

CLWYD PENSION FUND COMMITTEE
21 MARCH 2018

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 Wednesday, 21st March, 2018

PRESENT: Councillor Dave Hughes (Chairman)

Councillors: Ted Palmer, Ralph Small, Haydn Bateman, Billy Mullin.

CO-OPTED MEMBERS: Councillor Huw Llewelyn Jones (Denbighshire County Council), Councillor Nigel Williams (Wrexham County Borough Council), Mr Steve Hibbert (Scheme Member Representative).

APOLOGIES: Councillor Andrew Rutherford (Other Scheme Employer Representative), Gary Ferguson (Corporate Finance Manager)

IN ATTENDANCE:

Advisory Panel comprising: Colin Everett (Chief Executive) - from item 109, Philip Latham (Clwyd Pension Fund Manager), Karen McWilliam (Independent Advisor – Aon Hewitt), Kieran Harkin (Fund Investment Consultant – JLT Group), Paul Middleman (Fund Actuary – Mercer).

Officers/Advisers comprising: Debbie Fielder (Pensions Finance Manager), Helen Burnham (Pension Administration Manager) and Megan Fellowes (Apprentice – Mercer - taking minutes).

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

No new conflicts were declared.

107. **MINUTES**

The minutes of the meeting of the Committee held on 21 February 2018 were submitted. Cllr Bateman and the Chair wanted to emphasise the excellent quality of the previous minutes and congratulated Miss Fellowes on a job well done.

RESOLVED:

It was agreed the minutes could be received, approved and signed by the Chairman.

108. **PLSA CONFERENCE SESSION VIDEO ON COST TRANSPARENCY**

The Chairman introduced the PLSA conference session video on cost transparency and how to ensure value for money with investment management fees. The video can be found at <https://www.youtube.com/watch?v=0SDtFo5AOhs>. The video was in regards to

the transparency of investment fees, with asset owners and regulators pushing for disclosure of manager fees across asset classes. Therefore, investors must continue to seek investment advice and so with new recommendations emerging from the Industry Disclosure Working Group, the video explained what the next steps are for investors, advisors and service providers.

The Chairman explained that, in terms of the Clwyd Pension Fund, they have always asked their fund managers to provide full investment costs for its annual report and so the session showed the Committee how this should become more consistent in the future across the investment community especially as some LGPS funds still do not publish the data.

He also advised the Committee that, as the Fund's representative on the Joint Governance Committee (JGC) of Wales Pensions Partnership (WPP), he confirmed he would be ensuring that the Operator (LINK), who the board met at the last Committee, would be expected to require that managers comply with the new Cost Transparency Code where possible.

After the video finished Mr Latham mentioned that the topic was close to the heart for the Fund as there has been a lot of work involved in providing cost transparency including gathering research and thoughts to input into the requirements. The work has included setting up a template for Funds.

109. **BUSINESS PLAN 2018/19 TO 2020/21**

The Chairman introduced the main item on the agenda to the Committee and passed over to Mr Latham. Mr Latham asked the Committee for approval of the Business Plan for the upcoming 3 years and directed the room to page 24 of the papers where the bullet points emphasised the main purposes of the Business Plan.

The key points in relation to the Business Plan were;

- Page 19-21 showed the progress versus the 2017/18 business plan. The vast majority was on target or complete.
- Page 25 showed the updated structure for the pool with the new WPP.
- There is a lot of business as usual tasks on the Business Plan which shows the amount of work needed to run the Fund; page 30 onwards outlined the 9 different areas of work and it was noted the Employer Liaison team tasks were a new addition.
- The bottom of page 32 highlighted the achievements over the past 3 years which were improvements on governance, risk management and the governance arrangements for the WPP.
- The main issues that would be faced over the next 3 years were defined on page 33 where pooling will dominate the Business Plan but there could also be implications from the outcome of the cost management process (probably from 2020).
- Page 35 shows the cost budget for 2018/19 and the 2017/18 budget versus estimate.
- In terms of governance of the Fund (page 41) key tasks included the implementation of the new GDPR data protection requirements and

recognised the necessity for more training needs for the Committee as per the recent training needs analysis.

Mr Latham continued by stating that the section on Funding and Investment risks (page 47) showed that risks will always be high since the Fund is not 100% funded or able to hedge out all of the risks. The flightpath is the “plan” put in place in order for the Fund to move towards full funding and also minimise the risk of deterioration. An interim actuarial review will be undertaken in 2018 to help with budgeting for employers and alongside this is the finalisation of the employer risk management framework.

Other risks take account of the administration and member communication. The administration involves training and supplementing that with the outsourcing of work to external parties to clear the backlogs etc. The communication with members is now more and more through the Member Self Service (MSS).

The upcoming tasks for the administration team (including communications) are displayed on page 52 where most of the items are already familiar as ongoing work; however these tasks would take time to implement. These tasks are as follows;

1. Improvement on the quality of member data which is critical for the Fund through various initiatives e.g. GMP reconciliation (which has been outsourced to Equiniti) and the aggregation project (some assistance from Mercer).
2. The data improvement plan (which would be completed on the back of the Pensions Regulator guidance).
3. The implementation of iConnect for the Fund for a wider number of employers

Mrs Fielder then discussed the finances in delivering the Business Plan. Page 34 showed the three year cashflow 2018 to 2021 on an annual basis and forecast for 2017/18. The intention was that this assists with treasury management.

She added that the figures that are estimated for Lump Sums, Transfers-In and Transfers-Out are calculated based on historic figures. The pension benefits and contributions forecasted over 3 years is easier to measure because of the Actuarial Valuation and the certified contributions. Mrs Fielder confirmed that the Fund will get more clarification after the funding review for estimations regarding the figures over 2018- 2021.

The key details that Mrs Fielder explained in relation to the cashflow projection for 2018/19 and the budget for 2018/19 were that;

- The uncertainties are around the in-house investments on drawdowns for private markets.
- Drawdowns been much higher than the income that the Fund had received due to the market conditions.

- Currently the Fund is expected to be cashflow positive (by c£10m) in 2018/19 but this could move depending on a number of factors. More consideration will be given after the 2018 interim review.
- The main change in terms of the cost budget is the fund manager fees, the budget in 2017/18 was roughly £11.9 million and estimations of the actuals are around £15.2 million. The main reason for the difference was that the value of the Fund has increased more than expected.
- There has been an increase in the fees, mainly due to the additional work that the Fund has completed e.g. Equity protection and assisting the Fund with private markets.
- There are contingencies for the Trivial Commutation project that may or may not be outsourced, as well as the aggregation.
- The pooling budget covers the cost of any external advice for the pool going forward, but any internal works i.e. meetings, do not include salary costs separately.

Councillor Bateman queried the investment fees and why the fund manager fees have increased. Mrs Fielder stated that there has been an increase in the value of the Fund more than expected. The future budget analysed all of the asset classes expenses based on what the Fund paid for all of those underlying assets. This allowed for the average basis points expenses. If the value of the Fund goes up more than expected, it would be higher than that and this makes it difficult to estimate accurately unless markets are very stable.

Councillor Bateman asked Mrs Fielder to explain the last paragraph on page 35 in regards to the Employer Liaison Team (ELT). Mrs Fielder clarified that employer contribution rates are in the Actuarial Valuation, whereby administration costs for ELT services are to be paid by an additional amount which would be incorporated into their contribution rate at the next valuation.

Councillor Bateman questioned Mrs Fielder on page 26 regarding what the difference in costs is between the 7 core external fund managers and the 45 non-core external managers. Mrs Fielder stated that the costs are split out for each manager. The core managers are investments such as listed in equities, fixed income and the non-core managers are investments such as private market funds. The investment managers used are shown in the JLT report to the Committee.

Mr Hibbert asked whether the Fund needs to set any money aside in the budget for 2018/19 for further development in regards to the MSS. Mrs Burnham stated that historical MSS costs were the additional implementation costs for the new software and so it did not recur in future years.

In terms of the representation of risk, Mr Hibbert asked whether the Fund is content in areas which are more than one colour between where we are and where we want to be at e.g. amber and yellow. An example is shown on page 38 where it described the number of insufficient staff with a current risk status as red and a target of green. On page 39 the employers current staff risk status is red and also moves to a green target. Therefore Mr Hibbert queried whether the Fund is comfortable with level of detail in the Further Actions on these pages where the risk status would need to make a significant jump from red to green.

Mr Everett agreed and wondered whether employers should be in amber rather than red in the key risks.

Mr Latham noted that the expected time that is shown should also be considered in this context and noted that the current risk scores are a subjective judgement in some cases. He welcomed any comments that the Committee had and would reflect on them for the next iteration of the Risk Register

Mrs Burnham noted that Flintshire County Council had only recently implemented iConnect, therefore this is why the Employer risk colour is higher than what perhaps might be deemed appropriate. Mr Latham agreed with Mrs Burnham that it is early days and suggested that this would be put this on the agenda every Pensions Advisory Panel (PAP) to update for any changes.

Mr Hibbert noted that a member who was a teaching assistant and had four different jobs received statements for four different pensions; therefore Mr Hibbert asked whether the aggregation project would deal with this sort of issue. Mrs Burnham responded to Mr Hibbert by confirming that this would be the case.

The Chairman thanked the officers on the success on delivering the tasks in the previous business plan. Particularly in paragraph 1.03 of the covering report it referred to the 1st Tier rating for the Stewardship code where he understood that this is not held by many other LGPS funds. The Chairman also thanked the administration team for the additional work at the end of the recent year i.e. the rolling out of iConnect ahead of schedule as outlined in paragraph 1.04.

RESOLVED:

1. That the Committee members noted the progress made towards the Fund's Business Plan during 2017/18
2. That the Committee approved the Business Plan in Appendix 2 relating to the period 2018/19 to 2020/21

110. **POOLING INVESTMENTS IN WALES**

Mr Latham guided the Committee to page 65 where this section of the agenda is a report which is for information purposes.

The key points Mr Latham made were that;

- There was positive progress in the setting up the sub-funds with the current focus being on the Global Equity Funds. There had been a lot work by officers to ensure this met the objectives of the Fund. The sub funds should be agreed at the next JGC.
- The WPP budget was discussed and it was noted it covered all the Host Authority costs.
- The information and agenda for the next JGC is on the Carmarthenshire website.

- The Minister had written to the Chair/Vice Chair of the WPP welcoming the appointment of an operator but noting the work to be done. This illustrates the ongoing level of scrutiny.

Mrs McWilliam noted that the WPP budget covers areas such as staffing, legal services and operator services fees for Link and Russell.

Mrs Fielder confirmed that she had increased the fees relating to pooling compared to those incorporated within the budget as she believed more work will be needed to implement the sub funds than first thought. However it is difficult to predict the level of costs currently.

Mr Hibbert noted that there are concerns in the pools generally regarding two tier workforce due to different pay/conditions and TUPE issues and asked whether there were any problems in Carmarthenshire.

Mrs McWilliam replied that the concerns tend to be in relation to staff being transferred from local authorities to the pool but this is not the case for WPP as it is an external operator.

Mr Everett asked whether they were all Carmarthenshire employees. Mrs McWilliam confirmed that the employees operating the pool were Link and Russell employees but the staff and hires relating to the Host Authority work will be Carmarthenshire employees.

Mr Everett wanted confirmation of how running costs are proportioned. It was confirmed that they are split equally, i.e. 1/8th to each Fund.

Mrs Fielder added that any costs relating to Link and Russell are in relation to the size of assets that are pooled. These had been estimated and included in the separate budget figures in the business plan although it was noted for 2018/19 it will only be part year costs as the assets have yet to be transitioned.

Mr Latham asked whether any of the Committee members will attend the JGC. Mr Hibbert confirmed he will try to attend.

Mr Latham said that there are ongoing discussions regarding the fact that the Committee and Board would not be entitled to sit in the JGC for parts of the meeting due to confidentiality reasons at this stage e.g. due to ongoing discussion over manager fees. It was commented that this is not an ideal situation and the hope is that over time Committee members could attend the meeting as they would be bound by the same level of confidentiality as the JGC members.

RESOLVED:

1. That the Committee note the report and discuss progress being made by the Wales Pension Partnership.

111. **LGPS UPDATE**

The Chairman passed over this item of the agenda to Mr Middleman to highlight key points regarding the LGPS current issues. Mr Middleman noted the comments regarding the slowdown in life expectancy improvements based on the 2017 analysis by the Continuous Mortality Investigation Bureau (CMI) which has continued into 2018 based on the latest information. This is of course not a good thing for individuals but is positive for Fund finances.

Mr Middleman added that there could be a reduction in the liabilities of 1-2% which could lead to a fall of around £40 million off the deficit.

He commented that also in the press is the event of the Northamptonshire County Council (NCC) section 114 notice. This was in relation to the spending controls at NCC reflecting a severe financial strain on the county council. This was the first time Mr Middleman had seen this since he had been an Actuary, but he thought that it reinforced the need for a robust employer management framework. This situation highlights the need to be aware that these things happen to even the strongest employers.

Councillor Bateman queried whether the auto-enrolment review was still happening. Mr Middleman responded by saying that it was complete and the implementation is mid-year of 2020. The impact in the long term could be that auto enrolment could capture a bigger population. However, it would not be expected to be significant for the Fund.

RESOLVED:

1. It is recommended that all Committee members note this report and make themselves aware of the various current issues affecting the LGPS, some of which are significant to the operation of the Fund

112. **PENSION ADMINISTRATION/COMMUNICATIONS UPDATE**

Mrs Burnham stated that there was nothing specific to highlight in this report but that on page 91 the caseloads under appendix 1 (day to day tasks) for the member case levels were in new graphic form as opposed to just figures. This gives more of an idea of what work has been completed, added and the amount of work coming into the office as well as the historical levels and peaks in case levels. It also shows the level of activity for the 3 Councils separately.

The trend shows that there has been an increase in the monthly number of tasks. Some of this relates to the amount of work caused in the creation of new admitted bodies on transfers of staff, for example, when 400 staff was transferring to new admitted bodies (NEWydd and Aura).

Mrs Burnham also noted that there were in excess of 700 unknown joiners notified due to the iConnect implementation which would lead to more work in the busy interim review period and this would have a knock on effect of other tasks.

However, this would be expected to settle down and going onto iConnect is a very positive step going forward for the Fund in terms of data quality and meeting the statutory deadlines.

Mr Hibbert pointed out that on page 91 whether there was a scaling issue that the Fund needs to be looked at as it is a concentrated amount of information. Mrs Burnham confirmed the format of the graph would be reviewed and the underlying statistics are available in tabular format.

Mrs Burnham commented that on appendix 2 from page 94 onwards which showed the performance against KPIs, this was also done in a graphical format for clarity showing the three different areas of legal requirement, internal turnaround times and the overall experience i.e. end to end process. TPR is interested in the legal requirements but it is important to look at this from different perspectives. It covers 7 key process areas.

The Chairman asked if Mrs Burnham could explain the new graphs from appendix 2.

Mrs Burnham explained that on page 94 the thick line showed the % number of completed cases (right hand axis) and the bar chart showed the number of cases completed (left hand axis). It was noted that some of the legal obligations were not being met and it was explained that the various initiatives (iConnect, Data Improvement plan etc.) are part of the plan to assist in meeting the targets but noting that 100% compliance in every area may not be possible as it relies on 3rd parties supplying the data in a timely way e.g. employers.

Mr Hibbert commented that for the graphical presentation it was clear to understand the ones where the Fund hadn't achieved compliance. However with the ones where the Fund has exceeded the legal requirement it was difficult to see e.g. why the thick line on the graph looks way above the bars on page 97.

This relates to the different axis. Mrs Burnham said that whilst the lines are above the bars, it shows that in the first month overall 65% was achieved. She added that there will be explanatory notes to explain the graphs to the Committee in the future.

After further discussion the Chairman also asked if there could be explanatory notes for the graphs on this appendix. Mrs Burnham confirmed that she will arrange for this to be done.

Page 101 highlighted statistics for the Member Self Service usage. On the coloured chart it demonstrates the amount of registered members split for each unitary, which shows 17.03% of potential members but this figure has now increased to 18%. It was emphasised that the amount of registered members is large in comparison as other schemes are around 10%-15%. It was noted that it is incumbent on all to keep encouraging use of MSS through employers and Fund publications.

On the right hand side of the page it outlined the amount of people that have entered the website, with a total of 10,697 benefit projections having been calculated. The MSS has given people the opportunity to connect to the website and look at their benefits at different dates using different pay. Mrs Burnham also commented that there are 31,275 potential members and only 264 elected to receive paper copies of documents. This is all very positive in terms of usage.

Councillor Llewelyn Jones mentioned that as a member of the pension fund as a Councillor he had not yet been able to enrol on to the MSS. Mrs Burnham replied by saying that it is a different scheme and that at the moment the benefit projections etc. don't work for Councillors. She explained it is unlikely the software would be developed for Councillors as it impacts very few members.

RESOLVED:

1. That the Committee considered the update and provided comments on the format of the graphs.

113. **INVESTMENT AND FUNDING UPDATE**

The Chairman noted that there is no written report for this item on the agenda as the areas were covered at the February Committee but passed over to Mr Middleman, Mr Harkin and Mrs Fielder for a verbal update on Investments and Funding.

Key points were;

- Responsible Investment is becoming more of an issue across pools and getting consistency of application as view differs.
- Pooling implementation is at different stages for the pools but the structures are set up. Some pools are transitioning assets at a greater pace than others depending on their underlying asset strategies.
- Risk Management – The flightpath is functioning well and other Funds are moving in the same direction around LDI, Equity Protection and de-risking especially given the improvement in funding levels. The officers and Mercer/JLT had met that morning regarding the implementation of a new equity protection strategy for the Fund and this will be reported on at the June committee.
- The value of assets in January to February went down by around £14 million; Mrs Fielder noted that the Fund is still above by £1.8 billion in total assets.
- Mr Middleman added that the funding level is around 90% which is still ahead of target.

114. **PLSA CONFERENCE SESSION VIDEO ON PENSION RISK**

The Chairman introduced the final PLSA training session video about Pension Risk which can be found at <https://www.youtube.com/watch?v=Xwx3MfQzeuY>. The video included a panel of senior investment figures discussing macro and thematic risks to determine which they see as most threatening. Examples include risks from geopolitical developments, climate change risks, and stranded assets.

The Chairman thanked everyone for their attendance and stated that the next Committee meeting will be 13th June 2018 at 10.00 am.

(The meeting closed at 5.00 pm)

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Chairman