a judgement which held that pension schemes must adjust scheme benefits to remove gender inequalities caused by Guaranteed Minimum Pensions (GMPs) earned in the period 17 May 1990 to 5 April 1997.
- 14 The Pension Fund was required to assess the actuarial present value of promised retirement benefits and these recent rulings will impact on the amounts reported within this assessment. The Fund reports the pension liability as at the 2016 valuation (the most recent actuarial valuation) and does not report rolled forward liabilities. Management's view is that since this estimate is based on the 2016 actuarial valuation the estimate is not sufficiently certain or accurate to be included in the 2018-19 core financial statements.
- 15 Consequently, Note 18 has been amended and contains additional information in respect of these matters. In summary, based on actuarial advice, the Pension Fund has estimated there would be a potential increase in the actuarial present value of promised benefits of around £50 million relating to the McCloud judgement and around £10 million for the GMP equalisation judgement.
- 16 We have reviewed and challenged the supporting assumptions and calculations made by management and we acknowledge the significant uncertainties relating to this estimation of the impact on the Pension Fund's liability. We are satisfied that the disclosure made by management is appropriate given the uncertainties surrounding the estimate.

## Other significant issues arising from the audit

17 In the course of the audit, we consider a number of matters both qualitative and quantitative relating to the accounts and report any significant issues arising to you. There were no issues arising in these areas this year:

- **We have no concerns about the qualitative aspects of your accounting practices and financial reporting.**

We found the financial statements were compiled to a good standard. We found the information provided to be relevant, reliable, comparable, material and easy to understand. We concluded that accounting policies and estimates are appropriate and financial statement disclosures unbiased, fair and clear.

- **We did not encounter any significant difficulties during the audit.**

We received information in a timely and helpful manner and were not restricted in our work.

- **There were no significant matters discussed and corresponded upon with management which we need to report to you.**

- **There are no other matters significant to the oversight of the financial reporting process that we need to report to you.**

- **We did not identify any material weaknesses in your internal controls.**

However, we did identify that controls over the year-end reconciliations between pension and payroll systems can be further improved. Further details are set out in [Appendix 4](#).

- **There are not any other matters specifically required by auditing standards to be communicated to those charged with governance.**

## Recommendations arising from our 2018-19 financial audit work

18 The recommendations arising from our financial audit work are set out in [Appendix 4](#). Management has responded to them and we will follow up progress on them during next year's audit. Where any actions are outstanding, we will continue to monitor progress and report it to you in next year's report.

## Independence and objectivity

19 As part of the finalisation process, we are required to provide you with representations concerning our independence.

20 We have complied with ethical standards and in our professional judgment, we are independent and our objectivity is not compromised. There are no relationships between the Wales Audit Office and the Pension Fund that we consider to bear on our objectivity and independence.



# Appendix 1

## Final Letter of Representation

Auditor General for Wales  
Wales Audit Office  
24 Cathedral Road  
Cardiff  
CF11 9LJ

12 September 2019

### Representations regarding the 2018-19 financial statements

This letter is provided in connection with your audit of the financial statements of City and County of Swansea Pension Fund for the year ended 31 March 2019 for the purpose of expressing an opinion on their truth and fairness and their proper preparation.

We confirm that to the best of our knowledge and belief, having made enquiries as we consider sufficient, we can make the following representations to you.

### Management representations

#### Responsibilities

We have fulfilled our responsibilities for:

- the preparation of the financial statements in accordance with legislative requirements and CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom UK 2018-19; in particular the financial statements give a true and fair view in accordance therewith; and
- the design, implementation, maintenance and review of internal control to prevent and detect fraud and error.

#### Information provided

We have provided you with:

- Full access to:
  - all information of which we are aware that is relevant to the preparation of the financial statements such as books of account and supporting documentation, minutes of meetings and other matters;
  - additional information that you have requested from us for the purpose of the audit; and

- unrestricted access to staff from whom you determined it necessary to obtain audit evidence.
- The results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- Our knowledge of fraud or suspected fraud that we are aware of and that affects the Pension Fund and involves:
  - management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the financial statements.
- Our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others.
- Our knowledge of all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
- The identity of all related parties and all the related party relationships and transactions of which we are aware.

#### Financial statement representations

All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the financial statements.

Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

Related party relationships and transactions have been appropriately accounted for and disclosed.

All events occurring subsequent to the reporting date which require adjustment or disclosure have been adjusted for or disclosed.

All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

All contingent liabilities have been identified and properly assessed. Contingent liabilities are considered to be not material to the financial statements.

The financial statements are free of material misstatements, including omissions.

## Representations by the City and County of Swansea

We acknowledge that the representations made by management, above, have been discussed with us.

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were approved by the Pension Fund Committee on 12 September 2019.

We confirm that we have taken all the steps that we ought to have taken in order to make ourselves aware of any relevant audit information and to establish that it has been communicated to you. We confirm that, as far as we are aware, there is no relevant audit information of which you are unaware.

Signed by:

Chief Finance Officer (S151 Officer)

Date: 12 September 2019

Signed by:

Chair of the Pension Fund Committee –  
signed on behalf of those charged with  
governance

Date: 12 September 2019

# Appendix 2

## The report of the Auditor General to the Members of the City and County of Swansea as administering authority for the City and County of Swansea Pension Fund

### Report on the audit of the financial statements

#### Opinion

I have audited the financial statements of the City and County of Swansea Pension Fund for the year ended 31 March 2019 under the Public Audit (Wales) Act 2004. The City and County of Swansea Pension Fund's financial statements comprise the fund account, the net assets statement and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2018-19 based on International Financial Reporting Standards (IFRSs).

In my opinion the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2019, and of the amount and disposition at that date of its assets and liabilities; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018-19.

#### Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report.

I am independent of the pension fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Conclusions relating to going concern

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

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the responsible financial officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the pension fund's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

### Other information

The responsible financial officer is responsible for the other information in the City and County of Swansea Pension Fund 2018-19 financial statements. The other information comprises the information included in the Introduction and Appendices 1 to 5 of the financial statements. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my report, I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

## Report on other requirements

### Opinion on other matters

In my opinion, based on the work undertaken in the course of my audit:

- the information contained in the Introduction and Appendices 1-5 for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which I report by exception

I have nothing to report in respect of the following matters, which I report to you, if, in my opinion:

- adequate accounting records have not been kept;
- the financial statements are not in agreement with the accounting records and returns; or

- I have not received all the information and explanations I require for my audit.

## Certificate of completion of audit

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

## Responsibilities

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

As explained more fully in the Statement of Responsibilities for the financial statements set out on page 2, the responsible financial officer is responsible for the preparation of the financial statements, which give a true and fair view, and for such internal control as the responsible financial officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

24 Cathedral Road  
Cardiff  
CF11 9LJ

# Appendix 3

## Summary of corrections made to the draft financial statements

During our audit we identified the following misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process.

### Exhibit 1: summary of corrections made to the draft financial statements

Value of correction	Nature of correction
Revised actuarial statement – Note 18 (Page 25)	A revised actuarial statement has been included in the final statement of accounts as a result of the actuarial advice received following two recent legal judgements: <b>McCloud judgement</b> - the actuary has assessed that based on an approximate assessment as at 31 March 2019, there would be a potential increase in the actuarial present value of promised benefits of around £50 million for the Fund. <b>GMP Equalisation and Indexation</b> - the actuary has assessed that based on an approximate assessment as at 31 March 2019, there would be a potential increase in the actuarial present value of promised benefits of around £10 million for the Fund.
+£6,978,773	The HarbourVest private equity fund was undervalued by £6,978,773 in the draft financial statements. Due to HarbourVest's 90-day reporting period, the Council used an estimated figure provided by HarbourVest. This amendment increased the value of investments in the Net Assets Statement by £6,978,773.
+£4,461,575	Transition costs relating to the Wales Pension Partnership had not been correctly treated in line with CIPFA guidance. This amendment increased the net return on investment figure shown in the Fund Account but had no impact on the closing net assets of the Fund.
Various – membership statistics	Membership statistics in Note 21 of the draft financial statements were decreased by 1,455 to correct the pensioners' figure. The reports used to compile the membership figures included unfunded teachers' pensions. These should have been excluded.
Various – other	Various other minor presentational amendments were made to the draft financial statements.

# Appendix 4

## Recommendation arising from our 2018-19 financial audit work

We set out all the recommendations arising from our audit with management's response to them. We will follow up these next year and include any outstanding issues in next year's audit report:

### Exhibit 2: recommendation arising from our 2018-19 financial audit work

Matter arising 1 – Membership Numbers	
<b>Findings</b>	<p>As reported in previous years, there was a net difference of 381 member numbers between the closing 2017-18 balance as reported in last year's audited financial statements and the opening balance for 2018-19. as detailed by the membership numbers report produced from the pensions system (Note 21).</p> <p>Information is received from admitted and scheduled bodies periodically and this information is sometimes delayed and results in amendments to prior-year membership numbers.</p> <p>The difference identified has been caused by information being submitted by some admitted or scheduled bodies late.</p> <p>Admitted and scheduled bodies have been requested to provide membership data promptly to the Pension Fund to ensure that membership numbers recorded on the pension database were accurate.</p>
<b>Recommendation</b>	<p>The Council should remind all external bodies of the importance of providing accurate and timely information to the administration team to ensure the accuracy of the figures within the Pension Fund database.</p>
<b>Accepted in full by management</b>	<p>Agreed</p>
<b>Management response</b>	<p>The Administration Authority continues to try to improve the information/data flow from employers to the scheme administrator. Improvements include the rollout of i-connect to smaller employers and continued training to remind employers of their responsibilities. The goal of ensuring data is entirely accurate for 'cut-off' purposes, as at 31 March, shall always remain a challenge.</p>
<b>Implementation date</b>	<p>Immediate</p>





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# Agenda Item 4b

Archwilydd Cyffredinol Cymru  
Auditor General for Wales

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Mr Ben Smith  
Chief Finance Officer  
City and County of Swansea Council  
Civic Centre  
Oystermouth Road  
Swansea  
SA1 3SN

Reference	CarmCC
Date	9 <sup>th</sup> April 2019
Pages	1 of 7

Dear Ben

## City and County of Swansea Pension Fund 2018-19

### Audit enquiries to those charged with governance and management

As you will be aware I am required to conduct my financial audit in accordance with the requirements set out in International Standards on Auditing (ISAs). As part of the requirements of the ISAs I am writing to you to formally seek your documented consideration and understanding on a number of governance areas that impact on my audit of your financial statements. These considerations are relevant to both the Pension Fund's management and 'those charged with governance'

I have set out below the areas of governance on which I am seeking your views.

#### 1. Management processes in relation to:

- undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud;
- identifying and responding to risks of fraud in the organisation;
- communication to employees of views on business practice and ethical behaviour; and
- communication to those charged with governance the processes for identifying and responding to fraud.

2. Management's awareness of any actual or alleged instances of fraud.
3. How management gain assurance that all relevant laws and regulations have been complied with.
4. Whether there is any potential litigation or claims that would affect the financial statements.
5. Management processes to identify, authorise, approve, account for and disclose related party transactions and relationships.

The information you provide will inform our understanding of the Pension Fund and its business processes and support our work in providing an audit opinion on your 2018-19 financial statements.

I have attached the responses you provided for 2017-18 and would be grateful if you could update these to reflect your current arrangements. Could you please provide this information on behalf of both management and those charged with governance by 28<sup>th</sup> June 2019. In the meantime, if you have queries, please contact me on 07792 015416

Yours sincerely

Jason Garcia  
Audit Manager

## Appendix A

### International Standard for Auditing (UK and Ireland) 240 – The auditor's responsibilities relating to fraud in an audit of financial statements

#### Background

Under the ISA, the primary responsibility for preventing and detecting fraud rests with both management and 'those charged with governance', which for the Pension Fund is the Pension Committee. This includes fraud that could impact on the accuracy of the annual accounts. The ISA requires us, as external auditors, to obtain an understanding of how the Pension Fund exercises oversight of management's processes for identifying and responding to the risks of fraud and the internal controls established to mitigate them.

What is 'fraud' in the context of the ISA? The ISA views fraud as either:

- the intentional misappropriation of the Pension Fund's assets (cash, property, etc); or
- the intentional manipulation or misstatement of the financial statements.

#### What are we required to do?

We have to obtain evidence of how management and those charged with governance are discharging their responsibilities if we are to properly discharge our responsibilities under ISA240. We are therefore making requests from both management and the Pension Committee:

Enquiries of management	
Question	2018-19 Response
1) What is management's assessment of the risk that the financial statements may be materially misstated due to fraud and what are the principle reasons?	<p>The assessed risk is Low/Minimal due to the following mitigating factors</p> <ul style="list-style-type: none"><li>• Continuity of professionally qualified staff preparing the financial statements</li><li>• Robust framework of internal control (CPRs, FPRs, Als)</li><li>• Appropriate segregation of duties for appropriate key roles.</li><li>• Internal audit reviews of key systems in year.</li><li>• Regular national fraud initiative ( NFI ) data matching</li></ul>

	<ul style="list-style-type: none"> <li>• Review Interim Deputy S151 &amp; S151 Officer</li> </ul>
2) How can management assure the Pension Committee that it has not been inappropriately influenced by external pressures?	<ul style="list-style-type: none"> <li>• Independence of Monitoring Officer and S151 officer</li> <li>• Direct reporting channels to Cabinet/Council Regulators</li> <li>• Direct reporting channels to CEO</li> <li>• The Council's and The Pension Regulators' whistleblowing Policy</li> <li>• Statutory Chief Officers are equal members of CMT.</li> </ul>
3) Are management aware of any organisational pressure to meet revenue and capital budgets or other financial constraints?	<ul style="list-style-type: none"> <li>• Yes – the entire public sector in Wales is subject to significant constraint in terms of likely future real terms resource availability. The Council has published three year medium term financial plan looking for savings in the region of £64m. This is considered a statement of projected fact/expectation for the Council as a whole.</li> <li>• There is no pressure to achieve a certain outcome beyond that which would be reasonably expected. There is an appropriate management and Executive action to contain spending to within a balanced budget position. Appropriate resourcing for the pension fund is considered by the management and the pension fund committee in the context of the Council's obligations as the Administering Authority of the scheme. The current assets of the pension fund are maintained in a separate bank account.</li> <li>• The Pension Fund is part of the Wales Pension Partnership project, a projected outcome of which shall be reduced operational fees and improved investment outcomes with enhanced opportunities to invest in scalable infrastructure projects.</li> </ul>
4) What processes are employed to identify and respond to the risks of fraud more generally and specific risks of misstatement in the financial statements?	<ul style="list-style-type: none"> <li>• Management review of all accounting statements.</li> <li>• Internal audit function of key financial systems</li> <li>• Breaches reporting</li> <li>• The Pensions Regulator</li> <li>• National fraud initiative (NFI) screening and Atmos mortality screening</li> <li>• Third Party data quality assessment</li> <li>• Review by Pension Fund Committee and Audit Committee</li> <li>• Consistency/experience of professionally qualified staff working on financial statements both in terms of central consolidation but also individually as professionals so sufficient segregation of</li> </ul>

	<p>duties and professional oversight/check.</p> <ul style="list-style-type: none"> <li>• Review by S151 officer &amp; Interim Deputy S151 Officer</li> </ul>
5) How has management communicated expectations of ethical governance and standards of conduct and behaviour to all relevant parties, and when?	<p>Separate, but complementary Staff and Member Codes of Conduct are published and well publicised on the intranet.</p> <p>Professionally qualified members of staff ( both financial and pensions) are bound by their respective professional body's codes of conduct and professional standards.</p>
6) What arrangements are in place to report about fraud to those charged with governance?	<ul style="list-style-type: none"> <li>• Right of Chief Internal Auditor and/or S151 to report to Audit Committee.</li> <li>• Audit Committee/ Pension Fund Committee/ Local Pension Board</li> <li>• Right of Chief Internal Auditor and S151 officer to report directly to CEO on any material concern.</li> <li>• Whistleblowing Policy</li> <li>• Material individual concerns communicated by S151 to relevant member of CMT.</li> <li>• Escalation to The Pension Regulator</li> </ul>
<b>Enquiries of those charged with governance</b>	
<b>Question</b>	<b>2018-19 Response</b>
1) How do those charged with governance, exercise oversight of management's processes for identifying and responding to the risks of fraud within the Pension Fund and the internal control that management has established to mitigate those risks?	<ul style="list-style-type: none"> <li>• Provision of a well-resourced Internal Audit section.</li> <li>• Audit Committee.</li> <li>• Independent Audit Committee Chair.</li> <li>• Pension Fund Committee</li> <li>• Local Pension Board</li> <li>• Pension Regulator</li> <li>• Contract Procedure rules</li> </ul>

	<ul style="list-style-type: none"> <li>• Financial Procedure rules</li> <li>• Risk register</li> </ul>
2) Have those charged with governance knowledge of any actual, suspected or alleged fraud since 1 April 2018?	No material items reported or known - ongoing investigations of a range of cases is “normal business” and shared with internal/external audit as necessary e.g. deceased members
3) Have those charged with governance any suspicion that fraud may be occurring within the organisation?	No known cases reported – again “normal business” is such that there are isolated risks in an organisation of this scale. There is a resourced corporate fraud team under the Chief Internal Auditor to review and report on individual cases
4) Are those charged with governance satisfied that internal controls, including segregation of duties, exist and work effectively? If ‘yes’, please provide details. If ‘no’ what are the risk areas?	<ul style="list-style-type: none"> <li>• Yes.</li> <li>• Financial Procedure rules</li> <li>• Contract Procedure rules</li> <li>• Oracle Workflow rules requiring separate sign off of transactions above threshold levels</li> <li>• Segregation of duties re. administration duties and finance duties in relation to the fund</li> <li>• Routine internal audit of key financial systems</li> </ul>
5) How do you encourage staff to report their concerns about fraud and what concerns about fraud are staff expected to report?	<ul style="list-style-type: none"> <li>• Anti fraud and corruption policy</li> <li>• Disciplinary Policy</li> <li>• Whistleblowing Policy</li> <li>• Fraud/Whistleblowing hotline/intranet/online forms</li> <li>• Pensions Regulator hotline</li> </ul>
6) From a fraud and corruption perspective, what are considered by those charged with governance to be high risk posts within the	<ul style="list-style-type: none"> <li>• Chief Officers and Heads of Service Posts</li> <li>• A range of other senior posts</li> <li>• Finance posts above Grade 10</li> </ul>



organisation and how are the risks relating to these posts identified, assessed and managed?	<ul style="list-style-type: none"> <li>• DBS checks on high risk posts</li> <li>• Contract Procedure Rules</li> <li>• Financial Procedure Rules</li> <li>• Accounting Instructions</li> <li>• Segregation of duties</li> </ul>
7) Are those charged with governance aware of any related party relationships or transactions that could give rise to instances of fraud and how do they mitigate the risks associated with fraud related to related party relationships and transactions?	<p>No ( save that Swansea Council is an employer within the fund)</p> <p>The previously mentioned management controls exist to mitigate any extant risks</p>
8) Are those charged with governance aware of any entries made in the accounting records of the organisation that it believes or suspects are false or intentionally misleading?·	No
9) Are those charged with governance aware of any organisational, or management pressure to meet revenue and capital budgets or other financial constraints?	<ul style="list-style-type: none"> <li>• Yes – the entire public sector in Wales is subject to significant constraint in terms of likely future real terms resource availability. The Council has published three year medium term financial plan looking for savings in the region of £64m. This is considered a statement of projected fact/expectation for the Council as a whole.</li> <li>• There is no pressure to achieve a certain outcome beyond that which would be reasonably expected. There is an appropriate management and Executive action to contain spending to within a balanced budget position. Appropriate resourcing for the pension fund is considered by the management and the pension fund committee in the context of the Council's obligations as the Administering Authority of the scheme. The current assets of the pension fund are maintained in a separate bank account.</li> <li>• The Pension Fund is part of the Wales Pension Partnership project, a projected outcome of which shall be reduced investment management fees and improved investment outcomes with increased</li> </ul>

	opportunities and capacity to invest in scalable infrastructure projects both in the UK and abroad.
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## International Standard for Auditing (UK and Ireland) 250 – Consideration of laws and regulations in an audit of financial statements

### Background

Under the ISA, in the UK and Ireland, the primary responsibility for ensuring that the entity's operations are conducted in accordance with laws and regulations and the responsibility for the prevention and detection of non compliance rests with management and 'those charged with governance', which for the Pension Fund is the Pension Committee. The ISA requires us, as external auditors, to obtain an understanding of how the Pension Fund gains assurance that all relevant laws and regulations have been complied with.

### What are we required to do?

We have to obtain evidence of how management and those charged with governance are discharging their responsibilities, if we are to properly discharge our responsibilities under ISA 250. We are therefore making requests from both management and the Pension Committee:

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Enquiries of management	
Question	2018-19 Response
1) How have you gained assurance that all relevant laws and regulations have been complied with?	<p>The Council Constitution specifies specific officer delegation in respect of proper officer arrangements for procurement, contracting and entering into legal agreements. There is legal and finance sign off and clearance for all pension fund committee reports. There is also a robust system of management internal control which requires adherence to</p> <ul style="list-style-type: none"><li>• Contract procedure rules</li><li>• Financial procedure rules</li><li>• Accounting Instructions</li><li>• The Pension Regulator</li><li>• LGPS Regulations ( Admin and Investment)</li><li>• Accounting Code of Practice 2018/19</li></ul>

2) Are there any potential litigations or claims that would affect the financial statements?	Potentially yes - given the extent of the investment portfolio, there may be ongoing corporate actions involving stock holdings within the entire portfolio where we could be affected but not directly involved in the litigation as lead plaintiff.
<b>Enquiries of those charged with governance</b>	
<b>Question</b>	<b>2018-19 Response</b>
1) Have those charged with governance, exercise oversight of management's processes to ensure that all relevant laws and regulations have been complied with?	All formal reports to Pension Fund Committee/Council require legal, access to services and finance sign off .
2) Are those charged with governance aware of any non-compliance with relevant laws and regulations?	No ( save for reporting of operational breaches to pension fund committee on a quarterly basis)
3) If there have been instances of non-compliance what are they, and what oversight have those charged with governance had to ensure that action taken by management to address and gaps in control?	Not applicable

## International Standard for Auditing (UK and Ireland) 550 – Related parties

### Background

The nature of related party relationships and transactions may, in some circumstances, give rise to higher risks of material misstatement of the financial statements than transactions with unrelated parties. For example:

- Related parties may operate through an extensive and complex range of relationships and structures, with a corresponding increase in the complexity of related party transactions.
- Information systems may be ineffective at identifying or summarising transactions and outstanding balances between an entity and its related parties.
- Related party transactions may not be conducted under normal market terms and conditions; for example, some related party transactions may be conducted with no exchange of consideration.

As related parties are not independent of each other, many financial reporting frameworks establish specific accounting and disclosure requirements for related party relationships, transactions and balances to enable users of the financial statements to understand their nature and actual or potential effects on the financial statements. An understanding of the entity's related party relationships and transactions is relevant to the auditor's evaluation of whether one or more fraud risk factors are present as required by ISA (UK and Ireland) 240, because fraud may be more easily committed through related parties.

### What are we required to do?

Where the applicable financial reporting framework establishes requirements for related parties, the auditor has a responsibility to perform audit procedures to identify, assess and respond to the risks of material misstatement arising from the entity's failure to appropriately account for or disclose related party relationships, transactions or balances in accordance with the requirements of the framework. We are therefore making requests from both management and the Pension Committee:

Enquiries of management	
Question	2018-19 Response
1) What controls are in place to identify, authorise, approve, account for and disclose	Material related parties transactions are regular and known and appropriate disclosures are made in the financial statements.

related party transactions and relationships?	Third party contracted relationships are subject to the Council's CPRs and OJEU regulation where applicable
<p>2) Confirm that you have:</p> <ul style="list-style-type: none"> <li>disclosed to the auditor the identity of the entity's related parties and all the related party relationships and transactions of which you are aware; and</li> <li>appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the framework.</li> </ul>	<p>Yes</p> <p>Yes</p>
<b>Enquiries of those charged with governance</b>	
<b>Question</b>	<b>2018-19 Response</b>
1) How do those charged with governance exercise oversight of management's processes to identify, authorise, approve, account for and disclose related party transactions and relationships?	This is delegated to the S151 officer through control processes. Necessary and appropriate disclosures are made in the statement of accounts which is reviewed and approved by The Pension Fund Committee



## Report of the Section 151 Officer

Pension Fund Committee – 12 September 2019

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

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

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

#### 1 Background

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

#### 2 Audit

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

### **3 Recommendation**

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

### **4 Legal Implications**

- 4.1 There are no legal implications arising from this report

### **5 Financial Implications**

- 5.1 There are no financial implications arising from this report

### **6 Equality and Engagement Implications**

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

**Background Papers:** None.

**Appendices:** Appendix 1 – Statement of Accounts 2018/19.





# CITY & COUNTY OF SWANSEA PENSION FUND

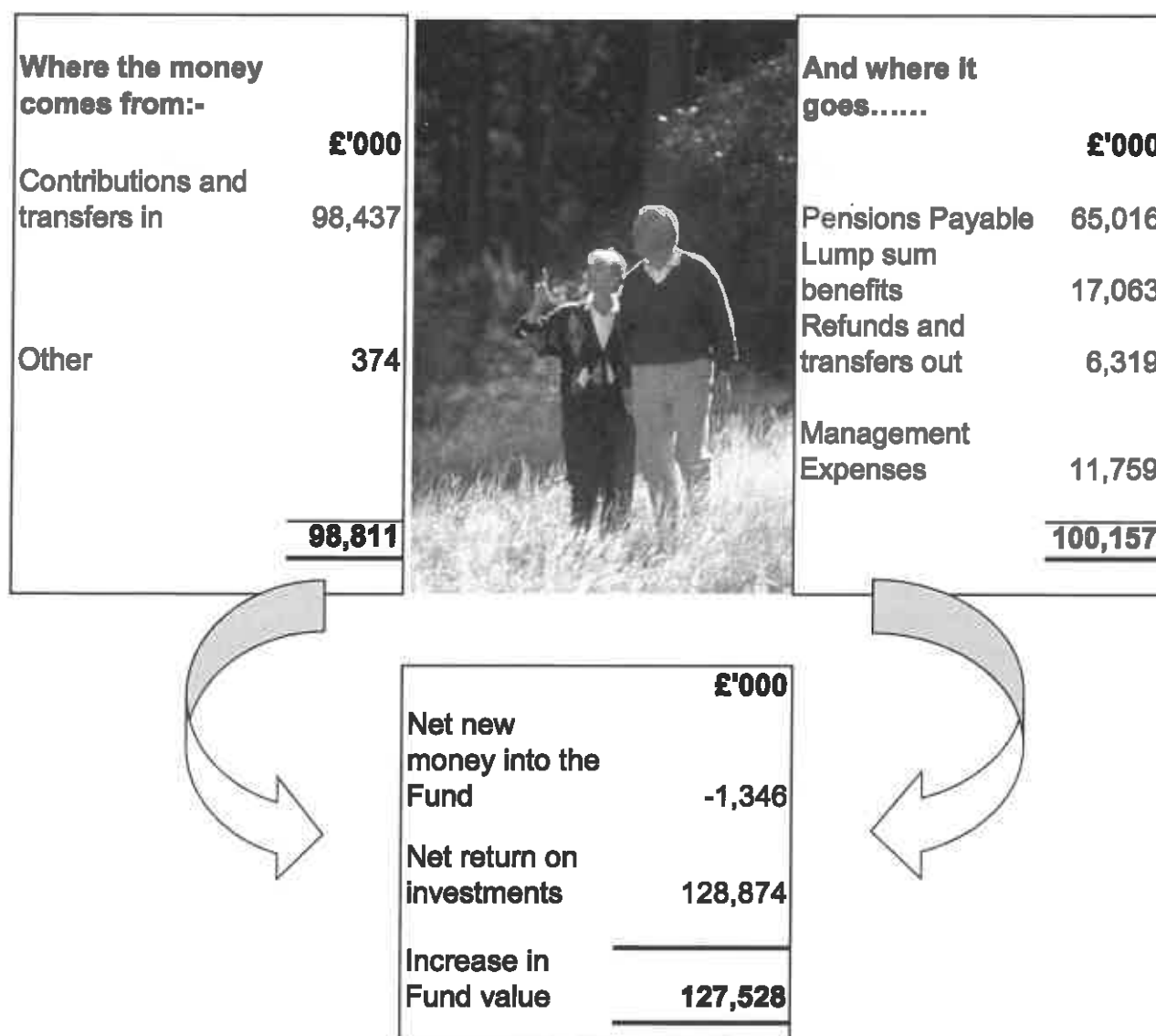
## 1. Introduction

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 Pensions 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 31st March 2019.
- The Notes to The Financial Statements which are designed to provide further explanation of some of the figures in the statement and to give a further understanding of the nature of the fund.

## 2 Summary of transactions for the year



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

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

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

Ben Smith  
Chief Financial Officer

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

The Authority is required to:

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

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

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

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

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

The Chief Financial Officer has also:

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

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

The 2018/19 Financial Statements were authorised for issue on 12th September 2019 by Ben Smith, Chief Financial Officer who is the Section 151 Officer of the Council. This is the date up to which events after the Balance Sheet date have been considered.

The 2018/19 Financial Statements were formally approved by Pension Fund Committee on 12th September 2019.

Clive Lloyd  
Chairman

# The Report of the Auditor General for Wales to the members of the City and County of Swansea as administering authority for City and County of Swansea Pension Fund

## Report on the audit of the financial statements

### Opinion

I have audited the financial statements of City and County of Swansea Pension Fund for the year ended 31 March 2019 under the Public Audit (Wales) Act 2004. The City & County of Swansea Pension Fund's financial statements comprise the fund account, the net assets statement and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2018-19 based on International Financial Reporting Standards (IFRSs).

In my opinion the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2019, and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018-19.

### Basis for opinion

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

### Conclusions relating to going concern

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

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

## **Other information**

The responsible financial officer is responsible for the other information in the City & County of Swansea Pension Fund 2018-19 Financial Statements. The other information comprises the information included in the Introduction and Appendices 1 to 5 of the financial statements. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my report, I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

## **Report on other requirements**

### **Opinion on other matters**

In my opinion, based on the work undertaken in the course of my audit :

- for information contained in the Introduction and Appendices 1-5 for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

I have nothing to report in respect of the following matters, which I report to you, if, in my opinion:

- adequate accounting records have not been kept;
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all the information and explanations I require for my audit.

## **Certificate of completion of audit**

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

## **Responsibilities**

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

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

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

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

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

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

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

24 Cathedral Road  
Cardiff  
CF11 9LJ

# CITY & COUNTY OF SWANSEA PENSION FUND

## Fund Account For The Year Ended 31st March

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

# CITY & COUNTY OF SWANSEA PENSION FUND

## Net Assets Statement As At 31 March

**31st March  
2018**

**31st March  
2019**

**£'000**

**Notes**

**£'000**

### **Investments at market value:**

1,831,794 Investment Assets	11	1,976,028
761 Cash Funds	12	767
77,046 Cash Deposits	12	65,017
3,672 Other Investment Balances - Dividends Due	12	0
<b>1,913,273 Sub Total</b>		<b>2,041,812</b>
7,499 Current Assets	16	6,806
-4,262 Current Liabilities	16	-4,580
<b>1,916,510 Net assets of the Scheme available to fund benefits at the period end</b>		<b>2,044,038</b>

The financial statements on pages 1 to 52 summarise the transactions of the Fund and deal with the net assets at the disposal of the Pension Fund Committee. The financial statements do not take account of liabilities and other benefits which fall due after the period end. The actuarial position of the Fund, which does take account of such liabilities, is dealt with in the Statement of the Actuary in the Annual Report of the Pension Fund and a summary is included in Note 18 of this statement, and these accounts should be read in conjunction with this information.



# CITY & COUNTY OF SWANSEA PENSION FUND

## Notes to the Financial Statements

### **1. Basis of preparation**

The financial statements summarise the fund's transactions for the 2018/19 financial year and its position at year-end 31 March 2019. The financial statements have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2018/19* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

### **2. Accounting Policies**

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

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

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

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

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

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

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

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

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

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

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.

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

### **(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 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.

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

### **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. Additional information regarding this is provided in Note 9.

### **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 as 31 March 2019 for which there is significant risk of material adjustment in the forthcoming financial year are as follows:

- Actuarial present value of promised retirement benefits

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

### **k) Other**

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

# CITY & COUNTY OF SWANSEA PENSION FUND

## 3. Analysis of Contributions

<b>Total Contributions</b>		<b>Total Contributions</b>
<b>2017/18 £'000</b>		<b>2018/19 £'000</b>
<b><u>Administering Authority</u></b>		
<b>50,268</b>	<b>City &amp; County of Swansea</b>	<b>51,971</b>
<b><u>Admitted Bodies</u></b>		
412	Celtic Community Leisure	397
11	Swansea Bay Racial Equality Council	5
118	Wales National Pool	131
2,511	Tai Tarian	2,525
553	Pobl Group	590
5	Rathbone Training Ltd (CCS)	5
31	Rathbone Training Ltd (Gower College)	28
3	Llanrhidian Higher Community Council	3
3	Ysalyfera Community Council	3
0	Wealdon Leisure	273
0	Parkwood Leisure	8
<b>3,647</b>	<b>Total Admitted Bodies</b>	<b>3,968</b>
<b><u>Scheduled Bodies</u></b>		
9	Cilybebyll Community Council	11
40	Coedffranc Community Council	51
2,246	Gower College Swansea	2,611
2,022	NPTC Group	2,183
64	Neath Town Council	69
27,662	Neath Port Talbot County Borough Council	30,802
38	Margam Joint Crematorium Committee	50
7	Pelenna Community Council	7
19	Pontardawe Town Council	18
16	Swansea Bay Port Health Authority	29
1,655	University of Wales Trinity St Davids	1,624
5	Briton Ferry Town Council	6
<b>33,783</b>	<b>Total Scheduled Bodies</b>	<b>37,461</b>
<b>87,698</b>	<b>Total Contributions Receivable</b>	<b>93,400</b>

# CITY & COUNTY OF SWANSEA PENSION FUND

## 3. Analysis of Contributions (continued)

Total Employer/Employee contributions comprise of:

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

# CITY & COUNTY OF SWANSEA PENSION FUND

## 4. Transfers In

Transfers in comprise of:

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

## 5. Other Income

Other income comprise of:

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

## 6. Benefits Payable

By category

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

## 7. Payments to and on account of leavers

Transfers out and refunds comprise of:

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

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

# CITY & COUNTY OF SWANSEA PENSION FUND

## 8. Administrative and Investment Management Expenses

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

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

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

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

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

# CITY & COUNTY OF SWANSEA PENSION FUND

## 8. Administrative and Investment Management Expenses Cont'd

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

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

## 9. Investment Income

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

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

## 10. Taxation

### a) United Kingdom

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

### b) Overseas

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



# CITY & COUNTY OF SWANSEA PENSION FUND

## 11. Investment Assets

	31st March 2018			31st March 2019		
	UK £'000	Global £'000	Total £'000	UK £'000	Global £'000	Total £'000
<b>Equities</b>						
Quoted	424,093	477,911	902,004	0	0	0
	<b>424,093</b>	<b>477,911</b>	<b>902,004</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Pooled investment vehicles</b>						
Managed Funds:						
Quoted:						
Equity	0	17,226	17,226	0	14,489	14,489
Fixed Interest	0	117,508	117,508	0	118,199	118,199
Unquoted:						
Equity	152,177	326,367	478,544	161,963	1,299,260	1,461,223
Fixed Interest	60,950	15,633	76,583	79,090	16,703	95,793
Index-linked	32,547	0	32,547	34,385	0	34,385
Property Unit Trust	15,831	0	15,831	19,528	0	19,528
Property Fund	33,035	36,390	69,425	36,430	33,089	69,519
Hedge Fund	0	54,601	54,601	0	54,168	54,168
Private Equity	0	67,525	67,525	0	86,625	86,625
Infrastructure	0	0	0	0	18,501	18,501
Derivatives	0	0	0	0	3,598	3,598
<b>Total pooled investment vehicles</b>	<b>294,540</b>	<b>635,250</b>	<b>929,790</b>	<b>331,396</b>	<b>1,644,632</b>	<b>1,976,028</b>
<b>Total equities and pooled investment vehicles</b>	<b>718,633</b>	<b>1,113,161</b>	<b>1,831,794</b>	<b>331,396</b>	<b>1,644,632</b>	<b>1,976,028</b>
<b>Cash Funds</b>			761			767
<b>Cash</b>			77,046			65,017
<b>Other Investment Balances Due</b>			3,672			0
<b>Total</b>			<b>1,913,273</b>			<b>2,041,812</b>

# CITY & COUNTY OF SWANSEA PENSION FUND

## 11. Investment Assets (continued)

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

31st March 2018 £'000 Investment assets		31st March 2019 £'000	
194,091	Fixed interest	213,992	
32,547	Index linked securities	34,385	
576,270	U.K. equities	161,963	
821,504	Global Equities	1,313,749	
85,256	Property	89,047	
54,601	Hedge Funds	54,168	
67,525	Private Equity	86,625	
0	Infrastructure	18,501	
0	Derivatives	3,598	
<b>1,831,794</b>	<b>Total investment assets</b>	<b>1,976,028</b>	

# CITY & COUNTY OF SWANSEA PENSION FUND

## 12. Reconciliation of movements in investments

		Value at 31st March 2018	Purchases	Sales	Change in Market Value	Value at 31st March 2019
		£'000	£'000	£'000	£'000	£'000
<b>Equities</b>						
	Aberdeen	118,378	26,407	-144,296	-489	0
	Aberdeen FF	17,227	423	0	-3,161	14,489
	JPM	364,275	168,654	-527,738	-5,191	0
	Schroders	419,350	57,868	-462,786	-14,432	0
	Blackrock	478,544	0	0	39,791	518,335
	WPP	0	910,076	-28,724	61,536	942,888
		<u>1,397,774</u>	<u>1,163,428</u>	<u>-1,163,544</u>	<u>78,054</u>	<u>1,475,712</u>
<b>Property</b>						
UK	Schroders	48,866	8,302	-2,061	851	55,958
Overseas	Partners	21,880	897	-4,271	285	18,791
	Invesco	14,510	0	-676	464	14,298
		<u>85,256</u>	<u>9,199</u>	<u>-7,008</u>	<u>1,600</u>	<u>89,047</u>
<b>Fixed Interest</b>						
Fixed Interest	Blackrock	76,583	0	0	3,420	80,003
	Goldman	117,508	3,818	0	-3,127	118,199
		<u>194,091</u>	<u>3,818</u>	<u>0</u>	<u>293</u>	<u>198,202</u>
<b>Index-Linked</b>						
	Blackrock	32,547	0	0	1,838	34,385
		<u>32,547</u>	<u>0</u>	<u>0</u>	<u>1,838</u>	<u>34,385</u>
<b>Hedge Funds</b>						
	Blackrock	28,897	0	-235	102	28,764
	Permal	25,704	0	-230	-70	25,404
		<u>54,601</u>	<u>0</u>	<u>-465</u>	<u>32</u>	<u>54,168</u>
<b>Private Equity</b>						
	HarbourVest	67,525	16,476	-14,214	16,838	86,625
		<u>67,525</u>	<u>16,476</u>	<u>-14,214</u>	<u>16,838</u>	<u>86,625</u>
<b>Infrastructure</b>						
	First State	0	19,136	-231	-404	18,501
		<u>0</u>	<u>19,136</u>	<u>-231</u>	<u>-404</u>	<u>18,501</u>
<b>Equity Protection</b>						
	Russell	0	20,000	0	-612	19,388
		<u>0</u>	<u>20,000</u>	<u>0</u>	<u>-612</u>	<u>19,388</u>
<b>Cash funds</b>						
	Schroders	761	0	0	6	767
		<u>761</u>	<u>0</u>	<u>0</u>	<u>6</u>	<u>767</u>
<b>Total</b>		<u>1,832,555</u>	<u>1,232,057</u>	<u>-1,185,462</u>	<u>97,645</u>	<u>1,976,795</u>
<b>Cash</b>		77,046				65,017
<b>Other Investment Balances -</b>						
<b>Dividends Due</b>		3,672				0
<b>TOTAL</b>		<u>1,913,273</u>			<u>97,645</u>	<u>2,041,812</u>

## 12. Reconciliation of movements in investments (continued)

Transaction costs are included in the cost of purchase and sales proceeds. Identifiable transaction costs incurred in the year relating to segregated investments amounted to £254k (2017/18 : £842k). Costs are also incurred by the Fund in relation to transactions in pooled investment vehicles. Such costs are taken into account in calculating the bid/offer spread of these investments and are not separately disclosed. During the year, the actively managed global equity assets previously managed by Schroders Investment Management, Aberdeen Standard Investment Management and JP Morgan Asset Management transitioned to the Wales Pension Partnership, as part of the ongoing pooling arrangements (See Appendix 3).

## 13. Concentration of Investments

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

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

## 14. Realised Profit on the Sale of Investments

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

# CITY & COUNTY OF SWANSEA PENSION FUND

## 15. Fixed Interest and Index Linked Investments

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

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

## 16. Current Assets and Liabilities

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

31st March 2018 £'000	31st March 2019 £'000
<b>Current Assets</b>	
629 Contributions - Employees	697
2,430 Contributions - Employers	2,734
2,789 Early Access Contributions Debtor	1,600
441 Transfer Values	758
1,210 Other	1,017
<b>7,499</b>	<b>6,806</b>
<b>Current Liabilities</b>	
-529 Investment Management Expenses	-566
-1,817 Commutation and lump sum retirement benefits	-2,025
-40 Lump sum death benefits	-199
-751 Transfers to Other Schemes	-665
-602 Payroll Deductions - Tax	-662
-34 Payable Control List	-6
-489 Other	-457
<b>-4,262</b>	<b>-4,580</b>
<b>3,237 Net</b>	<b>2,226</b>

# CITY & COUNTY OF SWANSEA PENSION FUND

## 16. Current Assets & Liabilities (continued)

### Early Access Debtor

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

## 17. Capital and Contractual Commitments

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

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

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

### **Introduction**

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the City & County of Swansea Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2016 by Aon, in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

### **Actuarial Position**

- 1 The valuation as at 31 March 2016 showed that the funding ratio of the Fund was broadly similar to the funding ratio as at the previous valuation, with the market value of the Fund's assets at 31st March 2016 (of £1,512.6M) covering 80% of the liabilities allowing, in case of pre 1 April 2014 membership for current contributors to the Fund, for future increases in pensionable pay.
- 2 The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2017 was:
  - 18.0% of pensionable pay. This was the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date (the primary rate).

**Plus**

  - Monetary amounts to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 22 years from 1 April 2017 (the secondary rate), equivalent to 7.0% of pensionable pay (or £20.1M in 2017/18, and increasing by 3.5% p.a. thereafter).
- 3 In practice, each individual Employer's or group of Employers' position is assessed separately and contributions are set out in Aon's report dated 31 March 2017 (the "actuarial valuation report"). In addition to the contributions shown above, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.
- 4 The funding plan adopted in assessing the contributions for each individual Employer or group is in accordance with the Funding Strategy Statement. Different approaches adopted in implementing contribution increases and individual Employers' recovery periods were agreed with the Administering Authority reflecting the Employers' circumstances.
- 5 The valuation was carried out using the projected unit actuarial method for most employers and the main financial actuarial assumptions used for assessing the funding target and the contribution rates were as follows.

# CITY & COUNTY OF SWANSEA PENSION FUND

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

### Discount rate for periods in service

Scheduled body employers \* 4.6% p.a.

Orphan body employers \*\* 4.6% p.a.

### Discount rate for periods after leaving service

Scheduled body employers \* 4.6% p.a.

Orphan body employers \*\* 2.5% p.a.

Rate of pay increases 3.5% p.a.

Rate of increase to pension accounts 2.0% p.a.

Rate of increases in pensions in payment 2.0% p.a.

(In excess of Guaranteed Minimum Pension)

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

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

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

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

The assets were valued at market value.

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

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

7. The formal actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2017 to 31 March 2020 were signed on 31 March 2017. Other than as permitted or required by the Regulations, employer contribution rates will be reviewed at the next actuarial valuation of the Fund due as at 31 March 2019 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

8. Since the date the valuation report was signed, there have been a number of developments in respect of the Local Government Pension Scheme (LGPS) and the most material are commented on below :

### **McCloud Judgement**

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



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

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

#### **McCloud Judgement cont'd**

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

#### **GMP Equalisation and Indexation**

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

In March 2016 the government introduced an interim solution for members in public sector schemes with GMPs who were set to lose out from the removal of the Additional State Pension (AP). This was done by paying full increases on GMP pensions for individuals reaching State Pension Age (SPA) from 5 April 2016 through 5 December 2018 (GMP rules do not require schemes to pay any increases on GMPs earned before April 1988, and cap increases at 3% p.a. on GMPs earned after April 1988). This additional liability was included In January 2018 the interim solution was extended for individuals reaching SPA before 5 April 2021. Further, the Government has indicated that it is committed to continuing to compensate all members of public sector pension schemes reaching SPA after 5th April 2021.

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

10. This statement has been prepared by the current Actuary to the Fund, Aon, for inclusion in the accounts of the Fund. It provides a summary of the results of their actuarial valuation which was carried out as at 31 March 2016. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

This statement must not be considered without reference to the formal actuarial valuation report which details fully the context and limitations of the actuarial valuations.

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

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

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

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

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

**McCloud Judgement**

Whilst the remedy is uncertain, a prudent approach would be to assume it is equivalent to extending the "best of both" underpin to all members. The Government's Actuary's Department (GAD), under instruction of the LGPS Scheme Advisory Board (England and Wales) was asked to calculate the worst case scenario impact at Scheme level, and in their paper titled "Local Government Pension Scheme Potential Impact of McCloud/Sergeant ruling on pensions accounts disclosure" dated 10 June 2019. They state, that using an effective date of 31st March 2019, financial assumptions appropriate for accounting purposes and a salary increase assumption of CPI +1.5% (as used for the City & County of Swansea Pension Fund), the estimated worst case scenario impact will be a 3.2% increase in the active liabilities. This was very much an estimate, is based on the Scheme as a whole and made no allowance for "high fliers" who could distort these figures. The figures for the City & County of Swansea Pension Fund could be different to the GAD assessment but we feel gives a reasonable indication of the increase in liabilities. Based on an approximate assessment as at 31 March 2019, this would be equivalent to an increase in the actuarial present value of promised benefits of around £50m.

**GMP Equalisation and Indexation**

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

**18. Statement of the Actuary for the year ended 31 March 2019 (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 (eg if future investment returns are less than assumed). It is however possible for another long term employer in the Fund (generally a scheduled body) to agree to be a source of future funding should any funding shortfalls emerge on the original employer's liabilities. The long term employer effectively subsumes the assets and liabilities of the ceasing employer into its own assets and liabilities. In this document this is known as subsumption. In this document the admission body or other employer being subsumed is referred to as a subsumption body and its liabilities are known as subsumed liabilities.

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

**Rates & Adjustment Certificate**

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

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

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

# CITY & COUNTY OF SWANSEA PENSION FUND

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

Employer	Primary contribution rate % pensionable pay	Secondary contributions (% Pensionable pay and £s) In year commencing 1 April			Total contributions (% Pensionable pay and £s) in year commencing 1 April		
		2017	2018	2019	2017	2018	2019
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
Plethardawe 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 Gwallia 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
<b>Total</b>	<b>18.0%</b>	<b>5.5% plus £653,600</b>	<b>6.3% plus £974,800</b>	<b>7.3% plus £1,287,600</b>	<b>23.5% plus £653,600</b>	<b>24.3% plus £974,800</b>	<b>25.3% plus £1,287,600</b>

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

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

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

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

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

Additional contributions may be payable by any Employers which have ceased to participate in the Fund since 31 March 2016 and these will be certified separately.  
Contribution rates for Employers commencing participation in the Fund after 31 March 2016 will be advised separately.  
This certificate should be read in conjunction with the notes overleaf.

Signed on behalf of Aon Hewitt Limited



Chris Archer FIA  
Fellow of the Institute and Faculty of Actuaries

30 March 2017

Aon Hewitt Limited  
25 Marsh Street  
Bristol BS1 4AQ



Laura Hamilton FIA  
Fellow of the Institute and Faculty of Actuaries

## 19. Related party transactions

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

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

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

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

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

### Key Management Personnel

The key management personnel of the Fund are the Chief Executive and the Chief Finance Officer (Section 151 Officer). As required by 3.9.4.2 of the CIPFA code of practice 2018/19, the figures below show the change in value of post-employment benefits provided to these individuals over the accounting year based on the percentage of time on matters relating to the Pension Fund. The value of the benefits has been calculated consistently with those of the whole Fund disclosure provided in Note 18, albeit the figures below have been calculated at different dates to those used for the whole fund disclosure.

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



# CITY & COUNTY OF SWANSEA PENSION FUND

## 19. Related Party Transactions Cont'd

	Short Term Benefits to 31 March 2019		Short Term Benefits to 31 March 2018	
	Remuneration (Including Fees & Allowances) £	Pension Contributions (24.4%)	Remuneration (Including Fees & Allowances) £	Pension Contributions (23.4%)
Chief Executive	145,670	35,544	142,814	33,418
Interim Chief Executive	10,869	-	-	-
Head of Financial Service & Service Centre, Section 151 Officer	26,446	6,453	71,951	16,764
Chief Finance Officer	65,917	16,004	-	-

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

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

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

# CITY & COUNTY OF SWANSEA PENSION FUND

## 19. Related Party Transactions Cont'd

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

## 20. Additional Voluntary Contributions

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

The Pension Fund accounts do not include the assets held by The Prudential, Equitable Life or Aegon. AVCs are not included in the accounts in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (SI 2016/946) but are disclosed as a note only.

AVC Provider	Value of Funds at 1st April 2018	Purchases at Cost (Contributions In/Out)	Sale Proceeds	Change In Market Value	Value of Funds at 31st March 2019
	£'000	£'000	£'000	£'000	£'000
Prudential	5,662	1,606	-1,016	133	6,385
Aegon	1,106	24	-149	51	1,032
Equitable Life	249	1	-22	10	238
<b>Totals</b>	<b>7,017</b>	<b>1,631</b>	<b>(1,187)</b>	<b>194</b>	<b>7,655</b>

# CITY & COUNTY OF SWANSEA PENSION FUND

## 21. Membership

The Pension Fund covers City & County of Swansea employees (except for teachers, for whom separate pension arrangements apply), and other bodies included in the schedule.

Detailed national regulations govern the rates of contribution by employees and employers, as well as benefits payable. At 31st March 2019 there were 19,888 contributors, 13,229 pensioners and 11,874 deferred pensioners.

Membership statistics	31st March 2015	31st March 2016	31st March 2017	31st March 2018	31st March 2019
	Number	Number	Number	Number	Number
Contributors	16,285	17,469	17,903	19,671	19,888
Pensioners	11,261	11,745	12,200	12,763	13,229
Deferred Pensioners	9,801	11,226	11,583	11,394	11,874
<b>Total</b>	<b>37,347</b>	<b>40,440</b>	<b>41,686</b>	<b>43,828</b>	<b>44,991</b>

See Appendix 1 for current year analysis

## 22. Fair Value of Investments

### Financial Instruments

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

### Financial Instruments - Gains & Losses

Gains and losses on financial instruments have been disclosed within note 9, 12 and 14 of the pension fund accounts.

IFRS9 introduced a new classifications under the code :

- recognition of expected loss allowances for financial assets at amortised cost, fair value through other 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.

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

### **Fair Value – Hierarchy**

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

- Level 1 - where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Comprise quoted equities, quoted bonds and unit trusts.
- Level 2 - where quoted market prices are not available, or where valuation techniques are used to determine fair value based on observable data.
- Level 3 - where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

The table on the following page shows the position of the Fund's assets at 31st March 2018 and 2019 based upon this hierarchy:

# CITY & COUNTY OF SWANSEA PENSION FUND

## 22. Fair Value of Investments (continued)

	31 March 2018				31 March 2019			
	Market Value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	Market Value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
<b>Equities</b>								
UK Equities	424,093	424,093			0	0		
Overseas Equities	477,911	477,911			0	0		
<b>Pooled Investment Vehicles</b>								
Fixed-Interest Funds								
UK Equity	117,508	117,508			118,199	118,199		
Global Equity	152,177			152,177	161,963		161,963	
Fixed Interest	343,593	17,226		326,367	1,313,749	14,489	1,299,260	
Index-linked	76,583			76,583	95,793		95,793	
Property Unit Trust	32,547			32,547	34,385		34,385	
Property Fund	15,831			15,831	19,528			19,528
Hedge Fund	69,425			69,425	69,519			69,519
Private Equity	54,601			54,601	54,168			54,168
Infrastructure	67,525			67,525	86,625			86,625
Derivatives					18,501			18,501
Cash	77,807	77,807			3,598	3,598		
Other Investment Balances -								
Dividends Due	3,672	3,672			0	0		
<b>Total</b>	<b>1,913,273</b>	<b>1,118,217</b>	<b>-</b>	<b>795,056</b>	<b>2,841,812</b>	<b>282,070</b>	<b>1,591,401</b>	<b>248,341</b>

## **23. INVESTMENT RISKS**

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

### **Procedures for Managing Risk**

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

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

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

### **Manager Risk**

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

**23. INVESTMENT RISKS (continued)****Credit Risk**

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

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

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

- The Fund's active fixed-interest bond portfolio £118,199k is managed (by Goldman Sachs) on an unconstrained basis and has a significant exposure to credit, emerging market debt and loans. At 31st March 2019, the Fund's exposure to non-investment grade paper was 7.1% of the actively managed fixed income portfolio.
- On private equity the Fund's investments are almost entirely in the equity of the companies concerned. The Fund's private equity investments of £86,625k are managed by Harbourvest in a fund of funds portfolio.

On hedge fund of funds and multi-strategy vehicles, underlying managers have in place a broad range of derivatives. The Fund's exposure to hedge funds through its managers at 31st March 2019 is set out below with their relative exposure to credit risk.

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

**Liquidity Risk**

The Pension Fund has its own bank accounts. At its simplest, liquidity risk is the risk that the Fund will not be able to meet its financial obligations when they fall due, especially pension payments to its members. At a strategic level the Administering Authority, together with its consulting actuary, reviews the position of the Fund triennially to ensure that all its obligations can be suitably covered.

# CITY & COUNTY OF SWANSEA PENSION FUND

## 23. INVESTMENT RISKS (continued)

Ongoing cash flow planning in respect of contributions, benefit payments, investment income and capital calls/distributions is also essential. This is in place with the Fund's position updated regularly.

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

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

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

	Amounts at 31st March 2019 £000s	Within 1 month £000s	1-3 months £000s	4-12 months £000s	> 1 Year £000s
<b>Equities</b>					
UK Equities	0	0	0	0	0
Global Equities	0	0	0	0	0
<b>Pooled Investment Vehicles</b>					
Fixed-Interest Funds	118,199	118,199	0	0	0
UK Equity	161,963	161,963	0	0	0
Overseas Equity	1,313,749	1,313,749	0	0	0
Fixed Interest	95,793	95,793	0	0	0
Index-linked	34,385	34,385	0	0	0
Property Unit Trust	19,528	0	0	19,528	0
Property Fund	69,519	0	0	36,430	33,089
Hedge Fund	54,168	0	0	54,168	0
Private Equity	86,625	0	0	0	86,625
Infrastructure	18,501	0	0	0	18,501
Derivatives	3,598	3,598	0	0	0
Deposits with banks and other financial institutions	65,784	65,784	0	0	0
Other Investment Balances – Dividends Due	0	0	0	0	0
<b>Total</b>	<b>2,041,812</b>	<b>1,793,471</b>	<b>0</b>	<b>110,126</b>	<b>138,215</b>



## 23. INVESTMENT RISKS (continued)

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

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

This means that, whilst all these monies have been designated closed-ended and thereby illiquid on the basis of their usual "10-year life", many are closer to maturity than implied by this broad designation. As can be seen from the table, even using the conservative basis outlined above, around 88% of the portfolio is realisable within 1 month and 94% is realisable within 12 months.

### Market Risk

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

Market risk is comprised of two elements :

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

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

# CITY & COUNTY OF SWANSEA PENSION FUND

## 23. INVESTMENT RISKS (continued)

Asset Class	Asset Allocation	Fund Manager		Benchmark	Performance target
		Passive	Active		
UK Equities	34% +/- 5%	14% Blackrock			
Global Equities	34% +/- 5%	13% Blackrock	41% Wales Pension Partnership Aberdeen	MSCI All World Index Net MSCI Frontier Markets Index	+2% p.a. over rolling 3 year +3% p.a. over rolling 3 year
Global Fixed Interest	15% +/- 5%	8% Blackrock	9% Goldman Sachs	Libor	LIBOR +3%
Property	5% +/- 5%	-	5% Schroders, Partners & Invesco	IPD UK Pooled Property Fund Index	+ 1% p.a. over rolling 3 year, 8% absolute return
Hedge Funds	5% +/- 5%	-	5% Blackrock & EnTrustPermal	LIBOR	+4%
Private Equity	3% +/- 5%	-	3% Harbourvest	FTSE allshare	+3% p.a. over 3 year rolling
Infrastructure	2% +/- 5%	-	2% First State	10% Absolute	10% Absolute
Private Debt	1% +/- 1%	-	Alcentra	7% Absolute	7% Absolute
Cash	2% +/- 5%	-	2% In house and cash flows of fund managers	7day LIBID	=
<b>TOTAL</b>	<b>100%</b>	<b>33%</b>	<b>67%</b>		

It is recognised that at 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 summarised above) and the weightings of the various asset classes within the benchmark form the basis for asset allocation within the Fund. Under normal conditions there is quarterly rebalancing to this strategic benchmark within fixed tolerances. This allocation, determined through the Fund's asset allocation, is designed to diversify and minimise risk through a broad spread of investments across both the main and alternative asset classes and geographic regions within each asset class.

Market risk is also managed through manager diversification – constructing a diversified portfolio across multiple investment managers. On a daily basis, managers will manage risk in line with the benchmarks, targets and risk parameters set for the mandate, as well as their own policies and processes. The Fund itself monitors managers on a regular basis (at least quarterly) on all these aspects.

# CITY & COUNTY OF SWANSEA PENSION FUND

## 23. INVESTMENT RISKS (continued)

### Price Risk

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

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

Following analysis of historical data and expected investment return movement during the financial year, and in consultation with the fund's investment advisors, the council has determined that the following movements in market price risk are reasonably possible. Had the market price of the fund investments increased/decreased in line with the potential market movements, the change in the net assets available to pay benefits in the market price as at 31 March 2019 would have been as follows:

#### Price Risk

Asset Type	Value (£'000)	% Change	Value on Increase	Value on Decrease
UK Equities	161,963	8.9407	176,444	147,482
Overseas Equities	1,313,749	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	-	-	-	-
<b>Total Assets*</b>	<b>2,041,812</b>	<b>6.3664</b>	<b>2,171,803</b>	<b>1,911,821</b>

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

and as at 31st March 2018:

#### Price Risk

Asset Type	Value (£'000)	% Change	Value on Increase	Value on Decrease
UK Equities	576,270	9.3846%	630,351	522,189
Overseas Equities	821,504	9.8587%	902,494	740,514
Total Bonds & Index-Linked	226,638	6.7384%	241,910	211,366
Alternatives	122,126	3.6489%	126,582	117,670
Cash	77,807	0.6851%	78,340	77,274
Property	85,256	2.8684%	87,701	82,811
Other Investment Balances	3,672	0.0000%	3,672	3,672
<b>Total Assets*</b>	<b>1,918,273</b>	<b>6.7433%</b>	<b>2,042,291</b>	<b>1,784,255</b>

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

# CITY & COUNTY OF SWANSEA PENSION FUND

## 23. INVESTMENT RISKS (continued)

### Currency Risk

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

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

#### Currency Risk (by currency)

Currency	Value (£'000)	% Change	Value on Increase	Value on Decrease
Australian Dollar	-	-	-	-
Brazilian Real	-	-	-	-
Canadian Dollar	-	-	-	-
Danish Krone	-	-	-	-
EURO	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
<b>Total Currency*</b>	<b>509,206</b>	<b>6.0855%</b>	<b>540,199</b>	<b>478,213</b>

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

# CITY & COUNTY OF SWANSEA PENSION FUND

## 23. INVESTMENT RISKS (continued)

and as at 31 March 2018:

### Currency Risk (by currency)

Currency	Value (£'000)	% Change	Value on Increase	Value on Decrease
Australian Dollar	12,754	11.9590%	14,279	11,229
Brazilian Real	6,448	19.5325%	7,707	5,189
Canadian Dollar	14,915	10.1648%	16,431	13,399
Danish Krone	8,519	9.0295%	9,288	7,750
EURO	98,970	9.0253%	107,902	90,038
Hong Kong Dollar	10,385	9.7118%	11,394	9,376
Indian Rupee	7,010	9.9899%	7,710	6,310
Indonesian Rupiah	2,721	11.7331%	3,040	2,402
Israeli Shekel	2,381	8.6439%	2,587	2,175
Japanese Yen	76,578	15.0243%	88,083	65,073
Malaysian Ringgit	3,012	12.8014%	3,398	2,626
Mexican Peso	2,557	11.2462%	2,845	2,269
Norwegian Krone	3,135	10.9104%	3,477	2,793
Chinese Renminbi Yuan	13,249	8.7271%	14,405	12,093
Philippine Peso	540	9.6360%	591	488
Russian Rouble	368	17.1503%	431	305
Singapore Dollar	7,038	9.2831%	7,691	6,385
South African Rand	2,149	18.0691%	2,537	1,761
South Korean Won	10,096	11.7641%	11,284	8,908
Swedish Krona	14,153	9.6884%	15,524	12,782
Swiss Franc	14,336	10.3255%	15,816	12,856
Taiwan Dollar	5,611	9.2155%	6,128	5,094
Thai Baht	4,942	10.0781%	5,440	4,444
Turkish Lira	1,029	15.3513%	1,187	871
US Dollar	293,215	9.7245%	321,729	264,701
North America Basket	149,143	9.5450%	163,379	134,907
Europe Basket	66,567	6.5784%	70,946	62,188
Asia Pacific ex Japan Basket	29,622	9.1550%	32,334	26,910
Emerging Basket	63,976	9.4406%	70,016	57,936
<b>Total Currency*</b>	<b>925,419</b>	<b>8.9006%</b>	<b>1,007,787</b>	<b>843,051</b>

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

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

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

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

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

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

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

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

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

## **25. Further Information**

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

## **26. Financial Position**

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

# CITY & COUNTY OF SWANSEA PENSION FUND

## Appendix 1

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

Contributors	Pensioners	Deferred Benefits	Employer Contribution Rate (% of Pensionable Pay) plus additional annual monetary amount
Administering Authority	Number @ 31/03/19	Number @ 31/03/19	Number @ 31/03/19
City & County of Swansea	11,982	5,950	5,556
<b>Scheduled Bodies</b>			
Neath Port Talbot County Borough	5,546	3,965	4,464
Briton Ferry Town Council	1	2	0
Cilybebyll Community Council	7	1	1
Clydach Community Council	0	0	1
Coedffranc Community Council	9	3	2
Gower College Swansea	607	281	440
Lliw Valley BC	0	203	17
Margam Joint Crematorium Committee	9	12	4
NPTC Group	580	271	457
Neath Port Talbot Waste Management	0	1	0
Neath Town Council	12	17	6
Pelenna Community Council	2	2	3
Pontardawe Town Council	4	2	0
Swansea Bay Port Health Authority	1	11	2
Swansea City Waste Disposal Company	0	15	3
University of Wales Trinity St Davids	131	158	236
West Glamorgan County Council	0	2,024	197
West Glamorgan Magistrates Courts	0	38	13
West Glamorgan Valuation Panel	0	4	0
<b>Admitted Bodies</b>			
BABTIE	0	6	9
Celtic Community Leisure	178	39	179
Colin Laver Heating Limited	0	2	2
Swansea Bay Racial Equality Council	1	1	4
The Careers Business	0	8	6
Wales National Pool	96	5	76
West Wales Arts Association	0	1	0
Capgemini	0	1	4
Tal Tarian	335	109	107
Phoenix Trust	0	1	3
Llanrhidian Higher Community Council	1	0	0
Ystalyfera Community Council	1	0	0
Pobl Group	139	93	80
Freedom Leisure	231	3	0
Parkwood Leisure	10	0	0
Rathbone CCS	1	0	2
Rathbone Gower College	4	0	0
<b>Total</b>	<b>19,888</b>	<b>13,229</b>	<b>11,874</b>

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Wales Pension Partnership**

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Investment Fund Management**

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

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

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

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

The investment managers currently are:

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

### **Other Fund Documents**

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

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

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





## Report of the Section 151 Officer

Pension Fund Committee - 12 September 2019

### **AVCs – Equitable Life Transfer to Utmost Life and Pension (Formerly Reliance Life)**

<b>Purpose:</b>	To inform the Pension Fund Committee on pending transfer of legacy AVC assets managed by Equitable Life to Utmost Life and Pension (formerly Reliance Life) and ongoing communication with affected members.
<b>Policy Framework:</b>	N/A
<b>Consultation:</b>	Legal, Finance and Access to Services.
<b>Report Author:</b>	Jeff Dong
<b>Finance Officer:</b>	Jeff Dong
<b>Legal Officer:</b>	Stephanie Williams
<b>Access to Services Officer:</b>	R Millar
<b>For Information</b>	

#### **1 Background**

- 1.1 Local Government Pension Scheme (LGPS) Regulations require LGPS Administering Authorities to provide AVC (Additional Voluntary Contribution) provision to its members should they wish to make additional retirement provision in addition to their LGPS pension. The current appointed AVC provider is The Prudential. Previous AVC providers have been Scottish Equitable and Equitable Life.
- 1.2 The appointed AVC provider is wholly responsible for the investment management and performance of the funds invested, and subsequent benefits payable at the appropriate date for the member. The Administering Authority is not regulated to give investment advice to members when selecting subsequent AVC funds of the provider, (noting the value of AVC can go down as well as up.)



## 2

### **Equitable Life Transfer to Utmost Life (formerly Reliance Life)**

- 2.1 Equitable Life were the appointed AVC providers from 1992-2001. There are currently 78 (active and deferred) City & County of Swansea Pension Fund members with Equitable Life policies of total value £238k as at 31<sup>st</sup> March 2019. 19 Pensioners have policies in payment.
- 2.2 Equitable Life is transferring of all its remaining business to Utmost Life and Pension (formerly Reliance Life):
- Subject to High Court approval, this should take place in late 2019;
  - The With Profits Fund will then close;
  - All AVCs with Equitable will transfer to unit-linked funds with Reliance (whose value can go down as well as up);
  - Members with AVCs in the With Profits Fund when the transfer takes place (but not AVCs in the present unit-linked funds) should receive a one-off and final capital distribution increasing AVC values by around 60% to 70% (see below).
- 2.3 Utmost Life and Pension specialises in the run-off of closed books of life and pensions policies. It was established in 2017 as a newly authorised UK Life Company. Utmost Life and Pension is part of Life Company Consolidation Group, a specialist European life assurance group. It is responsible for £24bn worth of policies for more than 250,000 customers.
- 2.4 Affected members have been contacted by Equitable Life directly and The Administering Authority also wrote out to affected members outlining the proposals and highlighting some of the risks, decisions and considerations they may need to make (attached at Appendix 1)
- 2.5 Administering Authorities as scheme policy holders have now also been asked to approve the 'Scheme' and to 'Change the Articles' to make Utmost Life and Pension (formerly Reliance Life) the sole Member of Equitable.

#### The 'Scheme':

- increases with-profits investments with an immediate one-off 'Uplift'
- removes any investment guarantees, and
- converts with-profits policies to unit-linked investments.

Administering authorities are also able to object to the transfer of Equitable Life's business to Utmost Life and Pensions (which does not require a vote but does need the approval of the High Court).

The deadline for the receipt of postal and online votes is 10am on 30 October 2019.

- 2.6 The Local Government Association (LGA) is currently seeking legal advice on behalf of all LGPS administering authorities to ensure all interests are maintained and that outcomes are managed in the interest of the members and administering authorities.

**3 Legal Implications**

- 3.1 The legal implications of the vote of the administering authority is currently being clarified by the LGA on behalf of The LGPS

**4 Financial Implications**

- 4.1 There are no financial implications arising directly from this report.

**5 Equality and engagement Implications**

- 5.1 There are no equality implications arising from this report.

**Background papers:** None.

**Appendices:** Appendix 1 – Equitable Life - Important Changes.

# City and County of Swansea Pension Fund

## Equitable Life – important changes

**This affects everyone who has Additional Voluntary Contributions with Equitable Life**

### Introduction

Additional Voluntary Contributions (“AVCs”) are the extra contributions you have chosen to pay towards your pension. These are separate and in addition to the standard contributions paid by you and the Council as a member of the City and County of Swansea Pension Fund.

You have been contacted because you invest in AVCs managed by Equitable Life. Your AVCs may be invested in Equitable’s With Profit Fund and/or in one or more of the unit-linked funds. Equitable Life is transferring its business to life insurance company Reliance Life. In this note we give an update on how this is progressing and provide details of how it may affect your AVCs.

We have used some technical terms in this note for consistency with what you will find on the **Equitable Life** website. There is a glossary at the back of this announcement explaining what these terms mean.

### What is happening?

Equitable is transferring of all its remaining business to Reliance Life:

- Subject to High Court approval, this should take place in late 2019;
- The With Profits Fund will then close;
- All AVCs with Equitable will transfer to unit-linked funds with Reliance (whose value can go down as well as up);
- Members with AVCs in the With Profits Fund when the transfer takes place (but not AVCs in the present unit-linked funds) should receive a one-off and final capital distribution increasing AVC values by around 60% to 70% (see below).

Equitable expect to give more information about the transfer in May/June 2019.

### What is the capital distribution?

In recent past, Equitable has paid investors a capital distribution when money is taken out of their With Profits Fund:

- For 2018, this was 35% of the “non-guaranteed” value of AVCs as at 31 December 2014;
- This has been increased by discretionary interim bonuses of 2% per annum since 2014;
- The capital distribution and discretionary interim bonuses are not guaranteed – they can be withdrawn at any time if Equitable’s financial position were to deteriorate.

The amount paid to you depends on when you take your AVCs:

- If you retire or transfer your AVCs before your “normal retirement date” under the Equitable policy - the non-guaranteed value with the capital distribution (currently 35%) and discretionary bonuses would be paid; or

- If you retire on or after your “normal retirement date” under the Equitable policy - the greater of the guaranteed value or the non-guaranteed value with the capital distribution and discretionary bonuses would be paid.

As part of transfer to Reliance, in late 2019 members still invested in the With Profits Fund should see the value of their AVCs increased by around 60% to 70% - this is made up of the present 35% capital distribution plus the extra 25% to 35% distribution made possible by the transfer to Reliance.

### Who are Reliance Life?

Reliance Life specialises in the run-off of closed books of life and pensions policies. It was established in 2017 as a newly authorised UK Life Company. Reliance Life is part of Life Company Consolidation Group, a specialist European life assurance group. It is responsible for £24bn worth of policies for more than 250,000 customers.

### What should I be thinking about?

**If you take AVCs out of the Equitable’s With Profits Fund (on retirement or transfer to another pension arrangement) before the transfer to Reliance Life takes place, you will not receive the extra capital distribution towards the end of this year. We encourage you to consider your options carefully.**

### **If you have AVCs in the With Profits Fund and are thinking of retiring or transferring your AVCs in 2019:**

You might want to think about the timing of your retirement (or transfer) to benefit from the increased capital distribution. If you leave before the transfer to Reliance takes place at the end of the year, the additional 25% to 35% capital distribution will be lost.

### **If you have AVCs in the With Profits Fund and are some years from retirement:**

You may want to think about where your AVCs are invested after the final capital distribution is made.

### **If you have AVCs in the Equitable’s unit-linked funds:**

While Equitable have stated that the terms will be unchanged following the transfer to Reliance, it is not clear as yet what unit-linked funds will be available and who will manage these funds for Reliance.

As you won’t benefit from the capital distribution, you might want to look at whether your AVCs could be better invested in another AVC or pension arrangement.

### What could go wrong?

There are risks that this may not turn out as planned:

- The total capital distribution could turn out to be less than Equitable currently expect - while Equitable state that they have taken steps to reduce the risk of its financial position coming under pressure, this may not be sufficient to cover a major adverse economic event;
- The transfer could take longer than expected – the legal process to transfer an entire insurance company’s business to another insurer is complex and could take some months longer;
- Your personal circumstances could change in the meantime.

### Where can I find out more?

We will get in touch with you again when Equitable and Reliance release more information on the transfer.

In the meantime, you can visit **[www.equitable.co.uk](http://www.equitable.co.uk)**, whose home page has sections giving information on the transfer to Reliance for With Profits and unit-linked policyholders.

If you are unsure about what course of action is right for you, we suggest that you seek independent financial advice. You can find a local independent financial adviser (IFA) at: **[www.unbiased.co.uk](http://www.unbiased.co.uk)**. Please beware of pension scams and only use an adviser regulated by the Financial Conduct Authority.

For and on behalf of the Officers of the City and County of Swansea Pension Fund

### Technical terms used in this announcement

We have used some technical terms for consistency with what is shown on the Equitable's website:

#### With Profits

The With Profits Fund is managed by the insurance company. The bonuses added and the value paid when AVCs are taken out depends upon both the financial strength of the insurance company and the investment returns it achieves on its investments. The costs of running the fund are taken into account when bonus rates are set.

#### Unit-linked funds

AVCs buy units in a fund whose price can change daily. The unit prices depend upon the value of the assets in which the fund is invested and so can go down in value as well as up. The charges and costs of running unit-linked funds are taken into account when unit prices are set.

#### Guaranteed and non-guaranteed With Profits values

Equitable Life statements quote two values for your AVCs in the With Profits Fund:

##### 1. Non-guaranteed value (transfer value)

This is the value that is payable if you take your AVCs from Equitable Life at any time before your selected retirement age under the Equitable Life policy.

As the name suggests, the "non-guaranteed" value can change in the future. This value has increased in recent years when Equitable Life has added what are known as interim bonuses. However, these discretionary interim bonuses could be reduced or even withdrawn in future.

##### 2. Guaranteed value

This is only payable if you retire on or after your selected retirement age under the Equitable Life policy. The "guaranteed" value will increase by a guaranteed minimum return of 3.5% per year up to your selected retirement age.

You will lose the guaranteed value including the guaranteed minimum return (if it's bigger than the non-guaranteed value) if you decide to retire before the age you have already selected or transfer your AVCs elsewhere before you retire.

These guarantees will disappear when the Equitable Life With Profits Fund closes and the transfer to Reliance Life takes place towards the end of 2019.

#### Capital distribution

Equitable Life closed in 2000 and since then has taken steps to gradually improve its financial position. In recent years it has been able to pass on part of the savings it has made around its business to With Profits policyholders (but not unit-linked policyholders) as a capital distribution when money is taken from Equitable's With Profits Fund.

The transfer of Equitable's business to Reliance, together with the closure of its With Profits Fund, will free up capital which is currently tied up to meet Equitable's long-term commitments to policyholders. This will enable a once and for all increased capital distribution when the transfer to Reliance takes place towards the end of 2019.

#### Bonuses

Equitable Life have not added any "reversionary" bonuses, which would increase the guaranteed value, for some years. It has added discretionary interim bonuses to the non-guaranteed value of With Profits policies. These interim bonuses are not guaranteed and could be withdrawn. For 2018 the interim bonus was 2.0%.



## Report of the Section 151 Officer

Pension Fund Committee – 12 September 2019

### **Competition and Markets Authority (CMA) – Setting Objectives for Investment Consultants**

<b>Purpose:</b>	To update the Pension Fund Committee on pending requirements to set measurable objectives for appointed investment consultants
<b>Policy Framework:</b>	To comply with CMA requirements
<b>Consultation:</b>	Legal, Finance and Access to Services.
<b>Report Author:</b>	Jeff Dong
<b>Finance Officer:</b>	Jeff Dong
<b>Legal Officer:</b>	Stephanie Williams
<b>Access to Services Officer:</b>	R Millar
<b>For Information</b>	

#### **1 Background**

- 1.1 At the end of 2018, the Competition and Markets Authority (“CMA”) published its report following a review of the investment consulting and fiduciary management markets. Earlier this year, following on from this review, the CMA issued an order, setting out requirements for the appointment and governance of fiduciary managers, and for Pension Scheme Trustees (Pension Scheme Trustees means the trustees or managers of Occupational Pension Schemes that have their main administration in the United Kingdom. The CMA requirements extend to both Trust-based schemes, and Local Government Pension Schemes (i.e. Pension Committees) to set objectives for their investment consultants.

## 2 What are the requirements?

2.1 The CMA has stipulated that Pension Scheme Trustees should set objectives for their investment consultants, and that such objectives should be:

- 1 'closely linked' to the pension scheme's strategic objectives
- 2 reviewed at least every three years, and after a significant change to the investment strategy or objectives
- 3 established no later than 10 December 2019 (i.e. 6 months following the date of the final Order published by the CMA) or prior to appointment of a new investment consultant

The CMA has set out specific actions that must be carried out by trustees using fiduciary managers. We can provide separate guidance addressing these requirements should this be relevant for your scheme.

## 3 The Importance Of Objectives

3.1 Establishing long term objectives is part of a well organised and well managed governance approach. Provided that appropriate resources are allocated to support longer term goals, having clear, structured and measurable objectives can greatly enhance the chances of long term success for your scheme

3.2 The extension to set objectives for investment consultants could be regarded as a natural progression towards all stakeholders being aligned towards a common goal. Indeed, we believe that best practice would be to establish objectives for all key service providers supporting Pension Scheme Trustees in achieving their longer-term goals, not just your investment consultants

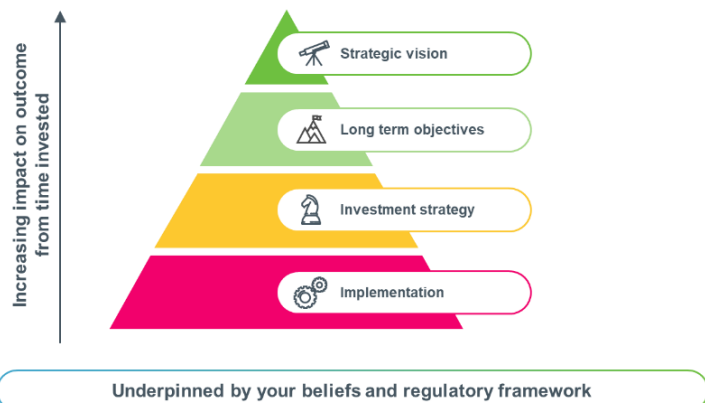
## 4 Establishing Objectives For Consultants

4.1 In their accompanying explanatory, the CMA states that objectives for consultants should include a clear definition of the outcome expected, and timescales for achieving this. In addition, objectives should be measurable thereby supporting reporting to Pension Scheme Trustees.

Your funding and investment objectives will reflect your strategic vision and specific circumstances.

And so the objectives for your investment consultant should equally be tailored to reflect this.

We envisage that such objectives can be set in the context of the governance model illustrated.





4.2 By way of an example, a pension scheme may have the following long-term investment objective:

- *“Achieve the returns from investments to meet the long-term funding objective whilst keeping risk within acceptable levels to support stable and affordable contributions from the employer”.*

A corresponding objective for investment consultants may be:

- *For DB schemes, to “Provide advice on the investment strategy to deliver a target net return of XX% over gilts on the scheme’s investments with as little risk as possible, in order to support full funding by 20XX and stable and affordable contributions from the employer.”*

4.3 In addition to strategic advice, trustees will typically look for their consultant to provide advice around the implementation of the strategy. This might be captured by objectives around the following:

- Effectiveness of strategy to meet cashflows and liquidity requirements
- Effectiveness and efficiency of implementation of the strategy

Other broad areas that we believe you may wish to capture in the objectives, but which are less directly measurable, include:

- Efficiency in the governance of the strategy
- Provision of regulatory updates and meeting compliance requirements
- Ongoing monitoring of the investment arrangements
- Quality and timeliness of advice to enable timely, informed decision making

## **5 Measuring Success in Practice**

5.1 One of the key challenges of measuring success is that many methods and metrics for assessing performance are typically short-term in nature and can be unhelpful for the purpose of measuring ‘success’ of long-term objectives. In some cases, these methods and metrics could lead to counterproductive decisions and hence hinder success when not considered in the context of what trustees are trying to achieve over the long term.

5.2 Trustees should align the measurement of investment consultants to appropriate time periods. Based on the example above, such measures for DB schemes may include:

- *Strategy:* measure over rolling 5 year periods, the contribution from the investment strategy toward achieving the agreed long term strategic targets, and the extent to which progress has remained within expected tolerances given the agreed risk profile.
- *Implementation:* measure over rolling 3 year periods the return on the Scheme’s assets relative to the Scheme’s composite benchmark return

and target return, net of fees.

## **6 Reporting Compliance**

- 6.1 As set out in their Order, the CMA has established that those subject to the new requirements should report on their compliance on an annual basis. This covers both the adherence to setting objectives for consultants and assessing the extent to which investment consultants are on track to meet those objectives.
- 6.2 In addition to this, if applicable, Pension Scheme Trustees will also be required to report on the appointment and governance of fiduciary managers.
- 6.3 Pension Scheme Trustees will be required to submit their first round of compliance reporting no later than 12 months and 4 weeks after the date that the relevant requirements came into force. This translates into a deadline of early January 2021.
- 6.4 On 29 July 2019, the Department for Work and Pensions (“DWP”) released its consultation to turn the CMA’s requirements into legislation. As part of their draft legislation, the DWP has specified that trustees (excluding LGPS) would be expected to report compliance annually via the Pensions Regulator’s scheme return. The Pensions Regulator is also consulting on draft guidance, focussing mainly on how trustees should assess the performance of their investment consultants relative to objectives.
- 6.5 The Ministry for Housing, Communities and Local Government is expected to clarify how the requirements will translate to the LGPS.

## **7 Next Steps**

- 7.1 Pension Scheme Trustees should establish objectives for their consultants no later than **10 December 2019**. The Deputy S151 Officer shall develop draft objectives for the appointed investment consultants and bring these to The Pension Fund Committee for approval at its November meeting.

## **8 Legal Implications**

- 8.1 There are no direct legal implications arising from this report

## **9 Financial Implications**

- 9.1 There are no financial implications arising directly from this report.

## **10 Equality and engagement Implications**

- 10.1 There are no equality implications arising from this report.

**Background papers:** None.

**Appendices:** None.



## Report of the Section 151 Officer

Pension Fund Committee – 12 September 2019

### **Aquila Heywood Altair LGPS Administration System Transition to a Cloud Hosted System**

<b>Purpose:</b>	To approve the transition of The Aquila Heywood Altair Pension Administration system from a server based system to a cloud based hosted system
<b>Reason for Decision:</b>	To ensure continued application and resilience of the LGPS Aquila Heywood Altair administration system
<b>Consultation:</b>	Legal, Finance and Access to Services.
<b>Recommendation:</b>	<p>It is recommended that:</p> <p>The current Aquila Heywood LGPS Administration System is migrated to a cloud hosted solution as outlined in 3.1 incurring the one off and additional costs as outlined in 3.2</p>
<b>Report Author:</b>	J Dong
<b>Finance Officer:</b>	J Dong
<b>Legal Officer:</b>	S Williams
<b>Access to Services Officer:</b>	R Millar

## **1 Introduction**

1.1 Aquila Heywood's Altair LGPS Software system has been used by The City & County of Swansea Pension Fund since 2010. Aquila Heywood's previous software package was utilised from 1996- 2010. This is the system that maintains:

- members'/pensioners' records (details, next of kin, death grant nominations, payroll data, period of employment,)
- calculates pension payable
- calculates benefits payable
- records employee/ employer contributions

It is the vital data set and provides the prime source of data used to undertake the statutory actuarial valuation calculations. The LGPS is recognised as a complex defined benefit scheme, ostensibly comprising of 3 schemes within a scheme ( pre 2008; 2008- 2014 and post 2014) each with their own set of applicable regulations and changes which are constantly changing (even retrospectively as in the recent Mc Cloud case example) which the system needs to reflect and take into account when it undertakes its calculations.

- 1.2 The Altair LGPS software system is used by over 90% LGPS funds in the UK. Currently there are 2 other known suppliers with only a handful of clients each.
- 1.3 The benefits of having a system that is widely used is that there are economies of scale when software changes are required as a result of legislative changes and there is the collective power of negotiation to enable changes to be affected e.g. to support CIPFA's Performance Indicator work.

## **2 ICT Infrastructure**

- 2.1 The current adopted use of the software package is via a traditional physical load of the software and data on physical servers located on a Swansea Council site. It is the responsibility of the administration authority ( Swansea Council) to maintain and ensure operation of the system and test and implement all new upgrades/patches as required.
- 2.2 The current version of Altair requires upgrade to v10 in the next 6 months which would require the upgrade and transfer to a new server, with external audit WAO having identified the need for server upgrade as a systemic risk.
- 2.3 In a similar vein, Swansea Council is currently undertaking a corporate review of how it delivers its major ICT services to its clients. The Council is due to receive a report in September 2019 recommending that its main Enterprise Resource Planning Resource (ERP) supplied by Oracle is migrated from the current server based model to a hosted cloud based solution, which enables better resilience, more responsive problem resolution, risk transfer and a host of additional operational and efficiency benefits.

## **3 Aquila Heywood Altair Cloud Hosted Proposal**

- 3.1 Aquila Heywood have submitted a business case proposal and migration plan attached at Appendix 1 to migrate the current server based software to a fully cloud based hosted system of the software incorporating the new v10. Upgrade. Benefits of hosting are:
  - system is fully hosted on Aquila Heywood Cloud servers – no more concerns about replacing or upgrading servers, size, storage or memory
  - hosted service is provided by pension technical experts
  - Security – they have the latest technology and processes in place to guard against security breaches and cyber attacks
  - Performance – the hosting service is fast and reliable, they pro-

- actively monitor performance levels to ensure continuity of service, supporting agile working
- Full Disaster Recovery & Business Continuity testing – annual tests
- Improved ease of access – carrying out upgrades is easier and quicker
- Full penetration testing

3.2 The cost of migration is outlined as approximately:

Implementation costs	£40,500
Server set up now not needed	Less £22,000
<hr/>	
Net one off set up costs	£18,500
Ongoing annual hosting fee	£85,775
Less server purchase	Less £30,000
Less annual license	Less £45,000
Less maintenance	Less £ 5,000
<hr/>	
Net ongoing cost year 1	£5,775
Net ongoing cost year 2 onwards	£35,775

Costs are for a 5-year contract.

All costs are plus VAT and subject to indexation.

#### 4 **Financial Implications**

4.1 The financial implications of the report are that costs will be approximately as outlined in 3.2 and that this can be accommodated within the existing administration budget

#### 5 **Legal Implications**

5.1 There are no direct legal implications arising from this report

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

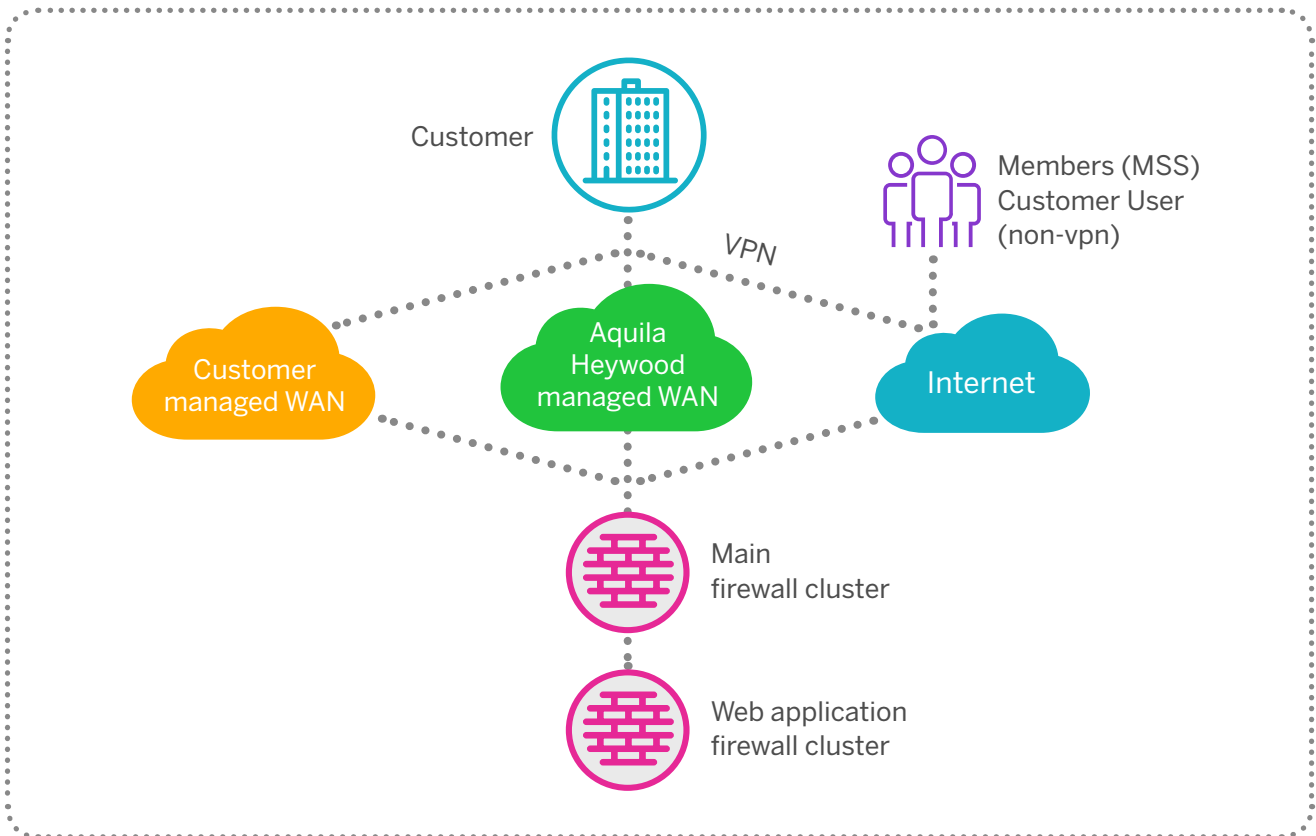
6.1 An EIA Screening has been undertaken and no E&EIs have been identified.

**Background papers:** None.

**Appendices:** Appendix 1: Migration Plan.



## Connectivity Services



### WAN

Standard customer connectivity is via VPN with Aquila Heywood or Customer managed WAN connectivity options available.

### DDoS Protected Internet Bandwidth

Distributed Denial of Service (DDoS) attacks aim to render our computer services either unavailable or with sufficiently crippled user accessibility. Our DDOS protected bandwidth means that if our hosting service is attacked we can filter the attack and maintain our standard of service with minimal disruption to customers.

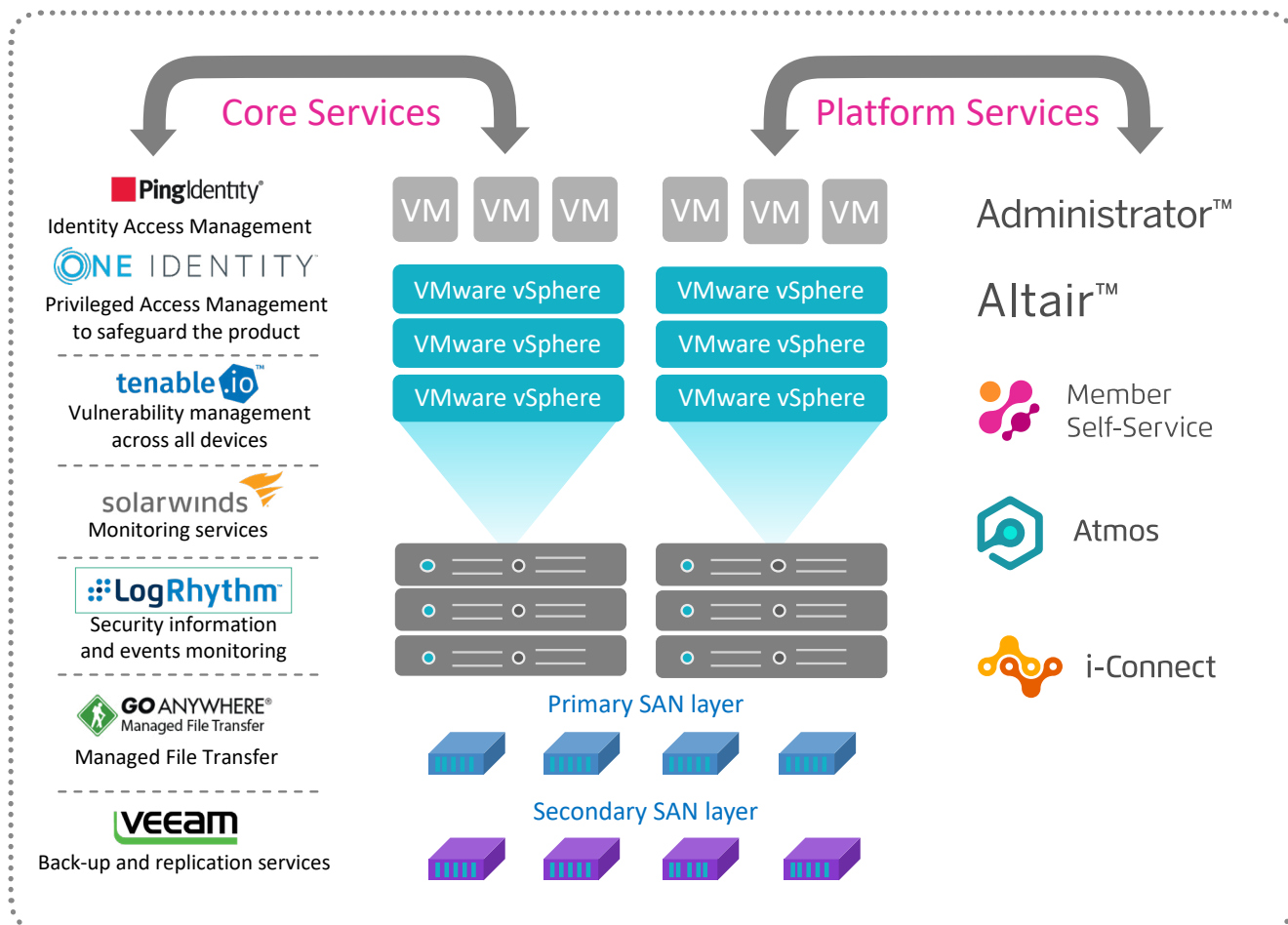
### Network Firewall

Our next generation network firewall secures the perimeter and internal network communications providing multi-layered protection facilities.

### Web Application Firewall

An Application Firewall that secures and protects our application communications in much the same way that network firewalls secure and protect network communications. Our F5 BIG-IP Application Security Manager enforces security specifically for web application traffic.

## Core and Platform Services



### Managed File Transfer – GoAnywhere

An enterprise Managed File Transfer solution that secures, automates and streamlines file transfers to and from our hosted services infrastructure.

### Identity Access Management – Ping Identity

An industry-recognised solution that provides secure authentication services for customers to our private cloud solution and applications.

### Backup & Replication - Veeam

An industry-leading back-up and replication solution that enables us to provide a more robust solution as part of our BCP recovery services. If things do go wrong, we'll recover faster making us highly resilient.

### System Monitoring – Solarwinds

An industry-leading granular monitoring solution covering the entire technology landscape which helps us to maintain higher availability of our services and more rapidly track down issues when they occur to speed up resolution times.

## Privileged Access Management

### – One Identity

An industry-recognised Privileged Access Management tool that helps us to manage and audit our employees' access to customer environments. This enables us to eliminate complexities and time-consuming processes for resolving customer needs in a secure, controlled and auditable manner.

## Vulnerability Management – Tenable

This is our vulnerability tool, providing in-depth pro-active scanning and dashboard data of any vulnerabilities within our hosting infrastructure, enabling us to proactively identify and remediate any weaknesses in our environment before they become issues.

## Security Information Event Monitoring – LogRhythm

A world-leading next generation Security Incident and Event Management solution enabling us to rapidly detect, respond to and neutralize damaging cyberthreats.

## SAN Storage – IBM

Our primary and secondary SAN's all have encryption at rest as standard. Encryption at rest means that even if someone broke into the data centre past the wire fencing and bio-security entry points and stole our physical storage, it would be unreadable.

## Summary

Aquila Heywood's new Managed Services provides customers with a hosted infrastructure that focuses on security.

The use of a choice of next generation security features from the industry's leading vendors, ensures Aquila Heywood's Managed Services plays a leading role in hosted infrastructure security.

Investments in upgrades to all hardware and core infrastructure components will result in improved operational efficiencies, delivering greater service performance and availability to customers.







## Report of the Section 151 Officer

Pension Fund Committee - 12 September 2019

### Breaches Report

<b>Purpose:</b>	The report presents any breaches which have occurred in the period in accordance with the Reporting Breaches Policy.
<b>Report Author:</b>	Claire Elliott, Pension Manager
<b>Finance Officer:</b>	Jeff Dong – Deputy S 151 Officer
<b>Legal Officer:</b>	Stephanie Williams – Principal Lawyer
<b>Access to Services Officer:</b>	N/A
<b>For Information</b>	

#### 1. Introduction

1.1 The Reporting Breaches policy was adopted with effect from 9 March 2017.

1.2 The policy requires a report to be presented to the Pension Board and Pension Fund Committee on a quarterly basis, highlighting any new breaches which have arisen since the previous meeting and setting out:

- all breaches, including those reported to The Pensions Regulator and those unreported, with the associated dates
- in relation to each breach, details of what action was taken and the result of any action (where not confidential)
- any future actions for the prevention of the breach in question being repeated

#### 2. Breaches

2.1 Under the policy, breaches of the law are required to be reported to the Pensions Regulator where there is reasonable cause to believe that:

- A legal duty which is relevant to the administration of the scheme has not been, or is not being, complied with
- The failure to comply is likely to be of material significance to the regulator in the exercise of any of its functions

2.2 The Breaches Report is attached at Appendix A and the following further information is provided.

- 2.3 Under the LGPS regulations, interest is paid on retirement lump sum payments if the payment is made more than one month after retirement and calculated at one per cent above the base rate on a day to day basis from the due date of payment and compounded with three-monthly rests.
- 2.4 Since the last report in July 2019, 1.67% of retirement lumps sums have not been paid within the benchmark (it should be noted that 100% of payments were made within 1 month when all documentation was received). The % of non-payment of retirement lump sums within the specified benchmark was due to the members not returning completed pension election forms within a timely manner. Communication sent to members at time of retirement has been reviewed to ensure that the importance of timely return of required documents is highlighted and reminder triggers put in place.
- 2.5 The Fund requires that employers pay employee and employer contributions to the Fund on a monthly basis and no later than the 19<sup>th</sup> of the month after which the contributions have been deducted. There have been a number of instances during the reporting period where breaches have occurred. In each case, Treasury Management staff have written to the employers to request payment and provide a reminder of the responsibilities to submit on time.
- 2.6 With regards to performance data in respect of processing refunds, in most cases, the sums are quite small and the problem is locating the member/former member to process the refund, quite often they may have moved address or even passed away.
- 2.7 The target asset allocation to global equities and UK equities has been superseded by the transition to WPP Opportunities, notwithstanding the same the existing specified limit has been breached. The Pension Fund Committee has previously approved a de-risking programme which shall re-allocate those assets into real/yielding assets. Meanwhile an equity protection programme has been implemented in March 2019.

### **3. Equality and Engagement Implications**

N/A

### **4 Legal Implications**

- 4.1 Where breaches have occurred, the legal implications are outlined in Code of Practice no.14.

### **5. Financial Implications**

- 5.1 Minimal loss of investment income and a possible penalty charge from TPR.

**Background papers:** None.

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

## City and County of Swansea Breach Register

Date	Category (e.g. administration, contributions, funding, investment, criminal activity)	Description and cause of breach	Possible effect of breach and wider implications	Reaction of relevant parties to breach	Reported / Not reported (with justification if not reported and dates)	Outcome of report and/or investigations	New Breach (since last report)
Mar – May 2019	Administration	1.56% of retirement lump sums not paid within 1 month of normal retirement or 2 months of early retirement; 100% was paid within 1 month of receipt of member option return	The administering authority has accrued interest payments on retirement lump sums, paid more than one month after their due date, under the 2013 LGPS regulations	% due to members failing to return pension election forms in a timely manner	.	Communication to members regarding retirement options reviewed to ensure the importance of returning documents in a timely manner is emphasised	
30/04/2018	Administration	All annual returns for year-end by 30/04/2018 have been submitted.	N/A	N/A		N/A	
Apr – June 2019	Administration	Frozen refunds unclaimed for this period equates to 95.83%	In accordance with current Scheme Regulations, no further interest will accrue on or after 5-year anniversary.	High % due to member not making a positive election to claim refund	Information has been reported in the breach register	Member was written to 3 months prior to the date of the 5-year anniversary of date of leaving	

			Should the member enter re-employment membership cannot be aggregated, the member will not be able to transfer the benefit out and if a refund is claimed there will be tax implications as this is deemed to be an unauthorised payment				
Jun-August 2019	Administration	1.67% of retirement lump sums not paid within 1 month of normal retirement or 2 months of early retirement; 100% was paid within 1 month of receipt of member option return	The administering authority has accrued interest payments on retirement lump sums, paid more than one month after their due date, under the 2013 LGPS regulations	% due to delay in payment of 1 members AVC fund value from the Prudential		Communication to members highlighting a possible delay in the payment of their retirement benefits if the member continues paying AVCs up to and including the last month of employment	✓
Jul-August 2019	Administration	Frozen refunds unclaimed for this period equates to 81.25% .... This	In accordance with current Scheme Regulations, no further interest	High % due to member not making a positive election to claim refund	Information has been reported in the breach register	Member was written to 3 months prior to the date of the 5-year anniversary	✓

		equates to a monetary value of £1,581.92	will accrue on or after 5-year anniversary. Should the member enter re-employment membership cannot be aggregated, the member will not be able to transfer the benefit out and if a refund is claimed there will be tax implications as this is deemed to be an unauthorised payment. The above is subject to change and we are waiting for confirmation that the above Regulation has been amended to support this. Going forward there will be no further requirement to report non-payment of refunds as the 5 year anniversary			of date of leaving	
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			ruling will be removed.				
Apr – July 2019	Contributions	2 Employers have not paid contributions within required timescale	Loss of investment returns	Employers are contacted once breach has occurred		Employers are contacted as soon as the deadline for submission of contributions has passed	✓

\*New breaches since the previous meeting should be highlighted

# Agenda Item 6



## Report of the Chief Legal Officer

Pension Fund Committee – 12 September 2019

### Exclusion of the Public

<b>Purpose:</b>		To consider whether the Public should be excluded from the following items of business.
<b>Policy Framework:</b>		None.
<b>Consultation:</b>		Legal.
<b>Recommendation(s):</b>		It is recommended that:
<b>1)</b>	The public be excluded from the meeting during consideration of the following item(s) of business on the grounds that it / they involve(s) the likely disclosure of exempt information as set out in the Paragraphs listed below of Schedule 12A of the Local Government Act 1972 as amended by the Local Government (Access to Information) (Variation) (Wales) Order 2007 subject to the Public Interest Test (where appropriate) being applied.	
	<b>Item No's.</b>	<b>Relevant Paragraphs in Schedule 12A</b>
	7-11	14
<b>Report Author:</b>		Democratic Services
<b>Finance Officer:</b>		Not Applicable
<b>Legal Officer:</b>		Tracey Meredith – Chief Legal Officer (Monitoring Officer)

#### 1. Introduction

- 1.1 Section 100A (4) of the Local Government Act 1972 as amended by the Local Government (Access to Information) (Variation) (Wales) Order 2007, allows a Principal Council to pass a resolution excluding the public from a meeting during an item of business.
- 1.2 Such a resolution is dependant on whether it is likely, in view of the nature of the business to be transacted or the nature of the proceedings that if members of the public were present during that item there would be disclosure to them of exempt information, as defined in section 100I of the Local Government Act 1972.

## **2. Exclusion of the Public / Public Interest Test**

- 2.1 In order to comply with the above mentioned legislation, Cabinet will be requested to exclude the public from the meeting during consideration of the item(s) of business identified in the recommendation(s) to the report on the grounds that it / they involve(s) the likely disclosure of exempt information as set out in the Exclusion Paragraphs of Schedule 12A of the Local Government Act 1972 as amended by the Local Government (Access to Information) (Variation) (Wales) Order 2007.
- 2.2 Information which falls within paragraphs 12 to 15, 17 and 18 of Schedule 12A of the Local Government Act 1972 as amended is exempt information if and so long as in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.
- 2.3 The specific Exclusion Paragraphs and the Public Interest Tests to be applied are listed in **Appendix A**.
- 2.4 Where paragraph 16 of the Schedule 12A applies there is no public interest test. Councillors are able to consider whether they wish to waive their legal privilege in the information, however, given that this may place the Council in a position of risk, it is not something that should be done as a matter of routine.

## **3. Financial Implications**

- 3.1 There are no financial implications associated with this report.

## **4. Legal Implications**

- 4.1 The legislative provisions are set out in the report.
- 4.2 Councillors must consider with regard to each item of business set out in paragraph 2 of this report the following matters:
  - 4.2.1 Whether in relation to that item of business the information is capable of being exempt information, because it falls into one of the paragraphs set out in Schedule 12A of the Local Government Act 1972 as amended and reproduced in Appendix A to this report.
  - 4.2.2 If the information does fall within one or more of paragraphs 12 to 15, 17 and 18 of Schedule 12A of the Local Government Act 1972 as amended, the public interest test as set out in paragraph 2.2 of this report.
  - 4.2.3 If the information falls within paragraph 16 of Schedule 12A of the Local Government Act 1972 in considering whether to exclude the public members are not required to apply the public interest test but must consider whether they wish to waive their privilege in relation to that item for any reason.

**Background Papers:** None.

**Appendices:** Appendix A – Public Interest Test.



## Public Interest Test

No.	Relevant Paragraphs in Schedule 12A
<b>12</b>	<b>Information relating to a particular individual.</b>
	<p>The Proper Officer (Monitoring Officer) has determined in preparing this report that paragraph 12 should apply. Their view on the public interest test was that to make this information public would disclose personal data relating to an individual in contravention of the principles of the Data Protection Act. Because of this and since there did not appear to be an overwhelming public interest in requiring the disclosure of personal data they felt that the public interest in maintaining the exemption outweighs the public interest in disclosing the information. Members are asked to consider this factor when determining the public interest test, which they must decide when considering excluding the public from this part of the meeting.</p>
<b>13</b>	<b>Information which is likely to reveal the identity of an individual.</b>
	<p>The Proper Officer (Monitoring Officer) has determined in preparing this report that paragraph 13 should apply. Their view on the public interest test was that the individual involved was entitled to privacy and that there was no overriding public interest which required the disclosure of the individual's identity. On that basis they felt that the public interest in maintaining the exemption outweighs the public interest in disclosing the information. Members are asked to consider this factor when determining the public interest test, which they must decide when considering excluding the public from this part of the meeting.</p>
<b>14</b>	<b>Information relating to the financial or business affairs of any particular person (including the authority holding that information).</b>
	<p>The Proper Officer (Monitoring Officer) has determined in preparing this report that paragraph 14 should apply. Their view on the public interest test was that:</p> <ul style="list-style-type: none"> <li><b>a)</b> Whilst they were mindful of the need to ensure the transparency and accountability of public authority for decisions taken by them in relation to the spending of public money, the right of a third party to the privacy of their financial / business affairs outweighed the need for that information to be made public; or</li> <li><b>b)</b> Disclosure of the information would give an unfair advantage to tenderers for commercial contracts.</li> </ul> <p>This information is not affected by any other statutory provision which requires the information to be publicly registered.</p> <p>On that basis they felt that the public interest in maintaining the exemption outweighs the public interest in disclosing the information. Members are asked to consider this factor when determining the public interest test, which they must decide when considering excluding the public from this part of the meeting.</p>

No.	Relevant Paragraphs in Schedule 12A
15	<p><b>Information relating to any consultations or negotiations, or contemplated consultations or negotiations, in connection with any labour relations matter arising between the authority or a Minister of the Crown and employees of, or office holders under, the authority.</b></p>
	<p>The Proper Officer (Monitoring Officer) has determined in preparing this report that paragraph 15 should apply. Their view on the public interest test was that whilst they are mindful of the need to ensure that transparency and accountability of public authority for decisions taken by them they were satisfied that in this case disclosure of the information would prejudice the discussion in relation to labour relations to the disadvantage of the authority and inhabitants of its area. On that basis they felt that the public interest in maintaining the exemption outweighs the public interest in disclosing the information. Members are asked to consider this factor when determining the public interest test, which they must decide when considering excluding the public from this part of the meeting.</p>
16	<p><b>Information in respect of which a claim to legal professional privilege could be maintained in legal proceedings.</b></p>
	<p>No public interest test.</p>
17	<p><b>Information which reveals that the authority proposes:</b>  <b>(a) To give under any enactment a notice under or by virtue of which requirements are imposed on a person; or</b>  <b>(b) To make an order or direction under any enactment.</b></p>
	<p>The Proper Officer (Monitoring Officer) has determined in preparing this report that paragraph 17 should apply. Their view on the public interest test was that the authority's statutory powers could be rendered ineffective or less effective were there to be advanced knowledge of its intention/the proper exercise of the Council's statutory power could be prejudiced by the public discussion or speculation on the matter to the detriment of the authority and the inhabitants of its area. On that basis they felt that the public interest in maintaining the exemption outweighs the public interest in disclosing the information. Members are asked to consider this factor when determining the public interest test, which they must decide when considering excluding the public from this part of the meeting.</p>
18	<p><b>Information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime</b></p>
	<p>The Proper Officer (Monitoring Officer) has determined in preparing this report that paragraph 18 should apply. Their view on the public interest test was that the authority's statutory powers could be rendered ineffective or less effective were there to be advanced knowledge of its intention/the proper exercise of the Council's statutory power could be prejudiced by public discussion or speculation on the matter to the detriment of the authority and the inhabitants of its area. On that basis they felt that the public interest in maintaining the exemption outweighs the public interest in disclosing the information. Members are asked to consider this factor when determining the public interest test, which they must decide when considering excluding the public from this part of the meeting.</p>

# Agenda Item 7

Yn rhinwedd paragraff(au) 14 Atodlen 12A  
o Ddeddf Llywodraeth Leol 1972  
fel y'i diwygiwyd gan Orchymyn Llywodraeth Leol (Mynediad at  
Wybodaeth) (Amrywiad) (Cymru) 2007.

Document is Restricted

Yn rhinwedd paragraff(au) 14 Atodlen 12A  
o Ddeddf Llywodraeth Leol 1972  
fel y'i diwygiwyd gan Orchymyn Llywodraeth Leol (Mynediad at  
Wybodaeth) (Amrywiad) (Cymru) 2007.

Document is Restricted

# Agenda Item 8

Yn rhinwedd paragraff(au) 14 Atodlen 12A  
o Ddeddf Llywodraeth Leol 1972  
fel y'i diwygiwyd gan Orchymyn Llywodraeth Leol (Mynediad at  
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Wybodaeth) (Amrywiad) (Cymru) 2007.

Document is Restricted

# Agenda Item 9

Yn rhinwedd paragraff(au) 14 Atodlen 12A  
o Ddeddf Llywodraeth Leol 1972  
fel y'i diwygiwyd gan Orchymyn Llywodraeth Leol (Mynediad at  
Wybodaeth) (Amrywiad) (Cymru) 2007.

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Yn rhinwedd paragraff(au) 14 Atodlen 12A  
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fel y'i diwygiwyd gan Orchymyn Llywodraeth Leol (Mynediad at  
Wybodaeth) (Amrywiad) (Cymru) 2007.

Document is Restricted

# Agenda Item 10

Yn rhinwedd paragraff(au) 14 Atodlen 12A  
o Ddeddf Llywodraeth Leol 1972  
fel y'i diwygiwyd gan Orchymyn Llywodraeth Leol (Mynediad at  
Wybodaeth) (Amrywiad) (Cymru) 2007.

Document is Restricted

Yn rhinwedd paragraff(au) 14 Atodlen 12A  
o Ddeddf Llywodraeth Leol 1972  
fel y'i diwygiwyd gan Orchymyn Llywodraeth Leol (Mynediad at  
Wybodaeth) (Amrywiad) (Cymru) 2007.

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