Contents

Contents
Agenda 2
4. Minutes of the previous meeting 5
5. Funding Strategy Statement 2014-15 - 2016- 17 8
    Appendix 1 11
6. Pension Administration Unit Staffing 33
7. LAPFF Conference Update 35

Gwasanaeth Democrataidd
Democratic Service
Swyddfa'r Cyngor
CAERNARFON
Gwynedd
LL55 1SH

Cyfarfod / Meeting

PWYLLGOR PENSIYNAU

PENSIONS COMMITTEE

Dyddiad ac Amser / Date and Time

2:00pm, DYDD LLUN, 20 IONAWR 2014

2:00pm, MONDAY, 20 JANUARY, 2014

Lleoliad / Location

YSTAFELL GWYRFAI,
SWYDDFEYDD Y CYNGOR / COUNCIL OFFICES,
CAERNARFON

Pwynt Cyswllt / Contact Point

Lowri Haf Evans

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PWYLLGOR PENSIYNAU
PENSIONS COMMITTEE

AELODAETH / MEMBERSHIP

Plaid Cymru (3)
Y Cynghorwyr / Councillors
Peredur Jenkins
Dafydd Meurig
W. Tudor Owen

Annibynnol/Independent (2)
Y Cynghorwyr/Councillors
Trevor Edwards
John Pughe Roberts

Rhyddfrydwyr Democrataidd / Liberal Democrats (1)
Y Cynghorydd/Councillor Stephen Churchman

Llais Gwynedd (1)
Y Cynghorydd/Councillor Peter Read

Aelodau Cyfetholedig / Co-opted Members

Y Cynghorydd/Councillor Margaret Lyon, Cynrychiolydd Cyngor Bwrdeistref Sirol Conwy /Conwy County Borough Council Representative

Y Cynghorydd/Councillor Hywel E. Jones, Cynrychiolydd Cyngor Sir Ynys Môn/Isle of Anglesey County Council Representative

Aelodau Ex-officio / Ex-officio Members

Cadeirydd ac Is-gadeirydd y Cyngor/Chairman and Vice-chairman of the Council

AGENDA

1. WELCOME AND APOLOGIES

To receive any apologies for absence

2. DECLARATION OF PERSONAL INTEREST

To receive any declaration of personal interest

3. URGENT BUSINESS

To note any items which are urgent business in the opinion of the Chairman so that they may be considered

4. MINUTES

The Chairman shall propose that the minutes of the meeting of this committee held on 7 October 2013 be signed as a true record.

(copy herewith – ***white*** paper)

5. FUNDING STRATEGY STATEMENT

To submit a report by the Investment Manager

(copy herewith – ***blue*** paper)

6. PENSIONS UNIT STAFFING

To submit a report by the pensions manager

(copy herewith – ***pink*** paper)

7. ANNUAL LAPFF CONFERENCE "LICENCE TO OPERATE – HOLDING COMPANIES TO ACCOUNT"

To submit a report by the Investment Manager

(copy herewith – ***yellow*** paper)

8. THE LGC INVESTMENT SEMINAR ON 27/28 FEBRUARY 2014

Select one member of the committee to attend the seminar

PENSIONS COMMITTEE, 07.10.13

Present: Councillor Peter Read (Chairman)

Councillors Stephen Churchman, Trevor Edwards, Dafydd Meurig, Peredur Jenkins, John P. Roberts and Councillor Margaret Lyon (representative of Conwy County Borough Council).

Officers:- Dilwyn Williams (Corporate Director), Dafydd Edwards (Head of Finance Department), Caroline Roberts (Investment Manager), Gareth Jones (Pensions Manager) and Lowri Haf Evans (Member Support and Scrutiny Officer).

Apologies: Councillor Hywel E. Jones (Representative of Isle of Anglesey County Council)

1. WELCOME AND APOLOGIES

Everyone was welcomed to the meeting by the Chairman, Peter Read. The above-mentioned apologies were noted.

2. DECLARATION OF PERSONAL INTEREST

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

3. URGENT ITEMS

No urgent items were received.

4. MINUTES

The Chairman signed the minutes of the previous meeting of this committee held on 22 March 2013 as a true record.

5. MONITORING PROPERTY INVESTMENTS

A report had been received from the Corporate Director proposing a change to the arrangements of monitoring joint property investments in the property field (that were now in four funds in order to disperse risk).
A draft suggestion had been received from Hymans Robertson to arrange a full day with the managers of joint property funds in order to discuss and monitor the investments effectively. A change to the current arrangement would be equivalent to having 'two additional monitoring sessions' each year with the February and May meetings being held in London and the July and November meetings in Caernarfon.
It was highlighted that the arrangement would strengthen links and that holding meetings with managers of all four funds together would be beneficial. It was hoped that the new arrangement would be implemented from February 2014 onwards.

RESOLVED

a) The recommendation was accepted with a one-year trial period.

6. ACTUARIAL VALUATION 2013: TREATMENT OF SMALLER EMPLOYER POOLS

Submitted – a report from the Corporate Director noting why some employers had been grouped together for the purpose of valuation and to establish the employer's rate, and recommending that the two pools established for the triennial actuarial purposes of smaller employers be disbanded as insurance against ill-health retirements was available, and it provided an alternative way of covering the risk to these employers.

The insurance premium was a percentage of the employers payroll in the same way as employers contributions were calculated. An indicative figure for the cost of this insurance was 1.1% for small employers and the employers contribution rate as calculated by the actuary would be reduced by the percentage paid for insurance. There would be no additional costs to the employer.

It was recognised that some employers would face higher increases in their contributions than others as a result of this change (due to the different age profiles they had) and there was a need to manage the situation carefully.

Initial meetings with some employers had been held (all members of the pool had been invited) to share information and raise awareness about the ill-health insurance. Now that ill-health insurance was available, it was recommended that the two pools for smaller employers be disbanded and that ill-health insurance be compulsory for the employers concerned.

It was intended to disband the pool by the end of March 2014.

RESOLVED

a) **that both pools for small employers be disbanded, and;**

b) **that ill-health insurance be compulsory for the employers concerned.**

7. TREASURY MANAGEMENT 2012/13

Submitted – the report of the Head of Finance Department reporting, for information, on the actual results of the Council's Treasury Management activity in the previous financial year, in accordance with the requirements of the CIPFA Code of Practice. It was noted that the same report had been submitted to the Audit Committee outlining how the Fund's cash had been invested jointly with Council finances in 2012/2013. He explained that interest rates had been very low, but that the principal sum had not been lost, and that the target credit score had been reached.

RESOLVED to accept the report.

8. CONFERENCE ATTENDANCE AT THE LOCAL AUTHORITY PENSION FUND FORUM (LAPFF) ON 4 - 6 DECEMBER 2013

It was explained that there was an opportunity for a member to attend the above conference in Bournemouth. The main aim of the conference was to raise awareness of how companies were managed and about the role of pension fund stewardship. Attention was drawn to the fact that a meeting of the full Council would be held on 5 December. It was noted that membership of the LAPFF would provide two places for each Fund, and that Caroline Roberts (Investment Manager) would attend but that one other nomination for a place was also available.

RESOLVED
The Investment Manager to share information with Cllr John Pughe Roberts.

9. LGC INVESTMENT SUMMIT 4 – 6 SEPTEMBER 2013

A report had been received from the Investment Manager outlining the highlights of the LGC Investment Summit 2013. Councillor Hywel Eifion Jones, Councillor Dafydd Meurig and Caroline Roberts, Investment Manager had attended the event. It was highlighted that the conference had been a good opportunity for networking with the investment managers and representatives from other funds and to discuss current issues.

THE INFORMATION WAS ACCEPTED

10. 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 report deals with matters which are commercially sensitive namely the price of supplying software and licenses. Disclosure of this information could affect the commercial position of the Council by undermining market confidence that the Council deals appropriately with it and therefore dissuade them from bidding in the future. Disclosure of this information could also give an advantage to competitors by revealing details of prices and offers by the company. Although there is a public interest in understanding the Council's expenditure on contracts this has to be balanced against the interest in ensuring that commercially sensitive information is respected in order to protect the Council's ability to treat the market appropriately in order to ensure value for money.

11. PENSIONS ADMINISTRATION SOFTWARE UPGRADE TO ACCOMMODATE LGPS 2014

Submitted - the report of the Head of Finance Department.

RESOLVED to approve the additional budget in accordance with the recommendations to upgrade the pensions administration software in order to address the requirements of the 'new' Local Government Pension Scheme from April 2014 onwards.

The meeting commenced at 2:00pm and concluded at 2:30pm.

MEETING	PENSIONS COMMITTEE
DATE	20 JANUARY 2014
TITLE	FUNDING STRATEGY STATEMENT 2014/15 – 2016/17
RECOMMENDATION	TO CONFIRM THE ASSUMPTIONS TO BE MADE IN THE FUNDING STRATEGY STATEMENT
AUTHOR	CAROLINE ROBERTS, INVESTMENT MANAGER

1. INTRODUCTION

1.1 We are required to review and publish the triennial Funding Strategy Statement (FSS) by 31 March 2014. Gwynedd's current FSS was approved by the Pensions Committee on 22 March 2011.

1.2 As part of the review the administering authority will have to consult with the 40 scheme employers, the fund actuary and adviser, and any other persons we consider appropriate.

2. ACTUARIAL VALUATION

2.1 The triennial actuarial valuation of the Fund is currently being undertaken. The preliminary results were available in November and have been discussed with the individual employers. Final reports are currently being prepared for each employer.

2.2 The actuarial valuation has been prepared using assumptions agreed with the actuary. The deficit recovery periods applied to the different categories of employer are prudent and consistent with the previous valuation.

2.3 For the previous actuarial valuation the 'Compass' system was adopted to develop a longer term plan for employer contributions for secure long term employers. This spreads the increase or decrease in employer contributions over a longer period and restricts the change in each financial year. This system has been used for the 2013 valuation for the relevant employers. For these employers it is appropriate to keep their contribution rate at the same level as for 2013/14.

2.4 At a meeting on 7th October 2013 this committee decided to disband the two pools for smaller employers and that ill-health insurance be compulsory for the employers concerned. Due to this change some individual employers face significant changes in their contribution rates and a process of phasing these increases in over 6 years is appropriate. Where contributions for employers within the former pools reduce this will be phased in over 3 years.

2.5 As all employers are likely to be required to make savings in the next three years, it is prudent to collect employer contributions in respect of any accumulated deficit as a fixed cash amount spread over 12 months of the year. This protects the cash flow of the pension fund if there are significant reductions in payroll due to reductions in the number of staff employed.

2.6 An employers' meeting was held on 7th November 2010 when the preliminary actuarial results were presented and discussed. Individual meetings were also held for some employers whose results were not available at that point due to the need for additional work following bulk transfers between employers.

3. DRAFT FUNDING STRATEGY STATEMENT (FSS)

3.1 A draft FSS is attached in Appendix A. This is substantially complete with just the results of one joint committee outstanding. The draft has been sent to the actuary, Hymans Robertson, for comments and their response will be reported at the meeting.

3.2 The Committee now need to confirm the policies in the draft FSS for consultation with all the Fund's employers. Hence, the Committee is asked to decide on the following issues.

3.3 **EQUITY RISK PREMIUM**
The anticipated excess return from equities compared to the return from gilts. This refers to the difference between the expected return achieved by equities and the expected return from gilts. As the assumed difference between the expected returns becomes greater, the risk increases and the funding basis becomes less prudent. The anticipated excess return from equities assumption used in the 2010 valuation was 1.4%. Due to the fact that bond rates, which are used to calculate future liabilities, were at a historically low level at 31 March 2013 but have improved since that date and are expected to increase in the future, the anticipated excess return from equities has been set at 1.7%. This will smooth the employer contributions over an exceptional period and will be reviewed at the next valuation with the aim of reducing to 1.4% when the return from gilts improves.

3.4 **DEFICIT RECOVERY PERIODS**
In the 2010 valuation the administering authority continued with the following deficit recovery periods:

- Statutory bodies – 20 years
- Grip Landfill Mania – 15 years
- All other employers – future working lifetime.

These periods have also been used for the 2013 valuation.

3.5 **MAJOR BODIES WITH TAX RAISING POWERS**
Major bodies with tax raising powers will continue to pay the same contribution rate as their 2013/14 rate.

3.5 **PHASING IN OF CONTRIBUTION INCREASES**
Apart from Best Value Admission Bodies, regulations permit all other employers to phase in contribution rises. In the 2010 valuation, the Committee decided that employers facing an increase can phase in the increased rate over a number of years subject to certain criteria. For the 2013 valuation increases may be spread over 6 years and any reductions in the rate for employers who were previously in a pool will be spread over 3 years. Other employers who have a reduction in their contribution rate will move immediately to that rate at 1 April 2014.

3.6 COLLECTION OF DEFECITS

Employers who are in deficit pay additional employer contributions in order to recover the deficit. Previously this has been expressed as a percentage of payroll and combined with the future service rate. Due to the financial situation and in order to protect the pension fund the deficit payments will be expressed as an annual lump sum to be paid in 12 monthly instalments as part of their employer contributions.

4. SUMMARY

Prior to consulting with employers on the Funding Strategy Statement the Committee is asked to confirm the assumptions and policies outlined in section 3 of this report.

Following the consultation process the committee will receive the final version of the Funding Strategy Statement for adoption by 31 March 2014.

1. Introduction

This is the Funding Strategy Statement (FSS) of the Gwynedd Pension Fund ("the Fund"), which is administered by Gwynedd Council, ("the Administering Authority").

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser and is effective from 31 March 2014.

1.1 Regulatory Framework

Members' accrued benefits are guaranteed by statute. Members' contributions are fixed in the Regulations at a level which covers only part of the cost of accruing benefits. Employers pay the balance of the cost of delivering the benefits to members. The FSS focuses on the pace at which these liabilities are funded and, insofar as is practical, the measures to ensure that employers or pools of employers pay for their own liabilities.

The FSS forms part of a framework which includes:

- the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) and the Local Government Pension Scheme (Administration) Regulations 2008 (as amended).
- the Rates and Adjustments Certificate, which can be found appended to the Fund actuary's triennial valuation report;
- actuarial factors for valuing early retirement costs and the cost of buying extra service; and
- the Statement of Investment Principles.

This is the framework within which the Fund's actuary carries out triennial valuations to set employers' contributions, provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

1.2 Reviews of FSS

The FSS is reviewed in detail at least every three years ahead of triennial valuations being carried out, with the next full review due to be completed by 31 March 2017. More frequently, **Annex A** is updated to reflect any changes to employers.

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues. If you have any queries please contact Mrs Caroline Roberts, in the first instance at carolineroberts@gwynedd.gov.uk or on 01286 679128.

2. Purpose

2.1 Purpose of FSS

The Office of the Deputy Prime Minister (ODPM) (now the Department of Communities and Local Government (CLG)) has stated that the purpose of the FSS is:

- *"to establish a* ***clear and transparent fund-specific strategy*** *which will identify how employers' pension liabilities are best met going forward;*
- *to support the desirability of maintaining* ***as nearly constant employer contribution rates as possible****; and*
- *to take a* ***prudent longer-term view*** *of funding those liabilities."*

This framework is designed to ensure the funding strategy is both cohesive and comprehensive for the fund as a whole, recognising that there will be conflicting objectives that need to be balanced and reconciled.

This statement focuses on the best long-term interests of the fund and sets out how the Administering Authority has balanced the conflicting objectives of affordability of contributions, transparency of processes, stability of employers' contributions, and prudence in the funding basis.

2.2 Aims and Purpose of the Fund

The Fund is a vehicle by which scheme benefits are delivered.

The aims of the Fund are to:

- enable employer contribution rates to be kept as nearly constant as possible and (subject to the administering authority not taking undue risks) at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies, while achieving and maintaining fund solvency, which is assessed in light of the risk profile of the fund and the risk appetite of the administering authority and employers;
- Manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due;
- See returns on investment within reasonable parameters.

The purpose of the Fund is to:

- receive contributions, transfer payments and investment income;

- pay scheme benefits, transfer values and administration costs.

2.3 Responsibilities of Key Parties

The roles and responsibilities of the key parties involved in the management of the pension scheme are summarised in Annex B.

2.4 Aims of the Funding Policy

The objectives of the Fund's funding policy include the following:

- to ensure the long-term solvency of the Fund [and of the share of the Fund attributable to individual employers];
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk;
- to help employers recognise and manage pension liabilities as they accrue;
- to minimise the degree of short-term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so;
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations; and
- to address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective.

3. Solvency Issues and Target Funding Levels

3.1 Derivation of Employer Contributions

Employer contributions are normally made up of two elements:

a) the estimated cost of future benefits being accrued, referred to as the "*future service rate*"; plus

b) an adjustment for the funding position (or "solvency") of accrued benefits relative to the Fund's solvency target, "*past service adjustment*". If there is a surplus there may be a contribution reduction; if a deficit a contribution addition, with the surplus or deficit spread over an appropriate period.

The Fund's actuary is required by the regulations to report the *Common Contribution Rate*[1], for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay. For the purpose of calculating the Common Contribution Rate, the surplus or deficit under (b) is currently spread over a period of 20 years – the maximum deficit recovery period applicable to the largest employers in the Fund.

The Fund's actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed "peculiar" to an individual employer[2]. It is the adjusted contribution rate which employers are actually required to pay. The sorts of peculiar factors which are considered are discussed in Section 3.5.

In effect, the *Common Contribution Rate* is a notional quantity. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific spreading and phasing periods.

For some employers it may be agreed to pool contributions, see Section 3.7.4.

Annex A, contains a breakdown of each employer's contributions following the 2013 valuation for the financial years 2014/15, 2015/16 and 2016/17. It also identifies which employers' contributions have been pooled with others.

Any costs of non ill-health early retirements must be paid as lump sum payments at the time of the employer's decision in addition to the contributions described above (or by instalments shortly after the decision).

Employers' contributions are expressed as minima, with employers able to pay regular contributions at a higher rate. Employers should discuss with the Administering Authority before making one-off capital payments.

[1] See Regulation 77(4)
[2] See Regulation 77(6)

If an employer is in a surplus position (where their assets are greater than their liabilities), then the minimum contribution they will pay is the future service rate subject to the rate payable being no higher than the rate in payment during 2013/14.

3.2 Solvency and Target Funding Levels

The Fund's actuary is required to report on the "solvency" of the whole fund at least every three years.

'Solvency" for ongoing employers is defined to be the ratio of the market value of assets to the value placed on accrued benefits on the Fund actuary's *ongoing funding basis*. This quantity is known as a funding level.

The ongoing funding basis is that used for each triennial valuation and the Fund actuary agrees the financial and demographic assumptions to be used for each such valuation with the administering authority.

The fund operates the same target funding level for all ongoing employers of 100% of its accrued liabilities valued on the ongoing basis. Please refer to paragraph 3.8 for the treatment of departing employers.

3.3 Ongoing Funding Basis

The demographic assumptions are intended to be best estimates of future experience in the Fund. As a member of Club Vita, the longevity assumptions that have been adopted at this valuation are a bespoke set of VitaCurves that are specifically tailored to fit the membership profile of the Fund. These curves are based on the data we have provided the Actuary with for the purposes of this valuation. There is a consensus amongst actuaries that life expectancy will continue to improve in the future. However, there is no clear consensus about the pace of this improvement (and how long it will persist). The view of the actuarial profession is that the allowance for future longevity improvements should be at the discretion of each individual pension fund, after taking advice from their actuary.

Contributions may increase in future if life expectancy exceeds the funding assumptions. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members' benefits. The demographic assumptions vary by type of member and so reflect the different membership profiles of employers.

The key financial assumption is the anticipated return on the Fund's investments. The investment return assumption makes allowance for anticipated returns from equities in excess of bonds. There is, however, no guarantee that equities will out-perform bonds. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

It is therefore normally appropriate to restrict the degree of change to employers' contributions at triennial valuation dates.

Given the very long-term nature of the liabilities, a long term view of prospective returns from equities is taken. For the purpose of the triennial funding valuation at 31 March 2013 and setting contribution rates effective from 1 April 2014, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.7% per annum greater than the return available from investing in index-linked government bonds at the time of the valuation. The long term in this context would be 20 to 30 years or more. In the opinion of the Fund actuary, based on the current investment strategy of the Fund, an asset outperformance assumption (AOA) of 1.7% per annum is within a range that would be considered acceptable for the purposes of the funding valuation. The same financial assumptions are adopted for all ongoing employers. All employers have the same asset allocation.

3.4 Future Service Contribution Rates

The future service element of the employer contribution rate is calculated on the ongoing valuation basis, with the aim of ensuring that there are sufficient assets built up to meet future benefit payments in respect of future service. The approach used to calculate each employer's future service contribution rate depends on whether or not new entrants are being admitted. Employers should note that it is only Admission Bodies that may have the power not to admit automatically all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts.

3.4.1 Employers that admit new entrants

The employer's future service rate will be based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year. Technically these rates will be derived using the *Projected Unit Method* of valuation with a one year control period.

If future experience is in line with assumptions, and the employer's membership profile remains stable, this rate should be broadly stable over time. If the membership of employees matures (e.g. because of lower recruitment) the rate would rise.

The Projected Unit Method is described in the Actuary's report on the valuation.

3.4.2 Employers that do not admit new entrants

Currently one Admission Body has closed the scheme to new entrants. It is expected that the closure will lead to the average age of employee members increasing over time and hence, all other things being equal, the future service rate would be expected to increase as the membership ages. In such cases the

Attained Age funding method is adopted. This limits the degree of future contribution rises by paying higher rates at the outset.

Future service rates will include expenses of administration to the extent that they are borne by the Fund and include an allowance for benefits payable on death in service and ill health retirement.

3.5 Adjustments for Individual Employers

Adjustments to individual employer contribution rates are applied both through the calculation of employer-specific future service contribution rates and the calculation of the employer's funding position. The combined effect of these adjustments for individual employers applied by the Fund actuary relate to:

- past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g. mix of members by age, gender, manual/non manual);
- the effect of any differences in the valuation basis on the value placed on the employer's liabilities;
- any different deficit/surplus spreading periods or phasing of contribution changes;
- the difference between actual and assumed rises in pensionable pay;
- the difference between actual and assumed increases to pensions in payment and deferred pensions;
- the difference between actual and assumed retirements on grounds of ill-health from active status;
- the difference between actual and assumed amounts of pension ceasing on death;
- the additional costs of any non ill-health retirements relative to any extra payments made;

over the period between each triennial valuation.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

The Fund actuary does not allow for certain relatively minor events occurring in the period since the last formal valuation including, but not limited to:

- the actual timing of employer contributions within any financial year;
- the effect of more or fewer withdrawals than assumed;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

3.6 Asset Share Calculations for Individual Employers

The Fund's actuary is required to apportion the assets of the whole fund between the employers at each triennial valuation using the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus". The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund. The asset apportionment is capable of verification but not to audit standard.

The Administering Authority recognises the limitations in the process, but having regard to the extra administration cost of building in new protections, it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

3.7 Stability of Employer Contributions

3.7.1 Deficit Recovery Periods

The Administering Authority instructs the actuary to adopt specific deficit recovery periods for all employers when calculating their contributions.

The Administering Authority targets the recovery of any deficit over a period which takes into account the risk status of employers and to a lesser extent the wider resource implications. The general principles followed are as follows:

Type of Employer	*Maximum* Length of Deficit Recovery Period
Statutory bodies with tax raising powers.	a period not exceeding 20 years.
Community Admission Bodies with funding guarantees.	a period not exceeding 20 years.
Further Education Colleges which are scheduled bodies and not admitted bodies.	a period not exceeding 15 years.
Best Value Admission Bodies.	the period from the start of the revised contributions to the end of the employer's contract.
Community Admission Bodies that are closed to new entrants	a period equivalent to the expected future working lifetime of the remaining scheme members allowing for expected leavers, subject to not less than 9 years.
All other types of employer.	a period equivalent to the expected future working lifetime of the remaining scheme members

This *maximum* period is used in calculating each employer's *minimum* contributions. Employers may opt to pay higher regular contributions than these minimum rates.

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2014 for 2013 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example to improve the stability of contributions.

The deficit recovery will be expressed as a monetary value to be paid over the relevant period and a fixed amount will be paid each month.

3.7.2 *Phasing in of Contribution Increases and Decreases*

Best Value Admission Bodies are not eligible for phasing in of contribution rises. For employers facing an increase in their contributions this will be phased in over period of 6 years subject to the Administering Authority's overall satisfaction relating to the security of the Fund.

Major bodies with tax raising powers will continue to pay the same contribution rate as their 2013/14 rate.

3.7.3 *The Effect of Opting for Longer Spreading or Phasing-In*

Employers who are permitted and elect to use a longer deficit spreading period or to phase-in contribution changes will be assumed to incur a greater loss of investment returns on the deficit by opting to defer repayment. Thus, deferring paying contributions will lead to higher contributions in the long-term.

However any adjustment is expressed for different employers the overriding principle is that the discounted value of the contribution adjustment adopted for each employer will be equivalent to the employer's deficit.

3.7.4 *Pooled Contributions*

3.7.4.1 *Smaller Employers*

The Administering Authority has allowed smaller employers [of similar types] to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service in the past. For the 2013 valuation these pools have been discontinued and each employer will receive their own individual contribution rate.

Smaller employers who were in the pools at the 2010 valuation and smaller employers who are closed to new entrants will be required to participate in ill-health retirement insurance. This will be arranged by the Pension Fund and the cost of the premium will be deducted from the employers' future service contributions to pay for the cover.

3.7.4.2 *Other Contribution Pools*

Schools are also pooled with their funding Council.

Those employers that have been pooled are identified in **Annex A**.

3.8 Admission Bodies ceasing

Admission Agreements for Best Value contractors are assumed to expire at the end of the contract.

Admission Agreements for other employers are generally assumed to be open-ended and to continue until the last pensioner dies. Contributions, expressed as capital payments, can continue to be levied after all the employees have retired. These Admission Agreements can however be terminated at any point.

If an Admission Body's admission agreement is terminated, the Administering Authority instructs the Fund actuary to carry out a special valuation to determine whether there is any deficit.

The assumptions adopted to value the departing employer's liabilities for this valuation will depend upon the circumstances. For example:

(a) For Best Value Admission Bodies, the assumptions would be those used for an ongoing valuation to be consistent with those used to calculate the initial transfer of assets to accompany the active member liabilities transferred.

(b) For non Best Value Admission Bodies that elect to voluntarily terminate their participation, the Administering Authority must look to protect the interests of other ongoing employers and will require the actuary to adopt valuation assumptions which, to the extent reasonably practicable, protect the other employers from the likelihood of any material loss emerging in future. This could give rise to significant payments being required.

(c) For Admission Bodies with guarantors, it is possible that any deficit could be transferred to the guarantor in which case it may be possible to simply transfer the former Admission Bodies members and assets to the guarantor, without needing to crystallise any deficit.

Under (a) and (b), any shortfall would be levied on the departing Admission Body as a capital payment.

3.9 Early Retirement Costs

3.9.1 Non Ill Health retirements

The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health. Employers are required to pay additional contributions wherever an employee retires before attaining the age at which the valuation assumes that benefits are payable.

It is assumed that members' benefits on age retirement are payable from the earliest age that the employee could retire without incurring a reduction to their benefit and without requiring their employer's consent to retire.

The additional costs of premature retirement are calculated by reference to these ages.

4. Links to Investment Strategy

Funding and investment strategy are inextricably linked. Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice.

4.1 Investment Strategy

The investment strategy currently being pursued is described in the Fund's Statement of Investment Principles.

The investment strategy is set for the long-term, but is reviewed from time to time, normally every three years, to ensure that it remains appropriate to the Fund's liability profile. The Administering Authority has adopted a benchmark, which sets the proportion of assets to be invested in key asset classes such as equities, bonds and property. As at 31 March 2013, the asset allocation of the fund was as follows:

Asset Allocation	**Benchmark %**	**Actual %**
Equities	72.5	76.0
Property	10.0	8.9
Absolute Return Bonds	15.0	13.3
Infrastructure	2.5	0.3
Cash	0.0	1.5
TOTAL	**100.0**	**100.0**

The investment strategy of lowest risk – but not necessarily the most cost-effective in the long-term – would be 100% investment in index-linked government bonds.

The Fund's benchmark includes a significant holding in equities in the pursuit of long-term higher returns than from fixed interest bonds. The Administering Authority's strategy recognises the relatively immature liabilities of the Fund and the secure nature of most employers' covenants.

The same investment strategy is currently followed for all employers. The Administering Authority does not currently have the facility to operate different investment strategies for different employers.

4.2 Consistency with Funding Basis

The current funding policy for the purpose of the purpose of placing a value on liabilities at the triennial funding valuation at 31 March 2013 and setting contribution rates effective from 1 April 2014, is to assume that future investment returns earned by the Fund over the long term will be 1.7% per annum greater than the redemption yield on index-linked government bonds at the time of the valuation. The long term in this context would be 20 to 30 years or more. Due to the very low level of bond yields at 31 March 2013 the asset outperformance assumption has been increased from 1.4% to 1.7% in order to stabilise employer contributions. When the bond yields recover the asset outperformance assumption will be reduced to 1.4%.

Based on the asset allocation of the Fund at 31 March 2013, this would be equivalent to anticipating excess returns relative to fixed interest gilts of 1.8% per annum from equities and 0.9% per annum from property and little or no outperformance from other non-equity assets.

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund, the asset outperformance assumption is within a range that would be considered acceptable for the purposes of the funding valuation and consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities (see para 3.1).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in Section 3 will damp down, but not remove, the effect on employers' contributions. The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.3 Balance between risk and reward

Prior to implementing its current investment strategy, the Administering Authority considered the balance between risk and reward by altering the level of investment in potentially higher yielding, but more volatile, asset classes like equities. This process was informed by the use of Asset-Liability techniques to model the range of potential future solvency levels and contribution rates.

4.4 Intervaluation Monitoring of Funding Position

The Administering Authority monitors investment performance relative to the growth in the liabilities by means of measuring investment returns relative to the returns on a least risk portfolio of index-linked bonds.

5. Key Risks & Countermeasures

5.1 Types of Risk

The Administering Authority's has an active risk management programme in place. The measures that the Administering Authority has in place to control key risks are summarised below under the following headings:

- investment;
- employer;
- liquidity / maturity;
- liability
- regulatory and compliance.

5.2 Investment Risk

Number	Risk	Summary of Control Mechanisms
I1	Fund assets fail to deliver the required returns. Active investment manager under-performance relative to benchmark.	*Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing.* *Analyse progress at three yearly valuations for all employers.* *Short term (quarterly) investment monitoring analyses market performance and active managers relative to their benchmark. This is now supplemented with an analysis of absolute returns against those under-pinning the valuation.* *This gives an early warning of contribution rises ahead. In the short term, volatility damped down by stability measures on contributions. However, if underperformance is sustained over periods over 5 years contributions would rise more*
I2	Systemic risk with the possibility of interlinked and simultaneous financial market	*The Fund has an investment strategy with risk spread over a number of asset categories.*

	volatility	
I3	Inappropriate long-term investment strategy.	*Set Fund-specific benchmark, informed by Asset-Liability modelling of liabilities.* *Consider measuring performance and setting managers' targets relative to bond based target, absolute returns or a Liability Benchmark Portfolio and not relative to indices.*
I4	Counterparty failure	*The Fund uses independent custodians for the safe-keeping of investment assets to protect against failure of an investment manager.* *Cash balances are invested in accordance with the Pension Fund Treasury Management Strategy Statement which prescribes the size and length of deposits with permitted counterparties.*
I5	Specific risks associated with assets and asset classes	*The Fund holds a diversified portfolio of investments over asset classes, countries, currencies and individual stocks to mitigate these risks.*

5.3 Employer Risk

Number	Risk	Summary of Control Mechanisms
E1	The mix of employers changes significantly	*The five major scheduled bodies comprise xx% of the funds members.* *The Administering Authority monitors membership movements on an annual basis.*
E2	Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies.	*Mitigate impact through deficit spreading and phasing in of contribution rises.*
E3	Deteriorating patterns of early retirements.	*Employers are charged the extra capital cost of non ill health retirements following each*

		individual decision.
E4	1) Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements). 2) Administering Authority not advised of an employer closing to new entrants.	*The Administering Authority monitors membership movements on an annual basis.* *The Actuary may be instructed to consider revising the rates and Adjustments certificate to increase an employer's contributions (under Regulation 78) between triennial valuations* *Deficit contributions are expressed as monetary amounts and will be collected as monetary amounts from 1 April 2014.*
E5	Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body and losing the opportunity to call in a debt.	*In addition to the Administering Authority monitoring membership movements on an annual basis, it requires employers with Best Value contractors to inform it of forthcoming changes.* *It also operates a diary system to alert it to the forthcoming termination of Best Value Admission Agreements.*
E6	An employer ceasing to exist with insufficient funding or adequacy of a bond.	*The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by:* • *Seeking a funding guarantee from another scheme employer, or external body, wherever possible.* • *Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.* • *Vetting prospective employers before admission* • *Setting a minimum limit of 20 employees for prospective employers.* • *The Administering Authority will consider where permitted under the regulations, requiring a bond to protect the scheme from the extra cost of early retirements on redundancy if the employer failed.*

5.4 Liquidity / Maturity Risk

Number	Risk	Summary of Control Mechanisms
M1	Insufficient funds to meet liabilities as they fall due	*The Fund currently has a positive cash flow and monitors the position regularly to ensure that sufficient funds are available to pay pensions and other costs.*
M2	Changes to the scheme which impact on the maturity profile and future opt-out rates	*The actuarial valuation takes account of the planned changes to the scheme.* *Actual changes in the maturity profiles and opt-out rates will be monitored against the assumptions.*
M3	Implications of spending cuts which will result in • reduced membership, • reduced contributions • increased early retirements	*The Fund will collect the deficit element of employer contributions as a cash sum rather than a percentage of pay from 1 April 2014 onwards.* *The Fund continually monitors employer contributions for major changes and assesses the impact of and reductions.* *Additional costs of early retirements will be payable by employers.*

5.5 Liability Risk

Number	Risk	Summary of Control Mechanisms
L1	Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	*Some investment in bonds helps to mitigate this risk.*
L2	Pay and price inflation significantly more than anticipated.	*The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Some investment in bonds also helps to mitigate this risk.*

		Employers pay for their own salary awards.
L3	Pensioners living longer.	*Set mortality assumptions with some allowance for future increases in life expectancy.* *At the most recent valuation at 31 March 2013, analysis of current longevity specific to the Gwynedd Pension Fund was provided by Club Vita. In addition the actuary has made a separate allowance for future improvements. The allowance made at the March 2013 valuation was greater than allowed for at the last valuation in 2010. The actuary will continue to monitor emerging evidence of improvements from Club Vita and other sources and will advise at the next valuation (2017) what further allowance for future improvements is needed.*

5.6 Regulatory and Compliance Risk

Number	**Risk**	**Summary of Control Mechanisms**
R1	Changes to regulations, e.g. introduction of the new scheme in 2014	*The Administering Authority is alert to the potential creation of additional liabilities and administrative difficulties for employers and itself.* *It considers all consultation papers issued by the DCLG and comments where appropriate.* *The Administering Authority consults employers where it considers that it is appropriate.*
R2	Changes to national pension requirements and/or HMRC rules e.g. annual pensions accrual rules for tax purposes	

Annex A – Employers' Contributions, Spreading and Phasing Periods

Following the 2013 valuation, the minimum employer contributions shown in the Rates and Adjustment certificate attached to the 2013 valuation report are based on the deficit recovery periods and phasing periods shown in the table below. The table also shows the individual adjustments under Regulation 77(6) to each employer's contributions from the 'Common Contribution Rate'.

Some employers have indicated that they are considering their future membership of the Pension Fund. It will be necessary to amend the table below if individual employers decide to change or terminate their membership.

CODE	Employer Name or Pool	Proposed Maximum Deficit Recovery Period (In years)	Spreading Period (In years)	Contribution Rates and Sums for the year ending FSR 31.03.15 %	Deficit 31.03.15 £'000	FSR 31.03.16 %	Deficit 31.03.16 £'000	FSR 31.03.17 %	Deficit 31.03.17 £'000
	Major Schedule Bodies								
100	Gwynedd	20	S	18.3	2,985	18.3	3,015	18.3	3,045
200	Isle of Anglesey	20	S	18.6	1,269	18.6	1,282	18.6	1,294
Pool	Conwy Pool								
300	- Conwy County Borough Council	20	S	19.1	1,320	19.1	1,334	19.1	1,347
55	- *Ysgol Emrys ap Iwan*	20	S	19.1		19.1		19.1	
56	- *Eirias High School*	20	S	19.1		19.1		19.1	
57	- *Ysgol Bryn Elian*	20	S	19.1		19.1		19.1	
58	- *Ysgol Pen y Bryn*	20	S	19.1		19.1		19.1	
	Major Admission Bodies								
37	Careers Wales North West	RWL	6	17.2	43	19.4	48	19.8	50
38	Cwmni Cynnal	RWL	3	17.0	0	17.0	0	17.0	0
43	Snowdonia National Park	20	S	19.5	70	19.5	70	19.5	71
76	Cartrefi Conwy	RWL	0	17.0	0	17.0	0	17.0	0
77	Cartrefi Cymunedol Gwynedd	RWL	0	16.4	0	16.4	0	16.4	0
78	Grwp Llandrillo Menai	15	6	18.8	118	18.8	159	18.8	200
81	Police and Crime Commissioner North Wales	20	S	16.3	827	16.3	835	16.3	844
	Other Scheduled Bodies								
13	Caernarfon T.C.	20	3	15.4	1.1	15.4	0.7	15.4	0.2
14	Menai Bridge T.C.	20	6	20.7	0.2	20.7	0.4	20.7	0.5
16	Bangor C.C.	20	6	19.3	1.8	19.3	2.6	19.3	3.3
17	Llangefni T.C.	20	6	21.6	0	21.6	0	21.6	0
22	Beaumaris T.C.	20	6	23.0	0	24.8	0	26.6	0
27	Holyhead T.C.	20	6	20.2	1.3	20.2	1.5	20.2	1.6
28	Llandudno T.C.	20	3	16.3	1.3	16.3	0.9	16.3	0.6
66	Tywyn T.C.	20	6	22.8	0	24.5	0	26.1	0
68	Llanllyfni C.C.	20	6	21.7	0	22.3	0	22.8	0

		Proposed Maximum Deficit		Contribution Rates and Sums for the year ending					
CODE	Employer Name or Pool	Recovery Period (In years)	Spreading Period (In years)	FSR 31.03.15 %	Deficit 31.03.15 £'000	FSR 31.03.16 %	Deficit 31.03.16 £'000	FSR 31.03.17 %	Deficit 31.03.17 £'000
70	Towyn a Kinmel Bay T.C.	20	3	14.2	1.8	14.2	1.0	14.2	0.2
72	Abergele T.C.	20	6	19.5	0.5	19.5	0.6	19.5	0.6
73	Colwyn Bay T.C.	20	3	17.4	1.7	17.4	1.3	17.4	0.9
74	Blaenau Ffestiniog T.C.	20	6	22.2	0	23.2%	0	24.2%	0
	Small Admission Bodies								
11	North Wales Society for the Blind	RWL	6	18.3	6.4	18.3	8.2	18.3	10.1
25	Cyd-Bwyllgor Claddu Caergybi	RWL	6	24.1	0	25.0	0.5	25.0	1.3
34	Coleg Harlech	RWL	6	19.1	21.3	19.1	30.3	19.1	38.9
41	Cwmni'r Fran Wen	RWL	3	13.7	6.9	13.7	5.4	13.7	3.8
61	Conwy Voluntary Services	RWL	6	20.8	3.5	20.8	5.1	20.8	7.1
62	Medrwn Môn	RWL	6	19.7	6.3	19.7	7.9	19.7	9.6
63	Mantell Gwynedd	RWL	0	22.6	0	22.6	0	22.6	0
64	Canolfan Cynghori Ynys Môn Citizens Advice Bureau	RWL	6	18.0	3.1	18.0	4.3	18.0	5.5
67	Menter Môn	RWL	3	15.9	39.1	15.9	31.9	15.9	25.4
69	Conwy Citizens Advice Bureau	RWL	6	22.5	0.5	22.5	1.3	22.5	2.1
71	CAIS	RWL	6	23.9	0	24.1	6.7	24.1	13.7
80	Jewsons Ltd	RWL	0	18.0	0	18.0	0	18.0	0

*RWL = Remaining Working Lifetime
*S = Statutory tax raising body – no increase in contribution rate
*FSR = Future Service Rate

Annex B – Responsibilities of Key Parties

The Administering Authority is required to:

- operate a pension fund;
- collect employer and employee contributions, investment income and other amounts due;
- pay the relevant entitlements in accordance with the regulations;
- invest surplus monies in accordance with the regulations;
- ensure that cash is available to meet liabilities as and when they fall due;
- take measures as set out in the regulations to safeguard the fund against the consequences of employer default;
- manage the valuation process in consultation with the fund's actuary;
- prepare and maintain an FSS and a SIP, both after proper consultation with interested parties where appropriate;
- monitor all aspects of the fund's performance and funding and amend FSS/SIP as appropriate;
- effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and scheme employer.

The Individual Employer is required to:

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the actuary, promptly by the due date;
- develop a policy and exercise those discretions as permitted within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
- notify the administering authorities promptly of all changes to membership or proposed changes, which affect future funding.

The Fund actuary should:-

- prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency after agreeing assumptions with the Administering Authority and having regard to the FSS and LGPS Regulations;

- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as pension strain costs, ill health retirement costs and compensatory added years costs;

- provide advice and valuations on the termination of admission agreements;

- provide advice to the actuary on bonds or other forms of security against the financial effect on the fund of employer default;

- assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as required by the Regulations;

- ensure that the Administering Authority is aware of any professional guidance or other professional requirements which may of relevance to his or her role in advising the fund.

MEETING	Pensions Committee
DATE	20 January 2014
TITLE	Pension Administration Unit Staffing
PURPOSE FOR THE REPORT	To consider adding to the staffing resources of the Pension administration Unit
AUTHOR	Dafydd L. Edwards – Head of Finance
RECOMMENDATION	To approve the report

1. INTRODUCTION

1.1 In order for Gwynedd Pension Fund's Administration Unit to be able to maintain, improve and develop an appropriate level of service for all its members (employer, employee and pensioner), which conforms to all relevant statutory obligations and regulations, it is essential that sufficient staffing resources are provided.

1.2 The last staffing review was in July 2006, before the current 2008 scheme came into force. Now benefits are provided on two rates of accrual, 80ths and 60ths of final salary, with a choice to convert pension for a retirement lump sum within limits set by HMRC.

2 ESCALATION SINCE 2008

2.1 On 14th October 2010 the Government announced acute reductions in pension accrual allowances from 2011-12 resulting in the lifetime allowance being reduced from £1.8m to £1.5m and the annual allowance from £255,000 to £50,000. Following on to this the Chancellor, in his 2012 Autumn Statement, further reductions to the allowances to £1.25m and £40,000 respectively from 2014/15.

2.2 During the calendar year 2013 the fund's employers began reaching their staging dates for auto enrolment legislation. It meant that those employers had to enrol all new 'eligible job holders' into qualifying pension schemes, the LGPS in this case. Those employees not wishing to join the scheme had to opt out after being enrolled by contacting the pensions unit, and not the employer.

2.3 From April 2014 the Local Government Pension Scheme Regulations 2013 (SI 2013 No. 2356) come into force and will introduce a Career Average Revaluated Earnings scheme to replace the final salary scheme. Rights accrued in the old scheme will have to be protected up to 31 March 2014 and be linked to individuals' final pensionable salary when they leave the scheme.

3. IMPLICATIONS OF THE CHANGES ON WORK LOADS

3.1 As alluded to above, all aspects of these changes have and will increased administration workloads to include.

- Details of pension accrual will have to be provided on an annual basis and included on the annual benefit statement, for the member to measure against annual allowance.
- The unit's staff will have to deal with, and have thorough knowledge, of the pension schemes, the pre 2008 scheme, the scheme between 2008 and 2014, and the 2014 scheme. On the basis that interpretation of pensionable salary in the 2014 scheme will be different to that in the current scheme it will mean a considerable increase in administration work for producing benefit values for annual statements and all other instances of leaving the scheme with benefits.
- Automatic enrolment means the creation of pension records that will immediately show as 'leavers' in the scheme.

3.1 Our intention as an unit is to continue to hold pension clinics and seminars but due to all the complexities, this in itself will generate more enquiries and requests for explanation and estimates.

3.2 In the current financial climate and its effect on public expenditure there has been a larger increase in the number of employer requests for estimates. Also they are looking more at outsourcing services which in itself puts additional pressure on the unit to prepare workforce pension costings for the services in question.

4 RECOMMENDATION:

4.1 It is therefore proposed to create one new Pensions Assistant post on grade GS5, salary points 14 (£15,882) – 17 (£16,998), subject to confirmation by Human Resources, to join and assist the unit's front line administration team in accordance with existing generic job description for such posts.

4.2 The Committee is asked to approve the recommendation.

MEETING	PENSIONS COMMITTEE
DATE	20 JANUARY 2014
TITLE	18th ANNUAL LAPFF CONFERENCE “Licence to Operate – Holding Companies to Account”
PURPOSE	To inform the members of the Pensions Committee of the benefits gained from attending the conference
AUTHOR	CAROLINE ROBERTS, INVESTMENT MANAGER

1. INTRODUCTION

The LAPFF conference was held at the Highcliff Marriot Hotel in Bournemouth in December 2013 and was attended by Councillor John Pughe Roberts and Caroline Roberts, Investment Manager. A number of presentations were made from various bodies and individuals who are involved in trying to improve governance, sustainability and accountability for the benefit of businesses and their shareholders. Brief summaries of some of the presentations are included in this report.

2. ACTIVIST INVESTOR PANEL

The opening session was comprised several presentations on the impact that active engagement from shareholders can enhance the value of companies. The investors concerned illustrated how their close involvement with their investee companies improved the businesses. This type of investing involves detailed assessment of suitable investment and close working with the investee business over the longer term to achieve good returns.

3. NATIONAL LGPS PROCURMENT FRAMEWORK

Nicola Mark, Head of Norfolk Pension Fund gave a presentation on the procurement framework which has been set up for pension funds to collaborate on procurement and save time and money by removing the need to independently undertake full European union procurement. Individual funds can join the framework and then appoint a contractor in a 4 – 6 week period rather than a 6 – 9 month process. A number of funds are already using the frameworks.

Existing frameworks include:

- Actuarial and Benefit Consultancy Services
- Investment Consultancy Services
- Global Custody Services

The next framework will be Legal Services.

This is an opportunity to save costs and time when tendering for these services.

4. GOOD DIRECTORS

This presentation by Deborah Gilshan of RPMI Railpen Investments demonstrated the difference between good directors and bad directors. The qualities of a good company director include focus on culture and values, robust oversight of management and accountability to shareholders. She noted that UK board structures and engagement of directors tend to be better than US boards and she called for US independent directors to develop shareholder engagement strategies in order to establish respect and understanding and create a culture of no surprises. There are examples of best practice but many companies need to improve the effectiveness of their boards.

5. MEDIA STANDARDS DEBATE

An interesting presentation was given by Martin Hickman, co-author of 'Dial M for Murdoch' on the phone-hacking saga at News of the World. He explained the culture at the paper and the lack of governance which allowed the phone-hacking to take place. He stressed the need for improvement in media standards and reform of governance needed, including an independent Chairman of the Board. This is a matter that LAPFF have been pursuing with News International on behalf of its members.

6. CONCLUSION

The conference provided information about the work being done in the interests of all shareholders by LAPFF and other firms and individuals. A number of representatives of the larger LGPS funds in England and Wales commit significant time and resources to this process on behalf of all the LAPFF members and they have more influence on the businesses with which they engage as they have the backing of all the members in LAPFF.