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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, 17 MAWRTH 2014

2:00pm, MONDAY, 17 MARCH, 2014

Lleoliad / Location

YSTAFELL GWYRFAI,
SWYDDFEYDD Y CYNGOR / COUNCIL OFFICES,
CAERNARFON

Pwynt Cyswllt / Contact Point

Lowri Haf Evans

(01286 679878)

lowrihafevans@gwynedd.gov.uk

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

RHAGLEN

1. CROESO AC YMDDIHEURIADAU

Derbyn unrhyw ymddiheuriadau am absenoldeb.

2. DATGAN BUDDIANT PERSONOL

Derbyn unrhyw ddatganiad o fuddiant personol

3. MATERION BRYS

Nodi unrhyw eitemau sy'n fater brys ym marn y cadeirydd fel y gellir eu hystyried

4. COFNODION

Bydd y Cadeirydd yn cynnig y dylid llofnodi cofnodion cyfarfod o'r pwyllgor hwn a gynhaliwyd ar 20 Ionawr 2014 fel rhai cywir

(copi yma – papur ***<u>gwyn</u>***)

5. YMATEB Y CYFLOGWYR I'R YMGYNGHORIAD AR Y DATGANIAD STRATEGAETH CYLLIDO

Cyflwyno adroddiad y Cyfarwyddwr Corfforaethol

(copi yma – papur ***glas***)

6. DATGANIAD STRATEGAETH RHEOLI'R TRYSORLYS a STRATEGAETH BUDDSODDI FLYNYDDOL AR GYFER 2014/2015

Cyflwyno adroddiad Pennaeth Cyllid

(copi yma – papur ***gwyrdd***)

7. STRWYTHURAU LLYWODRAETHU CPLIL – BIL PENSIYNAU GWASANAETH CYHOEDDUS

Cyflwyno adroddiad y Rheolwr Buddsoddi

(copi yma – papur ***melyn***)

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 20 January 2014 be signed as a true record.

   (copy herewith – ***white*** paper)

5. **EMPLOYERS RESPONSE TO THE CONSULTATION ON THE FUNDING STRATEGY STATEMENT**

   To submit a report by the Corporate Director

   (copy herewith – ***blue*** paper)

6. **TREASURY MANAGEMENT STRATEGY STATEMENT and ANNUAL INVESTMENT STRATEGY FOR 2014/2015**

   To submit a report by the Head of Finance

   (copy herewith – ***green*** paper)

7. **LGPS GOVERNANCE STRUCTURES – PUBLIC SERVICE PENSIONS BILL**

   To submit a report by the Investment Manager

   (copy herewith – ***yellow*** paper)

PENSIONS COMMITTEE, 20.01.14

Present: Councillor Peter Read (Chairman)

Councillors Trevor Edwards, Margaret Lyon (representative of Conwy County Borough Council), Dafydd Meurig, W. Tudor Owen and John P. Roberts.

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), Peredur Jenkins.

1. WELCOME AND APOLOGIES

Everyone was welcomed to the meeting by the Chairman, Councillor Peter Read. The above-mentioned apologies were noted. Condolences were expressed to Councillor Margaret Lyon following the recent death of her husband.

2. DECLARATION OF PERSONAL INTEREST

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

3. URGENT ITEMS

A request was noted by the Corporate Director to discuss ‘Fundamental Indexing’. It was agreed to discuss this after the items on the agenda.

4. MINUTES

The Chairman signed the minutes of the previous meeting of this committee, held on 7 October 2014, as a true record.

5. FUNDING STRATEGY STATEMENT 2014/15 – 2016/17

Submitted – a report by the Investment Manager outlining the need for the Committee to confirm the assumptions and proposed policies outlined in the draft Funding Strategy Statement (FSS) that would be the subject of consultation with all employers of the Fund. It was a requirement to review and publish a FSS every three years. Gwynedd’s current FSS had been approved by the Pensions Committee on 22 March, 2011, therefore it needed to be reviewed by the end of March 2014.

The administering Authority would be required to consult with the employers who are part of the scheme, the fund actuary and adviser, and any other persons who were considered appropriate.

Reference was made to the main matters and details of the main changes were provided.

- The Equity Risk Premium
  The anticipated excess return from investing in equity rather than bonds. This referred to the difference between the gains expected from equity and the gains expected from bonds. As the presumption of the difference between the expected gains increased, the risk increased and the funding base became less prudent. In the 2010 valuation, the presumption for the expected additional gains from investing in equity was 1.4%. Bond rates would be used on 31 March 2013 to calculate future liabilities. At the time, they had been at a historically low level, but they had improved during 2013/14 and a further increase was expected in the longer term. In order to compensate for this, the anticipated excess return from investing in equity had been set at 1.7% in the FSS / current valuation. This would smooth the employer contributions over an exceptional period between 2014/15 – 2016/17, before the arrangement would be reviewed at the next valuation, in anticipation that the premium would fall back to 1.4% if the return from gilts would improve.

- Deficit Recovery Period
  It was highlighted that the deficit recovery periods continued for the 2013 valuation, i.e. Statutory Bodies – 20 year period: Grŵp Llandrillo Menai – 15 year period; All other employers – future working lifetime.

- Major Bodies with Tax Raising Powers (Gwynedd, Anglesey, Conwy, the Police and the National Park).
  It was highlighted that the major bodies with tax raising powers would continue to pay the same contribution rate as the 2013/14 rate over the next three years.

- Phasing in of Contribution Increases
  As a result of the decision to dissolve two pools, it appeared that some employers could receive increases in contributions and other reductions. For the 2013 valuation, it would be spread over six years. Reductions in the rate for employers who were previously in a pool would be spread over three years. Other employers who had a reduction in their contribution rate would move immediately to the new rate on 1.4.2014. This change would retain balance and reduce risk for the fund.

- Collection of Historical Deficits
  It was explained that employers who were in deficit paid additional employer contributions in order to gradually recover the deficit over time. In the past, the amount had been expressed as a percentage of the payroll which had been added to the future service rate. Due to the financial situation, and in order to protect the pension fund when the total number of staff would decrease, the deficit payments would be expressed as an annual lump sum to be paid in 12 monthly instalments as part of their employer contributions.

The next step in the process would be to consult with the employers on the Funding Strategy Statement. Following the consultation process, the Committee would receive the final version with the aim for it to be adopted by 31 March 2014.

RESOLVED
To accept the assumptions and policies outlined in the draft Funding Strategy Statement (FSS).

6. PENSIONS UNIT STAFFING

Submitted – a report by the Head of Finance Department outlining the need to create a Pensions Assistant post to join the unit's team. 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, (employers, employees and pensioners), which conformed to all relevant statutory obligations and regulations, it was essential that sufficient staffing resources were provided.
The recent changes to implement Local Government Pension Schemes were mentioned that would, as a result, lead to substantial increase in the unit's administration workload -

- Details of pension accrual would have to be provided on an annual basis to members, and included in the annual benefit statement for the member to measure against the annual allowance.

- The unit's staff would have to deal with, and have thorough knowledge, of three pension schemes - the pre-2008 scheme, the 2008-2014 scheme, and the 2014 scheme. On the basis that interpretation of pensionable salary in the 2014 scheme would be different to what is currently in the first two existing schemes it would mean a considerable increase in administration work for producing benefit values for annual statements and all other instances / aspects of leaving the scheme with benefits.

- Automatic enrolment meant the creation and processing of members' records that would immediately show as 'leavers' in the scheme.

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

In the current financial climate and its effect on public expenditure there had been a large increase in the number of employer requests for early retirement estimates etc. Also, they were looking more at outsourcing services which in itself would put additional pressure on the unit to provide workforce pension details and costings for the services in question.

RESOLVED:
To create a new Pensions Assistant post, on grade GS5 (salary points 14 (£15,882) – 17 (£16,998)), subject to review and confirmation by the Human Resources Department, to join the unit and assist the front line administration team in accordance with the unit's generic job description.

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

Submitted - a report by the Investment Manager outlining the highlights of the Annual LAPFF Conference held in December 2013. Councillor John Pughe Roberts and Caroline Roberts, Investment Manager had attended the event.
It was noted that the conference had been a good opportunity to obtain information from external bodies and individuals who were involved in trying to improve governance, sustainability and accountability for the benefit of businesses and their shareholders.

Reference was made to presentations which had involved:

- Investors Panel
- Procurement Framework
- Influential Directors
- A presentation by Martin Hickman (co-author of 'Dial M For Murdoch' on the phone-hacking saga at the News of The World) on the media standards debate. He stressed the need for improvement in media standards and reform of governance needed, including an independent Chairman of the Board.

It had been a good opportunity to witness the good work that LAPFF did in the interests of all its shareholders. A number of representatives of LGPS funds in England and Wales committed time and substantial resources to this process on behalf of all LAPFF members.

8. LGC INVESTMENT SUMMIT – 27/28 FEBRUARY 2014

It was explained that there was an opportunity for one member to attend the above conference in De Vere Carden Park, Chester. The main aim of the conference was to discuss the future of pension budgets in Local Government.
The Committee was requested to elect one Member to attend the seminar with the Head of Finance Department.
Councillor W. Tudor Owen was proposed. Accepted.

RESOLVED
Councillor W. Tudor Owen to attend the seminar with the Head of Finance Department.

9. URGENT ITEM - 'FUNDAMENTAL INDEXING'

The Committee was requested by the Corporate Director to consider delegating the right for him to make decisions on investment levels / percentages.
It was explained that when the Investment Panel would convene in London, it was highlighted that the panel would not have the right to make a decision as it did not meet as a Committee.
In discussing the 'fundamental indexing' it would be required to make a decision on the investment levels in order to proceed without delay.

DECISION
The request to Delegate the Right to the Corporate Director to make a decision on their behalf on investment levels / percentages in fundamental indexing was approved.

The meeting commenced at 2:00pm and concluded at 2:35pm.

MEETING	**PENSIONS COMMITTEE**
DATE	**17 MARCH 2014**
TITLE	**EMPLOYERS RESPONSE TO THE CONSULTATION ON THE FUNDING STRATEGY STATEMENT**
AUTHOR	**CAROLINE ROBERTS, INVESTMENT MANAGER**

1. INTRODUCTION

1.1 As reported to this Committee's meeting on 20 January 2014, we are required to review and publish a Funding Strategy Statement (FSS) by 31 March 2014. As part of this review the administering authority has to consult with each scheme employer, the fund actuary and advisers and any other persons they consider appropriate.

1.2 At the meeting on the 20 January 2014, the Pensions Committee agreed the following policies:

- 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 back to 1.4% when the return from gilts improves.

- In the 2010 valuation the administering authority continued with the following deficit recovery periods:
    - Statutory bodies – 20 years
    - Grwp Landrillo Menai – 15 years
    - All other employers – future working lifetime.

  These periods have also been used for the 2013 valuation.

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

- 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.
- 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.

1.3 On 24 January 2014, the draft Funding Strategy Statement was sent out to all the scheme's employers, the Fund's actuary and adviser and to representatives of Unison, TGWU and the GMB, consulting on the policies noted in 1.2 above. They were asked to respond with their comments or observations by 28 February 2014.

2. The Response

2.1 No responses were received.

3. Proposed Funding Strategy Statement

3.1 A copy of the propsed FSS is attached in Appendix A. There are no changes from the version which was presented to this committee on 20 January 2014 and sent to employers is explained in section 3.1 above.

4. Recommendation

4.1 That the proposed Funding Strategy Statement (in Appendix A) is adopted.

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 1 April 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), the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) and the Local Government Pension Scheme Regulations 2013.
- 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 and 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.

In publishing the FSS the Administering Authority has to have regard to guidance published by the Chartered Institute of Public Finance and Accountancy (CIPFA), most recently in 2012.

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 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 sometimes 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 will balance the objectives of affordability of contributions, transparency of processes, stability of employers' contributions, and prudence in the funding strategy.

The requirement to maintain and publish a FSS is contained in LGPS Regulations

2.2 Purpose of the Fund

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

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 Fund are summarised in Annex B.

2.4 Aims of the Funding Strategy

The objectives of the Fund's funding strategy 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.

At the 2013 valuation, the Administering Authority decided that any employer's past service deficit adjustment would be expressed as a cash amount (rather than a percentage of pay) spread over an appropriate period. This move to cash deficit repayment contributions protects the Fund as it will continue to receive the right level of deficit contribution in the event of any future reduction in pay.

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.

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

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.

If an employer is in a surplus position but the rate payable in 2013/14 is lower than the 2013 valuation future service rate, the minimum contribution rate they will pay for the financial years 2014/15, 2015/16 and 2016/17 is the 2013/14 rate.

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 long term yield on fixed interest UK 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.

To reflect current expectations for short term pay growth, the Fund actuary has assumed a pay growth assumption of 1% per annum for 3 years from 31 March 2013, reverting to a long term assumption thereafter.

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 funding 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
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. Similarly, any reductions in contributions will be phased down over 3 years.

Major bodies with tax raising powers will continue to pay the same contribution rate (expressed as a percentage of payroll) as their 2013/14 rate.
The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

- Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;

- Affordability – how much can employers afford;

- Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position;

- Stability – employers should not see significant moves in their contribution rates from one year to the next, and this will help to provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary, to model the range of potential future solvency levels and contribution rates.

The Actuary has modelled the impact of these four key areas, for the purpose of setting a stabilisation approach. The modelling demonstrated that retaining the present investment strategy, coupled with statutory bodies with tax raising powers continuing to pay their 2013/14 contribution rate (expressed as a percentage of payroll), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2017, it should be noted that this will need to be reviewed following the 2016 valuation.

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 previously 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 on a mandatory basis by the Fund. The employer's contribution to the Fund each year is used in part to pay that year's insurance premium so that the total employer contribution is unchanged.

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

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund;
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;

- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or

- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus it should be noted that current legislation does not permit a refund payment to the Admission Body.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

a) Where there is a guarantor for future deficits and contributions, the cessation valuation will normally be calculated using the ongoing basis;

b) Alternatively, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee;

c) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis", which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

Under (a) and (c), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would look to any bond, indemnity or guarantee in place for the employer.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date

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 placing a value on liabilities at the triennial 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 long term yield on fixed interest UK Government bonds at the time of the valuation. The long term in this context would be 20 to 30 years or more. The asset outperformance assumption has been increased from 1.4% per annum at the 2010 valuation to 1.7% per annum at 31 March 2013. This increase is in recognition of unusual economic conditions that have led to relatively low levels of bond yields. The Fund believes that these conditions are likely to be temporary. The level of the asset outperformance assumption will be reviewed again at the 2016 valuation.

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 dampen 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 volatility	*The Fund has an investment strategy with risk spread over a number of asset categories.*
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 secure scheduled bodies comprise 95 of the Fund's 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	*The Administering Authority monitors membership movements on an annual basis.* *The Actuary may be instructed to consider revising the Rates and Adjustments certificate to*

	retirements). 2) Administering Authority not advised of an employer closing to new entrants.	*increase an employer's contributions (under Regulation 78) between triennial valuations* *Deficit recovery 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	*Deficit recovery contributions will be collected as cash amounts, rather than as a percentage of pay, from 1 April 2014.The Fund continually monitors employer contributions for major changes and assesses the impact of any 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 (2016) 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)	Phasing 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 Scheduled 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	FWL	6	17.2	43	19.4	48	19.8	50
38	Cwmni Cynnal	FWL	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	FWL	0	17.0	0	17.0	0	17.0	0
77	Cartrefi Cymunedol Gwynedd	FWL	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		Contribution Rates and Sums for the year ending					

CODE	Employer Name or Pool	Maximum Deficit Recovery Period (In years)	Phasing 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	FWL	6	18.3	6.4	18.3	8.2	18.3	10.1
25	Cyd-Bwyllgor Claddu Caergybi	FWL	6	24.1	0	25.0	0.5	25.0	1.3
34	Coleg Harlech	FWL	6	19.1	21.3	19.1	30.3	19.1	38.9
41	Cwmni'r Fran Wen	FWL	3	13.7	6.9	13.7	5.4	13.7	3.8
61	Conwy Voluntary Services	FWL	6	20.8	3.5	20.8	5.1	20.8	7.1
62	Medrwn Môn	FWL	6	19.7	6.3	19.7	7.9	19.7	9.6
63	Mantell Gwynedd	FWL	0	22.6	0	22.6	0	22.6	0
64	Canolfan Cynghori Ynys Môn Citizens Advice Bureau	FWL	6	18.0	3.1	18.0	4.3	18.0	5.5
67	Menter Môn	FWL	3	15.9	39.1	15.9	31.9	15.9	25.4
69	Conwy Citizens Advice Bureau	FWL	6	22.5	0.5	22.5	1.3	22.5	2.1
71	CAIS	FWL	6	23.9	0	24.1	6.7	24.1	13.7
80	Jewsons Ltd	FWL	0	18.0	0	18.0	0	18.0	0

*FWL = Future 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 the Fund as per the LGPS Regulations;
- effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
- collect employer and employee contributions, and investment income and other amounts due to the Fund;
- ensure that cash is available to meet benefit payments as and when they fall due;
- pay from the Fund the relevant benefits and entitlements that are due;
- invest surplus monies in accordance with the Fund's Statement of Investment Principles (SIP) and LGPS Regulations;
- communicate appropriately with employers so that they fully understand their obligations to the Fund;
- take appropriate measures to safeguard the Fund against the consequences of employer default;
- manage the valuation process in consultation with the Fund's actuary;
- prepare and maintain a FSS and a SIP, after consultation;
- notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
- monitor all aspects of the fund's performance and funding and amend the FSS/SIP as necessary and appropriate.

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;
- have a policy and exercise discretions 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 Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

The Fund actuary should:-

- prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
- provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
- assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
- advise on the termination of Admission Bodies' participation in the Fund; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

MEETING	**PENSIONS COMMITTEE**
DATE	**17 MARCH 2014**
PURPOSE	**TO ASK THE PENSIONS COMMITTEE TO ADOPT THE STRATEGIES**
TITLE	**TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY FOR 2014/15**
AUTHOR	**DAFYDD L EDWARDS – HEAD OF FINANCE**

1. THE PENSION FUND'S INVESTMENT STRATEGY

In accordance with the Welsh Assembly Government's Statutory Guidance on Local Government Investments, which requires an authority to produce an Annual Investment Strategy, it is considered best practice for the Gwynedd Pension Fund (the "Fund") to adopt Gwynedd Council's Treasury Management Strategy Statement (TMSS) for 2014/15, as amended for the purpose of the Pension Fund (which is attached as Appendix A). Gwynedd Council's TMSS for 2014/15 was approved by the Full Council on 6 March 2014.

2. CIPFA GUIDANCE

The Fund will also have regard to the 2009 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes.

3. THE PENSION FUND'S CASHFLOW

The Fund has net inflows from its dealings with its members, so in any month, the income from contributions and transfers-in significantly exceed the pensions, transfers out and costs paid out. Once there is sufficient surplus cash it is transferred to one or more of the Fund's investment managers. Normally up to around £5 million is held back for cashflow purposes, in particular in respect of pension payments and funding calls from the private equity funds. However in the past, due to known commitments, there have been times when the surplus cash held in the Fund's bank accounts with Gwynedd Council has been over £20 million.

4. POOLING IN ORDER TO MAXIMISE RETURNS

Currently all the Fund's surplus cash is pooled with the cash balances of Gwynedd Council and invested with counterparties in accordance with Gwynedd Council's Treasury Management Strategy Statement. At the end of the financial year, Gwynedd Council pays interest over to the Pension Fund based on the Fund's daily balances over the year. This can continue if the Pensions Committee requests that the pension fund's surplus cash balances are pooled with the Council's cash balances. It is apparent that by pooling the fund can take advantage of economies of scale, and as a result can attract better interest rates, reduce bank costs and avoid the duplication of work within the Council. The report approved by the Full Council on 6th March 2014 included agreement to continue the pooling arrangement with the Pension Fund following any request from Pensions Committee.

5. COUNTERPARTIES

The counterparties currently meeting investment criteria **(Appendix B)** have been updated to reflect the latest recommendations. The maximum length of loans to all institutions has been increased from 1 year to 2 years to reflect these recommendations. The maximum limit and length of investments are listed, although they are currently restricted to 1 year or less, depending on the status of each institution.

6. SCOPE

The proposed strategy will not deal with the cash held by the Fund's investment Managers for settlements.

7. RECOMMENDATIONS

7.1 The Pensions Committee is asked to approve the attached Treasury Management Strategy Statement and the Annual Investment Strategy for 2014/15, as amended for the Gwynedd Pension Fund (Appendix A), and to note the current list of counterparties shown in Appendix B.

7.2 The Pensions Committee is also asked to make a request to the Council (even though it is not a separate body) to allow the Pension Fund's surplus cash balances to be pooled with the Council's general cashflow from 1 April 2014 onwards.

APPENDIX A

TREASURY MANAGEMENT STRATEGY STATEMENT 2014/15

1. Introduction

1.1 In March 2011 the Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year.

1.2 In addition, the Welsh Government (WG) issued revised *Guidance on Local Authority Investments* in April 2010 that requires the Authority to approve an investment strategy before the start of each financial year.

1.3 This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the WG Guidance.

1.4 The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

2. External Context

2.1 Economic background

The Bank of England's Monetary Policy Committee (MPC) through its recent forward guidance is committed to keeping policy rates low for an extended period using the Labour Force Survey unemployment rate of 7% as a threshold for when it would consider whether or not to raise interest rates, subject to certain knock-outs. Unemployment was 7.7% in August 2013, but is not forecast to fall below the threshold until 2016, due to the UK's flexible workforce.

The flow of credit to households and businesses is slowly improving but is still below pre-crisis levels. The fall in consumer price inflation from the high of 5.2% in September 2011 to 2.7% in September 2013 will allow real wage increases (i.e. after inflation) to slowly turn positive and aid consumer spending.

Stronger growth data in 2013 (0.4% in Q1, 0.7% in Q2 and 0.8% in Q3) alongside a pick-up in property prices mainly stoked by government initiatives to boost mortgage lending have led markets to price in an earlier rise in rates than warranted under Forward Guidance and the broader economic backdrop. However, with jobs growth picking up slowly, many employees working shorter hours than they would like and benefit cuts set to gather pace, growth is likely to only be gradual. Arlingclose forecasts the MPC will maintain its resolve to keep interest rates low until the recovery is convincing and sustainable.

In the US expectations for the slowing in the pace of asset purchases ('tapering') by the Federal Reserve and the end of further asset purchases will remain predominant drivers of the financial markets. The Fed did not taper in September and has talked down potential tapering in the near term. It now looks more likely to occur in early 2014 which will be supportive of bond and equity markets in the interim.

2.2 **Credit outlook**

The credit risk of banking failures has diminished, but not dissipated altogether. Regulatory changes are afoot in the UK, US and Europe to move away from the bank bail-outs of previous years to bank resolution regimes in which shareholders, bond holders and unsecured creditors are 'bailed in' to participate in any recovery process. This is already manifest in relation to holders of subordinated debt issued by the Co-op which will suffer a haircut on its conversion bail-in to alternative securities and/or equity There are also proposals for EU regulatory reforms to Money Market Funds which will, in all probability, result in these funds moving to a VNAV (variable net asset value) basis and losing their 'triple-A' credit rating wrapper. Diversification of investments between creditworthy counterparties to mitigate bail-in risk will become even more important in the light of these developments.

2.3 **Interest rate forecast**

Arlingclose's forecast is for the Bank Rate to remain flat until late 2016, the risk to the upside (i.e. rates being higher) are weighted more heavily towards the end of the forecast horizon, as the table below shows. Gilt yields are expected to rise over the forecast period with medium- and long-dated gilts expected to rise by between 0.7% and 1.1%.

2.4 A more detailed economic and interest rate forecast provided by the Authority's treasury management advisor is attached at ***Annex A***.

2.5 For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 0.4%, and that no new long-term loans will be required.

3. Local Context (Net borrowing position) – Not applicable to the Pension Fund

4. Borrowing Strategy – Not applicable to the Pension Fund

5. Investment Strategy

5.1 The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £48 and £81 million, and similar levels are expected to be maintained in the forthcoming year. This includes the cash balances of Gwynedd Pension Fund which are pooled with the Council's funds for investment purposes. The Pension Fund requests this annually as the returns received are improved and the risks reduced by combining the cash with the Council's funds. The Pensions Committee will approve the relevant elements of this Strategy Statement and request the continuation of the pooling arrangements for 2014/15 at its meeting on 17th March 2014.

5.2 Both the CIPFA Code and the WG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

5.3 The Authority may invest its surplus funds with any of the counterparties in table 2 below, subject to the cash and time limits shown.

Table 2: Approved Investment Counterparties

<table>
<tr><th colspan="2">Counterparty</th><th>Cash limit</th><th>Time limit</th></tr>
<tr><td rowspan="7">Banks and other organisations and securities whose lowest published long-term credit rating from Fitch, Moody's and Standard & Poor's is:</td><td>AAA</td><td rowspan="7">£11m each</td><td>5 years*</td></tr>
<tr><td>AA+</td><td>5 years*</td></tr>
<tr><td>AA</td><td>4 years*</td></tr>
<tr><td>AA-</td><td>3 years*</td></tr>
<tr><td>A+</td><td>2 years</td></tr>
<tr><td>A</td><td rowspan="2">1 year</td></tr>
<tr><td>A-</td></tr>
<tr><td colspan="2">The Authority's current account bank (Barclays Bank plc) if it fails to meet the above criteria</td><td>£1m</td><td>next day</td></tr>
<tr><td colspan="2">UK Central Government (irrespective of credit rating)</td><td>unlimited</td><td>10 years**</td></tr>
<tr><td colspan="2">UK Local Authorities (irrespective of credit rating)</td><td>£11m each</td><td>2 years</td></tr>
<tr><td colspan="2">UK Registered Providers of Social Housing whose lowest published long-term credit rating is A- or higher</td><td>£5m each</td><td>2 years</td></tr>
<tr><td colspan="2">UK Building Societies without credit ratings</td><td>£1m each</td><td>1 year</td></tr>
<tr><td colspan="2">Money market funds and other pooled funds</td><td>£6m each</td><td>n/a</td></tr>
<tr><td colspan="2" rowspan="3">Any other organisation, subject to an external credit assessment and specific advice from the Authority's treasury management adviser</td><td>£5m each</td><td>3 months</td></tr>
<tr><td>£1m each</td><td>1 year</td></tr>
<tr><td>£100k each</td><td>5 years</td></tr>
<tr><td colspan="2">Business loans to local companies***</td><td>£3m each</td><td>10 years</td></tr>
</table>

* but no longer than 2 years in fixed-term deposits and other illiquid instruments
** but no longer than 5 years in fixed-term deposits and other illiquid instruments
*** Advancement of these loans will be approved by the procedure detailed in paragraph 5.9 below. Evaluation of the Business Loans is not part of the advice or services from the Council's treasury advisor.

5.4 There is no intention to restrict investments to bank deposits, and investments may be made with any public or private sector organisations that meet the above credit rating criteria. This reflects a lower likelihood that the UK and other governments will support failing banks as the bail-in provisions in the *Banking Reform Act 2014* and the EU *Bank Recovery and Resolution Directive* are implemented.

In addition, the Authority may invest with organisations and pooled funds without credit ratings, following an external credit assessment and advice from the Authority's treasury management adviser.

5.5 **Current Account Bank**

Following a competitive tender exercise held in 2010, the Authority's current accounts are held with Barclays Bank plc which is currently rated above the minimum A- rating in table 2. Should the credit ratings fall below A-, the Authority may continue to deposit surplus cash with Barclays Bank plc providing that investments that can be withdrawn on the next working day, and that the bank maintains a credit rating no lower than BBB- (the lowest investment grade rating).

5.6 **Registered Providers**

Formerly known as Housing Associations, Registered Providers of Social Housing are tightly regulated by the Homes and Communities Agency and retain a high likelihood of receiving government support if needed. The Authority will consider investing with unrated Registered Providers with adequate credit safeguards, subject to receiving independent advice.

5.7 **Building Societies**

The Authority takes additional comfort from the building societies' regulatory framework and insolvency regime where, in the unlikely event of a building society liquidation, the Authority's deposits would be paid out in preference to retail depositors. The Authority will therefore consider investing with unrated building societies where independent credit analysis shows them to be suitably creditworthy. The Government has announced plans to amend the building society insolvency regime alongside its plans for wide ranging banking reform, and investments in lower rated and unrated building societies will therefore be kept under continuous review.

5.8 **Money Market Funds**

These funds are pooled investment vehicles consisting of money market deposits and similar instruments. They have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager. Fees of between 0.10% and 0.20% per annum are deducted from the interest paid to the Authority. Funds that offer same-day liquidity and aim for a constant net asset value will be used as an alternative to instant access bank accounts, while funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

5.9 **Other Organisations**

The Authority may also invest cash with other organisations, for example by making loans to small businesses. Because of the higher perceived risk of unrated businesses, such investments may provide considerably higher rates of return. They will however only be made following a favourable external credit assessment and on the specific advice of the Authority's treasury management adviser.

5.10 **Local Loans Fund**

The Council has set up a Local Loans Fund which will make loans to local businesses. These investments are included in the Non-Specific Investments table above and will be for a maximum period of 10 years. The total value of the fund for such investments is £3million. Applications for loans under this scheme will not be part of the usual credit assessment for treasury management investment purposes but will be assessed by appointed consultants and any decision to lend will be made by the Investment Panel for the scheme.

5.11 **Risk Assessment and Credit Ratings**

The Authority uses long-term credit ratings from the three main rating agencies Fitch Ratings, Moody's Investors Service and Standard & Poor's Financial Services to assess the risk of investment default. The lowest available counterparty credit rating will be used to determine credit quality, unless an investment-specific rating is available. Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a A- rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

5.12 **Other Information on the Security of Investments**

The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

5.13 **Specified Investments**

The WG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
    - the UK Government,
    - a UK local authority, parish council or community council, or
    - a body or investment scheme of "high credit quality".

The Authority defines "high credit quality" organisations as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher.

5.14 **Non-specified Investments**: Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement; those that are defined as capital expenditure by legislation, such as shares in money market funds and other pooled funds; and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in table 3 below.

Table 3: Non-Specified Investment Limits

	Cash limit
Total long-term investments	£30m
Total shares in money market funds	£35m
Total investments without credit ratings or rated below [A-]	£7m
Total investments in foreign countries rated below [AA+]	£7m
Total non-specified investments	£50m

5.15 **Investment Limits**: The Authority's revenue reserves and Pension Fund cash available to cover investment losses are forecast to be £48 million on 31st March 2014. In order that no more than 23% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £11 million. A group of banks under the same ownership or a group of funds under the same management will be treated as a single organisation for limit purposes. Limits will also be placed on investments in brokers' nominee accounts *(e.g. King & Shaxson)*, foreign countries and industry sectors as below:

Table 4: Investment Limits

	Cash limit
Any single organisation, except the UK Central Government	£11m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£11m per group
Any group of pooled funds under the same management	£11m per manger
Negotiable instruments held in a broker's nominee account	£11m per broker
Foreign countries	£11m per country
Registered Providers	£14m in total
Building Societies	£14m in total
Loans to small businesses	£7m in total
Money Market Funds	£35m in total

5.16 **Approved Instruments:** The Authority may lend or invest money using any of the following instruments:

- interest-bearing bank accounts,
- fixed term deposits and loans,
- callable deposits and loans where the Authority may demand repayment at any time (with or without notice),
- callable deposits and loans where the borrower may repay before maturity, but subject to a maximum of £7 million in total,
- certificates of deposit,
- bonds, notes, bills, commercial paper and other marketable instruments, and
- shares in money market funds and other pooled funds.

Investments may be made at either a fixed rate of interest, or at a variable rate linked to a market interest rate, such as LIBOR, subject to the limits on interest rate exposures below.

5.17 **Liquidity management**

The Authority uses prudent cash flow forecasting techniques to determine the maximum period for which funds may prudently be committed.

6. Treasury Management Indicators – Not applicable to the Pension Fund

7. Other Items

7.1 There are a number of additional items that the Authority is obliged by CIPFA or WG to include in its Treasury Management Strategy.

7.2 **Policy on Use of Financial Derivatives:** In the absence of any legal power to do so, the Authority will not use standalone financial derivatives (such as swaps, forwards, futures and options). Derivatives embedded into loans and investments may be used, and the risks that they present will be managed in line with the overall treasury risk management strategy.

7.3 **Investment Training:** The needs of the Authority's treasury management staff for training in investment management are assessed every year as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA and other appropriate organisations.

7.4 **Investment Advisers:** The Authority has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. The quality of this service is monitored by the Head of Finance and the Investment Manager on a regular basis.

Annex A – Arlingclose Economic & Interest Rate Forecast December 2013

Underlying assumptions:

- Growth continues to strengthen with the second estimate for Q3 growth coming in at an unrevised 0.8%. The service sector remains the main driver of growth, boosted by a contribution from construction.
- The unemployment rate has fallen to 7.6%. The pace of decline in this measure will be dependent on a slower expansion of the workforce than the acceleration in the economy, alongside the extent of productivity.
- The CPI for November has fallen to 2.1%, a much more comfortable position for the MPC. Utility price increases are expected to keep CPI above the 2% target in 2014, before falling back again.
- The principal measure in the MPC's Forward Guidance on interest rates is the Labour Force Survey (LFS) unemployment rate. The MPC intends not to raise the Bank Rate from its current level of 0.5% at least until this rate has fallen to a threshold of 7%.
- The reduction in uncertainty and easing of credit conditions have begun to unlock demand, much of which has fed through to the housing market. In response to concerns over a house price bubble, the Bank of England announced a curtailment of the Funding for Lending Scheme, which will henceforth concentrate on business lending only.
- The MPC will not hesitate to use macro prudential and regulatory tools to deal with emerging risks (such as curtailing the FLS). Absent risks to either price stability or financial stability, the MPC will only tighten policy when it is convinced about the sustained durability of economic growth.
- Federal Reserve monetary policy expectations - the slowing in the pace of asset purchases ('tapering') and the end of further asset purchases - will remain predominant drivers of the financial markets. Tapering of asset purchases will begin in Q1 2014. The US political deadlock over the debt ceiling will need resolving in Q1 2014.
- The European backstop mechanisms have lowered the risks of catastrophic meltdown. The slightly more stable economic environment at the aggregate Eurozone level could be undone by political risks and uncertainty in Italy, Spain and Portugal (doubts over longevity of their coalitions). The ECB has discussed a third LTRO, as credit conditions remain challenging for European banks.
- China data has seen an improvement, easing markets fears. Chinese leaders have signalled possible monetary policy tightening.
- On-going regulatory reform and a focus on bail-in debt restructuring of is likely to prolong banking sector deleveraging and maintain the corporate credit bottleneck.

Forecast:

- Our projected path for short term interest rates remains flat. Markets are still pricing in an earlier rise in rates than warranted under Forward Guidance and the broader economic backdrop. The MPC will not raise rates until there is a sustained period of strong growth. However, upside risks weight more heavily at the end of our forecast horizon.

- We continue to project gilt yields on an upward path through the medium term. The recent climb in yields was overdone given the soft fundamental global outlook and risks surrounding the Eurozone, China and US.

	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Official Bank Rate													
Upside risk		0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	1.00
Arlingclose Central Case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk													
3-month LIBID rate													
Upside risk	0.20	0.25	0.30	0.35	0.40	0.50	0.55	0.60	0.65	0.70	0.75	0.90	0.95
Arlingclose Central Case	0.45	0.45	0.50	0.55	0.65	0.75	0.75	0.75	0.75	0.75	0.80	0.80	0.80
Downside risk			0.05	0.10	0.20	0.30	0.30	0.30	0.30	0.30	-0.35	-0.35	-0.35
1-yr LIBID rate													
Upside risk	0.35	0.30	0.35	0.40	0.45	0.50	0.60	0.70	0.75	0.75	0.75	0.80	0.80
Arlingclose Central Case	0.90	0.95	0.95	0.95	1.00	1.05	1.10	1.15	1.20	1.25	1.30	1.40	1.40
Downside risk	-0.25	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
5-yr gilt yield													
Upside risk	0.50	0.75	0.75	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	1.45	1.50	1.55	1.60	1.65	1.70	1.75	1.85	1.95	2.10	2.30	2.50	2.50
Downside risk	-0.50	-0.50	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.65	-0.75	-0.80	-0.80	-0.80
10-yr gilt yield													
Upside risk	0.50	0.50	0.50	0.65	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	2.55	2.60	2.65	2.70	2.75	2.80	2.85	2.90	3.00	3.10	3.30	3.50	3.50
Downside risk	-0.50	-0.50	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.65	-0.75	-0.80	-0.80	-0.80
20-yr gilt yield													
Upside risk	0.50	0.75	0.75	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.25	3.30	3.35	3.40	3.45	3.50	3.55	3.65	3.75	3.85	4.05	4.15	4.15
Downside risk	-0.50	-0.50	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.65	-0.70	-0.75	-0.80	-0.80
50-yr gilt yield													
Upside risk	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.45	3.50	3.55	3.60	3.65	3.70	3.75	3.80	3.85	3.95	4.05	4.15	4.15
Downside risk	-0.50	-0.50	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.65	-0.70	-0.75	-0.80	-0.80

APPENDIX B

COUNTERPARTIES CURRENTLY MEETING INVESTMENT CRITERIA

Country	Counterparty	Maximum Limit of Investments £m	Maximum Length of Loans
UK	DMADF, DMO	No Limit	No Limit
UK	UK Local Authorities	£30m (£30m)	2 years
UK	Santander UK Plc (Banco Santander Group)	£12m (£18m)	**Up to 6 months** ~~2 years~~
UK	Bank of Scotland (Lloyds Banking Group)	£12m (£18m)	**Up to 6 months** ~~2 years~~
UK	Lloyds TSB (Lloyds Banking Group)	£12m (£18m)	**Up to 6 months** ~~2 years~~
UK	Barclays Bank Plc	£12m (£18m)	**Up to 1 year** ~~2 years~~
UK	**Close Brothers**	£12m (£18m)	**Up to 100 days** ~~2 years~~
UK	**Clydesdale Bank (National Australia Bank Group) **SUSPENDED 28/09/11****	~~£12m (£18m)~~	~~2 years~~
UK	**Goldman Sachs International Bank**	**£10m**	**Up to 100 days**
UK	HSBC Bank Plc	£12m (£18m)	**Up to 1 year** ~~2 years~~
UK	**Leeds Building Society**	**£1m**	**Up to 100 days**
UK	Nationwide Building Society	£12m (£18m)	**Up to 1 year** ~~2 years~~
UK	**NatWest (RBS Group)**	**£12m (£18m)**	**Overnight Only** ~~2 years~~
UK	**Royal Bank of Scotland (RBS Group)**	**£12m (£18m)**	**Overnight Only** ~~2 years~~
UK	Standard Chartered Bank	£12m (£18m)	**Up to 1 year** ~~2 years~~
Australia	Australia and NZ Banking Group	£12m (£18m)	**Up to 1 year** ~~2 years~~
Australia	Commonwealth Bank of Australia	£12m (£18m)	**Up to 1 year** ~~2 years~~
Australia	National Australia Bank Ltd (National Australia Bank Group)	£12m (£18m)	**Up to 1 year** ~~2 years~~
Australia	Westpac Banking Corp	£12m (£18m)	**Up to 1 year** ~~2 years~~
Canada	Bank of Montreal	£12m (£18m)	**Up to 1 year** ~~2 years~~
Canada	Bank of Nova Scotia	£12m (£18m)	**Up to 1 year** ~~2 years~~
Canada	Canadian Imperial Bank of Commerce	£12m (£18m)	**Up to 1 year** ~~2 years~~
Canada	Royal Bank of Canada	£12m (£18m)	**Up to 1 year** ~~2 years~~
Canada	Toronto-Dominion Bank	£12m (£18m)	**Up to 1 year** ~~2 years~~
Finland	Nordea Bank Finland	£12m (£18m)	**Up to 1 year** ~~2 years~~
Finland	Pohjola	£12m (£18m)	**Up to 6 months** ~~2 years~~
France	**BNP Paribas **SUSPENDED 08/11/13****	~~£12m (£18m)~~	~~Up to 100 days 2 years~~
France	**Credit Agricole CIB (Credit Agricole Group) **SUSPENDED 08/11/13****	~~£12m (£18m)~~	~~Up to 100 days 2 years~~
France	**Credit Agricole SA (Credit Agricole Group) **SUSPENDED 08/11/13****	~~£12m (£18m)~~	~~Up to 100 days 2 years~~
France	**Société Générale **SUSPENDED 08/11/13****	~~£12m (£18m)~~	~~Up to 100 days 2 years~~
Germany	Deutsche Bank AG	£12m (£18m)	**Up to 1 year** ~~2 years~~
Germany	**Landesbank Hessen-Thurnigen (Helaba)**	**£10m**	**Up to 100 days**
Netherlands	ING Bank NV	£12m (£18m)	**Up to 100 days** ~~2 years~~
Netherlands	Rabobank	£12m (£18m)	**Up to 1 year** ~~2 years~~
Netherlands	Bank Nederlandse Gemeenten	£12m (£18m)	**Up to 1 year** ~~2 years~~
Singapore	DBS Bank Ltd	£12m (£18m)	**Up to 6 months** ~~2 years~~
Singapore	Oversea-Chinese Banking Corporation (OCBC)	£12m (£18m)	**Up to 6 months** ~~2 years~~
Singapore	United Overseas Bank (UOB)	£12m (£18m)	**Up to 6 months** ~~2 years~~
Sweden	Svenska Handelsbanken	£12m (£18m)	**Up to 1 year** ~~2 years~~
Switzerland	Credit Suisse	£12m (£18m)	**Up to 100 days** ~~2 years~~
US	JP Morgan	£12m (£18m)	**Up to 1 year** ~~2 years~~

1. There is a limit of £18m on banks within the same banking group.
2. The time limits in the above list relate to term deposits. Negotiable/tradable instruments such as CD's are subject to a 5 year limit. Current recommended duration limits are considerably lower than this, but the limits outlined above provide flexibility to react to the possiblity of continued stabilisation or improvement in credit and economic conditions in 2013/14.
3. This list could change if, for example, a counterparty/country is upgraded, and meets our other creditworthiness tools. Alternatively, if a counterparty is downgraded, this list may be shortened.

MEETING	**PENSIONS COMMITTEE**
DATE	**17 MARCH 2014**
TITLE	**LGPS GOVERNANCE STRUCTURES – PUBLIC SERVICE PENSIONS BILL**
AUTHOR	**CAROLINE ROBERTS, INVESTMENT MANAGER**

1. INTRODUCTION

1.1 Members of the Committee will be aware that significant changes to the Local Government Pension Scheme will come into force on 1st April 2014. These changes will be enacted by the Public Service Pensions Bill and are the result of the review of the LGPS carried out by Lord Hutton and the recommendations in his report. The changes affect the benefits that members of the scheme are entitled to receive in the future. The emphasis to date has been on enacting these changes to introduce the career average scheme (rather than final salary) by 1st April 2014. These changes have been explained to our fund employers in a series of ongoing presentations.

1.2 In addition to these changes the Public Service Pensions Bill includes provisions with regard to scheme governance of the LGPS. The details of the governance requirements will be set out in regulations which have yet to be drafted or consulted upon.

1.3 This report considers the governance requirements and specifically the role and structure of local pension boards. The Committee is asked to decide how it believes the arrangements should be implemented in practice as the basis for a response to the consultation process on the new regulations.

2. ROLE AND STRUCTURE OF LOCAL PENSION BOARDS

2.1 The Bill sets out 4 distinct roles to be performed within each scheme, these are:

- The Responsible Authority
- The Scheme Manager
- The Pension Board
- The national Scheme Advisory Board

2.2 Under the Bill, the **Responsible Authority** is the person who makes regulations for the scheme, in the case of the LGPS this is the Secretary of State for

Communities and Local Government. The Secretary of State will continue to be responsible for policy.

2.3 The **Scheme Manager** is 'to be the person responsible for managing or administering' the scheme and any other statutory scheme connected with it'. It has been confirmed that for the LGPS, the Scheme Manager is the administering authority as currently defined by LGPS regulations. Therefore the Scheme Manager for Gwynedd Pension Fund will be Gwynedd Council as a corporate body rather than a person.

2.4 The **Pension Board** is a board with responsibility for assisting the scheme manager in securing compliance with scheme regulations, other legislation covering governance and administration and the requirements of the Pensions Regulator. It has been confirmed that such boards will operate at the fund level in the LGPS.

2.5 The national **Scheme Advisory Board** has a responsibility for providing advice to the Responsible Authority (the Secretary of State) and the Pension Boards.

2.6 Therefore the structure of governance of locally administered schemes like the LGPS under the requirements of the Bill looks something like the following:

a) **Scheme Level**

At scheme level, the **Responsible Authority** is responsible for policy and for making regulations.

The **Scheme Advisory Board** will have a clear remit to advise the **Responsible Authority** on regulatory changes it considers to be appropriate. The remit and membership of this board will be set out in the regulations which have not yet been drafted. In order to assist that process a shadow board is in the process of being set up in order to put this structure to the test before setting it out in regulation.

b) **Fund Level**

At the Fund level, the **Scheme Manager** manages and administers the scheme assisted by the **Pension Board.**

2.7 Under the Bill these are two distinct roles for the administering authority one of which (the **Scheme Manager**) is very much a hands on, decision making, management and investment function with the added task of ensuring there are no conflicts of interest for any pension board members.

The other (the **Pension Board**) appears to be much more of a compliance and scrutiny role with a responsibility to ensure that the former is complying with its statutory responsibilities.

The Bill deliberately provides that scheme regulations may allow for the **Pension Board** to be either the same as the existing statutory pensions committee or a separate body.

2.8 Gwynedd Council as administering authority currently has a Pensions Committee that already performs many of the functions set out in the Bill – including functions that will be part of the **Scheme Manager** role, as well as other functions which will be part of the Pension Board role. As part of a forthcoming consultation exercise, we need to consider whether the two distinct roles described in the Bill can best be fulfilled either within our existing committee or in two separate structures.

3. LGPS GOVERNANCE CONSULTATION

3.1 The intention is that it will not be a Fund discretion on how to meet the PSP Bill requirements in relation to the structure, but will be set nationally for the LGPS as a whole.

3.2 Therefore it is expected that careful thought will need to go into the drafting and consultation process, to ensure that scheme stakeholders have the opportunity to consider the merits of either using the existing statutory pensions committee or an additional separate body at Fund level.

3.3 It would seem administratively expedient to allow the same committee to fulfil both roles (scheme manager and pensions board) if only in terms of available time and resources. However, there are some significant issues to consider:

- The roles are very different and may require different resources, for example, investment skills in one role and audit skills in the other.
- A single committee constitution may not be able to effectively encompass the decision making requirement of the scheme manager role and the 'assistance' role of the pensions board.
- The cross scrutiny functions will prove difficult to apply and demonstrate within one committee
- The bill requires regulations to provide that the pension board should have equal numbers of employer representatives and member representatives. Combining the two roles would include applying that requirement to the committee responsible for both roles.

3.4 Any decision over whether the **Pension Board** and **Scheme Manager** roles can be delegated to separate committees or the same committee has yet to be made.

4 RECOMMENDATION

4.1 The committee is asked to consider how they may wish regulations to reflect their situation in order to be able to respond effectively to the draft regulations when they appear later this year.