

Public Document Pack

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Chief Officer (Governance)
Prif Swyddog (Llywodraethu)



To: Cllr Alan Diskin (Chair)

CS/NG

Councillors: Haydn Bateman, Brian Dunn,
Ron Hampson and Matt Wright

18 March 2015

Co-opted Members

Steve Hibbert, Cllr. Huw Llewelyn Jones,
Cllr. Andrew Rutherford and Cllr. Steve Wilson

Maureen Potter 01352 702321
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Dear Sir / Madam

A meeting of the **CLWYD PENSION FUND COMMITTEE** will be held in the **CLWYD COMMITTEE ROOM, COUNTY HALL, MOLD CH7 6NA** on **TUESDAY, 24TH MARCH, 2015** at **10.30 AM** to consider the following items.

*** Please note that the formal meeting will be preceded immediately by a Conflicts of Interest training session at 9.30am to which all Clwyd Pension Fund Committee members are expected to attend.**

Yours faithfully

Democracy & Governance Manager

A G E N D A

- 1 **APOLOGIES**
- 2 **DECLARATIONS OF INTEREST (INCLUDING WHIPPING DECLARATIONS)**
- 3 **MINUTES** (Pages 3 - 8)
To confirm as a correct record the minutes of the last meeting.
- 4 **CONFLICTS OF INTEREST POLICY** (Pages 9 - 24)
To ask Committee Members to approve the Fund's Conflicts of Interest Policy.
- 5 **TRAINING PLAN** (Pages 25 - 30)
To ask Committee Members to approve the Fund's Training Plan.

- 6 **RISK POLICY AND REGISTER** (Pages 31 - 50)
To ask Committee Members to approve the Fund's Risk Strategy and Register.
- 7 **BUSINESS PLAN 2015/16 TO 2017/18** (Pages 51 - 86)
To ask Committee Members to approve the Fund's 2015/16 Business Plan.
- 8 **GOVERNANCE UPDATE** (Pages 87 - 110)
To update Committee Members on governance related issues.
- 9 **LGPS CURRENT ISSUES UPDATE** (Pages 111 - 122)
To provide Committee Members with current issues affecting the management of the LGPS.
- 10 **PENSION ADMINISTRATION AND COMMUNICATIONS UPDATE** (Pages 123 - 134)
To update Committee Members on the Pensions Administration Section.
- 11 **INVESTMENT AND FUNDING UPDATE** (Pages 135 - 142)
To provide Committee Members with an update of investment and funding matters for the Clwyd Pension Fund.
- 12 **ECONOMIC AND MARKET UPDATE** (Pages 143 - 158)
To provide Committee Members with an economic and market update.
- 13 **INVESTMENT STRATEGY AND MANAGER SUMMARY** (Pages 159 - 176)
To update Committee Members on the performance of the Fund's investment strategy and Fund Managers.
- 14 **FUNDING AND FLIGHT-PATH UPDATE** (Pages 177 - 186)
To update Committee Members on the funding position and liability hedging undertaken as part of the Flight Path strategy for managing liability risks.

CLWYD PENSION FUND COMMITTEE **4 FEBRUARY 2015**

Minutes of the meeting of the Clwyd Pension Fund Committee of Flintshire County Council, held at County Hall, Mold, on Wednesday, 4 February 2015.

PRESENT: Councillor Alan Diskin (Chairman)

Councillors: Haydn Bateman (Vice Chair), Brian Dunn, Ron Hampson, and Matt Wright

CO-OPTED MEMBERS: Steve Hibbert (Scheme Member representative), Councillor Huw Llewelyn Jones (Denbighshire County Council), Councillor Andrew Rutherford (Other Scheme Employer Representative), and Councillor Steve Wilson (Wrexham County Borough Council)

IN ATTENDANCE:

Advisory Panel comprising: Helen Stappleton (Chief Officer - People and Resources), Philip Latham (Clwyd Pension Fund Manager), Gary Ferguson (Corporate Finance Manager), Karen McWilliam (Independent Advisor - Aon Hewitt), Mr. Paul Middleman (Fund Actuary – Mercers), Mr. Kieran Harkin (Fund Investment Adviser – JLT Group)

Officers/Advisers comprising: Alwyn Hughes (Pensions Finance Manager), Debbie Fielder (Pensions Finance Manager), and Committee Officer

26. DECLARATIONS OF INTEREST (including Whipping Declarations)

Councillor Stephen Wilson and Councillor Huw Llewelyn Jones declared that they had a personal interest as being members of the Clwyd Pension Fund for all items.

27. MINUTES

The minutes of the meeting of the Committee held on 5 November 2014 were submitted.

Matters arising

Pension administration and communications update:

The Clwyd Pension Fund Manager reported that information on staffing levels and turnover in Pensions Administration would be provided in the business planning workshop to be held following the meeting.

RESOLVED:

That the minutes be received, approved and signed by the Chairman as a correct record.

28. GOVERNANCE UPDATE

The Clwyd Pension Fund Manager provided a verbal update on governance related issues and referred to the following key considerations:

- The outcome of the consultation by the Government on Collaboration and Efficiencies remains unknown and it is anticipated that no announcements will be made until after the general election
- The new Governance regulations were issued last week which include regulations for the Scheme Advisory Board, Local Board and Cost Management. In addition Shadow Scheme Advisory Board guidance on the implementation of a Local Board has also been published (this guidance is expected to be adopted by the Scheme Advisory Board once created).
- Now the regulations and guidance have been published the proposed Protocol to enable the creation of a Local Pension Board for the Fund will be recommended for approval to the meeting of the County Council on 3 March 2015. As a result, there have been some minor changes made to the draft Protocol recommended to Constitution Committee in October 2014 which will be highlighted to Council.
- In terms of the All Wales position on a business case for a collective investment vehicle for Wales, a draft report by the consultants Mercer is expected to be distributed prior to the next meeting of the Welsh Treasurers in late March/early April 2015.
- The Pension Regulator has issued a Code of Practice for Public Service Pensions. The Fund's compliance with the new Code is included in our Service Plan.
- A Technical Consultation on Scheme Rules has been responded to. As previously written the original regulations meant that Flintshire could not be the administering authority for any area outside Flintshire. This has now been corrected within the revised draft regulations, however, the correction did not cover the North Wales Fire Service. This has been drawn to the attention of the DCLG and will be corrected.
- The Shadow Scheme Advisory Board at a national level is working on two governance projects. One is considering various options on the level of separation between the scheme manager function from that of the lead authority. The other is project is working on proposals for performance measurement and benchmarking across the LGPS funds.
- The feedback from employers attending our AJCM in November 2014 was good.
- Conference at Carden Park on 26/27 February 2015. 4 paid places reserved along with 2 free places for officers. Karen McWilliam gave a brief summary of the agenda for the conference to enable Committee

members to decide on attendance, which is encouraged to comply with our Training Policy.

RESOLVED:

That the update be noted.

29. PENSION ADMINISTRATION AND COMMUNICATIONS UPDATE

The Clwyd Pension Fund Manager introduced a report to provide an interim update on the pension administration and communications service, focusing on specific projects and service planning. He provided background information and referred to the key considerations which were detailed in the report concerning risks and Service planning and backlog of tasks.

The Clwyd Pension Fund Manager referred to the need to improve historic membership data by removing a backlog of cases that had accumulated over a number of years. Due to staff turnover and workload, progress in clearing the backlog had reduced considerably, however, the importance of completing the project was recognised given legal requirements, increased scrutiny by the Pensions Regulator, and potential impact on employer liabilities. He explained that it had been agreed at Advisory Panel that Mercer would draft a proposal to provide project and administrative support to reduce and clear the accumulated backlog of unprocessed tasks. Mercer had met with the 'in house team' and it was proposed to undertake the work in two stages. Stage one was to resolve the more straight-forward cases and then review and determine the timescales and costs to remove the remaining cases which were considered more complex. The project plan also included implementation of procedures and internal controls with employers to avoid any recurring backlog in the future.

Councillor Haydn Bateman commented on the cost for the first phase of the work. The Chief Officer (People and Resources) and Clwyd Pension Fund Manager referred to the complexity of the tasks to be undertaken and the significant risks if the backlog was not cleared. Officers advised that the charge for the work was competitive for the skill and level of expertise required and represented 'good value for money'. Mr. Paul Middleman (Fund Actuary – Mercers) gave an assurance that the project costs had been kept to a minimum in view of the strong and long standing relationship with the Fund, the temporary nature of the work involved and a mutual recognition of the need to move forward and clear the backlog within the required timescale.

Karen McWilliam, Independent Advisor - Aon Hewitt, reiterated the risks to the Clwyd Pension Fund if the backlog was not cleared efficiently and accurately without undue delay.

During discussion Officers responded to the queries and comments raised concerning incorrect and incomplete member data across the three unitary authorities in the Fund. The Chief Officer advised that work was ongoing with a view to improving system links.

Councillor Andrew Rutherford asked if there would be a recharge to Flintshire County Council, Denbighshire County Council and Wrexham County Borough Council based on the level of work involved in clearing the backlog of cases. Mr. Paul Middleman advised that the appropriate split of any excess costs could be recharged to the authorities via the contribution rates set at the valuation and the appropriateness of this will be considered.

RESOLVED:

That the report be noted.

30. FUNDING AND FLIGHT PATH UPDATE

Mr. Paul Middleman, Fund Actuary - Mercer, introduced a report to provide an update on the funding position and liability hedging undertaken as part of the Flight-path strategy for managing liability risks.

Mr. Middleman provided background information and referred to the key considerations in the report. He explained that the monthly summary report on the funding position and an overview of the liability hedging mandate was appended to the report for Quarter 4, 2014. Mr. Middleman gave a verbal update and reported that “traffic light” analysis showed that the mandate was operating in line within the tolerances set by the advisors as at 31 December 2014. However, there was continuing volatility in the markets and the current funding position could change to an “amber” rating if these persist.

Mr. Middleman gave an update on interest rate and inflation rate changes. He advised that since 31 December 2014 further inflation triggers had been hit in January 2015 which meant that the inflation hedge increased to 40% which was the maximum allowed under the current mandate. This meant that the aim for the planned target level at April 2019 for inflation hedging had been reached already. The Advisory Panel would consider if inflation hedging should continue and this would be reported to the next meeting of the Committee to be held on 24 March 2015. Mr. Middleman reported the time based interest and inflation triggers had been suspended, the latter because the 40% limit had been achieved as noted. It had been agreed by the advisory panel that the interest rate time-based triggers were suspended due to the relatively high cost of hedging this risk. Both time based triggers will be reviewed periodically.

RESOLVED:

That the report be noted.

31. LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985 - TO CONSIDER THE EXCLUSION OF THE PRESS AND PUBLIC

RESOLVED:

That the press and public be excluded from the meeting for the following item as it is considered to contain exempt information by virtue of paragraphs 12 and 14 of Part 4 of Schedule 12A of the Local Government Act 1972 (as amended).

32. APPOINTMENT OF A DIVERSIFIED GROWTH FUND MANAGER

The Clwyd Pension Fund Manager introduced a report to seek ratification for the appointment of a Manager for a Diversified Growth Fund (DGF). He provided background information and invited the Pensions Finance Managers and Kieran Harkin (JLT – Investment Consultant) to report on the selection process undertaken for the additional manager to complement the Fund’s existing DGF manager. Mr Harkin provided comments on how it is believed that, going forward, the combination of the two managers will provide strong diversification benefit within the Fund’s DGF exposure, which is contained within the Tactical Asset Allocation (TAA) portfolio.

During discussion Officers responded to the questions raised by members around cost and fees. Officers advised that all funds now have to disclose all costs and performance fees, as well as the annual management charge, in the final accounts.

RESOLVED:

That the decision to appoint Investec Asset Management Limited to manage a Diversified Growth Fund mandate for the Clwyd Pension Fund be approved.

33. ATTENDANCE BY MEMBERS OF THE PRESS AND PUBLIC

There were no members of the press or public in attendance.

(The meeting commenced at 10.00 am and ended at 11.05 pm)

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Chairman

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FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CLWYD PENSION FUND COMMITTEE**

DATE: **24th MARCH 2015**

REPORT BY: **CHIEF OFFICER (PEOPLE AND RESOURCES)**

SUBJECT: **CONFLICTS OF INTEREST POLICY**

1.00 PURPOSE OF REPORT

1.01 To ask Committee Members to consider the Fund's draft Conflict of Interests Policy.

2.00 BACKGROUND

2.01 Conflicts of interest have always existed for those with LGPS administering authority responsibilities as well as for advisers to LGPS funds. The Pensions Regulator and national LGPS Advisory Board now recommend that all LGPS administering authorities put in place a Conflict of Interest Policy for, as a minimum, the operation of their new local pension boards.

2.02 Conflicts of interest often exist in an LGPS environment as a result of an individual having a personal, business or other interest which might conflict, or be perceived to conflict, with their role in managing or advising LGPS funds. Further, an actual or potential conflict can arise due to an individual having other roles and responsibilities, for example as a member of the scheme, or as an elected member of an employer participating in the LGPS.

2.03 In the context of managing the Pension Fund, there are often situations that might not be considered personal and prejudicial interests that still need to be disclosed under the Flintshire County Council Members' Code of Practice. Accordingly it is good practice to create a Conflicts of Interest Policy to apply to all those involved with the management of the Fund, not just the local Pension Board members.

3.00 CONSIDERATIONS

3.01 The attached draft Policy includes examples of actual and potential conflicts in relation to pension fund management as well as setting out the process to be followed to manage these conflicts by all Pension Fund Committee members, Pension Board members, senior officers and advisers to the Fund. In most circumstances any such potential conflicts can be successfully managed, and therefore the focus of the policy is ensuring potential conflicts are identified and considered at the earliest possible stage and appropriate records are maintained to ensure transparency.

3.02 Jane Marshall from Eversheds legal advisers will present a training session to Pension Committee Members on conflicts of interest at 9.30am on the 24th March, immediately prior to the Pension Fund Committee meeting. The Democracy and Governance Manager will also be available to answer questions and provide advice on the proposed policy.

4.00 RECOMMENDATIONS

4.01 That Committee Members agree the Conflicts of Interest Policy.

5.00 FINANCIAL IMPLICATIONS

5.01 Any costs associated with delivering this policy will be recharged to the Clwyd Pension Fund.

6.00 ANTIPOVERTY IMPACT

6.01 None directly as a result of this report.

7.00 ENVIRONMENTAL IMPACT

7.01 None directly as a result of this report.

8.00 EQUALITIES IMPACT

8.01 None directly as a result of this report.

9.00 PERSONNEL IMPLICATIONS

9.01 None directly as a result of this report.

10.00 CONSULTATION REQUIRED

10.01 None directly as a result of this report.

11.00 CONSULTATION UNDERTAKEN

11.01 None directly as a result of this report.

12.00 APPENDICES

12.01 Appendix – Conflicts of Interest Policy

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: None

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Cronfa Bensiynau Clwyd
Clwyd Pension Fund



FLINTSHIRE COUNTY COUNCIL

**Administering Authority for
Clwyd Pension Fund**

CONFLICTS OF INTEREST POLICY

March 2015

CONFLICTS OF INTEREST POLICY

Introduction

Conflicts of interest have always existed for those with LGPS administering authority responsibilities as well as for advisers to LGPS funds. This simply reflects the fact that many of those managing or advising LGPS funds will have a variety of other roles and responsibilities, for example as a member of the scheme, as an elected member of an employer participating in the LGPS or as an adviser to more than one LGPS administering authority. Further any of those persons may have an individual personal, business or other interest which might conflict, or be perceived to conflict, with their role managing or advising LGPS funds.

It is generally accepted that LGPS administering authorities have both fiduciary and public law duties to act in the best interest of both the scheme beneficiaries and participating employers. This, however, does not preclude those involved in the management of the fund from having other roles or responsibilities which may result in an actual or potential conflict of interest. Accordingly, it is good practice to document within a policy, such as this, how any such conflicts or potential conflicts are to be managed.

This is the Conflicts of Interest Policy of the Clwyd Pension Fund, which is managed by Flintshire County Council. The Policy details how actual and potential conflicts of interest are identified and managed by those involved in the management and governance of the Clwyd Pension Fund whether directly or in an advisory capacity.

This Conflicts of Interest Policy is established to guide the Pension Fund Committee members, Pension Board members, officers and advisers. Along with other constitutional documents, including the various Codes of Conduct, it aims to ensure that those individuals do not act improperly or create a perception that they may have acted improperly. It is an aid to good governance, encouraging transparency and minimising the risk of any matter prejudicing decision making or management of the Fund otherwise.

Aims and Objectives

The Fund's Mission Statement is as follows:

- to be known as forward thinking, responsive, proactive and professional providing excellent customer focused, reputable and credible service to all our customers.
- to have instilled a corporate culture of risk awareness, financial governance, and be providing the highest quality, distinctive services within our resources.
- to work effectively with partners, being solution focused with a can do approach.

In relation to the governance of the Fund, the Administering Authority's objectives are to:

- Act in the best interests of the Fund's members and employers
- Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies
- Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise
- Act with integrity and be accountable to stakeholders for all decisions, ensuring they are robust and well based
- Understand and monitor risk
- Strive to ensure compliance with the appropriate legislation and statutory guidance, and to act in the spirit of other relevant guidelines and best practice guidance
- Clearly articulate its objectives and how it intends to achieve those objectives through business planning, and continually measure and monitor success

The identification and management of potential and actual conflicts of interest is integral to the Administering Authority achieving its governance objectives.

To whom this Policy Applies

This Conflicts of Interest Policy applies to all members of the Pension Fund Committee and the Pension Board, including scheme member and employer representatives, whether voting members or not. It applies to all managers in the Flintshire County Council Pension Fund Management Team, the Chief Finance Officer (Section 151 Officer) and the Chief Officer, People and Resources (from here on in collectively referred to as the senior officers of the Fund).

The Pension Fund Manager will monitor potential conflicts for less senior officers involved in the daily management of the Pension Fund and highlight this Policy to them as he considers appropriate.

This Policy and the issue of conflicts of interest in general must be considered in light of each individual's role, whether this is a management, advisory or assisting role.

The Policy also applies to all advisers and suppliers to the Fund, whether advising the Pension Board, Pensions Fund Committee or Fund officers.

In this Policy, reference to advisers includes all advisers, suppliers and other parties providing advice and services to the Administering Authority in relation to pension fund matters. This includes but is not limited to actuaries, investment consultants, independent advisers, benefits consultants, third party administrators, fund managers, lawyers, custodians and AVC providers. Where an advisory appointment is with a firm rather than an individual, reference to "advisers" is to the lead adviser(s) responsible for the delivery of advice and services to the Administering Authority rather than the firm as a whole.

In accepting any role covered by this Policy, those individuals agree that they must:

- acknowledge any potential conflict of interest they may have;
- be open with the Administering Authority on any conflicts of interest they may have;
- adopt practical solutions to managing those conflicts; and
- plan ahead and agree with the Administering Authority how they will manage any conflicts of interest which arise in future.

The procedures outlined later in this Policy provide a framework for each individual to meet these requirements.

Legislative and related context

The overriding requirements in relation to the management of potential or actual conflicts of interest for those involved in LGPS funds are contained in various elements of legislation and guidance. These are considered further below.

The Public Service Pensions Act 2013

Section 5 of this Act requires that the scheme manager (in the case of the LGPS, this is the administering authority) must be satisfied that a Pension Board member does not have a conflict of interest at the point of appointment and from time to time thereafter. It also requires Pension Board members (or nominated members) to provide reasonable information to the scheme manager for this purpose.

The Act defines a conflict of interest as “a financial or other interest which is likely to prejudice the person’s exercise of functions as a member of the board (but does not include a financial or other interest arising merely by virtue of membership of the scheme or any connected scheme).”

Further, the Act requires that scheme managers must have regard to any such guidance that the national scheme advisory board issue (see below).

The Local Government Pension Scheme Regulations 2013

Regulation 108 of these Regulations applies the requirements of the Public Service Pensions Act (as outlined above) to the LGPS, placing a duty on each Administering Authority to satisfy itself that Pension Board members do not have conflicts of interest on appointment or whilst they are members of the board. It also requires those pension board members to provide reasonable information to the administering authority in this regard.

Regulation 109 states that each Administering Authority must have regard to guidance issued by the Secretary of State in relation to Pension Boards. Further, regulation 110 provides that the national scheme advisory board has a function of providing advice to Administering Authorities and Pension Boards. At the point of writing this Policy, the shadow LGPS national scheme advisory board has issued guidance relating to the creation of Pension Boards including a section on conflicts of interest. It is expected that this guidance will be adopted by the scheme advisory board when it is created by statute and possibly also by the Secretary of State. This Conflicts of Interest Policy has been developed having regard to that guidance.

The Pensions Act 2004

The Public Service Pensions Act 2013 also added a number of provisions to the Pensions Act 2004 related to the governance of public service pension schemes and, in particular, conflicts of interest.

Section 90A requires the Pensions Regulator to issue a code of practice relating to conflicts of interest for pension board members. The Pensions Regulator has issued such a code and this Conflicts of Interest Policy has been developed having regard to that code.

Further, under section 13, the Pensions Regulator can issue an improvement notice (i.e. a notice requiring steps to be taken to rectify a situation) where it is considered that the requirements relating to conflicts of interest for Pension Board members are not being adhered to.

Local Government Act 2000

All members and co-opted members of the Clwyd Pension Fund Committee are required by the Local Government Act 2000 to abide by Flintshire's Members' Code of Conduct. Part 3 of that Code contains provisions relating to personal interests, personal and prejudicial interests, their disclosure and limitations on members' participation where they have any such interest.

The Public Services Ombudsman for Wales' Ten Guiding Principles

The Local Government Act 2000 empowered the National Assembly to issue principles to which local authority elected members must have regard in undertaking their role as a member. These principles draw on the 7 Principles of Public Life which were set out in the Nolan Report "Standards of Conduct in Local Government in England, Scotland and Wales". Three more were added to these; a duty to uphold the law, proper stewardship of the Council's resources and equality and respect for others.

The individual sections of the Flintshire County Council Members' Code of Conduct (which applies to Pension Fund Committee and Pension Board members) are designed

to support the implementation of the Principles. For example, the Selflessness principle is covered by Section 7 of the Code – Selflessness and Stewardship.

The current principles were set out in a statutory instrument and are detailed below. Many of the principles are integral to the successful implementation of this Policy.

1. Selflessness
2. Honesty
3. Integrity and Propriety
4. Duty to Uphold the Law
5. Stewardship
6. Objectivity in Decision-making
7. Equality and Respect
8. Openness
9. Accountability
10. Leadership

Advisers' Professional Standards

Many advisers will be required to meet professional standards relating to the management of conflicts of interest, for example, the Fund Actuary will be bound by the requirements of the Institute and Faculty of Actuaries. Any Protocol or other document entered into between an adviser and the Administering Authority in relation to conflicts of interest, whether as a requirement of a professional body or otherwise, should be read in conjunction with this Policy.

Other Administering Authority Requirements

Pension Fund Committee Members

In addition to the requirements of this Policy, Pension Fund Committee members and co-opted members are required to adhere to the Flintshire County Council Members' Code of Conduct which, in Part 3, includes requirements in relation to the disclosure and management of personal and prejudicial interests.

Pension Board Members

In addition to the requirements of this Policy, Pension Board members are required to adhere to Part 8 of the Pension Board Protocol which includes declaring any interests that may lead to a conflict situation.

Employees

In addition to the requirements of this Policy, officers of Flintshire County Council are required to adhere to the Flintshire County Council Officers' Code of Conduct which includes requirements in relation to the disclosure and management of personal and pecuniary interests.

Advisers

The Administering Authority appoints its own advisers. There may be circumstances where these advisers are asked to give advice to Flintshire

County Council or other scheme employers, or even to scheme members or member representatives such as the Trades Unions, in relation to pension matters. Similarly, an adviser may also be appointed to another administering authority which is involved in a transaction involving the Clwyd Pension Fund and on which advice is required. An adviser can only continue to advise the Administering Authority and another party where there is no conflict of interest in doing so.

Where the Pension Board decides to appoint an adviser, this can be the same person as is appointed to advise the Pensions Fund Committee or Fund officers as long as there is no conflict of interest between the two roles.

Conduct at Meetings

There may be circumstances where a representative of employers or members wishes to provide a specific point of view on behalf of an employer (or group of employers) or member (or group of members). The Administering Authority requires that any individual wishing to speak from an employer's or member's viewpoint must state this clearly, e.g. at a Pension Board or Pensions Fund Committee meeting, and that this will be recorded in the minutes.

What is a Conflict or Potential Conflict and how will they be managed?

The Public Service Pensions Act 2013 defines a conflict of interest as a financial or other interest which is likely to prejudice a person's exercise of functions.

Therefore, a conflict of interest may arise when an individual:

- has a responsibility or duty in relation to the management of, or provision of advice to, the LGPS fund administered by Flintshire County Council, and
- at the same time has:
 - a separate personal interest (financial or otherwise) or
 - another responsibility in relation to that matter,

giving rise to a possible conflict with their first responsibility. An interest could also arise due to a family member or close colleague having a specific responsibility or interest in a matter.

Some examples of potential conflicts are included in Appendix 1. The appendix also illustrates where disclosure of a personal or prejudicial interest may separately be required for Pension Fund Committee members (including co-opted members) under the Flintshire County Council Members' Code of Conduct.

Flintshire County Council will encourage a culture of openness and transparency and will encourage individuals to be vigilant, have a clear understanding of their role and the circumstances in which they may have a conflict of interest, and of how potential conflicts should be managed.

Flintshire County Council will evaluate the nature of any dual interests or responsibilities that are highlighted and assess the impact on pension fund operations and good governance were an actual conflict of interest to materialise.

Ways in which conflicts of interest may be managed include:

- the individual concerned abstaining from discussion, decision-making or providing advice relating to the relevant issue
- the individual being excluded from the meeting(s) and any related correspondence or material in connection with the relevant issue (for example, a report for a Pension Fund Committee meeting)
- a working group or sub-committee being established, excluding the individual concerned, to consider the matter outside of the formal meeting (where the terms of reference permit this to happen)

Provided that the Administering Authority, (having taken any professional advice deemed to be required) is satisfied that the method of management is satisfactory, Flintshire County Council shall endeavour to avoid the need for an individual to have to resign due to a conflict of interest. However, where the conflict is considered to be so fundamental that it cannot be effectively managed, or where a Pension Board member has an actual conflict of interest as defined in the Public Service Pensions Act 2013, the individual will be required to resign from the Committee, Board or appointment.

Responsibility

Flintshire County Council as the scheme manager for the Clwyd Pension Fund must be satisfied that conflicts of interest are appropriately managed. For this purpose, the Pension Fund Manager is the designated individual for ensuring the procedure outlined below is carried out.

However, it is the responsibility of each individual covered by this Policy to identify any potential instances where their personal, financial, business or other interests might come into conflict with their pension fund duties.

Operational procedure for officers, Pension Fund Committee members and Pension Board members

The following procedures must be followed by all individuals to whom this policy applies.

However, it should be noted all members of the Pension Fund Committee (including co-opted members) have a pre-eminent requirement to follow and abide by the requirements of Part 3 of the Flintshire County Council Members' Code of Conduct relating to the treatment and disclosure of certain personal and prejudicial interests. Accordingly, for those members, disclosures under this policy may be in addition to disclosures under the Council's Code of Conduct.

What is required	How this will be done
<p><i>Step 1 - Initial identification of interests which do or could give rise to a conflict</i></p>	<p>On appointment to their role or on the commencement of this Policy if later, all individuals will be provided with a copy of this Policy and be required to complete a Declaration of Interest the same or similar to that included in Appendix 2.</p> <p>The information contained in these declarations will be collated into the Pension Fund Register of conflicts of interest in a format the same or similar to that included in Appendix 3.</p>
<p><i>Step 2 - Ongoing notification and management of potential or actual conflicts of interest</i></p>	<p>At the commencement of any Pension Fund Committee, Pension Board or other formal meeting where pension fund matters are to be discussed, the Chairman will ask all those present who are covered by this Policy to declare any new potential conflicts. These will be recorded in the Fund's Register of conflicts of interest. In addition, the latest version of the Register will be made available by the Pension Fund Manager to the Chairman of every meeting prior to that meeting.</p> <p>At Clwyd Pension Fund Committee meetings there will also, at the start of the meeting, be an agenda item for Members to declare any interests under the Members' Code in relation to any items on that agenda.</p> <p>Any individual who considers that they or another individual has a potential or actual conflict of interest, as defined by this Policy, which relates to an item of business at a meeting, must advise the Chairman and the Pension Fund Manager prior to the meeting, where possible, or state this clearly at the meeting at the earliest possible opportunity. The Chairman, in consultation with the Pension Fund Manager, should then decide whether the conflicted or potentially conflicted individual needs to leave the meeting during the discussion on the relevant matter or to withdraw from voting on the matter.</p> <p>If such a conflict is identified outside of a meeting the notification must be made to the Pension Fund Manager and where it relates to the business of any meeting, also to the Chairman of that meeting. The Pension Fund Manager, in consultation with the Chairman where relevant, will consider any necessary action to manage the potential or actual conflict.</p> <p>Where information relating to any potential or actual conflict has been provided, the Pension Fund Manager may seek such professional advice as he or she thinks fit (such as legal advice from the Monitoring Officer) on to how to address any identified conflicts.</p> <p>Any such potential or actual conflicts of interest and the action taken must be recorded on the Fund's Register of conflicts of interest.</p>

What is required	How this will be done
<i>Step 3 - Periodic review of potential and actual conflicts</i>	At least once every 12 months, the Pension Fund Manager will provide to all individuals to whom this Policy applies a copy of the Fund's Register of conflicts of interest. All individuals will complete a new Declaration of Interest (see Appendix 2) confirming that their information contained in the Register is correct or highlighting any changes that need to be made to the declaration. Following this exercise, the updated Register will then be circulated by the Pension Fund Manager to all individuals to whom it relates.

Operational procedure for advisers

All of the key advisers are expected to have their own policies on how conflicts of interest will be managed in their relationships with their clients, and these should have been shared with Flintshire County Council.

Although this Policy applies to all advisers, the operational procedures outlined in steps 1 and 3 above relating to completing ongoing declarations are not expected to apply to advisers. Instead all advisers must:

- be provided with a copy of this Policy on appointment and whenever it is updated
- adhere to the principles of this Policy
- provide, on request, information to the Pension Fund Manager in relation to how they will manage and monitor actual or potential conflicts of interests relating to the provision of advice or services to Flintshire County Council
- notify the Pension Fund Manager immediately should a potential or actual conflict of interest arise.

All potential or actual conflicts notified by advisers will be recorded in the Fund's Register of conflicts of interest.

Monitoring and Reporting

The Fund's Register of conflicts of interest may be viewed by any interested party at any point in time. It will be made available on request by the Pension Fund Manager. In addition, it will be published in the annual report and accounts

In order to identify whether the objectives of this Policy are being met the Administering Authority will:

- Review the Register of conflicts of interest on an annual basis and consider whether there have been any potential or actual conflicts of interest that were not declared at the earliest opportunity
- Provide its findings to the Administering Authority's Independent Adviser and ask him or her to include comment on the management of conflicts of interest in his or her annual report on the governance of the Fund each year.

Key Risks

The key risks to the delivery of this Policy are outlined below. All of these could result in an actual conflict of interest arising and not being properly managed. The Pension Fund Manager will monitor these and other key risks and consider how to respond to them.

- Insufficient training or poor understanding in relation to individuals' roles on pension fund matters
- Insufficient training or failure to communicate the requirements of this Policy
- Absence of the individual nominated to manage the operational aspects of this Policy and no one deputising, or failure of that individual to carry out the operational aspects in accordance with this Policy
- Failure by a chairperson to take appropriate action when a conflict is highlighted at a meeting.

Costs

All costs related to the operation and implementation of this Policy will be met directly by Clwyd Pension Fund. However, no payments will be made to any individuals in relation to any time spent or expenses incurred in the disclosure or management of any potential or actual conflicts of interest under this Policy.

Approval, Review and Consultation

This Conflicts of Interest Policy was approved at the Clwyd Pension Fund Committee meeting on 24 March 2015. It will be formally reviewed and updated at least every three years or sooner if the conflict management arrangements or other matters included within it merit reconsideration, including if there are any changes to the LGPS or other relevant Regulations or Guidance which need to be taken into account.

Further Information

If you require further information about anything in or related to this Conflicts of Interest Policy, please contact:

Philip Latham,
Clwyd Pension Fund Manager, Flintshire County Council
E-mail - Philip.latham@flintshire.gov.uk
Telephone - 01352 702264

Examples of Potential Conflicts of Interest

Examples of Pension Related Potential Conflict of Interest	Also a Personal or Prejudicial Interest*
a) An elected member on the Pension Fund Committee may be required to provide views on a funding strategy which could result in an increase in employer contributions payable by the employer he or she represents.	No
b) A member of the Pension Fund Committee member is on the board of an Investment Manager that the Committee is considering appointing.	Yes
c) An employer representative on the Pension Board is employed by a company to which the administering authority has outsourced its pension administration services and the Pension Board is reviewing the standards of service provided by that company.	No
d) The person appointed to consider internal disputes is asked to review a case relating to a close friend or relative.	Yes
e) The administering authority is considering buying its own payroll system for paying pensioners, rather than using the payroll system used for all employees of the Council. The Finance Director, who has responsibility for the Council budget, is expected to approve the report to go to the Pension Committee which, if agreed would result in a material reduction in the recharges to the Council from the Fund.	No
f) Officers of the Fund are asked to provide a report to the Pension Board or Pension Fund Committee on whether the administration services should be outsourced which, if it were to happen could result in a change of employer or job insecurity for the officers.	No
g) An employer representative employed by the administering authority and appointed to the Pension Board to represent employers generally could be conflicted if he or she only serves to act in the interests of the administering authority, rather than those of all participating employers. Equally, a member representative, who is also a trade union representative, appointed to the Pension Board to represent the entire scheme membership could be conflicted if he or she only acts in the interests of their union and union membership, rather than all scheme members.	No
h) A Fund adviser is party to the development of a strategy which could result in additional work for his or her firm, for example, providing delegated or fiduciary management of Fund investments or providing assistance with monitoring the covenant of employers.	No
i) An employer representative has access to information by virtue of his or her employment, which could influence or inform the considerations or decisions of the Pension Fund Committee or Pension Board. He or she has to consider whether to share this information in light of their duty of confidentiality to their employer. Their knowledge of this information will put them in a position of conflict if it is likely to prejudice their ability to carry out their functions as a member of the Pension Fund Committee or Pension Board.	No

* This indicates those interests that must also be declared by Pension Fund Committee members in accordance with the Flintshire County Council Members' Code of Conduct.

Declaration of Interests relating to the management of Clwyd Pension Fund administered by Flintshire County Council

Tick as appropriate

I, _____ [insert full name], am:

- an officer involved in the management
- Pension Fund Committee Member
- Pension Board Member

of Clwyd Pension Fund and I set out below under the appropriate headings my interests, which I am required to declare under Clwyd Pension Fund Conflicts of Interest Policy. I have put “none” where I have no such interests under any heading.

Responsibilities or other interests that could result in a conflict of interest (please list and continue overleaf if necessary):

A) Relating to me

B) Relating to family members or close colleagues

Undertaking:

I undertake to notify the Pension Fund Manager of any changes in the information set out above.

Signed _____ Date _____

Name (CAPITAL LETTERS) _____

Clwyd Pension Fund - Register of Potential and Actual Conflicts of Interest

All reported conflicts of interest will be recorded in the minutes and a register of conflicts will be maintained and reviewed annually by Flintshire County Council, the Administering Authority.

Date identified	Name of Person	Role of Person	Details of conflict	Actual or potential conflict	How notified(1)	Action taken(2)	Follow up required	Date resolved

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(1) E.g. verbal declaration at meeting, written conflicts declaration, etc

(2) E.g. withdrawing from a decision making process, left meeting

FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CLWYD PENSION FUND COMMITTEE**

DATE: **24th MARCH 2015**

REPORT BY: **CHIEF OFFICER (PEOPLE AND RESOURCES)**

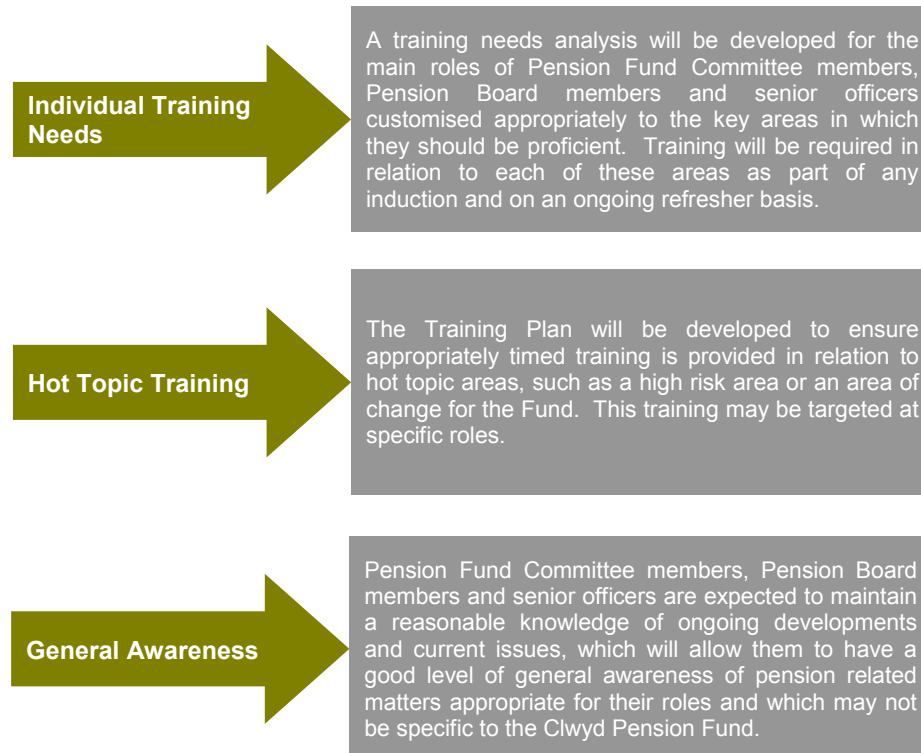
SUBJECT: **TRAINING PLAN**

1.00 PURPOSE OF REPORT

1.01 To ask Committee Members to note the Fund's annual training plan.

2.00 BACKGROUND

2.01 At the Pension Fund Committee on 5th November 2014, members agreed the Fund's Training Policy. The three key elements of this policy are illustrated in the diagram below.



2.02 To assist in ensuring that the objectives of the Training Policy are met, an annual training plan for Pension Fund Committee and Pension Board members will be developed.

3.00 TRAINING PLAN

- 3.01 The suggested training plan is attached as Appendix 1 and incorporates the key elements of training that are expected to be required in the foreseeable future. It has been developed having regard to the Fund's business plan which is a separate item at this meeting. This training plan may be updated if necessary during the year.
- 3.02 The Pension Fund Manager will make the necessary arrangements for these training sessions to be delivered, where possible fitting in sessions on the same dates as Pension Fund Committee meetings. It is, however, expected that some additional standalone training dates will be required.
- 3.03 A separate training plan is developed for officers in relation to their individual training needs, albeit some of the items on the attached training plan will also be attended by senior officers of the Fund.

4.00 RECOMMENDATIONS

- 4.01 That Committee Members note the annual training plan and provide suggestions for any additional training.

5.00 FINANCIAL IMPLICATIONS

- 5.01 Any costs associated with delivering the Training Policy will be recharged to the Clwyd Pension Fund. These are included in the external advisers' costs in the Fund's Business Plan.

6.00 ANTIPOVERTY IMPACT

- 6.01 None directly as a result of this report.

7.00 ENVIRONMENTAL IMPACT

- 7.01 None directly as a result of this report.

8.00 EQUALITIES IMPACT

- 8.01 None directly as a result of this report.

9.00 PERSONNEL IMPLICATIONS

- 9.01 Delivery of the Training Policy will require time commitment for training events for Pension Fund Committee members, Pension Board members and senior officers. It will also result in potentially increased workloads for senior officers in the Pension Fund management team.

10.00 CONSULTATION REQUIRED

- 10.01 None directly as a result of this report.

11.00 CONSULTATION UNDERTAKEN

11.01 None directly as a result of this report.

12.00 APPENDICES

12.01 Training Plan.

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: Training Policy - 5th November 2014 Pension Fund Committee

Contact Officer: Philip Latham, Clwyd Pension Fund Manager
Tel: 01352 702264
Fax:01352 702279
e-mail: philip.latham@flintshire.gov.uk

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Clwyd Pension Fund

Training Plan - as at March 2015

Title of session	Training Content	Timescale	Training Length	Audience
Budget Freedoms	Highlights of the Freedoms including protecting individuals via Transfer safeguards and protecting the tax payer via the reduction of transfer values.	April - June 2015	Half day	Committee, Fund officers and Pensions Board
Pensions Board Basic Training - Day 1	Repeat elements of past Committee member CIPFA Knowledge and Skills training. Day 1 is governance and key legislation.	July 2015	Full day	Pensions Board
Pensions Board Basic Training - Day 2	Repeat elements of past Committee member CIPFA Knowledge and Skills training. Day 2 is funding and actuarial matters.	July - August 2015	Full day	Pensions Board
Pensions Board Basic Training - Day 3	Repeat elements of past Committee member CIPFA Knowledge and Skills training. Day 3 is investment, accounting and audit.	August - September 2015	Full day	Pensions Board
Pension Committee Basic Training	Catch up sessions for CIPFA Knowledge and Skills Framework	July - September 2015	As part of Pension Board Training	Certain Pension Committee members and Fund officers
The Pensions Regulator's Code of Practice	An overview of the key elements of the code of practice and any impact on Clwyd Pension Fund	April - September 2015	Half day	Committee, Fund officers and Pensions Board
In-house alternative asset classes - Private Equity	A brief background, what we currently invest in and why, performance and the strategy going forward and why.	September 2015 - February 2016	1-1.5 hours	Committee and Pensions Board
In-house alternative asset classes - Property	A brief background, what we currently invest in and why, performance and the strategy going forward and why.	September 2015 - February 2016	1-1.5 hours	Committee and Pensions Board
In-house alternative asset classes - Infrastructure/Timber/Agriculture	A brief background, what we currently invest in and why, performance and the strategy going forward and why.	September 2015 - February 2016	1-1.5 hours	Committee and Pensions Board
Alternative Delivery Models	Overview of Alternative Delivery Models including impact on the Clwyd Pension Fund.	Q2 - Q3 2015	1 - 2 hours	Committee and Pensions Board
Employer Risk Management	Employer Risk Management including the monitoring framework (employer covenant, funding and protections).	Q2 - Q3 2015	Half day	Committee, Fund officers and Pensions Board
LGPS Key Performance Indicators	Overview of the National Fund Key Performance Indicators and League tables	Q2 - Q3 2015	1 - 2 hours	Committee, Fund officers and Pensions Board
Actuarial Valuations	Planning for the 2016 valuation, the valuation process and the funding strategy statement.	Q4 2015	Half day	Committee and Pensions Board
Pension Cost and Deficit Management	Overview of the Shadow Scheme Advisory Board's deficit and cost management project and implications.	If need arises	To be decided	Committee, Fund officers and Pensions Board

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FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CLWYD PENSION FUND COMMITTEE**
DATE: **24th MARCH 2015**
REPORT BY: **CHIEF OFFICER (PEOPLE AND RESOURCES)**
SUBJECT: **RISK POLICY AND REGISTER**

1.00 PURPOSE OF REPORT

1.01 To ask Committee Members to consider the Fund's approach to risk management.

2.00 BACKGROUND

2.01 An integral part of the management of any service is good risk management. The Clwyd Pension Fund management team have maintained a risk register for a number of years now. However, they recognise there is room for improvement and accordingly incorporated a review of the Fund's risks into the business planning process for 2015/6 to 2018/9. This included a workshop with Pension Fund Committee members in February 2015. The output from that risk review is a draft Risk Policy outlining how we will manage risks for the Clwyd Pension Fund and a refreshed risk register.

3.00 UPDATED RISK MANAGEMENT PROCESS

3.01 The draft Risk Policy included as Appendix 1 outlines the approach to risk management we propose is adopted for Clwyd Pension Fund. It requires further integrating risk management into the day to day management of the Fund and regular reporting of key risks and changes in risks to the Pension Fund Committee. The Pension Fund Committee is asked to approve this Policy.

3.02 The updated risk register included as Appendix 2 incorporates all the risks identified as part of the recent risk review exercise. Although it is not intended to share the full risk register with Pension Fund Committee members at future meetings due to the detail involved (highlights will be reported), the Pension Fund Committee is asked to note and consider the contents of the risk register and highlight any areas of concern at the meeting. Pension Fund Committee members will be able to request a copy of the full risk register at any point.

4.00 RECOMMENDATIONS

4.01 That Committee Members:

- 1) agree the Risk Policy.
- 2) note and consider the contents of the risk register and highlight any areas of concern.

5.00 FINANCIAL IMPLICATIONS

5.01 Any costs associated with delivering this policy will be recharged to the Clwyd Pension Fund.

6.00 ANTIPOVERTY IMPACT

6.01 None directly as a result of this report.

7.00 ENVIRONMENTAL IMPACT

7.01 None directly as a result of this report.

8.00 EQUALITIES IMPACT

8.01 None directly as a result of this report.

9.00 PERSONNEL IMPLICATIONS

9.01 None directly as a result of this report.

10.00 CONSULTATION REQUIRED

10.01 None directly as a result of this report.

11.00 CONSULTATION UNDERTAKEN

11.01 None directly as a result of this report.

12.00 APPENDICES

12.01 Appendix 1 – Risk Policy
Appendix 2 – Risk Register

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: None

Contact Officer: Philip Latham, Clwyd Pension Fund Manager
Tel: 01352 702264
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e-mail: philip.latham@flintshire.gov.uk

Cronfa Bensiynau Clwyd
Clwyd Pension Fund



FLINTSHIRE COUNTY COUNCIL

**Administering Authority for
Clwyd Pension Fund**

RISK POLICY

March 2015

RISK POLICY

Introduction

This is the Risk Policy of the Clwyd Pension Fund, which is managed and administered by Flintshire County Council. The Policy details the risk management strategy for the Clwyd Pension Fund, including

- the risk philosophy for the management of the Fund, and in particular attitudes to, and appetite for, risk
- how risk management is implemented
- risk management responsibilities
- the procedures that are adopted in the risk management process.

Flintshire County Council (“we”) recognise that effective risk management is an essential element of good governance in the LGPS. By identifying and managing risks through an effective policy and risk management strategy, we can:

- demonstrate best practice in governance
- improve financial management
- minimise the risk and effect of adverse conditions
- identify and maximise opportunities that might arise
- minimise threats.

We adopt best practice risk management, which will support a structured and focused approach to managing risks, and ensuring risk management is an integral part in the governance of the Clwyd Pension Fund at a strategic and operational level.

To whom this Policy Applies

This Risk Policy applies to all members of the Pension Fund Committee and the local Pension Board, including scheme member and employer representatives. It also applies to all managers in the Flintshire County Council Pension Fund Management Team, the Chief Finance Officer (Section 151 Officer) and the Chief Officer, People and Resources (from here on in collectively referred to as the senior officers of the Fund).

Less senior officers involved in the daily management of the Pension Fund are also integral to managing risk for the Clwyd Pension Fund and will be required to have appropriate understanding of risk management relating to their roles, which will be determined and managed by the Pension Fund Manager and his/her team.

Advisers to the Clwyd Pension Fund are also expected to be aware of this Policy, and assist senior officers, Committee members and Board members as required, in meeting the objectives of this Policy.

Aims and Objectives

We recognise the significance of our role as Administering Authority to the Clwyd Pension Fund on behalf of its stakeholders which include:

- around 40,000 current and former members of the Fund, and their dependants
- around 28 employers within the Flintshire, Denbighshire and Wrexham Council areas
- the local taxpayers within those areas.

Our Fund's Mission Statement is:

- We will be known as forward thinking, responsive, proactive and professional providing excellent customer focused, reputable and credible service to all our customers.
- We will have instilled a corporate culture of risk awareness, financial governance, and will be providing the highest quality, distinctive services within our resources.
- We will work effectively with partners, being solution focused with a can do approach.

One of our key governance objectives is to understand and monitor risk. In doing so, we will aim to:

- integrate risk management into the culture and day-to-day activities of the Fund
- raise awareness of the need for risk management by all those connected with the management of the Fund (including advisers, employers and other partners)
- anticipate and respond positively to change
- minimise the probability of negative outcomes for the Fund and its stakeholders
- establish and maintain a robust framework and procedures for identification, analysis, assessment and management of risk, and the reporting and recording of events, based on best practice
- ensure consistent application of the risk management methodology across all Pension Fund activities, including projects and partnerships.

To assist in achieving these objectives in the management of the Clwyd Pension Fund we will aim to comply with:

- the CIPFA Managing Risk publication and
- the managing risk elements of the Pensions Act 2004 and the Pensions Regulator's Code of Practice for Public Service Pension Schemes.

Our Philosophy about Risk Management

We recognise that it is not possible or even desirable, to eliminate all risks. Accepting and actively managing risk is therefore a key part of our risk management strategy for Clwyd Pension Fund. A key determinant in selecting the action to be taken in relation to any risk will be its potential impact on the Fund's objectives in the light of our risk appetite, particularly in relation to investment matters. Equally important is striking a balance between the cost of risk control actions against the possible effect of the risk occurring.

In managing risk, we will:

- ensure that there is a proper balance between risk taking and the opportunities to be gained
- adopt a system that will enable us to anticipate and respond positively to change
- minimise loss and damage to the Clwyd Pension Fund and us, and to other stakeholders who are dependent on the benefits and services provided
- make sure that when we embark upon new areas of activity (new investment strategies, joint-working, framework agreements etc), the risks they present are fully understood and taken into account in making decisions.

We also recognise that risk management is not an end in itself; nor will it remove risk from the Fund or us as the Administering Authority. However it is a sound management technique that is an essential part of how we manage the Fund. The benefits of a sound risk management approach include better decision-making, improved performance and delivery of services, more effective use of resources and the protection of reputation.

CIPFA and The Pensions Regulator Requirements

CIPFA Managing Risk Publication

CIPFA has published technical guidance on managing risk in the LGPS. The publication explores how risk manifests itself across the broad spectrum of activity that constitutes LGPS financial management and administration, and how, by using established risk management techniques, those risks can be identified, analysed and managed effectively.

The publication also considers how to approach risk in the LGPS in the context of the role of the administering authority as part of a wider local authority and how the approach to risk might be communicated to other stakeholders.

The Pension Regulator's Code of Practice

The Public Service Pensions Act 2013 added the following provision to the Pensions Act 2004 related to the requirement to have internal controls in public service pension schemes.

“249B Requirement for internal controls: public service pension schemes

(1) The scheme manager of a public service pension scheme must establish and operate internal controls which are adequate for the purpose of securing that the scheme is administered and managed—

(a) in accordance with the scheme rules, and

(b) in accordance with the requirements of the law.

(2) Nothing in this section affects any other obligations of the scheme manager to establish or operate internal controls, whether imposed by or by virtue of any enactment, the scheme rules or otherwise.

(3) In this section, “enactment” and “internal controls” have the same meanings as in section 249A.”

Section 90A of the Pensions Act 2004 requires the Pensions Regulator to issue a code of practice relating to internal controls. The Pensions Regulator has issued such a code in which he encourage scheme managers to employ a risk based approach to assess the adequacy of their internal controls and to ensure that sufficient time and attention is spent on identifying, evaluating and managing risks and developing and monitoring appropriate controls.

The Pensions Regulator's code of practice guidance on internal controls require scheme managers to carry out a risk assessment and produce a risk register which should be reviewed regularly. The risk assessment should begin by:

- setting the objectives of the scheme
- determining the various functions and activities carried out in the running of the scheme, and
- identifying the main risks associated with those objectives, functions and activities.

Schemes should then consider the likelihood of risks arising and the effect if they do arise as well as what internal controls are appropriate to mitigate the main risks they have identified and how best to monitor them

The code states risk assessment is a continual process and should take account of a changing environment and new and emerging risks. It further states that an effective risk assessment process will provide a mechanism to detect weaknesses at an early stage and that schemes should periodically review the adequacy of internal controls in:

- mitigating risks
- supporting longer-term strategic aims, for example relating to investments
- identifying success (or otherwise) in achieving agreed objectives, and
- providing a framework against which compliance with the scheme regulations and legislation can be monitored.

Under section 13 of the Pensions Act 2004, the Pensions Regulator can issue an improvement notice (i.e. a notice requiring steps to be taken to rectify a situation) where it is considered that the requirements relating to internal controls are not being adhered to.

Application to the Clwyd Pension Fund

We adopt the principles contained in CIPFA's Managing Risk in the LGPS document and the Pension Regulator's code of practice in relation to Clwyd Pension Fund, and this Risk Policy highlights how we will strive to achieve those principles through use of risk management processes incorporating regular monitoring and reporting.

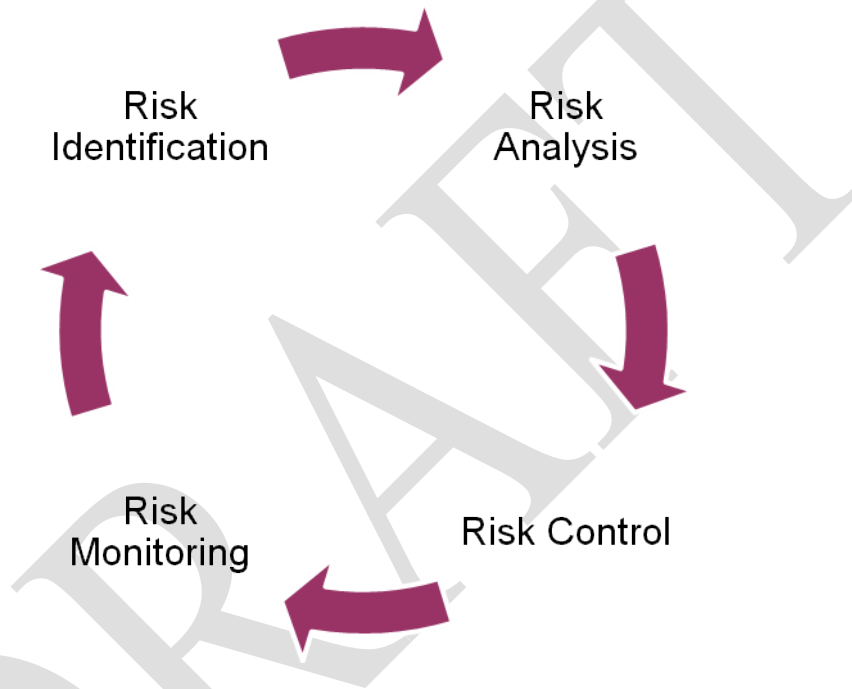
Responsibility

As the Administering Authority for the Clwyd Pension Fund, we must be satisfied that risks are appropriately managed. For this purpose, the Pension Fund Manager is the designated individual for ensuring the process outlined below is carried out subject to the oversight of the Pension Fund Committee.

However, it is the responsibility of each individual covered by this Policy to identify any potential risks for the Fund and ensure that they are fed into the risk management process.

The Clwyd Pension Fund Risk Management Process

Our risk management process is in line with that recommended by CIPFA and is a continuous approach which systematically looks at risks surrounding the Fund's past, present and future activities. The main processes involved in risk management are identified in the figure below and detailed in the following sections.



Risk identification

Our risk identification process is both a proactive and reactive one, looking forward i.e. horizon scanning for potential risks and looking back, by learning lessons from reviewing how existing controls have manifested in risks to the organisation.

Risks are identified by a number of means including, but not limited to:

- formal risk assessment exercises managed by the Clwyd Pension Fund Advisory Panel
- performance measurement against agreed objectives
- monitoring against the Fund's business plan
- findings of internal and external audit and other adviser reports
- feedback from the local Pension Board, employers and other stakeholders
- informal meetings of senior officers or other staff involved in the management of the Pension Fund
- liaison with other organisations, regional and national associations, professional groups, etc.

Once identified, risks will be documented on the Fund's risk register, which is the primary control document for the subsequent analysis, control and monitoring of those risks.

Risk analysis

Once potential risks have been identified, the next stage of the process is to analyse and profile each risk. Risks will be assessed against the following where the score for likelihood will be multiplied by the score for impact to determine the current risk rating.

Potential impact if risk occurred	5 Catastrophic	5	10	15	20	25
	4 Major	4	8	12	16	20
	3 Moderate	3	6	9	12	15
	2 Minor	2	4	6	8	10
	1 Insignificant	1	2	3	4	5
		1 Rare	2 Unlikely	3 Possible	4 Likely	5 Almost certain
		Likelihood of risk occurring				

When considering the risk rating, we will have regard to the existing controls in place and these will be summarised on the risk register.

Risk control

The Pension Fund Manager will then determine whether any further action is required to control the risk which in turn may reduce the likelihood of a risk event occurring or reducing the severity of the consequences should it occur. Before any such action can proceed, it may require Pension Fund Committee approval where appropriate officer delegations are not in place. The result of any change to the internal controls could result in any of the following:

- Risk elimination – for example, ceasing an activity or course of action that would give rise to the risk.
- Risk reduction – for example, choosing a course of action that has a lower probability of risk or putting in place procedures to manage risk when it arises.
- Risk transfer – for example, transferring the risk to another party either by insurance or through a contractual arrangement.

The Fund's risk register details all further action in relation to a risk and the owner for that action. Where necessary we will update the Fund's business plan in relation to any agreed action as a result of an identified risk.

Risk monitoring

Risk monitoring is the final part of the risk management cycle and will be the responsibility of the Clwyd Pension Fund Advisory Panel. In monitoring risk management activity, we will consider whether:

- the risk controls taken achieved the desired outcomes
- the procedures adopted and information gathered for undertaking the risk assessment were appropriate
- greater knowledge of the risk and potential outcomes would have improved the decision- making process in relation to that risk
- there are any lessons to learn for the future assessment and management of risks.

Reporting

Progress in managing risks will be monitored and recorded on the risk register and key information will be provided on a quarterly basis to the Clwyd Pension Fund Committee and the Pension Board as part of the regular update reports on governance, investments and funding, and administration and communications. This reporting information will include:

- a summary of the Fund's key risks (ranked 15 or above in the above matrix)
- a summary of any new risks or risks that have changed (by a score of 3 or more) or risks that have been removed since the previous report
- the Fund's risk dashboard showing the score of all existing risks and any changes in a pictorial fashion
- a summary of any changes to the previously agreed actions.

Monitoring of this Policy

In order to identify whether we are meeting the objectives of this policy the Independent Governance Adviser will be commissioned to provide an annual report on the governance of the Fund each year, a key part of which will focus on the delivery of the requirements of this Policy

Key risks to the effective delivery of this Policy

The key risks to the delivery of this Policy are outlined below. The Pension Fund Committee members, with the assistance of the Clwyd Pension Fund Advisory Panel, will monitor these and other key risks and consider how to respond to them.

- Risk management becomes mechanistic, is not embodied into the day to day management of the Fund and consequently the objectives of the Policy are not delivered
- Changes in Pension Fund Committee and/or Pension Fund Advisory Panel and/or Pension Board membership and/or senior officers mean key risks are not identified due to lack of knowledge
- Insufficient resources being available to satisfactorily assess or take appropriate action in relation to identified risks

- Risks are incorrectly assessed due to a lack of knowledge or understanding, leading to inappropriate levels of risk being taken without proper controls
- Lack of engagement or awareness of external factors means key risks are not identified.
- Conflicts of interest or other factors leading to a failure to identify or assess risks appropriately

Costs

All training costs related to this Risk Policy are met directly by Clwyd Pension Fund

Approval, Review and Consultation

This Risk Policy was approved at the Clwyd Pension Fund Committee meeting on 24 March 2015. It will be formally reviewed and updated at least every three years or sooner if the risk management arrangements or other matters included within it merit reconsideration.

Further Information

If you require further information about anything in or related to this Risk Policy, please contact:

Philip Latham, Clwyd Pension Fund Manager, Flintshire County Council
E-mail - Philip.latham@flintshire.gov.uk
Telephone - 01352 702264

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Clwyd Pension Fund - Control Risk Register

Governance Risks

Last Updated 12/03/2015

Risk no:	Risk	Strategic objective at risk (see key)	Risk category	Impact (see key)	Likelihood (see key)	Risk Status	Internal controls in place	Further Action?
1	Changes in Pension Fund Committee membership resulting in loss of continuity and potentially diminishing knowledge and understanding and impact on decision making.	Those persons responsible for governing the Clwyd Pension Fund have sufficient expertise to be able to evaluate and challenge the advice they receive, ensure their decisions are robust and well based, and manage any potential conflicts of interest.	Resource/Skill	3	2		Induction training programme in place for new Committee members which covers CIPFA Knowledge and Skills requirements and can be delivered quickly. Terms of reference for the Committee in the Constitution allows for members to be on the Committee for between 4-6 years but they can be re-appointed.	
2	Changes in key officers resulting in loss of continuity and potentially diminishing knowledge and understanding	Ensure that the Clwyd Pension Fund is appropriately managed and that its services are delivered by people who have the requisite knowledge and expertise, and that this knowledge and expertise is maintained within the continually changing Local Government Pension Scheme and wider pensions landscape.	Resource/Skill	4	3		FCC Talent Assessment process to identify individuals who can potentially undertake key roles. Induction training programme for seniors officers as above. An organisation structure career development programme which recognises key man risk. Notice and succession planning.	Review people strategy for administration section during 2015/16
3	Ineffective delegation of duties resulting in insufficient time spent on key matters	Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies	Resource/Skill	3	2		A delegation of duties to Officers by Pension Fund Committee which is documented and approved by Committee. The aim is the Committee to concentrate on strategic decisions with implementation delegated to officers after taking appropriate advice. The Committee agenda is agreed by the Advisory Panel. The Committee Agenda cross referenced to Committee Constitution, Risk Register, Business Plan and objectives in strategies and policies..	
4	Poor presentation of Pension Fund Committee items which leads to omissions, lack of understanding, decisions made without the appropriate due diligence, poor time management.	Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies	Resource/Skill	2	2		Committee members asked for their views on whether the Committee reports are fit for purpose. Verbal reports kept to a minimum and only in exceptional circumstances. Draft reports shared within Advisory Panel. Reports presented by Senior Officer or relevant advisor. Enough time allowed for questions by Committee members.	
5	Poor attendance at formal meetings by Committee Members resulting poor standard of decision making or monitoring.	Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies	Reputational	3	2		Committee Constitution includes a quorum. Attendance is reported in the Fund's Annual Report.	
6	Poor attendance at meetings by Advisory Panel Members resulting poor due diligence throughout the decision making process	Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies	Reputational	2	1		Meeting schedules planned in advance. Alternates are allowed to attend. Meeting attendance expectations included in contract specification.	

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Risk no:	Risk	Strategic objective at risk (see key)	Risk category	Impact (see key)	Likelihood (see key)	Risk Status	Internal controls in place	Further Action?
7	Poor attendance or a lack of engagement in training by Committee Members, Pension Board and senior officers resulting in poor decision making, monitoring or advice, particularly with greater focus on knowledge by TPR and national guidance	Those persons responsible for governing the Clwyd Pension Fund have sufficient expertise to be able to evaluate and challenge the advice they receive, ensure their decisions are robust and well based, and manage any potential conflicts of interest.	Resource/Skill	3	2		Documented Training Policy approved by Committee. Documented Training Plan approved by Committee. Discuss training delivery at Advisory Panel includes who, where and how. Build workshops around Committee where possible. Membership of and attendance by Committee members and/or officers at CIPFA Pensions Network events, NAPF events and LAPFF events and attend LGC Conferences. Training and forthcoming events included within Committee agenda	
8	Conflicts of interest not being appropriately managed by	Act in the best interests of the Fund's members and employers	Reputational	3	2		Declarations of interest a standard item Committee Agenda. Conflicts of interest Policy documented and approved by Committee.	
9	Governance structure does not continue to meet best practice standards of DCLG, Scheme Advisory Board, CIPFA or Pensions Regulator	Strive to ensure compliance with the appropriate legislation and statutory guidance, and to act in the spirit of other relevant guidelines and best practice guidance	Regulatory/Compliance	2	1		The Governance Policy and Compliance Statement will be reviewed every three years as part of the Business Plan or sooner if matters merit..	
10	Governance Structure unable to adapt to change either through national governance change (separation) or all Wales working together including a CIV.	Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based	Regulatory/Compliance	3	3		Monitor and participate into consultation on national governance changes. Participate in developing governance around a potential Wales CIV.	
11	Governance structure considered to be expensive, advice is poor and not providing value for money	Clearly articulate our objectives and how we intend to achieve those objectives through business planning, and continually measure and monitor success	Reputational	2	2		Governance budget included in the Business Plan. Annual Meeting with Employers and union representatives to explain complexity of the Fund, risks being managed with an opportunity to ask questions. The Committee includes representatives from scheme members and most employers in the Fund. Advisers appointed via Council's contract procedure rules (fixed term contracts with possible extensions). Fund's Framework agreement to be maintained for now but National Framework agreements considered as current contracts expire. Independent annual review. Ongoing monitoring of costs against tender and ongoing feedback against performance.	
12	Ineffective review of the of the Governance arrangements	Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies	Regulatory/Compliance	3	1		An annual review by the Independent Adviser which is reported to Committee and published in the Annual Report. The Governance and Compliance Statement is filed with DCLG in line with Regulations. The Governance of the Fund is considered by external and internal audit and audit reports are reported to Committee. Likely oversight at a national level and self review by officers and other advisers.	
13	Conflict on policy and strategy decisions between Committee and Local Board.	Act in the best interests of the Fund's members and employers	Reputational	3	2		Clear Terms of Reference for the Committee and Local Board and training on roles (in accordance with Training Policy). Guidance from tPR and Scheme Advisory Board.	
14	Lack of understanding of the impact of LGR on the Fund and its stakeholders (e.g. employer costs or split up of fund and impact on strategy)	Act in the best interests of the Fund's members and employers	Employer	4	4		Monitoring via the Advisory Panel agenda and engage at a senior level within the Council and employers	

Risk no:	Risk	Strategic objective at risk (see key)	Risk category	Impact (see key)	Likelihood (see key)	Risk Status	Internal controls in place	Further Action?
15	The Fund's risks are not understood, managed and monitored	Understand and monitor risk	Resource/Skill	3	2		A risk register is documented and reported to Committee. The risks are monitored by the Advisory Panel and actions required included in the Business Plan. Risks are a regular item at staff meetings.	
16	Unable to properly (and within timescales) establish, fill posts and train new Pension Boards	Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies	Regulatory/Compliance	4	3		Plan in place for recruitment, training planned, communications already taken place at employer forum, training policy, conflict policy	
17	Failure to meet legal and internal policy requirements in relation to procurement of services	Strive to ensure compliance with the appropriate legislation and statutory guidance, and to act in the spirit of other relevant guidelines and best practice guidance	Regulatory/Compliance	3	1		Officers appropriately trained, use of advisers in procurement (who have themselves been subject to procurement appointment)	

Clwyd Pension Fund - Control Risk Register

Funding & Investment Risks (includes accounting and audit)

Last Updated 12/03/2015

Risk no:	Risk	Strategic objective at risk (see key)	Risk category	Impact (see key)	Likelihood (see key)	Risk Status	Internal controls in place	Further Action?
1	Investment markets perform below actuarial assumptions resulting in reduced assets, reduced solvency levels and increased employer contributions	Achieve and maintain assets equal to 100% of liabilities within the 18 year average timeframe, within reasonable risk parameters	Asset/Investment	4	2		Use of a diversified portfolio which is regularly monitored against targets and reallocated appropriately. Monthly monitoring of funding position versus flightpath targets and agreed action ranges. Along with more formal periodic reviews (usually annually) will allow consideration of the continued appropriateness of the funding and investment strategies by the Pensions Advisory Panel and Committee.	This risk will be considered and quantified in more detail as part of the 2015 funding review (see service plan).
2	Market yields and/or inflation moves at variance with actuarial assumptions resulting in increases in liabilities, reduced solvency levels and increased employer contributions	Achieve and maintain assets equal to 100% of liabilities within the 18 year average timeframe, within reasonable risk parameters	Liability	4	2		LDI strategy in place to control/limit interest and inflation risks. Use of a diversified portfolio which is regularly monitored against targets and reallocated appropriately. Monthly monitoring of funding and hedge ratio position versus flightpath targets and agreed action ranges. More formal periodic reviews (usually annually) will allow consideration of the continued appropriateness of the funding and investment strategies by the Pensions Advisory Panel and Committee.	This risk will be considered and quantified in more detail as part of the 2015 funding review (see service plan).
3	Investment managers fail to achieve performance targets (i.e. ensure funding target assumptions are consistent with funding objectives) or switch investments at appropriate Trigger Level, which reduces solvency levels and increases required in employers' contributions	Achieve and maintain assets equal to 100% of liabilities within the 18 year average timeframe, within reasonable risk parameters	Asset/Investment	4	2		Diversified investment structure and increase hedging at appropriate market levels. Frequent monitoring against targets and triggers with periodic reviews of the appropriateness of the performance to these objectives.	
4	Mortality rates continue to improve, in excess of the allowances built into the evidence-based actuarial assumptions, resulting in increased liabilities, reduced solvency levels and increased employer contributions	Achieve and maintain assets equal to 100% of liabilities within the 18 year average timeframe, within reasonable risk parameters	Liability	2	2		Regular monitoring of mortality experience factors being exhibited by the Fund members by Fund Actuary and consequent variation of the actuarial assumptions based on evidential analysis. National cost management model could mitigate some of this cost impact if the LGPS as a whole exhibited the same trends.	
5	Frequency of early retirements increases to levels in excess of the actuarial assumptions adopted resulting in increases required in employers' contributions	Achieve and maintain assets equal to 100% of liabilities within the 18 year average timeframe, within reasonable risk parameters	Liability	2	2		Employers required to pay capital sums to fund costs for non-ill health cases. Regular monitoring of early retirement (including on the grounds of ill health) experience being exhibited by the Fund members by Fund Actuary and consequent variation of the actuarial assumptions based on evidential analysis. Ensure that employers are made aware of consequences of their decisions and that they are financially responsible for consequences of their decisions.	
6	Pay inflation significantly different from actuarial assumptions resulting in increases required in employers' contributions	Achieve and maintain assets equal to 100% of liabilities within the 18 year average timeframe, within reasonable risk parameters	Liability	3	2		At each triennial actuarial valuation an analysis is carried out to ensure that the assumptions adopted are appropriate and monitor actual experience. Discussions with employers over expected progression of pay in line with their own internal budgeting and national pay restraint.	
7	Not recognising opportunities from changing market, economic or other circumstances (e.g. further de-risking or strengthening of covenant)	Achieve and maintain assets equal to 100% of liabilities within the 18 year average timeframe, within reasonable risk parameters	Asset/Investment	4	1		Flightpath in place to exploit these opportunities in appropriate market conditions. The flightpath is reviewed periodically at least annually. Review of covenant and any ways to improve for certain employers is done as part of the valuation.	
8	Take-up of 50:50 option is lower than the actuarial assumption of an average of 5% of the membership adopted resulting in changes required in employers' contributions	Determine employer contribution requirements, recognising the constraints on affordability and strength of employer covenant with the aim being to maintain as predictable an employer contribution requirement as possible	Employer	2	4		Regular monitoring of take-up levels being exhibited by the Fund members by Fund Actuary, and consequent variation of the actuarial assumptions based on evidential analysis.	

Risk no:	Risk	Strategic objective at risk (see key)	Risk category	Impact (see key)	Likelihood (see key)	Risk Status	Internal controls in place	Further Action?
9	Failure to differentiate the funding strategy of different fund employers by reference to their own circumstances and covenant	Determine employer contribution requirements, recognising the constraints on affordability and strength of employer covenant with the aim being to maintain as predictable an employer contribution requirement as possible	Employer	3	2	Yellow	At each triennial actuarial valuation a formal consideration of employer circumstances in relation to covenant and reasonable affordability of employer contributions. Open dialogue with employers as part of the valuation consultation process and via AJCM.	
10	Potential for significant increases in contributions to levels which are unaffordable. Ultimate risk is the possibility of the employers defaulting on their contributions	Determine employer contribution requirements, recognising the constraints on affordability and strength of employer covenant with the aim being to maintain as predictable an employer contribution requirement as possible	Employer	4	2	Orange	At each triennial actuarial valuation a formal consideration of employer circumstances in relation to covenant and reasonable affordability of employer contributions. Open dialogue with employers as part of the triennial actuarial valuation process and via AJCM in terms of formal funding reviews (next due 2015).	
11	Adverse changes to LGPS regulations resulting in increases required in employers' contributions or Fund cashflow requirements.	Determine employer contribution requirements, recognising the constraints on affordability and strength of employer covenant with the aim being to maintain as predictable an employer contribution requirement as possible	Regulatory/Compliance	3	1	Green	Ensuring that Fund concerns are considered by the Pensions Advisory Panel and Committee as appropriate and raised in consultation process with decision makers lobbied. Employers and interested parties to be kept informed. Monitor potential impact for employers in conjunction with Actuary.	
12	Adverse changes to other legislation, tax rules, etc. resulting in increases required in employers' contributions (or potentially funding/investment strategy)	Determine employer contribution requirements, recognising the constraints on affordability and strength of employer covenant with the aim being to maintain as predictable an employer contribution requirement as possible	Regulatory/Compliance	3	2	Yellow	Ensuring that Fund concerns are considered by the Pensions Advisory Panel and Committee as appropriate and raised in consultation process with decision makers lobbied. Employers and interested parties to be kept informed. Monitor potential impact for employers in conjunction with Actuary.	
13	Administering authority unaware of structural changes in an employer's membership, or not being advised of an employer closing to new entrants, meaning that the individual employer's contribution level becomes inappropriate requiring review and increase	Manage employers' liabilities effectively through the adoption of employer specific funding objectives	Employer	2	4	Orange	Unanticipated changes in membership formally considered as part of the valuation process. Ensure that employers are reminded of their responsibilities through this monitoring and reminders of Fund policies. New employers will be informed of this on entry and existing employers periodically through forums such as the AJCM and fund website/mailshots.	Discussion with admin team re quarterly monitoring at employer level
14	Failure to ensure appropriate bulk transfer amounts are paid to protect the solvency of the Fund and equivalent rights are acquired for transferring members in accordance with the regulations.	Manage employers' liabilities effectively through the adoption of employer specific funding objectives	Employer	2	1	Green	Implement an approach to bulk transfers which firstly protects the Fund's interests (standardising the approach where possible taking into account the practicality of quick resolution with the other pension scheme). Fund Actuary will advise on appropriate transfer amount on a case-by-case basis.	
15	Illiquidity of certain markets and asset classes and difficulty in realising investments and paying benefits as they fall due resulting in unanticipated investment costs.	Ensure net cash outgoings can be met as/when required	Asset/Investment	2	1	Green	Holding liquid assets and maintain positive cashflows. Reviews performed to monitor cashflow requirements	
16	Unanticipated onset of cash-flow negative position, potentially requiring ad hoc repositioning of assets	Ensure net cash outgoings can be met as/when required	Asset/Investment	2	2	Green	Holding liquid assets and maintain positive cashflows. Reviews performed to monitor cashflow requirements	Inform major employers of the requirement to notify Fund of any significant restructuring exercises. (Need to consider controls currently in place).
17	An employer ceasing to exist with insufficient funding, adequacy of bond or guarantee. In the absence of all of these, the shortfall will be attributed to the Fund as a whole with increases being required in all other employers' contributions	Minimise unrecoverable debt on employer termination	Employer	3	2	Yellow	Consider profile of Fund employers and assess the strength their covenant and/or whether there is a quality guarantee in place. When setting terms of new admissions require a guarantee or bond. Formal consideration of this at each actuarial valuation plus proportionate monitoring of employer strength. Identify any deterioration and take action as appropriate through discussion with the employer.	

Clwyd Pension Fund - Control Risk Register

Administration & Communication Risks

Last Updated 16/03/2015

Risk no:	Risk	Strategic objective at risk (see key)	Risk category	Impact (see key)	Likelihood (see key)	Risk Status	Internal controls in place	Further Action?
1	Lack or reduction of skilled resources due to difficulty retaining and recruiting staff members and also staff absence due to sickness.	Deliver a high quality, friendly and professional service to all employers.	Resource/Skill	4	5		Continually monitor staffing levels, providing training and external resource to assist. Multi-skilled staff to avoid too much reliance on key staff members. Internal review of staff responsibilities to provide adequate cover in the short term.	Consider People Strategy during 2014/15
2	Significant increase in the number of employing bodies causes strain on day to day delivery.	Deliver a high quality, friendly and professional service to all employers.	Resource/Skill	3	2		Continually monitor the impact of managing the volume of employers admitted to the fund.	
3	Incorrect calculation of members' benefits resulting in inaccurate costs (to employer), through for example, inadequate testing of systems.	Deliver a high quality, friendly and professional service to all employers.	Employer	2	1		Data accuracy checks performed by senior officers. Liaise with employers to ensure timely and accurate submission of data. Routine testing of system updates following releases from software provider. Perform regular checks of software updates in our TEST environment before signing off to be updated in our LIVE environment. Continuous staff training.	Ongoing pressure on system provider to update system and aim to remove use of manual calculations
4	Failure for employers to provide accurate and timely information resulting in incomplete and inaccurate records, which could lead to incorrect valuation results and incorrect benefit, which in turn could lead to complaints.	Deliver a high quality, friendly and professional service to all employers.	Liability	4	4		Data accuracy checks performed by senior officers. Training policy (for staff training)Liaise with employers to ensure timely and accurate submission of data. Validation checks undertaken by Actuary at valuation. Current project to clear data and backlog. Use of electronic interface to reduce the need for manual updates. Complaints managed by senior officers and referred to Pension Admin Manager if appropriate resulting in a low level of IDRPs.	Implement I-Connect. Ensure SLA is detailed enough and employers are provided with info (such as LGA guides).
5	Failure to administer scheme in line with regulations and policies e.g. LGPS 2014.	Deliver a high quality, friendly and professional service to all members	Regulatory/Compliance	2	1		Complete Altair system checks to ensure compliance with regulations. Attend network groups (SPOG, Welsh POG, Altair User Groups). Create online procedure manuals and the provision of training to all team members. Checking process. There may be short periods of time when turnaround times may be delayed. Attend user groups to keep fully up to date whilst also liaising with external contacts.	Create on-line procedure manual for staff (incorporating checking and sign off requirements)
6	Failure to administer scheme in line with regulations and policies e.g. LGPS 2014 due to delays in enhancement to software or regulation guidance (e.g. transfers).	Deliver a high quality, friendly and professional service to all members	Regulatory/Compliance	4	4		Manual calculations performed by staff members during the period of change. There may be short periods of time when turnaround times may be delayed. Transfers currently on hold. Collaboration with other funds and LGA to determine how to deal with things in the meantime.	

Risk no:	Risk	Strategic objective at risk (see key)	Risk category	Impact (see key)	Likelihood (see key)	Risk Status	Internal controls in place	Further Action?
7	Failure to maintain proper records leading to inadequate data, which could lead to increased complaints and errors.	Deliver a high quality, friendly and professional service to all members	Regulatory/Compliance	3	2	Yellow	Data accuracy checks performed by senior officers. Training policy (for staff training)Liaise with employers to ensure timely and accurate submission of data. Validation checks undertaken by Actuary at valuation. Current project to clear data and backlog. Use of electronic interface to reduce the need for manual updates.	Implement I-Connect. Ensure SLA is detailed enough and employers are provided with info (such as LGA guides).
8	Fraud by staff	Deliver a high quality, friendly and professional service	Administration	3	1	Green	Checking in place, for example, secure log-ins, controlled access levels to Altair system, locked records for pension staff, audit checks / reports.	Review documentation of controls to ensure clarity of requirements
9	Issues in production of annual benefits statements, e.g. wrong address and printing errors due to external supplier.	Deliver a high quality, friendly and professional service to all members	Administration	3	1	Green	Test data sent to supplier and thorough checks performed before actual ABS distributed to members. Feedback from other users shared at the All Wales Group.	
10	Unable to deliver a service to pension members due to system unavailability or failure.	Deliver a high quality, friendly and professional service to all pensioner members	Regulatory/Compliance	5	2	Red	Disaster recovery procedure in place within the administration section but no disaster recovery testing completed by IT.	Disaster recovery testing to be completed
11	Fraud by pensioners/beneficiaries or overpayment of pension	Deliver a high quality, friendly and professional service to all pensioner members	Administration	1	1	Green	Payments to bank account, national fraud initiative participation and use of 'life' certificates	
12	Issuing incorrect or inaccurate communications.	To be forward thinking, responsive, pro-active and professional when communicating with all our customers.	Regulatory/Compliance	3	1	Green	Sign off agreed with Principal Pension Officer and Pension administration Manager. Training of staff. Use of centrally created communications (LGA).	
13	Failure to maintain employer database leading to information not being sent to correct person.	Deliver a high quality, friendly and professional service to all employers.	Employer	3	1	Green	Maintain master electronic list of employer contacts. Regular communication will identify any changes.	
14	Lack of clear communication to scheme members and pensioners	Deliver information in a way that suits all customers.	Employer	3	2	Yellow	Various types of communication tools developed, e.g. booklets, website, drop-in sessions and pre-retirement courses. Late notification of regulations can delay update of publications and website. Communications strategy and plan. Dedicated communication officer in place.	Update website and develop self-service facility for scheme members
15	Lack of clear communication to employers	Deliver information in a way that suits all customers.	Administration	3	1	Green	Regular employer bulletins issued. Regular training sessions with employers. Annual employer meetings held. Communications strategy and plan. Dedicated communication officer in place.	Update website and develop self-service facility for employers
16	Some members may not receive communications in their preferred format which may be perceived as discrimination and potentially not meet legal requirements.	Deliver information in a way that suits all customers.	Regulatory/Compliance	3	2	Yellow	Communication material is available in multiple forms e.g., braille, large print, video DVD and audiotape on request. Most communication material is bilingual. Dedicated communication officer in place.	Ongoing work on ensuring all communications are bilingual
17	Failure to include all required information in documents issued under the disclosure regs and in timescales required.	To be forward thinking, responsive, pro-active and professional when communicating with all our customers.	Regulatory/Compliance	3	1	Green	Annual check of disclosure regulation requirements / staff training. Dedicated communication officer in place.	

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FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CLWYD PENSION FUND COMMITTEE**

DATE: **24th MARCH 2015**

REPORT BY: **CHIEF OFFICER (PEOPLE AND RESOURCES)**

SUBJECT: **BUSINESS PLAN 2015/6 TO 2017/8**

1.00 PURPOSE OF REPORT

1.01 To provide Committee Members with the Clwyd Pension Fund Business Plan for 2015/16 to 2017/18 for discussion and approval.

2.00 BACKGROUND

2.01 Agreeing Pension Fund business plans and monitoring progress against them is one of the key roles within the constitution for this Committee and is a fundamental part of delivering the Fund's strategies and ensuring the Fund is managed on a day to day basis in line with the Committee's expectations.

3.00 CONSIDERATIONS

3.01 The draft Clwyd Pension Fund Business Plan for 2015/16 to 2017/18 is attached as an Appendix. This has been developed following the business planning workshop held for Pension Fund Committee members after the February meeting.

3.02 The opportunity has been taken to improve the format of the business plan compared to last years. The improvements include the following:

- It incorporates a covering document setting the scene for the business plan period as well as providing the expected budget for next year
- It covers a three year period rather than a one year period, the former being in line with best practice
- The key tasks (which are listed in the Annex to the report) now included brief descriptions as well as the key stages and budget implications where known.

3.03 As is the case with the current year's business plan, an update on progress will be included within each quarterly Committee Agenda.

4.00 RECOMMENDATIONS

4.01 That Committee Members discuss the attached business plan, recommend any amendments to it and agree it subject to those recommendations being made.

5.00 FINANCIAL IMPLICATIONS

5.01 The budget for 2015/16 is considered as part of the business plan.

6.00 ANTIPOVERTY IMPACT

6.01 None directly as a result of this report.

7.00 ENVIRONMENTAL IMPACT

7.01 None directly as a result of this report.

8.00 EQUALITIES IMPACT

8.01 None directly as a result of this report.

9.00 PERSONNEL IMPLICATIONS

9.01 Recruitment and retention of specialist officers is a key requirement in order to be able to deliver the business plan.

10.00 CONSULTATION REQUIRED

10.01 None directly as a result of this report.

11.00 CONSULTATION UNDERTAKEN

11.01 None directly as a result of this report.

12.00 APPENDICES

12.01 2015/16 – 2017/18 Business Plan

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: Service Plan 2014/15 – 22nd July 2014 Clwyd Pension Fund Committee

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Cronfa Bensiynau Clwyd
Clwyd Pension Fund



FLINTSHIRE COUNTY COUNCIL

**Administering Authority for
Clwyd Pension Fund**

BUSINESS PLAN 2015/16 TO 2017/18

March 2015

Introduction

This is the business plan for the Clwyd Pension Fund, which is managed and administered by Flintshire County Council. The business plan details our priorities and areas of key focus in relation to the Clwyd Pension Fund for 2015/16, 2016/17 and 2017/18. This business plan was approved at the Clwyd Pension Fund Committee meeting on 24th March 2015. The business plan is formally reviewed and agreed every year. However, throughout the year it is monitored and the Pension Fund Committee may be asked to agree to changes to it.

The purpose of the business plan is to:

- explain the background and objectives of Flintshire County Council for the management of the Clwyd Pension Fund
- document the priorities and improvements to be implemented by the pension service during the next three years to help achieve those objectives
- enable progress and performance to be monitored in relation to those priorities
- provide staff, partners and customers with a clear vision for the next three years.

In addition, this business plan includes a budget for expected payments to and from the Clwyd Pension Fund during 2015/16 including the resources required to manage the Fund.

Further Information

If you require further information about anything in or related to this business plan, please contact:

Philip Latham, Clwyd Pension Fund Manager, Flintshire County Council
E-mail - Philip.latham@flintshire.gov.uk
Telephone - 01352 702264

Background to the Clwyd Pension Fund

The Clwyd Pension Fund (the Fund) is a £1.3bn¹ Local Government Pension Fund which provides death and retirement benefits for local government employees (other than teachers, police and firefighters) in North East Wales and employees of other qualifying bodies which provide similar services.

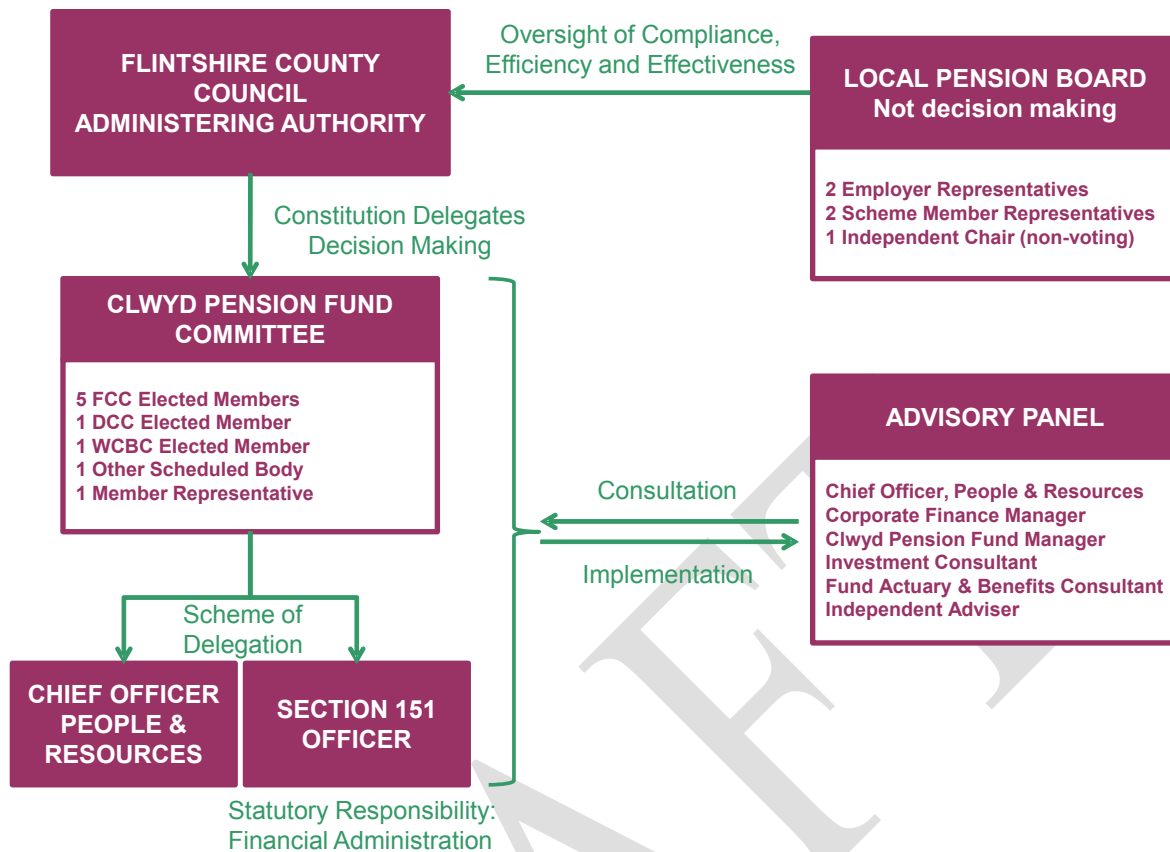
Total Fund membership is about 40,000 with about 16,000 active contributors from 29 contributing employers and about 24,000 retired members, widows and deferred members.

Governance and Management of the Fund

The key decision making and management of the Fund has been delegated by Flintshire County Council (the Council) to a formal Pension Fund Committee, supported by a Pensions Advisory Panel. Gary Ferguson, the Corporate Finance Manager is the Section 151 Officer and therefore has a statutory responsibility for the proper financial affairs of the Council including Fund matters. In addition, the Council has delegated specific responsibilities to the Chief Officer – People and Resources, Helen Stapleton. By 1 August 2015, a local pension board will be in place to assist in:

- securing compliance of Fund matters and
 - ensuring the efficient and effective governance and administration of the Fund.
- This structure is illustrated below.

¹ Information correct as at February 2015.

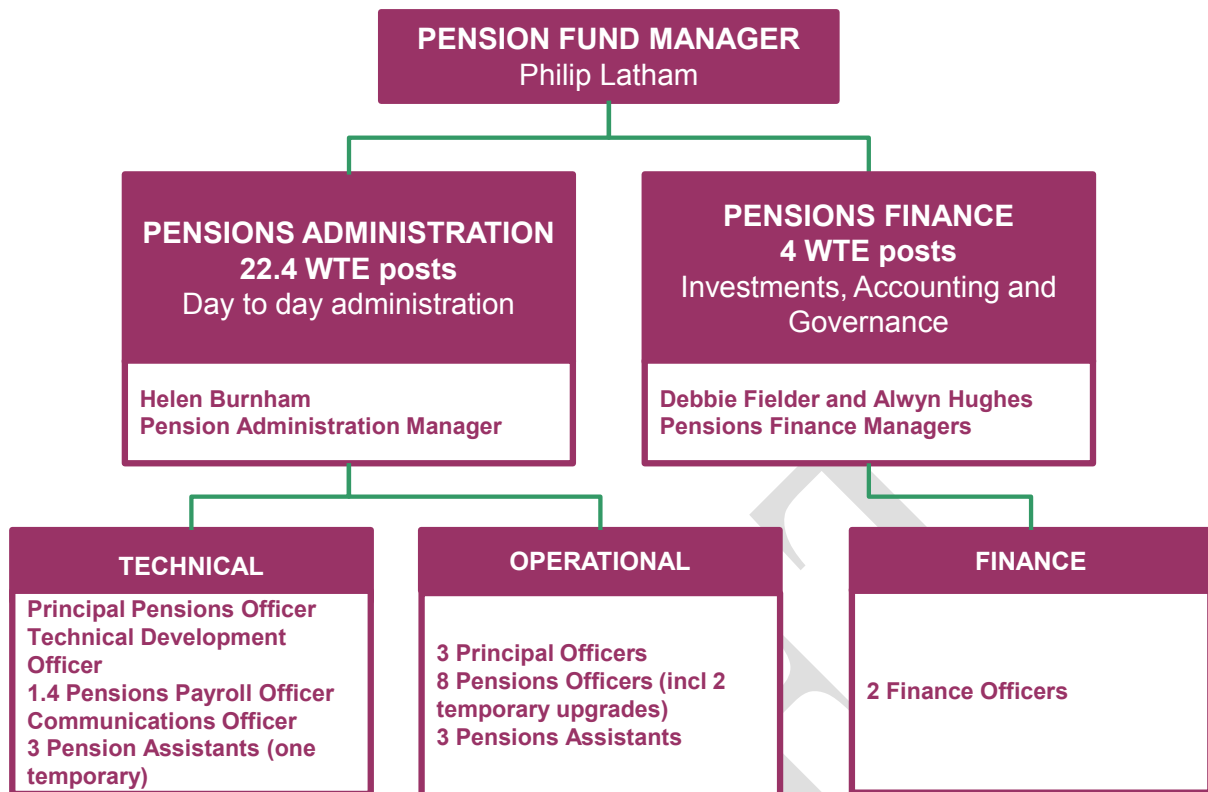


The Pension Fund Management Team

The day to day operations of the Fund are managed by Philip Latham, the Pension Fund Manager. He is supported by two teams:

- The Pension Administration Section which is responsible for the day to day administration of pension benefits and is headed by Helen Burnham. The section is split between an Operational Team and a Technical Team. The Operational Team delivers a pensions service for approximately 40,000 scheme members and 29 employing bodies. This includes the calculation of various benefits, transfers in and out, refunds and maintenance of individual records. The Technical Team implements and maintains the pension software systems, reconciles employer records, provides a communication service for members and employers and a pensioner payroll service for 11,000 pensioners and dependents.
- The Pensions Finance Section which is responsible for accounting, investment and governance matters, headed by Debbie Fielder and Alwyn Hughes. The section is responsible for the day to day accounting and closure of the accounts. Additionally, the section is responsible for the monitoring of 7 core external fund managers as well as 38 non-core external fund managers responsible for around 120 separate funds. The Pension Finance Managers are involved with the appointment of new fund managers and are also responsible for sourcing and recommending new in-house investments.

The full structure as at March 2015 is illustrated below.



The pension fund management team and Pension Fund Committee are assisted by a range of specialist consultants, suppliers and fund managers.

Aims and Objectives for the Management of the Fund

Our Mission Statement is:

- to be known as forward thinking, responsive, proactive and professional providing excellent customer focused, reputable and credible service to all customers.
- to have instilled a corporate culture of risk awareness, financial governance, and to provide the highest quality, distinctive services within the resource budget.
- to work effectively with partners, being solution focused with a 'can do' approach.

Our key strategies and policies which guide the management of the Fund are listed below and can be found on our website at www.clwydpensionfund.org.uk.

- Governance Policy and Compliance Statement
- Training Policy and Conflicts of Interest Policy
- Statement of Investment Principles and Compliance Statement
- Funding Strategy Statement
- Communications Policy
- Employer Service Level Agreements

The key actions and areas of focus in our business plan (as shown in the appendix) are grouped into the five areas of governance, investments, funding, communications and administration, to align with the key aims and objectives of these strategies and policies. These aims and objectives are summarised below.

Governance

- Act in the best interests of the Fund's members and employers
- Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies
- Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based
- Understand and monitor risk
- Strive to ensure compliance with the appropriate legislation and statutory guidance, and to act in the spirit of other relevant guidelines and best practice guidance
- Clearly articulate our objectives and how we intend to achieve those objectives through business planning, and continually measure and monitor success
- Ensure that the Fund is appropriately managed and that its services are delivered by people who have the requisite knowledge and expertise, and that this knowledge and expertise is maintained within the continually changing Local Government Pension Scheme and wider pensions landscape.
- Ensure that those persons responsible for governing the Fund have sufficient expertise to be able to evaluate and challenge the advice they receive, that their decisions are robust and well based, and that they appropriately manage any potential conflicts of interest.

Funding and Investments

- Achieve and maintain assets equal to 100% of liabilities within the 18 year average timeframe, within reasonable risk parameters
- Determine employer contribution requirements, recognising the constraints on affordability and strength of employer covenant, with the aim being to maintain as predictable an employer contribution requirement as possible
- Recognising the constraints on affordability for employers, aim for sufficient excess investment returns relative to the growth of liabilities
- Strike the appropriate balance between long-term consistent investment performance and the funding objectives
- Manage employers' liabilities effectively through the adoption of employer specific funding objectives
- Ensure net cash outgoings can be met as/when required
- Minimise unrecoverable debt on employer termination.

The key objectives in relation to administration and communications will be considered during 2015/16 as part of the review of the administration and communication strategies.

The plan for the next three years

Key Challenges and Influences

This decade has seen and continues to see an unprecedented amount of external factors that impact or could impact the management of the Fund. The following are just some of the challenges which will need to be managed or responded to, some of which may even necessitate a review of the aims and objectives of the Fund:

- managing the outcome of the Government's consultation on the opportunities for collaboration, cost savings and efficiencies
- responding to any potential Welsh local government reorganisation
- implementing a new Local Pension Board and ensuring it operates in the spirit of the national Scheme Advisory Board guidance
- reviewing current practice and procedures against the new Pensions Regulator's Public Sector Code of Practice, including a greater requirement to demonstrate appropriate knowledge and skills of those involved in the management of the Fund
- implementing HM Treasury's policy on greater flexibility for pension benefits ("Freedom and Choice")
- completing a major data cleansing exercise to prepare for the cessation of contracting out status.

In addition, we will strive to meet the aims and objectives of our key strategies. Some of our key priorities will therefore be:

- finalising the implementation of the Fund's new investment strategy
- implementing improved administration processes including on-line facilities for employers and scheme members
- reviewing the Fund's funding strategy
- removing a backlog of administration tasks.

These and other priorities for the next three years are articulated in more detail in the appendix to this business plan, split into three sections; governance, funding and investments, and administration.

Budget

All the costs associated with the management of the Fund are a charge to the Fund and not to the Council. The following shows the expected income and expenditure to the Fund (cashflows) as well as the expected operating costs.

Cashflows projections for 2015/16

	Actual	Estimated	
	2013/14 £000s	2014/15 £000s	2015/16 £000s
Opening Cash	(15,874)	(30,520)	(12,982)
Payments			
Pensions	46,858	47,642	50,384
Lump Sums & Death Grants	12,861	14,000	14,700
Transfers Out	3,260	2,800	2,800
Expenses (including In House)	2,436	2,320	2,360
Support Services	242	240	240
Total Payments	65,657	67,002	70,484
Income			
Employer Contributions	(27,451)	(27,000)	(27,000)
Employee Contributions	(14,629)	(15,200)	(15,200)
Employer Deficit Payments	(24,666)	(28,550)	(27,200)
Transfers In	(3,802)	(4,000)	(4,000)
Pension Strain	(1,104)	(700)	0
Investment Income	(2,901)	(2,800)	(3,000)
Total Income	(74,553)	(78,250)	(76,400)
In House Investments			
Draw downs	46,624	54,459	46,053
Distributions	(33,135)	(69,463)	(76,291)
Net Expenditure /(Income)	13,489	(15,004)	(30,238)
Net Purchases/(Sales)	(1,259)	(1,210)	(1,050)
Rebalancing Portfolio	(17,980)	45,000	40,000
Total Net Cash Flow	(14,646)	17,538	2,796
Closing Cash	(30,520)	(12,982)	(10,186)

Operating Costs

	Actual	Budget	
	2013/14 £000s	2014/15 £000s	2015/16 £000s
Governance Expenses			
Employee Costs (Direct)	182	223	226
Support & Services Costs (Internal Recharges)	23	23	19
Premises	19	17	17
IT (Support & Services)	10	10	10
Other Supplies & Services)	47	51	56
Audit Fees	35	36	36
Actuarial Fees	148	64	192
Consultant Fees	229	253	341
Advisor Fees	0	63	156
Legal Fees	31	40	30
Performance Monitoring Fees	25	27	25
Total Governance Expenses	749	807	1,108
Investment Management Expenses			
Fund Manager Fees*	5,571	6,300	8,801
Custody Fees	17	17	34
Total Investment Management Expenses	5,588	6,317	8,835
Administration Expenses			
Employee Costs (Direct)	599	648	662
Support & Services Costs (Internal Recharges)	69	78	82
Outsourcing	0	0	800
Premises	78	75	75
IT (Support & Services)	223	227	250
Other Supplies & Services)	63	62	70
Miscellaneous Income	(2)	0	0
Total Administration Expenses	1,030	1,090	1,939
Total Costs	7,367	8,214	11,882

*Fund manager fees include elements now required to be disclosed by CIPFA.
The estimated 2013/14 manager fees, if restated, would total £9.773m
The estimated 2014/15 manager fees budget, if restated, would total £10.606m

Delivering the Business Plan

Monitoring and Reporting

In order to identify whether we are meeting our agreed business plan we will:

- continue to monitor progress of the key priorities and the agreed budgets on an ongoing basis within the pension fund management team and the Pension Fund Advisory Panel
- provide updates on progress against these key priorities on a quarterly basis to the Pension Fund Committee
- as part of these quarterly updates:
 - highlight any areas where we are exceeding or failing to achieve our targets and the reasons why, and identify any changes to the planned priorities as a result of this
 - highlight any significant additional spend or underspend in relation to the agreed budget as it becomes apparent.

Key Risks

This business plan covers all areas of management of the Fund, and our risk register identifies a number of risks that directly relate to the key priorities included in this business plan. A copy of our risk register can be requested from Philip Latham, the Pension Fund Manager. However there are a number of risks that relate to the overall delivery of this business plan which are outlined below. The Pension Fund Committee members, with the assistance of the Pension Fund Advisory Panel, will monitor these and other key risks and consider how to respond to them.

- changes in key officers resulting in loss of resource or continuity, and potentially diminishing knowledge and understanding.
- insufficient external resource (quality or quantity) to assist in delivering key priorities.
- lack of engagement by stakeholders, in particular employers, in carrying out their responsibilities.
- lack of understanding of external influences and required change.
- other unexpected influences or change requiring using existing resources.
- changes in Pension Fund Committee, Pension Board and/or Advisory Panel resulting in a reduced understanding or reduced support for the delivery of the business plan, or a change in focus for the management of the Pension Fund.
- high operational/administration costs lead to reputational damage.

Appendix

BUSINESS PLAN 2015-2017 – Key Tasks

Governance

Ref	Key Action -Task	2015/6 Period				Later Years	
		Q1	Q2	Q3	Q4	2016/ 17	2017/ 18
G1	Implement local Pension Board	x	x				
G2	Service local Pension Board		x	x	x		
G3	Implement Training Policy	x	x	x	x		
G4	Review/Tender Actuarial Contract		x	x			
G5	Review Framework agreement					x	
G6	Review/Tender Investment Consultancy and Independent Adviser Contracts					x	
G7	Review Arrangements against TPR Code of Practice			x			
G8	Allow for impact of external factors	x	x	x	x	x	x
G9	Review Performance of Fund against Scheme Advisory Board matrix					x	
G10	Consider/implement any changes of governance arrangements from Annual Review by Independent Adviser or Local Board				x	x	x
G11	Review People Strategy		x	x			

G1 – Implement local Pension Board

What is it?

Each LGPS Pension Fund is required to set up its own local Pension Board to oversee the decision making Pension Committee and to assist the Administering Authority with the efficient and effective governance of the Scheme. The new Board must be established by 1 April 2015 in line with the LGPS Governance Regulations, and should be fully populated and operational by 1 August 2015,

Timescales and Stages

Member Appointment Process:	2015/16 Q1/2
Member Training:	2015/16 Q1/2
Initial Meeting:	2015/16 Q2

Resource and Budget Implications

To be led by Pension Fund Manager with assistance from the Independent Adviser with all key decisions being made by the Chief Officer People and Resources. All internal costs are being met from the existing budget. There will be external adviser costs associated with this exercise.

G2 – Service local Pension Board

What is it?

Once the new Pension Board is established it will need ongoing support in carrying out its operational duties. As per the Board's Terms of Reference the responsibility for providing this support (e.g. arranging meetings, setting agendas, producing minutes etc.) will fall to the Board Secretary (the Pension Fund Manager) within the Council with it being chaired by the Independent Adviser (subject to confirmation). The Board Secretary will need to liaise closely with the Board members and, in particular, the Chair of the Board to ensure that Board meetings run as smoothly as possible.

Timescales and Stages

Board Secretary to liaise with Chair to determine support required:	2015/16 Q2
Board Secretary to determine support resource required:	2015/16 Q2/3
Ongoing support provided:	2015/16 Q2-4

Resource and Budget Implications

To be led by Pension Fund Manager with assistance from the Independent Adviser. All internal costs are being met from the existing budget and there will be external adviser costs associated with this exercise.

G3 – Implement Training Policy

What is it?

The Fund's Training Policy details how the Fund will ensure that training is delivered, and how the required training is identified for each member. A Training Plan will be submitted to the March 2015 Pension Fund Committee meeting. A new requirement is that the Pension Board members are legally required to have the appropriate level of knowledge and understanding to sit on the Board and, as such, will need to be appropriately trained. The Council will need to ensure that it implements the training in line with the Training Plan which will include training to Pension Committee members and senior officers in addition to the Pension Board members.

Timescales and Stages

Identify individual training needs for new board members:	2015/16 Q1/2
Source and ensure delivery of identified training needs:	2015/16 Q2/4
Keep appropriate records of training received:	2015/16 Q2/4

Resource and Budget Implications

Training requirements to be determined by Pension Fund Manager with assistance from the Independent Adviser. Other advisers and external sources may be used for delivering training. There will be external adviser costs associated with this exercise.

G4 – Review/Tender Actuarial Contract

What is it?

The Council needs to review its current actuarial contract to ensure it is getting all the services it wants at the appropriate price and at what it considers to be value for money. This review should include Funding Risk Management and also Benefit Consultancy Services. Following this review, and discussions with procurement, the Council needs to put the actuarial contract out to tender, perhaps using a national framework.

Timescales and Stages

Review current actuarial contract and identify tender process:	2015/16 Q2
Conduct tender for actuarial services:	2015/16 Q2/3

Resource and Budget Implications

To be led by Pension Fund Manager. All internal costs are being met from the existing budget.

G5 – Review Framework agreement

What is it?

Clwyd Pension Fund's framework agreement ceases in 2016/7 and we will need to consider whether there is a need to renew it.

Timescales and Stages

Carry out review:	2016/7
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Resource and Budget Implications

To be confirmed.

G6 – Review/Tender Investment Consultancy and Independent Adviser Contracts

What is it?

The Council will review its current investment consultancy and independent Adviser contracts.

Timescales and Stages

Carry out review and decide whether to tender or extend existing contract: 2016/17

Resource and Budget Implications

To be confirmed.

G7 – Review Arrangements against TPR Code of Practice

What is it?

The Public Service Pensions Act brought the Pensions Regulator's oversight to the Public Sector as well as the Private Sector. As a result, the Pensions Regulator has produced a Code of Practice which has recently been finalised, which sets out guidance on the best practice that all LGPS Funds should operate. The Council therefore needs to review its current arrangements against this best practice guidance to ensure that it is following best practice in all instances. As a result of this review, should any areas come to light where the current approach is not best practice, the Council will consider implementing changes to bring them in to line with best practice.

Timescales and Stages

Review arrangements against Code of Practice:	2015/16 Q3
Identify areas currently not considered best practice:	2015/16 Q3
Implement any changes required:	To be decided

Resource and Budget Implications

To be led by Pension Fund Manager with assistance from the Independent Adviser. All internal costs are being met from the existing budget. There will be external adviser costs associated with this exercise.

G8 – Allow for impact of external factors

What is it?

We are aware of a number of national issues currently under various stages of discussion which will eventually impact on the Council. These include the Government's 2014 Call for Evidence, Consideration of the Welsh CIV proposal, Local Authority Reorganisation in Wales and Scheme Advisory Board's recommendations on separation from the administering authority role. The impact of these issues, and others that arise, will be formally brought into the business plan as and when they are known in more detail.

Timescales and Stages

To be confirmed

Resource and Budget Implications

Unknown.

G9 – Review Performance of Fund against Scheme Advisory Board matrix

What is it?

The national LGPS Scheme Advisory Board has developed a range of performance measures and all LGPS funds will be expected to report against them. The impact of the results of the reporting is not yet known.

Timescales and Stages

Initial reporting expected: 2016/7

Resource and Budget Implications

Unknown.

G10 – Consider/implement any changes of governance arrangements from Annual Review by Independent Adviser or Local Board

What is it?

Every year the Independent Adviser will review the governance arrangements of the Pension Fund. In addition the local Pension Board in their oversight role may identify areas relating to the management of the Fund that they consider should be reviewed. Should either of these avenues recommend any governance changes, these will need to be considered, and if the Council agrees, the recommended governance changes will need to be implemented.

Timescales and Stages

Receive recommendations from Adviser or board:	Q4 2015/16 onwards
Consider any changes required from recommendations:	2016/17 onwards
Implement any agreed governance changes:	2016/17 onwards

Resource and Budget Implications

Unknown.

G11 – Review People Strategy

What is it?

The Council needs to review the continued appropriateness of the current operational staffing levels with the Pensions Administration department. In addition, annual appraisals need to be undertaken for all Pension Administration staff.

Timescales and Stages

Review staffing levels:	2015/6 Q1/2
Undertake appraisals:	2015/6 Q1/2

Resource and Budget Implications

To be led by Pension Fund Manager. All internal costs are being met from the existing budget albeit any necessary changes to staffing levels or numbers may impact on the budget.

Funding and Investments (including accounting and audit)

Ref	Key Action –Task	2015/6 Period				Later Years	
		Q1	Q2	Q3	Q4	2016 /17	2017 /18
FI1	2015 Funding review		X	X			
FI2	Triennial Actuarial Valuation					X	
FI3	Employer risk monitoring framework		X	X		X	X
FI4	Flightpath “Healthcheck” Review	X			X	X	X
FI5	Review of admission and termination policy		X				
FI6	Consider financial impact of the budget reforms		X			X	
FI7	Consider impact of 2016 end of contracting out			X	X	X	
FI8	Final Accounts, Production of Annual Report and External Audit	X	X			X	X
FI9	Review of In-House investments	X	X	X	X		
FI10	Establishment of Managed Account Platform	X	X				
FI11	Introduction of Tactical Management Portfolio and on-going management	X	X	X	X	X	X
FI12	Update of Statement of Investment Principles	X					
FI13	AVC Review				X		
FI14	Review of Investment Strategy						X
FI15	Re-organisation of Asset Portfolio	X	X	X			

FI1 – 2015 Funding review

What is it?

In the year prior to the formal actuarial valuation an interim actuarial assessment is performed to gauge likely valuation contribution outcomes and identify key issues which may arise in terms of affordability. This will cover issues such as appropriate actuarial assumptions, experience since the last valuation date and how the funding requirements allow for the Flightpath strategy in place. These can then be discussed with the Fund and participating employers ahead of the formal valuation to support budget planning and ensure the right balance of outcomes for all parties.

Timescales and Stages

Effective date: 31 March 2015 (with a later update included)

Initial Whole Fund results: Q3/15

Individual Employer results: As required

Communication: Results will be discussed with finance officers of unitary authorities in Q3/4 15.

Resource and Budget Implications

Exercise will be performed by the Fund Actuary and discussed initially with the Fund officers.

FI2 – Triennial Actuarial Valuation

What is it?

It is the formal actuarial valuation of the Fund detailing the solvency position and other financial metrics. It is a legal requirement of the LGPS Regulations. It determines the contribution rates payable by the employers to fund the cost of benefits and make good any existing shortfalls as set out in the separate Funding Strategy Statement.

Timescales and Stages

Effective date: 31 March 2016

Initial whole Fund results (expected): Q3/16

Individual Employer results (expected): Q3&4/16

Deadline for agreement of all contributions and sign-off: 31 March 2017

Resource and Budget Implications

Exercise will be performed by the Fund Actuary and it will determine contribution requirements for all participating employers from 1 April 2017. It is a major exercise for the Fund and will take a lot of input from the Administration and Investment teams. Employers will be formally consulted as part of the process.

FI3 – Employer risk monitoring framework

What is it?

The Fund is subject to funding risks in respect of employers who cease to participate without the Fund being able to recover the full exit contributions due under the Regulations. This can be mitigated by increasing contributions and/or requesting a contingent bond or guarantee to be provided to protect against the possibility of an unrecoverable debt. A risk-monitoring framework would identify and monitor participating employers who may be more likely than average to pose such a risk.

This would monitor funding positions and covenant strength on a proportionate basis to flag any potential issues at an early stage. The governance around the framework would include ensuring employers are aware they should inform the Fund of any significant changes in membership numbers or underlying demographics.

Timescales and Stages

Develop framework and processes: Q2&3/15

Implement framework: Q3/15

Review framework and identified employers: Annually.

Resource and Budget Implications

The framework would be implemented taking advice from the Fund Actuary. It will involve the officers gathering financial information from certain employers periodically to monitor covenant strength and also the implementation of a funding monitoring framework for the employers who pose the greatest risk.

FI4 – Flightpath Healthcheck Review

What is it?

The Administering Authority implemented a “Flightpath” risk management investment strategy with effect from 1 April 2014, with the aim of more effectively controlling and limiting interest and inflation risks (as these factors can lead to significant changes to liability values and therefore the deficit). The overall funding Flightpath strategy is to consider and structure the investment strategy to determine a balance between return-seeking and risk-hedging assets. Further details are in the Fund’s Statement of Investment Principles (SIP) and Funding Strategy Statement (FSS).

Ongoing monitoring includes a “traffic light” analysis of whether the Flightpath and hedging mandate are operating in line with expectations or if any actions are required. However, the strategy will require an annual “healthcheck” to ensure its aims remain appropriate and it is still fit for purpose.

Timescales and Stages

A “Healthcheck” is being done in Q1/15 in relation to the inflation triggers give the change in market position and the initial 40% limit being hit. The formal healthcheck is also pencilled in for Q4 15 and is expected to be done at least annually thereafter.

Resource and Budget Implications

To be led by the officers, Fund Actuary and investment advisors with the finding being implemented by the Advisory Panel under the delegations.

FI5 – Review of admission and termination policy

What is it?

The Fund agreed a policy in 2013 relating to the admission of employers into the Fund and to how termination of participation is dealt with, the primary aim of the policy being to protect the Fund against incurring any unfunded liabilities as far as possible.

The policy has different requirements depending on the nature of the admitted employer but includes the use of pre-admission risk assessments, contingent security where deemed necessary, monitoring of the employer and termination funding. The detail and application of this policy should be regularly reviewed, especially in light of regulatory changes, to ensure it remains appropriate and is not exposing the Fund to funding risk.

Timescales and Stages

Review existing policy: Q2/15

Implement changes: Q3/15

Resource and Budget Implications

Fund Actuary will liaise with the administration team to review policy and process, updating documentation appropriately.

FI6 – Consider the financial impact of budget reforms

What is it?

From April 2015 individuals have greater flexibility in how they take their benefits from defined contribution schemes – referred to as “Freedom and Choice”, and therefore the Fund may see a greater demand for transfer payments prior (and possibly at) retirement. In addition the trivial commutation limits have increased and therefore more retired individuals are expected to be able to take their total benefits as taxable lump sum cash. This in turn could mean the Fund will be required to retain or disinvest more cash.

Timescales and Stages

Legislation effective: 6 April 2015.

Resource and Budget Implications

The funding and liability impact will be assessed at a high level as part of the 2015 Funding Review. Employers may request the Fund to consider bulk processes as part of their own liability management requirements.

Impact and resource will need to be considered once legislation is finalised. It will potentially mean significant adjustments to transfer quotation and potentially retirement processes. A bulk exercise covering the trivial commutation limits will be done by the administration team over the next 12 months.

FI7 – Consider impact of 2016 end of contracting out

What is it?

With effect from April 2016 contracting-out ceases and employers and employees will be required to pay higher National Insurance contributions (respectively by 3.4% and 1.4% of earnings between the Lower Earnings Limit and the Upper Accrual Point). Employers will be considering how to mitigate the additional employment cost. The LGA is negotiating with HMT on a national basis in terms of rebating some of the costs, given the LGPS benefit structure cannot be changed to offset the cost for employers.

Timescales and Stages

Legislation effective: 6 April 2016

Consider potential impacts Q3/Q4 2015 and as part of the 2016 triennial valuation

Resource and Budget Implications

Budget implications for employers are potentially significant and will affect the affordability of normal pension Fund contributions. Employers are likely to also assess their own costs based on their total payroll, but may request information from the Fund.

FI8 – Final Accounts, Production of Annual Report and External Audit

What is it?

Final accounting records compiled at the end of the fiscal year for the Fund, which include all transactions, charges, revenues and expenses for that year. These include the balance sheet for the Fund together with changes in asset values. These are prepared in accordance with appropriate accounting standards. Statement of Accounts submitted to Audit Committee (30/6/15 tbc) and County Council (30/6/15 tbc) for approval. Approved accounts to CPF Committee for information (23/9/15 tbc). The Annual Report is produced whilst adhering to guidance and regulation as to content and layout. Submitted to CPF Committee 23/9/15 (tbc).

Wales Audit Office undertakes the annual audit of the Final Accounts together with sampling work on key systems. They also ensure that the Annual Report is fully reflective of the approved accounts and CIPFA guidance as to layout and content.

Timescales and Stages

Final Accounts – preparation and completion:	All years Q1
Annual Report – preparation and completion:	All years Q1/2
External Audit -	All years Q1/2

Resource and Budget Implications

To be led and undertaken by Pension Finance Managers with assistance from the Accounting Technician and Finance Assistant. All internal costs are met from the existing budget.

FI9 – Review of In-House investments

What is it?

A fundamental review of the current specific in-house property, private equity and infrastructure investment strategies. This is to include a review of current performance, a report to the Advisory Panel with recommendations and followed up with a workshop for the Members of the CPF Committee.

Timescales and Stages

A review of current performance :	2015/16 Q1/Q2
Report(s) to the Advisory Panel:	2015/16 Q1/Q2
Workshops for Members:	2015/16 Q3/Q4

Resource and Budget Implications

To be led and undertaken by the Pension Finance Managers with assistance from Mr Bob Young (YCS UK Limited). All costs are met from the existing budget.

FI10 – Establishment of Managed Account Platform

What is it?

As part of the revised strategy agreed by the Advisory Panel and Committee in November 2014 it was agreed to re-organise the current Hedge Fund holdings and introduce Managed Futures to the asset structure. It was agreed that the best structure, to provide the flexibility to manage the allocation between the various underlying managers and funds on the Managed Futures and Hedge Fund allocations, was to establish a Managed Account Platform (MAP).

Timescales and Stages

Q1 2015 – due diligence carried out on both the MAP established by Cornwall Pension Fund and the three incumbent managers.
Q2 2015 – if a suitable solution is not found, a full OJEU process will be undertaken.

Resource and Budget Implications

There will be costs for research and analysis and the due diligence by JLT. However, it is intended that these costs can be 'passed through' to the successful manager. There will also be a cost of officers' time in both the consideration and due diligence efforts which will be managed within the existing budget.

FI11 – Introduction of Tactical Management Portfolio and on-going management

What is it?

The Tactical Management Portfolio was agreed as part of the revised Investment Strategy. The purpose of this portfolio is to take advantage of short term (approximately one year) opportunities that are consistent with the long term risk and return goals of the Fund. This work includes the review of the Total Return Swaps (TRS) structure within the Liability Driven Investment (LDI) Hedging Portfolio. The 'mix' between the various geographic equity regions needs review and monitoring to ensure that full advantage is taken of the expected differences of return between the regions and exposures are consistent with the overall investment strategy.

Timescales and Stages

This consists of a monthly review meeting to review potential opportunities and adjustments to the Fund.

Resource and Budget Implications

There are agreed costs for the work carried out by JLT which are being judged against the value that is added through decisions made. There will also be a cost of officers' time in preparing for and being involved in the monthly reviews, which is being managed within the existing budget. There may also be costs for the implementation of the portfolio changes.

FI12 – Update of Statement of Investment Principles

What is it?

The Statement of Investment Principles (SIP) is the document that sets down the Investment Strategy for the Fund and also assesses these against the key principles established by CIPFA and the Myners review. This needs to be maintained and reviewed on a regular (at least annual) basis and should be kept up to date following any change to the Investment Strategy and its implementation.

Timescales and Stages

As a new Strategy has been agreed and is currently being implemented, the SIP is being re-drafted to be presented to the forthcoming Advisory Panel and Committee meetings.

Resource and Budget Implications

There will be fees relating to time spent by JLT who are carrying out the initial drafting.

FI13 – AVC Review

What is it?

This is to review the offering to members for the investment of Additional Voluntary Contributions (AVCs) and their suitability.

Timescales and Stages

The review is to be carried out in Q4 2015.

Resource and Budget Implications

This review will be jointly carried out by JLT (as Investment Advisor) and Mercer (as Fund Actuary).

FI14 – Review of Investment Strategy

What is it?

This relates to the triennial review of the Investment Strategy once the Actuarial Valuation has been finalised and the Funding Strategy agreed.

Timescales and Stages

This is expected to take place in 2017/18. A more detailed workplan will be developed closer to the time.

Resource and Budget Implications

The majority of work will be carried out by JLT but officers will be heavily involved before final submission of proposals to Advisory Panel and Pension Fund Committee.

FI15 – Re-organisation of Asset Portfolio

What is it?

This follows the agreement of the new strategy as agreed with the Advisory Panel and Committee in November 2015 and involves the transition of assets between managers.

Timescales and Stages

A phased approach is being adopted as certain of the structures and new managers need to be appointed before transitions can take place, but the intention is that the work is completed during Q3 2015.

Resource and Budget Implications

The budget is currently under discussion. There are various possibilities for carrying out this work ranging from officers completing the work, JLT Transition team being employed to using a specialist Transition manager (or a combination of all three).

The work is currently being scoped and it is intended that the suggested method and budget will be provided and agreed at the next Advisory panel.

Administration (including Communications)

Ref	Key Action -Task	2015/6 Period				Later Years	
		Q1	Q2	Q3	Q4	2016 /17	2017 /18
A1	Preparation of Member Data for Valuation and Funding reviews		X	X		X	
A2	Normal Year End returns	X	X			X	X
A3	Annual Benefit Statements	X	X	X		X	X
A4	Pension Increase, Care revaluation and review	X			X	X	X
A5	Backlog of transfers and aggregation	X	X				
A6	Disaster Recovery Testing	X					
A7	Lifetime and Annual Allowance notifications	X				X	X
A8	End of contracting out incl GMP issues	X	X	X	X	X	X
A9	Freedom and Choice	X	X				
A10	Pension Administration Strategy and Performance Standards	X	X				
A11	Online procedures					X	
A12	Dealing with backlog	X	X	X	X	X	
A13	I-Connect		X	X	X	X	X
A14	Delays due to implementation of LGPS2014	X	X				
A15	Self Service for members and employers						X
A16	Trivial Commutation	X	X	X		X	
A17	Communications Strategy	X	X				
A18	Website revamp			X			
A19	Pension Board implementation assistance	X					

A1 – Preparation of Member Data for Valuation and Funding reviews

What is it?

Triennial actuarial valuation as at 31 March 2016 and a funding review as at 31 March 2015 require the pensions administration team to provide data to the actuary. This generally involves additional year end cleansing. This work is particularly detailed for the 2016 actuarial valuation.

Timescales and Stages

Data for 31 March 2015 review:	2015/16 Q2/3
Data for 31 March 2016 valuation:	2016/17 Q1/2

Resource and Budget Implications

Carried out by the Technical Team in the main with assistance from the Communications Officer when communicating the valuation results. All internal costs are being met from the existing budget.

A2 – Normal year end returns

What is it?

The validation and cleansing of the member data received from the Fund Employers, followed by the posting to Fund member records which will allow the information to be used in the production of Annual Benefit Statements, the actuarial valuation and year end accounts.

Timescales and Stages

Receive data from Fund employers:	Q1 each year
Validate and cleanse data:	Q1/2 each year
Post clean data to member records:	Q1/2 each year

Resource and Budget Implications

Carried out by the Technical Team. All internal costs are being met from the existing budget.

A3 – Annual Benefit Statements

What is it?

Statements that we send out to all current employees and deferred pensioners on an annual basis detailing the pension benefits they are entitled (or are projected at retirement) to receive from the Fund as at 31 March of that year. There are statutory deadlines setting out when these statements must be issued by, and preparing accurate statements depends on receiving timely and correct data on all employees from each employer in the Fund.

Timescales and Stages

Receive and process data from employers:	Q1 each year
Prepare and check statements:	Q1/2 each year
Issue statements to all members:	Q2/3 each year

Resource and Budget Implications

Carried out in the main by the Technical Team with input from the Communications Officer and Operations Team. All internal costs are being met from the existing budget.

A4 – Pension Increase, CARE Revaluation and review

What is it?

The requirement that all pensions in payment are correctly increased in line with the relevant Pensions Increase (Review) Order. Also, for all benefits earned in the new LGPS 2014 scheme, the requirement that all benefits earned over the year are correctly increased in line with the relevant Treasury Order.

Timescales and Stages

Provisional Increase orders applied:	2014/15 Q4
Testing of provisional increases:	2015/16 Q1
Applying 'live' increases across all cases:	2015/16 Q1

Resource and Budget Implications

Carried out by the Technical Team, Payroll Team, Communications Officer and Operations Team. All internal costs are being met from the existing budget.

A5 – Backlog of transfers and aggregation

What is it?

Given national uncertainty as to how exactly transfers were going to work regarding the new LGPS 2014 CARE scheme, and as to how members' benefits would be aggregated, a backlog of such cases has built up. Now that this uncertainty has largely been resolved, this case backlog needs to be revisited to eliminate it, although it should be noted that investing resources to reduce this backlog will have a knock on effect that could result in day to day administration cases being delayed.

Timescales and Stages

Identify cases and establish plan to resolve:	2015/16 Q1
Clear cases internally:	2015/16 Q1/2
Clearing cases using external support:	2015/16 Q1/2

Resource and Budget Implications

To be completed by the Operations Team. Internal costs are being met from the existing budget albeit this will utilise some of the overtime budget.

A6 – Disaster Recovery testing

What is it?

The Council needs to ensure that it has appropriate Disaster Recovery procedures in place should an event (e.g. a natural disaster) occur that compromises either the physical offices of the council or the technological infrastructure. As part of this, the Council needs to test that its backup procedures work correctly by simulating a situation where the main IT systems are not operational and checking that the Pensions Administration team can still operate effectively.

Timescales and Stages

Test backup capabilities: 2015/16 Q1

Resource and Budget Implications

To be carried out by the Technical Principal Pensions Officer working with Heywood, the administration system supplier. All internal costs are being met from the existing budget and there are no additional external costs.

A7 – Lifetime and Annual Allowance notifications

What is it?

All members of the Fund must ensure they remain below the HMRC's national Lifetime Allowance and Annual Allowance limits, or meet an appropriate tax charge. In practice only the highest earning staff are in danger of breaching these limits and the Administering Authority assesses the likelihood of this occurring for these staff. The Administering Authority then notifies the affected members in order that they can notify HMRC of any breaches directly.

Timescales and Stages

Decide on criteria for inclusion in assessment: 2015/16 Q1
Calculations to assess who breaches limits: 2015/16 Q1
Notifying members of findings: 2015/16 Q1

Resource and Budget Implications

To be carried out by the Technical Team and the Communications Officer. All internal costs are being met from the existing budget.

A8 – End of Contracting out including GMP issues

What is it?

The government's announcement that contracting out will cease and that HMRC will no longer be responsible for maintaining GMP member records. This means that the onus will be on individual Funds to ensure that the GMP data they hold on their systems matches up to the data held by HMRC before they cease holding these records. Unfortunately this has generally shown significant discrepancies between the two sets of GMP data, and a significant amount of work will be required to determine the correct benefits, ensure all systems are updated and to process a significant number of over/underpayment calculations. After the GMP records are reconciled for former pensionable employees, the Fund will also verify national insurance information held for active members. All GMPs and national insurance information must be reconciled by December 2018, the date HMRC will cease to provide their services. The timescales below are subject to change depending on the magnitude of the work.

Timescales and Stages

GMP data reconciliation and investigation: 2015/16 to 2017/8
Benefit correction and system updates: 2015/16 to 2017/8
Reconciliation of national insurance information: 2017/8 Q1-4
Communication of end of contracting out: Ongoing

Resource and Budget Implications

This project will be led by the Technical Team with assistance from a dedicated team within Operations and some future assistance from the Communications Officer. However, due to the magnitude of this project, we are investigating utilising assistance from an external supplier.

A9 – Freedom and Choice

What is it?

The recent changes announced by government whereby members of Defined Contribution (DC) Pension Schemes can choose to take all of their pension pot as a lump sum (rather than purchasing a pension) delivered a considerable amount of additional flexibility to people about to retire. Although not directly relevant to the LGPS, the knock on implication is that deferred members may choose to transfer their LGPS benefits into a DC scheme, subject to satisfying certain conditions (like having received financial advice). Alternatively they may be able to take AVCs in accordance with the new flexibilities. Depending on the numbers of members choosing to transfer, this could potentially cause cashflow implications for the fund, or funding implications for employers within the Fund

Timescales and Stages

Understand new requirements:	2015/16 Q1
Update internal process:	2015/16 Q1/2
Communicate to scheme members:	2015/16 Q1/2

Resource and Budget Implications

This will impact all of the Technical Team, Communications Officer and Operations Team. All internal costs are being met from the existing budget.

A10 – Pension Administration Strategy and Performance Standards

What is it?

A documented strategy outlining how we deliver our administration services, the high level service standards we will provide and we expect from employers, how these will be measured and reported, and the key risks to this service. The draft strategy must be consulted on with key stakeholders (mainly employers) prior to approval. A key output will be regular monitoring of standards against those included in the strategy.

Timescales and Stages

Develop draft strategy:	2015/16 Q1
Consult:	2015/16 Q1/2
Pension Fund Committee Approval:	2015/16 Q1/2

Resource and Budget Implications

To be led by Pension Fund Administration Manager with assistance from the Technical Team and the Communications Officer. All internal costs are being met from the existing budget. There will also be some external costs associated with this exercise relating to advice on the appropriate strategy.

A11 – Online procedures

What is it?

Developing an on-line procedures manual for use by the pensions administration staff. This will amalgamate, expand and update current procedure documents ensure consistency, easy access and efficient working as well as providing a useful training tool.

Timescales and Stages

Develop on-line procedures: 2016/7

Resource and Budget Implications

This will involve work by the full pensions administration team.

A12 – Dealing with backlog

What is it?

A backlog of member cases to be dealt with (calculations and updating of member records). Initially this was identified as being 3,000 cases and this has been reduced by the pensions administration team to around 1,700 (as at February 2015). Plans are now in place to further reduce and eventually eliminate this accumulated backlog over time, including using the Fund's Actuary to help in a number of cases. This will be subject to oversight by a Project Steering Group involving key employers and chaired by the Chief Officer People and Resources.

Timescales and Stages

Management of project including prioritisation: 2015/16 Q1/2
Ongoing support from external providers: 2015/16 Q3/4
Working through and eliminating backlog: to 2016/17

Resource and Budget Implications

The majority of this work is being outsourced to the Fund's Actuary and it will be managed by one of the Operations Principal Pensions Officers (at least initially) with her duties being backfilled to a large degree by others in the Operations Team. It will also require some assistance from the rest of the Operations Team. Employers will also need to dedicate appropriate time to providing the information to reduce the backlog. There will be substantial external costs associated with this exercise.

A13 – I-Connect

What is it?

On-line computer module that will allow information to be submitted by employers more directly and efficiently into the pension administration system. It involves employers uploading data directly into I-Connect from their payroll systems. I-Connect will be provided to the Fund's three Councils as separate stages. The first stage will be ensuring that the correct member records are held on the administration system.

Timescales and Stages

Denbighshire CC: 2015/16 Q2-Q4
Flintshire CC; 2016/17 Q1-Q4
Wrexham CBC: 2016/17 Q3 to 2017/18 Q1

Resource and Budget Implications

Data cleansing will be carried out by the Operations Team and then the Technical Team will roll out I-Connect to the employers. All employers will also need to dedicate appropriate resource to develop file uploads and carry out testing. All internal costs are being met from the existing budget.

A14 – Delays Due to Implementation of LGPS2014

What is it?

As a result of the late issue of the Regulations governing the new LGPS 2014 scheme and the significant amount of work preparing for the new scheme and the administration system not being fully operational for all cases on 1 April 2014, there are number of cases to be dealt with that have built up.

Timescales and Stages

Identify cases and establish plan to resolve: 2015/16 Q1

Resource and Budget Implications

To be determined.

A15 – Self Service for members and employers

What is it?

An administration system whereby scheme members and Fund employers have on-line access to certain elements of the system for themselves.

Timescales and Stages

Develop plan for establishing self-service and implement: 2016/17 and beyond

Resource and Budget Implications

Carried out by the Technical Team. All internal costs are being met from the existing budget.

A16 – Trivial Commutation

What is it?

This is where a member who is entitled to a small pension can elect to give up the entirety of that pension and instead receive their benefit as a single lump sum payment, to reduce the administrative burden on Funds paying a large number of very small pensions over a number of years as well as providing greater clarity from a funding perspective. The government has recently increased the allowable limit for members to trivially commute their pension in relation to their single pension (£10,000 value) and total benefits (£30,000), and this has meant that more members are now eligible to choose this. The pension administration team will need to identify all historical cases that are eligible in the two categories and communicate with them to determine whether they would like to commute their pensions for lump sums. In addition, they will need to update their processes for all future retirements.

Timescales and Stages

Update processes for future cases:	2015/6 Q2
Identify members eligible to commute under £10,000:	2015/16 Q1/2
Communicate with eligible members and pay lump sums:	2015/16 Q2/3
Identify members eligible to commute under £30,000:	2016/17 Q2/3
Communicate with eligible members and pay lump sums:	2016/17 Q3/4

Resource and Budget Implications

Identification of cases will be by the technical team with the processes dealt with by a small team within the Operations Team. All internal costs are being met from the existing budget.

A17 – Communications Strategy

What is it?

A documented strategy setting out how we will engage and communicate with stakeholders and customers, and our communication objectives for the forthcoming financial year. The strategy is developed and signed off by the Pension Fund Committee. A strategy is already in place but is due to be reviewed.

Timescales and Stages

Review existing strategy:	2015/16 Q1
Consult:	2015/16 Q1/2
Pension Fund Committee Approval:	2015/16 Q1/2

Resource and Budget Implications

To be led by Pension Fund Administration Manager with assistance from the Communications Officer. All internal costs are being met from the existing budget. There will also be some external costs associated with this exercise relating to advice on the appropriate strategy.

A18 – Website revamp

What is it?

An overhaul of the Pension Fund's website, considering the ease of navigation, the look and feel and also ensuring that the relevant content is included and correct. As part of this review, the Communications Officer will consider options in relation to how the existing website can be updated including utilising wording prepared at a national level.

Timescales and Stages

Update website:	2015/16 Q3
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Resource and Budget Implications

This will be a significant amount of work carried out in the main by the Communications Officer with some assistance from the Technical Team.

A19 – Pension Board Implementation Assistance

What is it?

Each LGPS Pension Fund is required to set up its own local Pension Board to oversee the decision making Pension Committee and to assist the Administering Authority with the efficient and effective governance of the Scheme. The new Board must be established by 1 April 2015 in line with the LGPS Governance Regulations, and should be fully populated and operational by 1 August 2015. The pensions administration team will assist with communicating the changes and, in particular, the appointment process.

Timescales and Stages

Communicate appointment process to all scheme members: 2015/16 Q1

Resource and Budget Implications

To be carried out by the Communications Officer. All internal costs are being met from the existing budget.

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FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CLWYD PENSION FUND COMMITTEE**

DATE: **24th MARCH 2015**

REPORT BY: **CHIEF OFFICER (PEOPLE AND RESOURCES)**

SUBJECT: **GOVERNANCE UPDATE**

1.00 PURPOSE OF REPORT

1.01 To provide Committee Members with an update on governance related issues.

2.00 BACKGROUND

2.01 A governance update is on each quarterly Committee agenda and includes a number of governance items for information or discussion. The items for this quarter are:

- Progress with the implementation of the Fund's Local Pension Board for note
- Potential separation of scheme manager function from lead authority
- National LGPS performance measurement and benchmarking assessment (Key Performance Indicators)
- The Pension Regulator's Code of Practice and draft policy on enforcement.
- The Fund's Annual Meeting (AJCM) feedback for note
- Service Plan 2014/15 update and changes for approval (Appendix 1)
- Training policy implementation for note (Appendices 2 and 3)
- Welsh Government Cost of Administration Submission

3.00 CONSIDERATIONS

Local Pension Boards

3.01 The report establishing the Local Pension Board for the Clwyd Pension Fund, pursuant to a recommendation from the Constitution Committee, and to comply with recent legislation was approved by Flintshire County Council on Tuesday, 3rd March 2015. This establishes the local Pension Board in time to meet the 1st April 2015 deadline. The final report presented to Flintshire County Council can be found on Flintshire County Council's website at: <http://cyfarfodyddpwyllgor.siryfflint.gov.uk/documents/s28735/CPF%20Governance.pdf?LLL=undefined>

3.02 A plan for implementation has now commenced which includes the appointment process and training to enable the first meeting to take place before 1st August 2015 as required by legislation.

- 3.03 The background to the establishment of the Pension Board has previously been shared with the Committee and follows a requirement of the Public Service Pensions Act (PSPA) 2013 which has been incorporated into the Local Government Pension Scheme (LGPS) regulations. The final LGPS regulations, when published, did have some changes to the draft regulations.
- 3.04 The principal changes introduced in the final legislation and how these have been implemented by Flintshire County Council are summarised below:
- Flintshire County Council is the scheme manager of the Clwyd Pension Fund as defined under Section 4 of the Public Services Pensions Act 2013.
 - The Clwyd Pension Board operates independently of the Clwyd Pension Fund Committee.
 - As a minimum, and in accordance with the LGPS Regulations, all scheme member and employer representatives must have the capacity to represent their scheme members and employers as appropriate, and no officer or elected member of Flintshire County Council who is responsible for the discharge of any function of the Administering Authority under the LGPS Regulations may be a member of the Clwyd Pension Board.
 - There will be two Scheme Member Representatives and two Employer Representatives on the new Pension Board. In addition there will be a (non-voting) Independent Member (with Alternate) who will chair the Pension Board.
 - All employers will be invited to nominate individuals for the Employer Representative positions and the Chief Officer (People and Resources) will determine who to appoint based on a person specification.
 - One Scheme Member Representative will be nominated by the trade unions and the other must be an active, deferred or pensioner member of the Clwyd Pension Fund and will be selected by the Chief Officer (People and Resources) following procedures determined by him/her in the spirit of any national guidance or Code of Practice in relation to appointments to the Pension Board.
 - The Independent Member's and Alternate's term of office will be determined by the Chief Officer (People and Resources) subject to a maximum of five years.
 - The Chair of the Pension Board will be the Independent Member (or Alternate) and is likely to be the current Independent Adviser to the Fund, subject to a motion to confirm this being agreed by the majority of the employer and scheme member representatives of the Board.
 - The Board must provide minutes of each meeting to the following Pension Fund Committee meetings and may make reports and recommendations to the Pension Fund Committee insofar as they relate to the role of the Pension Board. Any such reports or recommendations must be provided 10 working days in advance of the next Pension Fund Committee to the Chief Officer (People and Resources). In addition, an annual report of the Pension Board (as prepared by the Chair of the Pension Board), must be provided to the Chief Officer (People and Resources), the Monitoring Officer, the Pension Fund Committee, and the Audit Committee and be published in the Fund's Annual Report and Accounts.

- Where the Board considers that a matter brought to the attention of the Pension Fund Committee has not been acted upon or resolved to their satisfaction, the Pension Board will provide a report to the Monitoring Officer.

Separation of scheme manager function from lead authority

- 3.05 The Shadow Scheme Advisory Board (SSAB) has commissioned its Governance and Standards Sub-Committee, in its work-plan for 2014/15 to consider the level of separation between the scheme manager (i.e. management of the Fund) function from that of the lead authority (i.e. the other Council responsibilities), the desirability of increasing the separation, and to make recommendations to the SSAB on ways in which greater separation could be achieved.
- 3.06 To undertake this project the Sub-Committee set up a working group consisting of representatives from Norfolk Pension Fund, Essex Pension Fund, CIPFA, LGA and UNISON.
- 3.07 Five potential options for reform were initially identified:
- Stronger role for Section 151 Officer
 - Distinct entity within host authority
 - Joint Committee
 - Dedicated Authority
 - Dedicated Public Body (not local authority)
- 3.08 Each of the above five options are to be considered against a set of 10 criteria:
- Stronger ring-fencing of fund
 - Minimising conflict of interest
 - Dedicated resources
 - Legislative ease (in respect of implementation)
 - Implementation costs
 - Ongoing costs
 - Political accountability
 - Unqualified compliance with IORP
 - Dedicated budget
 - Financial transparency
- 3.09 The latest position has been taken from the Actions and Agreements paper, published on the SSAB website, for the 16th February 2015 meeting of the Governance and Standards Sub-Committee. This confirmed that the work is ongoing but that the five original options (3.07 above) were to be narrowed down to three:
- Stronger role for Section 151 Officer and distinct entity within host authority.
 - Joint committee with reference to how this would need to be developed in order to give sufficient separation so that this would effectively be a dedicated authority.
 - Dedicated Public Body (not local authority).

3.10 It is expected that further scoping work would be required but that there would be feedback to the SSAB at its 12th May meeting.

National LGPS performance measurement and benchmarking assessment (Key Performance Indicators)

3.11 The Shadow Scheme Advisory Board (SSAB) have been presented with work undertaken by the Annual Report Working Group on proposals for the introduction of performance measurement and benchmarking. The SSAB considers that this would enable it to progress in its proactive role of encouraging best practice and raising standards within the LGPS.

3.12 These proposals for measuring, benchmarking and assessing the relative health of individual LGPS pension funds has taken place over a period of around 9 months. The working group has identified five key general themes:

- Fund governance, management, administration, accountability and transparency.
- Funding level, contributions, deficit reduction, and ability to meet pension liabilities.
- Asset management, stewardship, and investment returns.
- Pension benefits, member service, and communications.
- Independent external review and assurance.

3.13 It was considered that maintaining and improving the overall performance of the LGPS was best done by focusing on a small number of key primary metrics (4-5) to identify and determine under performing funds. Additionally, a further 18-20 secondary metrics that would be used to characterise high performing funds that could then be applied to the under-performing funds to see where problems lie and improvements could be made. A league table or similar would not be developed. These are detailed below:

Performance Theme	KPI Number and Name
Fund governance, management, administration, accountability and transparency.	1) Risk Management (covering all pension fund activities)
	a) Pension Committee and Pensions Board members' competence.
	b) Administering authority staff leadership, experience, and training.
	c) Statutory governance standards and principles (as per DCLG guidance and TPR codes).
	d) Quality and accessibility of information and statutory statements/ strategies/ policies (governance, FSS, SIP, comms, admin authority and employer discretions policies).
Funding level, contributions, deficit reduction, and ability to meet pension liabilities.	2) Funding level and contributions

	3) Deficit recovery
Asset management, stewardship, and investment returns.	4) Required investment returns
	e) Compliance with LGPS Myners principles and signatory to UK Stewardship Code and UNPRI.
	f) Historic investment returns (Last 3, 5, 10 years) and total investment costs compared to other LGPS funds.
	g) Annual report(s) and audited financial statements.
Pension benefits, member service, and communications.	h) Scheme membership data.
	i) Pension queries, pension payments, and Annual Benefit Statements.
	j) Cost efficient administration and overall VFM fund management.
	k) Handling of formal complaints and IDRs.
Independent external review and assurance.	l) Fraud prevention.
	m) Internal and external audit.
	n) Quality assurance.

- 3.14 The key purpose of the four primary KPIs (1 to 4 above) is to help the SSAB identify individual funds that trigger the four ‘alarm bell warning’ indicators. Such funds might then be subject to further investigation and scrutiny by the SSAB using the other 14 secondary ‘health’ indicators (a to n above) within the same or relevant performance assessment themes as required.
- 3.15 There would potentially be other uses for these KPIs such as developing scatter-grams to identify problem outlier funds; to generate balanced score-cards to undertake an assessment of a fund’s performance against the level for high-performing funds; and, to be used by Local Pension Boards to assess the performance of their own funds.
- 3.16 Following such a review process it may be appropriate for the ‘problem’ funds to be supported with technical advice and help; and, or if needed, be placed under ‘special measures’ and subject to formal intervention and remedial actions by, for example, the Advisory Board, The Pensions Regulator, or DCLG.

The Pension Regulator’s Code of Practice

- 3.17 The Pensions Regulator (TPR) finalised its 14th Code of Practice in January following a consultation with interested parties on the original draft, and the Regulator’s new powers under the Public Services Pensions Act 2013 (the 2013 Act). The new Code of Practice for Public Service Pension Schemes will come into force in April 2015.

- 3.18 Though following the code itself is not a regulatory requirement, should TPR identify a situation where the legal requirements are being breached, TPR will use the code as a core reference document when deciding appropriate action.
- 3.19 The matters covered by the Code 14 are:
- knowledge and understanding for members of pension boards
 - conflicts of interest
 - publication of information about pension boards, governance and administration
 - internal controls
 - record-keeping
 - late payment of employer and employee contributions
 - information about member benefits and disclosure of information to members
 - internal dispute resolution, and
 - reporting breaches of the law.
- 3.20 A separate training session will be arranged for Pension Fund Committee members of the requirements of the Code and the 2015/6 business plan includes an item of work for checking compliance of Clwyd Pension Fund against the Code to determine any areas of potential improvement that can be made.

TPR Compliance and Enforcement Policy

- 3.21 TPR issued a consultation on their draft compliance and enforcement policy for public service pension schemes on the 5th February with a closing date of the 5th March. This consultation presents their proposed approach to compliance and enforcement in relation to public service pension schemes, which includes the local government pension funds and their participating employers. The draft public service compliance and enforcement policy sits under their organisation-wide approach to regulating work-based pensions and their specific public service regulatory strategy. The public service strategy sets out their objectives in regulating public service schemes, the compliance and enforcement policy sets out more detail on how they intend to achieve this and what those who they are regulating can expect from them.
- 3.22 In broad terms it sets out:
- How they identify and assess risk in public service schemes and how this forms the basis for their operational activity.
 - Their approach to monitoring public service schemes through reactive and proactive sources.
 - How a public service scheme may be investigated by a case team, and
 - The enforcement options available to them and educative interventions that may be used.
- 3.23 The expectation stated by TPR is that they will focus most of their activities on educating and enabling schemes and their employers to improve standards of governance and administration – particularly in the early stages of the new regulatory regime as schemes and their employers reform and adapt to meet the new legal requirements. The focus will be on:

- Promoting the public service code of practice and educational tools for public service schemes.
- Surveying schemes to understand the extent to which they are meeting the standards and practices.
- Engaging with schemes and their employers to understand how they are addressing poor standards and non-compliance through the development and implementation of improvement plans, focusing on key risk areas.
- Undertaking thematic reviews, focusing on key risk areas, to gather information in relation to a particular issue or set of issues and report back to our regulated community about best practice and risks.

3.24 As far as enforcement is concerned TPR may become aware of breaches of the law, or significant risks of breaches and a failure to address them, by any of the means through which they gather information, as well as enquiries or reports which they receive. Actual or potential breaches may be identified via scheme engagements, thematic reviews or reports. Where an actual or potential breach is identified, TPR will assess the risk and decide how to proceed. There is an expectation that scheme managers, pension boards and employers will:

- Identify and understand the root causes of an issue which is resulting in poor standards of governance and administration and non-compliance with legal requirements
- Develop an improvement plan which will address the root causes of that issue within a reasonable time period, and
- Demonstrate implementation of their plan.
- Where scheme managers, pension boards or employers fail to address poor standards and non-compliance with the law, we will consider escalating our activities, undertaking further investigations and taking regulatory action, including enforcement action where there has been a breach of pension's legislation. Enforcement options range from statutory compliance notices and monetary penalties to criminal prosecution.

3.25 Further information can be found on The Pensions Regulator website.

Fund Annual Meeting (AJCM) feedback

3.26 The Clwyd Pension Fund Annual Joint Consultative Meeting was held on the 6th November 2014. Nine employers were represented, which included the 3 main employers, by 21 attendees and 4 feedback forms were returned. Attendees were asked to score 2 questions from 1 (poor) to 5 (excellent). The scorings for both questions were:

- How useful was the meeting? 1 x 3; 1 x 4 and 2 x 5
- How useful was the presentation pack? 2 x 3 and 2 x 5

3.27 3 of the 4 attendees indicated that they would attend next year with the fourth attendee declining to comment. When asked about the benefit to them of attending 2 attendees provided feedback and indicated that updates on the 'performance, activity of the CPF' and 'face to face update on changes and latest position' they found to be most beneficial.

- 3.28 Albeit the quantity of feedback was low, the general perception was that the event was a success and a useful method of communicating and engaging with our employers. It is therefore proposed that we repeat the event again in 2015.

Training Policy Implementation

- 3.29 Appendix 2 shows training and various external events attended by Committee Members and Senior Officers, along with forthcoming events.
- 3.30 Training modules designed around the full CIPFA Knowledge and Skills Framework have been held. Some Committee Members have outstanding modules to complete (Appendix 3) and officers will be in touch with those concerned to arrange suitable dates. It is proposed that these are picked up as part of the Pension Board training in the summer of 2015. A separate report on the 2015/16 Training Plan is included on the Pension Fund Committee agenda.
- 3.31 It is also useful for Committee Members and senior officers to attend various external events and conferences to supplement their knowledge regarding the latest thinking on pension related matters. The Fund's Training Policy requires all Committee Members to attend at least one 'general awareness' event annually. Suitable events are identified in Appendix 2 and officers will be in touch regarding potential attendees.

Service Plan Update – Quarter 4

- 3.32 Appendix 1 provides a dashboard of progress against the internal and external governance section of the Service Plan. The majority of items are as originally planned but the following changes have been made:
- The review of the funding strategy has been moved to Q1 2015/16 as it is dependent on a major revision to the SIP which commenced during Q4 but will not be completed until Q1 2015/16. In addition the communication strategy is moved to 2015/16.
 - Appointment of Local Pension Board members has been moved into Q1 2015/16. Consequently, training of the Board members has also been moved into 2015/16.
 - The assessment of the impact of the Pension Regulators Public Sector Code of Practice on current arrangements will continue into Q3 2015/16 due to the delay in it being issued and other workload priorities.

Welsh Government Cost of Administration Submission

- 3.33 The Minister for Public Services has commissioned an independent review of administrative costs across all Local Authorities in Wales, KPMG have been appointed to undertake the work. A project Board headed by the Chief Executive has been established. As an Authority we were required to complete a submission which detailed costs and performance across all sectors including Pensions Administration. All Pension Fund Finance and Investment costs were to be included in Treasury. The relevant data for the Clwyd Pension Fund was provided by the required date of March 6th 2015.

4.00 RECOMMENDATIONS

4.01 That Committee Members:

- 1) Approve the changes to the Service Plan 2014/15
- 2) Note the other items in the Report.

5.00 FINANCIAL IMPLICATIONS

5.01 None directly as a result of this report.

6.00 ANTIPOVERTY IMPACT

6.01 None directly as a result of this report.

7.00 ENVIRONMENTAL IMPACT

7.01 None directly as a result of this report.

8.00 EQUALITIES IMPACT

8.01 None directly as a result of this report.

9.00 PERSONNEL IMPLICATIONS

9.01 None directly as a result of this report

10.00 CONSULTATION REQUIRED

10.01 None directly as a result of this report.

11.00 CONSULTATION UNDERTAKEN

11.01 None directly as a result of this report.

12.00 APPENDICES

12.01 2014/15 Service Plan Update

12.02 Conference, Training Events and Meetings 2014/15

12.03 Attendance at Training Sessions

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: Clwyd Pension Fund Local Pension Board Protocol
22nd July 2014 Pension Fund Committee – Clwyd
Pension Fund Service Plan 2014/15

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PENSION FUND SERVICE PLAN 2014-15:
EXTRACT OF PROJECTS AND IMPROVEMENT FOR GOVERNANCE TASKS

Key:

** - Project based action

* - Regular ongoing action

Bold indicates a change from the original plan

Progress (in relation to planned period):

	Complete
	On track or ahead of schedule
	Commenced but behind schedule
	Not commenced

Key Action -Task	Frequency	New Actions required (start/end)	Progress			
			Q1	Q2	Q3	Q4
<u>Governance - Internal</u>						
PS SQ 97 Servicing Clwyd Pension Fund Committee (PFC)	Project	Arrange Appointment of new members (Q1) Document Scheme of Delegation (Q1) Train new PFC members (Q1/2)	**	**		
Servicing Advisory Panel	Project	Agree reporting arrangements for the Committee (Q1)	**			
Update Statutory Documents	Annual	Re-write of Governance Statement (Q1) Update SIP (Q1) Review Funding Strategy (moved to Q1 15/16) Review Communication Strategy (Q4) Revise SIP (Q4 and Q1 15/16)	**			**
Develop Risk Strategy and Register	Project	Work with Independent Adviser (Q4)				**
PFC Member and Finance Officer Training	Project	Work with Independent Adviser on compliance with Code of Practice: - developing Training Policy(Q2) and Training Plan (Q3) - Delivering training (Q1-4)	**	**	**	**

Key Action -Task	Frequency	New Actions required (start/end)	Progress			
			Q1	Q2	Q3	Q4
Report to County Council	Annual	To cease after Q1	*			
Annual Budget	Annual		*			
<u>Governance – External</u>						
Plan/Action impact of Call for Evidence	Project	Not Known				
Discuss/Plan/Action collaboration in Wales	Project	Initial discussion on CIV			**	
Impact of 'Williams' Report	Project	Initial thoughts on Welsh LGR			**	
Preparation to Implement new Local Board	Project	Develop terms for Pension Board (Q3) Appointments (moved to Q1 15/16) Training of Board members (moved to Q1 15/16 and ongoing)		**	**	
Impact of The Pensions' Regulators Public Sector Code of Practice	Project	Review current arrangements against Code and develop plan of action (Q3/4 and Q1 15/16)			**	**

Training Policy Implementation 2014/15

Key to Attendees

C	Committee
CM	Committee Member(s)
CO	Chief Officer (People & Resources)
CFM	Corporate Finance Manager
CPFM	Clwyd Pension Fund Manager
PFM	Pensions Finance Manager(s)
PAM	Pensions Administration Manger

Date	Events & Meetings	Attendees
June		
5th	Aon Hewitt - Governance & Key Legislation	CM(5), CO, CFM, CPFM, PFM(s), PAM
9th	CIPFA Chief Officer Seminar	CFM, CPFM
17th	Mercer - Funding & Actuarial Matters	CM(5), CPFM, PFM(s), PAM
July		
2nd	CIPFA Implementing Governance & Efficiency	CPFM
3rd	JLT/ In House - Investment & Accounting/Audit	CM(4), CPFM, PFM, PAM
August		
7th	Mercer – Funding & Actuarial Matters JLT - Investments	CO, CFM
28th	Mercer – Funding & Actuarial Matters JLT - Investments	CM(3)
September		
3rd	Advisory Panel	CO, CFM, CPFM, PFM(s)
8 th – 10th	LGC Investment Seminar	CM(2), CFM, PFM
October		
6th	National Framework- Third Party Administration	CPFM
7th	CIPFA Managing change in the LGPS	CPFM
30th	JLT - Investment Strategy Training	C, CPFM, PFM(s)

Date	Events & Meetings	Attendees
November		
5th	Committee	C
6th	Employer Administration Meeting	C
6th	Annual Joint Consultative Meeting	C
11th	Society Welsh Treasurers (Mercer meeting)	CFM, CPFM
12th	CIPFA Annual Conference	PFM
12th	Capital Dynamics Training - Cancelled	
25th	CIPFA Chief Officer Seminar	CFM, CPFM
December		
3th – 5th	LAPFF Annual Conference	PFM, CM(1)
17th	Advisory Panel	CO, CFM, CPFM
2015		
January		
27th	BlackRock – economic update	CM(2), PFM
February		
4th	Committee	C
4th	Risk Workshop	C, CO, CFM, CPFM, PFM
10th	Mercers – Alternative Delivery Models	CPFM, PFM
26th – 27th	LGC Investment Seminar - Chester	CM(4), CFM, PFM

Date	Future Events & Meetings	Attendees
March		
24th	Committee	C
24th	Conflicts of Interest Training	C, CO, CFM, CPFM, PFM
24th	Advisory Panel	CO, CFM, CPFM,
26th	Society Welsh Treasurers	TBD
May		
18th to 20th	NAPF - Cotswolds	TBD
21st	Committee	C
June		
24th	Advisory Panel	CO,CFM, CPFM
TBC	LCPC – LGPS elected members conference	TBD
July		
21st	Advisory Panel	CO, CFM, CPFM
September		
9th to 11th	LGC Investment Summit – Newport	TBD
23rd	Committee	C
November		
26th	Committee	C

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**Attendance at Essential Training Sessions
CIPFA Knowledge and Skills Framework Modules**

Subject Heading	Sub-Heading	Topics	Cllr Alan Diskin (Chair)	Cllr Hadyn Bateman (Vice Chair)	Cllr Brian Dunn	Cllr Ron Hampson	Cllr Matt Wright	Cllr Huw L. Jones (DCBC)	Cllr Steve Wilson (WCBC)	Cllr Andy Rutherford (Rhyf TC)	Steve Hibbert (Member)	Cllr Nigel Steele-Mortimer	Cllr George Hardcastle (Sub)	Helen Stapleton (CO P&R)	Gary Ferguson (S151)	Phil Latham	Debbie Fielder	Alwyn Hughes	Helen Bernham
Pensions legislative and governance context	General pensions framework	A general awareness of the pensions legislative framework in the UK.	16/12/2014	05/06/2014	05/06/2014	05/06/2014	16/12/2014	16/12/2014	05/06/2014	16/12/2014	05/06/2014			05/06/2014	05/06/2014	05/06/2014	05/06/2014	05/06/2014	05/06/2014
	Scheme-specific legislation	An overall understanding of the legislation specific to the scheme and the main features relating to benefits, administration and investment.	16/12/2014	05/06/2014	05/06/2014	05/06/2014	16/12/2014	16/12/2014	05/06/2014	16/12/2014	05/06/2014			05/06/2014	05/06/2014	05/06/2014	05/06/2014	05/06/2014	05/06/2014
	Scheme-specific legislation	An awareness of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 and Local Government Pension Scheme (Administration) Regulations 2008 and their main features.	16/12/2014	05/06/2014	05/06/2014	05/06/2014	16/12/2014	16/12/2014	05/06/2014	16/12/2014	05/06/2014			05/06/2014	05/06/2014	05/06/2014	05/06/2014	05/06/2014	05/06/2014

Subject Heading	Sub-Heading	Topics	Cllr Alan Diskin (Chair)	Cllr Hadyn Bateman (Vice Chair)	Cllr Brian Dunn	Cllr Ron Hampson	Cllr Matt Wright	Cllr Huw Ll. Jones (DCBC)	Cllr Steve Wilson (WCBC)	Cllr Andy Rutherford (Rhyl TC)	Steve Hibbert (Member)	Cllr Nigel Steele-Mortimer	Cllr George Hardcastle (Sub)	Helen Stappleton (CO P&R)	Gary Ferguson (S151)	Phil Latham	Debbie Fielder	Alwyn Hughes	Helen Bernham
Pensions accounting and auditing standards		Awareness of the Accounts and Audit Regulations and legislative requirements relating to the role of the committee and individual members in considering and signing off the accounts and annual report.		03/07/2014		03/07/2014			03/07/2014							03/07/2014	03/07/2014	03/07/2014	03/07/2014
		Awareness of the role of both internal and external audit in the governance and assurance process.		03/07/2014		03/07/2014			03/07/2014							03/07/2014	03/07/2014	03/07/2014	03/07/2014
Financial services procurement and relationship management	Understanding public procurement	Understanding of the background to current public procurement policy and procedures, and of the values and scope of public procurement and the roles of key decision makers and organisations.		03/07/2014	28/08/2014	03/07/2014	03/07/2014		03/07/2014	28/08/2014	28/08/2014			07/08/2014	07/08/2014	03/07/2014	03/07/2014	03/07/2014	03/07/2014
	Understanding public procurement	A general understanding of the main public procurement requirements of UK and EU legislation.		03/07/2014	28/08/2014	03/07/2014	03/07/2014		03/07/2014	28/08/2014	28/08/2014			07/08/2014	07/08/2014	03/07/2014	03/07/2014	03/07/2014	03/07/2014

Subject Heading	Sub-Heading	Topics	Cllr Alan Diskin (Chair)	Cllr Hadyn Bateman (Vice Chair)	Cllr Brian Dunn	Cllr Ron Hampson	Cllr Matt Wright	Cllr Huw Ll. Jones (DCBC)	Cllr Steve Wilson (WCBC)	Cllr Andy Rutherford (Rhyl TC)	Steve Hibbert (Member)	Cllr Nigel Steele-Mortimer	Cllr George Hardcastle (Sub)	Helen Stappleton (CO P&R)	Gary Ferguson (S151)	Phil Latham	Debbie Fielder	Alwyn Hughes	Helen Bernham						
Investment performance and risk management	Supplier risk management	Awareness of the nature and scope of risks for the pension fund and of the importance of considering risk factors when selecting third parties.																							
			Total fund	Understanding of the importance of monitoring asset returns relative to the liabilities and a broad understanding of ways of assessing long-term risks.		03/07/2014	28/08/2014	03/07/2014	03/07/2014	03/07/2014	03/07/2014	28/08/2014	28/08/2014			07/08/2014	07/08/2014	03/07/2014	03/07/2014	03/07/2014	03/07/2014				
					Perform-ance of advisors	Awareness of the Myners principles of performance management and the approach adopted by the committee.		03/07/2014	28/08/2014	03/07/2014	03/07/2014	03/07/2014	03/07/2014	28/08/2014	28/08/2014			07/08/2014	07/08/2014	03/07/2014	03/07/2014	03/07/2014	03/07/2014		
							Perform-ance of the committee	Awareness of the Myners principles and the need to set targets for the committee and to report against them.		03/07/2014	28/08/2014	03/07/2014	03/07/2014	03/07/2014	03/07/2014	28/08/2014	28/08/2014			07/08/2014	07/08/2014	03/07/2014	03/07/2014	03/07/2014	03/07/2014
									Perform-ance of support services	Awareness of the range of support services, who supplies them and the nature of the performance monitoring regime.		03/07/2014	28/08/2014	03/07/2014	03/07/2014	03/07/2014	03/07/2014	28/08/2014	28/08/2014			07/08/2014	07/08/2014	03/07/2014	03/07/2014

Subject Heading	Sub-Heading	Topics	Cllr Alan Diskin (Chair)	Cllr Hadyn Bateman (Vice Chair)	Cllr Brian Dunn	Cllr Ron Hampson	Cllr Matt Wright	Cllr Huw Ll. Jones (DCBC)	Cllr Steve Wilson (WCBC)	Cllr Andy Rutherford (Rhyl TC)	Steve Hibbert (Member)	Cllr Nigel Steele-Mortimer	Cllr George Hardcastle (Sub)	Helen Stappleton (CO P&R)	Gary Ferguson (S151)	Phil Latham	Debbie Fielder	Alwyn Hughes	Helen Bernham
Financial markets and products knowledge	Investment strategy	Awareness of the risk and return characteristics of the main asset classes (equities, bonds, property).		03/07/2014	28/08/2014	03/07/2014	03/07/2014	03/07/2014	03/07/2014	28/08/2014	28/08/2014			07/08/2014	07/08/2014	03/07/2014	03/07/2014	03/07/2014	03/07/2014
	Investment strategy	Understanding of the role of these asset classes in long-term pension fund investing.		03/07/2014	28/08/2014	03/07/2014	03/07/2014	03/07/2014	03/07/2014	28/08/2014	28/08/2014			07/08/2014	07/08/2014	03/07/2014	03/07/2014	03/07/2014	03/07/2014
	Financial markets	Understanding of the primary importance of the investment strategy decision		03/07/2014	28/08/2014	03/07/2014	03/07/2014	03/07/2014	03/07/2014	28/08/2014	28/08/2014			07/08/2014	07/08/2014	03/07/2014	03/07/2014	03/07/2014	03/07/2014
	Financial markets	A broad understanding of the workings of the financial markets and of the investment vehicles available to the pension fund and the nature of the associated risks.		03/07/2014	28/08/2014	03/07/2014	03/07/2014	03/07/2014	03/07/2014	28/08/2014	28/08/2014			07/08/2014	07/08/2014	03/07/2014	03/07/2014	03/07/2014	03/07/2014
	Financial markets	An awareness of the limits placed by regulation on the investment activities of local government pension funds.		03/07/2014	28/08/2014	03/07/2014	03/07/2014	03/07/2014	03/07/2014	28/08/2014	28/08/2014			07/08/2014	07/08/2014	03/07/2014	03/07/2014	03/07/2014	03/07/2014

Subject Heading	Sub-Heading	Topics	Cllr Alan Diskin (Chair)	Cllr Hadyn Bateman (Vice Chair)	Cllr Brian Dunn	Cllr Ron Hampson	Cllr Matt Wright	Cllr Huw Ll. Jones (DCBC)	Cllr Steve Wilson (WCBC)	Cllr Andy Rutherford (Rhyl TC)	Steve Hibbert (Member)	Cllr Nigel Steele-Mortimer	Cllr George Hardcastle (Sub)	Helen Stappleton (CO P&R)	Gary Ferguson (S151)	Phil Latham	Debbie Fielder	Alwyn Hughes	Helen Bernham
Actuarial methods, standards and practices	Valuations	Knowledge of the valuation process, including developing the funding strategy in conjunction with the fund actuary, and intervaluation monitoring.		17/06/2014	28/08/2014	17/06/2014	03/07/2014		17/06/2014	28/08/2014	28/08/2014			07/08/2014	07/08/2014	17/06/2014	17/06/2014	17/06/2014	17/06/2014
	Valuations	Awareness of the importance of monitoring early and ill health retirement strain costs.		17/06/2014	28/08/2014	17/06/2014	03/07/2014	17/06/2014	17/06/2014	28/08/2014	28/08/2014			07/08/2014	07/08/2014	17/06/2014	17/06/2014	17/06/2014	17/06/2014
	Valuations	A broad understanding of the implications of including new employers into the fund and of the cessation of existing employers.		17/06/2014	28/08/2014	17/06/2014	03/07/2014	17/06/2014	17/06/2014	28/08/2014	28/08/2014			07/08/2014	07/08/2014	17/06/2014	17/06/2014	17/06/2014	17/06/2014
	Outsourcing	A general awareness of the relevant considerations in relation to outsourcings and bulk transfers.		17/06/2014	28/08/2014	17/06/2014	03/07/2014	17/06/2014		28/08/2014	28/08/2014			07/08/2014	07/08/2014	17/06/2014	17/06/2014	17/06/2014	17/06/2014

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FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CLWYD PENSION FUND COMMITTEE**

DATE: **24th MARCH 2015**

REPORT BY: **CHIEF OFFICER (PEOPLE AND RESOURCES)**

SUBJECT: **LGPS CURRENT ISSUES UPDATE**

1.00 PURPOSE OF REPORT

1.01 The purpose of this report is to ensure that the Members of the Committee as far as possible remain aware of the National and Local issues facing the management and operation of the Local Government Pension Scheme.

2.00 BACKGROUND

2.01 Mercer's regular "current issues" documents focus on the Regulations and other matters and form the background of this report for the Committee meeting.

2.02 Any items that the Fund Actuary, a Pension Fund officer, or a member of the Advisory Panel believe is of key significance will be highlighted in section 3 of this report.

3.00 CONSIDERATIONS

3.01 It is recommended that all Members familiarise themselves with all the current issues listed.

3.02 Key items to be noted since the last current issues report are:

- A brief update on the Trivial Commutation changes which is important to the exercise the CPF will undertake and the administration process
- Scheme Advisory Board's work on deficit management and the Secretariat's pilot scheme across funds concerning their assessment against a set of Key Performance Indicators
- TPR Consultations on Compliance and Enforcement, Member guidance for DB to DC transfers (in order to access the DC "freedoms")
- Following on from this, and in the context of the new freedoms, work is ongoing centrally in the context of reducing transfer values paid from the LGPS if funding levels require it.
- The final Governance Regulations (including Cost Management aspects) have been laid, in amongst other things enabling the formal establishment of Local Pension Boards.
- TPRs Code of Practice has also been finalised, due to come into legal effect on 1 April. TPR have developed a Public Service Schemes section of their website, including an e-learning Toolkit.

- An update on what some Local Authorities in England are looking at in relation to their Councillor members, following their exclusion from the Scheme last year.
- The Cabinet Office has updated their Public Sector Transfer Club Memorandum following the move to a CARE benefit structure for all remaining Public Service Schemes on 1 April 2015. Implications of the changes are being considered centrally for the LGPS as it introduces significant complexity to administering transfers from schemes like the NHS Scheme due to the requirement to maintain the NHS indexation before retirement which is different to the LGPS.

3.03 The Fund Actuary, Advisory Panel members and pension fund officers will be present to answer any questions that Members may have.

3.04 Some of the resultant actions for the Fund will be noted in other reports.

4.00 RECOMMENDATIONS

4.01 That Committee Members note the report.

5.00 FINANCIAL IMPLICATIONS

5.01 None directly as a result of this report.

6.00 ANTIPOVERTY IMPACT

6.01 None directly as a result of this report.

7.00 ENVIRONMENTAL IMPACT

7.01 None directly as a result of this report.

8.00 EQUALITIES IMPACT

8.01 None directly as a result of this report.

9.00 PERSONNEL IMPLICATIONS

9.01 None directly as a result of this report

10.00 CONSULTATION REQUIRED

10.01 None directly as a result of this report.

11.00 CONSULTATION UNDERTAKEN

11.01 None directly as a result of this report.

12.00 APPENDICES

12.01 LGPS Current Issues

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: Attached document from Mercer

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LGPS: CURRENT ISSUES

MARCH 2015
A BRIEF UPDATE

2014 BUDGET AND NEW PENSION FLEXIBILITY

The mists are starting to clear in relation to the swathes of pension reforms announced by George Osborne during his 2014 Budget statement and how these will impact on the costs of running a Defined Benefit pension scheme such as the LGPS.

There is no doubt that some of the reforms will enable LGPS Funds to possibly manage their running costs – such as the increase to Trivial and Small Sums commutation limits which have massively increased the potential for funds to reduce the costs associated with small pensions. Having performed analyses on a number of LGPS Funds, in some cases potentially in excess of 30% of existing pensioner and dependant members could qualify for a trivial lump sum in lieu of their pension. This is significant for a Fund if take-up was high as it could lead to material running cost savings and reduction in liability and risk. However, any such exercise would need to be carefully managed and communicated taking into account the various requirements and guidance around bulk liability management exercises given they are now subject to the Code of Good Practice from the Incentive Exercise Monitoring Board although this will be reviewed later this year.

However, other areas of the reforms such as accessing flexibilities via DC vehicles will no doubt increase the burden and

IN THIS ISSUE

- > Budget 2014 update: trivial commutation
- > TPR Consultations, transfer value reductions, a governance update, Code of Practice and e-learning Toolkit
- > Pension Fund Policy Review
- > Data Quality Requirements and State Scheme Changes
- > Deficit Management & KPIs and Cost Management
- > Software/Systems Update
- > HMRC Individual Protection Applications
- > SFIS Bulk Transfers
- > New Fair Deal Working Group
- > Councillors' Pensions
- > Update to Transfer Club

LOCAL GOVERNMENT PENSION SCHEME CURRENT ISSUES - MARCH 2015

responsibility of Funds and may potentially lead to an increasing administrative cost.

TPR CONSULTATION: COMPLIANCE AND ENFORCEMENT POLICY FOR PUBLIC SECTOR SCHEMES

TPR has consulted on its proposed approach to compliance and enforcement in relation to public service pension schemes. In broad terms TPR set out how it would identify and assess risk in those schemes and how this will form the basis for its operational activity. TPR also covered its approach to monitoring the schemes through reactive and proactive sources and how a scheme may be investigated by a case team, including the enforcement and other enablement and educative interventions available.

A notable aspect is that the LGPS will now be required to complete a new statutory Scheme Return that will assist TPR in its role. We have responded to this consultation and whilst we are generally supportive, we did make the point that TPR should have regard to the information that is already gathered across the LGPS when finalising its requirements.

TPR CONSULTATION: MEMBER GUIDANCE FOR DB TO DC TRANSFERS

TPR is consulting on guidance to help trustees and managers of funded public service schemes, such as the LGPS, manage the transfer process from 6 April 2015, when the new DC flexibilities are introduced.

This follows on from Government concerns that:

- a) members transferring from DB schemes might not fully understand the risks of doing so; and
- b) a large increase in older members transferring out of DB schemes could destabilise employer backed DB schemes, or expose the tax payer to additional costs.

Separate to this, work is also progressing centrally around the possibility of applying reductions to transfer values paid out of the LGPS to DC vehicles where members are accessing the Budget freedoms. The ultimate objective is to protect the tax payer. This is likely to be similar to the private sector position based on the funding position relating to the liabilities assessed on an individual transfer value basis. The detail on this is currently being worked through, and we expect more to emerge on this before 6 April.

LOCAL GOVERNMENT PENSION SCHEME CURRENT ISSUES - MARCH 2015

GOVERNANCE UPDATE

The final Governance Regulations were laid before Parliament in January and Scheme Managers should now be bringing their work to a conclusion in terms of the requirements to establish a Local Pension Board before 1 April 2015.

The main highlights of the final regulations include:

- only scheme member and employer representatives will have a decisive influence on the LPB,
- joint Boards will be possible (subject to Secretary of State approval) for two or more Administering Authorities who share administration and management activities, and
- Boards can include elected members, although this excludes those who are involved in the operation of the LGPS.

In addition, the Shadow Board, via its Governance and Standards sub-Committee, has issued final guidance, and has developed template Terms of Reference and a Q&A document. Scheme Managers should now be finalising the establishment steps and looking to populate the Boards in the next few months. The initial stage of the implementation is a very important one, as its ultimate success will be

driven by those who sit on the Board.

Knowledge gaps and training plans will need to be put in place as soon as practicable. Funds should also be reviewing their Governance Compliance Statements in light of the establishment of the LPB to ensure they remain appropriate in light of the changes.

The Board is looking at the merits of greater separation between the Fund and Local Authority, and the Working Group has been looking at options for potential reform. We understand that work is progressing in this area and we expect a recommendation to be made to the Secretary of State once this work has been completed.

TPR's CODE OF PRACTICE & TOOLKIT

TPR has laid before Parliament the final Code of Practice for governance and administration of public service pension schemes due to have legal effect from 1 April 2015. The code provides scheme managers and pension board members with a summary of their key governance and administration duties, standards of conduct and practice we expect in relation to those duties, and practical guidance on how they can comply.

In addition to the Code, TPR has created a

LOCAL GOVERNMENT PENSION SCHEME CURRENT ISSUES - MARCH 2015

dedicated Public service schemes section of their website with various resources available. This includes a Public Service e-learning Toolkit that can be used to learn about managing public service pension schemes and to increase knowledge and understanding of the key areas of governance and administration that need to be focussed on. We recommend that all individuals involved with the management of the LGPS should complete this learning toolkit.

PENSION FUND POLICY REVIEW

The Regulations include a number of complex provisions where the Fund needs to develop clear policies on their application e.g. recovery of termination debt from outgoing employers. In order to assist with the future management of the Fund, we recommend that all Funds add the task of reviewing and updating all policies (or developing them where absent) to their business plans.

DATA QUALITY & STATE SCHEME CHANGES

As mentioned previously, data quality has long been a focus of TPR and the Code of Practice for public service pensions lead us to conclude that this will apply equally to the LGPS going forward. To re-emphasise, it is now appropriate to develop the requirements for improving data quality as part of the Pensions

Administration Strategy. A further critical aspect of this includes the efficiency of employer-fund payroll channels of communication in the context of auto/contractual-enrolment.

All Schemes should now be registering with HMRC's reconciliation service to assist with the reconciliation of scheme GMP membership records in advance of the State Scheme changes and cessation of contracting-out in April 2016. This is a significant exercise for Funds and the level of resource needed to reconcile these records should not be underestimated. Software providers are assisting in the "data mining" aspects of the reconciliation but resolution of queries often needs to be done on a case by case basis which is very time intensive. At Mercer we have a dedicated team dealing with this for the schemes we administer and would be happy to assist in-house administration teams with this if required.

Furthermore the loss of NI rebates to employers will result in a budgetary burden of 2-3% of pay per annum in some cases which is significant given the ongoing strain in finances. All employers who participate in the LGPS should be made aware of this for budgeting purposes. Employees in the LGPS will see an increase in their NI contributions which will erode their take home pay levels. In addition individuals will also see a change in their State Pension entitlements

LOCAL GOVERNMENT PENSION SCHEME CURRENT ISSUES - MARCH 2015

where their State Pension Age falls on or after 6 April 2016. Careful communication of these issues is important and we would be happy to assist Funds and employers.

DEFICIT MANAGEMENT & KEY PERFORMANCE INDICATORS

The Shadow Board's Deficit Management working group commissioned a project to consider best practice on how LGPS deficits can be managed including consideration of how information should be provided on a consistent basis for benchmarking purposes across Funds. All actuarial firms advising LGPS have input into the process as best they can. On 29 January the Board issued its workplan for 2015 building on some of the initial themes.

The key outputs from the exercise are expected to be a development of:

- a consistent set of parameters to measure funding positions
- certain risk metrics around deficit funding plans, investment risk and governance risk
- guidance on managing employer risk and enhancing security
- guidance on setting contribution plans.

In addition, the Board is looking to consult on the approach to the calculation of exit payments

when an employer exits a Fund and the flexibility around the collection of the payments. This will be an interesting area of debate given, essentially, it manages risk on behalf of the taxpayer who would ultimately need to stand behind the liabilities retained in the Fund. Aligning investment and funding strategies to control this risk will become even more important as these liabilities get bigger. We are helping a number of Funds in this area.

Ultimately there could be some level of interventions on Funds perceived as "high risk" in terms of good financial management and governance. This makes the development of sensible metrics crucial to the operation of the LGPS. The Shadow Board has already done significant work on this.

In light of this, the Shadow Board has sought a number of LGPS funds to voluntarily self-assess against a suite of 18 LGPS pension fund key performance indicators (KPIs). These are being developed in order to provide funds with the ability to compare themselves both across the scheme and across time. The indicators will also provide a framework for the National Board to provide support to funds in a targeted manner. We are developing our valuation comparator database to include these metrics.

LOCAL GOVERNMENT PENSION SCHEME CURRENT ISSUES - MARCH 2015

Whilst we welcome some of the developments in this area, some of the areas are already well developed in terms of policies and approaches for LGPS Funds. Care needs to be taken that all aspects of good risk management are reasonably recognised and the outcomes are not simply focussed on just the measurement of deficits/league tables.

It is important that Administering Authorities focus on the management of risk by developing a robust long term plan with clear objectives to manage risk and reduce deficits in a sensible way and not focus simply on league tables. As the pension fund contributions become a bigger proportion of decreasing Local Authority budgets, alignment of investment and funding strategies becomes even more crucial. Having the Governance “plumbing” in place to manage risk dynamically and efficiently at a whole Fund and/or employer level when good market positions allow it needs to become a major priority for Funds in the run up to the next valuation. There are a number of ways of approaching this with the best approach being very dependent on the individual Fund in question. We will continue to develop these ideas and solutions (such as our online funding monitoring and asset tracking tool FSM^{pro}) and discuss them with our clients.

COST MANAGEMENT

The regulations covering the Government's Cost Management approach have now been enacted. These develop a backstop protection to the taxpayer to ensure that some of the risks associated with pension provision are shared more fairly between employers and scheme members with a view to assisting with the sustainability of the scheme and fairness to taxpayers. The two cost management mechanisms that have been designed are:

1. Treasury employer cost cap process – monitors the value of benefits in the new Scheme over time, based on “model fund” data and Treasury Directions. The Regulations confirm the cost control provisions showing the employer cost notional “cap” set at 14.6% of pay under the HMT process.
2. Internal cost management process – sets an overall future service target cost of 19.5% of pay, with scheme members meeting a third of this cost (so initially the employer element is 13% of pay and the employee element is 6.5% of pay. These can change however due to the 2/3rd and 1/3rd split).

If the HMT and Scheme Advisory Board

LOCAL GOVERNMENT PENSION SCHEME CURRENT ISSUES - MARCH 2015

processes both require corrective action, then the wording of the Regulations appears to require that the Treasury process is the one which will apply. There is no facility for the Treasury process to be "turned off" in such circumstances, however in our view it would be preferable for the Scheme Advisory Board process to apply instead.

SOFTWARE/SYSTEMS UPDATE

We are working with the other actuarial firms (including the GAD) and Heywood, via the CLASS group, to update and develop standard valuation extracts and reporting templates. When available, these will increase efficiency in accessing data for performing actuarial calculations and "model fund" extracts. Consideration is also being given to valuation extracts for non-Heywood clients. With regard to Early Retirement Strain Costs the other actuarial firms have now agreed with us to maintain the current methodology but to ensure the facility to adopt Fund specific factors is made available. We therefore expect a template for loading such factors to be provided by Heywood which will make the process much more efficient for Funds.

INDIVIDUAL PROTECTION (IP14) APPLICATIONS

Registration for Individual Protection 2014 has been open since August 2014, and HMRC have

now started issuing certificates for those who have already submitted applications. The online form can be accessed from HMRC's website at <https://online.hmrc.gov.uk/shortforms/form/IP2014> (HMRC have restricted this process to online applications only).

This should be communicated to all Fund employers, so that they can inform those potentially impacted. It is worth noting that although individuals have until 5 April 2017 to apply for IP14, they will need to collate details of all of the UK registered pension benefits that they have built up as at 5 April 2014.

SINGLE FRAUD INVESTIGATION SERVICE BULK TRANSFERS

The bulk transfer of SFIS staff has been progressing and is now at the data collection stage. This is going to involve the transfer of a few hundred staff across England & Wales to the PCSPS, but it is only going to be a handful of people per employer/fund. There have been some discussions between GAD and the actuarial firms about agreeing a common transfer approach.

It is hoped that it can be based on the usual CETV calculations +/- an agreed percentage to reflect funding positions. This approach would mean that the employer and administering authority could deal direct with the GAD/PCSPS

on the transfers, as no specific actuarial input would be needed. Whilst unlikely to affect significantly the residual positions / contributions for the employers, we request that numbers and transfer amounts are confirmed to us, so any impact can be allowed for in future calculations.

NEW FAIR DEAL WORKING GROUP

DCLG have formed a working group, made up of the LGA, Trade Unions and practitioners, to consider how the principles of new Fair Deal might apply for the LGPS – in the spirit as it applies to the other public sector schemes. Until this has been formalised, broad comparability options remain a possibility but it should be borne in mind for current negotiations that this could be removed at short notice.

For some Funds we are seeing an increase in these as LAs transition from providers to commissioners of services. Funds may wish to consider holding training sessions for commercial contract managers at the LAs, in order to ensure the outsourcing processes run smoothly.

COUNCILLORS' PENSIONS

We have seen a number of Councils considering alternative benefit provision for their Councillors in lieu of LGPS membership. In terms of pension provision, Newham has recently gone to tender to set up an 'off the shelf' DB arrangement. More commonly, and we consider it a better fit, DC alternatives are being considered. We have experience of setting up sector-wide pension schemes and are looking at ways that the DC market can facilitate cost effective pension benefit provision for Councillors. Our DC specialists are assisting with Councils interested in considering their options further.

TRANSFER CLUB

Cabinet Office have issued an updated Public Sector Transfer Club Memorandum effective from 1 April 2015. It makes reference to 'Inner Club' and 'Outer Club' transfers where the Inner refers to transfers of CARE benefits between public service schemes. Outer Club refers final salary transfers – or those able to accept them (e.g. PCS/PS Nuvos). The Club makes some changes to how it will work for transfers to and from CARE schemes. This includes the re-establishment of the original in-service indexation level regardless of the in-service indexation of the receiving scheme. This is to be discussed at the Technical Group with a view to providing specific guidance to the whole LGPS community.

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FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CLWYD PENSION FUND COMMITTEE**
DATE: **24TH MARCH 2015**
REPORT BY: **CHIEF OFFICER (PEOPLE AND RESOURCES)**
SUBJECT: **PENSION ADMINISTRATION AND COMMUNICATIONS UPDATE**

1.00 PURPOSE OF REPORT

1.01 The purpose of this report is to enable the Committee to monitor the performance of the pension administration service including providing updates on:

- Progress of administration and communication matters against the Service Plan for 2014/15,
- Progress against the Fund's Communications Policy,
- New and leaving employers and bulk transfers, and

The report also highlights any additional unplanned or unexpected areas, as well as any other material administration or communication matters.

2.00 BACKGROUND

2.01 The Fund's day to day administration service is provided by the Pension Administration Section which consists of a total of 22 Full Time Equivalent (FTEs) members of staff including a Pension Administration Manager (Helen Burnham). It is split between an Operational Team and a Technical Team, and is separate from the Accounting and Investment Team.

2.02 The Operational Team of 14 FTEs delivers a pensions service for approximately 40,000 scheme members and 29 employing bodies. This includes the calculation of various benefits, transfers in and out, refunds and maintenance of individual records. The Technical Team of 7 FTEs implements and maintains the pension software systems, reconciles employer records, provides a communication service for members and employers and a pensioner payroll service for 11,000 pensioners and dependents

2.03 The Council's Constitution outlines the role of the Committee and this includes the following matters relating to administration of the Fund:

- Ensuring the Fund is managed and pension payments are made in compliance with the appropriate legislation,
- Making decisions relating to employers joining and leaving the Fund,
- Agreeing the terms and payment of bulk transfers into and out of the Fund.
- Monitoring implementation of policies and strategies,

- Monitoring progress against the Fund's business plans, and
- Receiving reports in relation to delegated functions.

3.00 UPDATE AGAINST SERVICE PLAN

3.01 In this section we provide an update against the Fund's annual Service Plan split into two key areas:

- Part 1 – Staffing
- Part 2 – Performance measurements against day to day tasks
- Part 3 – Projects and Improvements

Part 1 – Staffing

3.02 As can be seen below some projects have slipped into Q1 of 2015/2016. During the recent workshop members were provided with an update on the business plan and staffing issues. As discussed due to complex projects, and the difficulties in managing these within the limited resources available, we have appointed additional resource on a temporary basis to assist with day to day work and specific projects.(1x 2 year fixed contract and 3 x temporary contracts) We have also appointed Mercers to assist with the backlog project.

Part 2 – Performance measurements against day to day tasks

Workflow

3.03 Despite the manual intervention required, the workflow is being managed by the operational team. The table below shows the number of cases completed during this and last financial year, split by quarter.

	Q2 2013	Q3	Q4	Q1 2014	Q2	Q3
Retirements	196	218	200	201	224	217
Deaths	115	77	104	82	75	105
Transfers In	3	65	34	22	44	30
Transfers Out	11	7	15	20	17	9
Estimates	97	72	219	76	175	152
Deferred	449	602	431	394	266	347

Performance targets have been developed alongside service standards as mentioned in the last committee paper and will be reported to committee at a later date. Due to the impact of manual calculations and additional training requirements for new staff members, an additional backlog of work that requires authorisation, is accumulating. Management have tried to resolve this issue but further training is required before we see improvements.

The latest membership figures for the last six quarters are:

Status	Q2 2013	Q3	Q4	Q1 2014	Q2	Q3
Active (full LGPS)	15,572	15,687	16,079	15,726	15,550	15,798
Active (50:50 LGPS)	N/A	N/A	N/A	12	10	6
Undecided Leaver	3,292	3,215	3,173	3,065	3,465	3,266
Deferred	8,062	8,225	8,299	8,600	8,768	9,413
Pensioner	8,558	8,679	8,784	8,930	9,048	9,186
Spouse/Dependants	1,540	1,546	1,559	1,557	1,575	1,593
Frozen	876	873	834	821	813	856
Opt Outs*	143	409	501	529	585	628
Total	38,043	38,634	39,229	39,240	39,814	40,746

* This excludes members who have opted out prior to March 2013.

There are no matters to report on the Councillors scheme. The membership numbers are shown below:

Status	As at 31 December 2014
Active	54
Undecided Leaver	2
Deferred	5
Pensioner & Spouse/Dependants	26
Total	87

Part 3 – Projects and Improvements

- 3.04 Appendix 1 provides a dashboard of progress against the one-off projects and improvements planned for 2014/15, as well as “business as usual” project based tasks.

Reduce Backlog of Tasks (2)

- 3.05 Management have reviewed this project and decided to appoint Mercers to assist. Details of which can be found in the updated 2015/2016 – 2016/2017 business plan.

New CARE Scheme Implementation (1)

- 3.06 The new CARE scheme has been in place since 1st April 2014. Manual calculations are still required in particular areas and the administration team have ensured that any impact on employers and members is kept to a minimum. There are a number of matters that will only be clarified when amendment regulations are made. A software update was installed in December which has reduced the number of manual calculations by staff

members but unfortunately further development is still required. Due to constant changes work is ongoing in relation to website maintenance and updating the discretions policy. Otherwise, all communication material and internal processes have, as far as they can be, now been updated in relation to the new scheme.

Pensions Administration Strategy (PAS) (3)

- 3.07 The development of a PAS is part of the Fund's improvement plan. This will include local service standards for the administration section and employers. As part of this project the team has reviewed all tasks within the section and these will be implemented in Q1.

Due to workloads within Denbighshire County Council (DCC) Implementation of iConnect has been deferred into next year. This is due to be resumed in quarter three of 2015/2016. The rolling out of iConnect has been deferred for other employers until the backlog of tasks has been removed. The next stage of this project is included in the business plan.

Due to the focus on other connected projects (including the backlog) and the long term absence of a Senior Staff Member, the PAS will be deferred until early 2015/16.

Disaster Recovery – Pension Software Systems (4)

- 3.08 The testing of Disaster Recovery of the software system is an important element of our Information and Computer Technology (ICT) business continuity plan. ICT met with Heywoods (the pension software provider) to work on a solution and are due to meet again on the 13th and 14th April 2015 to complete a full Disaster Recovery and write procedure notes for future use. Pension Officers will then be working with ICT to complete the testing within quarter one which is included in the business plan.

Review of Processes

- 3.09 The administration team has commenced an additional project to review the processes on their pension administration system. This will result in:
- Greater capacity to monitor and report on turnaround times including whether the team and employers are meeting agreed service standards and to identify any particular issues or delays.
 - Greater levels of efficiency in the day to day processes carried out by the administration team.

A full review of task management is now complete. Through this process a further efficiency had been identified and all member letters will now be incorporated within the relevant task. This caused an initial delay but the outcome will have a positive impact on resource. Full integration of the new processes is expected in Q1.

Internal Dispute Resolution Procedures

- 3.10 There are currently two disputes at Stage 1 and one dispute at Stage 2 (all ongoing from last quarter). Since last quarter:
- One Stage 1 case has been rejected relating to the Administering Authority abating pension (the scheme member has now gone to stage 2).
 - One Stage 1 case against an Employer for an ill health dispute has been upheld.
 - Two Stage 1 cases against employers for ill health disputes have both been referred back to the employers for further investigation.
 - One ongoing Stage 2 case against the Administration Authority for abating a compensatory added years' pension as the member became re-employed.

4.00 DELIVERY OF COMMUNICATIONS POLICY

- 4.01 The Communication Officer has provided the following services during quarter three:
- Two pre-retirement seminars (71 participants)
 - One Pensions Update presentation (32 participants)
 - 6 days of pension surgeries (1-2-1s)
 - Ill health Employer training
- 4.02 In addition to day to day communications, the following communications were distributed:
- Active Annual Benefit Statements were issued to all Councillors in October 2014.
 - The 2014 Annual Report was made available in November 2014.
 - Information about employer training events was emailed.
 - The Employer Bulletin, an annual update to employers.
 - Pension costs control briefing note was issued to employers.
- 4.03 Further, as part of a review of our communications, the following have been redesigned and updated:
- Pensioner Newsletter – Clwyd Catch Up
 - Retirement Pack
 - Additional Factsheets

5.00 NEW/LEAVING EMPLOYERS AND BULK TRANSFERS

- 5.01 Approximately 70 staff from Denbighshire County Council will transfer to Civica from 1st April 2015.

5.02 A new Admitted Body 'Wrexham Commercial Services Ltd' has been formed effective from 1st January 2015. A total of 97 staff will move from Wrexham County Borough Council to the new company.

5.03 1 member has transferred from GFM Ltd to CEMMS Ltd– 1st January 2015

5.04 1 member is due to transfer from Denbigh Primary School. DCC are currently undertaking a risk assessment.

6.00 RECOMMENDATIONS

6.01 That Committee Members note the report.

7.00 FINANCIAL IMPLICATIONS

7.01 None directly as a result of this report

8.00 ANTIPOVERTY IMPACT

8.01 None directly as a result of this report

9.00 ENVIRONMENTAL IMPACT

9.01 None directly as a result of this report

10.00 EQUALITIES IMPACT

10.01 None directly as a result of this report

11.00 PERSONNEL IMPLICATIONS

11.01 None directly as a result of this report

12.00 CONSULTATION REQUIRED

12.01 None directly as a result of this report

13.00 CONSULTATION UNDERTAKEN

13.01 None directly as a result of this report

14.00 APPENDICES

14.01 Service Plan (extract regarding Pensions Administration)

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: 22nd July 2014 Pension Fund Committee – Working Practices

22nd July 2014 Pension Fund Committee – Clwyd Pension Fund Service Plan 2014/15

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PENSION FUND SERVICE PLAN 2014-15:
EXTRACT OF PROJECTS AND IMPROVEMENT ADMINISTRATION TASKS

Key:

** - Project based action

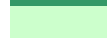
* - Regular ongoing action

Bold indicates a change from the original plan

Progress (in relation to planned period):



Complete



On track or ahead of schedule



Commenced but behind schedule



Not commenced

Note	Key Action -Task	Frequency	New Actions required (start/end)	Progress			
				Q1	Q2	Q3	Q4
	GOVERNANCE						
3	Update Statutory Documents – Pensions Administration Strategy	Yearly	Defer to Q 1 2015/16				
	Staffing – Pensions Administration	Project	Transfer temporary contracts to full time (Q1/2)	*	*		
	CIPFA Benchmarking – Pensions Admin.	Annual		*	*		
	PENSIONS ADMINISTRATION						
	Develop Performance measurement and reports	Project	Processes have been reviewed and the system is being updated (Q3). Monitoring and reporting of performance to be in Q1 2015/16	*	*	**	
	<u>Operational</u>						
1	New CARE scheme Implementation	Project	Adapt procedures for new scheme (Q1/2) Continue to train staff on new scheme (Q1/2)	**	**		

Note	Key Action -Task	Frequency	New Actions required (start/end)	Progress			
				Q1	Q2	Q3	Q4
2	Reduce Backlog of tasks	Project	Backlog of tasks being actioned (Q1/Q4+) Monitoring and reporting on backlog (Q1/Q4+)	*	*	*	*
	Rechargeable employer work (EVR)	Project	FCC (Q1)	*			
	<u>Technical</u>						
	Benefit Statements (Active)	Annual			*		
	Benefit Statements (Deferred,)	Annual		*			
	Benefit Statements (Cllr)	Annual	Completed by 31 October 2014		*	*	
	AVC (Equitable Life) Statements	Annual		*			
	Life Time Allowance Letters (LTA)	Annual		*			
5	Managing employer data	Project	Data Cleansing Denbighshire CC(Q1) Commence iConnect project (Q4) Data Cleansing Flintshire CC (Q3 – Q1 2015) Discuss Data Cleansing with Wrexham CBC (Q3)	**	**	**	**
	Employer Contribution Return Reconciliation	Annual		*	*		
	Altair Updates / Management Tool Kit	As required					
4	Disaster Recovery	Annual	Test Recovery Plan (Q1) Meeting with ICT and Heywoods (Q3)	*	*	*	

Note	Key Action -Task	Frequency	New Actions required (start/end)	Progress			
				Q1	Q2	Q3	Q4
	<u>Payroll</u>						
6	Pensions Increase	Annual		*			*
6	P60s	Annual		*			
1	<u>Communication</u>						
	Web-site and infonet maintenance	Daily	Update for New Care Scheme (Q4)	**	**	**	**
	Update, document and distribute Pension literature	Various	Update for new CARE Scheme (Q1)	**	**		
	Road Shows , Training, Pre-retirement seminars for the membership	Daily	New Scheme Roadshows (Q1)	**			
	Training for the employers	Daily	New Scheme Training (Q1)	**			
	Arrange Annual Employer Meetings	Annual			*	*	
	Arrange Annual Report Production	Annual			*	*	
	Document SLAs with employers	Annual	Update Discretions re CARE Scheme (Q3)	**	**	**	*

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FLINTSHIRE COUNTY COUNCIL

REPORT TO : **CLWYD PENSION FUND COMMITTEE**

DATE : **24th MARCH 2015**

REPORT BY: **CHIEF OFFICER (PEOPLE AND RESOURCES)**

SUBJECT: **INVESTMENT AND FUNDING UPDATE**

1.00 PURPOSE OF REPORT

- 1.01 The purpose of this report is to provide Committee Members with an update of investment and funding matters for the Clwyd Pension Fund including:
- progress of investment, funding and accounting tasks against the Service Plan for 2014/15,
 - delegated functions,
 - training events and seminars for Pension Finance Officers,
 - any other matters of relevant interest.

2.00 BACKGROUND

- 2.01 The Fund's Finance Section is responsible for the day to day accounting and investment functions. The team comprises four full time members of staff, including two Pension Finance Managers, an Accounting Technician and a Finance Assistant.
- 2.02 The Pension Finance Managers work closely with the Clwyd Pension Fund Manager, Investment Consultants and Actuary on the investment and funding strategies for the Fund.

3.00 UPDATE ON SERVICE PLAN AND DELEGATED FUNCTIONS

- 3.01 Appendix 1 shows the dashboard of progress made against key projects within the Finance Service Plan for 2014/15. Within the projects for investment, funding and accounting, all of which have been completed.
- 3.02 The review of our AVC provider performance has now been deferred to 2015/16. This is due to the Prudential (the Fund's current AVC provider) reviewing their range of funds and also the expected changes in regulation from April 2015 for Freedom and Choice.

Rebalancing and Cash Management

- 3.03 In-house cash balances as at January 31th 2015 were £60.0m (£52.1m at September 30th 2014). Several strategic allocations as at January 2015 were outside their recommended ranges. As reported previously, these are to be addressed as part of the ongoing transition of assets to implement the 2014/15 strategic fund review which was agreed at the November 2014 Committee. As part of the review there are also some changes to the strategic ranges for 2015/16.

Monitoring of Fund Managers

- 3.04 The in-house team, along with JLT, monitor the Fund's managers quarterly on a rota basis ensuring that the managers with the larger allocations are met with quarterly, whilst the others are seen at least on an annual basis. A record of the managers seen during 2014/15 is shown in the following table. Further details on the managers are reported by JLT, the Fund's Investment Consultant, in agenda item 13 of the committee papers. Given the ongoing transition of managers (see 3.05) Fund officers have postponed individual manager meetings until Q1 2015/16 although JLT have continued to receive all manager summaries for the quarter.

Manager	Strategic Weight %	June 2014	September 2014	December 2014	March 2015
Insight	19		✓		
Stone Harbor	15	✓	✓	✓	
Wellington	11	✓	✓	✓	
Aberdeen	7	✓	✓		
BlackRock	6	✓	✓		
Investec	5		✓	✓	
Duet	5	✓			
Bluecrest	3	✓			
Pyrford	3	✓		✓	
Liongate	2.5	✓			
SSARIS	2.5				

Transition of Fund Assets

- 3.05 The new Fund Strategy was agreed at the November 2014 Committee and the 1st stage of the transition (£100m of assets) was carried out by Fund officers and completed on March 13th 2015. The assets involved were:
- Full redemption of Asia Pac (ex Japan) Equities (Aberdeen)
 - Full subscription to new Diversified Growth Fund (Investec)
 - Additional subscription to Diversified Growth Fund (Pyrford)
 - Additional subscription to Global Equities (Investec)

The next stage of the review implementation involving the Managed Account Platform is ongoing. Due diligence has commenced and an update will be reported to the Advisory Panel on March 24th 2015.

Tactical Asset Allocation Portfolio

- 3.06 The 1st meeting of the Tactical Asset Allocation Group involving Fund officers and JLT Consultants took place on February 24th 2015. The terms of reference are now being agreed and an update will be provided to the Committee on May 21st 2015.

Review of In-House Portfolio

- 3.07 Following the approval of the strategic review in November 2014, Fund officers and Bob Young, the previous Independent Consultant to the Clwyd Pension Fund are progressing with a review of the In-House portfolio of Private Equity and Real Asset holdings. The 1st stage of this review was presented to JLT on March 17th 2015 in advance of the Advisory Panel on March 24th. It is intended to provide Committee Members with training on the different asset classes within the In-House portfolio over the next 12 months.

4.00 OTHER MATTERS

DCLG Collective Investment Vehicle (CIV) and Passive Fund Management Consultation

- 4.01 As Members are aware, the Fund's response to the DCLG Consultations for Opportunities for Collaboration, Cost Savings and Efficiencies was reported at the July 2014 committee. The consultation closed on July 11th 2014 but, as reported in November, there had been no more information released by the DCLG. It is now understood that there will be no response until after the General Election.

Welsh Treasurers Group – Business Case for Welsh CIV

- 4.02 In December 2013, the Welsh Treasurers issued a tender for a consultant to produce a business case for a Welsh CIV. This process was subsequently postponed due to the DCLG also issuing a similar tender for a CIV. In September 2014, the Welsh Treasurers agreed to now continue the process in Wales and have appointed Mercer to conduct a business case. It should be noted that this will incur a cost of £8,500 for each of the Welsh funds. The 1st meeting with Mercer was held on November 11th 2014 for the Society of Welsh Treasurers and Investment Practitioners from the relevant Funds.

Each Fund has been asked to provide specific information relating to their Funds to assist Mercer with the report. A meeting has been arranged with the Society of Welsh Treasurers for March 26th 2015 to discuss the initial findings.

LGPS Management Costs

- 4.03 As reported to November Committee, CIPFA have produced guidance for Pension Funds for accounting for LGPS management costs which aims to assist Fund's in producing information relating to their costs on a comparable basis. This involves categorising and reporting costs across the following three areas:
- Investment Management Expenses
 - Administration Expenses
 - Oversight and Governance
- 4.04 Investment management costs now need to be disclosed for all managers, including those investing in pooled vehicles and Private Equity. The costs should include manager fees, underlying manager fees for any fund of fund managers, performance fees and transaction costs. The Fund has contacted all its managers to provide this detailed information for both 13/14 and 14/15 so that comparators can be included in the 2014/15 Pension Fund Accounts.

Training Policy Update for Pension Finance Officers

- 4.05 In line with the Clwyd Pension Fund training policy, officers are required to attend various conferences and seminars in order to maintain and expand their knowledge in specialist investment and funding areas. The following events have been attended since reported to the last Committee, at no charge to the Pension Fund.

Date	Events & Meetings	Attendees
November		
11th	SPS Current Investment Issues	PFM
12th	CIPFA Annual Conference	PFM
December		
3 rd – 5 th	LAPFF Annual Conference	PFM
January 15		
15th	SPS Private Equity	PFM
27th	BlackRock Economic Update	PFM
February		
5th	LAPF Annual Conference	PFM
11th	CIPFA Accounts and Investments	PFM(s)
25th – 26th	LGC Investment Seminar	PFM
March		
19th	SPS LGPS Investment Strategies	PFM
20th	Insight Annual Investor Conference	PFM

5.00 RECOMMENDATIONS

- 5.01 That Committee Members note the report.

6.00 FINANCIAL IMPLICATIONS

- 6.01 The Fund will contribute £8,500 towards the Welsh CIV Business Case project.

7.00 ANTI-POVERTY IMPACT

- 7.01 None.

8.00 ENVIRONMENTAL IMPACT

- 8.01 None.

9.00 EQUALITIES IMPACT

- 9.01 None.

10.00 PERSONNEL IMPLICATIONS

10.01 None.

11.00 CONSULTATION REQUIRED

11.01 None.

12.00 CONSULTATION UNDERTAKEN

12.01 None.

13.00 APPENDICES

13.01 2014/15 Service Plan Update.

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Documents: 22nd July 2014 Pension Fund Committee – Working Practices
22nd July 2014 Pension Fund Committee – Clwyd Pension Fund Service Plan 2014/15

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PENSION FUND SERVICE PLAN 2014-15:
EXTRACT OF PROJECTS AND OPERATIONAL FINANCE TASKS

Key:

** - Project based action

* - Regular ongoing action

Bold indicates a change from the original plan

Progress (in relation to planned period):



Complete



On track or ahead of schedule



Commenced but behind schedule



Not commenced

Key Action – Project Tasks	Frequency	New Actions required (start/end)	Progress			
			Q1	Q2	Q3	Q4
<u>Investment and Funding</u>						
Review Investment Strategy	Project	Work with Consultant (Q2/4)		**	**	**
Monitoring and reporting on Fund Managers and Investments	Project & Quarterly	Review and agree Process with Consultant (Q1)	**			
Monitoring and Reporting on Funding Flight-path	Project & Quarterly	Develop New Monitoring Process and Reporting with Advisory Panel (Q1)	**			
Review AVC Provider Performance	Project	Moved to 2015/16				
<u>Accounting</u>						
Annual Accounts and Audit	Annual	Note comments on Valuation from WAO (Q1)	**			
Annual Report	Annual	Note comments from WAO (Q2/3)		**	*	
Budget Monitoring & Reporting	Project & Quarterly	Adoption of CIPFA LGPS management costs guidance issued Q3	**	*	**	*

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FLINTSHIRE COUNTY COUNCIL

REPORT TO: CLWYD PENSION FUND COMMITTEE

DATE: 24th MARCH 2015

REPORT BY: CHIEF OFFICER (PEOPLE AND RESOURCES)

SUBJECT: ECONOMIC AND MARKET UPDATE

1.00 PURPOSE OF REPORT

1.01 To provide Committee Members with an economic and market update.

2.00 BACKGROUND

2.01 A role of the Committee is to monitor the performance of the Fund's investment strategy. The investment performance of the Fund will reflect global economic and market conditions. Hence considering these drivers of performance is key to understanding current investment returns, manager performance and funding position which are explained in the following agenda items. In addition, understanding where we are in economic and market cycles may impact on asset allocation decisions by the Advisory Panel going forward.

3.00 CONSIDERATIONS

3.01 The economic and market update for the quarter from the Fund's Investment Consultant is attached and will be presented at Committee.

4.00 RECOMMENDATIONS

4.01 That Committee Members note and discuss the economic and market update.

5.00 FINANCIAL IMPLICATIONS

5.01 None directly as a result of this report.

6.00 ANTIPOVERTY IMPACT

6.01 None directly as a result of this report.

7.00 ENVIRONMENTAL IMPACT

7.01 None directly as a result of this report.

8.00 EQUALITIES IMPACT

8.01 None directly as a result of this report.

9.00 PERSONNEL IMPLICATIONS

9.01 None directly as a result of this report

10.00 CONSULTATION REQUIRED

10.01 None directly as a result of this report.

11.00 CONSULTATION UNDERTAKEN

11.01 None directly as a result of this report.

12.00 APPENDICES

12.01 Economic and Market Update

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: None

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Clwyd Pension Fund

Committee Report:

Economic and Market Update Q4 2014



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1 Market / Economic Data to 31 December 2014

Market Statistics

Yields as at 31 December 2014	% p.a.
UK Equities	3.37
UK Gilts (>15 yrs)	2.42
Real Yield (>5 yrs ILG)	-0.77
Corporate Bonds (>15 yrs AA)	3.41
Non-Gilts (>15 yrs)	3.74

Absolute Change in Yields	3 Mths %	1 Year %	3 Years %
UK Equities	0.03	0.09	-0.15
UK Gilts (>15 yrs)	-0.56	-1.16	-0.52
Index-Linked Gilts (>5 yrs)	-0.40	-0.80	-0.52
Corporate Bonds (>15 yrs AA)	-0.42	-1.01	-1.27
Non-Gilts (>15 yrs)	-0.41	-0.89	-1.08

Market Returns Bond Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Gilts (>15 yrs)	11.2	26.1	6.9
Index-Linked Gilts (>5 yrs)	9.4	21.4	7.1
Corporate Bonds (>15 yrs AA)	6.7	18.9	9.3
Non-Gilts (>15 yrs)	6.6	19.0	10.2

Market Returns Growth Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	0.6	1.2	11.1
Overseas Equities	4.9	12.2	15.1
USA	8.9	20.3	20.4
Europe	-1.4	-1.4	12.8
Japan	1.6	2.7	9.9
Asia Pacific (ex Japan)	3.2	10.0	9.4
Emerging Markets	0.4	7.9	4.8
Frontier Markets	-9.0	13.9	13.8
Property	4.4	19.3	10.5
Hedge Funds	4.0	10.8	5.7
Commodities	-24.8	-28.9	-13.0
High Yield	1.5	6.1	8.7
Emerging Market Debt	-0.6	7.4	6.1
Senior Secured Loans	-0.1	2.3	7.4
Cash	0.1	0.5	0.5

Change in Sterling	3 Mths %	1 Year %	3 Years % p.a.
Against US Dollar	-3.8	-5.9	0.1
Against Euro	0.4	7.2	2.5
Against Yen	5.1	7.4	16.1

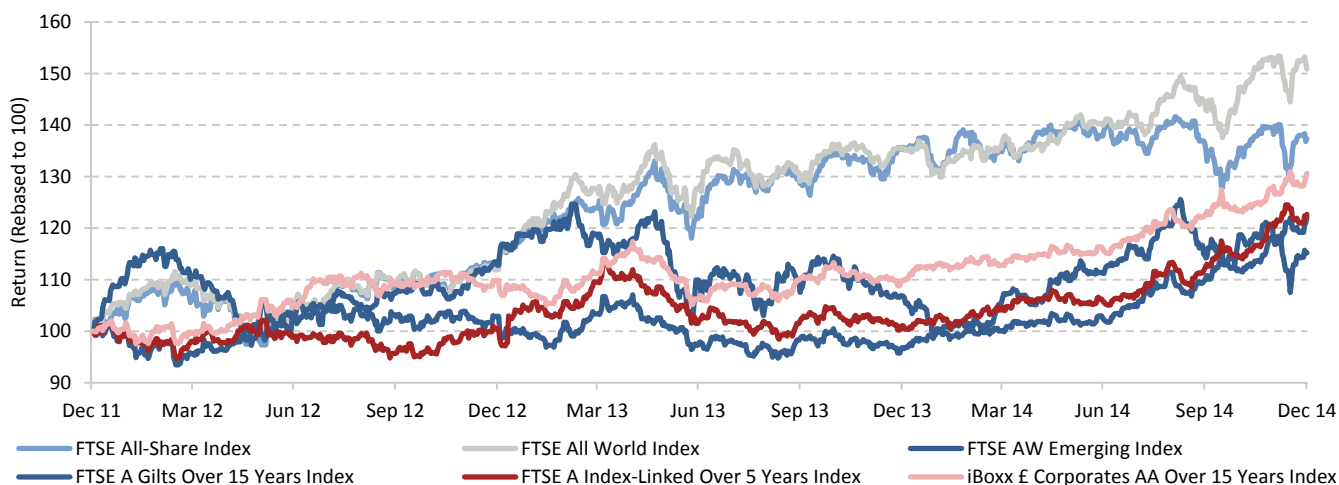
Inflation Indices	3 Mths %	1 Year %	3 Years % p.a.
Price Inflation – RPI	0.0	1.6	2.5
Price Inflation – CPI	-0.2	0.5	1.7
Earnings Inflation*	1.0	1.8	1.4

Source: Thomson Reuters and Bloomberg

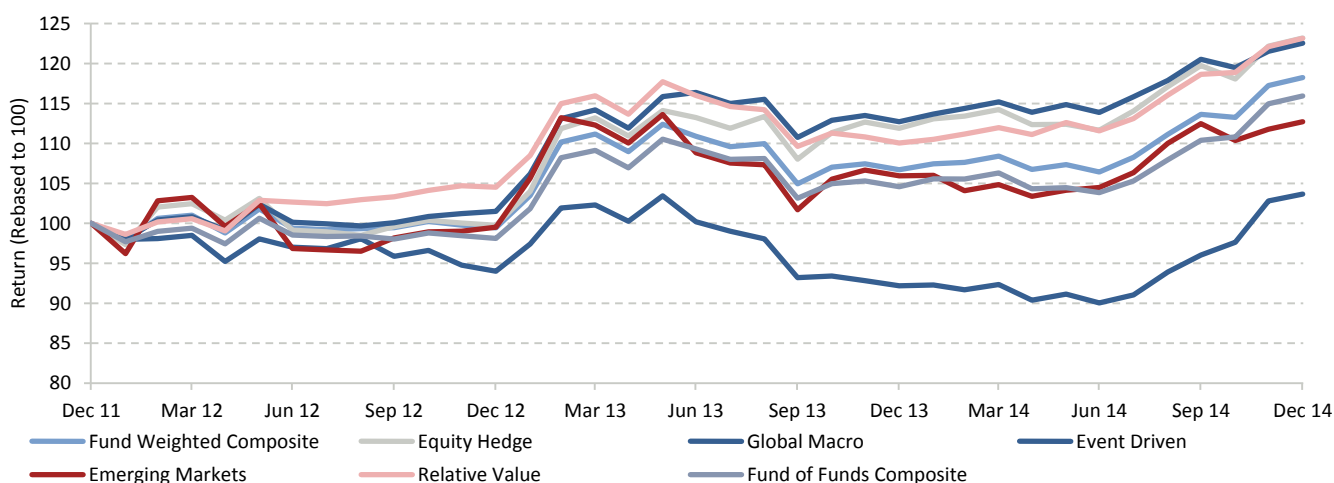
* Subject to a 2 month lag

Market Charts

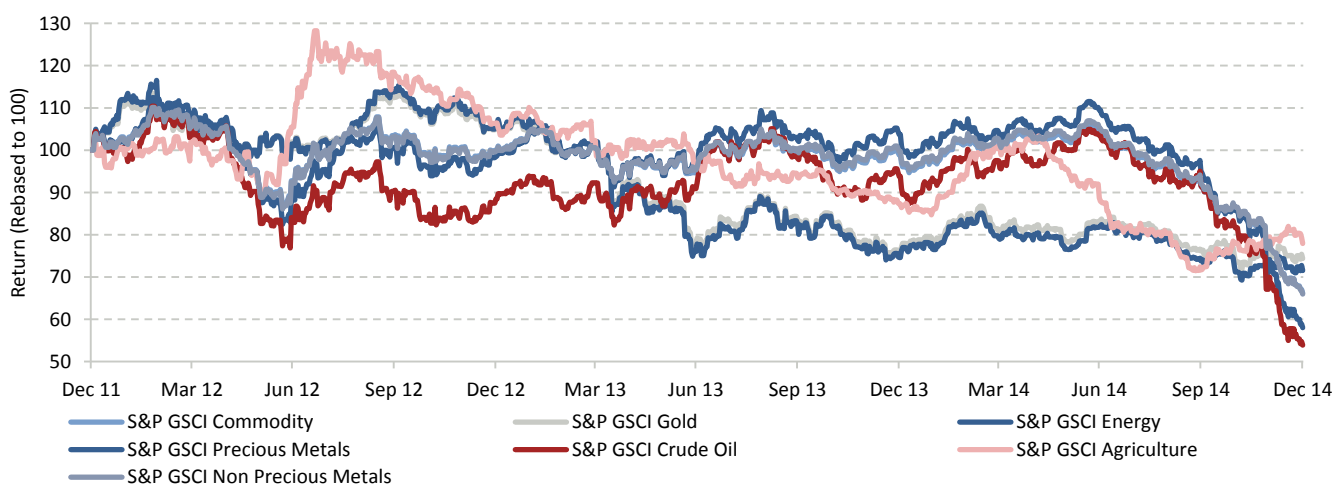
Market performance – 3 years to 31 December 2014



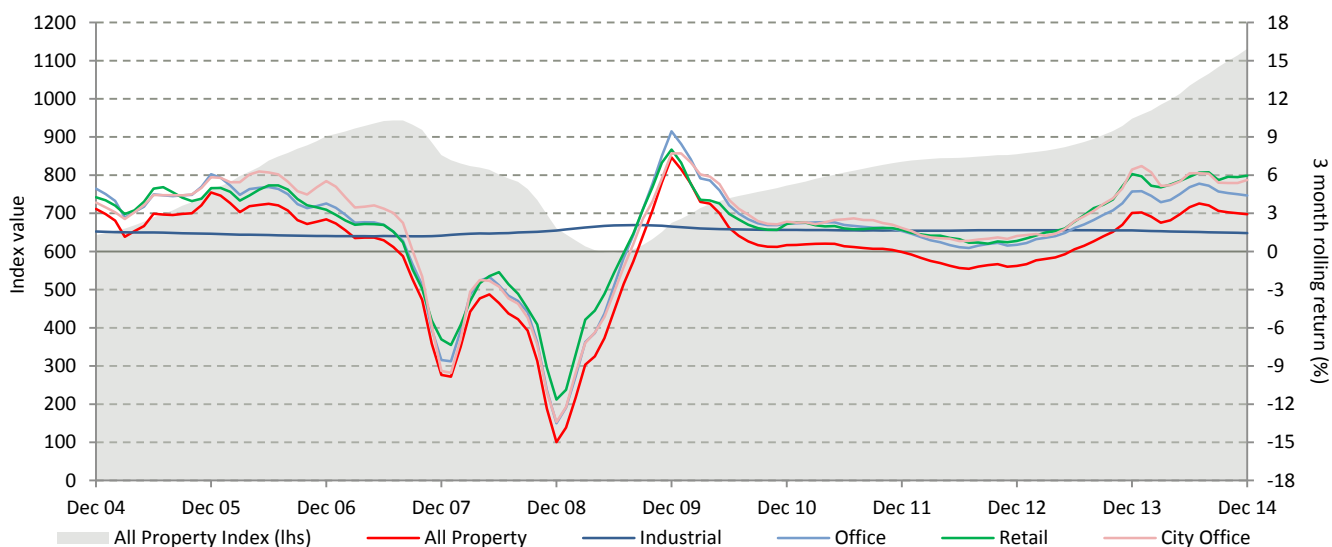
Hedge Funds: Sub-strategies performance – 3 years to 31 December 2014



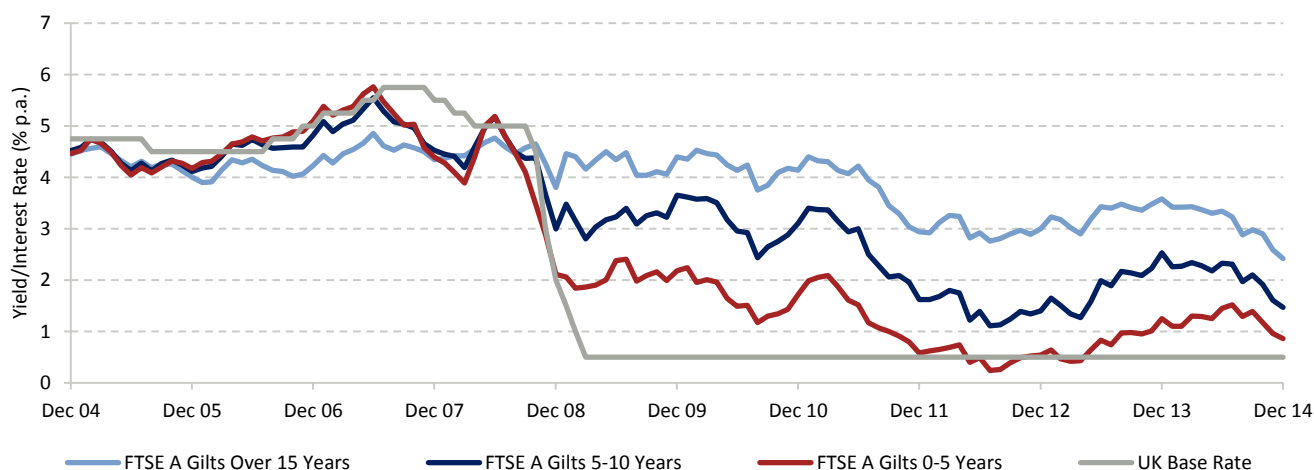
Commodity sector performance – 3 years to 31 December 2014



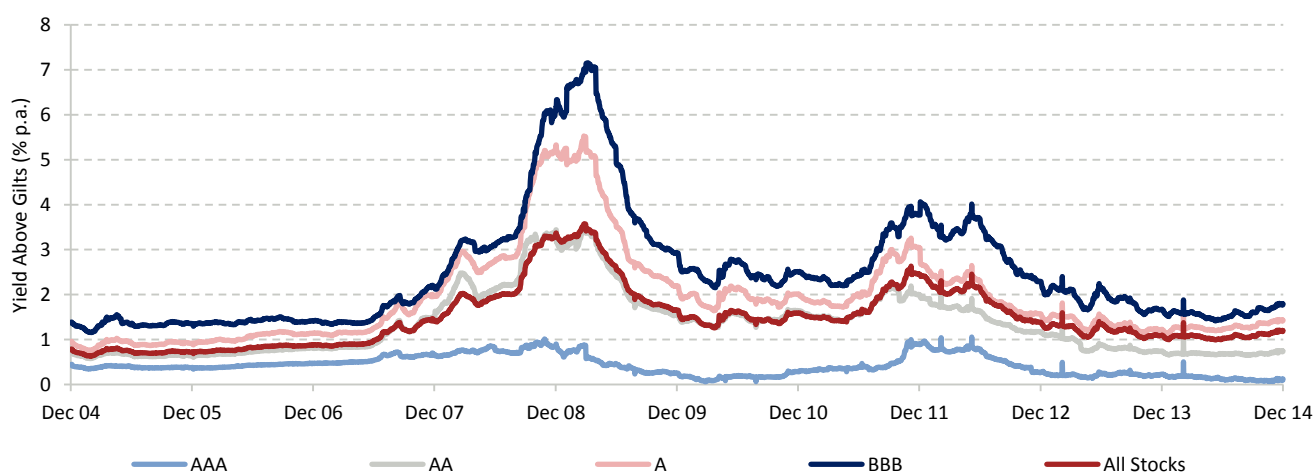
Property sector performance – 10 years to 31 December 2014



UK government bond yields – 10 years to 31 December 2014



Corporate bond spreads above government bonds – 10 years to 31 December 2014



Economic Information

Economic statistics

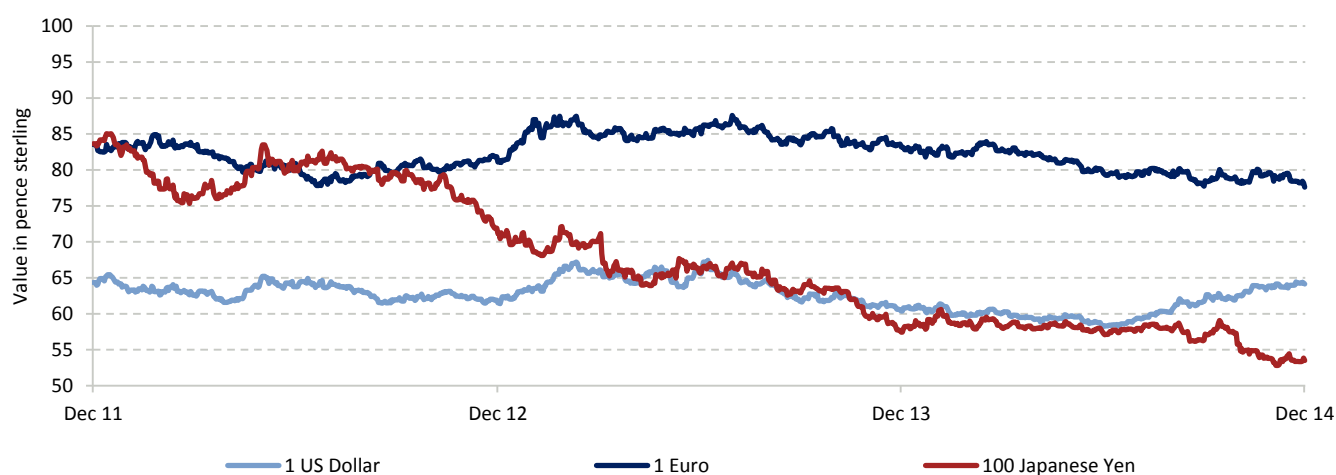
	Quarter to 31 December 2014			Year to 31 December 2014		
	UK	Europe ⁽¹⁾	US	UK	Europe ⁽¹⁾	US
Real GDP growth ⁽³⁾	0.7%	n/a	0.9%	3.0%	n/a	2.3%
Inflation change ⁽²⁾	-0.2%	-0.3%	-1.4%	0.5%	-0.2%	0.8%
Unemployment rate at quarter-end	6.0%	11.5%	5.6%	6.0%	11.5%	5.6%
Previous rate (last quarter-end / 1 year ago)	6.3%	11.5%	5.9%	7.1%	11.1%	6.7%
Manufacturing PMI* at quarter-end	52.5	50.6	53.9	52.5	50.6	53.9
Previous PMI (last quarter-end / 1 year ago)	51.6	50.3	56.6	57.3	52.7	57.0

(1) EU changing composition area; (2) CPI inflation measure; (3) GDP to 30 September 2014. *PMI = Purchasing Managers Index

Exchange rates

Exchange Rates	Value in Sterling (Pence)			Change in Sterling	
	31 Dec 2014	30 Sep 2014	31 Dec 2013	3 months	12 months
1 US Dollar is worth	64.13p	61.68p	60.38p	-3.8%	-5.9%
1 Euro is worth	77.61p	77.92p	83.19p	0.4%	7.2%
100 Japanese Yen is worth	53.49p	56.23p	57.44p	5.1%	7.4%

Exchange rate movements – 3 years to 31 December 2014



Source: Thomson Reuters, Markit, Institute for Supply Management, Eurostat, United States Department of Labor and US Bureau of Economic Analysis.

2 Market Commentary

Introduction

2014, in sterling terms, was the year of the USA. Asia ex Japan also performed well, but this was largely due to recovering performance lost in 2013. Elsewhere – almost nothing, with the UK, Europe and Japan flat for the year (Japan's returns being negatively affected by the weakness of the yen).

The result was that overall portfolio returns were positive, the magnitude being determined mainly by the weighting in the USA, and that in turn was influenced by the risk tolerance of the individual investor. So for 2014, 'Modified rapture', as Nanki-Poo says in 'The Mikado'.

Why the disparity in equity returns? The US equity market, although widely perceived as being 'up with events' earlier last year, benefited from steadily improving economic figures, ample liquidity (despite the ending of Quantitative Easing in the autumn) and a stronger dollar drawing in foreign investors. The latter were not only attracted by the increasing fundamental strength of the market, but also looked upon it as a safe haven in times of troubles elsewhere.

And as the year reached its end, the troubles have been mounting. The collapse in the price of oil, to levels not seen for many years, has partly been caused by a weakness in demand worldwide, but has mainly been engineered by some oil producers refusing to cut supply (which most analysts believe is for geo-political reasons rather than economic ones). Lower oil prices are the equivalent of a tax cut for many countries and a boost to growth, but the fall also adds to the downward trajectory of inflation being seen almost everywhere in the developed world.

Not everybody is a winner. Russia is the prime example of a loser in such a situation. Exacerbated by economic sanctions imposed over Ukraine, the economy – and more particularly the currency – is in free-fall. The consequences of this are likely to be one of the themes in 2015.

A Eurozone crisis is also potentially re-emerging (has it ever gone away?) led again by Greece. This is discussed further below, but markets have taken fright by the possibility of a repeat of the convulsions of 2011 – supposedly behind us.

With the US returning to military action in the Middle East to counter the threat of additional territorial gains by the Islamic State, involving other nations – including the UK – in its wake, the world has suddenly become a more dangerous place.

Investors have experienced two sharp corrections in equity markets during the last quarter, one in October when prices quickly recovered, and another in December, where the recovery has been patchier. As this document is being written, the accelerating fall in the oil price has been the primary cause of a third setback in prices with the outcome currently uncertain. But increasing volatility does not augur well for 2015.

United Kingdom

- It was a year of two halves for the market, which rose 5% in the first six months, only to lose nearly all its gain in the second half.
- This was despite a domestic backdrop that was quite encouraging. Economic growth accelerated (second only to the US of major economies), inflation continued to fall as did unemployment, and real wages finally began to rise.
- But not everything in the garden was rosy. Both the budget and current account deficits have remained stubbornly high. Internationally, the continuing weakness of the Eurozone economies – the UK's largest trading partner – belatedly began to have an effect on corporate profits. (Russian sanctions are having a more indirect affect). And in the last few months the weakness in commodity prices in general, and oil in particular, has weighed heavily on several large components of the FTSE 100 Index.

- As mentioned above, interest rates are expected to remain at current levels for the foreseeable future (even if recent minutes of the Monetary Policy Committee suggest greater disagreement on timing that hitherto) unless the Federal Reserve – and the European Central Bank – by their actions force the Bank of England's hand.
- However, in the short term sterling, gilts and probably equities will be influenced more than anything by the election campaign. Harold Wilson said 'a week is a long time in politics', and UK markets now have four months to ponder that statement. The outcome – a clear Conservative or Labour victory, or another coalition with all sorts of possible combinations of parties – is totally uncertain at this early stage. As each week passes, investors – particularly foreign investors – are likely to become increasingly nervous.
- Equity valuations are close to their long term average and, even with the uncertainty, look attractive relative to fixed income, based on their yield, if nothing else. Earnings are also forecast to grow in 2015, albeit by less than 10%. Dividends, however, could come under pressure in some areas (oil majors, food retailers, for example).
- So we would expect a volatile few months ahead.

Europe ex UK

- 'Words! Words! Words! I'm so sick of words!'. Many investors in Europe would echo Eliza in 'My Fair Lady' as, throughout 2014, the European Central Bank (or more particularly its head, Mario Draghi) has said a lot, but has made few meaningful policy changes.
- Negative interest rates and purchases of asset-backed securities have had little noticeable effect, except on the value of the euro, which has weakened significantly over the course of the year.
- Economic growth has been negligible, inflation has continued to fall with deflationary fears rising in everybody's minds (even, at last, in Mr Draghi's – after months of denial) and, as already mentioned, the euro has weakened. This would normally be considered a benefit, especially for exporters, but the economic sanctions on Russia have had a far greater impact on the Eurozone – in particular Germany – than elsewhere.
- The collapse in the oil price, should it continue, will also be a benefit in the longer term, but in the short term is only exacerbating the fall in inflation and the threat of deflation.
- And to cap it all, the totally unexpected forthcoming election in Greece has returned to the limelight many of the problems of 2011/12 which policymakers had thought they had put behind them. 'Grexit' – Greece leaving the euro, either voluntarily or involuntarily, is again on the agenda – even if still unlikely. Anti-euro parties (not necessarily anti-EU) have been making gains across the continent, and should Greece set a precedent – and it works – others may try to follow.
- We have been here before, of course, and in theory economies, and the Eurozone as a whole, are better protected against contagion than in 2011. This is the official line from Brussels and Berlin. But in practice? Hence investors' concern, and it is no surprise that markets did nothing last year.
- However, the cavalry is expected to arrive, in the form of full-blown Quantitative Easing. The timing is awkward (just before the Greek election) but markets will be disappointed – to put it mildly – if another month goes by without real action. Whether the Germans will agree, is still a moot point, but deflationary fears are now so prevalent throughout the region and growth forecasts are so low that realism must surely overcome their doubts. If not, the prospects for Europe are grim.
- Churchill once said 'Success is the ability to go from one failure to another with no loss of enthusiasm'. Should the ECB finally agree to Quantitative Easing, equity markets will rally and bond yields will sink even more. But whether it will work is still the trillion euro question. Will it turn out to be yet another failure – too little too late? Only time will tell.
- The events of the next few months of 2015 will concentrate the minds of investors generally (and voters – there are elections due in both Spain and Portugal).

North America

- The US equity market performance in 2014 far outstripped all other major markets (even in sterling).
- The economy, at last, appears to be accelerating. Unemployment has been falling steadily, wage growth has been picking up, banks – whilst still somewhat cautious – are lending more, and the consumer is seeing the benefit of falling oil prices.
- However, the fall in the price of oil is a double-edged sword. With the on-going development of shale, the US was heading to be the world's largest producer of oil, but should the price remain at current levels for any length of time much of the new development becomes uneconomic. US energy companies have issued over \$500 billion in debt since 2010, and the repayment of much of this is becoming problematic at these prices. There could be severe pain ahead.
- Economic growth, despite being partially distorted by increased military spending (to fund the return of US forces to the Middle East) and expenditure on healthcare, seems to have broken out of its 'growth but unexciting' mode. Consumer sentiment has followed and is now at the highest it has been for some time.
- This puts the Federal Reserve in a quandary. There is now a clear case for interest rates to rise in 2015 from the current 'emergency' levels to somewhere towards 'normal'. The discussion, and the timing, is now about what level is 'normal'. Inflation remains subdued (and the oil price fall will make it decline further) but some commentators believe the official figures hide what is really happening in the economy – that inflationary pressures are building up more quickly than figures suggest. So unless the economy is blown off course by some unexpected event, markets are factoring in a rate rise, however small, sooner rather than later.
- The market has been looking fairly fully valued for some time, but after each (brief) correction in the autumn it has rapidly bounced back to hit new highs, on both domestic and foreign buying. But certainly volatility is increasing.
- Forecasters' consensus is still for double-digit earnings growth in 2015, but given the strong dollar (affecting exports) and the resulting pressure on margins this may turn out to be overly optimistic. The key remains the timing of the rate rise.
- There is an old market adage – don't fight the Fed – and this still applies.

Japan

- The Japanese equity market's positive performance in 2014 has been negated for most foreign investors by the sharp fall in the yen, which has been frustrating.
- The year has been dominated by Abenomics – the attempt by Mr Abe's government to kick-start the economy and end twenty years of deflation (the 'lost decades' possibly threatening the Eurozone).
- It started well, with inflation and wages rising, and the yen falling. But then the rise in sales taxes in the spring led to the economy returning to recession over the summer. So the Bank of Japan announced another, massive, round of Quantitative Easing in the autumn (and the government postponed the next rise in taxes to at least 2017) and this, temporarily at least, has given the economy another boost.
- It has also led to a further weakening of the yen, to such an extent that it is potentially becoming a political problem – especially in Asia. HSBC has been warning for some time that the fall may become uncontrollable, with effects across the region (especially in China) reminiscent of the currency crisis of 1997/98.
- Mr Abe then called an early election in November, winning a renewed mandate for his policies. He now has four more years to try and implement the structural reforms (the 'third arrow') he needs to compliment the economic reforms already in place. And the Bank of Japan is likely to do more Quantitative Easing if necessary.
- The oil price fall has helped. Japan imports nearly all of its energy requirements and the fall – equivalent to a massive tax cut – is worth about 1% in extra growth.
- Corporate fundamentals are healthy. The fall in the yen has benefited exporters. However there are now signs companies are cutting prices (in yen) to increase market share abroad – thus exporting even more deflation to the rest of the world, and increasing the political risk.
- Strong earnings growth and the weaker yen should support the equity market in 2015. But until the yen stabilises – at whatever level – it is difficult for foreign investors (unless they hedge the currency) to reap the full reward.

Asia Pacific ex Japan

- Markets generally performed relatively well in 2014, recovering much of the underperformance of the previous year. There have been exceptions, but investors have regained some confidence in the region over the course of the year.
- The oil price fall is a major boost to economic growth. South Korea, for example, imports 97% of its energy and the fall will add nearly 3% to growth in 2015. But against this is its effect on inflation. The problem of deflation has already been evident nearly everywhere (Chinese PPI – producer price inflation – has now been negative for 32 months). The fall in the yen is the main culprit, now exaggerated by the fall in the price of energy, leading to other currencies, especially the Chinese yuan, becoming overvalued.
- There is a danger of a currency war – competitive beggar-my-neighbour devaluations – developing. Coupled with the strong US dollar, which is again causing problems for those countries with massive overseas debts (for example, Indonesia) there is an increasing concern of a repeat of the crisis of the late 90s.
- With overall growth subdued, overcapacity in China leading to lower export prices and a strengthening dollar, it is difficult to find arguments to increase weightings in the region at this stage. However many companies, if not countries, are still flourishing – increasing profits and, more importantly, dividends.
- With yields available of over 5%, investors are being paid to wait until the outlook is clearer.

Emerging Markets

- Emerging Markets experienced some recovery from the underperformance of 2013, but it has been very country specific. A combination of dollar strength and commodity price weakness is a major negative for the sector as a whole.
- In China the economy has been slowing. Its currency is indirectly pegged to the US dollar so is now looking very expensive against its major competitors, particularly Japan, and the temptation must be to devalue (officially or unofficially).
- Emerging Markets have also borrowed over 9 trillion US dollars, which as one commentator recently said is 'a currency they cannot print and do not control'. This amount has tripled in the last ten years.
- Of course the main story amongst Emerging Markets in the last few months has been Russia. The fall in the oil price, plus the West's sanctions has led to a 50% fall in the currency and real economic hardship (energy represents 25% of GDP and 70% of exports). The sanctions may be eased as the Eurozone is suffering the consequences of the ban on many exports, but the oil price fall could be with us for some time. The concern is how Russia might react in the coming months.
- There are positives. Not all countries are performing poorly and Emerging Markets – in aggregate – still represent half of the world economy. Investors are now underweight the sector, valuations are not expensive (currently at a 31% discount to the World Index) and earnings are still growing in many areas.
- But whilst the dollar continues to strengthen (and any rate rise this year should underpin that strength), and commodity prices remain under pressure it is difficult to see where any outperformance of the sector is likely to arise. Some countries, and companies, will continue to do well but investors will have to be selective. New leaders in India, Mexico, Indonesia – and even China – are implementing reforms which should be positive in the longer term (if they work, but at least there seems to be a greater impetus for change this time).
- So are the negatives already in the price? As we have often said in the past, Emerging Market indices do not reflect Emerging Markets reality, due to their constituents (heavily weighted to commodity and financial shares). However, many Emerging Market funds can avoid these pitfalls.

Fixed Income

- Fixed income investments were significantly stronger in 2014 than the consensus expected last January. There were exceptions – high yield and emerging market debt were both more volatile – but as a general rule government debt saw yields falling further and prices rising.
- The search for yield – any yield, however small – by investors holding plentiful amounts of cash was one reason for the performance. Another was the 'safe-haven' status offered by US Treasuries, UK Gilts and German Bunds (with knock-on effects on other European bond markets, even those in economic difficulties). And finally it became increasingly obvious as the year progressed that any rise in interest rates would happen later rather than sooner.
- As usual, in 2015 everything will depend on the actions of the various Central Banks. Markets are expecting the first rate rise in the US by mid-year. In the UK this seems less likely, especially with an election due in May (the UK consumer is much more geared to interest rate changes than his American counterpart). Japan may, or may not, launch another round of Quantitative Easing.
- In the short term the key is the European Central Bank. If – and it still is a big if – the ECB initiates Quantitative Easing, US style, yields could fall still further (they are already at levels not seen since the 14th Century). This is what investors are expecting.
- However, in the longer term the Federal Reserve will influence global fixed income markets more than anyone else by the timing of its rate rise later in the year. This could lead to greater volatility – and weakness in prices – than we have seen previously.

Alternatives

- Hedge Funds (in sterling terms) generally experienced a good quarter. All strategies delivered positive returns; Global Macro (+7.9%) and Relative Value (+5.0%) were the best performing strategies. Emerging Markets (+0.2%) and Event Driven (+1.7%) produced the lowest returns over the quarter. Global Macro strategies continued their recent rally, leading a 12 month return of 12.5% which helped to support a strong year of growth for hedge funds overall (+10.8%).
- Property valuations continued to increase over the quarter, causing yields to depress further. Office and industrials were the leading sectors, particularly Offices in Central London, while the retail sector is still lagging behind. As at the end of December, the annual property yield stood at around 6.2%.
- Commodity markets deteriorated severely over the quarter, registering a loss of 24.8% and 28.9% over 12 months (the largest falls since the global financial crisis). The declines were a result of a strengthening US dollar and a slowdown in the global economy, especially in Europe and China. Crude oil and energy sectors were the hardest hit, as weak demand was coupled with an increasing supply of crude oil. The price of gold tumbled as investors flocked out of the sector. Falling Chinese demand affected industrial metals, particularly zinc and nickel.

Conclusion

One of Warren Buffet's many truisms is 'Investing is simple, but not easy'.

Looking at markets today it is difficult to find many positives.

The fall in the price of oil leads to winners, but also losers, and it is the latter that are weighing on equity prices in the short term. Energy stocks, of all types, are major components of many indices – and they are suffering. Some countries – Russia, Venezuela, Iran, for example – are particularly hard hit, and the political consequences are unpredictable. The boost to worldwide economic growth is being ignored.

But markets are not looking at fundamentals. Investors' eyes are firmly fixed on the major Central Banks, particularly, in the short term, the European Central Bank. Will they, won't they? Quantitative Easing is like a drug, and markets are hooked. Should the ECB continue to do nothing, prices are likely to fall as the expectation of action is so prevalent. If the ECB does act, the resulting flood of liquidity will provide another 'fix' – if it works.

Looking at individual areas, the US still has its attractions, despite last year's rise. The UK has an election in May which is likely to hold the market back (unless the ECB acts) until the result is known. Both the currency and gilts may come under pressure if foreign investors begin to get nervous. The Eurozone has to contend with a lack of economic growth and deflation, but some companies still flourish. In Asia, Japan will follow its own path – with possible growing geopolitical consequences – and the rest of Asia will look to China.

Despite this somewhat unhelpful backdrop, equities remain the investment of choice providing the markets move as expected. Cash is not an option, earning nothing. Bonds are unlikely to repeat their unexpected performance of last year. Equities give some return from income and the second half of the year should provide a better environment for capital growth.

But the next six months could be an interesting ride!

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FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CLWYD PENSION FUND COMMITTEE**

DATE: **24th MARCH 2015**

REPORT BY: **CHIEF OFFICER (PEOPLE AND RESOURCES)**

SUBJECT: **INVESTMENT STRATEGY AND MANAGER SUMMARY**

1.00 PURPOSE OF REPORT

1.01 To update Committee Members on the performance of the Fund's investment strategy and performance of fund managers.

2.00 BACKGROUND

2.01 A role of the Committee is to monitor the performance of the Fund's investment strategy and fund managers.

2.02 On behalf of the Committee, the Investment Consultant and Pension Finance Managers:

- Undertake regular monitoring to ensure that the investment strategy is operating within the approved Statement of Investment Principles (SIP).
- Regularly monitor fund manager and investment performance.
- Recommend to Advisory Panel alternative investments within the asset allocations agreed within the SIP.
- Recommend to Advisory Panel changes to asset allocation allowed within the SIP, including re-balancing.
- Report investment performance to the Advisory Panel and Committee.
- Recommend changes to the investment strategy to Committee.

3.00 CONSIDERATIONS

3.01 The report from the Fund's Investment Consultant on the performance of the investment strategy as at 31st December 2014 is attached. This also includes a fund manager performance update to 31st January 2015.

3.02 In summary the Fund outperformed its benchmark by 0.2% over the quarter ending 31st December 2014 and by 0.8% over the quarter ending 31st January 2015. In Appendix 1 of the Investment Consultant's report there is a summary of mandates which shows the benchmark and outperformance targets of the funds invested. Some of these have been revised since the last report to targets that are considered achievable under current financial conditions, compared to the previous absolute return targets of 8-10% or 15% per annum which were set during a period of very different market conditions. The new benchmarks and targets are based on managers' stated targets, the views of

the Investment Consultant's Market Forecast Group or a combination of these.

4.00 RECOMMENDATIONS

4.01 That Committee Members note and discuss the performance of the investment strategy and fund managers.

5.00 FINANCIAL IMPLICATIONS

5.01 None directly as a result of this report.

6.00 ANTIPOVERTY IMPACT

6.01 None directly as a result of this report.

7.00 ENVIRONMENTAL IMPACT

7.01 None directly as a result of this report.

8.00 EQUALITIES IMPACT

8.01 None directly as a result of this report.

9.00 PERSONNEL IMPLICATIONS

9.01 None directly as a result of this report

10.00 CONSULTATION REQUIRED

10.01 None directly as a result of this report

11.00 CONSULTATION UNDERTAKEN

11.01 None directly as a result of this report

12.00 APPENDICES

12.01 Investment Strategy and Fund Manager Summary Q4 2014

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: None

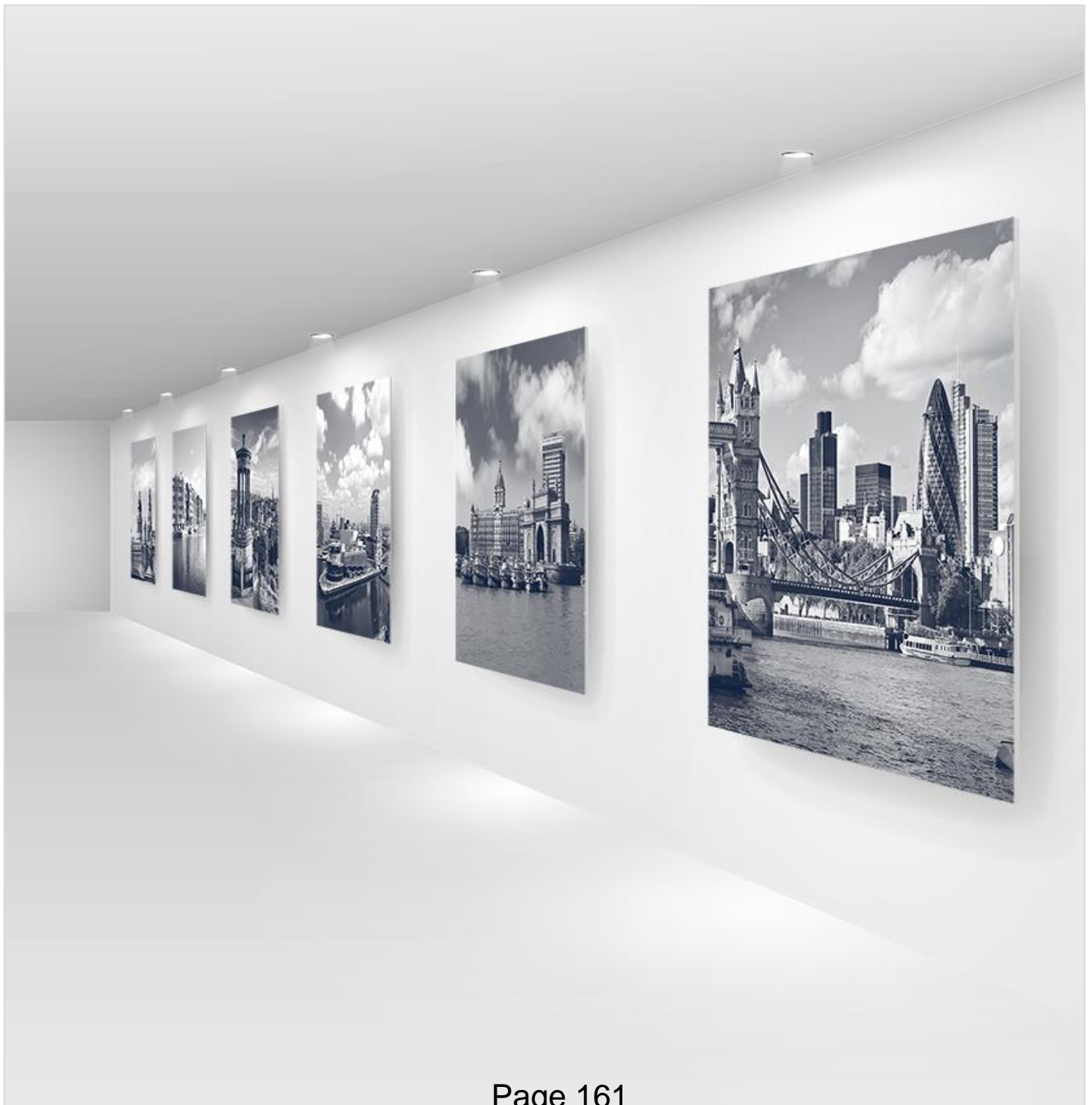
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Clwyd Pension Fund

Committee Report:

Investment Strategy and Manager Summary: Quarter 4 2014



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1 Impact on Clwyd Pension Fund Strategy

Overall

- The Fund's total market value increased by £44.8m over the fourth quarter of 2014 to £1,342,581,245, and by a further £12.5m over the period from the end of December 2014 to the end of January 2015. At 31 January 2015, the Fund's total market value was £1,355,167,141.
- As at 30 September 2014, the Fund's liabilities were valued at £1,866 million, resulting in a funding position of 70%. As at 31 December 2014, the value of the Fund's liabilities had increased by £177 million to £2,043 million, resulting in a funding position of 66%.

3 months to 31 December 2014

- The Fund produced an absolute return of 4.1% against a benchmark return of 3.9%. The most notable returns were from the LDI portfolio, which returned 17.7% due to the continuing fall in government bond yields. Commodities also fell, by 11.1% (index return), as did Frontier Markets, which declined by 9.0% (index return) over the period.
- In relative terms, the Fund outperformed its benchmark by 0.2% mainly as a result of:
 - » Real Assets, which outperformed their composite benchmark by 1.5%, due to being underweight Commodities, which performed poorly relative to the benchmark, and overweight Property and Infrastructure assets, which both outperformed benchmark returns. However, the Timber/Agriculture portfolio offset some of these gains.
 - » Alpha Seeking Assets, which outperformed their composite benchmark by 0.4%, largely a result of Opportunistic assets outperforming their benchmark.
 - » Total Equity, Bond and GTAA strategies detracting from total Fund performance; most notably the Stone Harbor, Aberdeen Frontier Markets and BlackRock GASL Funds produced negative returns well below their benchmarks.

3 months to 31 January 2015

- The Fund produced an absolute return of 4.6% against a benchmark return of 3.8%. The most notable returns were from the LDI portfolio, which returned 16.3% due to the continuing fall in government bond yields. Commodities also fell, by 12.8% (index return), as did Frontier Markets, which declined by 6.4% (index return) over the period.
- In relative terms, the Fund outperformed its benchmark by 0.8% mainly as a result of:
 - » Real Assets, which outperformed their composite benchmark by 2.6%, due to being underweight Commodities, which also outperformed relative to the benchmark, and overweight Property and Infrastructure assets, which both outperformed benchmark returns. However, the Timber/Agriculture portfolio offset some of these gains.
 - » Alpha Seeking Assets, which outperformed their composite benchmark by 1.7%, largely a result of Opportunistic and Private Equity assets outperforming their benchmarks.
 - » Total Equity Assets outperformed the composite benchmark by 0.4%, mainly as a result of the Investec and Aberdeen Frontier Markets Funds generating returns ahead of their respective benchmarks.
 - » Total Bond and GTAA strategies detracting from total Fund performance; most notably the Stone Harbor and BlackRock GASL Funds produced negative returns considerably below their benchmarks.

Asset Class Commentary: Q4 2014

Equities

- With the exception of Europe (ex UK), developed equity markets were largely positive over the fourth quarter of 2014. US equities continued a strong period of growth, increasing by 8.9% over the quarter and ending the year up by 20.3%. UK equities were positive, but only marginally up by 0.6% and increasing by a modest 1.2% over the last 12 months. Europe (ex UK) equities declined by 1.4%, and ended the year down by 1.4%, on the back of negative inflation data and renewed talks of Greece leaving the Eurozone.
- Frontier Market equities were down by 9.0% and Emerging Market equities were broadly flat, up by 0.4% for the quarter. Both markets were hit by a combination of a strengthening US Dollar and the falling price of oil and commodity prices.
- The Fund's total equities portfolio returned 1.0% over the quarter, behind the benchmark by 0.7%. Only two out of the six equity managers outperformed their respective benchmarks, which resulted in the relative underperformance. Aberdeen's Asia Pacific Fund detracted the most from total performance as the Fund was behind its benchmark by 2.6%. Investec Global Strategic Equity Fund and Wellington's EM (Local) Fund offset some of the relative underperformance made elsewhere in the equity portfolio.

Bonds

- Bond markets were generally positive over the quarter. UK bonds had a strong quarter of growth, with fixed interest gilts increasing by 11.2%, index-linked gilts increasing by 9.4% and long-dated corporate bonds increasing by 6.7%. Elsewhere, global bonds returned 3.0%, High Yield bonds returned 1.5% and Leveraged Loans returned -0.1%.
- Total bonds assets returned -1.7% over the quarter, behind the benchmark by 1.8%. Underperformance was predominantly a result of overall credit exposure and the impact of widening spreads. The fall in commodity prices negatively impacted security selection in oil producing and oil exploration companies in EMD, High Yield and Investment Grade markets. Overweight exposure to Russia and Venezuela within the emerging market debt portfolio was particularly detrimental to total performance.

GTAA

- Total GTAA assets returned -0.5%, behind the benchmark by 1.8%. Pyrford (+2.0%) and BlueCrest (+0.8%) both delivered returns above or broadly in line with their benchmarks, however this positive performance was offset by the BlackRock GASL Fund returning -2.6% and underperforming its benchmark by 4.2%.
- Equity allocations, particularly in UK, Europe, Asia Pacific and the US were particularly beneficial to GTAA performance. However, falling metal and energy prices, weak European data and the strengthening US Dollar had a negative impact on the GTAA portfolio over the quarter. Credit exposure and the short positioning in US interest rates was detrimental to overall performance.

Real Assets

- Total Real Assets returned 0.7%, ahead of the benchmark by 1.5%. Outperformance was mainly due to the underweight allocation to Commodities and the overweight allocations to In House Property and Infrastructure portfolios.
- Property capital valuations continued to rise over the quarter, led by office and industrial sectors, and in particular Offices in Central London. As a result, the in-house property portfolio saw positive absolute performance and outperformed its property market benchmark.
- Infrastructure assets produced positive absolute returns throughout the period and also outperformed the benchmark.
- Commodities and Timber/Agriculture portfolios were negative over the quarter. Both were impacted by the sharply declining price of oil, metals and agricultural commodities; however, despite underperforming the wider market, the Commodities portfolio was the main contributor to Real Assets performance due its underweight allocation.

Alpha Seeking Assets

- Total Alpha Seeking Assets returned 1.7%, ahead of the benchmark by 0.4%. Opportunistic, Private equity, and the Pioneer hedge fund portfolio produced positive returns over the period, all ahead of their respective benchmarks.
- Outperformance was mainly attributable to the Opportunistic assets, and the overweight allocation to Private Equity, relative to the strategic benchmark.
- The contribution to return from hedge funds was flat overall; exposures to Global Macro and Equity based strategies were the most successful, whilst Event Driven, Credit, Specialist and Distressed strategies were negative overall.

2 Strategic Asset Allocation – 31 December 2014

Allocation by underlying asset class

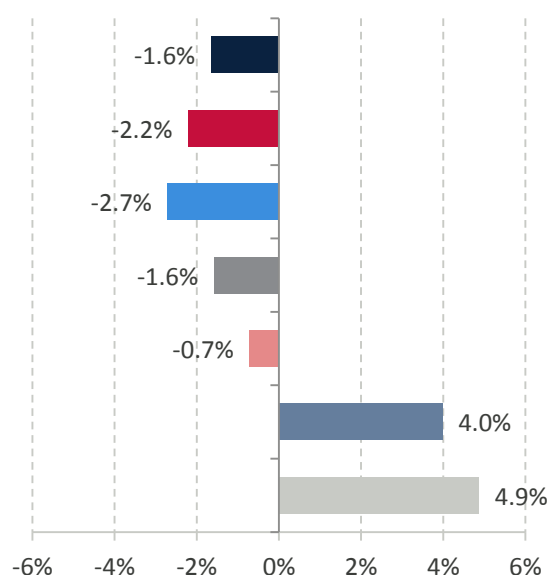
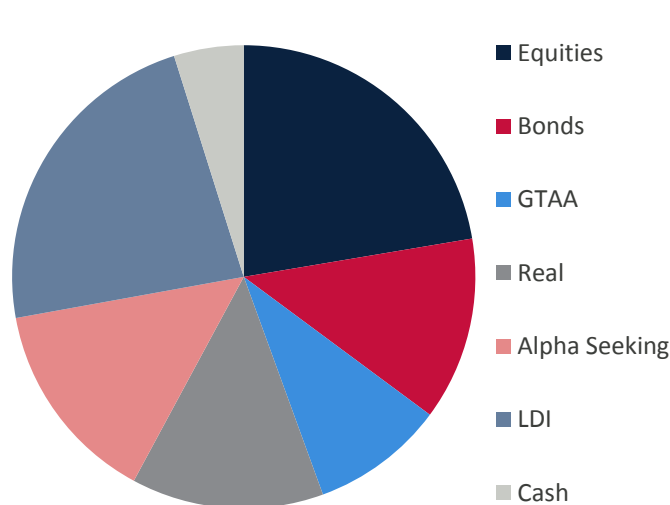
Asset Class	31 December 2014 Valuation £	Weight %	Strategic Benchmark %
Developed Market Equities	212,212,953	15.8	16.5
Emerging and Frontier Market Equities	87,892,976	6.5	7.5
Global Tactical Asset Allocation (GTAA)	124,838,425	9.3	12.0
Bonds	171,775,139	12.8	15.0
Fund of Hedge Funds	48,447,456	3.6	5.0
Property	97,593,399	7.3	7.0
Commodities	26,372,708	2.0	4.0
Private Equity	133,749,711	10.0	8.0
Infrastructure	31,395,070	2.3	2.0
Timber / Agriculture	24,833,720	1.8	2.0
Opportunistic	9,629,175	0.7	2.0
LDI	308,502,468	23.0	19.0
Cash	65,338,045	4.9	0.0
TOTAL CLWYD PENSION FUND	1,342,581,245	100.0	100.0

Points to note

- Allocation to LDI has risen by 2.8% over the quarter and is 4.0% overweight relative to its strategic benchmark.
- The Fund’s new investment strategy (revised Strategic Asset Allocation and Conditional Asset Allocation ranges) was approved by the Committee at the 5th November 2014 meeting. Implementation is due to be undertaken in Q1 2015.

Strategic Asset Allocation as at 31 December 2014

Deviation from Strategic Benchmark



Performance of the strategic asset classes and total Fund to 31 December 2014

Manager / Fund / Benchmark	3 Months %	12 Months %	3 Years % p.a.
Total Equities	1.0	6.5	11.3
Composite Benchmark	1.7	8.5	11.8
<i>Relative</i>	<i>-0.7</i>	<i>-2.0</i>	<i>-0.5</i>
Total Bonds	<i>-1.7</i>	1.9	2.9
Composite Benchmark	0.1	2.5	0.4
<i>Relative</i>	<i>-1.8</i>	<i>-0.6</i>	2.5
Total GTAA	<i>-0.5</i>	3.8	3.0
Composite Benchmark	1.3	5.7	6.0
<i>Relative</i>	<i>-1.8</i>	<i>-1.9</i>	<i>-3.0</i>
Total Alternatives - Real Assets	0.7	6.8	3.6
Composite Benchmark	<i>-0.8</i>	5.2	3.4
<i>Relative</i>	1.5	1.6	0.2
Total Alternatives - Alpha Seeking Assets	1.7	9.5	5.5
Composite Benchmark	1.3	5.2	5.2
<i>Relative</i>	0.4	4.3	0.3
Total ex Alternatives, GTAA and LDI	0.0	5.0	8.9
Composite Benchmark	1.1	6.2	8.5
<i>Relative</i>	<i>-1.1</i>	<i>-1.2</i>	0.4
Total ex GTAA and LDI	0.5	6.3	7.2
Composite Benchmark	0.8	5.8	7.0
<i>Relative</i>	<i>-0.3</i>	0.5	0.2
Total ex LDI	0.4	6.0	6.8
Composite Benchmark	0.8	5.8	6.9
<i>Relative</i>	<i>-0.4</i>	0.2	<i>-0.1</i>
Total Clwyd Pension Fund	4.1	11.8	8.6
Composite Benchmark	3.9	11.1	8.6
<i>Relative</i>	0.2	0.7	0.0

Source: JLT Employee Benefits

- Manager benchmarks and target objectives were reviewed during the quarter, and a number have now been revised (please see Appendix 1 for details). These are now shown for all of the time periods detailed in this report.

3 Manager Summary – 31 December 2014

Manager	Fund	31 December 2014				
		Valuation £	Weight %	Strategic Weight %	3 Yr Performance vs Objective*	
●	Duet	Global Opportunities	49,900,082	3.7	5.0	Target not met
●	Investec	Global Strategic Equity	79,957,469	6.0	5.0	Target met
●	Aberdeen	Asia Pacific ex Japan Equities	82,355,401	6.1	6.5	Target not met
●	Wellington	Emerging Market Equities (Core)	38,430,531	2.9	6.5	Target not met
●	Wellington	Emerging Market Equities (Local)	40,696,863	3.0		Target met
n/a	Aberdeen	Frontier Markets Equities	8,765,583	0.7	1.0	n/a
Total Equity Assets			300,105,929	22.4	24.0	
●	Stone Harbor	LIBOR Multi-Strategy Portfolio	171,775,139	12.8	15.0	Target met
Total Bond Assets			171,775,139	12.8	15.0	
●	BlackRock	GASL	57,466,237	4.3	6.0	Target not met
●	Bluecrest	AllBlue Ltd	33,537,719	2.5	3.0	Target met
●	Pyrford	Global Total Return	33,834,469	2.5	3.0	Target not met
Total GTAA Assets			124,838,425	9.3	12.0	
●	In-House	Property	97,593,399	7.3	7.0	Target not met
●	In-House	Infrastructure	31,395,070	2.3	2.0	Target met
●	In-House	Timber / Agriculture	24,833,720	1.8	2.0	Target not met
●	Wellington	Commodities	26,372,708	2.0	4.0	Target not met
Total Real Assets			180,194,897	13.4	15.0	
●	Pioneer	Fund of Hedge Funds	1,441,427	0.1		Target met
●	SSARIS	Fund of Hedge Funds	24,437,078	1.8	5.0	Target not met
●	Liongate	Fund of Hedge Funds	22,568,951	1.7		Target not met
●	In-House	Private Equity	133,749,711	10.0	8.0	Target met
n/a	In-House	Opportunistic	9,629,175	0.7	2.0	n/a
Total Alpha Seeking Assets			191,826,342	14.3	15.0	
n/a	Insight	LDI assets	308,502,468	23.0	19.0	n/a
n/a	Trustee	Cash	65,338,045	4.9	0.0	n/a
TOTAL CLWYD PENSION FUND			1,342,581,245	100.0	100.0	

Note: 'n/a' against the objective is for funds that have been in place for less than three years.

* Performance objectives have been reviewed as part of a strategic review.

● Fund has met or exceeded its performance objective

● Fund has underperformed its performance objective

Manager performance to 31 December 2014

Manager / Fund			3 months %		12 months %		3 years % p.a.		3 yr Performance vs Objective
			Fund	Bmark	Fund	Bmark	Fund	Bmark	
●	Duet	Global Opportunities	0.9	2.4	-0.9	10.0	1.9	10.0	Target not met
●	Investec	Global Strategic Equity	4.8	4.4	14.0	10.7	19.0	14.0	Target met
●	Aberdeen	Asia Pacific ex Japan	0.6	3.2	9.6	9.5	7.9	9.3	Target not met
●	Wellington	Emerging Markets (Core)	-2.1	-0.6	0.0	4.3	4.3	4.8	Target not met
●	Wellington	Emerging Markets (Local)	0.2	-0.6	9.5	4.3	8.4	2.8	Target met
n/a	Aberdeen	Frontier Markets	-10.6	-9.0	-1.0	13.9	n/a	n/a	n/a
Total Equity Assets			1.0	1.7	6.5	8.5	11.3	11.8	
●	Stone Harbor	LIBOR Multi-Strategy	-1.7	0.1	1.9	2.5	2.9	0.4	Target met
Total Bond Assets			-1.7	0.1	1.9	2.5	2.9	0.4	
●	BlackRock	GASL	-2.6	1.6	2.0	6.6	1.6	6.7	Target not met
●	Bluecrest	AllBlue Ltd	0.8	0.9	6.6	3.5	4.9	3.6	Target met
●	Pyrford	Global Total Return	2.0	1.0	4.2	6.1	3.6	7.0	Target not met
Total GTAA Assets			-0.5	1.3	3.8	5.7	3.0	6.0	
●	In-House	Property	5.2	4.5	14.1	19.4	7.3	10.9	Target not met
●	In-House	Infrastructure	3.9	0.9	8.4	3.5	11.1	3.6	Target met
●	In-House	Timber / Agriculture	-4.9	0.9	4.2	3.5	-1.2	3.5	Target not met
●	Wellington	Commodities	-12.7	-11.1	-15.0	-14.8	-9.1	-9.0	Target not met
Total Real Assets			0.7	-0.8	6.8	5.2	3.6	3.4	
●	Pioneer	Fund of Hedge Funds	5.0	0.9	21.0	3.5	6.8	3.6	Target met
●	SSARIS	Fund of Hedge Funds	-0.2	0.9	0.6	3.5	2.4	3.6	Target not met
●	Liongate	Fund of Hedge Funds	-0.8	1.4	3.6	5.5	2.5	5.6	Target not met
●	In-House	Private Equity	2.0	1.4	11.0	5.6	6.4	5.6	Target met
n/a	In-House	Opportunistic	6.4	1.5	20.9	5.6	n/a	n/a	n/a
Total Alpha Seeking Assets			1.7	1.3	9.5	5.2	5.5	5.2	
n/a	Insight	LDI Portfolio	17.7	17.7	n/a	n/a	n/a	n/a	n/a
Total (ex Alternatives, GTAA and LDI)			0.0	1.1	5.0	6.2	8.9	8.5	
Total (ex GTAA and LDI)			0.5	0.8	6.3	5.8	7.2	7.0	
Total (ex LDI)			0.4	0.8	6.0	5.8	6.8	6.9	
TOTAL CLWYD PENSION FUND			4.1	3.9	11.8	11.1	8.6	8.6	

Note: Performance shown is calculated by JLT Employee Benefits based on data provided by the investment managers.

4 Strategic Asset Allocation – 31 January 2015

Allocation by underlying asset class

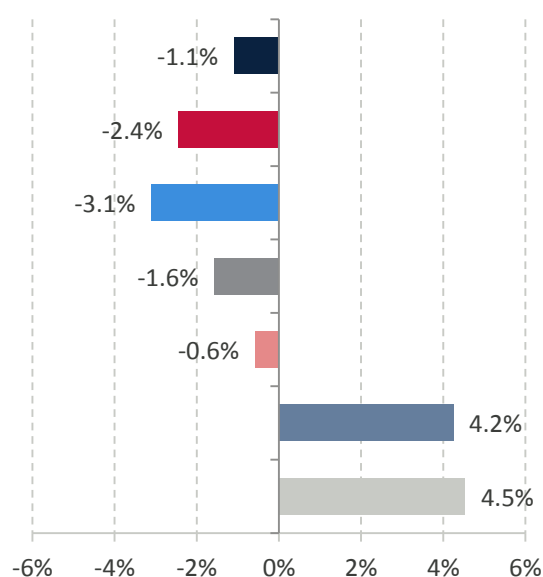
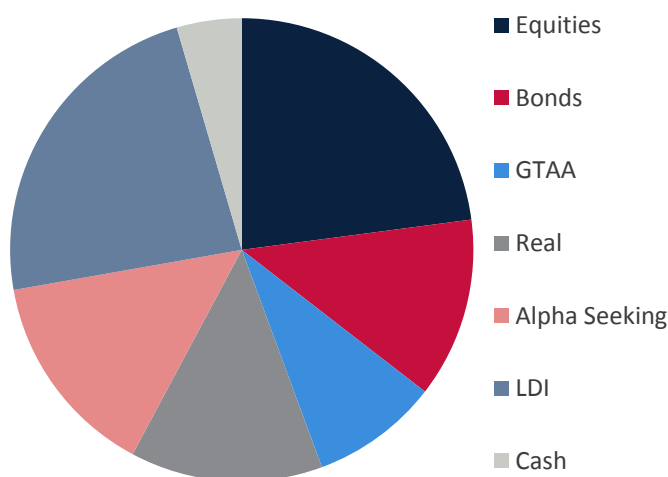
Asset Class	31 January 2015 Valuation £	Weight %	Strategic Benchmark %
Developed Market Equities	218,352,228	16.1	16.5
Emerging and Frontier Market Equities	92,154,829	6.8	7.5
Global Tactical Asset Allocation (GTAA)	120,558,812	8.9	12.0
Bonds	170,261,318	12.6	15.0
Fund of Hedge Funds	48,585,844	3.6	5.0
Property	98,560,015	7.3	7.0
Commodities	25,914,359	1.9	4.0
Private Equity	137,237,511	10.1	8.0
Infrastructure	32,021,847	2.4	2.0
Timber / Agriculture	25,533,139	1.9	2.0
Opportunistic	9,620,778	0.7	2.0
LDI	314,973,992	23.2	19.0
Cash	61,392,469	4.5	0.0
TOTAL CLWYD PENSION FUND	1,355,167,141	100.0	100.0

Points to note

- Allocation to LDI has risen by 0.2% over the last month and is 4.2% overweight relative to its strategic benchmark.
- The Fund’s new investment strategy (revised Strategic Asset Allocation and Conditional Asset Allocation ranges) was approved by the Committee at the 5th November 2014 meeting. Implementation is due to be undertaken in Q1 2015.

Strategic Asset Allocation as at 31 January 2015

Deviation from Strategic Benchmark



Performance of the strategic asset classes and total Fund to 31 January 2015

Manager / Fund / Benchmark	3 Months %	12 Months %	3 Years % p.a.
Total Equities	3.1	15.5	10.4
Composite Benchmark	2.7	18.6	10.7
<i>Relative</i>	0.4	-3.1	-0.3
Total Bonds	-2.4	-0.7	1.7
Composite Benchmark	0.1	0.6	0.3
<i>Relative</i>	-2.5	-1.3	1.4
Total GTAA	-0.2	2.4	1.6
Composite Benchmark	1.1	5.5	5.9
<i>Relative</i>	-1.3	-3.1	-4.3
Total Alternatives - Real Assets	1.0	7.3	4.0
Composite Benchmark	-1.6	4.3	2.6
<i>Relative</i>	2.6	3.0	1.4
Total Alternatives - Alpha Seeking Assets	3.0	10.2	6.0
Composite Benchmark	1.3	5.2	5.2
<i>Relative</i>	1.7	5.0	0.8
Total ex Alternatives, GTAA and LDI	1.1	9.6	7.9
Composite Benchmark	1.7	11.5	7.7
<i>Relative</i>	-0.6	-1.9	0.2
Total ex GTAA and LDI	1.5	9.3	6.8
Composite Benchmark	0.9	8.6	6.3
<i>Relative</i>	0.6	0.7	0.5
Total ex LDI	1.3	8.4	6.2
Composite Benchmark	0.9	8.1	6.3
<i>Relative</i>	0.4	0.3	-0.1
Total Clwyd Pension Fund	4.6	14.3	8.2
Composite Benchmark	3.8	13.5	8.1
<i>Relative</i>	0.8	0.8	0.1

Source: JLT Employee Benefits

- Manager benchmarks and target objectives were reviewed during the quarter, and a number have now been revised (please see Appendix 1 for details). These are now shown for all of the time periods detailed in this report.

5 Manager Summary – 31 January 2015

Manager	Fund	31 January 2015				
		Valuation £	Weight %	Strategic Weight %	3 Yr Performance vs Objective*	
●	Duet	Global Opportunities	49,845,854	3.7	5.0	Target not met
●	Investec	Global Strategic Equity	82,262,057	6.1	5.0	Target met
●	Aberdeen	Asia Pacific ex Japan Equities	86,244,318	6.4	6.5	Target not met
●	Wellington	Emerging Market Equities (Core)	40,136,154	3.0	6.5	Target not met
●	Wellington	Emerging Market Equities (Local)	42,590,995	3.1		Target met
n/a	Aberdeen	Frontier Markets Equities	9,427,680	0.7	1.0	n/a
Total Equity Assets			310,507,057	22.9	24.0	
●	Stone Harbor	LIBOR Multi-Strategy Portfolio	170,261,318	12.6	15.0	Target met
Total Bond Assets			170,261,318	12.6	15.0	
●	BlackRock	GASL	52,073,534	3.8	6.0	Target not met
●	Bluecrest	AllBlue Ltd	33,926,756	2.5	3.0	Target met
●	Pyrford	Global Total Return	34,558,522	2.6	3.0	Target not met
Total GTAA Assets			120,558,812	8.9	12.0	
●	In-House	Property	98,560,015	7.3	7.0	Target not met
●	In-House	Infrastructure	32,021,847	2.4	2.0	Target met
●	In-House	Timber / Agriculture	25,533,139	1.9	2.0	Target not met
●	Wellington	Commodities	25,914,359	1.9	4.0	Target not met
Total Real Assets			182,029,360	13.4	15.0	
●	Pioneer	Fund of Hedge Funds	1,571,864	0.1		Target met
●	SSARIS	Fund of Hedge Funds	24,551,103	1.8	5.0	Target not met
●	Liongate	Fund of Hedge Funds	22,462,877	1.7		Target not met
●	In-House	Private Equity	137,237,511	10.1	8.0	Target met
n/a	In-House	Opportunistic	9,620,778	0.7	2.0	n/a
Total Alpha Seeking Assets			195,444,133	14.4	15.0	
n/a	Insight	LDI assets	314,973,992	23.2	19.0	n/a
n/a	Trustee	Cash	61,392,469	4.5	0.0	n/a
TOTAL CLWYD PENSION FUND			1,355,167,141	100.0	100.0	

Note: 'n/a' against the objective is for funds that have been in place for less than three years.

* Performance objectives have been reviewed as part of a strategic review.

● Fund has met or exceeded its performance objective

● Fund has underperformed its performance objective

Manager performance to 31 January 2015

Manager / Fund			3 months %		12 months %		3 years % p.a.		3 yr Performance vs Objective
			Fund	Bmark	Fund	Bmark	Fund	Bmark	
●	Duet	Global Opportunities	0.3	2.4	-1.6	10.0	1.9	10.0	Target not met
●	Investec	Global Strategic Equity	6.4	4.6	19.9	16.9	17.8	13.2	Target met
●	Aberdeen	Asia Pacific ex Japan	3.6	4.5	19.8	20.6	6.9	8.2	Target not met
●	Wellington	Emerging Markets (Core)	1.0	1.2	9.9	15.6	2.3	2.8	Target not met
●	Wellington	Emerging Markets (Local)	2.3	1.2	18.5	15.6	8.1	2.1	Target met
n/a	Aberdeen	Frontier Markets	-2.4	-6.4	1.4	11.6	n/a	n/a	n/a
Total Equity Assets			3.1	2.7	15.5	18.6	10.4	10.7	
●	Stone Harbor	LIBOR Multi-Strategy	-2.4	0.1	-0.7	0.6	1.7	0.3	Target met
Total Bond Assets			-2.4	0.1	-0.7	0.6	1.7	0.3	
●	BlackRock	GASL	-3.9	1.6	-3.9	6.6	-2.2	6.7	Target not met
●	Bluecrest	AllBlue Ltd	2.4	0.9	8.1	3.5	5.1	3.6	Target met
●	Pyrford	Global Total Return	3.2	0.2	7.3	5.6	4.6	6.9	Target not met
Total GTAA Assets			-0.2	1.1	2.4	5.5	1.6	5.9	
●	In-House	Property	5.1	3.9	14.4	19.1	8.5	11.1	Target not met
●	In-House	Infrastructure	4.8	0.9	10.5	3.5	12.1	3.6	Target met
●	In-House	Timber / Agriculture	-4.8	0.9	5.9	3.5	0.0	3.5	Target not met
●	Wellington	Commodities	-11.4	-12.8	-16.1	-17.0	-11.5	-11.8	Target not met
Total Real Assets			1.0	-1.6	7.3	4.3	4.0	2.6	
●	Pioneer	Fund of Hedge Funds	12.4	0.9	23.1	3.5	9.0	3.6	Target met
●	SSARIS	Fund of Hedge Funds	0.1	0.9	0.2	3.5	2.6	3.6	Target not met
●	Liongate	Fund of Hedge Funds	0.3	1.4	2.5	5.5	1.7	5.6	Target not met
●	In-House	Private Equity	3.4	1.4	13.7	5.5	7.3	5.6	Target met
n/a	In-House	Opportunistic	9.2	1.4	6.6	5.6	n/a	n/a	n/a
Total Alpha Seeking Assets			3.0	1.3	10.2	5.2	6.0	5.2	
n/a	Insight	LDI Portfolio	16.3	16.3	n/a	n/a	n/a	n/a	n/a
Total (ex Alternatives, GTAA and LDI)			1.1	1.7	9.6	11.5	7.9	7.7	
Total (ex GTAA and LDI)			1.5	0.9	9.3	8.6	6.8	6.3	
Total (ex LDI)			1.3	0.9	8.4	8.1	6.2	6.3	
TOTAL CLWYD PENSION FUND			4.6	3.8	14.3	13.5	8.2	8.1	

Note: Performance shown is calculated by JLT Employee Benefits based on data provided by the investment managers.

Appendix 1: Summary of Mandates

Manager	Fund	Mandate	Benchmark	Objective	Strategic Weight	Tactical Range
Duet	Global Opportunities	Unconstrained Global Equities	Absolute Return	10-15% p.a. abs	5.0%	+/-1%
Investec	Global Strategic Equity	Unconstrained Global Equities	MSCI AC World Index	+2.5% p.a. (net)	5.0%	+/-1%
Aberdeen	Asia Pacific ex Japan	Asia Pacific ex Japan Equities	MSCI AC Pacific (ex Japan) Index	+3.5% p.a.	6.5%	+/-1%
Wellington	Emerging Market (Core)	Emerging Markets Equities	MSCI Emerging Markets Index	+2.5% p.a.	6.5%	+/-1%
Wellington	Emerging Market (Local)	Emerging Markets Equities	MSCI Emerging Markets Index	+2.5% p.a.		
Aberdeen	Frontier Markets	Frontier Markets Equities	MSCI Frontier Equities Index	+3.0% p.a.	1.0%	-
Stone Harbor	LIBOR Multi-Strategy Portfolio	Multi-Asset Credit	1 Month LIBOR Index	+1.0% p.a.	15.0%	+/- 2%
BlackRock	GASL	Global Tactical Asset Allocation	3 Month LIBOR Index +6.0% p.a.	Outperform	6.0%	+/- 1%
Bluecrest	AllBlue Ltd	Global Tactical Asset Allocation	1 Month LIBOR Index +3.0% p.a.	Outperform	3.0%	+/- 1%
Pyrford	Global Total Return	Global Tactical Asset Allocation	UK Retail Price Index +4.4% p.a.	Outperform	3.0%	+/- 1%
Pioneer	Fund of Hedge Funds	Fund of Hedge Funds	1 Month LIBOR Index +3.0% p.a.	Outperform		-
SSARIS	Fund of Hedge Funds	Fund of Hedge Funds	1 Month LIBOR Index +3.0% p.a.	Outperform	5.0%	-
Liongate	Fund of Hedge Funds	Fund of Hedge Funds	1 Month LIBOR Index +5.0% p.a.	Outperform		
In-House	Private Equity	Private Equity	1 Month LIBOR Index +5.0% p.a.	Outperform	8.0%	+/- 3%
In-House	Opportunistic	Opportunistic	1 Month LIBOR Index +5.0% p.a.	Outperform	2.0%	
In-House	Property	Property	IPD Balanced Funds Weighted Average	Outperform	7.0%	
In-House	Infrastructure	Infrastructure	1 Month LIBOR Index +3.0% p.a.	Outperform	2.0%	+/- 3%
In-House	Timber / Agriculture	Timber / Agriculture	1 Month LIBOR Index +3.0% p.a.	Outperform	2.0%	
Wellington	Commodities	Commodities	S&P GSCI Equal Weighted (Hedged)	+0.7% p.a. (net)	4.0%	
Insight	LDI Portfolio	LDI & Synthetic Equities	Composite Liabilities & Synthetic Equity	Outperform	19.0%	TBC

Note: Manager benchmarks and target objectives were reviewed during the quarter, and a number have now been revised.

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FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CLWYD PENSION FUND COMMITTEE**

DATE: **24th MARCH 2015**

REPORT BY: **CHIEF OFFICER (PEOPLE AND RESOURCES)**

SUBJECT: **FUNDING AND FLIGHT-PATH UPDATE**

1.00 PURPOSE OF REPORT

1.01 To update Committee Members on the funding position and liability hedging undertaken as part of the Flight-path strategy for managing liability risks.

2.00 BACKGROUND

2.01 A role of the Committee is to monitor the funding position of the Fund and the management of the liabilities.

2.02 Mercer provides advice to the Fund on liability hedging and flight-paths. Insight Investments were appointed to manage the assets on behalf of the Fund.

2.03 The flight-path strategy commenced from 1st April 2014 with the following aims:

- Achieve a 'base level' of interest rate and inflation hedging (10% hedge ratio) at the outset.
- Aim for a target interest rate and inflation hedge of 40% by April 2019.
- Achieve a target interest rate and inflation hedge ratio of 80% in the long term.

To this end, Insight will construct and manage a portfolio of assets that aims to hedge a proportion of the Fund's liability cash flows.

2.04 By replacing the Fund's passive equity exposure with an Equity Total Return Swap (synthetic equity exposure) the Fund freed up capital to be used as collateral for a liability hedging portfolio. This enables the Fund to maintain its exposure to return seeking assets, while reducing the interest and inflation risks.

2.05 From the 'base level' further hedging will be achieved through an incremental build up over time overlaid with triggers according to prevailing market conditions. In addition there are funding level triggers which will result in the disinvestment of growth assets as the funding level improves. All the above is fully documented and understood by Mercer and Insight.

- 2.06 The triggers have been formulated on the understanding that the Fund's overall objective is to be fully funded within 10 to 12 years which is ahead of the average recovery plan based on deficit contributions of 18 years.

3.00 CONSIDERATIONS

- 3.01 The monthly summary report from Mercer on the funding position and an overview liability hedging mandate is attached as at 28 February 2015. There was no hedging activity in February 2015. It includes a "traffic light" of the key components of the Flightpath and hedging mandate with Insight. This will be presented at the Committee meeting including a verbal update on how things have moved. Based on the preliminary data from Insight, the analysis shows that all traffic lights are "green" at 28 February meaning the mandate is operating in line within the tolerances set by the our advisors. However, there is continuing volatility in markets so the current funding position is closer to an amber rating. This is because the funding position is behind the expected recovery plan given the recent change in market conditions.
- 3.02 With regards to specific actions since the commencement of the strategy a number of interest rate triggers have been met and the Fund had an interest rate hedge of approx. 24.0% and an inflation hedge of approx. 40.0% at 28 February. No funding triggers had been reached. This means we have already reached our aim the planned target level at April 2019 for inflation hedging. The Advisory Panel is considering whether inflation hedging should continue.
- 3.03 The estimated funding position as at 28 February is 66% and an estimated deficit of £702m which is behind expectations. The hedges in 3.02 have protected the funding position against the recent changes in interest and inflation rates to the extent the deficit would have been approx. £70m higher if the hedges since inception had not been implemented via the triggers and the original strategy had remained in place.
- 3.04 The Actuary will verbally update the Committee on developments since 28 February 2015.

4.00 RECOMMENDATIONS

- 4.01 That Committee Members note and discuss the estimated funding level and the liability hedging undertaken to 28 February 2015.

5.00 FINANCIAL IMPLICATIONS

- 5.01 None directly as a result of this report.

6.00 ANTIPOVERTY IMPACT

- 6.01 None directly as a result of this report.

7.00 ENVIRONMENTAL IMPACT

- 7.01 None directly as a result of this report.

8.00 EQUALITIES IMPACT

8.01 None directly as a result of this report.

9.00 PERSONNEL IMPLICATIONS

9.01 None directly as a result of this report

10.00 CONSULTATION REQUIRED

10.01 None directly as a result of this report

11.00 CONSULTATION UNDERTAKEN

11.01 None directly as a result of this report

12.00 APPENDICES

12.01 Overview of risk management framework – Q4 2014

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: None

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Clwyd Pension Fund Risk management framework monitoring report

March 2015

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Adam Lane, FIA
Paul Middleman, FIA

Clwyd Pension Fund Executive summary

 = as per expectations  = to be kept under review  = action required



Overall funding position

- Currently behind existing recovery plan but within acceptable limits
- Funding level below the first de-risking trigger

No action required



Liability hedging mandate

- Insight in compliance with investment guidelines
- All triggers implemented as expected where practically possible
- Performance in line with expectations

No action required



Synthetic equity mandate

- Insight in compliance with investment guidelines
- Performance in line with expectations
- Maturity constraints as expected

No action required



Collateral and counterparty position

- Collateral within agreed constraints
- The Insight QIF can sustain at least a 1.5% rise in yields and a 50% fall in equity markets before requiring further collateral

No action required



LIBOR Plus Fund

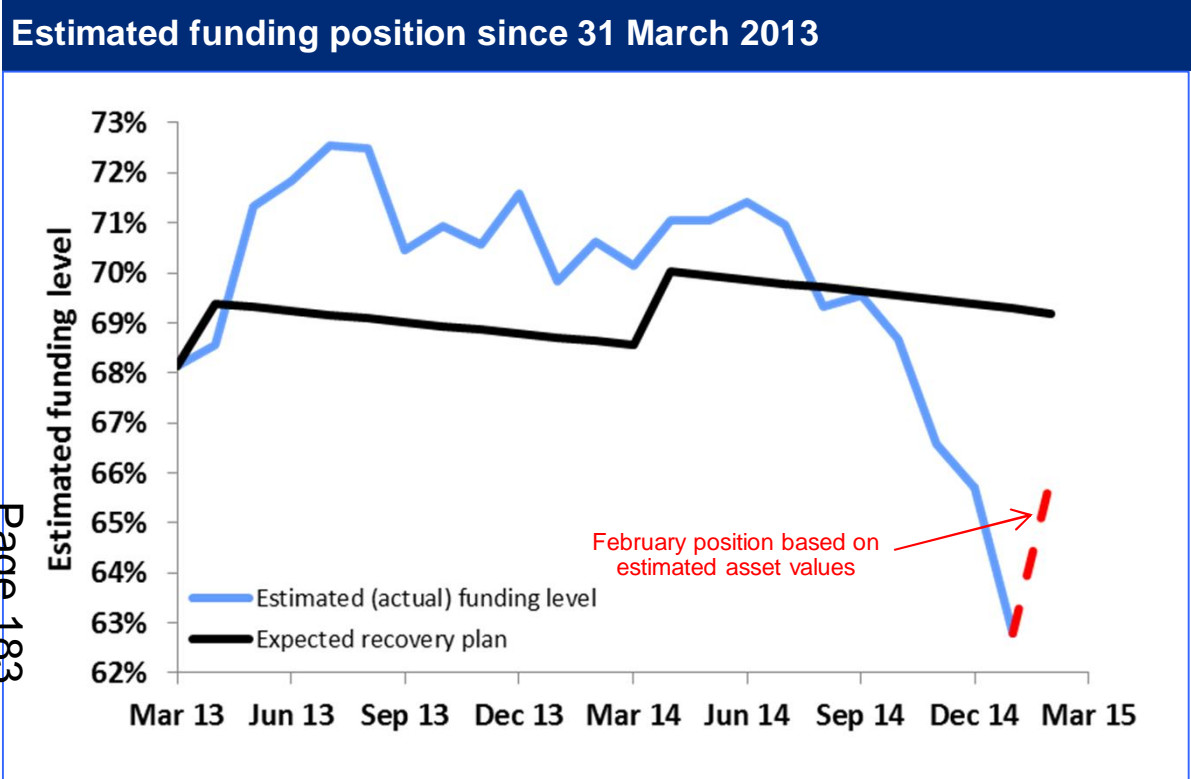
- Fund is ahead of performance target net of fees since inception
- Management team stable and no change in manager rating
- Allocation of £50m (plus growth) remains appropriate

No action required

Clwyd Pension Fund

Funding level monitoring to 28 February 2015

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Comments

The **black line** shows a projection of the funding level from the 31 March 2013 based on the assumptions (and contributions) outlined in the actuarial valuation.

The **blue line** shows an estimate of the progression of actual funding level from 31 March 2013. This shows that the Fund was behind the funding plan at 28 February 2015 by around 3%.

At the 28 February 2015, we estimate that the funding level and deficit was as follows:

66% (£702m*)

Action: No action required. The funding level is below the first funding level trigger which is set at 80% (please see the table below).

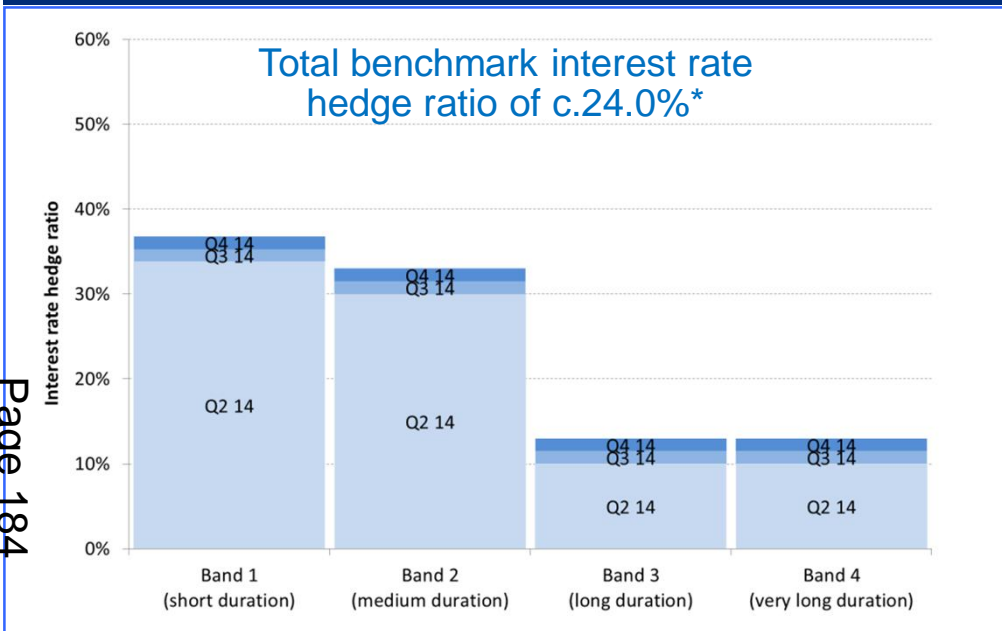
	Funding level	Impact on strategic asset allocation	Change to the hedge ratio
28 February 2015	66%	No action	No action
Funding level Trigger 1	80%	Reduce the Insight equity exposure by 50%	Increase hedge ratio to 40%
Funding level Trigger 2	85%	Remove the Insight equity exposure	Increase hedge ratio to 50%
Funding level Trigger 3	90%	Increase Insight allocation from 19% of assets to 25%	Increase hedge ratio to 60%
Funding level Trigger 4	95%	Increase Insight allocation from 25% of assets to 30%	Increase hedge ratio to 70%
Funding level Trigger 5	100%	Increase Insight allocation from 30% of assets to 35%	Increase hedge ratio to 80%

*Asset values estimated based on market indices and an estimate of performance of the Insight liability hedging mandate from 31 January 2015 to 28 February 2015. We will monitor this estimate over time against the actual position once final asset values are available, and have now updated the asset values as at the end of January.

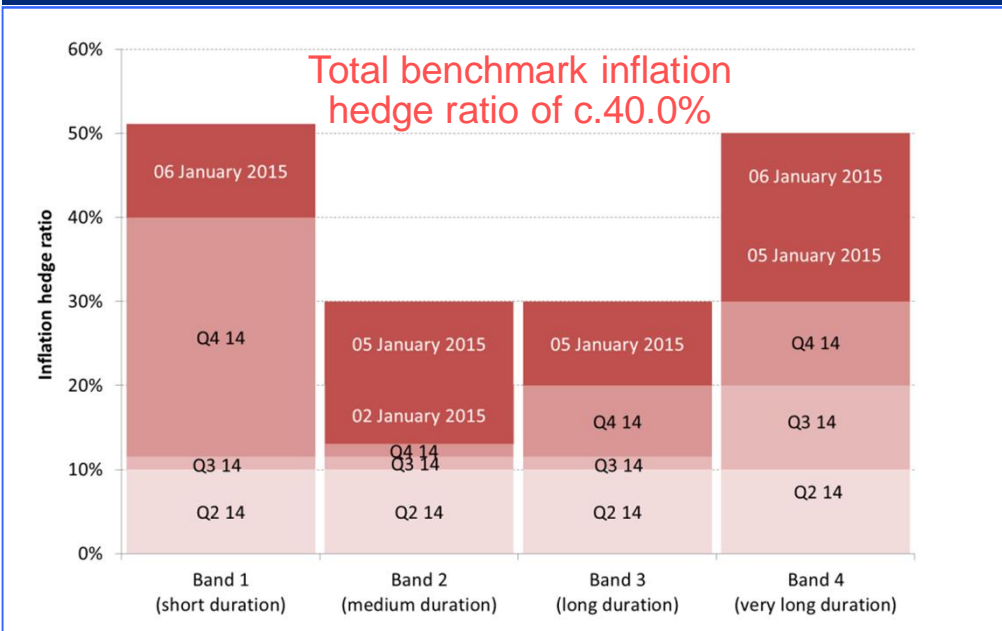
Clwyd Pension Fund

Update on liability hedging (Source: Insight Investment)

Interest rate hedging activity



Inflation hedging activity



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	Date	Band 1	Band 2	Band 3	Band 4
Start position	31 January	36.8%	33.0%	13.0%	13.0%
	-	-	-	-	-
End position	28 February	36.8%	33.0%	13.0%	13.0%

	Date	Band 1	Band 2	Band 3	Band 4
Start position	31 January	51.1%	30.0%	30.0%	50.0%
	-	-	-	-	-
End position	28 February	51.1%	30.0%	30.0%	50.0%

No hedging activity occurred over February 2015.

*Estimate assuming equal risk weightings across maturity bands

Clwyd Pension Fund

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