PENSIONS COMMITTEE, 23.03.12

Present: Councillor Keith Greenly-Jones (Chair)
Councillor W. Tudor Owen (Vice-chair).

Councillors Stephen Churchman, Trevor Edwards, John G. Jones and John W. Jones.

Officers:- Dilwyn Williams (Corporate Director), Dafydd Edwards (Head of Finance Department), Caroline Roberts (Investment Manager), Gareth Jones (Pensions Manager) and Gwyn Parry Williams (Committee Officer).

Apologies: Councillor Simon Glyn and Councillor Margaret Lyon (representative of Conwy County Borough Council).

1. DECLARATION OF PERSONAL INTEREST

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

2. MINUTES

The Chairman signed the minutes of the previous meetings of this committee held on 25 November 2011 and 9 March 2012 as a true record.

3. RECOVERY OF PENSION OVERPAYMENT FOLLOWING DEATH

Submitted – the report of the Pensions Manager noting that pension overpayments of £50 or less (net) were not recovered following the death of a pensioner – this was under the Fund’s current administration policy approved by this committee in 1998. When subsequent or follow up payments were due, any overpayments were recovered from those payments. If the same pensions increase rate was applied to this £50 as would have been applied to a pension of the same value payable on 1 April 1998, that pension would be £74.37 as of 9 April 2012 onwards.

He noted, since introducing the ATMOS mortality screening scheme that was approved by this committee on 29 March, 2010 that the number of overpayments had reduced as a result of receiving the monthly notices of death. Requesting repayment of relatively small sums of money following death was a sensitive matter, and due to the nature of probate, was time-consuming to resolve and not cost-effective in terms of resources. Furthermore, some executors or estates could fail to respond to communications or refuse to repay. As a result, the advice of the Internal Auditor was requested regarding the levels and circumstances where there was no value in pursuing recovery, and details were given of a quote from the Auditor’s report.

The Pensions Manager referred to Hymans Robertson’s interpretation of the Finance Act 2004 as it related to pension taxation, namely that HMRC considered pension overpayments not due under scheme regulations to be “unauthorised payments” and subject to a tax charge. However, they also stated that HMRC would not seek payment of tax on individual overpayments of less than £250.

RESOLVED to approve the following policy taking into consideration the Internal Auditor's report and the implications of the Finance Act 2004 –
a) That from 1 April 2012, only overpayments exceeding £100 to be recovered following the death of a pensioner where there are no follow up payments.
b) That the £100 is increased annually each April in line with the pensions increase order up to the nearest whole pound until the taxable limit set by HMRC is reached, and only increased thereafter should the limit be increased.
c) That the Pensions Manager reviews the current procedures and establishes clear guidelines detailing the different steps that should be taken in relation to overpayments, taking the above two points into consideration.
ch) That the Pensions Manager consults with the legal unit to draft a letter to be sent to banks to try and recover excess overpayments from them.

4. INFRASTRUCTURE INVESTMENT

Submitted – the report of the Corporate Director that the quarterly meeting of the Pensions Fund Investment Panel had been held on 16 February 2012 in London, and Hymans Robertson's report had been discussed on options for direct investment in infrastructure. The panel's opinion was that an investment should be made in an infrastructure fund of funds with Partners Group. As this was a direct investment, it was not necessary to go through the procurement process.

RESOLVED to confirm the direct investment in infrastructure with Partners Group, in accordance with the Investment Panel's opinion.

5. STATEMENT OF INVESTMENT PRINCIPLES

Submitted – the report of the Corporate Director on the Statement of Investment Principles.

The Investment Manager notified members of the Board that it was necessary to develop the statement following recent investment decisions.

He noted that Schedule 1 on the Local Government Pension Regulations (Management and Investment of Funds) Regulations 2009 set limits for different types of investments. At a meeting of this committee on 25 February 2008, it was decided to increase the sum that could be invested in any single insurance contract to 35%, and that the decision would be reviewed in three years time. Therefore there was a need to consider whether 35% was still appropriate for the Pensions Fund.

He further noted that another limit in the regulations was the total contributions to partnerships. The limits on Gwynedd's Pensions Fund at present were –

- All contributions to any single partnership – 2%
- All contributions to partnerships – 5%

The Pensions Fund had 5% of its investments in private equity which was structured as partnerships. In deciding to invest in infrastructure, which was also structured as partnerships, there was a need to reconsider the limits for partnerships. The long-term aim was to have 5% of the Fund's investments in infrastructure. Subsequently, Hymans Robertson's advice was to increase the limit for all contributions to any single partnerhip to 5%, and to increase all contributions to partnerships to 15%, which were the maximum amounts permitted by the regulations. He drew attention to the fact that the regulations permitted administering authorities to increase the percentage to be held in some types of investments to the maximum stated in the regulations. Before the Administering Authority could decide to increase the investment limits, it had to comply with some requirements, and he gave details of those to the committee.

The advice of the Fund's Advisor had been sought on the proposals to increase the limits on investments, and his response was received as follows –

- To keep the investment limit in any single insurance contract at 35%.
- To increase the limit on all investments to single partnerships to 5%.
- To increase the limit on all investment to partnerships to 15%.

The officer noted that these limits would be reviewed by this committee every three years as part of the Statement of Investment Principles.

In relation to the review of the Statement of Investment Principles, the officer notified the Committee that the review involved consultation with interested parties prior to adopting the final Statement. Ideally, this would take place before the next annual meeting in July 2012. In order to do this, he suggested that a preliminary review of the Statement be produced by the officers, and that the draft be circulated to the employers during June and July 2012. The final version of the Statement would be submitted, following the consultation, to the committee in September 2012 for approval.

RESOLVED
a) To accept the advice given above, namely that the limit on the amount that can be invested in any single insurance contract be kept at 35%, and that the limits on all contributions to single partnerships be increased to 5% and all contributions to partnerships be increased to 15%.
b) That the above limits apply until such a time as the decision is revoked by the Committee, and that the decision is reviewed by 31 March 2015.
c) In order o implement the decision, that clause 5.3 of the Statement of Investment Principles is amended to note that the limits have been set as follows –

- **Investment in any single insurance contract – 35%**
- **All contributions to any single partnership – 5%**
- **All contributions to partnerships – 15%**

and that the revised statement be published on 26 March 2012.
ch) That the officers produce a preliminary review of the Statement of Investment Principles, and that a draft is circulated to the employers during June and July 2012.

6. CHANGES TO THE LOCAL GOVERNMENT PENSION SCHEME

Submitted – the report of the Corporate Director that previous reports to this committee had provided information about the Government's proposed changes to the Local Government Pension Scheme, and that on 25 November 2011, the Committee had agreed on a response to the consultation document. During the consultation process, the Local Government Association and the relevant trade unions had signed the headings of agreement on the principles that would manage the design of the scheme, ongoing cost management and governance of the new scheme. The Government clearly stated that these principles set out its final position on the main elements on the scheme design.

He noted that the 17 principles that had been established for the new scheme included the new design principles as well as the management and governance mechanisms. He gave details of the core design parameters of the agreed new scheme. The main principle in relation to management and governance was that employer caps (with ceiling and floor values) were to be set by agreement between the main stakeholders.

The original proposals following Hutton's report required increases in employee contributions in April 2012, but under the new agreement this would not apply for the Local Government Scheme. He noted that all necessary changes to the scheme would be implemented at the same time in 2014 rather than employee contributions being increased in 2012 and other changes to the scheme being implemented in 2015. There was an option not to increase employee contributions if the savings could be found through other means. Choices for individuals were to be included which would have a substantial impact on the administration of the scheme. However, the principles of a career average scheme and a later retirement age remained essential for the new scheme.

The regulations would need to be in place by 30 March 2013 so that fund actuaries would be able to take into account the effect of the changes to the scheme, allowing short-term objectives to be met, and consequently the timetable for implementing all changes would be by 31 March 2014, and he gave details of the four stages within the timetable.

A member noted that they should receive details regarding the number of employees who had not joined the Pension Fund, and the number who had left.

RESOLVED
a) To note the changes to the proposals and that further reports will be presented to the Committee as the new scheme is developed.
b) That the Pension Manager prepares a report to the Committee following the election highlighting how many young people in Gwynedd Council have not joined the Pension Scheme, and to suggest what could be done to encourage employers to encourage their employees to join the Pension Fund.

7. TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY FOR 2012/13

Submitted – the report of the Head of Finance Department, noting that as part of its treasury management function, the Council was required to prepare an Annual Investment Strategy – in accordance with the Welsh Government's Statutory Guidance on Local Government Investments. It was considered good practice for the Gwynedd Pension Fund to adopt the Council's Treasury Management Strategy Statement for 2012/13, as revised for the purpose of the Pension Fund. The Council had approved its Treasury Management Strategy Statement for 2012/13 on 1 March 2012.

He noted that the Fund had also given regard to the 2009 revised "CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes".

In relation to the pension fund's cash flow, the officer noted that the fund had net inflows from its members, therefore in any given month, the income from contributions and transfers-in significantly exceeded the pensions, transfers-out and costs paid out. Once there was sufficient surplus cash, money would be transferred to one or more of the Fund's investment managers. Normally, up to around £5m would be held back for cash flow purposes, such as pension payments and funding calls from the private equity funds. However, in the past, due to known liabilities, there were times when the surplus cash held in the fund's bank accounts with Gwynedd Council exceeded £20m.

Currently, all the Fund's surplus cash was pooled with the cash balances of the Council and invested with counterparties in accordance with Gwynedd Council's Treasury Management Strategy Statement. At the end of the financial year, Gwynedd Council paid interest to the Pension Fund based on the fund's daily balances over the year. This could continue if the Pensions Committee requested that the Pension Fund's surplus cash balances be pooled with the Council's cash balances. It was evident that pooling the fund could take advantage of economies of scale, and as a result, could attract better interest rates, reduce bank costs and avoid the duplication of work within the Council.

The counterparty list had been updated in order to reflect the latest recommendations. The maximum loan period for UK institutions had been reduced from two years to one year to reflect those recommendations. The amendments had been approved by the Council on 1 March 2012, and the new list would be operational from 1 April 2012 onwards.

The proposed strategy would not deal with the cash held by the fund's investment managers for settlements.

RESOLVED
a) To approve the Treasury Management Strategy Statement and the Annual Investment Strategy for 2012/13, as amended for Pension Fund purposes (Appendix A to the report), and the list of counterparties (Appendix C to the report).
b) To request that the Council allows the surplus cash balances of the Pension Fund to continue to be pooled with the Council's general cash flow from 1 April 2012 onwards.

8. URGENT ITEMS

(The following items had not been included on the committee's agenda, but the Chairman agreed to their inclusion under Section 100B (4)(b) of the Local Government Act 1972, because the information needed to be conveyed to members as there would be no meeting of the Pensions Committee until September 2012).

a) Monitoring Arrangements for May 2012
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The Corporate Director referred to the intention to hold a meeting with the Pension Fund's Managers during May 2012. In light of the fact that the membership of the Pensions Committee would not have been established by then, following local government elections on 3 May 2012, he suggested that he, together with the Head of Finance Department and the Investment Manager, meet them.

RESOLVED to agree that the Corporate Director, the Head of Finance Department and the Investment Manager meet the Pension Fund's Managers in May 2012.

b) Upgrading Computer Software

Submitted – the report of the Head of Finance Department that the computer software needed updating as the current system was becoming dated. This would mean an additional cost for the Council but a competitive price would be sought. He added that a number of other councils' pension funds had moved to a new version.

RESOLVED to accept the report and trust the relevant officers to make to necessary arrangements to update the computer software.

At the end of the meeting, the Corporate Director referred to the fact that this would be the last meeting of the committee before the local government election in May 2012. He thanked the members for their support over the years. The Chairman also thanked his fellow members and the officers for their cooperation during his term in the chair. He wished those members who were retiring well and also those who would be standing for re-election.

The meeting commenced at 10.30am and concluded at 11.15am.