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## **PENSIONS COMMITTEE, 25.11.11**

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**Present:** Councillor Keith Greenly-Jones (Chairman)

Councillors:- Stephen Churchman, John G. Jones and John Wynn Jones.

**Officers:-** Dilwyn Williams (Corporate Director), Dafydd Edwards (Head of Finance Department) and Eirian Roberts (Committee Officer).

**Apologies:** Councillor Trevor Edwards and Councillor Tom Jones (representative of Anglesey County Council).

### **1. CONDOLENCE**

The Chairman referred to the tragic and untimely death of Councillor Trevor Edwards's son and condolences were extended to the entire family in their sad loss.

### **2. DECLARATION OF PERSONAL INTEREST**

No declarations of personal interest were received from any member present.

### **3. MINUTES**

The Chair signed the minutes of the previous meeting of this committee, held on 23 September 2011, as a true record.

### **4. PENSION FUND GOVERNANCE**

Submitted – the report of the Corporate Director outlining the new governance requirements that would be relevant from 2011/12 onwards as a result of publishing the CIPFA Code of Practice in relation to Public Sector Pensions Knowledge and Skills and the UK Stewardship Code by the Financial Reporting Council (FRC).

The Corporate Director explained that these new requirements were an attempt to improve management of pension funds across the country. He noted, although Gwynedd Pension Fund fully complied with the majority of the relevant declarations, there were two areas where full compliance was not achieved. Firstly, there was no representation amongst members of the scheme or lay members on the Pensions Committee and secondly there was a need to adopt annual training plans for officers and members.

Then, when referring to the Knowledge and Skills Framework, the Director recommended that the committee adopt the statements in paragraphs 2.1.2 and 2.1.3 of the report. He also suggested that a self-assessment questionnaire should be circulated to members in order to establish the training requirements before moving on to develop an internal programme specifically tailored to the individual's needs.

The members agreed that such a questionnaire would be of assistance as it would identify the strengths and weaknesses of the individual and highlight the areas which needed more attention.

It was also noted, although the LGPS Fundamentals course was very beneficial in terms of providing a solid foundation for the members in the field of pensions, elements of the course could be rather technical. It was also believed that there was too much time between the different sessions and that it would be beneficial to hold the meetings closer together.

It was emphasised that the field of pensions was a very complicated and specialist field and that it took considerable time for a new member to become learned in the field. In response to this observation, the Corporate Director noted that this was why it was important to ensure as much stability as possible in the Pension Committee's membership and he suggested that this was an issue for the members to raise within their political groups when the allocation of seats on the committees and sub-committees would be discussed following the Council's elections in May next year.

In response to an enquiry the Corporate Director noted that the District Auditor could scrutinise the training provided to the members when completing his audit of the Fund.

The Corporate Director noted that an invitation had been received to send one representative to the LGC's Investment Seminar in Chester on 1 March 2012. However, as the full Council would meet on the same day he suggested that the invitation could be forwarded to one of the two co-opted members of the committee.

The Corporate Director then explained that the committee would be asked to agree with the principle of publishing a Statement of Compliance with the Stewardship Code and to adopt appropriate methods of scrutinising and reporting on equity investment managers by choosing one of the three options outlined in paragraph 2.2.9 of the report in order to achieve that aim.

The advantages and disadvantages of the three options had been discussed, namely:-

- (1) To appoint a specialist company to lobby on behalf of the Pension Fund and report back on a regular basis.
- (2) To join The Local Authority Pension Fund Forum (LAPFF) in order to influence the corporate governance of the Fund's equity investments.
- (3) To monitor investment managers internally and trust them to represent the Fund's interests as was currently the case.

The first option was disregarded on the ground of the Director's guidance that appointing specialists would be very expensive for the Fund. Significant support was expressed to the third option but it was suggested that the second option could lead to more thorough questions. It was anticipated that the membership fee would not be excessive and it was also suggested that better influence could be achieved from operating jointly with other local authority pension funds.

Then, in reference to ethical issues it was noted that questions were raised from time to time regarding this issue. In response the Corporate Director noted that he acknowledged that this could cause a dilemma but that the Fund should not lose sight of the need to ensure the greatest earnings for their members. The members agreed that personal feelings should not be prioritised over the duty to ensure the greatest earnings to the fund.

**RESOLVED**

- (a) That the Pensions Committee adopt the following statement in accordance with the CIPFA recommendation:-
- (i) Gwynedd Pension Fund to adopt the key recommendations of the Code of Practice on Public Sector Pensions Finance Knowledge and Skills.
  - (ii) Gwynedd Pension Fund recognises that effective financial administration and decision making can only be achieved where those involved have the requisite knowledge and skills.
  - (iii) Therefore, Gwynedd Pension Fund will ensure that it has formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of the relevant public sector pension scheme finance knowledge and skills for those in the organisation responsible for financial administration and decision-making.
  - (iv) These policies and practices will be guided by reference to a comprehensive framework of knowledge and skills such as that set down in the CIPFA Pensions Finance Knowledge and Skills Frameworks.
  - (v) Gwynedd Pension Fund will report on an annual basis how these policies have been put into practice throughout the financial year.
  - (vi) Gwynedd Pension Fund has delegated the responsibility for the implementation of the requirements of the CIPFA Code of Practice to the Head of Finance, who will act in accordance with the fund's policy statement and with CIPFA Standards of Professional Practice.
- (b) That a self assessment questionnaire should be circulated to members of the Pensions Committee in order to establish the training requirements before moving on to develop an appropriate training programme.
- (c) That the Pensions Committee adopts the knowledge and skills policy statement (as referred to in point (iii) above) as follows:-

Gwynedd Pension Fund recognises the importance of ensuring that all staff and members charged with the financial administration and decision-making with regard to the pension scheme are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them.

Therefore the Gwynedd Pension Fund seeks to utilise individuals who are both capable and experienced and it will provide training for staff and members of the pensions decision-making bodies to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

- (ch) That the committee agrees with the principle of publishing a statement of compliance with the Stewardship Code and adopting appropriate methods of scrutinising the governing action of the investment managers on behalf of the fund and have a positive influence as a responsible equity stakeholder by trialling the option of joining The Local Authority Pension Fund Forum (LAPFF) if the annual cost is less than £10,000 and report back to this committee in April 2013. However, if the annual cost is more than £10,000 the investment managers should be monitored internally and trust them to represent the Fund's interest as is currently the case.
- (d) Continue to report to the Committee on the engagement of investment managers based on exception.

- (dd) **The Committee should agree to include social, environmental and ethical considerations in the appropriate methods of scrutinising and reporting on equity investment managers.**
- (e) **That the invitation to send a representative to the LGC's Investment Seminar in Chester on 1 March, 2012 is forwarded to the co-opted members of this committee.**

## **5. CLG CONSULTATION ON CHANGES TO THE LOCAL GOVERNMENT PENSION SCHEME**

Submitted – the report of the Corporate Director which asked the Committee to decide on the response of the Pension Fund to the CLG Consultation in order to achieve savings of £900m within the local authority pension fund by 2014/15 through a proposed rise in employee contribution rates and changes to the scheme's accruals rates, operational from 1 April 2010 in England and Wales.

By referring to Gwynedd Pension Fund's response to the consultation in part six of the report, the Corporate Director noted that he was of the opinion that in reality two issues were relevant to this committee as the Fund's custodian, namely:-

- (1) Any increase in employee contributions and reduction in benefits could result in an increased opt-out rate. The more people opting out of the scheme the harder it would be to have a viable fund for the rest of the workers. Also the Government's proposals did not offer the option to keep the investments and to contribute more or reduce the benefits and contribute less.
- (2) The question of equality between different public sector schemes arose – would employees on similar salary levels face similar employee contributions across all schemes? E.g. teachers and social workers especially in light of the higher level of salaries below £15k and £21k in the LGPS which would place a disproportionate level of pressures on mid to high earners in comparison to demographics of other public sector schemes, e.g. teachers scheme.

The members emphasised the importance of ensuring that any worker who considered opting out of the pension scheme should receive appropriate advice in order to ensure that they fully understand the implications, e.g. losing the death grant paid to named beneficiaries.

**RESOLVED to submit observations (1) and (2) above in response to the CLG consultation on the changes to the Local Government Pension Scheme:-**

## **6. TREASURY MANAGEMENT 2010/11**

Submitted – the report of the Head of Finance Department reporting on the result of the Council's actual Treasury Management in the previous financial year in accordance with the requirements of the CIPFA Code of Practice.

The Head of Finance Department responded appropriately to questions by the members.

**RESOLVED to note the content of the report.**

## **7. TREASURY MANAGEMENT 2011/12 – MID YEAR REVIEW**

Submitted – the report of the Head of Finance Department reporting on the Treasury Management Pension Fund’s actual activity in the current financial year in accordance with the recommendation of the CIPFA Code of Practice.

The Head of Finance Department responded appropriately to questions by the members.

**RESOLVED to note the content of the report.**

## **8. TREASURY MANAGEMENT STRATEGY STATEMENT 2011/12**

Submitted – the report of the Head of Finance Department asking the Committee to consider some amendments to the Council’s Treasury Management Strategy Statement for 2011/12 and the Pension Fund Treasury Management Strategy Statement for 2011/12.

The Head of Finance Department explained that following the downgrading of a number of banks on the list of the Council’s authorised counterparties as a result of the deterioration in the worldwide financial situation, an urgent report had been submitted to Full Council on 20 October 2011 to amend the Treasury Management Strategy Statement in respect of the Council’s and the Pension Fund’s day-to day banking arrangements.

The Head of Finance Department explained that Barclays Bank Plc was used for the Council’s banking arrangement and currently Barclays’ credit rating of A+ was sufficient for it to be used as counterparty for investments. However, the bank had been placed on ‘Rating Watch Negative’ and therefore could be downgraded in the future. Therefore, the Council amended the Council’s Treasury Management Strategy Statement for 2011/12 to include the following wording:-

***“As Barclays Bank Plc is the Council’s bank, it will continue to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements should its credit rating fall under “A+” (or equivalent) in the future”***

It was then recommended that the Pension Fund Treasury Management Strategy Statement be amended along the same lines.

The Head of Finance Department further explained that in accordance with the Treasury Management Statement for 2011/12, it was essential that any financial institution used for investment purposes had a credit rating of at least "A" and that the maximum limit set for the length of investment was two years. However, the Council’s Treasury Consultants, Arlingclose, recommended that the limit should be changed to a credit rating of at least "A-" and a maximum length of investment of one year. It was not intended to add every bank with an “A” credit rating to the list, but this would allow investments to be made with the systematically important UK banks and building societies.

The Head of Finance Department further noted that the Treasury Management Statement for 2011/12 included Term Deposits with Local Authorities as a high security investment and it had been a good source of income during 2011/12. The current limit for investments with other local authorities was £10m however the Council’s treasury advisors recommended increasing this limit to £25m.

**RESOLVED**

- (a) In order to ensure that the day to day arrangements remain within the Strategy Statement's requirements, that should Barclays fall under the original criteria in future, to adopt the following addition to the Treasury Management Strategy Statement for 2011/12:-

*"As Barclays Bank Plc is the Council's bank, it will continue to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements should its credit rating fall under "A+" (or equivalent) in the future"*

- (b) Approve the following amendments to the Pension Fund Treasury Management Strategy Statement for 2011/12, subject to them being adopted for the Council's Treasury Management Strategy Statement by the full Council on 15 December.

- (i) It is essential that any financial institution used for investment purposes has a credit rating of at least "A" and that the maximum limit set for the length of investment is a year.
- (ii) Increase the limit for Fixed Term Deposits Investments with other authorities to £25 million.

The meeting commenced at 10.00am and concluded at 11.35am.