Complete Agenda

Democratic Service
Swyddfa'r Cygnor
CAERNARFON
Gwynedd
LL55 1SH

Meeting

PENSION BOARD

Date and Time

2.00 pm, THURSDAY, 12TH APRIL, 2018

Location

Ystafell Gwyrfai, Council Offices,

Caernarfon, Gwynedd. LL55 1SH

Contact Point

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(DISTRIBUTED 04/04/18)

PENSION BOARD

MEMBERSHIP

EMPLOYER REPRESENTATIVES

Anthony William Deakin	Cartrefi Conwy
Councillor Aled Ll. Evans	Cyngor Gwynedd Council
Huw Trainor	North Wales Police

MEMBER REPRESENTATIVES

Hywel Eifion Jones	(retired – formerly Anglesey Council)
Osian Richards	Members Representative
Sharon Warnes	(retired - formerly Gwynedd Council)

A G E N D A

PENSION BOARD, 15.02.18

Present: Anthony Deakin (Cartrefi Conwy), Councillor Aled Evans (Gwynedd Council), H. Eifion Jones (Scheme Members' Representative) and Osian Richards (Scheme Members' Representative)
Others invited: Councillor Stephen Churchman (Chair of the Pensions Committee).

Officers:- Dafydd Edwards (Head of Finance Department), Meirion Jones (Senior Communication Officer - Pensions) and Lowri Haf Evans (Member Support Officer).

1. APOLOGIES

An apology had been received from Huw Trainor (North Wales Police) and Sharon Warnes (Scheme Members' Representative)

2. DECLARATION OF PERSONAL INTEREST

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

3. URGENT ITEMS

None to note

4. MINUTES OF THE PREVIOUS MEETING

The Chair signed the minutes of the meeting of this committee, held on 5 December 2017, as a true record.

5. PENSIONS COMMITTEE MINUTES

The minutes of the Pensions Committee held on 18 January 2018 were accepted for information.

Indemnity Insurance

The Chair reported that he was continuing to seek clarity regarding Indemnity Insurance for Pension Board Members. He highlighted the fact that he had received an e-mail from Gerard Moore who expressed his personal views on the matter. He had expressed the view that in the context of any potential fine being imposed on a Board member by the Regulator, that the most likely reasons for such steps would be: to ignore the responsibility to receive training by avoiding any effort to become familiar with the rules of the scheme or of being neglectful, in terms of ignoring key risks.

One of the members highlighted that there was a risk also where there was potential for a member of the Board to release commercially sensitive confidential information to an investment manager who would use this to their advantage, that would enable another investment manager to challenge him/her due to losing a commercial opportunity as a result.

It was noted that the Committee's success was essential and that the main function of the Board was supervising the Committee's work. It was suggested that there was potential here to see fault if there would be insufficient risk supervision work.

It was decided to question Zurich Municipal further on the above matters.

LPFA Meeting 30.1.2018

Observations were received from Councillor Stephen Churchman on the main matters discussed at the meeting. This included member fees and the importance of engagement. The need to adapt and improve engagement methods both regionally and locally was emphasised.

Responsible Investment

Following a training session held on 18.1.2018, it was reported that a report would be prepared by Paul Potter from Hymans that would outline the agreed investment principles of Gwynedd members and officers based on responses to the questionnaire completed for the session. The intention was to recommend observations for responsible investment and setting the direction of investments. The need to consider executive ownership that would encourage traditional investors to adapt their priorities was highlighted.

6. REVIEW OF AN ADDITIONAL VOLUNTARY CONTRIBUTION PROVIDER

For information, a report was submitted highlighting the intention of holding a review of an additional voluntary contributions (AVC) provider. Clerical Medical (a part of the Lloyds TSB Group) had been Gwynedd's AVC provider since 2001. It was reported that Clerical Medical was now closed to new business and that the level of support to Members and employers was relatively restricted compared to some other AVC providers. Although Clerical Medical was efficient when allocating monthly contributions and paying AVC money after retirement, it was felt that the services for Members was defective compared with their competitors and that there was a need to consider a provider that offered more modern elements.

In order to ensure compliance with the Pension Regulator's code of practice, and to ensure that the best service was being offered to the fund's members, it was decided to hold a review of the AVC provision. Following a procurement process, Hymans Robertson was appointed to undertake the review. It was explained that Gwynedd had three options - stay with Clerical Medical, transfer to a new company or move over to a part of the Lloyds Banking Group that looked for new AVC contracts. It was reported that the outcome of the review would be reported to the Pensions Committee on 15 March, with the report being circulated to Board members for information.

In response to the presentation, it was suggested that companies, once they were closed to new businesses, tended to lose interest and therefore it was timely to hold a review. It was noted that there was a need to consider the costs of transferring and the implications and costs to payroll.

Resolved to accept the information.

7. FUND'S WEBSITE

The Senior Communication Officer submitted an update on the new-look Pension Fund website. It was explained that the existing website had been operational for 10 years and that the software used to update the existing website was not user-friendly any more. It was reported that the website's design had been completely re-designed and that tiles had been used, rather than a traditional menu. It was reiterated that the new format would be easier for mobile phones and would include more information. It was noted that the new website would be launched on 1.3.2018, and that e-mail messages would be sent to all staff with e-mail access, informing them that the new website was available.

The update was welcomed and it was reiterated that the improvement was substantial. Gratitude was expressed for the work and to the Information Technology Department for their support.

The report was accepted.

8. WALES PENSIONS PARTNERSHIP

The Head of Finance Department gave an oral update on Wales Pensions Partnership developments. Following a press release, it was confirmed that Link Asset Services had been appointed as operator for the partnership's fund following a thorough procurement process by the Wales Pension Partnership and the consultants, Hymans Robertson and Burges Salmon.

It was reported that Link would jointly establish and maintain an investment vehicle which would be tax-efficient on behalf of the Wales Pension Partnership. It was added that Link, with the assistance of Russell Investments (in an investment consultant role), and in consultation with the eight single local authority funds, had started to plan the process of appointing investment managers companies.

It was highlighted that appointing Link was a positive step and a milestone on the journey of establishing a Collective Investment Vehicle, in accordance with the requirements of the Westminster Government. It was reported that the process had now entered an establishment period and that a project plan had been programmed.

The intention was that Link, with the support of the Wales Pensions Partnership, would initially establish **one** Global Equity sub-fund, in order to show that they were 'operational' on time, and then undertake detailed work on structures prior to launching other sub-funds. It would be possible to trial one sub-fund in order to have an opportunity to adapt and review the amount to invest in it as appropriate. Link would submit a document to the Governance Joint Committee in March, which would detail all of the other sub-funds and their timelines.

RESOLVED to accept the information.

9. AN UPDATE TO THE BOARD’S WORK PROGRAMME

A work programme (draft) for 2018/19 was submitted, including matters noted following consideration by the Board at previous meetings. It was reiterated that meeting dates would be confirmed after the Full Council accepted the Committees Calendar for 2018/19 at its meeting on 1 March. It was highlighted that the work programme was a live programme and that there was an opportunity to submit suggestions for additional items during the year.

In response to an issue relating to submitting data accurately and timely, it was suggested that warning steps should be established should there be difficulties in terms of submitting data accurately and in a timely way. It was suggested that consideration should be given to escalating any difficulties and communicating with senior officers should the matter remain unresolved, reiterating that any failure was a cost to the fund.

10. CIPFA SPRING SEMINARS

For information, details of the CIPFA Seminars for Spring 2018 were provided to members. It was reported that the seminars provided training and gave focus on other key matters that had become apparent. It was reiterated that the seminars were also a good opportunity for members to network with the Pension Board members of other funds. It was highlighted that some dates had already been cancelled - the Liverpool and Cardiff Seminars. Members were asked to express an interest in attending the seminars.

Osian Richards confirmed that he would be attending the London Seminar on 26.2.18.

In response to the information, frustration and concern was highlighted as two of the seminars had already been cancelled. It was assumed that the Cardiff seminar would have been relevant to the Welsh funds and so disappointment was expressed that the seminar had been cancelled. The need for organisers to give sufficient time for Members to hold discussions locally and make nominations was noted. With the organisers encouraging members to take advantage of training sessions, it was difficult to understand why seminars were being cancelled.

It was decided to express disappointment to the organisers.

The meeting commenced at 2pm and concluded at 3:20pm.

PENSIONS COMMITTEE 15.03.2018

Present: Councillors: Stephen Churchman (Chair), David Cowans (Conwy Borough Council), John Griffith (Isle of Anglesey County Council), Peredur Jenkins, John Brynmor Hughes, Aled Wyn Jones, John Pughe Roberts and Hywel Eifion Jones (Pensions Board - Observing)

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

1. APOLOGIES

Apologies were received from Councillors Simon Glyn and Peter Read.

2. DECLARATION OF PERSONAL INTEREST

None to note

3. URGENT ITEMS

None to note

4. MINUTES

The Chair signed the minutes of the meeting of this committee, held on 18 January 2018, as a true record.

5. TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY FOR 2018/2019

In accordance with Welsh Government's Statutory Guidance on Local Government Investments, the Council was required to prepare an Annual Investment Strategy as part of its treasury management role. As good practice, it was considered that the Gwynedd Pension Fund (the "Fund"), should adopt Gwynedd Council's Treasury Management Strategy Statement (TMSS) for 2018/19, as revised for the purpose of the Pensions Fund. Gwynedd Council's TMSS for 2018/19 was approved by the full Council on 8 March 2018.

In addition, the Pensions Committee was asked to request that the Council allow the surplus cash balances of the Pensions Fund to be pooled with the Authority's general cash flow from 1 April onwards. It was explained that pooling the cash flow achieved better rates of interest and reduced banking costs.

It was highlighted that these funds were being invested with counterparties in accordance with the TMSS in order to maximise returns. Attention was drawn to the following main aims, highlighting that the CIPFA Code and WG Guidance required that the Authority invest its funds prudently, giving consideration to the safety and liquidity of its investments before attempting the highest rates of return, or the highest yield.

It was noted that interest rates were currently very low; thus, other creative methods of investment were being considered. It was also confirmed that the priority was to safeguard the Fund and protect the money, rather than take risks.

It was proposed and seconded to accept the recommendations.

One member suggested the need for a statement from the Monitoring Officer at the beginning of the report stating that the arrangement was legally correct along with an explanation of the way the process was managed.

RESOLVED

To approve the Treasury Management Strategy Statement and the Annual Investment Strategy for 2018/19, as adapted for the purpose of the Pensions Fund.

- **To request that the Council allow the Pension Fund's reserves to continue to be pooled with the Council's general cash flow from 1 April 2018 onwards.**

6. RESPONSIBLE INVESTMENT AND GOVERNANCE

Following a training session held jointly with Board members on 18.1.2018, it was reported that Paul Potter from Hymans had prepared a report that outlined the agreed investment principles of Gwynedd members and officers based on responses to the questionnaire completed for the session. It was noted that this report, 'Agree Responsible Investment Principles' had been discussed at the Investment panel held on 28 February, and the Panel's main considerations were presented to the Committee to approve the principles.

The next step would be to present the listed principles to the Pensions Board (12.4.18) for scrutiny. If the Board agreed, it would be possible to incorporate the principles as an official part of the Fund's Investment Strategy Statement.

In response to the report, it was highlighted that it was timely to accept the principles in the context of the Wales Pensions Partnership. Gwynedd would have a clear opinion about its investing principles.

The principle of seeking to invest in sustainable assets was welcomed, including investing in the Wales area when 'non-financial gains' derived from it. It was reiterated that the Fund would consider investing in Welsh assets when the criteria permitted. Ensuring the best returns is the Fund's main priority.

In response to an observation about the wording of principles 2.1 and 2.2, and the suggestion that statements contradicted each other, it was noted that it was necessary to consider the principles in their entire context, without breaking up sentences and focusing on individual words.

The Head of Finance Department explained that the legal interpretation of "SAB" or "fiduciary duty" had been circulated to members of the Committee before the meeting of the Investment Panel.

RESOLVED to adopt the fundamental principles about responsible investing so that they can be included in the Fund's Investment Strategy Statement.

2.1 In accordance with the Committee's fiduciary duty, financial considerations should carry more weight than non-financial considerations when making investment decisions, even though environmental, social, and governance ('ESG') matters can materially affect risk and returns. Therefore, 'ESG' factors should be embedded in the investment processes and in the decision-making processes of the managers appointed by the Fund.

2.2 The Fund's Committee will seek to invest in sustainable assets, including investing within the Wales area when non-financial investments can derive from this, on condition that they satisfy the requirements of the fiduciary duty.

2.3 The Committee accepts that it has a duty to be a responsible investor. It is expected that consulting with companies, rather than avoiding investing, will be more effective in changing corporate behaviour and reducing risk. Wherever possible, collaborative action provides the most successful route to influence outputs.

2.4 As a long-term investor, the Fund is vulnerable to systemic risks such as climate change and the expectation of a transfer to a low carbon economy. Financial outcomes can be improved through managing how open to such risks the fund is.

2.5 Share-holder comprehension and outcomes can be improved through providing transparency at each step of the value-adding chain.

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

MEETING:	**PENSION BOARD**
DATE:	**12 APRIL 2018**
TITLE:	**TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY FOR 2018/19**
PURPOSE:	**To enable members of the Board to assess the treasury management arrangements for the Pension Fund.**
RECOMMENDATION:	**To make any recommendations resulting from the assessment**
AUTHOR:	**CAROLINE ROBERTS, INVESTMENT MANAGER**

1. INTRODUCTION

It is good practice for the Gwynedd Pension Fund to adopt the adopt Gwynedd Council's Treasury Management Strategy Statement (TMSS). The Pensions Committee adopted the TMSS for 2018/19 at the Committee meeting on 15 March 2018 following the Council's adoption at the meeting on 8 March 2018.

2. PENSION FUND TMSS

The TMSS covers cash in thePension Fund accounts representing day-to-day cash flow. The long-term pension fund investments are coveredremove by the Pension Fund Investment Strategy Statement and are not relevant for this report.

The Pension Fund cash is pooled with the Council's cash for cash flow purposes and the interest received each day is shared pro rata to the amount of cash belonging to each of them.

The Pension Fund does not have any borrowing and therefore some elements of the Council's TMSS are not relevant for the Pension Fund TMSS. These have been removed from Appendix A as appropriate.

A copy of the report to the Pensions Committee is attached at **Appendix 1.**

A copy of the Pension Fund TMSS is attached at **Appendix A.**

3. CONCLUSION

The members of the Board are asked to make any recommendations resulting from the assessment of the arrangements.

MEETING:	**PENSIONS COMMITTEE**
DATE:	**15 MARCH 2018**
TITLE:	**TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY FOR 2018/19**
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 2018/19, as amended for the purpose of the Pension Fund (which is attached as Appendix A). Gwynedd Council's TMSS for 2018/19 was approved by the Full Council on 1 March 2018.

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 1st March 2018 included agreement to continue the pooling arrangement with the Pension Fund following any request from Pensions Committee.

5. COUNTERPARTIES

The Council Treasury Management Policy Statement and practice papers 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 2018/19, 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 2018 onwards.

APPENDIX A

Treasury Management Strategy Statement 2018/19

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.

1.5 In accordance with the WG Guidance, the Authority will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change in interest rates, or in the Authority's capital programme or in the level of its investment balance.

2. External Context

2.1 Economic background

The major external influence on the Authority's treasury management strategy for 2018/19 will be the UK's progress in negotiating its exit from the European Union and agreeing future trading arrangements. The domestic economy has remained relatively robust since the surprise outcome of the 2016 referendum, but there are indications that uncertainty over the future is now weighing on growth. Transitional arrangements may prevent a cliff-edge, but will also extend the period of uncertainty for several years. Economic growth is therefore forecast to remain sluggish throughout 2018/19.

Consumer price inflation reached 3.0% in September 2017 as the post-referendum devaluation of sterling continued to feed through to imports. Unemployment continued to fall and the Bank of England's Monetary Policy Committee judged that the extent of spare capacity in the economy seemed limited and the pace at which the economy can grow without generating inflationary pressure had fallen over recent years. With its inflation-control mandate in mind, the Bank of England's Monetary Policy Committee raised official interest rates to 0.5% in November 2017.

In contrast, the US economy is performing well and the Federal Reserve is raising interest rates in regular steps to remove some of the emergency monetary stimulus it has provided for the past decade. The European Central Bank is yet to raise rates, but has started to taper its quantitative easing programme, signalling some confidence in the Eurozone economy.

2.2 **Credit outlook**

High profile bank failures in Italy and Portugal have reinforced concerns over the health of the European banking sector. Sluggish economies and fines for pre-crisis behaviour continue to weigh on bank profits, and any future economic slowdown will exacerbate concerns in this regard.

Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. In addition, the largest UK banks will ringfence their retail banking functions into separate legal entities during 2018. There remains some uncertainty over how these changes will impact upon the credit strength of the residual legal entities.

The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however remain very low.

2.3 **Interest rate forecast**

The Authority's treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.50% during 2018/19**,** following the rise from the historic low of 0.25%. The Monetary Policy Committee re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.
Future expectations for higher short term interest rates are subdued and on-going decisions remain data dependant and negotiations on exiting the EU cast a shadow over monetary policy decisions. The risks to Arlingclose's forecast are broadly balanced on both sides. The Arlingclose central case is for gilt yields to remain broadly stable across the medium term. Upward movement will be limited, although the UK government's seemingly deteriorating fiscal stance is an upside risk.

2.4 A more detailed economic and interest rate forecast provided by Arlingclose is attached at ***Appendix 1.***

2.5 For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 0.25%, 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 £29 and £68 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 2018/19 at its meeting on 15 March 2018.

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. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

5.3 **Negative Interest Rates**

If the UK enters into a recession in 2018/19, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

5.4 **Strategy**

Given the increasing risk and very low returns from short-term unsecured bank investments, the Authority aims to further diversify into more secure and/or higher yielding asset classes during 2018/19. The majority of the Authority's surplus cash is currently invested in short-term unsecured bank deposits, certificates of deposit and money market funds. This diversification will represent a continuation of the strategy adopted in 2015/16.

5.5 **Approved Counterparties**

The Authority may invest its surplus funds with any of the counterparty types in table 2 below, subject to the cash limits (per counterparty) 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	5% 5 years	10% 20 years	10% 50 years	5% 20 years	5% 20 years
AA+	5% 5 years	10% 10 years	10% 25 years	5% 10 years	5% 10 years
AA	5% 4 years	10% 5 years	10% 15 years	5% 5 years	5% 10 years
AA-	5% 3 years	10% 4 years	10% 10 years	5% 4 years	5% 10 years
A+	5% 2 years	10% 3 years	5% 5 years	5% 3 years	5% 5 years
A	5% 13 months	10% 2 years	5% 5 years	5% 2 years	5% 5 years
A-	5% 6 months	10% 13 months	5% 5 years	5% 13 months	5% 5 years
None	£1m 6 months	n/a	10% 25 years	£50,000 5 years	5% 5 years
Pooled funds	10% per fund				

This table must be read in conjunction with the notes below.

5.6 **Credit Rating**

Investment limits are set 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. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

5.7 **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.

5.8 **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 higher 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.

5.9 **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.

5.10 **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.

5.11 **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 the likelihood of receiving government support if needed.

5.12 **Pooled Funds**

Shares in diversified investment vehicles consisting of 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. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility 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.

5.13 **Operational bank accounts**

The Authority may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £900,000 per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

5.14 **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.

5.15 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 or invested in government treasury bills 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.

5.16 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. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

5.17 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	£30m
Total shares in other pooled funds	£6m
Total investments without credit ratings or rated below A- (except the UK Government and UK Local Authorities)	£6m
Total investments (except pooled funds) with institutions domiciled in foreign countries rated below AA+	£6m
Total non-specified investments	£60m

5.18 **Investment Limits**

The Authority’s revenue reserves and Pension Fund cash available to cover investment losses are forecast to be £45 million on 31st March 2018. In order that no more than 15% 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 £6 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers’ nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Investment Limits

	Cash limit
Any single organisation, except the UK Central Government	£6m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£6m per group
Any group of pooled funds under the same management	£15m per manager
Negotiable instruments held in a broker's nominee account	£30m per broker
Foreign countries	£6m per country
Registered Providers	£15m in total
Unsecured investments with Building Societies	£6m in total
Loans to unrated corporates	£6m in total
Money Market Funds	£ £30m in total

5.19 **Liquidity management**

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

5.20 **Non-Treasury Investments**

Although not classed as treasury management activities and therefore not covered by the CIPFA Code or the WG Guidance, the Authority may also purchase property for investment purposes and may also make loans and investments for service purposes, for example in shared ownership housing, or as loans to local businesses and landlords,.

Such loans and investments will be subject to the Authority's normal approval processes for revenue and capital expenditure and need not comply with this treasury management strategy.

The Authority's existing non-treasury investments are listed in Appendix B.

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 explicit 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 and forward starting transactions, 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 2018/19 is £0.09 million, based on an average investment portfolio of £25.7 million at an interest rate of 0.25%. The budget for debt interest payable in 2018/19 is £6.0 million, based on an average debt portfolio of £106.6 million at an average interest rate of 5.62%. 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 1

Arlingclose Economic & Interest Rate Forecast November 2017

- In a 7-2 vote, the MPC increased Bank Rate in line with market expectations to 0.5%. Dovish accompanying rhetoric prompted investors to lower the expected future path for interest rates. The minutes re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.

- Further potential movement in Bank Rate is reliant on economic data and the likely outcome of the EU negotiations. Policymakers have downwardly assessed the supply capacity of the UK economy, suggesting inflationary growth is more likely. However, the MPC will be wary of raising rates much further amid low business and household confidence.

- The UK economy faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. While recent economic data has improved, it has done so from a low base: UK Q3 2017 GDP growth was 0.4%, after a 0.3% expansion in Q2.

- Household consumption growth, the driver of recent UK GDP growth, has softened following a contraction in real wages, despite both saving rates and consumer credit volumes indicating that some households continue to spend in the absence of wage growth. Policymakers have expressed concern about the continued expansion of consumer credit; any action taken will further dampen household spending.

- Some data has held up better than expected, with unemployment continuing to decline and house prices remaining relatively resilient. However, both of these factors can also be seen in a negative light, displaying the structural lack of investment in the UK economy post financial crisis. Weaker long term growth may prompt deterioration in the UK's fiscal position.

- The depreciation in sterling may assist the economy to rebalance away from spending. Export volumes will increase, helped by a stronger Eurozone economic expansion.

- Near-term global growth prospects have continued to improve and broaden, and expectations of inflation are subdued. Central banks are moving to reduce the level of monetary stimulus.

- Geo-political risks remains elevated and helps to anchor safe-haven flows into the UK government bond (gilt) market.

Forecast:

- The MPC has increased Bank Rate, largely to meet expectations they themselves created. Future expectations for higher short term interest rates are subdued. On-going decisions remain data dependant and negotiations on exiting the EU cast a shadow over monetary policy decisions.

- Our central case for Bank Rate is 0.5% over the medium term. The risks to the forecast are broadly balanced on both sides.

- The Arlingclose central case is for gilt yields to remain broadly stable across the medium term. Upward movement will be limited, although the UK government's seemingly deteriorating fiscal stance is an upside risk.

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.19**
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**	**0.50**
Downside risk	0.00	0.00	0.00	0.00	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	**-0.15**
3-month LIBID rate														
Upside risk	0.10	0.10	0.10	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.22**
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**	**0.50**
Downside risk	-0.10	-0.10	-0.15	-0.15	-0.15	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	**-0.20**
1-yr LIBID rate														
Upside risk	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	**0.27**
Arlingclose Central Case	**0.70**	**0.70**	**0.70**	**0.70**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.77**
Downside risk	-0.15	-0.20	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.15	-0.15	**-0.26**
5-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	**0.32**
Arlingclose Central Case	**0.75**	**0.75**	**0.80**	**0.80**	**0.80**	**0.85**	**0.90**	**0.90**	**0.95**	**0.95**	**1.00**	**1.05**	**1.10**	**0.89**
Downside risk	-0.20	-0.20	-0.25	-0.25	-0.25	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	**-0.33**
10-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	**0.32**
Arlingclose Central Case	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.30**	**1.30**	**1.35**	**1.40**	**1.45**	**1.50**	**1.55**	**1.55**	**1.36**
Downside risk	-0.20	-0.25	-0.25	-0.25	-0.25	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	**-0.33**
20-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	**0.32**
Arlingclose Central Case	**1.85**	**1.85**	**1.85**	**1.85**	**1.85**	**1.90**	**1.90**	**1.95**	**1.95**	**2.00**	**2.05**	**2.05**	**2.05**	**1.93**
Downside risk	-0.20	-0.30	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	**-0.38**
50-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	**0.32**
Arlingclose Central Case	**1.70**	**1.70**	**1.70**	**1.70**	**1.70**	**1.75**	**1.80**	**1.85**	**1.90**	**1.95**	**1.95**	**1.95**	**1.95**	**1.82**
Downside risk	-0.30	-0.30	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	**-0.39**

MEETING:	**PENSION BOARD**
DATE:	**12 APRIL 2018**
TITLE:	**PENSION FUND INVESTMENT PERFORMANCE 2017/18**
PURPOSE:	**To inform the Board of the monitoring and performance of pension fund investments**
RECOMMENDATION:	**NOTE THE INFORMATION**
AUTHOR:	**CAROLINE ROBERTS, INVESTMENT MANAGER**

1. Introduction

Quarterly performance of the Pension Fund is monitored through the Council's performance process which includes reporting to the Cabinet Member responsible for Finance.

The investment performance of individual investment managers is monitored by the Pensions Committee which meets as the Investment Panel each quarter. The investment managers are invited to each meeting on a rota basis. The active equity and active bond managers attend two meetings each year and the other investment managers attend once each year.

Whilst monitoring quarterly and annually take place, it needs to be recognised that the pension fund returns over the longer term are the aim and there will inevitably be some fluctuations from year to year and more volatility from quarter to quarter. Individual investment manager performance is assessed over 3 years.

2. Pension Fund Investment Performance in 2017/18

As the performance for Q4 for 2017/18 will not be available until May, the quarterly cumulative performance indicators and the benchmark for the Pension Fund investments in the table include Q4 for 2016/17.

	Q3 17/18	Q2 17/18	Q1 17/18	Q4 16/17
	%	%	%	%
Performance	3.1	1.7	2.3	5.0
Benchmark	4.1	1.9	1.2	4.3

The Pension Fund performance was above the benchmark in two quarters and below the benchmark in the two most recent quarters due to equity underperfomance.

3. Recommendation

The Board is asked to note the information.

MEETING:	**PENSION BOARD**
DATE:	**12 APRIL 2018**
TITLE:	**BOARD REPORT FOR THE PENSION FUND ANNUAL REPORT 2017/18**
PURPOSE:	**To enable members of the Board to contribute to the report.**
RECOMMENDATION:	**To agree matters to be included in the report and a timetable to produce the document**
AUTHOR:	**CAROLINE ROBERTS, INVESTMENT MANAGER**

1. INTRODUCTION

The Pension Fund Annual Report 2016/17 included a report from the Pension Board. A copy of that report is attached as Appendix A. A Pension Board report will be included in the 2017/18 Annual Report.

2. ROLE OF THE BOARD

The Board is invited to contribute to the content of the Pension Board report for the 2016/17 Annual Report. A draft version of the Report can then be circulated for comments or brought to the next meeting for approval.

APPENDIX A

3. Annual Report of the Gwynedd Pension Board for the year to 30th June 2017

3.1 Background / Constitution

The Board was constituted under the Public Services Pensions Act 2013 and held its first meeting on 13th July 2015. The membership consists of three members representing scheme employers and three representing scheme (who include staff who contribute towards their pension and those who are retired and receiving a pension).

Over the period between 1 July 2016 and 31 July 2017, the Board has met four times. Board members are invited as observers to meetings of the Pensions Committee and have agreed to take this role in turn in order to facilitate understanding as well as communication. This arrangement is reciprocated with the Chair of the Pensions Committee now attending Board meetings, where he is accountable, with officers for the governance and administration of the Fund. At times, the Board has asked for its views and reccomendations to be submitted for consideration by the Committee.

During the year Ms Victoria Hallaron resigned as a Board member and Mr H. Eifion Jones was appointed as a new member. We want to thank Victoria for her contribution to the Board and welcome Eifion. As a former member of the Pension Committee, we are sure Eifion will be a valuable asset to the Board.

3.2 Function of the Board

In terms of legislation the two primary functions of the Local Pension Board are to assist the administering authority (Gwynedd Council) to:

i. ensure effective and efficient governance and administration of the LGPS
ii. ensure compliance with relevant laws and regulation
iii. administration of the fund

Therefore, the Board is a monitoring, reviewing and assisting body, not a management or decision making body.

The Board operates under Terms of Reference agreed by Gwynedd Council (in a meeting of the full Council on the 5th March 2015).

It is supported by the Council's Member Support and Scrutiny Officer and reports are prepared and presented by officers including the Head of Finance, Investment Manager, Pensions Manager and the fund's Senior Communication Officer.

3.3 The work of the Board

Once again, the past year has been a busy year for the senior staff of the Administering Authority with the triennial actuarial valuation taking priority, along with the continuation of the pooling of investments project. Therefore, Board members were aware of the need to prioritise requests in order for officers to prepare reports for the Board.

3.4 Work Plan

In accordance with the work plan agreed in the previous year, reports on the following issues were received:

- The triennial actuarial valuation
- Security measures in place to protect data members
- New Investment Strategy Statement
- New Funding Strategy Statement
- Fund allocation and investment performance
- Investment Poolling of the Welsh Funds
- The procedure for processing retirement benefits
- Risk register for the Fund

During the discussions, a number of comments were made by Board members which have assisted administrative authority officials to complete their work.

In addition, input was given by the Board to thorough review of some public statements, such as the Investment Strategy Statement and Funding Strategy Statement, before they were approved by the Pensions Committee.

A presentation explaining the valuation process was held on the 10th of November 2016 by Richard Warden of Hymans Robertson, the Fund's actuary. The session was attended by members of the board and it was noted that it was a very positive meeting.

In addition, Board members attended the annual meeting of the Fund in September 2016 and noted that the fund has performed very well, compared with other LGPS funds.

The Board completed the Pensions Regulator's survey on public service governance. The survey was a mixture of factual questions and an opinion poll. Following a discussion between members of the Board, the survey was presented to the Regulator within the specified time limit.

The exercise highlighted the need for further training on risk assessments and the 2016 Regulations.

The work plan for 2017/18 include:

- Ethical investments
- The Board's governance procedure for the future
- Update on the pooling of investments
- Treasury Management Strategy

3.5 Training

During Board meetings all members of the Board were given details on the LGPS and its administration in Gwynedd through various presentations by the Head of Finance, the Investment Manager, the Pensions Manager and Senior Communication Officer.

It is a pleasure to report that all members of the Board have now completed their basic training ("LGPS Fundamentals"), organised by the Local Government Association ("LGA").

3.6 Thanks

At the end of her term in the role, the Chair wishes to thank her fellow members on the Board, who have volunteered their time to the roles, and the relevant officers for their support.

Sharon Warnes
Chair

MEETING:	**PENSION BOARD**
DATE:	**12 APRIL 2018**
TITLE:	**RESPONSIBLE INVESTMENT AND GOVERNANCE**
PURPOSE:	**To ask the pensions board to consider the responsible investment beliefs adopted by the Pensions Committee**
AUTHOR:	**DAFYDD L EDWARDS, HEAD OF FINANCE**

1. Introduction

A paper on Agreeing Responsible Investment Beliefs was discussed at the Investment Panel in February and was approved at the Pensions Committee on 15 March 2018.

The proposed wording was agreed by the Committee. The Investment Strategy will be changed to include the beliefs in paragraph 2 below.

As additional information, the following report is attached:

- the release of a 'Summary of legal opinions and judgements on the role of non-financial considerations in investment decision making' (draft) from Scheme Advisory Board' (SAB) is attached at Appendix A.

2. Responsible Investment Beliefs

2.1 In line with the Committee's fiduciary duty, financial considerations should carry more weight than non-financial considerations within investment decision making although ESG factors can have a material impact on risk and return. The consideration of ESG factors should therefore be embedded in the investment processes and decision making of managers employed by the Fund.

2.2 The Fund's Committee will look to invest in sustainable assets, including investing within the Welsh region where non-financial benefits may accrue, provided that fiduciary duty conditions are met.

2.3 The Committee recognise they have a duty to be a responsible investor. Engagement with companies rather than disinvestment is expected to be more effective in changing corporate behaviours and reducing risk. Collaborative action where possible offers the most effective means of successful engagement to influence outcomes.

2.4 As a long-term investor, the Fund is exposed to systemic risks such as climate change and the expected transition to a low-carbon economy. Financial outcomes could be improved by effectively managing the Fund’s exposure to such risks.

2.5 Disclosure across all stages of the value chain can improve the understanding of stakeholders and improve outcomes.

3. Recommendation

That the Board is asked to consider the responsible investment beliefs to be included in the Investment Strategy Statement.

APPENIX A

Summary of legal opinions and judgements on the role of non-financial considerations in investment decision making

1. The purpose of this note is to give those responsible for making or advising on investment decisions in the LGPS a summary of the development of the law regarding investment policies and decisions being taken on the basis of non-financial considerations. It does not purport to be a definitive statement and does not override the requirement in the 2016 Investment Regulations for administering authorities to seek proper advice.

2. This note examines the following papers in chronological order :-

- Nigel Giffin's opinion on Fiduciary Duty (25 March 2014)
- Law Commission's guidance on pension trustees' duties when setting an investment strategy (1 July 2014)
- DCLG's statutory guidance on Preparing and Maintaining an Investment Strategy Statement (September 2016 and July 2017)
- Palestine Solidarity Campaign and Jacqueline Lewis v Secretary of State for Communities and Local Government (Case No: CO/22/2017) (22 June 2017)

<u>Nigel Giffin's opinion on fiduciary duty</u>

3. A copy of the opinion can be found at http://lgpsboard.org/images/PDF/Publications/QCOpinionApril2014

4. On the matter of non-financial considerations, Nigel Giffin opined that administering authorities can in principle have regard to wider considerations where that does not run the risk of material detriment to the fund. Furthermore, he concluded that administering authorities should not impose its own view on, for example, the desirability of investing in oil companies, if that would differ from views likely to be generally held by other scheme employers and members. Neither is it open to employing authorities to impose their own views upon the administering authority.

5. The opinion also recognised that investment decisions are for administering authorities to take and that authorities are under no legal obligation to consider investment decisions from any perspective other than the maximisation of returns, whatever precise scope there may be for wider matters to be taken into account if they choose to do so.

6. The opinion concluded :-

- In managing an LGPS fund, the administering authority has both fiduciary duties and public law duties (which are in practice likely to come to much the same thing);
- The administering authority's power of investment must be exercised for investment purposes, and not for any wider purposes. Investment decisions

must therefore be directed towards achieving a wide variety of suitable investments, and to what is best for the financial position of the fund (balancing risk and return in the normal way);

- However, so long as that remains true, the precise choice of investment may be influenced by wider, social, ethical or environmental considerations, so long as that does not risk material financial detriment to the fund. In taking account of any such considerations, the administering authority may not prefer its own particular interests to those of other scheme employers, and should not seek to impose its particular views where those would not be widely shared by scheme employers and members (nor may other scheme employers impose their views open the administering authority).

Law Commission guidance on Pension Trustees Duties When Setting an Investment Strategy

7. In July 2012, Professor Kay published a review of the UK equity market. One of Professor Kay's recommendations was that the Law Commission should review the legal concept of fiduciary duty to address uncertainties and misunderstandings on this issue.

8. In March 2013, the Government asked the Law Commission to review the legal concept of "fiduciary duty". A central concern was the legal duties of pension trustees when they make investment decisions. In particular, how far (or must) trustees consider interests beyond the maximisation of financial return, such as questions of environmental or social impact, and the ethical views of their beneficiaries.

9. The Law Commission published its report "Fiduciary Duties of Investment Intermediaries in July 2014. (see http://lawcommission.justice.gov.uk/areas/fiduciary_duties.htm.) A copy of the associated guidance from the Law Commission is shown at Annex 1. Although the language of the report and associated guidance is couched in terms of pension trustees, it is clear that the principles advocated in both papers apply equally to those responsible for making investment decisions in the LGPS.

10. The Law Commission's guidance described "non-financial" considerations as factors which might influence investment decisions that are motivated by other (non-financial) concerns, such as improving members' quality of life or showing disapproval of certain industries.

11. In general, the Law Commission concluded that non-financial factors may be taken into account if two tests are met:

- Trustees should have good reason to think that scheme members would share the concern; and
- The decision should not involve a risk of significant financial detriment to the fund.

Test 1 - Scheme members' views

12. The Law Commission concluded that trustees must have good reason to believe that scheme members would share their concern. In some cases, it is argued that trustees may be able to make assumptions whereas in most other cases, it will be necessary to consult members more formally.

13. The Law Commission went on to say that trustees may consider the views of the beneficiaries when making investment decisions but that they are under no legal obligation to do so unless trust deeds or scheme regulations provide otherwise.

Test 2 - Significant financial detriment

14. Where trustees wish to take a decision based on non-financial factors, they should seek advice from their financial or investment advisers on the effect of the decisions on returns to the fund. They should not proceed if the decision risks significant financial detriment to the fund.

15. Reference is made to the case of Harries v Church Commissioners (1192) 1 WELR 1241 at 1250-1251 where the view was reached that excluding 13% of the market would be acceptable but 37% would not be. The court chose not to interfere and instead relied on the trustees' discretion.

Statutory Guidance on Preparing and Maintaining an Investment Strategy Statement

16. The statutory guidance was first published by DCLG in September 2016 but later re-published in July 2017 following a successful High Court challenge on the issue of banning foreign boycotts. A copy of the guidance can be found at http://lgpslibrary.org/assets/statgui/ew/201707ISS.pdf.

17. It is important to note that under the 2016 Investment Regulations, administering authorities must prepare and maintain their Investment Strategy Statement in accordance with the statutory guidance. This is a stricter test than that used elsewhere in the main scheme regulations where administering authorities are only required to have regard to statutory guidance.

Financial and non-financial considerations

18. Regulation 7(2)(e) of the 2016 Investment Regulations requires administering authorities to publish their policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments.

19. Pages 8 and 9 of the statutory guidance sets out the following key elements that must guide an administering authority's responsible investment policy:-

- Schemes should make the pursuit of a financial return their predominant concern;

- Schemes should consider any factors that are financially material to the performance of their investments, including social, environmental and corporate governance factors;
- They may also take purely non-financial considerations into account provided that doing so would not involves significant risk of financial detriment to the fund and where they have good reason to think that scheme members would support their decision.

20. According to DCLG’s statutory guidance, administering authorities :-

- Should explain the extent to which the views of local pension boards and other interested parties who they consider may have an interest will be taken into account when making an investment decision based on non-financial factors, and
- Must explain the extent to which non-financial factors will be taken into account in the selection, retention and realisation of investments.

Palestine Solidarity Campaign and Jacqueline Lewis v Secretary of State for Communities and Local Government

21. In this case, the High Court found that the general law recognises that non-financial factors can be pension purposes so long as there is no risk of significant financial detriment from taking investment decisions with such factors taken into account. In reaching that view, the High Court cited both the Law Commission’s 2014 report and the case of Harries v Church Commissioners.

22. The court went on to say that there was no objection to DCLG’s statutory guidance where it stated that non-financial considerations can be taken into account provided that doing so would not involve significant risk of financial detriment and where there is good reason to think that scheme members would support the decision. The guidance could not be objected to because it is issued for pension purposes by imposing a base-line of risk and taking into account the role the legislative design gives local government pension scheme members through local pension boards and otherwise.

Conclusion

23. The steps that may need to be taken to establish greater clarity and understanding of the means by which the “twin test” can be achieved is outside the scope of this paper, the purpose of which is to summarise the law as it currently stands. However, it may be incumbent on the scheme advisory board to make recommendations to DCLG Ministers on changes to the scheme’s regulations or the statutory guidance on Preparing and Maintaining an Investment Strategy Statement to ensure that the principles summarised in this paper can be fully implemented.

Further reading

24. Those responsible for advising on, making investment strategy policies and taking investment decisions will be aware of the views expressed by various organisations about the investment risks associated with climate change. Although the extent to which such considerations impact on investment decisions remains a matter for each individual administering authority to determine as part of their Investment Strategy Statement, the following reading from the Pensions and Lifetime Savings Association, the Pensions Regulator, and ClientEarth may assist in developing such policies :-

https://www.plsa.co.uk/Portals/0/Documents/Policy-Documents/2017/7174%20Action%20on%20Climate%20Change%20report.pdf?ver=2017-12-05-182646-857

https://blog.thepensionsregulator.gov.uk/2017/12/06/investing-in-the-environment-and-saving-our-future/

http://www.pensionsage.com/pa/Trustees-must-consider-portfolio-wide-climate-risk-ClientEarth.php

Annex 1

"IS IT ALWAYS ABOUT THE MONEY?" Pension trustees' duties when setting an investment strategy:

Guidance from the Law Commission

BACKGROUND

1.1 In July 2012, Professor Kay published a review of the UK equity market. Among other things he noted concerns that some pension fund trustees equated their fiduciary responsibilities with a narrow interpretation of the interests of their beneficiaries which focused on maximising financial returns over a short timescale and prevented the consideration of longer term factors which might impact on company performance, including questions of sustainability or environmental and social impact.[1]

1.2 One of Professor Kay's recommendations was that the Law Commission should review the legal concept of "fiduciary duty" to address uncertainties and misunderstandings on this issue.

1.3 In March 2013, the Government asked the Law Commission to examine the fiduciary duties of investment intermediaries. A central concern was the legal duties of pension trustees when they make investment decisions. In particular, how far may (or must) trustees consider interests beyond the maximisation of financial return, such as questions of environmental and social impact, and the ethical views of their beneficiaries?

1.4 This short document summarises the Law Commission's conclusions on these issues. For a full statement, readers are directed to the Law Commission's final Report, in particular Chapter 6.[2] The Report follows a Consultation Paper, published in October 2013.[3]

DUTIES OF PENSION TRUSTEES

1.5 The legal duties of pension trustees derive from at least three sources.

The trust deed

1.6 The starting point is the trust deed. Looking at the deed, trustees should ask: what is the purpose of the investment power we have been given, and how can we use that power to promote the purpose of the trust?

[1] J Kay, *The Kay Review of UK Equity Markets and Long-Term Decision Making: Final Report* (July 2012) para 9.20.

[2] Fiduciary Duties of Investment Intermediaries (2014) Law Com No 350. This is available at http://lawcommission.justice.gov.uk/areas/fiduciary_duties.htm.The Report was laid before Parliament on 30 June 2014 and published on 1 July 2014.

[3] Fiduciary Duties of Investment Intermediaries (2013) Law Commission Consultation Paper No 215.

1

The pensions legislation

1.7 Next, trustees must act within the confines of the legislation. Regulation 4 of the Occupational Pension Schemes (Investment) Regulations 2005 sets out some general principles. For example an investment power should be exercised in a manner "calculated to ensure the security, quality, liquidity and profitability of the portfolio as a whole"; and scheme assets must be properly diversified to "avoid excessive reliance on any particular asset, issuer or group of undertakings."

1.8 Although smaller schemes are excluded from parts of the regulations, we think that these principles apply to all trust-based schemes as a matter of trust law.

Judge-made duties

1.9 The legislation operates alongside a variety of "judge-made" duties, including duties that attach to the exercise of a power, duties of care and fiduciary duties.

1.10 Among other things, the courts require that trustees must consider the right issues. In particular, trustees should:

(1) act for the proper purpose;

(2) take into account all relevant considerations, and ignore irrelevant ones;

(3) take advice; and

(4) not "fetter their discretion", by applying a pre-existing judgement;

1.11 In addition, trustees should act "with such care and skill as is reasonable in the circumstances". Those who act in a professional capacity or who hold themselves out as having special knowledge or experience will be held to a higher standard than lay trustees.

THE PRIMARY PURPOSE OF INVESTMENT POWERS

1.12 In pensions, the purpose of the investment power is usually to provide a pension – with contributions invested to provide a return, often several years into the future. The primary aim of an investment strategy is therefore to secure the best realistic return over the long term, given the need to control for risks.

1.13 The key distinction is between financial and non-financial factors. Financial factors are any factors which are relevant to trustees' primary investment duty of balancing returns against risks. A non-financial factor is one motivated by other concerns, such as improving members' quality of life or showing disapproval of certain industries.

1.14 Trustees may always take account of financial factors. They may also take account of non-financial factors if two tests are met. These are described below.

FINANCIAL FACTORS

1.15 Trustees are required to balance returns against risk. This is not a question of maximising returns: risks matter just as much as returns. Not all risks can be quantified. They often involve questions of judgement, which must be assessed at the time of the decision, not in hindsight.

The risks to a company's long-term sustainability

1.16 When investing in equities over the long-term, the risks will include risks to the long-term sustainability of a company's performance. These may arise from a wide range of factors, including poor governance or environmental degradation, or the risks to a company's reputation arising from the way it treats its customers, suppliers or employees. A company with a poor safety record, or which makes defective products, or which indulges in sharp practices also faces possible risks of legal or regulatory action.

1.17 Where poor business ethics raise questions about a company's long-term sustainability, we would classify them as a financial factor which is relevant to risk.

Trustee *may* take all these factors into account

1.18 Trustees *may* take account of any financial factor which is relevant to the performance of an investment. These include risks to a company's long-term sustainability, such as environmental, social or governance factors (often referred to as "ESG" factors).

1.19 The Law Commission's conclusion is that there is no impediment to trustees taking account of environmental, social or governance factors where they are, or may be, financially material.

Trustees *should* take financially material factors into account

1.20 The law goes further: trustees *should* take account of financially material risks. But the law does not prescribe a particular approach. It is for trustees' discretion, acting on proper advice, to evaluate which risks are material and how to take them into account.

1.21 It is not necessarily helpful to say that trustees "must" take an ESG approach. The ESG label is ill-defined: it covers a wide variety of risks, and many different approaches. The fact that a particular factor is conventionally classified as an "ESG" factor will not be conclusive as to whether it is financially material to the particular investment.

1.22 Instead the duty may be put in the following terms. When investing in equities over the long-term, trustees should consider, in discussion with their advisers and investment managers, how to assess risks. This includes risks to a company's long-term sustainability.

NON-FINANCIAL FACTORS

1.23 "Non-financial factors" are factors which might influence investment decisions that are motivated by other (non-financial) concerns, such as improving members' quality of life or showing disapproval of certain industries.

1.24 The distinction between financial and non-financial factors may be illustrated with an example. Withdrawing from tobacco because the risk of litigation makes it a bad long-term investment is based on a financial factor. Withdrawing from tobacco because it is wrong to be associated with a product which kills people is based on a non-financial factor.

1.25 In general, non-financial factors may be taken into account if two tests are met:

(1) trustees should have good reason to think that scheme members would share the concern; and
(2) the decision should not involve a risk of significant financial detriment to the fund.

1.26 This means that if trustees wish to consider non-financial factors, they should ask two questions.

Question 1: Do we have good reason to think that scheme members share the concern?

1.27 Trustees may not impose their own ethical views on their beneficiaries. If trustees wish to take account of a non-financial factor, they must have good reason to think that scheme members would share their concern.

Is survey evidence required?

1.28 Not necessarily. In some cases trustees may be able to make assumptions: an example might be activities which contravene international conventions, such as manufacturing cluster bombs. The fact that these are banned by the Convention on Cluster Munitions, ratified by the UK, may give trustees reason to think that most people would consider them to be wrong. When coupled with letters from members agreeing, and no letters disagreeing, trustees would have good reason to think that they were acting on members' concerns rather than their own.

1.29 In other cases, it may be necessary to consult members more formally.

Must all members agree?

1.30 We do not think that there needs to be 100% agreement. That will usually be unachievable. If a majority are opposed to an investment while the rest remain neutral, that may be enough.

1.31 The more difficult question is where a majority think that the disinvestment should take place but a minority disagree strongly. In cases where the issue is clearly controversial, the courts would expect trustees to focus on financial factors rather than becoming embroiled in disagreements between the members.

Do trustees have to consider members' views?

1.32 No. Trustees *may* consider the views of the beneficiaries when making their investment decisions, but there is no legal requirement for them to do so.[4] However, they should only take account of non-financial factors if they reflect members' views and interests – rather than the views of the trustees.

[4] Unless the trust instrument provides otherwise.

Question 2: Does the decision risk significant financial detriment?

1.33 If trustees wish to take a decision motivated by non-financial factors, they should seek advice from their financial advisers on the effect of the decision on returns to the fund. They should not proceed if the decision risks significant financial detriment to the fund.

1.34 Often excluding a sector of the market will not risk significant detriment. The law does not require a portfolio to be diversified to the fullest extent possible. Instead it is a question of degree. For example, in *Harries*, the Church Commissioners reached the view that excluding 13% of the market would be acceptable, while excluding 37% would not be. The court held that this decision did not err in law.[5] It was the trustees' discretion and the court would not interfere.

1.35 However, if trustees are advised that a decision would risk significant financial detriment, they should not normally proceed.

The interaction between the two tests

1.36 Any decision made on non-financial grounds is subject to both tests. However, the ultimate decision should be looked at in the round, considering the evidence on both questions.

1.37 For example, if trustees are faced with compelling evidence that members feel very strongly about the issue, then they may be justified in accepting a risk of some possible detriment, so long as that detriment is not significant. Conversely, if trustees receive clear professional advice that the decision is financially neutral, with some members agreeing and some indifferent, the trustees may still go ahead. The position may be different where only a modest level of agreement is combined with some risk of detriment.

Exceptions: when can significant financial detriment be justified?

1.38 There are two clear exceptions where significant financial detriment is permitted:

(1) where the decision is expressly permitted by the trust deed; and

(2) in DC schemes, where the member has chosen to invest in a specific fund.

1.39 Different considerations may also apply to "affinity groups", as we discuss below.

A more flexible approach for affinity groups

1.40 We use the term "affinity groups" to describe schemes where members share a particular moral or political viewpoint. An example would be a pension scheme set up by a religious group, other charity or political organisation.

[5] *Harries v Church Commissioners* [1992] 1 WLR 1241 at 1250-1251.

5 6 the general law. ing. It would be preferable to think in terms of financial and non-financial factors. 1 July 2014

1.41 Here trustees should still ask the same questions, but the answers may be applied more flexibly. It may be easier to establish a consensus among members. If faced with compelling evidence that all members of the scheme felt strongly about an issue, trustees may be justified in accepting a greater risk of detriment than would otherwise be the case.

1.42 For further information on this issue, please see Chapter 6 of the Report. [6]

THE STATEMENT OF INVESTMENT PRINCIPLES (SIP)

1.43 Pension trustees are required to prepare a SIP stating their policy on the kinds of investments to be held and the extent (if at all) to which social, environmental or ethical considerations are taken into account when making investment decisions.[7] This does not give trustees any special authority to consider non-financial factors. Any investment strategy in the SIP must accord with

1.44 The reference to "social, environmental and ethical issues" may be confus

[6] Fiduciary Duties of Investment Intermediaries (2014) Law Com No 350 paras 6.91 to 6.98.

[7] Occupational Pension Schemes (Investment) Regulations 2005 SI 2005 No 3378, reg 2(3).

Agenda Item 10

MEETING:	Pension Board
DATE:	12 April 2017
TITLE:	Risk Register
PURPOSE:	To understand the risks relating to the Pension Fund and scrutinise the Risk Register
AUTHOR:	Caroline Roberts, Investment Manager and Meirion Jones, Senior Communication Officer

1. INTRODUCTION

The Gwynedd Pension Fund has a Risk Register in order to identify and monitor significant risks. The Risk Register also includes the processes in place to mitigate the risks where possible.

A copy of the first risk register was shown to the Board in the meeting on the 5th April 2017. This has now been updated for 2018.

A copy of the current Risk Register is attached at Appendix A

It is a working document and will be reviewed regularly and updated for any significant risks that develop.

2. THE BOARD'S ROLE

The members of the Board are asked to scrutinise the risk register and bring any comments or suggestions to the meeting.

GWYNEDD PENSION FUND

RISK REGISTER

Risk Assessment Matrix					
Likelihood	5	10	15	20	25
	4	8	12	16	20
	3	6	9	12	15
	2	4	6	8	10
	1	2	3	4	5
	Impact				

Assessment of Impact				
		Financial	Reputation	Stakeholder/Customer
1	Negligible	< £35k	Minimal and transient loss of public trust.	Minimal impact on stakeholders or customers.
2	Minor	£35k - £300m	Slight loss of trust with no lasting impact. Little adverse publicity.	Minor impact on stakeholders or customers and customer dissatisfaction. Limited service disruption.
3	Moderate	£300m - £3m	Moderate loss of trust that receives significant adverse publicity locally with no lasting impact.	No lasting impact. Moderate disruption to stakeholders, moderate impact on customers and customer dissatisfaction. Moderate service disruption.
4	Major	£3m - £30m	Significant loss of trust and receives local media attention with potential for lasting impact.	Significant service disruption and opposition from stakeholders and/or customers. Threat of legal action.
5	Catastrophic	> £30m	Significant loss of trust and receives national media attention with potential for persisting impact.	Major service disruption and significant opposition from stakeholders and/or customers. Legal action. Long term public memory.

Assessment of Likelihood			
		Probability Descriptors	Numerical Probability
1	Rare	This will probably never happen/recur.	Under 1%
2	Unlikely	Do not expect it to happen/recur, but it is possible it may do so.	1% - under 5%
3	Possible	Might happen or recur occasionally.	5% - under 20%
4	Likely	Will probably happen/recur, but it is not a persistent issue or circumstances	20% - under 50%
5	Almost Certain	Will undoubtedly happen/recur, possibly frequently. A project more likely to fail than succeed.	Over 50%

Risk No.	Description of Risk and Potential Impact	Inherent Risk			Mitigating Controls	Current Risk			Risk Owner	Additional Plan	Time scale
		Impact	Likelihood	Combined Score		Impact	Likelihood	Combined Score			
Governance											
	The Administering Authority does not have appropriate governance arrangements including the requirement for a Pension Board resulting in: - Non-compliance with legislation or best practice - Inability to determine policy, make effective	4	3	12	Gwynedd Pension Fund (GPF) has a Governance Policy Statement and a Governance Compliance Statement as required by the LGPS Regulations 2008. Both statements are reviewed and updated when required. Scheme employers are consulted when changes are proposed to ensure the policy is still appropriate.	3	1	3	Head of Finance Investment Manager	The Governance Policy Statement and the Governance Compliance Statement are to be reviewed and Policy brought to the Pensions Committee for approval	2018/19

	decisions and deliver services. - Risk to reputation				The Statement is available on the Gwynedd Pensions website: www.gwynedd.gov.uk GPF has a Pensions Committee to discharge the Council's duties as Administering Authority of the Pension Fund. Gwynedd Pension Board has been established as required by the Public Service Pension Act 2013. Support and training are being provided to ensure that the members of the board have the knowledge and skills to undertake their role.						
	Conflict of Interests affect, or are seen to affect decision making	2	2	4	Board members are aware of the legal responsibilities All members of the Pension Board declare any possible conflicts and conflicts at the beginning of each meeting.				Chairman of the Pension Board Head of Finance		
	The Pensions Committee and the Pension Board are unable to fulfil their responsibilities effectively resulting in: - Non-compliance with legislation or best practice	4	3	12	The Committee has adopted the CIPFA Code of Practice on Knowledge and Skills and regular training is provided to ensure that members have the level of understanding required.	3	2	6	Investment Manager	The new members of the Committee and the Board have received basic training. Relevant training is offered to	

	- Inability to determine policy, make decisions and / or deliver service. - Risk to reputations.				A training and induction programme is available for new Committee and Board members. The Fund subscribes to relevant bodies (i.e. CIPFA and LAPFF) and sends representatives to major conferences. Committee and Board members are made aware of and adhere to the Governance Compliance Statement and are encouraged to identify training requirements.					Committee members and board members.	
Funding and Investments											
	The Committee Members and Investment Officers make inappropriate decisions as a result of insufficient knowledge of financial markets and inadequate investment and actuarial advice received resulting in: Poor Fund performance Financial loss Increased employer contributions	5	3	15	GPF Investment Strategy is set in accordance with LGPS investment regulations. The Investment Strategy takes the Fund's liabilities into account. The Investment Strategy is approved and reviewed by the Pensions Committee. GPF uses an external investment advisor who provides specialist guidance to the Investment Panel and Pensions Committee regarding the Investment Strategy.	2	2	4	Head of Finance Investment Manager		

					Members and Officers are encouraged to challenge advice and guidance received.						
	The Pension Fund has insufficient assets to meet its long term liabilities. The Pension Fund's investment strategy fails to produce the required returns. Performance is damaged by: • Fund Managers failure to produce the required returns. • Fund managers damage performance by failing to make organisational changes or manager departures. Resulting in • Financial loss • Insufficient funds available to meet future obligations	5	3	15	Triennial actuarial valuations provide periodic indications of the growth in assets against liabilities. Employer contribution rates are set in response to this. The 2016 actuarial valuation includes provision for the fund to achieve full funding over 20 years. The 31 March 2016 valuation showed that there was 91% provision for the Gwynedd Fund. GPF investments are diversified across a range of different types of assets to minimise the impact of losses in individual markets. Fund-specific benchmarks and targets are set. Fund assets are kept under regular review as part of the Fund's performance management process. Fund managers are thoroughly vetted prior to appointment and performance is reviewed regularly against the benchmark and	2	2	4	Investment Manager	Although the fund was 91% funded as at 31 March 2016 the fund still uses prudent assumptions for the valuation.	

Page 52					performance objectives by the Investment Panel. Appropriate action may be taken if an Investment Manager is underperforming. The depth of expertise in the fund manager's team will be assessed as part of the appointment process. Performance targets are agreed by the Pensions Committee and are based upon recommendations for the external advisor. The Pensions Committee have the power to terminate a fund manager's contract if it is deemed that the manager has not performed as expected or there are concerns about future performance due to organisational change or manager departures.						
	The fund is exposed to unnecessary risks and avoidable costs due to poorly structured investment arrangements resulting in: Financial loss	5	3	15	The Fund aims to ensure best value and to minimise exposure to risk as follows: The Fund's investments are diversified across a range of different types of assets to minimise the impact of losses in individual markets.	2	2	4	Investment Manager		

					Investment managers provide invoices for fees and disclosure of fees within funds. Specialist services such as transitions or currency transfers are considered where appropriate in order to reduce costs. Banking and custodian arrangements are reviewed and retendered as appropriate.						
	Collapse of a fund manager or negligence, fraud or wilful default committed by a fund manager resulting in: Financial loss	4	3	12	The Fund considers the financial stability of managers during the appointment process and the situation is kept under review. GPF uses a global custodian service to ensure that investment of assets is segregated from custody of assets. Legal requirements for fund managers are set out in their management agreements. Fund managers are required to be fully compliant with Financial Conduct Authority (FCA), the Pensions Regulator (TPR) and other regulatory requirements.	2	3	6	Investment Manager		

					The Fund’s custodian can deal provide a transition service if a fund manager is being wound up.						
	Market crash leading to failure to reduce the deficit resulting in: Financial loss Increased employer contribution costs.	5	4	15	The Fund is diversified across a range of asset classes to mitigate the impact of poor performance in an individual market segment. Investment performance and monitoring arrangements exist which provide the investment officers with the flexibility to rebalance the portfolio in a timely manner. The long term nature of the liabilities provides some mitigation, in that markets fluctuate down and up which significantly reduces the impact.	3	3	9	Investment Manager		
	Pay and price inflation are significantly more than anticipated leading to: An increase in liabilities which is higher than the previous actuarial valuation estimate.	3	3	9	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Employers pay for their own salary awards. The Fund has committed to investments in infrastructure funds which helps to mitigate this risk.	2	3	6	Investment Manager		

	Increase in number of early retirements due to public service cuts and/or ill health leading to pension liabilities increasing An increase in liabilities which exceeds the previous valuation estimate.	3	5	10	Employers are charged the extra capital cost of non-ill health retirements following each individual decision. Employer ill health retirement is monitored. Small employers are required to take out the ill health retirement insurance provided by the Fund.	1	5	5	Investment Manager		
	The average life expectancy of pensioners is greater than assumed in actuarial assumptions. An increase in liabilities which exceeds the previous valuation estimate.	4	4	16	Life expectancy assumptions are reviewed at each valuation. The Fund uses bespoke assumptions based on the life expectancy across Gwynedd Pension Fund's area. Mortality assumptions include some allowance for future increases in life expectancy.	2	4	8	Investment Manager		
	Scheme employers' contributions to the Fund are not received or are processed or recorded completely and accurately Increased costs across all the remaining scheme employers	4	3	12	The team monitor the receipt of contributions to the fund. The team communicates regularly with scheme employers to ensure that contributions are made in a timely manner and are recorded accurately. Details of any outstanding and overdue contributions are recorded and appropriate action is taken in order to recover payments.	2	2	4	Investment Manager		

	An employer ceases to exist with insufficient funding available to settle any outstanding debts, or refuses to pay the cessation value. Departing employer does not fully meet its liabilities which leads to increased costs across the remaining scheme employers.	4	3	12	The risk is mitigated by: Vetting prospective employers before admission and ensuring that they fully understand their obligations. Applications for admission to the Fund are considered carefully and a bond or guarantee is put into place if required. Outstanding liabilities will be assessed and recovered from any successor bodies or spread amongst remaining employers. The actuarial valuation attempts to balance recovery period with risk of withdrawal. If necessary, appropriate legal action will be taken.	3	3	9	Head of Finance Pensions Manager		
	A significant number of LGPS members transfer their pension pots to other pensions providers in order to obtain a capital sum under the Government's "Freedom and Choice" legislation resulting in: Significant cashflow out of the Fund.	4	3	12	The risk is mitigated by: Effective communication of the benefits of remaining in the LGPS.	2	2	4	Pensions Manager		

	Reduction in assets greater than reduction in the Fund's liabilities.				Actuarial calculation of transfer value should ensure transfer value does not exceed reduction in liability.				Investment Manager		
	The result of the EU Referendum and the decision to leave the European Union results in significant economic instability and slowdown and as a consequence lower investment returns resulting in: Financial loss and / or failure to meet return expectations. Increased employer contribution costs.	5	4	20	The Fund's investments are diversified across a range of different types of assets to minimise the impact of losses in individual markets. The Fund will consider the impact when the terms of leaving the EU are clear and take any actions required.	3	4	12	Investment Manager		
Custody											
	Failure of custodian leading to losses which results in: Failure to reduce the deficit Financial loss	5	3	15	Fund assets are protected in the event of insolvency of the custodian. The custodian must adhere to FCA and TPR financial regulations.	2	2	4	Investment Manager		
Wales Investment Pool											
	The Gwynedd Pension Fund has insufficient resources available to deliver the pooling proposal within the required timescale without	5	5	25		5	5	25	Head of Finance	Additional staffing resources will be required when it becomes apparent that insufficient resources exist to	

	impacting the day-do-day management of the fund. The management of the Pension Fund is affected due to existing resources working on the establishment of the investment pool.									take forward the proposal without impacting the day-to-day management of the fund.	
Communication											
	Insufficient communication and engagement with the Pension Fund Stakeholders. Non-compliance with legislation and/or best practice. Inability to determine policy, make effective decisions and/or deliver service. Reputation risk.	3	3	9	A Communications Policy is in place. The Gwynedd Pension Fund website is kept up to date. Fund Performance is reported to the Investment & Pension Fund Committee on a regular basis. Meetings are held periodically with the Fund's Employing Authorities. Annual Benefit Statements and newsletters are sent annually to active and deferred Fund members. The contact list for employers is updated regularly. An AGM is held for employers and Trade Unions. The annual report and accounts are published on the Gwynedd Pensions website.	3	2	6	Pensions Manager	The Communication Policy is to be reviewed and a revised Strategy brought to the Pensions Committee for approval	2018

					A Member Self Service website is available to members to calculate their own benefits.						
Data Protection											
	The Pension Fund systems and data may not be secure and appropriately maintained. - Loss of sensitive data. - Reputation risk. Financial loss arising from legal action.	3	2	6	It is a mandatory requirement for all employees to undertake Data Protection training and to adhere to Gwynedd's data protection policy. Egress email system is used where possible to send emails (A secure email system)	3	1	3	Pension Manager	Encourage employers to sign up to the Egress email system	2018
Pension Administration											
	Pension benefits are not paid: - Risk of financial loss arising from compensation claims - Damage to reputation.	4	2	8	The payroll system is set up to pay pensioners monthly. Disaster recovery plan in place with Heywood which will restore data within 7 days in the event of system failure.	4	1	4	Pension Manager		
	Failure of scheme membership data and pension benefit calculation processes leading to fraud, corruption or error. - Unauthorised payments under the Finance Act 2004. - Risk of financial loss and damage to reputation.	3	2	6	Information and instructions are only accepted from authorised sources. Employers are required to review and confirm membership records annually. Benefit calculations are checked by senior colleagues.	3	1	3	Pension Manager		

					All transactions comply with DCC financial regulations and are subject to independent authorisation. Members approaching 75 are separately identified monthly.						
	Failure of employing authority to provide timely and accurate member data resulting in delays or errors with benefit payments. Risk of financial loss and damage to reputation.	3	3	9	Administration Strategy is in place and employer duties are clearly identified. Employing authorities are contacted for outstanding information when it is identified that information is missing or contains errors.	3	2	6	Pension Manager	Introduce the iConnect system so that employers send details monthly rather than annually	2018/ 19
	Non-compliance with legislation and failure to correctly implement new legislation and regulations, resulting in: - Incorrect payments being made. Risk of financial loss and damage to reputation	3	3	9	LGA/External training. Project work approach to implementation of legislative changes. In house training for all staff.	2	2	4	Pension Manager	Internal LGA training organised for all staff on transfer of benefits	May 2018
	Pension benefits continue to be paid to deceased pensioners. Risk of financial loss and damage to reputation.	2	3	6	All pensioners are contacted annually. Pensioners are incorporated into National Fraud Initiative. Further targeted checks are conducted with credit reference agencies as appropriate.	2	2	4	Pension Manager	Tell us once service has been rolled out to LGPS.	

					Monthly mortality screening is undertaken and any positive matches are ceased immediately						
	System failure. - Loss of sensitive data. - Reputation risk. Financial loss arising from legal action.	5	2	10	The system is backed-up daily. A full disaster recovery plan is in place and tested annually (In line with Gwynedd Council's policy).	5	1	5	Pension Manager		
	Employing authorities not fulfilling their responsibilities e.g. not supplying us with correct employee data or not supplying it in a timely manner - Incorrect benefit calculations Delays while we request missing information	3	2	6	- Admin strategy details employer responsibilities and timescales - Advice and consultancy provided. - Yearly checks on data to highlight gaps - Employer administration meetings held periodically. Guidance available on website.	3	1	3	Pension Manager	Individual employer meetings which will include review of Employer performance.	2018
	Failure to comply with disclosure regulations e.g. the requirement to issue information within a certain timescale after a request/event - Complaints Fines	3	2	6	Robust workflow management system in place.	3	1	3	Pension Manager		2018
	Failure to issue Annual Benefit statements to active and deferred members by 31st August:	2	4	8	Project management approach - Regular contact with employers to get data.	2	3	6	Pension Manager	Statements are presented online at the self-service web site.	2018

	- Reputational risk and complaints Fines									Monthly interfacing to reduce workload at year end with the main employers (iConnect)	
Internal processes											
	Concentration of knowledge in a small number of officers and risk of departure of key staff. The risk of losing key staff could lead to a breakdown in internal processes and service delivery, causing financial loss and potential risk to reputation.	4	3	12	- Knowledge of all tasks shared by at least two team members and can in addition be covered by senior staff. - Training requirements are set out in job descriptions and reviewed annually with team members through the appraisal process.	4	2	8	Pension Manager	Internal 'how to guides' are being developed on all internal processes	2018

Meeting:	Pension Board
Date:	12/04/2018
Title:	Communicating with Employers – Presenting data timely and correctly
Purpose:	For information only
Author:	Meirion Jones, Senior Communication Officer

Introduction

At the end of each financial year, Employers must complete and submit the 'End of Year Return' spreadsheet, providing details of basic employee information, contributions paid and the member's pensionable pay for the pre 2014 benefits and actual pay received for 2017/18 tax year.

In order to comply with The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [SI 2013/2734], the LGPS Regulations 2013 and with the Directions issued by HM Treasury under section 14 of the Public Service Pensions Act 2013, Annual Benefit Statements must be sent to all active scheme members by 31 August 2018.

In order for Gwynedd Pension Fund to be able to meet this obligation we require from each employer by **30 April 2018,** complete and accurate data in respect of each of their pensionable employees**.**

End of year spreadsheet

The end of year spreadsheet has been sent to each employer on the **14th March 2018**. As part of the spreadsheet bilingual guidance notes are included to explain the information required in each field.

Information required on the spreadsheet includes:

- Personal information e.g. NI Number, Surname, Forenames, Sex and Date of Birth
- Start Date
- Date Left Active Service
- Employment Number/Payroll Ref/Post ID
- Contributions paid
- Contributions paid in the 50/50 section
- Member Contribution rates

- Additional contributions paid e.g. AVC Contributions, Additional Pension Contributions (APC), Employer Shared Cost APC and Added Years / Additional Regular Contribution (ARC)
- Pension Remuneration (Salary for the Final Salary scheme)
- Main Scheme from and to date (i.e. 01/04/2017 – 31/03/2018 for most members)
- Main scheme pay (salary for the CARE scheme)
- 50/50 Scheme from and to date if applicable (i.e. 01/04/2017 – 31/03/2018 for most members)
- 50/50 Pay if applicable (salary for the CARE scheme)
- Main Scheme Assumed Pensionable Pay (if been on long term sickness)
- 50/50 Scheme Assumed Pensionable Pay (if been on long term sickness)

The email that accompanies the spreadsheet also offers that officers from the Pension Fund can come out to assist the employers to complete the spreadsheet.

Further reminders and offers of assistance will be sent to the Employers over the following weeks.

The Pension Regulator

Over the next 12 months increased interaction is expected with the Pension Regulator with attention on local administrated schemes high on the agenda. One of the main areas of concern for the Regulator is that the data is received by the fund in a timely and accurate way. To ensure this they expect employers to send returns on a monthly basis rather than on an annual basis. This will allow any issues to be resolved straight away, rather than waiting until the end of the year. Heavy fines can be imposed on Pension Funds and Employers who do not adhere to requirements of the Regulator.

It is hoped that a representative from the Pension Regulator will be able to attend the Annual General Meeting in September in order to convey to the Employers the importance of providing clean and accurate data and the consequences of not providing the data.

i-Connect

For the 2017/18 tax year a number of employers have been using the i-Connect system to submit their data on a monthly basis rather than on an annual basis. These employers are not required to submit the end of year spreadsheet.

i-Connect reduces the cost and risks associated with processing pension data by automating the submission of data to the pension scheme in a single solution.

Data is taken directly from the payroll system, automatically identifying new joiners, opt-outs and leavers and generates an extract for submission to the scheme.

All reporting and record-keeping requirements necessary for Pension Reform are managed within a highly secure environment.

i-Connect improves the flow of data from the HR and payroll systems to the pension fund, minimising manual intervention in the process.

The benefits of i-Connect include:

- Reduce the risk of data protection breaches
- Identify potential escalations early and mitigate risks
- Improve reliability of valuations and scheme accounting
- Reduce cost and complexity with a simplified servicing model
- Address Pension Reform and your employer obligations to schemes
- Ensure employers meet their duties in supplying data for Annual Allowance checks

Employers currently live on i-Connect are:

- Cwmni Cynnal
- Gyrfa Cymru
- Cwmni'r Fran Wen
- Ysgol Bryn Eilian
- Towyn and Kinmel Bay Town Council
- Snowdonia National Park
- Cartrefi Cymunedol Gwynedd
- Conwy Citizen Advice Bureau
- Conwy Voluntary Services

We are currently working with the Payroll sections of Gwynedd Council and Conwy County Borough Council to set up the following employers on the i-Connect system for the 2018/19 tax year:

- Gwynedd Council
- Conwy County Borough Council
- Emrys Ap Iwan School
- Pen y Bryn School
- Eirias High School
- Cartrefi Conwy

We have also arranged three sessions in April 2018 for the smaller employers to attend in order to give them information on the i-Connect online return system. By doing this we hope that the following employers will also be using i-Connect by the end of the 2018/19 tax year:

- Llanllyfni Community Council
- Ffestiniog Town Council
- Bangor City Council
- Llandudno Town Council
- Abergele Town Council
- Llangefni Town Council
- Colwyn Bay Town Council
- Menai Bridge Town Council
- Beaumaris Town Council
- Holyhead Town Council
- Tywyn Town Council
- Caernarfon Town Council
- Conwy Town Council
- Trefriw Community Council
- Coleg Harlech
- North Wales Society for the Blind
- CAIS
- Anglesey Citizen Advice Bureau
- Mantell Gwynedd
- Medrwn Mon
- Menter Mon
- Holyhead Joint Burial
- Caterlink
- ABM Caterining
- Superclean

This will leave the following employers not using i-Connect:

- Anglesey County Council
- North Wales Police
- Grŵp Llandrillo Menai

We will continue to discuss with these employers in order to ensure that i-Connect is implemented as soon as possible.

Meeting:	Pension Board
Date:	12/04/2017
Title:	Summary of items covered in the Barnett Waddingham LGPS Officers Spring Seminar
Purpose:	For information only
Author:	Meirion Jones, Senior Communication officer

I attended the above seminar in London on 26th February 2018. The session was presented by Gerard Moore from CIPFA and Annemarie Allen from Barnett Waddingham.

It was a very useful seminar with a lot of material covered in a short period. The main points covered were:

LGA Update

Department for Communities and Local Government (DCLG) now The Ministry of Housing, Communities and Local Government (MHCLG)

Minister for Local Government Marcus Jones is now replaced by Rishi Sunak.

LGPS Amendment Regulations still not gone through Parliament - Now been delayed since 2016. Brexit is taking priority.

Pension Increase for 2018 is 3% (CPI to September 2017). This will result in the following increases:

1st April 2018

- LGPS CARE pension Revalued by 3%
- Contribution bands revalued by 3% down to the nearest £100

6th April 2018

- Annual Allowance opening balance increased by 3%
- Lifetime Allowance increases to £1,030,000
- Maximum tax free lump sum increases from £250,000 to £257,500

9th April 2018

- Pensions and deferred pensions increase by 3%

50/50 Option:

Take up of 50/50 option has been much lower than anticipated – less than 1% take up compared to the 10% take up anticipated. 50/50 is mainly used by high earners.

Recent survey results highlighted that 2/3 of the members opting out are unaware of the option. LGA going to look into better communication of the 50/50 option. (In Gwynedd we send all members who wish to opt out information on the 50/50 section).

Cohabiting Partner Pension:

Two cases have recently gone thorough the Courts (Brewster v Nilgosc and Elmes v Essex) where it was determined there was no need to nominate a partner where the deceased left active membership under the 2008 LGPS regulations.

Following these cases a number of the funds have already paid out cohabiting partners for the partner of a member who died between 2008 and 2014. Works needs to be done in order to contact the families of members who have died between 2008 and 2014 to make sure there was no cohabiting partner at the time of death.

It was suggested that a marital status style form could be sent upon a death to ascertain the marital status and next of kin details of the member at the time before death benefits are paid out.

Employee Contributions:

Contributions bandings now set (subject to Parliament approval):

Draft Contribution table 2018/19			
Band	**Actual pensionable pay for an employment**	**Contribution rate for that employment**	
		Main section	50/50 section
1	Up to £14,100	5.5%	2.75%
2	£14,101 to £22,000	5.8%	2.9%
3	£22,001 to £35,700	6.5%	3.25%
4	£35,701 to £45,200	6.8%	3.4%
5	£45,201 to £63,100	8.5%	4.25%
6	£63,101 to £89,400	9.9%	4.95%

7	£89,401 to £105,200	10.5%	5.25%
8	£105,201 to £157,800	11.4%	5.7%
9	£157,801 or more	12.5%	6.25%

GMP Increase:

Interim solution to continue to 6 April 2021 - increases on GMP paid by Scheme for those reaching SPA; no extra cash for Funds.

the Pension Regulator

Increased interaction is expected by the Regulator with attention on focused on locally administered schemes such as the LGPS.

Action will be taken on Funds that are unable to show evidence of improvement.

Record keeping and data quality remains high priority with funds expected to carry out data score exercises and have an improvement plan in place to improve data quality.

The Regulator also carries out random web checks to make sure information such as risk register and Board member details are online.

GDPR

General Data Protection Regulations (GDPR) coming into force 25th May 2018.

The Fund will have 72 hours to report breaches.

Privacy notices for members needs to produced to explain how their data will be used and stored.

Data Scores & Improvement Plans

Data should be present and accurate.

Two set of data must be held. Common data and scheme specific data:

Common data

11 specified items used to identify members. Checks must be made on the system to make sure that we have all the following information present on our records:

Data held	Comment
National insurance number	'TN' formats should be regarded as missing data. The final character of NI numbers is not essential.

Surname	Check that surname is present.
Forename(s) or initials	Forenames are preferable but initials are an acceptable alternative.
Sex	Check that sex is present.
Date of birth	Check that date of birth is present and consistent (earlier than date joined scheme, retirement, date of leaving). False dates should be classed as missing data.
Date pensionable service started/policy start date/ rst contribution date	For trust-based schemes this will be date pensionable service started. For contract-based schemes this will effective start date of the policy or the rst contribution date, depending on the provider's requirements.
Expected retirement/ maturity date (target retirement age)	This field may be derived or explicit; for most DB schemes it will probably be derived as the scheme's normal retirement date. Need to check that it is populated if that is a scheme/system requirement, that it is consistent with scheme rules and statutory requirements, and is later than date of birth and pensionable service date/ rst contribution date.
Membership status	Check that a current valid status is recorded for each member. This may be a dual status, eg active or deferred member with partial retirement. For contract-based schemes this may be 'active' or 'inactive'.
Last status event	Check that bene ts taken are consistent with status, and, if status history is recorded, that the latest status is the same as the explicitly recorded current status.
Address	An address should be present for all members of all schemes. Because of DPA requirements an exception is permissible for active members of those trust-based schemes in which communication with members is normally sent via the employer. 'Gone away', 'unknown' or similar should be treated as missing data.
Postcode	Check that a postcode is present if address is not identi able as being overseas. Will assist with valuations for actives, for whom storing full address may breach DPA principles.

Scheme Specific data

Scheme specific data are data that are key to running the scheme and meeting legal obligations. These include:

- employment records such as employer name, salary records, service history
- employee and employer contribution history
- information on the value of the member's pension, such as the last estimated value, the date of the estimate and how the pension bene t was calculated
- any benefits like GMP entitlement, HMRC protections or cash entitlements

- specific data items set out in legislation such as the transaction records set out for public service pension schemes.

It is likely that national guidance will be issued on what scheme specific data the LGPS should hold - so that all 88 funds record the same information.

Data Improvemement Plan

It is very unlikely that the fund will score 100% when our data is measured against the common and scheme specific. In such cases the Regulator expects that a Data Improvement Plan is produced in order to outline how data will be improved.

As with most LGPS funds we will be using a programme by our software provider Aquila Heywood in order to measure the quality of our data, with a plan being put into place once the data has been measured for the first time.

LGPS Spring Seminar

Officers

Welcome & Introductions

Gerard Moore
Seminar Chair
CIPFA

Governance Update

Annemarie Allen
Associate, Senior Pensions Consultant
Barnett Waddingham

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CIPFA The Chartered Institute of Public Finance & Accountancy

Scheme Managers in the headlines

- **xxxxxxxx council fund encounters data difficulties**

  Pensions Expert, Alex Warnakulasuriya, 29 January 2018

  Included incorrect reporting of tPR amber review, was internal review

  Correction noted in following issue – not headline news

- **xxxxxx scheme grapples with admin difficulties**

  Pensions Expert, Alex Warnakulasuriya, 19 February 2018

Pensions Boards there to assist

LGPS Pension Board role to *assist* the administering authority to:

- secure compliance with:
  - LGPS & other legislation relating to Scheme governance & administration
  - requirements of the Pensions Regulator
- ensure effective & efficient governance & administration of the Scheme

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And have *the power to do anything which is calculated to facilitate, or is conducive or incidental to, the discharge of any of its functions*

- Assisting the Scheme Manager to stay out of the spotlight

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The Responsible Authority DCLG becomes MHCLG

Cabinet reshuffle 8 January 2018

- Change of name
  - Department for Communities and Local Government now The Ministry of Housing, Communities and Local Government
- Change of Minister for Local Government
  - Marcus Jones replaced by Rishi Sunak
  - Priorities being established, relationship developing
  - Attending PLSA conference in May

Resources remain an issue

- Chris Megainey gone again, Sophie Broadfield in place, relationship developing
- Other resources remain low, secondment from LGA
- Brexit still affecting progress

LGPS Amendment Regulations ~~2016~~ ~~2017~~ 2018?

Included:

- Fair Deal – protection for compulsorily transferred staff
- Freedom & Choice – early flexible access to AVCs
- Deferred pre 1 April 2014 – access from age 55 / 85 year rule?
- Exit credits - repayment of surpluses
- Amendments for ease of use, corrections & clarifications

Consultation closed 20 August 2016

- Responses considered, outcome still awaited

Final regulations soon? (as at Nov 2017)

- Content unknown
- Fair Deal - further consultation expected

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Restricting Public Sector Exit Payments: When?

Early retirement, a suite of changes still awaited

Recovery of exit payments **1st ¼ 2018 / long grass?**	Enables recovery of exit payments on return to public sector if salary over £80,000 & return in 12 months, incls pension strain	- Awaits HMT overriding legislation - No retrospection - Scheme employer recovers employee debt
Restrictions on exit payments - “95K cap” **1st ¼ 2018? / long grass?**	Caps cost of early retirement including LGPS early release cost of redundancy pensions	- HMT new draft regs / consultation? - Waiver guidance expected - Applies from effective date, waiver for delayed leave date? - Strain cost calculation?
Reforms to public sector exit payments **Backburner?**	Overall severance package, compensation on early retirement - limit / end to non ill health unreduced early retirement pensions?	DCLG consultation on proposals was expected by December 2016 & on Regs to enable statutory redundancy payment to be paid into Fund to offset strain cost on redundancy over £95K

Pooling 6 weeks to deadline day – progress made

November 2015 - Investment reform started - 8 pools in England & Wales

DCLG /MHCLG/HMT overseeing progress - regular progress reports & issues resolved

Much hard work - Job adverts continue

Most pools expected to be operational by 1 April 2018 deadline; 1 by June 2018

Transition of assets to follow

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Also progressing

Scheme Actuary; section 13 review

- Reviews 2016 valuations
- Progressing on target for final report summer 2018
- Returning to later in agenda in the Members' session

Brewster v Nilgosc - Cohabitation - no form

- Elmes v Essex – determined no requirement to nominate
- Affects partners where the deceased left active membership under 2008 LGPS
- Backdated claims expected – potential for children's overpayments

Judges & Firefighters age discrimination appeal

- New schemes transitional arrangement
- EAT ruled Judges unlawful, dismissed Government's appeal
- Determined Firefighters not unlawful, case sent back to ET for further consideration

Consumer Price Index – CPI: 3% to September 2017

1 April 2018

- LGPS CARE pensions revalued by 3%, and
- Contribution bands revalued by 3% down to nearest £100

6 April 2018

- Pensions Tax
  - Annual Allowance opening balance increased by 3%
  - Lifetime Allowance increases from £1,000,000 to £1,030,000
  - Maximum tax free lump sum from £250,000 to £257,500

9 April 2018

- Pensions & deferred pensions
  - Increase by 3% Pensions Increase Award

Some legislation awaited

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Guaranteed Minimum Pensions – GMP: Increases

Indexation & equalisation of GMP Consultation to 20 February 2017

- Members promised GMP increases - new state pension problem
- Three options - potential cost to Funds & for increased administration
- Calls for State to compensate or add to State Pension

Consultation outcome issued 22 January 2018

- Interim solution to continue to 6 April 2021 - increases on GMP paid by scheme for those reaching SPA; no extra cash for Funds
- Government will investigate long term solution of conversion
- Will apply to those reaching SPA after 5 April 2021
- GMP converted to scheme benefit
- Good news - no more GMP rules for them
- Bad news – GMP reconciliation to be completed, accurate records needed

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Scheme Advisory Board

29 January 2018
Cost Management, Benefit Design & Administration sub committee

5 February 2018
Investment Governance & Engagement sub committee

26 February 2018
Scheme Advisory Board

Progress update

- MiFID II
  - All funds opted up with all fund managers by 3 January 2018 deadline
  - Funds listed on SAB website
  - Returning to later in agenda in the Members' session

- Investment Fees Transparency Code
  - 36 signed up, includes some pools
  - Will adopt FCA code under development, transition period for those signed up
  - Transparency monitoring, procurement in progress

- Cross Pooling Forum
  - Being formed following consultation closed 29/9/17
  - Membership proposal to SAB 26 February 2018, includes member representatives
  - Pools & Boards meeting on 27/3/18

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Progress update

- Academy review
  - Funding & Administration working parties set up to progress matters
  - Meeting monthly

- Tier 3 employers review
  - Data provided
  - 3 Information gathering surveys issued 27 November 2017 to administering authorities, tier 3 employers & their members. Return date 31 January 2018

- Late retirement factors protection
  - Letter sent to Minister 1 December 2017
  - New Minister will respond soon
  - Discussion on implementing any emerging policy to continue

- Ill health review group
  - consider IDRP improvement

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Progress update

- 50/50 survey
  - Returning to later in agenda in the Members' session
- SAB LPB survey
  - Preliminary results previously issued
  - Some concerns
  - Full results due by June 2018
- SAB cost cap
  - Key assumptions agreed by committee, to SAB 26 February 2018
  - Results due spring 2018

SAB 2018/2019 Work Plan & Budget

Three new projects proposed

- Separation
- Proposing amendments & drafting guidance for anticipated MHCLG project to identify regulations better sited in statutory guidance
- Identification of scheme specific data & production of guidance

2018/19 SAB budget of £412,100

- Funded by levy

Academies, Tier 3 & Transparency Procurement projects continue

- Funded from reserve

Presented to SAB meeting 26 February 2018

- Further report to June meeting for adoption of final plan / budget
- Subsequent Ministerial agreement needed

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the Pensions Regulator

Educate, Enable, Enforce to Quicker, Clearer and Tougher

- Increased interaction expected
- Willing to act

Increasing attention on locally administered schemes – LGPS

- Lack of evidence of improvement, concerns on engagement
- Survey results expected around April / May 2018

Engagement continues – willing to help

- Team available - request a speaker for meetings, forums, etc
- Payroll to scheme - standard data supply liaison exercise planned

The Pensions Regulator

Focus on record keeping & data quality remains high priority

- Expects use of scheme provisions
- Data scores & improvement plans later on agenda

Focus on cyber security

- Expectation on risk register, reduce risk, prepare for reaction

Focus on governance in practice

- Administration high on agenda?
- Scheme manager & administrator engaged?
- Scheme manager & pension board working together?
- Pension boards taking active role in driving improvements?

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The Pensions Regulator

- Carries out random web checks
- Check house in order, policies in place
- Get the basics right to avoid further attention
- Look out for refreshed Trustee Tool Kit around June 2018

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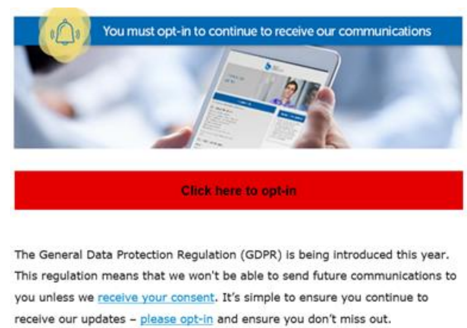
GDPR 25 May 2018

- Some headlines
  - 72 hours to report breaches likely to result in a risk to people rights & freedoms
  - Much bigger fines available

- Some complexities
  - How is your authority progressing, focus on pensions?
  - LGA legal advice from Squire Patton Boggs
    - On key some key pension questions – published 20 November 2018
    - To produce template detailed & summary privacy notices for members, & a MOU for employers to share data with administering authority – expected March 2018

- Restrictions on our mailings
  - Permission needed to email you
  - These slides will arrive with a link to opt in
  - Opt in to receive future communications



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Officer Discussion

Chaired by Gerard Moore

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Tea &
Networking

Data Scores & Improvement Plans

Annemarie Allen

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Data scores driving improvement

November 2016

- Guidance on record keeping
- Requirement for some Schemes to report scores via scheme return published from following year
- tPR to use to target schemes failing
- Put house in order

September 2017

- Expectations & guidance on data improvement plans published

November 2017

- Guidance on measuring & scoring data issued
- Intention include in Public Service scheme returns 2018
- TPR survey 2017 exploratory questions - results April/May 2018?

Good records

accurate on time

benefit payments

communications

data supply

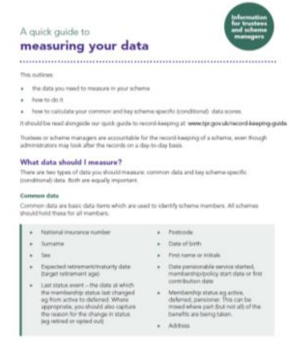
Valuations

cost cap calculations

dashboard updates

tPR quick guide to measuring your data

- **Data should be present & accurate**
- **Common** & **scheme specific**/conditional data defined
  - Common – 11 items specified
  - Scheme specific – varies between scheme
- Data scores introduced
  - Score for common & for scheme specific
  - % of members with all data items present & accurate
  - Under 100%? – improvement plan required



A quick guide to
measuring your data

Information for trustees and scheme managers

This outlines:

- the data you need to measure in your scheme
- how to do it
- how to calculate your common and key scheme-specific (conditional) data scores

It should be read alongside our quick guide to record-keeping at: **www.tpr.gov.uk/record-keeping-guide**

Trustees or scheme managers are accountable for the record-keeping of a scheme, even though administrators may look after the records on a day-to-day basis.

What data should I measure?

There are two types of data you should measure: common data and key scheme-specific (conditional) data. Both are equally important.

Common data

Common data are basic data items which are used to identify scheme members. All schemes should hold these for all members.

- National insurance number
- Surname
- Sex
- Expected retirement/maturity date (target retirement age)
- Last status event – the date at which the membership status last changed eg from active to deferred. Where appropriate, you should also capture the reason for the change in status (eg retired or opted out)
- Postcode
- Date of birth
- First name or initials
- Date pensionable service started, membership/policy start date or first contribution date
- Membership status eg active, deferred, pensioner. This can be mixed where part (but not all) of the benefits are being taken.
- Address

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Common data – 11 specified items

- Data used to identify members
  - Schemes should hold for all members – check data present
  - Data should be accurate – carry out quality control checks
  - Scheme return 2018 – report date last measured & % data score

- National insurance number
- Surname
- Sex
- Expected retirement/maturity date (target retirement age)
- Last status event – the date at which the membership status last changed eg from active to deferred. Where appropriate, you should also capture the reason for the change in status (eg retired or opted out)
- Postcode
- Date of birth
- First name or initials
- Date pensionable service started, membership/policy start date or first contribution date
- Membership status eg active, deferred, pensioner. This can be mixed where part (but not all) of the benefits are being taken.
- Address

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Scheme specific data – items to be identified

- Data key to running scheme & meeting legal obligations
  - E.G. Employer name, service record, GMP entitlement
  - Remember items required by 'Record Keeping Regulations 2014'
- Guidance - scheme managers identify with administrators
  - But 88 scheme managers in LGPS
  - Advantages to consistency
- Central identification expected
  - SAB identification & guidance proposal in 18/19 work plan & budget
    - SAB consider 26 February 2018, final approval June 2018 meeting
    - Discussions with GAD & tPR
  - tPR intention to issue information following survey on what to record
- Score against items identified; not all data held
  - Scheme return 2018? – date last measured & % data score
    - Expected to be requested – one to keep an eye on

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Example common data score

Scheme specific data:

- same method
- calculate separately

50,000 members × 11 common item per person = 550,000 items to hold

40,000 members all data present & accurate
10,000 members one item or more missing

40,000 ÷ 50,000 × 100 = common data score **80%**

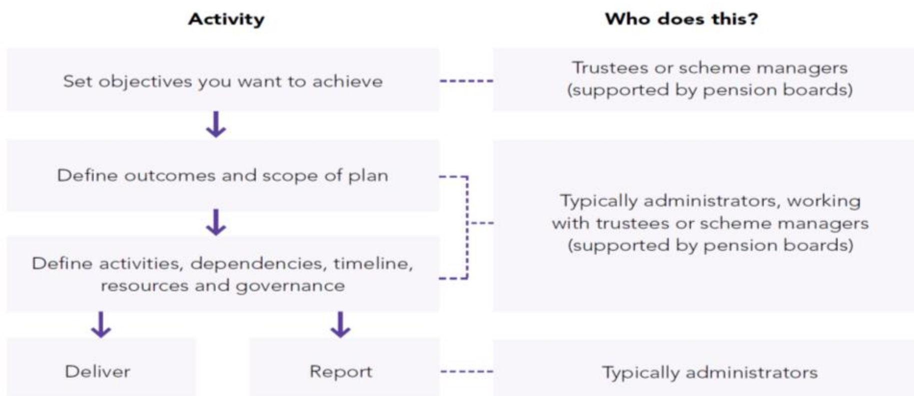
Data improvement plans

- **Data should be reviewed at least once a year**
  - Any issues? – improvement plan should be in place
  - Demonstrate taking steps
  - Scheme manager responsible for record keeping

tPR survey
LGPS last 12 months
2015 77%
2016 83%

tPR survey
LGPS last review
66% found problems
68% did data exercise
38% had data plan

- **tPR quick guide to improving your data**
- Designing your improvement plan



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Data improvement plans – **Project planning**


A quick guide to
improving your data

About this guide

What are your improvement plan's objectives?

Example objectives

September 2017

The Pensions Regulator

- **tPR quick guide to improving your data**
- Guidance on producing data improvement plans
  - Objectives – may be many, prioritise
  - Outcomes – how will you measure them?
  - Scope & prioritising – general rule, greatest impact on member
  - Activities – breakdown each activity, sub plans
  - Dependencies – what other work will have an impact
  - Timeframes & timelines – reasonable end date?
  - Resourcing – separate work? Extra resource?
  - Governance & reporting – roles, responsibilities, controls
  - Ongoing data improvement – keep checking, keep good records

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Workshop
Data
Improvement
Plans

Annemarie Allen & Gerard Moore

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Officer Workshop - data improvement plans

- Officers share practices & experience in
  - data improvement
  - establishment & use of effective data improvement plans
- Chatham House Rules

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Chair's Summing Up & Close

Gerard Moore

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Useful links

Scheme Advisory Board

- Website http://www.lgpsboard.org/

tPR

- Website http://www.thepensionsregulator.gov.uk/
- Measuring Your Data Guide http://www.thepensionsregulator.gov.uk/docs/measure-data-guide.pdf
- Improving Your Data Guide http://www.thepensionsregulator.gov.uk/docs/improve-data-guide.pdf

LGA

- Local Government Pension Scheme regulations & guidance & updates http://lgpsregs.org/

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Coffee &
Networking

Regulatory information

- The information in this presentation is based on our understanding of current taxation law, proposed legislation and HM Revenue & Customs practice, which may be subject to future variation.
- This presentation is not intended to provide and must not be construed as regulated investment advice. Returns are not guaranteed and the value of investments may go down as well as up.
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LGPS Spring Seminar

Local Pension Board Members

CIPFA The Chartered Institute of Public Finance & Accountancy

Key Issues

MiFID ll

Section 13

50/50 Scheme

Gerard Moore & Annemarie Allen

MiFID ll

Gerard Moore

Markets in Financial Instruments Directive II (MiFID II)

BASICS

- Pre 3 January 2018: LGPS Funds automatically “per se professional clients” in respect of MiFID/non-MiFID scope business

- From 3 January 2018: automatic retail client status by default unless opted up to “elective professional” status

MiFID II

Advantages of Opt Up request

- Continuation of mandate
- Continuation of professional level of fees

BUT: forego additional protections available to retail clients

MiFID II Process

1. Quantitative tests

- Portfolio size £10m
- Transactions size and frequency
- Service length of transactor
- Client is an Administering Authority

Satisfy at least two to pass the test

MiFID II Process

2. Qualitative test

Adequate assessment of expertise, experience & knowledge of committee members, including experience from officers and investment advisors

N.B. can take a collective view

MiFID II Process

AA's NOT required to renew elections on a regular basis

BUT need to keep under review

AND if any relevant changes, must notify all financial firms of ANY CHANGES in circumstances which COULD effect their status

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MiFID II

Examples of possible relevant changes of circumstances

- Changes in membership of Pensions Committee
- Terminating contract of investment advisor
- Loss of lead officer
- Change of Section 151 officer

MiFID II Possible roles for Board

- Become familiar with basis of submissions made to justify elective professional status

- Work with officers to agree a set of change of circumstances that would require a review (unless already agreed)

- Seek on-going assurances that there have been no changes of circumstances which would require a review

- Identify timing of future key events which may justify a review (e.g. local elections)

BUT not on tPR radar, as FCA is the MiFID regulator

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Section 13

Annemarie Allen

What is section 13?

"Section 13 is to provide for an independent review (by GAD) of the valuation and employer contribution rates to check that they are appropriate and requires remedial action to be taken where that review identifies a problem."

- Compliance
  - Have valuations been completed in accordance with the Regulations?
- Consistency
  - Has a Fund's valuation been completed on a basis "not inconsistent" with other Funds ?
- Solvency
  - Will certified contributions accumulate enough assets to meet liabilities over an "appropriate" period?
- Long term cost efficiency
  - Are certified rates "enough"?
  - Are employers kicking the contribution can down the road / paying off deficits quickly enough?

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Practical affect on the triennial valuation

Funds can still have their own bespoke funding plan

- Funding model / assumptions / recovery period etc.

But need to keep an eye on s13 valuation

- And avoid being summoned to the headteacher's office.....
- Will be an issue for some Funds/employers re affordability/stability of contribution

Some additional complexity

- And associated costs

Longer term

- Gravitating to the middle...
- Everyone will be average
- No need to compare!

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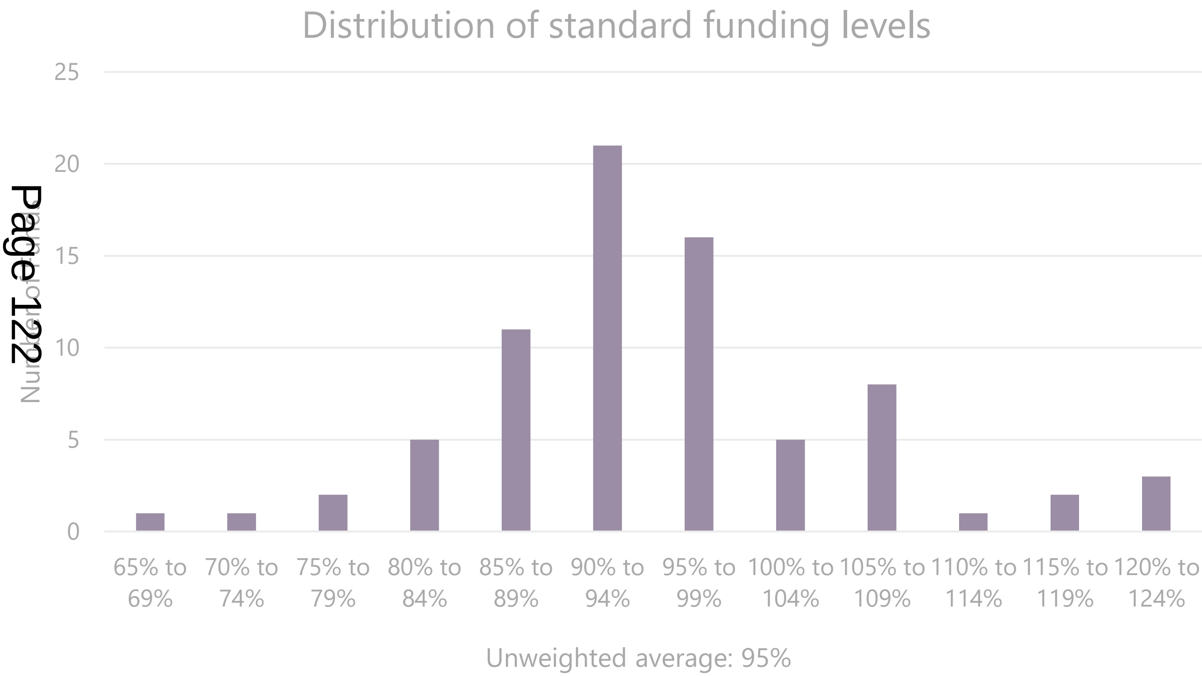
The 2016 English and Welsh “peloton”



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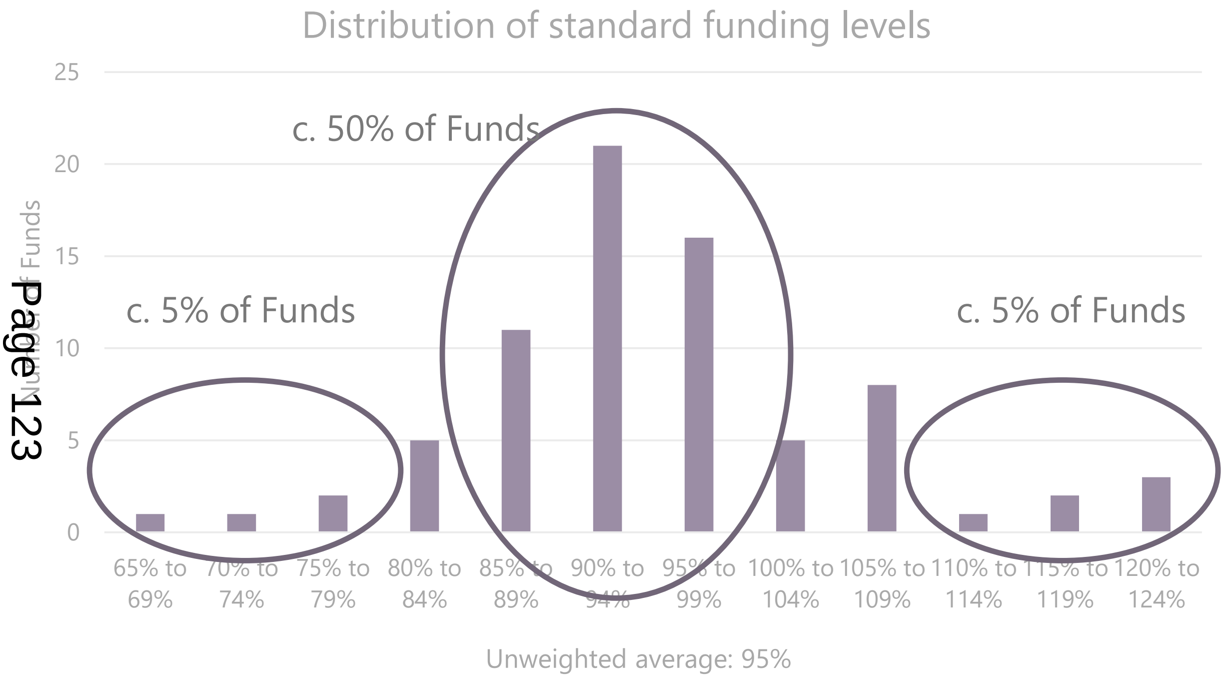

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2016 Section 13 progress

1. Triennial valuation data passed to GAD after cleaning ☑
2. Sums completed by GAD ☑
3. Initial results meeting held with each Fund Actuary firm for reasonableness check & identification of potential errors / reasons ☑
4. GAD meetings with flagged Funds anticipated March 2018
5. Regional GAD roadshows expected in May / June 2018
6. Final report due in summer 2018

Current prediction? Maybe 1, 2 or no Funds will have a material issue

Board role?

- One to keep an eye on
- Press interest & employer / member questions likely
- Officers likely to have seen initial results
- Board understanding of reasons for any flags
- Communications?

50/50 Scheme

Annemarie Allen

50/50 Scheme

Temporary reduction in contributions

- Regulation 10, LGPS Regulations 2013 (as amended)

Introduced with 2014 Scheme

- Aim, short term option to retain members with financial pressures in Scheme
- Also helps, high earners reduce pension savings for annual & lifetime allowance while remaining in Scheme

Active members can elect to pay 50% of contributions otherwise payable

- From next pay period
- Employer pays 100%

Member accrues CARE pension at 1/98th accrual; 50% of normal 1/49th

- Pre 2014 Scheme final salary benefits unaffected
- Death in service, survivor & ill health benefits unaffected
- Return to full Scheme on auto enrolment date, pay period after nil pay or election
- Can elect again, if on full pay

Example – one year's accrual

Scheme Type	Accrual Rate	Pensionable Pay	Main Scheme	50/50
Final Salary	5/80th	£35,000	£2,187.50	£2,187.50
Final Salary	6/60th	£35,000	£3,500.00	£3,500.00
CARE	1/49th / 1/98th	£35,000	£714.28	£357.14
Total Pension			**£6,401.78**	**£6,044.64**
			Amounts further diverge in future due to annual CARE revaluation / pensions increase	
Retirement Grant	15/80th	£35,000	**£6,562.50**	**£6,562.50**
Cost pre tax relief	6.5% / 3.25%	£35,000	**£2,275.00**	**£1,137.50**

A few issues

Members opting out rather than reducing contributions

- Future lack of pension benefits

SAB Scheme cost envelope of 19.5% assumed 10% take up

- By those earning less than £21,000

Less than 1% take up reported overall

- Mainly high earners

Upward cost pressure on cost cap

- Savings not realised
- GAD predict 4-5% take up across Scheme = initial assumption

Survey showed lack of member awareness

- 2/3 opt outs unaware

Solutions?

SAB to consider proposals 26 February 2018

- Cost cap assumption to change to 5% of overall membership
  - Equivalent to current assumption
- 50/50 awareness communication programme to increase take up
  - Survey of administering authorities' practices & procedures to inform campaign
  - Stress on contribution flexibility not saving money
  - Central guidance on ongoing communications & procedures or regulatory change
  - Further detailed paper if approved

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Board role?

- Knowledge & Understanding
  - Awareness of Scheme provisions
- Review communications, opt out rate & 50/50 take up
- Feedback to administering authority, LGA & SAB
  - 50/50 opt in & out forms & notes available on LGA website
  - SAB considering further central communications & guidance for Funds
- LGPS Regulations require Scheme employer to give electing members information on likely effect on benefits
  - Employer awareness?
- Thoughts?