



Complete Agenda

Democratic Service
Swyddfa'r Cyngor
CAERNARFON
Gwynedd
LL55 1SH

Meeting

PENSIONS COMMITTEE

Date and Time

2.00 pm, TUESDAY, 16TH JUNE, 2015

Location

Ystafell Gwyrfai, Council Offices, Caernarfon, Gwynedd. LL55 1SH

Contact Point

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(DISTRIBUTED Monday, 8 June 2015)

PENSIONS COMMITTEE

MEMBERSHIP (7)

Plaid Cymru (2)

Councillors

Peredur Jenkins

W. Tudor Owen

Independent (2)

Councillors

Trevor Edwards

John Pughe Roberts

Labour (1)

Councillor Glyn Thomas

Llais Gwynedd (1)

Councillor Peter Read

Liberal Democrats (1)

Councillor Stephen W. Churchman

Co-opted Members

Councillor Margaret Lyon, Conwy County Borough Council Representative

Councillor Hywel E. Jones, Isle of Anglesey County Council Representative

Aelodau Ex-officio / Ex-officio Members

Chairman and Vice-Chairman of the Council

A G E N D A

1. ELECT CHAIRMAN

To elect a Chairman for 2015/16

2. ELECT VICE-CHAIRMAN

To elect a Vice-chairman for 2015/16

3. APOLOGIES

To receive any apologies for absence

4. DECLARATION OF PERSONAL INTEREST

To receive any declaration of personal interest

5. URGENT ITEMS

To note any items which are urgent business in the opinion of the Chairman so that they may be considered

6. MINUTES

1 - 3

The Chairman shall propose that the minutes of the meeting of this committee held on 24 March 2015 to be signed as a true record

7. INVESTMENT PANEL MEETINGS

4 - 5

To submit a report by the Head of Finance

8. RECONCILING MEMBERS' GUARANTEED MINIMUM PENSIONS (GMP)

6 - 7

To submit a report by the Pensions Manager

PENSIONS COMMITTEE, 24.03.15

Present: Councillors: Stephen Churchman, Trevor Edwards, Peredur Jenkins, Margaret Lyon (Conwy County Borough Council Representative), W Tudor Owen (Chair), John P. Roberts and Gethin Glyn Williams

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

Apologies: Councillors H Eifion Jones (Anglesey County Council Representative) and Peter Read

2. WELCOME AND APOLOGIES

The Chair, Tudor Owen, welcomed everyone to the Committee, and especially welcomed Councillor Gethin Glyn Williams to his first meeting. The above-mentioned apologies were noted.

4. DECLARATION OF PERSONAL INTEREST

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

3. URGENT ITEMS

None to note.

4. MINUTES

The Chair signed the minutes of the previous meeting of this committee, held on 21 October 2014, as a true record.

5. TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY FOR 2015/16

- a) The Head of Finance Department explained that the Council was required, as part of its treasury management function, to prepare an Annual Investment Strategy. It was considered good practice for the Gwynedd Pensions Fund to adopt the Council's Treasury Management Strategy Statement for 2015/16, as revised for the purpose of the Pensions Fund. The Audit Committee had recommended (17.2.15) to the full Council that it should adopt Gwynedd Council's Strategy, and it had been approved by the full Council on 5 March 2015.
- b) The Pensions Committee was requested to approve the Annual Treasury Management Statement and the Investment Strategy for 2015/16, as revised for the purpose of the Pensions Committee.
- c) The Pensions Committee was also asked to make a request to the Council (although it was not a separate body), to allow the Pension Fund's surplus cash

balances to be pooled with the Council's general cash flow from 1 April 2015 onwards.

RESOLVED TO ALLOW THE PENSION FUND'S CASH BALANCES TO BE POOLED WITH THE COUNCIL'S GENERAL CASH FLOW FROM 1 APRIL 2015 ONWARDS

6. TREASURY MANAGEMENT 2014/15 – MID YEAR REVIEW

- a) For information, a report was submitted on the performance of the treasury management function. It was explained that the Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) required that authorities report on the performance of the treasury management function at least twice yearly (mid-year and at year end).
- b) It was emphasised the security of the capital was the Council's main objective when investing.
- c) In response to a question regarding relevant investments in Icelandic banks, it was reported that the Council had now recovered 94% of its investments in Heritable Bank. It was added that it was likely that further distributions would be received, although the administrators had not yet made an official estimate of final recoveries. The Members noted that this was positive news.

ACCEPTED, FOR INFORMATION, THE REPORT OF THE HEAD OF THE FINANCE DEPARTMENT

7. PRIVATE EQUITY INVESTMENT

- a) In a recent meeting of the Pension Fund Investment Panel, a report from Hymans Robinson had been discussed on the options for a further commitment to private equity. The Panel's recommendation was to invest \$38 million (£25 million) in an equity fund of funds with Partners Group.
- b) The Committee was requested to confirm the direct investment with Partners Group Secondary 2015.

RESOLVED to confirm the direct investment with Partners Group Secondary 2015 in line with the view of the Pension Fund Investment Panel.

8. PENSION BOARD UPDATE

- a) A report was submitted to Committee members informing them of the proposed arrangements to establish a Local Pension Board. It was noted that the report had already been submitted to the Full Council on 5 March where the relevant changes to the Council's Constitution had been adopted that would ensure that the Pension Board was established in accordance with the regulations.
- b) It was explained that each Pension Fund had to establish a Pension Board to undertake the scrutiny role by 1 April 2015. The Board's role was to assist the administering authority to ensure compliance with all relevant regulations, other legislation and requirements which were relevant to the scheme. The Board

would also assist the authority to ensure effective and efficient governance and administration of the fund.

- c) It was reported that the Pension Board would consist of six members, to include three representatives of the employer (to include one as a representative of the Administering Authority) and three representatives of the scheme's members. The process of appointing Board members would be undertaken over the next months with requests for nominations to be received before the end of April 2015. The intention was to establish the Board by June with an opportunity for new Members to receive appropriate training. The Board's first meeting needed to be held before the end of July 2015.
- ch) A further update would be provided at the next meeting of the Pensions Committee (16 June 2015). A request was made for new Members to be introduced to the Pensions Committee.

THE REPORT WAS ACCEPTED

9. EXCLUSION OF PRESS AND PUBLIC

The Chair proposed that the press and public be excluded from the meeting during the discussion on the following item due to the likely disclosure of exempt information as defined in paragraph 7, Section 4, Schedule 12A of the Local Government Act 1972.

The report contained financial information relating to a company, they had the right for the information to be kept confidential. The nature of the information in the report was commercially sensitive regarding the fees for an investment agreement, and releasing this information to the public could damage the Pension Fund's financial position.

The timing was important and the public interest in respecting that confidentiality outweighed the public interest in disclosing the information.

10. ABSOLUTE RETURN MANDATE

- a) A recommendation was presented to Members to determine the changes to the structure of the investment in bond funds. It was explained that a proposal had been made to restructure the investment in order to ensure compliance with the Investment Regulations. The company had agreed to shoulder the additional costs for three years.
- b) There would be an opportunity for the Investment Panel to question the company in May if there remained concerns.

RESOLVED to accept the recommendation, noting that there will be an opportunity to monitor the situation during the next three years before making a decision to pay the additional costs or to re-consider the investment following this period.

The meeting commenced at 2.00pm and concluded at 2.40pm.

Agenda Item 7

MEETING	Pensions Committee
DATE	16 June 2015
TITLE	Investment Panel Meetings
PURPOSE	To change the location of Investment Panel meetings from November 2015 onwards
AUTHOR	Dafydd L Edwards, Head of Finance

- On 7 October 2013, the Corporate Director presented a report to the Pensions Committee, proposing a change in the way the Council monitors its investments (particularly those in the property field). The following arrangement was accepted by the Committee, to be implemented from February 2014 for a one-year trial period:

Month / Location	Company
February 2014 (London)	Fidelity Veritas BlackRock
May 2014 (London)	UBS Lothbury BlackRock Threadneedle Insight
July 2014 (Caernarfon)	Fidelity Veritas
November 2014 (Caernarfon)	Insight Partners Group

- Having trialled the new arrangement for just over a year, I have come to the conclusion that travelling to London for the February and May meetings is very ill-timed for a number of us, due to pressure of work in this period, with the Financial Strategy / Budget in February and closure of the accounts for the Council and Pension Fund in May.
- In my opinion, it would make more sense to arrange the February and May meetings in Caernarfon and the July and November meetings in London, particularly as the Annual Meeting of the Pension Fund will be taking place in September from now on, and not on the same day as the Investment Panel meeting in July.

4. The next Investment Panel meeting has already been arranged for 30 July in Caernarfon, with Fidelity and Veritas.
5. Therefore, comments on the following arrangements are invited, with the intention of starting in November 2015 and continuing with the annual cycle noted below until reported otherwise:

Month / Location	Company
November 2015 (London)	UBS Lothbury BlackRock Threadneedle Insight
February 2016 (Caernarfon)	Fidelity Veritas
May 2016 (Caernarfon)	Insight Partners Group
July 2016 (London)	Fidelity Veritas BlackRock

Agenda Item 8

MEETING	Pensions Committee
DATE	16 June 2015
TITLE	Reconciling members' Guaranteed Minimum Pensions (GMP)
PURPOSE FOR THE REPORT	To inform members of the need to reconcile scheme members' GMP before April 2018.
AUTHOR	Gareth Jones – Pensions Manager
RECOMMENDATION	For Information

1. Background

- 1.1 The Local Government Pension Scheme (LGPS) is currently contracted out of the State Second Pension Scheme (S2P), formerly called SERPS, and has been since its introduction in April 1978.
- 1.2 To qualify for a 'contracted out' certificate schemes were required to guarantee that the level of benefits provided by the scheme were at least equivalent to what would have been provided in SERPS. In obtaining the certificate contributing members and employers paid national insurance at the lower 'D' rate table.
- 1.3 The guarantee was in the form of a Guaranteed Minimum Pension (GMP) administered and calculated by the then Department of Social Security (DSS). The GMP was payable from state pension age as part of the main scheme pension, but if the GMP was higher the higher amount would be payable from that date.
- 1.4 From the first pensions increase date following state pension age the increases on GMP's become the responsibility of the DSS and paid with the individual's state benefits. From April 1988 this was further complicated by the introduction of a different level of GMP requiring a separate indexation to the original GMP. In order to differentiate between the two rates they were referred to as GMP78 and GMP88.
- 1.5 Accrual of GMP was based on national insurance contributions paid between the lower and higher earnings limits. This system ended from April 1997 to be replaced by a scheme reference test carried out on the level of benefits provided by the scheme as a whole. All public sector schemes passed this test and remained contracted out schemes.
- 1.6 As GMP accrual ended in 1997, the 19 years from 1978 saw a considerable number of scheme members remain subject to GMP assessment for both pensions increase calculations and to be part of any transfer calculations.

2. State Single Tier Pension

- 2.1 The Pensions Act 2014 introduced a simplified 'single-tier pension' to replace the S2P. It's intended to provide a basic state pension of around £150 per week without the need for means testing for topping up any income below the guarantee required for pension credit. It is also intended that the value keeps pace with the minimum income guarantee.

- 2.2 The single tier scheme commences from 6th April 2016 and will result in the ending of contracting out. Although intended to simplify the state scheme this will create a number of consequences not least the changes to employee and employers' national insurance rates by abolishing lower rate Table 'D' mentioned in para (1.2) and placing everyone in the higher Table 'A' rate.
- 2.2 Another consequence is that HMRC, who now administer contracting out, has stated it intends to write to all scheme members in 2018 informing them of their GMP amounts, and scheme responsible for payment.
- 2.3 In the meantime all contracted out schemes have been advised to carry out a GMP reconciliation exercise to ensure that the GMP they carry for all members corresponds with GMP recorded on HMRC records. If this is not completed by April 2018 schemes will be burdened with GMP's that are not their responsibility but be obliged to pay.
- 2.4 National surveys have shown that the levels of errors are high. This might be as a result of DSS suffering computer problems in the 1990's and employers / pension schemes not registering correct reference numbers on their annual and event driven returns.

3. Reconciling the GMP's

- 3.1 Gwynedd Pension Fund, similar to other contracted out pension schemes needs to complete this time consuming and complicated work by April 2018, when HMRC is scheduled to write to members.
- 3.2 Current assessment suggests the work will involve three phases, firstly an initial comparison exercise, followed by strategic planning and ending in reconciliation and system updating. On completing the 'Initial comparison' stage it will be possible to clearer determine the intensity of the strategic and planning and corrective stages.
- 3.3 Having determined the level of errors and the likely intensity of the work involved, including the effect on over and underpayments, strategic planning needs to take into consideration error tolerance levels, write off limits and the likely resources required to complete the exercise.
- 3.4 To assist in the initial comparison exercise specialist software is essential. Gwynedd Pension Fund has signed with Heywood, who provides the scheme administration software, for a compatible solution costing approximately £8,300 per whole or part year whilst in use. This service will assist greatly in the initial comparison stage and will be supported by their consultants in their usual way.

4. Recommendation

- 4.1 Members are asked to take note of the GMP reconciliation process, its likely cost and effect on the pension unit's staff resources
- 4.2 To retrospectively approve funding for the additional software of approximately £8,300 per whole or part year.
- 4.3 To note that update reports on the ongoing work will be submitted to the Committee from time to time and that may include funding for additional temporary staff and a request for decisions on error tolerances and write off levels.