PENSIONS COMMITTEE, 22.03.11

Present: Councillor Keith Greenly-Jones (Chairman)
Councillor John W. Jones (Vice-chairman).

Councillors Trefor Edwards, Simon Glyn, John G. Jones and W. Tudor Owen

Co-opted Members:- Councillor Margaret Lyon (Conwy County Borough Council) and Councillor Tom Jones (Isle of Anglesey Council).

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

<u>Death</u>
The Chairman referred to the sudden death of Councillor J. R. Jones this morning and he expressed his condolences to the family in their loss. The committee stood in silence as a mark of respect and sympathy.

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 meeting of this committee held on 3 December 2010, as a true record.

3. EMPLOYERS' RESPONSE TO THE CONSULTATION ON THE FUNDING STRATEGY STATEMENT

Submitted – the report of the Investment Manager noting that it was required to review and publish a Funding Strategy Statement (FSS) by 31 March 2011. As part of this review, the administrating authority had to consult with all employers that were part of the scheme, with the actuary and fund consultant and any other persons who were deemed appropriate.

She noted that the committee had decided upon the following policies at its meeting on 3 December 2010 -
a) that the anticipated excess return from investing in equities rather than gilts should be 1.4% (the same as it was in the 2007 valuation);
b) to keep the period for recovering the deficits at 20 years for statutory bodies and 15 years for Coleg Menai and Coleg Llandrillo.
c) to extend the spreading period for increases in employer contributions to six years in those cases where the increase is greater than 1.5% and if this facility is used there should be an increase of at least 0.5% until the full increase is reached.

On 14 December 2010, a consultation letter had been sent to all of the scheme's employers, the fund actuary and adviser and to representatives of Unison, TGWU and the

GMB, consulting on the three above-mentioned policies. They had been asked to respond with any observations by 28 January 2011. One response to the consultation had been received from Abergele Town Council.

Following the consultation period, some employers had noted that they were considering their future membership of the fund. Since the report had been prepared, information had been received that Mantell Gwynedd had decided to close the scheme to new members and as a result, they had to withdraw from the pool of small employers, and the Funding Strategy Statement would need to be changed to reflect that, without changing the proposed contribution levels of the other employers before the 2013 valuation.

A member enquired about the latest situation regarding increases in the pension of individuals. In response, the Corporate Director vowed that he would convey the information to the member.

RESOLVED to adopt the Funding Strategy Statement (Appendix A to the report).

4. TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY FOR 2011/12

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 Assembly'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 2011/12, as amended for the purpose of the Pension Fund. The Council had approved its Treasury Management Strategy Statement for 2011/12 on 1 March 2011.

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, so in any month, the income from contributions and transfers-in exceeded the pensions, transfers and costs paid out. Once there would be 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 commitments, there had been times when the surplus cash held in the fund's bank accounts with Gwynedd Council had 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 over 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 obvious that pooling the fund could lead to 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 list of counterparties had been updated in order to reflect the latest recommendations. The Spanish banks had been removed from the list and six banks had been added to the list. Two banks had changed their names and this had been amended on the list. The Council had approved these additions on 1 March 2011, and the new list would be implemented from 1 April 2011 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 2011/12, 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 be pooled with the Council's general cash flow from 1 April 2011 onwards.

5. INVESTMENT STRATEGY

Submitted – the report of the Corporate Director stating that a quarterly report of the Pension Fund's Investment Panel had been held on 15 February 2011 in London, when a presentation had been received from Partners Group on the performance of private equity investments thus far. A paper was presented on commitments to the private equity programme in the future by a representative from Hymans Robertson. The paper had been circulated to members in February 2011 with the papers for the Investment Panel meeting.

He noted that the Pension Fund's allocation for private equity was 5% and that the investments had not reached the percentage yet. In light of the nature of this type of investment and in order to meet the fund's investment strategy, regular financial commitments were required in this investment class and the recommendation made was that 15m Euro (approximately £12.6m) should be invested in the Global Value Fund 2011 and $7m (approximately £4.4m) in the Emerging Markets Fund 2011. The Investment Panel had been of the opinion that it was necessary to do this. He sought confirmation from the committee in order to move ahead and make the commitments.

RESOLVED to confirm the allocation in accordance with the views of the Investment Panel.

6. HUTTON REPORT

Submitted – the report of the Corporate Director on the conclusions of the Public Service Pensions Commission published on 10 March 2011 making recommendations to the Government on the public sector's future pension arrangements.The final report included 27 recommendations on amending public service pension arrangements. The main recommendations were noted as follows -
a) To move from a final salary structure to career average revalued earnings (CARE) for each scheme, with the index on CARE benefits whilst in pensionable service associated with earnings rather than prices.
b) The normal pension age of members should be linked with the state pension age.
c) To introduce a "cost ceiling" that would set a maximum restriction on the amount earmarked by the Government for public service pensions in the long-term, with any cut from the ceiling stimulating an automatic mechanism in order to bring costs down.
ch) To protect the accumulated rights of existing members, including retaining a link with final salary for benefits accrued in the existing schemes.
d) To introduce a new formal regulatory framework in order to ensure an independent review of the governance procedure for public service pension schemes, possibly by the Pensions Regulator.

The officer informed the committee further that the report took for granted that the Government would act upon separate proposals it had made as part of the response to the budgetary deficit for workers who were part of public sector pension schemes to pay an additional 3% towards the schemes. However, this would not affect employees on low salaries. He referred to the unbalanced impact this could create within the Council's workforce. For example, social workers who paid a rate of 6.8% at present could see an increase to 11%, in comparison with teachers receiving a higher salary on a rate of 9%. It was intended for the issue to be established finally this week by the Government on Budget Day; however, it was now understood that this would be deferred until the summer.

RESOLVED to accept the report.

7. EXCLUSION OF PRESS AND PUBLIC

RESOLVED to exclude the press and public from the meeting during the discussion on the following item because of the likely disclosure of exempt information as defined in paragraph 14, Part 4, Schedule 12A of the Local Government Act 1972. This paragraph applies because the body in question is entitled to keep its financial or business matters confidential. The public interest in respecting that confidentiality outweighs the public interest in disclosing the information.

8. THEATR HARLECH

Submitted – the report of the Head of Finance Department noting that Theatr Harlech was one of the Gwynedd Pension Fund's admitted bodies and was part of the pool of smaller employers. By now, the theatre did not have any employed workers, therefore, the deficit relating to the former employees was payable. He provided details of the deficit that had been calculated by Hymans Robertson in relation to the theatre.

He noted that the theatre still existed as a body and that it wished to continue operating. The business was not in a position to pay the full deficit and that any request demanding payment would effectively end the business. The Pension Fund would not receive the majority of the monies owed should this happen.

A request had been received from the theatre to extend the deficit repayment period to 15 years. A meeting would be held between Council officers and Theatr Harlech on 1 April 2011 in order to discuss the situation.

RESOLVED to authorise the Head of Finance Department to negotiate a settlement with Theatr Harlech at the meeting on 1 April 2011 and to act appropriately in relation to agreeing on a repayment period in the interests of the fund based on its risk assessment of the theatre's business position.

The meeting commenced at 2.00pm and concluded at 3.00pm.