

Contents

Agenda	2
4 - Minutes of the previous meeting	6
5 - Treasury Management Strategy Statement and Annual Investment Strategy for 2015-16	9
Appendix a	11
6 - Treasury Management 2014-15 Midyear Review	23
7 - Private Equity Investment	29
8 - Pension Board Update	30
Appendix 1 - Pensions Board Report Audit Committee 19 February 2015	31
Appendix A - Pension Board Council Report	40



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

Cyfarfod / Meeting

PWYLLGOR PENSIYNAU
PENSIONS COMMITTEE

Dyddiad ac Amser / Date and Time

2:00pm, DYDD MAWRTH, 24 MAWRTH 2015
2:00pm, TUESDAY, 24 MARCH, 2015

Lleoliad / Location

YSTAFELL GWYRFAI,
SWYDDFEYDD Y CYNGOR / COUNCIL OFFICES,
CAERNARFON

Pwynt Cyswllt / Contact Point

Lowri Haf Evans

(01286 679878)

lowrihafevans@gwynedd.gov.uk

Dosbarthwyd / Distributed 16.3.15

**PWYLLGOR PENSIYNAU
PENSIONS COMMITTEE**

AELODAETH / MEMBERSHIP

Plaid Cymru (3)

Y Cynghorwyr / Councillors

Peredur Jenkins
Dafydd Meurig
W. Tudor Owen

Annibynnol/Independent (2)

Y Cynghorwyr/Councillors

Trevor Edwards
John Pughe Roberts

Rhyddfrydwyr Democrataidd / Liberal Democrats (1)

Y Cynghorydd/Councillor Stephen Churchman

Llais Gwynedd (1)

Y Cynghorydd/Councillor Peter Read

Aelodau Cyfetholedig / Co-opted Members

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

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

Aelodau Ex-officio / Ex-officio Members

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

AGENDA

1. WELCOME AND APOLOGIES

To receive any apologies for absence

2. DECLARATION OF PERSONAL INTEREST

To receive any declaration of personal interest

3. URGENT BUSINESS

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

4. MINUTES

The Chairman shall propose that the minutes of the meeting of this committee held on 21st of October 2014 be signed as a true record.

(copy herewith – *white* paper)

5. TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY FOR 2015/16

To submit a report by the Head of Finance

(copy herewith – *blue* paper)

6. TREASURY MANAGEMENT 2014/15 – MID YEAR REVIEW

To submit a report by the Head of Finance

(copy herewith – *yellow* paper)

7. PRIVATE EQUITY INVESTMENT

To submit a report by the Investment Manager

(copy herewith – *lilac* paper)

8. PENSION BOARD UPDATE

To submit a report by the Head of Finance

(copy herewith – *pink* paper)

9. EXCLUSION OF PRESS AND PUBLIC

The Chairman shall propose that the press and public be excluded from the meeting during the discussion on the following item due to the likely disclosure of exempt information as defined in paragraph 7, Schedule 12A, Local Government Act, 1972.

The report contains financial information regarding an external company and they have the right to expect the information to be kept confidential. The nature of the information in the report is commercially sensitive regarding the fees for an investment contract which if made public could have a detrimental effect on the Pension Fund.

The timing is important and the public interest in respecting that confidentiality outweighs the public interest in disclosing the information.

10. ABSOLUTE RETURN MANDATE

To submit a report by the Investment Manager

(separate copy for committee members only)

PENSIONS COMMITTEE, 21.10.14

Present: Councillors: Trevor Edwards, Peredur Jenkins, Hywel E. Jones (Representative of Isle of Anglesey County Council), Dafydd Meurig, W. Tudor Owen and John P. Roberts.

Officers:- Dafydd Edwards (Head of Finance Department), Caroline Roberts (Investment Manager) and Lowri Haf Evans (Member Support and Scrutiny Officer).

Apologies: Councillors Stephen Churchman, Margaret Lyon (Conwy County Borough Council Representative) and Peter Read.

1. WELCOME AND APOLOGIES

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

2. DECLARATION OF PERSONAL INTEREST

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

3. URGENT ITEMS

None to note.

4. MINUTES

The Chairman signed the minutes of the previous meeting of this committee, held on 17 June 2014, as a true record.

5. LOCAL PENSION BOARD

The Investment Officer submitted a report detailing the response to the Department for Communities and Local Government's consultation on the Draft Regulations on governing the scheme for the Local Government Pension Plan. Gwynedd's response to the consultation was referred to (as the administrative authority for the Gwynedd Pension Fund). It was noted that the results of the consultation and the final regulations had not yet been published.

The main requirement of the draft regulations was for every administrative authority to establish a Local Pension Board.

A request was made for the Committee to set a direction for the officers, so that it would be possible to propose possible options of membership and the

structure of the new Board to the Committee's next meeting in January. The aim was for the options to be submitted to the Full Council on 5 March 2015 where a final structure for the Local Pension Board was to be agreed. The Council's constitution would have to include the structure of the Board by 1.4.2015 with the Board's first meeting to be held in May/June.

The Local Pension Board's aim would be to help the administrative authority to ensure that they conform to all relevant regulations, legislations and requirements. The Board would scrutinise the authority's work by ensuring that there are effective and efficient governing and administration arrangements for the fund.

After the matter had been discussed, it was proposed that the officers should collect information from other funds to try to gain a general viewpoint and submit options to be discussed at the next meeting. Five people were suggested as suitable members for the Board. The Head of Finance added that he would discuss administration and support for the Board with the Monitoring Officer and the Head of Democratic Services.

RESOLVED TO ACCEPT THE INFORMATION AND ASK THE HEAD OF FINANCE AND THE INVESTMENT MANAGER TO COLLECT FURTHER INFORMATION BY SUBMITTING OPTIONS AND AN UPDATE ON THE SITUATION TO THE PENSIONS COMMITTEE'S NEXT MEETING WHICH WOULD BE HELD ON 6 JANUARY 2015.

6. WELSH LOCAL GOVERNMENT PENSION FUNDS – WORKING TOGETHER

The Investment Manager submitted a report updating Members on the Collaboration Project. At a meeting of this Committee that had been held on 22 March 2013 it was reported that every Pension Fund in Wales needed to contribute £5,000 towards the cost of preparing a report as part of a project that was undertaken by the Pensions Sub-group of the Society of Welsh Treasurers. The final report has since been submitted. One of the report's main recommendations was to produce a full Business Case to identify;

- a) how a general investment method could practically be implemented,
- b) improve the savings and financial costs and
- c) deal with any further practical difficulties that would have to be overcome.

The procurement process was undertaken to appoint advisors to undertake the work of creating a Business Case with the aim for the eight pension funds to fund the cost of the appointment. It was estimated that every fund would need to contribute up to £8,500. The result of the Business Case would be submitted to the committee when it was completed.

It was recommended that the Committee approved the contribution towards the cost of the Business Case.

RESOLVED TO ACCEPT THE RECOMMENDATION AND APPROVE THE CONTRIBUTION TOWARDS THE COST OF THE BUSINESS CASE UP TO A MAXIMUM OF £8,500.

7. TREASURY MANAGEMENT 2013/14

A report was submitted by the Investment Manager detailing how the Pension Fund's cash was invested along with the Council's money in 2013/2014. The report responded to the requirements of the Welsh Government's Statutory Guidance.

The report outlined how money was managed to maximise the benefits. In response to a question, an update was given by the Head of Finance on the reclaiming of the investments that had been made with Heritable Bank.

THE REPORT OF THE INVESTMENT MANAGER WAS RECEIVED FOR INFORMATION

8. CONFERENCE ATTENDANCE AT THE LOCAL AUTHORITY PENSION FUND FORUM (LAPFF) ON 3 -5 DECEMBER 2014

A request was made by the Investment Manager asking the Committee to nominate a representative to attend the conference in Bournemouth. Attention was drawn to the fact that a meeting of the Full Council would be held during the period of the conference.

It was proposed that the Chairman of the Committee, Councillor W. Tudor Owen would attend. He accepted the request.

RESOLVED THAT THE CHAIRMAN OF THE PENSIONS COMMITTEE WOULD ATTEND THE LAPFF CONFERENCE 3 - 5 DECEMBER 2014.

9. LGC INVESTMENT SUMMIT CONFERENCE (9 – 10 September 2014) 'INVESTING FOR GROWTH'

Submitted – the report of the Head of Finance Department notifying the committee of the benefits gained from attending the LGC Investment Summit. Councillors Margaret Lyon, John Pughe Roberts and the Head of Finance attended the conference in Newport. It was agreed that the conference provided very useful opportunities to hold discussions with investment managers and to network with representatives of other funds. It was pleasing to see Welsh produce from Gwynedd Fund's area being displayed in the conference and served by the hotel.

THE INFORMATION WAS ACCEPTED

Everyone was thanked for their contribution.

The meeting commenced at 2:00pm and concluded at 3:05pm.

MEETING: PENSIONS COMMITTEE

DATE: 24 MARCH 2015

TITLE: TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY FOR 2015/16

PURPOSE: To ask the pensions committee to adopt the strategies

RECOMMENDATION: RECEIVE THE REPORT FOR INFORMATION

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 2015/16, as amended for the purpose of the Pension Fund (which is attached as Appendix A). Gwynedd Council's TMSS for 2015/16 was approved by the Full Council on 5 March 2015.

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 5th March 2015 included agreement to continue the pooling arrangement with the Pension Fund following any request from Pensions Committee.

5. COUNTERPARTIES

The Council has revised the Treasury Management Policy Statement and practice papers to include a risk matrix which will be used to define the instruments and counterparties to be used for investment purposes rather than a defined list each year.

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 2015/16, as amended for the Gwynedd Pension Fund (Appendix A).
- 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 2015 onwards.

Treasury Management Strategy Statement 2015/16

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

There is momentum in the UK economy, with a continued period of growth through domestically-driven activity and strong household consumption. There are signs that growth is becoming more balanced. The greater contribution from business investment should support continued, albeit slower, expansion of GDP. However, inflationary pressure is benign and is likely to remain low in the short-term. There have been large falls in unemployment but levels of part-time working, self-employment and underemployment are significant and nominal earnings growth remains weak and below inflation.

The MPC's focus is on both the degree of spare capacity in the economy and the rate at which this will be used up, factors prompting some debate on the Committee. Despite two MPC members having voted for an 0.25% increase in rates at each of the meetings August 2014 onwards, some Committee members have become more concerned that the economic outlook is less optimistic than at the time of the August *Inflation Report*.

2.2 Credit outlook

The transposition of two European Union directives into UK legislation in the coming months will place the burden of rescuing failing EU banks disproportionately onto unsecured local authority investors. The *Bank Recovery and Resolution Directive* promotes the interests of individual and small businesses covered by the Financial Services Compensation Scheme and similar European schemes, while the recast *Deposit Guarantee Schemes Directive* includes large companies into these schemes. The combined effect of these two changes is to leave public authorities and financial organisations (including pension funds) as the only senior creditors likely to incur losses in a failing bank after July 2015.

The continued global economic recovery has led to a general improvement in credit conditions since last year. This is evidenced by a fall in the credit default swap spreads of banks and companies around the world. However, due to the above legislative changes, **the credit risk associated with making unsecured bank deposits will increase** relative to the risk of other investment options available to the Authority.

2.3 Interest rate forecast

The Authority's treasury management advisor Arlingclose forecasts the first rise in official interest rates in August 2015 and a gradual pace of increases thereafter, with the average for 2015/16 being around 0.75%. Arlingclose believes the normalised level of the Bank Rate post-crisis to range between 2.5% and 3.5%. The risk to the upside (i.e. interest rates being higher) is weighted more towards the end of the forecast horizon. On the downside, Eurozone weakness and the threat of deflation have increased the risks to the durability of UK growth. If the negative indicators from the Eurozone become more entrenched, the Bank of England will likely defer rate rises to later in the year. Arlingclose projects gilt yields on an upward path in the medium term, taking the forecast average 10 year PWLB loan rate for 2015/16 to 3.40%.

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 0.67%, 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 £45 and £78 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 2015/16 at its meeting on 24 March 2015.

5.2 Objectives

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 Strategy

Given the increasing risk and continued low returns from short-term unsecured bank investments, the Authority aims to further diversify into more secure and/or higher yielding asset classes during 2015/16. The majority of the Authorities surplus cash is currently invested in short-term unsecured bank deposits, certificates of deposit and money market funds. This diversification will therefore represent a substantial change in strategy over the coming year.

5.4 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

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£4m 5 years	£8m 20 years	£8m 50 years	£4m 20 years	£4m 20 years
AA+	£4m 5 years	£8m 10 years	£8m 25 years	£4m 10 years	£4m 10 years
AA	£4m 4 years	£8m 5 years	£8m 15 years	£4m 5 years	£4m 10 years
AA-	£4m 3 years	£8m 4 years	£8m 10 years	£4m 4 years	£4m 10 years
A+	£4m 2 years	£8m 3 years	£4m 5 years	£4m 3 years	£4m 5 years
A	£4m 13 months	£8m 2 years	£4m 5 years	£4m 2 years	£4m 5 years
A-	£4m 6 months	£8m 13 months	£4m 5 years	£4m 13 months	£4m 5 years
BBB+	£2m 100 days	£4m 6 months	£2m 2 years	£2m 6 months	£2m 2 years
BBB or BBB-	£2m next day only	£4m 100 days	n/a	n/a	n/a
None	£1m 6 months	n/a	£4m 25 years	£50,000 5 years	£4m 5 years
Pooled funds	£8m per fund				
Business loans to local companies*			£3m in total 10 years		

* 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.

5.5 **Credit Rating**

Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used.

5.6 **Banks Unsecured**

Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. Unsecured investment with banks rated BBB or BBB- are restricted to overnight deposits at the Authority's current account bank Barclays Bank plc.

5.7 **Banks Secured**

Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

5.8 **Government**

Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

5.9 **Corporates**

Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

5.10 **Registered Providers**

Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain a high likelihood of receiving government support if needed.

5.11 **Pooled Funds**

Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Money Market 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 pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

5.12 **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.

5.13 **Risk Assessment and Credit Ratings**

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 credit 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.

5.14 **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.

5.15 **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.

5.16 **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	£40m
Total shares in money market funds	£40m
Total investments without credit ratings or rated below [A-]	£8m
Total investments in foreign countries rated below [AA+]	£8m
Total non-specified investments	£80m

5.17 Investment Limits

The Authority's revenue reserves and Pension Fund cash available to cover investment losses are forecast to be £65 million on 31st March 2015. In order that no more than 10% 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 £8 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	£8m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£8m per group
Any group of pooled funds under the same management	£20m per manager
Negotiable instruments held in a broker's nominee account	£40m per broker
Foreign countries	£8m per country
Registered Providers	£20m in total
Unsecured investments with Building Societies	£8m in total
Loans to unrated corporates	£8m in total
Money Market Funds	£40m in total

5.18 **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, including pooled funds, 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.

7.5 **Investment of Money Borrowed in Advance of Need**

The Authority may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Authority is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Authority's overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit of £195 million. The maximum period between borrowing and expenditure is expected to be two years, although the Authority is not required to link particular loans with particular items of expenditure.

8. Financial Implications

The budget for investment income in 2015/16 is £0.5 million, based on an average investment portfolio of £74.6 million at an interest rate of 0.67%. The budget for debt interest paid in 2015/16 is £6.5 million, based on an average debt portfolio of £114.2 million at an average interest rate of 5.71%. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

9. Other Options Considered

The WG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Head of Finance, having consulted the Cabinet Member for Resources, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses will be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses will be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs will be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs will be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income High premia for early redemption of debt may outweigh any savings	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs will be less certain

Appendix A – Arlingclose Economic & Interest Rate Forecast January 2015

Underlying assumptions:

- The UK economic recovery slowed towards the end of 2014, with economic and political uncertainty weighing on business investment. However, the Q3 growth rate of 0.7% remains slightly above the long run average, suggesting the recovery remains robust.
- Household consumption is key to the recovery in 2015. While we expect consumption growth to slow, given softening housing market activity and slower employment growth, the fall in inflation and resulting rise in both real (and nominal) wage growth and disposable income should support spending.
- Inflationary pressure is currently low (annual CPI is currently 0.5%) and is likely to remain so in the short-term. The fall in oil prices has yet to feed fully into the prices of motor fuel and retail energy and CPI is expected to fall further. Supermarket price wars are also expected to bear down on food price inflation.
- The MPC's focus is on both the degree of spare capacity in the economy and the rate at which this will be used up, factors prompting some debate on the Committee.
- Nominal earnings growth is strengthening, but remains relatively weak in historical terms, despite large falls in unemployment. Our view is that spare capacity remains extensive. The levels of part-time, self-employment and underemployment are significant and indicate capacity within the employed workforce, in addition to the still large unemployed pool. Productivity growth can therefore remain weak in the short term without creating undue inflationary pressure.
- However, we also expect employment growth to slow as economic growth decelerates. This is likely to boost productivity, which will bear down on unit labour costs and inflationary pressure.
- In addition to the lack of wage and inflationary pressures, policymakers are evidently concerned about the bleak prospects for the Eurozone. These factors will maintain the dovish stance of the MPC in the medium term. The MPC clearly believes the appropriate level for Bank Rate for the post-crisis UK economy is significantly lower than the previous norm. We would suggest this is between 2.5 and 3.5%.
- The ECB has introduced outright QE as expected. While this may alleviate some of the anxiety about the economic potential of the Eurozone, political risk remains significant (e.g. Greek election). Therefore fears for the Eurozone are likely to maintain a safe haven bid for UK government debt.

Forecast:

- We continue to forecast the first rise in official interest rates in Q3 2015, but the risks to this forecast are very much weighted to the downside. The February Inflation Report will be key to our review of the possible path for Bank Rate.
- We project a slow rise in Bank Rate. The pace of interest rate rises will be gradual and the extent of rises limited; we believe the normalised level of Bank Rate post-crisis to range between 2.5% and 3.5%.

- Market sentiment (derived from forward curves) has shifted significantly lower in the past three months; market expectations are now for a later increase in interest rates and a more muted increase in gilt yields.
- The short run path for gilt yields has flattened due to the sharp decline in inflation expectations. We project gilt yields on an upward path in the medium term.
- The short run path for gilt yields is flatter due to the deteriorating Eurozone situation. We project gilt yields on an upward path in the medium term.

	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Official Bank Rate													
Upside risk				0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Case	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50	1.75	1.75	1.75
Downside risk			0.25	0.25	0.50	0.50	0.75	0.75	1.00	1.00	1.00	1.00	1.00
3-month LIBID rate													
Upside risk	0.10	0.20	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.55	0.60	0.80	0.90	1.05	1.15	1.30	1.40	1.55	1.65	1.80	1.95	2.00
Downside risk	0.15	0.20	0.30	0.40	0.55	0.65	0.75	0.85	0.95	0.95	0.95	0.95	1.00
1-yr LIBID rate													
Upside risk	0.10	0.20	0.20	0.30	0.30	0.30	0.30	0.30	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	0.95	1.00	1.20	1.30	1.45	1.55	1.70	1.80	1.95	2.05	2.20	2.35	2.40
Downside risk	0.15	0.20	0.30	0.50	0.55	0.60	0.65	0.70	0.75	0.80	0.80	0.80	0.80
5-yr gilt yield													
Upside risk	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.45	0.45	0.45	0.45	0.50	0.50
Arlingclose Central Case	1.10	1.20	1.30	1.40	1.50	1.65	1.80	1.95	2.10	2.20	2.35	2.40	2.50
Downside risk	0.35	0.35	0.40	0.45	0.50	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.75
10-yr gilt yield													
Upside risk	0.35	0.40	0.40	0.40	0.40	0.45	0.45	0.45	0.45	0.50	0.50	0.55	0.55
Arlingclose Central Case	1.60	1.70	1.80	1.90	2.00	2.15	2.30	2.45	2.60	2.70	2.85	2.90	3.00
Downside risk	0.35	0.35	0.40	0.45	0.50	0.50	0.55	0.60	0.65	0.70	0.70	0.75	0.80
20-yr gilt yield													
Upside risk	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55	0.55
Arlingclose Central Case	2.10	2.20	2.30	2.35	2.45	2.50	2.65	2.75	2.90	3.00	3.15	3.20	3.30
Downside risk	0.35	0.40	0.50	0.60	0.70	0.75	0.75	0.75	0.80	0.85	0.85	0.90	0.90
50-yr gilt yield													
Upside risk	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55	0.55
Arlingclose Central Case	2.15	2.25	2.35	2.40	2.50	2.55	2.70	2.80	2.95	3.05	3.20	3.25	3.35
Downside risk	0.35	0.40	0.50	0.60	0.70	0.75	0.75	0.75	0.80	0.85	0.85	0.90	0.90

MEETING: **PENSIONS COMMITTEE**

DATE: **24 MARCH 2015**

TITLE: **TREASURY MANAGEMENT 2014/15 – MID YEAR
REVIEW**

PURPOSE: **CIPFA’s Code of Practice recommends that a report
on the Council’s actual Treasury Management
during the current financial year is produced.**

RECOMMENDATION: **RECEIVE THE REPORT FOR INFORMATION**

AUTHOR: **DAFYDD L EDWARDS, HEAD OF FINANCE**

1. BACKGROUND

The Chartered Institute of Public Finance and Accountancy’s Treasury Management Code (CIPFA’s TM Code) requires that authorities report on the performance of the treasury management function at least twice yearly (mid-year and at year end).

The Council’s Treasury Management Strategy for 2014/15 was approved by full Council on 6th March 2014 which can be accessed on –
<https://www.gwynedd.gov.uk/en/Council/Councillors-and-committees/Meetings,-minutes-and-agendas/Meetings,-minutes-and-agendas.aspx?pwylgor=/2013-14/Cyngor Llawn Full Council/2014-03-06>

The Council 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. This report covers treasury activity and the associated monitoring and control of risk.

2. EXTERNAL CONTEXT

Growth and Inflation: The recent strong performance of the UK economy continued with output growing at 0.8% in Q1 2014 and at 0.9% in Q2. The services sector once again grew strongly. On the back of strong consumption growth, business investment appeared to be recovering quickly, albeit from a low base. The annual CPI inflation rate fell to 1.5% year-on-year in August.

Revisions to the GDP methodology, now compliant with the European System of Accounting 2010, mean that growth is now estimated to be 2.7% above its pre-recession peak in Q1 2008, rather than just 0.2% higher. The general theme being that the recession was not as deep and the recovery was earlier than initially estimated. In anticipation of these revisions, the MPC has forecast growth at 3.4% in 2014.

Unemployment: The labour market continued to improve, with strong employment gains and the headline unemployment rate falling to 6.2%. However, earnings growth remained very weak, rising just 0.6% for the three months May-July 2014 when compared to the same period a year earlier. The growth in employment was masked by a large number of zero-hour contracts and involuntary part-time working.

UK Monetary Policy: The MPC made no change to the Bank Rate of 0.5% and maintained asset purchases at £375bn. However, there was a marked shift in tone from the Bank of England's Governor and other MPC members. In his Mansion House speech in June Governor Mark Carney warned that interest rates might rise sooner than financial markets were expecting. Following some mixed messages from Governor Carney later in the summer, the minutes of the August and September MPC meetings revealed a split vote with regards to the Bank Rate. Ian McCafferty and Martin Weale voted to increase Bank Rate by 0.25%, arguing economic circumstances were sufficient to justify an immediate rise. The MPC emphasised that when Bank Rate did begin to rise, it was expected to do so only gradually and would likely remain below average historical levels for some time to come.

In the Bank of England's August Inflation Report the Bank forecast growth to be around 3.5% in 2014, easing back thereafter to around its pre-crisis historical average rate. Inflation was forecast to remain at, or slightly below, 2% before reaching the target at the end of the two-year forecast period.

The Bank's Financial Policy Committee also announced a range of measures to cool the UK's housing market to avert the potential of spiralling house prices derailing a sustainable economic recovery. Key recommendations included lenders stress-testing mortgage applicants can cope with a 3% rise in interest rates; putting a 15% cap on the number of mortgages at more than 4.5 times the borrower's income; and a separate Treasury pledge banning anyone applying for a loan through the Help to Buy scheme borrowing more than 4.5 times their income. The Prudential Regulation Authority also announced that it intends to consult on capital requirements for mortgages.

Eurozone inflation continued to fall towards zero (HICP inflation registered just 0.3% in September), and there was mounting evidence that the already feeble recovery was losing pace. The unemployment rate remained stubbornly high at 11.5%. The European Central Bank lowered its official benchmark interest rate from 0.15% to 0.05%. The rate it pays on commercial bank balances held with it was also cut further into negative territory from -0.1% to -0.2% and the Marginal Lending Facility rate cut further to 0.3%. The ECB also announced a programme of acquiring Asset Backed Securities (ABS) from banks in an effort to encourage lending which was viewed as being one step away from full blown Quantitative Easing (QE) adopted by the US, UK and Japanese central banks. The minutes of the Bank of England's MPC meeting in September noted that "*weakness in the euro area had been the most significant development during the month*" and that, if it led once again to uncertainty about the sustainability of euro-area public and external debt, it could damage confidence and disrupt financial markets

There was no change from the US Federal Reserve as the central bank kept policy on its current track with a reduction in asset purchases by \$10 billion per month. Asset purchases are expected to end by October 2014, expectations therefore turned towards the timing of rate increases. The US economy rebounded strongly in Q2 with annualised growth of 4.6%.

Market reaction: Gilt yields have continued to decline and hit a financial year low at the end of August, before ticking upwards in the run up to the Scottish referendum. What has driven yields lower is a combination of factors but the primary drivers have been the escalation of geo-political risk within the Middle East and Ukraine alongside the slide towards deflation within the Eurozone (EZ).

Investment Activity

The Council holds significant invested funds, representing income received in advance of expenditure, plus balances and reserves held.

The Welsh Government's Investment Guidance gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles.

Investment Activity in 2014/15

Investments	Balance on 01/04/14 £'000	Investments Made £'000	Maturities/ Investments Sold £'000	Balance on 30/09/14 £'000	Average Rate (%)
Short term Investments (call accounts, deposits) Banks and Building Societies with ratings of A- or higher	47,825	144,405	(136,630)	55,600	0.70
Money Market Funds	0	41,781	(33,426)	8,355	0.44
Covered Bond	0	1,000	0	1,000	2.09
TOTAL INVESTMENTS	47,825	187,186	(170,056)	64,955	
Increase in Investments £'000				17,130	

Security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy, as set out in the Treasury Management Strategy Statement for 2014/15.

Counterparty credit quality was assessed and monitored with reference to credit ratings (the Council's minimum long-term counterparty rating is A- across rating agencies Fitch, S&P and Moody's); credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

Credit Risk

Counterparty credit quality as measured by credit ratings is summarised below:

Date	Value Weighted Average – Credit Risk Score	Value Weighted Average – Credit Rating	Time Weighted Average – Credit Risk Score	Time Weighted Average – Credit Rating
31/03/2014	5.69	A	5.80	A
30/06/2014	5.19	A+	5.12	A+
30/09/2014	5.01	A+	3.21	AA

Scoring:

-Value weighted average reflects the credit quality of investments according to the size of the deposit

-Time weighted average reflects the credit quality of investments according to the maturity of the deposit

-AAA = highest credit quality = 1

-D = lowest credit quality = 26

-Aim = A- or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security

Investments were made with banks and building societies and included call accounts, fixed-rate term deposits and certificates of deposit, Money Market Funds, and a Covered Bond.

Counterparty Update

The European Parliament approved the EU Bank Recovery and Resolution Directive (BRRD) on April 15, 2014. Taking the view that potential extraordinary government support available to banks' senior unsecured bondholders will likely diminish within its two-year rating horizon for investment-grade entities, in April Standard & Poor's revised the Outlook of Barclays, Deutsche Bank, Credit Suisse and ING Bank from Stable to Negative (note, this is not the same as a rating review negative). In May, Moody's also changed the outlook from stable to negative for 82 European banks and from positive to stable for two European banks. The institutions affected on the Council's lending list are Nationwide Building Society, Pohjola Bank, Svenska Handelsbanken, Landesbank Hessen-Thuringen, Bank Nederlandse Gemeenten and Nordea Bank.

In August Moody's changed its outlook for the UK banking system from stable to negative, citing the reduction of government support for systemic banks as the reason. Although the agency believes that the stand-alone financial strength of UK institutions is improving they believed that this is more than offset by the potential bail-in risk now faced by investors. Similarly, in August S&P revised the outlooks for major Canadian banks to negative following the government's announcement of a potential bail-in policy framework.

There was strong likelihood that the UK, alongside Germany and Austria, would accelerate the adoption of the BRRD and that the implementation of bail-in resolutions would be fast-tracked in these countries to 1st January 2015, a full year ahead of other EU nations.

Banks in the UK and EU face banks face stress tests this autumn, which may result in some institutions having to additionally bolster their capital buffers. The extent to which this might be required, and the form they will have to take, casts uncertainty over capital requirements in the system.

Budgeted Income and Outturn

The average cash balances were £65.7m during the period. The UK Bank Rate has been maintained at 0.5% since March 2009. Short-term money market rates have remained at relatively low levels. New deposits were made at an average rate of 0.85%. Investments in Money Market Funds generated an average rate of 0.44%.

The Council's budgeted investment income for the year is estimated at £0.3m. The Council anticipates an investment outturn of £0.35m for the whole year.

Update on Investments with Icelandic Banks

The Council has now recovered 94% of its investments in Heritable Bank. It is likely that further distributions will be received, although the administrators have not made an official estimate of final recoveries yet.

CIPFA issued further guidance on the accounting treatment surrounding these transactions in September 2013 when LAAP 82 (update 8) was issued. CIPFA has no plans to issue any additional updates.

Treasury Management Indicators

The Council measures and manages its exposures to treasury management risks using the following indicators:

Interest Rate Exposures: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed will be:

	2014/15	2015/16	2016/17
Upper limit on fixed interest rate exposure	100%	100%	100%
Actual	100%		
Upper limit on variable interest rate exposure	50%	50%	50%
Actual	0%		

Principal Sums Invested for Periods Longer than 364 days: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested for periods longer than 364 days are:

	2014/15	2015/16	2016/17
Limit on principal invested beyond year end	£30m	£20m	£10m
Actual	£1m	£1m	£1m

Security: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit score] of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment.

	Target	Actual
Portfolio average credit score	6.0	4.06

Investment Training

During the period officers have attended investment training with Arlingclose and CIPFA relevant to their roles.

CYFARFOD: PWYLLGOR PENSIYNAU

DYDDIAD: 24 MAWRTH 2015

TEITL: BUDDSODDIAD ECWITI PREIFAT

PWRPAS: Gofyn i'r pwyllgor pensiynau penderfynu ar fuddsoddiad

ARGYMHELLIAD: DERBYN YR ARGYMHELLIAD

AWDUR: CAROLINE ROBERTS, RHEOLWR BUDDSODDI

1. CYFLWYNIAD

- 1.1** Cynhaliwyd cyfarfod chwarterol y Panel Buddsoddi'r Gronfa Bensiwn ar 10 Chwefror 2015 yn Llundain.

2. BUDDSODDIAD ECWITI PREIFAT

- 2.1** Trafodwyd adroddiad gan Hymans Robertson ar opsiynau ar gyfer ymrwymiad bellach i ecwiti preifat. Barn y Panel oedd y dylid buddsoddi \$38 miliwn (£25 million) mewn cronfa o gronfeydd ecwiti gyda Partners Group. Gan bod hyn yn buddsoddiad uniongyrchol nid oes angen mynd trwy broses caffael.

3. ARGYMHELLIAD

- 3.1** Gofynnir i'r Pwyllgor cadarnhau buddsoddiad uniongyrchol gyda Partners Group Secondary 2015 yn unol â barn y Panel Buddsoddi.

MEETING: **PENSIONS COMMITTEE**

DATE: **24 MARCH 2015**

TITLE: **PENSION BOARD**

PURPOSE: **To inform the Pensions Committee of the arrangements to establish the Pension Board**

RECOMMENDATION: **NOTE THE INFORMATION**

AUTHOR: **CAROLINE ROBERTS, INVESTMENT MANAGER**

1. INTRODUCTION

- 1.1 This committee received a report in October 2014 regarding the requirement to establish a Local Pension Board by 1st April 2015.
- 1.2 The role of the board is to assist the administering authority to ensure compliance with all relevant regulations, other legislation and requirements in relation to the scheme. The board will also assist the authority to ensure effective and efficient governance and administration of the scheme.

2. GWYNEDD PENSION BOARD

- 2.1 At the Council meeting on 5th March 2015 the relevant changes to the Council's constitution were adopted to ensure that the Pension Board was established in accordance with the regulations. A copy of the report to the Council is attached at Appendix A.
- 2.2 The process of appointing Board members will take place in the coming months in order to ensure that the first meeting of the Board is held before the end of July 2015.

3. CONCLUSION

- 3.1 Members are asked to note the content of the report. An update will be provided at the next meeting of the Pensions Committee.

MEETING	AUDIT COMMITTEE
DATE	19 FEBRUARY 2015
TITLE	PROPOSED CHANGES TO THE CONSTITUTION ARISING FROM THE PUBLIC SERVICE PENSIONS ACT 2013 AND THE LOCAL GOVERNMENT PENSION SCHEME (AMENDMENT) (GOVERNANCE) REGULATIONS 2014
AUTHOR	DAFYDD L EDWARDS – HEAD OF FINANCE IWAN G D EVANS – HEAD OF LEGAL
CABINET MEMBER	COUNCILLOR PEREDUR JENKINS

1. Summary

This report asks Members to consider changes to those sections of the Constitution which relate to the Local Government Pension Scheme (LGPS). The proposed changes have been drafted to ensure the Council, as Administering Authority for the Gwynedd Local Government Pension Scheme, complies with the requirements of the Public Service Pensions Act 2013 and the Local Government Pension Scheme (Amendment) (Governance) Regulations 2014 relating to the creation of a Local Pension Board.

The changes proposed define the functions, membership and operating structure of the Gwynedd Pension Board (Appendix 3).

2. Background

- 2.1 The Public Service Pensions Act (PSPA) 2013, was the culmination of a fundamental structural review of public service pension provision conducted by Lord Hutton on behalf of the government (“the Hutton Review”). Its purpose was to facilitate the introduction of changes to the governance arrangements; valuations methodology; scheme benefit structure; cost sharing arrangements etc. across all public sector pension schemes and for the first time bring them all under a single statutory framework.
- 2.2 With the exception of the regulations relating to governance and cost control, the Local Government Pension Scheme (Amendment) (Governance) Regulations 2014 (the Governance Regulations), the changes required under the PSPA in relation to the Local Government Pension Scheme (LGPS) have no impact upon the Council’s Constitution and have been fully implemented by Gwynedd Pension Fund.
- 2.3 The Governance Regulations require amendments to the Council’s Constitution. This is because the PSPA sets out a requirement for all public service pension schemes to establish Local Pension Boards by 1st April 2015.

- 2.4 The members of the Pensions Committee have received a briefing on the changes to governance arrangements and officers have worked with other Administration Authorities in determining how best to respond to the regulatory requirements.
- 2.5 To ensure this statutory deadline is met and the Gwynedd Local Pension Board is established in accordance with regulations the attached additions and revisions to the Constitution and the pension scheme management arrangements (Appendices 1, 2 and 3) are proposed. The changes cover the following areas:
- 2.5.1 Updating the delegations to the Section 151 Officer in order to include authorising expenditure by the Pension Board (Appendix 1).
- 2.5.2 Updating the functions of the Pensions Committee in order to include have regard to and consider recommendations from the Gwynedd Local Pension Board. (Appendix 2).
- 2.5.3 Establish the Local Pension Board (Appendix 3).
- 2.5.4 To include the functions, membership and operating structure of the Gwynedd Pension Board (Appendix 3)
- The Pension Board reports to the Council as the Administration Authority for the Fund.
 - The Pension Board has an external reporting responsibility to the Pensions Regulator, who in accordance with the PSPA 2013 has a compliance and oversight role across all public sector pension schemes.
 - The Pension Board is constituted as a non-decision making body to assist the Administration Authority in:
 - securing compliance with scheme regulations, other legislation covering governance and administration and the requirements of the Pensions Regulator and
 - securing effective and efficient governance and administration of the Scheme.

3. Recommendation

- 3.1 To recommend to Council revisions to the sections of the Constitution which relate to the LGPS, the aim of which is to ensure that the Council, as Administering Authority for the Gwynedd Local Government Pension Scheme, complies with the Public Service Pensions Act 2013 and the Local Government Pension Scheme (Amendment) (Governance) Regulations 2014.
- 3.2 Establish the Gwynedd Pension Fund Pension Board in accordance with the report, the Terms of Reference and Governance (Appendix 3)

Appendix 1: Proposed Constitution amendment to delegations to the Section 151 Officer

5. Head of Finance Department

In the "Scheme of Delegation to Committees" in Appendix 3 to Section 13 of the Constitution, it is noted where functions that are not the responsibility of the Executive have been delegated to Chief Officers. Where no chief officer has been named in that document, the power has not been delegated rather it has been reserved by the committee.

Functions Delegated by Council

- 5.1 To be the proper officer for the purpose of Section 151 Local Government Act 1972 and Section 114 of the Local Government Finance Act 1988.

Functions Delegated by Cabinet

- 5.2 To act on a day to day basis and within the scheme in the following areas:-
- Internal Audit
 - Accountancy
 - Risk Management and Insurance
 - The Pension Fund and the Pension Scheme
 - Treasury Management (including investments)
 - Council Tax and Non-domestic Rates
 - Housing Benefits and Council Tax Reductions
 - Payments
 - Income and creditors
 - Payroll
 - Information Technology.
- 5.3 To be the proper officer for the purposes of Section 115 and 146 of the Local Government Act 1972.
- 5.4 The right to sign a certificate that contracts comply with the Local Government (Contracts) Act 1997.
- 5.5 To nominate benefit anti-fraud officers.
- 5.6 To authorise the write-off of debts up to the amounts noted in the Financial Procedure Rules.
- 5.7 To be the Authorising Officer for the purposes of the Regulation of

Investigatory Powers Act 2000 and may authorise other officers within their service similarly to be an Authorised Officer.

5.8 Approval of expenditure of the Gwynedd Pension Fund Pension Board

Appendix 2: Proposed Constitution wording:

PENSIONS COMMITTEE

Function	A provision of an act or Statutory Instrument	Delegation - (subject to any restrictions in the Schemes for Delegation to Officers)
1. A function involving local government pensions etc.	Regulations under section 7, 12 or 24 of the Superannuation Act 1972 (p.11), Section 3 Public Services Pensions Act 2013	
2. Functions under current Pension Plans in relation to persons employed by fire and rescue authorities in accordance with Section 1 Fire and Rescue Services Act 2004	Sections 34 and 36 of the Fire and Rescue Services Act 2004. Regulations under Section 3 Public Services Pensions Act 2013	
3.To have regard to and consider the recommendations of the Gwynedd Pension Fund Pension Board		

Appendix 3

Terms of reference and governance for the Pension Board of the Gwynedd Pension Fund

Terms of Reference and Delegated Authorities

1) Introduction

The purpose of this document is to set out the terms of reference for the local Pension Board of the Gwynedd pension fund.

2) Role of the Local Pension Board

2.1 The role of the local Pension Board as defined by sections 5 (1) and (2) of the Public Service Pensions Act 2013, is to:

- Assist Gwynedd Administering Authority as Scheme Manager; –
- - to secure compliance with the Local Government Pension Scheme (“LGPS”) regulations and any other legislation relating to the governance and administration of the LGPS
 - to secure compliance with requirements imposed in relation to the LGPS by the Pensions Regulator
 - in such other matters as the LGPS regulations may specify
- Secure the effective and efficient governance and administration of the LGPS for the Gwynedd Pension Fund

2.2 The Pension Board will ensure it effectively and efficiently complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator. The Pension Board will also help ensure that the Gwynedd Pension Fund is managed and administered effectively and efficiently and complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator. The Scheme Regulations and the Scheme Manager will determine the remit of the Board.

2.3 The Pension Board shall report twice yearly to the Pensions Committee on matters reviewed and suggestions for consideration. Meetings will be held during normal working hours and within County boundaries. The Board will meet on a minimum of two separate occasions annually.

2.4 The Pension Board should always act within its terms of reference.

2.5 The Board is constituted under the Public Service Pension Act 2013 and the Local Government Pension Scheme(Amendment) (Governance) Regulations 2014 and is therefore not subject to the requirements of Section 101 of the Local Government Act 1972. The Board has no remit as a decisions making body.

3) Appointment of members of the Pension Board

3.1 Equal representation between scheme employers and scheme members is required.

Subject to Regulation 107(5) of the Local Government Pension Scheme Regulations 2013 the Pension Board shall consist of 6 members and be constituted as follows:

- 3 employer representatives (one of whom shall represent the Administering Authority);

- 3 scheme member representatives;
-

Members will be appointed with the aim so far as reasonably practical of securing that the Board is representative of employer and member groups within the fund.

3.2 Employers and employees will be asked to nominate representatives for the Pension Board. The Administering Authority will convene a panel to select the members of the Pension Board. The Appointment Panel will consist of the Section 151 Officer, Monitoring Officer and Cabinet Member for Finance. The selection of individual Board members within each category will depend on the overall balance of experience and skills within the group.

3.3 Subject to 3.4 and 3.7 appointment will be for four years and there will be no limit on the number of times a member of the Board can be re-appointed.

3.4 Where a Board Member is appointed in an employer or member representative capacity then immediately upon the Board Member ceasing to so represent employers or members in that capacity their membership of the Board shall determine

3.5 The Administering Authority will appoint the Chair and the Vice Chair of the Pension Board from amongst the members of the Board. The roles will be split with one being an employer representative and one being a member representative and this will be alternated on a two year cycle.

3.6 It will be the role of the Chair to ensure that all members of the Board show due respect for process, that all views are fully heard and considered and to determine when consensus has been met.

3.7 Each Board member should endeavour to attend all Board meetings during the year. No substitutes will be permitted.

3.8 In the event of persistent non-attendance by any Board member at Board meetings or training, then the tenure of that membership will be reviewed by the other Board members in liaison with the Scheme Manager and the Scheme Manager can decide to terminate the membership. The Scheme Manager has discretion to terminate the membership of any Board member in the event that it considers it necessary or appropriate to do so.

3.9 Reimbursement of reasonable expenses for attendance at meetings and training sessions will be in accordance with the Council's agreed policies and rates for elected members.

3.10 As a non-decision making body the Board has no authority to establish Working Parties or Sub-groups.

4) Quorum

4.1 A meeting of the Board will be quorate if 3 Board Members are present, including the Chair or Vice Chair and the quorum must include at least, one employer representative and one member representative.

4.2 Each member shall have one vote but if required, the Chair will have the casting vote.

5) Conflicts of Interest

5.1 Prior to appointment to the Board all members will be required to sign up to the Board's Code of Conduct. As a body representing the public interest the Code of Conduct of members of the Pension Board will be aligned to those applicable to the Members of the Pensions Committee and is available on the Council's website. For the avoidance of doubt "conflict of interest" does not include a financial or other interest arising merely by virtue of membership of the scheme or any connected scheme
(Section 5(5) of the Public Services Pensions Act 2013).

5.2 Members of the Pensions Board will be required to comply with the requirements of the Code of Conduct when acting in their capacity as Board Members.

6) Advisers to the Board

6.1 The Board has the right to access the support of the experienced advisors and will have access to the advisors to the Administering Authority including the Actuary, Investment Managers, Investment Advisors and other advisors as approved by the Scheme Manager.

6.2 Due regard has to be taken of securing value for money and whether in the first instance Officers could provide the assistance required. Items of expenditure by the Board must have prior approval from the Section 151 Officer.

7) Knowledge and Skills

7.1 A member of the Pension Board must be conversant with:

- The legislation and associated guidance of the Local Government Pension Scheme (LGPS).
- Any document recording policy about the administration of the LGPS which is for the time being adopted by the Gwynedd Pension Fund.

A member of the Local Pension Board must have knowledge and understanding of –

- The law relating to pensions, and
- Any other matters which are prescribed in regulations.

7.2 The administering authority must ensure that each person appointed to the Board has the relevant experience and capacity to represent employers or members (as appropriate) of the Fund. Initially this will be done through selection by the Administering Authority but, following appointment, it is a Board Members individual responsibility to ensure that they attend all training to enable them to fulfil the knowledge and skills requirements. Full training will be provide and all reasonable costs will be met by the fund.

7.3 In line with this requirement Pension Board members are required to be able to demonstrate their knowledge and understanding and to refresh and keep their knowledge up to date. Pension Board members are therefore required to maintain a written record of relevant training and development.

7.4 Pension Board members will undertake a personal training needs analysis and regularly review their skills, competencies and knowledge to identify gaps or weaknesses.

7.5 Pension Board members will comply with the Scheme Manager's training policy.

8) Board Meetings – Notice and Minutes

8.1 The Scheme Manager shall give prior written notice to all Pension Board members of every meeting of the Pension Board. The Notice shall include the agenda, the minutes of the previous meeting and any report to be considered at the meeting. Such Notice, save in the case of urgency be provided to the members no later than 5 clear working days prior to the meeting.

The Scheme Manager shall ensure that a formal record of Pension Board proceedings is maintained. Following the approval of the minutes by the Chair of the Board or Board committee, they shall be circulated to all members.

9) Remit of the Board

9.1 The Pension Board must assist the Scheme Manager with such other matters as the scheme regulations may specify. It is for scheme regulations and the Scheme Manager to determine precisely what the Pension Board's role entails.

10) Publication of Pension Board information

10.1 Scheme members and other interested parties will want to know that the Gwynedd Pension Fund is being efficiently and effectively managed. They will also want to be confident that the Pension Board is properly constituted, trained and competent in order to comply with scheme regulations, the governance and administration of the scheme and requirements of the Pension Regulator.

10.2 Up to date information will be posted on the Gwynedd Council website.

10.3 Pension Board papers, agendas and minutes of meetings will be published on the Gwynedd Council website. These may at the discretion of the Scheme Manager be edited to exclude items on the grounds that they would either involve the likely disclosure of exempt information as specified in Part 1 of Schedule 12A of the Local Government Act 1972 or it being confidential for the purposes of Section 100A(2) of that Act and/or they represent data covered by the Data Protection Act 1998.

10.4 The Scheme Manager will also consider requests for additional information to be published or made available to individual scheme members to encourage scheme member engagement and promote a culture of openness and transparency.

11) Accountability

11.1 The Pension Board and its members will be collectively and individually accountable to the Scheme Manager.

MEETING	COUNCIL
DATE	5 MARCH 2015
TITLE	PROPOSED CHANGES TO THE CONSTITUTION ARISING FROM THE PUBLIC SERVICE PENSIONS ACT 2013 AND THE LOCAL GOVERNMENT PENSION SCHEME (AMENDMENT) (GOVERNANCE) REGULATIONS 2014
AUTHOR	DAFYDD L EDWARDS – HEAD OF FINANCE IWAN G D EVANS – HEAD OF LEGAL
CABINET MEMBER	COUNCILLOR PEREDUR JENKINS

1. Summary

This report asks Members to consider changes to those sections of the Constitution which relate to the Local Government Pension Scheme (LGPS). The proposed changes have been drafted to ensure the Council, as Administering Authority for the Gwynedd Local Government Pension Scheme, complies with the requirements of the Public Service Pensions Act 2013 and the Local Government Pension Scheme (Amendment) (Governance) Regulations 2014 relating to the creation of a Local Pension Board.

The attached report to the Audit Committee sets out the background and details. At its meeting on the 19th of February the Audit Committee resolved to recommend to the Council that it:

- (i) Reviews the sections of the Constitution which relate to the LGPS in order to ensure that the Council as the Administering Authority for the Gwynedd Pension Fund comply with the Public Services Pensions Act 2013 and the Local Government Pension Scheme (Governance) Amendment) Regulations 2015.
- (ii) Establish the Gwynedd Pension Fund Local Pension Board in accordance with the report and the Terms of Reference and Governance with delegated powers for the Head of Finance in consultation with the Head Of Legal Services to make minor amendments to the governance arrangements should that be required.

2. Recommendation

- 2.1 To adopt the revisions to the sections of the Constitution which relate to the LGPS, the aim of which is to ensure that the Council, as Administering Authority for the Gwynedd Local Government Pension Scheme, complies with the Public Service Pensions Act 2013 and the Local Government Pension Scheme (Amendment) (Governance) Regulations 2014.
- 2.2 Establish the Gwynedd Pension Fund Local Pension Board in accordance with the report and the Terms of Reference and Governance with delegated powers for the Head of Finance in consultation with the Head Of Legal Services to make minor amendments to the governance arrangements should that be required.