



## City and County of Swansea

### Notice of Meeting

You are invited to attend a Meeting of the

## Local Pension Board

**At:** Remotely via Microsoft Teams

**On:** Thursday, 1 April 2021

**Time:** 10.00 am

**Chair:** Ian Guy

#### Membership:

##### Employer Representatives

P K Jones, A Lockyer and D Mackerras

#### Local Pension Board Members

R Broad and D White

Watch Online: <http://bit.ly/38H9ryx>

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### Agenda

	Page No.
<b>1 Apologies for Absence.</b>	
<b>2 Disclosures of Personal and Prejudicial Interests.</b> <a href="http://www.swansea.gov.uk/DisclosuresofInterests">www.swansea.gov.uk/DisclosuresofInterests</a>	
<b>3 Minutes.</b> To approve & sign the Minutes of the previous meeting(s) as a correct record.	<b>1 - 6</b>
<b>4 Report(s) of Audit Wales.</b>	
a City & County of Swansea Pension Fund Audit Plan 2021.	<b>7 - 18</b>
<b>5 Report(s) of the Section 151 Officer.</b>	
a City & County of Swansea Pension Fund Draft Funding Strategy Statement (Employer Flexibility Revisions). (For Information)	<b>19 - 54</b>
b Breaches. (For Information)	<b>55 - 69</b>
c City & County of Swansea Pension Fund Business Plan 2021/22. (For Information)	<b>70 - 87</b>
d Trustee Training.	<b>88 - 93</b>
e Exit Cap Regulations Update. (For Information)	<b>94 - 99</b>
<b>6 Exclusion of the Public.</b>	<b>100 - 103</b>

- |          |   |                  |
|----------|---|------------------|
| <b>7</b> | <b>Report(s) of the Section 151 Officer.</b>                  |                  |
| a        | Wales Pension Partnership Update. (For Information)           | <b>104 - 111</b> |
| <b>8</b> | <b>Report of the Investment Consultant. (For Information)</b> | <b>112 - 127</b> |
| <b>9</b> | <b>Investment Summary. (For Information)</b>                  | <b>128 - 137</b> |

**Next Meeting:** Wednesday, 21 July 2021 at 10.00 am

*Huw Evans*

**Huw Evans**

**Head of Democratic Services**

**Thursday, 25 March 2021**

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**Contact: Democratic Services: 01792 636923**

# Agenda Item 3



City and County of Swansea

## Minutes of the **Local Pension Board**

Remotely via Microsoft Teams

Thursday, 26 November 2020 at 10.00 am

### Present:

#### Employer Representatives

A Lockyer

P K Jones

#### Local Pension Board Member Representatives

R Broad

I Guy

D White

#### Officer(s)

Jeffrey Dong

Deputy Chief Finance Officer / Deputy Section 151 Officer.

Stephanie Williams

Principal Lawyer

Karen Cobb

Senior Accountant

Jeremy Parkhouse

Democratic Services Officer

#### Also Present:

David Morton

Hymans Robertson

**Apologies for Absence:** None.

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### 1 Election of Chair for the 2020-2021 Municipal Year.

**Resolved** that Ian Guy (Neath Port Talbot County Borough Council) be elected Chair for the 2020-2021 Municipal Year.

Note: - Following Legal advice and the situation caused by the Covid 19 Pandemic, the Board agreed to depart from its Terms of Reference and re-appoint the outgoing Chair.

**(Ian Guy presided)**

### 2 Election of Vice-Chair for the 2020-2021 Municipal Year.

**Resolved** that David White (City & County of Swansea) be elected Vice-Chair for the 2020-2021 Municipal Year.

### **3 Disclosures of Personal and Prejudicial Interests.**

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

R Broad – Agenda as a whole – My sister is a Member of Local Government Pension Scheme – personal.

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

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

D White – Agenda as a whole - Member of Local Government Pension Scheme and member of the South Wales Fire & Rescue Authority Board - 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.

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

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

### **4 Minutes.**

**Resolved** that the Minutes of the Local Pension Board meeting held on 24 September 2020 be approved and signed as a correct record.

### **5 Investment Strategy Update Presentation. (For Information)**

David Morton, Hymans Robertson provided the Board with an investment strategy update presentation which previously been presented to the Annual Consultative meeting. Details provided included: -

- Performance to September 2020;
- Markets update and the impact of Covid 19;
- Market returns 2020;
- Equities: is the only way up?
- Nominal Government yields;
- How does the recovery compare to history?
- The shape of things to come;

- The forgotten events.....;
- Investment Strategy – Roles of different allocations;
- Likely evolution of the Strategy;
- Investment Strategy changes;
- De-risking strategy
- Equity protection programme
- Real asset portfolio including renewables, affordable housing
- Responsible investment;
- Next 12 months.

The Board asked questions of the Hymans Robertson representative regarding the presentation, which were responded to accordingly.

It was noted that the Fund had been shortlisted for an award regarding its equity protection programme.

The Chair thanked the Hymans Robertson representative for providing the presentation and responses to questions.

**Resolved** that: -

- 1) The content of the presentation be noted;
- 2) The Deputy Chief Finance Officer / Deputy S151 Officer informs the Board regarding the outcome of the competition.

## **6 Audit of Accounts Report - City and County of Swansea Pension Fund.**

The Deputy Chief Finance Officer / Deputy S151 Officer presented the Audit of Accounts Report – City and County of Swansea which summarised the main findings from the audit of the 2019-20 accounts.

It was explained that the COVID-19 pandemic had made a significant impact on all aspects of our society and continued to do so. The Council was required by law to prepare accounts and it was of testament to the commitment of the accounts team that the Council had succeeded in doing so this year in the face of the challenges posed by this pandemic. Audit Wales were extremely grateful for the professionalism of the team in supporting them to complete our audit in such difficult circumstances.

Audit Wales received the draft statement of accounts on 10 June 2020, as agreed with the Pension Fund and received a subsequent draft set of accounts on 2 September 2020, following some asset valuation adjustments. This version was accepted as the draft set of accounts which would be audited as they were received prior to Audit Wales starting their audit work.

It was added that there were no misstatements identified in the financial statements which remained uncorrected. There were initially misstatements in the accounts that had been corrected by management. The most significant of these amendments

were provided at Appendix 3. Exhibit 2 included commentary on the more significant matters Audit Wales encountered and worked with management to resolve.

The chair commended Karen Cobb and her team for the successful completion of the accounts and subsequent audit.

**Resolved** that the Audit of Accounts Report be approved.

## **7 Breaches Report. (For Information)**

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

Appendix A provided the details of breaches that had occurred since the previous Pension Fund Committee in September 2020. The details of the breaches and the actions taken by Management were highlighted.

The Board requested that in future, any new breaches be highlighted in the report.

**Resolved** that in future, any new breaches be highlighted in the report.

## **8 Pension Administration - Review of the Pension Section Administration Resourcing. (For Information)**

The Deputy Chief Finance Officer / Deputy S151 Officer presented a 'for information' report which appraised the current staffing levels within the Pension Administration Team, with the aim of addressing scheme administration challenges and regulatory changes to ensure legal obligations were met.

Details of the background, past, current and future challenges were outlined and resourcing proposals were provided.

## **9 Exit Payment Reform - Response to Government Consultation. (For Information)**

The Deputy Chief Finance Officer / Deputy S151 Officer presented a 'for information' report which provided the Adminstrating Authority response to Government consultation on Exit Payment Reform.

It was explained that the response, which had to be provided by 4 November 2020, had been forwarded with the approval of the Chair of the Committee and Chair of the Local Pension Board.

The Ministry of Housing Communities and Local Government (MHCLG) letter outlining their position was provided at Appendix 1 and the Administering Authority Response was provided at Appendix 2.

**10 Exclusion of the Public.**

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

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

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

**(Closed Session)**

**11 Wales Pension Partnership Update. (For Information)**

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

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

**12 Investment Strategy Update. (For Information)**

The Deputy Chief Finance Officer / Deputy S151 Officer provided a 'for information' update report which outlined the progress of the investment strategy implementation, previously approved by the Pension Fund Committee.

Appendix 1 provided a report to Council on 4 November 2020 – 'How the Pension Fund Is Addressing Climate Change Risk In Its Investment Portfolio'.

**13 Report of Investment Consultants. (For Information)**

The Deputy Chief Finance Officer / Deputy S151 Officer presented a 'for information' report, which presented the Quarter 3 2020 Investment Monitoring Report provided by the Investment Consultants.

The content of the report was noted by the Board.

**14 Investment Summary. (For Information)**

The Deputy Chief Finance Officer / Deputy S151 Officer provided a "for information" report, which presented the investment performance for the quarter, year and 3 years ended 30 September 2020.

Minutes of the Local Pension Board (26.11.2020)  
Cont'd

The quarterly investment summaries for the Pension Fund for the quarter, year and 3 years ended 30 September 2020 were attached at Appendix 1.

The meeting ended at 11.58 am

**Chair**



## 2021 Audit Plan – City and County of Swansea Pension fund

Audit year: 2020-21

Date issued: March 2021

Document reference: 2312A2021-22

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

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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.

Mae'r ddogfen hon hefyd ar gael yn Gymraeg. This document is also available in Welsh.

# Contents

2021 Audit Plan	
Summary	4
Impact of COVID-19	4
Audit of pension fund accounts	5
Fee, audit team and timetable	8

# 2021 Audit Plan

## Summary

- 1 This document sets out the work I plan to undertake during 2021 to discharge my statutory responsibilities as your external auditor and to fulfil my obligations under the Code of Audit Practice to examine and certify whether City and County of Swansea Pension Fund (the Pension Fund) accounting statements are 'true and fair'.
- 2 The purpose of this plan is to set out my proposed work, when it will be undertaken, how much it will cost and who will undertake it.
- 3 There have been no limitations imposed on me in planning the scope of this audit.

## Impact of COVID-19

- 4 The COVID-19 pandemic continues to have a significant impact across the United Kingdom and on the work of public sector organisations. As in 2020, it is likely to significantly impact on the preparation of the 2020-21 accounts and my financial audit and performance audit work.
- 5 Recent developments in relation to a vaccine programme indicate that the Welsh Government's restrictions on movement and anticipated sickness absence levels are expected to ease through 2021. However, I recognise that there remains significant uncertainty and I understand that many local authorities may not be able to prepare accounts in line with the timetable set out in the Accounts and Audit (Wales) Regulations 2014. As well as the delivery of my statutory responsibilities as the Auditor General, my priority is to ensure the health, safety and wellbeing of Audit Wales staff, their families and those of our partners elsewhere in the public service at this incredibly challenging time.
- 6 Audit Wales staff will continue to work pragmatically to deliver the audit work set out in this plan. In response to the government advice and subsequent restrictions, we will continue to work remotely, building on the arrangements made in 2020, until such time that it is safe to resume on-site activities. I remain committed to ensuring that the work of Audit Wales staff will not impede the vital activities that public bodies need to do to respond to ongoing challenges presented by the COVID-19 pandemic.
- 7 Consequently, while this audit plan sets out an initial timetable for the completion of my audit work, the ongoing uncertainties around the impact of COVID-19 on the sector mean that some timings may need to be revisited. My audit team will discuss any amendments required to the proposed timetable with you as the 2021 position becomes clearer.

## Audit of pension fund accounts

- 8 The audit work I undertake to fulfil my responsibilities responds to my assessment of risks. This understanding allows us to develop an audit approach which focuses on addressing specific risks whilst providing assurance for the Pension Fund accounts as a whole.
- 9 I do not seek to obtain absolute assurance on the truth and fairness of the financial statements and related notes but adopt a concept of materiality. My aim is to identify material misstatements, that is, those that might result in a reader of the accounts being misled. The levels at which I judge such misstatements to be material will be reported to the Pension Committee prior to completion of the audit.
- 10 Any misstatements below a trivial level (set at 5% of materiality) I judge as not requiring consideration by those charged with governance and therefore will not report them.
- 11 I will also report by exception on a number of matters which are set out in more detail in our [Statement of Responsibilities](#), along with further information about my work.

## Financial audit risks

- 12 The following table sets out the significant risks I have identified for the audit of the Pension Fund accounts.

### Exhibit 1: financial audit risks

This table summarises the key financial audit risks identified at the planning stage of the audit.

Audit risk	Proposed audit response
<b>Significant risks</b>	
<p>The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk [ISA 240.31-33].</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> <li>• test the appropriateness of journal entries and other adjustments made in preparing the financial statements;</li> <li>• review accounting estimates for biases; and</li> <li>• evaluate the rationale for any significant transactions outside the normal course of business.</li> </ul>

Audit risk	Proposed audit response
<p><b>Impact of COVID-19</b></p> <p>The COVID-19 national emergency continues and the pressures on staff resource and of remote working may impact on the preparation, audit and publication of accounts. There is a risk that the quality of the accounts and supporting working papers, eg around estimates and valuations, may be compromised leading to an increased incidence of errors. Quality monitoring arrangements may be compromised due to timing issues and/or resource availability.</p>	<p>We will discuss your closedown process and quality monitoring arrangements with the accounts preparation team and make arrangements to monitor the accounts preparation process. We will help to identify areas where there may be gaps in arrangements.</p>
Other areas of audit attention	
<p><b>McCloud judgement</b></p> <p>In 2015 the Government introduced reforms to public sector pensions, meaning most public sector workers were moved into new pension schemes in 2015.</p> <p>In December 2018, the Court of Appeal ruled that the ‘transitional protection’ arrangements amounted to unlawful discrimination.</p> <p>Consultations on proposed remedies for the Local Government, Police and Fire pensions schemes closed in October 2020. The Government recently announced its proposed remedy for this judgement and final details are expected to be published during 2021.</p> <p>The impact of the judgement is likely to have a significant impact on the disclosed liabilities for the Pension Fund.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> <li>• review how the Pension Fund has assessed the impact of the McCloud judgement on the financial statements; and</li> <li>• ensure that, where appropriate, this is adequately disclosed in the financial statements.</li> </ul>

Audit risk	Proposed audit response
<p><b>Private Equity Investments</b></p> <p>Year-end valuation of private equity investments is provided by investment managers which is based upon forward-looking estimates and judgements and industry guidelines. As there is no quoted market process, there is a greater risk for the reasonableness of valuation bases of these investments.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> <li>confirm the investment valuation to audited financial statements; and</li> <li>seek additional assurance over the valuation basis from control assurance reports.</li> </ul>
<p><b>Wales Pension Partnership</b></p> <p>The eight Pension Funds in Wales have created an ‘all-Wales’ pooled investment vehicle which will be overseen and reported on by a joint governance committee the Wales Pension Partnership.</p> <p>City and County of Swansea Pension Fund has transferred funds into several new arrangements over the last three financial years.</p> <p>There is a risk that these investment fund balances will not be adequately disclosed in the 2020-21 financial statements.</p>	<p>My team will work with the auditors of the joint governance committee to obtain the assurances needed on the valuation of the funds transferred into the Wales Pension Partnership arrangements.</p>

## Statutory audit functions

- 13 In addition to the audit of the accounts, I have statutory responsibilities to receive questions and objections to the accounts from local electors. These responsibilities are set out in the Public Audit (Wales) Act 2004:
- Section 30 Inspection of documents and questions at audit; and
  - Section 31 Right to make objections at audit.
- 14 As this work is reactive, I have not included an estimated fee in **Exhibit 2** below. If I do receive questions or objections, I will discuss potential audit fees at the time.

## Fee, audit team and timetable

- 15 My fees and planned timescales for completion of the audit are based on the following assumptions:
- the financial statements are provided in accordance with the agreed timescales to the quality expected and have been subject to a robust quality assurance review;
  - information provided to support the financial statements is in accordance with the agreed audit deliverables document;
  - appropriate accommodation and facilities are provided to enable my audit team to deliver the audit in an efficient manner;
  - all appropriate officials will be available during the audit;
  - you have all the necessary controls and checks in place to enable the Responsible Financial Officer to provide all the assurances that I require in the Letter of Representation addressed to me; and
  - Internal Audit's planned programme of work is complete and management has responded to issues that may have affected the financial statements.

## Fee

- 16 Your estimated fee for 2021 is set out in **Exhibit 2**. This fee is at the same level as compared to your actual 2020 fee.

### Exhibit 2: audit fee

This table sets out the proposed audit fee for 2021, by area of audit work, alongside the actual audit fee for last year.

Audit area	Proposed fee (£) <sup>1</sup>	Actual fee last year (£)
Audit of pension fund accounts <sup>2</sup>	42,710	42,710

- 17 Planning will be ongoing, and changes to my programme of audit work, and therefore my fee, may be required if any key new risks emerge. I shall make no changes without first discussing them with the Head of Finance.
- 18 Further information on my [fee scales and fee setting](#) can be found on our website.

<sup>1</sup> Notes: The fees shown in this document are exclusive of VAT, which is not charged to you.

<sup>2</sup> Payable November 2020 to October 2021.



## Audit team

19 The main members of my team, together with their contact details, are summarised in **Exhibit 3**.

### Exhibit 3: my audit team

This table lists the members of the local audit team and their contact details.

Name	Role	Contact number	E-mail address
Anthony Veale	Engagement Lead	02920 320585	<a href="mailto:anthony.veale@audit.wales">anthony.veale@audit.wales</a>
Jason Garcia	Audit Manager (Financial Audit)	07792 015416	<a href="mailto:jason.garcia@audit.wales">jason.garcia@audit.wales</a>
Daniel King	Audit Lead (Financial Audit)	02920 829373	<a href="mailto:daniel.king@audit.wales">daniel.king@audit.wales</a>

## Timetable

20 The key milestones for the work set out in this plan are shown in **Exhibit 4**. As highlighted earlier, there may be a need to revise the timetable in light of developments with COVID-19.

### Exhibit 4: Audit timetable

Planned output	Work undertaken	Report finalised
2021 Audit Plan	January to March 2021	March 2021

Planned output	Work undertaken	Report finalised
<b>Audit of pension fund accounts:</b> <ul style="list-style-type: none"> <li>• Audit of Financial Statements Report</li> <li>• Opinion on Financial Statements</li> </ul>	March to September 2021 October 2021	October 2021 October 2021
2022 Audit Plan	January to March 2022	March 2022

21 I can confirm that my team members are all independent of the Pension Fund and your officers. In addition, I am not aware of any potential conflicts of interest that I need to bring to your attention.





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We welcome correspondence and telephone calls in Welsh and English.  
Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg.

# Agenda Item 5a



## Report of the Section 151 Officer

Local Pension Board – 1 April 2021

### **City & County of Swansea Pension Fund Draft Funding Strategy Statement (Employer Flexibility Revisions)**

<b>Purpose:</b>	To ensure compliance with Local Government Pension Scheme Regulations  Presented to Local Pension Board for Information
<b>Consultation:</b>	Legal, Finance and Access to Services.
<b>Recommendation:</b>	That the revisions to the funding strategy statement is approved subject to consultation
<b>Report Author:</b>	Jeff Dong
<b>Finance Officer:</b>	Jeff Dong
<b>Legal Officer:</b>	Stephanie Williams
<b>Access to Services Officer:</b>	N/A
<b>For Information</b>	

#### **Funding Strategy Statement**

##### **1 Background**

1.1 In line with the Local Government Pension Scheme Regulations, the City & County of Swansea Pension Fund produced and approved a funding strategy statement in consultation with its scheme employers and appointed actuary and advisors in March 2020.

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

- establishes a clear and transparent funding strategy, specific to the Fund, which will identify how employer's pension liabilities are best met going forward.
- supports the regulatory requirement in relation to the desirability of maintaining as

nearly constant a primary rate of contributions as possible.

- ensures that the regulatory requirements to set contributions as to ensure the solvency and long-term cost efficiency of the Fund are met.
- takes a prudent longer-term view of funding the Fund's liabilities.

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

1.2 MHCLG and the SAB have now issued guidance in relation to new regulations laid which allow greater employer flexibilities. How these greater flexibilities are implemented need to be formalised in the Funding Strategy Statement (FSS) ensuring that all parties are aware of how those flexibilities shall be dealt with by the Administering Authority.

1.3 The **MHCLG Statutory guidance** issued identifies areas that Administering Authorities need to consider :

#### *General points*

- Where the FSS is amended to allow for the use of the new flexibilities, it is expected that all fund employers should be consulted on the changes.
- The administering authority should consider individual employers' views when deciding whether to make use of the new powers
- Any new arrangements under the new powers are considered as new administration arrangements and so should be recorded in the pension fund annual report.

#### *Policy on amending contributions between fund valuations*

The policy should include:

- The key factors to decide whether contributions should be reviewed
- How the impact of a review on other fund employers will be assessed
- How the employer will be involved in the process (and any other associated employers)
- When it would be inappropriate to carry out a review e.g. just before a triennial valuation is due to take place (or during the valuation process)
- The process the employer needs to follow to request a review, and how long a review may take
- How the employer's circumstances may be monitored after a change in contribution rate.

The guidance is clear that the policy should set out what actuarial advice will be required in revising a contribution rate. This could involve calculating any change in liabilities, and changes in the employer's covenant. It should be clear that employers need to provide required covenant information for ongoing monitoring to take place.

### *Policy on spreading exit payments*

The policy needs to state that in all cases the proposed exit payment spreading will be discussed with the employer

The policy should include:

- The key factors to decide whether an exit payment should be spread
- When it would be inappropriate to spread an exit payment
- How the AA will decide on an appropriate length of time for an exit payment to be spread
- The maximum length of any spreading period
- The process the employer needs to follow to request a spreading of an exit payment, and how long a decision may take
- The details to be included in the spreading decision i.e. the spreading period, annual payments due, interest rates applicable, other costs payable, and the responsibilities of the employer during the exit spreading period.
- How the employer's circumstances may be monitored after an exit payment has been spread.

The guidance is clear that actuarial, covenant and legal advice should be taken as necessary in considering an exit payment spreading case.

### *Policy on deferred debt agreements (DDAs)*

The deferred debt agreement allows an administering authority to defer the exit valuation, and the employer is treated similarly to an employer with active members with liabilities reviewed and contributions set at triennial valuations. The AA's policy on this:

- Needs to state that in all cases the proposed DDAs will be discussed with the employer
- Should include
  - the process for consulting the exiting fund employer in question
  - the matters to be included in the DDA, for example, what would cause the arrangement to be terminated leading to an exit valuation and payment or credit at that time
  - details on how DDAs will be monitored and under which circumstances a variation to the DDA length would be considered
  - how the costs of entering a DDA would be calculated and met, the indicative timetable for entering into a DDA

The guidance is clear that actuarial, covenant and legal advice should be taken as necessary in considering a DDA case.

- 1.4 The SAB has produced more detailed **SAB guidance** for both administering authorities and employers on the new flexibilities, which is set out in a question and answer format.

The guidance is clear that administering authorities (AAs) need to have a good understanding of employer covenant to take advantage of the flexibilities, and need to be able to assess it in an appropriate and transparent way. In order for employers to be able to provide the required information, the AA need to set out what “notifiable events” employers should be reporting to the AA in fund documentation. These could be:

- Material change in LGPS membership, where the definition of material is both transparent and appropriate to each fund
- Material change in total employer payroll and LGPS pensionable pay
- Change in employer legal status or constitution (to include matters which might change qualification as a Scheme employer under the LGPS Regulations)
- A decision which will restrict the employer’s active membership in the Fund in future
- Any restructuring or other event which could materially affect the employer’s membership.
- Confirmation of wrongful trading
- Conviction of senior personnel
- Decision to cease business
- Breach of banking covenant
- Restructuring of a council due to a move to unitary status
- Restructuring of a Multi-Academy Trust for example due to the individual academies that make it up, or a change in how its rate is assessed across its academies
- A significant outsourcing or transfer of staff to another employer (not necessarily within the Fund)
- Significant changes to the membership of an employer, for example due to redundancies, significant salary awards, ill health retirements, age retirements, large number of withdrawals or the loss of a significant contract or income stream
- Establishment of a wholly owned company by a scheduled body which does not participate in the LGPS.
- Provision of, or removal of, security, bond, guarantee or some other form of indemnity by an employer against their obligations in the Fund.
- Material change in an employer’s immediate financial strength (evidence should be available to justify such a view).
- Material change in an employer’s longer-term financial outlook (evidence should



be available to justify such a view).

- Where an employer exhibits behaviour that raises concerns over their ability to contribute to the Fund. For example, a persistent failure to pay contributions (at all, or on time), or to reasonably engage with the Administering Authority over a significant period of time

The SAB guidance is also clear that full engagement in covenant reviews and “regular but proportionate” reviews of the employers’ circumstances will be essential in implementing these flexibilities whilst managing the additional risks involved.

## **2 Recommendation**

- 2.1 The Pension Fund Committee approved the attached revised draft funding strategy statement ( Appendix 1) on the 11th March 2021 , subject to any material changes arising from consultation of employers ( if any changes) being reported back to this committee at the next Committee meeting.

## **3 Legal Implications**

- 3.1 The relevant legal provisions and guidance are set out in Appendix 1

## **4 Financial Implications**

- 4.1 The financial implications arising from this report are outlined in the Employer Contribution Rates payable as outlined in the rates certificate included in the Triennial Valuation Report also on this agenda.

## **5 Equality and Engagement Implications**

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

**Background Papers:** None.

**Appendices:** Appendix 1 – Swansea FSS.



## City & County of Swansea Pension Fund Funding Strategy Statement – March 2021

### 1. INTRODUCTION

#### Overview

- 1.1 This Statement, originally prepared in accordance with Regulation 76A of the Local Government Regulations 1997 has been reviewed in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (the LGPS Regulations). The Statement describes City and County of Swansea’s strategy, in its capacity as Administering Authority (the Administering Authority), for the funding of the City and County of Swansea Pension Fund (the Fund).
- 1.2 As required by Regulation 58(4)(a), the Statement has been prepared having regard to:

- the statutory guidance published by CIPFA for this purpose.

This Statement has regard to the updated guidance published in September 2016 and not the original guidance issued in October 2012 as referred to in the LGPS Regulations at time of writing the Statement;

- the supplementary statutory guidance issued by MHCLG: Guidance on Preparing and Maintaining Policies on Review of Employer Contributions, Employer Exit Payments and Deferred Debt Agreements and
- the Investment Strategy Statement (ISS) published under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended) (“The Investment Regulations”).

The Administering Authority has also considered the Scheme Advisory Board’s Guide to Employer Flexibilities in developing the FSS and associated policies at Appendix 1 and Appendix 2.

#### Consultation

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

#### Purpose of this Statement

- 1.5 The main purpose of this Funding Strategy Statement is to set out the processes by which the Administering Authority:
- establishes a clear and transparent funding strategy, specific to the Fund, which will identify how employer’s pension liabilities are best met going forward.
  - supports the regulatory requirement in relation to the desirability of maintaining as nearly constant a primary rate of contributions as possible.

- ensures that the regulatory requirements to set contributions as to ensure the solvency and long-term cost efficiency of the Fund are met.
- takes a prudent longer-term view of funding the Fund's liabilities.
- makes use of the provisions of Regulation 64(7A), 64A and 64B.

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

#### **Links to investment policy set out in the Investment Strategy Statement**

- 1.6 The Authority has produced this Funding Strategy Statement having taken an overall view of the level of risk inherent in the investment policy set out in the Investment Strategy Statement and the funding strategy set out in this Statement.
- 1.7 The assets that most closely match the liabilities of the Fund are fixed interest and index-linked Government bonds of appropriate term relative to the liabilities. The Fund's asset allocation as set out in the Investment Strategy Statement invests a significant proportion of the Fund in assets such as equities which are expected but not guaranteed to produce higher returns than Government bonds in the long term. The Administering Authority has agreed with the Fund Actuary that the Funding Target on the ongoing basis will be set after making some allowance for this higher anticipated return. However, the Administering Authority recognises that outperformance is not guaranteed and that, in the absence of any other effects, if the higher expected returns are not achieved the solvency position of the Fund will deteriorate.
- 1.8 The funding strategy recognises the investment targets and the inherent volatility arising from the investment strategy, by being based on financial assumptions which are consistent with the expected return on the investments held by the Fund, and by including measures that can be used to smooth out the impact of such volatility.
- 1.9 The Administering Authority will continue to review both documents to ensure that the overall risk profile remains appropriate including, where appropriate, commissioning asset liability modelling or other analysis techniques.

#### **Review of this Statement**

- 1.10 The Administering Authority undertook its latest substantive review of this Statement in **March 2021**.
- 1.11 The Administering Authority will formally review this Statement as part of the next funding valuation following the 31 March 2019 valuation, currently expected to be as at 31 March 2022, unless circumstances arise which require earlier action.
- 1.12 The Administering Authority will monitor the funding position of the Fund on an approximate basis at regular intervals between valuations, and will discuss with the Fund Actuary whether any significant changes have arisen that require action.

## 2. THE AIMS AND PURPOSE OF THE FUND

### Purpose of the Fund

2.1 The purpose of the Fund is to:

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

### Aims of the Fund

2.2 The main aims of the Fund are:

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

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

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

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

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

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

- 2.6 This short term volatility in investment returns can produce a consequent volatility in the measured funding position of the Fund at successive actuarial valuations, with knock on effects on employer contribution rates. The impact on employer rates can be mitigated by use of smoothing adjustments at each valuation.
- 2.7 The Administering Authority recognises that there is a balance to be struck between the investment policy adopted, the smoothing mechanisms used at valuations, and the resultant stability of employer contribution rates from one valuation period to the next.
- 2.8 The Administering Authority also recognises that the position is potentially more volatile for Admission Bodies with short term contracts where utilisation of smoothing mechanisms is less appropriate.
- 2.9 b) To ensure that sufficient resources are available to meet all liabilities as they fall due.

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

- 2.10 c) To manage employers' liabilities effectively.

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

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

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

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

### 3. RESPONSIBILITIES OF THE KEY PARTIES

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

Their key responsibilities are as follows:

#### **Administering Authority**

3.2 The Administering Authority will:

- Administer the Fund
- Collect investment income and other amounts due to the Fund as set out in the Regulations including employer and employee contributions and, as far as the Administering Authority is able to, ensure these contributions are paid by the due date (with the due date as specified in the LGPS Regulations, Rates and Adjustments Certificate and any Administering Authority policies)
- Pay from the Fund the relevant entitlements as set out by the Local Government Pension Scheme Regulations 2013.
- Invest surplus monies in accordance with the Investment Regulations.
- Ensure that cash is available to meet liabilities as and when they fall due.
- Manage the valuation process in consultation with the Fund's Actuary
- Ensure it communicates effectively with the Fund Actuary to:
  - Agree timescales for the provision of information and provision of valuation results
  - Ensure provision of data of suitable accuracy
  - Ensure that the Fund Actuary is clear about the content of the Funding Strategy Statement
  - Ensure that participating employers receive appropriate communication throughout the process
  - Ensure that reports are made available as required by relevant guidance and Regulations
  - Provide information required by the Government Actuary's Department in relation to Section 13 of the public Service Pensions Act 2013
- Prepare and maintain an Investment Strategy Statement and a Funding Strategy Statement after due consultation with interested parties.
- Monitor all aspects of the Fund's performance and funding and amend these two documents if required.
- Effectively manage any potential conflicts of interest arising from its dual role both as Administering Authority and as Scheme Employer.
- Take measures, as set out in the Regulations, to safeguard the Fund against the consequences of employer default
- Enable the Local Pension Board to review the valuation process as set out in their terms of reference.
- Ensure consistent use of policies relating to revising employer contributions between formal valuations, entering into Deferred Debt Agreements and spreading exit payments and ensure the process of applying those policies is clear and transparent to all Fund employers.

### Individual Employers

#### 3.3 Individual Employers will:

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

### Fund Actuary

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

- Funding strategy and the preparation of the Funding Strategy Statement
- Actuarial valuations including the setting of employers' contribution rates and issue of a Rates and Adjustments Certificate, after agreeing assumptions with the Administering Authority and having regard to the Funding Strategy Statement and the LGPS Regulations.
- Bulk transfers and individual benefit-related matters such as pension strain costs, ill health retirement costs, compensatory added years costs, etc.
- Valuations on the cessation of admission agreements or when an employer ceases to employ active members i.e. the exiting of employers from the Fund.
- Bonds and other forms of security for the Administering Authority against the financial effect on the Fund and of the employer's default.
- Assisting the Administering Authority in assessing whether employer contributions need to be revised between actuarial valuations as permitted or required by the Regulations, in particular in relation to any review of contributions between triennial valuations under Regulations 64(4) and 64A.
- Provide views in relation to any decision by the Administering Authority to put in place a Deferred Debt Agreement under Regulation 64(7A) or spread an exit payment under Regulation 64B.
- Ensure that the Administering Authority is aware of any professional guidance requirements which may be of relevance to his or her role in advising the Administering Authority.

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

## 4. **FUNDING STRATEGY**

### **Risk Based Approach**

#### 4.1 The Fund utilises a risk based approach to funding strategy.

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

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

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

These three terms are considered in more detail below.

### **Solvency Target and Funding Target**

#### Solvency and Funding Success

- 4.2 The Administering Authority's primary aim is long-term solvency. Accordingly, employers' contributions will be set to ensure that 100% of the liabilities can be met over the long term using appropriate actuarial assumptions. The Solvency Target is the amount of assets which the Fund, having taken advice from the Fund Actuary, wishes to hold at the end of the Trajectory Period (see later) to meet this aim.
- 4.3 The Fund is deemed to be solvent when the assets held are equal to or greater than 100% of the Solvency Target, where the Solvency Target is the value of the Fund's liabilities evaluated using appropriate methods and assumptions. The Administering Authority believes that its funding strategy will ensure the solvency of the Fund because employers collectively have the financial capacity to increase employer contributions should future circumstances require, in order to continue to target a funding level of 100%.
- 4.4 For secure tax raising Scheduled Bodies and Admission Bodies with guarantors of sound covenant agreeing to subsume assets and liabilities following exit, the Solvency Target will use appropriate actuarial methods and assumptions that are believed appropriate in the long term for those Bodies. For the 2019 valuation the Solvency Target will be set using an assumed rate of return of 2% in excess of the assumed long term annual increase in the Consumer Prices Index, which is intended to be a prudent outperformance assumption based on assumed future asset holdings.
- 4.5 For non tax raising Scheduled Bodies the Solvency Target may (dependent on circumstances) be set at a more prudent level than that used for Scheduled Bodies and Admission Bodies with guarantors of sound covenant agreeing to subsume assets and liabilities following exit.
- 4.6 For Admission Bodies and other bodies whose liabilities are expected to be orphaned following exit, the required Solvency Target will be set at a more prudent level dependent on circumstances. For most such bodies, the chance of achieving solvency will be set commensurate with assumed investment in an appropriate portfolio of Government index linked and fixed interest bonds after exit.



- 4.7 For deferred employers it is expected that the Solvency Target will be set by considering the valuation basis which would be adopted once the Deferred Debt Agreement ends. For most such bodies, the Solvency Target will be set commensurate with assumed investment in Government bonds at the end of the period of the Deferred Debt Agreement.

#### Probability of Funding Success

- 4.8 The Administering Authority deems funding success to have been achieved if the Fund, at the end of the Trajectory Period (or the longest employer Recovery Period, if longer), has achieved the Solvency Target. The Probability of Funding Success is the assessed chance of this happening based on the level of contributions payable by members and employers and asset-liability modelling carried out by the Fund Actuary.
- 4.9 Consistent with the Administering Authority's aim of enabling employers' total contributions to be kept as nearly constant as possible, the required chance of achieving the Solvency Target at the end of the relevant Trajectory Period for each employer or employer group can be altered at successive valuations within an overall envelope of acceptable risk.
- 4.10 The Administering Authority will not permit contributions to be set following a valuation that have an unacceptably low chance of achieving the Solvency Target at the end of the relevant Trajectory Period.

#### **Trajectory Periods**

- 4.11 The Trajectory Period in relation to an employer is the period between the valuation date and the date on which solvency is targeted to be achieved.
- 4.12 Maintaining a stable Trajectory Period avoids undue volatility when setting long term assumptions for the Fund, where the Administering Authority would in ideal circumstances look to reduce the Recovery Period over time in order to achieve Full Funding. A Trajectory Period of 25 years will be used for the valuation at 31 March 2019.

#### **Funding Target**

- 4.13 In order to satisfy the legislative requirement to secure long term cost efficiency the Administering Authority's aim is for employer contributions to be set so as to make provision for the cost of benefit accrual, with an appropriate adjustment for any surplus or deficiency. This is achieved through the setting of a Funding Target.
- 4.14 The Funding Target is the amount of assets which the Fund needs to hold at the valuation date to pay the liabilities at that date as indicated by the chosen valuation method and assumptions. It is a product of the actuarial valuation exercise and is not the same as the Solvency Target. It is instead the product of the data, chosen assumptions, and valuation method. The valuation method including the components of Funding Target, future service costs and any adjustment for the surplus or deficiency simply serve to set the level of contributions payable, which in turn dictates the chance of achieving the Solvency Target at the end of the Trajectory Period (defined below).
- 4.15 Consistent with the aim of enabling employers' primary contribution rates to be kept as nearly constant as possible:
- Contribution rates are set by use of the Projected Unit valuation method for most employers. The Projected Unit method is used in the actuarial valuation to determine the cost of benefits accruing to the Fund as a whole and for employers who continue to admit new members. This means that the future service (primary) contribution rate is derived as the cost of benefits accruing to employee members over the year following the valuation date expressed as a percentage of members' pensionable pay over that period.

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

4.16 The discount rate, and hence the overall required level of employer contributions, has been set for the 2019 valuation such that the Fund Actuary estimates that there is an 80% Probability of Funding Success – i.e. an 80% chance that the Fund would reach or exceed its Solvency Target after a Trajectory Period of 25 years (on the assumption that Recovery Periods were less than 25 years for all employers).

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

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

#### Scheduled Bodies and certain other bodies of sound covenant

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

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

- the type/group of the employer
- the business plans of the employer;
- an assessment of the financial covenant of the employer **including its long term commitment to participate in the Fund;**
- any contingent security available to the Fund or offered by the employer such as a guarantor or bond arrangement, charge over assets, etc.

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

#### Admission Bodies and certain other bodies whose participation is limited

4.21 For Admission Bodies, bodies closed to new entrants and other bodies whose participation in the Fund is believed to be of limited duration through known constraints or reduced covenant, and for which no access to further funding would be available to the Fund after exit **(e.g. where no subsumption commitment is in place from a secure tax raising Scheduled Body)** the Administering Authority will have specific regard to the potential for participation to cease (or to have no contributing members), the potential timing of such exit, and any likely change in notional or actual investment strategy as regards the assets held in respect of the body's liabilities at the date of exit. This is known as the (ongoing) orphan admission bodies funding target. It is not the same as the exit basis.

#### Deferred employers where a Deferred Debt Agreement is in place

4.22 **For deferred employers where a Deferred Debt Agreement is in place the funding target will take into account any likely change in the notional or actual investment strategy as regards the assets held in respect of the body's liabilities at the date the Deferred Debt Agreement is expected to end and any other factors considered to be relevant by the Administering Authority on the advice of the Actuary, which may include, without limitation:**

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

Further details of the Administering Authority's policy for Deferred Debt Agreements are set out in Appendix 1.

### Full Funding

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

### Recovery Periods

- 4.24 Where a valuation reveals that the Fund is in surplus or deficiency against the Funding Target, employers' contribution rates will be adjusted to target restoration of fully funding the solvent position over a period of years (the Recovery Period). The Recovery Period to an employer or group of employers is therefore the period over which any adjustment to the level of contributions in respect of a surplus or deficiency relative to the Funding Target used in the valuation is payable.
- 4.25 The Recovery Period applicable for each participating employer is set by the Administering Authority in consultation with the Fund Actuary and the employer, with a view to balancing the various funding requirements against the risks involved due to such issues as the financial strength of the employer and the nature of its participation in the Fund, and whether the employer is in surplus or deficit on the appropriate Funding Target.
- 4.26 Where an employer is in surplus, and where an employer's expected exit date is unknown or expected to be later than the date the revised rates and adjustments certificate will come into force following the next valuation, this surplus will only lead to an adjustment in an employer's contributions to the extent that this surplus is in excess of 10% of the value of that employer's liabilities valued relative to the appropriate Funding Target (i.e. to the extent that the employer's funding level is greater than 110%). Note that where an employer is subject to a temporary relaxation of the requirement for Full Funding, or subject to the subsumption funding target by virtue of a temporary subsumption commitment from City and County of Swansea and/or Neath Port Talbot County Borough Council (see below), the Administering Authority will have regard to the contribution requirement that would have applied without this temporary commitment when determining the extent to which any surplus can lead to contribution reductions.
- 4.27 The Administering Authority recognises that a large proportion of the Fund's liabilities are expected to arise as benefit payments over long periods of time. For employers of sound covenant, and where the employer is in deficit, the Administering Authority may be prepared to agree to Recovery Periods which are longer than the average future working lifetime of the membership of that employer. The Administering Authority recognises that such an approach is consistent with the aim of keeping employer contribution rates as nearly constant as possible. However, the Administering Authority also recognises the risk in relying on long Recovery Periods where employers are in deficit, and has agreed with the Fund Actuary a limit of 30 years for employers which are assessed by the Administering Authority as being a long term secure employer.
- 4.28 Where employers are in deficit, the Administering Authority's policy is to agree Recovery Periods with each employer which are as short as possible within the above framework. Recovery Periods for employers or employer groups may differ in order to suitably

balance risk to the fund and cost to the employer. For employers whose participation in the fund is for a fixed period it is unlikely that the Administering Authority and Fund Actuary would agree to a Recovery Period longer than the remaining term of participation. For deferred employers the Recovery Period is limited to the period of the Deferred Debt Agreement.

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

### Grouping

- 4.30 In some circumstances it may be desirable to group employers within the Fund together for funding purposes (i.e. to calculate employer contributions). Reasons might include reduction of volatility of contribution rates for small employers, facilitating situations where employers have a common source of funding or accommodating employers who wish to share the risks related to their participation in the Fund.
- 4.31 The Administering Authority recognises that grouping can give rise to cross subsidies from one employer to another over time. Employers may be grouped entirely, such that all of the risks of participation are shared, or only partially grouped such that only specified risks are shared. The Administering Authority's policy is to consider the position carefully at the initial grouping and at each valuation and to notify each employer that is grouped that this is the case, which other employers it is grouped with and details of the grouping method used. If the employer objects to this grouping, it will be set its own contribution rate. For employers with more than 50 contributing members, the Administering Authority would typically look for evidence of homogeneity between employers before considering grouping.

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

- 4.32 All employers in the Fund are grouped together in respect of the risks associated with payment of lump sum benefits on death in service – in other words, the cost of such benefits is shared across the employers in the Fund. Such lump sum benefits can cause funding strains which could be significant for some of the smaller employers without insurance or sharing of risks. The Fund, in view of its size, does not see it as cost effective or necessary to insure these benefits externally and this is seen as a pragmatic and low cost approach to spreading the risk.
- 4.33 There is a group of employers in the Fund which will be pooled together for funding and contribution purposes at the 2019 valuation.
- 4.34 From 1 April 2019 it is expected that the Town and Community Councils Group will consist of the following employers - Briton Ferry Town Council, Cilybebyll Community Council, Clydach Community Council, Coedffranc Community Council, Margam Joint Crematorium Committee, Neath Town Council, Pelenna Community Council and Pontardawe Town Council, and any new small councils will join this group going forward.
- 4.35 Under the pooling approach these employers will pay a common percentage of pay as their primary contribution rate and will share experience (subject to each employer not taking action which adversely and materially, as determined by the Administering Authority, affects the group's liabilities in which case the Administering Authority may ensure that employer meets the additional liabilities it has created by such action). Each employer in the group will be responsible for meeting any deficit (or benefit from any surplus) allocated to the employer i.e. this will be outside the experience sharing mechanism. Any deficit recovery plan will be based on the specific employer's circumstances.
- 4.36 In the event that an employer in the group has no active members consideration will be given to first issuing a 'suspension notice' which under the regulations can defer the exit valuation for up to three years if in the reasonable opinion of the administering authority the employer is likely to have one or more active members contributing to the fund within

the period specified in the suspension notice. In the event of an exit valuation, the assets and liabilities following exit will be subsumed by the group and the exited employer will not be required to pay any further contributions unless it admits an employee into the Fund, in which case it is expected that the employer will re-join the group as a participating employer. Further, no exit credit will be paid to the exiting scheme employer, unless the exiting scheme employer is in surplus when liabilities are calculated using a Funding Target that anticipates investment in low risk investments such as Government bonds.

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

### **Stepping**

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

### **Inter-valuation funding calculations**

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

### **Asset shares notionally allocated to individual employers**

#### 4.39 Notional asset shares

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

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

#### Roll-forward of notional asset shares

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

Further adjustments are made for:

- A notional deduction to meet the expenses paid from the Fund in line with the assumption used at the previous valuation.
- Allowance for any known material internal transfers in the Fund (cashflows will

not exist for these transfers). The Fund Actuary will assume an estimated cashflow equal to the value of the liabilities determined using a cash equivalent transfer value basis unless some other approach has been agreed between the two employers.

- Allowance for lump sum death in service and any other benefits shared across all employers (see earlier).
- An overall adjustment to ensure the notional assets attributed to each employer is equal to the total assets of the Fund which will take into account any gains or losses related to the orphan liabilities.

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

- Where, in the opinion of the Fund Actuary, the cashflow data which is unavailable is of low materiality or where estimated cashflows can be produced with reasonable accuracy, estimated cashflows will be used.
- Where, in the opinion of the Fund Actuary, the cashflow data which is unavailable is material or difficult to estimate with necessary accuracy, the Fund Actuary may instead use an analysis of gains and losses to roll forward the notional asset share. Analysis of gains and losses methods are less precise than use of cashflows and involve calculation of gains and losses relative to the surplus or deficiency exhibited at the previous valuation. Having established an expected surplus or deficiency at this valuation, comparison of this with the liabilities evaluated at this valuation leads to an implied notional asset holding.
- Analysis of gains and losses methods will also be used where the results of the cashflow approach appears to give unreliable results perhaps because of unknown internal transfers.

#### **Fund maturity**

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

4.44 In certain circumstances, for secure employers considered by the Administering Authority as being long term in nature, contribution adjustments to correct for any disclosed deficiency may be set as a percentage of payroll. Such an approach carries an implicit assumption that the employer's payroll will increase at an assumed rate. If payroll fails to grow at this rate, or declines, insufficient corrective action will have been taken. To protect the Fund against this risk, the Administering Authority will consider requiring top up payments where deficit contributions fall below a minimum level, or further alternative approaches as it deems appropriate.

## 5. SPECIAL CIRCUMSTANCES RELATED TO CERTAIN EMPLOYERS

### Interim reviews

- 5.1 Regulation 64(4) of the Regulations provides the Administering Authority with a power to carry out valuations in respect of employers where there are circumstances which make it likely that an employer will become an exiting employer, and for the Fund Actuary to certify revised contribution rates, between funding valuation dates.
- 5.2 The Administering Authority's overriding objective at all times is that, where possible, there is clarity over the Funding Target for that body, and that contribution rates payable are appropriate for that Funding Target. However, this is not always possible as any date of exit may be unknown (for example, participation may be assumed at present to be indefinite), and also because market conditions change daily.
- 5.3 The Administering Authority's general approach in this area is as follows:
- Where the date of exit is known, and is more than three years hence, or is unknown and assumed to be indefinite, interim valuations will generally not be carried out at the behest of the Administering Authority.
  - For Transferee Admission Bodies falling into the above category, the Administering Authority sees it as the responsibility of the relevant Scheme Employer to instruct it if an interim valuation is required. Such an exercise would be at the expense of the relevant Scheme Employer unless otherwise agreed.
  - A material change in circumstances, such as the date of exit becoming known, material membership movements or material financial information coming to light may cause the Administering Authority to informally review the situation and subsequently formally request an interim valuation.
  - For an employer whose participation is due to exit within the next three years, the Administering Authority will keep an eye on developments and may see fit to request an interim valuation at any time.
- 5.4 Notwithstanding the above guidelines, the Administering Authority reserves the right to request an interim valuation of any employer at any time if Regulation 64(4) applies.
- 5.5 Regulation 64A of the Regulations provides the Administering Authority with a power to obtain a revision of the rates and adjustments certificate in certain other circumstances. Further details of the Administering Authority's policy in relation to Regulation 64A is set out in Appendix 2.

### Guarantors

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

## **New employers**

### **Initial Rate**

- 5.7 When a new employer joins the Fund, the Fund's Actuary determines the initial employer contribution rate payable.
- 5.8 An interim contribution rate may be set pending a more accurate calculation by the Fund's Actuary of the employer contribution rate payable. The Administering Authority will determine these interim contribution rates following each Actuarial Valuation and at any other time at its discretion.
- 5.9 The employer contribution rate will be set in accordance with the Funding Strategy Statement, taking into consideration elements such as:
- Any past service or transferred liabilities
  - Whether the new employer is open or closed to new entrants
  - The funding target that applies to the employer
  - The funding level on commencement and, where there is a surplus or deficit, whether the admission agreement is fixed term or not, whether open or closed and the period of any fixed term contract period or average future working lifetime of the employee membership (as appropriate)
  - Other relevant circumstances as determined by the Administering Authority on the advice of the Fund Actuary

### **New Admission Bodies**

- 5.10 Where the Administering Authority makes an admission agreement with a body (the New Body), the default stance of the Fund is that the relevant Scheme employer, as defined in Part 3 of Schedule 2 of the LGPS Regulation 2013, will be required to subsume the liabilities (see below) at the point that the New Body no longer has any contributing members. This will be set out within the Admission Agreement or side agreement, and apply to both the liabilities of the initial transferring membership and, in the case of an open admission agreement, any liabilities of the New Body relating to members that commence participation after the initial transfer under the terms of the Admission Agreement.
- 5.11 Unless agreed otherwise (between the relevant Scheme employer and the New Body) the New Body would be required to target sufficient assets to fully fund the liabilities subsumed by the relevant Scheme employer at exit on the assumptions applicable to the relevant Scheme employer.

### **Bonds and other securitization**

- 5.12 Paragraph 6 of Part 3, Schedule 2 of the Regulations creates a requirement for a new Admission Body to carry out to the satisfaction of the Administering Authority (and the Scheme Employer in the case of a Transferee Admission Body admitted under paragraph 1(d)(i) of that Part) an assessment taking account of actuarial advice of the level of risk on premature termination by reason of insolvency, winding up or liquidation.
- 5.13 Where the level of risk identified by the assessment is such as to require it the Admission Body shall enter into an indemnity or bond with an appropriate party. Where it is not desirable for an Admission Body to enter into an indemnity or bond, the body is required to secure a guarantee in a form satisfactory to the Administering Authority from an organisation that either funds, owns or controls the functions of the admission body.



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

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

#### **Subsumed liabilities**

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

5.16 In such circumstances the liabilities are known as subsumed liabilities (in that responsibility for them is subsumed by the accepting employer). For such liabilities the Administering Authority will assume that the investments held in respect of those liabilities will be the same as those held for the rest of the liabilities of the accepting employer. Generally this will mean assuming continued investment in a mix of growth and matching assets.

#### **Orphan liabilities**

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

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

- 5.19 To the extent that the Administering Authority decides not to match these liabilities with Government bonds of appropriate term then any excess or deficient returns will be added to or deducted from the investment return to be attributed to the employer's notional assets between the exit date of the employer and each subsequent funding valuation of the Fund. Assets will then be reallocated within the Fund to ensure the orphan liabilities remain 100% funded on a low risk basis after taking account of any outstanding exit payments payable to, or due from the exiting employer, with any investment profit or loss allocated to the contributing employers in proportion to their notional asset share.

#### **Smoothing of contribution rates for Admission Bodies**

- 5.20 The Administering Authority recognises that a balance needs to be struck as regards the financial demands made of Admission Bodies. On the one hand, the Administering Authority requires all Admission Bodies to be fully self funding, such that other employers in the Fund are not subject to levels of expense as a consequence of the participation of those Admission Bodies. On the other hand, in extreme circumstances, requiring achievement of Full Funding over a short time horizon may precipitate failure of the body in question, leading to significant costs for other participating employers.
- 5.21 In circumstances which the Administering Authority judges to be extreme, the Administering Authority will engage with the City and County of Swansea and Neath Port Talbot County Borough Council, as the dominant employers in the Fund, with a view to seeking agreement that the requirement that contribution rates target Full Funding can be temporarily relaxed, or alternatively one or both employers agree to subsume the relevant Admission Bodies on exit.
- 5.22 Should an Admission Body leave the Fund during a period where the City and County of Swansea and/or Neath Port Talbot County Borough Council has agreed to subsumption of residual liabilities, the exit funding requirement will be reduced to reflect the Fund's continuing access to funding, should a deficiency emerge in the future in respect of those liabilities (see cessation of participation for subsumed liabilities below).
- 5.23 At subsequent valuations the position will be reassessed with a view to returning Admission Bodies to paying contributions which target Full Funding.

#### **Cessation of participation i.e. Exiting the Fund**

- 5.24 Where an employer becomes an exiting employer, an exit valuation will be carried out in accordance with Regulation 64. That valuation will take account of any activity as a consequence of exiting regarding any existing contributing members (for example any bulk transfer payments due) and the status of any liabilities that will remain in the Fund. When employees do not transfer to another employer they will retain pension rights within the Fund, i.e. either as a deferred pensioner or immediately taking retirement benefits.
- 5.25 The assumptions adopted to value the departing employer's liabilities for the exit valuation (including on termination of any Deferred Debt Agreement) will depend upon the circumstances. In particular, the exit valuation will distinguish between residual liabilities which will become orphan liabilities, and liabilities which will be subsumed by long-term other employers.
- 5.26 For orphan liabilities the Funding Target in the exit valuation will anticipate investment in low risk investments such as Government bonds. This is to protect the other employers in the Fund, as upon exit, the employer's liabilities will become "orphan" liabilities within the Fund, and there is no recourse to that (former) employer if a deficit emerges in relation to these liabilities after the exit date. Any deficit or surplus in the Fund in respect of the employer will generally be due to the Fund as a termination contribution (but see 5.29 below), or payable by the Fund to the employer as an exit credit respectively, where the exit date is on or after 14 May 2018.

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

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

5.29 Following the above process, any deficit in the Fund in respect of the Employer will be due to the Fund as a termination contribution unless it is agreed by the Administering Authority and the other parties involved that:

- the assets and liabilities relating to the employer will transfer within the Fund to another participating employer;
- the employer and Administering Authority will enter into a Deferred Debt Agreement;
- the exit payment can be spread over a reasonable period as permitted by regulation 64B

Details of the approach to be adopted for such an assessment on exit, including how any exit credit may be determined and the conditions in which the Administering Authority will consider agreeing to enter into a Deferred Debt Agreement or to permit spreading of any exit payments are set out in Appendix 1.

#### **Exit payments and exit credits**

5.30 Further information on the Administering Authority's policy on exit payments, and exit credits is set out in Appendix 1.

#### **Deferred Debt Agreements**

5.31 Regulation 64(7A) permits the Administering Authority to enter into a written agreement with an existing Scheme employer for that employer to defer their obligation to make an exit payment and continue to make contributions at the secondary rate ("a Deferred Debt Agreement").

The Administering Authority's policy in relation Deferred Debt Agreements is set out in Appendix 1.

## 6. IDENTIFICATION OF RISKS AND COUNTER MEASURES

### Approach

- 6.1 The Administering Authority seeks to identify all risks to the Fund and to consider the position both in aggregate and at an individual risk level. The Administering Authority will monitor the risks to the Fund, and will take appropriate action to limit the impact of these both before, and after, they emerge wherever possible.
- 6.2 The Administering Authority will ensure that funding risks are included within their overarching risk management framework and strategy, linking to their risk register and risk management policy as appropriate and includes defining a role for the Local Pension Board within this framework.
- 6.3 The main risks to the Fund are considered below:

### Choice of Solvency and Funding Targets

- 6.4 The Administering Authority recognises that future experience and investment income cannot be predicted with certainty. Instead, there is a range of possible outcomes, and different assumed outcomes will lie at different places within that range.
- 6.5 The more optimistic the assumptions made in determining the Solvency and Funding Targets, the more that outcome will sit towards the 'favourable' end of the range of possible outcomes, the lower will be the probability of experience actually matching or being more favourable than the assumed experience, and the lower will be the Solvency and Funding Targets calculated by reference to those assumptions.
- 6.6 The Administering Authority will not adopt assumptions for Scheduled Bodies and certain other bodies which, in its judgement, and on the basis of actuarial advice received, are such that it is less than 55% likely that the strategy will deliver funding success (as defined earlier in this document). Where the probability of funding success is less than 65% the Administering Authority will not adopt assumptions which lead to a reduction in the aggregate employer contribution rate to the Fund.
- 6.7 The Administering Authority's policy will be to monitor an underlying 'low risk' position (making no allowance for returns in excess of those available on Government stocks) to ensure that the Funding Target remains realistic.

### Investment Risk

- 6.8 This covers items such as the performance of financial markets and the Fund's investment managers, asset reallocation in volatile markets, leading to the risk of investments not performing (income) or increasing in value (growth) as forecast. Examples of specific risks would be:
- assets not delivering the required return (for whatever reason, including manager underperformance)
  - systemic risk with the possibility of interlinked and simultaneous financial market volatility
  - insufficient funds to meet liabilities as they fall due
  - inadequate, inappropriate or incomplete investment and actuarial advice is taken and acted upon
  - counterparty failure
- 6.9 The specific risks associated with assets and asset classes are:
- equities – industry, country, size and stock risks
  - fixed income - yield curve, credit risks, duration risks and market risks
  - alternative assets – liquidity risks, property risk, alpha risk

- money market – credit risk and liquidity risk
- currency risk
- macroeconomic risks
- environmental; social and corporate governance risks

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

#### **Employer risk**

6.11 These risks arise from the ever-changing mix of employers, from short-term and ceasing employers, and the potential for a shortfall in payments and/or orphaned liabilities where employers are unable to meet their obligations to the Scheme. The Administering Authority monitors employer payments and expects employers in financial difficulty to engage with the Fund, noting that contributions can be reviewed between formal valuations if the conditions in Regulation 64A and the terms of the Administering Authority's policy, as set out in Appendix 2, are met.

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

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

#### **Climate change**

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

#### **Liability Risk**

6.15 The main risks include discount rates, pay and price inflation, changing retirement patterns, mortality and other demographic risks. Some of these risks will affect the amount of benefit payments; others will affect the value of benefit payments, i.e. level of assets deemed to be required to meet those benefit payments (the funding target).

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

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

6.18 If significant changes in the value of the liabilities become apparent between valuations, the Administering Authority may consider revising an employer's contributions as permitted by Regulation 64A and will notify the affected employers of the anticipated impact on costs that will emerge. In addition, the Administering Authority may consider whether to require a review of the bonds that are in place for Admission Bodies. It will also consider the extent to which such changes can or should be allowed for in exit valuations, taking advice from the Fund Actuary.

### **Regulatory and Compliance Risk**

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

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

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

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

6.23 The timing of any final regulations in relation to the McCloud/Sargeant cases which ruled that the transitional protections implemented in the Firefighters' and Judges' Pension Schemes are illegal age discrimination.

6.24 The outcome of the cost management process as at 31 March 2016 and 31 March 2020, noting the agreement reached in relation to the 2016 Scheme Advisory Board (SAB) process for member contributions to be reduced and benefits enhanced to achieve an additional cost of 0.9% of pay, before the process was paused due to the McCloud judgement.

6.25 The Goodwin case in which an Employment Tribunal ruled (in relation to the Teachers' Pension Scheme) that the less favourable provisions for survivor's benefits of a female member in an opposite sex marriage compared to a female in a same sex marriage or civil partnership amounts to direct discrimination on grounds of sexual orientation. Following a written ministerial statement by the Chief Secretary to the Treasury on 20 July 2020 it is expected that changes will be made to the LGPS Regulations to reflect the ruling, but no changes have yet been proposed.

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

McCloud/Cost Cap

- 6.27 1.5% of pay has been added to employer contributions based on Fund-specific calculations carried out by the Fund Actuary. This figure has been calculated across the Fund as a whole on the scheduled and subsumption body funding target assuming the following remedy:
- 6.28 Compensation will apply to members who joined the LGPS before 1 April 2014 (see below).
- 6.29 Benefits will be the better of those accrued in the 2014 Scheme or those accrued in the 2008 Scheme, backdated to 1 April 2014 (i.e. an 'underpin' approach).
- 6.30 Compensation will apply to members who retire from active service with immediate pension benefits, through normal health or ill health retirement (this is because transitional protections only applied to members retiring from active service with immediate pension).
- 6.31 The remedy will not apply to spouses' or dependants' benefits. This is because transitional protections only applied to members' benefits
- 6.32 The cost is split 0.4% of pay in respect of past service and 1.1% of pay in respect of future service where the past service cost has been spread over a recovery period of 19 years.

GMP indexation/equalisation

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

**Liquidity and Maturity Risk**

- 6.34 This is the risk of a reduction in cash flows into the Fund (including investment income – e.g. potentially resulting from changes in investment holdings), or an increase in cash flows out of the Fund, or both, which can be linked to changes in the membership and, in particular, a shift in the balance from contributing members to members drawing their pensions. Changes in the funding position and hence (secondary) employer contributions can also affect the cashflow position since it is not always possible to deliver complete stability of contributions. Timing of contribution payments by employers can also impact on liquidity requirements were flexibility is granted by the Administering Authority. Changes within the public sector and to the LGPS itself may affect the maturity profile of the LGPS and have potential cash flow implications. For example,
- Budget cuts and headcount reductions could reduce the active (contributing) membership and increase the number of pensioners through early retirements;
  - An increased emphasis on outsourcing and other alternative models for service delivery may result in falling active membership (e.g. where new admissions are closed),
  - Public sector reorganisations may lead to a transfer of responsibility between different public sector bodies, (e.g. to bodies which do not participate in the LGPS),
  - Scheme changes, for example, lower member contributions as provisionally agreed as part of the Scheme Advisory Board Cost Management Process will lead to lower member contributions which may not be immediately matched by higher employer contributions,
  - An increase in the take-up of the 50/50 option (whether on affordability grounds or to avoid tax charges) will reduce member contributions to the Fund
- 6.35 The Administering Authority seeks to maintain regular contact with employers to mitigate against the risk of unexpected or unforeseen changes in maturity or other changes leading to cashflow or liquidity issues. The Administering Authority also commissions the Fund Actuary to provide projections of benefit payments and contributions based at each valuation and monitors the cashflow position on a regular basis.

**Governance Risk**

- 6.36 This covers the risk of unexpected structural changes in the Fund membership (for example the closure of an employer to new entrants or the large scale withdrawal or retirement of groups of staff), or establishment of a wholly owned company which does not participate in the Fund, or only partially participates, and the related risk of the Administering Authority not being made aware of such changes in a timely manner.
- 6.37 The Administering Authority's policy is to require regular communication between itself and employers, and to ensure regular reviews of such items as bond arrangements, financial standing of non-tax raising employers and funding levels. The Fund will consider commissioning triennial reviews of any bonds as part of its risk management.

**Statistical/Financial Risk**

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

**Smoothing Risk**

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

**Recovery Period Risk**

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

**Stepping Risk**

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



## APPENDIX 1: Policy on Exit payments, Exit credits and Deferred Debt Agreements

An employing authority can cease participation in the following circumstances:

- an active employer ceases to be a Scheme employer (including ceasing to be an admission body participating in the Fund), or has no active members contributing to the Fund and does not enter into a Deferred Debt Agreement,
- a deferred employer ceases to participate where the Deferred Debt Agreement ends.

Where participation ceases, an exit valuation will be carried out in accordance with Regulation 64. Further details on the approach and assumptions are set out in section 5 of the Funding Strategy Statement.

If there are liabilities which cannot be recovered from the exiting employer or any bond/indemnity these will fall to be met by the Fund as a whole (i.e. all other employers) unless there is a guarantor, successor body or subsumption commitment within the Fund.

Employers should be aware that advisory and other costs incurred by the Administering Authority in relation to the exit of an employer from the Fund will be re-charged to the exiting employer.

### Exit payments

Any deficit would normally be levied on the departing employer as a single capital payment although, the Administering Authority may allow phased payments as permitted under Regulation 64B. The Administering Authority's policy in relation to the spreading of exit payments under Regulation 64B is set out below.

It is envisaged that spreading of exit payments will only be considered at the request of an employer. The Administering Authority will then engage/consult with the employer to consider its application and determine whether or not spreading the exit payment is appropriate and the terms which should apply.

In determining whether or not to permit an exit payment to be spread, the Administering Authority will consider factors including, but not limited to:

- the ability of the employer to make a single capital payment;
- whether any security is in place, including a charge over assets, bond, guarantee or other indemnity;
- whether the overall recovery to the Fund is likely to be higher if spreading the exit payment is permitted.

In determining the employer's ability to make a single payment the Administering Authority will seek actuarial, covenant or legal advice as required. Where the Administering Authority considers that the employer is financially able to make a single capital payment it will not normally be appropriate for the exit payment to be spread.

The employer will be required to provide details of its financial position, business plans and financial forecasts and such other information as required by the Administering Authority in order for it to make a decision on whether or not to permit the exit payment to be spread. This information must be provided within **2 months** of request.

In determining the appropriate length of time for an exit payment to be spread, the Administering Authority will consider the affordability of the instalments using different spreading periods for the employer. The default spreading period will be **three years but longer periods of up to ten years** will be considered where the Administering Authority is satisfied that this doesn't pose undue risk to the Fund in relation to the employer's ability to continue to make payments over the period.

Whilst the Administering Authority's preference would be for an employer to request spreading of any exit payment in advance of the exit date, it is acknowledged that a final decision by the employer (and the Administering Authority) on whether this will be financially beneficial/appropriate may not be possible until the employer has exited. Exiting employers will be advised of the exit deficit and the spreading of any payment will only be considered at the request of the employer. Where there is a guarantor, the guarantor will also be consulted and any agreement to spread the exit deficit may be conditional on the guarantee continuing in force during the spreading period.

The amount of the instalments due under an exit deficit spreading agreement will generally be calculated as level annual amounts allowing for interest over the spreading period in line with the discount rate used to calculate the exit liabilities. Where the exit amount is significant, monthly payments may be required or the Administering Authority may require a higher initial payment with lower annual payments thereafter to reduce the risk to the Fund. Alternative payment arrangements may be made in exceptional circumstances as long as the Administering Authority is satisfied that they don't materially increase the risk to the Fund.

Where it has been agreed to spread an exit payment the Administering Authority will advise the employer in writing of the arrangement, including the spreading period; the annual payments due; interest rates applicable; other costs payable (Employers will be asked to pay all advisory costs associated with the spreading agreement as well as calculation of the exit deficit (these costs will not be spread)) and the responsibilities of the employer during the spreading period. Where a request to spread an exit payment has been denied the Administering Authority will advise the employer in writing and provide a brief explanation of the rationale for the decision. The Administering Authority will generally review spreading agreements as part of its preparation for each triennial valuation and will take actuarial, covenant, legal and other advice as considered necessary. In addition, employers will be expected to engage with the Administering Authority during the spreading period and adhere to the **notifiable events framework as set out in the Pensions Administration Strategy**. If the Administering Authority has reason to believe the employer's circumstances have changed such that a review of the spreading period (and hence the payment amounts) is appropriate, it will consult with the employer and a revised payment schedule may be implemented. Whilst this review may also consider the frequency of payments, it should be noted that it is not envisaged that any review will consider changes to the original exit amount nor interest rate applicable. An employer will be able to discharge its obligations under the spreading arrangement by paying off all future instalments at its discretion. The Administering Authority will seek actuarial advice in relation to whether or not there should be a discount for early payment given interest will have been added in line with the discount rate used for the exit valuation.

### **Exit credits**

Where an exit valuation discloses that there is a surplus in the Fund in respect of the exiting employer, and an exit credit is due to be paid to the exiting employer, the Administering Authority will, unless otherwise agreed with the employer, pay the exit credit to the employer within 6 months of the exit date. Where the employer has not provided all the necessary information required by the Administering Authority to enable the Fund Actuary to calculate the final liabilities on exit within **2 months** of the exit date, the employer will be deemed to have agreed that the 6 month period should run from the date all the necessary data has been provided. In determining the amount of any exit credit payable the Administering Authority will take the following factors into consideration:

- (a) the extent to which there is an excess of assets in the Fund relating to that employer over the liabilities (i.e. a surplus)
- (b) the proportion of the surplus which has arisen because of the value of the employer's contributions
- (c) any representations made by the exiting employer and, where that employer participates in the scheme by virtue of an admission agreement, any body listed in paragraphs (8)(a) to (d)(iii) of Part 3 to Schedule 2 of the 2013 Regulations, and

(d) any other relevant factors, which include any legal, actuarial or other costs incurred by the Administering Authority in relation to the exit, the circumstances in which any subsumption commitment was granted, and any risk sharing arrangements in place.

### **Suspension notices**

Regulation 64(2A) permits the suspension of an employer's liability to make an exit payment for up to 3 years where the Administering Authority believes that the employer is likely to have one or more active members contributing to the Fund within the period specified in the suspension notice. In that case, the Fund will advise the employer of the exit amount calculated by the Actuary and serve a written suspension notice on the employer. Whilst under such a suspension notice, the employer must continue to pay any deficit payments certified to the Fund as if it were an ongoing employer and the actuary will recalculate any deficit and contributions due at the next Actuarial Valuation. If there are no new members by the time the suspension notice expires the Fund Actuary will carry out an exit valuation as at the date the suspension notice expires.

### **Deferred Debt Agreements (DDAs)**

Regulation 64(7A) permits the Administering Authority to enter into a written agreement with an exiting Scheme employer for that employer to defer their obligation to make an exit payment and continue to make contributions at the secondary rate ("a deferred debt agreement").

The Administering Authority's policy in relation to the spreading of exit payments under Regulation 64(7A) is set out below.

In determining whether or not to enter into a DDA with an employer the Administering Authority will take into account the following factors, including but not limited to:

- The materiality of the employer and any exit deficit in terms of the Fund as a whole;
- The risk to the Fund of entering into a DDA, in terms of the likelihood of the employer failing before the DDA has ended, based on information supplied by the employer and supported by a financial risk assessment or more detailed covenant review carried out by the Fund Actuary or other covenant adviser;
- The rationale for the employer requesting a DDA, particularly if the Administering Authority believes it would be able to make an immediate payment to cover the exit deficit; and
- Whether an up front payment will be made towards the deficit, and/or any security is, or can be put, in place, including a charge over assets, bond, guarantee or other indemnity, to reduce the risk to other employers.

Where it is expected that the employer's covenant may materially weaken over time the Administering Authority is very unlikely to consider entering into a DDA with that employer. Further, where an employer can demonstrably meet the exit payment in a single instalment, the Administering Authority would be unlikely to enter into a DDA unless it was clear that this wouldn't increase risk to the Fund, e.g. if the employer was fully taxpayer-backed and sufficient assurance was in place that all contributions due, including any residual deficit at the end of the DDA, would be met in full.

It is envisaged that DDAs will only be entered into at the request of an employer. In any case, the Administering Authority will engage/consult with the employer to consider whether or not a DDA is appropriate and the terms which should apply. As part of its application for a DDA, the Administering Authority will require information from the employer to enable the Administering Authority to take a view on the employer's strength of covenant. Information will also be required on an ongoing basis to enable the employer's financial strength/covenant to be monitored. It is expected that DDAs will be monitored on an annual basis unless circumstances dictate otherwise. Monitoring may be more frequent as the end of the period of the DDA approaches.

Employers should be aware that all advisory fees incurred by the Fund associated with a request for a DDA, whether or not this results in an agreement being entered into, and its ongoing monitoring, will be recharged to the employer.

The Administering Authority will provide a standard form of agreement for DDAs, which it will require employers (and any guarantors) to sign up to. The matters which the Administering Authority will reflect in the DDA, include:

- An undertaking by the employer to meet all requirements on Scheme employers, including payment of the secondary rate of contributions, but excluding the requirement to pay the primary rate of contributions;
- A provision for the DDA to remain in force for a specified period, which may be varied by agreement of the Administering Authority and the deferred employer;
- A provision that the DDA will terminate on the first date on which one of the following events occurs-
  - a. The deferred employer enrolls new active members;
  - b. The period specified, or as varied, elapses;
  - c. The take-over, amalgamation, insolvency, winding up or liquidation of the deferred employer;
  - d. The Administering Authority serves a notice on the deferred employer that it is reasonably satisfied that the deferred employer's ability to meet the contributions payable under the deferred debt arrangement has weakened materially or is likely to weaken materially in the next 12 months; or
  - e. The Fund Actuary assesses that the deferred employer has paid sufficient secondary contributions to cover the exit payment that would have been due if the employer had become an exiting employer on the calculation date.
- The responsibilities of the deferred employer
- The circumstances triggering a cessation of the arrangement leading to an exit payment (or credit) becoming payable, in addition to those set out in Regulation 64 (7E) and above

It is expected that the consultation process with the employer will include discussions on the precise details of the DDA, although the purpose of providing a standard form of agreement is to make the process easier, and quicker and therefore it is not envisaged that there will be material changes to this standard.

The Administering Authority will monitor the funding position and risk/covenant associated with deferred employers on a regular basis. This will be at least triennially and most likely annually, but the frequency will depend on factors such as the size of the employer and any deficit and the materiality of movements in market conditions or the employer's membership.

The circumstances in which the Administering Authority may consider seeking to agree a variation to the length of the agreement under regulation 64(7D) include:

- Where the exit deficit has reduced (increased) such that it is reasonable to reduce (extend) the length of the recovery period and associated period of the DDA assuming that, in the case of the latter, this does not materially increase the risk to the other employers/Fund
- Where the deferred employer's business plans, staffing levels, finances or projected finances have changed significantly, but, in the case of a deterioration, the Administering Authority, having taken legal, actuarial, covenant or other advice as appropriate, does not consider that there is sufficient evidence that deferred employer's ability to meet the contributions payable under the DDA has weakened materially, or is likely to weaken materially in the next 12 months
- Where the level of security available to the Fund has changed in relation to the DDA, as determined by the Administering Authority, taking legal, actuarial or other advice as appropriate

At each triennial valuation, or more frequently as required, the Administering Authority will carry out an analysis of the financial risk or covenant of the deferred employer, considering actuarial, covenant, legal and other advice as necessary. Where supported by the analysis and considered necessary to protect the interests of all employers, the Administering Authority will serve notice on the deferred employer that the DDA will terminate on the grounds that it is reasonably satisfied that the deferred employer's ability to meet the contributions payable under the deferred debt arrangement has weakened materially, or is likely to weaken materially in the next 12 months, as set out under regulation 64(7E)(d).

Employers should be aware that all advisory fees incurred by the Fund associated with consideration of a DDA for an exiting employer, whether or not this results in a DDA being entered into, will be recharged to the employer. This will include actuarial, legal, covenant and other advice and the costs of monitoring the arrangement as well as the initial set up. Estimated costs can be provided on request. All fees must be paid up front and cannot be added to any secondary contributions payable under the DDA.

It is expected that employers will make a request to consider a DDA before they would otherwise have exited the Fund under Regulation 64(1) and that a DDA should be entered into within **3 months** of that date. The employer should continue to make secondary contributions at the prevailing rate whilst the DDA is being considered unless the Administering Authority, having taken actuarial and other advice as appropriate, determines that increased contributions should be payable. In exceptional circumstances, e.g. where there has been a justifiable delay due to circumstances outside of the employer's control, and at the sole discretion of the Administering Authority, a DDA may be entered into more than 3 months after the exit date.

Deferred employers will be expected to engage with the Administering Authority during the period of the DDA and adhere to the notifiable events framework as set out in the Pensions Administration Strategy as well as providing financial and other information on a regular basis. This will be necessary to support the effective monitoring of the arrangement and will be a requirement of the DDA.

## **APPENDIX 2: Policy on reviewing employer contributions between formal valuations under Regulation 64A**

### **1. Background**

This Document explains the policies and procedures of the City and County of Swansea Pension Fund (“the Fund”), administered by City and County of Swansea (“the Administering Authority”), in relation to any amendment of employer contributions between formal valuations as permitted by Regulation 64A.

This Policy supplements the general funding policy as set out in the Funding Strategy Statement and should be read in conjunction with that statement. It is intended to provide transparency and consistency for employers in use of the flexibilities within the Regulations.

The Administering Authority will consider reviewing employer contributions between formal valuations in the following circumstances:

- it appears likely to the Administering Authority that the amount of the liabilities arising or likely to arise has changed significantly since the last valuation;
- it appears likely to the Administering Authority that there has been a significant change in the ability of the Scheme employer or employers to meet the obligations of employers in the Scheme; or
- Scheme employer or employers have requested a review of Scheme employer contributions and have undertaken to meet the costs of that review.

For the avoidance of doubt, the Administering Authority will not consider a review of contributions purely on the grounds of a change in market conditions or demographic assumptions affecting the value of assets and/or liabilities.

### **2. Factors used to determine when a review is appropriate**

In determining whether or not a review should take place, the Administering Authority will consider the following factors (noting that this is not an exhaustive list):

- the circumstances leading to the change in liabilities arising or likely to arise, for example whether this is the result of a decision by the employer, such as a significant outsourcing or transfer of staff, closure to new entrants, material redundancies or significant pay awards, or other factors such as ill-health retirements, voluntary withdrawals or the loss of a significant contract
- the materiality of any change in the employer's membership or liabilities, taking account of the Actuary's view of how this might affect its funding position, primary or secondary contribution rate
- whether, having taken advice from the Actuary, the Administering Authority believes a change in ongoing funding target or deficit recovery period would be justified, e.g. on provision or removal of any security, subsumption commitment, bond, guarantee, or other form of indemnity in relation to the employer's liabilities in the Fund
- the materiality of any change in the employer's financial strength or longer-term financial outlook, based on information supplied by the employer and supported by a financial risk assessment or more detailed covenant review carried out by the Fund Actuary or other covenant adviser to the Fund
- the general level of engagement from the employer and its adherence to its legal obligations as set out in the Pensions Administration Strategy Statement and elsewhere, including the nature and frequency of any breaches such as failure to pay contributions on time and data quality issues due to failure to provide new starter or leaver forms

### 3. Assessment of the risk/impact on other employers

In determining whether or not a review should take place, the Administering Authority will generally focus on the materiality of any potential changes in the context of the employer concerned; its financial position and current contribution levels. As a matter of principle, the Administering Authority does not consider that a review is not justified just because an employer is small in the context of the Fund as a whole, noting that failure to act could make discussions at the next formal valuation more difficult and compound the risk to the Fund. However, in determining the extent and speed of any changes to the employer's contributions the Administering Authority will consider the effect on the overall funding position of the Fund, i.e. other Fund employers.

Where contributions are being reviewed for an employer with links to another Fund employer, particularly where this is a formal organisational or contractual link, e.g. there is a tripartite admission agreement, an ownership relationship or a formal guarantee or subsumption commitment in place, the Administering Authority will consider the potential risk/impact of the contribution review on those other employer(s), taking advice from the Fund Actuary as required.

### 4. Employer involvement and consultation

It is expected that in most cases the employer will be aware of the proposed review of their contributions since this will be triggered by an employer's action and employers should be aware of the need to engage with the Fund in relation to any activity which could materially affect their liabilities or ability to meet those liabilities.

In other cases information will be required from the employer, e.g. in relation to its financial position and business plans which could be the catalyst for informing the employer that a review is being proposed. In all cases the Administering Authority will advise the employer that a review is being carried out and share the results of the review and any risk or covenant assessment as appropriate. It should be noted that the fact of a review being carried out does not automatically mean that contributions will be amended (up or down) since that will depend upon the materiality of the changes and other factors such as the outcome of discussions with the employer and any related/linked employer in the Fund and the proximity to the next formal valuation.

Where, following representations from the employer, the Administering Authority is considering not increasing the employer's contributions following a review, despite there being good reason to do so from a funding and actuarial perspective, e.g. if it would precipitate the failure of the employer or otherwise seriously impair the employer's ability to deliver its organisational objectives or it is expected that the employer's financial position will improve significantly in the near-term, the Administering Authority will consult with any related/linked employers (including any guarantor or employer providing a subsumption commitment) and, where appropriate, the largest employers in the Fund with a view to seeking their agreement to this approach.

### 5. Process for requesting a review

Before requesting a review, employers should consider the regulatory requirements and the Fund's policy as set out above and satisfy themselves that there has been a relevant change in the expected amount of liabilities or their ability to meet those liabilities. The employer should contact [insert name/team name] and complete the necessary information requirements for submission to the Administering Authority in support of their application. The Administering Authority will consider the employer's request and may ask for further information or supporting documentation/evidence as required. If the Administering Authority, having taken actuarial advice as required, is of the opinion that a review is justified, it will advise the employer and provide an indicative cost. Employers should be aware that all advisory fees incurred by the Fund associated with a contribution review request, whether or not this results in contributions being amended, will be recharged to the employer.

## 6. Other considerations

The Administering Authority may carry out a review at any time during the valuation cycle where it becomes aware that a review is required. In such cases the employer will be expected to provide the requested information within one month of request and the review will be completed within 6 weeks of the provision of all requested information, or completion of the risk/covenant assessment if later.

The Administering Authority will consult with the employer on the timing of any contribution changes and there will be a minimum of 4 weeks' notice given of any contribution increases. In determining whether, and when, any contribution changes are to take effect the Administering Authority will also take into account the timing of contribution changes flowing from the next formal valuation. As a result, contribution reviews are unlikely to be carried out during the 12 month period from the valuation date although if there were any material changes to the expected amount of liabilities arising or the ability of the employer to meet those liabilities during that period, this should be taken into account when finalising the Rates and Adjustments Certificate flowing from the valuation.

[Appeals process – there is a section on this in the SAB guide. It would be worth reflecting on how you would envisage this working and how other appeals are dealt with by the Fund]



# Agenda Item 5b



## Report of the Section 151 Officer

Local Pension Board - 1 April 2021

### Breaches Report

Purpose: The report presents any breaches which have occurred in the period in accordance with the Reporting Breaches Policy.

Report Author: Claire Elliott, Pension Manager

Finance Officer: Jeff Dong – Deputy S 151 Officer

Legal Officer: Stephanie Williams – Principal Lawyer

Access to Services Officer: N/A

#### For Information

#### 1. Introduction

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

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

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

1.3 Following the introduction of GDPR requirements and the requirements to report any breaches to the Information Officer and ICO, if required, it has been determined good practice and transparent to also include GDPR breaches also within this report

#### 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 November 2020, 19.23% 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 basic objective of the General Data Protection Regulation (GDPR) is to enforce stronger data security and privacy rules among organisations when it comes to protecting an individual's personal data. The UK legislation is the Data Protection Act 2018 and mirrors many key principles of the Data Protection Act 1998. Where a breach of a member's personal data happens (a breach of personal data means that a security breach has taken place leading to the accidental or unlawful destruction, loss, alteration, unauthorised disclosure of, or access to personal data, transmitted, stored or otherwise processed. [GDPR Article 4(12)]), the Pension Fund (who complies with Swansea Council GDPR Principles) has an obligation to undertake a full investigation within the initial 72-hours of acknowledging a data breach. When the Fund becomes aware of a breach, the appropriate investigation takes place within the stipulated timeframe and the findings presented to the Data Breach Panel for review. The requirements presented for improved working practices by the Data Breach Panel the Fund has incorporated within the day-to-day working practices. There has been no GDPR breach since last reporting date
- 2.6 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 single instance during the reporting period where breaches have occurred. In this case, Treasury Management staff have written to the employers to request payment and provide a reminder of the responsibilities to submit on time.
- 2.7 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.

2.8

**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 and GDPR legislation

**5. Financial Implications**

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

**Background papers:** None

**Appendices:**

**Appendix A: Breaches Register**

## City and County of Swansea Breach Register

Date	Category (e.g. administration, contributions, funding)	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)
Dec 2019 – Feb 2020	Administration	1.71% 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 member returning the election form within a timely manner.		Member informed that the payment of the lump sum had been delayed due to late return of election forms.	
Dec 2019 – Feb 2020	Administration	Frozen refunds unclaimed for this period equates to 64% .... This equates to a monetary value of £3,505.73	Regulations, no further interest will accrue on or after 5-year anniversary. Should the member enter re-employment membership cannot be aggregated, the member will not be able to transfer the benefit out and if a refund is claimed there	% has reduced in comparison with the previous quarter however it is still high. This is because the member has not made a positive election to claim refund	Information has been recorded in the breach register	Current procedure is that written communications are issued to the member when they leave providing the appropriate option of a refund or transfer. The member is contacted for a second time 3 months prior to the 5 year anniversary date	

			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. <b>Going forward there will be no further requirement to report non-payment of refunds as the 5 year anniversary ruling will be removed.</b>			of leaving.	
Dec 2019 – Feb 2020	GDPR Breaches	1 breach reported during this quarter. Member coms inadvertently sent to the wrong person as the letter had become caught up with the individuals	Possible reporting of Section to the Independent Commissions Office (ICO).	Staff reminded of the importance of removing all documentation from the printer and to check correspondence to ensure this is going to the correct individual. Encouraging e-	Reported breach to Swansea Council Data Protection Officer and an investigation undertaken.	Further to the investigation, it was deemed not necessary to report the breach to the ICO as adequate prevention measures have been identified and put in place.	

		Pension Options.		coms as a means of communication.			
Dec 2019– Feb 2020	Contributions	3 Employers have not paid contributions within required timescale	Loss of investment returns	Employers are contacted once breach has occurred		Employers are contacted as soon as the deadline for submission of contributions has passed	
Mar – May 2020	Administration	11.67% of retirement lump sums not paid within 1 month of normal retirement or 2 months of early retirement; 99.97% 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/completed in full and late issue of pensionable pay information from the member's employers payroll section, which has led to the late provision of pension options to the member.		Communication to members regarding retirement options are constantly reviewed to ensure the importance of returning completed documents in a timely manner is highlighted. On a monthly basis employers payroll sections are issued with a spreadsheet listing all outstanding termination forms and are reminded of the importance of providing accurate information on a	

<p>Mar - May 2020</p>	<p>Administration</p>	<p>Frozen refunds unclaimed for this period equates to 69% .... This equates to a monetary value of £4,428.25</p>	<p>Regulations, no further interest will accrue on or after 5-year anniversary. Should the member enter re-employment membership cannot be aggregated, the member will not be able to transfer the benefit out and if a refund is claimed there will be tax implications as this is deemed to be an unauthorised payment. The above is subject to change and we are waiting for confirmation that the above Regulation has been amended to support this. <b>Awaiting confirmation of Regulatory change; going forward there</b></p>	<p>High % due to member not making a positive election to claim refund</p>	<p>Information has been recorded within the breach register</p>	<p>timely basis. Member was written to 3 months prior to the date of the 5-year anniversary of date of leaving</p>	
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			<b>will be no further requirement to report non-payment of refunds as the 5 year anniversary ruling will be removed.</b>				
Mar - May 2020	GDPR Breaches	1 breach reported during this quarter. Member coms inadvertently sent to the wrong email address	Possible reporting of the Pension Section to the Independent Commissions Office (ICO).	Staff have been reminded of the importance of checking the email autofill.	Reported breach to Swansea Council Data Protection Officer and an investigation undertaken.	Further to the investigation, it was deemed not necessary to report the breach to the ICO as adequate prevention measures have been identified and put in place.	
Mar – May 2020	Contributions	3 Employers have not paid contributions within required timescale	Loss of investment returns	Employers are contacted once breach has occurred		Employers are contacted as soon as the deadline for submission of contributions has passed	
Jun – Aug 2020	Administration	17% of retirement lump sums not paid within 1 month of normal retirement or 2	The administering authority has accrued interest payments on retirement lump	% due to members failing to return pension election forms in a timely manner/completed		Communication to members regarding retirement options are constantly	



		months of early retirement; 100% of member option forms returned were paid within 1 month of date of return	sums, paid more than one month after their due date, under the 2013 LGPS regulations	in full. Late provision of information provided by the members employer payroll sections.		reviewed to ensure the importance of returning completed documents in a timely manner is highlighted. On a monthly basis employers payroll sections are issued with a spreadsheet listing all outstanding termination forms and are reminded of the importance of providing accurate information on a timely basis.	
Jun – Aug 2020	Administration	Frozen refunds unclaimed for this period equates to 70.22% .... (of this 8.51% the Fund is in the process of transferring under the autoagg rules as the member has entered further LGPS	Regulations, no further interest will accrue on or after 5-year anniversary. Should the member enter re-employment membership cannot be aggregated, the member will not be able to transfer the	High % due to member not making a positive election to claim refund	Information has been recorded within the breach register	Member was written to 3 months prior to the date of the 5-year anniversary of date of leaving	

		membership) This equates to a monetary value of £8,030.64 (of which £888.39 is subject to transfer)	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. <b>Awaiting confirmation of Regulatory change; going forward there will be no further requirement to report non-payment of refunds as the 5 year anniversary ruling will be removed.</b>				
Jun – Aug 2020	GDPR Breaches	No breaches to report during this quarter.					
Jun – Aug	Contributions	2 Employers	Loss of	Employers are		Employers are	

2020		have not paid contributions within required timescale	investment returns	contacted once breach has occurred		contacted as soon as the deadline for submission of contributions has passed	
Sept – Oct 20	Administration	15% of retirement lump sums not paid within 1 month of normal retirement or 2 months of early retirement; 100% of member option forms returned were paid within 1 month of date of 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 late receipt of confirmation from the members Payroll Section of retirement. Delay in the return of member pension options/completed in full.		Communication to members regarding retirement options are constantly reviewed to ensure the importance of returning completed documents in a timely manner is highlighted. On a monthly basis employers payroll sections are issued with a spreadsheet listing all outstanding termination forms and are reminded of the importance of providing accurate information on a timely basis.	
Sept – Oct	Administration	Frozen refunds	Regulations, no	High % due to	Information has	Member was	

20		<p>unclaimed for this period equates to 64.29% .... This equates to a monetary value of £872.</p>	<p>further interest will accrue on or after 5-year anniversary. Should the member enter re-employment membership cannot be aggregated, the member will not be able to transfer the benefit out and if a refund is claimed there will be tax implications as this is deemed to be an unauthorised payment. The above is subject to change and we are waiting for confirmation that the above Regulation has been amended to support this.  <b>Awaiting confirmation of Regulatory change; going forward there will be no further</b></p>	<p>member not making a positive election to claim refund</p>	<p>been recorded within the breach register</p>	<p>written to 3 months prior to the date of the 5-year anniversary of date of leaving</p>	
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			<b>requirement to report non-payment of refunds as the 5 year anniversary ruling will be removed.</b>				
Sept – Oct 20	GDPR Breaches	No breaches to report during this quarter.					
Sept – Oct 20	Contributions	1 Employer has 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	
Nov 20 – Feb 2021	Administration	19.23% of retirement lump sums not paid within 1 month of normal retirement or 2 months of early retirement; 96.84% of member option forms returned were paid within 1 month of date of 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 retiring from age 55 but before normal pension age and late return of options confirming early access of retirement benefits. % due to a delay in the return of member pension options/completed		Communication to members regarding retirement options are constantly reviewed to ensure the importance of returning completed documents in a timely manner is highlighted.	✓

				in full for the month of December.			
Nov 20 – Feb 21	Administration	Frozen refunds unclaimed for this period equates to 86% .... This equates to a monetary value of £7,488.70.	Regulations, no further interest will accrue on or after 5-year anniversary. Should the member enter re-employment membership cannot be aggregated, the member will not be able to transfer the benefit out and if a refund is claimed there will be tax implications as this is deemed to be an unauthorised payment. The above is subject to change and we are waiting for confirmation that the above Regulation has been amended to support this. <b>Awaiting confirmation of Regulatory</b>	High % due to member not making a positive election to claim refund	Information has been recorded within the breach register	Members are written to 3 months prior to the date of the 5-year anniversary of date of leaving	✓

			<b>change; going forward there will be no further requirement to report non-payment of refunds as the 5 year anniversary ruling will be removed</b>				
Nov 20 – Feb 21	GDPR Breaches	No breaches to report during this quarter					✓
Nov 20 – Feb 21	Contributions	1 Employer has 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	✓

Page 69

\*New breaches since the previous meeting should be highlighted



## Report of the Section 151 Officer

Local Pension Board – 1 April 2021

### City & County of Swansea Pension Fund Business Plan 2021/22

<b>Purpose:</b>	To provide a working framework for the Pension Fund's programme of work for 2021/22.  It is presented to The Local Pension Board for information.
<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>	Rhian Millar
<b>For Information</b>	

#### **Business Plan 2021/22**

##### **1 Background**

- 1.1 In line with best practice, the Pension Fund produces a business plan to inform its work programme for the forthcoming 12 month period. The business plan for 2021/22 is attached at Appendix 1.

##### **2 Recommendation**

- 2.1 The Pension Fund Committee is asked to note and approve the attached business plan for the year 2021/22 noting the timescale and responsibility for key action points throughout the year. The document is a dynamic document and shall be revised and amended throughout the year as necessary.

##### **3 Legal Implications**

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

##### **4 Financial Implications**

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



## **5 Equality and Engagement Implications**

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

**Background Reports:** None.

### **Appendices:**

Appendix 1- Business Plan 2021/22

Appendix 2 – Risk Register

Appendix 3 – Budget

# **CITY AND COUNTY OF SWANSEA**



## **Pension Fund**

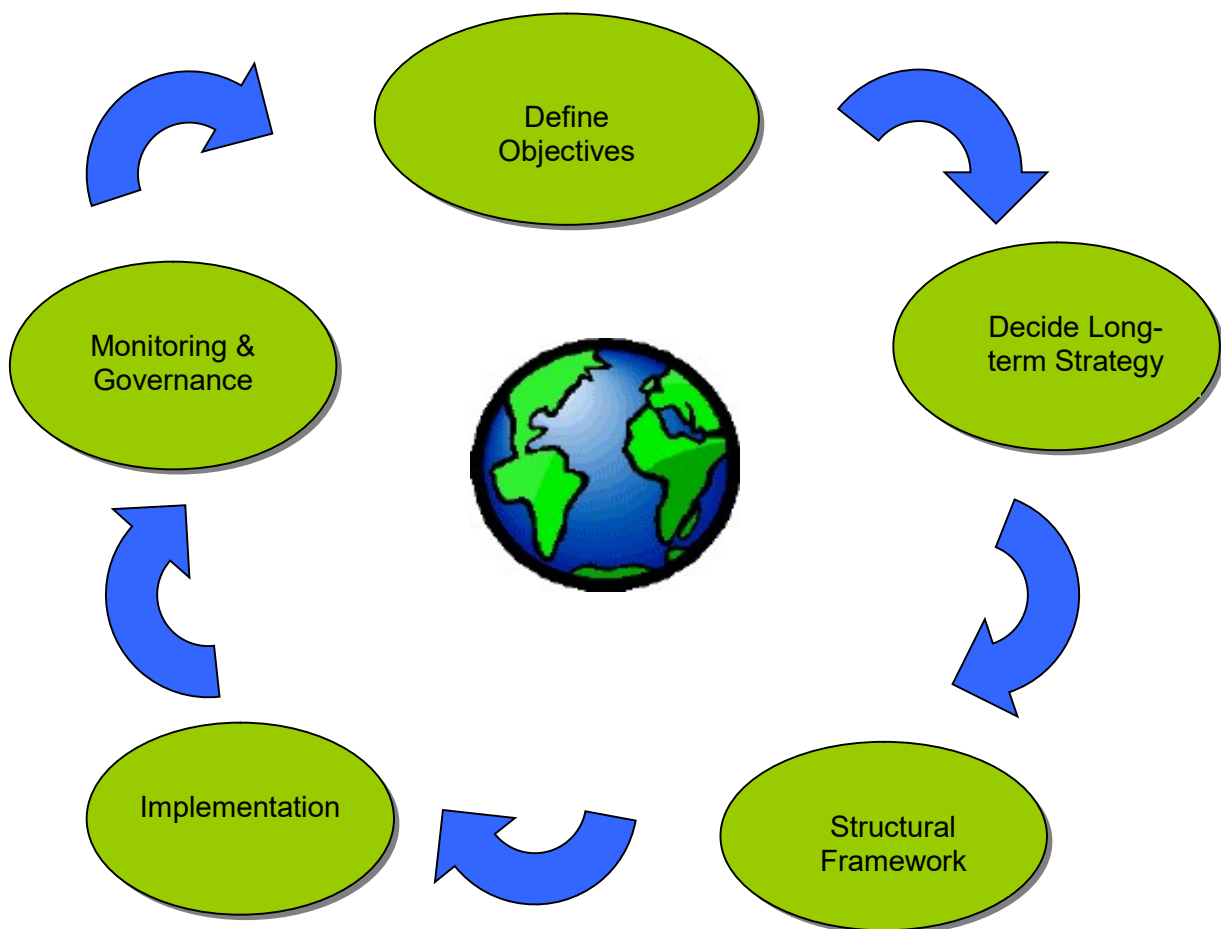
### **Annual Business Plan 2021/22**

# Local Government Pension Scheme City & County of Swansea

## Business Plan

### 1. Decision-making Framework

The Pension Fund Committee have the delegated responsibility to manage the investment arrangements of the Fund to meet the overall investment objectives identified in the Statement of Investment Principles. Investment decisions are taken by the Committee as advised by the Deputy S151 Officer and professional external investment consultants. The Pension Fund Committee use the following framework to formulate their policy in all aspects relating to the management of the Fund's assets.



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

## 2. Summary of Investment Arrangements

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

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

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

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

It is intended that the Fund's investment strategy will be reviewed approximately every three years and as appropriate in the interim.

The Fund's investment strategy was last reviewed during 2019. A full analysis including both a quantitative (using asset liability modelling) and qualitative analysis was undertaken following the last triennial valuation in 2017. This approach helps to ensure that the investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferreds and active members), together with the level of surplus or deficit (relative to the funding basis used). Details of the assumptions used in the quantitative analysis was considered prior to the Committee agreeing any strategic changes.

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

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

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

Performance of the investment managers are collated by PIRC on a whole LGPS basis, this service shall be reviewed on an All Wales basis in due course. Performance of the managers are considered by the Pension Fund Committee on a quarterly basis, with reports and analysis being provided by Hymans.

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

### **3. Issues addressed in year to 31 March 2021**

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

#### *a. Objectives*

- The fund reviewed its objectives as outlined in the revised Investment Strategy Statement

#### *b. Investment Strategy*

The Pension Fund Committee monitored its investment strategy and asset allocation as outlined in The Investment Strategy paper previously , providing an update on progress re. the de-risking strategy and progress re. reducing carbon exposure in its listed equity portfolio to 50% by 2022. It has also committed significant capital to renewable energy ( solar and wind ) during the year. It has also committed to investing in residential housing with funds committing to identifying opportunities in the Swansea area ( due diligence being undertaken on 2 sites)

#### *c. Structural Framework*

The Wales Pension Partnership (WPP) has successfully transitioned its active global equities assets ( including Swansea) into the WPP ACS. The successful transition of Swansea's active £121m fixed income assets took place in Sep 2020. Work is ongoing in relation to the private market assets in the portfolio with a timetable for implementation to be agreed in 2021.

#### *d. Implementation*

- Produced annual report and statement of accounts 2019/20
- Held Annual General Consultative Meeting
- Transitioned active bonds into WPP active fixed income sub funds
- Implemented Swansea specific low carbon overlay re. WPP Glocal equity assets
- Implemented Equity Protection programme
- Implemented triennial valuation
- Held employee roadshows

#### *e. Monitoring & Governance*

During the year, the Pension Fund Committee has held quarterly monitoring meetings with reports from the investment consultant and officers, which under Covid 19 regulations have been held remotely via TEAMS.

Similarly, The Local Pension Board has held quarterly meetings ( virtually via TEAMS) reviewing the work of the pension fund committee

The Joint Governance Committee (JGC) of the WPP has also met 4 times during the year virtually.

A virtual consultation meeting to consider the 2019/20 Annual Report and Statement of Accounts was held, to which all employing bodies and trade unions were invited.

The Principal Pensions Officer held several virtual meetings for employers and members in order to explain the implementation of new regulations, share best practice and improve data submission portals and other changes amongst other administration issues.

The Local Pension Board has welcomed a new employer representative member during the year, Cllr Peter Jones replacing Cllr Mike White.

#### *f. Environmental, Social, Governance (ESG)*

The Pension Fund Committee has formally adopted and approved its Responsible Investment Policy and Environmental, Social Governance (ESG) Policy. The Fund has successfully transitioned £0.5bn of assets into the Blackrock low carbon fund and was recognised in its responsible investment approach by winning the LAPF Best Approach to Sustainable Investment Approach Award 2019. It has also lobbied and worked with peers in WPP to implement carbon reduction programmes in its portfolios. Consequently, the WPP has submitted its prospectus for the carbon reduction overlay for the WPP Global equities opportunities fund to the FCA for consideration. Swansea is currently also concluding due diligence on a number of impact investments including renewable power ( solar and wind) and affordable/community housing. The fund also was shortlisted for the LAPF Awards in 2020 for best investment innovation ( equity protection) and best approach for sustainable investment ( carbon reduction overlay).

### **4. The Business Plan**

#### *a. Objectives*

The Investment Objectives, Strategy and Risk Profile shall be considered when reviewing the Investment Strategy Statement and when considering the revision of the funding strategy statement that was adopted for the 2019 valuation.

#### *b. Investment Strategy*

The solvency level of the Fund continues to be carefully monitored. The ongoing uncertainty for the world economies and recovery from the effects of the global Covid 19 pandemic means that Pension Fund Committee members shall continuously review the

funding level. The strategy will be regularly reviewed to seek to reduce the risk within the portfolio in light of recent gains.

Particular areas to be addressed are as follows:

- Review the effectiveness of the implemented structure of the fund
- Review de-risking strategy
- Review the profile of the Equity protection programme
- Review asset allocation and new asset classes
- Review risk parameters
- Re- balance more efficiently
- Review appropriate fund benchmarks

#### *c. Structural Framework*

The structural framework of the investment management arrangements of the fund has been materially impacted by the establishment of the WPP. The joint governance committee has met 4 times during the year and has engaged formally with the chairs of the 8 local Pension Boards and has held a number of joint training sessions during the year.

#### *d. Implementation & Risk Management*

The Committee shall implement decisions taken in respect of the strategy described above and has identified and shall monitor risks identified in Appendix 2 in the Pension Fund Risk Register. A programme to reduce risk in the equity portfolio as the fund reallocates to a variety of yielding real assets was the implementation of an equity protection programme, the progress of which has been reported regularly since inception. The programme shall be reviewed and re-profiled as the market conditions develop to ensure continued protection whilst the remainder of the real assets portfolio is deployed.

#### *e. Monitoring & Governance*

The Governance arrangements of the CCS pension fund have been formally reviewed in line with regulations and the Council's constitution has been amended to reflect the same, with the pension Fund Committee having governance responsibilities for the pension fund and the Local Pension Board providing the oversight and assistance to the Pension Fund Committee to discharge its role.

The Pension Fund Committee will continue to consider issues arising from all the guidance for investment decision making and further improve compliance where required. The Pension Fund Committee awaits the outcome of the scheme governance review guidance due to be published by the scheme advisory board (SAB).

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

An Annual Consultative Meeting with stakeholders was held to consider the 2019/20 Annual Report.

Further open meetings for employers shall be arranged as required to consider revisions to the scheme and the impact of Mc Cloud remedy impact and will consult on further dialogue with MHCLG in relation to structural reform of the LGPS.

*f. Trustee/Officer Training*

The Deputy S151 Officer and advisors will continue to identify suitable Trustee training opportunities as outlined in the Trustee Training plan and in tandem with the WPP training plan, striving to ensure Trustees are appropriately equipped to discharge their role.

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

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

Similarly officers are required to demonstrate competency and experience in discharging their roles and the Deputy S151 Officer shall continue to identify training opportunities for the officers of the fund.

The appointed investment consultant, Hymans launched the LGPS National Knowledge Assessment (NKA) self-assessment toolkit to gauge the level of competency of both Committees and Boards. Both members of the Committee and Local Pension Board have undertaken the assessment and the results and feedback shall inform the items identified for training.

**5. Business Plan Timetable**

The following table in Appendix 1 sets out the progress achieved against the 2020/21 business plan and sets out the broad Pension Fund Committee business plan over the next twelve months for 2021/22, the document is a dynamic document which is subject to review during the year. The business plan also includes a projected budget for the forthcoming year in respect of the main areas of income and expenditure and in Appendix 3. Appendix 2 outlines the high level risk register.

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



Review of 2020/21 Business Plan Targets to year ended 31<sup>st</sup> March 2021

Action	Description	Time-scale	Primary Responsibility	Status
1	Formulate Annual Business Plan for 2020/21	Mar 2020	Deputy S 151 Officer	Achieved
2	Implement 2019 Triennial Valuation	April 2020	Deputy S 151 Officer /actuary	Achieved
3	Implement FSS	Mar 2020	Deputy S 151 Officer /actuaries	Achieved
4	Undertake formal Review of Investment Strategy Statement pre 2019 triennial valuation	Mar 2021	Deputy S 151 Officer	Achieved
5	Implement revised pension SORP and CIPFA guidance in producing annual report and statement of a/cs	June 2020	Deputy S 151 Officer	Achieved
6	Finalise GMP reconciliation	Sep 2020	Deputy S 151 Officer	Ongoing
7	Monitor LGPS Regulation Changes and provide response to consultation where necessary to MHCLG	MHCLG timetable	Deputy S 151 Officer	Achieved
8	Review Compliance with TPR for investment decision making.	2020/21	Deputy S 151 Officer	Ongoing
9	Support the All Wales Investment Pool project ( procurement, governance & oversight arrangements, prospectus design, sub fund design, tax, transition management)	Continuous	Deputy S 151 Officer	Achieved & Ongoing
10	Consider and approve Pension Fund Accounts and Annual Report	September 2020	Deputy S 151 Officer	Achieved
11	Review performance of Fund and each individual	July 2020	Deputy S 151 Officer	Ongoing

	Manager, taking into account world markets	September 2020 Dec 2020 March 2021		
12	Continue to implement the fund's ESG Policy in respect of reduced carbon exposure and responsible investments	2020/21	Deputy S 151 Officer	Achieved and ongoing
13	Annual consultative meeting with employers re. annual report	November 2020	Deputy S 151 Officer	Achieved Nov 2020
14	Receive presentations from Fund Managers/ACS Operator/advisors	July 2020 September 2020 December 2020 March 2021	Deputy S 151 Officer	Achieved
15	Implement any amendments as a result of revised regulations	MHCLG Timetable	Deputy S 151 Officer	Achieved
16	Review Pension Administration Strategy to ensure compliance with legislation	Nov 2020	Deputy S 151 Officer	Achieved
17	Review Communication Strategy to ensure fit for purpose and compliance with regulations	Nov 2020	Deputy S 151 Officer	Achieved
18	Assess knowledge and skills of pension fund committee and local pension board members via National knowledge assessment (NKA)	July 2020	Deputy S 151 Officer	Achieved
19	Review Governance arrangements pending issuance of SAB guidance	Dec 2020	Deputy S 151 Officer	Ongoing

20	Re- measure Carbon exposure across the equity portfolio	Dec 2020	Deputy S 151 Officer	Implemented Nov 2020

### Business Plan 2021/22 to Year Ending 31 March 2022

Action	Description	Time-scale	Primary Responsibility
1	Formulate Annual Business Plan for 2021/22	Mar 2021	Deputy S 151 Officer
2	Implement revised FSS for employer flexibilities	April 2021	Deputy S 151 Officer /actuary
3	Take amended WPP Inter Authority Agreement to Council for amendment to recognise scheme member representative on the JGC.	Dec 2021	Deputy S 151 Officer /Democratic Services
4	Undertake formal Review of Investment Strategy Statement	Mar 2021	Deputy S 151 Officer
5	Implement revised pension SORP and CIPFA guidance in producing annual report and statement of a/cs	June 2021	Deputy S 151 Officer
6	Finalise GMP reconciliation	Sep 2021	Deputy S 151 Officer
7	Monitor LGPS Regulation Changes and provide response to consultation where necessary to MHCLG	MHCLG timetable	Deputy S 151 Officer
8	Implement Mc Cloud Remedy	2021/22	Deputy S 151 Officer
9	Support the All Wales Investment Pool project ( procurement, governance & oversight arrangements, prospectus design, sub fund design, tax, transition management)	Continuous	Deputy S 151 Officer
10	Consider and approve Pension Fund Accounts and Annual Report and progress through external audit process	November 2021	Deputy S 151 Officer
11	Review performance of WPP fund managers and Swansea fund managers ,	July 2021 September 2021 Dec 2021 March 2022	Deputy S 151 Officer

12	Continue to implement the fund's ESG Policy in respect of reduced carbon exposure and responsible investments	2021/22	Deputy S 151 Officer
13	Annual consultative meeting with employers re. annual report	November 2021	Deputy S 151 Officer
14	Receive presentations from Fund Managers/WPP ACS Operator/advisors	July 2021 September 2021 December 2021 March 2022	Deputy S 151 Officer
15	Implement any amendments as a result of revised regulations	MHCLG Timetable	Deputy S 151 Officer
16	Review Pension Administration Strategy to ensure compliance with legislation	Nov 2021	Deputy S 151 Officer
17	Review Communication Strategy to ensure fit for purpose and compliance with regulations	Nov 2021	Deputy S 151 Officer
18	Implement training plan as a result of the knowledge and skills assessment of pension fund committee and local pension board members via National knowledge assessment (NKA)	July 2021	Deputy S 151 Officer
19	Review Governance arrangements pending issuance of SAB guidance	Dec 2021	Deputy S 151 Officer
20	Continue to evolve the carbon reduction programme within the equity portfolio	Dec 2021	Deputy S 151 Officer

## City &amp; County of Swansea Pension Fund Risk Register 2021/22

Risk	Existing control measures /new control measures	Impact	Likelihood	Assigned	Date	Risk status
<b>CCSPF1- Failure to comply with LGPS Regulation</b>  <b>If there is failure to comply with regulation, there would be adverse audit opinion and loss of trust from employers within scheme</b>	<ul style="list-style-type: none"> <li>Well trained staff</li> <li>CPD</li> <li>Pensions Officer Group</li> <li>Society of Welsh Treasurers</li> <li>Internal/external audit regime</li> </ul>	High	Low	JD	2021/22	Green
<b>CCSPF2 – Failure to process accurate pension benefits in a timely manner</b>  <b>If a pension benefit is paid incorrectly there could be a cost to the fund or penalty imposed for lateness of payment</b>	<ul style="list-style-type: none"> <li>Well trained staff</li> <li>Established procedure with imbedded checks and segregation of duties in place</li> <li>Regular KPI monitoring</li> <li>Use of market leading software Altair</li> <li>NFI checks</li> <li>Atmos checks</li> <li>GDPR</li> </ul>	High	Low	JD	2021/22	Green
<b>CCS PF3- Failure to collect and account for full receipt of contributions from employers and employees on time</b>  <b>If there is a failure to collect appropriate contributions there may be a rise in employers contributions and an adverse impact on cashflow and the ability to pay benefits and adverse audit opinion</b>	<ul style="list-style-type: none"> <li>Contribution timetable/monitoring procedure</li> <li>Administering Authority agreement</li> <li>Escalation and fines for non compliance</li> <li>Internal audit</li> </ul>	High	Low	JD	2021/22	Green
<b>CCS PF4 – Failure to keep pension records up to date</b> <b>If pension records are not up to</b>	<ul style="list-style-type: none"> <li>Administering Authority agreement with employers to ensure timely passing of</li> </ul>	High	Medium	JD	2021/22	Amber

<p>date, a wrong benefit may be calculated and paid</p>	<p>information</p> <ul style="list-style-type: none"> <li>• Data accuracy checks undertaken</li> <li>• Data validation on Altair system</li> <li>• Periodic data validation by scheme actuary/NFI</li> <li>•</li> </ul>					
<p><b>CCSPF 5 Failure to hold personal data securely</b></p> <p>If there is breach of data there is a risk to the individual's details and loss of trust in the Authority</p>	<ul style="list-style-type: none"> <li>• Compliance with GDPR</li> <li>• Business Continuity plan</li> <li>• IT Security Policy</li> <li>• Systems and pension payroll audit annually</li> </ul>	High	Low	JD	2021/22	Green
<p><b>CCSPF6 Loss of funds through fraud or misappropriation by Administrative staff</b></p> <p>If funds are lost through fraud or misappropriation by Administrative staff could lead to increase in employer contributions</p>	<ul style="list-style-type: none"> <li>• Segregation of duties</li> <li>• Clear roles and responsibilities and schemes of delegation</li> <li>• Internal external audit</li> </ul>	High	Low	LM	2021/22	Green
<p><b>CCSPF7 – Loss funds through fraud or misappropriation in investment related functions</b></p> <p>If funds are lost through fraud or misappropriation in investment related functions could lead to increase in employer contributions</p>	<ul style="list-style-type: none"> <li>• Segregation of duties</li> <li>• Clear roles and responsibilities and schemes of delegation</li> <li>• Internal/external audit</li> <li>• Regulatory control reports by external fund managers, custodians, fund administrators</li> <li>• FCA registration</li> <li>• Due diligence upon appointment</li> </ul>	High	Low	JD	2021/22	Green
<p><b>CCSPF8- Liquidity/cashflow risks – insufficient liquid assets with which to meet liabilities as they fall due</b></p> <p>If levels of liquidity are insufficient then pension payments may not be able to be met</p>	<ul style="list-style-type: none"> <li>• Weekly pension fund cash investments monitoring</li> <li>• SIP allocation to liquid assets</li> </ul>	High	Low	JD	2021/22	Green

<b>CCSPF 9- Volatility in employer contribution rates due to decrease/increase in valuation of assets/liabilities</b>	<ul style="list-style-type: none"> <li>Engage with expert actuary to make appropriate assumptions and employ suitable mechanisms to mitigate unaffordable rises</li> <li>Regular monitoring of investment manager performance</li> <li>Diversified investment asset allocation</li> </ul>	High	Medium	JD	2021/22	Amber
<b>CCSPF10- Prolonged failure of investment managers to achieve their objective returns</b>	<ul style="list-style-type: none"> <li>Regular investment monitoring by officers</li> <li>Regular presentation to pension fund committee</li> <li>Ability to sack managers</li> <li>Diversified investment strategy with a number of different managers</li> </ul>	Medium	Medium	JD	2021/22	Green/Amber
<b>CCSPF11- Price Risk- the volatility of the price of the quoted investments held exposes the fund to the risk of price movements in the market</b>	<ul style="list-style-type: none"> <li>A comprehensive diversified investment approach is adopted</li> </ul>	High	Low	JD	2021/22	Green
<b>CCSPF 12- Interest rate risk- The risk of exposure to significant interest rate rises</b>	<ul style="list-style-type: none"> <li>A comprehensive diversified investment approach is adopted</li> </ul>	Medium	Low	JD	2021/22	Green
<b>CCSPF 13 Discount Rate Risk- Volatility in the discount rate used inflates the level of liabilities to be paid</b>	<ul style="list-style-type: none"> <li>Engage professionally qualified actuary who can mitigate the effects of abnormal discount rates</li> </ul>	High	Medium	JD	2021/22	Amber
<b>CCSPF 14 Foreign Exchange Risk- The risk of fluctuation the value of foreign currencies ( the fund holds foreign investments whilst its liabilities are payable in sterling)</b>	<ul style="list-style-type: none"> <li>A comprehensive diversified investment approach is adopted</li> <li>Good cashflow management</li> </ul>	High	Low	JD	2021/22	Green

<b>CCSPF 15 – having suitably trained/experienced staff</b>	<ul style="list-style-type: none"> <li>• Training, development and succession planning</li> </ul>	High	Medium	JD	2021/22	Amber
<b>CCPF 16- Having suitably trained knowledgeable Pension Fund Committee Members/Local Pension Board Members</b>	<ul style="list-style-type: none"> <li>• CIPFA Knowledge and Skills framework</li> <li>• TPR Toolkit</li> <li>• Training Plan</li> <li>• Professional Advisors/Officers advising</li> </ul>	High	Low	JD	2021/22	Green
<b>CCSPF 17- Having adequate cyber security to protect members’ data and ability to continue to pay benefits</b>	<ul style="list-style-type: none"> <li>• Comprehensive firewall and cyber security systems used by the Admin Authority and hosted system providers</li> </ul>	High	Low	JD	2021/22	Green
<b>CCSPF 18 -</b>	<ul style="list-style-type: none"> <li>•</li> </ul>				2021/22	



## Appendix 3

### Pension Fund – Budget 2021/22

	Actual 2019/20	Probable 2020/21	Estimate 2021/22
<b>Membership Numbers</b>			
Contributors	20,050	20,080	20,120
Pensioners	13,610	13,822	14,034
Deferred	11,838	11,850	11,880
	<u>45,498</u>	<u>45,752</u>	<u>46,034</u>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Income</b>			
Employer Contributions	80,425	80,691	80,860
Employee Contributions	19,276	20,172	20,300
Transfers In	4,106	3,500	4,000
Other Income	424	50	100
Investment Income	8,482	10,000	12,000
	<u>112,713</u>	<u>114,413</u>	<u>117,260</u>
<b>Expenditure</b>			
Pensions Payable	67,763	70,091	71,521
Lump Sum Benefits	14,409	13,700	14,000
Refunds	166	108	110
Transfers Out	6,934	4,000	4,500
	<u>89,272</u>	<u>87,899</u>	<u>90,131</u>
<b>Administrative Expenses</b>			
Support Services	761	761	761
Actuarial Fees	83	50	50
Consultancy Service	105	100	100
External Audit Fees	37	40	40
Performance Monitoring Fees	14	15	15
Printing & Publications	7	7	7
Software Licences	233	267	270
Membership Fees	29	29	29
Legal Fees	18	21	20
Other	167	100	150
Pension Fund Committee	6	3	6
Local Pension Board	2	3	6
Wales Pension Partnership	182	180	180
	<u>1,644</u>	<u>1,576</u>	<u>1,634</u>
<b>Investment Expenses</b>			
Management Fees	3,029	3,780	4,500
Performance Fees	1,572	2,000	2,000
Custody Fees	299	320	330
Transaction Costs	2,688	2,000	2,000
	<u>7,588</u>	<u>8,100</u>	<u>8,830</u>



## Report of the Section 151 Officer

Local Pension Board – 1 April 2021

### Trustee Training

#### CIPFA Code of Practice, Public Sector Finance Knowledge and Skills

#### The Pension Regulator Knowledge and Understanding Duty on Members

<b>Purpose:</b>	To determine an annual training programme for Pension Fund Committee and Local Pension Board members and officers of the Pension Fund  Presented as Information to Local Pension Board
<b>Reason for Decision:</b>	To ensure compliance with the CIPFA Public Sector Pensions Finance Knowledge & Skills Code of Practice and the Pension Regulator Knowledge and Understanding Requirements
<b>Consultation:</b>	Legal, Finance and Access to Services.
<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 Section 248 of The Pension Act 2004, as amended by Pensions Act 2013 requires that trustees of occupational pension schemes should be trained and have the knowledge and understanding of the law relating to pensions, the role of trustees and the principle of scheme funding, investment management, scheme administration of pension benefits. Whilst there is a legal requirement for a prescribed level of knowledge and understanding for members of a Local Pension Board, this legal requirement does not apply to members of a Pension Fund Committee. Accordingly, the Pensions Committee have agreed to have regard to the Myner principles, The Pension

Regulators' Toolkit, Scheme Advisory Board (SAB) and adopt the CIPFA Knowledge and Skills Framework.

In March 2000, the Chancellor of the Exchequer commissioned Paul Myners to conduct a review of institutional investment in the UK. The review was asked to consider whether there were distortions in institutions' investment decision-making. The efficiency of investment decision-making is an important driver of productivity, helping ensure that capital is allocated effectively and that managers are monitored and held accountable for performance.

1.2 One of Myners' main conclusions was that many pension fund trustees lack the necessary investment expertise to act as strong and discerning customers of the investment consultants and fund managers who sell them services.

1.3 In order to address the distortions identified, Myners recommended that pension fund trustees voluntarily adopt, on a 'comply or explain' basis, a series of principles codifying best practice for decision-making in relation to investment. These principles would be a powerful force for behavioural change. The central tenets included:

- decisions should be taken only by those with the right skills and expertise, and trustee boards should ensure they have access to appropriate skills and resources;
- fund managers should be set clear objectives and timescales;
- the performance of all managers should be measured, and trustees should assess their own performance;
- trustees should engage with investee companies where it is in the interests of their fund members so to do; and
- the investment strategy and returns of the fund should be reported annually to members and the public.

1.4 The Government agreed that the principles represent a clear and coherent approach, which will help the pensions industry respond to the challenges it faces, and from which everyone – consumers, industry and Government, but especially pension funds themselves – stands to benefit. The Government committed to reviewing after two years the extent to which the principles had been effective in bringing about behavioural change.

## **2 Progress**

2.1 The Government has concluded that the voluntary approach is beginning to work, but considerably more efforts are needed to ensure that problem areas identified by the review are satisfactorily addressed. It believes that pension funds would better serve their members' and sponsors' interests if the best practice embodied in the Myners principles were to be strengthened

and amplified, particularly in relation to trustee expertise and the process of investment decision-making.

2.2 Strengthening trustee skills and expertise is fundamental to achieving Myners' goals. The Pensions Act requires all trustees and officers to have appropriate knowledge and understanding of funding, investment, and relevant legal and scheme-specific issues. The Pensions Regulator will be responsible for enforcing this legal requirement, and the Occupational Pensions Regulatory Authority (OPRA) has developed a detailed code of practice to provide trustees with guidance.

2.3 The Government proposed that the Myners principle in relation to effective decision-making (principle 1) should be strengthened to align it with the objective standard of expertise set in the Pensions Act; but also to incorporate the review's conclusion that: the role played by the chair of the trustee board; having a critical mass of trustees with investment expertise; and the availability of additional resources to support the trustee board, are all key factors in promoting effective investment decision-making by pension funds. It therefore proposed to add three new elements to the principle. In all pension funds, the chair has a critical role in ensuring that the board as a whole has appropriate skills to address its responsibilities, and sets aside the appropriate time and resources to address investment decision-making.

### **3 CIPFA Code of Practice & The Pension Regulator's Knowledge & Understanding Requirements**

#### **3.1 CIPFA Code**

The CIPFA Code of Practice represents a key element in complying with Myners' requirements for knowledge & skills in decision makers in public pension funds.

3.2 The Code of practice is underpinned by 4 key principles:

1. Organisations responsible for the financial administration of public sector pension schemes recognise that effective financial management, decision-making and other aspects of the financial administration of public sector pension schemes can only be achieved where those involved have the requisite knowledge & skills.
2. Organisations have in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of pension scheme finance knowledge and skills for those in the organisation responsible for financial administration and decision-making.
3. The associated policies and practices are guided by reference to the requirements outlined in the CIPFA Pensions Finance Knowledge & Skills framework.
4. The organisation has designated a named individual to be responsible for ensuring that policies are implemented.

3.3 CIPFA recommends that all LGPS organisations adopt the following statements:

1. This organisation adopts the key recommendations of the Code of Practice
2. This organisation recognises that effective financial administration and decision making can only be achieved where those involved have the requisite knowledge and skills
3. accordingly that organisation will ensure that it has formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of the relevant knowledge and skills
4. The policies and practices will be guided by reference to CIPFA knowledge and skills framework
5. The organisation will report on an annual basis how these policies have been put into place
6. this organisation has delegated the responsibility for the implementation of the requirements of the CIPFA Code of practice to the Section 151 Officer

### 3.4 The Pension Regulator

Key points

- You must have the required knowledge and understanding of scheme rules, documents recording scheme administration policies and pensions law.
- You should have adequate training to meet the knowledge and understanding requirements.

### 3.5 Knowledge and understanding requirements

You must:

- be conversant with (ie have a working knowledge of) your scheme rules and any document recording policy about the administration of your scheme
- have knowledge and understanding of the law relating to pensions

Scheme rules and administration policies

You must have a working knowledge of your scheme rules and documented administration policies. You should understand them in enough detail to:

- know where they are relevant to an issue
- understand and if necessary challenge any advice that you're given

### 3.6 The City & County of Swansea Pension Fund Policy Statement

The City & County of Swansea Pension Panel recognises the importance of ensuring that all staff and members charged with the financial management and decision making with regard to the LGPS are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them. The City & County of Swansea Pension Fund formally adopted the CIPFA Pensions Finance Knowledge & Skills Code of Practice in June 2012. It will provide/arrange training for staff and members of the pensions decision making body to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. CIPFA have recognised the necessity to revisit and update this code of practice.

The Pension Committee has designated the Deputy Section 151 officer to be responsible for ensuring that the policies are implemented.

The majority of the Pension Committee and Local Pension Board have been in post for some time now and have formally undertaken initial introductory training in the LGPS and are consolidating that knowledge with continuous development, however an ongoing induction programme shall be required for the 2 new members of the Local Pension Board recently appointed.

With the revision of LGPS Governance Regulations and SAB guidance, the importance of minimum Trustee competence, knowledge and skills shall greatly increase

### 3.7 Hymans, the fund's appointed investment consultant have launched the LGPS National Knowledge Assessment (NKA) in 2020 which seeks to assess the knowledge levels of Pension Fund Committees and Local Pension Boards nationwide.

In participating in the assessment, the fund received a full report outlining:

- Own fund results
- Analysis and suggested next steps
- Benchmarked position against other funds
- A tailored recommended training plan

The assessment launched in March 2020 with members of the pension fund committee and local pension board completing the 15-20 minute survey during April and May 2020. The results and subsequent questionnaire were used to inform the plan below.

### 3.8 In 2020/21, the following Trustee training was identified to be undertaken by members of the Committee and Local Pension Board, however where some of the training providers were able to pivot and provide the content remotely, other providers could not provide alternatives and so did not occur.

1. WPP ACS training (remotely)
2. WPP Private markets training (remotely)
3. Investor engagement (remotely)

4. Stocklending/Voting (remotely)
5. LGE (Local Government Employers) Trustee Fundamentals day 1, 2 & 3 (did not take place)
6. PLSA Local Authority Seminar (did not take place)
7. LAPFF AGM (remotely)
8. Asset class training (remotely)
9. CIPFA trustee and Local Pension Board training (remotely)

In 2021/22, informed by the National Knowledge Assessment undertaken and outstanding training identified previously, the following training has been identified as appropriate training to be undertaken by members of the Committee and Local Pension Board along with any appropriate training opportunities which present themselves during the year to be agreed by the Section 151 Officer and to participate in and amend the training below which is separately identified by the WPP training plan which is due to be approved at the next JGC meeting in later in 2021:

10. LGE (Local Government Employers) Trustee Fundamentals day 1, 2 & 3
11. ESG training
12. PLSA Local Authority Seminar PLSA Local Authority Seminar
13. Pension Governance- the role of the Committee and the Board
14. Pension Accounting & audit standards
15. Actuarial valuation methodologies

3.9 The determination of the training requirements for officers shall be delegated to the Deputy Section 151 Officer.

#### **4 Financial Implications**

4.1 The financial implications of the report are that costs will be maintained within the training budget of the Pension Fund previously approved and outlined in the business plan

#### **5 Legal Implications**

5.1 The underlying legal framework is set out in the 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:** None.

# Agenda Item 5e



## Report of the Section 151 Officer

Local Pension Board - 1 April 2021

### Exit Cap Regulations Update

<b>Purpose:</b>	To update Local Pension Board on the £95k Exit Cap Regulations disapplied on February 12 <sup>th</sup> 2021
<b>Policy Framework:</b>	LGPS Administration Regulations
<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 – The £95k Cap**
  - 1.1 The Pension Fund Committee has previously received a report at its Nov 2020 meeting that The legislation implementing the £95k cap on exit payments has now been signed and came into force on 4 November 2020 with the accompanying operational/legislative uncertainty for Administering Authorities. It was reported that the regulations had been subject to legal challenge and judicial review.
  - 1.2 On the 12<sup>th</sup> Feb 2021, HM Treasury published The Exit Payment Directions 2021 which disapplied regulation 3,9, and 12 of the Restriction of Public Sector Exit Payment Regulations 2020. This means that the exit cap does not apply to exits taking place on or after 12<sup>th</sup> Feb 2021. The LGA published guidance notes for Administering Authorities attached at Appendix 1. It should be noted that although the Exit Cap in its original form has been disapplied, the government is committed to introducing an alternative capping mechanism to public sector exit payments ‘at pace’.
  - 1.3 There remains the issue of how to lawfully deal with exits breaching the cap



between Nov 4<sup>th</sup> 2020 and Feb 12<sup>th</sup> 2021. It can be reported that there were no exits breaching the cap between these dates for the City & County of Swansea Pension Fund.

- 1.3 As reported in detail to the Pension Fund Committee in November 202, in parallel, The Ministry of Housing, Communities and Local Government (MHCLG) have opened a consultation seeking views on proposals for further reform on exit payment terms. This consultation is still in progress.

## **2 Legal Implications**

- 2.1 The amended regulations are now in force.

## **3 Financial Implications**

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

## **4 Equality and engagement Implications**

- 4.1 There are no equality implications arising from this report

**Background Papers:** None.

**Appendices:** Local Government Association - Exit cap information for LGPS administering authorities

# Exit cap information for LGPS administering authorities

This guide provides updated information for administering authorities on the position for redundancy and business efficiency exits now that the exit cap has been disapplied. It applies to exits of LGPS members who are aged 55 or over.

## Contents

Exit cap disapplied .....	1
Exits from 12 February 2021 .....	2
Exits between 4 November 2020 and 11 February 2021 .....	2
Looking ahead.....	4
Disclaimer .....	4

## Exit cap disapplied

On 12 February 2021, HM Treasury [HMT] published the [Exit Payment Cap Directions 2021](#) [the Directions]. The Directions disapply regulations 3, 9 and 12 of the [Restriction of Public Sector Exit Payment Regulations 2020](#) [the 2020 Regulations] with immediate effect. This means the exit cap does not apply to exits that take place on or after 12 February 2021.

HMT has provided further information in the [Restriction of Public Sector Exit Payments: Guidance on the 2020 Regulations](#) [the Guidance]. HMT confirms in the Guidance that:

“the Government has concluded that the Cap may have had unintended consequences and the [2020] Regulations should be revoked. HMT Directions have been published that disapply the Cap until the Regulations have been revoked.”

The Guidance does not address pensions directly. However, the Guidance confirms that HMT expects employers to pay the additional sums that would have been paid, had the exit cap not applied in respect of employees who left between 4 November 2020 and 11 February 2021.

If the exit cap had not applied, the employer would have paid the full strain cost requested by the administering authority in these cases.

The Welsh Government has confirmed that, in their view, the exit cap no longer applies to exit payments made by a devolved Welsh authority.

## **Exits from 12 February 2021**

### **The exit cap does not apply to exits that happen on or after 12 February 2021.**

When an LGPS member exits due to redundancy or business efficiency at age 55 or over:

- the member is entitled to and must take an unreduced pension under regulation 30(7) of the LGPS Regulations 2013
- the Scheme employer must pay the strain cost of paying that pension early requested by the administering authority, and
- the Scheme employer must not make a cash alternative payment to or on behalf of the member.

We advised administering authorities to keep a record of those members who were offered the choice of a deferred or reduced pension because they were 'capped'. You will need to identify any members who left or are due to leave after 11 February 2021 that are in this category if you have already offered them this choice. You should contact these members and advise them that they are entitled to and must take an unreduced pension.

An active member who leaves employment below their Normal Pension age but after age 55 may elect for immediate payment of their pension under regulation 30(5) of the LGPS Regulations 2013. In this circumstance, a Scheme employer may waive some or all of the early payment reduction that would otherwise have applied. There is now no restriction on the strain cost that the employer can pay to reduce or eliminate the reduction.

## **Exits between 4 November 2020 and 11 February 2021**

At present it is unclear if the 2020 Regulations will be revoked retrospectively and whether the [letter from MHCLG to LGPS administering authorities](#) dated 28 October 2020 will be withdrawn. Administering authorities will need to decide on what action to take in respect of exits that occurred between 4 November 2020 and 11 February 2021 that were affected by the exit cap. The Scheme Advisory Board (SAB) obtained legal advice from Eversheds Sutherland on this point.

Based on that legal advice, the SAB recommends that administering authorities:

- may pay unreduced benefits to all members who left during this period due to redundancy or business efficiency at age 55 or over
- should request the full strain cost of paying unreduced benefits from the Scheme employer, and
- should not seek to adjust the unreduced benefits or the strain cost payable by the Scheme employer to reflect any cash alternative payment the employer has paid.

You can read the full SAB commentary on the legal advice on the [Public Sector Exit Payments](#) page of the SAB website. The page also includes useful background information for administering authorities on the introduction of the exit cap and the latest development.

The SAB recognises that some administering authorities may take their own legal advice before deciding on what approach they will take. The rest of this section covers the steps an administering authority should take if they decide to follow the approach recommended by the SAB.

You will need to review any exits that occurred between 4 November 2020 and 11 February 2021 where the employer was not able to meet the full strain cost because of the exit cap.

The action you will need to take depends on whether the administering authority:

- paid an unreduced pension or
- offered the member a choice between a deferred or fully reduced pension.

### **Administering authority offered reduced or deferred benefits**

If you offered ‘capped’ members a choice between reduced and deferred benefits, those members are now entitled to unreduced benefits. You should identify any exits between 4 November 2020 and 11 February 2021 where a member who left due to redundancy or efficiency was offered this choice. You can bring into effect the provisions of regulation 30(7):

- calculate the member’s unreduced benefits which are payable from the day after leaving, and
- let the employer know that an unreduced pension will be paid and request the full strain cost from the employer.

### **Administering authority paid unreduced benefits**

Some administering authorities may have continued to pay unreduced benefits to all members aged 55 or over who left due to redundancy or business efficiency in accordance with regulation 30(7). If you have taken this approach, you will not need

to review the LGPS benefits that are being paid in cases where the employer was not able to meet the full strain cost because of the exit cap.

The amount that a Scheme employer can pay in respect of an exit is no longer restricted. You will need to contact Scheme employers to request the full strain cost for any exits that have already been processed.

## Looking ahead

The Government confirmed in the Guidance that “HM Treasury will bring forward proposals at pace to tackle unjustified exit payments”. We understand that MHCLG plans to introduce further changes to exit payments following the recent [MHCLG consultation on reforming local government exit pay](#). MHCLG has confirmed that it will consult again on further reforms to exit payments before any changes are made.

The Government has not confirmed when the exit cap or further reforms will be introduced, although we think it is unlikely to happen in the next few months due to the time it will take to consult and make changes to legislation.

Public sector employers planning future workforce reform will need to be aware that:

- an exit cap may be in force later in 2021, and
- MHCLG may introduce further reforms to exit pay when the exit cap is re-introduced.

We will share any information about timescales with you as soon as we receive it. In the meantime, administering authorities should continue to provide strain cost estimates for future redundancies or business efficiency exits to employers. We recommend that you include warnings about possible future reforms to exit payments when you provide these estimates.

## Disclaimer

This document has been prepared by the LGA. It should not be treated as a complete and authoritative statement of the law. Administering authorities may wish, or will need, to take their own legal advice. No responsibility whatsoever will be assumed by the LGA for any direct or consequential loss, financial or otherwise, damage or inconvenience, or any other obligation or liability incurred by readers relying on information contained in this document.

# Agenda Item 6



## Report of the Chief Legal Officer

Local Pension Board – 1 April 2021 2020

### 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>
	7-9	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>a) Whilst they were mindful of the need to ensure the transparency and accountability of public authority for decisions taken by them in relation to the spending of public money, the right of a third party to the privacy of their financial / business affairs outweighed the need for that information to be made public; or</li> <li>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 7a

By virtue of paragraph(s) 14 of Schedule 12A  
of the Local Government Act 1972  
as amended by the Local Government (Access to  
Information) (Variation) (Wales) Order 2007.

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By virtue of paragraph(s) 14 of Schedule 12A  
of the Local Government Act 1972  
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Information) (Variation) (Wales) Order 2007.

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# Agenda Item 8

By virtue of paragraph(s) 14 of Schedule 12A  
of the Local Government Act 1972  
as amended by the Local Government (Access to  
Information) (Variation) (Wales) Order 2007.

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By virtue of paragraph(s) 14 of Schedule 12A  
of the Local Government Act 1972  
as amended by the Local Government (Access to  
Information) (Variation) (Wales) Order 2007.

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# Agenda Item 9

By virtue of paragraph(s) 14 of Schedule 12A  
of the Local Government Act 1972  
as amended by the Local Government (Access to  
Information) (Variation) (Wales) Order 2007.

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