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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 2013/14 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 2013/14* 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

	2011/12 £'000	2012/13 £'000	2013/14 £'000
<b>Income</b>			
Contributions (Net)	67,387	69,317	74,687
Transfer Values (Net)	-	-	9,580
<b>Expenditure</b>			
Pensions and Benefits (Net)	62,803	60,926	66,794
Transfer Values (Net)	317	1,723	-
Other (Net)	865	1,026	923
<b>Net new money</b>	<b>3,402</b>	<b>5,642</b>	<b>16,550</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Net Asset Value at 31 March</b>	<b>1,119,852</b>	<b>1,277,599</b>	<b>1,384,642</b>
<b>Number of Contributors at 31 March</b>	<b>14,179</b>	<b>14,586</b>	<b>15,576</b>
<b>Number of Pensioners at 31 March</b>	<b>10,027</b>	<b>10,432</b>	<b>10,833</b>
<b>Number of Deferred Members at 31 March</b>	<b>8,204</b>	<b>8,815</b>	<b>9,663</b>

## **PART A**

### **ADMINISTRATION REPORT**

#### **The Pension Fund**

The Pension Fund is governed by the Regulations made by the Secretary of State under the Superannuation Act 1972, and includes employees of the City and County of Swansea, Neath Port Talbot County Borough Council and other bodies included in the Schedule in Appendix 1.

The benefits payable and the employees' rates of contribution are set out in the Regulations.

The rates of contribution by employing authorities are based on actuarial valuation and are set out in Part D. Benefits payable from the Fund are based on the level of pensionable pay during the last 12 months before retirement and the length of total Local Government service during which the employees contributions have been paid into the Fund including any Local Government Pension Scheme (LGPS) membership credited as a result of transfer payments into the Fund.

The principal benefits provided by the Fund are:

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

Pensions are increased annually under the Pensions Increase Act as prescribed by Social Security legislation in line with the upgrading of various state benefits. For 2013/14 the increase was 2.2%.

These 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.

## Membership

Membership of the Fund is largely comprised of two main groups:

- The contributors who are still working and paying money into the Fund.
- The pensioners who have retired and deferred members who have left the service and are due benefits by way of pension and lump sums from the Fund.

Membership of the Scheme is automatic and is open to all employees irrespective of the number of hours or weeks worked. However, all employees have the right to choose a personal pension or the State Second Pension (S2P), formerly SERPS, or a Stakeholder Pension. These alternatives can be instead of or in addition to membership of the LGPS.

The latest statistics (Appendix 1) show the total membership of the Fund in 2013/14.

## Premature Retirement - Pension Costs

### (a) 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 costs of cases actioned in a calendar year are recovered over a three year period commencing from the following April.

The actuarial cost of early retirements for the past two years was as follows :

<b>Early Access to Pension</b>				
<b>Employing Body</b>	<b>2012/13</b>		<b>2013/14</b>	
	<b>No. of Cases</b>	<b>Cost £</b>	<b>No. of Cases</b>	<b>Cost £</b>
City & County of Swansea	51	1,227,944	100	2,228,164
Neath Port Talbot CBC	19	267,272	79	776,766
Gower College Swansea	3	39,817	2	20,279
NPTC Group	1	18,256	7	29,578
University of Wales Trinity St Davids	-	-	1	54,320
NPT Homes	1	43,118	-	-
<b>Total</b>	<b>75</b>	<b>1,596,407</b>	<b>189</b>	<b>3,109,107</b>

## (b) Ill Health Retirement

Employers do not have to pay separately for the Pension Fund costs for ill health as the employer's rate includes a percentage for such cases.

The actuarial cost of ill health retirees from current service for the past two years was :

Ill-Health Retirement	2012/13		2013/14	
	No. of Cases	Cost £	No. of Cases	Cost £
City & County of Swansea	25	1,965,280	23	2,166,936
Neath Port Talbot CBC	29	1,163,464	29	1,527,373
Gower College Swansea	1	15,224	1	12,181
NPT Homes	4	288,076	1	10,310
Neath Town Council	1	20,209	1	51,279
NPTC Group	1	13,469	5	288,247
Grwp Gwalia	2	30,069	-	-
<b>Total</b>	<b>63</b>	<b>3,495,791</b>	<b>60</b>	<b>4,056,326</b>

## The Pension Administration Section

The Pension Section which administers the City and County of Swansea Pension Fund undertakes the day-to-day administration of the Fund from setting up a new member, to making any changes to members' records as they occur and paying benefits at retirement.

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

## IT Systems

The Pension Section administers the LGPS through a pensions administration system, which includes task management, document imaging and workflow procedures. All member documentation received is scanned and indexed on the system.

During the year, the Section invested in an electronic interface to transfer membership data from the employers' payroll system to the pensions administration system. While this is a necessary development due to the introduction of Auto Enrolment, it will also enable data to be transferred in a timely manner thus improving the year end submission and cleansing of data exercise. Currently the two largest employers in the Fund, City & County of Swansea and Neath Port Talbot County Borough Council, are engaged with the software suppliers to implement the system which will be of benefit to both Fund and employers.

The Section also maintains 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, their dependants and employers. It also contains an "Investment and Fund" section which provides details of the governance of the Fund.

## Performance

The Section aims to:

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

and uses a number of channels to achieve these objectives:

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

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

The documents are available on the Fund's website.

- The Fund has regularly published its own performance in previous years; however, for 2013/14, it will publish its own and its Scheme employers performance for the first time, monitored against a set of Key Performance Indicators. The standards are detailed in Appendix 6.
- Where areas of poor performance are identified, the Pension Section is working closely with the employers to provide the opportunity for necessary training and development and put in place appropriate processes to improve the level of service delivery in the future.
- During the year, the Section has communicated regularly with the relevant employers regarding the timeliness of providing retirement and early leaver data and is actively working with the Fund's two largest employers to implement software to enable data to be transferred to the Fund in a timely manner. A review will be undertaken to consider extending the software to other Fund employers in the future.
- The Fund continues to regularly participate in the National Fraud Initiative, a data matching exercise to ensure that public money is being spent properly. 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 :
  - No pensions are being 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.

### **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).

Individual employers are responsible for considering stage 1 appeals against decisions made by them, with the Fund responsible for considering stage 1 appeals against its own decisions 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.

During the year to 31 March 2014, there were three Stage 1 appeals against employer decisions, which resulted in two upholding the employer's decision and one for the appellant. There was also one Stage 2 appeal against the Fund where the Fund's decision was upheld.



## Legislative Changes in the Local Government Pension Scheme (LGPS)

The Communities and Local Government Department (CLG) issued Statutory Instrument 2012 No. 1989 which introduced the following provisions to the LGPS with effect from 1 October 2012:

- Commenced the requirements to ensure compliance with the duties for automatic enrolment in a workplace pension introduced by the Pensions Act 2008 and its associated secondary legislation.
- Provided for employees with employment contracts of less than 3 months to elect to join the Scheme if they so wish.
- Where a member's annual allowance is exceeded, allowed for the tax charge to be met by the Pension Fund at the member's request. However, the Fund must subsequently reduce the value of the member's accrued rights in accordance with guidance issued by the Secretary of State.
- Amended the date that Annual Benefit Statements must be issued to no later than 6 months after the end of the tax year to which they relate, in accordance with the Finance Act 2004 (as amended by the Finance Act 2011).
- Amended the previous regulations to provide that an election to pay additional survivor benefits must be made within 12 months of making a declaration to nominate a cohabiting partner for survivor benefits.
- Provided for elected police and crime commissioners to become members of the Scheme.

### LGPS 2014

**21 December 2012** – consultation issued on the provisions relating to membership, contributions and benefits which come into force in April 2014. The main provisions being:

Basis of Pension - Career Average Revalued Earnings (CARE)

Accrual Rate – 1/49<sup>th</sup>

Revaluation Rate – Consumer Prices Index (CPI)

Normal Pension Age – Equal to individual member's State Pension Age

Employees Contribution Rate – Increase for earners above £34,000

Definition of Pensionable Pay – to include non-contractual overtime

Contribution Flexibility – option to pay 50% contributions for 50% of pension benefit

**3 April 2013** – a second period of consultation issued on the next key stages in the development of the new LGPS and also on the transitional provisions for existing members.

# ANNUAL GOVERNANCE STATEMENT 2013/14

## 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, and which includes arrangements for the management of risk.
- 1.3 The City and County of Swansea has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government'. A copy of the Code is on our website at <http://www.swansea.gov.uk/corporategovernance>. This statement explains how the Authority has complied with the Code.

## 2. The Purpose of the Governance Framework

- 2.1 The governance framework comprises the systems and processes, and 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 for the year ended 31 March 2014 and up to the date of approval of the Statement of Accounts.

# ANNUAL GOVERNANCE STATEMENT 2013/14

## 3. The Governance Framework

3.1 The CIPFA/SOLACE governance framework identifies the following 6 fundamental principles of corporate governance

- Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area.
- Members and officers working together to achieve a common purpose with clearly defined functions and roles.
- Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.
- Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.
- Developing the capacity and capability of members and officers to be effective.
- Engaging with local people and other stakeholders to ensure robust public accountability.

3.2 Council approved its Code of Corporate Governance on 19<sup>th</sup> June 2008 based on the 6 principles outlined above.

3.3 The key elements of the policies, systems and procedures that comprise the governance framework in the Council are shown below and linked to the 6 fundamental principles.

3.4 **Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area.**

- The **Council** is made up of 72 councillors who are democratically accountable to residents and have an overriding duty to the whole community. Council decides overall policies and sets the annual budget as well as receiving reports from Scrutiny Boards, Cabinet Members and Officers.
- The Council is required, under the Local Government (Wales) Measure 2011 to put in place a system to publish a **Councillors Annual Report** in relation to their activities. A template report has been agreed by the Democratic Services Committee and any reports submitted by Councillors are published on the Council's website.
- The forward looking **Corporate Improvement Plan** which is produced under the Local Government (Wales) Measure 2009 summarises the Council's improvement objectives and associated priorities, targets and milestones.

## ANNUAL GOVERNANCE STATEMENT 2013/14

- An **Annual Performance Review** is undertaken which provides a commentary on the progress made by the Council in meeting the priorities, actions and targets set out in the Corporate Improvement Plan.
- The Council publishes a **Single Integrated Plan** which replaces the Community Strategy. The Plan is developed by the Local Service Board following a Single Needs Assessment and Consultation Exercise.
- A **Code of Corporate Governance** based on the CIPFA/SOLACE governance framework has been adopted by the Council.
- A **Business Planning Process** exists which aims to more clearly align previously disparate budget and planning processes, such as equalities, sustainability and risk management into a 4 year planning cycle with an annual review. Each Head of Service must produce a Business Plan and an e-learning tool and Business Planning Toolkit is available to ensure consistency across the Council.
- A **Medium Term Financial Plan** is approved by Council each year which provides for a balanced budget in the following year and a projection for the next 3 years based on a combination of detail, where known, and forecasts based on best available evidence.

### 3.5 **Members and officers working together to achieve a common purpose with clearly defined functions and roles**

- A **Council Constitution** exists which sets out the framework and rules governing the Council's business described in 16 Articles. The Constitution also includes a Scheme of Delegation and a number of Rules of Procedure, Codes and Protocols as well as the Councillors' Allowances Scheme.
- A **Constitution Working Group** exists to review all aspects of the Council Constitution and to make appropriate recommendations for change.
- Separate **Codes of Conduct** exist in the Council Constitution for **Members and Officers** which describe the high standard of conduct expected of them. There is also a **Member/Officer Protocol** which guides the relationship between them to ensure the smooth running of the Council.
- The **Chief Executive**, as Head of the Paid Service, leads the Council's officers and chairs the Executive Board.
- A new **Corporate Management Structure** was put in place during 2013/14 with Directorates for People, Place and Corporate Services being established to deliver thematic and cross cutting working across the Council and across partnerships. The Executive Board, Directors' Group and Top Managers Group were established from 01/09/13 with specific roles and project portfolios.
- The Head of Finance and Delivery is designated the Council's **S151 Officer** and is responsible for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts and for maintaining an effective system of internal financial control.

## ANNUAL GOVERNANCE STATEMENT 2013/14

- The Council's financial management arrangements during 2013/14 complied with the governance requirements of the **CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010)**.
- An **Audit Committee** exists to review and scrutinise the Council's financial affairs, review and assess the risk management, internal control and corporate governance arrangements, oversee the internal and external audit arrangements and review the financial statements.
- The Head of Legal, Democratic Services and Procurement has been designated as the Council's **Monitoring Officer** and is responsible for investigating and reporting on any allegations of contraventions to any laws, policies, procedures, regulations or maladministration and breaches of the Council's Constitution.
- The Council is the Administering Authority for the **City and County of Swansea Pension Fund** and is responsible for all issues relating to the governance of the Pension Fund. For 2013/14, the functions were undertaken by the Pension Fund Committee which replaced the Pension Fund Panel with effect from 01/04/13.

### 3.6 Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour

- The Council has defined its **Values** as Innovation, Teamwork, Caring, Respect, Enthusiasm and Openness. A detailed description of each value and what it means to the Council is available on the Intranet.
- The **Standards Committee** made up of 4 councillors and 5 independent members promotes and maintains high standards of conduct by Councillors, assists Councillors to observe their Code of Conduct, monitors the operation of the Code and deals with breaches of the Code of Conduct referred to them by the Public Service Ombudsman for Wales.
- The **Anti Fraud and Corruption Policy** applies to all councillors and employees. It outlines the Council's commitment to preventing, discouraging, detecting and investigating fraud and corruption whether attempted on the Council or from within the Council. The Policy was reviewed and updated in 2013/14 and published in the new online Employee Handbook which went live on 01/04/14.
- A new **Corporate Complaints Policy** based on the Welsh Government Model for complaints handling was adopted by Council on 14/03/13. The policy governs the investigation of complaints from members of the public including complaints about service provision. A Corporate Complaints Annual Report is presented to Cabinet each year.

## ANNUAL GOVERNANCE STATEMENT 2013/14

- A **Whistle Blowing Policy** exists which encourages and enables employees to raise serious concerns without fear of harassment or victimisation. The Policy was reviewed and updated in 2013/14 and published in the new online Employee Handbook which went live on 01/04/14.
- The **Internal Audit Section** operates in accordance with the Public Sector Internal Audit Standards and is an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

### 3.7 Taking informed and transparent decisions which are subject to effective scrutiny and managing risk

- The **Decision Making** process is clearly set out in the Constitution along with the scheme of delegation and the terms of reference of Cabinet, Committees, Scrutiny Boards, Panels, Forums and Groups.
- The **Cabinet** (as Executive) is responsible for most day to day decisions and acts in line with the Council's overall policies and budget. Following the Election in May 2012, a new Cabinet structure was put in place based on new portfolios and cross-cutting themes.
- A **Challenge Panel** consisting of 12 members considers any Cabinet decisions which have been 'called in' if the Chair of the Council accepts that the call in is valid. The criteria used by the Chair to decide on validity are tightly set and the Chair receives appropriate advice from officers. The Challenge Panel considers whether the decision is a well founded and appropriate decision of Cabinet.
- All reports to Council and Cabinet must include paragraphs detailing the **Financial, Legal and Equality and Engagement Implications** of the report.
- The **Scrutiny Programme Committee** is responsible for developing the Council's Scrutiny Work Programme via a single workplan, holding Cabinet Members to account and providing challenge on specific themes. The Committee will set up informal **Scrutiny Panels and Working Groups** to undertake the detailed work of scrutiny and will appoint **Scrutiny Conveners** to chair the various Scrutiny Panels
- The role of **Scrutiny** is to improve the performance of services, provide an effective challenge to the Executive and engage non-executive members and the public in the development of policies, strategies and plans. The primary purpose of Scrutiny is to add value to the work of the Council and act as a critical friend to Cabinet and other decision makers in order to promote better services, policies and decisions.

## ANNUAL GOVERNANCE STATEMENT 2013/14

- A **Scrutiny Work Planning Conference** is held each year to choose topics for review and a **Scrutiny Annual Report** is presented to the Scrutiny Programme Committee.
- A **Corporate Risk Policy** is in place which describes how risk management is implemented in the Council to support the realisation of strategic objectives. A **Risk Management Framework** also exists which aims to help managers and members at all levels to apply risk management principles consistently across their areas of responsibility.
- Corporate, Directorate and Service **Risk Registers** are in place to capture all risks that could affect the Council.

### 3.8 Develop the capacity and capability of members and officers to be effective

- **Induction courses** are held for all new councillors and employees and a detailed **Councillors Training Programme** is delivered on an annual basis.
- Regular **Cabinet and Executive Board Away Days** are held where thematic issues are discussed such as Sustainable Swansea – fit for the future, One Swansea Plan and poverty and prevention.
- A new **Employee Performance Management Policy** was developed during 2013/14 and published in the new online Employee Handbook which went live on 01/04/14. The policy establishes a process which contributes to the effective management of individuals and teams in order to achieve high levels of organisational performance.
- Monthly **One to One meetings** are held involving the Leader, Cabinet Members, Chief Executive, Corporate Directors, Chief Officers, Heads of Service and 3<sup>rd</sup> tier staff as part of the performance management process.
- Each Corporate Director holds a monthly **Performance and Financial Monitoring** meeting where Chief Officers and Heads of Service report on progress in terms of continuous improvement and budgets.
- The Council Constitution includes **Financial Procedure Rules** which govern the financial management of the Council.
- Financial Procedure Rules are supplemented by detailed **Accounting Instructions** which aid sound financial administration by setting out the principal controls and procedures for a range of functions to be followed by all departments. From time to time the Accounting Instructions are reviewed and ad hoc instructions may also be issued such as the current spending restrictions.
- The Council Constitution includes **Contract Procedure Rules** which govern the purchasing of goods and services and the letting of contracts with the aim of obtaining the best use of resources and value for money. Contract Procedure Rules were reviewed during 2013/14 and a new set of rules were approved by Council on 15/04/14.

## ANNUAL GOVERNANCE STATEMENT 2013/14

### 3.9 Engaging with local people and other stakeholders to ensure robust public accountability

- A **Consultation and Engagement Strategy 2011-14** exists to ensure effective consultation and engagement with residents and partner organisations.
- The **Swansea Voices Panel** consists of a representative sample of 1,250 residents and provides a means for consulting on service provision and local issues. There is also a ward representative role for each councillor.
- The **Swansea Leader** is published every 2 months and delivered to every household in the area informing people about the Council's work and the progress it is making. An electronic version of the Swansea Leader is available on the Council's website.
- A range of **Information for Stakeholders** is available on the Council website including agendas, which are published in advance of meetings and minutes of all Council, Cabinet, Committee and Scrutiny Board meetings. Citizens can attend meetings of the Council, Cabinet, Committees and Scrutiny Boards except where confidential or exempt information is likely to be disclosed and the meeting is therefore held in private. The Council website is being re-launched during 2014/15 with the new website being more user and task orientated, easier to navigate, more concise and contributing to the Council's 'Digital by Default' approach.
- Citizens also have the right to ask questions and time is set aside at each Council and Cabinet meeting for **Public Questions**.
- **Financial Monitoring Reports** which monitor the revenue and capital budgets are produced on a quarterly basis and reported to Cabinet.
- **Performance Monitoring Reports** are produced for Cabinet on a quarterly basis and performance results are certified at the end of the year and any inconsistencies are investigated.

3.10 The Council's Annual Statement of Accounts includes **Group Accounts** which incorporates the companies shown below. The Annual General Meeting of the Council appoints councillors to sit on the Boards of the companies. The number of councillors appointed is shown against each company.

- Swansea City Waste Disposal Co. Ltd (1 councillor)
- Wales National Pool Swansea Ltd (3 councillors)
- National Waterfront Museum Swansea Ltd (3 councillors)
- Swansea Stadium Management Co. Ltd (2 councillors)
- Bay Leisure Ltd (2 councillors)



## ANNUAL GOVERNANCE STATEMENT 2013/14

- 3.11 The services provided by the Swansea City Waste Disposal Company transferred back to the Council with effect from 01/08/13.
- 3.12 A number of methods are in place to monitor the activities and performance of the companies including councillor/officer steering groups, strategic and operational meetings and management groups.
- 3.13 A partnership unit has been set up by the Head of Culture, Sport/Leisure and Tourism to monitor the activities of externally funded partner providers and an Annual Report on Leisure Partnerships is presented to Council each year.

### 4. Review of Effectiveness

- 4.1 The City and County of Swansea has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the Authority who have responsibility for the development and maintenance of the governance environment, the Chief Auditor's annual report, and also by comments made by the external auditor and other review agencies and inspectorates.
- 4.2 The processes for maintaining and reviewing the effectiveness of the governance framework within the Council include the following broad headings.

#### 4.3 Internal Control Self Assessment

- Each Head of Service has provided a signed **Senior Management Assurance Statement** for 2013/14 which provides assurance over the internal control, risk management and governance framework for their area of responsibility.

#### 4.4 Internal Sources of Assurance

The following provide assurance based, partly, on reports covering 2012/13 as the reports for 2013/14 are not yet available. The 2013/14 reports will be reflected in the next Annual Governance Statement.

- The **Annual Performance Review 2012/13** '*Improving What Matters*' was reported to Council on 22/10/13. The report also included the Council's response to the proposals for improvement made by the Wales Audit Office in its Annual Improvement Report 2013.

## ANNUAL GOVERNANCE STATEMENT 2013/14

- The **Standards Committee** met on 8 occasions during 2013/14 and the **Standards Committee Annual Report 2012/13** was presented to Council on 24/09/13.
- The **Scrutiny Programme Committee and Panels** met throughout 2013/14 and were supported by the Scrutiny Support Unit. The **Scrutiny Annual Report 2012/13** was presented to the Scrutiny Programme Committee on 08/07/13.
- The annual **Scrutiny Work Planning Conference 2013/14** was held on 20/05/13 and a report on the **Scrutiny Work Programme 2013/14** was agreed by the Scrutiny Programme Committee on 10/06/13.
- The **Corporate Complaints Policy** was in place throughout 2013/14 and the **Complaints Annual Report 2012/13** was presented to Cabinet on 15/10/13.
- The **Internal Audit Annual Report 2012/13** was reported to the Audit Committee on 15/08/13 and included the Chief Auditor's opinion that based on the audit reviews undertaken in 2012/13, Internal Audit can give reasonable assurance that the systems of internal control were operating adequately and effectively and that no significant weaknesses were identified.
- A number of vacancies were experienced by the **Internal Audit Section** during 2013/14 leading to a loss of productive time but there was still sufficient audit coverage to be able to provide the required Internal Audit assurance for the year.

The following provides assurance based on reports covering 2013/14

- The forward looking **Corporate Improvement Plan 2013-17** '*Standing up for a Better Swansea*' produced in accordance with the Local Government (Wales) Measure 2009 was adopted by Council on 30/07/13. The Plan includes the 8 Improvement Objectives that the Council will address in the coming years.
- The One Swansea Plan 2013 was adopted by Council on 24/09/13 as the **Single Integrated Plan** which replaced the Community Strategy. The Plan includes 6 population outcomes i.e. broad conditions for communities and 21 challenges i.e. what has to change to make progress towards achieving the outcomes.
- The **Audit Committee** met on 11 occasions during 2013/14 and followed a structured workplan which covered all areas of the Committee's responsibilities. The Committee includes a lay member as required by the Local Government (Wales) Measure 2011. The lay member is also the Chair of the Committee. The Committee received the Internal Audit Annual Report 2012/13 as well as quarterly Internal Audit Monitoring Reports for 2013/14 showing progress against the Annual Internal Audit Plan.

## **ANNUAL GOVERNANCE STATEMENT 2013/14**

- The **Constitution Working Group** only met once during 2013/14 to agree the suitability of the prospective Lord Mayor and Deputy Lord Mayor.
- The **Medium Term Financial Plan 2015/16 – 2017/18** was approved by Council on 18/02/14. The Plan outlined the significant shortfall in funding faced by the Council over the period and the strategy to be adopted to address the shortfall.
- The **Corporate Risk Management Framework** is being reviewed by the Executive Board to strengthen links between corporate, directorate and service risk reporting and to seek assurance about day to day risk management. Corporate Risks have recently been updated as part of this and will form part of future quarterly balanced scorecard reporting.
- Each Corporate Director held monthly **Performance and Financial Monitoring** meetings where Chief Officers and Heads of Service reported on progress in terms of continuous improvement and budgets.
- Quarterly **Performance Monitoring Reports** were presented to Cabinet during 2013/14.
- Quarterly **Financial Monitoring Reports** were presented to Cabinet throughout 2013/14.
- All reports presented to Cabinet and Council during 2013/14 had been reviewed by Finance and Legal staff and included the appropriate paragraphs detailing the **Financial, Legal and Equality and Engagement Implications** of the report.
- The **Pension Fund Committee** met on 4 occasions during 2013/14 and dealt with all issues relating to the governance of the Pension Fund.

### **4.5 External Sources of Assurance**

- The Wales Audit Office produces an **Annual Improvement Report** under the Local Government (Wales) Measure 2009. The report is produced in association with other inspectors such as ESTYN and CSSIW and shows how well the Council is improving the services it provides. The **Annual Improvement Report 2013/14** was published on 05/06/14 and reported to Cabinet on 29/07/14. The report's main conclusions were that the Council made good progress in delivering its improvement priorities apart from recycling, got better at reporting how well it is performing, is developing a consistent approach to evaluating itself, has strengthened its capacity to drive improvement by completing its management restructure and established a strategy for managing the significant financial challenges it faces.
- The Wales Audit Office provided two **Improvement Assessment Letters 2013/14** as required by the Local Government (Wales) Measure 2009. The letters identify compliance with the Measure in terms of improvement planning.

## ANNUAL GOVERNANCE STATEMENT 2013/14

and the requirement to make arrangements for continuous improvement. The letters also include some proposals for improvement.

- The Appointed Auditor's **Annual Audit Letter** was sent to the Leader on 28/11/13 and presented to the Audit Committee on 12/12/13. The letter stated that *'The Council complied with its responsibilities relating to financial reporting and use of resources'*. The letter also stated that an unqualified audit opinion had been issued on the accounting statements confirming that they present a true and fair view of the Council's, Group's and Pension Fund's financial position and transactions.
- The **Wales Audit Office's Controls Report 2012/13** was presented to the Audit Committee on 12/12/13. The report made recommendations regarding 10 weaknesses identified in the Council's internal controls, all of which were considered to be medium or low risk. The report also identified the progress made in implementing the recommendations made in the previous year's Controls Report.
- PwC on behalf of the Wales Audit Office presented the **Audit of Accounting Statements – Report to Those Charged with Governance** for 2012/13 to Cabinet on 17/09/13. The report highlighted any significant issues to those charged with governance that needed to be considered prior to the approval of the financial statements. The report also indicated that the auditor intended to issue an unqualified audit report on the financial statements for 2012/13.
- The Council is subject to **Statutory External Inspections** by various bodies including Wales Audit Office, ESTYN and CSSIW. In June 2013, ESTYN published its report on the Quality of Local Authority Education Services for Children and Young People in Swansea. The report, which was presented to Council by Estyn on 22/10/13 judged Swansea's current performance as adequate (good features outweigh areas shortcomings) and the prospects for improvement as good (good features and no important shortcomings). The Chief Executive established a Corporate Education Improvement Board and Education Leadership Board to address the issues and recommendations arising from the report. The CSSIW Annual Review and Evaluation Report 2012/13 for Swansea concluded that *'adult services have improved and there is sustained progress'* and *'child and family services are making steady progress in the face of increased demand.'* However the report also identified potential risks to be considered.

- 4.6 The Annual General Meeting of the Council held on 09/05/13 appointed the required number of councillors to sit on the Boards of the companies included in the Council's **Group Accounts**. Changes were made to the representatives on Bay Leisure and Swansea Stadium Management Company at Council on 19/11/13.

## ANNUAL GOVERNANCE STATEMENT 2013/14

- 4.7 The Annual Report on Leisure Partnerships for 2012/13 was presented to Council on 15/04/14. The report reviewed the Wales National Pool Swansea, National Waterfront Museum Swansea, Liberty Stadium and the LC in detail and provided information on the monitoring arrangements in place.
- 4.8 The legislation which required waste disposal operations to be carried out 'at arms length' has been repealed. The Council undertook a full review of the operations of Swansea City Waste Disposal Company in light of its current waste strategy and decided to bring the whole operation back in house. The Company's assets and liabilities as well as its employees transferred into the Council from 01/08/13 and the liquidation of the Company will follow in due course.
- 4.9 The review of the effectiveness of the Council's governance arrangements indicate that they continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined below.

### 5 Significant Governance Issues

- 5.1 The following table shows the significant governance issues which were identified during the review of effectiveness undertaken when preparing the Annual Governance Statement 2012/13 and the action taken during the year to address the issues.

Issue	Proposed Action	Action Taken
Develop rationalised set of priorities	Prepare Corporate Improvement Plan that links to Single Integrated Plan and sets out outcome based improvement objectives and performance measures.	Corporate Improvement Plan 2013/17 – <i>Standing Up for a Better Swansea</i> – was published in August 2013. The Plan was developed using an outcome based approach (Results Based Accountability), which identified improvement priorities showing the Council's contribution to the Single Integrated Plan. The WAO confirmed that the Council had discharged its statutory improvement planning duties. Further work will take place during 2014/15

## ANNUAL GOVERNANCE STATEMENT 2013/14

		On developing a rationalised set of priorities as part of a Corporate Plan.
Reporting to Citizens	Undertake annual review of performance that measures Council's success delivering its Improvement Plan and objectives on the basis of "impact" for citizens.	The Annual Performance Review 2012/13 published in October 2013 sought to outline the Council's view of its success delivering its Improvement Objectives. The WAO acknowledged in its <i>Annual Improvement Report</i> that the Council had got better at reporting how well it is performing and is developing a consistent approach to evaluating itself. Further work will take place in 2014/15 on embedding the Council's emerging approach to self-evaluation.
Scrutiny Arrangements	Complete the review of the new Scrutiny arrangements in line with the Wales Audit Office National Scrutiny Improvement Study.	Following positive engagement in the Improvement Study, the Scrutiny Programme Committee has identified and acted upon a number of improvement themes.
Compliance by Schools	Continue to provide challenge and direction to schools to embed the improvements already made to ensure compliance with financial regulations, accounting instructions, procurement processes etc.	Schools continue to receive appropriate guidance, direction and challenge, building further on the improvements already made. This will continue and the overall impact monitored.
Arms Length Operations	Undertake a review of the governance arrangements.	A review has been completed and a "lesson learnt" report presented to Executive Board. An Audit of the governance arrangements for partnerships is underway and will report during 2014/15.


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Senior Management Assurance Statements	Review evidence available to confirm statements made by Heads of Service for a sample of Senior Management Assurance Statements.	A review will be undertaken of the Senior Management Assurance Statements provided in May 2014.
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5.2 The following table identifies issues which have been raised during the review of effectiveness and the proposed action to be taken during 2014/15 to address the issues.

Issue	Proposed Action
Develop a rationalised set of priorities for the Council	Develop a Corporate Plan with a reduced set of corporate priorities and performance indicators focussing on what matters to Swansea.
Improving the processes for reporting to Citizens	Publish an annual review of performance where the Council sets out its view of its performance delivering its improvement priorities in a more accessible way e.g. case studies highlighting actual improvements.
Review of Arms Length Operations	Complete audit review of the governance arrangements of partnerships.
Review of Regional Collaborative Arrangements	Review the effectiveness of the governance arrangements for the Council's Regional Collaborative Arrangements.
Review of Senior Management Assurance Statements	Review evidence available to confirm statements made by Heads of Service for a sample of Senior Management Assurance Statements as part of the Internal Audit Review of Corporate Governance.
Review of the Council's Code of Corporate Governance	The Code of Corporate Governance was approved by Council in June 2008 and it is proposed to review and update the Code.

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

Signed   
 Date 23.9.14

Chief Executive

Signed   
 Date 23.9.14

Leader

## PART B

### Statement of Responsibilities for the Statement of Accounts

#### The Authority's Responsibilities

The Authority is required:

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

#### The Section 151 Officer's Responsibilities

The Section 151 Officer of the City and County of Swansea is responsible for the preparation of the Pension Fund's statement of accounts which is required to present fairly the financial position of the Fund at the accounting date and its income and expenditure for the relevant year.

In preparing this statement of accounts, the Section 151 Officer has:

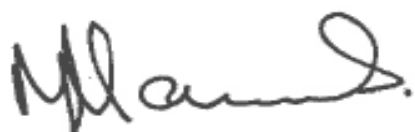
- selected suitable accounting policies and then applied them consistently
- made judgements and estimates that were reasonable and prudent
- complied with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

The Section 151 Officer has also :

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

#### The Section 151 Officer's Certificate

The Statement of Accounts on pages 26 to 51 summarises the Fund's transactions for the 2013/14 financial year and its position at year-end 31 March 2014. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2013/14* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector and present fairly the financial position of the City and County of Swansea Pension Fund at 31 March 2014 and the income and expenditure for the year there ended.



30/9/14.



## **Independent Auditor's Statement to the Members of the Administering Authority of City & County of Swansea Local Government Pension Fund**

I have examined the pension fund accounts and related notes contained in the 2014 Annual Report of the City & County of Swansea Pension Fund to establish whether they are consistent with the pension fund accounts and related notes included in the Statement of Accounts produced by the City & County of Swansea for the year ended 31 March 2014 which were authorised for issue on 30 September 2014. The pension fund accounts comprise the Fund Account, the Net Assets Statement.

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

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

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

I conducted my work based on the requirements of Bulletin 2008/3 issued by the Auditing Practices Board. My report on the pension fund accounts and related notes included in the Statement of Accounts produced by the City & County of Swansea describes the basis of my opinion on those accounts.

### **Opinion**

In my opinion the pension fund accounts and related notes included in the Annual Report of the City & County of Swansea Pension Fund are consistent with the pension fund accounts and related notes included in the Statement of Accounts produced by the City & County of Swansea for the year ended 31 March 2014 which were authorised for issue on 30 September 2014 on which I issued an unqualified opinion.

As stated in my report in the statutory financial accounts of the City & County of Swansea, I was unable to conclude the audit prior to the conclusion of the audit of the pension fund. Prior to concluding the audit of the City & County of Swansea financial accounts, I shall need to consider whether events that have occurred since issuing my opinion require the statutory financial accounts to be amended.



Anthony Barrett  
Appointed Auditor  
26 November 2014  
Cardiff

# STATEMENT OF ACCOUNTS 2013/14

## 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 2014.
- The Notes to the Account 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:-

	<b>£'000</b>
Contributions and transfers in	87,392
Other	110
	<b>87,502</b>



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

	<b>£'000</b>
Pensions payable	49,588
Lump sum benefits	17,206
Refunds and transfers out	3,136
Administrative Expenses	1,022
	<b>70,952</b>

	<b>£'000</b>
Net new money into the Fund	16,550
Net return on Investments	90,493
<b>Increase in Fund value</b>	<b>107,043</b>

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

2012/13			2013/14	
£'000	Contributions and benefits :		£'000	£'000
	Contributions receivable :			
53,937	Employers contribution	3	58,554	
15,380	Employees contribution	3	16,133	74,687
1,867	Transfers in	4		12,705
23	Other income	5		110
71,207				87,502
	Benefits payable :			
-47,058	Pensions payable	6	-49,588	
-13,868	Lump sum benefits	6	-17,206	-66,794
	Payments to and on account of leavers :			
-12	Refunds of contributions	7	-11	
-3,590	Transfers out	7	-3,125	-3,136
-1,037	Administrative expenses	8		-1,022
<b>5,642</b>	<b>Net additions from dealing with members</b>			<b>16,550</b>
	<b>Returns on investments</b>			
18,753	Investment income	9		24,456
139,791	Change in market value of investments	12		77,463
-6,439	Investment management expenses	8		-11,426
<b>152,105</b>	<b>Net returns on investments</b>			<b>90,493</b>
<b>157,747</b>	<b>Net increase in the Fund during the year</b>			<b>107,043</b>
1,119,852	Opening Net Assets of the Fund			1,277,599
<b>1,277,599</b>	<b>Closing Net Assets of the Fund</b>			<b>1,384,642</b>

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

31st March 2013 (Reclassified)* £'000		Note	31st March 2014 £'000
	<b>Investments at market value:</b>		
1,240,512	Investment Assets	11	1,335,099
14,493	Cash Funds	12	13,866
21,497	Cash Deposits	12	29,232
1,744	Other Investment Balances – Dividends Due *		2,063
<b>1,278,246</b>	<b>Sub Total</b>		<b>1,380,260</b>
5,278	Current Assets	16	15,097
-5,925	Current Liabilities	16	-10,715
<hr/> <b>1,277,599</b>	<b>Net assets</b>		<hr/> <b>1,384,642</b>

The financial statements on pages 26 to 51 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.

\* The reclassification as at the 31<sup>st</sup> March 2013 is explained in Note 12.

## Notes to the Accounts

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

The Statement of Accounts summarises the Fund's transactions for the 2013/14 financial year and its position at year-end 31 March 2014. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2013/14* 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 members 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.

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.

#### **(d) Investments**

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

## **Accounting Policies cont'd**

- ii) Listed investments are included at the bid price of the quoted prices 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 and pooled investment vehicles are valued by the relevant investment managers based on the Fund's share of the net assets or a single price advised by the Fund Manager, in accordance with generally accepted guidelines.
- v) Unit trusts are valued at the Managers' bid prices at 31<sup>st</sup> March.
- vi) Accrued interest is excluded from the market value of fixed interest securities but is included in accrued investment income.
- vii) Investment management fees are accounted for on an accrual basis.
- viii) Transaction costs are included in the cost of purchases and sales proceeds.
- ix) Investments held in foreign currencies have been translated into sterling values at the relevant rate ruling as at 31<sup>st</sup> March.
- x) Property Funds/Unit Trusts are valued at the bid market price, which is based upon regular independent valuation of the underlying property holdings of the Fund/Unit Trust.

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

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

### **(f) Cash and Cash Funds**

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

### **(g) Investment Income**

Investment income and interest received are accounted for on an accruals basis. When an investment is valued ex dividend, the dividend is included in the Fund account.

### **(h) Other**

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

### 3. Analysis of Contributions

Total Contributions 2012/13 £'000		Total Contributions 2013/14 £'000
<b>38,514</b>	<b><u>Administering Authority</u></b> City & County of Swansea	<b>41,711</b>
	<b><u>Admitted Bodies</u></b>	
35	Babtie	11
229	Celtic Community Leisure	235
17	Colin Laver Heating Limited	13
20	Swansea Bay Racial Equality Council	20
83	Wales National Pool	100
104	Capgemini	89
1,900	NPT Homes	2,027
20	Phoenix Trust	7
1,109	Grwp Gwalia	1,182
<b>3,517</b>	<b>Total Admitted Bodies</b>	<b>3,684</b>
	<b><u>Scheduled Bodies</u></b>	
5	Cilybebyll Community Council	6
25	Coedffranc Community Council	25
1,616	Gower College	1,637
1,234	NPTC Group	1,639
66	Neath Town Council	74
22,982	Neath Port Talbot County Borough Council	24,490
32	Margam Joint Crematorium Committee	21
7	Pelenna Community Council	6
13	Pontardawe Town Council	14
33	Swansea Bay Port Health Authority	34
76	Swansea City Waste Disposal	26
1,197	University of Wales Trinity St Davids	1,320
<b>27,286</b>	<b>Total Scheduled Bodies</b>	<b>29,292</b>
<b>69,317</b>	<b>Total Contributions Receivable</b>	<b>74,687</b>

### **3. Analysis of Contributions (continued)**

The admission agreement for Babbie ceased on the 4<sup>th</sup> July 2013 when their contract with Neath Port Talbot County Borough Council ended, therefore their participation in the Fund has now ceased.

Coleg Powys merged with Neath Port Talbot College with effect from 1<sup>st</sup> August 2013 to form NPTC Group. A direction was received from the Department of Communities and Local Government (DCLG) for the scheme members employed by Coleg Powys to be transferred from Powys Pension Fund to Neath Port Talbot College section of the Fund.

The admission agreement for Swansea Waste Disposal Company ceased from 1<sup>st</sup> August 2013 when that company's employees were transferred into the City & County of Swansea section of the Fund.



### 3. Analysis of Contributions (continued)

Total Employer/Employee contributions comprises of:

2012/13		2013/14
£'000		£'000
52,340	Employers	55,436
1	Normal	9
1,596	Other	3,109
<u>53,937</u>	Early Access	<u>58,554</u>
	<b>Total</b>	
	Employees	
15,346	Normal	16,105
34	Other	28
<u>15,380</u>	Early Access	<u>16,133</u>
	<b>Total</b>	
<u>69,317</u>	<b>Total Contributions Receivable</b>	<u>74,687</u>

### 4. Transfers In

Transfers in comprises of:

2012/13		2013/14
£'000		£'000
0	Group transfers from other schemes *	8,900
1,867	Individual transfers from other schemes	3,805
<u>1,867</u>	<b>Total</b>	<u>12,705</u>

\* This figure represents a bulk transfer from the Powys Pension Fund in respect of Coleg Powys, who have merged with Neath Port Talbot College (a scheduled body within this Scheme) to form Neath Port Talbot College Group. The figure of £8.9m, represents an estimate made by the actuary of the Powys Pension Fund, of the transfer value in respect of Coleg Powys. This estimate will be reviewed by the Actuary for the City & County of Swansea Pension Fund when data becomes available.

### 5. Other Income

Other income comprises of:

2012/13		2013/14
£'000		£'000
13	Bank Interest	89
10	Early Access - Interest	21
<u>23</u>	<b>Total</b>	<u>110</u>

## 6. Benefits Payable

The lump sum benefits paid comprise of:

2012/13		2013/14
£'000		£'000
47,058	Pensions	49,588
11,830	Commutation and lump sum retirement benefits	15,349
2,038	Lump sum death benefits	1,857
<u>60,926</u>	<b>Total</b>	<u>66,794</u>

## 7. Payments to and on account of leavers

Transfers out and refunds comprise of:

2012/13		2013/14
£'000		£'000
12	Refunds to members leaving service	11
3,590	Individual transfers to other schemes	3,125
<u>3,602</u>	<b>Total</b>	<u>3,136</u>

## 8. Administrative and Investment Manager Expenses

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

2012/13		2013/14
£'000		£'000
<b>Administrative Expenses</b>		
661	Support Services & Employee Costs	659
22	Actuarial Fees	45
41	Advisors Fees	43
40	External Audit Fees	58
22	Performance Monitoring Services Fees	25
25	Printing & Publications	23
217	Other	166
9	Pension Fund Committee	3
<u>1,037</u>		<u>1,022</u>
<b>Investment Manager Expenses</b>		
3,204	Management Fees	4,378
3,120	Performance Fees	6,915
115	Custody Fees	133
<u>6,439</u>		<u>11,426</u>
<u>7,476</u>	<b>Total</b>	<u>12,448</u>

## 9. Investment Income

2012/13 £'000		2013/14 £'000
8,954	U.K. Equities	13,433
6,041	Overseas Equities	6,619
2,736	Managed Fund – Fixed Interest	3,055
842	Pooled Investment vehicles - Property Fund	1,006
175	Pooled Investment vehicles - Private Equity	341
5	Interest	2
<u>18,753</u>	<b>Total</b>	<u>24,456</u>

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

## 10. Taxation

### a) United Kingdom

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

## 11. Investment Assets

	31 <sup>st</sup> March 2013			31 <sup>st</sup> March 2014		
	UK £'000	Overseas £'000	Total £'000	UK £'000	Overseas £'000	Total £'000
<b>Equities</b>						
Quoted	297,494	282,996	580,490	324,568	313,060	637,628
<b>Pooled investment vehicles</b>						
Managed Funds:						
Quoted:						
Equity	0	12,881	12,881	0	13,467	13,467
Fixed Interest	0	109,679	109,679	0	117,200	117,200
Unquoted:						
Equity	123,346	183,449	306,795	128,747	194,470	323,217
Fixed Interest	51,886	10,205	62,091	52,409	11,862	64,271
Index-linked	20,590	0	20,590	20,720	0	20,720
Property Unit Trust	5,296	0	5,296	6,107	0	6,107
Property Fund	26,552	29,304	55,856	31,056	31,560	62,616
Hedge Fund	0	44,891	44,891	0	49,060	49,060
Global Tactical						
Asset Allocation	0	17,109	17,109	0	15,529	15,529
Private Equity	0	24,834	24,834	0	25,284	25,284
<b>Total pooled investment vehicles</b>	<b>227,670</b>	<b>432,352</b>	<b>660,022</b>	<b>239,039</b>	<b>458,432</b>	<b>697,471</b>
<b>Total equities and pooled investment vehicles</b>	<b>525,164</b>	<b>715,348</b>	<b>1,240,512</b>	<b>563,607</b>	<b>771,492</b>	<b>1,335,099</b>

## 11. Investment Assets (Continued)

An analysis of investment assets based on the economic exposure to each class of investments is shown below :

<b>31<sup>st</sup> March 2013 £'000</b>	<b>Investment Assets</b>	<b>31<sup>st</sup> March 2014 £'000</b>
171,770	Fixed Interest	181,471
20,590	Index Linked Securities	20,720
420,840	U.K. Equities	453,315
61,152	Property	68,723
44,891	Hedge Funds	49,060
24,834	Private Equity	25,284
17,109	Global Tactical Asset Allocation (GTAA)	15,529
479,326	Overseas Equities	520,997
<b><u>1,240,512</u></b>	<b>Total Investment Assets</b>	<b><u>1,335,099</u></b>

## (e) Reconciliation of movements in investments

	Value at 31 <sup>st</sup> March 2013 (Reclassified) £'000	Purchases £'000	Sales £'000	Change in Market Value £'000	Value at 31 <sup>st</sup> March 2014 £'000
<b>Equities</b>					
Aberdeen	98,166	10,637	-8,478	-978	99,347
JPM	201,896	247,752	-240,647	16,306	225,307
Schroders	293,309	59,382	-52,629	26,379	326,441
L&G	306,795	5,730	-10,495	21,187	323,217
	<u>900,166</u>	<u>323,501</u>	<u>-312,249</u>	<u>62,894</u>	<u>974,312</u>
<b>Property</b>					
UK					
Schroders	31,848	1,984	0	3,331	37,163
Overseas					
Partners	16,797	4,047	-3,021	1,257	19,080
Invesco	12,507	0	-517	490	12,480
	<u>61,152</u>	<u>6,031</u>	<u>-3,538</u>	<u>5,078</u>	<u>68,723</u>
<b>Fixed Interest</b>					
Fixed Interest					
L&G	62,091	4,433	0	-2,253	64,271
Goldman	109,679	3,055	0	4,466	117,200
	<u>171,770</u>	<u>7,488</u>	<u>0</u>	<u>2,213</u>	<u>181,471</u>
Index-Linked					
L&G	20,590	887	0	-757	20,720
	<u>20,590</u>	<u>887</u>	<u>0</u>	<u>-757</u>	<u>20,720</u>
<b>Hedge Funds</b>					
Blackrock	23,609	0	-466	2,541	25,684
Fauchier	21,282	0	-424	2,518	23,376
	<u>44,891</u>	<u>0</u>	<u>-890</u>	<u>5,059</u>	<u>49,060</u>
<b>Private Equity</b>					
HarbourVest	24,834	6,551	-10,403	4,302	25,284
	<u>24,834</u>	<u>6,551</u>	<u>-10,403</u>	<u>4,302</u>	<u>25,284</u>
<b>Global Tactical Asset Allocation</b>					
Blackrock (BGI)	17,109	0	-163	-1,417	15,529
	<u>17,109</u>	<u>0</u>	<u>-163</u>	<u>-1,417</u>	<u>15,529</u>
<b>Cash funds</b>					
L&G	14,296	2,111	-2,666	89	13,830
Schroders	197	0	-162	1	36
	<u>14,493</u>	<u>2,111</u>	<u>-2,828</u>	<u>90</u>	<u>13,866</u>
<b>TOTAL</b>	<b><u>1,255,005</u></b>	<b><u>346,569</u></b>	<b><u>-330,071</u></b>	<b><u>77,463</u></b>	<b><u>1,348,965</u></b>
<b>Cash</b>	<b>21,497</b>				<b>29,232</b>
<b>Other Investment Balance - Dividends Due</b>	<b>1,744</b>				<b>2,063</b>
<b>TOTAL</b>	<b><u>1,278,246</u></b>			<b><u>77,463</u></b>	<b><u>1,380,260</u></b>

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

As at 31<sup>st</sup> March 2013, the dividends due to the Fund have been reclassified as Other Investment Balances, having previously been included in Current Assets.

Transaction costs are included in the cost of purchase and sales proceeds. Identifiable transaction costs incurred in the year relating to segregated investments amounted to £388k (2012/13: £290k). Costs are also incurred by the Fund in relation to transactions in pooled investment vehicles. Such costs are taken into account in calculating the bid/offer spread of these investments and are not separately identifiable.

## 13. Concentration of Investments

The following investments represented more than 5% of the Plan's net assets at 31 March 2014:

	Value as at the 31st March 2013 £'000	Proportion of Net Asset %	Value as at the 31 <sup>st</sup> March 2014 £'000	Proportion of Net Asset %
L&G UK Equity Index	123,346	9.7	128,747	9.3
Goldman Sachs Global Libor Plus II	109,679	8.6	117,200	8.5
L&G North America Equity Index	71,710	5.6	76,747	5.5

## 14. Realised Profit on the Sale of Investments

2012/13 £'000		2013/14 £'000
3,429	U.K. Equities	15,280
14,132	Overseas	27,909
64	Property Fund	0
0	Cash Fund	3
<b>17,625</b>	<b>Net Profit / Loss (-)</b>	<b>43,192</b>

## 15. Fixed Interest and Index Linked Investments

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

31 <sup>st</sup> March 2013 £'000		31 <sup>st</sup> March 2014 £'000
78,289	UK Public Sector	115,086
114,071	Other	87,105
<b>192,360</b>	<b>Total</b>	<b>202,191</b>

## 16. Current Assets and Liabilities

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

31 <sup>st</sup> March 2013 (Reclassified) £'000		31 <sup>st</sup> March 2014 £'000
	<b>Current Assets</b>	
616	Contributions - Members	613
2,024	Contributions – Employers	2,011
786	Early Access Debtor	2,120
415	Transfer Values	9,232
2,638	Other	1,121
<b>5,278</b>		<b>15,097</b>
	<b>Current Liabilities</b>	
-1,563	Investment Management Expenses	-4,321
-1,601	Commutation and Lump Sum Retirement Benefits	-3,873
-455	Lump Sum Death Benefits	-688
-1,445	Transfers to Other Schemes	-895
-514	Payroll Deductions - Tax	-538
-347	Other	-400
<b>-5,925</b>		<b>-10,715</b>
<b>-647</b>	<b>Net</b>	<b>4,382</b>

Analysed as:

31 <sup>st</sup> March 2013 (Reclassified) £'000		31 <sup>st</sup> March 2014 £'000
	<b>Current Assets</b>	
698	Central Government Bodies	774
3,850	Other Local Authorities	13,655
0	Public Corporations & Trading Funds	2
730	Other Entities & Individuals	666
<b>5,278</b>		<b>15,097</b>
	<b>Current Liabilities</b>	
-2	Central Government Bodies	-38
-1,475	Other Local Authorities	-2,677
-4,448	Other Entities & Individuals	-8,000
<b>-5,925</b>		<b>-10,715</b>
<b>-647</b>	<b>Net</b>	<b>4,382</b>



## 16. Current Assets and Liabilities (continued)

### Early Access Debtor

	Instalment Due 2014/15 £'000	Instalment Due 2015/16 £'000	Instalment Due 2016/17 £'000	Instalment Due 2017/18 £'000	Total £'000
Principal Debtor	1,658	240	209	13	2,120
Interest Debtor	25	19	17	1	62
<b>Total (Gross)</b>	<b>1,683</b>	<b>259</b>	<b>226</b>	<b>14</b>	<b>2,182</b>

## 17. Capital and Contractual Commitments

As at 31 March 2014 the Scheme was committed to providing additional funding to certain managers investing in unquoted securities. These commitments amounted to £40.3m (2012/13: £53.3m).

## 18. Related Party Transactions

£659k (£661k 12/13) 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 31.

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

## 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 principals that apply to all other members of the Fund.

## 19. Other Fund Documents

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

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

## 20. Additional Voluntary Contributions

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

The Pension Fund accounts do not include the assets held by The Prudential, Equitable Life or Aegon. AVC's are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only.

<b>AVC Provider</b>	<b>Value of Funds at 01/04/13</b>	<b>Purchases at Cost (Contributions In/Out)</b>	<b>Sale Proceeds</b>	<b>Change in Market Value</b>	<b>Value of Funds at 31/03/14</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Prudential	2,644	1,162	-1,117	36	2,725
Aegon	1,535	50	-337	104	1,352
Equitable Life	400	2	-46	17	373
<b>Totals</b>	<b>4,579</b>	<b>1,214</b>	<b>-1,500</b>	<b>157</b>	<b>4,450</b>

## 21. Membership

The Pension Fund covers our 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 2014 there were 15,576 contributors, 10,833 pensioners and 9,663 deferred pensioners.

<b>Membership statistics</b>	<b>31/03/10</b>	<b>31/03/11</b>	<b>31/03/12</b>	<b>31/03/13</b>	<b>31/03/14</b>
	<b>Number</b>	<b>Number</b>	<b>Number</b>	<b>Number</b>	<b>Number</b>
Contributors	14,744	14,524	14,179	14,586	15,576
Pensioners	9,302	9,600	10,027	10,432	10,833
Deferred Pensioners	7,248	7,614	8,204	8,815	9,663
<b>Total</b>	<b>31,294</b>	<b>31,738</b>	<b>32,410</b>	<b>33,833</b>	<b>36,072</b>

See Appendix 1 for current year analysis.

## 22. Fair Value of Investments

### Financial Instruments

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

### Financial Instruments – Gains and Losses

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

### Fair Value – Hierarchy

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

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

The following table shows the position of the Fund's assets at 31st March 2013 and 2014 based upon this hierarchy.

	31 March 2013				31 March 2014			
	Market Value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	Market Value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
<b>Equities</b>								
UK Equities	297,494	297,494	-	-	324,568	324,568	-	-
Overseas Equities	282,996	282,996	-	-	313,060	313,060	-	-
<b>Pooled Investment Vehicles</b>								
Fixed-Interest Funds	109,679	-	109,679	-	117,200	-	117,200	-
UK Equity	123,346	-	123,346	-	128,747	-	128,747	-
Overseas Equity	196,330	-	196,330	-	207,937	-	207,937	-
Fixed Interest	62,091	-	62,091	-	64,271	-	64,271	-
Index-linked	20,590	-	20,590	-	20,720	-	20,720	-
Property Unit Trust	5,296	-	5,296	-	6,107	-	6,107	-
Property Fund	55,856	-	26,552	29,304	62,616	-	31,056	31,560
Hedge Fund	44,891	-	-	44,891	49,060	-	-	49,060
Global Tactical Asset Allocation	17,109	-	-	17,109	15,529	-	-	15,529
Private Equity	24,834	-	-	24,834	25,284	-	-	25,284
Cash	35,990	35,990	-	-	43,098	43,098	-	-
Other Investment Balances -								
Dividends Due	1,744	1,744	-	-	2,063	2,063	-	-
<b>Total</b>	<b>1,278,246</b>	<b>618,224</b>	<b>543,884</b>	<b>116,138</b>	<b>1,380,260</b>	<b>682,789</b>	<b>576,038</b>	<b>121,433</b>

### **23. Investment Risks**

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

#### **Procedures for Managing Risk**

The principal powers to invest are contained in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 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 Statement of Investment Principles (SIP) 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 with no single active manager managing more than 25% of Fund assets. On appointment, fund managers are delegated the power to make such purchases and sales as they deem appropriate under the mandate concerned. Each mandate has a benchmark or target to outperform or achieve, usually on the basis of 3-year rolling periods. An update, at least quarterly, is required from each manager and regular meetings are held with managers to discuss their mandates and their performance on them. There are slightly different arrangements for some of the alternative assets. Some private equity and property investment is fund rather than manager-specific, with specific funds identified by the investment sub group after careful due diligence. These commitments tend to be smaller in nature than main asset class investments but again regular performance reports are received and such investments are reviewed with managers at least once a year.

## 23. Investment Risks (Continued)

### Credit Risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. As noted above almost all the Fund's

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

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

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

- The Fund's active fixed interest bond portfolio is £117,200k is managed (by Goldman Sachs) on an unconstrained basis and has a significant exposure to credit, emerging market debt and loans. At 31st March 2014, the Fund's exposure to non-investment grade paper was 10.8% 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 £25,284k are managed by HarbourVest in a fund of funds portfolio.

On hedge fund of funds and multi-strategy vehicles, underlying managers have in place a broad range of derivatives. The Fund's exposure to hedge funds through its managers at 31st March 2014 is set out below with their relative exposure to credit risk :

	<b>March 2014</b>	<b>Credit Exposure</b>
	<b>£'000</b>	
Fauchier Partners	23,376	14.2%
Blackrock	25,684	22.4%

### Liquidity Risk

The Pension Fund now 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.

## 23. Investment Risks (Continued)

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 83% 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. Whilst there are a couple of quoted vehicles here, 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.

The table below analyses the value of the Fund's investments at 31st March 2014 by liquidity profile :

	Amounts at				
	31st March	Within 1	1-3	4-12	> 1 Year
	2014	month	months	months	> 1 Year
	£000s	£000s	£000s	£000s	£000s
<b>Equities</b>					
UK Equities	324,568	324,568	0	0	0
Overseas Equities	313,060	313,060	0	0	0
<b>Pooled Investment Vehicles</b>					
Fixed-Interest Funds	117,200	117,200	0	0	0
UK Equity	128,747	128,747	0	0	0
Overseas Equity	207,937	207,937	0	0	0
Fixed Interest	64,271	64,271	0	0	0
Index-linked	20,720	20,720	0	0	0
Property Unit Trust	6,107	0	0	6,107	0
Property Fund	62,616	0	0	31,056	31,560
Hedge Fund	49,060	0	0	49,060	0
Global Tactical Asset Allocation	15,529	0	0	15,529	0
Private Equity	25,284	0	0	0	25,284
Deposits with banks and other financial institutions	43,098	43,098	0	0	0
Other Investment Balances - Dividends Due	2,063	2,063	0	0	0
<b>Total</b>	<b>1,380,260</b>	<b>1,221,664</b>	<b>0</b>	<b>101,752</b>	<b>56,844</b>

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".

## 23. Investment Risks (Continued)

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

This means that, whilst all these monies have been designated closed-ended and thereby illiquid on the basis of their usual "10-year life", many are closer to maturity than implied by this broad designation. As can be seen from the table, even using the conservative basis outlined above, around 88% of the portfolio is realisable within 1 month and 96% 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 2014 by showing the amount invested in each asset class and through each manager within each main asset class, the index used as a benchmark, the target set for managers against this benchmark:

## 23. Investment Risks (Continued)

Asset Class	Asset Allocation	Fund Manager		Benchmark	Performance target
		Passive	Active		
UK Equities	34% +/- 5%	14% L&G	20% Schroders	FTSE allshare	+3% p.a. over rolling 3year
Overseas Equities	34% +/- 5%	13% L&G	21% JP Morgan & Aberdeen Aberdeen	MSCI World all share (ex UK) MSCI Frontier Markets Index	+3% p.a. over rolling 3year +% p.a. over rolling 3year
Global Fixed Interest	15% +/- 5%	6% L&G	9% Goldman Sachs	Composite benchmark Standard Barclays Capital Aggregate	LIBOR +3% Barclays Capital Aggregate +0.75% over rolling 3year
Property	5% +/- 5%	-	5% Schroders, Partners & Invesco	IPD UK Pooled Property Fund Index	+ 1% p.a. over rolling 3 year, 8% absolute return
Hedge Funds	5% +/- 5%	-	5% Blackrock & Fauchier Partners	LIBOR	+4%
Private Equity	3% +/- 5%	-	3% Harbourvest	FTSE allshare	+3% p.a. over 3 year rolling
Global Tactical Asset Allocation	2% +/- 5%	-	2% BGI/Blackrock	LIBOR	+4%
Cash	2% +/- 5%	-	2% In house and cash flows of fund managers	7day LIBID	7day LIBID
<b>TOTAL</b>	<b>100%</b>	<b>33%</b>	<b>67%</b>		

The risks associated with volatility in market values are managed mainly through a policy of broad asset diversification. The Fund sets restrictions on the type of investment it can hold through investment limits, in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The Fund also adopts a specific strategic benchmark (details can be found in the Fund's SIP) 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.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the fund investment strategy.

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 2014 would have been as follows:

#### Price Risk

Asset Type	Value (£'000)	% Change	Value on Increase	Value on Decrease
UK Equities	453,315	12.59%	510,387	396,243
Overseas Equities	520,997	12.13%	584,194	457,800
Total Bonds & Index-Linked	202,191	2.47%	207,185	197,197
Cash	43,098	0.02%	43,107	43,089
Property	68,723	2.61%	70,517	66,929
Alternatives	89,873	3.00%	92,569	87,177
Other Investment Balances	2,063	0.00%	2,063	2,063
<b>Total Assets*</b>	<b>1,380,260</b>	<b>8.35%</b>	<b>1,495,512</b>	<b>1,265,008</b>

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

And as at 31 March 2013

#### Price Risk

Asset Type	Value (£'000)	% Change	Value on Increase	Value on Decrease
UK Equities	420,840	13.4%	477,148	364,532
Overseas Equities	479,326	13.1%	542,022	416,630
Total Bonds & Index Linked	192,360	2.6%	197,342	187,378
Cash	35,990	0.0%	35,994	35,986
Property	61,152	3.0%	63,011	59,293
Alternatives	86,834	3.3%	89,726	83,942
Other Investment Balances	1,744	0.0%	1,744	1,744
<b>Total Assets*</b>	<b>1,278,246</b>	<b>8.8%</b>	<b>1,390,220</b>	<b>1,166,272</b>

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

## 23. Investment Risks (Continued)

### Currency Risk

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

In consultation with the Fund's investment advisors, the Council has determined that the following movements in currencies are reasonably possible. The following represents a sensitivity analysis associated with foreign exchange movements as at 31<sup>st</sup> March 2014:

#### Currency Risk (by currency)

Currency	Value (£'000)	% Change	Value on Increase	Value on Decrease
Australian Dollar	5,099	9.80%	5,599	4,599
Brazilian Real	8,090	12.69%	9,117	7,063
Canadian Dollar	9,422	6.04%	9,991	8,853
Danish Krone	1,415	6.26%	1,504	1,326
EURO	89,647	6.31%	95,304	83,990
Hong Kong Dollar	6,029	7.98%	6,510	5,548
Indian Rupee	5,766	10.84%	6,391	5,141
Indonesian Rupiah	2,094	11.05%	2,325	1,863
Israeli Shekel	628	6.94%	672	584
Japanese Yen	36,631	11.54%	40,858	32,404
Mexican Peso	2,357	10.03%	2,593	2,121
Norwegian Krone	745	8.79%	810	680
Singapore Dollar	3,181	5.71%	3,363	2,999
South African Rand	2,236	11.31%	2,489	1,983
South Korean Won	6,251	6.56%	6,661	5,841
Swedish Krona	6,347	7.03%	6,793	5,901
Swiss Franc	27,523	7.42%	29,565	25,481
Taiwan Dollar	4,873	5.63%	5,147	4,599
US Dollar	162,996	8.07%	176,150	149,842
Other	7,091	5.21%	7,460	6,722
North America Basket	76,747	7.61%	82,587	70,907
Europe ex UK Basket	50,213	6.01%	53,231	47,195
Asia Pacific ex Japan Basket	18,817	6.11%	19,967	17,667
Emerging Basket	43,402	6.37%	46,167	40,637
<b>Total Currency*</b>	<b>577,600</b>	<b>5.13%</b>	<b>607,210</b>	<b>547,990</b>

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

## 23. Investment Risks (Continued)

And as at 31 March 2013

### Currency Risk (by currency)

Currency	Value (£'000)	% Change	Value on Increase	Value on Decrease
Australian Dollar	4,631	10.0%	5,092	4,170
Brazilian Real	8,367	11.6%	9,339	7,395
Canadian Dollar	7,687	5.6%	8,118	7,256
Danish Krone	423	7.7%	456	390
EURO	71,274	7.8%	76,833	65,715
Hong Kong Dollar	7,197	8.5%	7,812	6,582
Indian Rupee	3,589	9.3%	3,922	3,256
Indonesian Rupiah	1,739	7.1%	1,862	1,616
Japanese Yen	38,999	11.8%	43,589	34,409
Mexican Peso	3,466	9.3%	3,788	3,144
Norwegian Krone	504	9.0%	550	458
Singapore Dollar	3,383	5.8%	3,579	3,187
South African Rand	1,577	12.0%	1,765	1,389
South Korean Won	6,397	7.6%	6,880	5,914
Swedish Krona	5,079	8.1%	5,492	4,666
Swiss Franc	25,052	9.4%	27,397	22,707
Taiwan Dollar	4,725	7.2%	5,063	4,387
Thai Baht	485	7.9%	523	447
Turkish Lira	1,787	8.8%	1,944	1,630
US Dollar	148,583	8.7%	161,569	135,597
Other	10,246	5.3%	10,789	9,703
North America Basket	71,710	8.3%	77,662	65,758
Europe ex UK Basket	43,392	7.2%	46,503	40,281
Asia Pacific ex Japan Basket	20,151	6.3%	21,423	18,879
Emerging Basket	43,021	6.4%	45,787	40,255
<b>Total Currency*</b>	<b>533,464</b>	<b>5.2%</b>	<b>561,462</b>	<b>505,466</b>

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

## 24. Further Information

The accounts outlined within the statement represent the financial position of the City and County of Swansea's Pension Fund at 31 March 2014 and any further enquires may be forwarded to the Chief Treasury & Technical Officer, Room 1.4.2, Civic Centre, Oystermouth Road, Swansea SA1 3SN.

## PART C

### INVESTMENT REPORT

#### Pension Fund – Budget Forecast

##### Pension Fund - Budget 2014/15

	<b>Actual 2013/14</b>	<b>Estimate 2014/15</b>
<b>Membership Numbers</b>		
Contributors	15,576	15,943
Pensioners	10,833	11,414

<b>Income</b>	<b>Actual 2013/14 £'000</b>	<b>Estimate 2014/15 £'000</b>
Employer Contributions	58,554	59,000
Employee Contributions	16,133	16,794
Transfers In	12,705	3,500
Other Income	110	100
Investment Income	24,456	20,000

##### **Expenditure**

Pensions Payable	49,588	53,611
Lump Sum Benefits	17,206	18,000
Refunds	11	11
Transfers Out	3,125	3,500
Administrative Expenses	1,022	1,008
Investment Expenses	11,426	9,500

## **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 that permit a wide range of acceptable investments, but set certain limits, including:

- (a) a limit of 10% of the Fund in unlisted securities;
- (b) no more than 10% of the Fund may be invested in a single holding (except for government stocks); and
- (c) no more than 35% of the Fund may be invested in any one insurance contract.
- (d) no more than 35% may be invested in unit trusts managed by any one body.
- (e) no more than 10% of the Fund may be deposited with any one bank.

## **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 2014 comprised (Appendix 2):-

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

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

Following a comprehensive investment review in 2007/08 with a view to implementing a structure which more efficiently and effectively achieves the Fund's objective, the Fund implemented the following structure.

The Fund's current managers are:

<b>Asset Class</b>	<b>Manager</b>
UK Equities	Schroders Investment Management
Global Equities (ex UK)	Aberdeen Asset Managers
Global Equities (ex UK)	JP Morgan Asset Management
Global Bonds	Goldman Sachs Asset Management
Global Balanced Passive	Legal & General Asset Management
Hedge Fund of Funds	Fauchier & Partners
Hedge Fund of Funds	Blackrock Asset Management
Private Equity Fund of Funds	HarbourVest
Property Fund of Funds	Partners Group
Property Fund of Funds	Schroders Investment Management
Property Fund (European)	Invesco Real Estate
Global Tactical Asset Allocation (GTAA)	Blackrock

## Valuation of Investments

The value of the Fund's investments of £1,380m together with cash and other net assets totalling £5m increased from £1,278m to £1,385m during 2013/14.

The increase of £107m is comprised of two elements:

<b>2012/13</b>		<b>2013/14</b>
<b>£'000</b>		<b>£'000</b>
152,105	Net Return on Investments	90,493
5,642	<b>Add</b> Net new money (comprises contributions receivable, transfer values in less benefits paid and transfer values out)	16,550
<u>157,747</u>		<u>107,043</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 14 at Bid price Market Values.

<b>31 March 2013</b>			<b>31 March 2014</b>	
<b>£'000</b>	<b>%</b>		<b>£'000</b>	<b>%</b>
171,770	13.4	Fixed Interest Securities	181,471	13.1
20,590	1.5	Index Linked Securities	20,720	1.5
420,840	32.9	UK Equities	453,315	32.8
61,152	4.8	Property	68,723	5.0
44,891	3.5	Hedge Funds	49,060	3.6
24,834	1.9	Private Equity	25,284	1.8
17,109	1.3	GTAA	15,529	1.1
479,326	37.8	Overseas Securities	520,997	37.9
35,990	2.8	Cash/Temporary Investments	43,098	3.1
1,744	0.1	Other: Dividends Due	2,063	0.1
<u>1,278,246</u>	<u>100</u>		<u>1,380,260</u>	<u>100</u>

### 1314 Distribution of Investments

Fund Manager Bid Prices

	L&G	Schroders Equity	Schroders Property	Invesco	JP Morgan	Aberdeen	Goldman Sachs	Partners Group	Blackrock GTA	Blackrock GTA	Permal	Harbour Vest	External Cash	HSBC Cash	Internal Cash	TOTAL	%
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	%
<b>Equities</b>																	
UK	128,747	320,700				3,868										453,315	32.8%
Europe	50,213	5,741			55,903	25,838										137,695	10.0%
N America	76,747				125,061	28,950										230,758	16.7%
Japan	18,758				14,069	3,803										36,630	2.7%
Pacific	18,817				6,907	7,403										33,127	2.4%
Emerging Markets	29,935				23,367	29,485										82,787	6.0%
<b>Property</b>																	
UK & Europe			37,163	12,480				19,080								49,643	3.6%
Overseas																19,080	1.4%
<b>Fixed Interest</b>																	
Fixed Interest	64,271						117,200									181,471	13.1%
Index-Linked	20,720															20,720	1.5%
<b>Hedge Funds</b>																	
Private Equity									25,684		23,376	25,284				49,060	3.6%
GTA										15,529						25,284	1.8%
Cash	13,830	7,093	441		901	1,224							15,000	93	4,516	43,098	3.1%
<b>Other Investment</b>																	
Balances - Dividends Due		1,414			326	323										2,063	0.1%
<b>TOTAL</b>	<b>422,038</b>	<b>334,948</b>	<b>37,604</b>	<b>12,480</b>	<b>226,534</b>	<b>100,894</b>	<b>117,200</b>	<b>19,080</b>	<b>25,684</b>	<b>15,529</b>	<b>23,376</b>	<b>25,284</b>	<b>15,000</b>	<b>93</b>	<b>4,516</b>	<b>1,380,260</b>	<b>100%</b>
%	30.6%	24.3%	2.7%	0.9%	16.4%	7.3%	8.5%	1.4%	1.9%	1.1%	1.7%	1.8%	1.1%	0.0%	0.3%	100%	



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

## Investment Returns

	City & County of Swansea Fund	WM Local Authority Average Fund (WM)	Fund Specific Benchmark (FSB)	Relative Performance		WM Peer Group Ranking	Average Earnings Increase *	RPI*
	%	%	%	WM	FSB		%	%
2013/14	7.2	6.3	7.1	0.9	+0.1	35 <sup>th</sup>	1.9	2.45
2012/13	13.7	13.7	13.9	-0.1	-0.2	43 <sup>rd</sup>	-0.7	3.28
2011/12	0.6	2.6	3.7	-2.0	-3.1	92 <sup>nd</sup>	0.8	3.6
2010/11	7.9	7.9	7.7	0.0	+0.2	51 <sup>st</sup>	2.2	5.3
2009/10	35.5	35.2	34.7	+0.3	+0.8	42 <sup>nd</sup>	7.8	4.15
2008/09	-16.0	-19.9		+3.9		12 <sup>th</sup>	1.5	-0.4
2007/08	-0.5	-2.2		+1.7		19 <sup>th</sup>	4.5	3.8
2006/07	6.6	6.3		+0.3		32 <sup>nd</sup>	3.5	4.8
2005/06	23.9	25.2		-1.3		77 <sup>th</sup>	3.8	2.4
2004/05	10.9	11.2		-0.3		46 <sup>th</sup>	4.3	3.2
2003/04	23.5	24.3		-0.8		57 <sup>th</sup>	4.6	2.6
2002/03	-21.2	-21.2		0.0		34 <sup>th</sup>	4.7	3.1

\*Data Source Moneyfacts/ONS

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

## Market Commentary- Local Authority Universe

In the last 12 months equity markets have recovered strongly, as risk assets returned to favour, with the benchmark total fund return being 6%.

Equity markets continued to perform strongly with most developed markets producing returns in the high teens in local currency, however much of this return was eroded for UK investors in the US and Japan by the strength of sterling which gained 9% v the dollar and 17% v the yen in the year.

UK equities were below the overseas average but still returned 11 % for the year. Active managers continued to add relative value to the FTSE all share index, the 4<sup>th</sup> consecutive year.

UK bonds posted only their 3<sup>rd</sup> year of negative results in the last 20 years, giving up some of the extremely strong results of the recent past. Index linked gilts similarly produced a small negative for the year.

Alternative performed disappointingly during the year, with private equity returning 5% whilst hedge funds averaged 4% and pooled multi asset funds 3% for the year.

Property returned a pleasing absolute 11% for the year.

## Fund Performance

In total, the Fund returned 7.2%, placing the fund in the 35<sup>th</sup> percentile amongst local authority funds, with Equities providing a benchmark beating 9.2% and bonds (in total) returning 2.3% in contrast to LA average of -1.4% rewarding the move to the unconstrained bond investment approach.

The alternatives ( private equity, hedge funds and GTAA) returned in line with the benchmark at 3.8%.

Property lagged the benchmark return at 7.7%.

The medium and long term returns of the Fund are still comfortably ahead of actuarial assumptions and ahead of inflation with 5 year returns averaging 12.4% p.a. and 10 year returns averaging 8.2% p.a.

The investment strategy seeks to provide consistent returns over a longer period and seeks to dampen the volatility that is inherent in exposure to equity markets alone.

The strategy implemented and the performance of the Fund managers engaged to implement that strategy are reviewed with a view to implementing changes which will benefit the Fund in the long term. Investment decisions have to be undertaken with the full opportunity cost and cost of change having been fully considered.

## PART D

### ACTUARIAL REPORT

#### Actuarial Present Value of Promised Retirement Benefits – Statement of the Actuary for the year ended 31 March 2014

##### 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 and 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 2010 by Aon Hewitt Limited, in accordance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008.

##### Actuarial Position

1. The valuation as at 31 March 2013 showed that the funding ratio of the Fund had increased since the previous valuation with the market value of the Fund's assets at that date (of £1,227.6M) covering 81% of the liabilities allowing, in the case of current contributors to the Fund, for future increases in pensionable pay.
2. The valuation also showed that the required level of contributions to be paid to the Fund by participating Employers with effect from 1 April 2014 is:
  - 16.2% 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.

##### Plus

- 5.7% of pensionable pay to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 25 years from 1 April 2014, if the membership remains broadly stable and pay increases are in line with the rate assumed at the valuation of 3.9% p.a.
3. In practice, each individual employer's position is assessed separately and contributions are set out in Aon Hewitt Limited's report dated 31 March 2014 (the "actuarial valuation report"). In addition to the contributions shown above, payments to cover additional liabilities arising from early retirements (other than ill health retirements) will be made to the Fund by the employers.
  4. The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement. Different approaches adopted in implementing contribution increases and individual employers' recovery periods are set out in the actuarial valuation report.
  5. The valuation was carried out using the projected unit actuarial method for most employers and the main actuarial assumptions used for assessing the funding target and the contribution rates as set out on the following page.

## Statement of the Actuary for the year ended 31 March 2014 (cont'd)

The main actuarial assumptions were as follows:

### Discount Rate

#### In Service :

Scheduled and subsumption bodies	5.6% a year
Orphan bodies	5.2% p.a.

#### After Leaving Service

Scheduled and subsumption bodies	5.6% p.a.
Orphan bodies	3.9% p.a.
Rates of general pay increases	3.9% p.a.
Rate of increases to pension accounts	2.4% p.a.
Rate of increase in pensions in payment	2.4% p.a.
Valuation of assets	market value

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

6. The valuation results summarised above are based on the financial position and market levels at the valuation date, 31 March 2013. As such the results do not make allowance for changes which have occurred subsequent to the valuation date.
7. The formal actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1<sup>st</sup> April 2014 to 31 March 2017 were signed on 31 March 2014. Contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2016.
8. CIPFA's Code of Practice also requires the actuarial present value of the promised retirement benefits to be disclosed based on IAS26 and using assumptions relevant to IAS19 and not the funding assumptions above. The actuarial present value of the promised retirement benefits on this basis as at 31st March 2013 is £1,936.8m (31st March 2010 £1,819.4m), which compares the market value of the assets at that date of £1,277.6m (31st March 2010 £1,016.8m).
9. This statement has been prepared by the current Actuary to the Fund, Aon Hewitt Limited, for inclusion in the accounts of the Fund. It provides a summary of the results of their actuarial valuation which was carried out as at 31st March 2013. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future levels 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 Hewitt Limited does not accept any responsibility or liability to any party other than our client, the City & County of Swansea, in respect of this statement.

**Aon Hewitt Limited**

**Jun- 2014**

## **Definitions**

### **Admission Body**

An employer admitted to the Fund under an admission agreement.

### **Orphan Body**

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

### **Scheduled Body**

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

### **Subsumption and Subsumption Body**

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

## **Certificate of the Actuary Regarding the Contributions Payable by the Employing Authorities in 2013/14**

In accordance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 (the "Administration Regulations"), we certify that contributions should be paid by Employers at the following rates for the period 1<sup>st</sup> April 2011 to 31<sup>st</sup> March 2014

- i) A common rate of 14.6% of Pensionable Pay.
- ii) Individual adjustments which, when added to or subtracted from the common rate, produce the following Employer contributions rates :

**Actuarial Report - Statement of the Actuary for the year ended 31 March 2014 (continued)**

Employer		Year commencing 1st April		
		2011	2012	2013
		% Pensionable Pay	% Pensionable Pay	% Pensionable Pay
<b>Administering Authority</b>				
City and County of Swansea		20.5	22.1	22.4
<b>Scheduled Bodies</b>				
Neath Port Talbot County Borough Council		21.5	21.9	22.0
	<b>Contribution Rate 1 April 2011 to 31 March 2014</b>	<b>Additional Monetary Amount Year Commencing 1 April</b>		
	% Pay	2011	2012	2013
<b>Scheduled Bodies</b>		£	£	£
Coedffranc Community Council	19.1	11,000	11,600	12,200
Margam Joint Crematorium Committee	19.1	11,000	11,600	12,200
Neath Town Council	19.1	14,000	14,700	15,500
Swansea Bay Port Health Authority	19.1	15,000	15,800	16,600
Neath Port Talbot College	13.9	175,000	184,000	194,000
Swansea Metropolitan University	14.4	275,000	290,000	305,000
Gower College Swansea	14.1	206,000	217,000	228,000
Swansea City Waste Disposal Company	18.3	29,000	30,700	32,300
Pontardawe Town Council	19.3	220	230	240
Cilybebyll Community Council	20.5	-	-	-
Pelenna Community Council	17.1	360	380	400
<b>Admitted Bodies</b>				
Colin Laver Heating Limited	19.7	-	-	-
Swansea Bay Racial Equality Council	23.7	2,300	2,400	2,600
Babtie Group	14.6	-	-	-
Celtic Community Leisure	11.1	-	-	-
Wales National Pool	14.5	-	-	-
Capgemini	18.7	-	-	-
Phoenix Trust	13.9	-	-	-
NPT Homes	15.1	-	-	-

## **Actuarial Report - Statement of the Actuary for the year ended 31 March 2014 (continued)**

These 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.

In addition, any extra liabilities falling on the Fund in respect of retirements under Regulation 18,19 or 30 of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2008 (the "Benefits Regulations") should be financed by additional Employer contributions, calculated in a manner advised by the Actuary and payable over a period of 3 years.

In addition, any additional benefits granted under Benefits Regulation 12 or 13 should be financed by additional Employer contributions, under Administration Regulation 40 or as calculated in a manner advised by the actuary.

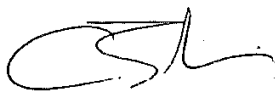
Additional contributions may be payable by any Admission Bodies which have ceased to participate in the fund since 31 March 2010 and will be certified separately.

Contribution rates for Employers commencing participation in the Fund after 31 March 2010 will be advised separately.

Where payments due from an Employer listed in this Certificate are expressed as capital amounts, the amounts payable should be adjusted to take account of any amounts payable, in respect of a surplus or shortfall to which those capital 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. Any adjustment should be advised by the Fund Actuary.

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

For Aon Hewitt Limited  
40 Queen Square  
Bristol  
BS1 4QP



**Chris Archer FIA**  
**30 March 2011**



**David Marsh FIA**  
**30 March 2011**

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## Appendix 1

### Schedule of Employing Bodies and Contribution Rates as at 31 March 2014

Scheduled Bodies	Contributors	Pensioners	Deferred Benefit s	Pensionable Pay (plus additional monetary amount)
Administering Authority	Number	Number	Number	
City & County of Swansea	8,136	4,430	4,207	22.4%
<b>Scheduled Bodies</b>				
Neath Port Talbot County Borough Council.	5,341	3,027	3,927	22.0%
Briton Ferry Town Council	0	1	1	-
Cilybebyll Community Council	5	0	1	20.5%
Clydach Community Council	0	0	1	-
Coedffranc Community Council	2	3	1	19.1% (+£11,600)
Gower College Swansea	401	184	373	14.1% (+217,000)
Lliw Valley BC	0	260	28	-
Margam Joint Cremation Committee	2	13	5	19.1% (+£11,600)
Neath Port Talbot College	537	180	305	13.9% (+£184,000)
Neath Port Talbot Waste Management Co. Ltd.	0	1	0	-
Neath Town Council	13	13	7	19.1% (+£14,700)
Pelenna Community Council	2	1	3	17.1% (+£380)
Pontardawe Town Council	5	1	0	19.3% (+£230)
Swansea Bay Port Health Authority	2	9	2	19.1% (+£15,800)
Swansea City Waste Disposal Company	0	18	3	18.3% (+£30,700)
University of Wales Trinity St Davids	248	106	184	14.4% (+£290,000)
West Glamorgan County Council	0	2,406	340	-
West Glamorgan Magistrates Courts	0	38	19	-
West Glamorgan Probation Service	0	56	9	-
West Glamorgan Valuation Panel	0	5	0	-
<b>Admitted Bodies</b>				
Babtie	0	3	11	14.6%
Celtic Community Leisure	119	27	115	11.1%
Colin Laver Heating Limited	2	0	2	19.7%
Swansea Bay Racial Equality Council	2	0	1	23.7% (+£2,400)
The Careers Business	0	4	11	-
Wales National Pool	52	3	38	14.5%
West Wales Arts Association	0	2	0	-
Capgemini	11	1	4	18.7%
NPT Homes	410	26	34	15.1%
Phoenix Trust	1	1	3	13.9%
Grwp Gwalia	285	14	28	20.4%
<b>Total</b>	<b>15,576</b>	<b>10,833</b>	<b>9,663</b>	



### **Pension Fund Committee 2013/14**

<b>Chairman</b>	Cllr R Stewart
<b>Vice Chairman</b>	Cllr P Downing
<b>Committee Members</b>	Cllr J Newbury Cllr C Lloyd Cllr M Thomas Cllr G Sullivan Cllr P Rees (Neath Port Talbot CBC)
<b>Advised by: Council Officers</b>	M Hawes, Section 151 Officer J Dong, Chief Treasury & Technical Officer
<b>Financial Advisors</b>	V Furniss N Mills

### **Investment Managers**

- Global Equities - JP Morgan Asset Management and Aberdeen Asset Management
- UK Equities – Schroders Investment Management
- Global Balanced Index Tracking - Legal & General
- Global Bonds - Goldman Sachs Asset Management
- Fund of Hedge Funds - Blackrock and Fauchier Partners
- Fund of Private Equity Funds - HarbourVest
- Fund of Property Funds - Partners Group, Schroders Investment Management
- European Property Fund- Invesco Real Estate Europe Fund
- Global Tactical Asset Allocation (GTAA) – Blackrock
- 

### **Pension Administration**

Lynne Miller, Pensions Manager, City & County of Swansea

### **Appointed Actuary**

Aon Hewitt Limited

### **Performance Measurement**

WM Company

### **Global Custodians**

Global Institutional Fund Services (HSBC Security Services)

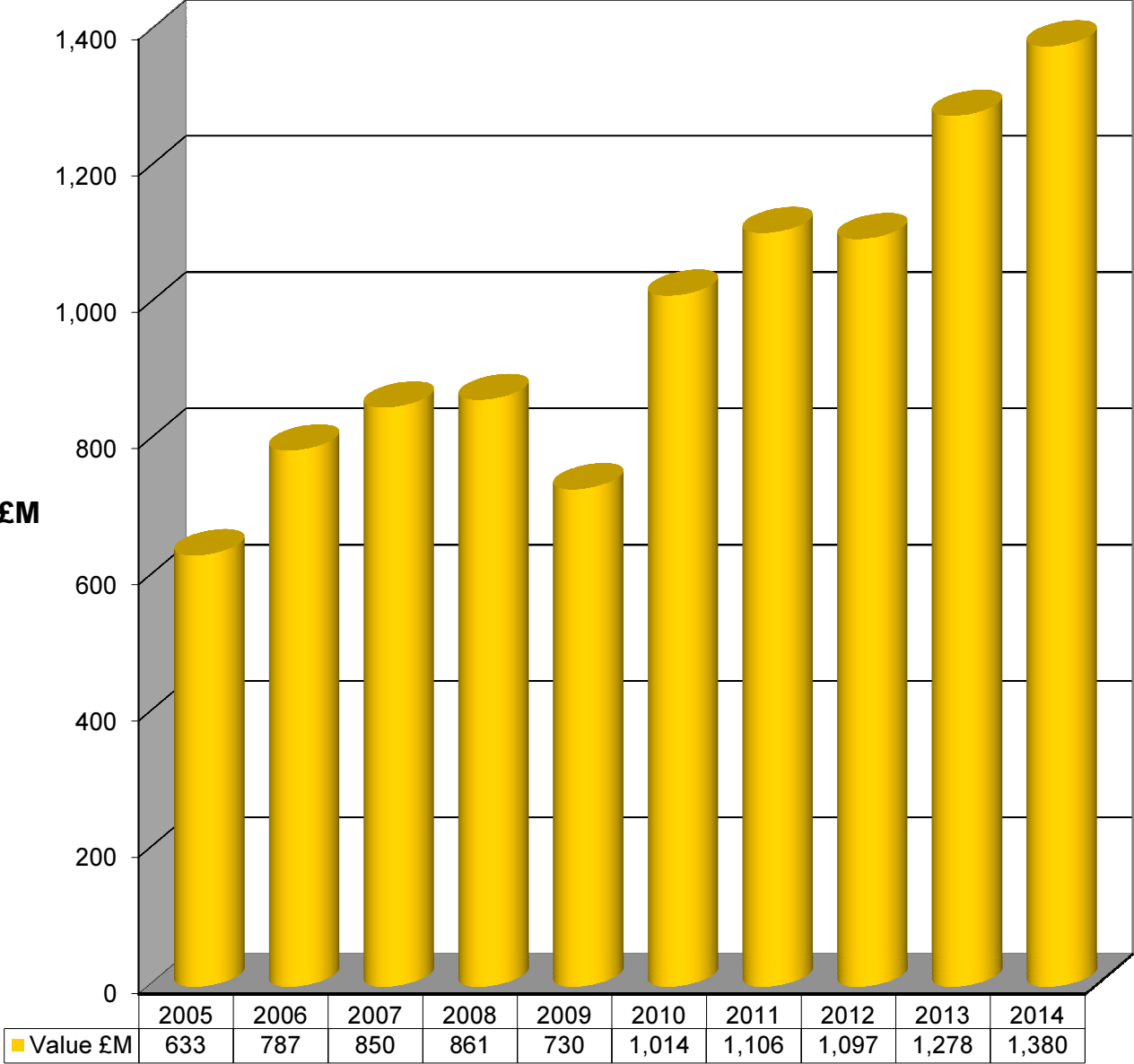
### **Bankers**

Lloyds Bank

### **Legal Advisors**

City & County of Swansea Legal Department

### Market Value of Investment Assets 2005-2014

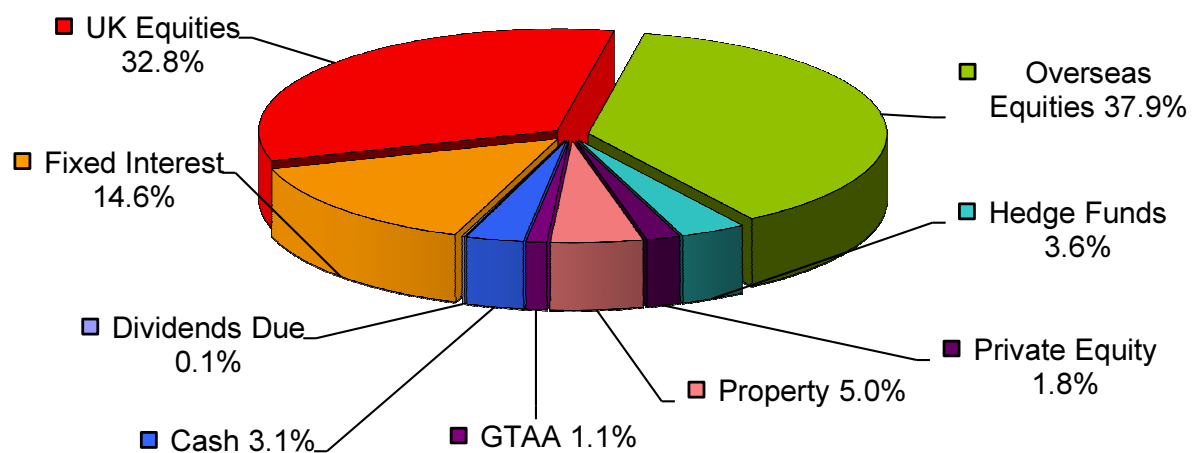


Year

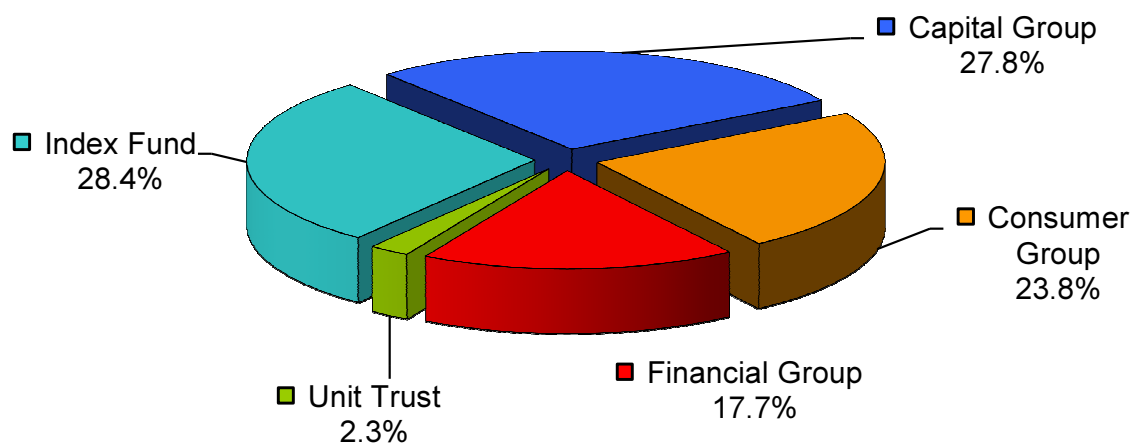
## Portfolio Distribution Summary

31 March 2013			31 March 2014	
Market Value			Market Value	
£'000	%		£'000	%
		<b>Fixed Interest Stocks</b>		
171,770	13.4	Fixed Interest	181,471	13.1
20,590	1.5	Index Linked	20,720	1.5
192,360	14.9		202,191	14.6
		<b>UK Equities &amp; Convertibles</b>		
126,986	9.9	Capital Group	126,001	9.1
92,015	7.2	Consumer Group	108,087	7.8
68,823	5.4	Financial Group	80,102	5.8
9,670	0.8	Unit Trusts	10,378	0.8
123,346	9.6	Index Fund	128,747	9.3
420,840	32.9		453,315	32.8
		<b>Overseas Securities</b>		
112,383	8.8	Europe	137,695	10.0
38,999	3.1	Japan	36,630	2.7
207,183	16.4	North America	230,758	16.8
41,940	3.3	Pacific	33,127	2.4
78,821	6.2	Emerging Markets	82,787	6.0
479,326	37.8		520,997	37.9
44,891	3.5	<b>Hedge Funds</b>	49,060	3.6
24,834	1.9	<b>Private Equity</b>	25,284	1.8
61,152	4.8	<b>Property</b>	68,723	5.0
17,109	1.3	<b>GTAA</b>	15,529	1.1
1,240,512	97.1	<b>Sub Total</b>	1,335,099	96.8
35,990	2.8	<b>Cash held by Managers &amp; Temporary Investments</b>	43,098	3.1
1,744	0.1	<b>Other Investment Balances - Dividends Due</b>	2,063	0.1
<b>1,278,246</b>	<b>100</b>	<b>Total</b>	<b>1,380,260</b>	<b>100</b>

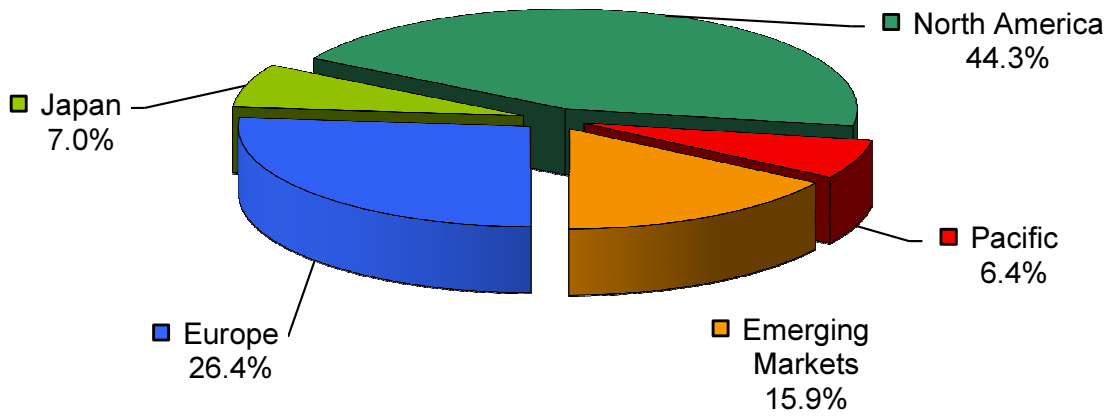
**Analysis of Investments - Market Value 31 March 2014**



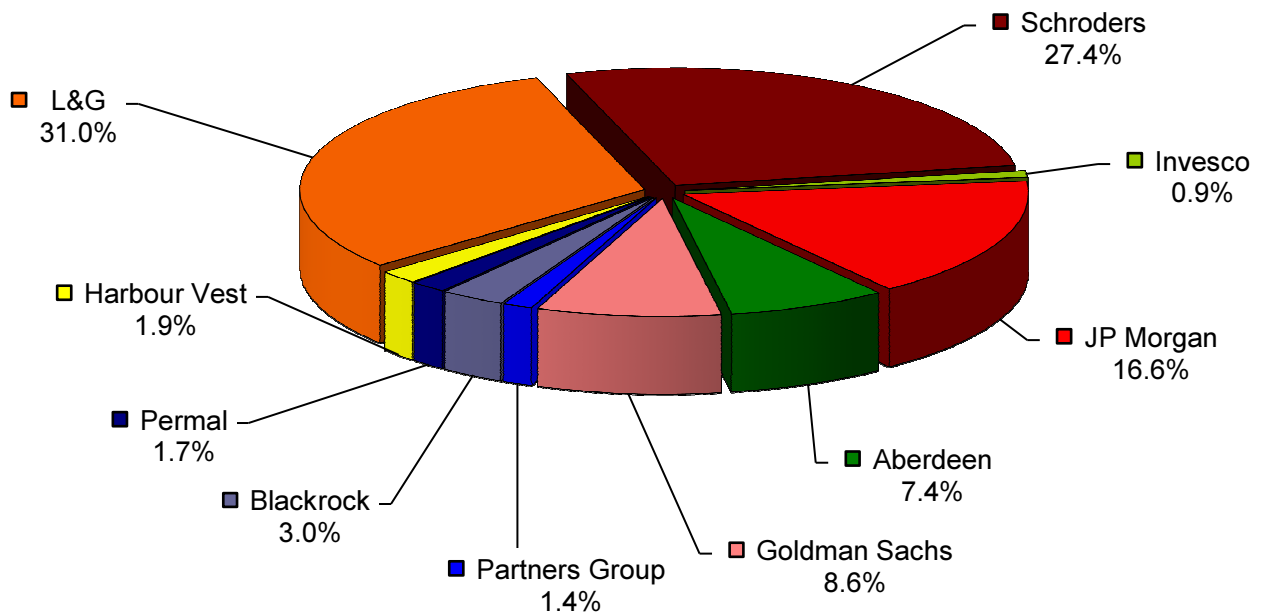
**UK Equities by Sector - Market Value 31 March 2014**



### Overseas Investments - Market Value 31 March 2014



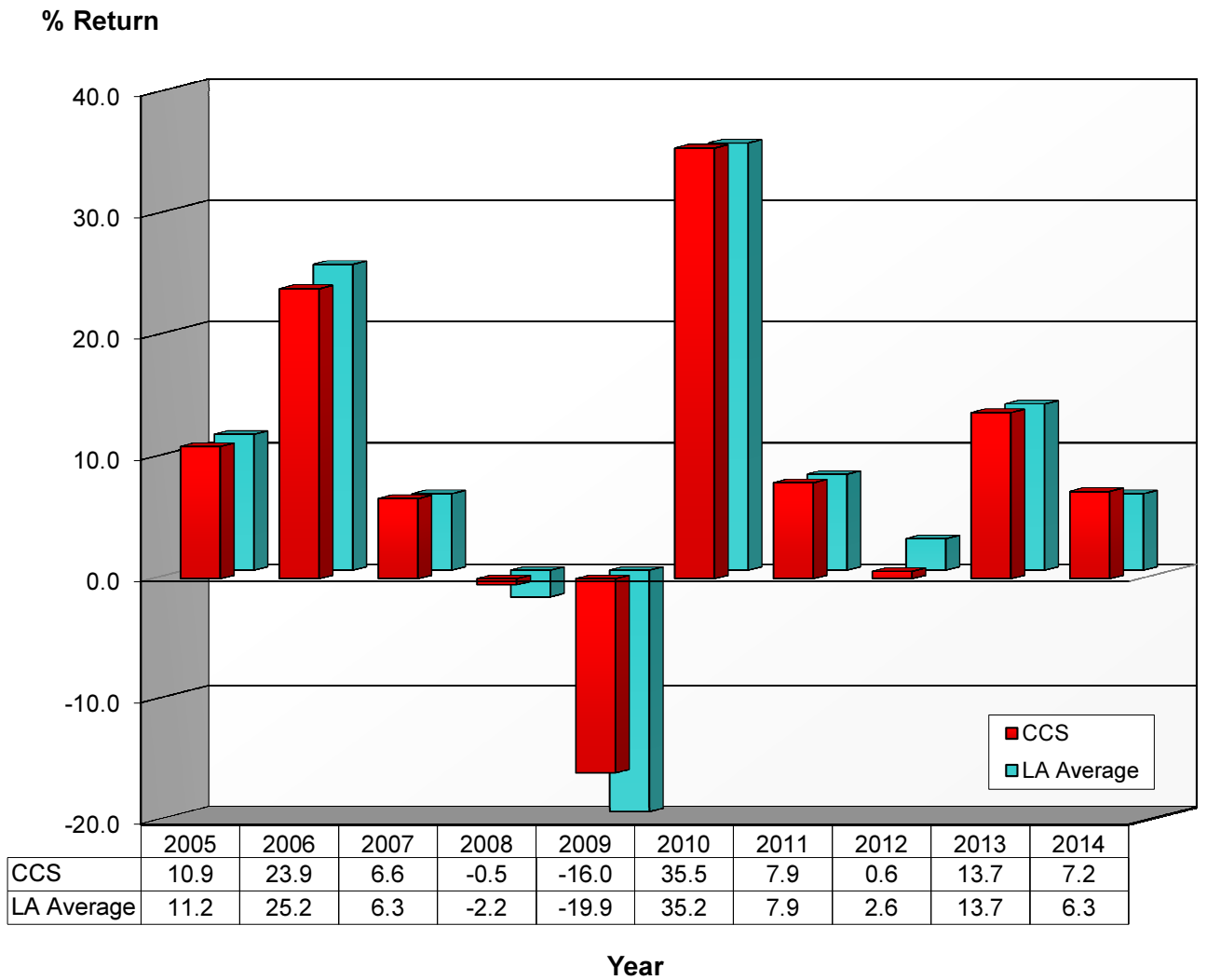
### Fund Manager Breakdown - Market Value 31 March 2014



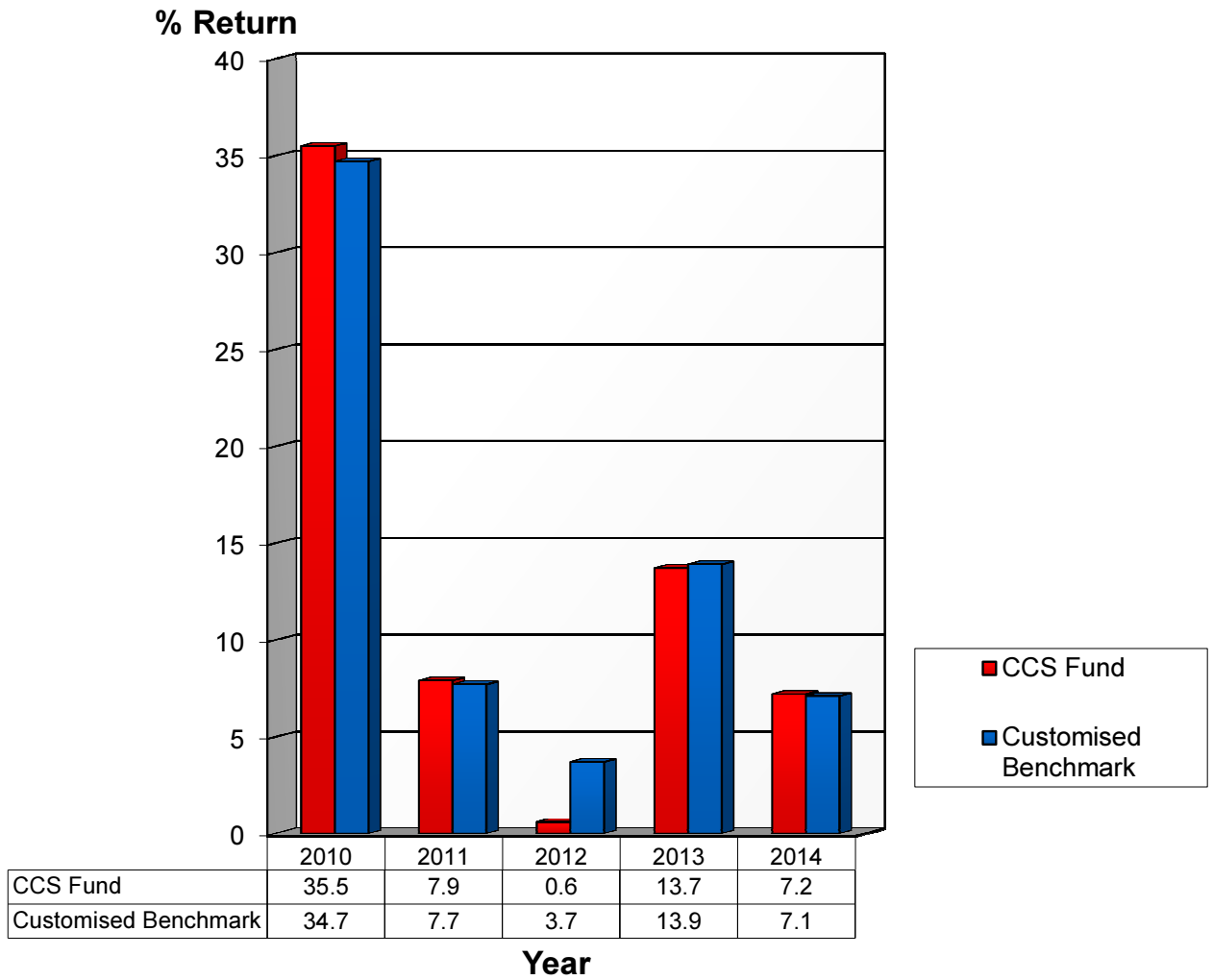
## Largest Direct Equity Shareholdings by Market Value as at 31 March 2014

UK Companies	Sector	Market Value £'000s	Proportion of Direct Equity Portfolio (%)
1. <i>Royal Dutch Shell Plc</i>	Oil & Gas	15,358	2.41%
2. <i>GlaxoSmithKline Plc</i>	Pharmaceuticals	15,001	2.35%
3. <i>BG Group</i>	Gas Water & Multi-Utilities	13,429	2.11%
4. <i>HSBC Holdings Plc</i>	Financials	12,844	2.02%
5. <i>Prudential Plc</i>	Financials	12,834	2.01%
6. <i>Rolls Royce Plc</i>	Industrial	12,467	1.96%
7. <i>Rio Tinto Plc</i>	Basic Materials	12,105	1.90%
8. <i>Vodafone Group Plc</i>	Telecommunications	10,868	1.70%
9. <i>AstraZeneca Plc</i>	Healthcare	10,567	1.66%
10. <i>Barclays Plc</i>	Financials	9,679	1.52%
11. <i>ITV Plc</i>	Broadcasting	9,025	1.42%
12. <i>Legal &amp; General Plc</i>	Financials	8,973	1.41%
13. <i>Shire Plc</i>	Pharmaceuticals	8,784	1.38%
14. <i>Imperial Tobacco Group</i>	Tobacco	8,010	1.26%
15. <i>Unilever Plc</i>	Consumer Goods	7,606	1.19%
16. <i>BHP Billiton Plc</i>	Basic Materials	7,513	1.18%
17. <i>BP Plc</i>	Oil & Gas	7,492	1.17%
18. <i>Reed Elsevier Plc</i>	Publishing	7,357	1.15%
19. <i>Carnival</i>	Consumer Services	7,153	1.12%
20. <i>Daily Mail &amp; General Trust Plc</i>	Publishing	6,616	1.04%
		<b>203,751</b>	<b>31.95%</b>

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



## Percentage Return on Fund Investments as compared with the Swansea Customised Benchmark





**Human Resources- Pensions Section  
Performance Measures**

<b>Service Objective</b>	<b>Performance Indicator</b>	<b>Target 2013/14</b>	<b>Actual 2013/14</b>	<b>Target 2014/15</b>
To calculate all types of pension benefits accurately	Payment of retirement benefits to members within 1 month after benefit becomes payable.	85%	74.31%	85%
	Payment of retirement benefits to members within 1 month of the date all information was received.	95%	99.79%	95%
To deal with transfers both into and out of the scheme	Quotation of transfer value to new pension provider for deferred members within 3 months of request.	90%	95.08%	90%



## Appendix 7

### Statement of Investment Principles - Updated July 2014

#### 1. Introduction

- 1.1 The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999 and subsequent revisions requires administering authorities to prepare and review from time to time a written statement recording the investment policy of the pension fund. The purpose of this document is to satisfy the requirements of these regulations.
- 1.2 The Local Government Pension Scheme ("the scheme") was established in accordance with statute to provide death and retirement benefits for all eligible employees.
- 1.3 The Council has delegated the investment management of the scheme to an Pension Fund Committee comprising Members of the Council, a full member from Neath Port Talbot Council who decide on the investment policy most suitable to meet the liabilities of the Scheme and the ultimate responsibility for the investment strategy lies with them.
- 1.4 The Pension Fund Committee have obtained and considered advice from the Section 151 Officer, the Chief Treasury Officer, its investment advisers, the Fund's actuary and the Fund's Investment Managers.
- 1.5 This document outlines the broad investment principles governing the investment policy of the Pension Fund. The Pension Fund Committee has delegated the management of the pension fund's investments to professional investment managers whose activities are constrained by detailed Investment Management Agreements.
- 1.6 The Administering Authority ensures compliance with the Regulations and associated guidance issued by DCLG



## **2. Investment Responsibilities**

### **2.1 The Pension Fund Committee has responsibility for:**

- preparing the Statement of Investment Principles
- monitoring compliance with the Statement and reviewing its contents from time to time,
- to establish and keep under review policies to be applied by the Council in exercising its discretion as an administering Authority under the Local Government Pension Scheme (LGPS) Regulations 1997,
- to make recommendations to the Council from time to time on the financial implications for the Pension Fund of discretions available to the Council as an employing authority under the LGPS Regulations 1997,
- to monitor factors likely to affect the solvency of the Pension Fund between the triennial valuations of the Fund by its independent actuary including specifically, the impact of early retirements approved by all employing bodies within the fund,
- to determine the strategic aims for investment of the Fund and the benchmarks by which performance will be measured,
- to arrange for independent investment advice to be available to the Committee at any time,
- determine asset allocation of the investment fund
- to determine, keep under review and, where appropriate, secure changes in the management arrangements for investment of the Pension Fund,
- to monitor on a regular basis against its objectives and benchmarks the Fund's investment performance,
- to ensure effective communication and liaison with other employing bodies within the City & County of Swansea Pension Fund,
- to respond to consultative documents affecting the Local Government Pension Scheme.



**2.2 The Investment Managers are responsible for:**

- the investment of the pension fund assets in compliance with prevailing legislation, the constraints imposed by this document and the detailed Investment Management Agreements,
- tactical asset allocation around the strategic benchmark, where appropriate and security selection within asset classes,
- preparation of quarterly report including a review of investment performance,
- attending Meetings of the Pension Fund Committee as requested,
- assisting the Section 151 Officer and Pension Fund Committee in the preparation and review of this document,
- preparation of a quarterly statement of compliance with this document,
- voting shares in accordance with the Council's policy.

**2.3 The Custodian is responsible for:**

- its own compliance with prevailing legislation,
- providing the administering authority with quarterly valuations of the Scheme's assets and details of all transactions during the quarter,
- providing details in a timely manner to WM company for performance measurement,
- collection of income, tax reclaims, exercising corporate administration cash management.

**2.4 The Investment Adviser(s) is responsible for:**

- assisting the Pension Fund Committee and Section 151 Officer in the preparation and review of this document,
- assisting the Pension Fund Committee and Section 151 Officer in their regular monitoring of the investment managers performance, and
- assisting the Pension Fund Committee and Section 151 Officer in the selection and appointment of investment managers and custodians
- regular reporting on the performance of the fund managers and providing market commentary as necessary
- assisting and advising the Pension Fund Committee of investment strategies and appropriate asset allocation strategy.
- advising the Pension Fund Committee and the Section 151 Officer in market developments generally and changes in the pension fund investment world.



**2.5 The Actuary is responsible for:**

- providing advice as to the maturity of the Scheme and its funding level in order to aid the Pension Fund Committee in balancing the short term and long term objectives of the pension fund and in compliance with legislation
- Undertaking the statutory periodic valuation
- certifying the employers' contribution rates.

**2.6 The Section 151 Officer is responsible for:**

- ensuring compliance with this document and bringing breaches thereof to the attention of the Pension Fund Committee, and
- ensuring that this document is regularly reviewed and updated in accordance with the Regulations,
- advising the Pension Fund Committee in relation to its duties listed above,
- reporting to the Pension Fund Committee on the fund's compliance with its superannuation regulations as well as the performance of its investments and all other matters to be considered under the Committees responsibilities.
- to apply the policies agreed by the Pension Fund Committee on the Council's behalf in its role as administering authority in response to decisions taken by employing Authorities within the Fund.
- to consult and maintain liaison with the Fund's independent adviser, actuary and performance measurer, whenever appropriate,
- to approve in cases of urgency investment decisions which fund managers are required to refer to the Committee. Such approval is to be given only after consultation with the independent adviser and the Chair and/or Vice Chair of the Pension Fund Committee,
- to maintain contact with the appointed fund managers and with other fund managers, where appropriate,
- to release cash available for investment to managers in accordance with agreed arrangements and to invest temporarily cash held by the Council.
- to administer custody arrangements in liaison with the appointed custodians.

**3. The Scheme's Liabilities**

- 3.1 The Pension Fund is a defined benefit scheme that provides benefits related to final salary for members. Each member's pension is specified in terms of a formula based on salary and service and is unaffected by the investment return achieved on the Scheme's assets. Full details of Scheme benefits are set out in the Local Government Pension Scheme.



- 3.2 All active members of the Scheme are required to make pension contributions which are based upon a fixed percentage of their pensionable pay as defined in the regulations.
- 3.3 The employing bodies are responsible for meeting the balance of costs necessary to finance the benefits payable from the Scheme. Employers contribution rates are determined triennially based on the advice of the Scheme's actuary and are subject to inter-valuation monitoring.

#### **4. Investment Policy**

- 4.1 The strategic investment aim of the Pension Fund is to achieve the maximum return consistent with acceptable levels of risk and the long-term nature of the Fund's liabilities consistent with the appointed fund actuary's long term assumptions on investment returns
- 4.2 The investment policy is to appoint expert fund managers with clear performance benchmarks and to place maximum accountability for performance against that benchmark with the fund manager.
- 4.3 A comprehensive review of the Management Arrangements was undertaken in June 2007 and has been continually assessed and reviewed and is currently as follows, however it should be noted that the Pension Fund Committee approved an allocation to an investment in infrastructure in December 2013. The OJEU process is currently ongoing:



CITY AND COUNTY OF SWANSEA  
DINAS A SIR ABERTAWE

Asset Class	Asset Allocation	Fund Manager		Benchmark	Performance
		Passive	Active		
UK Equities	34% +/- 5%	14%	20% <b>Schroders</b>	FTSE allshare	+3% p.a. over rolling 3year
Overseas Equities	34% +/- 5%	13% <b>(L&amp;G)</b>	21% <b>JP Morgan and Aberdeen</b>	MSCI World all share (ex UK) MSCI Frontier Mrkts Index	+3% p.a. over rolling 3year + % p.a. over rolling 3 year
Global Fixed Interest	15% +/- 5%	6% <b>(L&amp;G)</b>	9% <b>Goldman Sachs</b>	Libor	Libor +3%
Property	5% +/- 5%	-	5% <b>Schroders, Partners and Invesco</b>	IPD, cash, absolute	+ 1% p.a. over rolling 3 year
Hedge Funds	5% +/- 5%	-	5% <b>Blackrock and Permal (formerly Fauchier)</b>	LIBOR	+4%
Private Equity	3% +/- 5%	-	3% <b>Harbourvest</b>	FTSE allshare	+3% p.a. over 3 year rolling
Global Tactical Asset Allocation	2% +/- 5%	-	2% <b>Blackrock</b>	LIBOR	+4% over 3 year rolling
Cash	2% +/- 5%	-	2% in house and cash flows of fund managers	7day LIBID	=
<b>TOTAL</b>	100%	33%	67%		

## 5. The Expected Return on Investments

5.1 The strategic aim of the Fund is to achieve the maximum return consistent with acceptable levels of risk pertinent to each asset class and the long-term nature of the Fund's liabilities.



- 5.2 In order to achieve the strategic aim, the Fund has set relevant asset class specific benchmark against which performance and risk can be measured
- 5.3 The fund has also agreed performance fees for achieving outperformance targets.
- 5.4 The passive manager is required to achieve, over the longer term, a total return close to that of the respective market indices it tracks..

## **6. Risk**

### **6.1 Performance Risk**

The active managers are required to operate within a risk profile appropriate to each individual asset class in order to achieve agreed outperformance targets.

### **6.2 Asset Risk**

Except for pooled/unitised funds, all externally managed assets are held in the Fund's name on its behalf by our appointed global Custodian. Units of pooled funds are listed in the Fund's name by the relevant manager.

### **6.3 Market Risk**

The fund operates within the limits required by the Local Government Pension Scheme Investment Regulations and is thus exposed to no greater market risk than the Regulations allow. In accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 and subsequent revisions the limits set out in those regulations will apply.

## **7. Types of Investments to be Held**

- 7.1 Asset allocation has been determined by an investment review. The mix of assets is outlined in 4.3

### **7.3 Stocklending**

Stocklending is not currently undertaken in the portfolio, however it will be considered if analysis of the portfolio identifies stock which can generate



additional revenue for the fund. Voting, collateral requirements and due diligence considerations will be paramount in these considerations.

#### **7.4 Underwriting**

Underwriting of share issues by the fund managers is permitted.

#### **8. The balance between different types of Investment**

- 8.1 The asset allocation of the fund is identified in 4.3. The balance between the different types of investment will be monitored and will be 're-balanced' by the use of derivative overlays to ensure asset allocation alignment as per the Committee's asset allocation decision in 4.3 if deemed appropriate. Acceptable tolerances for the affected asset classes are +/- 5%.

#### **9. The Realisation of Investments**

It is recognised that as part of its diversification strategy, the pension fund invests in some asset classes for the long term and these are illiquid in their nature e.g. property and private equity. The main asset classes (equities, bonds and cash) will be readily realisable to meet any cash flow demands as required, however it is recognised that the fund is cash positive and normal cash demands can be satisfied from normal cash inflows.

#### **10. Social, Environmental and Ethical Considerations**

The Pension Fund Committee's policy is to encourage positive behaviour by companies through its investments. It is believed that influence in this way is currently effective. The Fund exercises this policy through the external investment managers by contact with company management and through exercising voting rights.

In addition, the overriding duty on the Council is to ensure the best returns on investments consistent with acceptable levels of risk. The Committee believes that companies behaving properly will, over time, generally be the ones that also provide good returns.

The question of actively investing in funds badged as 'ethical' or 'socially responsible' remains under consideration and the Pension Fund Committee will continue to monitor the investment performance of such funds as they develop.

## **11. Corporate Governance**

The Investment Managers are required to exercise voting rights on behalf of the Fund when it is in the best interests of the Fund, and in accordance with the Managers' corporate governance policies. The Pension Fund Committee retains the right to instruct the managers at any time to vote according to the Committees wishes on a particular resolution.

## **12. Principles for Investment Decision Making**

In 2000 the UK Government commissioned a review of institutional investment in the UK, known as 'the Myners Review'.

In response to the Myners' proposals, the Government issued a set of ten investment principles. Subsequently, the Chartered Institute of Public Finance and Accountancy (CIPFA), published the document 'Principles for Investment Decision Making in the Local Government Pension Scheme', which sets out the ten principles and practical guidance on their application to LGPS.

The Appendix to this document sets out the six principles and the fund's compliance with the same.

## Appendix 1

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

**1. Effective Decision Making**

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

**2. Clear Objectives**

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

**3. Risk And Liabilities**

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

**4. Performance Assessment**

Compliant Performance is appraised constantly by the in house officers whilst formalised monitoring is undertaken by the investment sub group and full pension committee at quarterly meetings

**5. Responsible Ownership**

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

**6. Transparency and Reporting**

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

## **Funding Strategy Statement**

### **Section 1 Introduction**

#### **Overview**

This Statement, originally prepared in accordance with Regulation 76A of the Local Government Regulations 1997 has been reviewed in accordance with Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 (the LGPS Regulations). The Statement describes City and County of Swansea's strategy, in its capacity as Administering Authority (the Administering Authority), for the funding of the City and County of Swansea Pension Fund (the Fund).

As required by Administration Regulation 35(3)(a), the Statement has been prepared having regard to guidance published by CIPFA in March 2004.

#### **Consultation**

In accordance with Administration Regulation 35(3)(b), all employers participating within the City and County of Swansea Pension Fund have been consulted on the contents of this Statement and their views have been taken into account in formulating the Statement. However, the Statement describes a single strategy for the Fund as a whole.

In addition, the Administering Authority has had regard to the Fund's Statement of Investment Principles published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (the Investment Regulations).

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

#### **Policy Purpose**

The three main purposes of this Funding Strategy Statement are:

- § To establish a clear and transparent strategy, specific to the Fund, which will identify how employer's pension liabilities are best met going forward.

- § To support the regulatory requirement in relation to the desirability of maintaining as nearly constant employer contribution rates as possible.
- § To take a prudent longer-term view of funding the Fund's liabilities.

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

The Authority has produced this Funding Strategy Statement having taken an overall view of the level of risk inherent in the investment policy set out in the Statement of Investment Principles and the funding strategy set out in this Statement.

The assets that most closely match the liabilities of the Fund are fixed interest and index-linked Government bonds of appropriate term relative to the liabilities. The Fund's asset allocation as set out in the Statement of Investment Principles invests a significant proportion of the Fund in assets such as equities which are expected but not guaranteed to produce higher returns than Government bonds in the long term. The Administering Authority has agreed with the Fund Actuary that the Funding Target on the ongoing basis will be set after making some allowance for this higher expected return. However, the Administering Authority recognises that outperformance is not guaranteed and that, in the absence of any other effects, if the higher expected returns are not achieved the solvency position of the Fund will deteriorate.

The funding strategy recognises the investment targets and the inherent volatility arising from the investment strategy, by being based on financial assumptions which are consistent with the expected average return, and by including measures that can be used to smooth out the impact of such volatility.

The Administering Authority will continue to review both documents to ensure that the overall risk profile remains appropriate including, where appropriate, the use of asset liability modelling or other analysis techniques.

### **Review of this Statement**

The Administering Authority undertook its latest substantive review of this Statement between January and March 2014.

The Administering Authority formally reviewed this Statement as part of the triennial valuation as at 31 March 2013.

The Administering Authority will monitor the funding position of the Fund on an approximate basis at regular intervals between valuations, and will discuss with the Fund Actuary whether any significant changes have arisen that require action.

## Section 2

### The Aims and Purpose of the Fund

#### Purpose of the Fund

The purpose of the Fund is to invest monies in respect of contributions, transfer values and investment income to produce a Fund to pay Scheme benefits over the long term and in so doing to smooth out the contributions required from employers over the long term.

#### Aims of the Fund

The main aims of the Fund are:

a) To comply with regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 and specifically to adequately fund benefits to secure the Fund's solvency while taking account of the desirability of maintaining as nearly constant employer contribution rates as possible

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

- § the regulatory requirement to secure solvency
- § the requirement that the costs should be reasonable, and
- § maximising income from investments within reasonable cost parameters (see later)

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

Other classes of assets, such as stocks, are perceived to offer higher long term rates of return, on average, and consistent with the requirement to maximise the returns from investments 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.

This short term volatility in investment returns can produce a consequent volatility in

the measured funding position of the Fund at successive valuations, with knock on effects on employer contribution rates. The impact on employer rates can be mitigated by use of smoothing adjustments at each valuation.

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

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

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

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

c) To manage employers' liabilities effectively.

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

d) To maximise the income from investments within reasonable risk parameters.

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

- § restricting investment to the levels permitted by the Investment Regulations.
- § restricting investment to asset classes generally recognised as appropriate for UK pension funds
- § analysing the potential risk represented by those asset classes in collaboration with

the Fund's Actuary, Investment Advisors and Fund Managers.

### **Section 3**

#### **Responsibilities of the Key Parties**

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

Their key responsibilities are as follows:

The Administering Authority will:

- Collect employer and employee contributions and, as far as the Administering Authority is able to, ensure these contributions are paid by the due date.
- Invest surplus monies in accordance with the Regulations.
- Ensure that cash is available to meet liabilities as and when they fall due.
- Manage the valuation process in consultation with the Fund's Actuary
- Ensure it communicates effectively with the Fund Actuary to:
  - Agree timescales for the provision of information and provision of valuation results
  - Ensure provision of data of suitable accuracy
  - Ensure that the Fund Actuary is clear about the content of the Funding Strategy Statement
  - Ensure that participating employers receive appropriate communication throughout the process
  - Ensure that reports are made available as required by relevant guidance and Regulations
- Prepare and maintain a Statement of Investment Principles and a Funding Strategy Statement after due consultation with interested parties.
- Monitor all aspects of the Fund's performance and funding.

#### **Individual Employers**

Individual Employers will:

- Deduct contributions from employees' pay.
- Pay all contributions, including their employer contribution as determined by the actuary, promptly by the due date.
- Exercise discretion within the regulatory framework.
- Pay for added years in accordance with agreed arrangements.
- Notify the administering authority promptly of all changes to membership, or other changes which affect future funding



## **Fund Actuary**

The Fund Actuary will:

- Prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the administering authority and having regard to the Funding Strategy Statement.
- Prepare advice and calculations in connection with bulk transfers and individual benefit-related matters.

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

## **Section 4**

### **Funding Target, Solvency and Notional Sub-Funds**

#### **Funding principle**

The Fund is financed on the principle that it seeks to provide funds sufficient to enable payment of 100% of the benefits promised.

#### **Funding Targets and assumptions regarding future investment strategy**

The Funding Target is the amount of assets which the Fund needs to hold at any point in time such that the funds held, plus future anticipated investment returns on those funds, and taking into account the anticipated future experience of the membership and contributions due from the membership, meet the funding principle.

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

#### **Scheduled Bodies and certain other bodies open to new entrants**

The Administering Authority will adopt a general approach in this regard of assuming indefinite investment in a broad range of assets of higher risk than low risk assets for Scheduled Bodies and certain other bodies which are long term in nature.

#### **Admission Bodies and bodies closed to new entrants**

For Admission Bodies 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 cessation, and any likely change in notional or actual investment strategy as regards the assets held in respect of the Admission Body's liabilities at the date of cessation (i.e. whether the liabilities will become 'orphaned' or whether a guarantor exists to subsume the notional assets and liabilities).

### Orphan liabilities

These are liabilities with no access to funding from any employer in the Fund. To minimise the risk to other employers in the Fund the assets notionally related to these liabilities will be assumed to be invested in low risk investments. This is described in more detail later in this document

### **Full Funding**

The Fund is deemed to be fully funded when the assets held are equal to 100% of the Funding Target. 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

### **Solvency and 'funding success'**

The Fund'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.

The Fund is deemed to be solvent when the assets held are equal to or greater than 100% of the Funding Target.

A further Aspirational Funding Target is set by reference to a similar level of prudence as used for the actuarial valuation of the Fund carried out as at 31 March 2007.

The Administering Authority deems funding success to have been achieved if the Fund, at the end of the Recovery Period, is fully funded on the basis of the Aspirational Funding Target.

### **Other Aspects of Funding Strategy**

#### **Recovery Periods**

Where a valuation reveals that the Fund is in surplus or deficiency against this solvency measure, employer 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 applicable for each participating employer is set by the Administering Authority in consultation with the Fund Actuary and the employer, with a view to balancing the various funding requirements against the risks involved due to such issues as the financial strength of the employer and the nature of its participation in the Fund.

The Administering Authority recognises that a large proportion of the Fund's liabilities are expected to arise as benefit payments over long periods of time. For employers of sound covenant, the Administering Authority is prepared to agree to recovery periods which are longer than the average future working lifetime of the membership of that employer. The Administering Authority recognises that such an approach is consistent with the aim of keeping employer contribution rates as nearly constant as possible. However, the Administering Authority also recognises the risk in relying on long recovery periods and has agreed with the Fund Actuary a limit of 30 years. The Administering Authority's policy is to agree recovery periods with each employer which are as short as possible within this framework.

For employers whose participation in the fund is for a fixed period it is unlikely that the Administering Authority and Fund Actuary would agree to a recovery period longer than the remaining term of participation.

### **Grouping**

In some circumstances it may be desirable to group employers within the Fund together for funding purposes (ie to calculate employer contribution rates). Reasons might include reduction of volatility of contribution rates for small employers, facilitating situations where employers have a common source of funding or accommodating employers who wish to share the risks related to their participation in the Fund.

The Administering Authority recognises that grouping can give rise to cross subsidies from one employer to another over time. The Administering Authority's policy is to consider the position carefully at each valuation and to notify each employer that is grouped that this is the case, and which other employers it is grouped with. If the employer objects to this grouping, it will be set its own contribution rate. For employers with more than 50 contributing members, the Administering Authority would look for evidence of homogeneity between employers before considering grouping. For employers whose participation is for a fixed period grouping is unlikely to be permitted.

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.

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

All employers in the Fund are grouped together in respect of the risks associated with payment of lump sum benefits on death in service – in other words, the cost of such benefits is shared across the employers in the Fund. Such lump sum benefits can cause funding strains which could be significant for some of the smaller employers without insurance or sharing of risks. The Fund, in view of its size, does not see it as cost effective or necessary to insure these benefits externally and this is seen as a pragmatic and low cost approach to spreading the risk.

### **Stepping**

Again, consistent with the requirement to keep employer contribution rates 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 Actuary, but the total is very unlikely to exceed six steps.

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

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

### **Notional Sub-Funds for individual employers**

#### **Notional sub-funds**

In order to establish contribution rates 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 sub-fund within the Fund.

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

### **Roll-forward of sub-funds**

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

Further adjustments are made for:

- A notional deduction to meet the expenses paid from the Fund in line with the assumption used at the previous valuation.
- Allowance for any known material internal transfers in the Fund (cashflows will not exist for these transfers). The Fund Actuary will assume an estimated cashflow equal to the value of the liabilities determined consistent with the Funding Target transferred from one employer to the other unless some other approach has been agreed between the two employers.
- An overall adjustment to ensure the notional assets attributed to each employer is equal to the total assets of the Fund which will take into account any gains or losses related to the orphan liabilities.

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

- Where, in the opinion of the Fund Actuary, the cashflow data which is unavailable is of low materiality, estimated cashflows will be used
- Where, in the opinion of the Fund Actuary, the cashflow data which is unavailable is material, the Fund Actuary will instead use an analysis of gains and losses to roll forward the notional sub-fund. 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.

**Attribution of investment income (Optional)**

Where the Administering Authority has agreed with an employer that it will have a tailored asset portfolio notionally allocated to it, the assets notionally allocated to that employer will be credited with a rate of return appropriate to the agreed notional asset portfolio.

Where the employer has not been allocated a tailored notional portfolio of assets, the assets notionally allocated to that employer will be credited with the rate of return earned by the Fund assets as a whole, adjusted for any return credited to those employers for whom a tailored notional asset portfolio exists.

## **Section 5 Special Circumstances Related to Admission Bodies**

### **Interim reviews for Admission Bodies**

Regulation 38(4) of the Administration Regulations provides the Administering Authority with a power to carry out valuations in respect of Admission Bodies, and for the Actuary to certify revised contribution rates, between triennial valuation dates.

The Administering Authority's overriding objective at all times in relation to Admission Bodies 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 cessation of participation may be unknown (for example, participation may be assumed at present to be indefinite), and also because market conditions change daily.

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

- Where the date of cessation is known, and is more than 3 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 cessation 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 admissions due to cease within the next 3 years, the Administering Authority will keep an eye on developments and may see fit to request an interim valuation at any time.

Notwithstanding the above guidelines, the Administering Authority reserves the right to request an interim valuation of any Admission Body at any time in accordance with Regulation 38(4).

## **Guarantors**

Some Admission Bodies may participate in the Fund by virtue of the existence of a Guarantor. The Administering Authority maintains a list of employers and their associated Guarantors. The Administering Authority, unless notified otherwise, sees the duty of a Guarantor to include the following:

- If an Admission Body 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 Admission Body a Guarantor can at any time agree to the future subsumption of any residual liabilities of an Admission Body. The effect of that action would be to reduce the Funding Target for the Admission Body, which would probably lead to reduced contribution requirements.

## **Bonds and other securitization**

Regulation 6 of the Administration Regulations creates a requirement for provision of risk reviews and bonds in certain circumstances. The Administering Authority's approach in this area is as follows:

- In the case of Transferee Admission Bodies admitted under Regulation 6(2)(a) of the Administration Regulations, and so long as the Administering Authority judges the relevant Scheme Employer to be of sufficiently sound covenant, any bond exists purely to protect the relevant Scheme Employer on default of the Admission Body. As such, it is entirely the responsibility of the relevant Scheme Employer 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. The Administering Authority notes that levels of required bond cover can fluctuate and recommends that relevant Scheme Employers review the required cover regularly, at least once a year.
- In the case of Transferee Admission Bodies admitted under Regulation 6(2)(a) of the Administration Regulations, where the Administering Authority does not judge the relevant Scheme Employer to be of sufficiently strong covenant, the





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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 notes that levels of required bond cover can fluctuate and will require the relevant Scheme Employer to jointly review the required cover with it regularly, at least once a year.

- In the case of Transferee Admission Bodies admitted under Regulation 6(2)(b) of the Administration Regulations, 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 notes that levels of required bond cover can fluctuate and will review the required cover regularly, at least once a year.

### **Subsumed liabilities**

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

In such circumstances the liabilities are known as subsumed liabilities (in that responsibility for them is subsumed by the accepting employer). For such liabilities the Administering Authority will assume that the investments held in respect of those liabilities will be the same as those held for the rest of the liabilities of the accepting employer. Generally this will mean assuming continued investment in more risky investments than Government bonds.

### **Orphan liabilities**

Where an employer is ceasing participation in 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 cessation valuation, carried out in accordance with Administration Regulation 38, has been completed and any sums due have been paid. Residual liabilities of employers from whom no further funding can be obtained are known as orphan liabilities.

The Administering Authority will seek to minimise the risk to other employers in the Fund that any deficiency arises on the orphan liabilities such that this creates a cost for those other employers to make good the deficiency. To give effect to this, the Administering Authority will seek funding from the outgoing employer sufficient to

enable it to match the liabilities with low risk investments, generally Government fixed interest and index linked bonds.

To the extent that the Administering Authority decides not to match these liabilities with Government bonds of appropriate term then any excess or deficient returns will be added to or deducted from the investment return to be attributed to the employer's notional assets.

### **Smoothing of contribution rates for admission bodies**

The Administering Authority recognises that a balance needs to be struck as regards the financial demands made of admission bodies. On the one hand, the Administering Authority requires all admission bodies to be fully self funding, such that other employers in the Fund are not subject to levels of expense as a consequence of the participation of those admission bodies. On the other hand, in extreme circumstances, requiring full funding may precipitate failure of the body in question, leading to significant costs for other participating employers.

In circumstances which the Administering Authority judges to be extreme, the Administering Authority will engage with the City and County of Swansea and Neath Port Talbot County Borough Council, as the dominant employers in the Fund, with a view to seeking agreement that the requirement that contribution rates target Full Funding can be temporarily relaxed.

Additionally, the Administering Authority may seek agreement from the City and County of Swansea and/or Neath Port Talbot County Borough Council that, should an admission body cease participation in the Fund during the relaxation period, it would provide a source of future funding for any deficiency developing in the Fund in respect of residual liabilities of the admission body (this process is called 'Subsumption' for the purposes of this document).

Such action has three implications:

- During any period when the requirement for targeting Full Funding has been relaxed, contribution rates for admission bodies can if necessary be set at a level lower than full funding would require.
- Should an admission body leave the Fund during a period when contribution rates do not target Full Funding, the funding requirement in any cessation valuation carried out under Regulation 38 will be reduced to the extent that contributions, on a cumulative basis, have fallen short of what continued targeting of Full Funding would require. Where the admission body has a deficiency, relative to the Full Funding requirement, and also a deficiency

relative to this reduced cessation valuation requirement, the admission body will only be required to make the position good up to the reduced cessation valuation requirement. Any consequent shortfall in the Fund relative to the Full Funding requirement will fall as a liability to the City and County of Swansea or Neath Port Talbot County Borough Council, to be met through adjustments to its contribution rate as part of future actuarial valuation exercises.

- Should an admission body leave the Fund during a period where the City and County of Swansea or Neath Port Talbot County Borough Council has agreed to subsumption of residual liabilities, the cessation funding requirement will be reduced to reflect the Fund's continuing access to funding, should a deficiency emerge in the future in respect of those liabilities.

At subsequent valuations the position will be reassessed with a view to returning admission bodies to paying contributions which target Full Funding.

### **Cessation of participation**

Where an Admission Body ceases participation, a cessation valuation will be carried out in accordance with Administration Regulation 38. That valuation will take account of any activity as a consequence of cessation of participation regarding any existing contributing members (for example any bulk transfer payments due) and the status of any liabilities that will remain in the Fund.

In particular, the cessation valuation will distinguish between residual liabilities which will become orphan liabilities, and liabilities which will be subsumed by other employers. For orphan liabilities the Funding Target in the cessation valuation will anticipate investment in low risk investments such as Government bonds. For subsumed liabilities the cessation valuation will anticipate continued investment in assets similar to those held in respect of the subsuming employer's liabilities.

Regardless of whether the residual liabilities are orphan liabilities or subsumed liabilities, the departing employer will be expected to make good the funding position revealed in the cessation valuation. In other words, the fact that liabilities may become subsumed liabilities does not remove the possibility of a cessation payment being required.

## **Section 6**

### **Identification of Risks and Counter Measures**

#### **Approach**

The Administering Authority seeks to identify all risks to the Fund and to consider the position both in aggregate and at an individual risk level. The Administering Authority will monitor the risks to the Fund, and will take appropriate action to limit the impact of these both before, and after, they emerge wherever possible. The main risks to the Fund are considered below:

#### Choice of Funding Target

The Administering Authority recognises that future experience and investment income cannot be predicted with certainty. Instead, there is a range of possible outcomes, and different assumed outcomes will lie at different places within that range.

The more optimistic the assumptions made in determining the Funding Target, 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 Funding Target calculated by reference to those assumptions.

The Administering Authority will not adopt assumptions for Scheduled Bodies and certain other bodies which, in its judgement, and on the basis of actuarial advice received, are such that it is less than 55% likely that the strategy will deliver funding success (as defined earlier in this document). Where the probability of funding success is less than 65% the Administering Authority will not adopt assumptions which lead to a reduction in the aggregate employer contribution rate to the Fund.

The Administering Authority's policy will be to monitor an underlying 'low risk' position (making no allowance for returns in excess of those available on Government stocks) to ensure that the Funding Target remains realistic

#### **Demographic Risk**

The main risks include changing retirement patterns and longevity. The Administering Authority will ensure that the Fund Actuary investigates these matters at each valuation or, if appropriate, more frequently, and reports on developments. The Administering Authority will agree with the Fund Actuary any changes which are necessary to the assumptions underlying the measure of solvency to allow for observed or anticipated changes.

If significant demographic changes become apparent between valuations, the Administering Authority will notify all participating employers of the anticipated impact on costs that will emerge at the next valuation and will review the bonds that are in place for Transferee Admission Bodies.

### **Regulatory Risk**

The risks relate to changes to regulations, National pension requirements or HM Revenue and Customs' rules. The Administering Authority will keep abreast of all proposed changes. 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.

### **Governance Risk**

This covers the risk of unexpected structural changes in the Fund membership (for example the closure of an employer to new entrants or the large scale withdrawal or retirement of groups of staff), and the related risk of the Administering Authority not being made aware of such changes in a timely manner.

The Administering Authority's policy is to require regular communication between itself and employers, and to ensure regular reviews of such items as bond arrangements, financial standing of non-tax raising employers and funding levels.

Particular examples are set out below:

- Early retirement strain payments - No allowance is made for the additional value of the benefits when a member is made redundant or leaves on the grounds of efficiency. To counter the potential 'strain' (or cost) emerging at the next valuation early retirement strain payments are required from the employer to the Fund to meet this additional cost over a period of no longer than 3 years.
- Employers with small and declining number of contributing members - A recent legal judgement indicates that under the current Administration Regulations employers with no contributing members cannot be charged contributions under Regulation 36. This ruling, however, does not affect the ability to collect contributions following a cessation valuation for Admission Bodies under Regulation 38. The Regulations may alter in the future but in the meantime there is a risk of a non Admission Body ceasing to pay contributions with a deficit in the Fund.

The Administering Authority will monitor employers with declining membership to ensure that funding is close to 100% on the solvency measure by the time the last member leaves service and this may affect the funding strategy accordingly.

- Bodies ceasing to exist with unpaid deficiency - Some employers can cease to exist and become insolvent leaving the employers in the Fund open to the risk of an unpaid deficit. For Transferee Admission Bodies, any such deficit will be met by the relevant Scheme Employer and there is therefore little risk to other employers in the Fund (provided of course that the relevant Scheme Employer is itself regarded to be of good covenant).

Other employers are more problematic and the Administering Authority will as far as practicable look to reduce risks by use of bond arrangements or ensuring there is a guarantor to back the liabilities of the body.

#### Statistical/Financial Risk

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

#### Smoothing Risk

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

#### Recovery period risk

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



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### Stepping Risk

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

## **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 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 draft governance compliance statutory guidance attached at Appendix B against which Administering Authorities are asked to benchmark local arrangements and produce revised policy statements.

### **The City & County of Swansea Pension Fund Governance Arrangements**

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

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

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

The above position was discussed at length (subsequent to the publication of the guidance) with the DCLG and the context of the City & County of Swansea Pension Fund's classification of 'no forms of representation'. It was subsequently recognised



by the DCLG that the collaborative work undertaken by the CCSPF in undertaking roadshows, AGMs and having an observer member of another scheme employer should subsequently be recognised in the assessment of representation.

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

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

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

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

## 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 Fund 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.

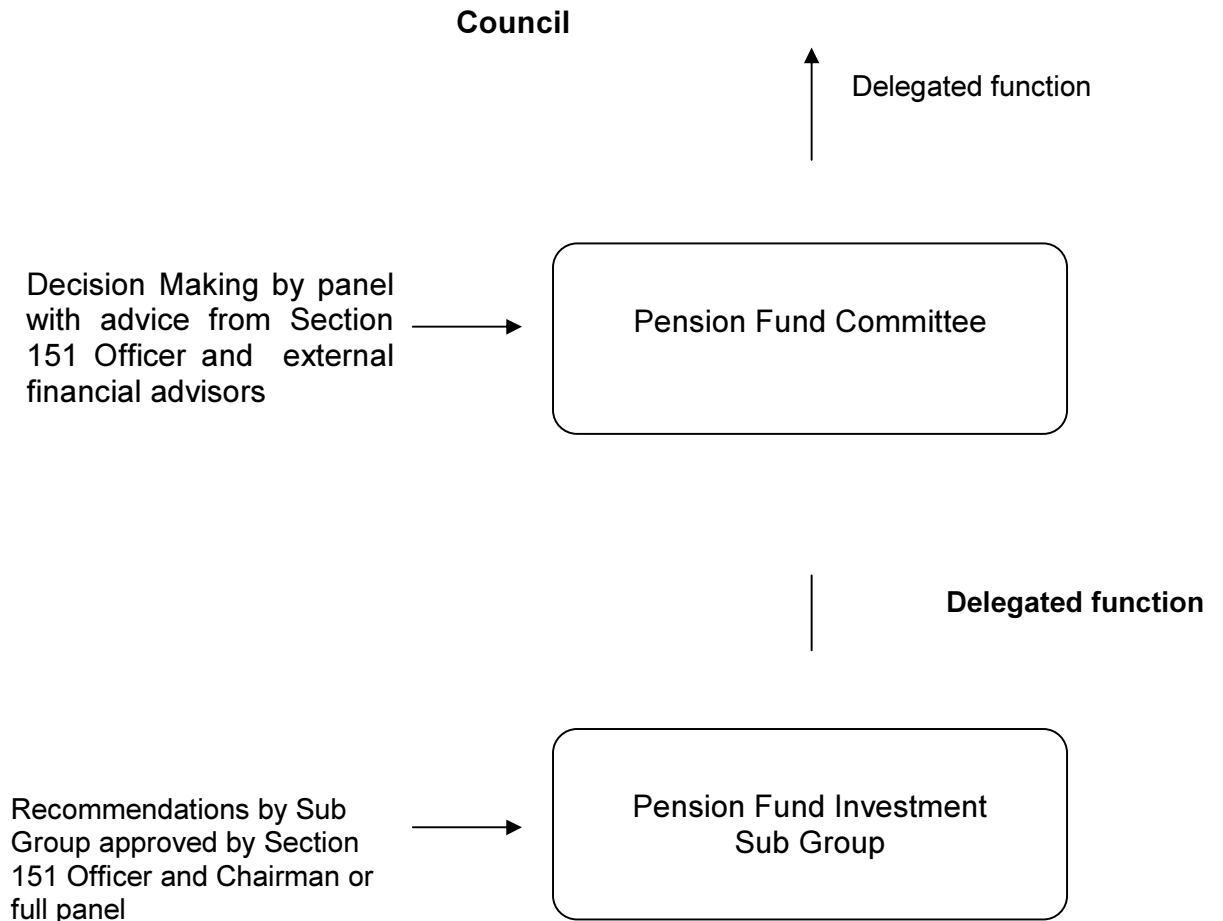
Proper control needs to be exercised over the providers of these specialist services. The Panel should set a comprehensive policy for the Fund which should include asset allocation management, for example the Fund gearing, (proportion of higher risk investments, equities, property etc) to fixed interest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

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

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

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

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

- approving the Statement of Investment Principles,
- monitoring compliance with the Statement and reviewing its contents from time to time,



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- approving the funding strategy statement,
- approving the corporate governance arrangements of the Fund,
- to establish and keep under review policies to be applied by the Council in exercising its discretion as an administering Authority under the Local Government Pension Scheme (LGPS) Regulations 1997,
- to make recommendations to the Council from time to time on the financial implications for the Pension Fund of discretion's available to the Council as an employing authority under the LGPS Regulations 1997,
- to monitor factors likely to affect the solvency of the Pension Fund between the triennial valuations of the Fund by its independent actuary including specifically, the impact of early retirements approved by all employing bodies within the Fund,
- to determine the strategic aims for investment of the Fund and the benchmarks by which performance will be measured,
- to arrange for independent investment advice to be available to the Panel at any time,
- to determine, keep under review and, where appropriate, secure changes in the management arrangements for investment of the Pension Fund,
- to monitor on a regular basis against its objectives and benchmarks the Fund's investment performance,
- to approve attendance of the Panel or any of its Members or Officers at Regional or National meetings arranged to assist Members of Pension Fund 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 Fund 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 Fund 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 or Vice Chairman of the Pension Fund Committee
- 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 Fund 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 Fund 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 Committee

### **Responsibility**

The Pension Fund Investment Sub Group is a sub group of the Pension Fund 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 Fund Panel) using the asset allocation overlay with approval from the Section 151 Officer and Chairman of the Panel.

## DRAFT 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”) committees 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



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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 committee 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.



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- (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 committee 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, committees, sub-committees 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 committee 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 committees 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 committee 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 committee established to underpin the work of the main committee.
- c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.
- d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee 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 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 (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 committees 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 committee 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 committee 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 committees, 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 committees but it would be impractical in many cases to expect them to have direct representation on a committee. 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 committee 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 committees 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 committee 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 committee, 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 committees 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 committees 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 committee 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 committee, the interests of the scheme and its beneficiaries must always be put before the interests of individual groups or sectors represented on the committee whereas on secondary committees or panels that are not subject to the requirements of the Local Government Act 1972, private interests can be reflected in proceedings.

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

#### **Part II/D – Voting**

24. Although the 2006 survey conducted by Communities and Local Government revealed that formal votes taken by LGPS committees 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 committees have voting rights as a matter of course. Regulation 5(1)(d) of the Local Government (Committee and Political Groups) Regulations 1990 (SI No 1553/1990) provides that voting rights will be given to a person appointed to a sub committee of a committee established under the Superannuation Act 1972 who is a member of the authority which appointed the committee.

##### 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 committee 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 committee. 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 committee is treated as a voting or non-voting member.

Lay members of advisory panels, etc

c) Because they are not formally constituted committees, secondary committees 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 committees outside the main decision making committee.

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 committees.

#### **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 committees - 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 committees.

28. If all stakeholders represented on LGPS committees 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 committee 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 committee 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 committees, sub-committees, 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 committee structure operate different reporting/meeting cycles for each committee or panel. In the case of main, formal committees, 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 committees should meet no less than quarterly. Although it is important that any secondary committees 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 committee 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 committee'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 committees. In those cases where stakeholders, in particular, scheme members, are not represented, it is expected that administering authorities will provide alternative means for scheme employers, scheme members, pensioner members, for example, to be involved in the decision-making process. This may take for the form of employer road-shows or AGMs where access is open to all and where questions can be addressed to members of the main committee.

a) That an administering authority's main committee or committees meet at least quarterly.

b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee 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 committee papers and other documents relied on by the main committee 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 committee with full voting rights. Secondary panels or committees have a clear role to underpin and influence the work of the main committee 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 committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.

**Part II/H – Scope**

33. Traditionally, LGPS committees 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 committee. 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 committees may need to address in the future. Given the not insignificant costs involved in running funds, LGPS committees 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 committee'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 committees 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 committees that could impact on the cost-sharing mechanism, it is reasonable to expect scheme member representatives to be present on those decision making committees, 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 committees 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 committees 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 committees to deal solely with non-investment, scheme issues. The purpose of this



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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 committees 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 committee or panel members. This is best left to local choice and discretion. However, administering authorities are reminded that under Regulation 76B(1)(e) of the 1997 Regulations, the latest version of their Governance Compliance Statement must be included in their Pension Fund Annual Report.

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



Appendix C

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

**Principle A – Structure**

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

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

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

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

**Principle B – Representation**

	Not Compliant*			Fully Compliant	
a i)					
a ii)					
a iii)					



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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 committee 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		
a)						



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\* 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)					



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\* 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>					<b>NA</b>
<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	
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 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 committee has always considered within its remit all associated Pension Fund matters.



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**Principle I – Publicity**

	Not Compliant*			Fully Compliant	
a)					

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

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

## Communications Policy Statement

### Introduction

The City and County of Swansea Pension Fund strives to provide a high quality and consistent service to our customers in the most efficient and effective manner possible, particularly in an ever changing pensions environment.

There are 5 distinct groups with whom the fund needs to communicate.

1. Scheme Members
2. Prospective Scheme Members
3. Scheme Employers
4. Other Bodies
5. Fund Staff

The City and County of Swansea Pension Fund aims to use the most appropriate communication method for the audiences receiving the information. This may involve using more than one method of communication as considered appropriate.

The Policy document has been prepared, as required, by Regulation 106B of the Local Government Pension Scheme Regulations 1997 and sets out the mechanisms which are used to meet those communication needs and is subject to periodic review.

## **SCHEME MEMBERS**

Scheme members include current contributors, those with a deferred benefit and those receiving a pension.

### **Annual Report and Accounts**

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

### **Newsletter**

The Fund will issue a newsletter to active Scheme members of the fund on an ad hoc basis, which will cover current pension topics within the LGPS and pensions industry in general.

An annual newsletter will be sent to all pensioners, which includes information on the annual pensions increase, the payment dates of the monthly pension for the forthcoming year and other matters of interest.

### **Annual Benefit Statements**

An Annual Benefit Statement, showing the current and prospective value of members' benefits will be sent directly to the home address of all members who are contributing to the Fund at the previous financial year end.

Benefit Statements, providing the up rated value of benefits, will be sent directly to the home address of deferred members where a current address is known.

### **Scheme Literature**

An extensive range of Scheme literature is produced by the Fund, including an employee's guide to the LGPS, which is provided to all active members upon commencement and to other active members upon request. The guide is updated regularly, usually when regulations are changed.

Further literature is available concerning specific provisions within the LGPS and is provided as and when required when communicating with members or upon request. A list of communications material can be found at Appendix 1.

### **Correspondence**

The Fund utilises both surface mail and e-mail to receive and send correspondence. Response can be made in the individuals preferred language of choice.

### **Payment Advice/P60**

Pensioners are issued with payment advice slips if there is a £10.00 net pay variance from the previous month. P60 notifications, which provide a breakdown of the annual amounts paid, are issued annually in May.

### **Employee Surgeries/Presentations**

Surgeries are available for individual Scheme members or groups by request. Standard or tailored presentations will also be held at employer venues upon request as well as roadshows for regulatory changes.

The Fund's dedicated in-house AVC provider will also perform presentations, which are aimed at improving pension benefits and raising awareness of retirement planning, at employer venues upon request.

### **Pre-Retirement Courses**

The Communication & Training Officer is available to attend pre-retirement courses to inform members who are near retirement about procedures and entitlements.

### **Existence Validation – Life Certificate Exercise**

An on-going exercise is conducted through correspondence and the National Fraud Initiative based on risk assessment in order to establish the continued existence of pensioners in receipt of monthly pension payments.

## **Website**

The website is a prime source of information on the pension scheme, including electronic copies of Scheme literature and policies to ensure timely, up-to-date, and easy to access information for all our stakeholders. It can be accessed at [www.swanseapensionfund.org.uk](http://www.swanseapensionfund.org.uk)

## **PROSPECTIVE SCHEME MEMBERS**

### **Scheme Leaflet**

Prospective Scheme members are provided with a Scheme leaflet, which sets out the benefits of joining the LGPS upon appointment via the employer.

### **Corporate Induction Courses**

The Communication & Training Officer will attend corporate induction events upon request, in order to present to prospective Scheme members the benefits of joining the LGPS. A “one-on-one” surgery will also be offered to take account individual queries that may be raised at such meetings.

### **Trade Unions**

The Fund will work with the relevant Trade Unions to ensure the Scheme is understood by all interested parties. Training days for branch officers will be provided upon request, and efforts will be made to ensure that all pension related issues are communicated effectively with the Trade Unions.

## **Website**

The Fund’s website contains a specific section for prospective joiners or optants out, highlighting the benefits of planning for retirement and what the Scheme provides so that an informed choice can be made.

## **SCHEME EMPLOYERS**

The Fund communicates with its participating employers in several ways to help them meet their responsibilities as Scheme employers.

### **Annual Report and Accounts**

The audited accounts of the City and County of Swansea Pension Fund are prepared as at 31 March each year and a copy is distributed to each participating employer.

### **Employer Meetings**

The Fund will hold an annual consultative meeting to discuss the Funds' Annual Report and Accounts. The meeting will also be used to communicate major strategic issues and significant legislation changes as well as triennial valuation matters.

Periodical meetings will be held to discuss specific issues as they arise.

### **Pension Administration Strategy**

A Pension Administration Strategy has been published, in accordance with the Scheme Regulations, to define the responsibilities of both the Fund and all Scheme employers in the administration of the Scheme.

The Strategy sets out the level of performance expected from the City and County of Swansea Pension Fund and all employers, as well as the consequence of not meeting statutory deadlines.

### **Employer's guide**

An Employer's Guide has been issued to assist the employers in discharging their pension administration responsibilities. This is supported by the dedicated Communication & Training Officer, who will provide assistance in administrative matters whenever necessary.



### **Updates**

Regulatory and administrative updates are frequently issued to all employers via email.

### **Training**

Bespoke sessions can be delivered, on request, by the dedicated Communication & Training Officer to resolve any administrative issues identified by the employer.

### **Website**

The Fund Website has a dedicated employer area to provide employers with the guidance needed to effectively discharge their administrative responsibilities and will include updates as well as forms which can be downloaded.

## **OTHER BODIES**

### **All Wales Pensions Officer's Group**

Pensions Officers from all the Welsh administering authorities meet regularly in order to share information and ensure uniform interpretation of the LGPS and other prevailing regulations.

### **Wales Pension Partnership Group**

The Fund works continuously to collaborate with other Welsh Pension Funds to evaluate specific partnership arrangements, particularly within the All Wales Pension Funds Communication Working Group.

### **Trade Unions**

Trade Unions in South West Wales are valuable ambassadors for the Pension Scheme. They ensure that details of the Local Government Pension Scheme's availability are brought to their members' attention and assist in negotiation under TUPE transfers in order to ensure, whenever possible, continued access to the Local Government Pension Scheme.

### **Seminars**

Fund Officers regularly participate at seminars and conferences held by LGPS related bodies.

### **National Information Forum**

These meetings, which are attended by representatives from the Department of Communities & Local Government (DCLG) and the Local Government Pensions Committee (LGPC), provide an opportunity to discuss issues of common interest and share best practice.

### **FUND STAFF**

There is a responsibility on all staff to ensure effective communication at all levels across the service.

### **Induction**

All new members of staff undergo an induction programme. A periodic appraisal programme is also exercised to review and monitor employee performance and development.

### **Training and Support**

The Fund seeks to continually improve the capacity of staff to communicate effectively and to understand the importance of high-quality communication.

Both general and pension specific training is provided in-house, by the dedicated Communications & Training Officer or by specialists, where applicable, as part of the Fund's commitment to continual improvement as well as encouraged to obtain the professional qualification of pension administration and management.

### **Fund Meetings**

Section and Team meetings are held on a regular basis. Items arising from such meetings are escalated through to Senior Managers and Chief Officers.

### **Internet**

Staff are enabled to use the corporate network in order to access the internet and e-mail facility.

### **E-mails**

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

### **The Local Government Pension 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 the City and County of Swansea, is registered under the Data Protection Act 1998. This allows members to check that their details held are accurate.

### **NATIONAL FRAUD INITIATIVE**

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



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## **GENERAL**

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

## **POLICY REVIEW**

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

**Fund Publications - publication frequency & review periods**

<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