



## City and County of Swansea

### Notice of Meeting

You are invited to attend a Meeting of the

## Pension Fund Committee

**At:** Remotely via Microsoft Teams

**On:** Wednesday, 8 September 2021

**Time:** 10.00 am

**Membership:**

Councillors: J P Curtice, P Downing, M B Lewis, C E Lloyd, D G Sullivan and W G Thomas

Neath Port Talbot Council Co-opted Member: P A Rees

Advisors: S Jasinski, N Jellema and D Morton

**Watch Online:** <https://bit.ly/3sGXiqc>

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### Agenda

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<b>2 Election of Vice-Chair for the 2021-2022 Municipal Year.</b>	
<b>3 Apologies for Absence.</b>	
<b>4 Disclosures of Personal and Prejudicial Interests.</b> <a href="http://www.swansea.gov.uk/DisclosuresofInterests">www.swansea.gov.uk/DisclosuresofInterests</a>	
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**Next Meeting:** Wednesday, 17 November 2021 at 10.00 am

*Huw Evans*

**Huw Evans**  
**Head of Democratic Services**  
**Wednesday, 1 September 2021**  

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**Contact: Democratic Services: - 636923**

# Agenda Item 5



City and County of Swansea

## Minutes of the Pension Fund Committee

Remotely via Microsoft Teams

Thursday, 11 March 2021 at 10.00 am

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

**Councillor(s)**

J P Curtice  
D G Sullivan

**Councillor(s)**

P Downing  
W G Thomas

**Councillor(s)**

M B Lewis

**Neath Port Talbot Council Co-opted Member**

P A Rees

**Advisors**

N Jellema  
D Morton

Advisor - Hymans Robertson

Advisor - Hymans Robertson

**Officer(s)**

Karen Cobb  
Jeremy Parkhouse  
Jeffrey Dong

Senior Accountant

Democratic Services Officer

Deputy Chief Finance Officer / Deputy Section 151  
Officer.

Carolyn Isaac

Lawyer

**Apologies for Absence:** None.

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### 13 Disclosures of Personal and Prejudicial Interests.

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

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

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

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

Councillor C E Lloyd – agenda as a whole – members of the Local Government Pension Scheme - personal.

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

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

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

**Observer:**

I Guy, Chair of Local Pension Board - agenda as a whole – member of the Local Government Pension Scheme - personal.

**Officers:**

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

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

C Isaac - Agenda as a whole – Member of Local Government Pension Scheme – personal.

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

**14 Minutes.**

**Resolved** that the Minutes of the Pension Fund Committee meeting held on 12 November 2020 be signed and approved as a correct record.

**15 City & County of Swansea Pension Fund Audit Plan 2021.**

Jason Garcia, Audit Wales (AW) presented the City and County of Swansea Pension Fund Audit Plan 2021.

It was outlined that the purpose of the plan was to set out the proposed work of AW, when it would be undertaken, how much it would cost and who would undertake it.

The report detailed the following: -

- The ongoing impact of Covid 19, the uncertainty going forward and how AW planned to undertake their work.
- The Audit of the Pension Fund accounts.
- The financial audit risks, including significant risks; impact of COVID 19; McCloud judgement; private equity investments; and Wales Pension Partnership.
- Statutory Audit functions.

- Fee, audit team and timetable.

The Committee expressed thanks that the audit fee remained the same amount as 2020/21.

The Chair thanked the AW representative for attending the meeting and presenting the report.

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

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

The Deputy Chief Finance Officer / Deputy S151 Officer presented a report which sought to ensure compliance with Local Government Pension Scheme Regulations.

It was outlined that 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, appointed actuary and advisors in March 2020.

The main purpose of the Funding Strategy Statement, the Ministry of Housing, Communities and Local Government (MHCLG) guidance and Scheme Advisory Board (SAB) guidance was also detailed. The draft Funding Strategy Statement – March 2021 was provided at Appendix 1.

The Committee discussed the following: -

- Ensuring against the potential loss as a result of third party employers entering the Fund and not being able to honour their commitments, the options available upon entry such as a bond being paid to insure against loss and overarching sponsoring guarantees provided by Swansea or Neath Port Talbot Councils;
- Ensuring that the Fund, its members and the taxpayer does not suffer any losses as a result of third parties going out of business;
- The consultation process;
- The potential impact of the Goodwin case.

**Resolved** that the revisions to the funding strategy statement be approved, subject to consultation.

## **17 Breaches.**

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 November 2020. The details of the breaches and the actions taken by Management were highlighted.

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

The Deputy Chief Finance Officer / Deputy S151 Officer presented a report which provided a working framework for the Pension Fund's programme of work for 2021/22.

It was outlined that in line with best practice, the Pension Fund produced a business plan to inform its work programme for the forthcoming 12 month period. The business plan for 2021/22 was provided at Appendix 1.

The Committee discussed the information contained within the plan as follows: -

- The amendment to recognise scheme member representative on JGC;
- Continue to evolve the carbon reduction programme within the equity portfolio.

**Resolved** that the City & County of Swansea Pension Fund Annual Business Plan and budget 2021/22 be approved.

## **19 Trustee Training.**

The Deputy Chief Finance Officer / Deputy S151 Officer presented a report which sought to determine an annual training programme for the Pension Fund Committee, Local Pension Board members and officers of the Pension Fund.

The background and progress made in respect of training needs and knowledge gained, including the CIPFA Code of Practice and the Pension Regulator's knowledge and understanding requirements and the Pension Fund Policy Statement were outlined.

Details of the LGPS National Knowledge Assessment (NKA) launched by Hymans in 2020, the Trustee training undertaken in 2020/21 and the proposed training programme in 2021/22 were provided.

**Resolved** that the assessment and outline training plan at paragraphs 3.7, 3.8 and 3.9 be approved and further opportunities which are identified during the year be delegated to the Deputy S 151 Officer for approval.

## **20 Exit Cap Regulations Update.**

The Deputy Chief Finance Officer / Deputy S151 Officer presented a 'for information' report which updated the Pension Fund Committee on the £95k Exit Cap Regulations which were disapplied on 12 February 2021.

It was outlined that HM Treasury had published The Exit Payment Directions 2021 which disapplied regulations 3.9 and 12 of the Restriction of Public Sector Exit Payment Regulations 2020. This meant that the exit cap did not apply to exits taking place on or after 12 February 2021. The LGA had published guidance notes for Administering Authorities which were provided at Appendix 1. It was noted that although the Exit Cap in its original form had been disapplied, the Government was

committed to introducing an alternative capping mechanism to public sector exit payments 'at pace'.

It was added that there were no exits breaching the cap between 4 November and 12 February for the City & County of Swansea Pension Fund. In addition, it was reported that The Ministry of Housing, Communities and Local Government (MHCLG) had halted a consultation seeking views on proposals for further reform on exit payment terms and this consultation was still in progress.

## **21 Exclusion of the Public.**

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

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

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

### **(Closed Session)**

## **22 Wales Pension Partnership Update.**

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. Appendix 2 provided the WPP Private Markets timeline.

## **23 Report of the Investment Consultant.**

David Morton and Nick Jellema, Investment Consultants provided a 'for information' report, which presented the Quarter 4 2020/21 Investment Monitoring Report.

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

## **24 Investment Summary.**

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 31 December 2020 plus a funding update as at 31/12/20 which showed the funding level at 99.6%

The quarterly investment summaries for the Pension Fund for the quarter, year and 3 years ended 31 December 2020 were attached at Appendix 1.

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

A presentation was made by Aidan Quinn and Taran Paik of Russell Investments.

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

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

The meeting ended at 12.00 pm

**Chair**



# Agenda Item 6a



## Report of the Section 151 Officer

Pension Fund Committee - 8 September 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 July 2021, 7% 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.

### **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	
Mar 2021	Administration	30.55% of retirement lump sums not paid within 1 month of normal retirement or 2 months of early retirement; 91.89% 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	A % of late payments was in main due to the Pru failing to disinvest AVC monies and forward payments in a timely manner. The Pru have migrated to a new system and are experiencing ongoing problems.		The Fund has maintained regular contact with the Pru chasing payments of monies / requesting updates to communicate to members. Communication to members	

				Members failed 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.		regarding retirement options are subject to review on a regular basis. Members are made aware of the importance of returning completed documents in a timely manner. The Pension Section provide member employer payroll sections with a listing of outstanding termination forms and are reminded of the importance of providing accurate information on a timely basis.	
Mar 2021	Administration	Frozen refunds unclaimed for this period equates to 94.3% .... This equates to a monetary value of £3,189	Regulations state, no further interest will accrue on or after 5-year anniversary. Should the member enter re-employment membership cannot be	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 their 5-year anniversary from date of leaving	



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.

**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.**

Mar 2021	GDPR Breaches	No breaches to report					✓
Apr - Jun 2021	Administration	15.91% of retirement lump sums not paid within 1 month of normal retirement or 2 months of early retirement; 97.78% 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	A % of late payments was in main due to the Pru failing to disinvest AVC monies and forward payments in a timely manner. The Pru have migrated to a new system and are experiencing ongoing problems. Members failed 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		The Fund has maintained regular contact with the Pru chasing payments of monies / requesting updates to communicate to members. Communication to members regarding retirement options are subject to review on a regular basis. Members are made aware of the importance of returning completed documents in a timely manner. The Pension Section provide member employer payroll sections with a listing of outstanding termination forms and are reminded of the importance	✓

						of providing accurate information on a timely basis.	
Apr - Jun 2021	Administration	Frozen refunds unclaimed for this period equates to 84.6% .... This equates to a monetary value of £4,770.17	Regulations state, 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</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 their 5-year anniversary from date of leaving	✓

			<b>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>				
Apr - Jun 2021	GDPR Breaches	No breaches to report					✓
Apr 21 – May 21 Page 20	Contributions	2 Employers have not paid contributions within required timescale	Loss of investment returns	Employers are contacted once breach has occurred		Employers are contacted as soon as the deadline for submission of contributions has passed	✓
July – August 2021	Administration	7% 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	The administering authority has accrued interest payments on retirement lump sums, paid more than one month after their due date, under the 2013 LGPS	A % of late payments was in main due to the Pru failing to disinvest AVC monies and forward payments in a timely manner. The Pru have continued to experience		The Fund has maintained regular contact with the Pru chasing payments of monies / requesting updates to communicate to members.	✓

		member option return	regulations	problems with the new system however going forward it is anticipated that these issues should now be resolved. Members failed to return pension election forms in a timely manner		Communication to members regarding retirement options are subject to review on a regular basis. Members are made aware of the importance of returning completed documents in a timely manner. The Pension Section provide member employer payroll sections with a listing of outstanding termination forms and are reminded of the importance of providing accurate information on a timely basis.	
July – August 2021	Administration	Frozen refunds unclaimed for this period equates to 94% .... This equates to a monetary value of £16,808.32	Regulations state, no further interest will accrue on or after 5-year anniversary. Should the member enter re-employment	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 their 5-year anniversary from date of leaving	✓

			<p>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.</p> <p><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</b></p>				
--	--	--	--	--	--	--	--

			<b>removed.</b>				
July – August 2021	GDPR Breaches	No breaches to report					✓
June – July 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	✓

✓ New breaches since the previous meeting



## Report of the Section 151 Officer

Pension Fund Committee - 8 September 2021

### **Wales Pension Partnership Business Plan 2021- 2024**

<b>Purpose:</b>	To provide a framework for the Wales Pension Partnership programme of work for 2021- 2024
<b>Reason for Decision:</b>	To approve the outlined business plan.
<b>Consultation:</b>	Legal, Finance and Access to Services.
<b>Recommendation:</b>	That The Wales Pension Partnership Business Plan 2021/22 is approved.
<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

#### **Wales Pension Partnership Business Plan 2021- 2024**

##### **1 Background**

- 1.1 In line with best practice, the Wales Pension Partnership produces a business plan to inform its work programme for the forthcoming 12 month period. The business plan for 2021- 2024 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 2021-2024 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 Papers:** None.

**Appendices:** Appendix 1- Business Plan 2021- 2024.



# Wales Pension Partnership Business Plan 2021-2024

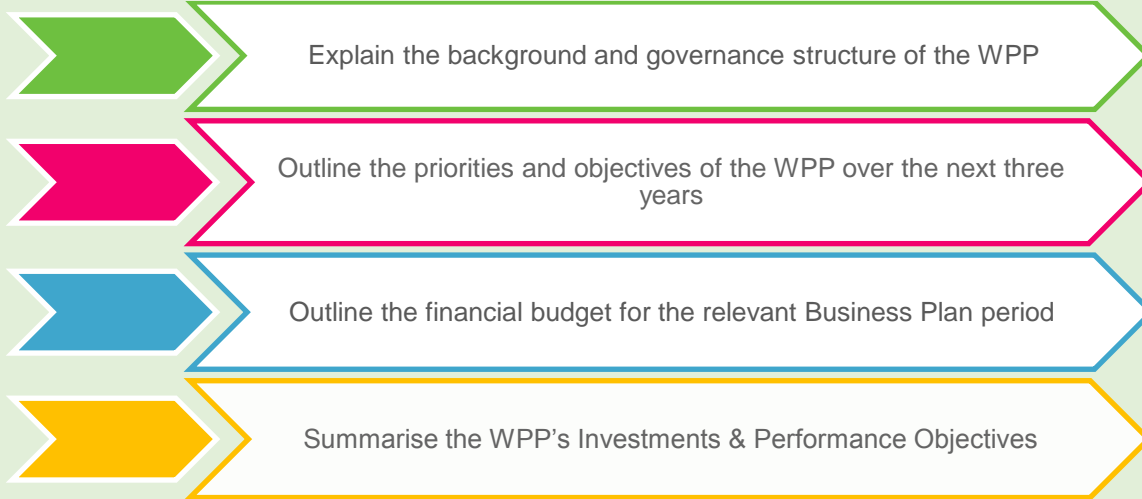


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# Introduction

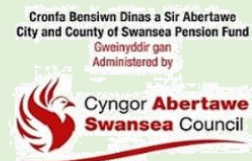
This is the business plan for the Wales Pension Partnership ('WPP'), the business plan details the WPP's priorities and areas of focus for 2021/22, 2022/23 and 2023/24. The business plan is constantly monitored and will be formally reviewed and agreed every year. The purpose of the business plan is to:



## About the Wales Pension Partnership

Established in 2017, the WPP is a collaboration of the eight LGPS funds (Constituent Authorities) covering the whole of Wales and is one of eight national Local Government Pension pools. We have a long, successful history of collaboration, including examples that pre-date the Government's pooling initiative. We are proud of our unique identity as a Pool – our Constituent Authorities represent and span the entirety of Wales. Being democratically accountable means, we provide the best of strong public sector governance and transparency.

Our operating model is designed to be flexible and deliver value for money. We appointed an external fund Operator and make use of external advisers to bring best of breed expertise to support the running of the Pool, this includes Hymans Robertson who have been appointed as the WPP's Oversight Advisor. The Operator is Link Fund Solutions and they have partnered with Russell Investments to deliver effective investment management solutions with the aim of achieving strong net of fee performance for all the Constituent Authorities. We have a shared vision and agreement on the means and pace at which this vision will be achieved. The eight LGPS Funds (Constituent Authorities) of the Wales Pension Partnership are:



# Governance

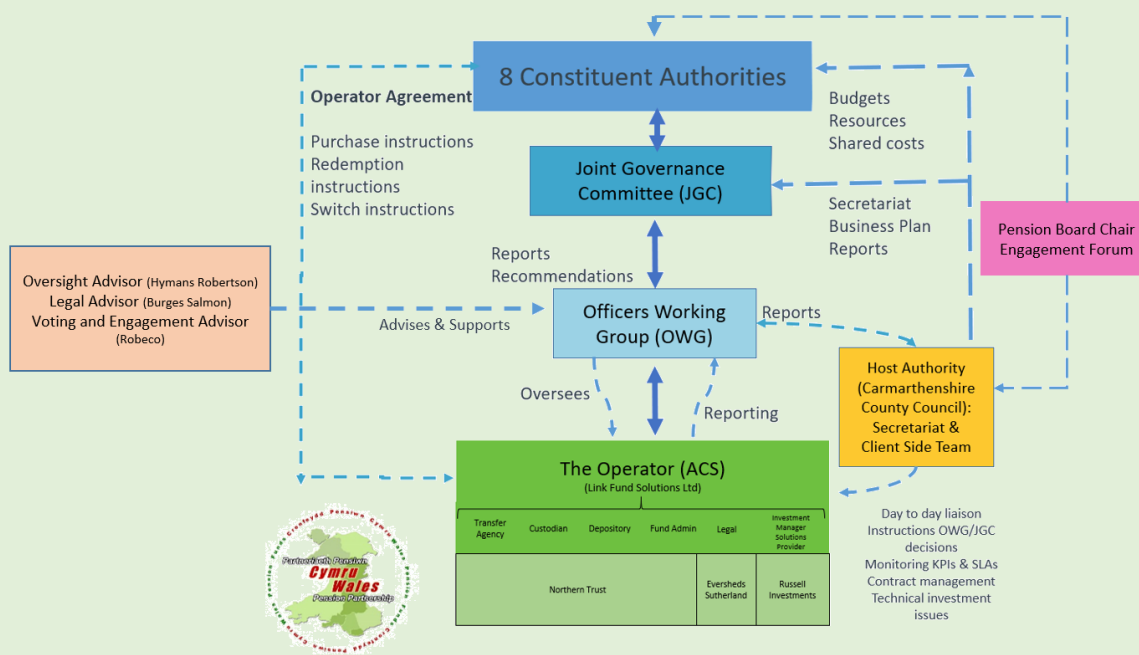
The WPP is responsible for ensuring that its business is conducted in accordance with regulation and guidance. We must also ensure that: public money is safeguarded and properly accounted for, used economically, efficiently and effectively to ensure value for money. We also strive for continuous improvement and to conform with industry best practice.

The WPP details how it deals with all aspects of Governance through its Inter Authority Agreement (IAA), which defines the standards, roles and responsibilities of the Constituent Authorities, its Members, Committees and Officers. The IAA includes a Scheme of Delegation outlining the decision-making process, taking into account the relevant legislation. In line with its belief that good governance should lead to superior outcomes for stakeholders, the WPP has put in place a robust governance structure, which has been designed to:



# Appendix 1

The diagram below shows WPP’s governance structure:



The Constituent Authorities sit at the top of the WPP’s governance structure. They retain control of all activity carried out by the WPP and remain responsible for approving this Business Plan, which outlines the WPP’s budget and workplan, as well as its beliefs and objectives. The Constituent Authorities are heavily involved in all aspects of the WPP’s governance structure, while the WPP’s Joint Governance Committee and Officers Working Group are comprised respectively of elected councillor and officer representatives from the Constituent Authorities.

The WPP believes in being open and transparent as well as regularly engaging with its key stakeholders. As such the WPP ensures the meetings of the Joint Governance Committee are accessible to the public via a live webcast stream. Meeting papers are also made publicly available. Local Pension Board engagement days are also held regularly as a means of fostering stakeholder engagement. The WPP recognises the importance of all of its stakeholders to reflect this the WPP has put in place an Engagement Protocol Framework, this is carried out via the following engagement mechanisms:

Engagement mechanisms	Frequency
Strategic Relationship Review meeting	Bi-Annual
JGC Engagement	Quarterly
Manager Performance Meetings/ Calls	Quarterly
Training Events	Quarterly
OWG Engagement	Every 2/3 Months
Bi-Weekly Meetings	Every 2 Weeks
Annual Shareholder Day	Annual
Pension Fund Committees	Annual
Manager Engagement Days	Annual
Member Communications	Annual
Pension Board Engagement	Every 6 Months
Engagement via the website & LinkedIn	Continuous
Constituent Authority Annual Requirements & Ambitions Questionnaire	Annual

# Risk Management

The Wales Pension Partnership ('WPP') recognises that it faces numerous risks which, if left unmanaged, can limit the WPP's ability to meet its objectives and to act in the best interest of its stakeholders and beneficiaries. However, the WPP also understands that some risks cannot be fully mitigated and that in these instances' risks need to be embraced through active and effective management.

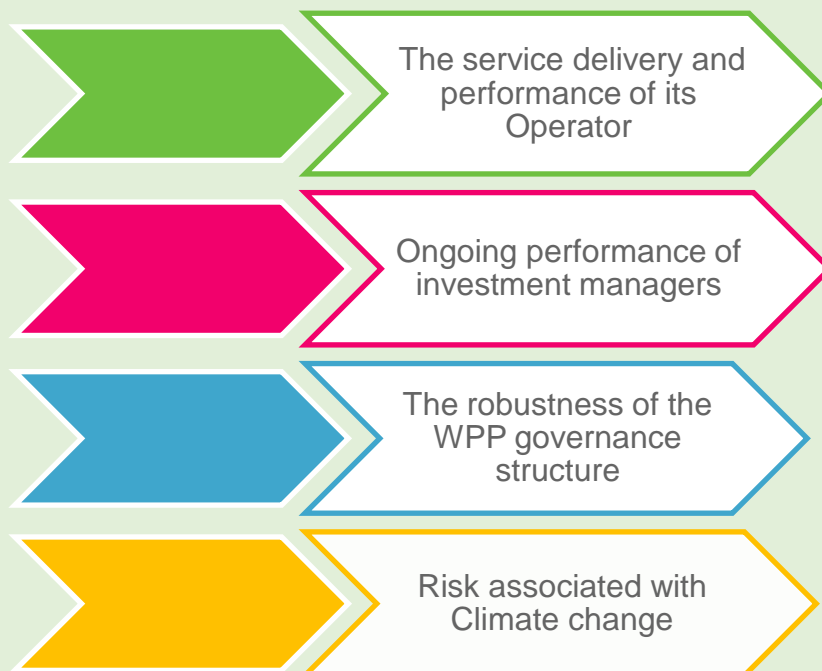
Risk management is a critical element of WPP's commitment to good governance, the WPP has developed a structured, extensive and robust risk strategy. This strategy will be embedded into the WPP's governance framework to ensure better decision-making, improved outcomes for stakeholders and greater efficiency.

The WPP's risk strategy seeks to identify and measure key risks and ensure that suitable controls and governance procedures are in place to manage these risks. The WPP believes that risks are fluid in nature and that the severity and probability of risks can change rapidly and without warning. To reflect this belief, the WPP's Risk Policy has been developed in such a way that risks can be anticipated and dealt with in a swift, effective manner to minimise potential loss or harm to the WPP and its stakeholders.

To deliver on its objectives, the WPP needs to carry out activities or seize opportunities that subject it to risk. The extent to which the WPP is able to effectively balance risk and return will depend on the success of its Risk Policy. It is critical that prior to making decisions the WPP understands the associated risks and considers the means by which these risks could be managed.

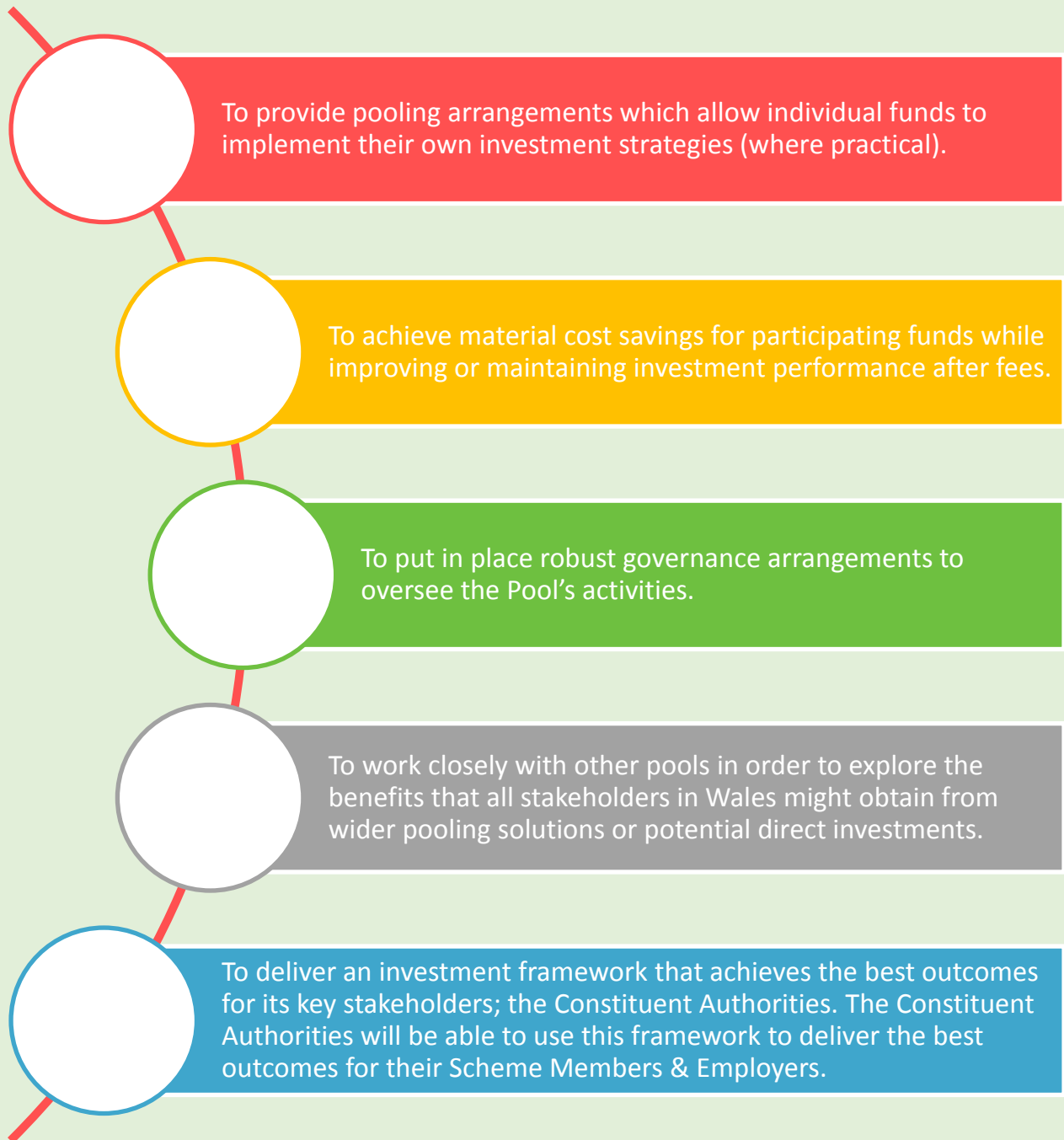
The greatest risk to the WPP's continued operation is its ability to deliver on its primary objectives. The WPP's Business Plan is an additional means through which the WPP will give special recognition to risks that pose a material threat to the delivery of its objectives and the actions required to manage these risks.

During the course of this business plan the WPP will seek to develop mechanisms, frameworks and process for managing the following key risks:



# Objectives

The WPP is proud to represent the eight Constituent Authorities and recognises its duty to ensure the needs and requirements of all stakeholders are met. The WPP, through consultation with all eight Constituent Authorities, has formulated a list of primary objectives these can be summarised as follows:



The eight Constituent Authorities recognise that their strength derives from their shared beliefs and their ability to work together to deliver on their unified objectives for the benefit of all WPP stakeholders.



# Beliefs

The WPP's Beliefs reflect the collaborative nature and shared values of the Constituent Authorities, they are as follows:

The WPP's role is to facilitate and provide an investment pooling platform through which the interests of the Constituent Authorities can be implemented.

Good governance should lead to superior outcomes for the WPP's stakeholders.

Internal collaboration between the Host and Constituent Authorities is critical to achieving the WPP's objectives. External collaboration may also be beneficial in delivering cost savings and better outcomes for stakeholders.

Responsible Investment and effective Climate Risk mitigation strategies, alongside consideration and evidential management of broader Environmental, Social and Governance issues, should result in better outcomes for the WPP's stakeholders.

Effective internal and external communication is vital to achieving the WPP's objectives.

External suppliers can be a cost-effective means of enhancing the WPP's resources, capabilities and expertise.

Fee and cost transparency will aid decision making and improve stakeholder outcomes.

Continuous learning, innovation and development will help the WPP and its Constituent Authorities to evolve.

A flexible approach to the WPP pool structure and implementation methods will enable the WPP pool to adapt in future and continue to meet the needs of its stakeholders.

The WPP's beliefs are the foundation for WPP's governance framework and have been used to guide all of the WPP's activities and decision making, including its objectives and policies.

# Policies

The WPP believes that good governance should lead to superior outcomes for the WPP’s stakeholders. In recognition of this belief, the WPP, in consultation with the Constituent Authorities, has developed a robust governance structure and framework and a set of governing policies. In all instances the WPP’s policies and procedures have been developed to either complement or supplement the existing procedures and policies of the Constituent Authorities. The WPP understands the importance of formulating and codifying its policies and procedures. This process allows the WPP, and the Constituent Authorities, to:



The WPP’s key policies, registers and plans are listed below and can be found on the WPP website.



The WPP’s policies are reviewed on at least an annual basis and the WPP will continually assess whether any additional policies, registers or plans are required. The WPP workplan includes a number of additional governance documents that will be developed, these will be made available on the WPP website once completed. The policies play a vital role in the WPP’s governance arrangements and have been formulated with the sole purpose of providing a codified framework which will ensure that the WPP achieves its objectives in an effective and transparent means.

# Work Plan

The tables below show the key priorities and objectives that the WPP aims to complete over the next three years.

## Governance

The WPP believes that good governance leads to better outcomes for its stakeholders, as such it will further develop its governance framework by developing additional policies, registers, plans and carrying out ongoing reviews of its existing governance documents and structure.

Work to be completed	2021 - 2022	2022 - 2023	2023 - 2024
Appoint a Scheme Member Representative to the Joint Governance Committee	✓		
Development of a WPP Rebalancing & Alteration Policy	✓		
Formulate a Responsibilities Matrix for WPP Sub-Funds	✓		
Development of a WPP Whistleblowing Policy	✓	✓	
Development of a WPP Complaints Policy		✓	
Development of a WPP Breach and Errors Policy		✓	
Develop 'Pre-sign-off Checklist Reports' for WPP Sub Funds	✓	✓	
Development of a WPP Business Continuity Plan	✓	✓	
Review of Inter Authority Agreement	✓	✓	✓
Annual review of WPP's policies and plans	✓	✓	✓
Quarterly reviews of the Risk Register	✓	✓	✓

## Ongoing Establishment

The WPP is proud of its progress to date in regard to the pooling of assets and will continue to allocate resources to ensure that all suitable assets are pooled. To date the WPP has pooled 62% of its assets and by the end of March 2022 the WPP plans to have pooled c70% of its assets.

Work to be completed	2021 - 2022	2022 - 2023	2023 - 2024
Launch of Emerging Markets Sub-Fund	✓		
Launch of Private Debt & Infrastructure Sub-Funds	✓		
Formulate the WPP's Property requirements and optimal means of implementation	✓	✓	
Review and develop a mechanism to pool any suitable non-pooled assets		✓	✓
Launch of Private Equity Sub-Fund		✓	✓
Launch of other Private Market sub-funds (TBC)			✓
Consultation with CAs on need for further sub-funds	✓	✓	✓

## Operator Services

The Operator, alongside the third parties that it employs on behalf of the WPP, are critical to the ongoing activities of the WPP, therefore service delivery of the Operator and third-party suppliers pose a material risk to the WPP. The WPP will prioritise the development of a framework that will allow it to monitor and evaluate the Operator's service delivery, this framework will be imbedded into the WPP risk monitoring mechanisms.

Work to be completed	2021 - 2022	2022 - 2023	2023 - 2024
WPP Operator Oversight Framework	✓		
Review of Operator's contract	✓		
Review of Operator KPI reporting	✓		
Market Review of developments within the Operator market	✓		
Setting up and implementing a framework for monitoring the performance of Russell as investment advisors to Link	✓	✓	

## Communication and Training

The WPP wants to ensure that internal stakeholders and external parties are aware of the WPP's progress and will publish numerous report and updates to ensure that it proactively communicates its progress to stakeholders. The WPP is very proud of the work it carries out on behalf of its stakeholders and will provide a summary and detailed report on its endeavours over the past 12 months in the form of the WPP Annual Update and Report. The WPP will also formulate its first WPP's Annual Responsible Investment Progress Report during the course of this year to articulate and provide detail on how the WPP is positioned from a Responsible Investment perspective and what work it has completed over the past year to further the WPP's Responsible Investment credentials.

Work to be completed	2021 - 2022	2022 - 2023	2023 - 2024
Formulation of the WPP's Annual Responsible Investment Progress Report	✓	✓	✓
Formulation of the WPP's Annual Training Plan	✓	✓	✓
Formulation of the WPP's Annual Update	✓	✓	✓
Formulation of the WPP's Annual Report	✓	✓	✓

## Investments and Reporting

The WPP focus is primarily focused on providing investment solutions that are aligned to the requirements of the Constituent Authorities. The WPP will continue to formulate innovative and optimal WPP Sub Funds for Constituent Authority use. The WPP recognises the importance of ensuring that existing investment solutions remain optimal and aligned to Constituent Authority requirements, while also delivering the investment return expectations of the Constituent Authorities.

Responsible Investment continues to be of the utmost important to the WPP and its Constituent Authorities. During this workplan the WPP will allocate resources to ensure that it has market leading level of stewardship. The WPP wishes to demonstrate its stewardship credentials by becoming a signatory to the UK Stewardship Code this year. The WPP will continue to consult with the Constituent Authorities and is hoping that its consultation activities will allow it to put in place minimum Climate Risk and ESG standards within its WPP Sub-Funds within the next year. The WPP will also enhance its ESG and Climate Risk reporting and its oversight and reporting of investment managers.

Work to be completed	2021 - 2022	2022 - 2023	2023 - 2024
Development of Investment Manager performance reporting, including ESG metrics and climate change risk	✓		
Finalise Voting & Engagement Reporting Requirements	✓		
Become a signatory to the UK Stewardship Code	✓		
Formulate WPP Engagement Priorities and Implementation Framework	✓	✓	
Review the compatibility of WPP Sub-Fund Benchmarks with WPP's Responsible Investment and Climate Risk Beliefs	✓	✓	
Consider additional reporting that demonstrates WPP's commitment to Responsible Investment (e.g. TCFD Reporting)		✓	✓
Annual review of WPP's Cost Transparency Requirements	✓	✓	✓
Annual market benchmarking exercise of WPP Sub-Fund Investment Performance	✓	✓	✓
Consult with Constituent Authorities regarding minimum ESG/ RI standards and their climate ambitions	✓	✓	✓

## Resources, budget and fees

The WPP recognises that insufficient resources poses a significant risk to its ability to deliver an investment framework that achieves the best outcomes for its key stakeholders, the WPP will carry out the following pieces of work to guarantee that it has suitable resources to deliver on this commitment.

Work to be completed	2021 - 2022	2022 - 2023	2023 - 2024
Annual review of resources and capacity	✓	✓	✓
Formulation of Annual WPP Budget	✓	✓	✓
Review and Monitoring of Fees (including Link & Russell)	✓	✓	✓

# Training Plan

It is best practice for WPP personnel to have appropriate knowledge and understanding of:

- the regulations and markets relating to pensions;
- the pooling of Local Authority Pension Schemes; and
- relevant investment opportunities.

The WPP's training plan is designed to supplement existing Constituent Authority training plans. Local level training needs will continue to be addressed by Constituent Authorities while the WPP training plan will offer training that is relevant to the WPP's pooling activities.

WPP personnel should obtain a degree of knowledge and understanding that ensures they are able to carry out their duties associated with the WPP. WPP personnel should also be aware of the WPP's framework, beliefs, policies, governance matrix, the decision-making process and decision logging process.

To aid WPP personnel, the Host Authority will arrange quarterly training sessions which will cover major areas such as investments, administration, regulation requirements, government guidance and market developments. The WPP's training events will primarily focus on meeting the training needs of members of the OWG and JGC, however Constituent Authorities are encouraged to invite Pension Committee Members, as well as Pension Board Representatives if they believe that the training would be beneficial to these individuals.

We have set out below a list of training topics which the Host Authority will arrange training for during the 2021/2022 financial year. The topics outlined below are based on the responses received from the 2020/21 WPP training requirements questionnaire/ assessment, which is issued to the Joint Governance Committee ('JGC') and Officers Working Group ('OWG') on an annual basis.

## **Product Knowledge**

- Private Market – Asset Classes & Implementation
- Private Market - Fund Wrappers & Governance

## **Responsible Investment**

- Responsible Investment Indices and Solutions
- Responsible Investment Reporting

## **Investment Performance and Risk Management**

- Performance Reporting & Manager Benchmarking
- Roles & Responsibilities within the ACS

## **Guidance, Regulatory Requirements and Best Practice**

- Good Governance
- Cost transparency

## **Market Understanding**

- Progress of other LGPS pools
- Collaboration Opportunities

# Budget

The table below outlines the WPP's budget for the next three years.

	2021-22	2022-23	2023-24
	£'000	£'000	£'000
Host Authority *	182	212	217
External Advisors *	680	680	680
<b>TOTAL to be recharged</b>	<b>862</b>	<b>892</b>	<b>897</b>
Operator Services **	28,447	34,614	37,975
<b>TOTAL to be deducted from the NAV</b>	<b>28,447</b>	<b>34,614</b>	<b>37,975</b>

*\*Host Authority and External Advisor costs are to be funded equally by all eight of the WPP's Constituent Authorities and these will be recharged on an annual basis.*

*\*\*Operator Services costs are based on each Constituent Authority's percentage share of WPP assets (held with the Operator) and are deducted directly from the Net Asset Value (NAV) of the Constituent Authority's assets (held with the Operator).*

# Investments & Performance

The WPP's Constituent Authorities have total assets of circa £17.5bn (as at 31 March 2020). The Constituent Authorities' passive investments are effectively within the Pool but are held by the respective WPP authorities in the form of insurance policies.

The Officers Working Group receives quarterly, six monthly and annual performance reports, the group reviews and challenges the performance of Investment Managers on behalf of the WPP. The WPP hosts annual manager engagement days, which are used to challenge managers and to facilitate engagement with Constituent Authority Pension Committee and Board Members and the WPP's Investment Managers. The Constituent Authorities also carry out their own analysis of WPP's investment performance at local level, this will include manager attendance at Pension Committees. Below we outline the WPP's existing Sub-Funds.

## Equity Sub-Funds



\* Portfolio Values as at launch date

Sub Fund	Performance Benchmark	Participating Funds	Managers	Launch Date
Global Growth	MSCI ACWI ND	RCT, Dyfed, Gwynedd and Powys	Baillie Gifford, Veritas and Pzena	Feb 19
Global Opportunities	MSCI ACWI ND	Swansea, Torfaen, Gwynedd, RCT and Clwyd	Morgan Stanley, Numeric, Sanders, Jacobs Levy, SW Mitchell, NWQ and Oaktree	Feb 19
UK Opportunities	FTSE All Share	Cardiff and Torfaen	Majedie, Lazard, Baillie Gifford, Ninety-One and Liontrust	Sept 19



## Fixed Income Sub-Funds



\* Portfolio Values as at launch date

Sub Fund	Performance Benchmark	Participating Funds	Managers	Launch Date
Global Credit	Bloomberg Barclays Global Aggregate Credit Index (GBP Hedged)	Cardiff, Dyfed, Powys and Torfaen	Western, Logan Circle, Fidelity and T Rowe Price	July 20
Global Government	FTSE World Government Bond Index (GBP Hedged)	Cardiff and Torfaen	Bluebay and Colchester	July 20
Multi-Asset Credit	ICE BofA SONIA + 4% p.a.	Cardiff, Clwyd, Gwynedd, Powys, and Swansea	ICG, Man GLG, BlueBay, Barings and Voya	July 20
Absolute Return Bond Fund	ICE BofA SONIA + 2% p.a.	Gwynedd, Powys and Swansea	Wellington, Putnam, Aegon and Insight	Sept 20
UK Credit Fund	ICE BofA ML Eur-Stg plus 0.65%	RCT	Fidelity	July 20

# Contact Details

If you require further information about anything in or related to this business plan, please contact the Wales Pension Partnership:

Postal Address - Wales Pension Partnership

Carmarthenshire County Council

Treasury & Pension Investments Section

County Hall

Carmarthen

SA31 1JP

E-mail - [WalesPensionPartnership@carmarthenshire.gov.uk](mailto:WalesPensionPartnership@carmarthenshire.gov.uk)

Telephone - (01267) 224136

Further information on the WPP and ongoing updates on the WPP's progress can be found on the website and LinkedIn page.

The website can be found here:

<https://www.walespensionpartnership.org/>



# Agenda Item 6c



## Report of the Section 151 Officer

Pension Fund Committee - 8 September 2021

### City & County of Swansea Pension Fund Draft Annual Report & Statement of Accounts 2020/21

<b>Purpose:</b>	To approve the draft annual report & statement of accounts for the City & County of Swansea Pension Fund 2020/21
<b>Reason for Decision:</b>	To comply with governance/reporting guidelines.
<b>Consultation:</b>	Legal, Finance and Access to Services.
<b>Recommendation:</b>	That The City & County of Swansea Pension Fund Draft Annual Report & Statement of Accounts 2020/21 is approved subject to audit
<b>Report Author:</b>	J Dong
<b>Finance Officer:</b>	J Dong
<b>Legal Officer:</b>	S Williams
<b>Access to Services Officer:</b>	R Millar

#### City & County of Swansea Pension Fund Draft Annual Report & Statement of Accounts 2020/21

##### 1 Background

1.1 The City & County of Swansea Pension Fund has always produced separate statement of accounts and annual report in respect of the financial year in question which were subject to public audit. However in consultation with Audit Wales, it has been determined to consolidate both documents into one and streamline the production/audit process.

##### 2 Audit

2.1 At time of reporting, Officers have presented a completed draft annual report & statement of accounts 2020/21 to Audit Wales to commence their audit . Audit Wales have indicated that they shall not commence their audit of the Pension Fund Draft

Annual Report & Statement of Accounts 2020/21 until Sep 2021 due to delays in the statutory audits of their other public body clients ( including Swansea Council) . Their subsequent ISA 260 report with audit opinion and audit findings shall be presented to Pension Fund Committee at the conclusion of the audit in Nov 2021.

### **3 Recommendation**

- 3.1 The Pension Fund Committee is asked to approve the City & County of Swansea Pension Fund Draft Annual Report & Statement of Accounts 2020/21 as attached at Appendix 1 subject to audit.

### **4 Legal Implications**

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

### **5 Financial Implications**

- 5.1 There are no financial implications arising from this report

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

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

**Background Papers:** None.

**Appendices:** Appendix 1 – Draft Annual Report & Statement of Accounts 2020/21.



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## **Introduction**

The purpose of the Annual Report is to provide information for contributors and other interested parties on the management and administration of the Pension Fund during the year.

The report for 2020/21 includes the accounts for the year, an outline of the City & County Council Pension Fund together with details of membership and changes to basic scheme details that have either taken place during the year or are proposed for the future. In addition, the report includes the Actuarial Statement applicable for the year and a report on Investments and Investment performance for the year.

The accounts included in the report have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2020/21* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The key statistics for the Fund are illustrated in the three year profile of the Fund on page 3.

## Three Year Profile of Statistics of the Fund

	2018/19 £'000	2019/20 £'000	2020/21 £'000
<b>Income</b>			
Contributions (Net)	93,400	99,701	102,012
Transfer Values (Net)	-	-	-
<b>Expenditure</b>			
Pensions and Benefits (Net)	82,079	82,172	84,739
Transfer Values (Net)	1,099	2,828	842
Other (Net)	11,568	9,808	13,577
<b>Net new money</b>	(1,346)	4,893	2,854
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Net Asset Value at 31 March</b>	2,044,038	1,988,022	2,614,455
<b>Number of Contributors at 31 March</b>	19,888	20,050	20,385
<b>Number of Pensioners at 31 March</b>	13,229	13,610	13,862
<b>Number of Deferred Members at 31 March</b>	11,874	11,838	11,829



## **PART A**

### **ADMINISTRATION REPORT**

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

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

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

The principal benefits provided by the Fund are:

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

Where applicable member pensions are subject to an annual increase under the Pensions Increase Act each April, in line with the official rate of inflation, the Consumer Price Index (CPI) as at the previous 30 September. The rate for the year ending September 2019 was 1.7% to be applied from 06 April 2020 to qualifying pensions

The benefits are statutory and are effectively guaranteed by Parliament. They do not depend on investment performance but the actuary will take account of how well the investments perform in setting the employers' contribution rate in the actuarial valuation.

The LGPS 2014 Scheme did not affect the provisions for elected member pensions in Wales as their pension arrangement continues on a career average revalued earning basis.

## Membership

Membership of the Fund is largely comprised of:

- Active members - contributors who are still working and paying money into the Fund
- Deferred members – former members who have elected to retain their pension rights in the Scheme until such a time as they become payable
- Pensioner members – in receipt of their pension
- Survivor members (including children) – in receipt of a pension in respect of a former member

Membership of the Scheme is automatic and is open to all employees irrespective of the number of hours or weeks worked. Where an employee is not eligible for automatic entry under auto-enrolment legislation, they may elect to join the Scheme if they so wish. All employees also have the right to choose a personal pension as an alternative or in addition to membership of the LGPS.

Membership of the Fund continues to grow and the latest statistics at Appendix 1 show the total membership of the Fund in 2020/21.

Memberships are monitored to assess trends and events; publications and employer engagement are utilised to ensure a robust membership.

## Premature Retirement - Pension Costs

### (a) Ill Health Retirement

Employers do not have to pay separately for the Pension Fund costs for ill health, as the cost is included in the employer's contribution rate as a percentage for such cases; however, the actuarial costs of ill health retirees from current service are calculated for reporting purposes and for the past two years this was:

Ill-Health Retirement	2019/20		2020/21	
	No. of Cases	Cost £	No. of Cases	Cost £
City & County of Swansea	34	2,152,294.92	29	3,176,185.62
Neath Port Talbot CBC	24	1,506,342.77	11	818,680.28
Tai Tarian	2	75,532.28	2	77,303.53
Gower College	1	11,248.57	1	124,110.61
POBL Group	-	-	2	20,168.84
University of Wales TSD	-	-	1	90,029.55
NPTC Group	2	155,169.83	-	-
The Wallich	-	-	2	63,791.60
<b>Total</b>	<b>63</b>	<b>3,900,588.29</b>	<b>48</b>	<b>4,370,270.03</b>

## (b) Early Retirement

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

<b>Early Access to Pension</b>				
<b>Employing Body</b>	<b>2019/20</b>		<b>2020/21</b>	
	<b>No. of Cases</b>	<b>Cost £</b>	<b>No. of Cases</b>	<b>Cost £</b>
City & County of Swansea	28	908,995	33	555,607
Neath Port Talbot CBC	20	323,064	45	492,104
NPTC Group	1	4,644	-	-
University of Wales Trinity St David	6	171,219	-	-
Rathbone	2	66,999	-	-
Gower College	-	-	4	79,187
<b>Total</b>	<b>57</b>	<b>1,474,921</b>	<b>82</b>	<b>1,126,898</b>

## Administration

### COVID-19 Update

The coronavirus pandemic has had a major impact on the visible operation of the Section and how processes and member engagement is addressed. Staff members are having to adapt to homeworking to ensure the continuance of a full service-delivery. To ensure that communication channels between the section and its members and third parties has been maintained office attendance has continued on a weekly rota 3 days a week to oversee incoming and outgoing mail. Staff meetings and training sessions have continued via virtual methods. Modification to procedures such as accepting electronic documentation via Member Self Service (MSS) have contributed to ensuring a business as usual approach and avoiding any unnecessary delays in processing benefits.

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

All pension administration staff are trained on their area of work before they begin to work independently. Work is recorded on the pension administration software using task management and workflows, which outline the process to be followed and contain checklist items. All work, which results in a payment, is peer checked and approved before payment is made. The operational staff undertake regular training

to ensure their knowledge and understanding of the LGPS is up-to-date. All staff are encouraged to appraise their own self-development with an aim of future progression. Training needs are monitored via the annual appraisal process and monthly 1:2:1 meetings, a number of staff have already completed or are in the process of undertaking their professional qualification in Pension Administration and Management.

In accordance with a directive issued by The Pensions Regulator concerning the retention of hardcopy member records: a temporary scanning assistant has been appointed on a rolling 6-month contract to undertake the process of scanning and indexing all hardcopy member documentation to the appropriate member record. To-date all active and deferred member records have been assigned based on key member identifiers such as name, NI number and payroll number; accuracy is essential as some members have multiple records.

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

## **IT systems**

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

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

The Pension Regulator continues to push towards full electronic data submissions from all employers. The Fund has been proactive and signed up to the new i-Connect commercial model and invests/promotes the use of an electronic interface to our employers. The interface allows for the transfer of membership data from employers' payroll systems to the pension administration system. This benefits both Fund and employer as it enables clean data to be submitted in a timely manner thus improving the year-end submission and ensuring compliance with the requirements of LGPS 2014 and the Pensions Regulator's Code of Practice for accurate record keeping. Smaller employers are being encouraged to use the on-line returns facility; unfortunately, due to the pandemic, progress has come to a halt. We are hoping to engage with these employers to support the transition in the very near future.

The Pension Fund continues to monitor its website [www.swanseapensionfund.org.uk](http://www.swanseapensionfund.org.uk) to ensure that information available to active, deferred and pensioner members is accurate and informative and adheres to national standards concerning accessibility.

Along with the availability to view published policies, strategies, and statements; members are able to download forms and scheme literature. Scheme employers have been issued with log-in details to access the employer only site. Latest news bulletins are available to view.

'My Pension Online' the on-line digital service has recently been subject to an upgrade; member access is now more user friendly. Members are able to view their member record, documentation and to undertake basic amendments such as change of address, death grant nomination and the calculation of retirement estimates. The Pension Section is actively promoting the service and registration instructions are included within member communications. We regularly review how many of our members are registered and aim to undertake further promotional communications in the very near future. As a Fund our aim is to reduce our carbon footprint.

Percentage of members already registered for My Pension Online based on membership status:

	Active	Pensioners	Deferred pensioner members
March 2021	46%	9%	24%

The transition to a Cloud based Hosted Service in partnership with Heywood Limited went well and to-date no major incidents have occurred which warranted any downtime to our service delivery. The Cloud Hosting Service is a highly secure, virtualised service offering a logically separated and ring-fenced server resource, which will lead to significant benefits as a 'one-stop-shop'. Benefits include a full disaster recovery plan, reduction to the ongoing cost of software and licence updates, network and system monitoring, data back-up/restore and is fully GDPR compliant.

### **Managing Performance**

The Pension Fund is dedicated to improving its service delivery and reviews the measures in place to monitor performance on an annual basis to identify any areas where improvements can be made.

The Fund aims to put our members at the centre of everything that we do; expectations are met by:

- Providing a high quality, professional, customer focused service to all members and Fund employers using appropriate technology in a cost effective and resourceful manner
- Be accessible, fair and helpful and treat everyone equally and courteously
- Communicate effectively where possible, using easy to understand language
- Be accountable by monitoring the quality of service and reporting on whether the standards have been achieved and regularly review the target times
- Consult members and fund employers wherever possible taking into account their views before making any changes
- Ensuring GDPR compliant at all times
- Ensuring we review all complaints, compliments, disputes and all other feedback to ensure any learning points are identified

and uses a number of channels to achieve these objectives:

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

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

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

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

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

The Section continues to communicate on a month-by-month basis with the employers highlighting the importance of providing retirement and early leaver data in a timely manner. The Fund is working closely with the Fund's largest employers to ensure this; this is also addressed during the Employer's Annual Meeting.

- The Fund continues to regularly participate in the National Fraud Initiative, a data matching exercise to detect and prevent fraud and overpayments across England and Wales. The initiative is organised by the Audit Commission who require the provision of details of pensioners to compare against data provided by other public bodies to ensure:
  - Pensions are not paid to persons who are deceased or no longer entitled to them
  - Occupational pension income is declared when any benefit (e.g. council tax or housing benefit) is applied for
  - The best use of public funds
- The Fund also uses an address tracing and mortality screening system to improve address quality and identify potential mortality cases across the deferred and pensioner membership in the UK. The Fund works in partnership with Western Union to undertake an annual pensioner member continued eligibility check for overseas pensioner members. If a member fails to comply with the instruction given the pension in payment is suspended pending proof of member continued eligibility.
- In conjunction with LGPS Funds in England and Wales the City and County of Swansea Pension Fund participates in the LGPS National Insurance (NI) Database ('the database'). The database has been developed to allow LGPS

Administering Authorities to share data to prevent the duplication payments of death grants and to observe member status held with other Funds.

### Compliment and Complaints Policy

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

Based on member feedback concerning the service delivery received from the Pension Fund as a percentage for the period 01/04/2020 – 31/03/2021 is as follows:

Compliments	95%
Complaints	5%

Of the three complaints received, two progressed to the IDRPs stage. However, the complaints raised were not upheld.

### Customer service satisfaction survey

Following a lukewarm response from the Fund's employers in 2019/20, the Fund has engaged for a second time in 2020/21 with its employers and members. Employers were asked to complete a survey whereby any response given would be anonymous which helped to increase participation three fold. Members were asked to evaluate the customer service experience received. The overall aim of the exercise is to ensure that the aims and objectives set out within the Fund's Communication Policy Statement are met. The results of the survey have been collated and are as follows:

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

	Strongly Disagree	Disagree	Agree	Strongly Agree
...offers documentation, guidance and information in a professional manner?	-	-	66%	34%
...is proactive in their approach to provide a service to its employers?	-	4.1%	61.2%	34.7%
...gives an appropriately timed service with regular updates?	-	-	51.9%	48.1%
...is customer focused and meets the needs of its employers?	-	4.2%	69.7%	27.1%

... has provided a high quality service to you in your role as employer?	-	-	58.8%	41.2%
... ensures you are aware of your LGPS employer related roles and responsibilities for the administration of the City & County of Swansea Pension Fund?	-	4%	54%	42%
... communicates in a clear and concise manner?	-	-	73.5%	26.5%
... uses the most appropriate means of communication?	-	-	58.8%	41.2%

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

		Strongly Disagree	Disagree	Agree	Strongly Agree
<b>Administration</b>	...offers documentation, guidance and information in a professional manner?	-	-	87.88%	12.12%
	...is proactive in their approach to provide a service to members?	-	6.06%	78.79%	15.15%
	...gives an appropriately timed service with regular updates?	-	-	81.82%	18.08%
	...is customer focused and meets the needs of its members? *only 44 responses	-	3.03%	78.79%	18.08%
	... has provided a high quality service throughout your membership?	-	9.09%	66.67%	24.24%
<b>Communications</b>	... promotes the scheme as valuable and provides sufficient information so you can make informed decisions about your pension?	-	6.06%	69.70%	24.24%
	... communicates in a clear and concise manner?	-	-	75.76%	24.24%
	... uses the most appropriate means of communication?	-	-	78.79%	21.21%
		<b>Didn't Say</b>	<b>Active</b>	<b>Deferred</b>	<b>Pensioner</b>
Please tick your membership status		3.03%	39.39%	27.27%	30.30%

**Internal Dispute Resolution Process**

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



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

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

An analysis of the dispute cases raised during the year to 31 March 2021 is as follows:

<b>Stage</b>	<b>No. of Appeals</b>	<b>Appeals upheld</b>
Stage 1	2	0
Stage 2	2	0
Referred to Pensions Ombudsman	1	Ongoing

Please note that the two Stage 1 appeals progressed to stage 2 and are listed above.

### **Communications**

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

During 2020/21, the Fund member engagement focussed primarily on Covid-19 related activity. The Section updated the Business Continuity plan to provide assurances on the continued service levels.

With the digital world constantly evolving the Fund continues to review the way in which it engages/communicates with its stakeholders in order to meet both member and employer expectations. The Fund continues to keep employers and members updated with the latest changes affecting the scheme, options to increase pension entitlements, tax implications from the new thresholds to Annual and Lifetime Allowances and any other legislative changes. The key activity being:

- Member roadshows have been temporarily suspended due to the pandemic
- Attending member pre-retirement courses by virtual means
- Distribution of Annual Benefit Statements to both active and deferred members
- Newsletters sent to both Active members and Pensioner members

- Annual consultative meetings to discuss the Fund’s Annual Report and Accounts and to communicate strategic issues and significant legislative changes to operational staff by virtual means
- Training for and meetings with operational staff and employers with regard to the changes impacting on the LGPS by virtual means
- Continuing collaboration with the other Welsh Pension Funds to produce key communication material, thereby sharing expertise and costs
- The Fund’s website ([www.swanseapensionfund.org.uk](http://www.swanseapensionfund.org.uk)), which covers all aspects of the LGPS for its active members, councillor members, deferred members, pensioners and their dependants as well as an ‘Investment and Fund’ section which provides details of the governance of the Fund.

The website provides members with access to pension forms and online literature, which assists reducing the Fund’s printing and postage costs. Members also have access to the Additional Pension Contribution (APC’s) calculator if a member is considering increasing their benefits or buying back lost pension. There is a suite of short videos on the LGPS, taxation matters and benefits of scheme membership.

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

## Data quality

Data quality requirements are rooted in the Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations in 2014. The Pension Regulator (TPR) requires the City and County of Swansea Pension Fund to monitor and improve member data held. The Fund undertakes a review of the quality of data held on an annual basis to ensure data is present and accurate and provides TPR with the results of the data score based on members common and specific data. The scores are presented as a membership percentage.

Confirmation of the results are below broken down into the following two data categories:

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

Date data quality check undertaken	Data Area	Data Score	AIM
June 2018	Common Data	94.40%	100%
	Scheme Specific	72.10%	100%

	Data		
June 2019	Common Data	97.10%	100%
	Scheme Specific Data	88.10%	100%
June 2020	Common Data	97.1%	100%
	Scheme Specific Data	89.1%	100%

### **Audit of Fund**

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

### **The Pensions Regulator Code of Practice**

The Fund complies with the Pensions Regulator Public Service Code of Practice (Governance and Administration of the Public Service Pension Schemes) which came into force with effect from 1<sup>st</sup> April 2015. The code is currently subject to review however, its main ethos is to provide LGPS Funds with a summary of their key governance and administration duties and the standards of conduct, record keeping and practice expected by the Pensions Regulator.

## **Legislative Changes in the LGPS during 2020/21**

### **Other impacting legislation**

#### **Cessation of Contracting Out**

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

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

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

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

This exercise has proved to be extremely challenging and has led to considerable work to ensure that the Fund does not incur unwarranted liabilities. To allow for this the Fund has outsourced the exercise to a third party who are dealing specifically with the reconciliation exercise. The exercise is still ongoing however it is anticipated that the findings will be received by the Fund July 2021.

#### **Tax Reform**

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

The Lifetime Allowance (LTA), which is the total amount an individual can hold in all their pension savings, reduced to £1.25m from 6<sup>th</sup> April 2014 with further reductions applied. From 2018/19 onwards, the lifetime allowance has been subject to an increase each year in line with inflation and for the tax-year 2020/21, this is £1,073,100. The current LTA is frozen for the next 5 fiscal years.

As a means of best practice, the Fund engages with its members were a future LTA breach has been identified this will allow for sufficient time for individuals to seek independent financial advice concerning taxation matters.

In addition, HMRC also limits the amount by which the total value of a person's pension benefits can increase in a year. The Annual Allowance limit reduced to

£40,000 with effect from 1<sup>st</sup> April 2014 and remained at this level for 2020/21, which has resulted in more members becoming subject to tax charges on the excess accrued. The Fund undertakes an exercise each year and any member subject to an Annual Allowance breach will be issued with a Pension Saving Statement by 06 October.

## **Statutory instruments**

**25 March 2020 – Coronavirus Act 2020** – was enacted by the Queen’s most Excellent Majesty by and with the advice and consent of the Lords Spiritual and Temporal and Commons in the presence of an assembled Parliament. A reference in this Act is to persons infected by ‘coronavirus’

**March 2020 – The Occupational and Personal Pension Schemes (General Levy) (Revocation) Regulations 2020** – Following consultation with industry in autumn 2019, the government made regulations that were due to increase the General Levy on Occupational and Personal Pension Schemes with effect from 1 April 2020. Given the unprecedented circumstances following the coronavirus, (Covid-19) outbreak on 27 March 2020 the government laid an order to revoke these Regulations. The levy rates will therefore not be increasing from 01 April 2020.

**April 2020 – The Accounts and Audit (Coronavirus)(Amendment) Regulations 2020** – prepared by the Ministry of Housing, Communities and Local Government and laid before Parliament by Command of Her Majesty. This instrument amends the Accounts and Audit Regulations 2015 (S.I 2015/234) (“the 2015 Regulations”) by delaying the dates for certain public and local bodies to publish, and make available for inspection, their annual accounts and supporting documents. These Regulations apply only in relation to annual accounts relating to the 2019/20 financial year.

**April 2020 – The Maternity Allowance, Statutory Maternity Pay, Statutory Adoption Pay, Statutory Paternity Pay, Statutory Shared Parental Pay and Statutory Parental Bereavement Pay (normal weekly earnings etc)(Coronavirus)(Amendment) Regulations 2020** – prepared by the Department for Work and Pensions and laid before Parliament by Command of Her Majesty. The purpose of the instrument is to prevent an employee from experiencing disadvantage in relation to the above family-related statutory payments and Maternity Allowance as a result of their being placed on temporary leave under the Coronavirus Job Retention Scheme (“the CJRS”).

**April 2020 – The Pensions Increase Review Order 2020** in accordance with the Pension Increase (Review) Order 2020 - This Order came into force 6 April 2020 and makes provision for the annual increase of official pensions (as defined in the Pensions (Increase) Act 1971). The Order provides for an increase of 1.7 per cent from 6 April 2020 for all official pensions, except for those, which have been in payment for less than a year, which will receive a pro-rata increase.

**April 2020 - THE PUBLIC SERVICE PENSIONS REVALUATION ORDER 2020** – prepared by HM Treasury and laid before the House of Commons by Command of

Her Majesty. This Order specifies the annual percentage change in prices, and earnings, to be applied for the purposes of revaluation required by schemes under the Public Service Pensions Act 2013 (“the Act”) in relation to the period 1 April to 31 March and applies to Career Average Revalued Earnings Schemes. . The prices metric that was used for revaluation from April 2018 to 31 March 2019 inclusive is the September 2018 CPI figure, which represents an increase of 1.7%. CPI is the Government’s preferred measure of change in prices for the indexation of public service pensions in payment and deferment.

**April 2020 - LGPS Additional Pension purchase limit applicable for 2020/21 in England and Wales** - Regulations 16(6) and 31(2) of the LGPS Regulations 2013 state that the additional pension limit is increased on the 1 April each year as if it were a pension beginning on 1 April 2013 to which the Pensions (Increase) Act 1971 applied. The pensions increase due at the 1 April 2019 is that from 09 April 2018 (since the 2019 PI date is the 8 April 2019) and so the current additional pension limit of £7,026 is increased by 2.4% to £7,194 from the 1 April 2020.

**04 April 2020 – The Local Authorities and Police and Crime Panels (Coronavirus)(Flexibility of Local Authority and Police and Crime Panel Meetings)(England and Wales) Regulations 2020** – prepared by the Ministry of Housing, Communities and Local Government and laid before Parliament by Command of her Majesty. These Regulations make provision to enable local authorities to hold meetings remotely including by (but not limited to) telephone conferencing, video conferencing, live webcast and live interactive streaming. The Regulations further modify existing legislative provisions to remove the requirements for local authorities to hold annual meetings and to enable requirements for public and press access to local authority meetings and associated documents to be complied with through remote means and website access. The **Local Government (Wales) Measure 2011** already permits virtual meetings of local authorities in Wales.

**06 April 2020 – The Parental Bereavement Leave and Pay (Consequential Amendments to Subordinate Legislation) Regulations 2020** – prepared by the Department for Business, Energy and Industrial Strategy and laid before Parliament by Command of Her Majesty. This instrument amends various pieces of secondary legislation (which make provision for certain benefits) to reflect the introduction of Parental Bereavement Leave and Pay, which is a new statutory entitlement for employed parents who lose a child on or after 6th April 2020. When calculating entitlements to certain other benefits or rights, leave from work and pay is often a relevant factor. This instrument makes provision to ensure that it is clear in those pieces of secondary legislation how parental bereavement leave and pay is to be treated in those calculations.

**06 April 2020 - THE AUTOMATIC ENROLMENT (EARNINGS TRIGGER AND QUALIFYING EARNINGS BAND) ORDER 2020** prepared by the Department for Work and Pensions and laid before Parliament by Command of Her Majesty. This sets out revised amounts for the 2020/21 tax year for the upper and lower thresholds of the automatic enrolment qualifying earnings band, and rounded figures for the earnings trigger and qualifying earnings band. It has been concluded that the amounts for the qualifying earnings band should continue to be aligned with the

National Insurance Contributions Lower and Upper Earnings Limits for the tax year 2019/20 and that the automatic enrolment earnings trigger should remain at £10,000.

**06 April 2020 - THE SOCIAL SECURITY (CONTRIBUTIONS) (RATES, LIMITS AND THRESHOLDS AMENDMENTS AND NATIONAL INSURANCE FUNDS PAYMENTS) REGULATIONS 2020** - prepared by HM Revenue and Customs and laid before Parliament by Command of Her Majesty. This instrument gives effect to the annual re-rating of various National Insurance contributions (NICs) rates, limits and thresholds for the purposes of calculating Class 1, Class 2, Class 3 and Class 4 NICs liability (or voluntary payment) for the tax year beginning 6 April 2020. It also allows for payment of a Treasury Grant not exceeding 5 per cent of the estimated benefit expenditure for the 2020-21 tax year to be made into the National Insurance Fund, and makes corresponding provision for Northern Ireland.

**6 April 2020 -The Guaranteed Minimum Pensions Increase Order 2020** - This Order specifies the percentage by which that part of any guaranteed minimum pension attributable to earnings factors for the tax years 1988-89 to 1996-97 and payable by contracted-out, defined benefit occupational pension schemes. This instrument specifies that the GMP is to be increased by 1.7 per cent from 06 April 2020 in accordance with Section 109(3) of the Pension Schemes Act 1993 (c. 48).

**6 April 2020 - The Employment Rights (Increase of Limits) Order 2020** [SI 2020/205] - comes into force on **6 April 2020**. It increases the maximum 'week's pay' for calculating a statutory redundancy payment from £525 per week to £538 per week where the appropriate date falls on or after 6 April 2020. In the case of entitlement to a redundancy payment by virtue of section 135(1)(a) [dismissal by reason of redundancy] or section 135(1)(b) [lay-off or short time] of the Employment Rights Act 1996, the appropriate date means the relevant date as defined by, respectively, sections 145 or 153 of that Act.

**6 April 2020 - Annual allowance and lifetime allowance limits applicable from 6 April 2019** - The Finance Act 2004 (Standard Lifetime Allowance) Regulations 2020 [SI 2019/29] amends the Lifetime Allowance limit to £1,073,100 with effect from the 6 April 2020. The Annual Allowance, as defined by the Finance Act 2004 (as amended), remains unchanged at £40,000 for 2020/21.

**25 June 2020 – Corporate Insolvency and Governance Act 2020 – Chapter 12 –** Received royal assent on 25 June 2020. The main objective of the Act is to help businesses during the COVID-19 pandemic by easing the burden on them and helping them avoid insolvency.

**25 June 2020 – Divorce, Dissolution and Separation Act** - Received royal assent on 25 June 2020 and will, in the main, come into force on a date to be appointed by Government. The Act will revise the legal process in England and Wales for married couples to obtain divorces and for civil partners to dissolve their civil partnership. It will also update terminology: terms such as “decree nisi”, “decree absolute” and “petitioner” will be replaced with “conditional order”, “final order” and “applicant”.

**13 July 2020 - The Coronavirus Life Assurance Scheme (English and Welsh Schemes)(Excluded Benefits for Tax Purpose) Regulations 2020** – As prepared by Her Majesty’s Revenue and Customs and laid before the House of Commons by Command of Her Majesty on 22 June 2020. This statutory instrument exempts from income tax lump sum payments made from the National Health Service Care Coronavirus Life Assurance (England) Scheme 2020 and the National Health Service and Social Care Coronavirus Life Assurance (Wales) Scheme 2020.

**22 July 2020 – Finance Act 2020 – chapter 14** – Received royal assent on 22 July 2020. The Act introduces changes to the tapered annual allowance for 2020/21 and temporary relaxations to the protected pension age rules for those who return to work to help an employer respond to the COVID-10 pandemic.

**23 September 2020 – The Local Government Pension Scheme (Amendment) (No 2) Regulations 2020** – prepared by the Ministry for Housing Communities and Local Government and laid before Parliament on 27 August 2020 date effective 23 September 2020. The new Regulations firstly provide that administering authorities in the LGPS may amend the contributions of Scheme employer(s) between actuarial valuations in certain situations. Secondly, they provide that when a Scheme employer is exiting the LGPS, administering authorities may spread a Scheme employer’s exit payment or defer an exit payment under a deferred debt agreement with the Scheme employer.

**14 October 2020 – The Restriction of Public Sector Exit Payments Regulations 2020** (the exit cap regulations) were signed on 14 October 2020 and a correction slip was published on 27 October 2020; the regulations came into force on 04 November 2020. These Regulations restrict prescribed public sector bodies from making exit payments above £95,000 in connection with a person leaving employment or vacating office.

**11 February 2021 – The Pension Schemes Act 2021** - On 11 February 2021, the Pension Schemes Act 2021 (the Act) received Royal Assent. The provisions within the Act will come into force when the Secretary of State makes regulations for them to do so. The provisions of the Act that will affect the LGPS include – Climate risk reporting, Pensions Dashboards and Transfers out.

**12 February 2021 – Exit Payment Cap Discretions 2021** - HM Treasury Directions dis-apply exit payment cap. On 12 February 2021, HM Treasury published the Exit Payment Cap Directions 2021 [the Directions]. The Directions dis-apply 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

**18 February 2021 – The Pensions Schemes (Qualifying Recognised Overseas Pension Schemes) (Gibraltar) (Exclusion of Overseas Transfer Charge) Regulations 2021** - The regulations are in force from 18 February 2021 and take effect from IP completion day - 31 December 2020. Pension transfers to a European Economic Area (EEA) state are not subject to the overseas transfer



charge. Gibraltar is not an EEA state but was treated as one during the transition period by virtue of the Treaty on the Functioning of the EU. The effect of these new regulations is that recognised transfers to a QROPS established in Gibraltar are treated in the same way as they were before the UK left the EU: they are not subject to the overseas transfer charge.

**08 April 2020** – The Money and Pensions Service (MAPS) published a Pensions Dashboard Programme. The publication sets out how the Pensions Dashboards Programme intends to deliver its objectives within the context of the Money and Pensions Service 10-year UK Strategy for Financial Wellbeing.

**29 April 2020** – The Pensions Regulator published guidance on communicating to members during Covid-19. The guidance covers information relating to websites, emails and shared correspondence about changes to service delivery and response times.

**July 2020** – The Pensions Ombudsman published its corporate plan 2020/23 outlining strategic aims for the next three years including updated key performance indicators for 2020/21. The main focus remains on improving the customer experience by resolving disputes at an early stage and make the process quicker and easier for all parties.

**27 July 2020** – The Financial Conduct Authority (FCA) - On 27 July 2020 the FCA launched its updated Financial Services Register. The re-design aims to make the register easier to use and understand. The register is a vital tool to help consumers find firms and approved individuals that are involved in regulated activities. It can help consumers avoid scams and protect themselves from harm.

**15 February 2021** – Scheme Advisory Board published the Good Governance: Phase 3 Report, which was produced by the Hymans Robertson project team. The Report which follows on from the Phase 2 Report provides further detail on the following recommendations – verification of a singled named LGPS Senior Officer, Conflicts of Interest, Representation, Skills and training, Service delivery, KPI's and Business planning process.

## **Wales Pension Partnership (WPP) – Asset Pooling**

The WPP was established in 2017 with the objective to deliver:

- economies of scale
- strong governance and decision making
- reduced costs and excellent value for money, and
- an improved capacity and capability to invest in infrastructure

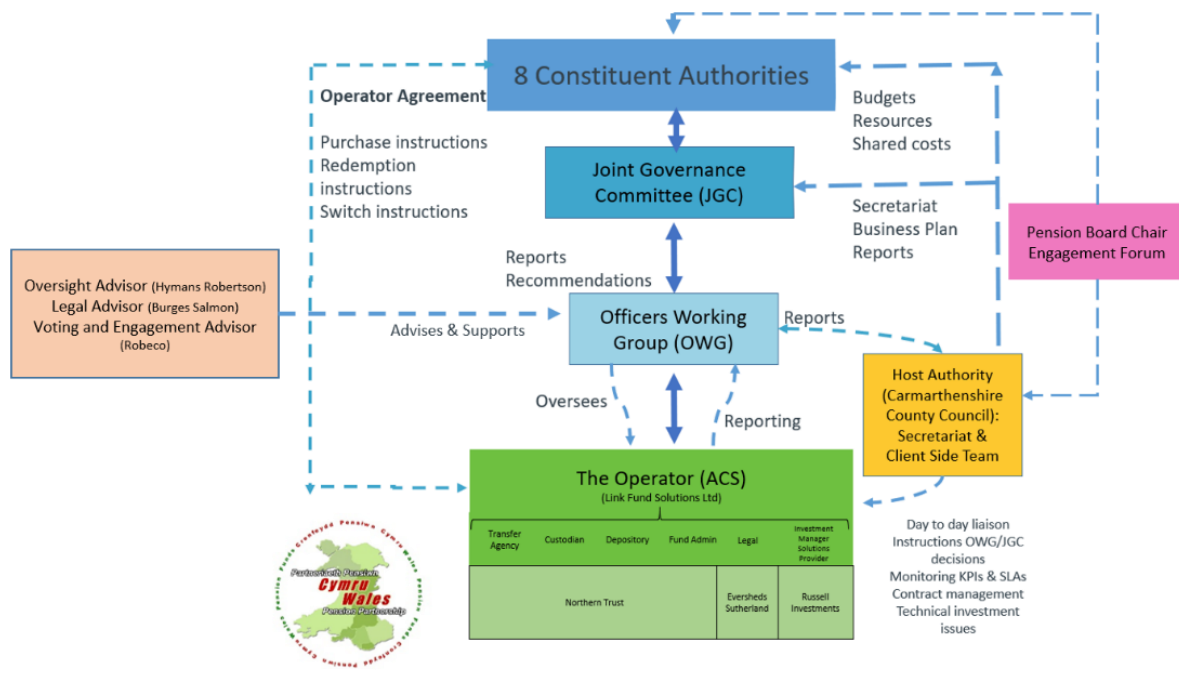
The WPP is one of the eight Local Government Pension pools nationally and is a collaboration of the eight LGPS funds in Wales including Cardiff and the Vale of Glamorgan, Clwyd, Dyfed, Greater Gwent (Torfaen), Gwynedd, Powys, Rhondda Cynon Taff and Swansea. The eight funds have a long, successful history of collaboration including a collaborative tender for a single passive equity provider for the Welsh funds pre-dating the Government's pooling initiative.

Collective investment management offers the potential for investment fee savings, opportunities to broaden investment portfolios, enhanced voting and engagement activity as well as access to shared knowledge and best practice. Whilst the WPP is responsible for providing collaborative investment solutions, each constituent authority remains responsible for setting their own investment strategy.

WPP's operating model is designed to be flexible and deliver value for money. WPP appointed an external fund Operator and makes use of external advisers to bring best of breed expertise to support the running of the Pool. The Operator is Link Fund Solutions and they have partnered with Russell Investments to deliver effective investment management solutions and provide strong net of fee performance for all the Constituent Authorities.

### **Governance**

The WPP details how it deals with all aspects of Governance through its Inter Authority Agreement (IAA) which was approved by all eight Constituent Authorities in March 2017. The IAA defines the standards, roles and responsibilities of the Constituent Authorities, its Members, Committees and Officers and includes a Scheme of Delegation outlining the decision-making process. In line with its belief that good governance should lead to superior outcomes for stakeholders, the WPP has put in place a robust governance structure:



The eight Constituent Authorities of the WPP are:

- Carmarthenshire County Council (Host)
- City and County of Swansea Council
- City of Cardiff Council
- Flintshire County Council
- Gwynedd Council
- Powys County Council
- Rhondda Cynon Taff County Borough Council
- Torfaen County Borough Council

The Constituent Authorities sit at the top of the WPP's governance structure. They retain control of all activity carried out by the WPP and remain responsible for approving the WPP's Business Plan, which outlines the WPP's budget and work plan, as well as its Beliefs and Objectives.

The WPP operates a Joint Governance Committee (JGC), with the investment infrastructure and management appointment processes operated by Link Fund Solutions and Russell Investments.

The JGC oversees and reports on the WPP and is comprised of one elected member from each of the eight Constituent Authorities.

The Officer Working Group (OWG) provides support and advice to the Joint Governance Committee and is comprised of practitioners and Section 151 officers from all eight Constituent Authorities.

Carmarthenshire County Council is the Host Authority for the WPP and is responsible for providing administrative and secretarial support to the JGC and the OWG, and liaising day to day with the Operator on behalf of all of the Welsh LGPS funds.

Link Fund Solutions (Operator) carries out a broad range of services for the WPP, which includes facilitating investment vehicles & sub-funds, performance reporting, transition implementation and manager monitoring and fee negotiations. There is an Operator Agreement in place which sets out the contractual duties of the Operator and governs the relationship between the Operator and the WPP. The JGC and OWG, with the support of Hymans Robertson, oversee the work that Link Fund Solutions carries out on behalf of the WPP. Link engages with the Constituent Authorities by:

- Direct engagement – attendance at annual committee meetings
- Indirect engagement – with CAs collectively, through the JGC and OWG

In collaboration with Link Fund Solutions, Russell Investments provide investment management solution services to the WPP and they work in consultation with WPP's eight Constituent Authorities to establish investment vehicles.

Northern Trust is the Depository for the WPP ACS vehicle and provides numerous services including securities lending, fund administration, compliance monitoring and reporting.

Hymans Robertson are WPP's Oversight Advisor and their role spans oversight and advice on governance arrangements, operator services, strategic investment aspects and project management support.

Burges Salmon are WPP's legal advisors and they provide legal advice in relation to FCA regulated funds, tax and governance arrangements, including assisting with complex procurement processes.

Robeco UK has been appointed as WPP's Voting and Engagement provider and are responsible for implementing the Voting Policy across WPP's portfolio and undertaking engagement activity on behalf of the WPP.

The WPP's beliefs are the foundation for WPP's governance framework and have been used to guide all of the WPP's activities and decision making, including its objectives and policies. The WPP, in consultation with the Constituent Authorities, has developed a set of governing policies. In all instances the WPP's policies and procedures have been developed to either complement or supplement the existing procedures and policies of the Constituent Authorities. The WPP's key policies, registers and plans are listed below and can be found on the WPP website.



Responsible Investment has been a key priority for the WPP since it was established in 2017. Various activities have been undertaken to work towards WPP’s ambition of becoming a leader in Responsible Investment. Initially the focus was on formulating a Responsible Investment Policy and since then the WPP has formulated its own Climate Risk Policy and has worked with its Voting and Engagement Provider, Robeco, to agree a Voting Policy. A WPP RI Sub-Group has been established to take ownership of RI related workstreams and actions that are required to achieve the commitments made in the WPP’s RI and Climate Risk Policies.

The WPP’s Business Plan, Governance Manual and all other policies detailed in the chart above can be found on the WPP website:

<https://www.walespensionpartnership.org/>

### **Risk**

Risk management is a critical element of WPP’s commitment to good governance, the WPP has developed a structured, extensive and robust risk strategy which seeks to identify and measure key risks and ensure that suitable controls and governance procedures are in place to manage these risks. The WPP’s Risk Policy has been developed in such a way that risks can be anticipated and dealt with in a swift, effective manner to minimise potential loss or harm to the WPP and its stakeholders.

WPP maintains a Risk Register which is reviewed regularly by a dedicated Risk Sub-Group which reports back to the OWG and JGC on a quarterly basis.

### **Training**

The WPP has its own training policy and develops an annual training plan which is designed to supplement existing Constituent Authority training plans. Local level training needs will continue to be addressed by Constituent Authorities while the WPP training plan will offer training that is relevant to the WPP’s pooling activities.

## Pooling progress to date

The WPP aims to deliver investment solutions that allow the Constituent Authorities to implement their own investment strategies with material cost savings while continuing to deliver investment performance to their stakeholders. The WPP have made significant progress towards delivering on this objective. The launching of the WPP's three active equity sub-funds in 2019/20, five fixed income sub-funds in 2020/21, alongside the Constituent Authorities existing passive investments, has meant that that the WPP has now pooled 68% of assets.

As at 31 March 2021, WPP has total assets worth £21.6bn, £14.7bn of which sits within the pool, see breakdown below:

Asset Class	Managed by	Launch Date	31 March 2021 £000	%
Global Growth Equity Fund	Link Fund Solutions	February 2019	3,061,322	14.2
Global Opportunities Equity Fund	Russell Investments	February 2019	2,624,492	12.2
UK Opportunities Equity Fund	Russell Investments	September 2019	674,460	3.1
Global Credit Fund	Russell Investments	July 2020	791,481	3.7
Global Government Bond Fund	Russell Investments	July 2020	526,763	2.4
UK Credit Fund	Link Fund Solutions	July 2020	550,986	2.6
Multi-Asset Credit Fund	Russell Investments	July 2020	714,418	3.3
Absolute Return Bond Fund	Russell Investments	September 2020	456,255	2.1
Passive Investments	BlackRock	March 2016	5,232,789	24.2
Investments not yet pooled			6,938,068	32.2
<b>Total Investments across all 8 Pension Funds</b>			<b>21,571,038</b>	<b>100</b>

Investment assets split between City & County of Swansea Pension Fund and WPP

	31 March 2021 £000	%
WPP Global Opportunities Equity Fund *	1,222,602	46.8
WPP Fixed Income Funds	129,680	5.0
Passive Equities	775,396	29.7
Derivatives	20,707	0.8
Investments not yet pooled	461,588	17.7
<b>Total Investment Assets</b>	<b>2,609,973</b>	<b>100</b>

The above table is an extract taken the note on page 121 of the accounts and summarises City & County of Swansea Pension Fund's investment in the WPP, together with the assets that remain under the direct oversight of the Fund. During the year, £124m of the Fund's assets transitioned to the WPP portfolios and the table above shows the assets currently managed by the pool as at 31 March 2021.

## Pooling costs

Carmarthenshire County Council, as the Host Authority for the Wales Pension Partnership is responsible for providing administrative and secretarial support and liaising day to day with the Operator on behalf of all of the LGPS funds in Wales. The WPP budget is included in the WPP Business Plan and approved annually by all eight Constituent Authorities.

The Host Authority and External Advisor costs, the running costs are funded equally (unless specific projects have been agreed for individual Funds) by all eight of the Constituent Authorities and recharged on an annual basis. The amount recharged to the City & County of Swansea Pension Fund for the financial year ending 31 March 2021 was £88k, see table below.

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

The table below reflects the costs incurred in financial years 2019/20 and 2020/21

	2019/20	2020/21
	£'000	£'000
<b>WPP Oversight &amp; Governance Costs</b>		
Host Authority Costs	70	88
<b>WPP Investment Management Expenses</b>		
Fund Manager Fees	946	898
Custody Fees	151	238
Transaction Costs *	2,395	834
<b>Total</b>	<b>3,562</b>	<b>2,058</b>

\* Transaction Costs in 2019/20 include the underlying (indirect) costs, not split out at the time

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

## Transition Costs

In addition to the WPP Oversight and Governance costs shown above, the Fund also incurred costs associated with the transition of its assets into the pool. To date, the Fund has undergone three transitions in relation to the WPP, one in 2018/19 (Global equities) and a further two transitions in 2020/21 (Fixed Income).

The costs of transitioning assets can be categorised in terms of direct and indirect costs. Direct costs include the costs of appointing a transition manager to undertake the transition, together with any additional oversight of this process undertaken from a research and reflection perspective. Indirect costs are both the explicit and implicit costs of transition, such as commissions, spread and impact and opportunity costs known as Implementation Shortfall. Aside from the direct transition costs disclosed above, the majority of transition costs are directly attributable to the assets undergoing the transition and are therefore deducted from their value as opposed to a direct charge to the Fund.

The direct costs incurred by the City & County of Swansea Pension Fund amounted to £17k in 2020/21 for the transition into the WPP Fixed Income portfolio.

## Ongoing Investment Management Costs

The table below discloses the investment management costs split between those held by the WPP (including the passive equities) and those held outside of the WPP. Noting that only the Direct costs are chargeable to the Fund, the Indirect costs represent the underlying fees paid to fund managers and are disclosed as a note only in the accounts.

	Asset Pool			Non-Asset Pool			Fund Total
	Direct £000s	Indirect £000s	Total £000s	Direct £000s	Indirect £000s	Total £000s	£000s
Management Fees	602	2,705	3,307	3,991	10,794	14,785	18,092
Performance Fees	0	0	0	5,197	0	5,197	5,197
Asset pool shared costs	88	0	88				88
Transaction costs	834	4,872	5,706	796	0	796	6,502
Custody	238	0	238	28	0	28	266
Other	295	0	295				295
<b>Total £000</b>	<b>2,057</b>	<b>7,577</b>	<b>9,634</b>	<b>10,012</b>	<b>10,794</b>	<b>20,806</b>	<b>30,440</b>



## Securities Lending

Northern Trust, Custodian for the Wales Pension Partnership manages a securities lending programme for the fund. Securities lending commenced in March 2020. Revenue is split on an 85:15 basis between WPP and Northern Trust with all costs for running the securities lending programme taken from Northern Trust's share of the fee split. A minimum of 5% of the nominal quantity of each individual equity holding is held back and a maximum of 25% of total AUM is on loan at any one time. Total revenue of LF Wales Revenue during 2020/21 was £742,416 (gross) / £631,084 (net) with £469,064,784 out on loan as at 31 March 2021.

## Responsible Investment

Responsible Investment ("RI") continues to be a key priority for the Welsh Constituent Authorities. Over the past twelve months WPP have worked towards drafting and agreeing a Climate Risk Policy – this outlines our unified climate risk beliefs and what measures we have adopted to manage climate risk within the WPP Sub-Funds. In August 2020, a dedicated WPP RI Sub-Group was established in recognition of the important of this subject matter. The Sub-Group meets twice a quarter and is responsible for progressing any RI related workstreams. The RI Sub-Group has already demonstrated its effectiveness and efficiency by delivering on one of the main commitments made in both the WPP's RI and Climate Risk Policies – the development of reporting that allows the WPP to monitor and manage RI and Climate Risk risks. The sub group now receives detailed RI and Climate Risk monitoring reports for each of the WPP's Sub-Funds on a quarterly basis.

## Objectives 2021/22

Following the launch of a number of sub-funds to date, progress will continue to be made with significant rationalisation of the existing range of mandates. The operator will be developing and launching a further series of sub-funds which will collectively reflect the strategic asset allocation needs of the eight constituent funds and facilitate a significant move of the assets to be pooled.

In establishing the WPP pool, the focus has been on pooling the most liquid assets, namely equities and fixed income. The next step is to formulate an approach to pooling and managing illiquid assets such as Private Equity, Property, Private Debt/Credit and Infrastructure.

A high level transition timetable has been provided below:

<b>Investment Portfolio</b>	<b>Timeline for Launch/Implementation</b>
Tranche 4 – Emerging Markets (Active)	Transition planned Q3 2021
Tranche 5 – Private Markets Alternatives	Transition planned 2021-2024
Subsequent Tranches	Asset Class and timing to be determined

In terms of other, non-investment objectives, the WPP hopes to continue to establish its approach as a responsible investor during 2021/22 which will involve oversight and monitoring of its voting policy, the establishment of an engagement framework, Environmental, Social and Governance (ESG) metrics monitoring and reporting output in accordance with the requirements for opt up to UK Stewardship Code and the Taskforce on Climate-Related Financial disclosure (TCFD).

There will also be a focus on the review and development of additional WPP policies, as well as the provision of timely and relevant training facilitated by the pool for the benefit of its wider stakeholder groups.

## Asset Allocation and Performance

The following table shows how each of the investment mandates has performed during the year, with opening and closing values and one year performance included net of fees where available. In addition, the table splits out investments under pooled arrangements with the WPP and those that remain under non-pooled investment arrangements with the Fund's legacy managers as at 31<sup>st</sup> March 2021.

Asset Category	Opening Value		Closing Value		Performance (1 year)	Benchmark
	£'000s	%	£'000s	%	Net %	%
<b>Pooled Assets</b>						
LF Wales PP Global Opportunities Fund	898,040	45.2	1,222,602	47.1	41.7	39.0
LF Wales PP Multi Asset Credit Fund	-	-	65,578	2.5	N/A	N/A
LF Wales PP Absoute Return Bond Fund	-	-	64,102	2.5	N/A	N/A
Equity Protection Mandate (includes Derivatives)	22,294	1.1	20,707	0.8	-33.3	-34.6
Blackrock ACS World Low Carbon Tracker Equity Fund	444,867	22.4	605,237	23.1	37.45	36.81
Aquila Life All Stk UK ILG IDX S1	35,111	1.8	35,919	1.3	2.30	2.90
Aquila Life All Stk UK Gilt IDX S1	69,656	3.5	65,790	2.5	-5.50	-5.54
Aquila Life Overseas Bond IDX	18,868	1.0	16,997	0.6	-9.92	-10.10
Ishares EM IDX FD GBP	40,245	2.0	51,453	2.0	42.04	42.34
<b>Sub Total</b>	<b>1,529,081</b>	<b>77.0</b>	<b>2,148,385</b>	<b>82.4</b>		
<b>Assets not yet pooled</b>						
Aberdeen Standard Frontier Fund	10,126	0.5	-	-	-	-
GSAM Fixed Interest Libor Plus 11	114,910	5.8	-	-	-	-
Schroders UK Property Fund	51,288	2.6	52,971	2.0	2.0	2.5
Partners Group Global Property Fund	16,608	0.8	14,620	0.5	-3.7	0.1
Invesco Real Estate European Property Fund	31,958	1.6	28,683	1.1	-0.6	N/A
EnTrustPermal Global Absolute Return Fund	23,338	1.2	28,958	1.1	24.5	0.1
Blackrock Appreciation Strategy Fund	26,633	1.3	31,104	1.2	16.8	0.1
HarbourVest Private Equity Fund	91,997	4.6	140,311	5.4	N/A	N/A
Blackstone Strategic Capital Holdings	-	-	6,580	0.3	N/A	N/A
First Sentier EDIF 11 Infrastructure Fund	33,635	1.7	73,822	2.8	15.9	6.1
Blackrock Global Renewable Power Fund 111	-	-	1,843	0.1	N/A	N/A
Alcentra European Direct Lending Fund 111	11,798	0.6	16,501	0.6	N/A	N/A
CVC Credit Partners Europe Direct Lending Fund 111	-	-	13,184	0.5	N/A	N/A
GSAM Broad Street Loan Partners 1V	-	-	8,295	0.3	N/A	N/A
BMO - UK Housing Fund	-	-	-	-	-	-
Cash (In-house and with Managers)	44,442	2.2	44,716	1.7	0.1	0.1
<b>Sub Total</b>	<b>456,733</b>	<b>23.0</b>	<b>461,588</b>	<b>17.6</b>		
<b>Total</b>	<b>1,985,814</b>	<b>100.0</b>	<b>2,609,973</b>	<b>100.0</b>		

\* N/A - Where Net Performance Return is unavailable or where the fund is less than one year old

## Pooling Risks

The following risk table identifies two frequently monitored risks from a Fund perspective when managing the arrangements in place through transitioning assets into the WPP.

Risk Identified	Potential Consequences	Risk Score Range	Controls / Mitigation
Financial losses experienced during the process of transitioning Fund assets into the Wales Pension Partnership (WPP) pool.	Poorly executed transitions of pension assets could result in high trading costs or loss of Net Asset Value in the short-term.	High	<ul style="list-style-type: none"> <li>• The WPP and its constituent authorities take professional and timely advice from its advisors to ensure it is undertaking transition activity within an appropriate market environment.</li> <li>• A reconciliation of assets transferred to the pool is undertaken by the investments team following each transition.</li> <li>• A detailed report from the appointed transition experts commissioned by the WPP will be produced following each transition to provide added assurance to constituent Funds and their elected members.</li> </ul>
Investment pooling with the Wales Pension Partnership (WPP) fails to deliver long-term investment returns.	The WPP fails to deliver long-term investment returns beyond what the Fund would have expected to generate had pooling not occurred. This would result in a longer payback period on the initial investment envisaged, and the likelihood of needing to increase employer contribution rates as a result in order to ensure pension liabilities are fully funded in the future.	High	<ul style="list-style-type: none"> <li>• Substantial governance arrangements are in place at both officer (Officer Working Group) and shareholder (Joint Governance Committee) levels.</li> <li>• Both the WPP and the constituent authorities take professional external advice on the opportunities for investment through the contractual relationship with Link Fund Solutions and Russell Investment advisors.</li> <li>• The WPP, together with constituent authorities, monitor the performance of investments and hold Link and Russell to account as necessary.</li> </ul>

Whilst the risk score range attributable to the above is categorised as high, the Fund is comfortable with the level of mitigation in place in which to manage them. The Fund recognises that the process of transitioning assets will continue for a number of years and so this risk will continue to be monitored as appropriate until such time that we feel it can be reduced to an acceptably low level or removed altogether. The risk of the WPP failing to deliver long-term performance remains high as this underpins the justification for pooling collaboration generally. As such, this risk is likely to remain in place for the foreseeable future. However, as the WPP continues to establish itself and the governance arrangements mature it is expected that this level of risk will be reduced to an acceptable level.

### **City & County of Swansea - Progress Update**

During 2020-21 City & County of Swansea Pension Fund transitioned their Fixed Income portfolio of £124m from Goldman Sachs to WPP. The transition took place in two tranches of £62m in July and September 2020 respectively. The money has been invested equally in two funds – a Multi Asset Credit Fund and Absolute Return Bond Fund.

During the year WPP launched tranche 4 transition to an Emerging Markets mandate. The City & County of Swansea Pension Fund currently has an allocation to emerging markets within its passive mandate which will remain in place with Blackrock, so took the decision not to participate in this tranche of investment.

As part of the WPP, City & County of Swansea officers participate in the Responsible Investment (RI) Sub Group. The group meets twice a quarter and is responsible for progressing any RI related work streams. Over the past twelve months the group has worked towards drafting and agreeing a Climate Risk Policy which is aligned to the RI policy of the City & County of Swansea Pension Fund.

A recent milestone in line with the RI policy was the submission to the FCA for Enhanced Portfolio Implementation (EPI) of a Low Carbon overlay for the Global Opportunities equity fund, this will be implemented in April 2021.

City & County of Swansea Pension Fund policy on Environment & Social Governance Policy can be found at Appendix 11.

The Private Markets sub group has also been working together regularly to find a solution to pooling the private market assets, this will be tranche 5 of the pooling process and is progressing well.

WPP have delivered virtual training on the following topics which has been well attended by members of the Pension Committee and Pension Board :

- ACS operator requirements
- Asset stewardship, voting and engagement
- A review of Private market mandates
- Responsible Investment including RI Metrics, United Nations Principals of Responsible Investing (UNPRI), Climate Action 100+ and the impact of decarbonisation. Responsible Investing, climate action
- The importance of good decision making.

WPP have formally approved a non-voting scheme member representative on the Joint Governance Committee (JGC) of WPP. The scheme member representative to be determined by the Local Pension Board representatives group.

More detailed information can be found in WPP's Annual Return which is published on the WPP website - <https://www.walespensionpartnership.org/>

## Local Pension Board - Annual Report 2020/21

### Introduction

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

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

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

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

### Details of Membership

The Board consists of 6 members, 3 member representatives and 3 employer representatives. All members are unpaid volunteers. During 2020/21 the Board was made up of the following members :

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

## **Summary of 2020/21**

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

- Breaches Reporting
- MHCLG Consultations on Exit Payment Cap
- Competition and Markets Authority Objectives
- Business Plan 20/21
- Fraud and Related Party Assurances
- Resourcing of the Pensions Finance and Administration Section
- The 2019/20 Annual Report and Statement of Accounts
- The Wales Audit Office Audit Plan and the ISA 260 Audit Report
- Funding Strategy Statement
- Investment Strategy Implementation Update
- Wales Pension Partnership – Asset Pooling Updates
- Wales Pension Partnership – Responsible Investment Policy
- Quarterly Investment Managers Reports

In addition the Board agreed Training Recommendations for the year.

### **Attendance at Meetings**

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

- 23rd July 2020
- 24<sup>th</sup> September 2020
- 26<sup>th</sup> November 2020

The meeting scheduled for the 21<sup>st</sup> May 2020 was postponed due to Covid19 and subsequently took place on the 23<sup>rd</sup> July 2020.

Attendance at the above meetings was recorded at 61% by the appointed Board members.

### **Skills & Development Activities**

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

### **Local Pension Board Member Training**

At the meeting of the Local Pension Board on the 23<sup>rd</sup> July 2020, The Chief Treasury and Technical Officer presented a report as part of the Business Plan outlining the importance of member training. The training ensures compliance with

the CIPFA Public Sector Pensions Finance Knowledge & Skills Code of Practice and the requirements for tPR.

Training Undertaken in the last 12 months as part of the Wales Pension Partnership Training programme included :

- Voting & Engagement Practices with Robeco, the newly appointed Voting & Engagement Manager for Wales Pension Partnership
- An in-depth review of private markets mandates including property, infrastructure and private equity as an asset class within the Pool.
- Responsible Investment including RI Metrics, United Nations Principals of Responsible Investing (UNPRI), Climate Action 100+ and the impact of decarbonisation.
- LGPS Pooling – Guidance and Regulations
- CIPFA – The role and remit within the LGPS
- The importance of good decision making

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

LGA Trustee Fundamentals

- Day 1
- Day 2
- Day 3

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

### **Budget**

The Board agreed a budget of £5k per annum to assist with its operation. In 2020/21 the Board incurred £3k in costs.



### **1. Scope of Responsibility**

- 1.1 The City and County of Swansea is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Authority also has a duty under the Local Government (Wales) Measure 2009 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.2 In discharging this overall responsibility, the City and County of Swansea is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.
- 1.3 The City and County of Swansea adopted a Code of Corporate Governance on 24 August 2017, which is consistent with the principles of the new CIPFA/SOLACE Framework '*Delivering Good Governance in Local Government 2016*'. A copy of the Code can be found on the Council's website.

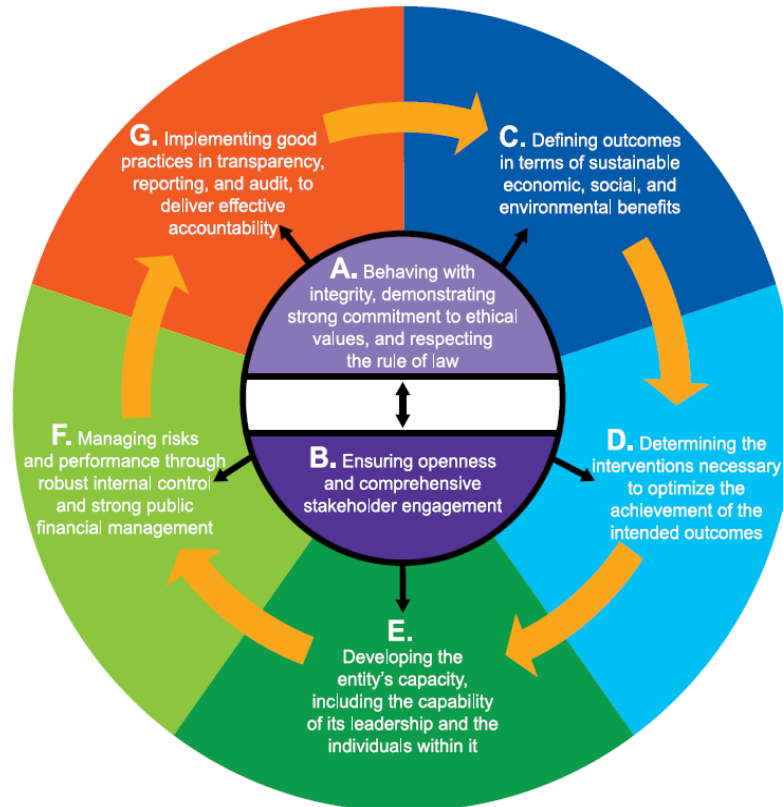
### **2. The Purpose of the Governance Framework**

- 2.1 The governance framework comprises the systems and processes, culture and values, by which the Authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.
- 2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised and to manage them efficiently, effectively and economically.
- 2.3 The governance framework has been in place at the City and County of Swansea throughout the year ended 31 March 2021 and up to the date of approval of the Statement of Accounts.

**3. The Governance Framework**

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

**Achieving the Intended Outcomes  
While Acting in the Public Interest at all Times**



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

3.3 The 7 key principles are:

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

- G) Implementing good practices in transparency, reporting and audit to deliver effective accountability.
- 3.4 The application of the principles of good governance is summarised below which sets out supporting information for the 7 key principles.
- 3.5 **Note - This Governance Statement and the issues set out within are likely to continue to be materially affected by the COVID-19 pandemic. In addition, the national lock down arrangements and the prioritisation of the response to COVID-19 has affected the preparation of the Statement. However, it should be noted that the Statutory Governance Chief Officers continue to maintain corporate grip to ensure that sufficient governance is maintained throughout this unprecedented crisis and during the recovery.**

Principle A

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

Sub Principles:

**Behaving with Integrity**

How do this:

**Demonstrating strong commitment to ethical values**

we

**Respecting the rule of law**

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

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

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

**Principle B**

**Ensuring openness and comprehensive stakeholder engagement**

**Sub Principles:**

**Openness**

**Engaging comprehensively with institutional stakeholders**

**Engaging stakeholders effectively, including individual citizens and**

**How we do this:**

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

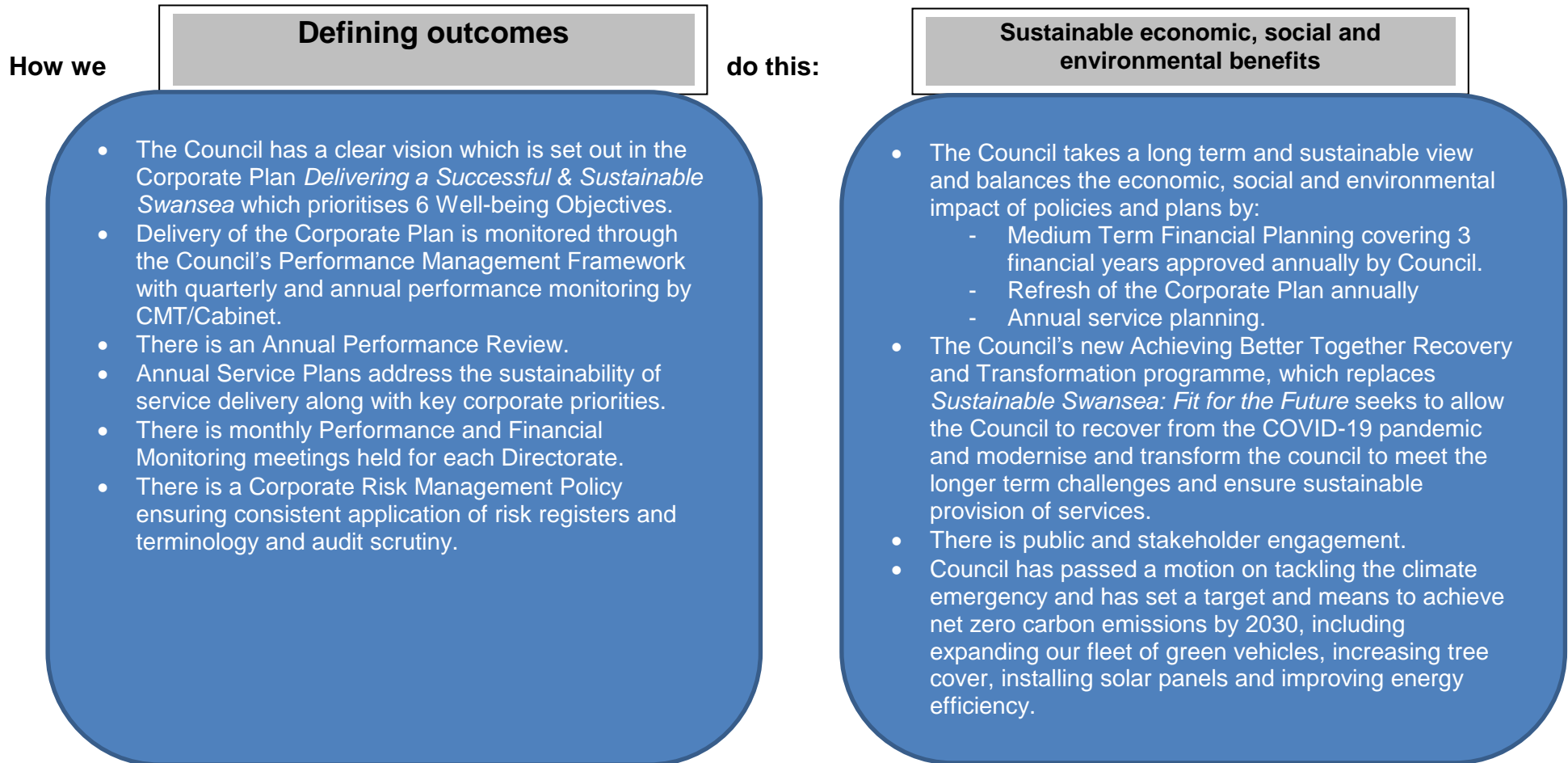
- The Council adopts a Team Swansea approach working as a whole Council and effectively engages with stakeholders to ensure successful and sustainable outcomes by:
  - targeting communications;
  - effective use of social media;
  - formal and informal meetings with key stakeholder groups i.e. External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

- The Council has appropriate structures in place to encourage public participation which is used to inform proposals and key decisions including:
  - A Consultation and Engagement Strategy.
  - A Co-production Framework.
  - "Have your Say" consultations on website.
  - The Scrutiny Programme Committee invites stakeholder contributions and participation.
  - A Staff Survey with responses considered by CMT/Senior Management.
  - A Complaints Policy and Annual Report to assess organisational learning and change.
  - The appointment of Councillor Champions who provide a voice for under-represented groups.
  - An Integrated Impact Assessment to assess the equality, socio-economic and sustainability impacts on people with protected characteristics and future generations.

**Principle C**

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

**Sub Principles:**



**Principle D**

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

**Sub Principles:**

**Determining interventions**

**Planning interventions**

**Optimising achievement of intended outcomes**

**How we do this:**

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

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

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

**Principle E**

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

**Sub Principles:**

**How we**

**Developing the entity’s capacity**

**do this:**

**Developing the capability of the entity’s leadership and other individuals**

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

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



## Principle F

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

#### Sub Principles:

#### Managing risk

#### Managing performance

#### Robust internal control

#### Managing data

#### Strong public financial

#### we do this:

- Risk management is an integral part of decision making supported by:
  - A Corporate Risk Management Policy with clear nominated officer responsibility.
- New risk register application.
- Monthly review of risks by CMT.
- Monthly review of Directorate Risks at PFM meetings.
- The publication of Corporate Risks allowing greater scrutiny.
- The Audit Committee regular review of risks (see paras 8.34 & 9)

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

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

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

#### How

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

## Principle G

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

#### Sub Principles:

#### Implementing good practice in transparency

#### Implementing good practices in reporting

#### Assurance and effective accountability

#### How we do this

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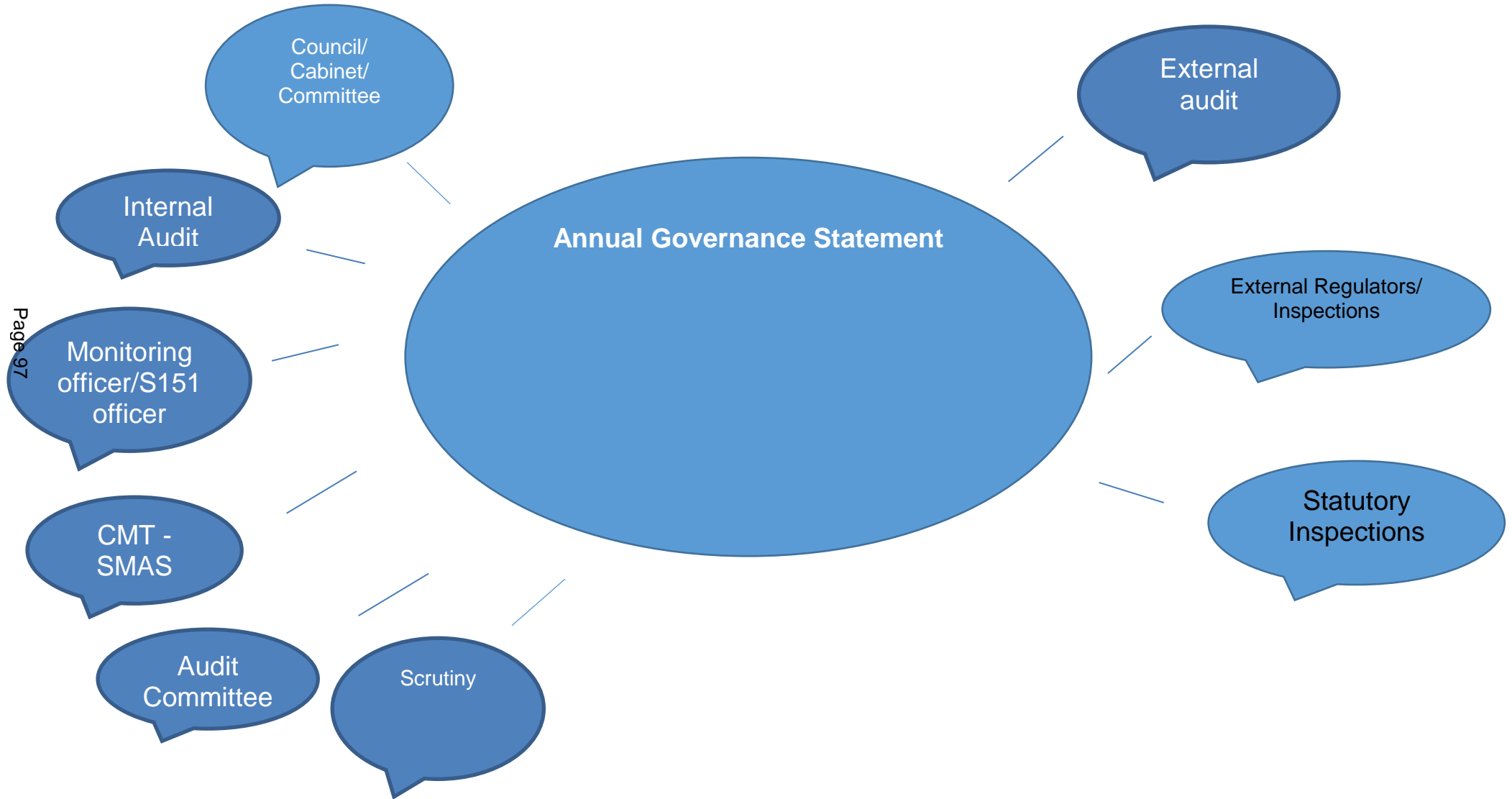
- The Council aims to present understandable and transparent reports for both stakeholders and the public which is supported by:-
  - A Report Authors Protocol which ensures consistency in reports.
  - A Clear Writing guide for Officers.
  - All reports are signed off by Cabinet Member, legal, finance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

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

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

Internal Assurance

External Assurance



#### 4. Review of Effectiveness

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

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

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

### **INTERNAL SOURCES OF ASSURANCE**

#### 5 Corporate Management Team/SMAS

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

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

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

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

5.4 The assurance statements summarised by 9 categories showed overall that there were no categories that were deemed as being “Not in place” or with “Limited Application”. A small number (9%) of categories were regarded as showing “Mixed Application”. These categories were: Performance Reviews (2); Data Security (1); Partnership Governance (1), Programme and Project Assurance (2) and Future Generations & Equality (1). These have been captured in the significant governance risks for 2021/22 where relevant.

However, 64% demonstrated “Strong Application” and 27% were described as “Embedded”.

- 5.5 The Council established an Annual Governance Group for the purpose of challenging the SMASs and assisting and overseeing the development of the Annual Governance Statement. The Group is led by the Deputy Chief Executive and members include the Council’s Section 151 Officer and Monitoring Officer, as well as the Strategic Delivery & Performance Manager and a member of the Audit Committee. The Chief Internal Auditor attends in an advisory capacity. The work of the Group in reviewing the SMASs and finalising the Annual Governance Statement and CMT in reviewing and approving the SMASs and Statement was disrupted by the COVID-19 situation; the Group met twice during 2020/21 and again in April 2021. CMT reviewed the SMAS and draft Annual Governance Statement on 26<sup>th</sup> March and 16<sup>th</sup> April 2021. The Significant Governance Issues for 2021/22 as identified by CMT are those set out below.

### **6. The Monitoring Officer**

- 6.1 The Chief Legal Officer is the Monitoring Officer with a specific duty to ensure that the Council, Officers and Members maintain the highest ethical standards of conduct. The Standards Committee has the responsibility for monitoring the ethical standards of conduct and to deal with any breaches of the Code referred to the Committee by the Public Service Ombudsman (PSOW).
- 6.2 In 2020/2021 the Monitoring Officer was notified of 17 complaints relating to members conduct by the PSOW. The PSOW decided not to investigate 16 of those complaints. 1 complaint is outstanding. Regular PSOW bulletins are circulated to all councillors as to Code of Conduct issues when issued.
- 6.3 During 2018 and 2019 the Standards Committee interviewed the Leader, Leaders of the Opposition, the Chairs of Planning, Democratic Services and Licensing Committees and the Chief Executive. All those interviewed indicated their support for the Code of Conduct and their commitment to maintaining the highest ethical standards amongst councillors.
- 6.4 An audit of officer gifts and hospitality was undertaken in 2018/19. Members and officers are required to register their personal interests, gifts and hospitality with regular reminders sent out by the Head of Democratic Services. The Declaration of Interest form for both members and officers has been updated and circulated with guidance so as to include declaration of related party interests.
- 6.5 An audit of the publication of delegated decisions by Cabinet members and senior officers was undertaken in 2019/20. This process is still being embedded with this being the first audit. The audit also considered decision making during the Covid crisis. A high assurance rating was given with some recommendations to improve the process going forward.

- 6.6 An audit of the Councillors Code of Conduct covering Members register of interests, declarations of interest and gifts and hospitality was undertaken in 2020/21 with a substantial assurance rating and two recommendations for improvement which have been implemented.
- 6.7 The Monitoring Officer has not had to issue any statutory Section 5 Local Government and Housing Act 1989 reports during 2020/21.
- 6.8 Work on the Council Constitution was not progressed mainly due to pressures of Covid but also as the Local Government and Elections (Wales) Bill was making its way through the Senedd it was anticipated that this would also require amendments to the Constitution.
- 6.9 The Local Authorities (Coronavirus) (Meetings) (Wales) Regulations 2020 allowed members of committees, Cabinet and Council to make decisions remotely and largely to carry on with business as usual. A number of committees saw active public participation including Cabinet where members of the public participated in public question time.

### 7. The S151 Officer

- 7.1 Quarterly **Financial Monitoring Reports** were presented to Cabinet throughout 2020/21. The reports consistently identified some service revenue budget overspends at year end, driven especially by Covid spending, albeit reducing throughout the year and by third quarter down to a miniscule margin of variation, so that service underspend was as likely as overspend based on available information. Towards the year-end the pace and scale of reimbursement of costs and lost tax and service income from Welsh Government became increasingly clear and as a result at several verbal updates on third quarter position to cabinet, Council, audit committee and scrutiny panels, the S151 Officer advised an overall significant outturn underspend was expected.
- 7.1.1 Total service underspending has now been confirmed (at just over £20m) and is an extremely good outcome. On even more positive note the equally fully planned substantial continued underspending on capital financing (£9m) and contingency, central inflation and other corporate items including additional Welsh Government Covid grants (also around £9m) has enabled sums to be added to the recovery reserve, the capital equalisation reserve, the general reserve and some to be carried forward on contingency which is a prudent way of planning for and addressing some of the future certain increased costs of financing the ambitious mid-term capital programme and the uncertainty of Covid-19.

- 7.2 A verbal **Mid Term Budget Statement 2020/21** was presented to Council in November this year given the substantially delayed settlement due to covid. The written report on the **Review of Reserves** was presented to Council on 4/11/20 which provided a strategic and focussed assessment of the current year's financial performance and an update on strategic planning assumptions over the next 3 financial years.
- 7.2.1 The conclusion of the Statement was that the Council could potentially struggle to deliver within the overall resources identified to support the budget in 2021/22 and beyond unless the local government settlement was much enhanced and preferably multi-year (the quantum was duly confirmed much enhanced by March 2021 but disappointingly remains a one year settlement). The likely projected outturn was dependent upon the ability of the Council to reduce and restrict ongoing expenditure across all areas, its ability to recover expenditure and lost income from Welsh Government and continued reliance on active capital financing strategies to maximise the short term savings to enable the capital equalisation reserve to be bolstered for the medium to long term recognising the major future capital commitments already irrevocably made by Council decisions on the size of the capital programme and associated borrowing.
- 7.2.2 The Revenue and Capital Budgets were approved by Council on 04/03/21. They continued to set out an ongoing ambitious programme of approved capital spending plans and future capital spending plans (partly financed by the Swansea Bay City Deal but predominantly by unsupported borrowing) which would require budget savings to be delivered to help facilitate that major capital investment and economic regeneration stimulus. These plans are likely to still be affected by ongoing ripple effects of Covid-19. It remains entirely unclear as to the scale of additional spending, the loss of income, and the funding arrangements for reimbursement in part, or in full, that the authority faces in responding both locally, with partners, and supporting the national strategic response to the Covid-19 pandemic during the first half of 2020-21.
- 7.2.3 The impact will be very financially material on the 2020-21 accounts but the national lock down arrangements and the prioritisation of the response to Covid-19 may have impaired our ability to fully prepare the accounts to our normally exceptionally high standards in line with accounting standards. Any necessary deviation caused will be disclosed separately throughout these accounts. The impact will be very financially material for the 2020-21 accounts (many tens of millions of pounds, over one hundred million pounds when agency costs and income for business grants added) but its net impact is less clear after reimbursement of costs.
- 7.3 The **Medium Term Financial Plan 2022/23 – 2025/26** was approved by Council on 04/03/2021. The Plan outlined the range of options around funding faced by the Council over the period, the key reliance on the scale and value of future local government finance settlements and the strategy to be adopted to address the various scenarios as well as the inherent risks to the success of the adopted strategy.

- 7.3.1 All spending and funding assumptions were set before the New Year economic scale of the ongoing Covid-19 pandemic was fully apparent, exacerbated by the late nature of the UK and Welsh government budget setting processes. Whilst the Authority will consider future spending plans in line with projected funding announcements there is no indication at present that any of the assets of the Authority may be impaired as a result of a need to close facilities and reduce the level of service provision.
- 7.4 Each Corporate Director held monthly **Performance and Financial Monitoring** meetings where Chief Officers and Heads of Service reported on progress in terms of continuous improvement and budgets.
- 7.5 **Audit Wales Annual Audit Summary 2020** (and referred to below) noted that the Council has put in place proper arrangements to secure value for money from the resources it uses. Significant challenges remain particularly in terms of delivering timely transformation against the backdrop of a challenging financial position. This reflected external auditor concerns that the Council continues to face a significant financial challenge and needs to deliver its savings plans at the pace and scale required whilst controlling service spending within budgets. The Council is seeking to address this through a refresh of its programme for transformation to ensure that planned actions are of sufficient scale and pace in its new Achieving Better Together programme.
- 7.5.1 The Council is the Administering Authority for the City and County of Swansea Pension Fund (the Pension Fund) and Swansea Bay Port Health Authority (SBPHA). The governance arrangements detailed in this Annual Governance Statement apply equally to the Council's responsibilities to the Pension Fund and SBPHA. There are further specific requirements for the Pension Fund which are:
- Investment Strategy Statement.
  - Internal Dispute Resolution Process.
  - Funding Strategy Statement.
  - Administration Strategy Statement.
  - A full actuarial valuation to be carried out every third year.
  - Communications Strategy Statement.

## 8. Chief Auditors Opinion

- 8.1 The system of internal control is designed to help the Council manage and control the risks which could affect the achievement of the Council's objectives. However it is not possible to eliminate all risks completely.
- 8.2 This means that Internal Audit can only provide 'reasonable' assurance that the systems of internal control within the areas of the Council reviewed are operating adequately and effectively.
- 8.3 The table below provides a summary of the assurance levels across the audits completed in 2020/21:



<b>2020/21 Audit Ratings Summary</b>		
Total Number of Audits Finalised	75	
<b>Assurance Rating</b>	<b>Number</b>	<b>%</b>
High Assurance	42	56
Substantial Assurance	29	39
Moderate Assurance	4	5
Limited Assurance	0	0

- 8.4 As can be seen in the table above, the outcome of 71 (95%) of the 75 audits completed was positive with the audits receiving either a high or substantial level of assurance.
- 8.5 As has been reported to the Audit Committee throughout the year, four audits received a moderate level of assurance in the year. As has been the case for the past two years, the fundamental Accounts Receivable audit was one of the audits that received a moderate assurance level in 2020/21.
- 8.6 There are 14 audits which are classed as fundamental audits. The fundamental audits are the systems that are considered to be so significant to the achievement of the Council's objectives that they are audited either annually or bi-annually. Following the audits completed in 2020/21, 11 of the 14 fundamental audits have a high level of assurance. Two have a substantial level of assurance (Accounts Payable and Business Rates) and one has a moderate level of assurance (Accounts Receivable).
- 8.7 Prior to the most recent audit in 2019/20, the Business Rates audit had received consistent high assurance level and had therefore been subject to an audit every two years. However, as a result of the findings of the audit in 2019/20, a substantial level of assurance was awarded and as a result this audit is completed on an annual basis.
- The Audit Committee has been made aware of the fact that we were unable to complete the audit of Business Rates in 2020/21 due to the reasons set out in the Internal Audit Quarterly Monitoring Reports and also in the Internal Audit Annual Report. However, additional work has been undertaken in the year to provide assurance over the reactive work that has been undertaken by the Business Rates Team in facilitating the Council's response to the Covid-19 pandemic.
- 8.8 The Accounts Payable audit also received a substantial assurance level in 2020/21, as was also the case in 2019/20 and 2018/19. As a result, this also continues to be audited on an annual basis.
- 8.9 The Accounts Receivable audit received a moderate assurance level in both 2018/19 and 2019/20. The Audit Committee have had a number of updates from the relevant managers in relation to the work that is ongoing to address the issues that have been identified. The Audit Committee will continue to receive updates on this during 2021/22.
- 8.10 It is disappointing that the Accounts Receivable audit received a third moderate assurance rating in 2020/21. As detailed in updates provided to the Audit Committee

from the client department, the reasons for the weaknesses identified in this area are primarily in relation to reduced resources. As noted in previous reports, continuity and maintenance of core grip with changing, and more often diminishing, resources was a recognised clear challenge across the Authority and this continues to be the case.

- 8.11 Despite this, it should be noted that of the 14 fundamental system audits, 11 have a high assurance level and two have a substantial assurance level. In addition, the results of the work undertaken in 2020/21 shows that as at the 31 March 2021, 95% of all of the audits completed in year have either a high or substantial assurance level. This provides reasonable assurance that across the Authority the systems of internal control are operating effectively.
- 8.12 Due to the very challenging environment that the Internal Audit Team has endured throughout 2020/21, the number of audits on the plan that we have been able to complete in year has been lower than that of previous years. However, this does not detract from the positive outcomes of the work that has been completed as noted above. It is hoped that with pandemic restrictions continuing to be lifted at the time of compiling this report, the Team will be able to successfully complete a greater percentage of the 2021/22 audit plan in line with performance in previous years.
- 8.13 Throughout the year, a significant amount of effort has continued to be directed at further strengthening the systems of risk management across the Authority. The Audit Committee has recently been in receipt of update reports from the Strategic Delivery and Performance Manager outlining the status of key risks from the new Risk Management System to further strengthen assurance in this area. The Corporate Management Team and Risk Owners have also reviewed the risk register entries regularly throughout the year to ensure the register is up to date. The new Risk Management System has also been further embedded in the year which has improved the monitoring and control of risks.
- 8.14 As per the Terms of Reference, the Audit Committee must be satisfied that they have sufficient information in order to gain assurance over the risk management controls across the Council. Prior to the introduction of the new Risk Management System, the Committee highlighted concerns over the amount of information that was available to Members to allow them to discharge this responsibility. These concerns were also echoed by the Council's External Auditors. The introduction of the new Risk Management System has facilitated greater scrutiny of the risk management arrangements in place by the Audit Committee, and the presentation of detailed reports from the new system has recently recommenced. However, a number of concerns have been raised by both the Chief Auditor and the Audit Committee in relation to the documentation of the mitigating controls for key risks in some service areas.
- 8.15 As part of the migration from the old Risk Registers to the new Risk Management System, Risk Owners were asked to review and update the risks and associated mitigating controls under their management. Following a review of the mitigating controls, it was noted that in some instances the control measures documented on the new system could not be categorised as 'control measures' in effect. As a result, it is not

possible to place reliance on the documented mitigating controls for some of the corporate risks on the Risk Management System. This is not to say that mitigating controls are not in place, but the way they have been documented on the system means we are unable to place reliance on some of the controls as they are currently recorded. As a result, this area can be considered as requiring attention and improvement in the coming year. This is due to be addressed via training for Risk Owners.

- 8.16 The Covid-19 Pandemic has had a significant impact on the Council and most business as usual operations. The meetings of the Governance Group, tasked with overarching responsibility for ensuring existing corporate governance arrangements are effective, were suspended during the year but meetings have recently resumed in the lead up to the year end and in preparation for the production of the Annual Governance Statement.
- 8.17 In response to the unexpected and unpredictable impact of the pandemic, a number of emergency protocols were introduced to ensure governance and overall corporate grip remained strong and effective during such unprecedented times. This included the formation of an Executive Control Group (ECG) in early March 2020.
- 8.18 The ECG was set up due to the unprecedented effects of the Covid-19 pandemic on the management of the Council's affairs. Whilst the ECG met daily in the morning a "Sit Rep" meeting also took place each afternoon to review the daily changes in the crisis. Decisions taken at ECG were looked at as part of internal audit's review of delegated decisions.
- 8.19 Cabinet meetings were cancelled between 19 March 2020 and the 27 April 2020 and Council meetings were also cancelled. The ECG and Sit Rep groups addressed strategic, collaborative, operational and financial issues which had to be dealt with as a matter of urgency.
- 8.20 Those attending the ECG included the Leader, Deputy Leaders, Chief Executive, S151 Officer, Monitoring Officer, Director of Place, Head of Communications & Marketing, Corporate Health Safety & Wellbeing Manager and Temporary CCoS/NPT/SBUHB Liaison Officer (JS). We were advised that attendance at meetings varied due to the fluid situation facing the Council and due to daily meetings taking place, including on weekends. The Sit Rep group was a wider group of members and senior officers.
- 8.21 Strategic operational and financial decisions were taken by the ECG and Sit Rep meetings, as required, without the usual Cabinet and Council approval. While formal "minutes" of meetings were not taken, a Corporate Management Team PA attended each meeting and recorded discussions and maintained a log of actions/decisions agreed. Given the unpredictability and unprecedented nature of the pandemic, we are assured that appropriate controls were in place in relation to the decision making process during this period.
- 8.22 We were further advised by the Chief Finance and Section 151 Officer that where required, FPR7 Reports (for capital expenditure) or Delegated Powers Reports (for

revenue expenditure) were subsequently presented to Cabinet and Council when meetings resumed early in June 2020.

- 8.23 The ECG ceased to be a decision-making forum when Cabinet and Council meetings resumed, but it continues to exist as a forum for information and communication.
- 8.24 It was noted that significant decisions made by the ECG in 2020 have been published on the Council's website. It was also found that Democratic Services had been informed of other decisions but a decision was taken not to publish these because they contained commercially sensitive/sensitive information warranting an exemption from publication.
- 8.25 The work undertaken by the Internal Audit Team in the year did not uncover any significant concerns in relation to governance and overall management control across the areas of the council that were subject to internal audit review. Despite a significant period of upheaval and change, Officers have adapted speedily and effectively to the emergency response to the pandemic with no obvious signs of deterioration in control or corporate grip across the areas subject to audit in the period.
- 8.26 In conclusion, Statutory Governance Chief Officers have succeeded in maintaining appropriate corporate grip and have ensured adequate recording and reporting mechanisms have been maintained throughout the crisis.
- 8.27 At the time of writing this opinion, it is unclear as to the scale of additional spending, loss of income or funding arrangements for reimbursement in part, or in full, that the authority faces in responding both locally, with partners, and supporting the national strategic response to the Covid-19 pandemic going into 2021/22. The Section 151 Officer has advised that his view is that there is adequate assurance of sufficient and necessary recovery and reimbursement in relation to 2020/21 already in place, pending the formal final outturn and statement of accounts certification. However, it should be noted that the sums available to bid against nationally for 2021/22 are materially lower and no sums are currently flagged as available in 2022/23 by UK or Welsh Governments. In March 2021, the Leader of the Council set out the Council's intention to establish a locally funded Covid-19 Recovery Fund with the target sum of £20m. This in part may mitigate the risk of reduced Government funding in future years, but again this is pending formal certification of the final outturn and statement of accounts by the Section 151 Officer and Council.
- 8.28 In previous years, the Audit Committee and the Council's External Auditors have raised a number of concerns in relation to risk management arrangements and also with regard to the lack of pace with which Directorates have been able to deliver agreed savings targets. These concerns have been echoed by Internal Audit and the Chief Finance and Section 151 Officer. It is hoped that the Achieving Better Together audits encompassing both the Council's recovery and later transformation will address these issues in 2021/22. The programme of planned audits for 2021/22 will also seek to provide the Committee with some clarity and assurance on these issues.

- 8.29 Given the audit plan completion rates noted previously, and the fact that we have completed all of the fundamental audits (with the exception Business Rates) by year end, I do not feel any impairment to the Chief Auditor’s opinion on internal control is required. Assurance can be provided across a range of Council services as a result of the audits that have been successfully completed, especially when considered alongside the wider thematic audits and other assurance work completed in year. We hope to be able to provide assurance in those areas that have seen the audits deferred this year by the completion of the deferred reviews in 2021/22.
- 8.30 In addition, for the reasons set out previously, I believe that governance arrangements across the Council have proven to be robust and resilient throughout the significant period of challenge and change that the Council has faced over the past year. The Council has adapted speedily and effectively to the challenges brought about as a result of the pandemic, with core services continuing to operate effectively throughout.
- 8.31 In connection with the points raised above, and as previously reported, CIPFA have issued guidance to Internal Auditors, Leadership Teams and Audit Committees of Local Government Bodies recognising the difficulties faced by audit teams to deliver their planned programme of audit work due to the impact of the pandemic. The guidance reiterates the requirement that the Chief Auditor must consider the level of assurance that can be provided across all three aspects of the Chief Internal Auditor’s Opinion, which includes governance and risk in addition to internal control.
- 8.32 A summary of the various scenarios that internal audit providers may consider when determining whether any limitation of scope is required for the Chief Auditors Opinion may be seen below, as per the CIPFA guidance note:

Type of limitation	Suggested wording
<p>The HIA has obtained insufficient assurance across each of the three aspects of the opinion: governance, risk management and internal control, and is therefore unable to issue an opinion.</p>	<p>The results of the work carried out by internal audit, taken together with other sources of assurance, are not sufficient to support an HIA annual opinion on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control. This opinion is a requirement of PSIAS. The results of internal audit work concluded during the year and a summary of where it is possible to place reliance on the work of other assurance providers is presented in the annual report but this does not result in a comprehensive opinion.</p> <p>This limitation of scope has arisen because of... [reasons]</p> <p>To avoid similar limitations in future the HIA plans to... [actions].</p>
<p>The HIA has</p>	<p>The results of the work carried out by internal audit,</p>

<p>obtained insufficient assurance across one of the three aspects of the opinion: governance, risk management and internal control. The limitation of scope will be restricted to that aspect only.</p>	<p>taken together with other sources of assurance, are not sufficient to support an HIA annual opinion on the overall adequacy and effectiveness of the organisation's framework of [specify one of governance, or risk management or control].</p> <p>The results of internal audit work concluded during the year and a summary of where it is possible to place reliance on the work of other assurance providers in respect of [governance or risk management or control] is presented in the annual report but this does not result in an opinion on this aspect. [The HIA can then present their opinion on the remaining two aspects required.]</p> <p>This limitation of scope has arisen because of... [reasons]</p> <p>To avoid similar limitations in future the HIA plans to... [actions].</p>
<p>The HIA has obtained insufficient assurance across a significant subset of risk or area of operation that is material.</p>	<p>The HIA opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control is [set out opinion].</p> <p>The HIA opinion however must exclude [specify area excluded] as there is insufficient assurance available for the HIA to offer reasonable assurance.</p> <p>This limitation of scope has arisen because of... [reasons]</p> <p>To avoid similar limitations in future the HIA plans to... [actions].</p>

8.33 Given the previous points made in relation to internal control, governance and risk management I don't feel that there is a need to issue any limitation of scope on the aspects of governance and internal control. However, given the issues identified in the documentation of the control measures for some of the Corporate Risks recorded on the new Risk Management System, I feel that a limitation of scope in relation to the framework of risk management across the Authority is required. The internal audit work undertaken in 2020/21 provides assurance over the risk management processes within the Resources Directorate and also provided assurance over the controls within the new Risk Management System. However, other work undertaken in year has highlighted a number of issues in relation to the way in which some of the mitigating controls have been documented. Given the issues that have been noted, the work undertaken in year

is not sufficient to determine whether the risk management framework is adequately embedded across the Council as a whole. Therefore, it is felt that improvements must be made to further embed and strengthen the adequacy and effectiveness of the Council's framework of risk management in 2021/22.

8.34

### **Chief Auditors Opinion for 2020/21**

***Based on the programme of audit work undertaken in 2020/21, the Chief Auditor's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control is effective with opportunity for improvement. No significant weaknesses were identified in 2020/21 which would have a material impact on the Council's financial affairs or the achievement of its objectives.***

***The Chief Auditor's opinion however must exclude the assessment of how effectively the framework of risk management is embedded across the Council as a whole as there is insufficient assurance available for the Chief Auditor to offer reasonable assurance.***

***To avoid similar limitations in the future the Chief Auditor has highlighted the issues in relation to the documentation of the control measures for the risks recorded on the Risk Management System. These issues will be addressed by the Deputy Chief Executive and Strategic Delivery and Performance Manager to strengthen the adequacy and effectiveness of the Council's framework of risk management in 2021/22.***

## **9. The Audit Committee**

- 9.1 First and foremost the Chair pays tribute to all staff and officers of the Council in dealing admirably with the unprecedented challenges brought about by the Covid pandemic. Throughout this difficult year officers of the Council as well as the Council Partners' were fully committed to meeting their responsibilities. The Chair also acknowledges that the Council endeavoured to maintain continuity of governance.
- 9.2 This report provides an overview of the Audit Committee's work in the municipal year 2020/21. On 20th October 2020 the Audit Committee considered the election of Chair for 2020/21 Municipal Year where it was resolved that Paula O'Connor be elected Chair. At the same meeting Councillor P R Hood-Williams was elected Vice-Chair for the 2020/21 Municipal Year. In addition, in June 2020 the Committee approved the proposal to appoint an additional Lay Member to support the changes that were to be introduced with the Local Government and Elections (Wales) Act 2021.
- 9.3 This report prepared by the Chief Auditor and Democratic Services reflects on the work of the Audit Committee.

- 9.4 The Committee's terms of reference forms part of each Agenda as an aide to ensure that Members are sighted of the Committee's effectiveness in satisfying its role. The Chair has continually reviewed Committee Agendas in consultation with Democratic Services to ensure they meet the requirements of the Terms of Reference.
- 9.5 It is pleasing to report that the Committee has received in June 2020 an oversight of the Council's Performance Management Framework and also an overview of the Partnerships and Collaboration arrangements. The Committee has requested periodic reports for both of these significant areas to be brought to future meetings. Also in March 2021 the Committee received an update from the Deputy Chief Executive on Value for Money & Benchmarking. The presentation of the three reports addressed the shortfall in previous meetings of the Committee and the Chair extends her gratitude to officers for meeting the Committee's needs.
- 9.6 The Chair also highlights that the Committee has previously reported on the shortfall in assurances being received around the Council's Risk Management arrangements, and although some progress has been made the shortfall remains.
- 9.7 The Chair reflects on the presentation on the Assurance Framework and the reporting on the Council's Risks which was a significant step forward in 2018/19 in improving the Committee's ability to reflect on the effectiveness of governance, risk management and control that supports and informs the Council's Annual Governance Statement. However, as reported in 2019/20 and well into 2020/21 the development and roll out of a new electronic risk management system was delayed during the year and the Chair and Audit Committee members have expressed concern that in the absence of a robust system that this will need to be highlighted in the Council's Annual Governance Statement at the year end. During 2020/21 the ongoing delay was mainly attributable to the pressures associated with the pandemic. In November 2020 the Committee received a mid-year position of Risk and then in February 2021 an updated position in an improved format. The Chair noted that the detail contained in the improved format Risk Register still required improvement before the Committee were able to take assurance.
- 9.8 The Committee has reviewed the work programme at each meeting, taking account of risk and priorities and in particular pandemic issues and Internal Audit Moderate Assurance reports issued.
- 9.9 The Committee received the 2020-21 Internal Audit Plan and Charter on 1st June 2020 and has received reports regularly during the year from the Chief Internal Auditor. The Chair has expressed her gratitude to the Chief Auditor in progressing with the plan alongside the pressures of the pandemic and also for responding to a request to enhance the detail in the reports to provide further understanding of the work undertaken and the risks identified. During 2020-21 the Chief Auditor reported a number of Moderate Assurance audit reports that resulted in those responsible attending Audit Committee to give assurance that appropriate action was being taken where significant weaknesses in control were identified. During the year the Chief



Internal Auditor updated the Audit Committee of those audit assignments that had to be deferred as a result of the pandemic impacts. The Audit Committee discussed the impact and the possibility that a limitations opinion would be called. The Chair, s151 Officer and the Chief Internal Auditor discussed the opinion which reflects the limitations around the risk management arrangements but not the deferred audits. The final Chief Internal Auditor opinion is due to be presented to the Audit Committee in May 2021.

- 9.10 In March 2021 the Chief Internal Auditor presented the Draft Internal Audit Plan for 2021-22 and methodology applied. The Chair commented that the Committee were able to support approval of the Plan to Council with the caveat that assurances had been obtained from the Chief Internal Auditor that the Plan was risk based and complied with the Public Sector Internal Audit Standards. The Committee would seek to gain further understanding of the scope of the reviews during 2021-22.
- 9.11 The Audit Committee terms of reference states that the Committee “oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.”
- 9.12 The Committee received the 2020/21 Internal Audit Plan and Charter on 1st June 2020 and has received reports regularly during the year from the Chief Internal Auditor. The Chair has expressed her gratitude to the Chief Auditor in responding to a request to enhance the detail in the reports to provide further understanding of the work undertaken and the risks identified. During 2020/21 the Chief Auditor reported a number of Moderate Assurance audit reports that resulted in those responsible attending Audit Committee to give assurance that appropriate action was being taken where significant weaknesses in control were identified.
- 9.13 In March 2021 the Chief Internal Auditor presented the Draft Internal Audit Plan for 2021/22 and methodology applied. The Chair commented that the Committee were able to support approval of the Plan to Council with the caveat that assurances had been obtained from the Chief Internal Auditor that the Plan was risk based and complied with the Public Sector Internal Audit Standards. The Committee would seek to gain further understanding of the scope of the reviews during 2021/22.
- 9.14 The Audit Wales presented their 2020 Audit Plan to the Audit Committee on 30th June 2020, and has provided the Committee with regular updates to their work. In 2017/18 and continuing to date the Chair suggested that consideration be given to developing a tracker to give focus to improved completion of external audit recommendations. This work is yet to be completed but the Chair acknowledges that Scrutiny Committee has the opportunity to challenge non implementation of recommendations as well as the Audit Committee.
- 9.15 The Chair has met during the period with the Deputy Chief Executive, S151 Officer, Monitoring Officer, Chief Internal Auditor and Audit Wales. A meeting is being arranged with the Chief Executive to communicate Audit Committee concerns in a number of key risk areas that include, robustness of Directorates saving plans, workforce pressures,

risk management arrangements and reporting of risk to Audit Committee, production of annual governance statement and the role of the Governance Group.

- 9.16 The Committee received the 19/20 Anti-Fraud Annual Report at the meeting in September 2020 and the update against progress being made against recommendations in the Audit Wales report Raising our Game - Tackling Fraud in Wales in March 2021. The Committee noted that further work was required to address all those recommendations.
- 9.17 The Deputy Chief Executive presented the Annual Governance Statement 2019/20 Action Plan Update to the Committee in December 2020. Cllr Lesley Walton is the Audit Committee Representative on the Governance Group. The Governance Group was established to review the production of the AGS during the year. At the March 2021 meeting of the Governance Group a number of key points were raised with regard to the 2020/21 AGS but Cllr Walton has advised the Chair that the timeline target for the draft AGS to be presented to the May Audit Committee will be met. In preparation for receipt of this important document the Chair requested that Democratic Services circulate to Members the CIPFA guidance paper on Application of the Good Governance Framework 2020/21.
- 9.18 The Chair attended the Scrutiny Panel Conference 13th October 2020 and is also due to attend the Scrutiny Committee shortly.
- 9.19 The Committee discussed the concern regarding the cost of the capital programme, the level of reserves, the risk to the Authority and the need to scrutinise the risk. Also, it was noted that a recovery plan should be developed on how the Council plans to deal with overspends and that the Audit Committee should be provided with regular budget variation reports. The Chief Finance and Section 151 Officer agreed to provide this information to future meetings. The update against Achieving Better Together and from Recovery to Transformation was received in February 2021.
- 9.20 Looking forward to 2021/22, the unprecedented challenges that are continuing with the Covid-19 pandemic will continue to have an impact on the Council's governance and finance arrangements during the early to mid-part of the year.
- 9.21 Within this context, the importance of an effective Audit Committee remains critical and in March 2021 the Chief Legal Officer presented amendments to the Committee's Terms of Reference to take into account the requirements of the Local Government & Elections (Wales) Act 2021. In recognition of the additional responsibilities of the newly named Governance & Audit Committee the Chair met with the Chief Executive and the Chief Finance and 151 Officer who has agreed to develop, with support from external sources, a formal training programme that would develop the knowledge and skills of members in respect of the Act's new requirements.

- 9.22 The Committee will keep the Work Programme under regular review and will ensure that the Work Programme contains the requirements of the Governance & Audit Committees new responsibilities and also the critical challenges and risks that the Council faces. The Committee will also keep under review the progress and reporting of risk management.

### **EXTERNAL SOURCES OF ASSURANCE**

#### **10. External Auditors**

- 10.1 Audit Wales' work in 2019/20 included a Well-being of Future Generations Examination on the 'Transfer of leisure facilities to the Council's new delivery partner'. The examination considered the extent to which the Council has acted in accordance with the sustainable development principle when effecting the successful transfer of leisure facilities to the Council's delivery partner. Audit Wales concluded that the Council has taken appropriate steps to ensure the current service is sustainable but had yet to develop its strategy and intended outcomes for the future provision of leisure services in Swansea. Audit Wales were satisfied the Council had met its legal duties for improvement planning and reporting and is likely to meet the requirements of the Local Government Measure (2009) concerning continuous improvement.
- 10.2 Audit Wales' Annual Audit Summary 2020 noted that the Council had put in place proper arrangements to secure value for money from the resources it uses. Audit Wales also in 2019/20 examined the financial sustainability of each Council in Wales. In City & County of Swansea Audit Wales concluded that the Council continues to face a significant financial challenge and needs to deliver its savings plans at the pace and scale required whilst controlling service spending within budgets. The Council is seeking to address this through a refresh of its programme for transformation to ensure that planned actions are of sufficient scale and pace.
- 10.3 Audit Wales on behalf of the Auditor General for Wales presented the **Audit of Financial Statements Report 2019/20** to Audit Committee on 8/9/20 and to Council on 10/09/20. The report highlighted any significant issues to those charged with governance that needed to be considered prior to the approval of the financial statements. The Auditor General issued an unqualified audit report on the financial statements and the report concluded that the financial statements for the City & County of Swansea and the City and County of Swansea Pension Fund, (which was presented separately to the Pension Fund Committee on the 12/11/20), gave a true and fair view of the financial position of the Council and had been properly prepared.

#### **11. Statutory external inspections/regulators**

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

11.2 During 2019/20 CIW published its 'Local authority performance review letter 2019/20: Swansea City and County Council. The letter summarises CIW's review of Swansea Council's performance in carrying out its statutory social services functions from April 2019 – March 2020. CIW acknowledge, that due to the unprecedented circumstances relating to Covid-19, they were unable to complete the annual performance review meeting. The content of the letter was informed by the performance evaluation activity undertaken by the inspectorate during the course of the year and summarises strengths and areas for improvement in line with the principles of the Social Services & Well-being Act 2014. Some key points include:

- There has been a positive realignment of services, aimed at ensuring improved outcomes for people.
- The remodelling of in-house domiciliary care services, and the re-commissioning of external providers has resulted in some improvements.
- There continue to be challenges in recruiting and retaining staff, and that services can struggle to provide care in some harder to reach local areas.
- The local authority works hard within the framework of its Looked After Children Reduction Strategy to analyse and understand fluctuating numbers of children who are looked after.
- Swansea Council has recently been successful in increasing both the proportion of children placed closer to home, and also those placed with in-house foster carers.
- CIW's focused activity in relation to safeguarding in adult services confirmed that safeguarding referrals are processed in a timely manner, that partnership work is effective and that action is taken to safeguard adults at risk.
- The Council is considering ways to improve the adult safeguarding process and is working on an audit framework.
- Overall numbers of children on the child protection register continue to be relatively stable trend, although re-registration rates remain a concern and the local authority continues to work hard to understand the reasons behind this. Child protection case conferences and reviews continue to take place within statutory timescales.
- Elected members are fully aware of the challenges facing social services, and continue to be actively involved in finding solutions and monitoring developments.
- The authority has a dedicated and professional workforce, with management oversight ensuring a consistency of quality and approach in many areas.
- There is a recognised need to develop and implement a clear strategic vision in relation to carers.
- The local authority recognises that the levels of direct payments have been static for some time with an improvement plan aimed at improving outcomes for people in the area.
- The local authority is planning for the implementation of the Welsh Community Care Information System (WCCIS). This will provide further opportunities to consider how WCCIS can assist with the collation of relevant data to support practice and quality assurance.

- It was clear from our activity with independent reviewing officers (IRO's) that they were aware of the importance of putting the child at the centre of the review process.
- Swansea Council is supporting more people in their own homes, with fewer people being cared for in care homes, suggesting that the direction of travel in remodelling elements of the adult services structure is beginning to pay dividends.
- There continue to be high levels of activity at the front door of children and family services, although the percentage of work passed through for formal assessment continues to move in the right direction.

11.3 In January 2021, Estyn wrote to the Council's Chief Executive outlining the outcome of their review of City & County of Swansea Council's work in supporting their learning communities in schools and pupil referral units (PRUs) during the period from March to October 2020, and published a report on 'Local authority and regional consortia support for schools and PRUs in response to Covid-19'.

11.3.1 The report covers the ways councils across Wales have adapted their work to respond to the challenges from Covid-19. Although the report is a national report, it does reference City & County of Swansea Council's work during the pandemic. For example, the report includes reference to the Council's work to support schools to adjust and improve their distance learning offer, and to develop their approach to assessing pupils' work. The report also highlights the timely guidance for schools produced by the Council to support learners' mental health and wellbeing, and the work done in Swansea to prioritise support for pupils identified at risk of becoming NEET in the summer 2020.

### **CORE EVIDENCE**

#### **12. Council & Cabinet**

- 12.1 The following provide assurance based on reports covering 2020/21. In some instances reports from 2019/20 are reflected in the Annual Governance Statement as the reports for 2020/21 are not yet available.
- 12.2 Council adopted a revised Corporate Plan 2019/22 *Delivering a Successful and Sustainable Swansea* on 25 October 2018. The Corporate Plan for 2019/22 was refreshed and approved at Cabinet on 19<sup>th</sup> March 2019 and was refreshed again and approved by Cabinet on 19<sup>th</sup> March 2020. The five year Corporate Plan was rolled forward into 2021/22. Essential and necessary updates were made, although a fuller review and refresh of the plan was not possible because of the disruption caused by the pandemic. The Corporate Plan sets out the Council's values and principles underpinning the delivery of the objectives and sets out how the Council will monitor progress through quarterly and annual performance monitoring reports.
- 12.3 Performance on delivery of the Council's Well-being Objectives is monitored quarterly by Cabinet. The reports contain outturn compliance with performance indicators and an overview of performance for each Objective provided by

Directors/Heads of Service. The End of Year Performance Monitoring Report for 2019/20 was presented to Cabinet on 17<sup>th</sup> September 2020. The report showed that 43 out of 78 (55%) indicators that had targets set met them and 41 out of 66 (62%) comparable indicators showed improvement or stayed the same compared to the previous year. Quarterly Reports during 2020/21 were suspended for much of 2020/21 as a result of the disruption from the pandemic. Performance monitoring and reporting was briefly recovered in June for Q1 reporting before being suspended again as a result of the impact from the second Covid wave; the Q1 report was reported to Cabinet in December. It is anticipated that reporting will resume in 2021/22 although continued disruption from Covid-19 is likely to mean that performance targets will not be set and any comparisons to previous performance will be limited and will need to be contextualized.

- 12.4 The Annual Review of Performance 2019/20 was approved by Cabinet on 15<sup>th</sup> October 2020 in accordance with the publishing requirements of the Local Government (Wales) Measure 2009. The report showed the results of each performance measure for the 6 Objectives set out in the Corporate Plan 2018/22. The results showed that overall the Council has made significant progress undertaking the steps to meet its Well-being Objectives but that there were areas for development and lessons learnt.
- 12.5 The Corporate Complaints Policy is in line with the Welsh Government Model Complaints Policy and was in place throughout 2020/21. It enables the public to tell the Council what they think about services. The Corporate Complaints Annual Report 2019/20 is being presented to Scrutiny in April and then to Cabinet. Presentation of the report has been delayed due to the pandemic. However, the 2020/21 report will follow soon after with the intention of reporting closer to year-end in future years. The report reflects the continued emphasis on prompt resolution of complaints and includes compliments about services. Whilst the total of complaints to the Public Service Ombudsman for Wales increased from 83 to 92 none were upheld, 4 were resolved by quick fix/voluntary settlement, and the remaining referrals were either out of jurisdiction, premature or closed after initial consideration. There was an assurance that there were no s 16 Public Interest reports during the year.
- 12.6 The Audit Committee Annual Report 2019/20 was presented to Council on 10<sup>th</sup> September 2020 and outlined the assurance the Committee had gained over control, risk management and governance from various sources over the course of 2019/20. In particular, the report highlighted the work that had been undertaken throughout the year in line with the Committee's terms of reference. The report also provided an update on the implementation of the actions arising from the Performance Review facilitated by the Audit Wales.
- 12.7 The Equality Review Report 2019/20 was reported to Cabinet on 17<sup>th</sup> September 2020, which highlighted progress against the Equality Objectives. The report highlighted work linked to the core principles i.e. co-production, engagement and embedding of children's rights.
- 12.8 The Welsh Language Annual Report 2019/20 reflected progress and compliance on the

169 Welsh Language Standards with which the Council has to comply. The report contained an overview of activity and how the Council internally promotes the Welsh Language Standards with tools and information. The report concluded that good progress continued to be made on implementing the Welsh language standards during 2019/20 and general feedback indicated that officers were more educated and much more aware of the need for compliance than they were previously. Work is continuing on training the workforce and take-up on courses is growing. Welsh speaking spaces have been specifically created in the agile working areas during the year.

12.9 There were a number of key reports presented to Cabinet/Council during 2020/21 including reports relating to the Swansea Bay City Deal, school capital works and a number of Cabinet reports in response to the Covid-19 pandemic. In October 2020 Cabinet approved the new Swansea - *Achieving Better Together* Transformation Strategy and Programme Framework. The strategic aims of Swansea – Achieving Better Together will now focus on:

- The core purpose of the Council.
- Transforming services to be effective and efficient.
- Greater collaboration with other Councils, organisations, community groups and residents, with a focus on regionalisation.
- Balancing the budget for current and future years.
- Greater and more meaningful engagements with our residents and community.
- To meet aspirations and targets within the Medium Term Financial Plan.

12.11 The strategic governance of the Achieving Better Together is undertaken by the Recovery, Reshaping & Budget Strategy Board and the operational and Delivery of the workstreams is overseen by the Organisational Cross Cutting & Transformation Steering Group. Reports will be considered by Cabinet, Scrutiny and Audit Committees throughout the implementation and development of the programme.

### 13. Committees

13.1 The Council's scrutiny function is carried out by a **Scrutiny Programme Committee**, which delivers an agreed programme of work through Committee meetings and through Scrutiny Panels and Working Groups established by the Committee. Through this range of activities, scrutiny councillors make sure the work of the Council is accountable and transparent, effective and efficient, and help the Council to achieve its objectives and drive improvement, by questioning and providing challenge to decision-makers.

13.1.2 The Committee is a group of 13 cross-party councillors who organise and manage what Scrutiny will look at each year, and develop a single work programme showing the various activities that will be carried out. The Covid-19 pandemic has caused some disruption to the work of scrutiny over the last year. Scrutiny activity has had to be flexible and responsive to organisational pressures as the Council focused its efforts on tackling the pandemic and dealing with the impact locally. However the

Scrutiny Programme Committee meeting on 24 April 2020 was the first remote meeting of the Council, under new Welsh Government coronavirus regulations and has continued to meet remotely over the year.

- 13.2 The **Scrutiny Annual Report 2019/20** was presented to Council on 2<sup>nd</sup> March 2021. The report highlighted the work carried out by Scrutiny, showed how Scrutiny had made a difference and supported continuous improvement for the Scrutiny function. It shows that the Scrutiny Programme Committee met on 18 occasions. In total, there were 54 Panel and Working Group meetings during that municipal year, with an in-depth inquiry into Equalities completed. Two Inquiry Panels reconvened to follow up actions agreed by Cabinet – Regional Working and Natural Environment. There was also pre-decision scrutiny undertaken on a number of Cabinet reports. The report also shows a high level of councillor commitment to scrutiny. The report shows action taken to improve the scrutiny process and its effectiveness, and further efforts to support councillors, take practice forward and improve the quality of scrutiny.
- 13.3 There is a strong relationship with audit, inspectors and regulators. There are well-established links between the scrutiny function and Estyn, in respect of Education Services and School Improvement, and similarly with CIW (Care Inspectorate Wales), in respect of Audit Services and Child & Family Services. Respective Scrutiny Performance Panels are routinely provided with relevant reports from Estyn and CIW, and are discussed as required. All Audit Wales local performance audit reports and relevant national reports (those with implications for local government) are also included in the Scrutiny Work Programme (dealt with by the Committee or relevant Performance Panels) and there is co-ordination with the Audit Committee. Scrutiny considers the Council's response / action plans following audit reports and follows up progress as necessary. Regional scrutiny has continued with ERW and Swansea Bay City Region City Deal. The Swansea Scrutiny Team is providing support for the ERW joint scrutiny arrangement.
- 13.4 Our arrangements for scrutiny were subject to an internal audit review, completed in March 2021. As a result, an Assurance Level of 'High' was given, with no recommendations being made.
- 13.5 The **Standards Committee** met on 4 occasions during 2020/21 and the **Standards Committee Annual Report 2019/20** was presented to Council on 28<sup>th</sup> January 2020. The Committee is chaired by an independent person and is responsible for monitoring the ethical standards of the authority and maintaining the highest standards of conduct by elected councillors. The Committee finalised its discussions with the Political Group Leaders/Chairs as to ethical values within the council and in their Annual Report the Committee indicated that they felt that these discussion reinforced the Group Leaders/Chairs role in ensuring good behaviour and compliance with the Code by all councillors. The Chair of the Standards Committee advised Council that the Standards Committee felt that the Council was in a good position to respond to the requirements of the Local Government and Elections (Wales) Act 2021. The Standards Committee were also instrumental in ensuring the Ombudsman's Code of Conduct Casebook was considered and circulated to all members by the Monitoring



Officer. The Members Internal Dispute Resolution Process has not yet been utilised, which underpins the strong commitment to, and provides assurance, that the Council's Code of Conduct is adhered to.

- 13.6 The **Audit Committee** met on 11 occasions during 2020/21 and followed a structured work-plan, which covered all areas of the Committee's responsibilities with the aim of obtaining assurance over the areas included in its terms of reference. The Committee includes a lay member who is also the Chair of the Committee. The Committee receive all Audit Wales reports once reported to Scrutiny Programme Committee. The Committee may decide to track or prioritise specific proposals or recommendations in addition to the oversight provided by Scrutiny. This arrangement provides additional assurance that the Council responds and puts in place action plans to address any recommendations. The Committee also receives quarterly updates on the overall status of risk within the Council to give assurance that the risk management process is being followed.
- 13.7 During 2015/16, The Local Pension Board was established, in compliance with the Public Service Pensions Act 2013. The role of the Board is to assist the Council (and Pension Fund Committee) as Scheme Manager and Administering Authority to secure compliance with LGPS regulations and other legislation relating to the scheme. Terms of Reference for the Board were established and appropriate Board members were appointed. The Board successfully convened meetings under Covid regulations, virtually on 3 occasions during 2020/21, with the cancelled meetings' agendas ( in the early stages of the pandemic lockdown) being rolled forward and considered at the next convened meeting in May 2020.
- 13.8 The **Pension Fund Committee** establishes and keeps under review policies to be applied by the Council in exercising its obligations duties and discretions as an administering Authority under the Local Government Pension Scheme (LGPS) Regulations. The Committee is Chaired by a Councillor and membership consists of six elected Members, including the Chair, and two lay members. The Committee met on 4 occasions during 2020/21, virtually, under Covid Regulations and dealt with all issues relating to the investment matters, governance and administration of the Pension Fund. The Chair of the Pension Fund Committee also represents the Council on the Joint Governance Committee (JGC) of the Wales Pension Partnership, a collaborative working arrangement between the 8 local government pension funds in Wales. The Chair also represents the WLGA (Welsh Local Government Association) on the Scheme Advisory Board ( SAB) advising the HM Government (Ministry of Housing, Local Government, MHCLG) on matters relating to the LGPS.
- 13.9 The **Democratic Services Committee** reviews the adequacy of provision by the authority of staff, accommodation and other resources to discharge Democratic Services functions. The Committee is Chaired by a Councillor and, along with the Chair, membership consists of thirteen elected Members. The Committee met on one occasion during 2020/21 and considered the IRPW Annual Report.
- 13.10 The **Policy Development Committees (PDCs)** seek to drive the development of policy

for consideration and adoption by Cabinet and or Council as appropriate. Due to Covid-19, some of the Council meetings, including PDC meetings, were cancelled or re-arranged. The Committees are chaired by a Councillor and, along with the Chair, membership consists of ten elected Members. There were five Committees meeting in 2020/21: Economy, Environment & Infrastructure; Education & Skills; Recovery & Future Generations; People, and; Poverty Reduction. During 2020/21, the Committees contribution to the ongoing development of policy included, among others: Climate Change post Covid-19 Recovery, Local and Regional Economy & Recovery response, Continuity of learning in schools during Covid- 19, Covid-19 Recovery Plan, Young Carers - Ensuring wellbeing of young carers in the context of Covid19 and Green fairness.

### **Significant Governance Issues**

The following table identifies issues that had been identified in 2019/20 during the review of effectiveness, together with the proposed actions to be taken during 2020/21 to address the issues. **When the AGS was written the COVID-19 crisis had occurred but the severity, longevity and impact of the pandemic was not foreseen at the time. The pandemic has had a major impact on the timescales and actions that were included in the original action plan and this is recorded in the table on the next page.**

Significant Governance Issue linked to Framework	Action to be taken	Update
Budget pressures (including external and demand-led pressures and overspends) & problems living within budgets.	<ul style="list-style-type: none"> <li>• Continue robust monitoring of budgets, savings and transformation programme activity at PFM and with both CMT and the Executive.</li> <li>• Annual review of Sustainable Swansea underway with revised programme to deliver future savings in years 3 onwards.</li> </ul>	<ul style="list-style-type: none"> <li>• “Normal business” is continuing in terms of reporting through PFM processes and routinely to CMT and quarterly to Cabinet. Due to the way Welsh Government is helping fund the Covid 19 response there is uncertainty as to both timing and quantum of actual grant support available to this Council and has necessitated a delay in reporting by one month to normal cycle. This is likely to continue. There is however no normality to a spending position which requires budgets to be flexed by over £100m in revenue and over £20m in capital in the first quarter alone. There are material overspends and a near certain need to exhaust contingency and draw down from</li> </ul>

		<p>reserves. Both have been reported to cabinet in October and are to be reported to Council in November.</p> <ul style="list-style-type: none"> <li>• The S151 officer is operating a deliberately blended approach to robust monitoring and action and has reported as such to Cabinet, Council, Audit Committee and Scrutiny. Planning and delivery will stick to as normal patterns as possible albeit with that material uncertainty rider in all planning and delivery assumptions and an increased risk of the s151 needing to exercise his statutory intervention powers in extremis.</li> <li>• The Deputy Chief Executive is leading on the Achieving Better Together Transformation Plan (for both Covid 19 and the future replacement for Sustainable Swansea) and has taken a substantive report through Cabinet in October 2020 which sets out a framework for future development and delivery.</li> </ul>
<p>Lack of workforce capacity, capability and resilience and relying on staff goodwill.</p>	<ul style="list-style-type: none"> <li>• Development of a Workforce Plan to support high performance and enable a skilled, flexible and engaged workforce.</li> </ul>	<ul style="list-style-type: none"> <li>• Pre-Covid, a session was undertaken with Heads of Service on the development of individual workforce plans and how these would then feed into the overall corporate workforce plan.</li> <li>• A significant amount of interim, transitional workforce planning has been undertaken in response to Covid since March, e.g. Deployment of staff across the Council to deliver: Support for those vulnerable and shielding, issuing emergency payments, PPE, food banks, enabling digital capabilities for the remote workforce, and most importantly Social Care and TTP teams.</li> <li>• The Council's ability to respond quickly and effectively to the crisis is testament to the skills, flexibility</li> </ul>

		<p>and resilience of the workforce.</p> <ul style="list-style-type: none"> <li>As a result of Covid-19 workforce planning has been understandably delayed. This will be revisited over the coming months in light of Covid-19 as part of the Achieving Better Together Transformation Plan.</li> </ul>
<p>Performance Reviews, i.e. appraisals system / induction training not fit for purpose.</p>	<ul style="list-style-type: none"> <li>Continue to develop a new appraisal solution to be delivered digitally through the new Oracle Cloud solution in November 2021.</li> <li>Address Induction training of new staff as part of the review of the induction process and future policy reviews.</li> </ul>	<ul style="list-style-type: none"> <li>The appraisal process is in place but appraisals were suspended because staff were diverted onto Covid work. However, one to ones and corporate meetings have taken place on a regular basis, with the emphasis on meeting the needs of maintaining core council services to protect our residents and fighting and addressing the Covid pandemic.</li> </ul>
<p>Embed the Future Generation Act principles into the Council's processes and decision making.</p>	<ul style="list-style-type: none"> <li>Further development of integrated impact assessments to be undertaken to ensure that legal and regulatory compliance are embedded into the decision making process.</li> <li>Provision of training/information on the requirements of the Future Generations Act.</li> </ul>	<ul style="list-style-type: none"> <li>A draft Future Generations Impact Assessment was developed and was piloted by Financial Services during the budget setting process for 2021/22. The learning from this was incorporated into the subsequent development of an Integrated Impact Assessment, which is now in place and seeks to assess the impact on of an initiative on equalities, the new socio-economic duty and future generations.</li> <li>Online training to improve awareness of the Future Generations Act and to support the Future Generations Impact Assessment is being developed.</li> <li>Training will be supported by online videos to improve understanding and application of the Act.</li> </ul>
<p>Patchy Partnership</p>	<ul style="list-style-type: none"> <li>Continue to</li> </ul>	<ul style="list-style-type: none"> <li>A report to Audit Committee</li> </ul>

<p>Governance, including application of risk management.</p>	<p>address the challenges and areas for further development as set out within the Annual Report on Regional Working.</p>	<p>on 5<sup>th</sup> December provides a summary of the Welsh Government's and WLGA's Review of Strategic Partnerships and outlines action taken by the Welsh Government and Swansea Council to date and indicates implications and potential actions that Swansea Council should consider.</p> <ul style="list-style-type: none"> <li>• Swansea will leave the ERW Education Consortium from 31st March and a new regional consortium is being established to ensure it is fit for purpose.</li> <li>• The development of CJC's should streamline and help sort some aspects of partnerships and also the wider aspects of Local Government and Elections (Wales) Act may help merge or dissolve some partnerships.</li> </ul>
<p>ICT Disaster recovery.</p>	<ul style="list-style-type: none"> <li>• Resolve through the move to cloud services, particularly Oracle Cloud in November 2021.</li> </ul>	<ul style="list-style-type: none"> <li>• The ICT Infrastructure is now on resilient platforms. The long term Digital Strategy is to move to the cloud. All email has moved to cloud and progress on data is ongoing through the Enterprise Content Management (ECM) project. Proof of Concepts for systems to move to the Azure platform are progressing to formulate a plan for migration. Oracle Cloud project progressing well prior to the pandemic – the project restarted in February 2021 and will be complete in November 2021.</li> </ul>
<p>Use and governance of social media accounts</p>	<ul style="list-style-type: none"> <li>• Complete the review underway of the use of social media and social media access.</li> </ul>	<ul style="list-style-type: none"> <li>• Processes and ways of working have been tightened around this area. Changes are being implemented and this item can now be removed as it is not a corporate governance issue.</li> </ul>
<p>Continue to improve risk management arrangements</p>	<ul style="list-style-type: none"> <li>• Services and risk owners to continue to improve their compliance to the Council's Risk</li> </ul>	<ul style="list-style-type: none"> <li>• Risk management monitoring and reporting was recovered during July and August 2020 following suspension from March as a result of Covid. Risk monitoring and monthly reporting re-</li> </ul>

	<p>Management Policy and Framework, including monthly risk reviews and improving the quality of risk controls.</p> <ul style="list-style-type: none"> <li>• Develop the Council's new risk register application to produce reports to help oversee the status of risk.</li> </ul>	<p>commenced in August.</p> <ul style="list-style-type: none"> <li>• As a result of the second wave of the pandemic, CMT decided in December that risk reports would continue but would be provided via email and that there will be no requirement to provide updates nor review the control measures of risks that were not currently being managed due to service changes caused by Covid. Such risks designated as 'Covid Disruption' would be monitored and their likelihood and impact updated but not actively managed as a result of the impact from Covid.</li> <li>• Efforts have focussed on responsible officers reviewing and updating their risks each month; compliance has improved each month since recovery with 95% of risks having been reviewed in March 2021. Improving other aspects of compliance has been another focus as has increasing resilience by ensuring that risks have two officers capable of updating the risk register each month; these areas have shown improvement too, e.g. 95% of risks as at March 2021 have two designated officers capable of updating the risk. Work to improve the quality of risk controls will be the next improvement priority in line with available resources, capacity and other priorities as a result of the ongoing effects of Covid.</li> <li>• The majority of the risk register system development has been completed. The Risk Register and the work to roll-out and implement the register was given a 'substantial' level of assurance by Internal Audit. Further enhancements to the risk register and its</li> </ul>
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## Annual Governance Statement 2020/21

		<p>reporting functionality have been implemented.</p> <ul style="list-style-type: none"> <li>• Directors to attend Audit Committee on a rotational basis each quarter to provide an update on Internal Control Environment with a focus on Risk Management and the five highest Risks that Directors are managing.</li> </ul>
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The following table identifies issues which have been identified during the review of effectiveness, and also highlights any other significant governance issues that need to be considered, together with the proposed actions to be taken during **2020/21** to address the issues. **At the time of writing the COVID-19 crisis occurred and so the timescales and actions will be impacted depending on the severity and longevity of the crisis.**

Significant Governance Issue linked to Framework	Action to be taken
Budget pressures (including external and demand-led pressures and overspends) & problems living within budgets.	<ul style="list-style-type: none"> <li>• Address continued material uncertainty as a result of Covid and other challenges and continue a deliberately blended approach to robust monitoring of budgets, savings and transformation activity and action consistent with other Councils and policy responses at Welsh Government, UK Government and report as such to Cabinet, Council, Audit Committee and Scrutiny.</li> <li>• Commence and oversee delivery of the Achieving Better Together Transformation Programme through the Strategic Recovery Board to ensure that the Council is sustainable and financially resilient in the longer term.</li> </ul>
Lack of workforce capacity, capability and resilience and relying on staff goodwill.	<ul style="list-style-type: none"> <li>• Development of a Workforce Plan to support high performance and enable a skilled, flexible and engaged workforce as part of the Council's Achieving Better Together Transformation Plan.</li> </ul>
Performance Reviews, i.e. appraisals system / induction training not fit for purpose.	<ul style="list-style-type: none"> <li>• Recommence appraisals and continue to develop a new appraisal solution to be delivered digitally through the new Oracle Cloud solution in November 2021.</li> </ul>

## Annual Governance Statement 2020/21

	<ul style="list-style-type: none"> <li>Address Induction training of new staff as part of the review of the induction process and future policy reviews.</li> </ul>
Embed the Future Generation Act principles into the Council's processes and decision making.	<ul style="list-style-type: none"> <li>Provision of training/information on the requirements of the Future Generations Act.</li> </ul>
Patchy Partnership Governance, including application of risk management.	<ul style="list-style-type: none"> <li>Develop a plan to establish CJsCs resulting from the Local Government and Elections (Wales) Act.</li> </ul>
ICT Disaster recovery.	<ul style="list-style-type: none"> <li>Resolve through the move to cloud services, particularly Oracle Cloud in November 2021.</li> </ul>
Continue to improve risk management arrangements	<ul style="list-style-type: none"> <li>Work with responsible officers to improve the quality of risk controls.</li> </ul>

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

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

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



## PART B

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

I hereby certify that the Financial Statements presents a true and fair view of the financial position of the City and County of Swansea Pension Fund at the accounting date and its income and expenditure for the year ended 31<sup>st</sup> March 2021

Chief Financial Officer

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

The Authority is required to:

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

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

The Chief Financial Officer is responsible for the preparation of the City and County of Swansea Pension Fund's financial statements in accordance with proper practices as set out in the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code).

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

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

The Chief Financial Officer has also:

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

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

The 2020/21 Financial Statements were authorised for issue on **XX November 2021** by Ben Smith, Chief Financial Officer who is the Section 151 Officer of the Council. This is the date up to which events after the Balance Sheet date have been considered.

The 2020/21 Financial Statements were formally approved by Pension Fund Committee **XX<sup>th</sup> November 2021**.

Clive Lloyd  
Chairman

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

I have examined the pension fund accounts and related notes contained in the 2019-20 Annual Report of City and County of Swansea Pension Fund to establish whether they are consistent, in all material respects, with the pension fund accounts and related notes included in the Statement of Accounts produced by City and County of Swansea Pension Fund for the year ended 31 March 2020 which were authorised for issue on 12 November 2020. The pension fund accounts comprise the Fund Account and the Net Assets Statement.

### **Opinion**

In my opinion the pension fund accounts and related notes included in the Annual Report of City and County of Swansea Pension Fund are consistent, in all material respects, with the pension fund accounts and related notes included in the Statement of Accounts produced by City and County of Swansea Pension Fund for the year ended 31 March 2020 which were authorised for issue on 12 November 2020 on which I issued an unqualified opinion. My opinion on the Statement of Accounts included an Emphasis of Matter paragraph where I drew attention to the material uncertainty disclosed in a fund managers year-end valuation report for a pooled property fund they manage on behalf of City and County of Swansea Pension Fund. The Fund disclosed this uncertainty in the Statement of Accounts and my audit opinion was not modified in respect of this matter.

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

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

Adrian Crompton  
Auditor General for Wales

24 Cathedral Road  
Cardiff  
CF11 9LJ

## STATEMENT OF ACCOUNTS 2020/21

### 1. Introduction

The City & County of Swansea Pension Fund is administered by the City & County of Swansea. However it is a separate statutory fund and its assets and liabilities, income and expenditure are not consolidated into the accounts of the Authority. That is, the Pension Fund's assets and liabilities are distinct.

The summarised accounts of the Pension Fund shown here comprise three main elements:-

- The Fund Account which shows income and expenditure of the Fund during the year, split between payments to/contributions from members and transactions relating to fund investments.
- The Net Assets Statement which gives a snapshot of the financial position of the Fund as at 31 March 2021.
- The Notes to the Financial Statements which are designed to provide further explanation of some of the figures in the statements and to give a further understanding of the nature of the Fund.

### 2. Summary of transactions for the year

#### Where the money comes from:-

	£'000
Contributions and transfers in	105,104
Other	50
	<b>105,154</b>



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

	£'000
Pensions payable	70,195
Lump sum benefits	14,544
Refunds and transfers out	4,047
Management Expenses	13,514
	<b>102,300</b>

	£'000
Net new money into the Fund	2,854
Net return on Investments	623,579
<b>Increase in Fund value</b>	<b>626,433</b>

**Fund Account For The Year Ended 31<sup>st</sup> March**

2019/20 £'000	Contributions and benefits :		2020/21 £'000	£'000
	Contributions receivable :			
80,425	Employers contribution	3	81,813	
19,276	Members contribution	3	<u>20,199</u>	102,012
4,106	Transfers in	4		3,092
424	Other income	5		<u>50</u>
<u>104,231</u>				<u>105,154</u>
	Benefits payable :			
-67,763	Pensions payable	6	-70,195	
-14,409	Lump sum benefits	6	<u>-14,544</u>	-84,739
	Payments to and on account of leavers :			
-166	Refunds of contributions	7	-113	
-6,934	Transfers out	7	<u>-3,934</u>	-4,047
-10,066	Management expenses	8		<u>-13,514</u>
<u>4,893</u>	<b>Net additions from dealing with members</b>			<u><b>2,854</b></u>
	<b>Returns on investments</b>			
8,482	Investment income	9		39,722
-69,391	Change in market value of investments	12		<u>583,857</u>
<u>-60,909</u>	<b>Net returns on investments</b>			<u><b>623,579</b></u>
<u>-56,016</u>	<b>Net increase in the Fund during the year</b>			<u><b>626,433</b></u>
2,044,038	Opening Net Assets of the Fund			1,988,022
<b>1,988,022</b>	Closing Net Assets of the Fund			<b>2,614,455</b>

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

<b>31st March 2020 £'000</b>		<b>Note</b>	<b>31st March 2021 £'000</b>
	<b>Investments at market value:</b>		
1,941,372	Investment Assets	11	2,565,257
773	Cash Funds	12	4,330
43,669	Cash Deposits	12	40,346
0	Other Investment Balances – Dividends Due	12	40
<b>1,985,814</b>	<b>Sub Total</b>		<b>2,609,973</b>
6,315	Current Assets	16	7,256
-4,107	Current Liabilities	16	-2,774
<b>1,988,022</b>	<b>Net assets of the Scheme available to fund benefits at the period end</b>		<b>2,614,455</b>

The financial statements on pages 79 to 124 summarise the transactions of the Fund and deal with the net assets at the disposal of the Pension Fund Committee. The financial Statements do not take account of liabilities and other benefits which fall due after the period end. The actuarial position of the Fund, which does take account of such liabilities, is dealt with in the Statement of the Actuary in the Annual Report of the Pension Fund and a summary is included in Part D of this report and these accounts should be read in conjunction with this information.

## Notes to the Financial Statements

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

The financial statements summarise the fund's transactions for the 2020/21 financial year and its position at year-end 31 March 2021. The financial statements have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2020/21* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

### **2. Accounting Policies**

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

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

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

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

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

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

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

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

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

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

## **Accounting Policies cont'd**

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

### **(d) Investments**

- i) The net assets statement includes all assets and liabilities of the Fund at the 31<sup>st</sup> March.
- ii) Listed investments are included at the quoted bid price as at 31<sup>st</sup> March.
- iii) Investments held in quoted pooled investment vehicles are valued at the closing bid price at 31<sup>st</sup> March if both bid and offer price are published; or, if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.
- iv) Unquoted securities are valued by the relevant investment managers based on the Fund's share of the net assets or a single price advised by the Fund Manager, in accordance with generally accepted guidelines.
- v) Unit trusts are valued at the Managers' bid prices at 31<sup>st</sup> March.
- vi) Accrued interest is excluded from the market value of fixed interest securities but is included in accrued investment income.
- vii) Investment management fees are accounted for on an accrual basis.
- viii) Transaction costs are disclosed in Note 8 – Administrative and Investment Management Expenses.
- ix) Investments held in foreign currencies have been translated into sterling values at the relevant rate ruling as at 31<sup>st</sup> March.
- x) Property Funds/Unit Trusts are valued at the bid market price, which is based upon regular independent valuation of the underlying property holdings of the Fund/Unit Trust.

### **(e) Financial Instruments**

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

### **(f) Management Expenses**

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

**(g) Cash and Cash Funds**

Cash comprises cash in hand and cash deposits. Cash funds are highly liquid investments that mature in three months from date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

**(h) Investment Income**

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

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

The Statement of Accounts contains estimated figures that are based on assumptions made by the council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the net asset statement at 31st March 2021 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

- Actuarial present value of promised retirement benefits

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

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

Unquoted private equity investments – these are inherently based on forward looking estimates and judgements valued by the investment managers using two main sets of valuation guidelines that apply to private equity; the Private Equity Valuation Guidelines (PEVG) in the US and the international Private Equity and Venture Capital Guidelines (IPEVCG) outside the US. The value of the unquoted private equities as at 31<sup>st</sup> March 2021 was £132.0 million (£91.9 million as at 31<sup>st</sup> March 2020).

**(k) Other**

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

**(l) Additional Voluntary Contributions (AVC's)**

City & County of Swansea Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. The fund has appointed Prudential as its AVC provider. Some AVC contributions from



prior years are also held with Aegon and Utmost (previously known as Equitable Life). AVC's are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. AVC's are not included in the accounts in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (SI 2016/946) but are disclosed for information in Note 20.

#### **(m) Actuarial Present Value of Retirement Benefits**

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of International Accounting Standard (IAS)19 and relevant actuarial standards. As permitted under the code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by the way of a note to the net asset statement (Note 18).

#### **(n) Taxation**

The fund is a registered public service scheme under Section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises. The Fund operates in the VAT registration for Swansea Council and the accounts are shown exclusive of VAT. The Fund can recover VAT input tax on all Fund activities.

### 3. Analysis of Contributions

<b>Total Contributions 2019/20 £'000</b>		<b>Total Contributions 2020/21 £'000</b>
<b>55,069</b>	<b><u>Administering Authority</u></b> City & County of Swansea	<b>55,453</b>
	<b><u>Admitted Bodies</u></b>	
380	Celtic Community Leisure	378
3	Swansea Bay Racial Equality Council	0
141	Wales National Pool	127
2,575	Tai Tarian	2,994
1,836	University of Wales Trinity St Davids	303
459	Pobl Group	1,609
3	Rathbone Training (CCS)	0
77	Rathbone Training (Gower College)	0
573	Wealdon Leisure	446
42	Parkwood Leisure	31
0	The Wallich	98
<b>6,089</b>	<b>Total Admitted Bodies</b>	<b>5,986</b>
	<b><u>Scheduled Bodies</u></b>	
12	Cilybebyll Community Council	10
59	Coedffranc Community Council	74
4	Llanrhidian Higher Community Council	5
4	Ystalyfera Community Council	5
7	Mumbles Community Council	17
2,995	Gower College	3,205
2,317	NPTC Group	2,549
73	Neath Town Council	62
32,958	Neath Port Talbot County Borough Council	34,523
57	Margam Joint Crematorium Committee	62
7	Pelenna Community Council	5
18	Pontardawe Town Council	19
26	Swansea Bay Port Health Authority	27
6	Briton Ferry Town Council	8
0	Llangyfelach Community Council	2
<b>38,543</b>	<b>Total Scheduled Bodies</b>	<b>40,573</b>
<b>99,701</b>	<b>Total Contributions Receivable</b>	<b>102,012</b>

### 3. Analysis of Contributions (continued)

Total Employer/Employee contributions comprise of:

<b>2019/20</b>		<b>2020/21</b>
<b>£'000</b>		<b>£'000</b>
	<b>Employers</b>	
77,663	Normal	80,114
1,287	Other	572
1,475	Early Access	1,127
<b>80,425</b>	<b>Total</b>	<b>81,813</b>
	<b>Employees</b>	
19,245	Normal	20,172
31	Other	27
<b>19,276</b>	<b>Total</b>	<b>20,199</b>
<b>99,701</b>	<b>Total Contributions Receivable</b>	<b>102,012</b>

### 4. Transfers In

Transfers in comprise of:

<b>2019/20</b>		<b>2020/21</b>
<b>£'000</b>		<b>£'000</b>
0	Group transfers from other schemes	0
4,106	Individual transfers from other schemes	3,092
<b>4,106</b>	<b>Total</b>	<b>3,092</b>

## 5. Other Income

Other income comprise of:

<b>2019/20</b>		<b>2020/21</b>
<b>£'000</b>		<b>£'000</b>
420	Interest on Cash Deposits	45
4	Early Access - Interest	5
<u>424</u>	<b>Total</b>	<u>50</u>

Interest on Cash deposits was reduced in 2020/21 due to the fund not investing surplus cash holdings with City & County of Swansea Treasury as in previous years. It was necessary to hold substantial cash balances in the bank account to fund the large capital commitments to new yielding assets programme, expected in the year.

## 6. Benefits Payable

The lump sum benefits paid comprise of:

<b>2019/20</b>		<b>2020/21</b>
<b>£'000</b>		<b>£'000</b>
67,763	Pensions	70,195
11,868	Commutation and lump sum retirement benefits	11,417
2,541	Lump sum death benefits	3,127
<u>82,172</u>	<b>Total</b>	<u>84,739</u>

## 6 Benefits Payable cont'd - Analysis of Benefits Paid

<b>Total Benefits Paid 2019/20 £'000</b>	<b><u>Administering Authority</u></b>	<b>Total Benefits Paid 2020/21 £'000</b>
<b>32,896</b>	City & County of Swansea	<b>34,095</b>
	<b><u>Admitted Bodies</u></b>	
246	Celtic Community Leisure	212
5	Swansea Bay Racial Equality Council	5
12	Wales National Pool	13
939	Tai Tarian	1,046
946	University of Wales Trinity St Davids	969
376	Pobl Group	403
6	Rathbone Training (Gower College)	9
16	Cap Gemini	16
57	BABTIE	70
4	West Wales Art Association	4
9	Colin Laver Heating	11
1	Phoenix Trust	1
0	Wealdon Leisure	2
0	Parkwood Holdings	1
0	The Wallich	4
<b>2,617</b>	<b>Total Admitted Bodies</b>	<b>2,766</b>
	<b><u>Scheduled Bodies</u></b>	
13	Coedffranc Community Council	13
0	Cilybebyll Community Council	18
0	Bishop Vaugan School	25
159	Swansea Bay Port Health Authority	138
85	Swansea City Waste Disposal Company	96
988	Gower College	1,033
1,007	NPTC Group	1,024
0	West Glamorgan Valuation Service	14
0	West Glamorgan Fire Service	2
1	Neath Town Council	44
20,923	Neath Port Talbot County Borough Council	22,024
117	Margam Joint Crematorium Committee	63
10	Neath Port Talbot Waste Management	10
80	The Careers Service	81
4	Pelenna Community Council	4

4	Pontardawe Town Council	8
1,167	Lliw Valley Borough Council	1,121
5	Briton Ferry Town Council	5
216	West Glamorgan Magistrates Court	207
7,471	West Glamorgan County Council	7,404
<b>32,250</b>	<b>Total Scheduled Bodies</b>	<b>33,334</b>
<b>67,763</b>	<b>Total Benefits Paid</b>	<b>70,195</b>

## 7 Payments to and on account of leavers

Transfers out and refunds comprise of:

2019/20		2020/21
£'000		£'000
166	Refunds to members leaving service	113
6,934	Individual transfers to other schemes	3,934
<b>7,100</b>	<b>Total</b>	<b>4,047</b>

## 8 Administrative and Investment Manager Expenses

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

2019/20		2020/21
£'000		£'000
	<b>Administrative Expenses</b>	
761	Support Services(SLA) & Employee Costs	790
7	Printing & Publications	8
447	Other	418
<b>1,215</b>		<b>1,216</b>
	<b>Oversight &amp; Governance</b>	
83	Actuarial Fees	65
105	Advisors Fees	101
37	External Audit Fees	43
14	Performance Monitoring Services Fees	14
6	Pension Fund Committee	3
2	Pension Board	3
182	Wales Pension Partnership	88
<b>429</b>		<b>317</b>
<b>1,644</b>		<b>1,533</b>

<b>Investment Management Expenses</b>		
3,863	Management Fees	4,887
1,572	Performance Fees	5,197
299	Custody Fees	266
2,688	Transaction Costs	1,631
<b>8,422</b>		<b>11,981</b>
<b>10,066</b>	<b>Total</b>	<b>13,514</b>

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

The table below reflects the costs incurred in financial year 2019/20 and 2020/21

	<b>2019/20</b>	<b>2020/21</b>
	<b>£'000</b>	<b>£'000</b>
<b>WPP Oversight &amp; Governance Costs</b>		
Host Authority Costs	70	88
<b>WPP Investment Management Expenses</b>		
Fund Manager Fees	946	898
Custody Fees	151	238
Transaction Costs	2,395	834
<b>Total</b>	<b>3,562</b>	<b>2,058</b>

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

Note 8 cont'd - Investment Management Expenses

	2020-21			2019/20		
	Management Performance		Transaction	Management Performance		Transaction
	Fees	Fees	Costs	Fees	Fees	Costs
Total	£'000	£'000	£'000	£'000	£'000	£'000
<u>Pooled Funds</u>						
Equities	1,655	821	0	834	0	2,475
Fixed Income	660	165	495	0	221	0
			<b>3,342</b>			
			<b>439</b>			
<u>Other Investments</u>						
Property	665	640	15	10	604	118
Private Equity	6,777	2,147	3,983	647	1,279	893
Hedge Funds	928	431	497	0	386	44
Infrastructure	691	512	71	108	173	569
Private Debt	235	67	136	32	235	0
Residential Housing	0	0	0	0	0	0
Derivatives	104	104	0	0	97	0
	<b>11,715</b>	<b>4,887</b>	<b>5,197</b>	<b>1,631</b>	<b>3,862</b>	<b>1,573</b>
			<b>8,123</b>			<b>2,688</b>
Custody Fees	266	266	299	299	299	
<b>Total</b>	<b>11,981</b>		<b>8,422</b>			



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

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

<b>2019/20</b>		<b>2020/21</b>
<b>£'000</b>		<b>£'000</b>
116	Partners Group	176
505	Blackrock Hedge Fund	629
655	Schroders Property Fund	449
1,405	EnTrustPermal	1,780
3,697	HarbourVest	7,711
2,409	WPP Global Opportunities Fund	7,578
0	Blackstone	48
<b>8,787</b>	<b>Total</b>	<b>18,371</b>

## 9 Investment Income

2019/20 £'000		2020/21 £'000
1,675	U.K. Equities	10
1,318	Overseas Equities	37,064
3,406	Managed Fund – Fixed Interest	927
2,074	Pooled Investment vehicles - Property Fund	1,721
9	Interest and Other Income	0
<b>8,482</b>	<b>Total</b>	<b>39,722</b>

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

During 2020/21, Link Asset Services paid distributions in respect of the income earned since inception on all Wales Pension Partnership sub-funds in which the Fund invests. This was automatically reinvested into the pooled funds to increase the market value of the holding. Income is only distributed when there is a sufficient amount to do so but will always be automatically reinvested. The 2020/21 income from equities includes an adjustment for income received in respect of 2019/20.

## Stock Lending

The Fund's investment strategy permits stock lending subject to specific approval. The income earned by the fund through stock lending was £160,175. Currently the Wales Pension Partnership has total quoted equities of £469m on loan. These equities continue to be recognised in the relevant fund's financial statements. No liabilities are associated with the loaned assets

## 10 Taxation

### a) United Kingdom

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

### b) Overseas

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

## 11. Investment Assets

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

<b>31<sup>st</sup> March 2020 £'000</b>	<b>Investment Assets</b>	<b>31<sup>st</sup> March 2021 £'000</b>
223,917	Fixed Interest	230,537
35,111	Index Linked Securities	35,919
1,393,278	Overseas Equities	1,879,292
99,854	Property	96,274
49,971	Hedge Funds	60,062
91,997	Private Equity	146,891
33,635	Infrastructure	75,665
11,798	Private Debt	37,980
0	Residential Housing	0
1,811	Derivatives	2,637
<b><u>1,941,372</u></b>	<b>Total Investment Assets</b>	<b><u>2,565,257</u></b>

In Q3 2020 Aberdeen Standard made the decision to close the Emerging Markets Frontier Fund mandate, funds were completely redeemed by Feb 2021. The redemption proceeds some £13m was held as cash in-house to fund drawdowns to meet recent commitments to the yielding assets portfolio.

During 2020-21 City & County of Swansea Pension Fund transitioned their Fixed Income portfolio of £124m from Goldman Sachs to WPP. The transition took place in two tranches of £62m in July and September 2020. The money has been invested equally in two funds – a Multi Asset Credit Fund and Absolute Return Bond Fund.

## 12. Reconciliation of movements in investments

	Value at 31 <sup>st</sup> March 2020	Purchases	Sales	Change in Market Value	Value at 31 <sup>st</sup> March 2021
	£'000	£'000	£'000	£'000	£'000
<b>Equities</b>					
Aberdeen FF	10,126	0	(13,875)	3,749	0
Blackrock	485,112	0	(10,000)	181,578	656,690
WPP	898,040	36,597	(46,899)	334,864	1,222,602
	<u>1,393,278</u>	<u>36,597</u>	<u>(70,774)</u>	<u>520,191</u>	<u>1,879,292</u>
<b>Property</b>					
UK					
Schroders	51,288	8,979	(3,141)	(4,155)	52,971
Overseas					
Partners	16,608	442	(1,478)	(952)	14,620
Invesco	31,958	0	(1,193)	(2,082)	28,683
	<u>99,854</u>	<u>9,421</u>	<u>(5,812)</u>	<u>(7,189)</u>	<u>96,274</u>
<b>Fixed Interest</b>					
Fixed Interest					
Blackrock	88,524	0	0	(5,737)	82,787
WPP - Absolute Return Bonds	0	62,833	(31)	1,300	64,102
WPP – Multi Asset Credit	0	62,413	(40)	3,205	65,578
Goldman Sachs	114,910	0	(124,319)	9,409	0
	<u>203,434</u>	<u>125,246</u>	<u>(124,390)</u>	<u>8,177</u>	<u>212,467</u>
<b>Index-Linked</b>					
Blackrock	35,111	0	0	808	35,919
	<u>35,111</u>	<u>0</u>	<u>0</u>	<u>808</u>	<u>35,919</u>
<b>Hedge Funds</b>					
Blackrock	26,633	0	(393)	4,864	31,104
EnTrustPermal	23,338	0	(616)	6,236	28,958
	<u>49,971</u>	<u>0</u>	<u>(1,009)</u>	<u>11,100</u>	<u>60,062</u>
<b>Private Equity</b>					
HarbourVest	91,997	18,586	(22,300)	52,028	140,311
Blackstone	0	4,666	(2,220)	4,134	6,580
	<u>91,997</u>	<u>23,252</u>	<u>(24,520)</u>	<u>56,162</u>	<u>146,891</u>
<b>Infrastructure</b>					
First Sentier	33,635	36,633	(2,367)	5,921	73,822
Blackrock GRP	0	3,049	(1,013)	(193)	1,843
	<u>33,635</u>	<u>39,682</u>	<u>(3,380)</u>	<u>5,728</u>	<u>75,665</u>
<b>Private Debt</b>					
Alcentra	11,798	4,267	(1,200)	1,636	16,501
CVC	0	13,314	(514)	384	13,184
GSAM Broad Street	0	8,543	(138)	(110)	8,295
	<u>11,798</u>	<u>26,124</u>	<u>(1,852)</u>	<u>1,910</u>	<u>37,980</u>
<b>Residential Housing</b>					
BMO	0	0	0	0	0
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

<b>Equity Protection</b>					
Russell	22,294	15,000	0	(16,587)	20,707
	<u>22,294</u>	<u>15,000</u>	<u>0</u>	<u>(16,587)</u>	<u>20,707</u>
<b>Cash Funds</b>					
Schroders Property	773	0	0	3,557	4,330
	<u>773</u>	<u>0</u>	<u>0</u>	<u>3,557</u>	<u>4,330</u>
<b>Sub Total</b>	<b><u>1,942,145</u></b>	<b><u>275,322</u></b>	<b><u>(231,737)</u></b>	<b><u>583,857</u></b>	<b><u>2,569,587</u></b>
<b>Cash</b>	43,669				40,346
<b>Other Investment Balances -</b>					
<b>Dividends Due</b>	<u>0</u>				<u>40</u>
<b>Total</b>	<b><u>1,985,814</u></b>			<b><u>583,857</u></b>	<b><u>2,609,973</u></b>

### 13. Realised Profit on the Sale of Investments

	<b>2019/20</b>		<b>2020/21</b>
	<b>£'000</b>		
0	Fixed Interest		143
0	Overseas Equities		1,239
2,131	Property Fund		409
<u>2,131</u>	<b>Net Profit</b>		<u>1,791</u>

### 14. Concentration of Investments

The following investments represented more than 5% of the Plan's net assets as at 31<sup>st</sup> March 2021.

	<b>Value as at</b>	<b>Proportion</b>	<b>Value as at</b>	<b>Proportion</b>
	<b>31<sup>st</sup> March</b>	<b>of Net</b>	<b>31<sup>st</sup> March</b>	<b>of Net</b>
	<b>2020</b>	<b>Assets</b>	<b>2021</b>	<b>Assets</b>
	<b>£'000</b>		<b>£'0000</b>	
Blackrock ACS Low Carbon Tracker	444,867	22.4%	605,237	23.3%
Goldman Sachs Global Libor Plus 11	114,910	5.8%	-	-
WPP Global Opportunities Fund	898,040	45.2%	1,222,602	47.0%
HarbourVest Private Equity Fund	91,997	4.6%	140,311	5.4%

## 15. Current Assets & Liabilities

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

31 <sup>st</sup> March 2020		31 <sup>st</sup> March 2021
£'000		£'000
	<b>Current Assets</b>	
724	Contributions - Employees	745
2,969	Contributions – Employers	3,081
1,091	Early Access Contributions Debtor	636
186	Transfer Values	282
1,345	Other	2,512
<b>6,315</b>		<b>7,256</b>
	<b>Current Liabilities</b>	
-220	Investment Management Expenses	-108
-1,765	Commutation and Lump Sum Retirement Benefits	-824
-480	Lump Sum Death Benefits	-313
-541	Transfers to Other Schemes	-317
-623	Payroll Deductions - Tax	-671
-478	Other	-541
<b>-4,107</b>		<b>-2,774</b>
<b>2,208</b>	<b>Net</b>	<b>4,482</b>

## 16. Current Assets & Liabilities – Early Access Debtor

	Instalment Due 2021/22 £'000	Instalment Due 2022/23 £'000	Instalment Due 2023/24 £'000	Instalment Due 2024/25 £'000	Total £'000
Early Access Principal Debtor	693	57	0	0	750
Early Access Interest Debtor	5	4	0	0	9
<b>Total (Gross)</b>	<b>698</b>	<b>61</b>	<b>0</b>	<b>0</b>	<b>759</b>

## **17. Capital and Contractual Commitments**

As at 31 March 2021 the Scheme was committed to providing additional funding to certain managers investing in unquoted securities. These commitments amounted to £175.8m (2019/20: £176.4m).

As part of the asset re-allocation strategy previously agreed by the Pensions Committee, in 2020/21 new commitments were made to a number of yielding assets :

- Private Debt Fund – GSAM Broad Street 1V - £26m
- Private Equity Fund – Blackstone Strategic Capital Holdings 11 - £49m
- Residential Housing Fund – BMO UK Residential Real Estate - £30m

## **18. Related Party Transactions**

£790k (£761k 19/20) paid to the City & County of Swansea for the recharge of Administration, I.T., Finance and Legal Services during the year.

Contributions received from admitted and scheduled bodies are detailed on page 85.

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

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

The Pension Fund currently has 40 scheduled and admitted bodies. Management of the Pension Scheme Investment Fund is undertaken by a panel. The panel is advised by an independent advisor and an investment consultancy service.

## Related Party Transactions Cont'd

### Key Management Personnel

The key management personnel of the Fund are the Chief Executive and the Chief Finance Officer. The figures show the change in value of post-employment benefits provided to these individuals over the accounting year based on the percentage of time spent on matters relating to the Pension Fund. The value of these benefits has been calculated consistently with those of the whole Fund disclosure (provided in Part D of this report), albeit that the figures have been calculated at different dates to those used for the whole of fund disclosure.

	Increase/(decrease) in IAS19 liability to 31 March 2021		Increase/(decrease) in IAS19 liability to 31 March 2020	
	Amount (£)	Percentage (%) of year end liability	Amount (£)	Percentage (%) of year end liability
Chief Executive	-6,000	-0.3	65,000	3.6
Chief Finance Officer	69,000	11.7	74,000	15.6

	Short Term Benefits to 31 March 2021		Short Term Benefits to 31 March 2020	
	Remuneration (Including Fees & Allowances) £	Pension Contributions (24.7%) £	Remuneration (Including Fees & Allowances) £	Pension Contributions (25.8%) £
Chief Executive	152,671	-	148,584	19,167
Interim Chief Executive	-	-	13,833	-
Section 151 Officer & Chief Finance Officer	105,671	26,101	100,467	25,835

Note : the Interim Chief Executive post came to an end on 31<sup>st</sup> May 2019.



## Governance

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

### 19. Other Fund Documents

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

- Statement of Investment Principles
- Funding Strategy Statement
- Governance Statement
- Communication Policy
- ESG Policy

### 20. Additional Voluntary Contributions

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

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

AVC Provider	Value of Funds at 01/04/20 £'000	Purchases at Cost (Contributions In/Out) £'000	Sale Proceeds £'000	Change in Market Value £'000	Value of Funds at 31/03/21 £'000
Prudential	7,447	1,654	-555	-38	8,508
Aegon	976	16	-78	121	1,035
Utmost	238	1	-29	41	251
<b>Totals</b>	<b>8,661</b>	<b>1,671</b>	<b>-662</b>	<b>124</b>	<b>9,794</b>

**Waiting on final valuation reports**

## 21. Membership

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

Detailed national regulations govern the rates of contribution by employees and employers, as well as benefits payable. At 31st March 2021 there were 20,385 contributors, 13,862 pensioners and 11,829 deferred pensioners.

<b>Membership statistics</b>	<b>31/03/17 Number</b>	<b>31/03/18 Number</b>	<b>31/03/19 Number</b>	<b>31/03/20 Number</b>	<b>31/03/21 Number</b>
Contributors	17,903	19,671	19,888	20,050	20,385
Pensioners	12,200	12,763	13,229	13,610	13,862
Deferred Pensioners	11,583	11,394	11,874	11,838	11,829
<b>Total</b>	<b>41,686</b>	<b>43,828</b>	<b>44,991</b>	<b>45,498</b>	<b>46,076</b>

See Appendix 1 for current year analysis.

## 22. Fair Value of Investments

### Financial Instruments

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

### Financial Instruments – Gains and Losses

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

IFRS9 introduced a new classification under the code :

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

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

### **Fair Value – Hierarchy**

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

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

The table on the following page shows the position of the Fund's assets at 31st March 2020 and 2021 based upon this hierarchy.

## FAIR VALUE - HIERARCHY

	31 March 2020			31 March 2021		
	Market Value	Level 1	Level 2	Level 1	Level 2	Level 3
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Pooled Investment Vehicles</b>						
Fixed-Interest Funds	114,910	114,910		0		
Global Equity	1,393,278	10,126	1,383,152	1,879,292	1,879,292	
Fixed Interest	109,007		109,007	230,537	230,537	
Index-linked	35,111		35,111	35,919	35,919	
Property Unit Trust	20,146			21,668		21,668
Property Fund	79,708			74,606		74,606
Hedge Fund	49,971			60,062		60,062
Private Equity	91,997			146,891		146,891
Infrastructure	33,635			75,665		75,665
Private Debt	11,798			37,980		37,980
Residential Housing	0			0		
Derivatives	1,811			2,637	2,637	
Cash	44,442	44,442		44,716	44,716	
<b>Total</b>	<b>1,985,814</b>	<b>171,289</b>	<b>1,527,270</b>	<b>2,609,973</b>	<b>47,353</b>	<b>2,145,748</b>
			<b>287,255</b>			<b>416,872</b>

## Fair Value of Investments cont'd - Fair Value Hierarchy - Basis of Valuation

Description of Asset	Valuation Hierarchy	Basis of Valuation	Observable & unobservable inputs	Key Sensitivities affecting the valuations provided
<b>Pooled Investment Vehicles</b>				
Market Quoted Investments - Global Equity	Level 1	Published bid market price ruling on the final day of the accounting period	Not Required	Not Required
Fixed Interest and quoted Bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not Required	Not Required
Market Quoted Investments - Global Equity	Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price published.	NAV based pricing set on a forward pricing policy	Not Required
Fixed Interest and Index Linked	Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price published.	NAV based pricing set on a forward pricing policy	Not Required
Property Fund	Level 3	Valued quarterly at NAV in accordance with International Private Equity and Venture Capital Association Guidelines	EBITDA multiples, revenue multiples, discount for lack of market evidence, control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows and by differences between audited and unaudited accounts.
Infrastructure	Level 3	Valued quarterly at NAV using independent valuations prepared by an external expert. Valuations are in accordance with International Private Equity and Venture Capital Association Guidelines and primarily utilise a DCF methodology. Fund financial statements are audited on an annual basis by an external auditor under Luxembourg GAAP.	Valuations are based on company specific financial models. Cross-checks are made to comparable listed company valuations.	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows and by differences between audited and unaudited accounts.

Hedge Fund	Level 3	Closing bid price where bid and offer prices are published. Closing single price where single price published.	NAV based pricing set on a forward pricing policy	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows and by differences between audited and unaudited accounts.
Unquoted Private Equity	Level 3	Valued quarterly at NAV using the market approach using quarterly financial statements in accordance with International Private Equity and Venture Capital Association Guidelines	EBITDA multiples, revenue multiples, discount for lack of market evidence, control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows and by differences between audited and unaudited accounts.

## **23. Investment Risks**

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

### **Procedures for Managing Risk**

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

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

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

### **Manager Risk**

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

## 23. Investment Risks (Continued)

### Credit Risk

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

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

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

- The Fund's active fixed interest mandates are valued at £129,680k is managed (by Russell Investments on behalf of Wales Pension Partnership) on an unconstrained basis and has a significant exposure to credit, emerging market debt and loans. At 31st March 2021, the Fund's exposure to non-investment grade paper was 43.8% of the actively managed fixed income portfolio.
- On private equity the Fund's investments are almost entirely in the equity of the companies concerned. The Funds private equity investments of £146,891k are managed by HarbourVest and Blackstone in fund of funds portfolios.

On hedge fund of funds and multi-strategy vehicles, underlying managers have in place a broad range of derivatives. The Fund's exposure to hedge funds through its managers at 31st March 2021 is set out below with their relative exposure to credit risk :

	<b>March 2021</b> <b>£'000</b>	<b>Credit Exposure</b> <b>%</b>
EnTrustPermal	28,958	37.65
Blackrock	31,104	17.50



## **Liquidity Risk**

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

Specifically on investments, the Fund holds through its managers a mixture of liquid, semi-liquid and illiquid assets. Whilst the Fund's investment managers have substantial discretionary powers regarding their individual portfolios and the management of their cash positions, they hold within their pooled vehicles a large value of very liquid securities, such as equities and bonds quoted on major stock exchanges, which can easily be realised. Traditional equities and bonds now comprise 82% of the Fund's value and, whilst there will be some slightly less liquid elements within this figure (emerging market equities and debt for example), the funds investing in these securities offer monthly trading at worst – often weekly or fortnightly.

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

## 23. Investment Risks (Continued)

The table below analyses the value of the Fund's investments at 31st March 2021 by liquidity profile :

	<b>Amounts at 31st March 2021 £000s</b>	<b>Within 1 month £000s</b>	<b>1-3 months £000s</b>	<b>4-12 months £000s</b>	<b>&gt; 1 Year £000s</b>
<b>Pooled Investment Vehicles</b>					
Overseas Equity	1,879,292	1,879,292	0	0	0
Fixed Interest	230,537	230,537	0	0	0
Index-linked	35,919	35,919	0	0	0
Property Unit Trust	21,668	0	0	21,668	0
Property Fund	74,606	0	0	31,303	43,303
Hedge Fund	60,062	0	0	60,062	0
Private Equity	146,891	0	0	0	146,891
Infrastructure	75,665	0	0	0	75,665
Private Debt	37,980	0	0	0	37,980
Residential Housing	0	0	0	0	0
Derivatives	2,637	2,637	0	0	0
Deposits with banks and other financial institutions	44,716	44,716	0	0	0
<b>Total</b>	<b>2,609,973</b>	<b>2,193,101</b>	<b>0</b>	<b>113,033</b>	<b>303,839</b>

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

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

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

This means that, whilst all these monies have been designated closed-ended and thereby illiquid on the basis of their usual “10-year life”, many are closer to maturity than implied by this broad designation. As can be seen from the table, even using the conservative basis outlined above, around 84% of the portfolio is realisable within 1 month and 88% is realisable within 12 months.

#### **Market Risk**

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

Market risk is comprised of two elements :

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

The table below sets out an analysis of the Fund’s market risk positions at 31 March 2021 by showing the amount invested in each asset class and through each manager within each main asset class, the index used as a benchmark, the target set for managers against this benchmark:

### 23. Investment Risks (Continued)

Asset Class	Asset Allocation	Fund Manager		Benchmark	Performance target
		Passive	Active		
Global Equities	65% +/- 5%	25% Blackrock - Low Carbon Fund	47% Wales Pension Partnership	MSCI All World Index Net	+2% p.a. over rolling 3 year
Global Fixed Interest	12% +/- 5%	5% Blackrock	5% Wales Pension Partnership	Libor	LIBOR +3%
Property	5% +/- 5%	-	4% Schroders, Partners & Invesco	IPD UK Pooled Property Fund Index	+ 1% p.a. over rolling 3 year, 8% absolute return
Hedge Funds	5% +/- 5%	-	2% Blackrock & EnTrustPermal	LIBOR	+4%
Private Equity	3% +/- 5%	-	5% Harbourvest, Blackstone	FTSE allshare	+3% p.a. over 3 year rolling
Infrastructure	2% +/- 5%	-	3% First Sentier, Blackrock	10% Absolute	10% Absolute
Residential Housing	5% +/- 5%	-	0% BMO	6% Absolute	6% Absolute
Private Debt	1% +/- 1%	-	2% Alcentra, CVC, GSAM Broad Street	7% Absolute	7% Absolute
Cash	2% +/- 5%	-	2% In house and cash flows of fund managers	7day LIBID	=
<b>TOTAL</b>	<b>100%</b>	<b>30%</b>	<b>70%</b>		

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

## 23. Investment Risks (Continued)

### Price Risk

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

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

Following analysis of historical data and expected investment returns movement during the financial year and in consultation with the Fund's investment advisors, the Council has determined the following movements in market price risk are reasonably possible. Had the market price of the fund investments increased/decreased in line with the potential market movements, the change in the net assets available to pay benefits in the market price as at 31<sup>st</sup> March 2021 would have been as follows:

#### Price Risk

Asset Type	Value (£'000)	% Change	Value on Increase	Value on Decrease
Overseas Equities	1,879,292	14.1	2,144,648	1,230,618
Total Bonds & Index-Linked	266,456	5.2	280,285	244,857
Alternatives	323,235	5.0	339,429	307,041
Cash	44,716	0.9	45,118	43,495
Property	96,274	2.2	98,382	98,834
Other Investment Balances	-	-	-	-
<b>Total Assets*</b>	<b>2,609,973</b>	<b>9.4</b>	<b>2,855,832</b>	<b>2,364,114</b>

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

And as at 31<sup>st</sup> March 2020

#### Price Risk

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

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

## Currency Risk

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

In consultation with the Fund's investment advisors, the Council has determined that the following movements in currencies are reasonably possible. The following represents a sensitivity analysis associated with foreign exchange movements as at 31<sup>st</sup> March 2021 :

### Currency Risk (by currency)

Currency	Value (£'000)	% Change	Value on Increase	Value on Decrease
Australian Dollar	-	-	-	-
Brazilian Real	-	-	-	-
Canadian Dollar	-	-	-	-
Danish Krone	-	-	-	-
EURO	148,584	5.7875	157,183	139,984
Hong Kong Dollar	-	-	-	-
Indian Rupee	-	-	-	-
Indonesian Rupiah	-	-	-	-
Israeli Shekel	-	-	-	-
Japanese Yen	-	-	-	-
Malaysian Ringgit	-	-	-	-
Mexican Peso	-	-	-	-
Norwegian Krone	-	-	-	-
Chinese Renminbi Yuan	-	-	-	-
Philippine Peso	-	-	-	-
Russian Rouble	-	-	-	-
Singapore Dollar	-	-	-	-
South African Rand	-	-	-	-
South Korean Won	-	-	-	-
Swedish Krona	-	-	-	-
Swiss Franc	-	-	-	-
Taiwan Dollar	-	-	-	-
Thai Baht	-	-	-	-
Turkish Lira	-	-	-	-
US Dollar	138,754	8.4657	150,500	127,007
<b>Pooled Vehicles</b>				
Overseas Equities	1,222,602	7.3303	1,312,223	1,132,981
Low Carbon Index	605,237	7.3303	649,603	560,871
Emerging Mrkts	51,453	6.2278	54,657	48,248
<b>Total Currency*</b>	<b>2,166,630</b>	<b>8.3594</b>	<b>2,347,747</b>	<b>1,985,512</b>

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

## As at 31<sup>st</sup> March 2020

### Currency Risk (by currency)

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

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

## **Interest Rate Risk**

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

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

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

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

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

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

Initial results from the Scheme Advisory Board 2016 cost management process indicated that benefit improvements / member contribution reductions equivalent to 0.9% of pay would be required. However, the cost management process was paused following the Court of Appeal ruling that the transitional arrangements in both the Judges' Pension Scheme (McCloud) and Firefighters' Pension Scheme (Sargeant) constituted illegal age discrimination. Government confirmed that the judgement would be treated as applying to all public service schemes including the LGPS (where the transitional arrangements were in the form of a final salary underpin) and a consultation on changes to the LGPS was issued in July 2020.

The employer contributions certified from 1 April 2020 as part of the 2019 valuation include an allowance of 1.5% of pay in relation to the potential additional costs of the McCloud judgement / cost management process. This was a simplified approach which didn't take account of different employer membership profiles or funding targets and may be more or less than the assessed cost once the final details of the LGPS changes arising from the 2016 cost management process have been agreed.



Work on the 2020 cost management process has now been started, and it is possible that further changes to benefits and/or contributions may ultimately be required under that process, although the outcome is not expected to be known for some time.

## **25. Covid 19**

As the Covid pandemic started its global spread early in 2020, global financial markets reflected the impending risks, with resultant material falls in valuations of most asset classes in February and March 2020, however since that time markets have bounced back very strongly with record LGPS returns in 2020/21.

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

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

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

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

## **26. Further Information**

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

## **27. Financial Position**

The accounts outlined within the statement represent the financial position of the City and County of Swansea's Pension Fund at 31 March 2021.

**PART C  
INVESTMENT REPORT**

**Pension Fund – Budget 2021/22**

	<b>Actual 2019/20</b>	<b>Actual 2020/21</b>	<b>Estimate 2021/22</b>
<b>Membership Numbers</b>			
Contributors	20,050	20,385	20,400
Pensioners	13,610	13,862	14,000
Deferred	11,838	11,829	12,000
	<b>45,498</b>	<b>46,076</b>	<b>46,400</b>

	<b>Actual 2019/20 £'000</b>	<b>Actual 2020/21 £'000</b>	<b>Estimate 2021/22 £'000</b>
<b>Income</b>			
Employer Contributions	80,425	81,813	82,000
Employee Contributions	19,276	20,199	20,300
Transfers In	4,106	3,092	4,000
Other Income	424	50	50
Investment Income	8,482	39,722	45,000
	<b>112,713</b>	<b>144,876</b>	<b>151,350</b>

<b>Expenditure</b>			
Pensions Payable	67,763	70,195	71,500
Lump Sum Benefits	14,409	14,544	15,000
Refunds	166	113	130
Transfers Out	6,934	3,934	4,500
	<b>89,272</b>	<b>88,786</b>	<b>91,130</b>

**Administrative Expenses**

Support Services	761	790	790
Actuarial Fees	83	65	80
Advisors Fees	18	0	0
Consultancy Service	87	101	100

External Audit Fee	37	43	43
Performance & Monitoring Fees	14	14	14
Printing & Publications	7	8	7
Other	447	418	430
Pension Fund Committee	6	3	5
Pension Board	2	3	5
Wales Pension Partnership Fees	182	88	100
	<b>1,644</b>	<b>1,533</b>	<b>1,574</b>

	<b>Actual 2019/20 £'000</b>	<b>Actual 2020/21 £'000</b>	<b>Estimate 2021/22 £'000</b>
<b>Investment Expenses</b>			
Management Fees	3,863	4,887	5,000
Performance Fees	1,572	5,197	5,000
Custody Fees	299	266	300
Transaction Costs	2,688	1,631	2,000
	<b>8,422</b>	<b>11,981</b>	<b>12,300</b>

## Investment Strategy

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

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

## Investment Fund Management

The investment of the Fund is the responsibility of the Pension Fund Committee. The Committee as at 31<sup>st</sup> March 2021 comprised (Appendix 2):-

- 7 Councillor Members (one member from Neath Port Talbot CBC representing other scheme employers) advised by:
- Section 151 Officer
- Deputy Chief Finance Officer
- Investment Consultants

The Committee, after taking account of the views of the investment consultants/advisors and appointed actuary to the Fund, is responsible for determining broad investment strategy and

policy, with appointed professional fund managers undertaking the operational management of the assets.

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

The Fund's current managers are:

<b>Asset Class</b>	<b>Manager</b>
Global Equities	Russell Investments on behalf of Wales Pension Partnership. Aberdeen Standard & Blackrock
Equity Protection Mandate	Russell Investments
Fixed Interest	Russell Investments on behalf of Wales Pension Partnership. Blackrock
Fund of Hedge Funds	Blackrock & EnTrustPermal
Fund of Private Equity Funds	HarbourVest & Blackstone
European Property Fund	Invesco
Fund of Property Funds	Partners Group & Schroders Investment Management
Infrastructure Funds	First Sentier Investments & Blackrock
Fund of Private Debt	Alcentra, CVC Credit Partners, Goldman Sachs
Residential Housing	BMO

## Valuation of Investments

The value of the Fund's investments of £2,595m together with net assets totalling £4.5m increased from £1,988m to £2,599.5m during 2020/21.

The increase of £611m is comprised of two elements:

<b>2019/20</b>		<b>2020/21</b>
<b>£'000</b>		<b>£'000</b>
-60,909	Net Return on Investments	623,579
4,893	Add Net additions from dealing with members	2,854
<u><b>-56,016</b></u>		<u><b>626,433</b></u>

The market value of the Fund's investments over the past 10 years is illustrated in Appendix 3.

## Distribution of Investments

The following table shows the distribution of the Fund's investments at 31 March 21 at Bid price Market Values.

31 March 2020			31 March 2021	
£'000	%		£'000	%
223,917	11.3	Fixed Interest Securities	230,537	8.9
35,111	1.8	Index Linked Securities	35,919	1.4
1,393,278	70.2	Global Equities	1,879,292	72.0
99,854	5.0	Property	96,274	3.7
49,971	2.5	Hedge Funds	60,062	2.3
91,997	4.6	Private Equity	146,891	5.6
33,635	1.7	Infrastructure	75,665	2.9
11,798	0.6	Private Debt	37,980	1.4
1,811	0.1	Derivatives	2,637	0.1
44,442	2.2	Cash/Temporary Investments	44,716	1.7
<b>1,985,814</b>	<b>100</b>		<b>2,609,973</b>	<b>100</b>

31st March 2021 - Distribution of Investments  
Fund Manager Bid Prices

	Blackrock (Low Carbon) £'000	WPP £'000	Russell £'000	Schroders Property £'000	Invesco £'000	Partners Group £'000	WPP - MC £'000	WPP - ARB £'000	Blackrock (Hedged) £'000	EnTrust Permit £'000	First Senior £'000	Blackrock GRP 111 £'000	Harbour Vest £'000	Blackstone £'000	Alcentra £'000	CVC £'000	Brook Street 1V £'000	BMO £'000	Custodian Cash £'000	External Cash £'000	Internal Cash £'000	TOTAL £'000	
<b>Equities</b>																							
ACS World Low Carbon EO TRK	605,237																					605,237	
IShares Emerging Markets Index	51,453																					51,453	
Global Pooled Equity Protection - Derivatives		1,222,602	2,637																			1,222,602	2,637
<b>Property</b>																							
UK & Europe Overseas				52,971	28,683									14,620								81,654	14,620
<b>Fixed Interest</b>																							
Fixed Interest Index Linked	82,787		18,070				65,578	84,102														230,537	35,919
<b> Hedge Funds</b>									31,104	28,958												60,062	
<b>Private Equity</b>													140,311	6,590								146,901	
<b>Infrastructure</b>										73,822	1,843											75,665	
<b>Private Debt</b>																18,501	13,184	8,295				37,980	
<b>Residential Housing</b>																		0				0	
<b>Cash</b>	0			5,384															94	1,000	38,198	44,676	
<b>Sub Total</b>	775,386	1,222,602	20,707	58,355	28,683	14,620	65,578	84,102	31,104	28,958	73,822	1,843	140,311	6,590	18,501	13,184	8,295	94	1,000	38,198	2,609,933		
<b>Other Investment</b>																							
<b>Balance - Div Due</b>				40																		40	
<b>TOTAL</b>	775,386	1,222,602	20,707	58,395	28,683	14,620	65,578	84,102	31,104	28,958	73,822	1,843	140,311	6,590	18,501	13,184	8,295	94	1,000	38,198	2,609,973		

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

## Investment Returns

	<b>City &amp; County of Swansea Fund</b>	<b>Local Authority Average Fund</b>	<b>Relative Performance</b>	<b>Peer Group Ranking</b>	<b>Average Earnings Increase</b>	<b>RPI*</b>
	%	%	LA AVG		%	%
2020/21	31.1	22.8	+8.3	8 <sup>th</sup>	4.3	1.5
2019/20	-4.5	-4.8	+0.3	45 <sup>th</sup>	2.3	2.6
2018/19	6.1	6.6	-0.5	52 <sup>nd</sup>	3.3	2.44
2017/18	2.8	4.5	-1.7	58 <sup>th</sup>	2.6	3.3
2016/17	22.0	21.4	+0.6	27 <sup>th</sup>	2.6	3.14
2015/16	-1.7	0.3	-2.0	72 <sup>nd</sup>	2.2	1.6
2014/15	10.8	13.2	-2.4	89 <sup>th</sup>	4.4	0.9
2013/14	7.2	6.3	+0.9	35 <sup>th</sup>	1.9	2.45
2012/13	13.7	13.7	-0.1	43 <sup>rd</sup>	-0.7	3.28
2011/12	0.6	2.6	-2.0	92 <sup>nd</sup>	0.8	3.6
2010/11	7.9	7.9	0.0	51 <sup>st</sup>	2.2	5.3

The annual returns on the City and County of Swansea Fund compared with the Local Authority average and against the Fund specific benchmark are illustrated above.

## **Market Commentary- Local Authority Universe**

After the sharp fall in global markets in the quarter to March 2020, returns bounced back almost immediately despite the ongoing challenges of the COVID pandemic which has been larger and longer lasting than predicted.

LGPS fund's returned an average of 22.8% for the year, but the range of results was far wider than usual.

Performance was dominated by extremely strong equity returns, enhanced for many by active manager outperformance. Defensive assets performed more modestly with Property being the most disappointing of the major assets, only just delivering a positive result. In the universe generally there was further diversification into Multi Asset Credit, Private Debt and other alternative income strategies.

Generally, long term performance of the LGPS remains extremely strong, the average fund delivered a positive return in all but six of the last 30 years and delivered an annualised performance of over 8% p.a. Equities have mainly driven this performance though Alternatives have performed strongly due in a large part to the excellent returns from private equity.

Equities remain the largest allocation within most fund's assets and over 80% of this is invested overseas. The Bond exposure has remained steady but within that, the allocation has changed greatly as funds have moved from a principally UK index based approach towards more global, diversified absolute return strategies.

Alternatives have increased over the decade with private equity making up half of this allocation with infrastructure becoming an ever larger component of the average fund.

The range of results was much wider in the latest year than is usually seen, this was mainly due to the large differences between asset classes. Funds with a higher equity allocation have outperformed their peers.

## **Fund Performance**

City & County of Swansea Pension Fund returned 31.1% for the year, which was well above the local authority universe benchmark of 22.8% and placing the fund in the 8th percentile overall.

The Fund is structured quite differently from the average allocation with the key difference being the relatively high level of equities, this allocation delivered a return well ahead of average, this was enhanced by a better than average performance from the equity assets.



The latest year result has lifted the medium term rankings into the top decile and the fund is now above average over both the 10 and 20 years.

## **Environmental Social Governance (ESG) Policy Implementation**

In continuing to implement the Fund's ESG policy and as part of the re-allocation of approximately 10% of growth assets into yielding assets, the fund made a £30m commitment to the Blackrock Global Renewable Energy Infrastructure Fund in March 2020 and has deployed £3m of capital to this fund during 2020/21. The previously appointed infrastructure manager First Sentier continues to deploy assets into renewable energy infrastructure, the whole commitment amount of £65m has now been deployed.

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

## PART D

### ACTUARIAL REPORT

## Statement of the Actuary for the year ended 31 March 2021

### Introduction

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the City & County of Swansea Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2019 by Aon, in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

### Actuarial Position

1. The valuation as at 31 March 2019 showed that the funding level of the Fund had increased since the previous valuation with the market value of the Fund's assets as at 31 March 2019 (of £2,044.0M) covering 91.5% of the liabilities allowing, in the case of pre- 1 April 2014 membership for current contributors to the Fund, for future increases in pensionable pay, and for other membership for future pension revaluation and increases.
  
2. The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2020 was:
  - 20.2% p.a. of pensionable pay. This is the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date (the primary rate),

**Plus**

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

**Plus**

  - Monetary amounts to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 19 years from 1 April 2020, equivalent to 3.3% p.a. of pensionable pay (or £10.3M in 2020/21, and increasing by 3.6% p.a. thereafter), which together with the allowance above comprises the secondary rate.
  
3. In practice, each individual employer's or group of employers' position is assessed separately taking into account other factors (see note 4 below) and contributions are set out in Aon's report dated 31 March 2020 (the "actuarial valuation report"). In addition to the contributions certified, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

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

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

5. The funding plan adopted in assessing the contributions for each employer is in accordance with the Funding Strategy Statement. Different approaches were adopted in relation to the calculation of the primary contribution rate, stepping of contribution increases and individual employers' recovery periods as agreed with the Administering Authority and reflected in the Funding Strategy Statement, reflecting the employers' circumstances. This included an agreement that where employers are in surplus, this has only led to an adjustment in contributions to the extent that this surplus is in excess of 10% of the value of that employer's liabilities (i.e. to the extent that the employer's funding level is greater than 110%).
6. The valuation was carried out using the projected unit actuarial method for most employers and the main financial actuarial assumptions used for assessing the funding target and the contribution rates were as follows.

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

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

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

The assets were valued at market value.

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

7. The key demographic assumption was the allowance made for longevity. The post retirement mortality assumption adopted for the actuarial valuation was in line with standard self-administered pension scheme (SAPS) S2N mortality tables with appropriate scaling factors applied based on an analysis of the Fund's pensioner mortality experience and a Fund membership postcode analysis using Aon's Demographic Horizons™ longevity model, and included an allowance for improvements based on the 2018 Continuous Mortality Investigation (CMI) Core Projections Model (CMI2018), with a long term annual rate of improvement in mortality rates of 1.5% p.a. The resulting average future life expectancies at age 65 (for normal health retirements) were:

	Men	Women
--	-----	-------

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

8. The valuation results summarised in paragraphs 1 and 2 above are based on the financial position and market levels at the valuation date, 31 March 2019. As such the results do not make allowance for changes which have occurred subsequent to the valuation date, although we comment on changes in market conditions to 31 March 2021 in paragraph 10 below.
9. The formal actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2020 to 31 March 2023 were signed on 31 March 2020. Other than as agreed or otherwise permitted or required by the Regulations, employer contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2022 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.
10. There are a number of uncertainties regarding the Scheme benefits and hence liabilities:

▪ **Increases to Guaranteed Minimum Pensions (GMPs):**

The 2019 valuation allows for the extension of the 'interim solution' for public service schemes to pay full inflationary increases on GMPs for those reaching State Pension Age (SPA) between 6 April 2016 and 5 April 2021. On 23 March 2021, the Government published a response to its consultation on the longer term solutions to indexation and equalisation for GMPs and set out its proposal to extend the interim solution further to those reaching SPA after 5 April 2021.

The results of the 2019 valuation do not allow for the impact of this proposed longer term solution. Based on approximate calculations, at a whole of fund level, the impact of providing full pension increases on GMPs for those members reaching State Pension Age after 5 April 2021 is an increase in past service liabilities of between 0.1% to 0.2% across the Fund as a whole.

**Cost Management Process and McCloud Judgement :**

Initial results from the Scheme Advisory Board 2016 cost management process indicated that benefit improvements / member contribution reductions equivalent to 0.9% of pay would be required. However, the cost management process was paused following the Court of Appeal ruling that the transitional arrangements in both the Judges' Pension Scheme (McCloud) and Firefighters' Pension Scheme (Sargeant) constituted illegal age discrimination. Government confirmed that the judgement would be treated as applying to all public service schemes including the LGPS (where the transitional arrangements were in the form of a final salary underpin) and a consultation on changes to the LGPS was issued in July 2020.

The employer contributions certified from 1 April 2020 as part of the 2019 valuation include an allowance of 1.5% of pay in relation to the potential additional costs of the the McCloud judgement / cost management process. This was a simplified approach which didn't take account of different employer membership profiles or funding targets and may be more or less than the assessed cost once the final details of the LGPS changes arising from the 2016 cost management process have been agreed.

Work on the 2020 cost management process has now been started, and it is possible that further changes to benefits and/or contributions may ultimately be required under that process, although the outcome is not expected to be known for some time.

**Goodwin**

An Employment Tribunal ruling relating to the Teachers' Pension Scheme concluded that provisions for survivor's benefits of a female member in an opposite sex marriage are less favourable than for a female in a same sex marriage or civil partnership, and that treatment amounts to direct discrimination on grounds of sexual orientation. The chief secretary to the Treasury announced in a written ministerial statement on 20 July 2020 that he believed that changes would be required to other public service pension schemes with similar arrangements, although these changes are yet to be reflected in LGPS regulations. We expect the average additional liability to be less than 0.1%, however the impact will vary by employer depending on their membership profile.

11. Since the valuation date, Fund asset returns have exceeded 4.25% p.a. over the period to 31 March 2021, on its own leading to an increase in the funding level. However, reduced expectations of future asset returns have led to a decrease in the discount rates, and expected future inflation linked benefit increases have increased, slightly offsetting the increase in funding level and increasing the primary rate. The Actuary, in conjunction with the Administering Authority, will monitor the position on a regular basis and the Administering Authority will take action if it believes necessary.
12. This Statement has been prepared by the Actuary to the Fund, Aon Solutions UK Limited, for inclusion in the accounts of the Fund. It provides a summary of the results of the actuarial valuation which was carried out as at 31 March 2019. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.  
  
This Statement must not be considered without reference to the formal actuarial valuation report which details fully the context and limitations of the actuarial valuation.  
  
Aon does not accept any responsibility or liability to any party other than our client, City and County of Swansea Council, the Administering Authority of the Fund, in respect of this Statement.
13. The report on the actuarial valuation as at 31 March 2019 is available on the Fund's website at the following address:

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

Aon Solutions UK Limited

**May 2021**

## Statement of the Actuary for the year ended 31 March 2021 (continued)

### Actuarial Present Value of Promised Retirement Benefits

CIPFA's Code of Practice on Local Authority Accounting for 2020/21 sets out that the actuarial present value of promised retirement benefits based on projected salaries be disclosed, consistent with the requirements of IAS19.

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

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

### McCloud/Sargeant Judgement

The actuarial present value of the defined benefit obligation at 31st March 2019 includes an estimated liability in relation to the McCloud/Sargeant judgment of £35.2m. The McCloud/Sargeant judgement (December 2018) found that the transitional arrangements put in place when the Firefighters' and Judges' Pension Schemes were reformed constituted illegal discrimination. The Government has since committed to compensate all members of public service schemes who were illegally discriminated against. MHCLG published its McCloud consultation for the LGPS (in England and Wales) on 16th July 2020, setting out proposed changes aimed at removing the unlawful age discrimination in the LGPS. The consultation closed on 8th October 2020 and on 13th May 2021 the Government published the key elements of the changes to scheme regulations, the key points are:

- Underpin protection will apply to LGPS members who meet the revised qualifying criteria, principally that they were active in the scheme on 31st March 2012 and subsequently had membership of the career average scheme without a continuous break in service of more than five years.
- The period of protection will apply from 1st April 2014 to 31st March 2022 but will cease earlier where a member leaves active membership or reaches their final salary scheme normal retirement age (normally 65) before 31st March 2022.
- Where a member stays in active membership beyond 31st March 2022, the comparison of their benefits will be based on their final salary when they leave the LGPS, or when they reach their final salary scheme normal retirement age, if earlier.
- Underpin protection will apply to qualifying members who leave active membership of the LGPS with an immediate or deferred entitlement to a pension.
- A 'two stage process' will apply for assessing the underpin so that, where there is a gap between a member's last day of active membership and the date they take their pension, members can be assured they are getting the higher benefit.
- Scheme regulations giving effect to the above changes will be retrospective to 1st April 2014.

The government's intention is that new regulations will come into force on 1<sup>st</sup> April 2023. The additional liability included within this note assumes the underpin covers all members who were actively participating in the Scheme on 1st April 2012.

## **Statement of the Actuary for the year ended 31 March 21 (continued)**

### **Actuarial Present Value of Promised Retirement Benefits**

#### **Definitions**

##### **Admission Body**

An employer admitted to the Fund under an admission agreement.

##### **Orphan Body**

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

##### **Scheduled Body**

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

##### **Subsumption and Subsumption Body**

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

#### **Rates & Adjustment Certificate**

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

In accordance with regulation 62 of the Local Government Pension Scheme Regulations 2013 (the "2013 Regulations"), we certify that contributions should be paid by the employers at the following rates for the period 1 April 2020 to 31 March 2023.

- Primary contribution rates for individual employers as shown below. The primary rate for the whole fund, calculated as a weighted average of the employers' individual rates, is 20.3% p.a. of Pensionable Pay.
- Individual adjustments (i.e. secondary contribution rates) which, when added to or subtracted from the primary rate, produce the following minimum employer contribution rates :





**Actuarial Present Value of Promised Retirement Benefits – Statement of the Actuary for the year ending 31<sup>st</sup> March 2021 (Continued)**

Employer	Primary Contribution rate % Pensionable Pay	Secondary contributions (% Pensionable Pay and £s) Year commencing 1 April			Total contributions (% Pensionable Pay and £s) Year commencing 1 April		
		2020	2021	2022	2020	2021	2022
<b>Schedule 2 Part 1 bodies/ Schedule 2 Part 2 bodies (Scheduled bodies)</b>							
City & County of Swansea	20.2%	4.5%	4.5%	4.5%	24.7%	24.7%	24.7%
Neath Port Talbot County Borough Council	20.0%	6.7%	6.8%	6.9%	26.7%	26.8%	26.9%
Briton Ferry Town Council	22.6%	1.5% plus £660	1.5% plus £680	1.5% plus £700	24.1% plus £660	24.1% plus £680	24.1% plus £700
Cilybebyll Community Council	22.6%	0.9%	0.9%	0.9%	23.5%	23.5%	23.5%
Coedffranc Community Council	22.6%	1.5% plus £2,900	1.5% plus £3,000	1.5% plus £3,100	24.1% plus £2,900	24.1% plus £3,000	24.1% plus £3,100
Gower College	19.8%	1.5%	1.5%	1.5%	21.3%	21.3%	21.3%
Llanrhidian Higher Community Council	22.6%	1.5% plus £50	1.5% plus £50	1.5% plus £60	24.1% plus £50	24.1% plus £50	24.1% plus £60
Mumbles Community Council	22.6%	1.5%	1.5%	1.5%	24.1%	24.1%	24.1%
Margam Joint Crematorium Committee	22.6%	1.5% plus £5,700	1.5% plus £6,000	1.5% plus £6,200	24.1% plus £5,700	24.1% plus £6,000	24.1% plus £6,200
NPTC Group of Colleges	19.7%	1.5%	1.5%	1.5%	21.2%	21.2%	21.2%
Neath Town Council	22.6%	1.5% plus £5,400	1.5% plus £5,600	1.5% plus £5,800	24.1% plus £5,400	24.1% plus £5,600	24.1% plus £5,800
Pelenna Community Council	22.6%	1.5%	1.5%	1.5%	24.1%	24.1%	24.1%

Pontardawe Town Council	22.6%	1.5%	1.5%	1.5%	24.1%	24.1%	24.1%
Swansea Bay Port Health Authority	24.4%	1.5% plus £6,900	1.5% plus £7,200	1.5% plus 7,400	26.9% plus £6,900	26.9% plus £7,200	26.9% plus 7,400
Ystalyfera Community Council	22.6%	1.5%	1.5%	1.5%	24.1%	24.1%	24.1%
<b>Schedule 2 Part 3 bodies (Admission bodies)</b>							
Celtic Community Leisure	17.5%	(4.6%)	(4.6%)	(4.6%)	12.9%	12.9%	12.9%
Freedom Leisure	20.2%	4.5%	4.5%	4.5%	24.7%	24.7%	24.7%
Grwp Gwalia Cyf	24.9%	(14.2%)	(14.2%)	(14.2%)	10.7%	10.7%	10.7%
Tai Gwarian **	22.1%	4.2% plus £17,000	0.2% plus £17,000	0.2% plus £18,000	26.3% plus £17,000	22.3% plus £17,000	22.3% plus £18,000
Parkwood Holdings	20.2%	4.5%	4.5%	4.5%	24.7%	24.7%	24.7%
Wales National Pool	16.4%	(2.2%)	(2.2%)	(2.2%)	14.2%	14.2%	14.2%
University of Wales Trinity St David Swansea	35.6%	-7.6% / +1.5% plus £533,400 *	1.5% plus £544,600	1.5% plus £640,800	28.0% / 37.1% plus £533,400 *	37.1% plus £544,600	37.1% plus £640,800
<b>Total</b>	<b>20.3%</b>	<b>4.8% plus £572,010</b>	<b>4.7% plus £584,130</b>	<b>4.7% plus £682,060</b>	<b>25.1% plus £572,010</b>	<b>25.0% plus £584,130</b>	<b>25.0% plus £682,060</b>

\* The contribution rate as a percentage of Pay from 1 April 2020 to 31 July 2020 will be 28.0% of pay and from 1 August 2020 to 31 March 2021 will be 37.1% of pay.

\*\* Overall contributions payable as a percentage of Pay over the period covered by the Rates & Adjustments Certificate are subject to an underpin of the equivalent contributions payable at 23.6% of Pay p.a. in aggregate over the three year period.

The contribution rates for the City & County of Swansea and Neath Port Talbot County Borough Council have been set as a percentage of pay. However, minimum monetary contribution amounts for these employers have been agreed with the Administering Authority, and if the contributions actually received fall below this minimum level then additional

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

Swansea Bay Racial Equality Council exited the Fund prior to signing this Rates & Adjustments Certificate and further payments may be certified under Regulation 64.

Additional contributions may be payable by any other employers which have ceased to participate in the Fund since 31 March 2019 and these will be certified separately.

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

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

Contribution rates for Employers commencing participation in the Fund after 31 March 2019 will be advised separately.

Regulation 62(8) requires a statement to be made of the assumptions on which the certificate is given as regards the number of members, and the associated amount of liabilities arising, who will become entitled to payment of pensions under the LGPS regulations during the period covered by the certificate. These assumptions can be found in section e of the Further Information Section of the formal report on the valuation as at 31 March 2019. They include assumptions relating to the members who are expected to become entitled to payment of pensions via normal retirement and ill health retirement. In practice members will also become entitled to payment of pension via early retirement for reasons of redundancy or efficiency reasons as well as on voluntary early retirement, for which no assumption has been made. payments will be required. These minima are such that the total contributions in aggregate must be no less than :

City & County of Swansea	21.7% of pensionable pay plus £5.120M in 2020/21 21.7% of pensionable pay plus £5.310M in 2021/22 21.7% of pensionable pay plus £5.500M in 2022/23
Neath Port Talbot County Borough Council	21.5% of pensionable pay plus £5.060M in 2020/21 21.5% of pensionable pay plus £5.242M in 2021/22 21.5% of pensionable pay plus £5.431M in 2022/23

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Chris Darby FIA  
chris.darby.2@aon.com  
31 March 2020



Alison Murray FFA  
alison.murray@aon.com  
31 March 2020

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**Appendix 1**

**SCHEDULE OF EMPLOYING BODIES AND CONTRIBUTION RATES FOR THE PERIOD 1<sup>ST</sup> APRIL  
2020 TO 31<sup>ST</sup> MARCH 2021**

<b>Contributors</b>	<b>Pensioners</b>	<b>Deferred Benefits</b>	<b>Employer Contribution Rate (% of Pensionable Pay) plus additional annual monetary amount</b>	
<b>Administering Authority</b>	<b>Number @ 31/03/21</b>	<b>Number @ 31/03/21</b>	<b>Number @ 31/03/21</b>	
City & County of Swansea	12,335	6,372	5,493	24.7%
<b>Scheduled Bodies</b>				
Neath Port Talbot County Borough Council.	5,784	4,269	4,407	26.7%
Briton Ferry Town Council	1	2	0	24.1% (+£660)
Cilybebyll Community Council	6	2	1	23.5%
Clydach Community Council	0	0	1	-
Coedffranc Community Council	12	3	2	24.1% (+£2,900)
Gower College Swansea	664	317	478	21.3%
Neath Town Council	10	18	5	24.1% (+£5,400)
Lliw Valley BC	0	184	12	-
Margam Joint Cremation Committee	9	13	4	24.1% (+£5,700)
NPTC Group	598	292	479	21.2%
Neath Port Talbot Waste Management Co. Ltd.	0	1	0	-
Pelenna Community Council	2	2	3	24.1%
Pontardawe Town Council	5	3	0	24.1%
Swansea Bay Port Health Authority	1	10	1	26.9% (+£6,900)
Swansea City Waste Disposal Company	0	16	2	-
West Glamorgan County Council	0	1,838	157	-
West Glamorgan Magistrates Courts	0	37	10	-
West Glamorgan Valuation Panel	0	4	0	-
Mumbles Community Council	2	0	0	24.1%
Llanrhidian Higher Community Council	1	0	0	24.1% (+£50)
Ystalyfera Community Council	1	0	0	24.1%
Llangyfelach Community Council	1	0	0	24.1%
<b>Admitted Bodies</b>				
BABTIE	0	7	8	-
Celtic Community Leisure	118	42	212	12.9%
Colin Laver Heating Ltd	0	3	1	-
Swansea Bay Racial Equality Council	0	1	4	-
The Careers Business	0	8	5	-
Wales National Pool	104	6	74	14.2%
West Wales Arts Association	0	1	0	-
Cap Gemini	0	1	4	-
Tai Tarian	310	124	130	26.3% (+£17,000)
Phoenix Trust	0	1	3	-
Pobl Group	110	108	88	10.7%
Rathbone CCS	0	0	2	-
Rathbone Gower College	0	2	2	-
Freedom Leisure	196	3	4	24.7%
Parkwood Leisure	4	1	2	24.7%
University of Wales Trinity St David	111	171	235	28.0% (+£533,400)
	<b>20,385</b>	<b>13,862</b>	<b>11,829</b>	

### **Pension Fund Committee 2020/21**

**Chairman** Cllr C E Lloyd

**Vice Chairman** Cllr P Downing

#### **Committee Members**

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

#### **Advised by:**

##### **Council Officers**

B Smith, Section 151 & Chief Finance Officer  
J Dong, Deputy Chief Finance Officer

**Cconsultancy Service** Hymans Robertson LLP

#### **Local Pension Board (as at 31<sup>st</sup> March 2021)**

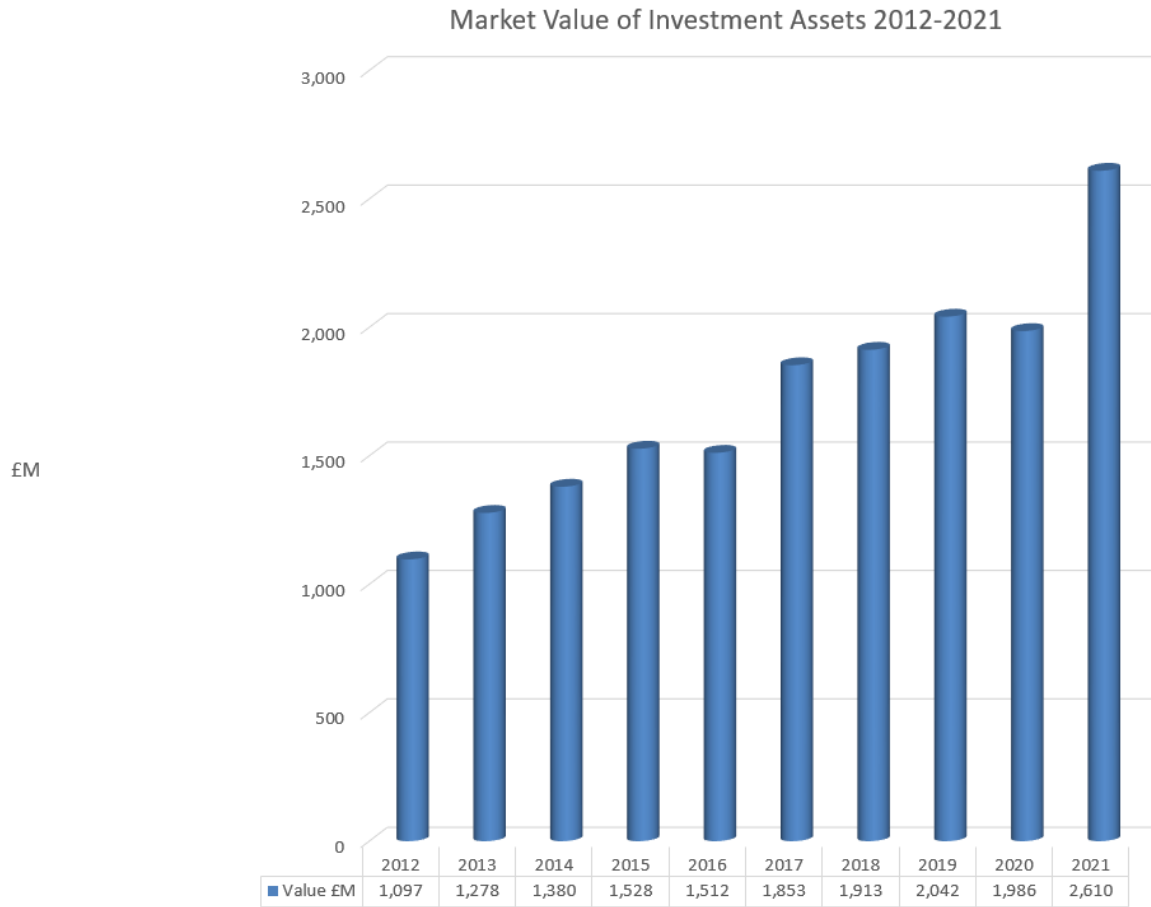
Mr Ian Guy  
Cllr M White  
Ms Rosemary Broad  
Mr David Mackerras  
Mr David White  
Cllr Alan Lockyer

#### **Investment Managers**

- Global Equities and Fixed Income – Russell Investments on behalf of Wales Pension Partnership
- Global Balanced Index Tracking/ Low Carbon Fund - Blackrock
- Global Bonds - Goldman Sachs Asset Management
- Fund of Hedge Funds - Blackrock and EnTrustPermal
- Fund of Private Equity Funds – HarbourVest & Blackstone
- Fund of Property Funds - Partners Group, Schroders Investment Management
- European Property Fund- Invesco Real Estate Europe Fund
- Fund of Infrastructure Fund – First Sentier, Blackrock
- Fund of Private Debt – Alcentra, CVC Credit Partners, Goldman Sachs Asset Management
- Residential Housing - BMO

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

## Appendix 3

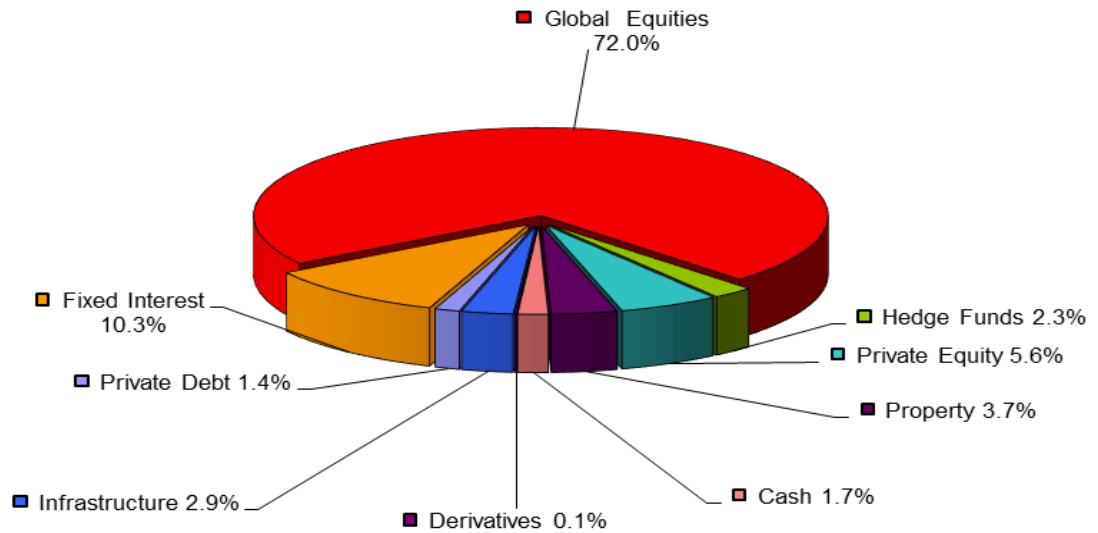




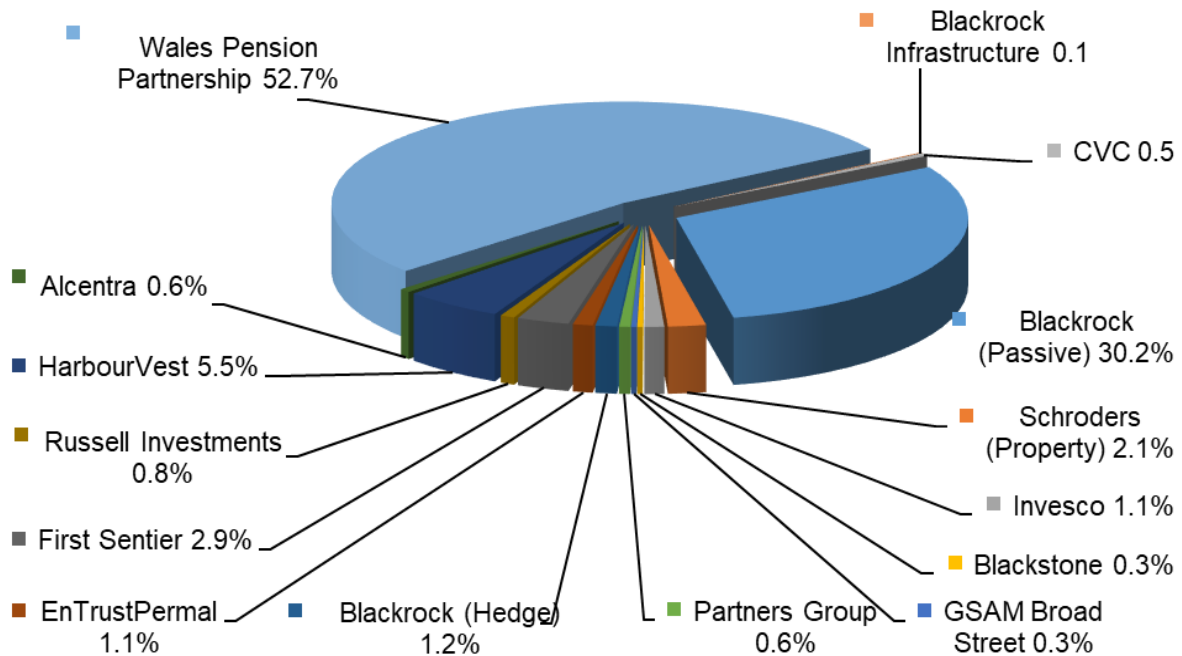
## Portfolio Distribution Summary

31 March 2020			31 March 2021	
Market Value			Market Value	
£'000	%		£'000	%
		<b>Fixed Interest Stocks</b>		
223,917	11.3	Fixed Interest	230,537	8.9
35,111	1.8	Index Linked	35,919	1.4
259,028	13.1		266,456	10.3
1,393,278	70.2	<b>Global Equities</b>	1,879,292	72.0
49,971	2.5	<b>Hedge Funds</b>	60,062	2.3
91,997	4.6	<b>Private Equity</b>	146,891	5.6
99,854	5.0	<b>Property</b>	96,274	3.7
33,635	1.7	<b>Infrastructure</b>	75,665	2.9
11,798	0.6	<b>Private Debt</b>	37,980	1.4
0	0	<b>Residential Housing</b>	0	0
1,811	0.1	<b>Derivatives</b>	2,637	0.1
<b>1,941,372</b>	<b>97.8</b>	<b>Sub Total</b>	<b>2,565,257</b>	<b>98.3</b>
44,442	2.2	<b>Cash held by Managers &amp; Temporary Investments</b>	44,676	1.7
0	0.0	<b>Other Investment Balances - Dividends Due</b>	40	0
<b>1,985,814</b>	<b>100</b>	<b>Total</b>	<b>2,609,973</b>	<b>100</b>

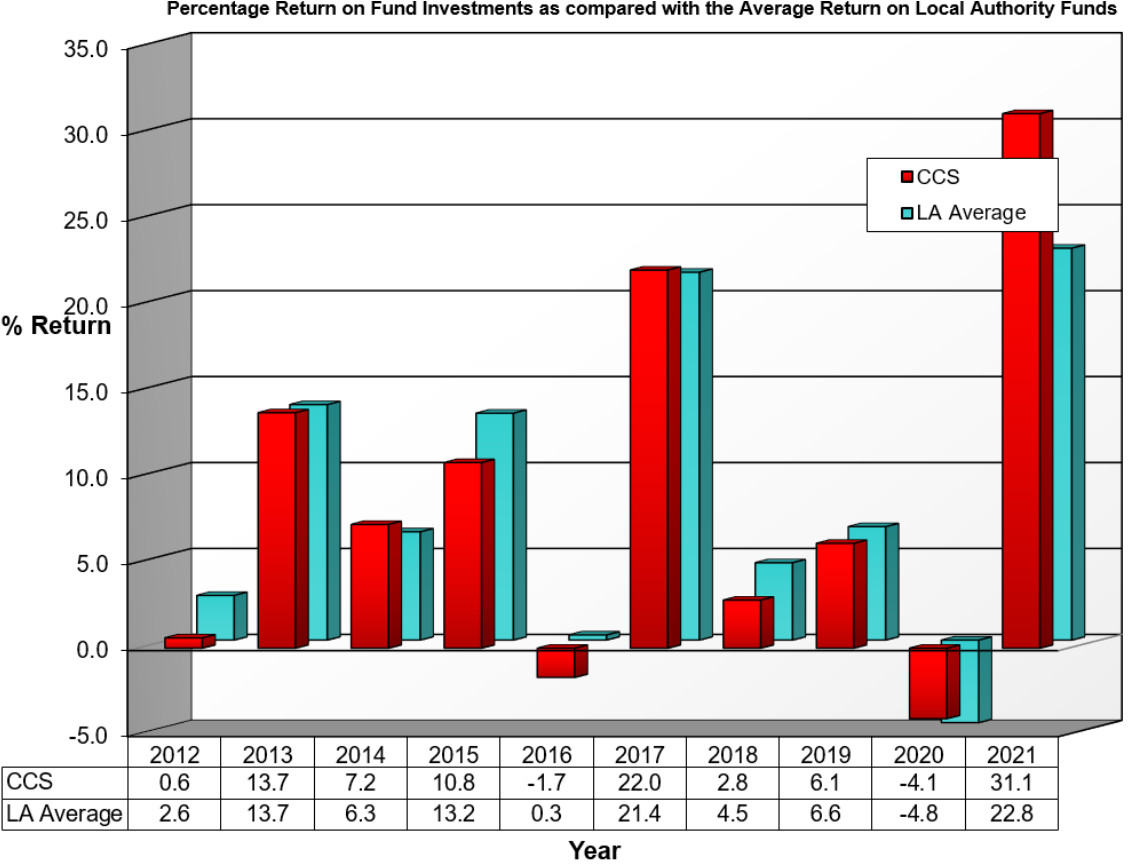
**Analysis of Investments - Market Value 31 March 2021**



**Fund Manager Breakdown - Market Value 31 March 2021**



# Appendix 5



### Pensions Section Performance Measures

Service Objective	Performance Indicator	Actual 2018/19	Actual 2019/20	Actual 2020/21
To calculate all types of pension benefits accurately	Payment of retirement benefits to members within 1 month after benefit becomes payable.	85%	64.6%	45.71%
	Payment of retirement benefits to members within 1 month of the date all information was received.	95%	98.06%	98.571%
To deal with transfers both into and out of the scheme	Quotation of transfer value to new pension provider for deferred members within 3 months of request	90%	95.92%	100%

**City & County of Swansea Pension Fund**  
**Investment Strategy Statement**

## Investment Strategy Statement

### **Introduction and background**

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

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

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

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

### **The suitability of particular investments and types of investments**

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

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

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

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

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

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

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

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

### **Investment Beliefs**

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

### **Investment of money in a wide variety of investments Asset classes**

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

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

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

## Current Fund Allocation

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

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

### Managers

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

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

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

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

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

### **Funding risks**

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

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

The Committee measures and manages financial mismatch in two ways:

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

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

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

### **Asset risks**

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



- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

### **The Committee measure and manage asset risks as follows.**

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

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

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

### **Other provider risk**

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

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

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

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

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

1. That the Pool enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund.
2. That there is a clear financial benefit to the Fund in investing in the solution offered by the Pool, should a change of provider be necessary.

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

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

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

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

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

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

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

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

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

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

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

March 2018

## Appendix 1: Statement of Investment Beliefs

To be completed post Committee discussion on Investment beliefs paper

## Appendix 2 : Fund Benchmarks

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

## **City & County of Swansea Pension Fund Funding Strategy Statement 2020**

### **1. INTRODUCTION**

#### **Overview**

- 1.1 This Statement, originally prepared in accordance with Regulation 76A of the Local Government Regulations 1997 has been reviewed in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (the LGPS Regulations). The Statement describes City and County of Swansea's strategy, in its capacity as Administering Authority (the Administering Authority), for the funding of the City and County of Swansea Pension Fund (the Fund).
- 1.2 As required by Regulation 58(4)(a), the Statement has been prepared having regard to:
- 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 where 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 is 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 Mr Jeffrey Dong, [Jeffrey.dong@swansea.gov.uk](mailto:Jeffrey.dong@swansea.gov.uk) 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**

Any appeal against the Administering Authority's decision must be made in writing to Mr Jeffrey Dong, Deputy Chief Finance Officer within 6 months of being notified of the decision.

An appeal will require the employer to evidence one of the following:

- deviation from the published policy or process by the Administering Authority, or
- any further information (or interpretation of information provided) which could influence the outcome, noting new evidence will be considered at the discretion of the Administering Authority.

## **Local Government Pension Scheme (LGPS) - Governance Arrangements**

### **Introduction**

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

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

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

### **The City & County of Swansea Pension Fund Governance Arrangements**

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

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

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

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

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

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

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

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



## City & County of Swansea Pension Fund

### Governance Policy Statement

#### Background

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

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

#### *Constitutional Framework*

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

#### Introduction to Pension Fund Governance

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

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

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

members of the panel fulfil a quasi trustee function, equivalent to the trustees of a private sector Pension Fund.

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

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

Pension Fund Management can be divided into two main areas:

### 1. **Investment Management**

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

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

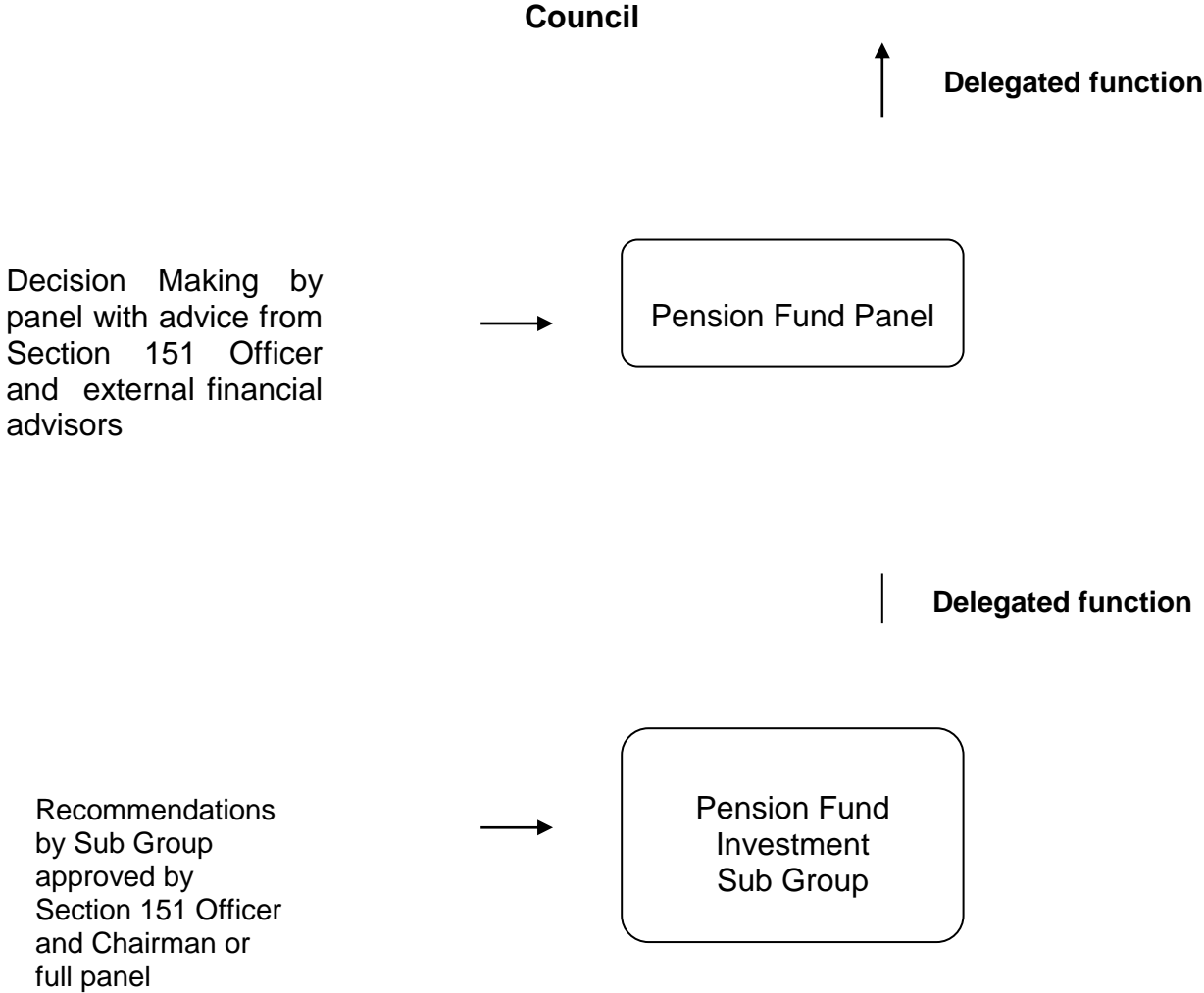
Proper control needs to be exercised over the providers of these specialist services. The Panel should set a comprehensive policy for the Fund which should include asset allocation management, for example the Fund gearing, (proportion of higher risk investments, equities, property etc) to fixed interest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

## **2. Fund Administration**

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

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

**Pension Fund Governance: Structure Overview**



### **Membership of the Pension Fund Committee**

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

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

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

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

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

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

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

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

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

### **Operational Procedure of Meetings**

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

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

Agenda items are to include:

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

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

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

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

to undertake :

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

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

### **Asset Allocation**

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

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

### **Membership**

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

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

### **Responsibility**

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

#### **Investment manager selection and performance monitoring :**

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

#### **Cashflow Allocation**

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

#### **Tactical Asset Allocation**

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



## **GOVERNANCE COMPLIANCE STATUTORY GUIDANCE**

### **PART I**

#### **INTRODUCTION**

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

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

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

#### **BACKGROUND**

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

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

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

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

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

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

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

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

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

## **STATUTORY BACKGROUND**

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

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

“Governance compliance statement

- 73A.—(1) An administering authority must prepare a written statement setting out—
- (a) whether they delegate their function, or part of their function, in relation to maintaining a pension fund to a committee, a sub-committee or an officer of the authority;
  - (b) if they do so—
    - (i) the terms, structure and operational procedures of the delegation;
    - (ii) the frequency of any committee or sub-committee meetings;
    - (iii) whether such a panel or sub-committee includes representatives of employing authorities (including authorities which are not Scheme employers) or members, and, if so, whether those representatives have voting rights;
  - (c) the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying.
- (2) An administering authority must publish the first such statement on or before 1st March 2008.
- (3) An administering authority must—
- (a) revise their statement following a material change in respect of any of the matters mentioned in paragraph (1); and
  - (b) publish the statement as revised.
- (4) In preparing or revising their statement an administering authority must consult such persons as they consider appropriate.

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

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

## **PURPOSE**

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

## **TERMINOLOGY**

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

## **POSITION OF NON-LOCAL AUTHORITY ADMINISTERING AUTHORITIES**

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

## **SUGGESTED READING**

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

- a) Good Governance Standards for Public Services (Office for Public Management, Alan Langlands – January 2005)
- b) Code of Corporate Governance in Local Government (CIPFA/SOLACE – 2007)
- c) Institutional Investment in the UK – A Review (HM Treasury – March 2001)
- d) Local Government Pension Scheme : Pension Fund Decision Making – Guidance Note (CIPFA Pensions Panel – 2006)

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

## **PART II - THE PRINCIPLES**

### **Part II/A - Structure**

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

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

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

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

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

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

### **Part II/B - Representation**

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

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

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

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

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

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

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

### **Part II/C - Selection and role of lay members**

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

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

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

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

### **Part II/D – Voting**

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

Elected members of the administering authority

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

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

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

Lay members of advisory panels, etc

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

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

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

#### **Part II/E – Training/Facility time/Expenses**

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

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

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

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

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

#### **Part II/F – Meetings (frequency/quorum)**

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



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

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

- a) That an administering authority's main panel or panels meet at least quarterly.
- b) That an administering authority's secondary panel or panel meet at least twice a year and is synchronised with the dates when the main panel sits.
- c) That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.

#### **Part II/G - Access**

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

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

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

#### **Part II/H – Scope**

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

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

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

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

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

### **Part III – Publicity**

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

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

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

**Principle A – Structure**

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

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

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

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

**Principle B – Representation**

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

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

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

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

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

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

	Not Compliant*			Fully Compliant	
<b>a)</b>					✓

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

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

**Principle D – Voting**

	Not Compliant*			Fully Compliant	
a)					✓

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

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

**Principle E – Training/Facility Time/Expenses**

	Not Compliant*			Fully Compliant	
a)					✓
b)					✓

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

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

given above :-

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

**Principle F – Meetings (frequency/quorum)**

	Not Compliant*			Fully Compliant	
<b>a)</b>					✓
<b>b)</b>					NA
<b>c)</b>					✓

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

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

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

**Principle G – Access**

	Not Compliant*			Fully Compliant	
<b>a)</b>					✓

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

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

**Principle H – Scope**

	Not Compliant*			Fully Compliant	
a)					✓

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

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

a) The main panel has always considered within its remit all associated Pension Fund matters.

**Principle I – Publicity**

	Not Compliant*			Fully Compliant	
a)					✓

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

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



## Communications Policy Statement

### Introduction

The City and County of Swansea Pension Fund endeavours to provide a high quality and consistent service to our customers in the most efficient and effective manner possible, particularly in an ever changing pensions environment.

There are 5 distinct groups with whom the fund needs to communicate.

1. Scheme Members
2. Prospective Scheme Members
3. Scheme Employers
4. Other Bodies
5. Fund Staff

The City and County of Swansea Pension Fund aims to use the most appropriate communication method for the audiences receiving the information. This may involve using more than one method of communication as considered appropriate.

The Policy document has been prepared, as required, by Regulation 106B of the Local Government Pension Scheme Regulations 1997 and sets out the mechanisms, which are used to meet those communication needs and is subject to periodic review.

### **SCHEME MEMBERS**

Scheme members include current contributors, those with a deferred benefit and those receiving a pension.

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

## **Annual Report and Accounts**

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

## **Newsletter**

To satisfy disclosure requirements the Fund will issue a newsletter to active Scheme members of the fund on an ad hoc basis, which will cover current pension topics within the LGPS and pensions industry in general.

An annual newsletter is sent to all pensioners, which includes information on the annual pensions increase, the payment dates of the monthly pension for the forthcoming year and other matters of interest.

## **Annual Benefit Statements**

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

Members who have a deferred benefit with the Fund the annual benefit statements, providing the up rated value of benefits, will be available to view online via the member self-service facility. If the member has elected to 'opt out' from receiving e-coms notifications a hardcopy annual benefit statement will be sent directly to the home address where a current address is known.

## **Scheme Literature**

An extensive range of Scheme literature is produced by the Fund including an employee's guide to the LGPS, which is provided to all active members upon commencement and to other active members upon request. The guide(s) are updated periodically to reflect any changes to the Scheme Regulations.

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

## **Correspondence**

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

## **Payment Advice/P60**

Pensioners will only be issued with a payment advice slip from the Pension Payroll Section if there is a £10.00 net pay variance from the previous month. P60 notifications, which provide a breakdown of the annual amounts paid, are available annually in May.

## **Employee Surgeries/Presentations**

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

## **Pre-Retirement Courses**

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

## **Existence Validation – Life Certificate Exercise**

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

## **Overseas Pensioners**

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

## **Website**

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

prime source of information on the pension scheme, including electronic copies of Scheme literature and policies to ensure timely, up-to-date, and easy to access information.

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

### **General Communications**

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

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

## **PROSPECTIVE SCHEME MEMBERS**

### **Scheme Leaflet**

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

### **Promotional Leaflet**

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

### **Corporate Induction Courses**

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

### **Trade Unions**

The Fund will work with the relevant Trade Unions to ensure all interested parties understand the Scheme. Training days for branch officers will be provided upon request, and efforts will be made to ensure that all pension related issues are communicated effectively with the Trade Unions.

### **Website**

The Fund's website will contain a specific section for prospective joiners or optants out, highlighting the benefits of planning for retirement and what the Scheme provides to allow the member to make an informed choice.

## **SCHEME EMPLOYERS**

The Fund communicates with its participating employers in several ways to help them meet their responsibilities as Scheme employers.

### **Annual Report and Accounts**

The audited accounts of the City and County of Swansea Pension Fund are prepared as at 31 March each year and a copy is distributed to each participating employer.

### **Employer Meetings**

The Fund will hold an annual consultative meeting to discuss the Funds' Annual Report and Accounts. The meeting will also be used to communicate major strategic issues and significant legislation changes as well as triennial valuation matters.

Periodical meetings will be held to discuss specific issues as they arise.

### **Pension Administration Strategy**

A Pension Administration Strategy has been published, in accordance with the Scheme Regulations, to define the responsibilities of both the Fund and all Scheme employers in the administration of the Scheme.

The Strategy sets out the level of performance expected from the City and County of Swansea Pension Fund and all employers, as well as the consequence of not meeting statutory deadlines.

### **Employer's guide**

An Employer's Guide has been issued to assist the employers in discharging their pension administration responsibilities. This is supported by the dedicated Communication Officer, who will provide assistance in administrative matters whenever necessary.

### **Updates**

Regulatory and administrative updates are frequently issued to all employers via email.

## **Training**

Bespoke sessions can be delivered, on request, by the dedicated Communication Officer to resolve any administrative issues identified by the employer.

## **Website**

The Fund Website has a dedicated employer area to provide employers with the guidance needed to effectively discharge their administrative responsibilities and includes updates as well as forms and notes of guidance, which can be downloaded.

## **OTHER BODIES**

### **All Wales Pensions Officer's Group**

Pensions Officers from all the Welsh administering authorities meet regularly in order to share information and ensure uniform interpretation of the LGPS and other prevailing regulations.

### **Wales Pension Partnership Group**

The Fund works continuously to collaborate with other Welsh Pension Funds to evaluate specific partnership arrangements, particularly within the All Wales Pension Funds Communication Working Group.

### **Trade Unions**

Trade Unions in South West Wales are valuable ambassadors for the Pension Scheme. They ensure that details of the Local Government Pension Scheme's availability are brought to their members' attention and assist in negotiation under TUPE transfers in order to ensure, whenever possible, continued access to the Local Government Pension Scheme.

### **Seminars**

Fund Officers regularly participate at seminars and conferences held by LGPS related bodies.

### **National Information Forum**

These meetings, which are attended by representatives from the Ministry for Housing, Communities & Local Government (MHCLG) and the Local Government Pensions

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

### **Pension Fund Committee**

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

### **FUND STAFF**

There is a responsibility on all staff to ensure effective communication at all levels across the service.

### **Induction**

All new members of staff undergo an induction programme. A periodic appraisal programme is also exercised to review and monitor employee performance and development.

### **Training and Support**

The Fund seeks to continually improve the capacity of staff to communicate effectively and to understand the importance of high-quality communication.

Both general and pension specific training is provided in-house, by the dedicated Communications Officer or by specialists, where applicable, as part of the Fund's commitment to continual improvement as well as encouraged to obtain the professional qualification of pension administration and management.

### **Fund Meetings**

Section and Team meetings are held on a regular basis. Items arising from such meetings are escalated through to Senior Managers and Chief Officers. Due to the change to home working. Staff meetings will be held via Microsoft Teams

### **Internet**

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



## **E-mails**

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

## **The Local Government Pension Committee**

National Website: [www.lgps.org.uk](http://www.lgps.org.uk)

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

## **Seminars**

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

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

## **Data Protection**

To protect any personal information held on computer, the City and County of Swansea Pension Fund, as administered by Swansea Council (the Administering Authority), has adhered to the data protection principles in accord with the Data Protection Act 1998

The General Data Protection Regulation (GDPR) is a new set of European Union (EU) Regulations, which came into force on 25 May 2018. The Regulation changed how organisations process and handle data, with the key aim of giving greater protection and rights to individuals. Please refer to the City and County of Swansea Pension Fund website [www.swanseapensionfund.org.uk](http://www.swanseapensionfund.org.uk) to view the Funds Privacy Notice. The notice is designed to give you information about the data we hold about you, how we use it, your rights in relation to it and the safeguards that are in place to protect it.

Staff members receive online training in Data Protection every two years.

## **Freedom of Information Act 2000**

The City and County of Swansea Pension Fund complies with the above Act and subsequent policy adopted by Swansea Council.

## **National Fraud Initiative (NFI)**

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

## **General**

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

## **Policy Review**

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

## **LGPS National Insurance Database**

The City and County of Swansea Pension Fund participates in the LGPS National Insurance (NI) Database ('the database'). The database has been developed in order that LGPS Administering Authorities can share data to prevent the duplicate payment of death grants. This follows changes to Scheme Regulations by virtue of which a deceased member with multiple periods of LGPS membership will in most cases only have one death grant payable.

**Fund Publications - publication frequency & review periods**

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

**Economic and Social Governance Policy - City and Council of Swansea Pension Fund**

**Introduction**

The Committee recognise that environmental, social and corporate governance ('ESG') issues can influence the Fund's long-term returns and reputation. Given this, the Committee aims to be aware of, and monitor, financially material ESG factors.

The day to day management of the Fund is delegated to professional investment managers. Regular meetings are held with the Fund's managers where they are expected to provide a summary of actions that they have taken, or are taking, to consider ESG factors on a day to day basis.

In line with investment regulations, and to guide them in the strategic management of the Fund's assets, the Committee has adopted an Investment Strategy Statement ('ISS').

The Committee commits to an ongoing development of its ESG policy to ensure it reflects latest industry developments and regulations. The Committee together with their investment consultant will review the ESG policy annually at the same time as reviewing their ISS.

The Committee has agreed a series of beliefs which have been incorporated into their ISS. These beliefs strengthen their position in regard to considering ESG factors and provide a framework for their engagement through their Fund managers.

In the appendix of this document we discuss the results of the Fund's 2017 "carbon foot-printing" exercise, which informed some of the considerations included within this policy.

## Statement of Responsible Investment

The Committee considers the Fund's approach to responsible investment in two key areas:

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

The following principles set out the Fund's approach:

- The Committee recognises that their duty is to act in the best financial interests of the Fund's beneficiaries. The Committee believes that ESG issues can have a material financial impact on the long term performance of its investments and consideration of such factors is a part of their fiduciary duty.
- The Committee has a number of ESG related beliefs which are integrated into the Fund's overall belief statement. The Committee recognises that successful engagement can protect and enhance the long-term value of the Fund's investments. This engagement can apply across a range of assets.
- The Committee endorses the principles embedded in the UK Stewardship Code.
- The Committee encourages engagement by their investment managers with investee companies on ESG factors to positively influence company behaviour and enhance the value of the holdings. In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.
- Investment managers are expected to take account of ESG factors as part of their investment analysis and decision-making process. Further, ESG issues will be an explicit factor in considering the appointment of any new investment manager, mandate and benchmark.
- Investment managers are expected to incorporate reporting on ESG factors into their regular reporting. This includes information on voting and engagement, in addition to details on how the investment managers assess and manage ESG factors in relation to their respective mandates. The Committee encourages their investment managers to develop their reporting and monitoring of ESG factors over time.
- The Committee believes that they will have greater influence on the future direction of companies if they remain invested. Overall engagement activities are viewed by the Committee as a key element of the broader approach to responsible investing. Remaining invested provides the Fund with a voice on how

companies are generating their revenues and how they will change in the future. The Committee view divestment as being the ultimate sanction.

- The Committee intends to make use of collaboration with other funds to pursue their engagement policy. To help with this, the Fund is a member of the Local Authority Pension Fund Forum (“LAPFF”), one of the UK’s leading collaborative shareholder engagement group.
- The Committee seeks greater transparency of the ESG relative aspects associated with their underlying investments. This includes the extent of the Fund’s equity investments’ carbon exposure and the Fund’s exposure to stocks that may gain from a change in industry carbon policy.
- The Committee has made a commitment to reduce the Fund’s listed equity portfolio’s carbon exposure, as part of this, it has set a target of the Fund’s equities being 50% lower when compared to the global stockmarket by 2022 (MSCI AC World index, measured in terms of carbon emissions per \$m invested).
- The Committee may consider portfolio ‘tilts’ in line with ESG or responsible investment objectives.
- Training and education is likely to form a key element in developing the Fund and its Committee position on ESG related matters.

### **Voting policy**

The Committee and the Officers work closely with the Fund’s investment managers to support good corporate behaviour.

The managers are required to exercise their voting rights on behalf of the Fund when it is in the best interests of the Fund. Voting will be in accordance with the managers’ corporate governance policies. The Committee also retains the right to instruct managers at any time to vote according to the Committee’s wishes on a particular resolution (acknowledging that there may be limitations as to how this would work for pooled investments).

The Committee review their managers’ voting guidelines on a regular basis (at least biannual) to determine their appropriateness for the Fund.

All managers are expected to report their voting records on a quarterly basis. The Committee is committed to disclose voting records to the Fund’s membership on an annual basis through the Fund’s website.

In making any future manager appointments, the Committee will assess the managers’ voting policy as part of the due diligence process and will instruct the appointed manager accordingly. The Committee will also liaise closely with the Wales Pool Operator to ensure that they also adopt this approach.

## Engagement policy

The Committee believe that engagement is a positive activity and encourage the Fund's investment managers to engage where they believe that value can be added or risk can be reduced.

The Committee believes that all engagements should have well-defined objectives. The Fund's investment managers are to report on the objectives of any engagement activity, along with the consequent success or failure of any actions taken on, at least, an annual basis. The Committee will publish a summary of engagement activity undertaken by their managers on an annual basis. The Committee will also publish other collaborative activity carried out over the year e.g. as part of the membership with LAPFF.

The Committee supports engagement activity that seeks to achieve:

- Greater disclosure of information on the ESG related risks that could affect the value of an investment;
- Transparency of an investments' carbon exposure and how such companies are preparing for the transition to a low carbon economy.<sup>1</sup>

The Committee encourage their investment managers to actively participate in collaborative engagements with other investors where this is deemed to be in the best interests of the Fund. Managers are to report on their collaborations on an annual basis.

The Committees' investment consultant is required to provide input and analysis to assist the Committee in assessing the Fund's investment managers' performance from an ESG engagement perspective. This includes working closely with the Officers to develop the appropriate training arrangements.

The Committee liaise closely with the Wales Pool Operator to ensure that they also adopt the approaches set in this policy. The Fund's investment managers are encouraged to sign up to the appropriate industry initiatives, including the UK Stewardship Code, LGPS Cost Transparency and the Principles of Responsible Investment. The Fund is not currently signed up to the UK Stewardship Code or the PRI but is investigating the possibility.

### **Appendix 1: Carbon exposure – 2017 review**

*Paper issued by Hymans Robertson in March 2018*

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<sup>1</sup> As stated, the Committee has a desire to reduce the Fund's listed equity portfolio's carbon exposure and, as part of this, it has set a target of the Fund's equities being 50% lower when compared to the global stockmarket by 2022 (MSCI AC World index, measured in terms of carbon emissions per \$m invested). The Committee will aim to carry out a carbon foot-printing exercise of their equities at least on a triennial basis. The first of these reviews took place in 2017 (the results are discussed in the appendix to this paper).



## Background

### Environmental Social and Governance (“ESG”)

The Committee has taken a number of steps to understand the impact of ESG issues on the Fund. In November 2017, Hymans Robertson delivered a detailed training session covering responsible investing, ESG and climate change. Hermes Equity Ownership Service also delivered a presentation highlighting examples of the positive change they had delivered through engaging with companies’ management and placing shareholder votes on their clients’ behalf. The Committee and Board considered their “investment beliefs” in the context of ESG matters and the results have recently been used to develop the ESG policy outlined in this paper

### Carbon

As part of the Fund’s ESG focus, the Committee commissioned MSCI to undertake an analysis of the portfolio’s carbon exposure. MSCI has information on each global stocks’ carbon related exposure (or is in a position to make an assumption<sup>2</sup>). Using this information, MSCI is able to compare the carbon exposure of the Fund’s holdings with a range of reference benchmarks.

MSCI was provided with the individual holdings data from each of the Fund’s equity managers (ex-Aberdeen’s’ frontier markets mandate due to lack of comparable industry benchmark data) and with specific details on each of the mandates in terms of their benchmarks and allocations<sup>3</sup>. MSCI then compared the portfolio versus the broad global market capitalisation index (e.g. the MSCI ACWI as a proxy for the global stockmarket) and versus a low carbon version of the global index (this index has the same performance objective of the broad market capitalisation index, but has a general aim of being overweight to companies with low emissions relative to sales and low potential emissions).

In the remainder of this paper, we consider the results from this analysis and set out potential next steps for the Fund.

### Output of the analysis

#### Overview

The analysis focuses on the Fund’s equity exposure at 31 March 2017. This date was shown as it ties in with Fund’s year end.

The main objective was to get an understanding of the Fund’s carbon exposure. However, it also created an opportunity to consider the positions being taken by the Fund’s active managers, relative to their benchmark. The Fund’s passive manager’s exposure will be broadly in line with the underlying benchmark. However, the analysis

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<sup>2</sup> Further details on the assumptions made are included in MSCI’s reports.

<sup>3</sup> To tie in with MSCI’s benchmark range a number of pragmatic compromises were made, including comparing the Aberdeen and JP Morgan portfolios versus the global index, rather than a global ex UK index and Schroders’ UK mandate versus a European benchmark. These compromises will impact the relative position of the results, but they should have no impact on the absolute results, not the key themes coming out the analysis. The date was based on the Fund’s holdings at 31 March 2017.

gives the opportunity to compare the carbon exposure of the standard global benchmark versus its low carbon equivalent.

The analysis also includes some information regarding the Fund's exposure to clean technology, which are expected to benefit from any move towards a more low carbon economy.

### **Key carbon metrics**

The key metrics can be defined as:

- **Carbon emissions** - the carbon emission (tonnes of CO<sub>2</sub>) per \$million invested. *Sum of ((\$investment in issuer/issuers' market cap) \* issuer's emissions) – results shown as per \$m invested*
- **Carbon intensity** – a measure of a portfolio's carbon efficiency and is defined as the total carbon emissions of the portfolio as a proportion of portfolio sales. This is a useful metric in allowing the comparison of emissions across companies of different sizes and industries. *Sum of issuers' carbon emissions/ Sum of issuers' \$m sales*
- **Weighted average carbon intensity** – the sum product of the constituent weights and carbon intensity. *Sum of portfolio weights\*carbon intensity*

Each of these metrics have merit. For the purpose of this paper, we define carbon emissions as the “carbon footprint”, but the other metrics could also have been defined in this way.

## **Results**

### **Carbon focused**

Overall, the results are encouraging. As shown in chart 1, the Fund's total equity holdings had a carbon footprint 9% lower than the MSCI ACWI and the weighted average carbon intensity is 16% lower. However, Chart 1, also highlights that the MSCI Low Carbon benchmark has an 80% smaller carbon footprint than the MSCI ACWI index highlighting that the choice of the underlying benchmark can have a significant impact on investors' carbon emissions.

Chart 1: Carbon emission metrics

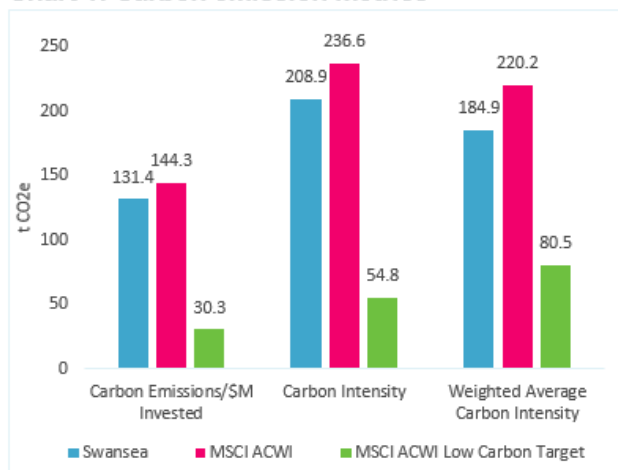
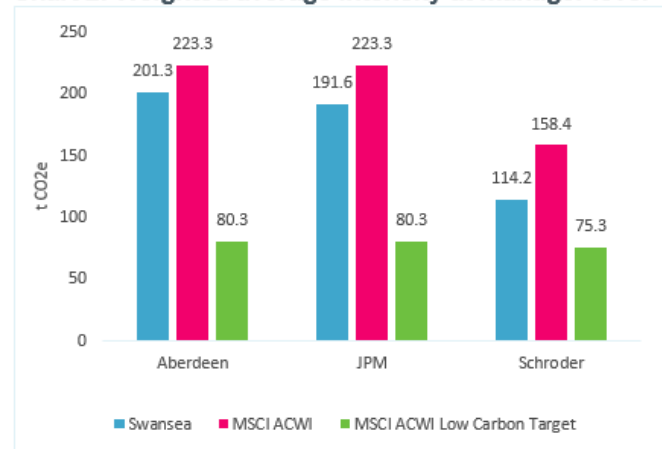


Chart 2: Weighted average intensity at manager level <sup>4</sup>

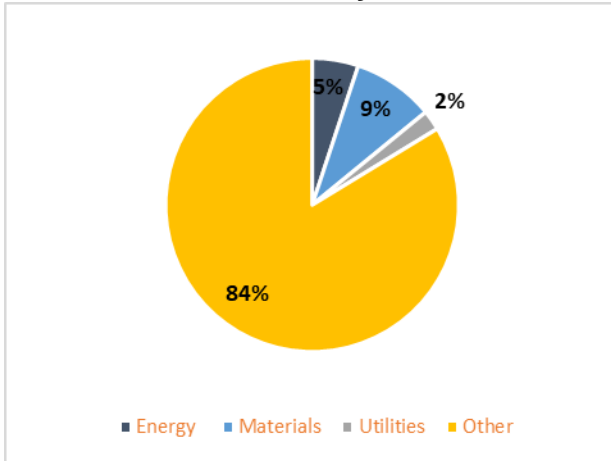


Details of each of the Fund’s active managers’ weighted average are shown in Chart 2. Each manager has delivered a portfolio with a lower position than their respective market capitalisation benchmark. Interestingly, although the Fund’s two global managers (Aberdeen and JP Morgan) have similar weighted average exposure, there were notable differences in the carbon emissions (with JP Morgan notable higher due (c80% higher) to a number of their underlying Materials holdings, including Posco and Alco Corporation). Aberdeen’s weighted average results were negatively impacted by the manager’s Real Estate exposure (most notably Swire Pacific) and Materials exposure, including Praxair and Potash Corp.

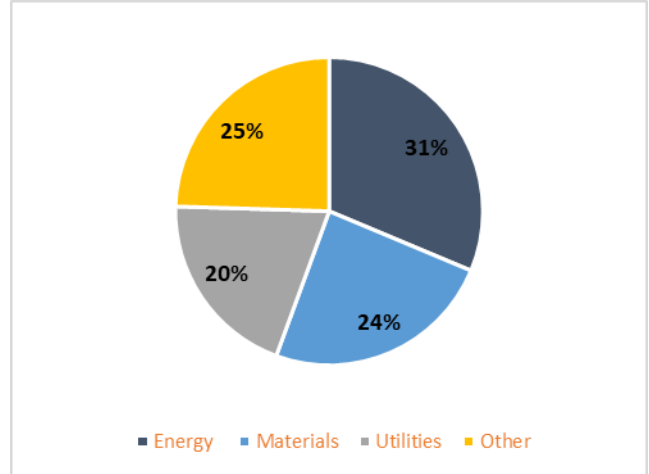
Schroder’s carbon footprint is lower than the benchmark index, albeit the holdings in Royal Dutch Shell and Carnival were notable contributors to the mandate’s carbon intensity.

Considering the analysis at a sector level, the Fund’s exposure to the materials, energy and utilities sectors contribute to the majority of the Fund’s carbon footprint. Together, these sectors contribute to 75% of the Fund’s carbon emissions despite only comprising 16% of the Fund’s equity portfolio. This is illustrated in Charts 3 and 4 below.

**Chart 3: Market value by sector**



**Chart 4: Contribution to carbon emissions**



In such exercises, the energy, materials and utilities sectors are typically those with the highest carbon intensity although a company is not “bad” simply because it happens to operate within a carbon intensive sector. It is important to recognise that some sub-sectors will have very low carbon intensity. For example the utilities sector includes both water companies (low carbon intensity) and electricity companies (high carbon intensity).

### **Scope 1 and Scope 2**

Carbon emissions are typically shown in three main “scopes”

- Scope 1: Direct “emissions from sources owned or controlled by the organisation”
- Scope 2: Indirect “emissions from the consumption of purchased electricity, steam or other energy generated upstream”
- Scope 3: Other indirect e.g. employee commuting.

To date, the majority of the industry focus is on Scopes 1 and 2 (as was the results of MSCI’s analysis). The Fund’s exposure is c 80% from Scope 1, which is slightly less than the MSCI ACWI, which is 84%. Only 58% of the MSCI ACWI Low carbon index comes from Scope 1. This notable change in the benchmark splits between scopes 1 and 2 reflects some of the main sector differences between the two benchmarks.

### **Carbon risk management relative to industry**

MSCI also included their views on companies’ position relative to their industry in dealing with managing carbon risk (MSCI rates companies as Leaders, Average or Laggards). In terms of the top ten contributors to each active managers’ weighted carbon intensity:

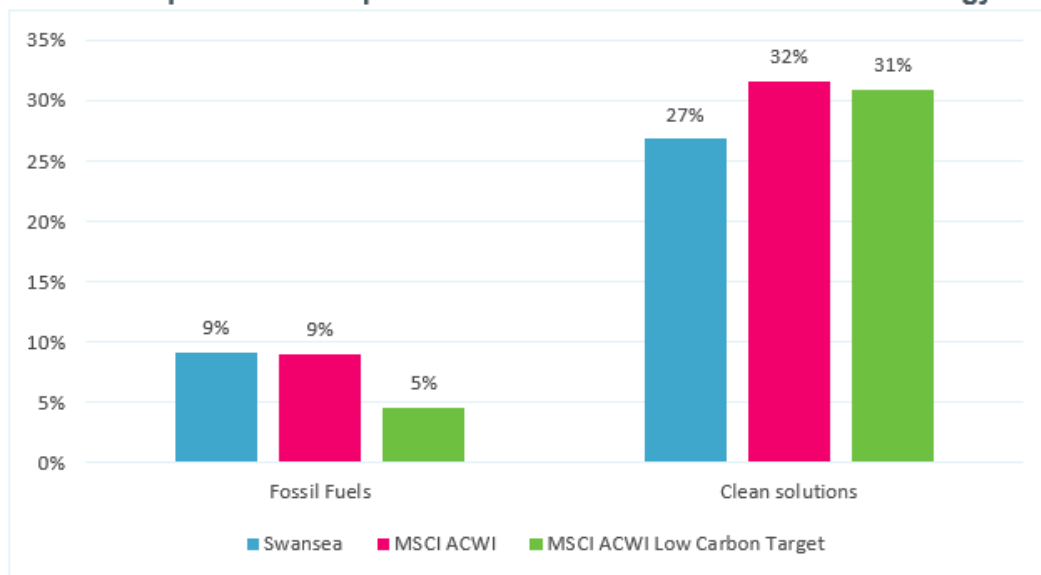
- Two of Aberdeen’s Materials holdings (Maple Leaf and Tenaris) are viewed as being a laggards. We recommend that you follow up on these holdings with the manager.
- None of JP Morgan’s or Schroders were viewed as laggards.

## Thermal coal, oil and gas reserves

MSCI also considered the proportion of the portfolio which is made up by companies that own thermal coal, oil and gas reserves, three areas that are thought to be most at risk of being “stranded” assets. Chart 5 (left hand side) below shows that the Fund’s portfolio is 0.2% overweight, relative to the MSCI ACWI, in companies that own Fossil Fuel Reserves. The key contributors to this are the Fund’s holdings in Shell, BP, Lukoil and Rosneft (JP Morgan are notable investors in the latter two stocks).

## Chart 5: Proportion of companies held in fossil fuels and clean technology

Chart 5: Proportion of companies held in fossil fuels and clean technology



## Clean technology

In terms of focusing on stocks that may benefit from a change in industry carbon policy, chart 5 (right hand side) also analyses companies involved in “clean technology” solutions based on their sales in the following categories: Alternative Energy, Energy Efficiency, Green Building, Pollution Prevention, and Sustainable Water. Relative to the global index, the Fund has less exposure to stocks that generate revenue from these categories (of the Fund’s 27% exposure, the majority is in stocks with 0-20% of their revenue is from these categories).

## **Summary and next steps**

The information from MSCI acts as a useful guide to the Fund's carbon exposure. There are a number of potential next steps for the Committee to consider, which should be considered alongside the Fund's engagement policy and investment beliefs, in particular:

### **Agree objectives**

By carrying out this process, the Committee has achieved one of its objectives of understanding the Fund's carbon exposure (this puts the Fund ahead of any many other funds in doing such an exercise, a recent Greenwich Associates survey suggested that just 5% of UK pension funds had considered such an exercise).

Based on previous discussions, we understand that there is a desire to reduce the Fund's carbon exposure, albeit no specific targets have been discussed, or specifics e.g. emissions, carbon intensity or fossil fuel exposure.

**Details of the specific measures can be considered in more detail over the course of 2018, what is key is that if a target is introduced a consistent method is adopted to allow the Fund's progress to be considered over time.**

### **Reference index**

We propose that the MSCI AC World index is used as the reference index. This is a commonly used index to represent "global stockmarkets" and is commonly used as a benchmark for global equity portfolios.

### **Target levels**

If we focus on carbon emissions, the analysis discussed in this paper indicates that Fund already has c9% less carbon intensity than the index. The extent of your desire to put a target in place (exposure relative to the reference index), and if so, the size of this target should be subject to further discussion with you. However, we anticipate it being in the region of 20%-50% (amount to be defined following discussions with you) of the reference index achieved over an appropriate timescale (e.g. 5 years).

### **Review Fund benchmarks**

The impact of benchmark choice is most notable for the Fund's passive mandates, where the manager's objective is to replicate the underlying index. MSCI's analysis shows the significant difference in the MSCI ACWI and the MSCI Low Carbon benchmarks. There are now a range of low carbon/ESG benchmarks that the Fund could consider. We recommend further training takes place on these during 2018,

with the potential that a proportion (potentially all) of the Fund's passive assets are benchmarked against such a benchmark.

### **Challenge active managers**

The results have flagged the Fund's exposure to specific higher carbon stocks. The Fund's managers should be asked to explain their rationale for holding such stocks, most notably

- Aberdeen: Challenge on engagement with Maple Leaf and Tenaris and understand how firm takes carbon risks into account for Swire Pacific.
- JP Morgan: Challenge on stock selection in energy and materials. How are carbon risks being priced into stock selection decisions.

### **Feed into pooling**

Post pooling the Pool's operator will be responsible for appointing the underlying active managers. The Committee should seek details as to their process for assessing manager's ESG capabilities and willingness to provide carbon reporting.

### **Repeat exercise**

It is important that you assess what progress is made relative to any objectives. However, there needs to be a balance between frequency of analysis, and cost of doing the analysis. We believe every two years should be broadly sufficient, albeit you may wish to receive more frequent updates from your active managers.

### **Consider broader assessment**

Carbon is just one ESG element. There is scope to consider broadening this review to include other ESG related aspects e.g. human rights, labour rights, governance. This would work in a similar way to the process for carbon monitoring i.e. the Fund's underlying holdings compared to a broader universe using a providers underlying scoring.

Where possible this assessment should also be broadened out to the Fund's other asset classes i.e. not just equities.

Prepared by:-

Jordan Irvine, Associate Investment Consultant

William Marshall, Partner

For and on behalf of Hymans Robertson LLP

**General Risk Warning**

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an overseas investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.



## Glossary

**Active Management** - A mark through either Asset Allocation, Market Timing or Stock Selection (or a combination of these). Directly contrasted with Passive Management.

**Actuary** - An independent consultant who advises on the viability of the Fund. every three years the actuary reviews the assets and liabilities of the Fund and reports to the County Council as administering authority on the financial position and the recommended employers contribution rates. This is known as the actuarial valuation.

**Asset Class** - A specific area/type of Investment e.g. uK equities, overseas equities, Fixed Income, Cash.

**Benchmark Return** - The benchmark return is the return that would be achieved if the Fund Manager had not deviated from the weightings of each asset class given to them by the Investment Panel, and had achieved returns in each of these asset classes consistent with the average return of all local Authority Funds for that class. The Benchmark weightings of asset classes is outlined within the Investment Strategy Statement.

**Corporate Governance** - Issues relating to the way in which a company ensures that it is attaching maximum importance to the interests of its shareholders and how shareholders can influence management.

**Equities** - ordinary shares in UK and overseas companies traded on a recognised stock exchange. Shareholders have an interest in the profits of the company and are normally entitled to vote at shareholders' meetings.

**Fixed Interest Securities** - Investments in mainly government stocks, which guarantee a fixed rate of interest. The securities represent loans which are repayable at a stated future date but which can be traded on the Stock exchange in the meantime.

**Fund Manager** - A person or company to whom the Investment of the whole or part of the assets of a fund is delegated by the Trustees.

**Investment** - An asset acquired for the purpose of producing income and Capital Gain for its owner.

**Independent Investment Adviser** - A professionally qualified individual or company whose main livelihood is derived from providing objective, impartial Investment advice to companies, pension funds or individuals, for a stated fee.

**Market Indicators –**

- (i) The movement in Stock market are monitored continuously by means of an Index made up of the current prices of a representative sample of stock.
- (ii) Change in the rates at which currencies can be exchanged.

**Market Value** -The price at which an investment can be sold at a given date.

Out performance/Under performance - The difference in returns gained by a particular fund against an 'Average' Fund or an Index over a specified time period ie a Target for a fund may be out performance of a Benchmark over a 3-year period.

**Passive Management** - (also called Indexation/Index Tracking) A style of Investment Management which aims to construct a Portfolio in such a way as to provide the same Return as that of a chosen Index i.e. Stocks are purchased to be as representative as possible of the make-up of the Index. Contrasts with Active Management.

**Performance** - A measure, usually expressed in percentage terms, of how well a fund has done over a particular time period - either in absolute terms or as measured against the 'Average' Fund or a particular Benchmark.

**Performance Measurement** - A service designed to help investors evaluate the performance of their investments. This usually involves the comparison of a fund's performance with a selected Benchmark and/or with a universe of similar funds. The main Performance Measurement Companies are The WM Company, which the Dyfed Pension Fund uses, and CAPS.

**Portfolio** - A collective term for all the investments held in a fund, market or sector.

**Preserved Benefits** - The pension benefits payable from normal retirement age to a member of the Fund who has ceased to contribute as a result of leaving employment or opting out of the Pension scheme before normal retirement age.

**Return** - The total gain from holding an investment over a given period, including income and increase (decrease) in market value.

**Risk** - Generally taken to mean the Variability of Returns. Investments with greater risk must usually promise higher returns than more 'stable' investments before investors will buy them.

**Transfer Value** - Payments made between funds when contributors leave service with one employer and decide to take the value of their contributions to their new fund.

**Unrealised Increase/Decrease In Market Value** – The increase/(decrease) in market value, since the purchase date, of those investments held at the year end.



## Report of the Section 151 Officer

Pension Fund Committee – 8 September 2021

### Audit Enquiries to Those Charged with Governance

<b>Purpose:</b>	To approve management and those charged with governance responses to audit enquiries 2020/21
<b>Reason for Decision:</b>	To approve the outlined responses.
<b>Consultation:</b>	Legal, Finance and Access to Services.
<b>Recommendation:</b>	That the attached responses to audit enquiries is approved
<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

#### Audit Wales

##### 1 Background

- 1.1 In line with statutory requirements, Audit Wales outlined their audit plan to audit the financial statement and associated financial controls in respect of the City & County of Swansea Pension Fund to the Pension Fund Committee in March 2021. Audit Wales have indicated they shall commence their audit fieldwork w/c Sep 6<sup>th</sup> 2021.
- 1.2 As part of their preliminary work, Audit Wales make some high level enquiries in respect of the governance and control frameworks in place and operational in the management of the pension fund. Attached at Appendix 1 is both the management response and proposed response in respect of those charged with Governance to those audit queries.

##### 2 Recommendation

- 2.1 It is recommended that the attached responses to the audit enquiries is approved.

### **3 Legal Implications**

3.1 There are no direct legal implications arising from this report

### **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 Papers:** None.

**Appendices:** Appendix 1- Management and Those Charged with Governance Response to Audit Enquiries.

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[www.audit.wales](http://www.audit.wales) / [www.archwilio.cymru](http://www.archwilio.cymru)

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

Dear Ben

### **City and County of Swansea Pension Fund 2020-21**

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

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

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

1. Management processes in relation to:
  - undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud;
  - identifying and responding to risks of fraud in the organisation;
  - communication to employees of views on business practice and ethical behaviour; and
  - communication to those charged with governance of the processes for identifying and responding to fraud.
2. Management's awareness of any actual or alleged instances of fraud.
3. How management gain assurance that all relevant laws and regulations have been complied with.

4. Whether there is any potential litigation or claims that would affect the financial statements.
5. Management processes to identify, authorise, approve, account for and disclose related party transactions and relationships.

The information you provide will inform our understanding of the Pension Fund's arrangements and business processes and support our work in providing an audit opinion on their 2020-21 financial statements.

I have included your responses for 2019-20 in Appendix 1 and would be grateful if you could these to reflect your current arrangements. Could you please provide this information on behalf of both management and those charged with governance by 31<sup>st</sup> August 2021. In the meantime, if you have queries, please contact me on 07792 015416.

Yours sincerely

Jason Garcia  
Audit Manager

## Appendix A

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

#### Background

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

What is ‘fraud’ in the context of the ISA?

The ISA views fraud as either:

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

#### What are we required to do?

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

<b>Enquiries of management</b>		
<b>Question</b>	<b>2020-21 Response</b>	<b>2019-20 Response</b>
1) What is management's assessment of the risk that the financial statements may be materially misstated due to fraud and what are the principle reasons?	<p>The assessed risk is Low/Minimal due to the following mitigating factors :</p> <ul style="list-style-type: none"> <li>• Continuity of professionally qualified staff preparing the financial statements</li> <li>• Quarterly Breaches Reporting</li> <li>• Robust framework of internal control (CPRs, FPRs, AIs)</li> <li>• Appropriate segregation of duties for appropriate key roles.</li> <li>• Internal audit reviews of key systems in year.</li> <li>• Regular national fraud initiative ( NFI )</li> <li>• data matching</li> <li>• Review by Deputy S151 &amp; S151 Officer</li> </ul>	<p>The assessed risk is Low/Minimal due to the following mitigating factors</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Continuity of professionally qualified staff preparing the financial statements</li> <li><input type="checkbox"/> Quarterly Breaches Reporting</li> <li><input type="checkbox"/> Robust framework of internal control (CPRs, FPRs, AIs)</li> <li><input type="checkbox"/> Appropriate segregation of duties for appropriate key roles.</li> <li><input type="checkbox"/> Internal audit reviews of key systems in year.</li> <li><input type="checkbox"/> Regular national fraud initiative ( NFI ) data matching</li> <li><input type="checkbox"/> Review by Deputy S151 &amp; S151 Officer</li> </ul>
2) How can management assure those charged with governance that it has not been inappropriately influenced by external pressures?	<ul style="list-style-type: none"> <li>• Independence of Monitoring Officer and S151 officer</li> <li>• Direct reporting channels to Committee/Cabinet/Council Regulators</li> <li>• Direct reporting channels to CEO</li> <li>• The Council's and The Pension Regulators' whistleblowing Policy</li> <li>• Statutory Chief Officers are equal members of CMT.</li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Independence of Monitoring Officer and S151 officer</li> <li><input type="checkbox"/> Direct reporting channels to Committee/Cabinet/Council Regulators</li> <li><input type="checkbox"/> Direct reporting channels to CEO</li> <li><input type="checkbox"/> The Council's and The Pension Regulators' whistleblowing Policy</li> <li><input type="checkbox"/> Statutory Chief Officers are equal members of CMT.</li> </ul>
3) Are management aware of any	Yes – the entire public sector in Wales is subject to significant constraint in terms of likely future	<ul style="list-style-type: none"> <li>• Yes, the entire public sector in Wales is</li> </ul>



<p>organisational pressure to meet revenue and capital budgets or other financial constraints?</p>	<p>real terms resource availability. The Council has published a stretched four year medium term financial plan looking for savings albeit at a materially lower level than previous years. This is considered a statement of projected fact/expectation.</p> <p>The Covid 19 pandemic has clouded the outlook significantly and resulted in very substantial short term spending and loss of income much of which is continued to be expected to be recovered from Welsh Government for 2022-23. There are no guarantees of funding beyond this point which increases financial risks.</p> <p>Earmarked reserves have been bolstered significantly at outturn as mitigation.</p> <p>There is no pressure to achieve a certain outcome beyond that which would be reasonably expected , that is, appropriate management and Executive action to contain spending to within a balanced budget position. There is an appropriate management and Executive action to contain spending to within a balanced budget position. Appropriate resourcing for the pension fund is considered by the management and the pension fund committee in the context of the Council’s obligations as the Administering Authority of the scheme.</p>	<p>subject to significant constraint in terms of likely future real terms resource availability, however the budget settlement in 2020/21 was better than envisaged. The Council has published a three year medium term financial plan looking for savings in the region of £34m. This is considered a statement of projected fact/expectation for the Council as a whole. Further pressures to the budget have arisen post Covid 19 pandemic adversely affecting income streams whilst putting additional strain on services</p> <ul style="list-style-type: none"> <li>• There is no pressure to achieve a certain outcome beyond that which would be reasonably expected. There is an appropriate management and Executive action to contain spending to within a balanced budget position. Appropriate resourcing for the pension fund is considered by the management and the</li> </ul>
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	<p>The current assets of the pension fund are maintained in a separate bank account, whilst its investment assets are maintained in custody a/cs.</p> <p>The Pension Fund is part of the Wales Pension Partnership project, a projected outcome of which shall be reduced operational fees and improved investment outcomes with enhanced opportunities to invest in scalable infrastructure/national/local impact projects.</p>	<p>pension fund committee in the context of the Council's obligations as the Administering Authority of the scheme.</p> <p>The current assets of the pension fund are maintained in a separate bank account.</p> <ul style="list-style-type: none"> <li>• The Pension Fund is part of the Wales Pension Partnership project, a projected outcome of which shall be reduced operational fees and improved investment outcomes with enhanced opportunities to invest in scalable infrastructure/national/local impact projects.</li> </ul>
<p>4) What processes are employed to identify and respond to the risks of fraud more generally and specific risks of misstatement in the financial statements?</p>	<p>5) Management review of all accounting statements.</p> <ul style="list-style-type: none"> <li>• Internal audit function of key financial systems</li> <li>• Breaches reporting</li> <li>• The Pensions Regulator Escalation Channels</li> <li>• National fraud initiative (NFI) screening and Atmos mortality screening</li> <li>• Third Party data quality assessment</li> <li>• Review by Pension Fund Committee and Audit Committee</li> </ul>	<ul style="list-style-type: none"> <li>• Management review of all accounting statements.</li> <li>• Internal audit function of key financial systems</li> <li>• Breaches reporting</li> <li>• The Pensions Regulator Escalation Channels</li> <li>• National fraud initiative (NFI) screening and Atmos mortality screening</li> <li>• Third Party data quality assessment</li> </ul>

	<ul style="list-style-type: none"> <li>• Consistency/experience of professionally qualified staff working on financial statements both in terms of central consolidation but also individually as professionals so sufficient segregation of duties and professional oversight/check.</li> <li>• Analytical Review</li> </ul> <p>Wales Pension Partnership (WPP) Practitioner Review re. WPP transactions.</p> <ul style="list-style-type: none"> <li>• Review by S151 officer &amp; Deputy S151 Officer</li> </ul>	<ul style="list-style-type: none"> <li>• Review by Pension Fund Committee and Audit Committee</li> <li>• Consistency/experience of professionally qualified staff working on financial statements both in terms of central consolidation but also individually as professionals so sufficient segregation of duties and professional oversight/check.</li> <li>• Analytical Review</li> </ul> <p>Wales Pension Partnership (WPP) Practitioner Review re. WPP transactions.</p> <ul style="list-style-type: none"> <li>• Review by S151 officer &amp; Deputy S151 Officer</li> </ul>
6) How has management communicated expectations of ethical governance and standards of conduct and behaviour to all relevant parties, and when?	<ul style="list-style-type: none"> <li>• Separate, but complementary Staff and Member Codes of Conduct are published and well publicised on the intranet.</li> <li>• Professionally qualified members of staff ( both financial and pensions) are bound by their respective professional body's codes of conduct and professional standards.</li> </ul>	<ul style="list-style-type: none"> <li>• Separate, but complementary Staff and Member Codes of Conduct are published and well publicised on the intranet.</li> <li>• Professionally qualified members of staff ( both financial and pensions) are bound by their respective professional body's codes of conduct and professional standards.</li> </ul>
7) What arrangements are in place to report	<ul style="list-style-type: none"> <li>• Right of Chief Internal Auditor and/or S151 to report to Audit Committee.</li> <li>• Audit Committee/ Pension Fund</li> </ul>	<ul style="list-style-type: none"> <li>• Right of Chief Internal Auditor and/or S151 to report to Audit Committee.</li> <li>• Audit Committee/ Pension Fund</li> </ul>

about fraud to those charged with governance?	<p>Committee/ Local Pension Board Right of Chief Internal Auditor and S151 officer to report directly to CEO on any material concern.</p> <ul style="list-style-type: none"> <li>• Whistleblowing Policy</li> <li>• Material individual concerns</li> <li>• communicated by S151 to relevant member of CMT.</li> <li>• Escalation to The Pension Regulator</li> </ul>	<ul style="list-style-type: none"> <li>• Committee/ Local Pension Board</li> <li>• Right of Chief Internal Auditor and S151</li> <li>• officer to report directly to CEO on any material concern.</li> <li>• Whistleblowing Policy</li> <li>• Material individual concerns</li> <li>• communicated by S151 to relevant member of CMT.</li> <li>• Escalation to The Pension Regulator</li> </ul>
<b>Enquiries of those charged with governance</b>		
<b>Question</b>	<b>2020-21 Response</b>	<b>2019-20 Response</b>
1) How do those charged with governance, exercise oversight of management's processes for identifying and responding to the risks of fraud within the Pension Fund and the internal control that management has established to mitigate those risks?	<ul style="list-style-type: none"> <li>• Provision of a well-resourced Internal Audit section.</li> <li>• Audit Committee.</li> <li>• Independent Audit Committee Chair.</li> <li>• Pension Fund Committee</li> <li>• Local Pension Board</li> <li>• Pension Regulator</li> <li>• Contract Procedure rules</li> <li>• Financial Procedure rules</li> <li>• Risk register</li> </ul>	<ul style="list-style-type: none"> <li>• Provision of a well-resourced Internal Audit section.</li> <li>• Audit Committee.</li> <li>• Independent Audit Committee Chair.</li> <li>• Pension Fund Committee</li> <li>• Local Pension Board</li> <li>• Pension Regulator</li> <li>• Contract Procedure rules</li> <li>• Financial Procedure rules</li> <li>• Risk register</li> </ul>
2) Have those charged with	No material items reported or known - ongoing investigations of a range of cases is "normal	No material items reported or known - ongoing investigations of a range of cases is

governance knowledge of any actual, suspected or alleged fraud since 1 April 2019?	business” and shared with internal/external audit as necessary e.g. deceased members	“normal business” and shared with internal/external audit as necessary e.g. deceased members
3) Have those charged with governance any suspicion that fraud may be occurring within the organisation?	No known cases reported – again “normal business” is such that there are isolated risks in an organisation of this scale. There is a resourced corporate fraud team under the Chief Internal Auditor to review and report on individual cases	No known cases reported – again “normal business” is such that there are isolated risks in an organisation of this scale. There is a resourced corporate fraud team under the Chief Internal Auditor to review and report on individual cases
4) Are those charged with governance satisfied that internal controls, including segregation of duties, exist and work effectively? If ‘yes’, please provide details. If ‘no’ what are the risk areas?	<ul style="list-style-type: none"> <li>• Yes.</li> <li>• Financial Procedure rules/Accounting</li> <li>• Instructions</li> <li>• Contract Procedure rules</li> <li>• Oracle Workflow rules requiring separate sign off of transactions above threshold levels</li> <li>• Altair workflow/authorisation rules</li> <li>• Segregation of duties re. administration duties and finance duties in relation to the fund</li> <li>• Routine internal audit of key financial systems</li> </ul>	<ul style="list-style-type: none"> <li>• Yes.</li> <li>• Financial Procedure rules/Accounting</li> <li>• Instructions</li> <li>• Contract Procedure rules</li> <li>• Oracle Workflow rules requiring separate sign off of transactions above threshold levels</li> <li>• Altair workflow/authorisation rules</li> <li>• Segregation of duties re. administration duties and finance duties in relation to the fund</li> <li>• Routine internal audit of key financial systems</li> </ul>

<p>5) How do you encourage staff to report their concerns about fraud and what concerns about fraud are staff expected to report?</p>	<ul style="list-style-type: none"> <li>• Anti fraud and corruption policy</li> <li>• Disciplinary Policy</li> <li>• Whistleblowing Policy Fraud/Whistleblowing</li> <li>• hotline/intranet/online forms</li> </ul> <p>Pensions Regulator hotline</p>	<ul style="list-style-type: none"> <li>• Anti fraud and corruption policy</li> <li>• Disciplinary Policy</li> <li>• Whistleblowing Policy Fraud/Whistleblowing</li> <li>• hotline/intranet/online forms</li> <li>• Pensions Regulator hotline</li> </ul>
<p>6) From a fraud and corruption perspective, what are considered by those charged with governance to be high risk posts within the organisation and how are the risks relating to these posts identified, assessed and managed?</p>	<ul style="list-style-type: none"> <li>• Chief Officers and Heads of Service Posts</li> <li>• A range of other senior posts</li> <li>• Finance posts above Grade 10 managed by:</li> <li>• DBS checks on identified posts</li> <li>• Contract Procedure Rules</li> <li>• Financial Procedure Rules</li> <li>• Accounting Instructions</li> <li>• Segregation of duties</li> <li>• Professional standards</li> </ul> <p>Internal audit review</p>	<ul style="list-style-type: none"> <li>• Chief Officers and Heads of Service Posts</li> <li>• A range of other senior posts</li> <li>• Finance posts above Grade 10 managed by:</li> <li>• DBS checks on identified posts</li> <li>• Contract Procedure Rules</li> <li>• Financial Procedure Rules</li> <li>• Accounting Instructions</li> <li>• Segregation of duties</li> <li>• Professional standards</li> <li>• Internal audit review</li> </ul>
<p>7) Are those charged with governance aware of any related party relationships or transactions that could give rise to instances of fraud</p>	<p>No ( save that Swansea Council is an employer within the fund) The previously mentioned management controls exist to mitigate any extant risks</p>	<p>No ( save that Swansea Council is an employer within the fund) The previously mentioned management controls exist to mitigate any extant risks</p>

and how does they mitigate the risks associated with fraud related to related party relationships and transactions?		
8) Are those charged with governance aware of any entries made in the accounting records of the organisation that it believes or suspects are false or intentionally misleading?·	No	No
9) Are those charged with governance aware of any organisational, or management pressure to meet revenue and capital budgets or other financial constraints?	<p>Yes – the entire public sector in Wales is subject to significant constraint in terms of likely future real terms resource availability. The Council has published a stretched four year medium term financial plan looking for savings albeit at a materially lower level than previous years. This is considered a statement of projected fact/expectation.</p> <p>The Covid 19 pandemic has clouded the outlook significantly and resulted in very substantial short term spending and loss of income much of which is continued to be expected to be recovered from</p>	<ul style="list-style-type: none"> <li>• Yes, the entire public sector in Wales is subject to significant constraint in terms of likely future real terms resource availability, however the budget settlement in 2020/21 was better than envisaged. The Council has published a three year medium term financial plan looking for savings in the region of £34m. This is considered a statement of</li> </ul>

	<p>Welsh Government for 2022-23. There are no guarantees of funding beyond this point which increases financial risks.</p> <p>Earmarked reserves have been bolstered significantly at outturn as mitigation.</p> <p>There is no pressure to achieve a certain outcome beyond that which would be reasonably expected , that is, appropriate management and Executive action to contain spending to within a balanced budget position. There is an appropriate management and Executive action to contain spending to within a balanced budget position. Appropriate resourcing for the pension fund is considered by the management and the pension fund committee in the context of the Council's obligations as the Administering Authority of the scheme.</p> <p>The current assets of the pension fund are maintained in a separate bank account. The Pension Fund is part of the Wales Pension Partnership project, a projected outcome of which shall be reduced operational fees and improved investment outcomes with enhanced opportunities to invest in scalable infrastructure/national/local impact projects.</p>	<p>projected fact/expectation for the Council as a whole. Further pressures to the budget have arisen post Covid 19 pandemic adversely affecting income streams whilst putting additional strain on services.</p> <ul style="list-style-type: none"> <li>• There is no pressure to achieve a certain outcome beyond that which would be reasonably expected. There is an appropriate management and Executive action to contain spending to within a balanced budget position. Appropriate resourcing for the pension fund is considered by the management and the pension fund committee in the context of the Council's obligations as the Administering Authority of the scheme. The current assets of the pension fund are maintained in a separate bank account.</li> <li>• The Pension Fund is part of the Wales</li> </ul>
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		Pension Partnership project, a projected outcome of which shall be reduced operational fees and improved investment outcomes with enhanced opportunities to invest in scalable infrastructure/national/local impact projects.
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## International Standard for Auditing (UK and Ireland) 250 – Consideration of laws and regulations in an audit of financial statements

### Background

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

### What are we required to do?

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

Enquiries of management		
Question	2020-21 Response	2019-20 Response
1) How have you gained assurance that all relevant laws and regulations have been complied with?	<p>The Council Constitution specifies specific officer delegation in respect of proper officer arrangements for procurement, contracting and entering into legal agreements. There is legal and finance sign off and clearance for all pension fund committee reports. There is also a robust system of management internal control which requires adherence to :</p> <ul style="list-style-type: none"> <li>• Contract procedure rules</li> <li>• Financial procedure rules</li> <li>• Accounting Instructions</li> </ul>	<p>The Council Constitution specifies specific officer delegation in respect of proper officer arrangements for procurement, contracting and entering into legal agreements. There is legal and finance sign off and clearance for all pension fund committee reports. There is also a robust system of management internal control which requires adherence to :</p> <ul style="list-style-type: none"> <li>• Contract procedure rules</li> <li>• Financial procedure rules</li> <li>• Accounting Instructions</li> <li>• The Pension Regulator</li> </ul>

	The Pension Regulator	
2) Are there any potential litigations or claims that would affect the financial statements?	<ul style="list-style-type: none"> <li>• LGPS Regulations (Admin and Investment)</li> </ul> Accounting Code of Practice 2020/21	<ul style="list-style-type: none"> <li>• LGPS Regulations (Admin and Investment)</li> <li>• Accounting Code of Practice 2019/20</li> </ul>
<b>Enquiries of those charged with governance</b>		
<b>Question</b>	<b>2020-21 Response</b>	<b>2019-20 Response</b>
1) How do those charged with governance, exercise oversight of management's processes to ensure that all relevant laws and regulations have been complied with?	Potentially yes - given the extent of the investment portfolio, there may be ongoing corporate actions involving current and historic stock holdings within the entire portfolio where we could be affected but not directly involved in the litigation as lead plaintiff on a contingent basis.	Potentially yes - given the extent of the investment portfolio, there may be ongoing corporate actions involving current and historic stock holdings within the entire portfolio where we could be affected but not directly involved in the litigation as lead plaintiff on a contingent basis.
2) Are those charged with governance aware of any non-compliance with relevant laws and regulations?	All formal reports to Pension Fund Committee/Council require legal, access to services and finance sign off.	All formal reports to Pension Fund Committee/Council require legal, access to services and finance sign off.
3) If there have been instances of non-compliance what are they, and what oversight have those charged with governance had to	No (save for reporting of operational breaches to pension fund committee/local pension board on a quarterly basis (e.g late payment of contributions, late payment of benefits)	No (save for reporting of operational breaches to pension fund committee/local pension board on a quarterly basis)

ensure that action taken by management to address and gaps in control?		
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## International Standard for Auditing (UK and Ireland) 550 – Related parties

### Background

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

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

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



<ul style="list-style-type: none"> <li>appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the framework.</li> </ul>		
<b>Enquiries of those charged with governance</b>		
<b>Question</b>	<b>2020-21 Response</b>	<b>2019-20 Response</b>
1) How do those charged with governance, exercise oversight of management's processes to identify, authorise, approve, account for and disclose related party transaction and relationships?	This is delegated to the S151 officer through control processes. Necessary and appropriate disclosures are made in the statement of accounts which is reviewed and approved by The Pension Fund Committee.	This is delegated to the S151 officer through control processes. Necessary and appropriate disclosures are made in the statement of accounts which is reviewed and approved by The Pension Fund Committee.

# Agenda Item 7



## Report of the Chief Legal Officer

Pension Fund Committee – 8 September 2021

### 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>
	8-11	14
<b>Report Author:</b>	Democratic Services	
<b>Finance Officer:</b>	Not Applicable	
<b>Legal Officer:</b>	Tracey Meredith – Chief Legal Officer (Monitoring Officer)	

#### 1. Introduction

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

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

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

## **3. Financial Implications**

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

## **4. Legal Implications**

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

**Background Papers:** None.

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



## Public Interest Test

No.	Relevant Paragraphs in Schedule 12A
<b>12</b>	<b>Information relating to a particular individual.</b>
	<p>The Proper Officer (Monitoring Officer) has determined in preparing this report that paragraph 12 should apply. Their view on the public interest test was that to make this information public would disclose personal data relating to an individual in contravention of the principles of the Data Protection Act. Because of this and since there did not appear to be an overwhelming public interest in requiring the disclosure of personal data they felt that the public interest in maintaining the exemption outweighs the public interest in disclosing the information. Members are asked to consider this factor when determining the public interest test, which they must decide when considering excluding the public from this part of the meeting.</p>
<b>13</b>	<b>Information which is likely to reveal the identity of an individual.</b>
	<p>The Proper Officer (Monitoring Officer) has determined in preparing this report that paragraph 13 should apply. Their view on the public interest test was that the individual involved was entitled to privacy and that there was no overriding public interest which required the disclosure of the individual's identity. On that basis they felt that the public interest in maintaining the exemption outweighs the public interest in disclosing the information. Members are asked to consider this factor when determining the public interest test, which they must decide when considering excluding the public from this part of the meeting.</p>
<b>14</b>	<b>Information relating to the financial or business affairs of any particular person (including the authority holding that information).</b>
	<p>The Proper Officer (Monitoring Officer) has determined in preparing this report that paragraph 14 should apply. Their view on the public interest test was that:</p> <p><b>a)</b> Whilst they were mindful of the need to ensure the transparency and accountability of public authority for decisions taken by them in relation to the spending of public money, the right of a third party to the privacy of their financial / business affairs outweighed the need for that information to be made public; or</p> <p><b>b)</b> Disclosure of the information would give an unfair advantage to tenderers for commercial contracts.</p> <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 8a

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  
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By virtue of paragraph(s) 14 of Schedule 12A  
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Information) (Variation) (Wales) Order 2007.

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# Agenda Item 8b

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  
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Information) (Variation) (Wales) Order 2007.

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# Agenda Item 8c

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.

Document is Restricted

# Agenda Item 8d

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  
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Information) (Variation) (Wales) Order 2007.

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# Agenda Item 8e

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

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# Agenda Item 10

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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