PENSIONS COMMITTEE
14-12-07

Present: Councillor Glyn Owen (Chairman)

Councillors: Robert J. Hughes, Peredur Jenkins, Arwel Jones and Councillor Dave Cowans (Conwy County Borough Council Representative)

Also present: Dilwyn Williams (Strategic Director – Resources), Dafydd Edwards, (Head of Finance), Gareth Jones (Pension Operations Manager), Marina Parry Owen, (Pensions and Investments Officer) and Ioan Hughes (Committee Officer)

Apologies: Councillors J.R. Jones, Trevor Roberts, Alan Williams, and David Lewis Roberts, (co-opted member and Anglesey County Council Representative)

1. DECLARATION OF PERSONAL INTEREST

Councillor Robert J. Hughes declared a personal interest in item 7, (Funding Strategy Statement) as he was employed part-time by Coleg Meirion-Dwyfor.

1. MINUTES

The Chairman signed the minutes of this committee, held on 12 September 2007, as a true record.

2. ETHICAL INVESTING

Submitted – the report of the Head of Finance, noting that questions arose regularly regarding 'ethical investing' or 'responsible investing'.

He added that one of the proposed 'improvements' in the Council's business plan was that the strategy pertaining to ethical investing be explained fully. Therefore, the Head of Finance wished members to consider which direction should be followed.

Some research work was done in the field, and consequently, the report explained the main considerations.

The officer referred to different means of ethical investing:

- Negative Criteria (Screening) (*avoiding investments which are considered unethical, such as tobacco, alcohol and arms)*
- Positive Criteria (*Target investments which operate for the benefit of the environment, such as sustainable energy, recycling etc)*
- Engagement (*Discuss with the companies invested in with a view to challenging and recognising their ethical credibility, and using the contact to influence counterparties)*

The Head of Finance reported further on the difficulties with the negative and positive criteria. In addition, he submitted information pertaining to the recent trends in the field of Engagement in order to place emphasis on engagement, namely to discuss (via investment managers) with companies about concerns, welcoming good practice and promoting better disclosure. Should

the response be unsatisfactorily, it would be possible to vote against approving the company's annual report.
The officer reported that questions could be asked of investment managers on a more regular basis, so that an ethical discussion could be created. He added that it would be possible for Hymans to investigate in order to show whether come of the Council's current investment managers had ethical or socially-responsible policies.

The Strategic Director – Resources referred to the difficulty of meeting everybody's "ethics" and that criticism could be faced should ethical investing substantially affect investment growth.

A member noted that too much intervention should not take place, as a decision not to invest in some fields, such as tobacco, would have a detrimental affect on poor workers in some countries. It was also suggested that a percentage of the Fund could be invested ethically, but it was warned that this could also create difficulties should the percentage of ethical investments perform poorly.

Serious consideration was given to adopting the following social, environmental and ethical procedure:

- The prime objective of the Fund would be to achieve the best financial return consistent with an acceptable degree of risk.
- However, the Fund recognised that the adoption by companies of positive social, environmental and ethical principles in planning their activities could enhance their long-term performance and financial returns.
- The Fund had delegated to the fund managers responsibility for taking social, environmental and ethical considerations into account when assessing the financial potential and suitability of investments. Each manager must work positively with companies to promote forward-looking social, environmental and ethical standards, rather than adopting a policy of negative screening of stocks.

RESOLVED to be cautious before taking formal steps to this direction, to ask the Hymans Company to report on the latest situation regarding ethical investment, and specifically whether there is any evidence regarding the returns of 'ethical' investment funds, and that the report be submitted to this Committee.

3. LOCAL GOVERNMENT PENSION SCHEME – PROPOSALS TO PROVIDE A THIRD TIER OF ILL HEALTH PROVISION

Submitted – the report of the Head of Finance informing members of the consultation on the draft third tier health provisions.

The officer explained that the Department of Communities and Local Government was consulting on proposals to provide a third tier ill health provision within the Local Government Pension Scheme Regulations. The appendix submitted included the draft proposal and comments were invited to be submitted by 12 January 2008.

The Pension Operations Manager elaborated that the third tier would provide for members of the scheme who were assessed as being permanently incapable of undertaking their current employment, but there was medical evidence suggesting that gainful employment could be obtained immediately or in the near future.

Tiers one and two were already in place and would come into effect on 1 April 2008 as part of the new look pension scheme. Details were submitted pertaining to the requirements of these.

In considering costs, the Head of Finance reported that the Department of Communities and Local Government had suggested that the cost of providing the third tier was tantamount to 0.1% of the payroll. Despite this, he said that it would be difficult to assess the accuracy of the estimate, and that there would be varied experiences among employers. He added that the answers to what the level of 'take-up' of the third tier provision would be, what the effect of the review and the suspension proved to be and how future ill health retirements would be split across the three tiers were all unknown, but had an impact on the true cost of the overall scheme provision.

The officer emphasised that introduction of the third tier ill health provision payable out of the pension fund would be payable from the pension fund, and subject to review, would add considerably to the workload of the pension administration unit. Additional resources would be required to properly administer and manager the review process. In addition, if clear unambiguous guidelines were not provided, it would be likely that individuals would invoke the appeals procedure should their pension be suspended.

The Strategic Director – Resources stated that the third tier could be a means of ending fraud. However, by not setting a fixed time regarding when the pension would be payable, the encouragement to ensure 'gainful employment' would be lost.

Mixed feelings were expressed by members, with some concerned that there was a risk that many could abuse the third tier; whilst others felt that it could be beneficial.

RESOLVED:

a) To respond to the Department of Communities and Local Government as follows:

- **The Gwynedd Pension Fund does not oppose the principle of providing a third tier of ill health retirement within the Local Government Pension Scheme Regulations provided the release of benefits is for a short and limited fixed time, say twelve months, and therefore not subject to review, and that specific, clear and unambiguous regulations and guidelines are stipulated in particular the precise way the definition of gainful employment will be applied**
- **Should the Regulations contain the requirement for a review to be undertaken, the Gwynedd Pension Fund recommends that this should be instigated one year on from the date of retirement.**

4. FUNDING STRATEGY STATEMENT

Submitted – the report of the Strategic Director – Resources and the members were reminded that it was required to review and publish the Council's Funding Strategy Statement by 31 March 2008. Gwynedd's current FSS had been approved by the Pensions Committee on 27 January 2005.

As part of the review, the administering authority would have to consult with each scheme employer, the fund actuary and advisers and any other persons they considered appropriate.

A draft outline of the FSS was submitted and the officer reported that the gaps were dependent on the valuation results whilst others were dependent on the policies the Committee would have to decide upon.

Following the recent receipt of preliminary actuarial results, the Committee now needed to decide upon the following issues:

- The anticipated excess return from equities compared to the return from gilts.
- Deficit recovery periods
- Phasing in of Contributions

The officer reported on each of these individually.

The anticipated excess return from equities compared to the return from gilts

The Strategic Director – Resources reported that this referred to the difference between the expected return achieved by equities and the expected return from gilts. As the difference between the expected returns became greater, the risk increased and the funding basis became less prudent.

With a prudent funding basis in the 2004 valuation, the anticipated excess return from equities was 1.75%. The Committee needed to decide whether they were comfortable to use the same assumption for the 2007 valuation.

Deficit Recovery Periods

In the 2004 valuation, the administering authority decided that for statutory bodies with tax raising powers, any deficit could be recovered over 20 years. For all the other employers, the deficit was to be recovered over the future working lifetime of the remaining scheme members.

However, a request had been made by the colleges that they be allowed to recover any deficit over a period of 15 years. This would apply to Coleg Menai, Coleg Meirion-Dwyfor and Coleg Llandrillo. The committee needed to decide on the requests and on any changes.

Phasing in of Contributions

Apart from Best Value Admission Bodies permitted as members, all other employers would be eligible to phase in contribution rises. In the 2004 valuation, the Committee decided that all other employers could opt to phase in contribution rises over a period of three years unless the total increase in contributions was over 4.5% of pay, in which case the increase could be phased in over a period of four years.

However, the employers who opted to phase in their contributions over a period of four years would not reach their target contribution level until 2008/09. Therefore, for 2008/09, their contribution rate would either be the contribution level set for 2008/09 in the current FSS (based on the 2004 valuation) or the new level set by the actuary in the 2007 valuation, whichever was the lesser. The Committee needed to decide whether it was satisfied with this arrangement.

RESOLVED to include the following steps for the version of the Funding Strategy Statement consulted on:
a) to accept that the anticipated return from investing in equities rather than gilts of 1,75%, as it was in the 2004 valuation, is acceptable for the 2007 valuation.
b) to increase the period for recovering the deficits of Coleg Menai, Coleg Meirion-Dwyfor and Coleg Llandrillo to 15 years and to accept that the recovery periods for the other employers used in the 2004 valuation was acceptable for the 2007 valuation.
c) that employers facing an increase are expected to reach their new rate immediately, however, should there be an increase in excess of 1% of employers contributions from the rate that should be paid following the final point of the 2004 valuation and the new rate, then we would consider phasing in the increased rate.

5. GOVERNANCE COMPLIANCE STATEMENT

Submitted – the report of the Strategic Director – Resources, explaining the Local Government Pension Scheme (Amendment) (No 3) Regulations that came into force in June 2007. These required administering authorities to publish a Governance Compliance Statement (GCS) by 1 March 2008.

The statement required administering authorities to note the extent to which they comply with the nine best practice principles by the Department for Communities and Local Government (DCLG) in draft form on the 8 October 2007. Should the Council fail to comply with the principles, it would have to state reasons for not doing so.

The Strategic Director – Resources reported that there were some areas where the Gwynedd Pension Fund did not comply with the requirements, namely:

- The structures of the Committee(s)

- Representation on the Committee(s)
- The Selection and Role of Lay Members within the Committee(s)
- Voting rights.

The officer added that the Gwynedd Pension Fund complied with the remaining principles. He further reported that the Council, following this meeting, would formally consult with the interested parties. Then, at the end of the consultation period, the Pensions Committee would need to discuss the interested parties' response and decide upon the final version of the Governance Compliance Statement.

In terms of representation on the Committee, the guidelines state that each key stakeholder should be given the opportunity to be represented on the structure of the principal or second committee. The Pensions Committee already included a representative from Conwy County Borough Council and a representative from Anglesey County Council. However, the officer noted that the permitted bodies, scheme members nor pensioners were represented. There was no independent professional observer on the Committee either.

The Strategic Director – Resources expressed some concern in regard to the additional administrative work created should representation on the Committee be extended or a second body be created. Despite this, he suggested that this could generate more interest in the Pension Fund. He emphasised that consultations needed to take place between employers and the Unions.

Reference was also made to the voting rights and the existing procedure with the Pensions Committee including seven elected members from Gwynedd Council with voting rights, along with one representative from Anglesey and Conwy, without voting rights.

The member from Conwy noted that he was satisfied with this procedure, and that he did not wish to see any changes.

Members emphasised that the representation in the Pension Fund Annual Meeting was very poor. Therefore, they did not see any value in extending the representation or creating a second body if members did not ensure a strong representation.

RESOLVED to consult in order to obtain the opinion of key stakeholders so that the Governance Compliance Statement could be sent to stakeholders by mid February 2008.

6. EXCLUSION OF PRESS AND PUBLIC

Resolved that the press and public be excluded from the meeting during the discussion on the following items due to the likely disclosure of exempt information as defined in paragraphs 12 and 13, Part 4, Schedule 12A, of the Local Government Act 1972. These paragraphs applied because the individuals in question were entitled to privacy and there was no overriding public interest that required the disclosure of personal information relating to those individuals, nor their identities. Consequently, the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

7. INVESTMENT STRATEGY

Submitted – the report of the Strategic Director – Resources which referred to the recent discussions regarding the strategic direction of the Fund's investments and the disappointing performance both of the Fund's active managers, along with options on the way forward.

Committee members had already challenged a paper received from the Fund's Adviser, suggesting a way forward and had received an explanation regarding the reasons for continuing to have active managers. Should members wish to change both, it was suggested that one could be disposed, leaving the other's fate until a later date, as changing both at the same time would prove difficult.

The comparative performance of both managers was considered, and in light of the recent strategic change, despite the fact that they had reassured the Fund that it was on the right track, the officer suggested that the position of UBS could be considered initially, should the committee wish to follow this direction.

RESOLVED

a) to dispose of the UBS company as active investors, except with regard to the Property Fund.

b) to move into a more 'passive' position as noted in the report, by reducing the resources given to active investors and to give two global equality briefs – one to Capital International for the time being (by changing their brief and the sum given to them to manage) and to identify another manager to replace UBS.

c) to note at the same time whether Capital International's position should be reconsidered, should their position fail to show an improvement over the next year.