

CLWYD PENSION FUND COMMITTEE
5 JULY 2016

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 Tuesday, 5th July, 2016

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 Andrew Rutherford (Other Scheme Employer Representative) and Councillor Steve Wilson (Wrexham County Borough Council)

ALSO PRESENT (AS OBSERVERS): Mark Owen (Employer representative Clwyd Pension Fund Board), Gaynor Brooks (Member representative Clwyd Pension Fund Board)

APOLOGIES: Councillor Huw Llewelyn Jones (Denbighshire County Council), Colin Everett (Chief Executive)

IN ATTENDANCE:

Advisory Panel comprising: 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 Consultants – JLT Group)

Officers/Advisers comprising: Alwyn Hughes (Pensions Finance Manager), Debbie Fielder (Pensions Finance Manager), and Kerry Robinson, Communication Officer.

At the start of the meeting the Chair welcomed the members of the Clwyd Pension Fund Board and John Wright from Hymans Robertson, and the Committee agreed they could contribute to the meeting. He also welcomed and thanked Kerry Robinson who had agreed to take the minutes of the meeting.

16. **VARIATION IN ORDER OF BUSINESS**

The Chairman indicated that there would be a change in the order of the agenda and the item on Pooling Investments in Wales would be brought forward.

17. **DECLARATIONS OF INTEREST (INCLUDING CONFLICTS OF INTEREST)**

Councillor Stephen Wilson declared a personal interest as being a member of the Clwyd Pension Fund for all items.

Karen McWilliam declared a personal interest as an employee of Aon Hewitt who may submit a tender bid to become the CIV platform provider under the following item.

Paul Middleman also declared a personal interest as an employee of Mercers who may submit a tender bid to become the CIV platform provider under the following item.

Item 7: Pooling Investments in Wales

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

RESOLVED:

That the press and public be excluded for the following item by virtue of exempt information under paragraph(s) 14 of Part 4 of Schedule 12A of the Local Government Act 1972 (as amended).

19. **POOLING INVESTMENTS IN WALES.**

John Wright (Hymans Robertson) presented on the Welsh draft submission to DCLG for pooling of investments which included:

- Background
- Process
- Structure
- Aims
- Potential impact on the Clwyd Fund
- Expected results

A lengthy discussion took place throughout the presentation where John Wright answered a number of questions. The Committee noted a number of areas of detail that might benefit from being refined at the next stage of the project, such as the objectives of the Pool.

The Committee made it clear that they would want to be able to comment and approve the key decisions relating at the establishment of the Wales Pool, which included at least the following:

- Terms of Reference for the Joint Governance Committee (JGC)
- The specification for the potential operator

The Committee requested John Wright feed back to the Pool that the following should be included in the final submission to DCLG:

- Consideration of Member Representation within the governance structure
- Consideration of an Independent Chair on the JGC

The Committee asked John Wright to ensure they were also provided with information outlining the individual fund costs and savings for Clwyd Pension Fund.

John Wright assured the Committee he would deal with all the points they had made. During the presentation he also made assurances to the Committee that the Pool and Operator were focussed on providing a structure that would

deliver the investment strategy of each individual fund and therefore Clwyd Pension Fund would not be pressured to adapt their strategy to meet how the Pool is being operated.

RESOLVED:

That the draft submission be noted.

At this point the Chairman reopened the meeting to include attendance by members of the press and public.

20. **FUNDING STRATEGY STATEMENT**

The Fund Actuary, Paul Middleman presented the key elements of the 2016 draft Funding Strategy Statement (FSS). The Committee were asked to approve the draft FSS and delegate the refinement of the document to Fund Officers before it goes to consultation with employers.

In terms of the overall Fund governance it is a requirement to prepare, publish and review the FSS. It was noted as part of the presentation that Mr Middleman does not feel that the pooling of investments in Wales will have a major impact on the 2016 FSS. The Fund is duty bound to consult with participating employers before finalising the document but ultimately it is an Administering Authority decision on the how the funding strategy is implemented. The CIPFA guidance on preparing an FSS is currently being reviewed in light of the change in regulations/oversight and will be published in the coming weeks. It was noted that the draft FSS incorporated the expected changes in the guidance but may need refinement depending on the final outcome.

Paul Middleman stated the key areas to be addressed in the FSS:

- Aims and purpose
- Treatment of Employers (funding and contributions)
- Solvency target
- Risk control and management (including Flightpath)
- Other policies (new and leaving employers)

Paul Middleman discussed the key points of the FSS and main funding objectives which will confirm the employer's contribution requirements for 2017/2020. These were detailed in the separate report and draft FSS and supporting presentation. An additional consideration of this valuation is the scrutiny under Section 13 of the Public Service Pensions Act 2013, which is performed by the GAD on behalf of the Government. It was noted that whilst this should be a consideration it should not drive funding decisions. Section 13 valuations are simply a mechanism to ensure that all LGPS Funds are setting sufficiently robust funding plans in absolute terms and relative to others.

The key parameters which are proposed to be changed versus the existing FSS from the 2013 valuation were as follows:

- Linking the discount rate to the investment returns above CPI - this is the key driver of liabilities
- Remove allowance for 50/50 benefit take-up other than where a member has already opted for it (for the 2013 valuation, 5% of the membership were assumed to opt for this but the experience does not support it)
- Life expectancy update – initial analysis for CPF suggests there has been a tailing off of life expectancy improvements versus expected which would reduce liabilities
- Reducing recovery period deficit where possible with the total Fund average possibly reducing by 3 years – this will also be a key measure under GAD's Section 13 assessments under the Long Term Cost Efficiency requirements,
- Update/development of related policies – examples were the termination and admission policies. A critical addition at this valuation was the implementation of an employer covenant review framework.

Steve Hibbert queried why the 50/50 option take-up was so low and whether it had been communicated fully. It was confirmed that this is a similar pattern across the LGPS which could be due to a number of factors including communication, inertia and that auto-enrolment is not yet fully up and running. This will continue to be monitored over time.

Paul Middleman went through some preliminary whole Fund results (which were based on an approximate update from the 2013 valuation). It was noted that based on this, stability of deficit contributions (in real terms) may be achievable but it was looking likely that there would be pressure on the future service (primary) rate.

Karen McWilliam asked for clarification in the difference in the discount rate between valuations. Mr Middleman confirmed these are broadly the same based on the analysis of expected investment returns (versus CPI) at each valuation. However, the return expectations will need to be reconsidered post BREXIT, to check the funding plan remains robust. This additional analysis will be carried out during the valuation project.

The Corporate Finance Manager enquired about the flexibility of deficit recovery plans given affordability constraints. Paul Middleman accepted that the draft parameters (in particular the proposed reduction in the period to target the same end point as the 2013 valuation recovery plan) could impact on the affordability of contributions. Affordability will also be affected by the removal of the allowance for 50/50 take-up (on average, this will increase primary rates by 0.3%) but it was noted at the last valuation that if the 5% take-up levels were not met it would have to be reduced/removed.

Paul Middleman noted that all the figures are approximate and need to be updated for the final outcome of demographic factors, actual membership data. In particular there are some positive liability experience items not currently allowed for e.g. the 2016 CPI pension increase award was zero for pensioners. This will help with affordability. It is also a starting point for consultation and ultimately the final position will take into account all aspects (including affordability for employers). The critical issue is to ensure the overall funding plan is robust but does not put an unnecessary burden on employers.

Paul Middleman expanded on the development of a covenant monitoring framework to assist in considering the financial strength of employers and the assessment of the reasonable affordability of contributions. The monitoring framework will help to identify employers posing the highest risk of unrecovered debts but also allow Fund Officers to monitor any changes over time. The key objective is to take a proportionate approach to setting up the framework so that it is as effective as possible but not unduly complicated. If an employer is identified as higher risk then further investigation and action can be taken on a bespoke basis.

It was also noted that the flightpath structure will be reviewed as part of the valuation taking into account market outlook. This could affect the underlying yield triggers in the Insight mandate and possibly the funding level triggers. The principle aims will remain the same which are to help achieve stability in employer contributions by providing more certain real returns versus CPI (which will affect liability and deficit values) but in the most cost effective way.

The timeline and next steps were discussed including the employer's consultation and the final outcome/FSS being signed off by Committee in February 2017.

Councillor Haydn Bateman queried how we could minimise the impact of an employer defaulting on its obligations. Mr. Middleman explained that full understanding of the risks is critical (through the monitoring framework) and to try to improve security such as obtain a guarantor or charge on assets. As an initial stage obtaining as much information as possible and where an employer has affordability issues, using that information to manage the risks appropriately. In some cases there may be little action that can be taken, but good information is vital to decision making and further due diligence should be done to demonstrate that all options have been explored. It was noted that relative to other Funds, the CPF is likely to have less employers potentially falling into a higher risk category but circumstances can change quickly.

RESOLVED:

That the Committee approve of the Funding Strategy Statement and delegate the refinement of the document to Fund Officers in readiness for the consultation with the participating employers.

21. **INITIAL IMPACT OF EU REFERENDUM RESULT**

The Fund Consultant, Kieran Harkin and Fund Actuary, Paul Middleman discussed the initial impact on the Funds' investments and risk management framework following the market volatility as a result of the EU Referendum.

It was noted:

- FTSE 100 stable but significant movement of capital to UK bonds
- Financial Services legislation may change (in due course)
- Pooling follows, some decisions required how
- Sterling has weakened against major global currencies
- Fund Asset value increased between end of May to end of June

- Possible changes required for uncertainty ahead (Flightpath de-risking)
- Knee jerk reactions not required
- Expect continuing volatility
- Opportunities can be found through volatility

Remembering there is still a lot to emerge on the long term implications of BREXIT, Mr Middleman confirmed funding had actually improved since the valuation date even if we adjusted the real discount rate to reflect the possibility of a marginal reduction in expected returns. This is predominately due to the positive effects of the LDI mandate and the fall in the value of sterling on certain overseas investments. However, further analysis is needed including testing of potential BREXIT scenarios to ensure we remain comfortable with the position.

Paul Middleman and the Clwyd Pension Fund Manager, confirmed that the flightpath and strategy will need to be discussed and reviewed sooner than initially expected in the Business Plan due to the changes in outlook.

The Clwyd Pension Fund Manager requested the Committee authorise delegation to take actions in a timely manner. Karen McWilliam suggested that an emergency meeting may be required. The Clwyd Pension Fund Manager drew attention to other major developments (US presidency) and asked what impact that might have. Mr Middleman suggested that the valuation outcomes will likely have been completed by then but if there was a major shift in the outlook it would be something to consider and inform employers about after the valuation.

Steve Hibbert asked if there was any documentation that he could be reviewing in advance in order to raise questions. Kieran Harkin said it was hoped that the initial modelling on investment strategy will be produced in August with the final results ready for September Committee meeting (following receipt of finalised liabilities data). Steve Hibbert requested to be kept up to date about future developments that are known beforehand and suggested email.

RESOLVED:

That the update and the potential implications be noted.

22. CLWYD PENSION FUND DRAFT ACCOUNTS 2015/16

Debbie Fielder, Pension Finance Manager presented the draft Annual Accounts for consideration by the Committee before approval by County Council. Debbie Fielder reported the main changes in the accounts as:

- Classification of Fund expenses
- Increase in investment assets
- Decrease in cash balances
- New note to identify agency charges

Explanations were given to questions raised by Members relating to the bulk transfer included in the accounts and the changes in net asset values of some investments.

RESOLVED:

The Committee considered and noted the draft 2015/16 accounts.

23. **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 2.45 pm)

.....
Chairman