PENSIONS COMMITTEE 17-01-22

Present:

Councillors: Stephen Churchman, Goronwy Edwards (Conwy County Borough Council) John Brynmor Hughes, Peredur Jenkins (Chair), Ioan Thomas and Robin Williams (Isle of Anglesey County Council)

Officers:

Dafydd Edwards (Fund Director), Delyth Jones Thomas (Investment Manager), Meirion Jones (Pensions Manager) and Lowri Haf Evans (Democracy Services Officer).

Others invited:

H Eifion Jones (observing – Member of Pensions Board)

1. APOLOGIES

Apologies were received from Councillors Aled Wyn Jones and Simon Glyn.

2. DECLARATION OF PERSONAL INTEREST

None to note

3. URGENT ITEMS

It was highlighted that questions had been received from members of the public who were present at the meeting, that did not reach the urgent item threshold of the Committee, but aspects of responsible investment would be discussed at the next meeting of the Committee held on 17 March 2022.

4. MINUTES

The Chair accepted the minutes of the meeting held on 17 November 2021 as a true record.

5. STAFFING OF PENSIONS ADMINISTRATION UNIT

Submitted – the report of the Pensions Manager seeking the Pensions Committee's approval for additional resources that would enable the Pensions Administration Unit to respond to increasing work pressures and cope effectively with the level of work now required. To improve the efficiency of the Pensions Administration Unit, adjustments were proposed to the existing structure and it was highlighted that it was the Pensions Committee's responsibility to determine the budget to ensure sufficient resources to implement this.

It was explained there had been an increase in the need for a deeper understanding of the pension fund's complex regulations, and the Pension Assistant posts had been evaluated and the grade increased from GS3 (£19,312 - £19,698 salary range) to grade GS4 (£20,092 - £21,748). When added to the employer overheads this would be an

increase of £2,799 for each of the 6 posts (at the top of the scale) and the cost of funding the increase would be £16,794 per year.

It was noted that Gwynedd Council and Conwy County Borough Council had submitted an attractive option for Salary Sacrifice Voluntary Contributions (AVCs) and consequently a major increase in the use of this scheme was anticipated, as the Councils promoted the scheme. To address the increase in work administrating the scheme, it was proposed to employ a new S2 grade Pensions Officer (£24,982 - £27, 041). When added to the employer overheads, at the top of the scale, the cost of funding the new post would be £35,704. It was reiterated that the Fund's major employers were realising significant savings by reducing national insurance contributions with the AVCs Scheme - savings that were much greater than the cost of funding the Pensions Officer post. Therefore, in principle, given the employers' budgets and the budget of the Pensions Fund, there would be no increase in the net budget.

Additionally, in response to the Court of Appeal's ruling in the 'McCloud' case against the UK Government, it was reported that the Government had now confirmed that there would be changes to all major public sector schemes, including the Local Government Pension Scheme, to eliminate age discrimination. In response to implementing the changes (known as the McCloud Project), there was a need to collect information on hours worked, and details of service breaks for all eligible employees covering the period 1 April 2014 to 31 March 2022. In addition to updating the records, there was a need to recalculate the death benefits, retirement benefits, and deferred benefits of the members who had left during the past 8 years. This would involve revisiting facts and recalculating thousands of member records. Although the McCloud project would involve significant work for the Unit, it was likely that only a very small number of members would see the value of their benefits increase at the end of the project.

It was reported that a number of other pension funds of a similar size to us had commissioned external companies to undertake this work, but this was an expensive option as opposed to keeping the work in-house. Several members agreed that the Fund would minimise costs by employing three additional temporary Pensions Assistants for a two-year period (with the possibility of extending the contract should the work continue beyond two years) to carry out the McCloud Project work.

The Fund Director reiterated that the recommendations had been challenged by the Finance Department and that they were reasonable and unavoidable recommendations. He also noted that although the Fund's major employers would realise significant savings by reducing national insurance contributions with the AVCs scheme, these would be savings for the employers and not savings for the Fund.

Thanks were expressed for the report.

During the ensuing discussion, the following observations were noted:

- That staff efficiency was crucial to the scheme.
- That the option of keeping the work in-house was to be welcomed.
- That the £85k (McCloud Project) was a one-off amount - we had to accept there were costs to ensure that the work could be done correctly.
- It was not possible to avoid the additional work - the recommendations were a means to move on in a realistic manner.
- The recommendations were cost effective and offered opportunities to staff.

A member of the Pensions Board reiterated that the Fund's administration was a priority area that required expertise and professionalism. He was confident that the Pensions Board would support the recommendations.

RESOLVED:

- **To accept and note the information**
- **To approve the £137,929 increase in expenditure on Pension Unit staff by 2022/23:**
  - **Create four new posts**

    Pensions Officer (to support the AVCs work) and three Pensions Assistants (two-year contract for the McCloud project - with a possibility of an extension should the work last more than two years) (total annual costs £121,135)

  - **Increase the salary of six Pensions Assistants from GS3 to GS4 (total annual costs £16,794)**

6. APPROVE THE 2022/23 BUDGET

The Investment Manager submitted a report seeking the Committee's approval of a budget for the Pensions Administration Unit and the Investment Unit for the 2021-2022 financial year.

It was reported that the budget was now approved on an annual basis by the Pensions Committee and it was explained that the 2022/23 budget included the adjustments to the Pensions Administration Unit staffing structure approved in item 5 above.

It was noted that the budget did not include Investment Manager or Consultant fees, as they varied significantly. Nevertheless, it was noted that the expenditure would be reported in full within the final accounts and the Fund's Annual Report. It was reiterated that the officers reviewed the budget every month with support from Hymans, along with monitoring Wales Pension Partnership expenditure continuously to ensure value for money.

The members expressed their thanks for the report that was self-explanatory and concise.

RESOLVED

- **To accept and note the information.**
- **To approve the 2022/23 financial year budget for the Pensions Administration and Investment sections.**

7. 2022 VALUATION: ACTUARIAL ASSUMPTIONS

A report was submitted by the Fund Director asking the Committee to approve actuarial assumptions suggested by Hymans, the Fund's Actuary, to be used in the 2022 valuation. It was explained that the underlying actuarial assumptions were a key element of the funding strategy and they should seek to reflect the Fund's future expectations along with the risk level appetite. As more information became available, the environment in which the Fund operated evolved and the balance between prudence and affordability shifted in light of external factors. Therefore, it was both necessary and good practice to review the actuarial assumptions adopted by the Fund as part of every triennial valuation.

It was reported that the purpose of the valuation was to review the current funding strategy in light of changes to the economic, regulatory and social environment and to set a contribution rate for every employer that would be paid (in this case) from 1 April 2023 to 31 March 2026, at which point rates would be re-assessed at the 2025 valuation; and check the current funding position.

To determine the required level of future employer contributions we were required to carry out a benefits projection and an assets projection. The contribution rates were then set such that, at the end of an agreed period there were enough assets to meet the future benefit payments.

All the financial and demographic assumptions were discussed in turn, explaining the reasoning behind the proposal for 2022 along with the reasons for any change. It was reiterated that the meeting held on 17 January 2022 with the Members, the officers and the Actuary detailing the assumptions had been very beneficial.

Thanks were expressed for the report.

During the ensuing discussion, the following observations were noted:

- That the few adjustments to the assumptions since the 2019 valuation had all been reasonable.
- That the field was a very technical and specialist one and therefore they needed to place their trust in the experts' work and advice.
- Needed to be cautious and wise.

RESOLVED

- **To accept and note the information.**
- **To approve the actuarial assumptions proposed by Hymans Robertson, Fund Actuary, to be used in the 2022 Valuation**

  (Subject to a possible review in October 2022, these will be formalised in an updated version of the Funding Strategy Statement in 2023)

The meeting commenced at 14:00 and ended at 14:50.