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## PENSIONS COMMITTEE 17-11-21

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### **Present:**

Councillors: Stephen Churchman (Vice-chairman), John Brynmor Hughes, Aled Wyn Jones and Ioan Thomas

### **Officers:**

Dafydd Edwards (Head of Finance Department), Delyth Jones-Thomas (Investment Manager), Meirion Jones (Pensions Manager) and Lowri Haf Evans (Democracy Services Officer)

### **Others invited:**

Councillor Aled Evans (Pensions Board Chair – observing)  
Yvonne Thomas (Audit Wales)  
Garmon Williams (Audit Wales)

### **1. APOLOGIES**

Apologies were received from Councillors Goronwy Edwards (Conwy County Borough Council), Simon Glyn, Peredur Jenkins, John Pughe Roberts and Robin Williams (Isle of Anglesey County Council)

### **2. DECLARATION OF PERSONAL INTEREST**

None to note

### **3. URGENT ITEMS**

It was highlighted that a question had been received from a member of the public who was present at the meeting. It was noted that no specific item had been scheduled to discuss responsible investing, although the Annual Report of the Pension fund 2020/21, to be discussed at the Annual Meeting of the Pension Fund on 25-11-21, would refer to responsible investment matters. It was noted that the individual could be invited to the annual meeting.

### **4. MINUTES**

The Chair accepted the minutes of the meeting held on 14 October 2021 as an accurate record.

### **5. FINAL ACCOUNTS OF THE GWYNEDD PENSION FUND FOR THE YEAR ENDING 31 MARCH 2021 AND RELEVANT AUDIT**

Yvonne Thomas and Garmon Williams from Audit Wales were welcomed to the meeting.

Submitted - a report and a Statement of Accounts for the Gwynedd Pension Fund 2020/21 (post audit), by the Head of Finance Department providing details of the Pension Fund's financial activities for the year ending 31st March 2021. Members were reminded that a draft of the accounts had been submitted to the meeting held on 24 June 2021 and that there were no significant changes following an audit by Audit Wales.

Yvonne Thomas (Audit Wales) was invited to submit the 'ISA260' report. She noted that the auditors intended to issue an unqualified audit opinion on the accounts this year, once the Letter of Representation had been signed. It was explained that the auditors could never provide complete assurance that the accounts had been accurately stated, but rather that they worked to a level of 'relevance'. A relevance level of £25.3 million had been specified for this year's audit, in an attempt to identify and rectify audit misstatements that could otherwise lead to misleading the user of the accounts.

Attention was drawn to the following headings:

- The effects of Covid-19 on this year's audit
- There were no uncorrected misstatements found in the accounts
- Although there were some errors in the draft financial statement, they had now been amended
- The submitted information was of high quality and was extremely positive

The Auditors were thanked for their cooperation and thorough work. Appreciation was expressed for the commitment and the accuracy of the work and the Investment Manager and the team were thanked for preparing the accounts.

During the ensuing discussion, the following observation was noted:

- The report was encouraging and positive – and provided confidence that things were going well.

In response to a question regarding Additional Voluntary Contributions (AVC - Note 3) and the rationale for investing this scheme's assets separately to the Pension Fund's assets, it was noted that externalising this element was a general matter and that contributions were the choice of fund members. However, it was reported that the number of members subscribing to AVC was increasing, which led to significant advisory work. Subsequently, a request for a budget to fund a post to support this element would be submitted to the Committee in 2022.

## **RESOLVED:**

### **To accept the report**

#### **Approve**

- **Statement of Accounts 2020/21 (post audit)**
- **'ISA260' report by Audit Wales in respect of Gwynedd Pension Fund**
- **The Chair of the Committee (17-11-21) and the Head of Finance Department to certify the Letter of Representation electronically**

## **6. REVIEWING OBJECTIVES FOR INVESTMENT CONSULTANTS**

Submitted - the report of the Investment Manager, reporting on progress against current objectives and requesting that the Committee review and approve the objectives for 2022. It was reported, following a review of the investment consulting and fiduciary management markets, that the Competition and Markets Authority noted that Pension Scheme Trustees should set objectives for their investment advisers, and clearly stipulate the expectations upon them.

Reference was made to the current objectives as well as the progress made against those objectives in 2020/21. Attention was drawn to the new objective added for 2022 in response to a world-wide increase in this field - Developing the Committee's understanding of climate risk and Environmental, Social and Governance Criteria (ESG). The objective's aim was to ensure that the investment consultants developed the Committee's understanding of ESG and climate risk matters, to support the implementation of governance requirements of the Task Force on Climate-related Financial Disclosures (TCFDA) and help the Committee to understand and manage climate related risks within the strategy. Training had been provided in October 2021 and further training would be arranged as required.

It was reported that Hymans was delivering good work, providing comprehensive quarterly reports for the investment panel, offering practical and prompt advice, responses and correspondence, and performing in accordance with the objectives. It was explained that Hymans had responsibility to the Fund as advisers and as an actuary, and had ensured key results and returns over the years. It was noted that the arrangement ensured that the partnership between Hymans and the scheme was transparent.

The Vice-chair reiterated that the company provided a good service and met the objectives that were set by the Committee.

The members expressed their thanks for the report.

#### **RESOLVED**

- **To accept the information and to note progress**
- **To approve the investment consultants' objectives for the coming period - Committee Chair to sign the statement of compliance before 7 January 2022**
- **To consider a formal forward programme of items for the Pensions Committee for the year**

#### **7. TREASURY MANAGEMENT 2021/22 MID-YEAR REVIEW**

Submitted, for information, a report highlighting the Council's actual Treasury Management activity during the current financial year. It was highlighted that, during the six months between 1 April and 30 September 2021, the Council's borrowing activity had remained within the limits originally set. There were no defaults by banks in which the Council had deposited money. It was reiterated that it was estimated that the Council's investment income exceeded the expected income in the 2021/22 budget.

In the Pension Committee on 25 March 2021, it had been resolved to permit the surplus funds of the Pension Fund to be pooled and co-invested with the Council's overall cash-flow.

The successful vaccine rollout programme had been credit positive for the financial services sector in general, and the subsequent improved economic outlook had meant that some institutions had been able to reduce provisions for bad loans. It was reported that the period had been challenging, but with the lifting of restrictions, there had been more activity in the second quarter of the year. It noted that Arlingclose had extended the maximum period of some investments to 100 days.

It was explained that £10m of the Council's investments were held in externally managed strategic pooled property and equity funds where short-term security and liquidity were lesser considerations. Although the pooled capital value of £9.243m was less than the initial investment of £10m, the investments were made in the knowledge that the capital values were unstable at months, quarters and even years; but with the confidence that the total returns over a three to five-year period would be higher than the interest rates on cash. Consequently, the objectives would be realised through the stability of mid-term prices.

Reference was made to the use of the Debt Management Office as an investment vehicle that had modestly higher returns than others and that was flexible, easy and secure to use. Although the rates were low and the outlook was weak and unstable, it was reported that the Council was investing as much as possible in a challenging period; it was continuing to do its best to make gains by spreading risk, but was also operating carefully in line with Arlingclose's advice.

It was confirmed that all the treasury management activities that were held during the period fully complied with the CIPFA code of practice as well as the Council's Treasury Management Strategy Statement, and in the context of investment training, officers had attended investment training with Arlingclose and CIPFA during the period that was relevant to their posts.

It was highlighted that Arlingclose expected the Bank Rate to increase in Q2 2022, due as much to the Bank of England's aspiration to move out of emergency levels as to the fear of inflationary pressures. Investors had factored in a number of increases in the Bank rate to 1% by 2024 in their valuations. Although Arlingclose believed that the Bank rate would rise, it would not be as high as market expectations.

It was reported that £25m of cash in the Pension Fund had been invested in the Wales Pension Partnership Fixed Income Fund in October 2021 that reduced the Fund's cash level. The fund did not wish to retain high levels of cash as the returns were low, and therefore invested any surplus cash with the investment manager when liquidity allowed this.

The Head of Finance noted that the performance was acceptable despite the dreadfully low interest rates.

The members expressed their thanks for the report.

During the ensuing discussion, the following observation was noted:

- The Wales Pension Partnership was successful – this should be celebrated
- The Wales Pension Partnership had added value and stability
- The Council measured and managed its exposure to treasury management risks by using the relevant indicators.

## **RESOLVED**

### **To accept and note the information**

The meeting commenced at 14:00 and ended at 14:55