
PENSIONS COMMITTEE, 22.03.13

Present: Councillor Peter Read (Chairman)

Councillors Stephen Churchman, Trevor Edwards, Dafydd Meurig and Councillor Tom Jones (representative of Anglesey County Council)

Officers:- Dilwyn Williams (Corporate Director), Dafydd Edwards (Head of Finance Department), Caroline Roberts (Investment Manager) and Gwyn Parry Williams (Member Support and Scrutiny Officer).

Apologies: Councillors Peredur Jenkins, W. Tudor Owen, John P. Roberts and Councillor Margaret Lyon (representative of Conwy County Borough Council)

1. DECLARATION OF PERSONAL INTEREST

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

2. URGENT BUSINESS

(The following matter had not been included on the committee's agenda; however, the Chairman agreed to its inclusion under Section 100B (4)(b), Local Government Act 1972, since the information had been received after the agenda had been distributed to the members)

Coleg Harlech Situation

The Head of Finance Department reported on the fragile financial situation of the college. It was understood that the Welsh Government was not willing to provide them with financial support. He noted that 38 members of staff were employed at the college who paid into the Gwynedd Pension Fund and if the college as a body were to be abolished, then its pension commitments would fall on the remainder of the employers of the pension fund and that risk had been briefly estimated to be approximately £2.3m. It was intended to discuss the situation in due course with the Head of the College.

RESOLVED to note the information.

3. MINUTES

The Chairman signed the minutes of the previous meeting of this committee held on 28 September 2012 as a true record.

4. SOCIAL, ENVIRONMENTAL AND ETHICAL INVESTMENT

Submitted – the report of the Investment Manager that had been considered in this committee on 28 September 2012, namely a report on investment policy, specifically in relation to the tobacco industry, when it was requested that research be undertaken in order to ascertain how other pension funds dealt with ethical investment and to report back to this committee. It was noted that each Local Government Pension Fund was required to produce a Statement of Investment Principles in accordance with the "Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009"

which had to include the extent to which, social, environmental or ethical considerations were taken into account in the selection, retention and realisation of investments.

Information had been obtained from the websites of the large funds in England and a request was made for information from the seven other pension funds in Wales on their principles regarding social, environmental and ethical considerations when investing. In addition, LAPFF had decided that it would be useful to have a Statement of Investment Principles (SIP) template on corporate governance for member funds to use. A survey of LAPFF member SIPs and global pension funds that were active in considering Environmental, Social and Governance (ESG) issues had been undertaken to identify best practice.

The officer noted that the emphasis on ESG issues varied between funds with some having a broader approach and others having more detailed considerations. No evidence had been found to suggest that any fund would rule out a specific type of investment on ESG grounds.

The Fund's Statement of Investment Principles would be reviewed in 2014 following completion of the actuarial valuation on 31 March 2013. This review would consider ESG principles and appropriate use of the LAPFF template for social, environmental and ethical considerations.

RESOLVED that the current Social, Environmental and Ethical considerations be retained until the full review of the Statement on Investment Principles in 2014.

5. THE PENSIONS FUND STEWARDSHIP

Submitted – the report of the Investment Manager which had been considered by this committee on 25 November 2011, namely the introduction of the Stewardship Code when the principle of publishing a statement of compliance with the Code had been agreed. The committee also agreed that the Pension Fund should become a member of the Local Authority Pension Fund Forum (LAPFF) in order to strengthen stewardship arrangements and to participate in actions taken by LAPFF on behalf of its members thus having greater influence as a group than when working as individual funds. The committee agreed to membership on a trial basis with a report back by April 2013.

The officer noted that LAPFF existed to promote the investment interests of local authority pension funds and to maximise their influence as shareholders when promoting social responsibility and corporate governance at the companies in which they invested. The LAPFF brought together a number of local authority pension funds which provided an opportunity for a discussion on investment issues and shareholder action. Membership was available for all local authority pension funds and at present there were 55 local authority pension fund members, including some of the largest funds in the UK. The subscription for 2012/13 was £8,460.

She gave details of the benefits of membership as well as the Statement of Compliance with the Stewardship Code. She noted that the annual membership payment to LAPFF of £8,460 provided value for money for the fund.

RESOLVED

a) That the Pension Fund continues with its membership of LAPFF.

b) To approve and publish the Statement of Compliance with the Stewardship Code.

6. TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY FOR 2013/14

Submitted – the report of the Head of Finance Department, noting that as part of its treasury management function, the Council was required to prepare an Annual Investment Strategy – in accordance with the Welsh Government’s Statutory Guidance on Local Government Investments. It was considered good practice for the Gwynedd Pensions Fund to adopt the Council’s Treasury Management Strategy Statement for 2013/14, as revised for the purpose of the Pensions Fund. The Council had approved its Treasury Management Strategy Statement for 2013/14 on 28 February 2013.

He noted that the fund had also given regard to the 2009 revised “CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes”.

In relation to the pension fund’s cash flow, the officer noted that the fund had net inflows from its members, therefore in any given month, the income from contributions and transfers-in significantly exceeded the pensions, transfers-out and costs paid out. Once there was sufficient surplus cash, money would be transferred to one or more of the Fund’s investment managers. Normally, up to around £5m would be held back for cash flow purposes, such as pension payments and funding calls from the private equity funds. However, in the past, due to known commitments, there were times when the surplus cash held in the fund’s bank accounts with Gwynedd Council had exceeded £20m.

Currently, all the Fund’s surplus cash was pooled with the cash balances of the Council and invested with counterparties in accordance with Gwynedd Council’s Treasury Management Strategy Statement. At the end of the financial year, Gwynedd Council paid interest to the Pension Fund based on the fund’s daily balances over the year. This could continue if the Pensions Committee requested that the Pension Fund’s surplus cash balances be pooled with the Council’s cash balances. It was evident that pooling the fund could take advantage of economies of scale, and as a result, could attract better interest rates, reduce bank costs and avoid the duplication of work within the Council.

The counterparty list had been updated in order to reflect the latest recommendations. The maximum loan period for UK institutions had been raised from one year to two years to reflect those recommendations. The amount, along with the maximum length of investments was noted, although they were currently restricted to one year or less, depending on the status of each institution.

The proposed strategy would not deal with the cash held by the fund’s investment managers for settlements.

RESOLVED

- a) To approve the Treasury Management Strategy Statement and the Annual Investment Strategy for 2013/14, as amended for Pension Fund purposes (Appendix A to the report), and the current list of counterparties (Appendix C to the report).**
- b) To request that the Council allows the surplus cash balances of the Pension Fund to continue to be pooled with the Council’s general cash flow from 1 April 2013 onwards.**

7. WELSH LOCAL GOVERNMENT PENSION FUNDS – WORKING TOGETHER

Submitted - the report of the Corporate Director referring to the possibility of having fewer pension funds in Wales. Every Pension Fund in Wales had recently been requested to contribute £5,000 towards the cost of preparing a report as part of a project undertaken by the Pensions Sub-group of the Society of Welsh Treasurers. The draft report had been

prepared and had been sent out to consultation with the interested parties, including all the employers, requesting observations by the end of March 2013.

He noted that the sub-group was of the opinion that reducing the number of pension funds would create a saving and that having a larger fund would result in better returns. The main recommendations of the reports were:

- a) It was considered that greater collaboration was an area where savings could be made in the long term.
- b) To create an appropriate full business case for a common interest approach.
- c) To create an appropriate and responsive governance structure to drive future collaboration.
- ch) To build on current collaboration to achieve improvements, consistency and efficiency in administration.

There was a need for the committee to respond to the report. A response could be prepared at present, or wait until the results of the consultation with employers were available. The Director referred to clause 11 – Recommendation 5 of the consultation questions which stated that *“The prospect of merger to regional funds or a single Welsh Fund is both complex and the transition would be costly with a long lead in time and a loss of local autonomy. Changing funding strategies could also have a destabilizing effect with a loss of local accountability. Whilst this may merit additional investigation in the future, it is not recommended for further work at this time, especially where it is believed that the most significant gains can be realised through greater collaboration and, specifically a common investment approach.”*

RESOLVED

- a) To wait until the results of the consultation are available before responding in full to the draft report.**
- b) To respond to the consultation in order to agree with recommendation 5 of the consultation questions as noted above.**

8. CAREERS WALES

Submitted – the report of the Corporate Director on the offer of membership of the Gwynedd Pension Fund to Careers Wales.

The Director informed the committee that the Careers Service in Wales was structured on a regional basis and each area was a member of the Local Government Pension Fund that was relevant to its area. Careers North West Wales was a member of the Gwynedd Pension Fund. The Welsh Government had decided to form Careers Wales from the former regional bodies and this had become operational on 1 April 2012. At present the membership of the Pension Fund continued on the basis of the old structure.

He noted that the new company wished to be a member of one of the existing Local Government Pension Funds in Wales. The issue of which fund would accept Careers Wales as an employer had not yet been resolved. The main reason for the lack of agreement had been the deficits in each fund in respect of the previous regional organisation and a reluctance to take on the deficit going forward. In recognition of this, the Welsh Government had agreed to take ownership of the new body if the pension position could be agreed.

The Pension Fund which would admit Careers Wales as an employer would face a number of risks such as -

- The certainty of funding for Careers Wales in the future. The funding was currently being provided by the Welsh Government and although they would take responsibility for the company this did not guarantee funding for the future.

- The Welsh Government could decide to discontinue Careers Wales in the future, leaving a significant deficit to be funded by the Pension Fund and the other employers.
- The deficits of the previous regions would be transferred from the current pension funds to the new fund and although a payment had been received by each fund in partial settlement of these deficits, the amounts were still significant. In assessing these deficits different actuaries used different assumptions. In using the current assumptions from the Gwynedd Pension Fund to value the deficits, the amounts would increase as Gwynedd used a more prudent method than most of the other funds in Wales.
- The transfer was expected to take place by 1 April 2013, which was a very short timescale during a period when significant additional work was being undertaken by the administration section in relation to the implementation of the new computer system and preparation of information from the 2013 actuarial valuation.
- The company headquarters was far from Gwynedd which could affect the ability to attend employer meetings and presentations in Caernarfon.

It was further noted that in order to mitigate financial risks a bond would be required by the new company. The calculation of the bond would be agreed with the pension fund that would be taking over the liabilities and would be reviewed regularly to ensure it was sufficient to cover the liabilities. The cost of the bond would be paid by the company and there was a need to include this in the company's financial plan.

As a result of the risks noted above, the officers were of the opinion that membership of the Gwynedd Pension Fund should not be offered to Careers Wales.

RESOLVED to accept the report and that membership of the Gwynedd Pension Fund should not be offered to Careers Wales.

9. EXCLUSION OF PRESS AND PUBLIC

RESOLVED to exclude the press and public from the meeting during the discussion on the following item because of the likely disclosure of exempt information as defined in paragraph 14, Part 4, Schedule 12A of the Local Government Act 1972. This paragraph applies because the report contains financial information regarding a company and they have the right for the information to be kept confidential. The timing is important and there is no public requirement in disclosing the information at present. The public interest therefore is to keep the information confidential for now.

10. PROPERTY INVESTMENT

Submitted – the report of the Investment Manager further to a quarterly meeting of the Pension Fund's Investment Panel which had been held in London on 15 February 2013 regarding the latest position of the investment in a UBS's Triton Fund.

RESOLVED

a) To authorise the Corporate Director to make any further decision required before the next meeting of the Investment Panel in order to protect the Pension Fund's investment.

b) To discuss the matter with Hymans Robertson in the next Investment Panel in May 2013.

The meeting commenced at 2.00pm and concluded at 3.20pm.