CLWYD PENSION FUND COMMITTEE
16 FEBRUARY 2017

Minutes of the meeting of the Clwyd Pension Fund Committee of Flintshire County Council held at Delyn Committee Room, County Hall, Mold CH7 6NA on Thursday, 16th February, 2017

PRESENT: Councillor Alan Diskin (Chairman)
Councillors: Haydn Bateman, Ron Hampson and Matt Wright

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

APOLOGIES: Councillor Brian Dunn

ALSO PRESENT (AS OBSERVERS): Mark Owen and Steve Jackson (Employer representatives Clwyd Pension Fund Board), and Gaynor Brookes (Member representative Clwyd Pension Fund Board)

IN ATTENDANCE:
Advisory Panel comprising: Gary Ferguson (Corporate Finance Manager), Philip Latham (Clwyd Pension Fund Manager), , Karen McWilliam (Independent Advisor – Aon Hewitt), Paul Middleman (Fund Actuary – Mercer), Kieran Harkin (Fund Investment Consultant – JLT Group)

Officers/Advisers comprising: Alwyn Hughes (Pensions Finance Manager), Helen Burnham (Pensions Administration Manager) , Debbie Fielder (Pensions Finance Manager) and Sarah Spall (Consultant Assistant – Mercer) taking minutes.

Prior to the start of the meeting the Chair welcomed the members of the Clwyd Pension Fund Board and the Committee agreed that they could contribute to the meeting.

51. DECLARATIONS OF INTEREST (INCLUDING CONFLICTS OF INTEREST)

Councillor Stephen Wilson and Councillor Haydn Bateman declared a personal interest as being members of the Clwyd Pension Fund for all items.

Karen McWilliam (Independent Advisor – Aon Hewitt) and Paul Middleman (Fund Actuary – Mercer) declared a personal interest as employees of Aon Hewitt/Mercer respectively who may submit a tender response to be the operator of the Wales Pool.

52. MINUTES

The minutes of the meeting of the Committee held on 8 November 2016 were submitted.

RESOLVED:

It was noted that Karen Williams was not present at the meeting but apart from that, the minutes could be received, approved and signed by the Chairman as a correct record.

53. **POOLING INVESTMENTS IN WALES**

Mr Latham (Clwyd Pension Fund Manager) introduced an update on the Working Together Project in Wales.

Mr Latham explained the report was in three parts covering the Inter Authority Agreement (IAA), the required changes to the Councils' Constitution (to reflect implementation of the new Joint Governance Committee (JGC)) and an update on the procurement of an operator. The recommendations agreed by the Committee would be put to the full Council.

A summary of the main features of the IAA are as follows:

- while the IAA is still a work in progress, it is not expected to change significantly and it will require a change to the Councils' constitution.

- it involves the creation of the JGC and an Officer Working Group (OWG). The JGC would consist of an elected member representative from each of the 8 Constituent Authorities. The OWG will consist of officer practitioners where 2 officers per Authority will be members.

- each of the Constituent Authority's represented will have one vote per member on the JGC.

- the Chair and Vice-Chair of the JGC would be agreed at a later date.

- a host council was needed to co-ordinate and link in with new JGC and Carmarthenshire County Council take on this role.

- allocation of costs, delegations and the arrangement to exit the Pool are also covered. In relation to governance, the IAA explains that there would be a training policy in place and provision for the JGC/OWG to take appropriate advice.

- although there is no scheme member representation co-opted onto the JGC, meetings will be open to the public and there are requirements to liaise with Local Pension Boards and hence their member representatives.

- the location of the meetings will be rotated around the 8 Constituent Authorities. Agendas, reports and minutes will be in Welsh and English, with a simultaneous translation of proceedings during the meetings.

- with regards to the delegations to each Constituent Authority as set out in Schedule 2, it was recommended that these are delegated by Council to this Committee with the exception of points 5 & 6 (amendments to the IAA and termination of the agreement). If there were any major amendments to these two points then would have to be reverted to Council.

It was queried if the Host Council would change in the future. Mr Latham explained that it could change in the future and Mrs McWilliam added that should the Host Council change, then it would need an amendment to the IAA. This would have to be agreed by all Pension Fund Committees/Councils as it would be classed as a significant amendment.

A question was asked about paragraph 7.1 of the IAA and how advice was to be provided. Would Carmarthenshire County Council take on the role of monitoring officer for the pool? Mr Latham explained that the expectation is it will likely be the Host Council.

Councillor Bateman asked about provisions for Voluntary Exits (page 36). Mr Latham said it was hoped that this would not materialise but there was provision for any Fund to exit if circumstances changed.

It was also noted that if any Constituent Authority chose to leave, then they would have to meet all the costs associated with this. Mrs McWilliam explained that in practice there were not many other options. Exit would need to be a long term decision and only extreme circumstances would lead CPF to consider leaving the pool. Mrs McWilliam noted that in her opinion the biggest operational challenge would be selecting the right operator. Cllr Wilson noted that the IAA includes provision for other Funds to join the pool.

The nominations to the JGC have to be made by full Council rather the Clwyd Pension Fund Committee and it must be an elected member. It was proposed that the Chair and vice Chair are put forward as representative and substitute for the JCG. This would be the recommendation from the Pension Fund Committee to full Council for a decision. The timing of this will be the AGM in May. The Committee agreed with this approach.

With regards to the procurement of the pool operator, the plan is that it will be in place by July 2017. The Pension Fund Committee will be updated on this at future meetings.

As part of the discussions Mr Hibbert read out the following statement regarding the IAA and made a number of points for consideration.

Statement

Introduction

UNISON has been at the forefront of improving the participation of Scheme members in the decision making processes of their Pension Funds. This pressure has led to the creation of Local Pension Boards (with *equal* employee and employer representatives which assist Pension Fund Committees. Clwyd Pension Fund Committee also has a co-opted Scheme Member Representative with voting rights selected by the recognised NJC trade unions. This position is currently held by Steve Hibbert, UNISON.

The pooling of pension funds to generate economies of scale, access to larger investment opportunities and reduce investment costs (both known and currently unknown by the individual funds) is generally welcomed by UNISON and should be a benefit to the scheme members and employers alike.

Tory Chancellor Osborne's statement that these pooled funds would be 'British Wealth Funds' with the implication that investment decisions could be diverted to 'pet' investment projects for the government of the day and therefore the opportunity to use Local Government worker's pension monies to 'generate positive publicity' for political means rightly raised concerns throughout the Funds and the trade union. UNISON sponsored a petition which received sufficient signatures to afford a debate in Westminster Hall and also helped generate more than 23000 responses to the government consultation none of which made any fundamental changes to the proposal.

Steve Hibbert, UNISON and the scheme members are grateful for the efforts of Officers, the Chair and colleagues (both Elected Members and trade union reps) through the Joint Council for Wales, to ensure scheme member representation on the Joint Governance Committee of the welsh pool, which have unfortunately been rebuffed.

Clwyd Pension Fund Committee is now being asked to ratify the proposed Inter-Authority Agreement (IAA) that will govern the approved welsh pooling arrangement, the Joint Governance Committee (JGC).

Scheme Member Concerns

Marcus Jones M.P. the Pension Minister, during the debate confirmed:

"I assure Hon. Members that there is an opportunity for trade union representation on pools. That is a matter for the individual pools themselves and depends on their governance arrangements, but the individual local authority members that support each scheme will have the right to be part of setting up those pooling governance arrangements, and it will therefore be their decision on whether union representatives are on the pools".

However, I understand that only one has chosen to do this. Excuses given include the Local Government Act prevents anyone but Elected members to be on these bodies. Indeed the Flintshire's Monitoring Officer's advice (*para.* 1.06) is that "the nominations to the JGC (representative Member and Substitute…must both be elected members of a Council and members of the Pension Fund Committee".

Point for Consideration – This Committee should not agree to the delegations outlined in *para.* 1.06 without sight and understanding of the Monitoring Officer's advice to Flintshire County Council regarding the requirement that only Elected Members of the Committee can be nominated as Representative Member and Substitute.

During previous debates at Clwyd Pension fund Committees, I have raised concern regarding the location of meetings of the JGC, the power held by the chair and the ability of one fund to influence all. The current IAA falls short of what I have previously suggested would mitigate those concerns.

Point for Consideration – This Committee should not agree to the proposed IAA on the grounds that in order to reduce the possibility of undue influence that the Chair and location of the meetings should rotate around the funds on a meeting by meeting basis.

Schedule 3 (.10) requires the JGC to "*liaise* with Pension Boards *as appropriate* in line with CIPFA Guidance…" (my *italics*).

Point for Consideration – This Committee should not agree to the proposed IAA on the grounds that the requirement to liaise with Pension Boards is insufficiently clear without the CIPFA Guidance and I'd suggest insufficiently robust *with* the CIPFA Guidance.

Point for Consideration – This Committee should not agree to the proposed IAA on the grounds that it includes a greater requirement to engage with Pension Boards than is expressed for this Committee.

If this Committee accepts that the (elected) Member Representative or their (elected member) substitute acts on behalf of this Committee, what is the mechanism for seeking the mandate of this Committee prior to casting any votes?

Point for Consideration – This Committee should not agree to the proposed IAA on the grounds that its position cannot be gained on voting matters ahead of any vote taking place.

Schedule 6, *para.* 6.1 allows for each Committee to propose motions to the JGC but these must be seconded (as normal).

Point for consideration – This Committee should not agree to the proposed IAA as its *nuanced* positions may not be supported by others and therefore never be debated at the JGC.

I therefore propose that:

1. **Clwyd Pension Fund Committee does not approve the draft Inter-Authority Agreement and does not support its recommendation to Council**

2. **Clwyd Pension Fund Committee does not support the delegations outlined in para's. 1.05 and 1.06 as it allows for a lower standard of Governance in the Pool than Clwyd Pension Fund currently benefits from.**

I would suggest to the Committee that in passing the above, there wouldn't be a severe impact on the Pooling process (as Chairs and Officers can

continue to meet as now) but there would be a short delay in the formalisation of the JGC whilst the Pool reconsiders its position regarding scheme member representation (chosen by the recognised trade unions) and revises the IAA accordingly so that it can be ratified by this Committee, through an additional meeting if necessary.

Mrs McWilliam responded recommending that the Committee assess each Point of Consideration in turn. Mrs McWilliam also advised that the Committee needed to decide as a whole which points needed to be taken forward (if any).

Point for Consideration – This Committee should not agree to the proposed IAA on the grounds that in order to reduce the possibility of undue influence that the Chair and location of the meetings should rotate around the funds on a meeting by meeting basis.

Mr Hibbert's concern is over one Fund's dominance over the meetings – the JGC Chair should change with each meeting.

Councillor Wilson said that the 8 members will decide on the Chair of the JGC but Mr Hibbert's main concern is that this decision is made in unrecorded pre-meetings as opposed to the actual meeting which undermines the overall governance. Mr Latham explained that they need a consistent voice for the Welsh Pool as there will be national meetings as well as cross pool meetings. He stressed that Carmarthenshire County Council would be the Host Council only and not the lead council. The Chairman highlighted that the Joint Chair meetings have been very focussed on working together.

Mrs McWilliam queried with Mr Hibbert that his stance was that the PFC recommend that the IAA is not signed and Mr Hibbert confirmed this was the case on the basis of the points made in his Statement.

The Committee were then asked to vote on whether to approve the IAA as drafted at the moment in relation to the location and chair i.e. not to require rotation of location and chair at each meeting. The result of the vote was:

For – 5

Against – 2

Point for Consideration – This Committee should not agree to the proposed IAA on the grounds that the requirement to liaise with Pension Boards is insufficiently clear without the CIPFA Guidance and I'd suggest insufficiently robust *with* the CIPFA Guidance.

AND

Point for Consideration – This Committee should not agree to the proposed IAA on the grounds that it includes a greater requirement to engage with Pension Boards than is expressed for this Committee.

These two points were considered and voted on concurrently.

Mr Hibbert highlighted his concern about the lack of mechanism to allow engagement with the Committee before decisions are made at the Joint Governance Committee. He stressed he was not suggesting officers or elected members would not be acting out of remit.

Mr Owen (Employer representative Clwyd Pension Fund Board) said in his view this would be dealt through the existing mechanisms once the IAA is agreed but Mr Hibbert stated that he would prefer all these matters to be clearly defined at the outset.

The Committee were then asked to vote on whether to approve the IAA as drafted at the moment in relation to the areas covered by the points for consideration. The result of the vote was:

For – 6

Against – 1

Proposal - Clwyd Pension Fund Committee does not support the delegations outlined in para's. 1.05 and 1.06 as it allows for a lower standard of Governance in the Pool than Clwyd Pension Fund currently benefits from.

The Committee were then asked to vote on whether support the delegations outlined in para's. 1.05 and 1.06 as drafted. The result of the vote was:

For – 6

Against – 1

The Committee then agreed the first three recommendations, subject to an amendment that the Chair and Vice Chair would automatically be the Member and Deputy for the JGC.

RESOLVED:

(a) That the Committee considered and approved the IAA draft and supported its recommendation to Council.

(b) That the Committee delegated authority to the Chief Executive to approve minor amendments to the IAA before submission to Council.

(c) That the Committee supported the new delegations between the Council, the new JGC and this Committee and recommend to Council that the Chair and Vice Chair would automatically be the Member and Deputy for the JGC.

(d) That the Committee noted the progress made with the appointment of the operator.

54. **GOVERNANCE UPDATE**

Mr. Hughes (Pensions Finance Manager) gave an update on key points in the report relating to the Business Plan for 2016/17.

Mr Hibbert asked why the actuarial fees had been underestimated. Mr Latham said it had been underestimated in relation to areas such as the Flightpath restructure and equity protection work.

Mr Hibbert asked if his training log could be updated in relation to his attendance at the Annual TUC event – A Decent Retirement. Mr Hughes was confirmed this could be added to his training log if he provide the details.

Mr Latham noted that a large number of new employers have joined the Pension Fund which had added to workloads.

RESOLVED:

(a) Committee noted the business plan and agreed actions.

(b). Committee approved the recommendation to move G4 (Key Man Risk) to 2017/18.

(c) Committee approved the change to Officers' Delegations

55. **LGPS UPDATE**

Mr Middleman presented the report on current issues affecting the LGPS. He highlighted the item regarding the Employment Tribunal ruling regarding age discrimination against younger judges given they were not protected against changes in benefits. This could potentially affect the LGPS as members within 10 years of retirement in 2012 have an underpin applied to their benefits. Further updates will be provided if required.

Mr Middleman also reported on the Guaranteed Minimum Pension (GMP) Consultation which covered the issue of equalising GMPs between males and females and also the promise to Government employees that they would receive full indexation on their GMP element via the State Scheme. The consultation covered 3 proposals. The deadline for responses was 20 February.

Mr Middleman explained that the proposals were effectively passing the burden from the State Scheme to the public sector schemes. The proposals will also increase the administration burden, materially so under the first proposal. This would entail LGPS Funds having to do a year on year benefit comparison including what members would receive from the State Scheme.

In summary the 3 options:

1. Case by Case approach: The lowest funding cost for employers but very difficult and costly operationally given the requirement for a year on year benefit comparison for each member.

2. Full indexation for all members who reach SPA after 6 April 2016: No year on year benefit test so simpler operationally. Would be the highest funding cost/risk and based on the valuation this is estimated to be £7m for the CPF. This approach is already in place for members reaching SPA up to 5 December 2018.

3. GMP conversion: Similar to 2 but requires a full GMP reconciliation and conversion. The cost depends on the conversion terms.

Mr Middleman noted that the operational costs under proposal 1 should not be underestimated and would require significant investment in systems and processes. Most LGPS Funds are favouring option 2 in their responses due to these operational challenges.

Mrs Burnham noted that the preferred option after discussions at Advisory Panel is option 2. This is in line with the objectives of the CPF which is to streamline operational matters as far as possible.

Due to tight time scales Mrs Burnham requested that the consultation response is prepared by her and it is formally delegated to officers to respond on behalf of the PFC.

RESOLVED:

(a) PFC noted the report and made themselves aware of the various current issues.

(b) PFC noted the Employment Tribunal Ruling and the consultation regarding GMPs.

(c) PFC agreed to the delegation to respond to the Pension Fund officers and that the response should propose option 2.

56. **PENSION ADMINISTRATION/COMMUNICATIONS UPDATE**

Mrs Burnham gave an update on the Business Plan 2016/17 and Current Developments. She noted that in regards to paragraph 1.03, the online data transmission tool has been set up and they were hoping to enrol more employers into using it. The request to delegate the appointment of a provider for the GMP reconciliation project was also highlighted.

RESOLVED:

(a) The Committee considered and noted the update.

(b) The Committee agreed to delegate the appointment of the provider for the GMP reconciliation project.

57. **MARKETS IN FINANCIAL INSTRUMENTS DIRECTIVE (MIFID) II**

Mr Harkin gave a presentation on MIFID II and how this would have implications for the Fund. The intention for MIFID II is to increase protection for investors. The main impact for LGPS Funds would be to reclassify local authorities from "professional clients" to "retail clients" as in the UK, Local Authorities are not separate from the Pension Fund. Retail clients have the highest "protection" under MIFID II. However this would have a material impact on the ability to operate as a Fund as many investment managers and advisors only work with "professional clients". It was noted that the pools would have professional client status.

Mr Harkin explained there is an option for LGPS Funds to "opt-up" to professional status if certain quantitative and qualitative criteria are met. There would be no issue meeting the qualitative criteria but the quantitative criteria could be difficult to achieve. There is significant potential risk to Funds unless this process is made simpler.

The FCA issued a consultation which closed in January 2017 and a response is expected in March 2017. All stakeholders have input into the consultation to express concerns and meetings with the FCA are going on with both the LGA/PLSA who have been lobbying regarding the LGPS implications, however nothing will be clear until March.

The LGPS pools are forming a group of practitioners to communicate these issues to the FCA. Flintshire County Council volunteered and is providing the representation for the Wales Pool on this matter. Mr Hibbert noted the importance of sorting the issues out at the start of a process so was supportive of the representation from the Fund.

RESOLVED:

The Committee noted the content of the presentation and the ongoing discussions at a national level.

58. **INVESTMENT AND FUNDING UPDATE**

Mrs Fielder (Pensions Finance Manager) gave an investment and funding update on the Business Plan 2016/17, currents development and news, funding and investment related policy and delegated responsibilities.

The main points highlighted were:

- Actuarial valuation – this needs to be finished by the 31 March and the final Funding Strategy Statement will be tabled at the March committee. Officers are currently liaising with employers to confirm final contribution rates for 2017/20.
- The AVC review will be finished by the end of March and the next steps will be communicated at the next meeting.

- Investment Strategy Statement work has commenced and the proposed statement will be brought to the meeting in March.
- The delegated responsibilities and actions taken were noted in para 1.07.

RESOLVED:

The committee considered and noted the update and next steps.

59. **ECONOMIC AND MARKET UPDATE**

Mr Harkin gave a report on the economic and market update for the quarter to 31 December 2016 and noted that the sentiment has been driven by the US election result.

Key points made:

- the weakening of Sterling
- Higher inflation expectations
- Rising commodity prices

Asset markets have generally been positive and there has been a big "bounce" in the US equities market.

Mr Hibbert noted that the lack of detailed discussion was likely due to the fact that there was a lot of information to absorb but this was seen as a positive position. Mr Harkin offered to discuss the detail in the report with any Committee members who wished to do so before the meeting to aid discussion if that would be helpful.

RESOLVED:

Committee noted the Economic and Market Update and the information in the report.

60. **INVESTMENT STRATEGY AND MANAGER SUMMARY**

Mr Harkin presented a report on the performance of both the Fund's investment strategy and investment managers over the quarter to 31 December 2016. A "light touch" strategy review was completed in conjunction with the actuarial valuation.

Key additional points covered were:

- The strongest performance element came from the In House assets, equities and the Best Ideas portfolio.
- At the current time there are no concerns with any of the Fund's investment managers.

Councillor Bateman asked if it was possible to continue to live with a lower interest rate environment. Mr Harkin and Mr Middleman both noted this depended on what happened with inflation. A sustained period of low interest

rates/returns and high inflation would impact materially on funding positions and costs for employers. This cannot be ruled out in the current fiscal environment and supports the need for a robust risk management framework and well diversified asset portfolio.

RESOLVED:

Committee noted and discussed the investment and strategy manager performance.

61. **FUNDING, FLIGHT PATH AND RISK MANAGEMENT FRAMEWORK UPDATE**

Mr Middleman explained the report on the funding and risk management framework.

Main additional points were as follows:

- there were no concerns on risk management and all measures were rated "green"
- The LDI mandate has increased significantly in value so the intention is to release collateral back into the portfolio to rebalance the holding back to closer to the benchmark level. This had been estimated to be c£60m but the level will be reviewed before implemented.
- The LDI restructuring agreed at the last PFC has not yet been implemented as the gain has not been over the £25m threshold. This will be monitored and implemented when (and if) market conditions are favourable enough.
- The implementation of the Equity protection is ongoing and the PFC will be updated at future meetings.

RESOLVED:

Committee noted the report and progress of the various elements of the risk management framework.

(The Meeting commenced at 10.00 a.m. and closed at 12.45 p.m.)

The next meeting will be on 21 March 2017.

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Chairman