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To: Cllr Dave Hughes (Chairman)

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

Co-opted Members
Steve Hibbert, Cllr. Andrew Rutherford, Nigel Williams and Cllr. Huw Llewelyn Jones

22 November 2018

Dear Councillor

You are invited to attend a meeting of the Clwyd Pension Fund Committee which will be held at 9.30 am on Wednesday, 28th November, 2018 in the Delyn Committee Room, County Hall, Mold CH7 6NA to consider the following items

A G E N D A

1 **APOLOGIES**

Purpose: To receive any apologies.

2 **DECLARATIONS OF INTEREST (INCLUDING CONFLICTS OF INTEREST)**

Purpose: To receive any Declarations and advise Members accordingly.

3 **MINUTES** (Pages 5 - 14)

Purpose: To confirm as a correct record the minutes of the last meeting held on the 5th September 2018.

GOVERNANCE

4 **POOLING INVESTMENTS IN WALES** (Pages 15 - 36)

Purpose: To provide Committee Members with an update on implementation of Pooling Investments in Wales.

5 **GOVERNANCE UPDATE** (Pages 37 - 162)

Purpose: To provide Committee Members with an update on governance related matters.

ADMINISTRATION AND COMMUNICATIONS

6 **LGPS UPDATE** (Pages 163 - 176)

Purpose: To provide Committee Members with current matters affecting the management of the LGPS.

7 **PENSION ADMINISTRATION/COMMUNICATIONS UPDATE** (Pages 177 - 216)

Purpose: To update Committee Members on administration and communication matters for the Clwyd Pension Fund and to agree changes to the Fund Business Plan.

INVESTMENTS AND FUNDING

8 **INVESTMENT AND FUNDING UPDATE** (Pages 217 - 308)

Purpose: To provide Committee Members with an update of investment and funding matters for the Clwyd Pension Fund and to receive the Funding Strategy Statements for approval.

9 **ECONOMIC AND MARKET UPDATE** (Pages 309 - 326)

Purpose: To provide Committee Members with an economic and market update.

10 **INVESTMENT STRATEGY AND MANAGER SUMMARY** (Pages 327 - 344)

Purpose: To update Committee Members on the performance of the Fund's investment strategy and Fund Managers.

11 **FUNDING AND FLIGHT PATH UPDATE** (Pages 345 - 360)

Purpose: To update Committee Members on the progress of the funding position and liability hedging undertaken as part of the Flight Path strategy for managing liability risks.

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

The following item is considered to be exempt by virtue of Paragraph(s) 14 of Part 4 of Schedule 12A of the Local Government Act 1972 (as amended).

The report contains information relating to the financial affairs of the Pension Fund and the public interest in not disclosing the information outweighs the public interest in disclosing the information.

12 **EMPLOYER CARE PAY ISSUE** (Pages 361 - 378)

Purpose: To provide Committee Members with an update on this project.

Yours sincerely

Robert Robins
Democratic Services Manager

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CLWYD PENSION FUND COMMITTEE
5 SEPTEMBER 2018

Minutes of the meeting of the Clwyd Pension Fund Committee of Flintshire County Council, held at County Hall, Mold at 10.00am on Wednesday, 5 September 2018.

PRESENT: Councillor Dave Hughes (Chairman)
Councillors: Ted Palmer, Ralph Small, Haydn Bateman, Billy Mullin.

CO-OPTED MEMBERS: Councillor Nigel Williams, Councillor Huw Llewelyn Jones (Denbighshire County Council), Councillor Andrew Rutherford (Other Scheme Employer Representative), Mr Steve Hibbert (Scheme Member Representative

ALSO PRESENT (AS OBSERVERS): Mr Matthew Edwards (Wales Audit Office) – left after item 17, Mr Mike Whitely (Wales Audit Office) – left after item 17.

APOLOGIES: Helen Burnham (Pension Administration Manager)

IN ATTENDANCE:

Advisory Panel comprising: Colin Everett (Chief Executive), Philip Latham (Clwyd Pension Fund Manager), Gary Ferguson (Corporate Finance 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), Sandra Beales (Principal Pension Officer) – joined for the administration items, Kerry Robinson (Employer Liaison Team), – for the final administration item, Nick Buckland (Fund Investment Consultant – JLT Group), and Nikki Gemmell (Associate – Mercer - taking minutes).

The Chairman welcomed Matthew Edwards and Mike Whitely from the Wales Audit Office (the "WAO") who were there to present the audit report to the Committee (item 17 below).

15. **DECLARATIONS OF INTEREST (including conflicts of interest)**

No new conflicts were declared.

16. **MINUTES**

The minutes of the meeting of the Committee held on 13 June 2018 were submitted. The Chair thanked Miss Fellowes on the continued high standard of the minutes.

RESOLVED:

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

17. **CLWYD PENSION FUND ACCOUNTS 2017/18**

Mr Ferguson introduced this item of the agenda and noted the actions for the Committee. The Fund accounts are now required to be reported separately from the County Council accounts. Approval is needed from the members of the Committee for the final Fund accounts.

The majority of the WAO Audit has been completed but Mr Ferguson noted that it still needs to be signed off. The formal audit opinion is included within the recommendations and key findings. Overall, the WAO Audit Report is very positive and all issues from last year have now been resolved.

The WAO confirmed that the Fund accounts present a true and fair view and thanked the pension fund team for all their assistance. They presented the report and noted the following key points:

- The Fund accounts are now a standalone document and were completed two weeks earlier this year. This is a step towards the 31 May deadline that will apply from 2021.
- Page 54 noted that an audit team member has relatives in the pension fund but that this risk has been mitigated.
- Appendix 1 - the Letter of Representation is not seeking any additional representations from the Committee.
- Appendix 2 is the proposed auditors report. The opinion will be issued following committee approval.
- Appendix 3 shows the corrections made to the draft financial statements.

Cllr Llewelyn Jones wanted clarification about the agency services in note 21 on page 43.

Mrs Fielder confirmed they are Compensatory Added Years (CAY) which are recharged on a £ for £ basis to the employers.

The Committee agreed the recommendations and Mr Everett thanked all of the parties involved for their work in the closure of the accounts.

RESOLVED:

(a) That Members consider the WAO Audit of Financial Statements Report and Management Letter.

(b) That Members approve the final version of the Statement of Accounts for the 2017/18 financial year.

(c) That Members approve the Letter of Representation to the Clwyd Pension Fund.

18. **CLWYD PENSION FUND DRAFT ANNUAL REPORT 2017/18**

Mrs Fielder outlined the items in the Annual Report which have been completed to date. As usual the annual report will be completed before the Annual General Meeting with employers and Members are asked to delegate finalisation to the Clwyd Pension Fund Manager. The Annual Report includes all the Fund's statutory and best practise documents which have been brought up to date.

The Fund's Investment Consultant and Actuary presented their annual reports to the Committee.

As a result, Members raised some questions.

Mr Hibbert queried why the investment management fees have almost trebled but the assets have not moved in the same way. Mrs Fielder said that this is mainly due to increased transparency as the core managers are showing all their fees more transparently. More private market managers are providing information despite the fact that they are not signed up to the LGPS Code of Transparency yet and over time this will develop. She noted that they do discuss fees with managers and minimise them where possible.

Cllr Bateman asked what the difference was between a consultant and an advisor following page 79. Mrs Fielder responded that Mrs McWilliam (Aon Hewitt) is a governance advisor whereas JLT and Mercer are consultants.

Cllr Bateman also asked whether the investment management fees will reduce with pooling. Mr Latham said that there are some small reduction in fees.

Mr Hibbert asked whether a graph could be provided showing the cash flows going into and out of the Fund. He also said it would be useful if the reporting performance shows the value of the investments as well as the percentage change (i.e. an 8% jump on a part of the portfolio may look good but it might only reflect a small proportion of the Fund). Mr Buckland confirmed that this was a valid point and would be considered for the next Annual Report.

Mr Everett commented that it has been a positive year with substantial team effort. The funding review is imminent to consider employer contributions from 2020 and there will be a number of challenges in the administration strategy. Nevertheless it has been a successful year in a challenging period that has seen much of reform.

All members of the Committee agreed the recommendations. External Audit left the meeting at this point.

The Chairman thanked Mrs Fielder for all the hard work on the Annual Report.

RESOLVED:

That Members noted and commented on the draft unaudited sections of the Annual Report and delegated finalisation to the Clwyd Pension Fund Manager.

19. **POOLING INVESTMENT IN WALES**

The Chairman stated that there has not been a Joint Governance Committee since the last Committee. The Chairman passed over this item of the agenda to Mr Latham who emphasised the Wales Pension Partnership (WPP) is making good progress. The investment platform is in place and agenda item 10 relates to the first transition of assets. However, there are governance and investment matters that will be considered at future JGC's or by individual authorities.

A reference was made to the letter from the Minister for Local Government. Mr Hibbert commented on the increasing reporting costs for the WPP and an increased reliance on advisors and consultants when the objective is aiming to reduce costs. Mr Latham said that the reality is that there will be costs for the pooling in Wales but he is confident that WPP will be one of the best performing pools over time in terms of value for money.

Cllr Rutherford asked whether the reporting costs associated with pooling will be reimbursed and how these costs will be reported. Mrs Fielder responded that the running of the WPP is part of the overall operational costs and would be shared by all Funds as part of the costs recharged through the platform.

Mrs McWilliam also said that she had attended the Scheme Advisory Board meeting on Monday and they were going to write to all the pools to determine whether they intend to have a scheme member representative and the reasons if they do not.

Mrs McWilliam explained that there was a BBC article on Monday about the Fund investing in fracking. The article implied that Welsh funds have direct fracking investments and highlighted the Paris Agreement, Environment (Wales) Act and the Well-being of Future Generations Act. . Mrs McWilliam queried whether this was an accurate statement. Cllr Llewelyn Jones said it showed that the Fund has £10 million invested in fracking investments.

Mr Everett confirmed that the Fund is not undertaking any unlawful activities and that the Welsh Government is looking into the policy now. Mr Harkin emphasised that there was no direct investment here and the actual investment exposure to fracking companies was £7.6 million in 2016 (0.4% of the fund assets at that time). In most cases it may be that the company could have an element of fracking investment within their business structure and so they are not actually exposed to a fracking company (although it is a small amount in relation to the size of the Fund).

RESOLVED:

The Committee noted the report and discussed the progress being made by the Wales Pension Partnership.

20. **GOVERNANCE UPDATE**

Mr Latham led this item of the agenda and said that the Fund were unsuccessful in appointing candidates to fill the advertised posts. He is working with HR to identify a solution. Mr Everett commented that all is being done but it takes time to identify candidates of suitable quality. It was also noted that succession planning was being discussed right across the Council so it is not just a pension fund issue.

Mrs McWilliam discussed the Aon Administering Authority Survey on organisational and pay structures within the LGPS. It was completed by 31 Administering Authorities. She added that it is a difficult survey to carry out objectively as all the administrating authorities work in different ways (i.e. the Clwyd Fund have substantial Private Market investments whereas other LGPS funds may not). Mrs McWilliam said that generally the majority that responded claimed that they were struggling and looking at resources/structure. Also around 20% pay a Market Supplement/Premium which is consistent with previous discussions on recruitment policy

Mr Latham noted that there is a responsible investment seminar to be held in Cardiff for members of the WPP and for the members of the Committee to let Mrs Fielder know if they can attend.

Mr Latham also asked members of the Committee for approval on changes to the Conflicts of Interest policy in Appendix 9.

RESOLVED:

(a) The Committee considered the update and provided comments

(b) The Committee approved the proposed changes to the Conflicts of Interest Policy.

21. **LGPS UPDATE**

Ms Gemmell gave a brief update regarding the current issues affecting the Local Government Pension Scheme. Ms Gemmell mentioned that The Pensions Regulator will be visiting 10 Funds to assess the data quality and seek improvements. No warnings will be given and Fund's need to be on the lookout for a communication from TPR. She also confirmed that HMRC will not tax any Exit Credits paid by funds when an employer leaves the Fund in surplus. It was noted that the Section 13 report from GAD is expected during September 2018 and that the Fund had a clean bill of health.

RESOLVED:

The Committee members noted the report and made themselves aware of the various current issues affecting the LGPS; some of which are significant to the operation of the Fund.

22. **PENSION ADMINISTRATION/COMMUNICATION UPDATE**

Mrs Beales joined the meeting at this item of the agenda and gave an administration update. She said that there has been good news regarding the Member Self Service as 1,000 members have signed up for this service since the last Committee meeting as a result of the communication officer promoting the positive benefits of self-service.

Mrs Beales added the following key points;

- The additional payroll functionality
- The annual benefit statements have been sent to the majority of members, with only a few outstanding.
- Changes in Regulation and recent High Court judgements have caused additional work for the administration team.
- Key performance indicators that are measured on a monthly basis have failed to meet agreed standards this month. Also, the Fund has not managed to deliver its legal obligations. This is due to resourcing and management issues which the administration team are looking at in order to improve performance.

Mr Everett confirmed that decisions are to be made promptly with regards to the resourcing for the Fund; however the Fund needs to be cautious that they don't become over resourced to deal with short term pressures.

Mr Hibbert suggested that it would be useful to look longer term into the future and create a structure and systems now, in order to contribute to a longer term solution. He believed that there should be a resilient structure put in place. Mr Everett confirmed that they need to future proof all aspects of service delivery including the Pension Fund. This is addressed in the business planning and overall governance of the Fund.

Cllr Palmer asked about the reference to trivial commutations in the recommendations. Mrs Beales explained the background to this. Mr Latham recommended to Committee that this project be deferred to 2019/20.

RESOLVED:

(a) The Committee considered the update and provided comments

(b) The Committee agreed that additional payroll functionality which was intended to commence quarter 1 of 2018/19 is extended to quarter 3 of 2018/19.

(c) The Committee agreed that the Trivial Commutation project which was intended to commence in quarter 2 of 2018/19 should be delayed until quarter 1 of 2019/20

23. **ACTIVE GLOBAL EQUITY TRANSITION**

Mr Latham explained that the WPP has agreed two global equity mandates to the platform that the Fund can invest in. After consultation with the Fund's consultants, it is recommended that the Fund's allocation is transferred to the Global Opportunities Fund and that this will come at a lower cost; the report gives further information regarding this decision made.

Mr Hibbert declared that he was pleased with the first proposal that the Committee has seen as it is a win-win because they will be saving money also. However, he asked what would happen if the next proposal is a lose-lose situation? Mr Latham said if assets were put at risk or underperforming then he would bring this to the Committee's attention.

Mrs McWilliam added that MHCLG made it clear that all of the assets should be pooled despite the fact that some funds would lose out, on the basis it will be a gain overall. There is no guarantee of that however. She said that MHCLG are currently looking to rewrite the pooling guidance.

Mr Harkin stated that the pool shouldn't dictate the Fund's investment strategy. The pool should provide enough options for the Fund. The key thing is that the pool needs to be able to deliver the overall strategy as this is the biggest contributor to returns and risk.

Mr Hibbert said that the Fund should always weigh up the advantages and disadvantages of moving money into the pool. This particular case was a good decision for the Fund but it would be difficult for the Committee to agree to an investment with the pool that will provide a lower expected return for a higher cost. Mr Everett commented that this needs to be done on a case by case basis.

RESOLVED:

a) The Committee ratified the decision to invest in the Wales Pension Partnership Global Equity Opportunities Fund which will be funded from the current active global equity mandate with Investec Asset Management.

(b) In accordance with the reserved matter requirements of the IAA regarding the timing of the transition, the Committee agreed that these assets should be transitioned in the coming months having regard to the advice of a specialist transition manager.

(c) The Committee delegated the specific timing of the transition to the Clwyd Fund officers on the Officer Working Group (OWG) after considering advice from that specialist transition manager.

24. **INVESTMENT AND FUNDING UPDATE**

Mrs Fielder gave a brief update on this item of the agenda highlighting that the business plan has been progressing well and that the Funding Strategy Statement is now out for consultation.. In relation to investments, the Fund is still cashflow positive and has made four new investments under delegations.

RESOLVED:

The Committee considered and noted the update for delegated responsibilities and provided comments

25. **ECONOMIC AND MARKET UPDATE**

Mr Harkin gave the Committee an economic and market update over the last quarter. Page 247 reflects a snapshot of the market statistics over a 3 month, 1 year and 3 year period where there has been a significant amount of positive numbers from growth assets.

Mr Harkin highlighted the following key points;

- Equities have had a positive quarter again despite the daily volatility,
- September has already been volatile and gains are still tilted towards growth assets,
- UK and North American equities are strong,
- Emerging and frontier markets have been weaker with financial pressures from China, Turkey and Argentina,
- Developed markets are on an upward trend, however emerging markets are now tailing off which is different to 2017 when both performed consistently well,
- The bond assets reflect a series of negative returns with rising yields and cheaper assets
- Sterling is under a lot of pressure due to the Brexit negotiations however UK equity returns are strong because the larger businesses in the UK are multinationals; therefore converting to sterling is boosting their profits.

Cllr Llewelyn Jones asked whether the Fund has any exposure to South America. Mr Harkin confirmed that we do through emerging market equity.

RESOLVED:

(a) To note and discuss the Economic and Market Update 30 June 2018.
(b) To note how the information in the report effectively "sets the scene" for what the Committee should expect to see in the Investment Strategy and Manager Summary report in terms of the performance of the Fund's asset portfolio.

26. **INVESTMENT STRATEGY AND MANAGER SUMMARY**

Mr Harkin noted that there were some areas of disappointment in returns in the quarter ending of June 2018. However, since the end of March the Fund has had a £70 million increase. The Fund's total market value was £1,848 million at the end of June and £1,882 million at the end of July. The Fund has performed well in developed market equities however credit assets struggled due to the rising yield environment.

The report outlined the performance summary to 30 June 2018. The total fund return over the quarter (3.2%) and over the 3 year period (9.9%) was ahead of target. However, Stone Harbour underperformed over the 3 month period and discussions around this are on-going with the manager. The return of 15.2% in hedge funds over 3 months is an anomaly because it included sales proceeds of legacy assets.

RESOLVED:

(a) To note and discuss the investment strategy and manager performance in the Investment Strategy and Manager Summary 30 June 2018.
.
(b) The Committee considered the information in the Economic and Market Update report to provide context in addition to the information contained in this report.

27. **FUNDING AND FLIGHTPATH UPDATE**

Mr Middleman gave the Committee a funding update and confirmed that at the end of March the funding level was 89% whereas at the end of July it was 92% and remains broadly the same now which is good news for the Fund.

He explained that Mercer is currently working on an Interim Funding Review for the Fund covering modelling on what inflation and investment returns (above inflation) are expected to do in the future given the current political and economic uncertainty. The outlook (if lower) would manifest itself by a reduced funding level. The outcome of the interim funding review will be reported at the next Committee and will be presented at the AJCM.

Mr Middleman then summarised the activity on the Flightpath strategy. Again no yield triggers have been breached since the interest rate triggers were re-structured. However market volatility may lead to some triggers levels' getting closer to being breached and this is closely monitored by Insight.

The Flightpath Strategy has performed well and along with closing out the relative value trade means that there is an opportunity to release some collateral, possibly up to £100 million to invest elsewhere or be made to work harder in the Insight mandate. It was noted that this doesn't change the risk position or exposures in the flightpath strategy. The options will be discussed in the coming weeks and be reported back to Committee.

Mr Middleman's final update covered the new dynamic equity strategy that was implemented on 24 May 2018. This protection will follow the movements of the markets on a rolling 12 months period. The dynamic protection strategy will currently protect the Fund if equity markets exposure in the Insight vehicle falls by 15% on average. The reduced risk exposure will be taken into account when looking at employer deficit contributions which may mean a reduction could be passed on (all other things equal) which is the primary reason for implementing the protection.

The Chairman added that it is positive to hear of the ongoing success of the Flightpath strategy.

RESOLVED:

a) The Committee noted the updated funding and hedging position for the Fund and the progress being made on the various elements of the Risk Management Framework.

(b) The Committee noted the LDI strategy is in the process of being restructured in order to crystallise the positive mark-to-market gain.

(c) The Committee noted that the Officers are working with their advisors in order to identify possible areas to invest the £100m cash that may be released due to the overall positive performance of the flightpath framework.

28. **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 remainder of the meeting 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).

29. **EMPLOYER CARE PAY ISSUE**

Mr Latham presented a report on an issue affecting payments to Clwyd Pension Fund members. The report included the agreed principles on how the issue will be resolved and communicated.

RESOLVED:

(a) The Committee noted this report.

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(b) The Committee agreed that the ongoing management of, and any decisions in relation to this matter for Clwyd Pension Fund are delegated to the Clwyd Pension Fund Manager.

The Chairman thanked everyone for their attendance and updates at the Committee meeting and noted that there is an AJCM meeting on 6th November which he hoped the Committee members would attend. It was noted that the next Committee meeting is on 28th November.

The meeting finished at 1:00pm.

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Chairman

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 28th November 2018
Report Subject	Pooling Investments in Wales
Report Author	Clwyd Pension Fund Manager

EXECUTIVE SUMMARY

The project to pool investments across the eight LGPS funds in Wales continues with the recent focus on procuring a transition manager for global equity assets, finalising how UK and European equity allocations will be provided and continuing work on the fixed income strategy.

The Joint Governance Committee (JGC) agenda on 25 September 2018 discussed the above areas and received an update from the Host Authority on resourcing, reporting and governance.

Subsequently, a progress report has been provided to the Ministry of Housing, Communities & Local Government which was agreed by the JGC.

The next meeting of the Officer Working Group is 30th November 2018.

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

REPORT DETAILS

1.00	**Pooling Investment in Wales**
1.01	This update report follows a series of previous reports on the progress of the work of the Wales Pension Partnership (WPP). Following a procurement exercise organised by the Operator (Link), Legal & General Investment Management (LGIM) have been appointed as the transition manager for the global equity sub funds. After much discussion between all parties impacted by the transition, it is now planned that this will take place during January 2019. The Clwyd Fund will then be transitioning 4% of total Fund assets from the current Investec global equity mandate (circa £80m) to the WPP Authorised Contractual Scheme (ACS) as previously ratified.
1.02	The most recent JGC was 25th September 2018 at Gwynedd County Council, Caernarfon. The Fund's Chair was supported by Debbie Fielder, Pension Finance Manager. The main decision related to the sub fund proposals for UK and European Equity which were agreed by the JGC. The Clwyd Fund does not currently have a strategic allocation to these regional equity mandates, hence is not participating in this tranche. At this point in time the details of these funds remain confidential. The Host Authority also provided an update on progress with recruitment, where an appointment is expected 'in the next few months', developing reporting arrangements in line with CIPFA recommendations and Government expectations and governance, including the development of a web-site which is ongoing. The WPP was 'highly commended' in the Pool of the Year category at the LAPF Investment Awards.
1.03	The next tranche will be fixed income where it is more difficult to find a solution to satisfy the various requirements of all the constituent authorities. Clwyd Fund officers and investment consultant have outlined our current requirements to the Operator. This was the focus of the last Officer Working Group on 19th October and will again be the focus of the next meeting on 30th November where the Operator will provide further recommendations.
1.04	As previously reported the Host Authority, OWG and Hymans Robertson are considering the approach to be taken to several other governance and investment matters which will either require approval of the JGC or constituent authorities such as: • A response to Local Boards following Scheme Advisory Board guidance on member representation on the JGC. • WPP Business Plan and Policy documents required within the Inter-Authority Agreement • Investment policies for voting, sustainable investing and stock lending. • Investing reporting at WPP and constituent authority level.
1.05	Clwyd officers remain involved in the work of the WPP and the national asset pooling programme. The Pension Finance Manager represents Wales at the national Infrastructure Cross Pool and Responsible Investment Cross Pool meetings and, at the request of the Host Authority, has also represented WPP at national Cross Pooling meetings.

	The Government organised an "Infrastructure Information" day on 15th November for elected members. The Clwyd Fund Chair attended and will provide an update of the main themes discussed.
1.06	The Minister for Local Government requires a 'seasonal' update report from all pools. The Autumn WPP update was approved by JGC and is attached. Although the Clwyd Pension Fund is not named it does refer to a fund with an LDI programme (Liability Driven Investments – our flight path strategy) and a managed account. However, commitment to pooling of this fund is also stated. This was also mentioned in the April 2018 progress report highlighting the difficulty in pooling these areas and it is interesting to note that this has not been mentioned in the Minister's response to date. The update also includes mention of considering private markets, an area of particular interest to the Clwyd Fund, in 2020.

2.00	**RESOURCE IMPLICATIONS**
2.01	The costs of the Host Authority and advisors appointed on behalf of the eight funds to assist with the implementation process are being shared equally between the eight WPP LGPS funds and are included in the 2018/19 budget (within the separate business plan report for this meeting). The estimated Operator costs are also included within that budget.
2.02	There has been considerable time allocated by the Clwyd Pension Fund Manager and Pension Finance Manager on this project which has impacted on time available for other Fund matters. This is expected to continue for the foreseeable future and may result in greater reliance on external advisers for other matters than would otherwise be the case.

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	None.

4.00	**RISK MANAGEMENT**
4.01	How the Wales Pension Partnership operates will be key in enabling the Fund to implement its investment strategy in the future. If performance is not in line with the assumptions in our strategy, it will impact on the cost of the scheme to employers at future Actuarial Valuations.
4.02	This risk has been identified as significant in the Fund's risk register.

5.00	**APPENDICES**
5.01	Appendix 1 – WPP Autumn 2018 Update to the Minister for Local Government.

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	• Earlier Committee reports on the progress of the WPP. • The Wales Pension Partnership Inter-Authority Agreement. **Contact Officer:** Philip Latham, Clwyd Pension Fund Manager **Telephone:** 01352 702264 **E-mail:** philip.latham@flintshire.gov.uk

7.00	**GLOSSARY OF TERMS**
7.01	(a) **The Fund – Clwyd Pension Fund** – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region (b) **Administering authority or scheme manager** – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund. (c) **The Committee – Clwyd Pension Fund Committee** - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund (d) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of **(e) Inter-Authority Agreement (IAA) –** the governance agreement between the eight Wales pension funds for purposes of pooling **(f) Wales Pension Partnership (WPP) –** the name agreed by the eight Wales pension funds for the Wales Pool of investments **(g) The Operator –** an entity regulated by the FCA which provides both the infrastructure to enable the pooling of assets and fund management advice. For the Wales Pension Partnership, the appointed Operator is Link (h) **Financial Conduct Authority (FCA)** – the regulator of the financial markets and financial services firms in the UK

Wales Pension Partnership
Local Government Pension Scheme Pooling: Autumn Progress Report 2018

Pool: Wales Pension Partnership (WPP)
Date: 8 October 2018

Criterion A: Scale

- **Scale – please state the estimated total value of assets owned by participating funds**

  In our final submission to DCLG in July 2016, we stated that the ambition for the Wales Pool was to create appropriate vehicles for collective investment for all participating funds across all asset classes in time. We can confirm that remains our intention.

  The total value of assets of the participating funds referred to in that proposal, valued as at March 2015, was £12.8bn. The total value of assets as at 30 June 2018 was circa **£17.5bn**.

- **Assets within the pool – please state the total value of assets included in the transition plan for investment through the pool, with the valuation date**

  The passive investments of the WPP (circa **£3.3bn / 19% of WPP**) are now effectively within the pool. These are held by the WPP authorities in the form of insurance policies. We regard these assets as already forming part of the Pool. The selection exercise for a single manager was carried out on a collective basis in order to derive maximum fee savings from the scale of assets, and the monitoring of the manager and any future retender will be the responsibility of the Joint Governance Committee (JGC).

  It may not be feasible for these passive investments to be transferred into the WPP ACS managed by the third party operator as the individual funds will remain beneficiaries of the relevant policies and changing from a life policy vehicle may create additional taxpayer costs without any benefit to justify the change. However, the JGC will review the position on a regular basis.

- **Assets outside the pool – please state the value of assets not included in the transition plan for investment through the pool structure, with the valuation date and the rationale for retaining these assets outside the pool structure**

  The funds have a number of illiquid investments with fixed term lives. It would be very costly to exit from such investments before the planned realisation of the underlying assets. The intention is that the Operator will make available pooled vehicles to allow all future commitments to be made on a collective basis to illiquid asset classes such as private equity and infrastructure. As the current illiquid investments mature and capital is returned to investors, they will be replaced by new commitments through the new pooled vehicles. These new investments will all form part of the Pool. The JGC may also explore the potential for the Operator to carry out due diligence monitoring on the current illiquid investments until they mature.

  In addition, one of the authorities has a Liability Matching mandate and a Managed Account Platform, comprising assets in total of approximately **£500m**. Although the Fund's ISS states that it is committed to investing all assets through the Pool where pooling objectives are met, for these bespoke mandates, it will depend on the capabilities of the appointed Operator to accommodate these mandates within the Pool.

- **Transition – please state the current transition plan, including:**
  - **the sub-funds that are on offer and planned, with launch dates;**
  - **progress on establishing these sub-funds; and**
  - **timetable for transitioning assets**

Initial ACS sub-funds – Tranche 1

After passive investments (already within WPP pooling arrangements), actively managed global equities is the next largest single component across the combined asset allocation of the participating funds (circa **£3.5bn**). WPP is therefore prioritising active global equities for the initial ACS sub-funds.

A prospectus allowing the two sub-funds (Wales PP Global Growth Fund and Wales PP Global Opportunities Equity Fund) to be launched within the WPP's ACS structure was approved by the FCA in July 2018, along with approval to establish the ACS structure.

Transfers of assets into the two global equity sub-funds are expected to be carried out in late 2018.

Further phases of ACS sub-fund launches

The JGC formally approved in September 2018 the next phase of sub-funds, which will be active UK & European (ex UK) equities, with a planned launch date of early 2019. A prospectus allowing the funds to be launched will be submitted to the FCA for approval in October 2018. Initial proposals for a range of fixed income funds have also been discussed and final decisions are expected on the nature of the funds in November 2018. The launch of the fixed income funds is expected by April 2019.

£m	**Launch date (past/ planned)**	**Expected asset value**
Pooled assets		
Global Equity funds – Tranche 1	November 2018	£3.5bn.
UK & European Equity funds – Tranche 2	January 2019	£1.4bn.
Bond funds – Tranche 3	April 2019	£2.2bn.
Other assets	TBC	£7.1bn.
Total pooled assets		**£14.2bn.**

Assets not invested through the pool		
Passive assets – held in life funds		£3.3bn.
Total assets not invested through the pool		**£3.3bn.**

Total assets owned by participating funds		**£17.5bn.**

With the passive investments in life funds included as discussed above, this means that circa 60% of the WPP investments should be within the pooling arrangements by April 2019.

- **Reporting – please explain how you will publicly and transparently report progress against your transition timetable**

  WPP is committed to transparent reporting, respecting normal protocols and constraints in respect of commercially sensitive information.

  We will report progress in the first instance to the participating authorities' pension committees and local pension boards who in turn will report progress to their normal stakeholder audiences.

  This will include appropriate progress reporting in annual reports for the individual funds and any ongoing reporting required by government or the Scheme Advisory Board.

Criterion B: Governance

- **New functions – please provide an update on the governance arrangements and their current status:**

  Given the key role governance played in the Government's criteria for pooling, and the responsibility placed on the administering authorities and the democratically elected councillors on our LGPS pension committees to ensure long-term returns for the benefit of members and participating employers, the WPP has placed a strong onus on governance. The diagram below illustrates the governance structure established by the WPP.

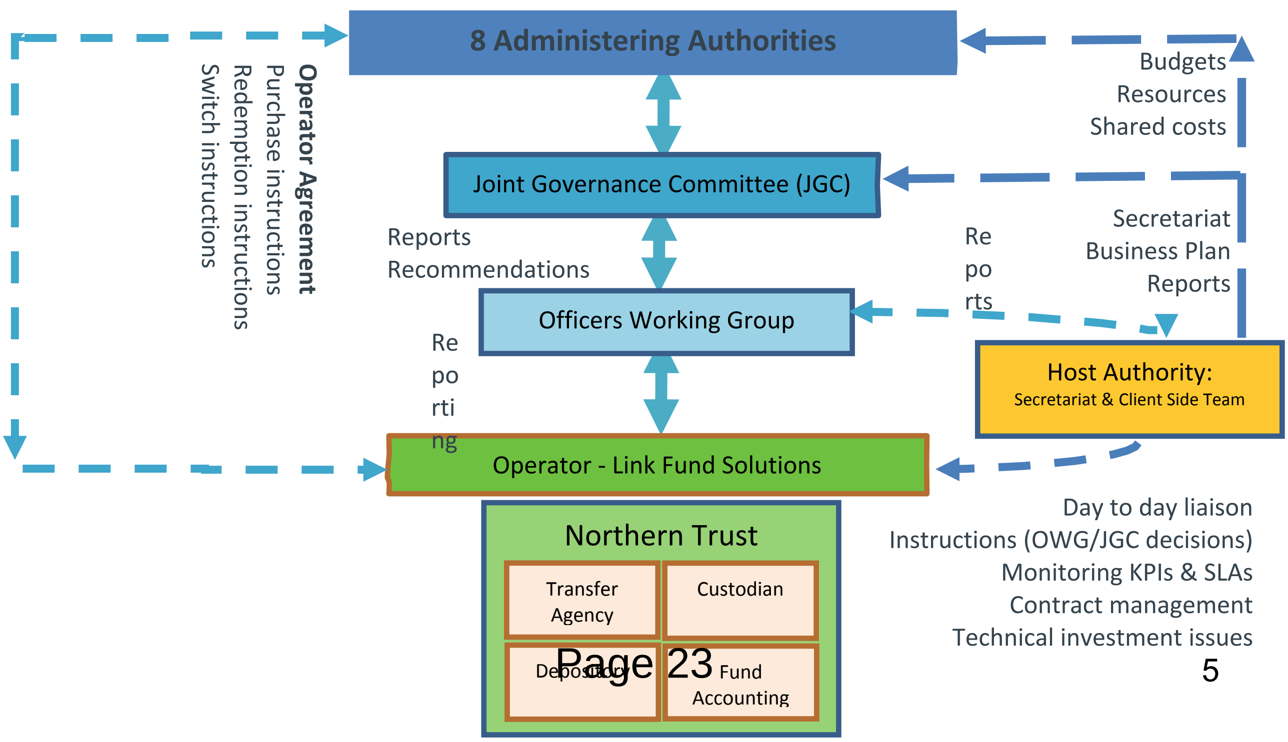
  The constituent authorities have committed to the establishment of the WPP through an Inter-Authority Agreement and following the formalisation of the JGC in June 2017, the JGC have met frequently to carry out their responsibilities.

  Roles and responsibilities of the Constituent Authorities, Joint Governance Committee (JGC), Host Authority and Operator are summarised in the Appendix.

  Carmarthenshire took on the role of "Host Authority" with effect from June 2017.

  In summary, the roles and responsibilities of the Host Authority include:
  - secretariat functions for the "client side" governance bodies (JGC and Officers Working Group (OWG))
  - technical support to the JGC and OWG
  - managing the contract with the third party Operator - Link Fund Solutions(LFS)
  - preparation of the WPP business plan
  - co-ordinating reporting and
  - day to day liaison with the Operator and advisors.

  Following a procurement process in 2017, WPP appointed Link Fund Solutions (LFS) as the "Operator" of the Pool. The Operator Agreement with LFS was finalised and effective from December 2017.



- **Fund governance (i.e. joint committees or equivalent/related functions) – terms of reference, resources, key appointments, policies and procedures, accountability to elected members, external support/scrutiny.**

  Terms of reference for client side governance groups

  The terms of reference for both the Officers Working Group (OWG) and Joint Governance Committee (JGC) are incorporated into the Inter-Authority Agreement (IAA), which was signed and executed by the 8 Constituent Authorities involved in the Wales Pension Partnership in June 2017.

  Accountability to elected members

  The Operator is held to account by the JGC. As per the IAA, the JGC comprises one elected member from each Constituent Authority. This ensures a direct link to the elected members and pension committees with fiduciary responsibility for the governance of the individual funds participating in pool.

- **Contract management resources, appointments policies and procedures**

  Resources

  It has been agreed that the Host Authority will have 2 full time permanent staff initially with support from the Treasury & Pension Investments Manager as and when required. This will be reviewed on a regular basis.

  In addition the Host Authority is supported by external advisors including:
  - Burges Salmon – legal advisors
  - Hymans Robertson – project management and technical support.

  Appointment policies and procedures

  Any appointments made will be done so in accordance with LGPS standard regulations.

- **Relationship – please provide an update on the relationship between the fund and the pool company, including:**

  - **who makes what decisions (asset allocation, manager selection, custodian selection, etc)**

    Investment Manager Selection

    The Operator Agreement sets out the contractual duties of the Operator and governs the relationship between the Operator and the WPP.

    The Operator is responsible for:
    - appointment of investment managers (IMs)
    - due diligence
    - entering into investment management agreements (IMAs)
    - monitoring and reporting IM performance
    - dismissal and replacement of IMs

It is assisted in these functions by Russell Investments (RI). RI is a sub-contractor to the Operator (LFS) with capabilities in investment manager research. It was a requirement of the tender process that the Operator should be able to provide these services using in-house capabilities or using a sub-contractor.

Selection of custodian and other support services

The Operator is also responsible for the appointment of, and contractual relationships with, all of the necessary service providers for the establishment and operation of the pool investment vehicles including depositary and custodian services.

Asset allocation decisions

The IAA, which governs the relationship between the 8 Constituent Authorities, sets out that responsibility for decisions relating to individual asset allocation is to be retained by the Constituent Authorities.

For further details please refer to the Roles and Responsibilities Appendix.

- **Reporting and communications - to assure authorities that their investments are being managed appropriately by the pool company, in line with their stated investment strategy.**

The Operator (LFS) is contractually bound to provide

(i) a monthly KPI report which will include details on its performance against specified delivery targets;

(ii) regular reporting on investment performance at pool and individual fund authority level.

It is also a regulatory requirement that the Operator should monitor adherence by the IM to the investment objectives of the sub-fund it manages as set out in the sub-fund prospectus.

- **Risk management/contingency planning on both sides (e.g. how will changes in fund requirements be implemented, how will unsatisfactory performance be tackled) and key contract features (where relevant).**

The Service Level Agreement section of the Operator Agreement includes details of the required timeframes and service standards the Operator must adhere to. This includes procedures and timescales for responding to change requests including sub-fund requirements of the WPP authorities.

The Host Authority will monitor and manage the performance of the Operator on behalf of the JGC. This will include monitoring the adequacy of the Operator's resources.

The Operator Agreement includes details of the remediation available to the WPP should the Operator fail to fulfil their obligations under the Service Level Agreement.

In the current establishment phase of the project, project managers within LFS and Hymans (acting for the Host Authority) monitor risks on the Operator and client side respectively. Appropriate mitigation plans are identified and actioned.

- **Transparency – please confirm that the pool company has signed up to the Scheme Advisory Board Code of Transparency.**

  The Operator has confirmed it will sign up to the SAB code of transparency along with their key sub-contractor, Russell Investments.

- **Benchmarking – please set out how benchmarking will be used to assess governance and performance of the fund and the pool company.**

  Performance of the pool company will be measured against the Service Level Agreement contained within the Operator Agreement.

  Investment performance against agreed benchmarks will be monitored by the Operator.

  The WPP funds are using CEM Benchmarking for investment cost benchmarking.

Criterion C: Reduced costs and value for money

CIPFA guidance on costs and savings and March 2015 baseline

Reporting in line with new CIPFA guidance and a 2015 baseline will commence in 2019 allowing for the full year 2018/19 and reflecting the final outcome of Link's fee negotiations on the sub-funds that will launch in this financial year.

Set up costs

We estimate that the costs to date in setting up the pool have been in the region of circa **£1.5m**.

This includes:
- External legal costs (including legal support on the Operator procurement)
- External project management and administration support
- External consultancy support on technical investment matters and Operator procurement
- Host authority costs to date

The stated implementation costs exclude officer time. The costs of setting up the ACS, its sub-funds and the systems and processes to run the ACS are being absorbed by the Operator.

Current running costs

All of the Operator costs are based on funds under management in the ACS and, to date, are nil. Current annual running costs for the Host Authority are circa £200k. Host Authority resources are currently supplemented by external consultants (see "Set up costs" above), but we expect regular external support to run down within the next 6-9 months.

Asset transition costs

Asset transition costs to date are nil. Link has carried out a procurement exercise to select a Transition Manager (TM) for the first sub-funds. Once the procurement is finalised, the TM will prepare an implementation plan and pre-trade estimates of the Implementation Shortfall (IS) (total asset transition costs including TM fees, buy-sell spreads, market opportunity cost, etc.).

Total annual investment costs and total expense ratio

Not available for this up-date. However, CEM have been appointed to measure and benchmark WPP costs.

Estimated cost savings to date

(i) Passive investments
Reductions in fees for **passive** management are currently delivering estimated **annual savings of circa £2.0m**.

(ii) Initial ACS sub-funds
The new sub-funds use a mixture of existing and new managers selected by Link and its investment adviser Russell Investments. Fee negotiations are conducted by Link and Russell. At the time of writing fee rates are being finalised for the initial sub-funds. Russell Investments have provided provisional estimates of net savings (fee and tax

savings less additional costs of the ACS operator and depositary) relative to current costs for assets that will be transferred to the first 4 sub-funds. They estimate **annual savings for the first four ACS sub-funds will be in the region of £2.5m (excluding tax savings) or £5m (including tax savings).**

Estimated savings (IM fees and tax) secured to date (net of Operator costs)

	Est annual savings to date (manager fees and tax)	Est annual pooling costs in respect of these assets
Passively managed equities	£2.0m	Nil
Four initial ACS sub-funds	£5.0m*	*ACS operator/depositary fees netted off of savings
Total annual savings	£7.0m	

Points to note:

- Please see previous progress reports for estimates of long term future savings once the majority of assets are pooled.
- Costs here exclude asset transition costs which will be estimated as part of transition planning. Actual asset transition costs will also be measured post-transition.
- Operator/depositary costs will increase in £ terms as assets in the ACS grow but basis points fee rates are tiered by AUM and taper down as AUM increases.
- The extent of any savings varies between participating authorities depending on how much they pay to current Investment Managers. Some participating authorities will benefit from savings from tax recoveries that can be made in the ACS but are not available in current investment vehicles.
- It is possible that an individual authority could see a net cost increase on one or more of its ACS investments because historic fee rates with existing managers are competitive. IM fees in the ACS for managers selected by Link and Russell could be higher or savings in IM fees on moving into the ACS could be outweighed by additional ACS running costs.
- In any such cases it is important to recognise other pooling benefits including any tax savings and potential for better risk-adjusted future investment returns.
- Most of the WPP authorities do not currently stock lend but will be reviewing that policy in respect of new ACS sub-funds. Currently only one of the eight authorities in the WPP uses stock lending, but if all eight funds agree that the ACS sub-funds should stock lend, this would create additional income for the WPP investors.

Break-even year

Since the WPP opted for a “rented” Operator model (initially at least) it has not incurred the significant up-front costs of building its own Operator company. This will help reduce break even time.

It is anticipated that aggregate savings (IM fees and tax savings) across the ACS sub-funds will quickly exceed the additional costs of pooling in the ACS.

However, the payback period is not immediate due to (i) set up costs to date (see above) and, more significantly, (ii) up-front asset transition costs. (For the first wave of sub-funds Link and Russell have selected a number of the investment managers who are not managers currently used by WPP funds which may result in higher transition costs than would otherwise have been the case.)

The break-even point will vary between sub-funds and between the investors in those sub-funds according to the transition costs and investment fees and taxes before and after transition.

The expected break-even year will be re-assessed in light of estimated and actual transition costs on the first phase of sub-funds.

Other benefits

In addition to IM fee savings and tax savings there are other scale and pooling benefits. These include:

1) **Tax savings**: There are material tax savings for some authorities as a result of moving into the new tax efficient ACS vehicle. The extent of savings will vary between WPP authorities and across asset classes and will depend on the tax efficiency of the investment funds currently used by individual authorities (e.g. those currently using pooled mandates will benefit from a switch to segregated mandates in an ACS structure).

2) **Diversification and improved risk-adjusted returns:** Potential for improved future risk-adjusted returns (e.g. pooling enables individual funds to achieve greater diversification by manager than they might achieve on their own at the same time as getting benefits of scale on IM fees).

3) **Access to alternative asset classes**: Some authorities will in future be able to access certain asset classes via the pool that are less easy to access economically without pooling scale (e.g. private equity and infrastructure). The immediate priority is to transfer liquid assets to the pool ACS, but WPP will also be considering options for accessing alternative asset classes such as infrastructure.

4) **Stock-lending**: The move to the pool has provided the opportunity for the WPP funds to re-appraise their policy on stock lending (currently only used by one of the WPP funds). Stock-lending can deliver additional income that is material in the context of operator / depositary fees and can help offset the additional costs of pooling.

Benefits realisation plan for achieving benefits of pooling, while at least maintaining overall investment performance.

At a high level, the plan for delivering scale benefits for the WPP pool is:

1) In 2018, create ACS umbrella for sole use of WPP authorities – complete;

2) In 2018-19, create sub-funds covering major liquid asset classes:
    a. global, UK and European equities – in progress
    b. fixed interest – consultation on specification and requirements in progress

3) In 2020 onwards, identify and implement the most cost effective ways of accessing illiquid assets – either through LGPS wide investment vehicles or through bespoke arrangements for the WPP pool.

We remain on track with this plan for delivering benefits to the WPP pool.

The WPP recognises that investment performance can have a more material impact on outcomes than cost savings. WPP is therefore focused on maintaining investment performance. As part of the design of new sub-funds Link / Russell are providing analysis of risk adjusted prospective returns their proposed new ACS sub-funds and comparing this with the current WPP investments that will transfer to the ACS. The aim is to design new ACS sub-funds with superior risk adjusted prospective returns. This is achievable in part from the greater diversification individual authorities benefit from as a result of pooling.

Link is contractually obliged to monitor investment manager performance and raise issues with investing authorities. In the event of concerns re performance in any of the sub-funds, the Operator (with its investment adviser) is expected to carry out a review of sub-fund investment managers.
In order to monitor achievement of savings and investment performance objectives:

a) CEM Benchmarking have been appointed to provide detailed analysis and reporting on cost savings;

b) The contract with Link requires regular reporting by Link on costs and investment manager performance.

Reporting and new CIPFA guidance

We confirm that all administering authorities will apply the new CIPFA guidance when preparing their annual reports from 2018/19 in order to publicly and transparently report:
-set up and transition costs;
-fees and net performance for each asset class, with a comparison to a passive index for each listed asset class; and
-savings and other benefits of pooling

The Operator will be required to provide WPP with all of the data on cost savings, transition costs and investment performance needed by the JGC and by individual authorities and required to comply with all relevant external reporting requirements.

Criterion D: Infrastructure

Ambition

Our stated ambition remains as set out in our original submission from 2016, namely - in the short to medium term - to have at least 5% of assets invested in infrastructure investments with a longer term aspiration set at 10% - subject to satisfactory investments being available.

Current allocation

A total of circa **£225m** is either already invested in infrastructure assets or formally committed to infrastructure funds, equivalent to circa 1.3% of pool assets, so the stated target represents a significant increase from the current position (potentially a five to ten-fold increase).

However, we also acknowledged in our original submission that allocations to infrastructure represent asset allocation decisions and are therefore the responsibility of individual funds rather than a collective decision for the Pool.

Approach to infrastructure investment

We have opened discussions with the appointed Operator and adviser as to the options available for accessing infrastructure investments through the pool. It is intended that one or more pooled vehicles will be made available for funds to make commitments to investment in the asset class. In addition, the WPP has engaged with a third party consultant on a potential infrastructure strategy. The OWG have also received a presentation on a specific local Infrastructure project.

We are also aware that the most efficient way of accessing infrastructure investment suitable for LGPS fund liabilities might be through national vehicles, e.g. GLIL, developed for use by the funds and pools. We therefore continue to engage with and work collaboratively of the cross pool infrastructure collaboration group in order to ensure that we may benefit from any national initiatives which may emerge in the future.

Appendix - Roles and Responsibilities

Constituent Authorities / Individual Funds

In addition to managing its own liabilities, setting its own employer contributions and administering its pensions:

- Investment strategy decisions
  - Strategic asset allocation
  - ISS/FSS
  - Investment beliefs
  - Delegation of investment manager decisions to the Pool
- Monitoring/reporting
  - Monitoring investment performance of own portfolio
  - Challenge pool if investment managers are underperforming
- Governance
  - Holding pool to account (e.g. if not happy with sub-fund performance, request review)
  - Providing representation on the JGC and OWG
- Operational/BAU
  - Timing of own transitions (initial and ongoing) and switches between sub-funds
  - Custody for non-pooled assets
  - Instructions to invest, redeem, switch in or between the pool sub-funds
- Policies*
  - Rebalancing policy
  - Responsible investment
  - Voting policy
  - Stock lending – what is in/out – existing/future
  - Policy/rules for investment in infrastructure
  - Currency overlay strategy

* WPP will consider the extent to which some policies or guidance should apply at pool level in order to avoid, where possible, the creation of additional sub-funds to accommodate different policies.

Joint Governance Committee Responsibilities

- Governance
  - Conform with IAA (joiners/leavers/cost allocation)
  - Hold Officer Working Group (OWG) to account
  - Oversight of all assets under pool governance (including passive investments)
  - Strategic planning, resourcing plan, business plan and budget for WPP
- Operator relationship
  - Agree specification for Operator and oversee procurement
  - Recommendation on 3rd party Operator to Constituent Authorities
  - Monitor performance of Operator
  - Recommend termination of the Operator, extension or new supplier to Constituent Authorities at end of contract
  - Input to consultation by the Operator on matters such as reviews of Investment Managers and asset transition plans
  - Agree any changes to the Operator Agreement, SLAs or agreed practices, procedures and protocols ("change control")
- Decisions at pool level
  - Instruct Operator on initial sub-fund and mandate requirements
  - Instruct Operator to establish additional sub-Funds or terminate existing ones
  - Instruct Operator on requirement for any non-ACS pooling vehicles
  - Approve high level transition plan proposed by Operator
  - Decisions on how to access infrastructure
  - Agreeing any common policies (e.g. stock lending/voting)
  - Decide other advisors and suppliers to the WPP
- Communications e.g. government and civil servants, press, etc
- Value for money

Host Authority & Client Side Team

- Secretariat to Joint Committee
- Lead on procurement for pool services (e.g. advisers, etc.)
- Client side team for:
    - Operator contract management
    - Monitoring performance of Operator against SLAs and KPIs
    - Day to day liaison with the Operator and its provider of establishment, consultative and non-consultative services, especially on matters affecting all funds / investors in the pool
    - Liaison with other advisers
    - Reporting Operator performance to the OWG and JGC
    - Executing and reporting progress on the Business Plan agreed with the JGC and OWG
    - Other analysis, support and reports for the OWG and JGC as required. Examples:
      - options for accessing alternatives / illiquid assets including infrastructure
      - pool policies on ESG
      - implications of regulatory change and required action e.g. MiFID
      - options at end of Operator contract – extend, re-tender, build and own
  - Client side team will NOT be middle man for all instructions to the Operator from individual administering authorities (investors and clients of the Operator) e.g. payments into the pool's investment funds, redemptions, switch instructions can all go directly to the Operator

Operator (Link Fund Solutions) Responsibilities

Core responsibilities

- Establish and operate an ACS and sub-funds for the sole use of the WPP LGPS funds
- Obtain all necessary regulatory approvals
- Fund administration
- All regulated functions and reporting
- Appoint and contract with investment managers
- Select and procure asset servicers (transfer agent/ depository/ custodian/ accounting)
- Propose sub-fund structure
- Manager monitoring and review and manager searches and recommendations (working with investment advisors)
- Asset transition management
- Implementing individual fund rebalancing policy

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CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 28 November 2018
Report Subject	Governance Update
Report Author	Clwyd Pensions Manager

EXECUTIVE SUMMARY

An update is on each quarterly Committee agenda and includes a number of governance related items for information or discussion. The items for this quarter include:

(a) Business Plan 2018/19 update, including an update on the recruitment to the three new posts in the Finance Team and planned tenders
(b) An update from the last Local Pension Board meeting
(c) A summary of the key sessions at the Welsh Responsible Investment Seminar
(d) Various items considered by the National Scheme Advisory Board at their last meeting, including an update on the Cost Transparency Initiative
(e) The key points from the annual Independent Adviser's report and the annual Pension Board report
(f) The periodic review of the Fund's Training Policy and Breaches Procedure
(g) Training implementation and monitoring including the results of Hymans Robertson's recent survey
(h) The latest changes to our breaches of the law register.
(i) Monitoring the Governance of the Fund by the Audit Committee.

RECOMMENDATIONS	
1	That the Committee consider the update and provide any comments.
2	That the Committee discuss what actions could be taken as a result of the information received at the recent Wales Responsible Investment event, and confirm whether the Fund's approach to RI/ESG should be included on the next agenda for discussion and debate.
3	That the Committee consider the current Training Policy and Procedure for Recording and Reporting Breaches of the Law and confirm if they would like any changes to be made to either of these.

REPORT DETAILS

1.00	GOVERNANCE RELATED MATTERS

1.01	**Business Plan 2018/19 Update**
	
	Progress against the business plan items for quarter three of this year is summarised in Appendix 1. This quarter's work includes the following items:
	• G5 – Structure Review of Finance Team – as previously reported three new positions have been created in the Finance Team; an Investment Officer, an Accountant and a Governance Support Officer. These posts were advertised earlier in 2018 but no suitable applications were received. Following discussions with Human Resources:
	  o the Investment Officer post will be re-advertised as a Graduate Investment Officer, which will start at a lower grade with the focus being on recruiting someone who can be trained to the appropriate level of expertise
	  o the Accountant post has been reviewed and will now be re-advertised at a higher grade
	  o the Governance Support Officer will also be re-advertised but with no change to the grade.
	• G6 – Review/Tender Actuarial Contract – The preparation work in relation to the tender for this contract, which is currently held by Mercers, has largely been completed and invitations to tender will be issued imminently.
	• G7 – Review/Tender Investment Consultancy and Independent Adviser Contracts – these contracts, which are held by JLT and Aon respectively, are due to cease on 31st March 2019. It has been agreed under urgency delegations that these contracts should be extended for one further year for business continuity purposes so that the review/tender of the contracts will instead take place during Q3 and Q4 of 2019/20. Further information is contained within Appendix 2.

1.02	The Committee is asked to note the contents of the business plan update.
1.03	**Current Developments and News** *Pension board update* The approved minutes of the Clwyd Pension Fund Board meeting on 28 June 2018 are attached at Appendix 3. The last meeting of the Clwyd Pension Fund Board was held on 11 October 2018. The formal minutes will be circulated in due course. The key items of discussion were as follows: • Visit by Cheshire Pension Fund – the Board welcomed Heidi Catherall, the secretary to the Cheshire Pension Fund Board to observe the meeting. Phil Pumford and Phil Latham had previously attended a Cheshire Pension Fund Board and the chairs and secretaries will be meeting to discuss what they have learnt from these visits and any benefits it can bring to their respective sessions.

	• Cybercrime – the Board received presentations from a representative of Aquila Heywood and also Flintshire County Council highlighting how cybercrime was being managed in their respective organisations in relation to the systems that are being used for Clwyd Pension Fund processes. The Board also received an update on cybercrime management from the Clwyd Pension Fund Manager in relation to other systems and suppliers of the Fund, including Link Russell the Wales Pension Partnership (WPP) Operator. As a result of the discussion, the Board has asked for confirmation as to whether Aquila Heywood has appropriate cybercrime insurance. They have also asked for cybercrime to be considered by the Advisory Panel regularly so that the risk is monitored on an ongoing basis. • Asset pooling – The Board received an update from the Clwyd Pension Fund Manager on the transition of assets including the procurement of a transition manager. The Board discussed ongoing concerns about the governance of WPP and the likelihood that this was mainly due to the lack of resources available at the Host Authority. Concerns included lack of a business plan, missing key policies and no formal decision on whether the JGC should include a member representative. The Chair highlighted that she had heard similar concerns from members of other Welsh Pension Boards and discussions had taken place around whether a joint letter could be sent from all Boards asking for clarity around when and how the current areas of concern will be addressed by WPP. The Clwyd Pension Fund Board members were fully supportive of a joint letter being sent from all Welsh Pension Boards. • Section 13 report, cost cap process and third tier employers' review – the Board received updates on these national initiatives. • The Pensions Regulator (TPR) – Annual Scheme Return – Karen Williams, the Principal Pensions Officer, provided an update on a recent data quality exercise that has been carried out, the results of which have now been submitted to TPR. The Board highlighted that some areas of the review highlighted areas of missing data that, in their view, were less critical as they did not impact on the accuracy or quality of information being provided to scheme members or employers, or being used for internal process. A data improvement plan is now being developed by the Administration Team and this will be considered by the Board at a future meeting. • Administration update and Project Apple – the Board received an update including relating to the error covered by the Committee's Part 2 report. The Board noted their support for the Administration Team in dealing with the large workloads as well as resolving the Project Apple issue. The Board noted their support in continuing to outsource work and look for additional resources. They asked for the resourcing constraints to be continued to be considered by the Advisory Panel.
1.04	*National LGPS Scheme Advisory Board (SAB) Update* The LGPS SAB Board met on 10 October 2018. A summary of that meeting is attached as Appendix 4. Since then, the Financial Conduct Authority (FCA) has announced the launch of the Cost Transparency Initiative (CTI) which is supported by the

	LGPS SAB as well as other organisations. The CTI will take forward the cost transparency programme at a national level. This is likely to result in ongoing development of disclosure requirements for all investors and the LGPS SAB will continue to be a key contributor to this work.
1.05	*Annual governance review* Since the last meeting, Karen McWilliam, the Fund's Independent Adviser and Chair to the Clwyd Pension Fund Board, has completed the annual reports for including in the Fund's annual report and account. The reports can be found on pages 19 to 33 of the annual report at - https://mss.clwydpensionfund.org.uk/documents/Final%20Annual%20Report%202018.pdf. The key points from the reports include: • The Fund continues to be well managed with robust governance providing a strong foundation. • There was significant change in the Committee following the last elections but the new Committee carried out intensive training to maintain a high standard of decision making. • There has been significant progress in establishing the Wales Pension Partnership. Some of the governance requirements have not yet been put in place. In the longer term, a crucial measure of success will be whether or not savings are achieved for all participating Pension Funds. • Workforce planning has been carried out within the Finance Team due to the age profile of the staff and the ongoing pressures of asset pooling and governance. It is important that the Council works hard to ensure that the current staffing challenge is overcome. • Unprecedented increases in workloads in the Administration Team continue to cause problems but the team have worked hard to implement improvements including increased management information, a new website, i-Connect and the on-line Member Self Service facility. It is important for efficiencies to continue to be identified whilst continuing to consider the appropriateness of the existing resources. It is recommended that Committee members review the content of these reports and highlight any matters they wish to discuss at the Committee meeting.
1.06	*Annual Joint Consultative Meeting (AJCM)* The Clwyd Pension Fund AJCM was held on 6th November. The agenda included the following presentations: • Overview of governance and potential changes to the LGPS – Karen McWilliam, Aon • Investment Performance and Financial Markets – Kieran Harkin, JLT • Interim Funding Review and Employer Costs – Paul Middleman, Mercers • Measuring Social Impact – Debbie Fielder, CPF • Investing in Wales – Development Bank of Wales. As expected, the audience were particularly interested in Paul's presentation given the triennial valuation is due to take place as at 31st

	March 2019 which will impact ongoing employer costs. The audience also appeared to welcome the work being carried out on Social Impact and the opportunities highlighted for investing in Wales. Unfortunately attendance was lower than expected. The Communications Team will be considering how to improve attendance in future years.
1.07	*Welsh Pension Funds Responsible Investment Seminar* A number of committee members plus Debbie Fielder, Pension Finance Manager, and Karen McWilliam, Independent Adviser/Chair of the CPF Board, attended the Welsh Pension Funds Responsible Investment (RI) Seminar on 31st October in Cardiff. This event was well attended by all the Welsh LGPS funds. The agenda included a variety of speakers including: • Bob Holloway, Secretary of the LGPS SAB – providing an overview of Environmental, Social and Governance (ESG) thinking at a national LGPS level • Alan MacDougall, PIRC Limited – considering the responsibilities of funds on ESG matters within the WPP • Nathan Bear, Robbins Geller Rudman & Dowd – providing examples of how trustees fulfil their fiduciary duty when corporate governance fails • Tessa Younger, PIRC - the mission of LAPFF to protect the long term investment interest of LGPS beneficiaries through company engagement • Ian Coleman, Chair Torfaen Pension Fund Board – the role of the Pension Boards in relation ESG • David Cullinan, PIRC – monitoring of performance in a pooling environment including ESG and proxy voting. Based on informal discussions with some of the Clwyd Pension Fund attendees, it was felt this was an extremely interesting event covering a matter that perhaps needs more focus and discussion at a local level. Committee members are asked to discuss what actions could be taken as a result of the information received at this event, including whether the Fund's approach to RI/ESG should be included on the next agenda for discussion and debate. The Fund's current Sustainability Policy is reproduced within the Fund's Investment Strategy Statement - https://mss.clwydpensionfund.org.uk/documents/Clwyd%20ISS%20-%202018.pdf .
  1.08	**Review of Policies, Strategies and Procedures** *Training Policy* The Clwyd Pension Fund Training Policy was originally approved by the Committee in November 2014. It is now due for a review and a copy of the existing policy is attached in Appendix 10. The officers have reviewed the existing policy and have not identified any changes to be recommended to the Committee. Committee members are asked to review the existing policy and consider if they require any changes to be made to it.
	Procedure for Recording and Reporting Breaches of the Law

1.09	The Clwyd Pension Fund Breaches Procedure was originally approved by the Committee in November 2015. It is now due for a review and a copy of the existing procedure is attached in Appendix 11. The officers have reviewed the existing policy and have not identified any changes to be recommended to the Committee. Committee members are asked to review the existing policy and consider if they require any changes to be made to it.
1.10	Committee members are also asked to consider whether they fully understand their responsibilities under the Training Policy and Breaches Procedure. They should highlight any concerns at the Committee meeting or beforehand with Phil Latham, Clwyd Pension Fund Manager, or Debbie Fielder, the Pensions Finance Manager.
	Compliance with the TPR Code of Practice
1.11	The Pensions Regulator (TPR) issued a Code of Practice relating to the governance and administration of public service pension schemes (Code of Practice (COP) number 14) which came into force in April 2015. TPR expects all public service pension schemes to ensure that they are reviewing their management against the COP requirements on an ongoing basis. The COP is split into 10 key areas, and overall there are around 90 requirements or areas of recommended best practice, which can be directly tested and evidence of compliance provided. A review against these areas is carried out each calendar year for the Clwyd Pension Fund and previous results were reported to the Committee in March 2016 and September 2017. Officers have now undertaken the 2018 review.
1.12	The contents of the review are included in Appendix 12. The details of the checks completed are shown on pages 4 onwards and the summary on page 3 shows a snapshot of all checks and whether or not the Fund is compliant. The numbers shown in brackets below relate to the results in September 2017 for comparison purposes. This review illustrates that the Fund is fully compliant in 79 (71) out of the 99 areas tested. Of the remaining 20 (29) areas: • 1 (1) is not relevant to the Fund, • 2 (3) are cases where the full evidence is not readily available and there is ongoing work investigating that area to determining whether the Fund is compliant or not. • Excluding the above, 2 (4) areas are considered to be non-compliant with the requirements or best practice. • The remaining 16 (20) are partially compliant, with 2 of these being employer responsibilities, rather than Fund responsibilities.
1.13	The results clearly show an improvement in some areas since the last review, albeit it is important to recognise that some measures may be more significant than others. For example, some may be required by law whereas others are best practice, or some may have a greater level of risk with not being compliant than some of the other checks. The key areas for development included actions in the final column of the tables in the Appendix from page 4 onwards. These areas and the other areas of improvements identified will be collated into a separate action plan.

1.14	A particular area of responsibility for the Pension Board, as detailed in the Public Service Pensions Act is "to assist in ensuring compliance with TPR requirements". Accordingly the results of this review will be part of the agenda for the next Pension Board including the separate action plan.
1.15	**Policy and Strategy Implementation and Monitoring** *Training Policy* The Clwyd Pension Fund Training Policy requires all Pension Fund Committee, Pension Board members and Senior Officers to: • have training on the key elements identified in the CIPFA Knowledge and Skills Framework • attend training sessions relevant to forthcoming business and • attend at least one day each year of general awareness training or events. Appendix 5 details progress made to date in relation to the CIPFA Knowledge and Skills Framework training. Appendix 5 also includes training and various external events attended by Committee members and Pension Board members during 2018/19. Appendix 6 includes details of planned training events including forthcoming events considered suitable for general awareness training. Members are asked to note that bookings are now being made for the LGC event at Carden Park. Any Committee or Board members wishing to attend should contact Debbie Fielder, the Pensions Finance Manager. The key elements of training identified for this year have been delivered to the majority of members. A catch up day has been organised for some members on the afternoon/evening of 19th December covering the administration, governance and funding training. If any member wishes to attend this, they should contact Debbie Fielder, the Pensions Finance Manager. Officers will continue to consider any specific topics that merit further training. In the meantime, Committee members are reminded to highlight, at any point, topics they feel they need further training in.
1.16	Committee and Board members were recently invited to take part in Hymans Robertson survey of national confidence. The results are included as Appendix 13 and 14 and show that three Committee and three Board members completed the survey. Committee and Board members will recall that we carried out our own training needs assessment in December 2017 which drove the contents of our training plan for 2018. Further training needs assessments will be repeated periodically by the Clwyd Pension Fund officers and advisers.
1.17	*Recording and Reporting Breaches Procedure* The Fund's procedure requires that the Clwyd Pension Fund Manager maintains a record of all breaches of the law identified in relation to the management of the Fund. Appendix 7 details a number of current breaches that have been identified. As highlighted in the Part 2 report, the breach relating to the employer error has been reported to The Pensions Regulator

	and there are ongoing discussions with The Pensions Regulator.
 1.18	**Delegated Responsibilities** The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. Appendix 2 summarises the urgency delegation that has been used in relation to item G7 of the business plan (forthcoming tenders). No other delegated responsibilities were used in the last quarter in relation to governance matters.
 1.19 1.20	**Calendar of Future Events** Appendix 8 includes a summary of all future events for Committee and Pension Board members, including Pension Fund Committee meetings, Pension Board meetings, Training and Conference dates. Committee members are asked to note that the February 20th PFC will be taking place at 9.30am and the Fund's business plan for 2019/20 to 2021/22 will be presented for approval at that meeting. It is possible that the March 20th PFC may be used as a training day. Members will be notified nearer the time if this is the case. **Monitoring of Fund Governance by the Audit Committee** Following the reporting of the draft Pension Fund Accounts to the Audit Committee in June 2018 a report was requested on the monitoring of fund management fees and value for money. The Clwyd Pension Fund Manager presented a report to Audit Committee on 21st November. Further consideration will be given to the most effective way of the Audit Committee performing their role going forward. The Audit Committee has been provided with the Fund's Annual Report as requested.

2.00	**RESOURCE IMPLICATIONS**
2.01	The report touches on the ongoing challenges as a result of the current workloads and the retirement of a Finance Manager at the end of 2017. The Pension Fund Manager is continuing to ensure work is prioritised appropriately but it is likely that some non-essential tasks are not being carried out until the full staffing establishment is achieved.

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	None directly as a result of this report.

4.00	**RISK MANAGEMENT**
4.01	Appendix 9 provides the dashboard showing the current risks relating to the Fund as a whole, as well as the extract of governance risks. The key governance risks continue to relate to: • potentially insufficient resource, which puts a risk on us being able to deliver our legal and policy objectives • the impact of externally led influence and scheme change (such as asset pooling) which could also restrict our ability to meet our objectives and/or legal responsibilities.
4.02	Although there has been no changes to the scores this quarter, risk number 5 (the Fund's objectives not being met or being compromised due to external change) has been updated to note the ongoing monitoring of cybercrime risk as an internal control.
4.03	The officers have also considered the potential risk as a result of JLT being merged with Marsh & Mclennan (which includes Mercers as a subsidiary). They consider the risk of the current investment consultants being removed or their services being impacted extremely small and believe appropriate controls are in place as a result of internal expertise and access to other advisers. No changes have therefore been made to the risk register in relation to this matter.

5.00	**APPENDICES**
5.01	Appendix 1 – Business plan progress Appendix 2 – Delegations Appendix 3 – 28 June 2018 Pension Board minutes Appendix 4 – LGPS SAB update Appendix 5 – Training undertaken Appendix 6 – Training plan Appendix 7 – Breaches Appendix 8 – Calendar of future events Appendix 9 – Risk register Appendix 10 – Training Policy Appendix 11 – Breaches Procedure Appendix 12 – Review against TPR Code of Practice Appendix 13 – Hymans Robertson National Confidence Assessment Report Appendix 14 – Hymans Robertson National Confidence Assessment Clwyd Results

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	No relevant background documents. **Contact Officer:** Philip Latham, Clwyd Pension Fund Manager **Telephone:** 01352 702264 **E-mail:** philip.latham@flintshire.gov.uk

7.00	GLOSSARY OF TERMS
7.01	(a) **CPF – Clwyd Pension Fund** – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region (b) **Administering authority or scheme manager** – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund. (c) **PFC – Clwyd Pension Fund Committee** - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund (d) **LPB or PB – Local Pension Board or Pension Board** – each LGPS Fund has an LPB. Their purpose is to assist the administering authority in ensuring compliance with the scheme regulations, TPR requirements and efficient and effective governance and administration of the Fund. (e) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of (f) **SAB – The national Scheme Advisory Board** – the national body responsible for providing direction and advice to LGPS administering authorities and to DCLG. (g) **MHCLG – Ministry of Housing, Communities and Local Government** – the government department responsible for the LGPS legislation. (h) **JGC – Joint Governance Committee** – the joint committee established for the Wales Pension Partnership asset pooling arrangement.

APPENDIX 1

Business Plan 2018/19 to 2020/21 – Q2 Update
Governance

Cashflow projections for 2018/19

	2016/17 £000s	2017/18 £000s	2018/19 £000s			
	Actual	**Actual**	**Budget**	**Actual**	**Projected for full year**	**Final under/ over**
Opening Cash	(13,640)	(13,623)	(21,188)	(21,188)		
Payments						
Pensions	54,684	57,452	59,280	29,653	59,793	513
Lump Sums & Death Grants	14,857	13,500	15,000	7,022	14,522	(478)
Transfers Out	5,473	5,600	3,200	4,059	5,659	2,459
Expenses	3,001	3,935	3,400	1,763	3,463	63
Support Services	300	120	130	129	129	(1)
Total Payments	78,315	80,607	81,010	42,626	83,566	2,556
Income						
Employer Contributions	(32,787)	(34,617)	(35,200)	(20,292)	(36,492)	(1,292)
Employee Contributions	(13,779)	(15,259)	(14,000)	(6,884)	(13,884)	116
Employer Deficit Payments	(28,474)	(52,612)	(18,123)	(18,248)	(18,728)	(605)
Transfers In	(2,540)	(4,813)	(2,000)	(2,874)	(3,874)	(1,874)
Pension Strain	(2,282)	(1,057)	(1,200)	(744)	(1,344)	(144)
Income	(146)	(29)	(40)	(21)	(41)	(1)
Total Income	(80,008)	(108,387)	(70,563)	(49,063)	(74,363)	(3,800)
Cashflow Net of Investment Income	(1,693)	(27,780)	10,447	(6,437)	9,203	(1,244)
Investment Income	(3,019)	(3,540)	(3,000)	(3,649)	(5,149)	(2,149)
Investment Expenses	2,991	3,035	3,000	1,526	3,026	26
Total Net of In House Investments	(1,721)	(28,285)	10,447	(8,560)	7,080	(3,367)
In House Investments						
Draw downs	45,146	73,893	86,790	43,058	90,815	4,025
Distributions	(56,614)	(52,294)	(80,337)	(32,031)	(77,032)	3,305
Net Expenditure /(Income)	(11,468)	21,599	6,453	11,027	13,783	7,330
Total Net Cash Flow	(13,189)	(6,686)	16,900	2,467	20,863	3,963
Rebalancing Portfolio	13,206	(879)		(185)	-185	(185)
Total Cash Flow	17	(7,565)	16,900	2,282	20,678	
Closing Cash	(13,623)	(21,188)	(4,288)	(18,906)	(510)	

Operating Costs

	2016/17	2017/18	2018/19			
	Actual	Actual	Budget	Actual	Projected for full year	Projected under/ over
	£000s	£000s	£000s	£000s	£000s	£000s
Governance Expenses						
Employee Costs (Direct)	236	229	243	96	237	(6)
Support & Services Costs (Internal Recharges)	22	23	18	0	18	0
IT (Support & Services)	4	5	5	0	5	0
Other Supplies & Services)	58	69	87	42	87	0
Miscellaneos Income	(11)	0		0	0	0
Audit Fees	39	39	40	(3)	40	0
Actuarial Fees	335	217	324	176	324	0
Consultant Fees	703	458	589	358	689	100
Advisor Fees	188	202	178	172	304	126
Legal Fees	59	37	24	24	40	16
Pooling (Additional Costs)		53	224	35	224	0
Total Governance Expenses	1,633	1,332	1,732	900	1,968	236
Investment Management Expenses						
Fund Manager Fees*	14,386	20,539	16,593	1,468	20,000	3,407
Custody Fees	31	31	31	8	34	3
Performance Monitoring Fees	57	67	66	29	66	0
Pooling (Additional Costs)			50	0	n/k	n/k
Total Investment Management Expenses	14,474	20,637	16,740	1,505	20,100	3,410
Administration Expenses						
Employee Costs (Direct)	648	649	776	367	776	0
Support & Services Costs (Internal Recharges)	100	105	66	0	66	0
Outsourcing	260	227	1,000	174	1,000	0
IT (Support & Services)	290	271	413	349	413	0
Member Self Service	0	15	0	0	0	0
Other Supplies & Services)	70	139	106	36	106	0
Miscellaneous Income	0	0	0	0	0	0
Total Administration Expenses	1,368	1,406	2,361	926	2,361	0
Employer Liaison Team						
Employee Costs (Direct)		163	194	98	194	0
Total Costs	**17,475**	**23,538**	**21,027**	**3,429**	**24,623**	**3,646**

Key Tasks

Key:

	Complete
	On target or ahead of schedule
	Commenced but behind schedule
	Not commenced
xN	Item added since original business plan
xM	Period moved since original business plan due to change of plan /circumstances
~~x~~	Original item where the period has been moved or task deleted since original business plan

Governance Tasks

Ref	Key Action –Task	2018/19 Period				Later Years	
		Q1	Q2	Q3	Q4	2019/20	2020/21
G3	Review of Governance Related Policies	x	xM	x		x	x
G4	Cybercrime	x	x				
G5	Structure Review of Finance Team	x	x	x			
G6	Review/ Tender Actuarial Contract	x	x	x			
G7	Review/Tender Investment Consultancy and Independent Adviser Contracts			x	x	xM	

G3– Review of Governance Related Policies

What is it?

The CPF has a number of policies focussing on the good governance of the Fund, as follows:

- Conflicts of Interest Policy - March 2015
- Procedure for Recording and Reporting Breaches of the Law - November 2015
- Training Policy – November 2015
- Risk Policy – September 2017
- Governance Policy and Compliance Statement – March 2017

All of these policies are subject to a fundamental review at least every three years. In addition, the reviews will incorporate any changes as a result of the move to asset pooling with the Wales Pensions Partnership.

Timescales and Stages

Conflicts of Interest Policy - March 2015	2018/19 Q1
Procedure for Recording and Reporting Breaches of the Law & Training Policy - November 2015	2018/19 Q3
Governance Policy and Compliance Statement – March 2017	2019/20 Q1
Risk Policy – September 2017	2020/21 Q2/3

Resource and Budget Implications

It is expected this will mainly involve the Pension Fund Manager taking advice from the Independent Adviser. Estimated costs are included in the budget.

G4 – Cybercrime

What is it?

With large volumes of personal and financial data processed within a relatively less sophisticated security environment by comparison to other financial institutions, pension schemes are an increasingly attractive target for cybercriminals. LGPS funds predominantly rely on the processes and security of their parent local authorities due to the IT systems sitting on local authority infrastructure.

Flintshire County Council currently have a programme of work considering the risk of cybercrime. It is planned that the pension team will be part of this work but will then expand it as required to give appropriate assurances on the security of the pension systems, and a better understanding of any ongoing work required to ensure the appropriate level of security remains.

Timescales and Stages

Ongoing work with FCC on council's cybercrime programme	2018/19 Q1 to Q2
Understand and develop any ongoing CPF specific cybercrime requirements	2018/19 Q1 to Q3

Resource and Budget Implications

It is expected this will mainly involve the Pension Administration Manager working with Council staff. No additional budget has been assumed for external parties at this point.

G5 – Structure review of Finance Team

What is it?

As a result of the retirement of a Finance Manager, the impact of asset pooling, the increased work associated with Governance, and the need to reduce the risk associated with key persons within the structure, the Finance Team is being restructured.

Timescales and Stages

Finalise structure and carry out recruitment	2018/19 Q1 to Q3

Resource and Budget Implications

To be led by Pension Fund Manager with FCC Human Resources Team. All internal costs are being met from the existing budget albeit any necessary changes to staffing levels or numbers may impact on the budget and these are not yet included in the proposed budget. Additional costs that may arise as a result of greater use of consultants during the period of implementation and whilst posts remain vacant are estimated in the proposed budget.

G6 – 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 Benefit Consultancy Services. Following this review, and discussions with procurement, the Council needs to put the actuarial contract out to tender. Due to the triennial actuarial valuation of the Fund during 2016/17 and the ongoing need to prioritise work around asset pooling, this was deferred.

Timescales and Stages

Review current actuarial contract and identify tender process	2018/19 Q1
Conduct tender for actuarial services	2018/19 Q2/3

Resource and Budget Implications

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

G7 – Review/Tender Investment Consultancy and Independent Adviser Contracts

What is it?

The Fund's investment consultancy and independent Adviser contracts reached their initial break point on 31 March 2017 albeit, due to Government changes to investment regulations, including pooling, and also the implications of MIFID II, they were extended for 2 years (to 31 March 2019) to provide stability and consistency of approach. For these reasons the contracts will be reviewed during 2018/19. This will initially involve a review of whether the existing services should be retendered in their current format or whether there is a more appropriate consultancy contracts that could be put in place. Note that, as a result of pooling, it may be preferred to look for options to extend these contracts for a further short period, so as to identify the most appropriate services going forward.

Timescales and Stages

Review appropriateness/decide format of future contracts	2018/19 Q3
Conduct tender for services	2018/19 Q4

Resource and Budget Implications

To be led by Pension Finance Manager within existing budget.

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DELEGATED RESPONSIBILITIES

<table>
<tr><th>Delegation to Officer(s)</th><th>Delegated Officer(s)</th><th>Communication and Monitoring of Use of Delegation</th></tr>
<tr><td>Other urgent matters as they arise</td><td>PFM and either CFM or COPR, subject to agreement with Chairman and Deputy Chairman (or either, if only one is available in timescale)</td><td>PFC advised of need for delegation via e-mail as soon as the delegation is necessary. Result of delegation to be reported for noting to following PFC.</td></tr>
<tr><td colspan="3">Action taken – relating to G7 - Review/Tender Investment Consultancy and Independent Adviser Contracts of the 2018/19 business plan

The contract for Investment Consultancy is currently held by JLT and the contract for the Independent Adviser is held by Aon. Both are due to cease on 31st March 2019.

It has recently been announced that JLT are to be purchased by Marsh & Mclennan in the spring of 2019. This is likely to have a significant impact on any proposals being submitted by JLT and possibly also Mercers (which is part of Marsh & McLennan) prior to the merger. Due to the small number of expected bidders for this contract (probably five or less), it is considered too much risk to carry out the procurement until the merger of JLT into Marsh & McLennan has been concluded and there has been sufficient time for them to bed in their ongoing services to LGPS funds. As a result, the Fund's urgency delegation procedure has been used to extend the existing contract to 31 March 2020 and the procurement will be postponed to the winter of 2019/20.

The tender for the Independent Adviser was due to run in tandem with the Investment Consultant. Given there are a number of high risk matters being carried out by the Fund, including the transition of assets to the Wales Pensions Partnership and Project Apple, and the benefits of running these tenders at the same time, it was decided under the urgency delegation procedure to also extend this contract to 31 March 2020 with the procurement being postponed to the winter of 2019/20.</td></tr>
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FLINTSHIRE COUNTY COUNCIL (As Lead Authority for the Clwyd Pension Fund)

CLWYD PENSION FUND BOARD

Minutes of the meeting of the Clwyd Pension Fund Board of Flintshire County Council (as Lead Authority for the Clwyd Pension Fund), held at County Hall, Mold, on Tuesday, 28 June 2018 at 9.30am.

THE BOARD:

Present:

Chair: Mrs Karen McWilliam (Independent Member)

Member Representatives: Mrs Gaynor Brooks, Mr Phil Pumford

Employer Representatives: Mr Mark Owen, Mr Steve Jackson

IN ATTENDANCE

Mr Philip Latham (Clwyd Pension Fund Manager and Secretary to the Board)
Mrs Debbie Fielder (Pension Finance Manager)
Mrs Jayne Taylor (Principal Pensions Officer) – part meeting
Mrs Kerry Robinson (Principal Pension Officer) – part meeting
Mr Paul Friday (New Member Representative) observing

		Actions
1.	**APOLOGIES/ WELCOME**	
	Helen Burnham (Jayne Taylor substituted). The Chair welcomed Mr Paul Friday to the meeting as an observer in advance of his replacing Gaynor Brooks as Member Representative.	
2.	**DECLARATIONS OF INTEREST**	
	No new declarations were made.	
3.	**MINUTES AND MATTERS ARISING**	
	The draft minutes of the meeting held on the 27 February 2018 were confirmed as a correct record by all Board members.	
	In relation to the Cybercrime presentation which was being deferred to a later meeting, the Board requested that information from the Pensions Regulator be issued in advance of the	

meeting. ***New Action – Link to relevant section on the Pension Regulator web site to be provided in advance of the Cybercrime presentation***	**Actions** **Chair**

Completed and/or outstanding actions were considered as part of agenda item 4 Action Tracker.

4. ACTION TRACKER

The Chair introduced this item explaining that the document was designed to track all action points identified by the Board, identify completed or outstanding actions and also ensure that none are overlooked.

The contents of the Action Tracker were discussed. As previously agreed, completed actions are now removed from the Action Tracker once reported as completed to the Board.

The following points were made in relation to the Action Tracker with other actions noted as ongoing:

- 9th action (Web-site) – Confirmed there would be on-going feedback of the web-site and that the emails should be updated to be hyperlinks.
- 14th action (Cybercrime/IT Security/ GDPR) – Presentation to Board at October 11th meeting.
- 15th & 16th actions (TPR Code of Practice) – These have been deferred as it was noted resource constraints are still delaying the update.
- 18th action – (WPP IAA) It was noted that there are still policies outstanding for the WPP.
- 20th action – (WPP Business Plan) This is still outstanding and the Board asked that it be highlighted again at the next OWG. It was agreed it would be appropriate if the Board raised it with the Host Authority, perhaps as a joint letter from all Welsh Pension Boards (see later point on this)
- 25th action – (ELT and WCBC agreement) Further meetings have been arranged and communications are in place.
- 26th action – (Disaster Recovery Test) The next test is still outstanding.

	Actions
• 27th action – (Consideration needs to be given to how the CEMs training can be delivered. **RESOLVED:** The Board noted the ***action tracker which is to be updated*** as agreed.	
New Action – Web-site emails to be a hyperlink	**Board Secretary**
New Action – The Business Plan for WPP be raised at the next OWG	**Board Secretary**

5. ADMINISTRATION UPDATE

Mrs Taylor provided the Board with an update on the following areas:

Key Performance Indicators

The Board received the summaries of KPI's for the previous quarters. These were explained to the Board and also noted that the figures relating to transfers were improving with the return to work after sickness of a member of staff.

Current Workloads

Mrs Taylor presented details of the due dates and outstanding cases relating to the Operations, Employer Liaison and Aggregation teams.

She confirmed that Flintshire is now on iConnect and this has caused additional work initially while the team work through the issues which have been highlighted through the process.

There has been a business case produced for additional resources and three positions have been agreed and advertised. It was explained that the complexity of the scheme is slowing down the processing time and they need additional resource for retirement and death grant payments to achieve the KPI's in the Administration Strategy.

The Board recognised the strain on resources and the need for additional staff, commenting that they have seen the increased pressures within the section in the previous 3 years due to layers

	Actions
of continued changes to the regulations.	
Special Projects	
The Board were given the latest statistics of Member Self Service which showed that there are currently 6,500 members have now registered and are actively using the site.	
Discussions were made around the accuracy of the benefit calculations members can access on MSS and Mrs Taylor confirmed that although members will use MSS initially, they will often contact the office for clarification.	
The Board were provided with the results of the annual satisfaction survey which reported that there has been an improvement in most areas since the previous year. Although it was recognised that such a small sample of responses might not provide an accurate picture, Mrs Taylor noted they would consider how to increase the number of surveys completed.	
6. EMPLOYER PAY ISSUE	
This confidential agenda item related to Project Apple previously reported to the Pension Fund Committee.	
The Board received an update from Mrs Robinson as to where the project was currently and recognised that the work involved would have a significant effect on the resources of both the ELT and operational teams.	
The Board discussed reporting the breach to the Pension Regulator and asked that the Committee and Board are kept updated on the situation.	
New action - The Board asked for the breach to be reported as soon as possible.	**Board Secretary**
New action - The Board asked that the Committee and Board are kept updated on the situation.	**Board Secretary**
7. ADDITIONAL VOLUNTARY CONTRIBUTIONS	
The Board received an update from the AVC review carried out in November 2017 where the default fund was removed. The	

	Actions
update confirmed that this had not had any detrimental impact on the membership.	
8. ASSET POOLING	
The Board received an update on the progress of the WPP and transition of assets into the Pool. Mr Latham confirmed that some governance documents are outstanding, however, he is happy that we are moving in the right direction in relation to the first sub fund for Global Equities and should achieve lower costs at better risk adjusted returns.	
Mr Latham also updated the Board on the recent discussions the WPP had with a specific Infrastructure project in Swansea. The Board recognised it is not their role to comment on specific investments but there will need to be a clear process and governance in future in order for the WPP to assess any projects especially as Pooling will always bring these opportunities to the fore. It was also noted the potential for a conflict to arise where a project was local.	
The Board agreed that there were a number of concerns including the lack of business plan/policies, the lack of clarity over decision making and report papers not being prepared in advance/presented on the day. The Board considered it would be useful if a joint letter to be sent to WPP from all Welsh Pension Boards asking for clarity on these matters.	
New action - The Chair agreed to investigate this and then liaise with Mr Owens in preparing a draft.	**Chair**
9. CONSIDERATION OF 21 MARCH 2018 AND 13 JUNE 2018 PENSION FUND COMMITTEE PAPERS	
The Board discussed the Pension Fund Committee papers from the previous 2 committees.	
10. INPUT INTO ADVISORY PANEL AND CPF COMMITTEE	
The Chair opened this item up to the Pension Board by providing an overview of AP and their link to the Committee and also how the Board links in. The Board requested that their views on the governance of the WPP and Project Apple are relayed to the AP.	
New action – To feedback the views of the Board on Project Apple and the governance of the WPP to the AP.	**Board Secretary**

Actions

11. COMPLIMENTS AND COMPLAINTS

An anonymised log of the latest compliments and complaints had been circulated to the Board with the agenda.

The Board commented that complaints about delays in receipts of benefits also reiterated the need for additional resource in the section.

12. FUTURE WORK PLAN

The Chair presented the future work plan and initiated discussion. Whilst the Board agreed there was nothing further to be added at this time, they did recognise the requirement to monitor the progress of Project Apple.

13. PENSION BOARD BUDGET MONITORING

Mrs Fielder provided the final outturn report for 2017/18 which showed a £2k underspend on the £50k budget.

14. PENSION BOARD ANNUAL REPORT

The Board Members discussed the key themes to include in the Board's Annual Report and agreed that the Chair would draft the report and circulate to members for their comments.

New action – Chair to draft Pension Board Annual Report and circulate to members for comments. **Chair**

15. FUTURE DATES

The Board Members were provided with the latest calendar of dates for Committees, training and other events open to Board members.

Cheshire Pension Board had asked if an officer and member of the Board would like attend their next Board (17^{th} July or 6^{th} November) as observers and reciprocate the invitation to the next Clwyd Board meeting in October. It was agreed that Phil Pumford would attend with Mr Latham on 17^{th} July.

16. ANY OTHER BUSINESS

	Actions
The Board recognised the emphasis on good data quality and the need for data improvement plans	
The Pension Regulator are looking to randomly select 10 Funds across the LGPS to visit their offices. The Funds to be selected are not known at this time.	
There will be letters being sent to all Funds highlighting good practices.	
The Fund has raised the issue of Member representation on the WPP Joint Governance Committee on a comply or explain basis.	
New action – Board to include in the letter to the WPP.	**Chair**
Mr Owen indicated that there was a new separate CIPFA Pension Board guidance available.	
New action – Board Secretary to purchase a copy of the guidance and circulate to Board members.	**Board Secretary**
This was the last meeting that Mrs Brooks would be attending and the Chair and the other Board members thanked her for all her valuable input over the last 3 years and wished her well for the future.	
No further business was raised. It was agreed that the ***draft minutes would be circulated***.	

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Scheme Advisory Board

This note summarises the meeting of the Scheme Advisory Board on the 10th October 2018. Full details of the meeting and agenda papers can be found at www.lgpsboard.org.

Cost Cap

Board members were provided with a summary of the statement made by the Chief Secretary to the Treasury on the 6th September regarding the scheme valuations for the public service pension schemes, including the LGPS.

For the unfunded schemes, a reduction in the discount rate will result in significant increases in employer contributions while the outcome of the cost cap floor of 2% being breached is expected to lead to improvements in member benefits.

For the LGPS, employer rates are set by local fund valuations (next in 2019) but the cost cap mechanism does potentially impact.

However, the Board has its own cost management process which will now be allowed to progress to completion with any changes to benefits being taken into account in the HM Treasury process.

Based on work undertaken by the Board's actuarial adviser, the total cost of the scheme (employer and employee) under the Board's process is 19% against a target total scheme cost of 19.5%.

The Board agreed to delegate to the Chair and a representative from both the employers and employees' sides, assisted by a small technical group, responsibility for agreeing a package of benefit changes to return the scheme to its total target cost of 19.5% while also looking at employee contributions at the lower end. The resultant package will be put to the full Board for agreement as soon as possible to ensure that scheme changes are on the statute book by April 2019.

The Board was also advised that discussions are underway to move local fund valuations to a quadrennial timeframe to ensure consistency with future scheme valuations. This will not, however, have any bearing on the 2019 valuation which will proceed as normal.

Academies and Third Tier Employer projects

The Board agreed that the work of the academies administration working group should be allowed to continue to agree a standard monthly data extract for consideration at the next Board meeting. The future of the academies funding working group is the subject of ongoing discussions with MHCLG and DfE.

The third tier employers' report was published by Aon on the 24th September. A small working group from within the Board's membership will now assess and evaluate the options for change included in the report and report back to the Board with recommendations for scheme changes to put to MHCLG Ministers.

Separation project

The Board was advised that three teams had bid for this project to assess the practical steps that would need to be taken to implement the two options outlined in the bidding document. Board members will have until the 27th October to submit any comments on the three bid submissions, after which, the Chair and Vice Chair, under delegated authority, will decide the winning bid.

Board members were clear that the project was intended to help and assist with the successful management of potential conflict of interests arising between a pension fund and its parent local authority and was not to be taken as a criticism of elected members, section 151, or other officers.

Code of transparency – Compliance system

The Board was advised that as of 28th September, 91 signatories had signed up to the code of transparency covering £180bn of the scheme's assets.

The procurement process to ensure compliance with the code has reached the stage where an OJEU contract notice has been posted. The procurement working group is to meet on the 17th October to evaluate responses to the selection questionnaire.

The Board also agreed that the Chair is given delegated authority to enter into formal discussions with representative bodies to progress the creation of a successor body to the IDWG.

Responsible Investment Guidance

The Board was advised that the final draft of the guidance, reflecting recent government thinking around ESG considerations including climate risk, will be prepared for consideration at the next Board meeting.

Members were also advised that following an analysis of LGPS funds' Investment Strategy Statements, ShareAction is intending to engage with a number of LGPS fund authorities to discuss their approach to ESG policies.

Pensions Regulator

Under AOB, concerns were raised about the attention being given to individual administering authorities by the Pensions Regulator, in particular, on record keeping and issue of annual benefit statements. The Board agreed that the Chair should write to the Pensions Regulator setting out the Board's concerns.

	Cllr D Hughes	Cllr H Bateman	Cllr Billy Mullin	Cllr R Small	Cllr N Williams/ Cllr T Bates	Cllr H LL Jones	A Rutherford	**Cllr T Palmer**	S Hibbert
Committees (3hrs)									
June 2018	✓	✓	✓	✓		✓	✓	✓	✓
September 2018	✓	✓	✓	✓		✓	✓	✓	✓
November 2018									
Special Committee February 2019									
March 2019									
CIPFA Framework Requirements 2017/18 – 2019/20 Refreshers									
Governance (0.5 day)	✓	✓	✓	✓		✓	✓		✓
Administration (day)									
Funding & Actuarial (0.5 day)	✓	✓	✓	✓		✓	✓		✓
Investments (1 day)	✓	✓	✓	✓	✓	✓	✓	✓	
Accounting									
Additional Training & Hot Topics									
Statement of Accounts (June Committee)	✓	✓	✓	✓		✓	✓	✓	✓
CPF Annual Employer Admin Meeting (am)	✓				✓	✓			
CPF AJCM (pm)	✓				✓	✓			✓

	Cllr D Hughes	Cllr H Bateman	Cllr Billy Mullin	Cllr R Small	Cllr N Williams/ Cllr T Bates	Cllr H LL Jones	A Rutherford	Cllr T Palmer	S Hibbert
Conferences (Restricted spaces)									
PLSA 21-23 May 2018									✓
LGC Investment Summit (1.5 days) Sept 2018	✓	✓		✓					
AON Governance (1 day) July 2018	✓								
AON Investments (1 day) July 2018	✓								✓
LGC Fundamentals Day 1 (Oct 218)									
PIRC Responsible Investing for WPP (1 day Oct 2018)	✓		✓	✓		✓			✓
LGC Fundamentals Day 2 (Nov 2018)						✓	✓		
LGA Infrastructure (1 day Nov 2018)	✓								
LGC Fundamentals Day 3 (Dec 2018)						✓	✓		
LAPFF Annual Conference (1.5 days) Dec 2018	✓								
LGA Annual Conference 1.5 days (Jan 2018)	✓		✓			✓			✓
LGC Seminar (1.5 days) March 2019									
Cross Pool Open Forum March 2019									

Clwyd Pension Fund

Training Plan 2018/ 19 - as at 10 November 2018

Title of session	Training Content	Timescale	Training Length	Audience	Complete
Employer Risk Management	Employer Risk Management including the monitoring framework (employer covenant, fundiong and protections)	20/09/2017	Before Cttee	Committee, Pensions Board and Officers	Deferred
Day 1 - Induction / Refresher Training Investments	New Member Induction and additional identified from individual TNA.	11/04/2018	1 day	Committee, Pensions Board and Officers	Y
Day 2 - Induction / Refresher Training Governance & Funding	New Member Induction and additional identified from individual TNA.	25/04/2018	1 day	Committee, Pensions Board and Officers	Y
Day 2 - Induction / Refresher Training Governance & Funding	New Member Induction and additional identified from individual TNA. Additional Date	19/12/2018	1 day	Committee, Pensions Board and Officers	
PLSA Local Authority Conference, Gloucestershire	Various	21-23/05/2018	3 days	Committee, Pensions Board and Officers	Y
CIPFA Local Pension Board Seminars	Annual Event	27/06/2018 London	9.30 - 16.00	Pension Board	Y
AON Day Training	Governance	05/07/2018	1 Day	Committee, Pensions Board	Y
AON Day Training	Investments	30/07/2018	1 Day	Committee, Pensions Board	Y
Day 3 - Induction / Refresher Training Agenda TBC	New Member Induction and additional identified from individual TNA.	13/09/2018	1 day	Committee, Pensions Board and Officers	Deferred
LGC Investment Summit, Newport	Various topical presentations.	5-7/09/2018	1.5 days	Committee, Pensions Board and Officers	Y
Day 4 - Induction / Refresher Training Agenda TBC	New Member Induction and additional identified from individual TNA.	TBC	1 day	Committee, Pensions Board and Officers	
CIPFA Local Pension Board Seminar	Update event	12/10/ 18 Liverpool 15/10/18 London	1 day	Pension Board	Y
Welsh Pension Funds Responsible Investment Seminar	Pirc Responsible Investing	31/10/2018 Cardiff	1 day	Committee, Pensions Board and Officers	
LGA Fundamentals Training	Day 1 Benefits, Investments, Costs	02/10/18 Leeds 10/10/18 London 17/10/18 Cardiff	1 day	Committee, Pensions Board	
LGA Fundamentals Training	Day 2 Actuarial Valuation, FSS, Committee responsibilities, Communication Strategies, Alternative Investments	06/11/18 Leeds 30/10/18 London 13/11/18 Cardiff	1 day	Committee, Pensions Board	
LGA Fundamentals Training	Day 3 Responsible Investing, Data quality, Governance	05/12/18 Leeds 4/12/18 London 11/12/18 Cardiff	1 day	Committee, Pensions Board	
LAPFF, Bournmouth	Various topical presentations around the work of the LAPFF	5-7/12/2018	2 days	Committee, Officer	
LGA Annual Conference	Various	17 - 18 Jan 2018	2 day	Committee, Pensions Board and Officers	
LGC Investment Seminar, Carden Park	Various	28/02/2019	2 days	Committee, Pensions Board and Officers	

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<table>
<tr><td>Ref.</td><td>9</td><td>Date first recorded</td><td>9/19/2017</td><td>Owner</td><td colspan="2">H Burnham</td></tr>
<tr><td>Category</td><td colspan="3">Administration</td><td colspan="2">Reported to TPR</td><td>No</td></tr>
<tr><td colspan="3">Breach by</td><td colspan="4">Clwyd Pension Fund</td></tr>
<tr><td colspan="3">Description and cause of breach</td><td colspan="4">Requirement to send a Notification of Joining the LGPS to a scheme member within 2 months from date of joining (assuming notification received from the employer), or within 1 month of receiving jobholder information where the individual is being automatically enrolled / re-enrolled.
Due to a combination of late notification from employers and untimely action by CPF the Legal requirement was not met.
Q1 17/18 547 cases completed / 61%(338) were in breach.
Q2 17/18 408 cases completed / 72% (292) were in breach.
Q3 17/18 381 cases completed / 38% (375) were in breach.
Q4 17/18 1340 cases completed / 78% (1041) were in breach.
Q1 18/19/ Of 1246 cases completed / 84%(1050) were in breach
Q2 18/19 551 case completed / 87%(480) were in breach</td></tr>
<tr><td colspan="3">Possible effect and wider implications</td><td colspan="4">Late scheme information sent to member which may result in lack of understanding and/or complaint from member affecting scheme reputation.</td></tr>
<tr><td colspan="3">Reaction to breach</td><td colspan="4">- Roll out of iConnect where possible to scheme employers including new admitted bodies to ensure monthly notification of new joiners (ongoing).
- Set up of Employer Liasion Team(ELT) to monitor and provide joiner details more timelessly.
- Training of new team members to raise awareness of importance of time restraint.
- Prioritising of task allocation. KPIs shared with team members to further raise awareness of importance of timely completion of task.
- 6/6/18 - Updating KPI monitoring to understand employers not sending information in time.
20/11/18 - (Q2) Staff turnover in August/September reduced number actioned 9</td></tr>
<tr><td colspan="3">Outstanding actions</td><td colspan="4">Ongoing roll out of i-Connect and bedding in of new staff/ training. Carrying out backlogs of previous joiners (most of which are due to i-Connect roll out). Contacting employers which are causing delays. Reviewing staff resources.</td></tr>
</table>

<table>
<tr><td>Ref.</td><td>11</td><td>Date first recorded</td><td>9/19/2017</td><td>Owner</td><td>H Burnham</td></tr>
<tr><td>Category</td><td colspan="3">Administration</td><td>Reported to TPR</td><td>No</td></tr>
<tr><td colspan="2">Breach by</td><td colspan="4">Clwyd Pension Fund</td></tr>
<tr><td colspan="2">Description and cause of breach</td><td colspan="4">Requirement to obtain transfer details for transfer in, and calculate and provide quotation to member 2 months from the date of request. Breach due to late receipt of transfer information from previous scheme and late completion of calculation and notification by CPF. Only 2 members of team fully trained to carry out transfer cases due to new team structure and additional training requirements.
Q1 17/18 Of 59 cases completed 44% (26) were in breach.
Q2 17/18 Of 77 cases completed 29% (22) were in breach
Q3 17/18 66 cases completed / 41% (27) were in breach
Q4 17/18 33 cases completed / 30% (10) were in breach
Q1 18/19 Of 60 cases completed 42% (25)were in breach
Q2 18/19 Of 66 cases completed 38% (25) were in breach</td></tr>
<tr><td colspan="2">Possible effect and wider implications</td><td colspan="4">Information being provided to scheme members later than hoped. Could have some financial implications. Members may contact the section to enquire as to the progress of the transfer.</td></tr>
<tr><td colspan="2">Reaction to breach</td><td colspan="4">Continued training of team members to increase knowledge and expertise to ensure that transfers are dealt with more timelessly.</td></tr>
<tr><td colspan="2">Outstanding actions</td><td colspan="4">Completion of training of team members in transfer and aggregation processes. Reviewing staff resources.</td></tr>
</table>

Ref	12	**Date**	9/19/2017	**Owner**	H Burnham

.		first recorded			

Category	Administration	Reported to TPR	No

Breach by	Clwyd Pension Fund
Description and cause of breach	Requirement to provide details of transfer value for transfer out, on request within 3 months from date of request (CETV estimate) Late completion of calculation and notification by CPF. Only 2 members of team fully trained to provide transfer details due to new team structure and additional training requirements Q1 17/18 Of 77 cases completed 27% (21) were in breach Q2 17/18 Of 63 cases completed 8% (5) were in breach Q3 17/18 193 cases completed / 4% (7) were in breach Q4 17/18 49 cases completed / 0% (0) were in breach Kept open to monitor situation for next quarter. Q1 18/19/ of 119 cases completed 10%)(12) were in breach Q2 18/19 of 94 cases completed 2% (2) were in breach
Possible effect and wider implications	Information being provided to scheme members/new scheme later than hoped. Could have some financial implications. Members and providers may contact the section to enquire as to the progress of the transfer.
Reaction to breach	Continued training of team members to increase knowledge and expertise to ensure that transfers are dealt with more timely.
Outstanding actions	Completion of training of team members in transfer and aggregation processes. Reviewing staff resources.

Ref.	13	Date first recorded	9/19/2017	Owner	H Burnham

Category	Administration	Reported to TPR	No

Breach by	Clwyd Pension Fund
Description and cause of breach	Requirement to provide notification of amount of retirement benefits 1 month from date of retirement if on or after Normal Pension Age or 2 months from date of retirement if before Normal Pension Age. Due to a combination of late notification by employer and late completion of calculation by CPF. Also, delay in receipt of AVC fund values from AVC provider. Q1 17/18 284 cases completed / 31% (87) were in breach Q2 17/18 196 cases completed / 31% (61) were in breach Q3 17/18 237 cases completed / 43% (103) were in breach Q4 17/18 243 cases completed / 51% (124) were in breach Q1 18/19 Of 297 cases completed 31% (91) were in breach Q2 18/19 of 341 cases completed 26%(89) were in breach
Possible effect and wider implications	Late payment of benefits which may miss payroll deadlines and result in accrual of interest on lump sums/pensions. Members upset about delays.
Reaction to breach	Roll out of iConnect where possible to scheme employers including new admitted bodies to ensure monthly notification of retirees (ongoing). Set up of ELT to monitor and provide leaver details more timely. Prioritising of task allocation. Set up of new process with one AVC provider to access AVC fund information.
Outstanding actions	Further training of newly promoted team member to deal with volume of work. Identifying which employers are causing delays. Reviewing staff resources.

Ref.	14	Date first recorded	9/20/2017	Owner	H Burnham
Category	Administration		**Reported to TPR**	No	

Breach by	Clwyd Pension Fund
Description and cause of breach	Requirement to provide quotations on request for potential retirements as soon as is practicable, but no more than 2 months from date of request unless there is a previous request in the last year. Delays are late completion of calculation by CPF. Increasing estimate requests being made by members is causing problems. Q1 17/18 140 cases completed 34% (47) in breach Q2 17/18 155 cases completed 41% (65) in breach Q3 17/18 136 cases completed / 36% (49) were in breach Q4 17/18 56 cases completed / 38% (21) were in breach Q1 18/19 of 79 cases completed 32% (25) were in breach Q2 18/19 of 60 cases completed 22% (13) were in breach
Possible effect and wider implications	Late notification of benefits/costs to member/employer resulting in complaints and poor understanding/ missed opportunities. Section contacted to check on progress of estimate.
Reaction to breach	Introduction of MSS should alleviate the volume of requests received as member will be able to calculate own estimate through database. Further training of team members also required. Task allocation reviewed by team leaders. Estimates have been priorities.
Outstanding actions	Additional staff training. Reviewing staff resources.

Ref .	15	**Date first recorded**	9/20/2017	**Owner**	H Burnham
Category	Administration			**Reported to TPR**	No
Breach by	Clwyd Pension Fund				
Description and	Requirement to calculate and notify dependant(s) of				

cause of breach	amount of death benefits as soon as possible but in any event no more than 2 months from date of becoming aware of death, or from date of request by a third party (e.g. personal representative). Due to late completion by CPF the legal requirement are not being met. Due to complexity of calculations, only 2 members of team are fully trained and experienced to complete the task. Q1 17-18 41 cases 58% (24) in breach Q2 17/18 47 cases 66% (31) in breach Q3 17/18 27 cases completed / 67% (18) were in breach Q4 17/18 38 cases completed / 39% (15) were in breach Q1 18/19 of 53 cases completed 32% (17) were in breach Q2 18/19 of 26 cases completed 35% (9) were in breach
Possible effect and wider implications	Late payment of benefits which may miss payroll deadlines and result in accrual of interest on lump sums/pensions. Beneficiaries upset about delays.
Reaction to breach	Further training of team and review of process to improve outcome (review now complete). Recruitment of additional, more experienced staff commenced in this quarter to focus on process.
Outstanding actions	Further staff training required. Reviewing staff resources.

Ref.	16	**Date first recorded**	10/30/2017	**Owner**	H Burnham
Category	Administration			**Reported to TPR**	No
Breach by	Clwyd Pension Fund				
Description and	Requirement to issue annual benefit statements by				

cause of breach	31st August each year. For 2017, all benefit statements were sent out to members on time apart from those members within the following employers: a) Connahs Quay High School – 68 members due to non-receipt of year end return b) Cefn Mawr Community Council – 2 members due to non-receipt of year end return c) Coedpoeth Community Council – 6 members due to non-receipt of 15/16 year end return (we have received return for 16/17 but require 15/16 to produce statements)
Possible effect and wider implications	Member less aware of pension provision. Member upset at not receiving statement on time.
Reaction to breach	a) Payroll provided by a payroll bureau. This has been chased up to no avail. FCC HR(Schools) are aware of the issue. b) Has been followed up but training required. c) have said they sent the data but it has not been received. It is being pursued. Update 30-11-17 - a) received c) received b) further reminder to be sent. Update 6/6/18 - despite ongoing chasing, information for 2017 has not been received albeit 2018 information has now been received.
Outstanding actions	Continue to chase for missing information from Cefn Mawr Community Council

Ref.	19	**Date first recorded**	6/5/2018	**Owner**	H Burnham
Category	Administration			**Reported to TPR**	Yes
Breach by	One employer (confidential)				
Description and cause of breach	[Information removed for confidentiality purposes]				

Possible effect and wider implications	CARE pension will be under or over stated and for those who have retired, CARE pension will be under or overpaid. Might also impact the amount of employer contributions that should have been paid.
Reaction to breach	Working group set up to: - Identify cases that have been impacted and advise Administration Section. - Work with payroll provider to ensure root problem is resolved - Project plan developed. .
Outstanding actions	- Resolve root problem - Continue to work with CPF to agree approach for resolving affected cases

Ref .	20	**Date first recorded**	6/5/2018	**Owner**	H Burnham
Category	Administration			**Reported to TPR**	Yes
Breach by	Clwyd Pension Fund				
Description and cause of breach	[Information removed for confidentiality purposes]				
Possible effect and wider implications	CARE pension will be under or over stated and for those who have retired, CARE pension will be under or overpaid. Might also impact the amount of employer contributions that should have been paid.				
Reaction to breach	Working group set up to - Identify cases that have been impacted and consider options for correcting. - Work with employer to ensure root problem is resolved - Project plan developed.				
Outstanding actions	- Complete rectification work - Continue to work with employer to ensure root problem is resolved				

Ref .	21	**Date first recorded**	8/29/2018	**Owner**	Administration
Category	Administration			**Reported to TPR**	No
Breach by	Clwyd Pension Fund				
Description and cause of breach	To inform members who leave the scheme of their leaver rights and options. As soon as practicable and no more than 2 months from date of initial notification (from employer or from scheme member).				

	Q1 17/18 284 cases completed 1 case (< 1%) was late by 2 Q1 18/19/ of 437 cases completed 40% (173) were in breach
Possible effect and wider implications	Member less aware of pension provision. Member upset at not receiving statement on time.
Reaction to breach	Pensions assistants who complete this task have been required to concentrate on completing joiner cases.
Outstanding actions	Reviewing staff resources.

Ref.	22	**Date first recorded**	28/08/2018	**Owner**	D Fielder
Category	Contributions			**Reported to TPR**	No
Breach by	Employers				
Description and cause of breach	Three employers have been late in paying contributions. These are shown below along with number of late payments for July – Sept 18: HFT - 1 CoedPoeth -1 Marchwiel- 3				
Possible effect and wider implications	Could expose employers to late payment interest charge. Assumptions regarding funding assume regular monthly payment, not adhering to this regulatory requirement could result in changed actuarial assumptions for the employer.				
Reaction to breach	All contacted to chase outstanding payments. All now paid. Marchweil moving to BACS.				
Outstanding actions	Ongoing and regular chasing				

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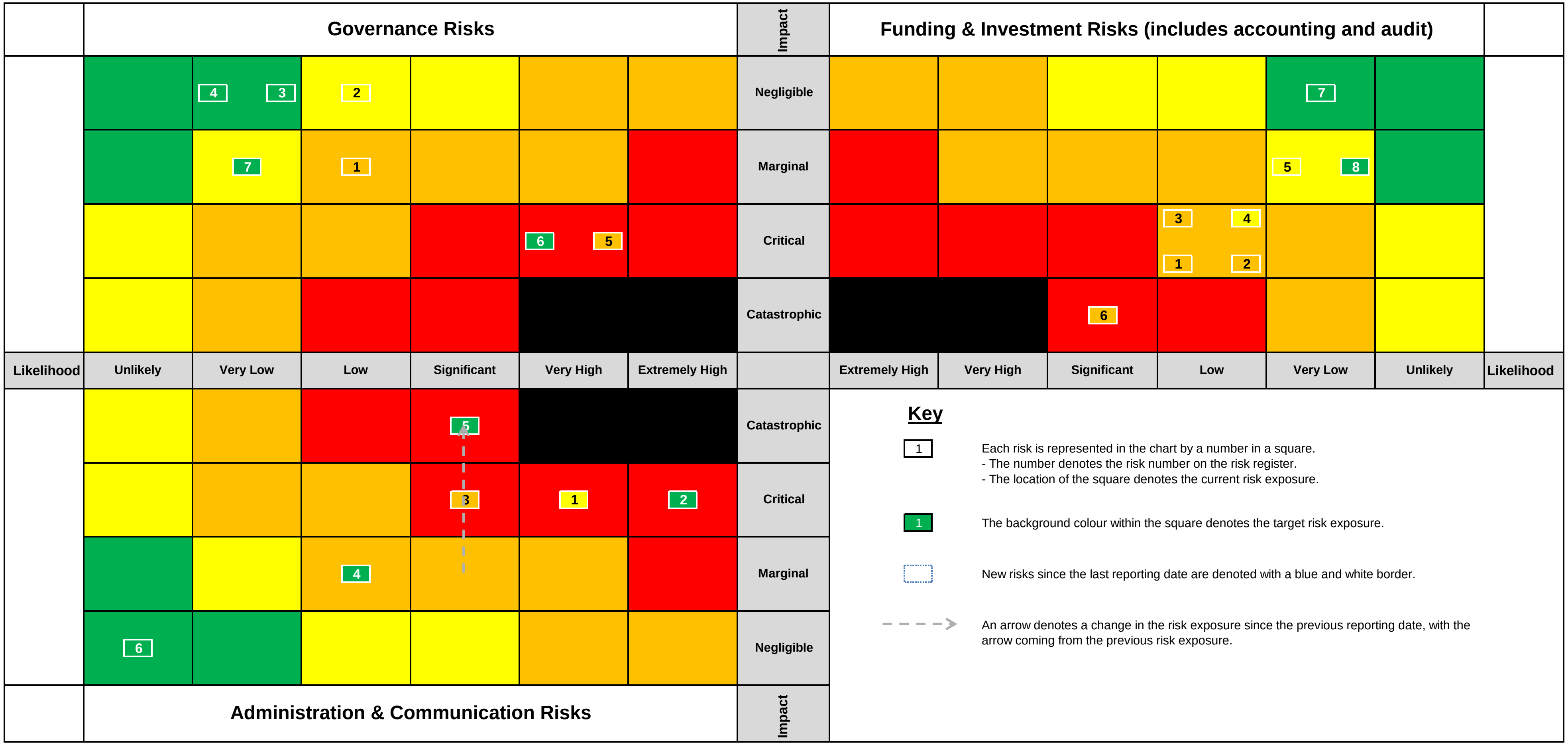
CLWYD PENSION FUND - CALENDAR OF EVENTS APRIL 2018 ONWARDS						
Month	**Date**	**Day**	**Committee**	**Training**	**Pension Board**	**Location**
2018						
April	11 Apr	Wed		Day 1 Induction/ Refresher Training - Investments		Beaufort Park
	25 Apr	Wed		Day 2 Induction/ Refresher Training - Governance & Funding		County Hall
May	10 May	Thu				County Hall
	21 - 23	Mon - Wed		PLSA Local Authority Conference		Gloucestershire
June						
	13 Jun	Wed	AM			County Hall
	27 Jun	Wed			CIPFA PB Annual Event	London
	28 Jun	Thu			9.30AM - 12.30PM	County Hall
September	05 Sep	Wed	9.30am - 1pm			County Hall
	5-7 Sept	Wed - Fri		LGC Investment Summit		Newport
October	02 Oct	Tue		LGA Fundamentals Day 1 Benefits, Investments, Costs		Leeds
	10 Oct	Wed		LGA Fundamentals Day 1 Benefits, Investments, Costs		London
	11-Oct	Thu			9.30am - 12.30pm	County Hall
	12-Oct	Fri		CIPFA PB Seminar		Liverpool
	15-Oct	Mon		CIPFA PB Seminar		London
	17-Oct	Wed		LGA Fundamentals Day 1 Benefits, Investments, Costs		Cardiff
	30-Oct	Tue		LGA Fundamentals Day 2 Actuarial Valuation, FSS, Committee Responsibilities, Communication Strategies, Alternative Investments		AP County Hall LGA London
	31-Oct	Wed		Wales Pension Funds Responsible Investing		Cardiff
November	06-Nov	Tue		LGA Fundamentals Day 2 Actuarial Valuation, FSS, Committee Responsibilities, Communication Strategies, Alternative Investments		AJCM County Hall LGA Leeds
	13-Nov	Tue		LGA Fundamentals Day 2 Actuarial Valuation, FSS, Committee Responsibilities, Communication Strategies, Alternative Investments		Cardiff
	28-Nov	Wed	9.30am - 1pm			County Hall

Month	Date	Day	Committee	Training	Pension Board	Location
December	04-Dec	Tue		LGA Fundamentals Day 3 Responsible Investing, Data Quality, Governance		London
	05-Dec	Wed		LGA Fundamentals Day 3 Responsible Investing, Data Quality, Governance		Leeds
	5 - 7 Dec	Wed - Fri		LAPFF		Bournemouth
	11-Dec	Tue		LGA Fundamentals Day 3 Responsible Investing, Data Quality, Governance		Cardiff
	19-Dec	Wed		Day 2 Induction/ Refresher Training - Governance & Funding		County Hall
2019						
January	17 - 18 Jan	Thur - Fri		LGA Annual Governance Conference		Bristol
February	20-Feb	Wed	9.30am - 1pm			County Hall
	27-Feb	Wed			9.30am - 12.30pm	County Hall
	28 Feb - 1 Mar	Thur - Fri		LGC Investment Seminar		Carden Park Chester
March	20-Mar	Wed	2pm - 5pm			County Hall
June	12-Jun	Wed	9.30am - 1pm			County Hall

All Fund Risk Heat Map and Summary of Governance Risks



20 November 2018

Clwyd Pension Fund - Control Risk Register

Governance Risks

Objectives extracted from Governance Policy (03/2017), Training Policy (11/2015) and Procedures for Reporting Breaches of the Law (11/2015)

G1 Act in the best interests of the Fund's members and employers
G2 Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies
G3 Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise
G4 Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based
G5 Understand and monitor risk
G6 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
G7 Clearly articulate our objectives and how we intend to achieve those objectives through business planning, and continually measure and monitor success
T1 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.
T2 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.
B1 Ensure individuals responsible are able to meet their legal obligations and avoid placing any reliance on others to report.
B2 Assist in providing an early warning of possible malpractice and reduce risk.

Risk no:	Risk Overview (this will happen)	Risk Description (if this happens)	Strategic objectives at risk (see key)	Current Impact (see key)	Current Likelihood (see key)	Current Risk Status	Internal controls in place	Target Impact (see key)	Target Likelihood (see key)	Target Risk Status	Meets target?	Date Not Met Target From	Expected Back on Target	Further Action and Owner	Risk Manager	Next review date	Last Updated
1	Losses or other determintal impact on the Fund or its stakeholders	Risk is not identified and/or appropriately considered (recognising that many risks can be identified but not managed to any degree of certainty)	All	Marginal	Low		1 - Risk policy in place 2 - Risk register in place and key risks/movements considered quarterly and reported to each PFC 3 - Advisory panel meets at least quarterly discussing changing environment etc 4 - Fundamental review of risk register annually 5 - TPR Code Compliance review completed annually 6 - Annual internal and external audit reviews 7 - Breaches procedure also assists in identifying key risks	Marginal	Low		☺			None	CPFM	31/03/2019	13/04/2017
2	Inappropriate or no decisions are made	Governance (particularly at PFC) is poor including due to: - short appointments - poor knowledge and advice - poor engagement /preparation / commitment - poor oversight	G1 / G2 / G3 / G4 / G5 / G6 / G7	Negligible	Low		1 - Independent advisor focussing on governance including annual report considering structure, behaviour and knowledge 2 - Oversight by Local Pension Board 3 - Annual check against TPR Code 4 - Training Policy, Plan and monitoring in place for PC and PB members 5 - Training Needs self assessment carried out (January 2018) and training programme reviewed based on results 5 - There is a range of professional advisors covering all Fund responsibilities guiding the PC, PB and officers in their responsibilities 6 - Induction training programme in place for new Committee members which covers CIPFA Knowledge and Skills requirements and can be delivered quickly. 7 - 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.	Negligible	Low		☺			None	CPFM	31/03/2019	04/06/2018
3	Our legal fiduciary responsibilities are not met	Decisions, particularly at PFC level, are influenced by conflicts of interest and therefore may not be in the best interest of fund members and employers	G1 / G2 / G4 / G6 / T2	Negligible	Very Low		1 - Conflicts of Interest policy focussed on fiduciary responsibility regularly discussed and reviewed 2 - Independent advisor focussing on governance including annual report considering structure, behaviour and knowledge 3 - All stakeholders to which fiduciary responsibility applies represented at PFC and PB 4 - Training Policy, Plan and monitoring in place for PC and PB members including section on responsibilities 5 - There is a range of professional advisors covering all Fund responsibilities guiding the PC, PB and officers in their responsibilities 6 - Clear strategies and policies in place with Fund objectives which are aligned with fiduciary responsibility	Negligible	Very Low		☺			None	CPFM	31/03/2019	13/11/2017
4	Appropriate objectives are not agreed or monitored - internal factors	Policies not in place or not being monitored	G2 / G7	Negligible	Very Low		1- Range of policies in place and all reviewed at least every three years 2 - Review of policy dates included in business plan 3 - Monitoring of all objectives at least annually (work in progress) 4 - Policies stipulate how monitoring is carried out and frequency 5 - Business plan in place and regularly monitored	Negligible	Unlikely		😐 Current likelihood 1 too high	01/07/2016	Jul 2018	1- Ensure work relating to annual monitoring is completed and included in PFC papers (PL)	Pension Finance Managers	28/02/2019	13/11/2017
5	The Fund's objectives/legal responsibilities are not met or are compromised - external factors	Externally led influence and change such scheme change, national reorganisation and asset pooling	G1 / G4 / G6 / G7	Critical	Very High		1 - Continued discussions at AP, PFC and PB regarding this risk 2 - Involvement of CEO / links to WLGA and WG 3 - Fund's consultants involved at national level/regularly reporting back to AP/PFC 4 - Key areas of potential change and expected tasks identified as part of business plan (ensuring ongoing monitoring) 5 - Asset pooling IAA in place 6 - Officers on Wales Pool OWG 7 - Ongoing monitoring of cybercrime risk by AP	Marginal	Low		😐 Current impact 1 too high Current likelihood 2 too high	28/02/2017	Dec 2018	1 - Regular ongoing monitoring by AP to consider if any action is necessary (PL) 2 - Ensure Board requests to JGC/OWG are responded to (PL) 3 - Regular consideration of impact national reorganisation at APs (PL)	CPFM	28/02/2019	20/11/2018
6	Services are not being delivered to meet legal and policy objectives	Insufficient staff numbers (e.g. sickness, resignation, retirement, unable to recruit) - current issues include age profile, implementation of asset pools and local authority pay grades.	G3 / G6 / G7 / T1	Critical	Very High		1 - 2018/19 business plan includes workforce matters 2 - Review of admin structure in 2015/16 3 - Finance team restrcuture commenced (2017/18) 4 - Quarterly update reports consider resourcing matters 5 - Advisory Panel provide back up when required 6- Additional resources, such as outsourcing, considered as part of business plan	Negligible	Very Low		☹ Current impact 2 too high Current likelihood 3 too high	01/07/2016	Sep 2018	1 - Complete and implement Finance team restructure, including fundamental review of future service requirements (PL) 2 - Ongoing consideration of succession planning (PL) 3 - Implement the agreed outcome of the admin staff structure review (PL)	CPFM	28/02/2019	20/11/2018
7	Legal requirements and/or guidance are not complied with	Those tasked with managing the Fund are not appropriately trained or do not understand their responsibilities (including recording and reporting breaches)	G3 / G6 / T1 / T2 / B1 / B2	Marginal	Very Low		1 - TPR Code Compliance review completed annually 2 - Annual internal and external audit reviews 3 - Breaches procedure also assists in identifying non-compliance areas (relevant individuals provided with a copy and training provided) 4 - Training policy in place (fundamental to understanding legal requirements) 5 - Use of nationally developed administration system 6 - Documented processes and procedures 7 - Strategies and policies often included statements or measures around legal requirements/guidance 8 - Wide range of advisers and AP in place 9 - Independent adviser in place including annual report which will highlight concerns	Negligible	Very Low		😐 Current impact 1 too high	01/07/2016	Dec 2018	1 - Ongoing work to ensure breaches are identified and the procedure used appropriately (DF) 2 - Further documented processes (as part of TPR compliance) e.g. contribution payment failure (DF) 3 - Embed system of reviewing outstanding actions relating to TPR Code (HB/DF)	CPFM	28/02/2019	04/06/2018

Cronfa Bensiynau Clwyd
Clwyd Pension Fund

Sir y Fflint
Flintshire

FLINTSHIRE COUNTY COUNCIL

Administering Authority for Clwyd Pension Fund

TRAINING POLICY

~~November 2014~~
~~Updated November 2015~~~~August~~September 2018

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TRAINING POLICY

Introduction

This is the Training Policy of the Clwyd Pension Fund, which is managed and administered by Flintshire County Council. The Policy details the training strategy for members of the Pension Fund Committee and Pension Board, and senior officers responsible for the management of the Fund.

The Training Policy is established to aid Pension Fund Committee and Pension Board members and senior officers in performing and developing personally in their individual roles, with the ultimate aim of ensuring that Clwyd Pension Fund is managed by individuals who have the appropriate levels of knowledge and skills.

Aims and Objectives

Flintshire County Council recognises the significance of its role as Administering Authority to the Clwyd Pension Fund on behalf of its stakeholders which include:

- over 46,7~~6~~00 current and former members of the Fund, and their dependants
- over 43 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.

In relation to knowledge and skills of those managing the Fund, our objectives are to:

- 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.
- 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.

All Pension Fund Committee members, Pension Board members and senior officers to whom this Policy applies are expected to continually demonstrate their own personal commitment to training and to ensuring that these objectives are met.

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

- the CIPFA Knowledge and Skills Frameworks,
- the knowledge and skills elements in the CIPFA Investment Pooling Governance Principles guidance and
- the knowledge and skills elements of the Public Service Pensions Act 2013 and The Pensions Regulator's (TPR) Code of Practice for Public Service Schemes.

To whom this Policy Applies

This Training 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 Executive and the Chief Finance Officer (Section 151 Officer), (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 will also be required to have appropriate knowledge and skills 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 able to meet the objectives of this Policy.

Officers of employers participating in the Clwyd Pension Fund who are responsible for pension matters are also encouraged to maintain a high level of knowledge and understanding in relation to LGPS matters, and Flintshire County Council will provide appropriate training for them. This will be covered further in the Clwyd Pension Fund Administration Strategy.

CIPFA, ~~and~~ TPR and MIFID2 Knowledge and Skills Requirements

CIPFA Knowledge and Skills Framework and Code of Practice

In January 2010 CIPFA launched technical guidance for Representatives on Pension Fund Committees and non-executives in the public sector within a knowledge and skills framework. The Framework details the knowledge and skills required by those responsible for pension scheme financial management and decision making.

In July 2015 CIPFA launched technical guidance for Local Pension Board members by extending the existing knowledge and skills frameworks in place. This Framework details the knowledge and skills required by Pension Board members to enable them to properly exercise their functions under Section 248a of the Pensions Act 2004, as amended by the Public Service Pensions Act 2013.

The Framework covers eight areas of knowledge and skills identified as the core requirements (which includes all those covered in the existing Committee and non-executives framework)-

- Pensions legislation
- Public sector pensions governance
- Pensions administration
- Pension accounting and auditing standards
- Financial services procurement and relationship management
- Investment performance and risk management
- Financial markets and products knowledge
- Actuarial methods, standards and practice

CIPFA's Code of Practice recommends (amongst other things) that Local Government Pension Scheme administering authorities -

- formally adopt the CIPFA Knowledge and Skills Frameworks (or an alternative training programme)
- ensure that the appropriate policies and procedures are put in place to meet the requirements of the Frameworks (or an alternative training programme);
- publicly report how these arrangements have been put into practice each year, including what assessment of training needs has been undertaken and what training has been delivered against the identified needs.~~.~~

CIPFA ~~-~~Investment Pooling Governance Principles for LGPS Administering Authorities

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CIPFA's guidance highlights that, w~~W~~ith the introduction of investment pooling arrangements, comes a need for a wider range of knowledge. The ~~principles~~guidance supplements the existing CIPFA Knowledge and Skills framework and specifies that ~~,~~ ~~As a result of investment pooling arrangements~~ administering authorities will need to -

- ensure elected members or other individuals who are members of the oversight committee have a more in-depth level of knowledge in relation to investment pooling arrangements
- ensure any officers involved in working groups or subgroups of the oversight committee have a more in-depth level of knowledge in relation to investment pooling arrangements

The Pensions Act 2004 and The Pension Regulator's Code of Practice

Section 248a of the Pensions Act 2004, as amended by The Public Service Pensions Act 2013 (PSPA13), requires Pension Board members to:

- be conversant with the rules of the scheme and any document recording policy about the administration of the scheme, and
- have knowledge and understanding of the law relating to pensions and any other matters which are prescribed in regulations.

The degree of knowledge and understanding required is that appropriate for the purposes of enabling the individual to properly exercise the functions of a member of the Pension Board.

These requirements are incorporated and expanded on within the TPR Code of Practice which came into force on 1 April 2015.

Markets in Financial Instruments Directive (MiFIDII)

The implementation of MiFIDII~~,~~ led to the need for the ~~administering~~Flintshire County Council ~~authority~~ to be opted up to professional status to allow the Fund to continue to access the full range of vehicles and managers needed to meet the needs of the investment strategy. As part of this process ~~the Fund~~Flintshire County Council had~~d~~ to provide evidence that Pension Fund C~~c~~ommittee members had~~ve~~ an appropriate level knowledge and that adequate ~~-~~governance arrangements were in place. ~~in order for the Fund to be opted up to "professional status".~~ In order to maintain this status the ~~fund~~Council will need to continue to demonstrate the competency of existing and new Pension Fund C~~c~~ommittee members and this T~~t~~raining P~~p~~olicy will support ~~the fund in this~~that aim.

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Application to the Clwyd Pension Fund

Flintshire County Council fully supports the use of the CIPFA Knowledge and Skills Frameworks~~,~~ and TPR's Code of Practice, as well as understanding the need for appropriate knowledge and skills to allow professional status to be awarded for MiFIDII purposes. Flintshire County Council adopts these principles and requirements ~~contained in these publications~~ in relation to Clwyd Pension Fund, and this Training Policy highlights how the Council will strive to achieve those ~~principles~~ through use of a rolling t~~T~~raining p~~P~~lan together with regular monitoring and reporting.

The Clwyd Pension Fund Training Plan

Flintshire County Council recognises that attaining, and then maintaining, relevant knowledge and skills is a continual process for Pension Fund Committee members, Pension Board members and senior officers, and that training is a key element of this process. Flintshire County Council will develop a rolling Training Plan based on the following key elements:

~~Individual~~ Training Needs

A training needs analysis will be developed for the main roles of Pension Fund Committee members, Pension Board members and senior officers customised appropriately to the key areas in which they should be proficient. Training will be required in relation to each of these areas as part of any induction and on an ongoing refresher basis.

Hot Topic Training

The Training Plan will be developed to ensure appropriately timed training is provided in relation to hot topic areas, such as a high risk area or an area of change for the Fund. This training may be targeted at specific roles.

General Awareness

Pension Fund Committee members, Pension Board members and senior officers are expected to maintain a reasonable knowledge of ongoing developments and current issues, which will allow them to have a good level of general awareness of pension related matters appropriate for their roles and which may not be specific to the Clwyd Pension Fund.

Each of these training requirements will be focussed on the role of the individual i.e. a Pension Fund Committee member, a Pension Board member or the specific role of the officer.

Training will be delivered through a variety of methods including:

- In-house training days provided by officers and/or external providers
- Training as part of meetings (e.g. Pension Fund Committee) provided by officers and/or external advisers
- External training events
- Circulation of reading material
- Attendance at seminars and conferences offered by industry-wide bodies
- Attendance at meetings and events with the Clwyd Pension Fund's investment managers and advisors, either directly or as part of the Wales Pensions Partnership
- Links to on-line training
- Access to the Clwyd Pension Fund website where useful Clwyd Pension Fund specific material is available

In addition Clwyd Pension Fund officers and advisers are available to answer any queries on an ongoing basis including providing access to materials from previous training events.

Initial Information and Induction Process

On joining the Pension Fund Committee, the Pension Board or the Clwyd Pension Fund Management Team, a new member, officer or adviser will be provided with the following documentation to assist in providing a basic understanding of Clwyd Pension Fund:

- The members' guide to the Local Government Pension Scheme (provided via the Clwyd Pension Fund website)~~(LGPS)~~
- The latest Actuarial Valuation report
- The Annual Report and Accounts, which incorporate:
  - The Funding Strategy Statement
  - The Governance Policy and Compliance Statement
  - The Investment Strategy Statement including Clwyd Pension Fund's statement of compliance with the LGPS Myners Principles
  - The Communications Policy
  - The Administration Strategy
- The administering authority's Discretionary Policies
- This Training Policy
- Other policies as relevant

In addition, a~~n~~ ~~individual~~ training plan will be developed to assist each Pension Fund Committee member, Pension Board member or officer in achieving, within six months, their identified individual training requirements.

Monitoring Knowledge and Skills
In order to identify whether we are meeting the objectives of this policy we will:

1) Compare and report on attendance at training based on the following:
   - Individual Training Needs – ensuring refresher training on the key elements takes place for each individual at least once every three years.
   - Hot Topic Training – attendance by at least 80% of the required Pension Fund Committee members and senior officers at planned hot topic training sessions. This target may be focussed at a particular group of Pension Fund Committee members, Pension Board members or senior officers depending on the subject matter.
   - General Awareness – each Pension Fund Committee member, Pension Board member or officer attending at least one day each year of general awareness training or events.
   - Induction training – ensuring areas of identified individual training are completed within six months.

2) Ask our Independent Adviser 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
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.
- Changes in Pension Fund Committee and/or Pension Board membership and/or senior officers potentially diminishing knowledge and understanding.
- Poor attendance and/or a lack of engagement at training and/or formal meetings by Committee Members, Pension Board Members and/or other senior officers resulting in a poor standard of decision making and/or monitoring.
- Insufficient resources being available to deliver or arrange the required training.
- The quality of advice or training provided is not an acceptable standard.

Reporting
The~~is~~ following information will ~~also~~ be included in the Clwyd Pension Fund's Annual Report and Accounts and, as part of that, also shared with ~~,~~
~~A report will be presented to~~ the Pension Fund Committee on an annual basis ~~setting out~~:
- The training provided / attended in the previous year at an individual level
- The results of the measurements identified above.

~~This information will also be included in the Clwyd Pension Fund's Annual Report and Accounts.~~

At each Pension Fund Committee meeting, members will be provided with details of forthcoming seminars, conferences and other relevant training events as well as a summary of the events attended since the previous meeting.

Costs

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

Approval, Review and Consultation

This Training Policy was originally approved at the Clwyd Pension Fund Committee meeting on 5 November 2014 and further amendments ~~to incorporate the requirements of the CIPFA Local Pension Boards Framework~~ were approved on 26 November 2015 (by the Pension Fund Committee) and in September 2018 (using officer delegations). It will be formally reviewed and updated at least every three years or sooner if the training arrangements or other matters included within it merit reconsideration.

Further Information

If you require further information about anything in or related to this Training 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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Cronfa Bensiynau Clwyd
Clwyd Pension Fund

FLINTSHIRE COUNTY COUNCIL

Administering Authority for Clwyd Pension Fund

Procedure for Recording and Reporting Breaches of the Law

~~December~~ ~~August~~September 20~~15~~18

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Introduction

This document sets out the procedures to be followed by certain persons involved with the Clwyd Pension Fund, which is managed and administered by Flintshire County Council, in relation to identifying, recording and potentially reporting breaches of the law to The Pensions Regulator.

Breaches can occur in relation to a wide variety of the tasks normally associated with the administrative function of a scheme such as keeping records, internal controls, calculating benefits and making investment or investment-related decisions

This procedure has been developed to assist those individuals who have a legal responsibility to report certain breaches to The Pensions Regulator in determining whether a breach they have identified should be reported. It has also been developed to assist Flintshire County Council, in its role as Administering Authority, in ensuring it is aware of all breaches of the law in relation to the Clwyd Pension Fund and that these are appropriately recorded and then dealt with.

Flintshire County Council, as Administering Authority, has delegated responsibility for the implementation of these procedures to the Clwyd Pension Fund Manager.

The following persons, or any other person who has responsibility to report breaches of the law in relation to the Clwyd Pension Fund, are strongly encouraged to follow this procedure should they identify such a breach:

- all members of the Pension Fund Committee and the Pension Board
- all officers involved in the management or administration of the Pension Fund including staff members in the Flintshire County Council Pension Fund Team, the Chief Executive and the Chief Finance Office (Section 151 Officer).
- any professional advisers including external auditors, actuaries, legal advisers and fund managers[1]
- officers of employers participating in the Clwyd Pension Fund who are responsible for pension matters.
- any other person otherwise involved in advising the managers of the Fund, including Flintshire County Council's Monitoring Officer and staff members of the Internal Audit function.

Throughout this procedure, any person to whom this procedure applies, as a result of them identifying a breach or potential breach, will be referred to as the "individual".

The next section clarifies the full extent of the legal requirements and to whom they apply.

[1] However, these advisors should note that the application of this Procedure relates to the reporting of legal breaches relating to the administration of the Pension Fund, rather than any breaches relating to their role and responsibilities that do not affect the administration of the Fund. For example, if a fund manager has breached the investment association guidelines, then this would not be reportable under this Clwyd Pension Fund Procedure for Reporting Breaches (albeit the Administering Authority would still expect this information to be recorded separately and notified to Flintshire County Council).

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Requirements

Pensions Act 2004

Section 70 of the Pensions Act 2004 (the Act) imposes a requirement on the following persons:

- a trustee or manager of an occupational or personal pension scheme
- a member of the pension board of a public service pension scheme
- a person who is otherwise involved in the administration of an occupational or personal pension scheme
- the employer in relation to an occupational pension scheme
- a professional adviser in relation to such a scheme
- a person who is otherwise involved in advising the trustees or managers of an occupational or personal pension scheme in relation to the scheme,

to report a matter to The Pensions Regulator as soon as is reasonably practicable where that person has reasonable cause to believe that:

(a) a legal duty relating to the administration of the scheme has not been or is not being complied with, and

(b) the failure to comply is likely to be of material significance to The Pensions Regulator.

The Act states that a person can be subject to a civil penalty if he or she fails to comply with this requirement without a reasonable excuse.

The duty to report breaches under the Act overrides any other duties the individuals listed above may have. However the duty to report does not override 'legal privilege'. This means that, generally, communications between a professional legal adviser and their client, or a person representing their client, in connection with legal advice being given to the client, do not have to be disclosed.

The Pension Regulator's Code of Practice

Practical guidance in relation to this legal requirement is provided in The Pension Regulator's Code of Practice including in the following areas:

- implementing adequate procedures to consider and record breaches
- judging whether a breach must be reported
- submitting a report to The Pensions Regulator
- whistleblowing protection and confidentiality.

Application to the Clwyd Pension Fund

Flintshire County Council has developed this procedure in relation to Clwyd Pension Fund. This document sets out how the Council will strive to achieve best practice through use of a formal reporting breaches procedure. It reflects the guidance contained in The Pension Regulator's Code of Practice.

Training on reporting breaches and related statutory duties, and the use of this procedure is provided to Pension Fund Committee members, Pension Board members and key officers involved with the management of the Clwyd Pension Fund on a regular basis. Further training can be provided on request to the Clwyd Pension Fund Manager.

Other Administering Authority or Organisational Requirements

In addition to the requirements of this Procedure, there may be other policies and procedures which may be in place relating to areas such as fraud or whistleblowing that apply to the individuals covered by this Procedure for reporting and recording breaches in relation to Clwyd Pension Fund matters. For example, Flintshire County Council has in place the following:

- Corporate Anti-fraud and Corruption Strategy – applies to all employees and members of Flintshire County Council, partner organisations, Council suppliers, contractors and consultants, and the general public
- Fraud and Irregularity Response Plan – guidance for employees and management of Flintshire County Council
- Whistleblowing Policy – setting out how someone working with or within Flintshire County Council can raise an issue in confidence.

This Procedure should be followed in addition to any existing procedures or policies that may be in place, such as those listed above. In particular, individuals are reminded that there is a legal requirement to report breaches of the law in relation to the Clwyd Pension Fund that could be considered significant to The Pensions Regulator. The Council's Monitoring Officer (contact details at the end of this procedure document) can assist if an individual is uncertain how to deal with the interaction between this Procedure and any other organisation's policy or procedure that may be in place.

The Clwyd Pension Fund Breaches Procedure

The following procedure details how individuals responsible for reporting and whistleblowing can identify, assess, record and report (if appropriate) a breach of law relating to the Clwyd Pension Fund.

It aims to ensure individuals responsible are able to meet their legal obligations and avoid placing any reliance on others to report. The procedure will also assist in providing an early warning of possible malpractice and reduce risk. There are four key steps to this procedure:

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~~2.~~1. Understanding the law and what is a breach
~~3.~~2. Determining whether a suspected breach is an actual breach
~~4.~~3. Determining whether the breach is likely to be of material significance and so should be reported to The Pensions Regulator
~~5.~~4. Recording the breach, even if it is not reported

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These steps are explained below:

1. Understanding the law and what is a breach

Individuals may need to refer to regulations and guidance when considering whether or not there has been a breach of the law. Some of the key provisions are shown below:

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- Section 70(1) and 70(2) of the Pensions Act 2004: www.legislation.gov.uk/ukpga/2004/35/contents
- Employment Rights Act 1996: www.legislation.gov.uk/ukpga/1996/18/contents
- Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (Disclosure Regulations): www.legislation.gov.uk/uksi/2013/2734/contents/made
- Public Service Pension Schemes Act 2013: www.legislation.gov.uk/ukpga/2013/25/contents
- Local Government Pension Scheme Regulations (various):
  http://www.lgpsregs.org/timelineregs/Default.html (pre 2014 schemes)
  http://www.lgpsregs.org/index.php/regs-legislation (2014 scheme)
- The Pensions Regulator's Code of Practice:
  http://www.thepensionsregulator.gov.uk/codes/code-governance-administration-public-service-pension-schemes.aspx
  In particular, individuals should refer to the section on 'Reporting breaches of the law', and for information about reporting late payments of employee or employer contributions, the section of the Code on 'Maintaining contributions'.

Further guidance and assistance can be provided by the Clwyd Pension Fund Manager, provided that requesting this assistance will not result in alerting those responsible for any serious offence (where the breach is in relation to such an offence). Some examples of potential breaches are also included in Appendix A.

2. Determining whether a suspected breach is an actual breach

Individuals then need to have reasonable cause to believe that a breach of the relevant legal provision has occurred, not just a suspicion. Where a breach is suspected the individual should carry out further checks to confirm the breach has occurred.

Where the individual does not know the facts or events, it will usually be appropriate to check with the Clwyd Pension Fund Manager at Flintshire County Council, a member of the Pension Fund Committee or Pension Board or others who are able to explain what has happened. However there are some instances where it would not be appropriate to make further checks, for example, if the individual has become aware of theft, suspected fraud or another serious offence and they are also aware that by making further checks there is a risk of either alerting those involved or hampering the actions of the police or a regulatory authority. In these cases The Pensions Regulator should be contacted without delay.

3. Determining whether the breach is likely to be of material significance

Should an individual have reasonable cause to believe that breach of the law has occurred, they must decide whether that breach is likely to be of material significance to The Pensions Regulator, and therefore should be reported to The Pensions Regulator. To do this, an individual should consider the following, both separately and collectively:

- cause of the breach (what made it happen)
- effect of the breach (the consequence(s) of the breach)
- reaction to the breach
- wider implications of the breach.

Individuals may also request the most recent breaches report from the Clwyd Pension Fund Manager, as there may be details on other breaches which may provide a useful precedent on the appropriate action to take.

Further details on the above four considerations are provided in Appendix B to this procedure.

The individual should use the traffic light framework described in Appendix C to help assess the material significance of each breach and to formally support and document their decision.

It should be noted that the Pensions Regulator's role is in relation to requirements ~~responsibilities~~ under the Pensions Act 2004. As such, it is possible that some breaches of the law do not fall within the Regulator's remit~~sponsibility~~. However, given the complex nature of the law, including the wide ranging responsibilities covered by the Pensions Act 2004, Flintshire County Council encourages reporting of any breach that is considered to be materially significant regardless of the ~~the~~ specific area of the law that has been ~~reason for the~~ breached. The Pensions Regulator can then determine whether it is a matter they have jurisdiction over or not.

The Clwyd Pension Fund Manager can assist with determining whether the breach should be reported and can also assist in completing the document to report the

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breach. However the individual is ultimately responsible for determining what should be included in the report and for submitting the report to The Pensions Regulator.

4. Recording the breach, even if it is not reported

The record of past breaches may be relevant in deciding whether to report a breach (for example it may reveal a systemic issue). The Clwyd Pension Fund Manager will maintain a record of all breaches identified. Therefore individuals should provide the following information to the Clwyd Pension Fund Manager so that all identified breaches can be recorded:

- copies of reports submitted to The Pensions Regulator
- copies of information relating to any other breach the individual has identified.

The information should be provided to the Clwyd Pension Fund Manager as soon as reasonably practicable and certainly no later than within 20 working days of the decision made to report or not. The record of all breaches (reported or otherwise) will be included in the Governance Update Report at each Pension Fund Committee meeting, and this will also be shared with the Pension Board.

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Assistance for individuals in following this procedure

The following information is provided to assist individuals in following this procedure.

Referral to a level of seniority for assistance

Flintshire County Council has designated an officer (the Clwyd Pension Fund Manager) to assist any individual with following this procedure. The Clwyd Pension Fund Manager is considered to have appropriate experience to help investigate whether there is reasonable cause to believe a breach has occurred, to check the law and facts of the case, to maintain records of all breaches and to assist in any reporting to The Pensions Regulator, where appropriate.

Individuals must bear in mind, however, that the involvement of the Clwyd Pension Fund Manager is to help clarify the individual's thought process and to ensure this procedure is followed. The individual remains responsible for the final decision as to whether a matter should be reported to The Pensions Regulator and for completing the reporting procedure.

The matter should **not** be referred to the Clwyd Pension Fund Manager if doing so would alert any person responsible for a possible serious offence to the investigation (as highlighted in step 2 above). If that is the case, the individual may instead refer the matter to the Council's Monitoring Officer. Otherwise, the individual should report the matter to The Pensions Regulator setting out the reasons for reporting, including any uncertainty – a telephone call to The Pensions Regulator before the submission may be appropriate, particularly in the case of a more serious breach.

Dealing with complex cases

The Clwyd Pension Fund Manager may be able to provide guidance on particularly complex cases. Guidance may also be obtained by reference to previous cases, information on which will be retained by Flintshire County Council, or via discussions with those responsible for maintaining the records. Information may also be available from national resources such as the Scheme Advisory Board or the LGPC Secretariat (part of the LG Group - http://www.lgpsregs.org/).

If timescales allow, legal advice or other professional advice can be sought and the case can be discussed at the next Committee or Board meeting.

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Timescales for reporting

The Pensions Act and The Pension Regulator's Code require that, if an individual decides to report a breach, the report must be made in writing as soon as reasonably practicable. Individuals should not wait for others to report and nor is it necessary for an individual to gather all the evidence which The Pensions Regulator may require before taking action. A delay in reporting may exacerbate or increase the risk of the breach. The time taken to reach the judgements on “reasonable cause to believe” and on “material significance” should be consistent with the speed implied by "as soon as reasonably practicable". In particular, the time taken should reflect the seriousness of the suspected breach.

Early identification of very serious breaches

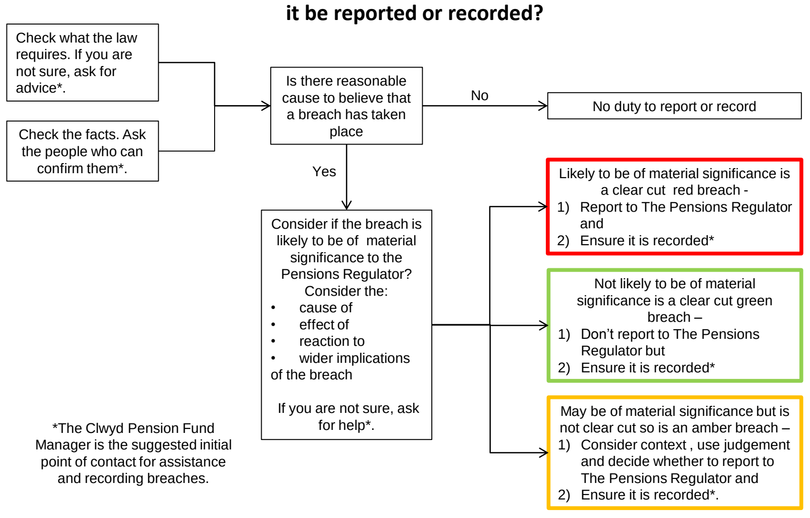
In cases of immediate risk to the scheme, for instance, where there is any indication of dishonesty, The Pensions Regulator does not expect individuals to seek an explanation or to assess the effectiveness of proposed remedies. They should only make such immediate checks as are necessary.

The more serious the potential breach and its consequences, the more urgently individuals should make these necessary checks. In cases of potential dishonesty the individual should avoid, where possible, checks which might alert those implicated. In serious cases, individuals should use the quickest means possible to alert The Pensions Regulator to the breach.

Decision tree

A decision tree is provided below which summarises the process for deciding whether or not a breach has taken place, whether it is materially significant to The Pensions Regulator and therefore needs to be reported, and then ensuring it is recorded.

Decision-tree: Has a breach occurred and should it be reported or recorded?



Reporting a breach to The Pensions Regulator

Reports must be submitted in writing via The Pensions Regulator's online system at https://login.thepensionsregulator.gov.uk/whatsavailable, or by post, email or fax, and should be marked urgent if appropriate. If necessary a written report can be preceded by a telephone call.

The individual should ensure they receive an acknowledgement for any report they send to The Pensions Regulator. The Pensions Regulator will acknowledge receipt of all reports within five working days and may contact the individual to request further information. The individual will not usually be informed of any actions taken by The Pensions Regulator due to restrictions on the disclosure of information.

As a minimum, individuals reporting should provide:

- full scheme name (Clwyd Pension Fund)
- description of breach(es)
- any relevant dates
- name, position and contact details
- role in connection to the scheme
- employer name or name of scheme manager (the latter is Flintshire County Council).

If possible, individuals should also indicate:

- the reason why the breach is thought to be of material significance to The Pensions Regulator
- scheme address (provided at the end of this procedures document)
- scheme manager contact details (provided at the end of this procedures document)
- pension scheme registry number (PSR – 00329655RN)
- whether the breach has been reported before.

The individual should provide further information or reports of further breaches if this may help The Pensions Regulator in the exercise of its functions. The Pensions Regulator may make contact to request further information.

Confidentiality

If requested, The Pensions Regulator will do its best to protect the identity of an individual who has reported a breach and will not disclose information except where it is lawfully required to do so.

An employee may also have protection under the Employment Rights Act 1996 if they make a report in good faith in relation to their employer.

Reporting to Pension Fund Committee

A report will be presented to the Pension Fund Committee on a quarterly basis setting out:

- all breaches, including those reported to The Pensions Regulator and those not reported, with the associated dates.
- in relation to each breach, details of what action was taken and the result of any action (where not confidential)
- any future actions for the prevention of the breach in question being repeated
- new breaches which have arisen since the previous meeting.

This information will also be provided upon request by any other individual or organisation (excluding sensitive/confidential cases or ongoing cases where discussion may influence the proceedings).

An example of the information to be included in the quarterly reports is provided in Appendix D to this procedure.

Approval and Review

This Reporting Breaches Procedure was originally approved at the Clwyd Pension Fund Committee on 26 November 2015 and then amendments approved using officer delegations in September 2018~~and is effective from 1 December 2015~~. It will be kept under review and updated as considered appropriate. After any update it will be sent to all individuals who, or key contacts at organisations which, are considered to be subject to the procedure.

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Further Information

If you require further information about reporting breaches or this procedure or wish to discuss reporting a breach, please contact:

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

Alternative designated officer contact details:

Gareth Owens,
Monitoring Officer, Flintshire County Council
E-mail - gareth.legal@flintshire.gov.uk
Telephone - 01352 702344

Appendix A – Example breaches of the law

In this appendix we provide just some examples of breaches of the law. This is not a exhaustive list given there are many sets of legislation that must be followed and some of these are extremely lengthy and complex. It should, however, provide a useful indication of the range of potential breaches that may arise.

Investments outside statutory limits

Regulations 14, 15 and Schedule 1 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, as amended, details limits and requirements in relation to the proportion of fund money which may be invested in particular categories of investments, for example, a limit of 15% relating to unlisted securities of companies subject to requirements such as taking proper advice. A breach of the law by the Administering Authority would arise if a fund invested more than is permitted in that table or didn't follow the requirements.

Funding strategy not having regard to CIPFA guidance

Regulation 58 of the Local Government Pension Scheme Regulations 2013, as amended, requires the administering authority to prepare, maintain and publish a statement setting out its funding strategy and, in doing so, to consult with such persons as it considers appropriate. In doing this, the Administering Authority must also have regard to CIPFA guidance on preparing and maintaining a Funding Strategy Statement which clearly states employers should be consulted. The Funding Strategy impacts on the employers of the Fund and therefore a breach of the law by the Administering Authority is likely to have arisen if a statement was prepared which impacts on employers without first consulting with those employers.

Late notification of benefits

Various regulations dictate timescales for notifying scheme benefits, some of which are summarised below. Most of these requirements are included in more general pensions legislation i.e. not the Local Government Pension Scheme Regulations. A breach would arise every time one of these timescales was not met. All of the breaches would relate to the Administering Authority apart from the last one which would be a breach by an employer in the Fund. However, the first five listed could have been a result of delayed or incorrect information from an employer, which could be a separate and additional breach of the law by that employer.

Process	Legal Requirement
To provide new starters with information about the scheme	2 months from date of joining (provide information about the scheme in this timeframe, or within 1 month of receiving jobholder information where the individual is being automatically enrolled / re-enrolled)
To inform members who leave the scheme of their ~~deferred benefit entitlement~~leaver rights and options	As soon as is practicable, and no more than 2 months from date of initial notification (from employer or scheme member)
To notify the amount of retirement benefits	1 month from date of retirement if on or after Normal Pension Age 2 months from date of retirement if before Normal Pension Age
To notify dependant(s) the amount of death benefits	As soon as possible but in any event no more than 2 months from date of becoming aware of the death, or from date of request
Provide annual benefit statements to active members	31st August in the same calendar year
Receipt of employee contributions from employers	19th of the month following their deduction or 22nd if paid electronically.

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Errors in benefit calculations

The Local Government Pension Scheme Regulations 2013, as amended, and previous LGPS legislation relating to historical service or leaves, dictate how benefits should be calculated. This includes elements such as what fraction of pay is used to calculation a pension and what counts as pay for LGPS purposes. A breach of the law by the Administering Authority would arise in the situation that any calculation was carried out that was not in accordance with those provisions.

Errors in deducting contributions

Regulation 20 of the Local Government Pension Scheme Regulations 2013, as amended, states which elements of pay should be treated as pensionable and therefore should have pension contributions deducted from them and should be used for calculating benefits from 1 April 2014. Regulation 4 of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007, as amended, is the equivalent provision for pre 1 April 2014 scheme membership and therefore it details how pensionable pay should be calculated by an employer for benefits accruing prior to 1 April 2014. Under these provisions, non-contractual overtime is pensionable from 1 April 2014 but not classed as pensionable for benefits accruing before 1 April 2014. A breach of the law by an employer would arise if any of the following happened:

- an employer **did not** deduct pension contributions from non-contractual overtime since 1 April 2014
- an employer **did not** include non-contractual overtime in the amount of any pensionable pay notified to the Administering Authority for membership from 1 April 2014
- an employer **did** include non-contractual overtime in the amount of final pay notified to the Administering Authority to be used to calculate benefits accrued prior to 1 April 2014.

Late notifications from year-end information by an employer

Regulation 80 of the Local Government Pension Scheme Regulations 2013 require each employer to provide to the Administering Authority a list of specific information for each scheme member, such as pensionable pay, by 30 June each year. A breach of the law by an employer would arise if they failed to provide this year end list to the administering authority by 30 June or if the information was incomplete or inaccurate.

Inadequate knowledge of a Pension Board member

Section 248A of the Pensions Act 2004 requires every Pension Board member to be conversant with the LGPS rules and Pension Fund policies as well having knowledge and understanding of pension matters at a degree appropriate for the purpose of them exercising their Pension Board functions. Where a Pension Board member has failed to attend training or demonstrate that they already have the required level of knowledge, it is possible that a breach of the law will have occurred by that Pension Board member.

Appendix B – Determining whether a breach is likely to be of material significance

To decide whether a breach is likely to be of material significance individuals should consider the following elements, both separately and collectively:

- cause of the breach (what made it happen)
- effect of the breach (the consequence(s) of the breach)
- reaction to the breach
- wider implications of the breach

The cause of the breach

Examples of causes which are likely to be of concern to The Pensions Regulator are provided below:

- Acting, or failing to act, in deliberate contravention of the law.
- Dishonesty.
- Incomplete or inaccurate advice.
- Poor administration, i.e. failure to implement adequate administration procedures.
- Poor governance.
- Slow or inappropriate decision-making practices.

When deciding whether a cause is likely to be of material significance individuals should also consider:

- whether the breach has been caused by an isolated incident such as a power outage, fire, flood or a genuine one-off mistake
- whether there have been any other breaches (reported to The Pensions Regulator or not) which when taken together may become materially significant

The effect of the breach

Examples of the possible effects (with possible causes) of breaches which are considered likely to be of material significance to The Pensions Regulator in the context of the LGPS are given below:

- Committee/Board members not having enough knowledge and understanding, resulting in pension boards not fulfilling their roles, the scheme not being properly governed and administered and/or scheme managers breaching other legal requirements
- Conflicts of interest of Committee or Board members, resulting in them being prejudiced in the way in which they carry out their role and/or the ineffective governance and administration of the scheme and/or scheme managers breaching legal requirements
- Poor internal controls, leading to schemes not being run in accordance with their scheme regulations and other legal requirements, risks not being properly identified and managed and/or the right money not being paid to or by the scheme at the right time

- Inaccurate or incomplete information about benefits and scheme information provided to members, resulting in members not being able to effectively plan or make decisions about their retirement
- Poor member records held, resulting in member benefits being calculated incorrectly and/or not being paid to the right person at the right time
- Misappropriation of assets, resulting in scheme assets not being safeguarded
- Other breaches which result in the scheme being poorly governed, managed or administered

The reaction to the breach

A breach is likely to be of concern and material significance to The Pensions Regulator where a breach has been identified and those involved:

- do not take prompt and effective action to remedy the breach and identify and tackle its cause in order to minimise risk of recurrence
- are not pursuing corrective action to a proper conclusion, or
- fail to notify affected scheme members where it would have been appropriate to do so.

The wider implications of the breach

Reporters should also consider the wider implications when deciding whether a breach must be reported. The breach is likely to be of material significance to The Pensions Regulator where the fact that a breach has occurred makes it more likely that further breaches will occur within the Fund or, if due to maladministration by a third party, further breaches will occur in other pension schemes.

Appendix C - Traffic light framework for deciding whether or not to report

Flintshire County Council recommends those responsible for reporting to use the traffic light framework when deciding whether to report to The Pensions Regulator. This is illustrated below:

Red	Where the cause, effect, reaction and wider implications of a breach, when considered together, are likely to be of material significance. These must be reported to the Pensions Regulator. Example: Several members' benefits have been calculated incorrectly. The errors have not been recognised and no action has been taken to identify and tackle the cause or to correct the errors.
Amber	Where the cause, effect, reaction and wider implications of a breach, when considered together, may be of material significance. They might consist of several failures of administration that, although not significant in themselves, have a cumulative significance because steps have not been taken to put things right. You will need to exercise your own judgement to determine whether the breach is likely to be of material significance and should be reported. Example: Several members' benefits have been calculated incorrectly. The errors have been corrected, with no financial detriment to the members. However the breach was caused by a system error which may have wider implications for other public service schemes using the same system.
Green	Where the cause, effect, reaction and wider implications of a breach, when considered together, are not likely to be of material significance. These should be recorded but do not need to be reported. Example: A member's benefits have been calculated incorrectly. This was an isolated incident, which has been promptly identified and corrected, with no financial detriment to the member. Procedures have been put in place to mitigate against this happening again.

All breaches should be recorded even if the decision is not to report.

When using the traffic light framework individuals should consider the content of the red, amber and green sections for each of the cause, effect, reaction and wider implications of the breach, before you consider the four together. Some useful examples of this is framework is provided by The Pensions Regulator at the following link
http:// www.thepensionsregulator.gov.uk/codes/code-related-report-breaches.aspx

Appendix D – Example Record of Breaches for Pension Fund Committee Reporting

Refer-ence	Date entered in Register	Title of Breach	Owner of Breach	Third Party which caused the breach (if any)	Description and cause	Possible effect and wider implications	Initial (re)action	Assessment of breach (red/amber/ green) Brief summary of rationale	Reported to TPR Yes / No	Further actions taken to rectify Breach	Outstanding actions (if any)
~~Date~~	~~Category (e.g. administ~~	~~Description and cause of breach~~	~~Possible effect of~~	~~Reaction of relevant parties~~	~~Reported / Not reported~~	~~Outcome of report and/or~~	~~Outstanding actions~~				

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	~~ration, contributions, funding, investment, criminal activity)~~		~~breach and wider implications~~	~~to breach~~	~~(with justification if not reported and dates)~~	~~investigations~~	

~~*New breaches since the previous meeting should be highlighted~~

The Pension Regulator's and Scheme Advisory Board Compliance Checklist

Date of Completion: 21/11/2018

Contents

Introduction

This document outlines how Flintshire County Council complies with the Pensions Regulator's (TPR) Code of Practice No 14 Governance and administration of public service pension schemes ('the TPR Code') in relation to the management of the Clwyd Pension Fund which is part of the Local Government Pension Scheme (LGPS). It will be updated regularly by officers of the Fund and reported annually to the Pension Fund Committee and Pension Board (generally in June/July each year).

This document highlights all the key elements of the TPR Code and then evidences whether the management of the Clwyd Pension Fund meets these areas of best practice. As part of this evidence it shows when the element was last checked and whether, at that point, it was considered fully, partially or not compliant. Where they are partially or not compliant, it also highlights whether Flintshire County Council, as administering authority to the Clwyd Pension Fund, has identified actions to be carried out to improve their current practices. Where an element is not yet active, the commentary will generally still highlight where advanced progress is being made.

Those reading this document should be mindful that the TPR Code applies equally to all public service pension schemes and therefore it is generic in nature. There may be a number of elements that are more specifically stipulated within LGPS legislation and it is not the purpose of this compliance checklist to consider that level of detail.

Further, key elements of national guidance from the LGPS Scheme Advisory Board may also be incorporated into this compliance checklist. This version contains the checklists included as part of the Shadow Scheme Advisory Boards “Guidance on the creation and operation of Local Pension Boards in England and Wales”.

Key

Frequency of review and last review date: Where a process, policy or practice is officially reviewed at a set interval, the actual interval will be shown as well as the last interval date. However, in many circumstances processes and procedures are ongoing and part of the day – to - day operation of the Fund. In these circumstances, an annual check will be carried out to ensure that the ongoing process meets the TPR Code expectations and therefore the date shown will be the date that annual check was carried out and the frequency will be shown as “ongoing (annual check)”.

Completed:	**Compliant:**	**Where responsibility relates to employers:**
Fully completed	Fully compliant	Employers - Fully compliant
In progress	Partially compliant	Employers - Partially compliant
Not started	Non-compliant	Employers - Non-compliant
Not yet relevant	Net yet relevant	Not yet relevant

Definitions:

PSPA13	Public Service Pensions Act 2013
LGPS	Local Government Pension Scheme
TPR	The Pensions Regulator
TPR Code	The Pensions Regulator's Code of Practice No 14 Governance and administration of public service pension schemes
Scheme Manager / CPF	For the Clwyd Pension Fund, this is Flintshire County Council.
Administering Authority	The LGPS specific term for Scheme Manager. For the Clwyd Pension Fund, this is Flintshire County Council.
IDRP	Internal Dispute Resolution Procedure
SAB	The national LGPS Scheme Advisory Board
PFC	Pension Fund Committee
PB	Pension Board

Summary Dashboard

A dashboard showing the summary of the results of the latest compliance checklist is shown below:

No.	Completed	Compliant
Reporting Duties		
A1	Fully completed	Fully compliant
A2	Fully completed	Fully compliant
A3	Fully completed	Fully compliant
A4	Fully completed	Fully compliant
Knowledge and Understanding		
B1	Fully completed	Fully compliant
B2	Fully completed	Fully compliant
B3	Fully completed	Fully compliant
B4	Fully completed	Fully compliant
B5	Fully completed	Fully compliant
B6	Fully completed	Fully compliant
B7	Fully completed	Fully compliant
B8	Fully completed	Fully compliant
B9	Fully completed	Partially compliant
B10	Fully completed	Fully compliant
B11	Fully completed	Fully compliant
B12	Fully completed	Partially compliant
Conflicts of Interest		
C1	Fully completed	Fully compliant
C2	Fully completed	Fully compliant
C3	Fully completed	Fully compliant
C4	Fully completed	Fully compliant
C5	Fully completed	Fully compliant
C6	Fully completed	Fully compliant
C7	Fully completed	Fully compliant
C8	Fully completed	Fully compliant
C9	Fully completed	Fully compliant
C10	Fully completed	Fully compliant
C11	Fully completed	Fully compliant
Publishing Information		
D1	Fully completed	Fully compliant
D2	Fully completed	Fully compliant
D3	Fully completed	Fully compliant
D4	Fully completed	Fully compliant

No.	Completed	Compliant
Risk and Internal Controls		
E1	Fully completed	Fully compliant
E2	Fully completed	Fully compliant
E3	Fully completed	Fully compliant
E4	Fully completed	Fully compliant
E5	Fully completed	Fully compliant
E6	Fully completed	Fully compliant
E7	Fully completed	Partially compliant
E8	Fully completed	Fully compliant
Maintaining Accurate Member Data		
F1	Fully completed	Partially compliant
F2	Fully completed	Fully compliant
F3	Fully completed	Fully compliant
F4	Fully completed	Fully compliant
F5	Fully completed	Fully compliant
F6	Fully completed	Fully compliant
F7	Fully completed	Fully compliant
F8	Fully completed	Fully compliant
F9	Fully completed	Partially compliant
F10	Fully completed	Fully compliant
F11	Fully completed	Fully compliant
Maintaining Contributions		
G1	Fully completed	Partially compliant
G2	Fully completed	Partially compliant
G3	Fully completed	Partially compliant
G4	Fully completed	Non-compliant
G5	Fully completed	Partially compliant
G6	Fully completed	Fully compliant
G7	Fully completed	Employers - Fully compliant
G8	Fully completed	Fully compliant
G9	Not yet relevant	Not yet relevant
Providing Information to Members and Others		
H1	Fully completed	Employers - Partially compliant
H2	Fully completed	Fully compliant
H3	Fully completed	Fully compliant
H4	In progress	Partially compliant
H5	Fully completed	Fully compliant
H6	Fully completed	Fully compliant

No.	Completed	Compliant
H7	Fully completed	Employers - Partially compliant
H8	Fully completed	Partially compliant
H9	Fully completed	Partially compliant
H10	In progress	Partially compliant
H11	Fully completed	Fully compliant
H12	Fully completed	Fully compliant
H13	Fully completed	Partially compliant
Internal Dispute Resolution		
I1	Fully completed	Fully compliant
I2	Fully completed	Fully compliant
I3	Fully completed	Fully compliant
I4	Fully completed	Fully compliant
I5	Fully completed	Fully compliant
I6	Fully completed	Partially compliant
I7	Fully completed	Fully compliant
I8	Fully completed	Fully compliant
I9	Fully completed	Fully compliant
Reporting Breaches		
J1	Fully completed	Fully compliant
J2	Fully completed	Fully compliant
J3	Fully completed	Fully compliant
Scheme Advisory Board Requirements		
K1	Fully completed	Fully compliant
K2	Fully completed	Fully compliant
K3	Fully completed	Fully compliant
K4	Fully completed	Fully compliant
K5	Fully completed	Fully compliant
K6	Fully completed	Fully compliant
K7	Fully completed	Fully compliant
K8	Fully completed	Fully compliant
K9	Fully completed	Fully compliant
K10	Fully completed	Fully compliant
K11	Fully completed	Fully compliant
K12	Fully completed	Non-compliant
K13	Fully completed	Fully compliant
K14	Fully completed	Fully compliant
K15	Fully completed	Fully compliant

A - Reporting Duties

Note the requirements in this section are not included in the TPR Code but they are a fundamental to the relationship with TPR.

Legal Requirements

All public service pension schemes have to be registered with TPR. In addition, all schemes must provide a regular scheme return to TPR, containing prescribed information. A return is required when the scheme receives a scheme return notice from the regulator. The scheme manager must also keep the regulator informed of any changes to registrable scheme details.

Note the requirements in this section are not included in the TPR Code but are a requirement for all schemes.

No.	TPR Requirement	Clwyd Pension Fund Approach / Evidence	Frequency of Review	Last Review Date	Check Completed	Compliant	Notes	Action
A1	Is your scheme registered with the Pension Regulator?	Will be reassessed annually to ensure new registration is not required	Annual	22/10/2018	Fully completed	Fully compliant	New registration will only be required if a new LGPS is created that is deemed to be a separate scheme	
A2	Is the information held on the Pensions Regulator's website about the scheme up-to-date?	Update completeed 26/10/18 - The website is checked regularly to ensure the Fund information is up to date.	Ongoing (annual check)	26/10/2018	Fully completed	Fully compliant		
A3	Have you completed this latest Scheme Return in the required timescale?	Completed with A2 and checked against new employers	Ongoing (annual check)	26/10/2018	Fully completed	Fully compliant		Updated 12/09/17 - Discussed with PAM. TPR website updated as and when for new employers etc and is routine. Returns completed as necessary.
A4	Have you responded to the latest TPR public service pension scheme survey /questionnaire?	Update 21/11/18 - Intention is to respond to any such survey that is received, including on a voluntary basis. Latest survey (Nov 2017) completed by CPFM. November 2018 received and response currently being worked on.	Ongoing (annual check)	21/11/2018	Fully completed	Fully compliant		

B - Knowledge and Understanding

Legal Requirements

A member of the pension board of a public service pension scheme must be conversant with:

- the rules of the scheme, and
- any document recording policy about the administration of the scheme which is for the time being adopted in relation to the scheme.

A member of a pension board must have knowledge and understanding of:

- the law relating to pensions, and
- any other matters which are prescribed in regulations.

The degree of knowledge and understanding required is that appropriate for the purposes of enabling the individual to properly exercise the functions of a member of the pension board.

No.	TPR Requirement	Clwyd Pension Fund Approach / Evidence	Frequency of Review	Last Review Date	Check Completed	Compliant	Notes	Action
B1	Are there policies and arrangements in place to support pension board members in acquiring and retaining knowledge and understanding?	Pension Fund Training Policy with appropriate objectives and measurements in place. It is agreed by Pension Fund Committee and was adopted by the Pension Board at its first meeting (July 2015). Updated Oct 2018 .	Annual	22/10/2018	Fully completed	Fully compliant		
B2	Has a person been designated to take responsibility for ensuring the framework is developed and implemented?	Updated 22/10/18 - Responsibility delegated to the Chief Executive	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		
B3	Is the Fund providing assistance to pension board members to determine the degree of knowledge and understanding required?	Dedicated induction training has been provided based on CIPFA requirements. Further trainings sessions being provided, jointly run for PFC and PB members.	Ongoing (annual check	22/10/2018	Fully completed	Fully compliant		
B4	Are the roles and responsibilities of pension boards and members of pension board clearly set out in scheme documentation?		Ongoing (annual check	22/10/2018	Fully completed	Fully compliant		
B5	Are pension board members aware of their legal responsibility in terms of Knowledge and Understanding?	Articulated in Training Policy and part of Induction Training, also set out in PB protocol. All members are provided with copy of Training Policy as part of induction pack and reminded of Policy on an annual basis. PB is asked to adopt the Training Policy. Updated Oct 2018.	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		Update 22/10/18 - Ensure updated Training Policy is provided to all Cttee & Board members
B6	Have all pension board members got access to copies of the scheme rules and relevant Fund documentation?	This information is provided (or links provided) as part of application process, induction training and first meeting. Further there is a list of key documents to be provided within the Training Policy. Most of these have now been shared with the PB.	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		Check what P Friday has had PFM
B7	Is there an up-to-date list of the Fund specific documents with which pension board members need to be conversant in?	This is included as the induction list in Training Policy	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		
B8	Are all pension board members investing sufficient time in their learning and development?	Training plans are agreed each March as part of the Pension Fund business plan. Monitoring of attendance at training is undertaken in accordance with Training Policy and recorded in annual report and accounts as well as being a regular part of PFC business. Catch up sessions are organised for those unable to attend. It is considered that all PB members are spending sufficient time attending training events (subject to results of Training Needs Analysis).	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		
B9	Does the Fund offer pre-appointment training for new pension board members or mentoring by existing members?	Induction process in Training Policy including providing all with copies of key documents. Pre appointment training/mentoring is not currently offered. Training is provided on appointment and ongoing basis instead.	Ongoing (annual check)	22/10/2018	Fully completed	Partially compliant		No further action planned.

No.	TPR Requirement	Clwyd Pension Fund Approach / Evidence	Frequency of Review	Last Review Date	Check Completed	Compliant	Notes	Action
B10	Is there a process in place for regularly assessing the pension board members' level of knowledge and understanding is sufficient for their role, responsibilities and duties?	There is a Training Plan (annual) which is focussed at whole PFC/PB level but agreed at PFC, where members of PFC and PB can input to the draft. The Independent Adviser's annual governance assessment considers, at a high level, the effectiveness of training. A training needs analysis exercise was completed in December 2017.	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		
B11	Are records of learning activities being maintained?	Full records are maintained at a personal level and reported to PFC as well as being included in the annual report and accounts.	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		
B12	Have the pension board members completed the Pension Regulator's toolkit for training on the Code of Practice number 14?	It is the intention that all PB and PC members will carry this out. However, focus has been on completing other induction training. Some PB/PC members have already completed some modules. Update 22/10/18 -Consideration has been given to the appropriateness of the TPR toolkit and it has been decided to cover these areas as part of the general CPF customised training rather than requiring members to complete the toolkit modules.	Ongoing (annual check)	22/10/2018	Fully completed	Partially compliant		

C - Conflicts of interest

Legal Requirements

The Public Service Pensions Act 2013 sets out the legal requirements for scheme managers and pension boards for conflicts of interest.

In relation to the pension board, scheme regulations must include provision requiring the scheme manager to be satisfied:

- that a person to be appointed as a member of the pension board does not have a conflict of interest and
- from time to time, that none of the members of the pension board has a conflict of interest.

Scheme regulations must require each member or proposed member of a pension board to provide the scheme manager with such information as the scheme manager reasonably requires for the purposes of meeting the requirements referred to above.

Scheme regulations must include provision requiring the pension board to include employer representatives and member representatives in equal numbers.

No.	TPR Requirement	Clwyd Pension Fund Approach / Evidence	Frequency of Review	Last Review Date	Check Completed	Compliant	Notes	Action
C1	Does the Fund have a conflict of interest policy and procedure, which include identifying, monitoring and managing potential conflicts of interest?	Policy in place and approved by PFC and adopted by PB, and includes key required items.	Annual	22/10/2018	Fully completed	Fully compliant		
C2	Do pension board members have a clear understanding of their role, the circumstances in which they may have a conflict of interest and how to manage potential conflicts?	Included as a key part of first PB meeting (July 2015) and induction training. Policy will be shared further as part of annual process to refresh declarations (due June/July each year). - Policy circulated and training covered at June 2017 PFC and declarations completed by PFC members present. Updated COI Policy approved at Sept 18 Committee.	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		
C3	Have all Pension Board members provided appropriate information for the Administering Authority to determine whether a conflict exists (on appointment and from time to time)?	All completed declaration of potential conflicts at first PB meeting (July 2015). This equally applies to PFC members and senior staff. Declarations are required to be refreshed annually. Updated 22/10/18 - refresh of declarations underway for November 2018.	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		Updated 22/10/18 - Ensure final declarations received (PFM). To be updated Nov 2018
C4	Does the appointment process for pension board members require disclosure of interests and responsibilities which could become conflicts of interest?	Potential conflicts were asked to be disclosed on application forms.	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		
C5	Is the conflicts policy regularly reviewed?	It is reviewed at least every three years . Last major review agreed by Committee Sept 2018.	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		
C6	Does the Fund have a conflicts register and it is circulated for ongoing review and published?	A register is created based on individual declarations and any further declarations (e.g. at the commencement of meetings) and all are asked to refresh/check their entries at least every 12 months (usually around June/July). It is available to be shared with the PFC Chairman at the beginning of each PFC. Update 22/10/18 - It is also available on request.	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		
C7	Is appropriate information included in the register?	All areas expected by The Pensions Regulator are included in the register and/or declarations of interest.	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		
C8	Is there a standing item on the agenda for declaring conflicts of interest?	Part of standard PFC and PB meeting agenda	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		
C9	Do those involved know how to report a conflict of interest?	Members trained on appointment and provided with copy of Conflicts Policy annually (as part of refreshing declarations - due Nov 2018). Also Conflicts/Policy referred to at start of each meeting	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		

No.	TPR Requirement	Clwyd Pension Fund Approach / Evidence	Frequency of Review	Last Review Date	Check Completed	Compliant	Notes	Action
C10	Is the number of employer and member representatives on the board in line with legal requirements?	Yes - there are two scheme member representatives and two employer representatives. All posts are currently filled.	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		
C11	Is the board made up of the appropriate mix of representatives in order to minimise potential conflicts?	Positions include retired and active scheme members, as well as employer representatives. It is considered that those taking up those appointments have a good mix of backgrounds and skills, supplemented by ongoing training.	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		

D - Publishing information about schemes

Legal Requirements

The scheme manager for a public service scheme must publish information about the pension board for the scheme(s) and keep that information up-to-date.

The information must include:

- who the members of the pension board are
- representation on the board of members of the scheme(s), and
- the matters falling within the pension board's responsibility

No.	TPR Requirement	Clwyd Pension Fund Approach / Evidence	Frequency of Review	Last Review Date	Check Completed	Compliant	Notes	Action
D1	Does the Administering Authority publish information about the pension board?	Name of all members, whether they are a scheme or employer rep, voting rights, and responsibilities detailed on website and in the annual report and accounts. http://www.mssclwydpensionfund.org.uk/en/Governance-and-Investments/Local-Pension-Board.aspx	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		
D2	Does the Administering Authority publish other useful related information about the pension board?	Full protocol signposted on website details how members are appointed i.e. election and selection criteria. This protocol covers/includes the typical items in a terms of reference. The PB members' employment information is only partially included. No specific roles and responsibilities for PB members - joint responsibility for all PB matters.	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		
D3	Is all the information about the Pension Board kept up-to-date?	Information regularly checked. Pension Fund Manager and Communications Officer will update website when new members appointed.	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		
D4	Does the Administering Authority public information about pension board business?	PB are not public meetings so details are currently not published, though Flintshire may publish information relating to the PB from time to time. PB meeting minutes become part of PFC meetings and are therefore public. Limk to meetings on PB page of web site An annual report by the Chair of the PB is prepared and published as part of the annual report and accounts	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		

E - Managing risk and internal controls

Legal Requirements

The scheme manager must establish and operate internal controls which adequately ensure the scheme is administered and managed in accordance with the scheme rules and the requirements of the law.

Internal controls are defined in the legislation as:

- arrangements and procedures to be followed in the administration and management of the scheme
- systems and arrangements for monitoring that administration and management
- arrangements and procedures to be followed for the safe custody and security of the assets of the scheme

The legal requirements apply equally where a scheme outsources services connected with the running of the scheme.

No.	TPR Requirement	Clwyd Pension Fund Approach / Evidence	Frequency of Review	Last Review Date	Check Completed	Compliant	Notes	Action
E1	Is there an agreed process for identifying and recording scheme risks?	A risk management policy is in place that outlines the procedure for identifying, managing and recording risk. It covers all the key areas identified by the TPR Code. It was approved by the PFC in March 2015. Refreshed Sept 2018	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		
E2	Does the Fund have an adequate process to evaluate risks and establish internal controls?	The risk management policy includes how risks are to be evaluated and internal controls established. It makes use of risk register with a RAG status based on impact and likelihood and the associated control is then shown as part of the risk register.	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		
E3	Does the Administering Authority have a risk register to record all risks identified and action taken?	Risk register is in place which includes internal controls in relation to identified risks and further identified actions. New, high, big changing and removed risks are reported quarterly to the PFC.	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		
E4	Does the Administering Authority review the effectiveness of the risk management and internal control systems of the Fund?	Our risk management and internal controls are continually reviewed for effectiveness as part of a number of processes including: - A regular agenda item on Advisory Panel meetings considering the risk register or new areas of concern - The ongoing (at least at quarterly PFC meetings) updating of the risk register which includes the control of those risks - Issues identified through regular monitoring reports such as KPI performance monitoring for PC, IDRP updates and breaches reporting is soon to be in place. - The triennial (at least) review of the risk management policy - Regular internal and external audit reports. - Annual internal control reports custodian and fund managers. - Annual update of TPR Code compliance checklist. - Periodic ad-hoc reviews (e.g. process review) Register and policy for risk management is completely reviewed annually as part of business planning.	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		
E5	Does the Administering Authority regularly review the risk register?	Register entries are reviewed at each PFC meeting (quarterly) and at most Advisory Panels (quarterly). The information provided to PFC is also provided to PB members. Risk management is ongoing and therefore the register can be updated as a result of risk identification through a number of means including: - ongoing review at the above named meetings - performance measurement against agreed objectives and KPIs - monitoring against the Fund's business plan - findings of internal and external audit and other adviser reports (e.g. resulting from the triennial valuation) - feedback from the local Pension Board, employers and other stakeholders - informal meetings of senior officers or other staff involved in the management of the Fund - liaison with other organisations, regional and national associations, professional groups, etc.	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		
E6	Is there a standing item on the Pension Board agenda to review scheme risks?	It is a standing item on the PFC each quarter and, as a matter of course, is then shared with the Pension Board. It has also been added as a further item for more detailed consideration for the PB.	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		

No.	TPR Requirement	Clwyd Pension Fund Approach / Evidence	Frequency of Review	Last Review Date	Check Completed	Compliant	Notes	Action
E7	Does the Administering Authority have adequate systems, arrangements and procedures (internal controls) in place for the administration and management of the Fund and are they documented ?	Based on a high level discussion, it is considered that there is a good awareness of appropriate internal controls and these appear to be in place, albeit some controls are not currently fully documented. For example, in relation to administration, different roles have different access and ability to carry out certain functions on the systems. There are, for example, limitations on who can check and get access to certain things (do, check , review process) and system won't allow anything to be done by a person without correct authority. Doing and checking can be done by the same person if at the right level but if this were the case a report on this goes to the Pension Administration Manager and investigated. A list of users and levels s available on altair. Also staff cannot access their own pension records. The Fund has put into place reporting on performance against the identified KPIs, and there are SLAs with the Employers to attempt to ensure timely and accurate data and contributions. The administration policy is being revised and reissued to include greater focus on systems (e.g. I-connect) to reduce the need for manual input by employers or admin staff. The finance team make good use of spreadsheets to carry out control checks in relation to movement of monies and bank reconciliation. Further information is included in point F3. They are in the process of documenting their existing procedures for contribution and employer information checking.	Ongoing (annual check)	22/10/2018	Fully completed	Partially compliant		Ongoing work continues to ensure all internal controls are appropriately documented (PAM & PFM) - 22/10/18
E8	Do these procedures apply equally to outsourced services, are internal controls reflected in contracts with third party providers and is there adequate reporting in relation to those controls?	The key outsourced services for this purpose are BNYM (custodian) and Fund managers. These providers are required to provide annual internal control reports.	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		

F - Maintaining accurate member data

Legal Requirements

Scheme managers must keep records of information relating to:

- member information
- transactions, and
- pension board meetings and decisions.

The legal requirements are set out in the Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014 ('the Record Keeping Regulations').

The Data Protection Act 1998 and the data protection principles set out additional requirements for using, holding and handling personal information. Other requirements are set out in the:

- Pensions Act 1995 and 2004
- Pensions Act 2008 and the Employers' Duties (Registration and Compliance) Regulations 2010
- Occupational Pension Schemes (Scheme Administration) Regulations 1996 (SI 1996/1715)
- Occupational Pension Schemes (Scheme Administration) Regulations (Northern Ireland) 1997 (SR 1997 No 94)
- Registered Pension Schemes (Provision of Information) Regulations 2006 (SI 2006/567)

No.	TPR Requirement	Clwyd Pension Fund Approach / Evidence	Frequency of Review	Last Review Date	Check Completed	Compliant	Notes	Action
F1	Do member records record the information required as defined in the Record Keeping Regulations and is it accurate?	Checks were carried out in relation to each of the requirements in the Record Keeping Regulations and are, in the main, compliant with the following points of note: '- for in relation to clause 4(3), which relates to information for members who pay AVCs, The AVC information is held and maintained by Prudential/Equitable Life with an annual update provided to CPF. Prudential only provide a list each year of which members statements have been sent to, but statements are sent straight from Prudential to member so data not held on CPF member records or paper files, and member choices re investments and Retirement date are not included on the list of information from Prudential which are two key elements. Equitable life AVCs are not held for active records, just deferred members - for these, annual statements go to CPF for scanning, these are held linked to each members' electronic record, and posted to members (and the investment option i.e. with profits is shown on the statement). All of that being said, it is expected the information maintained on CPF's behalf by these providers will meet with the Record Keeping provisions but confirmation will need to be obtained from the providers. In addition CPF staff use/have access to Prudential records via the Prudential on-line facility. '- The pension team is currently processing the outstanding leavers. This may mean some records are not currently fully compliant with the record keeping provisions. Points of explanation regarding how some information is held (but which are still compliant): '- Annual pension increases are done in a bulk exercise - the increase for each year for each member is then stored via the scanned member letters each year held against each members' record. Similarly calculation of members benefits and any checks/amendments are scanned and saved on each member record. '- Postal addresses not held for those pensioners who are gone away who DWP can not trace - each time a "gone away" notification received a DWP trace is done. This may only occur once a year as pensioners are only written to on an annual basis. '- Pension credits and debits are shown with revaluation on altair.	Ongoing (annual check)	22/10/2018	Fully completed	Partially compliant	Updated 22/10/18 - Clearing backlog is on-goingwill help move to full compliance.	

No.	TPR Requirement	Clwyd Pension Fund Approach / Evidence	Frequency of Review	Last Review Date	Check Completed	Compliant	Notes	Action
F2	Does the Fund have the appropriate processes in place so employers can provide timely and accurate information?	SLA with instructions is in place with standard forms to complete attached to the SLA. This is backed up by the Administration Strategy reviewed annually. However some employers are still providing information in a different format than requested. Employers are required to provide the correct pay and the employer contributions split by member. The consequences for the employer include the possibility of being fined but this has not been implemented by CPF. I connect, which has been implemented for several employers, has online information which sends errors back to employer and an error report to AA. Once resolved this information will be automatically loaded onto altair and the record is released to CPF. This enhances processes for data to be submitted. Otherwise, data can be provided in spreadsheet format (rather than single forms) if easier for employers. Data cleansing being undertaken for other employers. New employers are automaticlly using iConnect. Training needs for employers identified based on issues arising, or when requested, or large scale changes occur, including training provided to key employer contact when a new employer joins.	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		
F3	Does the Fund keep records of and reconcile transactions as required by the Record Keeping Regulations?	All info on scheme records and also on the cashflow systems feeds into annual report and accounts. This includes all write offs (see below). Bulk transfers are such that an automatically created auto view on altair loads the transfer to each member record. Budget monitoring also is an extra check on reasonableness of amounts vs expected. All this information is stored indefinitely in the CPF finance team drive and so is fully backed up - payments go back to at least 1999/2000 on spreadsheet shown. There is reconciliation between actual and expected costs, with a quarterly update against budget in PC papers. Employer contributions paid in relation to each active member are currently stored on CPF systems. All transactions go through custodian: on a monthly basis records are downloaded from the custodian system and checked on monthly sheets - includes all purchases, sales, currency adjustments etc.- these are coded by specific individual codes for each type of transaction into the ledger, and into the check sheet which has a tab for each fund manager. Then another sheet brings it all together on "book" spreadsheet and this is compared to the ledger. This is used by the auditor for annual report checking. Write offs - pink slips are kept in a paper file which record the amount of the overpayment, the approach to recover, and is checked before entered onto a spreadsheet for monitoring. If over 100 pound, an invoice is sent to executor or spouse etc., and those under 100 will be automatically written off, then all are reconciled In ledger under a specific code. If invoiced but not paid eventually also written off (i.e. at end of year). The Flintshire debtor system will chase invoices once raised. No payments are made to employers - if over pay conts, CPF will reduce future	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		
F4	Are records kept of pension board meetings as required by the Record Keeping Regulations?	Minutes and meeting papers are maintained by the Pension Team Finance Managers including a record of all decisions made, highlighting all actions. Minutes are sent to PFC as part of their papers for each meeting and are therefore uploaded to the Council's website as part of the PFC reports.	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		

No.	TPR Requirement	Clwyd Pension Fund Approach / Evidence	Frequency of Review	Last Review Date	Check Completed	Compliant	Notes	Action
F5	Are records kept of decisions made by the pension board, outside of meetings as required by the Record Keeping Regulations?	We do expect minimal situations where there would be decisions outside of the PB meetings. Where there has been this is fully recorded and retained (for example, as part of an e-mail record).	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		
F6	Are records retained for as long as they are needed?	CPF consider it necessary to retain records for long as is possible due to the number of enquiries from employees relating to periods many decades ago. Accordingly personal records are maintained in addition to other data such as contribution lists, spreadsheets of old cases and pensions increases reports. There are no more individual paper files, all member records are scanned on to altair system and kept indefinitely. Contribution returns are held on paper files and scanned and kept indefinitely.	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		
F7	Does the Administering Authority have policies and processes to monitor data on an ongoing basis?	There are a number of separate processes in place to monitor data on an ongoing basis including: - Some comparison of admin records compared to FCC payroll information each month to flag differences (e.g. changes in pay rates over certain levels) - Standard internal process for year-end annual returns highlighting any data discrepancies (e.g. manual checks of contributions v pay) - Altair year end upload process includes warnings/errors - Majority of data entry is checked for input accuracy - Various tolerance checks such as changes in pay - Comparison of payroll v admin system monthly - Processes if pensioner payslips (which are issued if pension changes by £5 or more a month) or pension increase letter are returned - follow guidance (DWP tracing), also using only BACs payments for pensioners and life certificate exercises on a regular basis (3-5 years) and national fraud initiative also every 2 years. - Triennial valuation highlights data issues. - Administration Strategy introduced a formal escalation process with employers if incomplete monthly data is provided or if provided late, -Checks carried out on 'common' data as part of annual exercise. - Gone away deferred records kept as gone away as can't do DWP trace before SPA. - Pension payroll procedures documented on paper file and on system. Movements are recorded, pensions over £1,200 a month are checked, movements are checked on a monthly basis. Heywood guidance on how to check pension increases is used - spot checks are carried out and kept for audit purposes and calculations also done manually as extra check.	Some monthly, some annual	22/10/2018	Fully completed	Fully compliant		
F8	Does the Administering Authority carry out a data review at least annually?	Yes, key part is the year end process. More details in F7.	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		
F9	Is a data improvement plan in place which is being monitored with a defined end date?	The current backlog has a plan in place for clearing it with some specific goals. However, more work to identify problems with employers and ensure an improvement plan is in place to ensure ongoing problems are minimised. Updated 22/10/18 - Employer Liaison Team and I-connect have been rolled out to assist with data challenges and will be key in ensuring historical data problems are also resolved. Following on from the results of the Common and Scheme Specific data survey, a data improvement plan is being put in place.	Ongoing (annual check)	22/10/2018	Fully completed	Partially compliant		22/10/18 - Ongoing work to clarify timescales for rectifying data issues with employers (PAM) Data Improvement plan to be established

No.	TPR Requirement	Clwyd Pension Fund Approach / Evidence	Frequency of Review	Last Review Date	Check Completed	Compliant	Notes	Action
F10	Are processes and policies in place to reconcile scheme data with employer data?	See F7 for main detail. Further, in terms of addresses, team collect returned (gone away) ABS and pen pals and deferred statements, sent to employers to ask for address info - often employer has same info as the fund for employees so they then need to get new address from members - the records are then updated as new information comes back. The amount of discrepancies are quite significant so employer could make improvements in timeliness of providing information so that admin records are up to date. Updated22/10/18 - Employer Liaison Team and I-connect both now rolled out to assist with ongoing employer data reconcilliation.	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant	Although compliant, employer data continues to be an issue as highlighted in F9. I-connect and improvement plans should assist.	
F11	Do the Administering Authority's member data processes meet the requirements of the Data Protection Act 1998 and the data protection principles?	All those involved with data understand the DPA: - All officers have completed DPA and GDPR training - to be refreshed at least triennially - DPA officer at Flintshire carries out training - Council data protection statement of policy and practice in place and guidance on intranet Evidence of processes includes: - Data from/to employers now either through .gov.uk or through egress (smaller employers) - employers have to sign up to egress, information from employers sending information in through secure pensions inbox - OneStore used for data transfer with actuary - Actuary – use egress secure email to send data. And secure email account - use Mercers secure site for sharing data. - Egress is used when sending individual data to members.	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		*

G - Maintaining contributions

Legal requirements

Contributions must be paid as detailed below, and where not done, they should be reported to TPR in circumstances where the scheme manager has reasonable cause to believe that the failure is likely to be of material significance to TPR in the exercise of any of its functions. Reporting must be carried out as detailed below.

Contribution Type	Contributions must be paid	When a failure should be reported
Employer	On or before the due date as defined by the scheme regulations	To The Regulator: As soon as reasonably practicable
Employee	Paid within the prescribed period (19th day of the month, or 22nd day if paid electronically) or earlier date if required by the scheme regulations	Regulator: Within a reasonable period – 10 working days

No.	TPR Requirement	Clwyd Pension Fund Approach / Evidence	Frequency of Review	Last Review Date	Check Completed	Compliant	Notes	Action
G1	Does the Fund have procedures and processes in place to identify payment failures?	Team have a spreadsheet which identifies how much is expected and compares with how much paid for each employer. Pay is stored on there as well. If late, the expected amount (and contribution once paid) is highlighted red. Employer SLA is 19th of the following month for both employee and employer conts. SLA says the Fund may charge interest on late payments but to date this has not been implemented. The sheet is monitored daily, and a key check carried out on the 19th to identify late payments. However there is currently no procedure documented for this and is down to an individual on the team being available to do this. Few employers have payment timing issues, so there is no formal procedure to follow when failures happen. In practice, failures are raised with the Finance Manager and the team will chase the employer via phone or email first. The remittance form does not include Assumed Pensionable Pay (APP) and split of 50:50 scheme.	Ongoing (annual check)	22/10/2018	Fully completed	Partially compliant		Document procedures for dealing with late and incorrect payments. (PFM - DF) Update remittance advice for Financial year April 2019
G2	Do those processes and procedures include a contributions monitoring record to determine whether contributions are paid on time and in full?	The spreadsheet highlights where a payment is not received by the 19th of each month. It also highlights if contributions could be incorrect by comparing salary vs contribution rate to give employee and employer rates so there appears to be robust checks in place. If rates paid by employer and employees do not look consistent this will be raised. There is no formal documented procedure (albeit the spreadsheet does store all the historical information too).	Ongoing (annual check)	22/10/2018	Fully completed	Partially compliant		- Formalise procedures for dealing with late payments (as above). - Ensure employers not complying with format of data/timing of payments and incorrect payments continue to be resolved and escalated in accordance with the agreed procedure. Update 22/10/18 - spreadsheet used to track all payments including date payment received. Late payments initially chased by email then referred to PFM(DAF)
G3	Do those processes and procedures include monitoring payments against the contributions monitoring record on an ongoing basis?	The process includes reconciliation with the payment received and shown in the financial system.	Ongoing (annual check)	22/10/2018	Fully completed	Partially compliant		
G4	Are these procedures regularly reviewed to ensure they are effective?	Payments are on the whole, usually on time but no formal review of the process/procedure is undertaken. This will be incorporated as a part of formalising the procedure.	Ongoing (annual check)	22/10/2018	Fully completed	Non-compliant		Ensure documented process includes a regular review of effectiveness of process.

No.	TPR Requirement	Clwyd Pension Fund Approach / Evidence	Frequency of Review	Last Review Date	Check Completed	Compliant	Notes	Action
G5	Do the Administering Authority's processes include managing overdue contributions in line with TPR's suggested approach?	In practice the TPR's suggested approach is followed although this is not formally documented. However, the CPF Breaches Procedure will assist in formalising this too.	Ongoing (annual check)	22/10/2018	Fully completed	Partially compliant		Formalise procedures for dealing with late and incorrect payments.
G6	Does the Fund maintain a record of any investigations and communications with employers?	A summary of late payments is included in annual report and accounts (although employers are not specifically named). Information is also available on the historic monitoring spreadsheets. Emails with employers are currently available in a central mailbox and generally copied into each admitted body sub-folder but this process could be more refined.	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		Documented procedure should clarify where all records are maintained, including phone conversations.
G7	Do employers provide sufficient information to monitor contributions and is this in accordance with the LGPS regulations?	Employers provide the full information	Ongoing (annual check)	22/10/2018	Fully completed	Employers - Fully compliant		
G8	Is there a satisfactory process in place to assess the materiality of any payment failures and ensure that those which are material are reported to the Regulator within a reasonable period?	The CPF Breaches Procedure was agreed by PFC in November 2015. An internal process is in place to capture, record and consider breaches monthly, albeit it is still being bedded in. All failures are already recorded in annual report and accounts.	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		
G9	If the administration of contributions outsourced to a service provider, is there a process in place to obtain regular information on the payment of contributions to the scheme?	N/A - not outsourced.	Ongoing (annual check)	22/10/2018	Not yet relevant	Not yet relevant		

H - Providing information to members and others

Legal requirements

The law requires schemes to disclose information about benefits and scheme administration to scheme members and others. This includes requirements relating to benefit statements and certain other information which must be provided under the requirements of the 2013 Act, HM Treasury directions and the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 ('the Disclosure Regulations 2013'). In addition to these duties, there are other legal requirements relating to the provision of information to members and others under other legislation.

No.	TPR Requirement	Clwyd Pension Fund Approach / Evidence	Frequency of Review	Last Review Date	Check Completed	Compliant	Notes	Action
H1	Has an annual benefit statement been provided to all active members within the required timescales?	Sent annually. Statements as at 31st March 2018 majority issued by 24th August 2018. Some data issues with employers means may not be as accurate as wished, but this is a common issue with LGPS Funds and appropriate disclaimers put on statements. Employer Liasion Team set up to try and address this more. Project Apple has resulted in approximately 800 ABS still to be issued	Annual	22/10/2018	Fully completed	Employers - Partially compliant		Project Apple to be completed before ABS can be issued
H2	Do these meet the legal requirements in relation to format?	Treasury Direction was issued in March 2014 and effective from 1 April 2015.	Annual	22/10/2018	Fully completed	Fully compliant		
H3	Has a benefit statement been provided to all active, deferred and pension credit members who have requested one within the required timescales?	Benefit statements are issued automatically to deferred members annually. which is more proactive than this provision (which just relates to issuing them on request). Deferred statements only not sent if "gone away" from current address held. In relation to backlog members turning to DB status, they receive a DB statement as soon as their record is updated. Pension credits members also get annual statements (i.e. beyond legal requirements)	Annual	22/10/2018	Fully completed	Fully compliant		
H4	Does this meet the legal requirements in relation to format?	The information in the standard deferred statements does not fully comply with the disclosure requirements where the pensionable remuneration on the date of leaving is not included. Not seen evidence for pension credit statements. However, it is possible information provided on individual requests includes this element, this needs to be further investigated.	Ongoing (annual check)	22/10/2018	In progress	Partially compliant		Check format of statements for credit members meets requirements and for those other requests. Include pensionable pay in future deferred statements as standard or ensure included for individual requests. To be reviewed for 18/19
H5	Has an annual benefit statement been provided to all members with AVCs within the required timescales?	These are distributed directly to members by Prudential (an email is sent to the Fund when this is completed . No checks are currently carried out to check if all those due a statement get it and the information included is adequate. Equitable Life send their statements to the CPF to be distributed to scheme members.	Annual	22/10/2018	Fully completed	Fully compliant		
H6	Do these meet the legal requirements in relation to format?	Statement provided by Prudential checked against requirements and all appropriate information is included.	Annual	22/10/2018	Fully completed	Fully compliant		See H5 above.
H7	Is basic scheme information provided to all new and prospective members within the required timescales?	Employers provide website details for information. Different one for councillors as well. When CPF notified, they send a starter pack with forms to complete, brief guide to scheme. This two stage process should provide assurance that disclosure requirements are met but not currently monitored. This is measured against the 2 month legal timescale. Year end error reports are carried out - these check reference no against the admin system then queries sent to employers - this is for the discrepancies in starters and leavers etc. and so it highlights that some new starters have not been notified to CPF. However, given the employer provides access to information, the disclosure requirement is met. Fund has implemented I-connect which highlights new members on a more regular basis than end of year and so help solve them throughout the year. Statistics are now available through KPI monitoring.	Ongoing (annual check)	22/10/2018	Fully completed	Employers - Partially compliant		

No.	TPR Requirement	Clwyd Pension Fund Approach / Evidence	Frequency of Review	Last Review Date	Check Completed	Compliant	Notes	Action
H8	Does this meet the legal requirements in relation to format?	The key information is included on the CPF MSS website to which the members are provided with a link. It is noted that the guide refers to the Superannuation Act 1972 which should therefore be updated to include the Public Service Pensions Act 2013.	Ongoing (annual check)	22/10/2018	Fully completed	Partially compliant		Short Scheme guide to be updated with correct information
H9	Is all other information provided in accordance with the legal timescales?	KPI's now implemented and monitored as per the legal requirements as set out in the Administration Strategy. - In relation to advising changes to the scheme, CPF follows LGA recommendations which are expected to highlight the need for communications and when. - In relation to pension payment changes, a payslip is only sent to pensioners if there is a change of £5 or more per month otherwise no payslip (i.e. tax code change) but letters are issued for other changes including pension increase letters before the effective date of the increase. All information issued is uploaded to the CPF website.	Ongoing (annual check)	22/10/2018	Fully completed	Partially compliant		KPIs monitoring determines compliance.
H10	Is all other information provided in the format and methods required by law?	It has not been possible to check that every requirement is fully met, in particular in relation to the settlement of AVC benefits. However based on the sample communications provided: - When a member has a transfer credit a TV in statutory notice is sent to them, all the required information is provided and they are also provided information on request. - All communications have the pension team contact details on to ask questions or for further information. - Death benefit notifications could be more explicit about how increases to widows / dependant's pensions will be applied. More information to demonstrate good practice/compliance: '- the technical team send information about any scheme changes via the membership "pen pal" newsletter and bulletin when changes occur - to all active home addresses. Pensioner newsletter provides PI details, other newsletters are sent ad- hoc. LGA bulletins go to employers for them to pass information on to employees. "Pensions extra" is sent to certain membership groups e.g. to explain changes to tax limits. It is not clear what information is provided to members on joining from Prudential regarding lifestyling (if lifestyling is offered), and the statement about the AVC values being dependent on contributions, investment returns and annuity values, so that is being investigated.	Ongoing (annual check)	01/06/2017	In progress	Partially compliant		Obtain information as to what Prudential provide to all members and are they legally compliant (PAM 1/6/17)
H11	Where any information is only provided electronically (i.e. instead of any hard copy) does it comply with the legal requirements?	Majority of communications are electronic only. Hard copies are sent on request. Further information is available on the website including anything sent to members being uploaded.	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		
H12	Does the Administering Authority aim to design and deliver communications in a way that ensures scheme members are able to engage with their pension provision?	Communications Strategy implemented April 2016, Member and Employer satisfaction survey commenced annually from March 2017. MSS implemented.	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		

No.	TPR Requirement	Clwyd Pension Fund Approach / Evidence	Frequency of Review	Last Review Date	Check Completed	Compliant	Notes	Action
H13	Does the Administering Authority use a tracing service?	Pensioners – if a pensioner becomes "gone away", CPF use the DWP tracing service. Also life certs review (last 18/11/14) including overseas pensioners is carried out every 3 -5 years. NFI mortality screening is every 2 years. Atmos also do mortality screening on monthly basis against postal records. Deferred and frozen refunds – no tracing service currently used. Exercise to identify missing addresses carried out 2017. Additional work now required to trace new addresses.	Ongoing (annual check)	22/10/2018	Fully completed	Partially compliant		Carry out further tracing service checks on deferred/frozen refund members in the future.

I - Internal Dispute Resolution

Legal requirements

The Pensions Act 1995 requires scheme managers to set up and implement an Internal Dispute Resolution Procedure (IDRP) to help resolve disputes between the scheme manager and people with an interest in the scheme.

The act states that a person has an interest in the scheme if they:

- are a member or beneficiary
- are a prospective member
- have ceased to be a member, beneficiary or prospective member
- claim to be any of the above and the dispute relates to this claim.

The Act also states that the procedure must include:

- how an application is to be made
- what must be included in an application
- how decisions are to be reached and notified
- a specified period (which is reasonable) within which applications must be made.

The procedure may require people with an interest in the scheme to first refer matters in dispute to a 'specified person' in order for that person to consider and give their decision on those matters. This decision may then be confirmed or replaced by the decision taken by the scheme manager after reconsideration of the matters. However, legislation provides flexibility for scheme managers to decide the details of these.

No.	TPR Requirement	Clwyd Pension Fund Approach / Evidence	Frequency of Review	Last Review Date	Check Completed	Compliant	Notes	Action
I1	Has the Administering Authority put in place an internal dispute resolution procedure?	Yes – leaflet outlining procedure is available on website and in paper/leaflet form, in English and Welsh. http://www.clwydpensionfund.org.uk/en/PDF-Files/FINAL-ENGLISH-VERSION-Appeals.pdf	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		
I2	Does the Administering Authority's process highlight or consider whether a dispute is exempt?	Not currently - consider updating next time (does state who it applies to).	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		Leaflet updated (AH update per SB 25/10/17)
I3	Does the information made available to applicants about the procedure clearly state the procedure and process to apply for a dispute to be resolved including: - who it applies to - who the specified person (stage 1) is - the timescales for making applications - who to contact with a dispute - the information that an applicant must include - the process by which decisions are reached?	Leaflet outlining IDRP procedure includes this information. Stage 1 and 2 persons to be named in the leaflet. Requirement for 6 months after the written notification disagreed with or the act or omission that is the cause of the disagreement, but it mentions that specified person has discretion to allow more time. IDRP leaflet sets out who to send forms to for stage 1, then the process is explained i.e. timescales stage 2 and TPAS/Ombudsman	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		IDRP leaflet to be updated
I4	Has the Administering Authority ensured that employers who make first stage decisions also have IDRP in place?	CPF carries out this process for the employer and they write to the employer to inform them of the appointed persons.	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		
I5	Are the timescales in the procedure adhered to including sending an acknowledgment on receipt of an application?	Acknowledgements are issued within 5 days and responses are supposed to be sent within the 2 month deadline. The timescales may not be known for the instances where the member contacts the stage 1 person directly. Spreadsheet set up for those known and to monitor.	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		

No.	TPR Requirement	Clwyd Pension Fund Approach / Evidence	Frequency of Review	Last Review Date	Check Completed	Compliant	Notes	Action
I6	Does the Administering Authority notify and advertise the procedure appropriately?	Leaflet included on the website. New joiner information includes details of IDRP, TPAS and the Ombudsman - note this is not currently in the Councillors booklet. Not all notification of benefit letters currently includes this. Statutory notice letters refer members to the booklet which includes the information. It is mentioned in retirement letters and notification of death benefits letters (evidenced), does not appear to be included in CETV payment notice letter or interfund adjustment confirmation letter (or estimate of CETV - though this does refer members to the website/booklet related to a different point).	Ongoing (annual check)	22/10/2018	Fully completed	Partially compliant		Consider inserting a sentence on all correspondence to signpost to IDRP process on web site
I7	Are the notification requirements in relation to TPAS and the Pensions Ombudsman being adhered to?	This information is in the IDRP guide which the member receives after they notify a dispute. Furthermore, notifications always include information about TPAS/PO in the decision letter.	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		
I8	Does the Administering Authority regularly assess the effectiveness of its arrangements?	the number of cases and type are recorded at quarterly PFC Meetings which would assist in highlighting issues with effectiveness of the procedure. Outcomes for CPF related disputes are discussed at team leader meetings so improvements to processes made. Suggestions made to employers if outcome is that procedures on their side are flawed.	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		
I9	Does the Administering Authority regularly assess the effectiveness where employers carry out a stage one process?	As the employers stage 1 person is as per CPF, the evidence to I8 equally applies	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		

J - Reporting breaches of the law

Legal Requirements

Certain people are required to report breaches of the law to the regulator where they have reasonable cause to believe that:

- a legal duty which is relevant to the administration of the scheme has not been, or is not being, complied with
- the failure to comply is likely to be of material significance to the regulator in the exercise of any of its functions.

People who are subject to the reporting requirement (‘reporters’) for public service pension schemes are:

- scheme managers
- members of pension boards
- any person who is otherwise involved in the administration of a public service pension scheme
- employers: in the case of a multi-employer scheme, any participating employer who becomes aware of a breach should consider their statutory duty to report, regardless of whether the breach relates to, or affects, members who are its employees or those of other employers
- professional advisers including auditors, actuaries, legal advisers and fund managers: not all public service pension schemes are subject to the same legal requirements to appoint professional advisers, but nonetheless the regulator expects that all schemes will have professional advisers, either resulting from other legal requirements or simply as a matter of practice
- any person who is otherwise involved in advising the managers of the scheme in relation to the scheme.

The report must be made in writing as soon as reasonably practicable.

No.	TPR Requirement	Clwyd Pension Fund Approach / Evidence	Frequency of Review	Last Review Date	Check Completed	Compliant	Notes	Action
J1	Is the Administering Authority satisfied that those responsible for reporting reaches under the legal requirements and TPR guidance understand the requirements?	Reporting Breaches procedure put in place and approved at PFC in November 2015. This was shared with PB as part of the papers and also with officers and employers since then. It was part of a training session with PFC, PB and officers in December 2015. It still has to be circulated to advisers, but they would be expected to be aware of these requirements anyway.	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		
J2	Does the Administering Authority have appropriate procedures in place to meet their legal obligations for identifying and assessing breaches?	See J1.	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		
J3	Are breaches being recorded in accordance with the agreed procedures?	CPF have a Breaches log which is updated on a regular basis and reported to CPF Committee quarterly.	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		

K - Scheme Advisory Board - Guidance on the creation and operation of Local Pension Boards in England and Wales

Legal Requirements

Clause 7 of the Public Service Pensions Act provides that the national Scheme Advisory Board (SAB) may provide advice to scheme managers or pension boards in relation to the effective and efficient administration and management of the scheme.

It also provides that a person to whom advice is given by virtue of subsection (1) or (2) must have regard to the advice.

The Scheme Advisory Board has published guidance on the creation and operation of Local Pension Boards in England and Wales which incorporates a number of action point check lists at the end of some of the sections. The following are the items in those checklists.

No.	SAB Requirement	SAB Section	Clwyd Pension Fund Approach / Evidence	Frequency of Review	Last Review Date	Check Completed	Compliant	Notes	Action
K1	Administering Authority to have approved the establishment (including Terms of Reference) of the Local Pension Board by 1 April 2015.	5	Completed - approved by PC on 3rd March 2015 and adopted by PB on first meeting July 2015	One off - no further review necessary.	22/10/2018	Fully completed	Fully compliant		
K2	The Local Pension Board must be operational (i.e. had its first meeting no later than 4 months after the 1 April 2015).	5	First meeting 27 July 2015	One off - no further review necessary.	22/10/2018	Fully completed	Fully compliant		
K3	Once established a Local Pension Board should adopt a knowledge and understanding policy and framework (possibly in conjunction with the Pensions Committee if appropriate).	6	Training Policy approved by PFC in March 2015. Was part of agenda of first meeting on 27/7/15 and it is then reviewed annually. Updated version approved at PFCSeptember 2018 and is adopted by PB.	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		
K4	A Local Pension Board should designate a person to take responsibility for ensuring that the knowledge and understanding policy and framework is developed and implemented.	6	Designated as Chief Executive within Training Policy.	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		
K5	The Administering Authority should offer access to high quality induction training and provide relevant ongoing training to the appointed members of the Local Pension Board.	6	Training plan in place including induction training for all board members.	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		
K6	A Local Pension Board should prepare (and keep updated) a list of the core documents recording policy about the administration of the Fund and make the list and documents (as well as the rules of the LGPS) accessible to its members.	6	Part of Training Policy. Documents part of induction pack and all are available via the Fund website.	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		
K7	Members of a Local Pension Board should undertake a personal training needs analysis and put in place a personalised training plan.	6	Training Needs Analysis has been completed.	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		

No.	SAB Requirement	SAB Section	Clwyd Pension Fund Approach / Evidence	Frequency of Review	Last Review Date	Check Completed	Compliant	Notes	Action
K8	An Administering Authority should prepare a code of conduct and a conflicts policy for its Local Pension Board for approval in accordance with the Administering Authority's constitution and at the first meeting of the Local Pension Board. The Local Pension Board should keep these under regular review.	7	Code of conduct is part of PB Terms of Reference (Protocol). Conflicts of Interest Policy approved by PC in March 2015 and reviewed in Sept 2018. Continues to be adopted by PB.	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		
K9	Training should be arranged for officers and members of a Local Pension Board on conduct and conflicts.	7	Included in first PB meeting and part of induction training.	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		
K10	A Local Pension Board should establish and maintain a register of interests for its members.	7	Declarations completed by all members at first meeting (July 2015) and now part of ongoing register of interests which is refreshed annually.	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		
K11	An Administering Authority should agree the ongoing reporting arrangements between the Local Pension Board and the Administering Authority.	8	Outlined in PB Terms of Reference (Protocol)	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		
K12	A Local Pension Board should understand the Administering Authority's requirements, controls and policies for FOIA compliance so that the Local Pension Board is aware of them and can comply with them.	8	The PB Terms of Reference (Protocol) require compliance with the Council's policy but this has not yet been shared with PB members.	Ongoing (annual check)	22/10/2018	Fully completed	Non-compliant		Share FOI information with PB members and arrange a training session.
K13	A Local Pension Board should put in place arrangements to meet the duty of its members to report breaches of law.	8	Breaches procedure in place (approved at PFC November 2015). PC and PB and officer training on Code of Practice including breaches in October 2015	Ongoing (annual check)	22/10/2018	Fully completed	Fully compliant		
K14	A Local Pension Board should consider (with its Administering Authority) the need to publish an annual report of its activities.	8	A requirement to publish an annual report is included in PB Terms of Reference (Protocol). The first report was in relation to 2015/16 and included in annual report and accounts for subsequent years	Annual	22/10/2018	Fully completed	Fully compliant		
K15	An Administering Authority should consult on, revise and publish its governance compliance statement to include details of the terms, structure and operational procedures relating to its Local Pension Board.	8	Updated and approved by PFC and included in CPF annual report and accounts.	Annual	22/10/2018	Fully completed	Fully compliant		

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HYMANS ROBERTSON

LGPS National Confidence Assessment

Assessing confidence - the cornerstone of strong leadership

In this paper we launch the results from the first ever national assessment of confidence across the Local Government Pension Scheme (LGPS).

With confidence being a fundamental basis from which leadership grows, assessing committee and pension board members' confidence has given us a unique insight into the strength of leadership across the LGPS on a national scale.

There are 5 key drivers for carrying out this assessment:

1. **Continuing regulatory pressure on LGPS funds.** Governing bodies such as MHCLG[1], Scottish Ministers, the Northern Ireland Assembly and the Pensions Regulator (TPR), continue to put pressure on funds to ensure that those tasked with managing the LGPS understand the issues and topics under their responsibility.

2. **Introduction of MiFID II.** This was an important reminder to funds that their pension committees have to evidence their knowledge and understanding in order to be treated as professional investors.

3. **TPR's 21st Century Trusteeship campaign.** TPR have ramped up the expectation of Trustee knowledge within the private pension world, and the same standards are expected in the public sector too.

4. **Adopting good governance practice.** It's important to continually take a "temperature" check on committee and pension board members' knowledge and understanding to gain an indication on how comfortable they feel on a range of topics.

5. **Identifying training and development needs.** We believe this is an important assessment for the LGPS as a whole, helping both individual funds and the national LGPS groups with future training plans for committees and pension boards.

[1]Ministry of Housing Communities and Local Government

Representing the views of over 250 committee and pension board members across 50 participating funds, our assessment gives a clear sense of the level of confidence across the 8 headline requirements of CIPFA's Knowledge and Skills framework. Two findings from the process are clear:

1. **fund officers are prioritising the knowledge and understanding of their committee and pension board members; and**
2. **there is good engagement from the committee and pension board members, suggesting they are very aware of the importance of their personal knowledge and understanding requirements.**

We hope you find this report useful, if you would like to discuss anything in more detail, or find out the results from your own specific fund please don't hesitate to get in touch.

Ian Colvin
Head of LGPS Benefits
Consultancy & Governance
0141 566 7923

Introduction

Why look at confidence in relation to leadership and decision making?

The landscape of public sector pension scheme governance, including the LGPS, has changed significantly in recent years. The spotlight is increasingly focused on the governance of these schemes. As a result, there is a far greater need to demonstrate that those responsible for the management and administration of the LGPS are suitably equipped to perform their duties and provide the decision making the scheme members and employers require.

In order to gain an insight and indication of committee and pension board member knowledge and understanding, we chose to look at the confidence of these groups.

What did we do and what process did we follow?

We based the assessment and questions on the 8 headline requirements of CIPFA's Knowledge and Skills framework, supplemented by TPR code of practice 14 and recent hot topic issues (e.g. investment pooling). Respondents were asked to assess their confidence on each of the 29 questions set out in the survey – going from not confident through to completely confident.

Technical and specific questions were presented to respondents on each of the topics being assessed. Respondents then considered how confident they felt on each area. Those who answered with a high degree of confidence believed they understood the details needed to answer questions on each topic.

The results

Below we have set out the results from this first national assessment.

Firstly, we look at the overall picture of the results and then we have analysis of various interesting sub-sets from the assessment. These include:

- Traditional strong focus vs lower focus
- Committee members vs pension board members
- 'Completely confident' or 'mostly confident' responses
- Confidence of Chairs
- Confidence across investment pools and Scotland
- Areas of most confidence vs least confidence
- Areas of least confidence across investment pools and Scotland

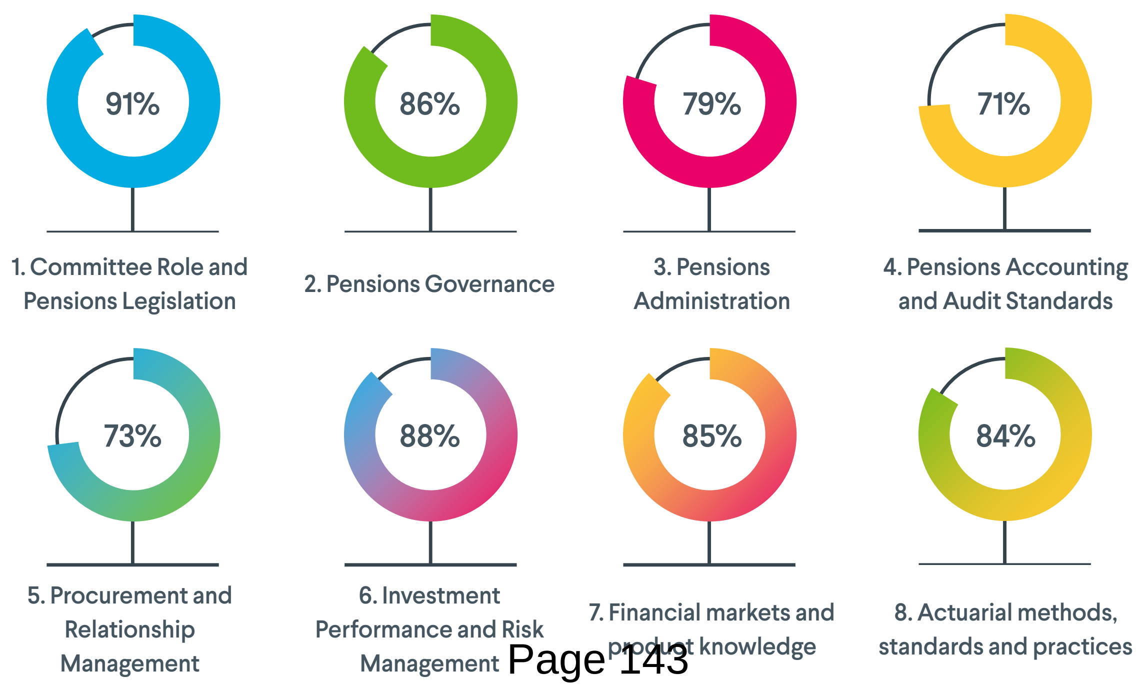
An overview

The results affirm that overall committee and pension board members do feel confident in their knowledge and understanding on all topics assessed - 83% of all the responses being either 'mostly' or 'completely' confident.

The order from the highest confident topic – **Committee Role and Pension Legislation** - to the least confident topic – **Pension Accounting and Audit Standards** - is perhaps unsurprising. We would expect members to be confident in the role they are fulfilling and have a good grasp of the pertinent pension legislation. Whereas, a lack of knowledge (or confidence) of Pensions Accounting and Audit standards could be attributable to the fact that little time is generally given to these topics within committee and pension board meetings.

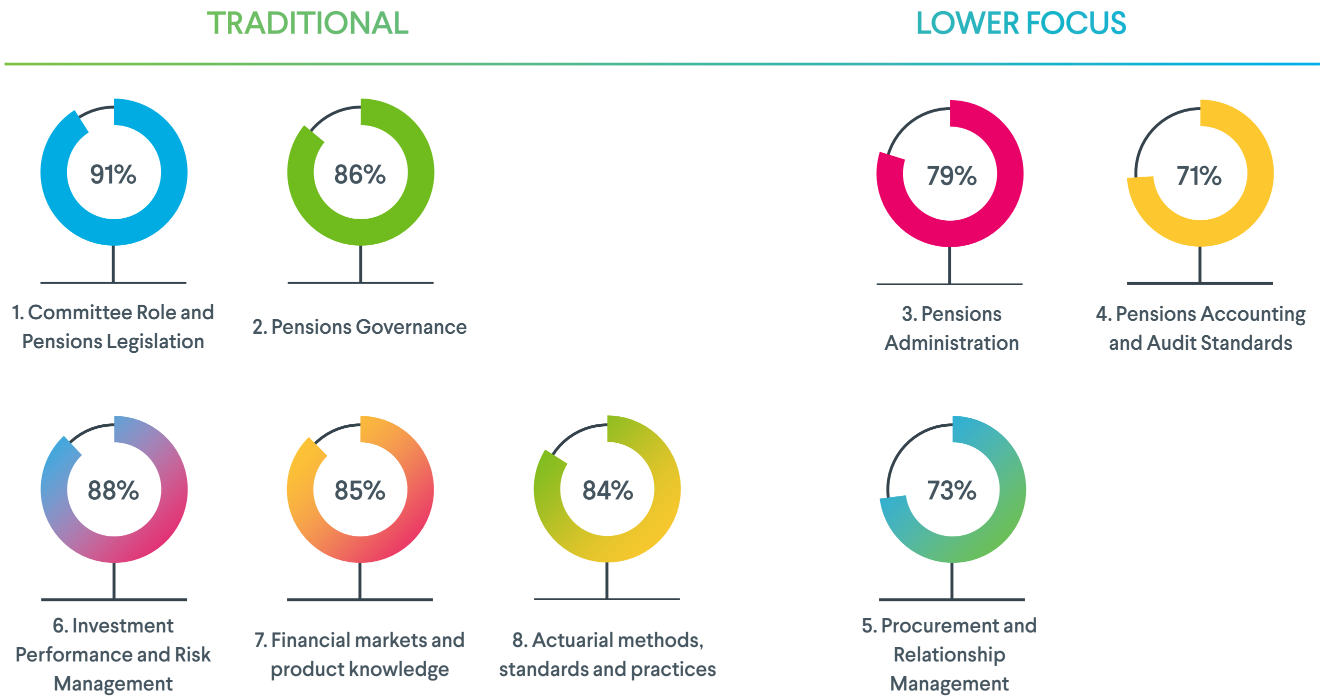
Whilst there is a 20 percentage point difference between the highest and lowest scoring topics, the lowest percentage is still a strong 71%. Consequently, our findings from the results highlight that none of the areas assessed are significantly trailing behind. This is a strong result and a good place from which to move forward.

"Mostly" or "Completely" confident responses



Traditional strong focus vs lower focus topics

One key trend in the survey results is that respondents are noticeably higher in confidence on topics that have traditionally been given more time on committee agendas than other topics, such as, pension administration, to which committees may not have had the same level of exposure in the past. With the continually increasing pressure from TPR for overall excellence in all knowledge areas, funds need to recognise that both their committee and pension board should be well versed in all aspects of running an LGPS fund.

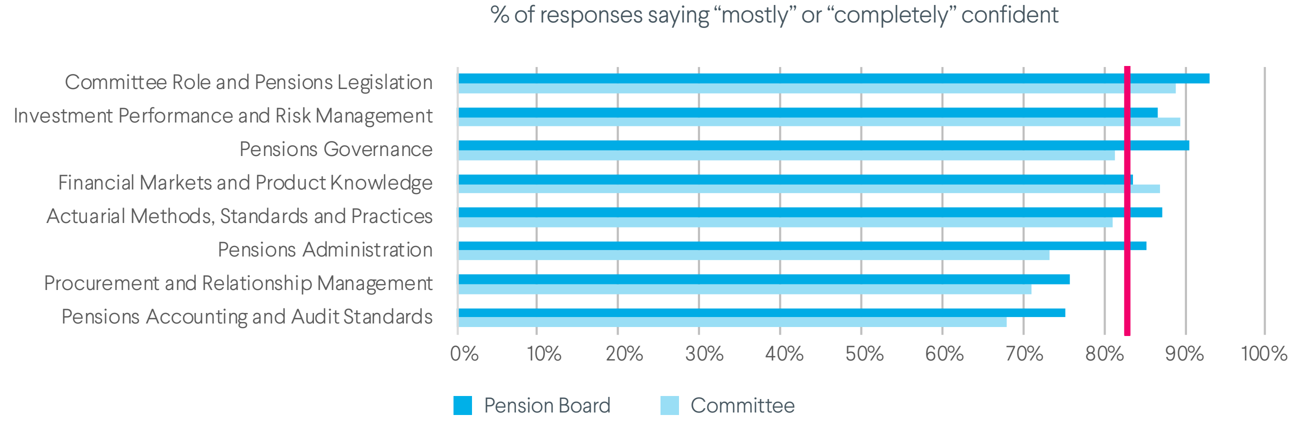


Committee members vs pension board members

In almost all areas assessed – except Investment Performance and Risk Management and Financial Markets and Product Knowledge – the pension board respondents are more confident than the committee respondents.

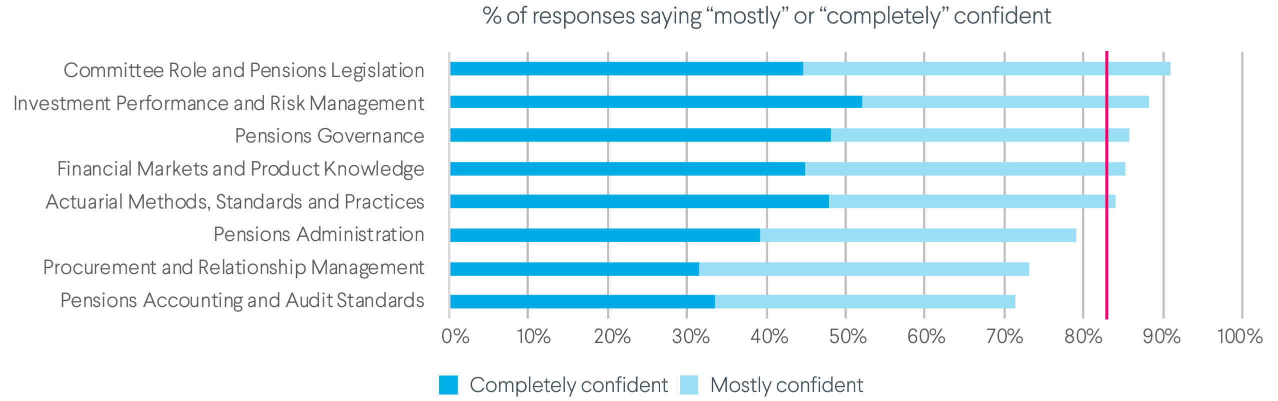
Given that there is nearly a 50/50 split in the respondent numbers from both of these groups, this area of analysis suggests that:

- due to the statutory knowledge requirements for pension board members, they have more pressure to understand all areas of the LGPS;
- pension board members are being set up with a wider agenda; and
- committees still favour the traditional areas such as investments.



'Completely confident' or 'mostly confident'

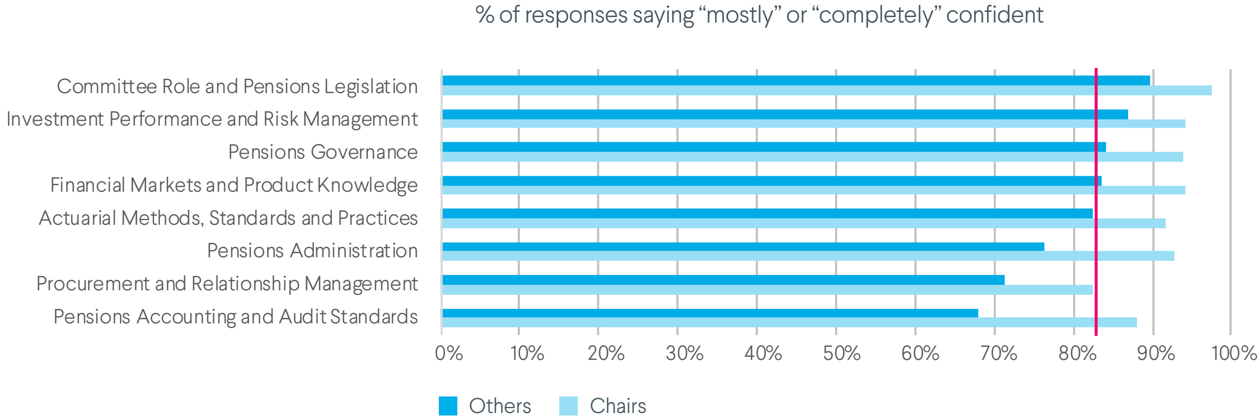
The results of the assessment are strong with 83% of responses to the questions being 'mostly' or 'completely' confident. However, if we raise the bar and only concentrate on 'completely' confident responses then there is a slight difference in the order of topics as can be seen in the darker blue lines below. Investment Performance and Risk Management is the topic where most respondents answered 'completely' confident with Committee Role and Pensions Legislation falling back in the order. These results indicate that though a sizeable proportion of responses are either 'mostly' or 'completely' confident, there are still gaps in committee and pension board knowledge and understanding.



Confidence of chairs

Chairs of both committees and pension boards, 41 of them, express greater confidence in all topic areas than the rest of the survey respondents. However, the gap between chairs and the remaining members is not significant. This points to an appropriate level of challenge existing across committees and pension boards.

Chapter 9 of TPR's 21st Century Trusteeship campaign focuses on the important role the chair plays in the governance and leadership of a pension scheme. Our results indicate that for the most part, chairs in the LGPS are confident in the areas that sit under their responsibility.



Confidence across investment pools and Scotland

We also analysed the results based on the 8 Investment pools of England and Wales, and the Scottish funds' respondents. Although the trends for each group are very similar, by breaking the results down into smaller groups, it allows for possible variances at individual fund level.

By doing so, the results reveal that the Welsh committee and pension board members come out as the most confident combined group, with very strong levels of confidence in their knowledge and understanding across the topics.

Confidence across Investment pools and Scotland – "mostly" and "completely" confident responses

Pool Respondees	ACCESS 47	B2C 36	Brunel 41	Central 19	London 36	LPP 7	Northern 15	Wales 25	Scotland 27	Overall 253
Committee Role and Pensions Legislation	95%	94%	92%	91%	86%	76%	91%	95%	88%	91%
Pensions Governance	89%	90%	84%	85%	85%	69%	88%	91%	81%	86%
Pensions Administration	80%	84%	72%	79%	76%	67%	89%	89%	75%	79%
Pensions Accounting and Audit Standards	77%	68%	69%	77%	73%	62%	73%	73%	65%	72%
Procurement and Relationship Management	79%	65%	80%	77%	74%	52%	56%	83%	69%	74%
Investment Performance and Risk Management	89%	88%	89%	83%	86%	71%	88%	96%	91%	88%
Financial Markets and Product Knowledge	85%	88%	89%	84%	82%	50%	90%	90%	88%	86%
Actuarial Methods, Standards and Practices	86%	88%	85%	78%	79%	68%	87%	93%	83%	84%
Overall	86%	84%	83%	82%	81%	65%	84%	89%	81%	83%

Top 3 questions of most and least confidence - overall

Most confident questions

96% I am clear what the objectives are for the Fund

94% I understand my role and obligations under the LGPS Regulations and committee's/pension board's own terms of reference

94% I understand the Fund's investment objectives

It is encouraging that over **90%** of responses are highly confident on their fund's objectives and the role that they are fulfilling. This suggests that the main cornerstone areas of fund management (objectives and role obligations) are on solid foundations.

Least confident questions

60% I understand the difference between the different types of valuations that are carried out e.g. the triennial funding valuation, IAS19/ FRS102 accounting valuations and the Government Actuary's valuation (Section 13)

69% I have a clear sense of how I will assess the Fund's providers (managers, Pool, advisors etc).

69% I understand the Pensions Regulator's measures of good administration practice set out in its code of practice 14

The area of pension administration, and in particular, 'good administration practice', is one which respondents felt less certain about in comparison to other topics. Due to the pressures being placed on all LGPS fund administration teams, having committees and pension boards understanding what 'good administration practice' looks like, would be a welcome support to fund officers and any requests for further resources.

Assessing fund providers, which references investment pooling, is the joint second least confidently answered area. The recent introduction of investment pooling, for English and Welsh funds, has possibly contributed to making this area less clear to committees and pension boards.

Respondents had least confidence on actuarial valuations. With the England and Wales 2019 Valuation process soon to begin and the recent release of Government Actuary's Department's Section 13 recommendations, valuations are a hot topic which committee and pension board members need to feel comfortable with.

Regional focus

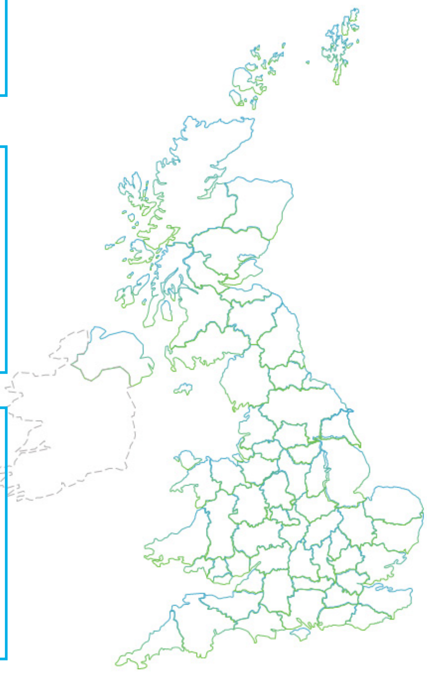
Below we have detailed the lowest confidently answered question for each of the 8 investment pools in England and Wales and the Scottish funds.

Border to Coast Pension Partnership
I understand the role of procurement frameworks in procuring services

Local Pension Partnership
I have a general understanding of the Accounts and Audit Regulations and the regulatory requirements for sound internal controls and proper accounting practice

Wales Pension Partnership
I understand the difference between the different types of valuations that are carried out e.g. the triennial funding valuation, IAS19/ FRS102 accounting valuations and the Government Actuary's valuation (Section 13)

Brunel Pension Partnership
I understand the difference between the different types of valuations that are carried out e.g. the triennial funding valuation, IAS19/ FRS102 accounting valuations and the Government Actuary's valuation (Section 13)



LGPS Central
I understand the roles and powers of MHCLG, the Pensions Regulator and the Pensions Ombudsman as they relate to the working of the scheme

Scotland
I understand the difference between the different types of valuations that are carried out e.g. the triennial funding valuation, IAS19/ FRS102 accounting valuations and the Government Actuary's valuation (Section 13)

Northern Pool
I have a clear sense of how I will assess the Fund's providers (managers, Pool, advisors etc).

ACCESS
I understand the Pensions Regulator's measures of good administration practice set out in its Code of Practice 14

London CIV
I understand the difference between the different types of valuations that are carried out e.g. the triennial funding valuation, IAS19/ FRS102 accounting valuations and the Government Actuary's valuation (Section 13)

Comments received from respondents

> Quite confident on aspects....but sheer level of detail and complexity of LGPS resulted in my scores

> Training, high quality Board papers, Officers and Actuaries have all helped us

> I'd like to see a clearer disclosure of the ESG approach used

We gave respondents the opportunity to provide comments in each of the sections and were really encouraged with the high number of comments received. There were some very useful insights given from the respondents comments. Some of the key themes highlighted were:

1. ESG debates taking place within committee and pension board meetings
2. The complexity of the LGPS
3. The importance of training

The comments centred more on investment issues than the other topics assessed. As stated earlier, this is probably due to the traditional focus given to issues such as investments over other topic areas. Perhaps this focus will shift as committees adjust their roles due to investment pooling (for England and Wales) and the continuing pressure from governing bodies for committees and pension boards to focus on the complete range of topics under their responsibility – not just a chosen few.

National picture

We are delighted to share this LGPS good news story in the shape of our National Confidence Assessment results. Those with an interest in how the LGPS is run will welcome the fact that this first ever national confidence survey, shows an LGPS that is gearing up for the challenges ahead.

TPR has chosen to take a deep dive into the workings of a selected group of LGPS funds and has declared that they'll be "clearer, quicker and tougher" on those they feel are not making the grade. This means funds need to be confident in demonstrating that they understand and are complying with the standards expected of a 21st Century Trustee.

As English and Welsh funds transfer assets to investment pools, they are becoming familiar with entirely new relationships and challenges as the interaction between the pool and existing governance arrangements of the fund plays out.

Meanwhile, the Scheme Advisory Board (SAB) work stream on separation of funds from their host authority asks some fundamental questions about what is the best way to run the LGPS.

With so much scrutiny and change to come, it is encouraging to see that the high percentage of individuals who sit on pension committees and boards feel confident that they are well placed to discharge their complex roles effectively. We would urge funds to build on the results of this survey and place quality training at the heart of what they do.

Next steps

It is important to note that our assessment is an indication of participants' own perceptions, rather than their actual knowledge and understanding.

Assessing perceptions vs reality

The most logical next step would be to assess committee and pension board members' actual knowledge and understanding of the 8 topics in order to get a true sense of perception versus reality.

This evidence can also be used if a fund is challenged from TPR on their awareness of their committee and pension board knowledge and understanding and, importantly, how they are tracking progress.

National next steps

The National Confidence Assessment provides us with the first ever snapshot of confidence across the LGPS, and while the results are positive, it is important not to be complacent. We would recommend that funds use their individual National Confidence Assessment results to inform their own training strategies.

When developing a training strategy it is important to think about how you will use training to deliver your fund's objectives. You should also think about how you will make training effective in terms of identifying skills gaps, prioritising, delivering and assessing the effectiveness of your training.

A training strategy that supports regular assessment of what committee and board members actually know, distinct from what they say they know, is the only guaranteed way to know that training has been effective. When developing a training strategy you should also consider what elements will form the core of the training you deliver, whilst recognising the need for ad hoc or additional training. Your strategy should be flexible enough to adapt and respond to the changes that are inevitable in the LGPS.

The National Confidence Assessment demonstrates that there are many engaged and dedicated members of committees and pension boards in the LGPS. These individuals lead the way and we hope that the survey results can be used to raise the overall level of knowledge and understanding across the LGPS.

Closing remarks

So what are our key findings from the first ever LGPS National Confidence Assessment?

1. Confidence is high, but there's still work to be done
The overall picture is one of high confidence. Members assessed themselves with strong knowledge and understanding even in the most technical and specific areas. However, the purpose of the assessment was to get an indication of knowledge and understanding, not a verification. So while we are pleased that confidence is high on a self-assessment basis, we recognise that this doesn't necessarily translate into confirmation of knowledge.

We also recognise that any score below 100% means there are still some members who aren't fully confident. The overall average confidence level of 83% (responses being mostly or completely confident) indicates that around 1 in 5 members are somewhat lacking in confidence on some of the topics under their responsibilities. As a rough approximation, that means around 2 or 3 members of your committee and 2 or 3 members of your pension board require some training to improve their level of knowledge and understanding.

2. Funds recognise the importance of knowledge and understanding
We're delighted with the number of funds who participated in this first national assessment of confidence, and the level of enthusiasm we were met with. This resulted in over 250 respondents taking part in the assessment. This strength of engagement is an indication of the importance funds place on ensuring committees and pension boards understand their responsibilities, and have the knowledge to enable them to perform their roles effectively. This engagement and enthusiasm was just as important an outcome as the number of member completions.

3. Focus needs to evolve beyond traditional issues
It is clear from the results and from the comments received that committees remain comfortable in those areas they have traditionally focused. However, the governance landscape of the LGPS is unrecognisable from 10 years ago with the introduction of the Scheme Advisory Board and a role for TPR. We would expect that in years to come, the focus for committees (in particular) and pension boards will need to be far broader than it has been previously.

It was notable from the comments that members truly value the training they've received from their funds. This may point to the concerted effort fund officers have placed on committee and pension board training in the more recent years, we would like to see this momentum continue, as the governance landscape of the LGPS evolves.

We recommend that funds' next steps are to measure their committee's and pension board's actual knowledge to get a true sense of perception vs reality. Being able to evidence both the level of confidence and actual knowledge of members will help strengthen funds' defence against those that challenge the quality of governance in the LGPS.

Our experts

If you would like to discuss our assessment in more detail, or find out the results for your specific fund, please don't hesitate to get in touch.

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First ever National Confidence Assessment for every LGPS committee and pension board member

54 LGPS funds participated

250+ surveys completed

51% Committee

49% Pension board

15 Committee Chairs

26 Pension board Chairs

8 Topics

Committee Role and Pensions Legislation

Pensions Governance

Pensions Administration

Pensions Accounting and Audit Standards

Procurement and Relationship Management

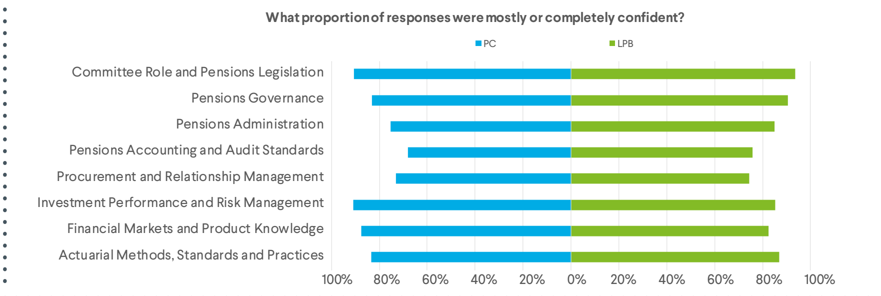
Investment Performance and Risk Management

Financial markets and product knowledge

Actuarial methods, standards and practices

29 Questions

RESULTS TABLE



MOST CONFIDENT TOPICS

Commitee

1 Investment Performance and Risk Management

2 Committee Role and Pensions Legislation

Pension board

1 Committee Role and Pensions Legislation

2 Pensions Governance

LEAST CONFIDENT TOPICS

Commitee

1 Pensions Accounting and Audit Standards

2 Procurement and Relationship Management

Pension board

1 Procurement and Relationship Management

2 Pensions Accounting and Audit Standards

LGPS

HYMANS ROBERTSON

National Confidence Assessment

Clwyd Pension Fund

National Confidence Assessment

Overview

Hymans Robertson has undertaken an extensive exercise, assessing the confidence levels of those tasked with managing and assisting the 100 Local Government pension funds across the UK.

Over 50 LGPS funds participated in this first ever national assessment of Pension Committee ('Committee') and Local Pension Board ('LPB') members. Using the findings from this assessment LGPS funds will gain a strong insight into the current confidence levels of the individuals responsible for running their fund, which can help in developing more targeted and appropriate training plans for the future.

Background

The Clwyd Pension Fund agreed to participate in the National Confidence assessment using our online questionnaire. Based on the responses from this assessment and using this results report, a formal member training plan can be either implemented or supplemented by these findings. The questionnaire is an initial assessment of Committee and LPB members' confidence within 8 key areas such as Governance, Investment Performance and Actuarial Methods.

Why does this matter?

In recent years we have seen a marked increase in the scrutiny being shown to public service pension schemes, including the 100 funds that make up the LGPS across the UK. The Public Service Pensions Act 2013 introduced new governance legislation, not least the requirement for local pension boards to be set up, and extended the remit of the Pensions Regulator to public service schemes as set out in its Code of Practice 14[1]. These new requirements have seen governance gain greater prominence in regular Committee business.

All this is on top of the general oversight of the scheme, by the Ministry of Housing, Communities and Local Government ('MHCLG') in England & Wales and Scottish Ministers in Scotland, and their respective scheme advisory boards.

While fund officers may deal with the day-to-day running of the funds, it is vital that members of the Committee understand that they have ultimate responsibility for making and/or ratifying the most important decisions including investment matters and issues concerning pension administration.

The introduction of MIFID II in January 2018 placed a far greater emphasis on the attained pension knowledge levels required by Committee members when undertaking their statutory role. Consequently, the results of this assessment will indicate how participants gauge their own knowledge levels. We would

[1] **Governance and administration of public service pension schemes – issued April 2015**

encourage the use of these results to better understand the areas where Committee and LPB members feel comfortably informed, but crucially where further training may be of benefit.

In keeping with the theme of increased external scrutiny, it is vital not only that the Committee and LPB have confidence in their roles, but also that the Fund can demonstrate the steps taken to facilitate this. We would suggest you keep a record of the process used to assist the Committee and LPB with training and development. This report could form part of the overall member training records.

Approach

The members of the Clwyd Pension Fund Committee and LPB were invited to complete an online survey. In total there were 3 respondents from the Committee and there were 3 respondents from the LPB.

Each respondent was given the same set of 29 questions on the 8 areas below:

1	Committee Role and Pensions Legislation
2	Pensions Governance
3	Pensions Administration
4	Pensions Accounting and Audit Standards
5	Procurement and Relationship Management
6	Investment Performance and Risk Management
7	Financial Markets and Product Knowledge
8	Actuarial Methods, Standards and Practices

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Members could rate their confidence by answering “not confident”, “slightly confident”, “mostly confident” or “completely confident”.

The responses have been collated and analysed. For each of the 8 sections we have calculated the proportion of responses which were “mostly” or “completely” confident.

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Results

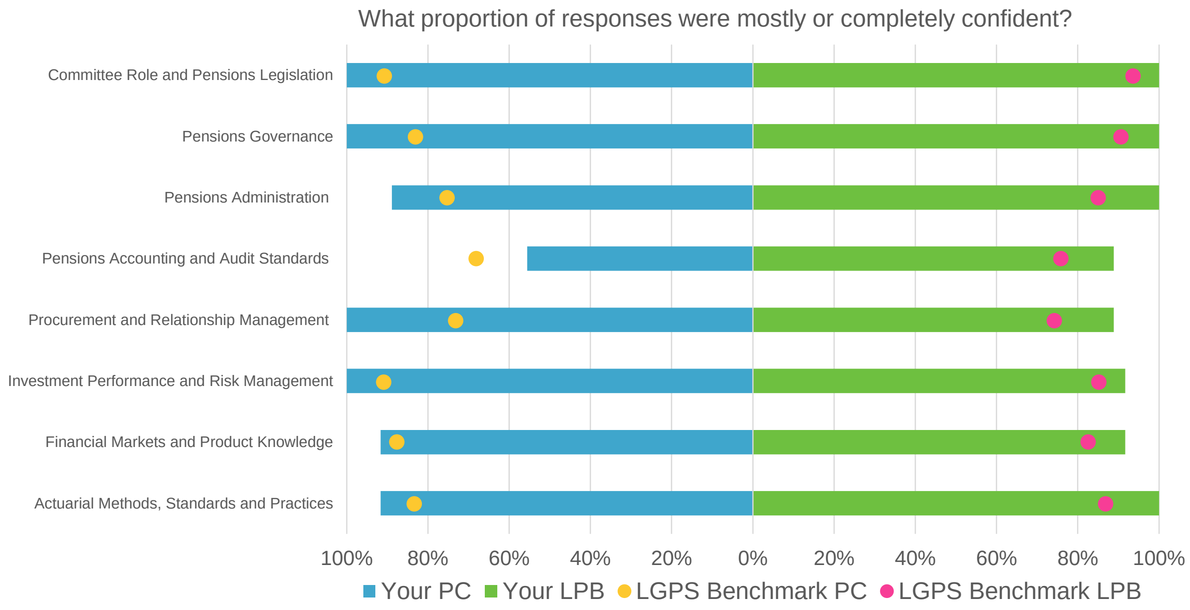
The results are displayed under 2 headings in this section – 'overall results' and 'individual results'. The 'overall results' shows the responses by category, and how these compare with the benchmark results from all respondents across the LGPS. Details of how the individual members responded is shown under the 'individual results' section (colour coding from Red 'not confident' to Green 'completely confident').

Overall Results

For each of the 8 areas we have shown the proportion of responses which were 'mostly' or 'completely' confident. This lets you see how the Committee and LPB levels of confidence vary by subject area, allowing you to pinpoint specific areas for development where fewer members have indicated they are confident. Current training plans and timetables should be reviewed and possibly adjusted based on these results.

Reading the overall results spreadsheet

The Committee (PC) scores are to the **left** of the central axis, with the LPB scores to the **right**. For both groups, the chart also dots the average National confidence score based on the responses from all participating funds.



Benchmarking

As this confidence assessment is being conducted at national level across a number of LGPS funds we are able to provide details of how your Fund's results compare to those across the average of all funds who have taken part to date.

Commentary on Clwyd Pension Fund results

We are mindful that the Fund's recent priorities may have an impact on their results i.e. if more recent time has been devoted to investment decisions, then you may expect members to be more confident in this area. Consequently, these results may be impacted from this 'timing' effect. Overall from the responses received there appears a strong understanding of most topic areas for the Committee and LPB.

It is evident from the results of the assessment that the Committee's area of least confidence concerns Pensions Accounting. The responses to questions in this section were lower than the national average. The area of least confidence for the LPB was also Pensions Accounting.

Comparison - National results

The **Committee** are generally in line when compared with the national picture. The areas the Committee felt least confident were:

- Pensions Accounting and Audit Standards
- Pensions Administration

Typically the areas of least national confidence for LGPS Committees surveyed were Pensions Accounting and Audit Standards, Procurement and Relationship Management, and Pensions Administration.

The results from the **LPB** are generally also more in line when compared with the national picture. The areas the LPB felt least confident were:

- Pensions Accounting and Audit Standards
- Procurement and Relationship Management

Typically the areas of least national confidence for LGPS LPB surveyed were Procurement and Relationship Management, Pensions Accounting and Audit Standards, and Financial Markets and Product Knowledge.

Individual results

Question	Pensions Committee Member 1	Member 2	Member 3	Committee Average	Local Pensions Board Member 1	Member 2	Member 3	Board Average
1a I understand my role and obligations under the LGPS Regulations and Committee's/Board's own terms of reference	4	3	4	3.7	4	4	4	4.0
1b I understand the role of the Chair, Chief Finance Officer and Monitoring Officer in the running of the Scheme	4	4	4	4.0	4	3	4	3.7
1c I understand the main features of the Regulations applicable to the Local Government Pension Scheme	4	4	4	4.0	4	3	4	3.7
2a I am clear what the objectives are for the Fund	4	4	4	4.0	4	3	4	3.7
2b I understand the role of the administering authority in relation to the LGPS	4	3	4	3.7	4	4	4	4.0
2c I am aware of the Scheme Advisory Board and understand its role and interaction with other bodies in relation to the governance of the LGPS	4	3	4	3.7	4	4	4	4.0
2d I understand the roles and powers of MHCLG, the Pensions Regulator and the Pensions Ombudsman as they relate to the working of the scheme	3	3	3	3.0	4	4	3	3.7
2e I understand the Funds approach to risk management and how risk is monitored and managed	4	3	4	3.7	3	3	4	3.3
3a I understand the statutory record keeping requirements and the Funds policy in relation to member data, contribution collection and scheme communication	4	3	2	3.0	4	4	3	3.7
3b I have an appreciation of the Funds administration strategy and how this is delivered (inc. where appropriate the use of third parties and their performance)	4	3	3	3.3	4	3	4	3.7
3c I understand the Pensions Regulator's measures of good administration practice set out in its Code of Practice 14	4	3	3	3.3	3	3	3	3.0
4a I understand the role of the elected member in the preparation of pension fund accounts	4	3	1	2.7	3	4	3	3.3
4b I understand the difference between the different types of valuations that are carried out e.g. the triennial funding valuation, IAS19/ FRS102 accounting valuations and the Government Actuary's valuation (Section 13)	3	2	2	2.3	3	2	3	2.7
4c I have a general understanding of the Accounts and Audit Regulations and the regulatory requirements for sound internal controls and proper accounting practice	4	2	3	3.0	4	3	3	3.3
5a I understand the effect pooling will have on the procurement process and the changed relationship between the committee and those that manage its assets	4	3	4	3.7	4	3	3	3.3
5b I understand the role of procurement frameworks in procuring services	4	4	3	3.7	4	3	3	3.3
5c I have a clear sense of how I will assess the Fund's providers (managers, Pool, advisors etc).	3	3	4	3.3	3	3	2	2.7
6a I understand the Fund's Investment objectives	4	4	4	4.0	3	3	4	3.3
6b The Fund's investment beliefs are reflected in the underlying investment strategy	3	3	4	3.3	3	3	3	3.0
6c I understand the Fund's net cashflow position and how this might change over time	4	3	3	3.3	4	2	3	3.0
6d I am aware of Environmental, Social and Governance risks and the Fund's approach to managing these risks	4	3	4	3.7	3	4	3	3.3
7a I have a good understanding of the financial markets and investment vehicles available to the Fund	3	2	3	2.7	3	2	3	2.7
7b I understand the risk and return characteristics of the main asset classes	3	3	3	3.0	3	3	3	3.0
7c I understand why the Committee would decide to further diversify the Fund and how it would do this	4	3	4	3.7	4	4	4	4.0
7d I understand the difference between active and passive management and the pros/ cons associated with each	3	3	3	3.0	4	4	4	4.0
8a I understand the role of the Fund actuary	4	3	4	3.7	4	3	3	3.3
8b I have a good understanding of the formal valuation process	4	2	4	3.3	4	3	3	3.3
8c I understand the broad principles of the Funding Strategy Statement	4	3	4	3.7	4	3	4	3.7
8d I broadly understand the implications of including new employers into the Fund and the importance of the employer covenant	4	4	4	4.0	3	3	3	3.0

Next Steps

Based on the results we would suggest that there should be consideration to the following next steps:

- Set up a structured training plan for the next 12 months covering the main areas highlighted in this report
- TPR has recently published a module on the subject of Advisors and Service Providers. This could be used as the basis of a training session for Committee and Board members.
- Committee / LPB to be asked for their thoughts on administration and how they would prefer this information to be presented to them
- Briefing note to Committee / LPB on their role in the preparation of fund accounts
- Conduct a knowledge assessment covering the 8 topics. This will assess the knowledge levels of both groups against the same 8 topics

We are happy to run training sessions, and/or provide training materials covering any of the topics covered in this report. The value of a face-to-face session for this type of training lies in members being able to ask relevant questions and interrogate the trainer on the specific areas they want to develop knowledge in. We are also able to conduct the knowledge assessment for both groups, reviewing the member's knowledge against their confidence.

We will be producing a national report discussing and analysing the results at the national level. A copy of this will be made available to the Fund when the report is complete.

If you wish to discuss the contents of this report further, please get in touch with either myself or Douglas Green.

Prepared by Hymans Robertson LLP.

Ian Colvin

Head of LGPS Benefits and Governance Consultancy

Reliances and Limitations

This report has been prepared for the Clwyd Pension Fund.

This report must not be released or otherwise disclosed to any third party except with our prior written consent, in which case it should be released in its entirety.

Hymans Robertson LLP do not accept any liability to any party unless we have expressly accepted such liability in writing.

This report has been prepared by Hymans Robertson LLP, based upon its understanding of legislation and events as at August 2018.

CLWYD PENSION FUND COMMITTEE

Date of Meeting	28 November 2018
Report Subject	LGPS Current Issues
Report Author	Clwyd Pension Fund Manager

EXECUTIVE SUMMARY

The purpose of this report is to provide an update on the key issues affecting the LGPS. This covers many of the current ongoing issues and the latest news since the last Committee update in September, in particular:

- Confirmation of the CPI for September 2018 (2.4%)
- A relatively quiet Autumn Budget for pensions, with no major changes and confirmation that the Lifetime Allowance will increase to £1,055,000 based on the September CPI figure.
- Publication of GAD's "Section 13 review" of the 2016 actuarial valuations of the LGPS in England and Wales. The four major actuarial firms had a number of concerns about this and have jointly written to MHCLG and SAB to express these.
- A statement to Parliament by the Chief Secretary to the Treasury that gave a hint to move all LGPS Funds in the UK to a 4-year valuation cycle. The formal announcement only referred to valuations for the purpose of Cost Management, but informal meetings have confirmed this is likely to extend to the funding valuations.
- After 28 years of waiting, on 26 October, the High Court made a landmark judgement for the UK pensions industry in respect of equalising GMPs for members who had Contracted-Out of the State Scheme. This affects all members with GMPs dating back to 17 May 1990 and is likely to have a significant effect on liabilities and costs. For the LGPS, the preliminary view is that the impact will be dependent on the profile of the members and is likely to be much less significant due to the method of indexation used in the LGPS.
- Some general comments on the October Equity correction, and steps Funds can take to mitigate against this, much along the lines of the Clwyd Pension Fund active risk management framework.

RECOMMENDATIONS	
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.

REPORT DETAILS

1.00	**LGPS Current Issues**
1.01	The purpose of this report is to provide a general update to Committee Members on various current issues affecting the LGPS. Appendix 1 sets out a brief update on a number of significant specific issues, and also wider issues affecting the whole of the pensions industry.
1.02	Key points to be aware of are: • No changes emerging from the Autumn Budget on pensions tax arrangements (i.e. on Annual Allowance, Tapered Annual Allowance, or Money Purchase Annual Allowance). The Lifetime Allowance will increase by 2.4% to £1,055,000. • Buried in the Autumn Budget was confirmation that the SCAPE discount rate used for calculating employer contributions for the unfunded schemes will be reducing to CPI + 2.4% (from the current CPI + 2.8%) from April 2019. This will mean significantly increased costs for these schemes. • The much awaited "Section 13 review" report from GAD was published on 27 September. As expected, the Clwyd Pension Fund was not flagged, but there have been some concerns raised in respect of the report. The four major actuarial firms had a number of concerns about this together with the engagement leading up to publication. The four have jointly written to MHCLG and SAB to express these concerns. Mercer have said that their view and understanding of the remit is for the review to identify "outlier" funds, taking into account a more holistic view rather than focusing solely on individual metrics. • An update on the Cost Management Process – noting the position on the unfunded schemes. HMT will await the outcome of the SAB process before deciding whether to invoke HMT's own mechanism. • The first formal hint of the schemes moving to a 4-year valuation cycle came in Liz Truss' statement to Parliament in September. Whilst her statement technically only referred to the valuations being carried out for Cost Management purposes, informal briefings that the actuaries have been involved with indicate this as a direction of travel for the funding valuations also. It is expected that next year's valuation will go ahead, but a review of employer contribution rates will follow mid-cycle with the subsequent valuation

	being in 2024. We of course, await further updates on this. • GMP Equalisation, after 28 years of waiting, became a reality on 26 October, after the High Court made a landmark judgement for the UK pensions industry in respect of equalising GMPs for members who had Contracted-Out of the State Scheme. This affects all members with GMPs dating back to 17 May 1990 and is likely to have a significant effect on liabilities and costs. For the LGPS, the preliminary view is that the impact will be dependent on the profile of the members and is likely to be much less significant due to the method of indexation used in the LGPS. This is due to one of the options previously put forward in a consultation where full indexation on GMPs has been looked at. The actuaries are keeping this under review. • Some general comments on the October Equity correction, and steps Funds can take to mitigate against this, much along the lines of the Clwyd Pension Fund active risk management framework.

2.00	**RESOURCE IMPLICATIONS**
2.01	Some of the actions arising out of the issues identified could mean significant changes to operational matters for the Fund. In particular, the review of and update to Fund policies will require some officer and advisor resource to ensure the Fund is well placed going forward. Also the next round of Pension Saving Statements could result in administration resources required to respond to queries arising.

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	None directly as a result of this report.
4.00	**RISK MANAGEMENT**
4.01	This report addresses some of the risks identified in the Fund's Risk Register. Specifically, this covers the following (either in whole or in part): • Governance risks: G2 & G7. • Funding and Investment risks: F1, F5

5.00	**APPENDICES**
5.01	Appendix 1 – LGPS Current Issues - November 2018 edition

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	Earlier editions of the LGPS Current Issues document, tabled at previous Committee meetings.

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7.00	**GLOSSARY OF TERMS**
7.01	(a) **The Fund – Clwyd Pension Fund** – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region (b) **Administering Authority or Scheme Manager** – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund. (c) **The Committee – Clwyd Pension Fund Committee** - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund (d) **LPB or PB – Local Pension Board or Pension Board** – each LGPS Fund has an LPB. Their purpose is to assist the administering authority in ensuring compliance with the scheme regulations, TPR requirements and efficient and effective governance and administration of the Fund. (e) **GAD** - The Government Actuary's Department. (f) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of (g) **DCLG - Department for Communities and Local Government** - Central Government department responsible for the LGPS (h) **LGA - The Local Government Association** - a politically-led, cross-party organisation that works on behalf of councils to ensure local government has a strong, credible voice with national government. Performs various Secretariat and support roles for the LGPS. (i) **Actuarial Valuation** - The formal valuation assessment of the Fund detailing the solvency position and determine 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. (j) **GMP** – **Guaranteed Minimum Pension** – This is the minimum level of pension which occupational pension schemes in the UK have to provide for those employees who were contracted out of the State Earnings-Related Pension Scheme (SERPS) between 6 April 1978 and 5 April 1997. (k) **CARE** – **Career Average Revalued Earnings –** With effect from 1 April 2014, benefits accrued by members in the LGPS take the form of

	CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement. (l) **Annual Allowance –** the annual allowance is a limit on the capital amount that individuals can contribute to their pension each year, while still receiving tax relief. The standard Annual Allowance is £40,000 in any year. For members who taxable earnings are over £110,000 they can fall into the Tapered Annual Allowance which falls between £10,000 and £40,000 depending on their level of earnings. (m) **Fair Deal** - guidance issued by the Government which applies to compulsory transfers of employment out of the public sector. Updated guidance was issued in October 2013, referred to as "New Fair Deal", which amends some of the previous guidance. (n) **Scheme Pays** – the option for a member to ask the Fund to pay any tax associated with breaching the Annual Allowance. The Mandatory Scheme Pays option applied where a member exceeds the statutory Annual Allowance limit of £40,000. The Voluntary Scheme Pays option applies when a member falls into Tapered Annual Allowance or their tax charge is less then £2,000. Voluntary Scheme Pays can be used at the discretion of the Administering Authority. (o) **Section 114 Notice** – Refers to Section 114 of the Local Government Finance Act 1988. Once a council issues a notice under section 114 it is prohibited from entering into new agreements that incur expenditure and must strive to set a balanced budget. (p) **TPR** – The Pensions Regulator - the UK regulator of workplace pension schemes. TPR is focussed on ensuring that employers put their staff into a pension schemes and pay money into it, together with making sure that workplace pension schemes are run properly so that people can save safely for their later years. TPR has a specific remit in the context of Public Service Pension Schemes as defined by the Public Service Pensions Act 2013 (see its Code of Practice 14).

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LGPS CURRENT ISSUES

NEWS IN BRIEF

IN THIS ISSUE

APRIL 2019 PENSION INCREASE

On 17 October 2018, the Office for National Statistics (ONS) announced that the Consumer Price Index (CPI) rate of inflation for the year to September 2018 was 2.4%. This increase will be applied to LGPS pensions with effect from 1 April 2019.

AUTUMN BUDGET

With a post-Brexit “average-type free trade deal” in mind, the Chancellor Philip Hammond delivered his Budget on 29 October. It was relatively quiet from a general pension and savings perspective but there were a few points of interest in relation to public sector pensions. The main pensions headlines were:

- No changes to the Annual Allowance, Tapered Annual Allowance or Money Purchase Annual Allowance.
- The Lifetime Allowance will increase in April 2019 from £1,030,000 to £1,055,000, based on the September 2018 CPI increase.
- A ban on pensions cold calling is expected to be passed into legislation later this year.
- The detailed design for the Pension Dashboards will be subject to a DWP consultation, later this year. The Budget has specifically allocated funding over 2019/20 to help make the dashboards a reality.

‘SCAPE’ DISCOUNT RATE

Buried away on page 32 of the Chancellor’s budget was confirmation that the SCAPE discount rate for calculating employer contributions in unfunded public service pension schemes will be reducing to 2.4% plus CPI - this is in line with established methodology to reflect the Office for Budget Responsibility (OBR) forecasts for long-term GDP growth. This will mean significantly increased costs for employers in the unfunded schemes, not all of whom are likely to receive additional funding or funding for a sufficient period of time to cover the increased costs.

The change in the discount rate becomes effective from April 2019 for the purpose of assessing the cost of the unfunded schemes. However, as we understand it the change takes immediate effect for individual member calculations being performed, for example transfer values. In accordance with guidance from the MHCLG as published by the LGA, some calculations in the LGPS had been suspended until the Government Actuary’s Department (GAD) provided new sets of actuarial factors, albeit some of the new factors have now just been issued.

Finally here, it is clear that the Government’s preferred inflation measure will, over time, move to CPIH (which includes owner occupied housing costs). This means that public sector pensions could start to uprate in line with CPIH rather than CPI in the future. We await further details on this.

4-YEAR VALUATION PROPOSAL

September’s statement to Parliament by Chief Secretary to the Treasury Liz Truss MP saw the first hint of a proposal to move all the LGPS Funds in the UK onto a “quadrennial” valuation cycle starting in 2020 in line with the unfunded schemes. The stated reasons for the change are that it “…should minimise complications … will assist with comparisons…” and that “…the outcome of the employer cost cap mechanism test may have significant implications and it is difficult to justify why the valuation cycle should differ for the LGPS”. Full details of the proposals can be found in the supplementary documents on the government’s website. Whilst the formal announcement technically referred to the valuations carried out by GAD for HM Treasury’s Cost Management process, informal briefings have confirmed that the main funding valuations will also be moved to a four-year cycle. With regard to transition to the new cycle, we fully expect that the 2019 E&W valuations will go ahead. Consideration is being given towards a mid-cycle review of contribution rates before aligning fully in 2024. For the LGPS in Scotland the next actuarial valuation is in 2020 in any event so there are less issues of transition for Scottish Funds.

NATIONAL INITIATIVES

- SECTION 13 - On 27 September 2018, we saw the publication of GAD's "Section 13 review" of the 2016 actuarial valuations of the LGPS in England and Wales. A copy of the report, whose 3 sections total more than 130 pages, can be found here. We had a number of concerns about the report, the engagement process leading up to it and the final recommendations. In collaboration with the other actuarial firms we wrote to the MHCLG and SAB formally to express those concerns.

  Our view is that the GAD analysis should be primarily focused on identifying those "outlier" funds in the LGPS who are for whatever reason, not putting in place long term robust funding plans. This might be funds whose employers are avoiding paying in contributions, whether through overly optimistic funding assumptions, long recovery periods and/or risky asset strategies which cannot be supported by the strength of covenant backing the risk. In our view, a more appropriate approach should be to take a holistic view of the funding strategy and recovery plan taking account of the supporting level of employer covenant and the investment strategy adopted, with a view to intervening with those Funds which pose significant concerns. This is the funding approach we have advised our clients to adopt over many years.

- COST MANAGEMENT PROCESS – There are clearly some conflicting pressures arising from the latest valuations of the unfunded schemes. It seems that employer contribution rates are likely to have to increase, largely as a result of the previous reduction in the SCAPE discount rate to 2.8% in 2016. On the other hand, the cost cap mechanism is triggering either a benefit improvement or a contribution reduction for members in a number of the schemes. Whilst HMT will follow through with implementing the changes required by the cost cap process for the current round of valuations, there is clearly some disquiet that these results are not following the general policy intention so they have commissioned a wider review of the process to take place in time for the next round of valuations.

  A number of changes are being made to the actuarial assumptions used in the cost cap process. These include a change in the assumed future mortality improvements to tie in with the latest ONS projections, an increase in the assumed rate of commutation (from 15% to 17.5% of the member's pension), and a small change relating to pay growth.

  For the cost cap process for the LGPS, HMT will await the outcome of the Scheme Advisory Board's process before deciding whether to invoke HMT's own process for the Scheme.

ACADEMIES' LGPS PENSION ARRANGEMENTS

The report on the analysis of pensions arrangements for academies within the LGPS was published on 14 September 2018 by the Government Actuary's Department (GAD). A copy of the report can be found here but, in summary, the data collected by GAD indicates that, on the whole, academies are treated consistently with Local Authorities with regard to the 2016 valuation funding assumptions, suggesting that the DfE guarantee is currently being recognised by Funds. This is consistent with the approaches followed by the Funds we advise and this report will be a useful reference point for ongoing funding discussions with academies.

EQUALISATION OF GUARANTEED MINIMUM PENSIONS

On Friday 26 October, the High Court made a landmark judgment confirming that pension schemes are required to equalise male and female members' benefits for the effect of Guaranteed Minimum Pensions (GMPs). This will increase the liabilities of affected schemes, a cost that will ultimately need to be met either from additional asset returns or from additional contributions from employers. The ruling potentially affects GMPs accrued after 17 May 1990.

The impact of the judgment on overall liabilities in UK pension schemes is likely to be significant, with some estimates quoting an increase in liabilities for FTSE100 companies as £15billion.

The impact for the LGPS will vary by scheme depending on the profile of the members. However, based on our initial interpretations and taken in conjunction with the Government's recent consultation on GMP indexation in public sector schemes which proposed ways to address equalisation (as well as indexation) it is possible that the impact for the LGPS could be much less significant versus that reported for pension schemes generally. This is on the basis that they implement one of the options put forward in the consultation e.g. full indexation on all GMP for members. It is recognised however (see para 4.14 of the response to the consultation) that the Government will need to consider the implications of the Court case before coming to a final conclusion.

Whilst this potentially removes the need to consider a separate equalisation exercise, there will be a cost associated with whichever option the Government implements in response to its separate GMP indexation consultation for public sector schemes. We will provide further details once this is known.

OCTOBER EQUITY CORRECTION – ARE THERE ANY LESSONS?

Rising US Treasury yields and concerns about pending US Q4 earnings have prompted significant asset volatility in October – this felt stark given the low volatility world we have been living thorough in recent times. We should see this shot across the bows as a reminder that risks are real and can be painful:

WHAT ARE THE LESSONS?

- Markets are stretched and vulnerable to shifts in sentiment at short notice
- Large movement are non-discriminating - correlations between asset classes rise in stress event
- Rate hikes and rising yields have consequences for other asset prices, not just bonds!

WHAT TO DO?

- Stress test portfolios for different downside outcomes
- Think about correlation between "tail risks" – diversification can fail when correlations spike
- Consider direct hedging strategies to give more tools to manage downside risk.

OTHER DEVELOPMENTS ON REGULATIONS AND CONSULTATIONS

TIER 3 EMPLOYERS

The report on the review of Tier 3 employers in the LGPS was published on 24 September. It summarises the findings of engagement with stakeholders and sets out a wide range of possible options to address the issues raised. However, it doesn't include any recommendations!

A small working group, made up of Scheme Advisory Board members, will produce a set of recommendations based on concerns expressed by third tier employers and will report back later in the year. Stakeholders will then be given the opportunity to comment on these recommendations. More information will be provided as it becomes available and further details on the project along with a copy of the report can be found here.

TECHNICAL AMENDMENTS TO BENEFITS CONSULTATION

On 4 October the MHCLG issued a small consultation, running for 8 weeks, on a number of minor amendments to the provisions of the LGPS. The changes relate to survivors' benefits (in particular the payment of survivors' pensions, calculated on the same basis as widowers' pensions, in respect of civil partnerships and same-sex marriages), the ability for MHCLG to issue statutory guidance on the interpretation of the provisions of the LGPS, and a provision for deferred members of the 1995 Scheme to take their benefits before age 60.

In practice, we don't regard the above changes as being substantial for any LGPS Fund. There may be a cost in relation to some small employers if new cases of survivors' pensions emerge, and there will undoubtedly be some cost of administration in terms of reviewing past cases where a partner in a same-sex marriage or civil partnership has died, but the proposal seems to be part of a consistent approach for government across all the public service schemes. We therefore expect all the proposed changes will go ahead as proposed in the consultation.

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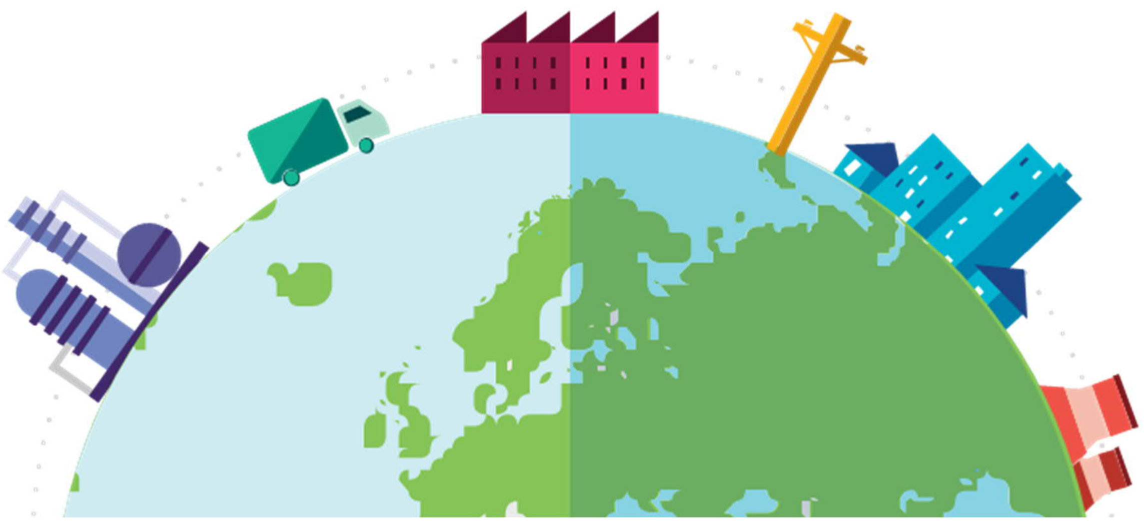

DATES TO REMEMBER

DATE	ISSUE	THE LATEST
H2 2018	DB Consolidation	DWP consultation on developing legislation and an authorisation regime to facilitate commercial arrangements for consolidating DB schemes.
Autumn 2018	CDC consultation	DWP consultation on the framework for CDC schemes
Autumn 2018	DB superfunds consultation	DWP consultation on the facilitation and consolidation of DB pension funds
2018	Tier 3 Employers	Outcome of the Tier 3 employers review
2018	Academies	Outcome of the academies review
2018/2019	Regulator powers	Consultation on changes to the Pensions Regulator's Funding Code of Practice and strengthening its scheme funding and anti-avoidance powers has now started.
1 January 2019	HMRC brief on VAT and treatment of pension fund management services provided by insurance companies.	Date by which, where an insurance company provides pension fund management and administration services, only the services for schemes classed as "special investment funds" will continue to be treated as VAT exempt.
1 January 2019	Plan Amendment, Curtailment or Settlement (IAS19)	Date after which if a plan amendment, curtailment or settlement occurs, a full remeasurement is mandatory under IAS19/
13 January 2019	IORP II	Date by which member states must adopt the new EU directive covering occupational pensions
March 2019	Brexit	It is expected that the UK will formally leave the EU by the end of March 2019.
31 March 2019	Actuarial Valuations	For all LGPS Funds in the England and Wales, the next actuarial valuation effective date will be 31 March 2019.
6 April 2019	Auto-enrolment	The minimum contribution rates for auto-enrolment will rise to 3% employer, 5% employee on this date.
6 April 2019	Enhanced DC investment disclosures	New requirements around the disclosure of investment information to members of trust-based schemes providing money purchase benefits take effect.
2019	Pensions Dashboard	These are expected to go live some time in 2019

MEET SOME OF THE TEAM

THINGS YOU MAYBE DIDN'T KNOW

Name: Laura Evans
Role: Actuary
Joined Mercer: 2001
Place of Birth: Liverpool
Favourite Christmas film: *Die Hard* (definitely a Christmas film)
What is the worst present you ever received for Christmas? Shiny purple tissue packet cover (for the small handbag sized tissue packets)
Favourite Christmas cracker joke: How did Scrooge win the football game? The ghost of Christmas passed!
Thoughts on Christmas decorations in November: Too early, last week in November at a stretch!

Name: Paul Bottone
Role: Wealth Analyst
Joined Mercer: 2005
Place of Birth: London, but I moved after a couple of years.
Favourite Christmas film: Well I could start a whole debate on whether Die Hard is a Christmas film but instead I will say *It's a Wonderful Life*
What is the worst present you ever received for Christmas? I can't remember if it was for Christmas but once someone got me a Manchester United mug because "everyone from up north supports them"! Errrrrrr no!
Favourite Christmas cracker joke: Why is it getting harder to buy Advent calendars? Because their days are numbered!
Thoughts on Christmas decorations in November: I've usually taken them down by then.

Name: Victoria Kushchak
Role: Wealth Analyst
Joined Mercer: July 2017
Place of Birth: Llandudno, North Wales
Favourite Christmas film: It has to be two - *It's a Wonderful Life* and *Home Alone*
What is the worst present you ever received for Christmas? An Elvis Presley calendar (don't even ask…)
Favourite Christmas cracker joke: Why did the orange take a prune to the Christmas party? Because he couldn't find a date!
Thoughts on Christmas decorations in November: November is way too early to be putting up Christmas decorations or to be asking about favourite Christmas cracker jokes and films!

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CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 28th November 2018
Report Subject	Administration and Communications Update
Report Author	Principal Pensions Officer

EXECUTIVE SUMMARY

An update is on each quarterly Committee agenda and includes a number of administration and communications related items for information or discussion. The items for this quarter are:

(a) Business Plan 2018/19 update – this includes details of amendments to backlog and aggregation timescales and expected legislation changes.

(b) Current Developments and News – this includes updates relating to training and data quality, including the score reported to the Pension Regulator. Also included are details regarding the recent Employer meeting.

(c) Resource – an update on recruitment and staffing.

RECOMMENDATIONS	
1	That the Committee consider the update and provide any comments.
2	That the Committee approve the change in timescales to the business plan as outlined in paragraph 1.01.

REPORT DETAILS

1.00	ADMINISTRATION AND COMMUNICATIONS RELATED MATTERS
	Business Plan 2018/19 Update
1.01	Progress against the business plan items for quarter three of this year is generally on track as illustrated in Appendix 1. Key items to note relating to this quarter's work are as follows: • A4 & A5 Expanded Backlog and Aggregation Project – Mercer are continuing to work on these areas and are making good progress to remove the historical backlogs that exist. However progress may slow down due to additional work being undertaken as mentioned in the Part 2 paper. Please note, timescales in relation to A4 may need extending into 2019/20 on the Business Plan. This will be clearer by the next committee meeting. A separate update report is provided from Mercer in Appendix 2. • A10 – LGPS Legal Timescales Analysis – given the current workloads it is proposed that this area of work is deferred until 2019/20. • A11 – National Pensions Dashboard – the Government announced in the Autumn Budget that funding has been allocated for 2019/20 to ensure this national project is delivered. We have therefore updated the timescales to 2019/20 and 2020/21 which is our latest estimate of when we may need to develop our systems to meet the new requirements. • A16 – Other Expected National Changes – There are ongoing discussions regarding separation of funds from the administering authority. GMP equalisation and scheme changes due to the cost management process are now progressing as so they have been separated out as items A17 and A18 (see the next paragraphs). • A17 – GMP Equalisation - As explained in the LGPS Update report, a recent high court judgement has been made on GMP equalisation. Even though there remains uncertainty on the impact of this on the LGPS, we have separated this project out (it was originally part of A16) given we expect some work to be carried out during 2019/20 and 2020/21. There is a risk that this could result in significant work for the administration team if recalculation of pensions already in payment is required. Regardless of that point, this is likely to result in additional costs to the fund due to increases in the indexation of pensions to remove the inequality between males and females. • A18 – Scheme changes due to Cost Management Process – This was also part of A16 and has been separated out now more information has been announced. The LGPS Update explains that the cost management process will result in either a benefit improvement or contribution reduction for scheme members (or a combination of both). These will be effective from April 2019 albeit the details of the changes are still to be agreed. This is likely to result in a major communication exercise for the Administration Team advising scheme members and employers of the changes. It will also likely require changes to current processes and the administration system, Altair. The business plan has been updated to clarify this work is likely to be required during Q4 of 2018/19 and Q1 of 2019/20.

1.02	The Committee is asked to agree the changes outlined above relating to A10 and A11 as well as the new A17 and A18.
	Current Developments and News
1.03	A separate LGPS Update report has been provided by Mercer and included with the Committee Papers. In general we are aware of the points highlighted in the report and a number of these are specifically referred to in the Business Plan for 2018/19. The following includes some of these points as well as other developments and news: • Our Admission Agreement, which is the legal document that is signed when a new body applies to join the Fund, has been amended by Osborne Clarke, legal advisers, to ensure compliance with the 2018 amendment regulations. This has introduced areas such as the potential for a refund of surplus funds when an admission agreement ends. This updated version is now in use. • The Pensions Regulator's autumn scheme return has been submitted and includes the data quality scores relating to common and scheme specific data analysis. The details of the scores can be found in Appendix 3. An action plan is being developed in relation to implementing any data cleansing that has been highlighted as a part of this exercise and this data cleansing is expected to improve the data scores for next year. • In preparation for the 2019 valuation, Mercer recently completed a data quality check and has provided us with the results at a high level. Priority areas have been identified and there are numerous action points for the administration team and employers to consider. Some work has already commenced on these areas within the administration team. A more detailed report has been requested from Mercer to enable identification of mismatches of data at member level. A communication will then be issued to the relevant employers detailing any specific actions required by them to improve the data they provide. • Following the Budget announcement in October, transfer calculations have been put on hold due to the change in the SCAPE rate (the discount rate used by GAD). GAD has just issued the new updated factors and we are now waiting for these to be updated in our Altair software. Once this has been done an exercise will commence to calculate the transfer requests that were put on hold. • After attending the most recent technical user group, it has been decided that we will partake in the Testing Working Party (TWP) for the next release of Altair (9.1). This involves thorough testing of the release in preparation for the rollout to all funds. This will be intense testing for a one month period following an initial introductory day in December. Advantages include early insight into the content of the release with opportunity to influence change. An assigned specialist from Aquila Heywood will assist with queries. • Training will commence shortly in preparation for the introduction of the Welsh rate of Income Tax from April 2019. • Further TUPE transfers are expected. Discussions with employers regarding action plans are underway. • It has been announced that Equiniti has bought the Aquila element of the firm Aquila Heywood who provides our software Altair. We understand that our services will be provided by the part of the firm that is not being merged with Equiniti which will be known as Heywood.

	Given our administration services are almost completely reliant on Altair this could be a critical change for us. We are working with Aquila Heywood to better understand the impact of this change on their structure albeit we have received initial assurance that services should not be impacted.
1.04	*Employer Meeting* We hosted our annual Employer Meeting on 6th November which covered various topics and highlighted current challenges facing the Administration Section and how these impacted the relationship with the employers. The Principal Pensions Officers presented an insight into the "Day in the life of Pensions Administration". This focused on how expectations, accountability and transparency of our performance is now prevalent to the day to day running of the Administration Section. Mercer presented on the importance of timely and accurate data being received from employers. Positive feedback regarding the presentations was received from attendees. A programme of employer engagement sessions will now follow.
  1.05	**Policy and Strategy Implementation and Monitoring** *Administration Strategy* The latest monitoring information in relation to administration is outlined below: • Day to day tasks – Appendix 4 provides the analysis of the numbers of tasks received and completed on a monthly basis since April 2015 as well as how this is split in relation to our three unitary authorities and all other employers. For the first time this year, in October, the number of outstanding cases reduced. This was due to the highest number of cases completed in any one month to date. There continues to be a high volume of workflow, resulting from projects such as the implementation of iConnect, the additional data quality project from Mercers and preparing a Data Improvement Plan for TPR. • Key performance indicators – Appendix 5 shows our performance against the key performance indicators that are measured on a monthly basis up to October 2018. The chart continues to illustrate that we are not managing to meet most of the agreed standards. However, we are pleased to note that the number of cases completed and the percentages achieved have increased for October. In addition 110 new retirement benefits were processed and paid. We hope to see further improvements across the KPIs in the coming months following the recent appointments of staff. However the additional work relating to Project Apple (as explained in the Part 2 report) will likely have a temporary negative impact on some of the KPIs. The Principal Pensions Officers are continuing to undertake additional duties whilst ensuring the section performs during the on-going absence of the Pensions Administration Manager. This includes involvement in LGPS Framework plans, attending Pension Manager meetings, liaising with legal specialists in relation to Admission Agreements and presenting at the Employer Meeting.
1.06	*Internal dispute resolution procedures* The outstanding cases for 2017/18 are still ongoing.

	In relation to the cases received so far this year (2018/19): • there are five Stage One appeals which are all currently ongoing against the employer. These are all in respect of the non-award of ill health benefits. • there are two Stage One appeals against the Administering Authority which are being considered. One is due to an overstated estimate of benefits which was as a result of an incorrectly recorded period of time in the Scheme. The second appeal is against the award of a deferred benefit rather than a refund of contributions which the member was expecting. • The Stage 2 ongoing appeal has been referred back to the employer to be reconsidered.

	2018/19			
	Received	Upheld	Rejected	Ongoing
Stage 1 - Against Employers	5			5
Stage 1 - Against Administering Authority	2			2
Stage 2 - Against Employers	3	2		1
Stage 2 - Against Administering Authority				
	2017/18			
	Received	Upheld	Rejected	Ongoing
Stage 1 - Against Employers	13	2	9	2
Stage 1 - Against Administering Authority	1		1	
Stage 2 - Against Employers	4	2	1	1
Stage 2 - Against Administering Authority	1		1	

1.07	*Communications Strategy* The Communication Officer has provided the following services since the last update: • Eight TUPE transfer presentations to both NEWydd and Aura employees, explaining the process and answering any questions. • Two day visits to Alltami Depot following a request from Flintshire County Council, Street scene department, to promote MSS and also answer any employee queries on a one to one basis.
1.08	The following communications have been distributed during this period: • Invitations to all employers were sent regarding the AJCM • Annual Benefit Statements sent to eligible active members detailing their pension entitlement • Deferred Benefit Statements sent to eligible deferred members detailing their pension entitlement Apart from the scheme members who may be impacted by Project Apple, all benefit statements were again issued by the statutory deadline of 31 August. Statements are now produced on Member Self Service (MSS) unless a scheme member has opted out of electronic communications. All members who have not opted out of electronic communications and are registered on MSS are sent an email advising them that their statement has been uploaded. However there are still a large proportion of members who have not registered for MSS (as can be seen from Appendix 6) so it is important for us to continue to encourage MSS take-up.

	We participated in a conference call regarding the viability of a MSS User Group. The aim of the group being to collate knowledge, discuss ideas for best practice and discuss ways of increasing membership and enhancing in-house processes. A further webinar is planned with dates to be confirmed. We also participated in a "Video Project" conference call alongside the LGA and other funds following numerous Regional Communications Group meetings to discuss the possibility of producing member videos outlining specific topics of interest. We are currently awaiting estimates from external parties to design and produce visuals and narratives. The Employer Meeting was held on 6th November and consisted of the following speakers: Mercer, Principal Pension Officers, Prudential,
1.09	The updated information concerning Member Self Service is shown in Appendix 6 and this illustrates enrolment to Member Self Service continues to grow. It has increased by over 600 members since the last meeting with over 34% of active members now registered to use this on-line facility.
1.10	**Delegated Responsibilities** The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. The key item that has been decided under delegations is the approval of one additional Principal Pensions Officer and one additional Pension Officer within the Administration Team as a result of a business case that was developed due to the ongoing increases in amount and complexity of the work. This results in an additional staffing cost of £69,612 per annum including on-costs. This was approved using the delegations that were agreed at the June 2018 Committee. These extra posts are in addition to the three new posts agreed under delegated powers earlier in 2018/19 at a cost of £91,944 including on-costs, and making 8.7 temporary posts permanent, all of which was reported at the June 2018 Committee meeting. Further comment on the impact of this is included in paragraph 2.01. No other delegations have been used since the last Committee meeting.

2.00	**RESOURCE**
2.01	Good progress is being made in the review of staff resources as a result of the business case that was developed earlier in the year. We have successfully recruited two Lead Officers and a Pension Officer, who are now in position. Following the recent agreement to recruit an additional Principal Pensions Officer, interviews are due to take place the end of November. This post will be responsible for technical matters (e.g. compliance with regulations) and delivering our communications strategy, both of which now merit a dedicated person given the complexity of the scheme and our focus

	on improving communications particularly via on-line facilities. In addition, the position of Communications Officer has become vacant due to the internal appointment to one of the above mentioned Lead Officer posts. This post is currently being advertised with interviews due by mid-December. Once these posts are filled, we will have successfully appointed to the five new approved posts. Staffing levels will be continuously reviewed to measure the impact of the new team members on our workloads but given how quickly we have been able to recruit to most of the roles, we are confident that we will notice a positive impact by the spring of 2019.

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	None directly as a result of this report.

4.00	**RISK MANAGEMENT**
4.01	Appendix 7 provides the dashboard and the extract of administration and communications risks. The key risks continue to relate to: • Employers not understanding or meeting their responsibilities which could lead to us being unable to meet our legal or performance expectations, and • Poorly trained or insufficient staff numbers which could lead to us being unable to meet our legal or performance expectations – this will remain a risk while recruitment continues and new team members undergo training.
4.02	Since the last update, the following risks have been updated: • Risk number 1 – unable to meet legal and performance expectations due to staff issues e.g. poorly trained or insufficient staff. The controls and actions have been updated to reflect the increasing staffing levels. The risk scores will remain unchanged until the impact of the changes is better understood. • Risk number 2 – unable to meet legal and performance expectations due to employer issues e.g. not understanding their responsibilities, poor data transmission and insufficient resources. Although the impact and likelihood scores have remained unchanged, a further control and a further action have been added to reflect the additional data quality work that is being undertaken and is planned. • Risk number 3 – unable to meet legal and performance expectations due to external factors e.g. big changes in employer or scheme member numbers or unexpected work. The actions have been updated to reflect the increasing staffing levels. The risk scores will remain unchanged until the impact of the changes is better understood. • Risk number 5 - the Fund's objectives/legal responsibilities are not met or are compromised due to external factors e.g. externally led influence and change such as scheme change, national reorganisation and asset pooling. The likelihood score has been changed from marginal to catastrophic to recognise the current uncertainty around the major change in Aquila Heywood who provides the Fund's administration

	system. It is hoped that in the coming months that we will regain confidence in the business model of Heywood (the new company) but there is uncertainty at the moment. A sudden and major change to the service we receive could have a critical impact on the services we provide to our scheme members.

5.00	**APPENDICES**
5.01	Appendix 1 – Business plan update 2018/19 Appendix 2 – Backlog and aggregation update from Mercer Appendix 3 – tPR Data Score summary Appendix 4 – Analysis of cases received and completed Appendix 5 – Key Performance Indicators Appendix 6 – Member Self Service update Appendix 7 – Risk register update

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	Report to Pension Fund Committee – Business Plan 2018/19 to 2020/21 **Contact Officer:** Sandra Beales, Principal Pensions Officer **Telephone:** 01352 702876 **E-mail:** sandra.beales@flintshire.gov.uk

7.00	**GLOSSARY OF TERMS**
7.01	(a) **CPF – Clwyd Pension Fund** – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region (b) **Administering authority or scheme manager** – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund. (c) **PFC – Clwyd Pension Fund Committee** - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund (d) **LPB or PB – Local Pension Board or Pension Board** – each LGPS Fund has an LPB. Their purpose is to assist the administering authority in ensuring compliance with the scheme regulations, TPR requirements and efficient and effective governance and administration of the Fund. (e) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of.

	(f) **TPR – The Pensions Regulator** – a government organisation with legal responsibility for oversight of some matters relating to the delivery of public service pensions including the LGPS and CPF. (g) **SAB – The national Scheme Advisory Board** – the national body responsible for providing direction and advice to LGPS administering authorities and to DCLG. (h) **MHCLG – Ministry of Housing, Communities and Local Government** – the government department responsible for the LGPS legislation.

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Business Plan 2018/19 to 2020/21 – Q2 Update
Administration and Communications

Key Tasks

Key:

	Complete
	On target or ahead of schedule
	Commenced but behind schedule
	Not commenced
xN	Item added since original business plan
xM	Period moved since original business plan due to change of plan /circumstances
~~x~~	Original item where the period has been moved or task deleted since original business plan

Administration (including Communications) Tasks

Ref	Key Action – Task	2018/19 Period				Later Years	
		Q1	Q2	Q3	Q4	2019/20	2020/21
A1	Additional Payroll Functionality	x		xM			
A2	Move to Electronic Annual Benefit Statements	x	x				
A3	iConnect	x	x	x	x	x	
A4	Expanded Backlog to 31 March 2014	x	x	x	x		
A5	Aggregation Project	x	x	x	x	x	
A6	Electronic and Centralised internal procedures	x	x	x	x	x	
A7	Data Improvement Plan Development	x	x	x	x		
A8	GMP Reconciliation	x	x	x	x	x	
A9	Trivial Commutation	x	x	x	x	xM	
A10	LGPS Legal Timescales Analysis		x	x	x	xM	
A11	National Pensions Dashboard			x	x	x	xM
A16	Other Expected National Changes (dates unknown)						
A17	GMP Equalisation				xM	xM	
A18	Scheme changes due to Cost Management Process				xM	xM	

Administration and Communication Task Descriptions

A1 – Additional Pensioner Payroll Functionality

What is it?

Currently lump sum payments (i.e. retirement lump sums, transfer payments and death grants) are made via the Council's main financial system. The Altair pensioner payroll system which is used by the Pensions Administration Team has the functionality to allow these payments to be made through it. This reduces the reliance on systems outside of the control of the pension administration team and it would also result in quicker payments to scheme members. .

Timescales and Stages

Testing and implementation	2018/19 Q1

Resource and Budget Implications

All internal costs are to be met from the existing budget. External costs amount to £3,800 one off cost.

A2 – Move to Electronic Annual Benefit Statements

What is it?

Following the implementation of Member Self Service, the move from paper based Annual Benefit Statements to Electronic is planned for the 2018 statements. This includes other annual electronic communications such as pensions increase letters for pensioners.

Timescales and Stages

Deferred Benefit Statements	2018/19 Q1
Active Benefit Statements	2018/19 Q2

Resource and Budget Implications

All internal costs are to be met from the existing budget. Printing and mail costs will reduce in 2018/19 and future years.

A3 - iConnect

What is it?

iConnect is the on-line computer module that allows information to be submitted by employers more directly and efficiently into the pension administration system (Altair). It involves employers uploading data directly into iConnect from their payroll systems. iConnect is to be rolled out to all employers of the Fund on a phased basis. For each employer being transitioned onto iConnect, the first stage is ensuring that the correct member records are held on the Altair administration system before entering into testing and live roll out of iConnect. This will be done on a phased basis by employer. The project commenced in 2017/18 and Denbighshire County Council, Bodelwyddan Castle Trust, Prestatyn Town Council, Careers Wales, Cartref NI Ltd Flintshire County Council, Aura and Newydd have been successfully implemented.

Timescales and Stages

Other employers	2018/19 Q2/Q3/Q4
WCBC	2019/20

Resource and Budget Implications

There will be a time and resource commitment required from employers. All internal costs are being met from existing budget. The system cost is also incorporated into the budget. The roll out of iConnect, particularly to WCBC will involve significant internal resources which may impact on other day to day work.

A4 – Expanded Backlog to 31 March 2014 (Mercers)

What is it?

A backlog of tasks prior to 31 March 2013 has been expanded to 31 March 2014 and approximately 350 additional member cases have been identified for completion by Mercers.

Timescales and Stages

Clear cases externally and eliminate backlog	2018/19

Resource and Budget Implications

Resource provided by Mercer. The costs in relation to this exercise have been included in the budget.

A5 – Aggregation Project

What is it?

When members move/leave employments there are a number of options available to them and all of these options need to be conveyed to the members concerned. There are approximately 3,500 cases (as at 30 September 2017) where members need to either be informed that their records have been aggregated or be provided with their respective options. Software providers are still developing calculations to accommodate these changes. The recent recruitment and creation of the Aggregation Team has facilitated procedures to be put in place to address this backlog and maintain these cases as "business as usual" going forward. Whilst still in the planning stages it is expected that approximately 1700 of these cases may be outsourced to Mercers for the initial stage of the process to be actioned and returned to the Aggregation Team for completion.

Timescales and Stages

This is a high priority project and will be completed as soon as possible.

Ongoing progress with data cleansing	2018/19
Clear cases and eliminate backlog	2018/19 & 2019/20

Resource and Budget Implications

An additional £13,683 for changing Pensions Assistants to Pensions Officers is included within the budget (previously agreed in 2017/18. There will also be further costs relating to the work which may be outsourced to Mercers and an estimated cost for 2018/19 has been included in the budget figures.

A6 – Electronic and Centralised internal procedures

What is it?

This relates to the development of an on-line procedures manual for use by the Pensions Administration staff. This will amalgamate, expand and update current procedure documents, and ensure consistency, easy access and efficient working as well as providing a useful training tool. These updated procedures will also be linked into staff competencies and training plans.

Timescales and Stages

This is a lower priority project and will be completed as and when resource allows.

Develop, collate, update and maintain	2018/19 & 2019/20

Resource and Budget Implications

To be carried out by the full Pensions Administration team. All internal costs are to be met from the existing budget.

A7 – Data Improvement Plan Development

What is it?

In 2015, the Pensions Regulator (TPR) assumed responsibility for Public Sector Pension Schemes. Prior to this, in June 2010, TPR issued guidance on the approach that they expected to be adopted by private sector pension schemes to consider data. This referred to checks being expected on 'common' data (e.g. Name, Address, Date of Birth, National Insurance number). TPR also outlined 'conditional' data checks but did not set prescriptive targets as the data is deemed to be scheme-specific (e.g. Member data – divorce, transfers in, AVCs, deferred information). The guidance did target pension scheme trustees to ensure that 'reasonable endeavours' were undertaken to provide evidence of assessment and measurement, together with an action plan to meet the scheme specific targets (i.e. a data improvement plan). From 2018/19, TPR is expecting all pension schemes to review their common and conditional (now called scheme-specific) and score the quality of that data.

To assist customers in undertaking this practical assessment of their data, both common and /scheme specific Aquila Heywood offers a Data Quality service. The LGPS Scheme Advisory Board will also be providing guidance on what LGPS scheme specific data should be (to provide consistency in checks between administering authorities) but this is unlikely to be available until later in 2018/19.

In addition to measuring and capturing the results of the common and scheme specific data reviews, the Fund will develop a data improvement plan to capture any other elements of data that they consider to be inaccurate and ongoing plans.

Timescales and Stages

Run reports and ascertain data quality	2018/19 Q1
Research and correct any data anomalies where practical*	2018/19 Q1 – Q4
Review scheme specific data checks based on national LGPS requirements	2018/19 Q3/4 (to be confirmed)

*Where not practical, a timescale will be included in the Fund's data improvement plan.

Resource and Budget Implications

To be carried out by the Pensions Administration Team. This may also require input/information from the employers (subject to findings). The data reports are provided at an annual cost of £5,000 (assuming this is taken over at least three years).

A8– GMP Reconciliation

What is it?

The government removed the status of "contracted-out" from pension schemes in April 2016. Prior to then, contracted-out pension schemes had to ensure the benefits they paid met a minimum level and one element of this was a Guaranteed Minimum Pension (GMP) figure that accrued individually for each scheme member up to April 1997. Historically pension schemes would go to HMRC to get confirmation of the GMP amount on retirement. However, as a result of the demise of contracted-out status, HMRC will no longer be maintaining GMP and other contracting out member records. This means that the onus will be on individual pension schemes to ensure that the contracting out and GMP data they hold on their systems matches up to the data held by HMRC. All GMP's and national insurance information must be reconciled by March 2019, the date the HMRC will cease to provide their services.

Initial work has identified that there was significant discrepancies between the two sets of data, and a significant amount of work will be required to determine the correct benefits, ensure all systems are updated and to process a potentially significant number of over/underpayment calculations. After the records are reconciled for former pensionable employees, the Fund must also ensure the accuracy of national insurance information held for active members. All GMP's and national insurance information must be reconciled by December 2018, the date the HMRC will cease to provide their services. Clwyd Pension Fund decided to outsource this exercise in 2017/18 to Equiniti and the project commenced during that year. The timescales below are subject to change depending on the magnitude of the work.

Timescales and Stages

GMP data reconciliation and investigation	2018/19
Reconciliation of national insurance information (Active Members)	2018/19
Benefit correction and system updates	2018/19 & 2019/20

Resource and Budget Implications

All costs to be met from the existing budget which includes expected costs for Equiniti who are carrying out the work. This is likely to impact internal resources in relation to any adjustments to be made to current pension amounts (i.e. under or overpayments) but the impact of this is not yet known.

A9 - 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. A project will be carried out to identify any pensioners and dependants who may be eligible for trivial commutation and to offer it to them. This will reduce the administrative burden on the Fund 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 a limit for members to trivially commute their pension in relation to their single pension (£10,000 value – called a "small pot") and total benefits (£30,000 – called "trivial commutation"). As well as reducing the number of pensioner payments that require ongoing payment this could also have a positive impact on the funding level as it removes the liabilities for these members. It will also be welcomed by a number of pensioners who would prefer a one-off lump sum payment rather than ongoing smaller payments of little value.

Timescales and Stages

Timescales below are indicative and subject to prioritisation of other administration work streams.

Identify members eligible to commute under £10,000	2018/19
Communicate with eligible members and pay lump sums	2018/19
Identify members eligible to commute under £30,000:	2019/20
Communicate with eligible members and pay lump sums	2019/20

Resource and Budget Implications

The majority (if not all) of this work may be outsourced to Mercer or another external provider to assist with resourcing. The precise cost of this is as yet unknown but a contingency has been included for 2018/19 within the budget to cover potential costs. It will also require input by the Technical Team with some assistance from the Operational Team, with any such input being focussed on the later stages of the project. All internal costs are to be met by existing budget.

A10 – LGPS Legal Timescales Analysis

What is it?

Following the implementation of monitoring performance against the seven key legal timescales (as part of the monthly Key Performance Indicators (KPIs) reporting), a full review is being undertaken of our workflow systems and data quality to enable monitoring against a wider range of legal deadlines such as those relating to refunds and divorce.

Timescales and Stages

Develop further legal timescales reporting process	2018/19 Q2/Q3

Resource and Budget Implications

All internal costs are to be met by existing budget. It may be effective to outsource some of the development work to Aquila Heywood but this is not expected to be a material cost, and it is not included in the budget.

A11 – National Pensions Dashboard

What is it?

The Pensions Dashboard is a Government initiative first announced in the Budget 2016. The idea behind the Dashboard is to allow all pension savers in the UK access to view the values of all of their pension pots, including state pension, through one central platform. A basic prototype was developed in 2017 and the full launch is planned for 2019. The implications on public service pension schemes, including whether they will be required to participate and the cost, and resource implications, is not yet known. The timescales below are therefore estimated.

Timescales and Stages

Development expected	2018/19 Q3/4 & 2019/20
Launch	2019/20

Resource and Budget Implications

Resource and budget implications cannot be determined until more detail is available.

A16 - Other Expected National Changes

What is it?

There are a number of national changes that are expected in due course. Given the focus on Brexit, it is not expected that many, if any, changes will take place during 2018. Areas where change may be forthcoming in due course could include:

- Scheme Changes as a result of the Cost Management Process
- Changes in Exit Payments
- Indexation of GMP's for members reaching SPA from December 2018
- GMP equalisation
- Fair Deal
- LGPS amendment regulations in relation to drafting problems or other areas of improvement (e.g. ill health provisions and aggregation)
- Welsh income tax changes

Timescales and Stages

To be determined

Resource and Budget Implications

Any significant changes will be reported to PFC when more information becomes available.

A17 – GMP Equalisation

What is it?

Following a High Court judgement in October 2018, it has been confirmed that pension schemes are required to equalise male and female members' benefits for the effect of Guaranteed Minimum Pensions (GMPs). The impact for the LGPS will likely be resolved through increasing the amount of indexation (or pensions increases) when pensions are paid. As at November 2018, we are still awaiting guidance from the Government on the details of how this will be done but it could result in a significant administration exercise to update member records and potentially to adjust pensions already in payment. We would expect any work to resolve this to be during 2018/19 and 2019/20.

Timescales and Stages

To be confirmed

Resource and Budget Implications

To be confirmed.

A18 – Scheme changes due to Cost Management Process

What is it?

Following a Cost Management exercise, changes are expected effective from April 2019 which will improve scheme benefits and/or reduce scheme member contributions. These changes will need to be communicated to scheme members and employers, and processes will also need updating.

Timescales and Stages

Confirmation of changes expected, and initial communications with scheme members and employers	Q4 2018/19
Changes to processes and systems	Q1 2019/20

Resource and Budget Implications

There will be a time and resource commitment required from employers including relating to updating payroll systems. It is expected that internal costs will be met from existing budget. There may be additional costs relating to changes to the Altair administration system. The amount of work may involve significant internal resources and consequently other day to day work may be impacted.

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MERCER
MAKE TOMORROW, TODAY

CLWYD PENSION FUND
BACKLOG CLEARANCE AND AGGREGATION PROJECT

PROGRESS UPDATE - 5 NOVEMBER 2018

Set out below is the progress made on both projects to 5 November 2018. The key points at this stage are:

- We have been completing these cases in the priority order as agreed with the FCC administration team
- We have been working with Wrexham CBC, to successful resolution, in gaining access to their systems and this was resolved in September.
- As discussed with Fund Officers, the priorities on this project have been varied to accommodate other additional work coming into scope. The adjusted completion target has therefore been adjusted with the agreement of Fund Officers to 31 January 2019, but with an absolute deadline of 31 March 2019.

Listing name	Cases in scope			Cases completed		Query cases	Cases in WIP	Cases to be started	
Pre 2014 cases	**Original**	**Additional arising***	**Total**	*to 5 November 2018*		*with CPF*	*With Mercer*	*With Mercer*	
FCC1 queries	50	5	55	50	*91%*	5	0	0	*0%*
Original FCC	117	25	142	140	*99%*	1	0	1	*1%*
Pre 14 FCC	45	0	45	45	*100%*	0	0	0	*0%*
Original DCC	47	0	47	44	*94%*	3	0	0	*0%*
Pre14 DCC	66	0	66	57	*86%*	9	0	0	*0%*
Pre14 WXM	163	0	163	34	*21%*	6	30	93	*57%*
Totals	488	30	518	370	*71%*	24	30	94	*18%*

MARSH & McLENNAN COMPANIES

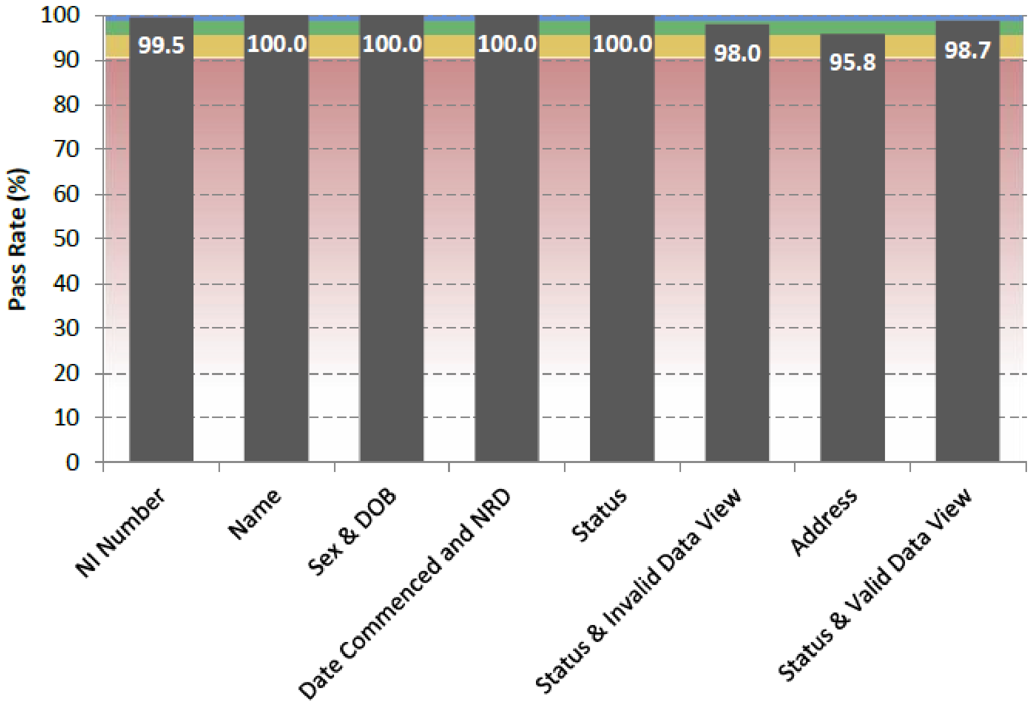
Post 2014 cases (aggregations)	Cases in scope			Cases completed		Query cases	Cases in WIP	Cases to be started	
	Original	Additional arising*	Total	*to 5 November 2018*		*with CPF*	*With Mercer*	*With Mercer*	
Post 14-Dec 16 FCC	500	12	512	414	*81%*	13	55	30	*6%*
Post 14-Dec 16 DCC	136	0	136	133	*98%*	2	0	1	*1%*
Post 14-Dec 16 WXM	292	0	292	2	*1%*	0	0	290	*99%*
Totals	928	12	940	549	*58%*	15	55	321	*34%*
Grand total across both projects	1416	42	1458	919	*63%*	39	85	415	*28%*

Notes:
- FCC – Flintshire County Council cases
- DCC – Denbighshire County Council cases
- WXM – Wrexham County Borough Council cases
- **Additional cases arising* are where the original cases have had to be expanded, owing to the specific circumstances of the original case (as agreed with the FCC administration team)
- The above naming convention of the listings is consistent with the tracking spreadsheets as defined by the FCC administration team

Mercer Limited
November 2018

Common Data Quality Summary

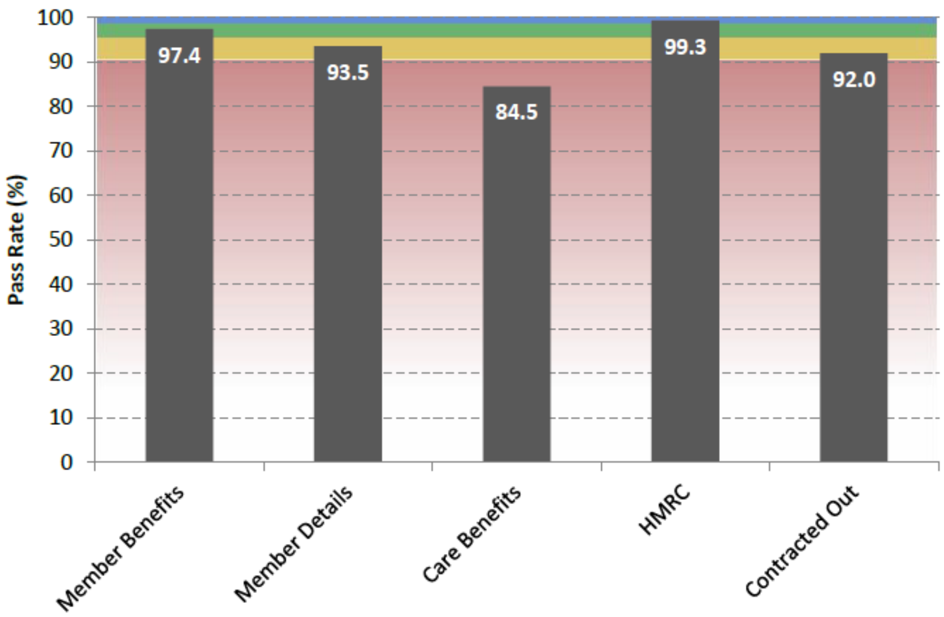
The graph below indicates CPF's performance for each data category against the agreed scheme benchmarks. The results presented herein are generated from data extracted from CPF's Live Altair service on 13th April 2018 for all tests. The overall percentage of tests passed for CPF's common data is **99.0%**.



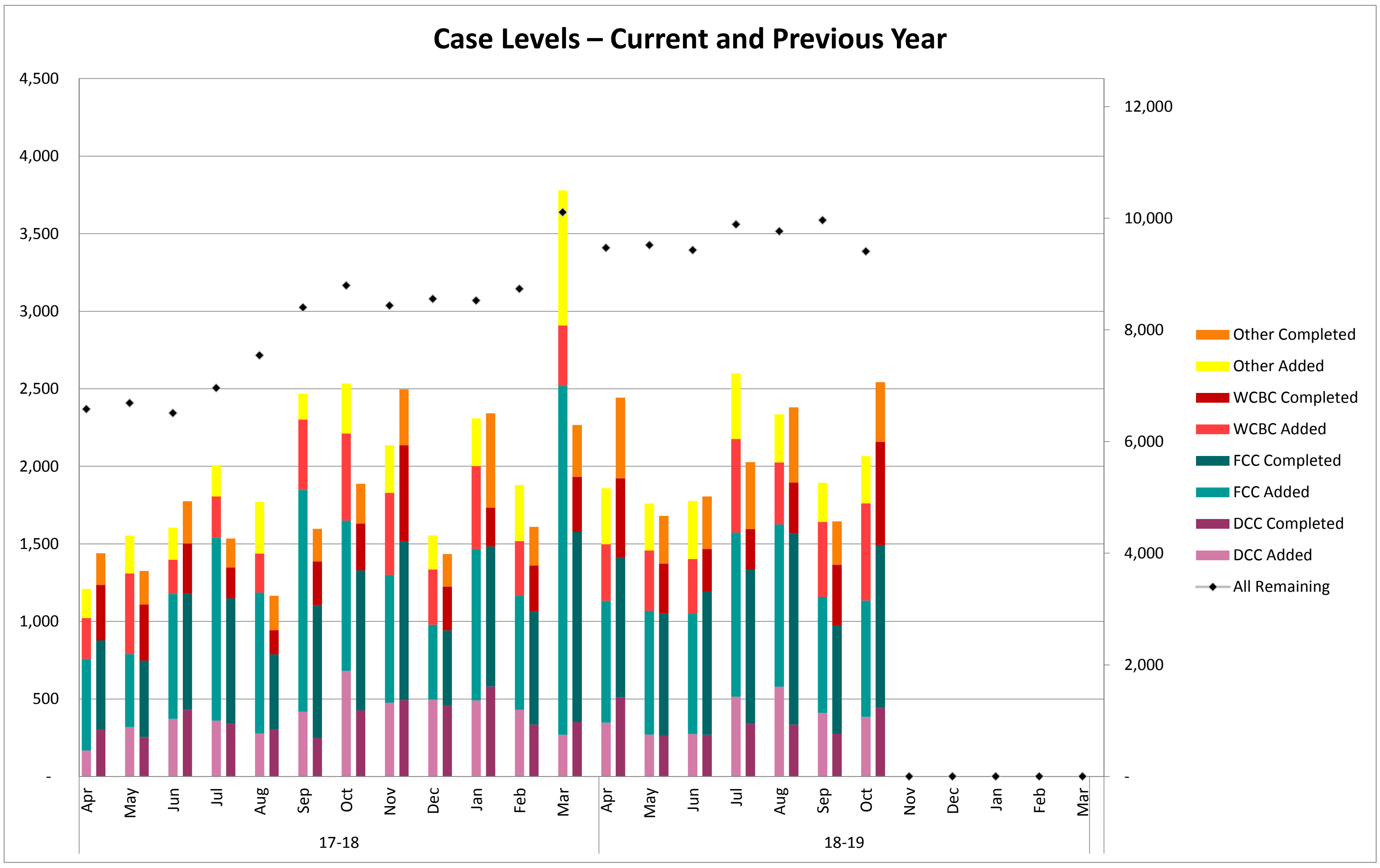
7 of the 8 categories met the highest benchmark of greater than 98% with 3 categories not recording a single failure. The sole category that did not reach the highest benchmark concerned **Member Addresses** which achieved the Green benchmark at **95.8%**. With the exception of Member Addresses, the general quality of the common data at CPF is of a high standard. The percentage of member records without a single common data failure is **92.7%** and this is the figure that has been reported to TPR.

Scheme – specific Data Quality Summary

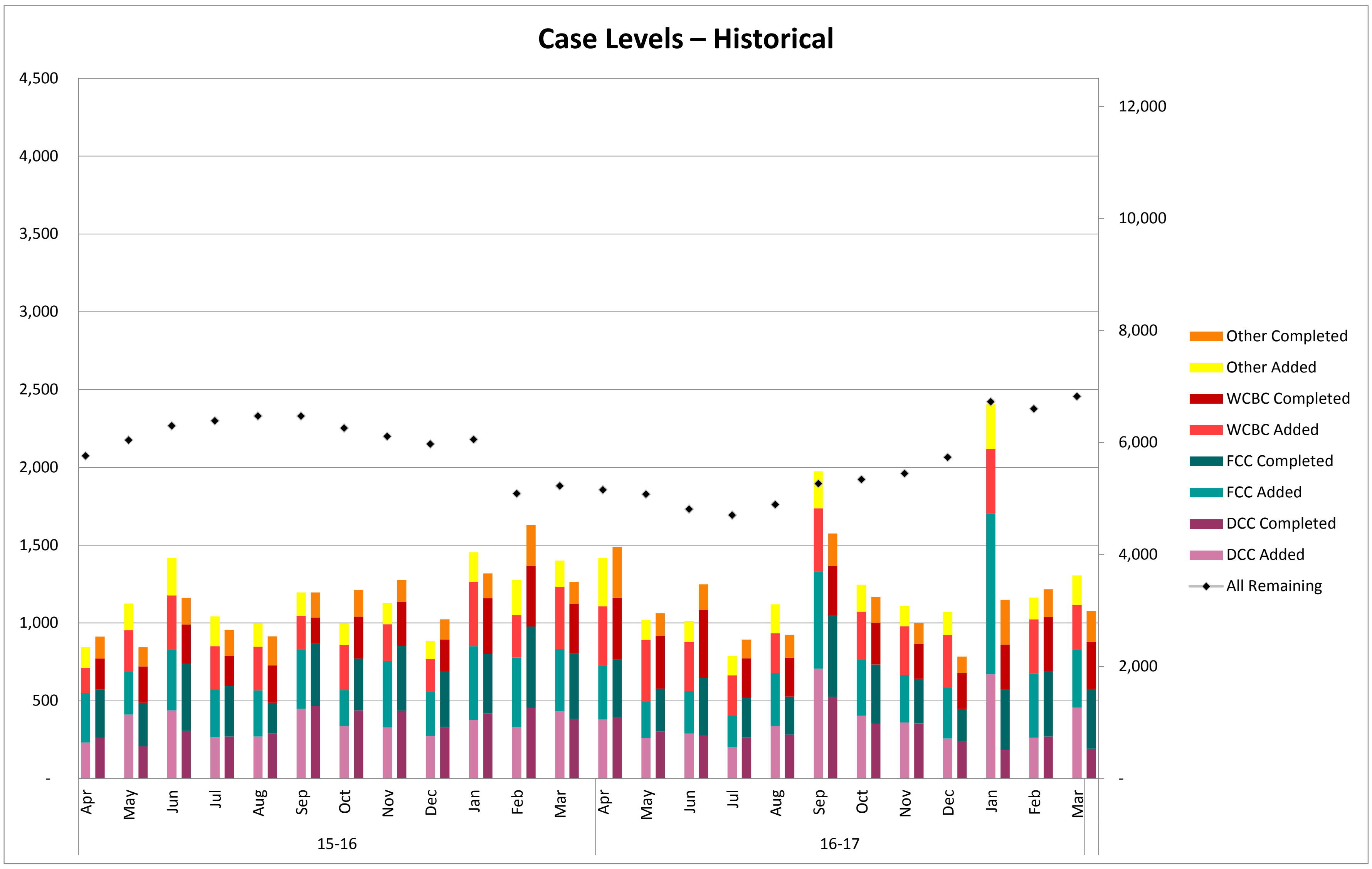
The graph below indicates CPF's performance for each data category against the agreed scheme benchmarks. The results presented are generated from data extracted from CPF's Live Altair service on 17th April 2018 for all tests. The overall percentage of tests passed for CPF's scheme-specific data is **93.8%**. The percentage of member records without a single scheme-specific data failure is **68.2%** and this is the figure that has been reported to TPR. The lowest scoring condition was Transfer In details (tested within the Member Benefits category) where only 69.7% of members tested passed. This was due almost entirely as a result of incorrectly recorded historical manual cases. Although many of the cases that failed this condition may not directly affect benefits, these cases still need to be reviewed.



Case Levels – Current and Previous Year



Case Levels – Historical



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Key Performance Indicators

The following pages show the performance against the key performance indicators (KPIs) which have been agreed within Clwyd Pension Fund's Administration Strategy. They cover seven areas of work, and for each there is a KPI for each of the following:

- The legal timescale that must be met
- The overall timescale for the process (including any time taken by employers and/or scheme members)
- The timescale relating to the Clwyd Pension Fund administration team only

The KPIs are specific to each process (as set out in the Administration Strategy) and illustrated by the graphs are as follows:

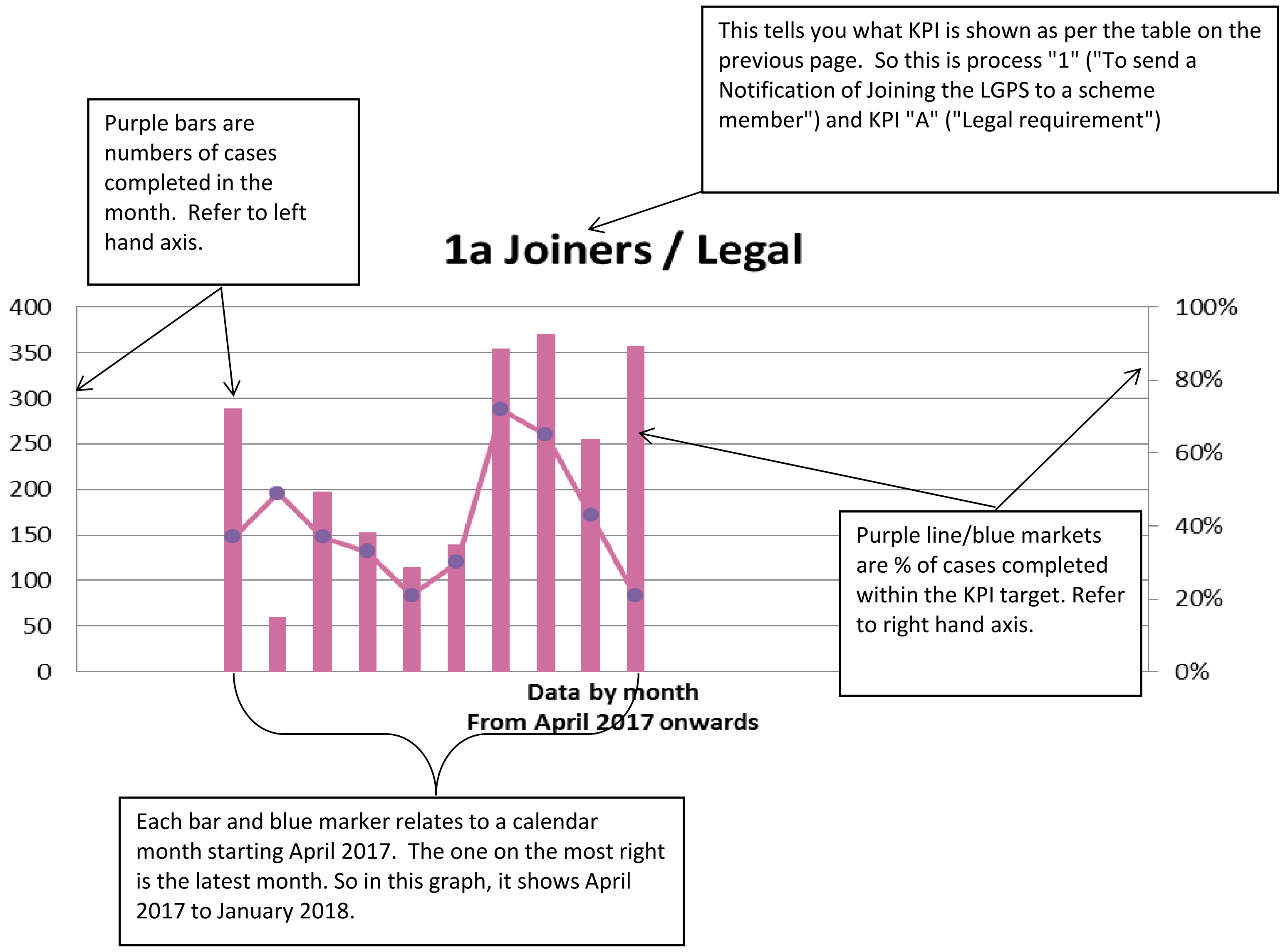
		A	B	C
	Process	**Legal Requirement**	**Overall**	**CPF Administration element target**
1	To send a Notification of Joining the LGPS to a scheme member	2 months from date of joining (assuming notification received from the employer), or within 1 month of receiving jobholder information where the individual is being automatically enrolled / re-enrolled	46 working days from date of joining (ie 2 months)	15 working days from receipt of all information
2	To inform members who leave the scheme of their leaver rights and options	As soon as practicable and no more than 2 months from date of initial notification (from employer or from scheme member)	46 working days from date of leaving	15 working days from receipt of all information
3	Obtain transfer details for transfer in, and calculate and provide quotation to member	2 months from the date of request	46 working days from date of request	20 working days from receipt of all information
4	Provide details of transfer value for transfer out, on request	3 months from date of request (CETV estimate)	46 working days from date of request	20 working days from receipt of all information
5	Notification of amount of retirement benefits	1 month from date of retirement if on or after Normal Pension Age or 2 months from date of retirement if before Normal Pension Age [4]	23 working days from date of retirement	10 working days from receipt of all information
6	Providing quotations on request for retirements	As soon as is practicable, but no more than 2 months from date of request unless there has already been a request in the last 12 months	46 working days from date of request	15 working days from receipt of all information
7	Calculate and notify dependant(s) of amount of death benefits	As soon as possible but in any event no more than 2 months from date of becoming aware of death, or from date of request by a third party (e.g. personal representative)	25 working days from date of death	10 working days from receipt of all information

Interpretation of graphs

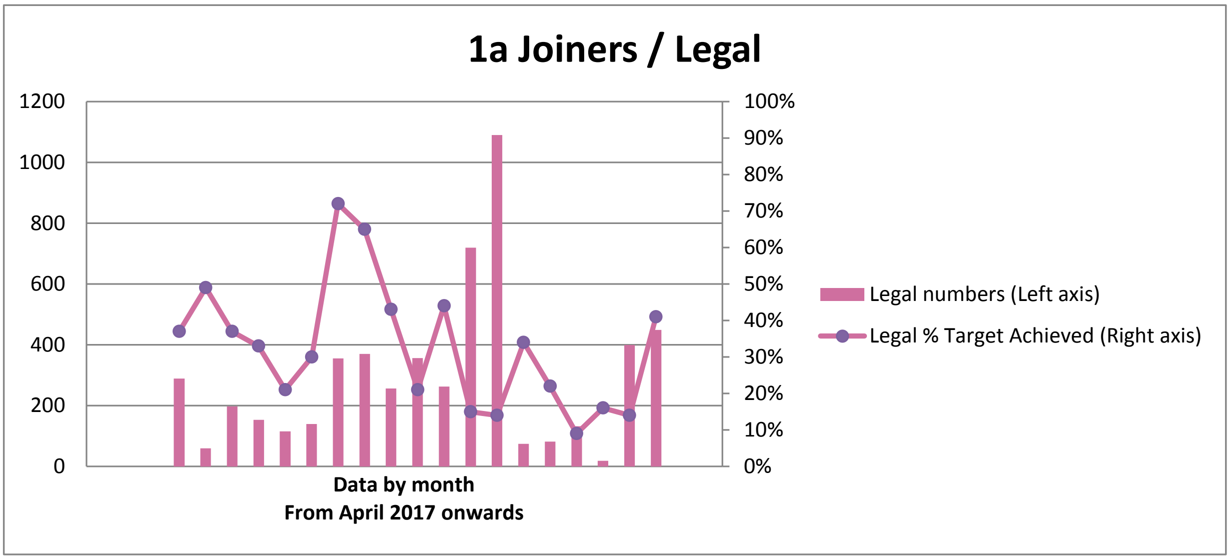
One graph has been provided for each KPI in the table above. Each graph shows month by month:

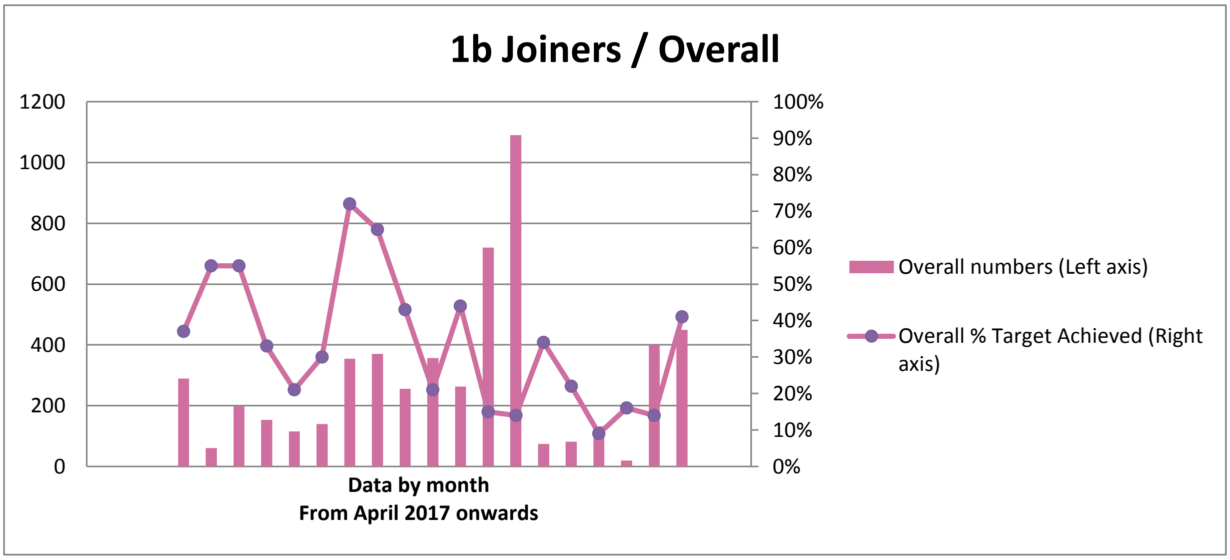
- The number of cases which have been completed each month
- The percentage of those cases completed that were completed within the KPI target

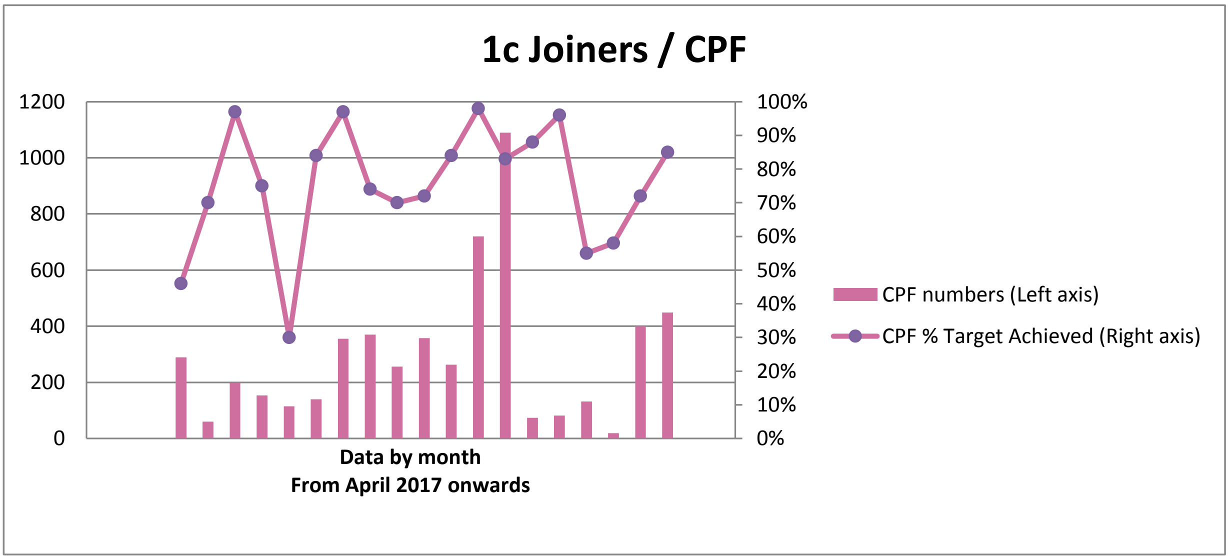
This is illustrated further below.



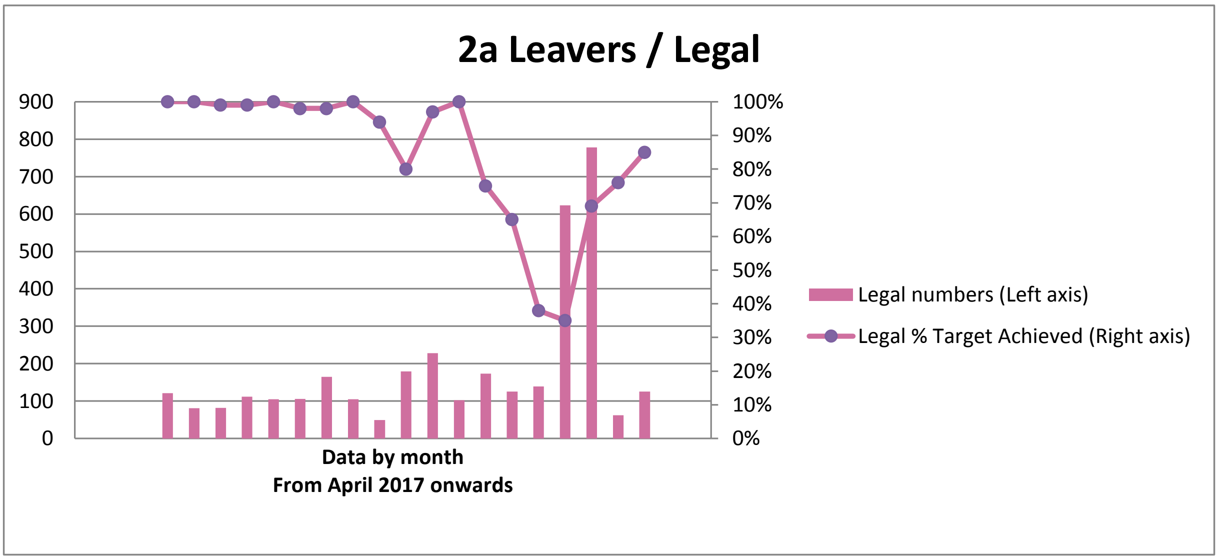
Key Performance Indicators - relating to 31 October 2018

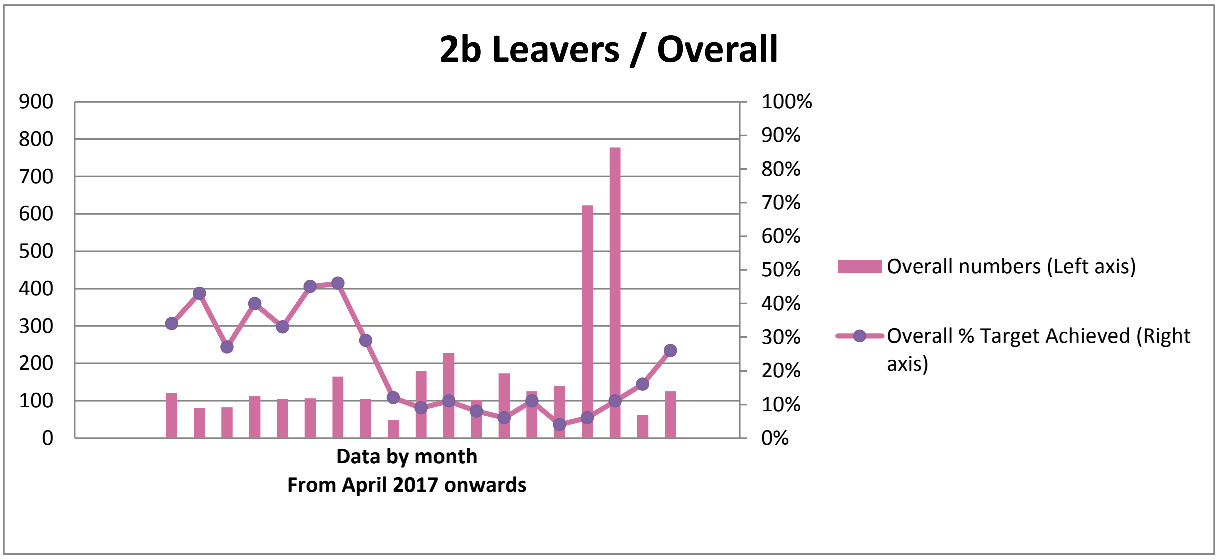


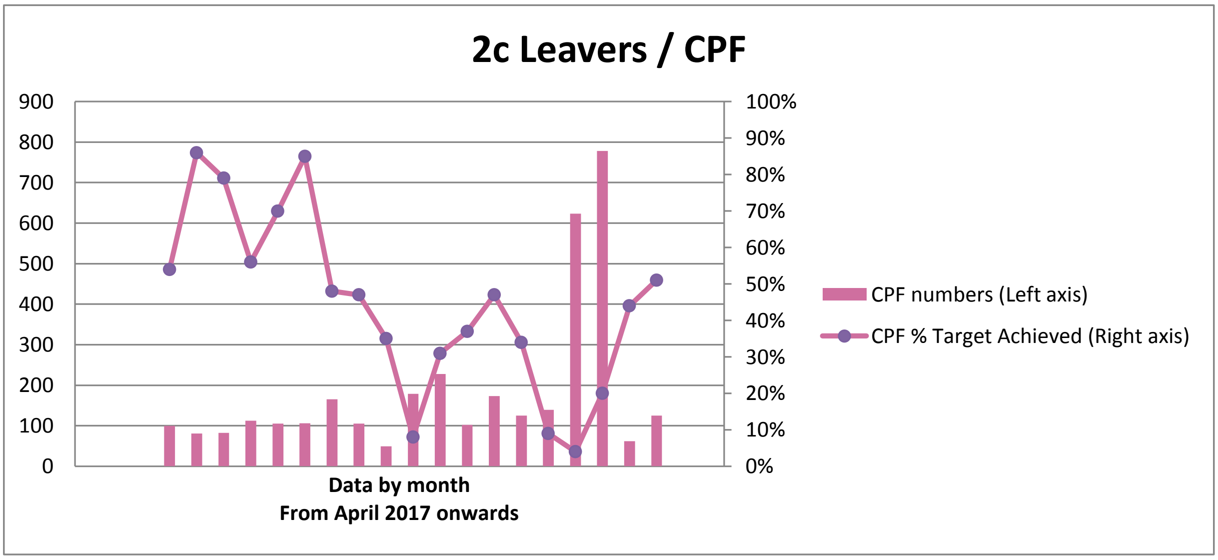




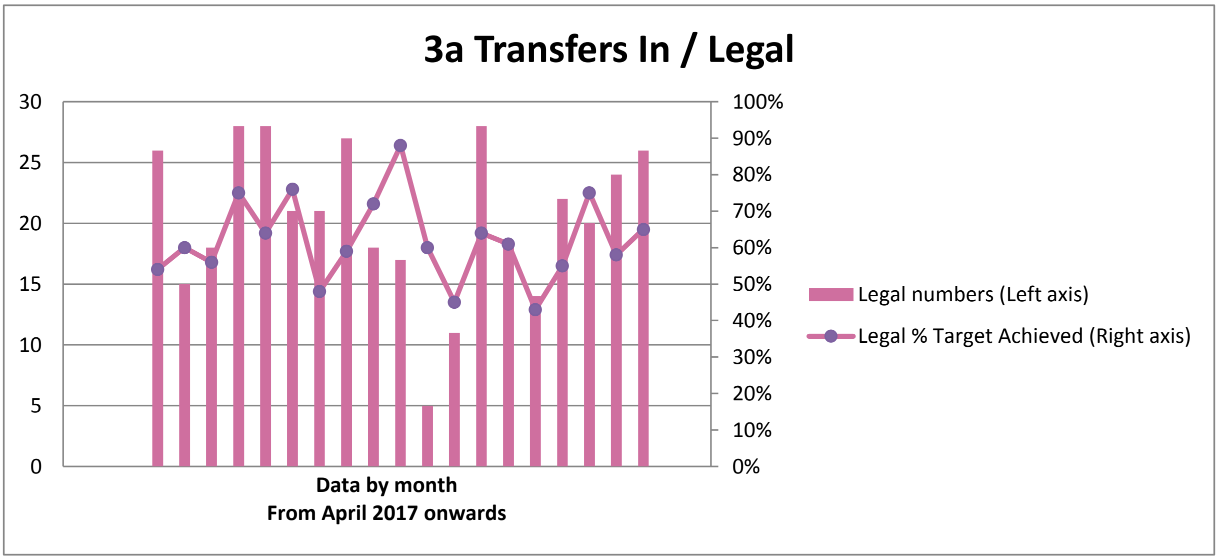
Key Performance Indicators - relating to 31 October 2018

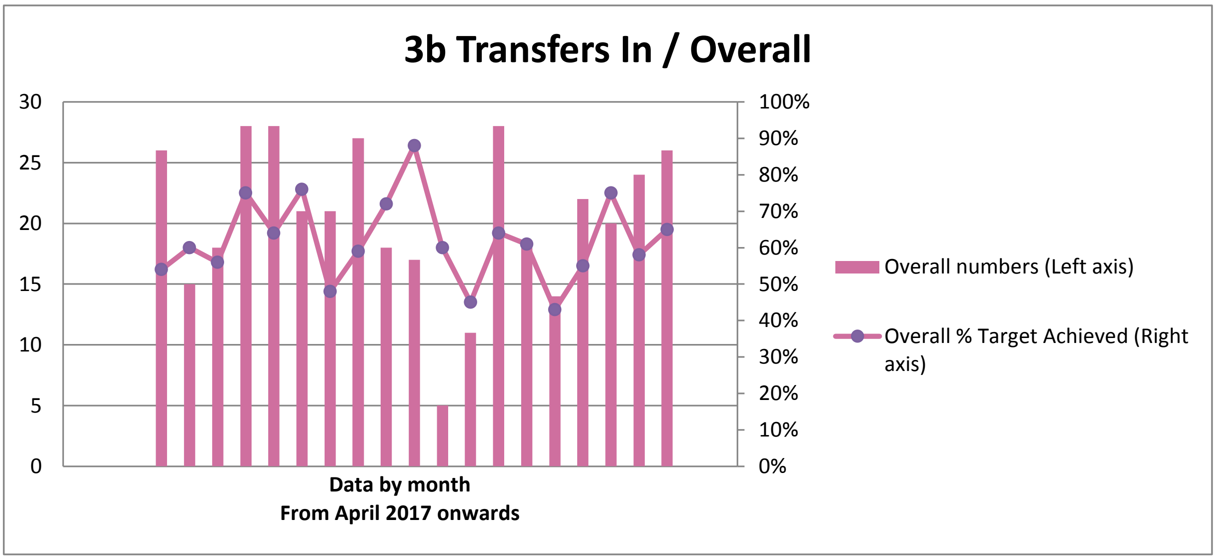


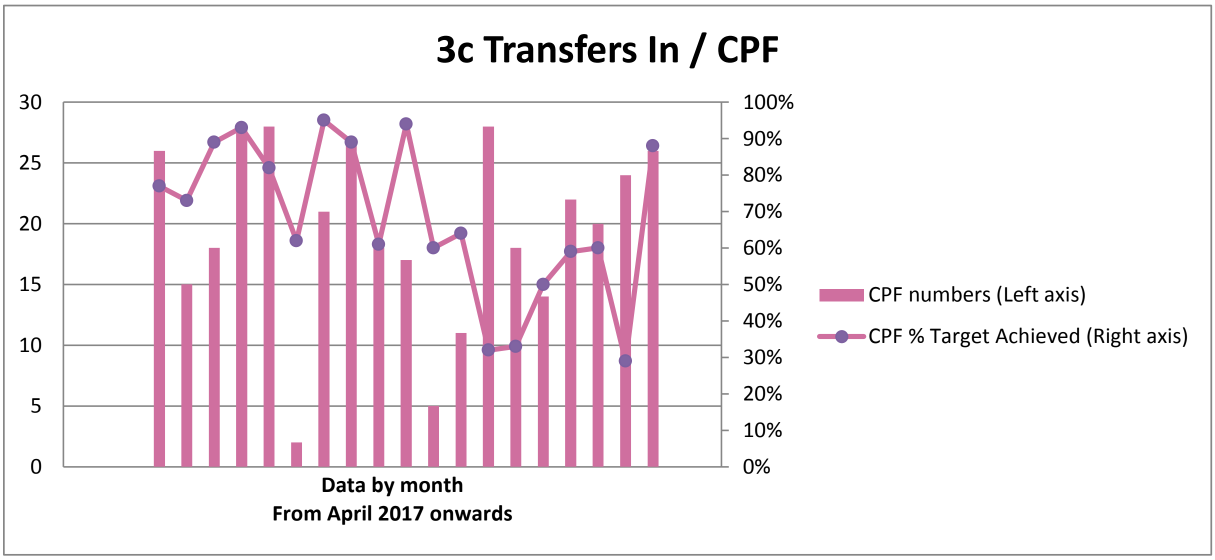




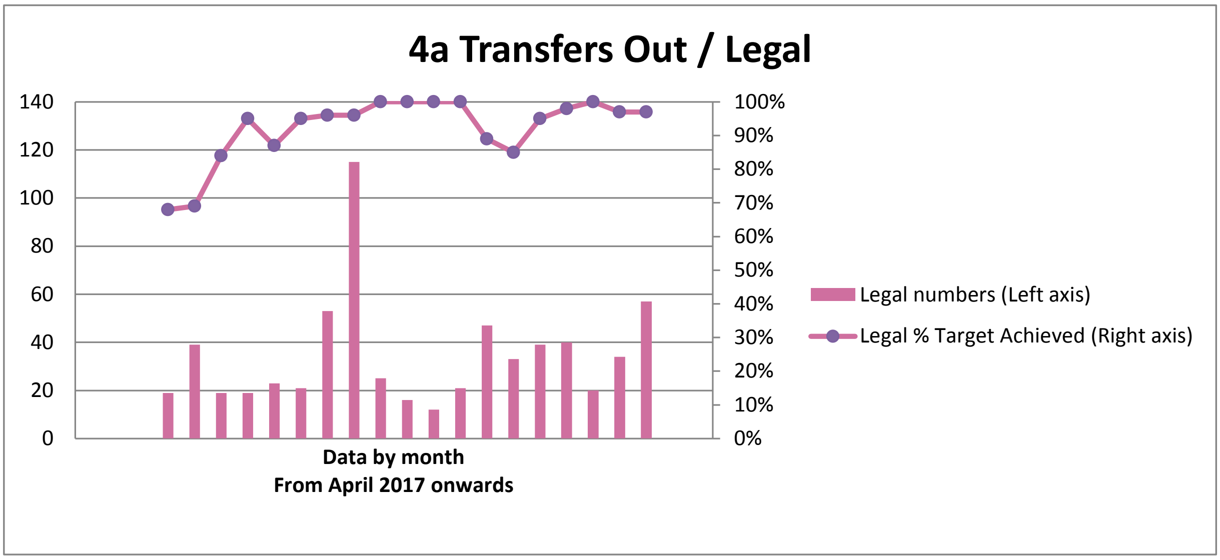
Key Performance Indicators - relating to 31 October 2018

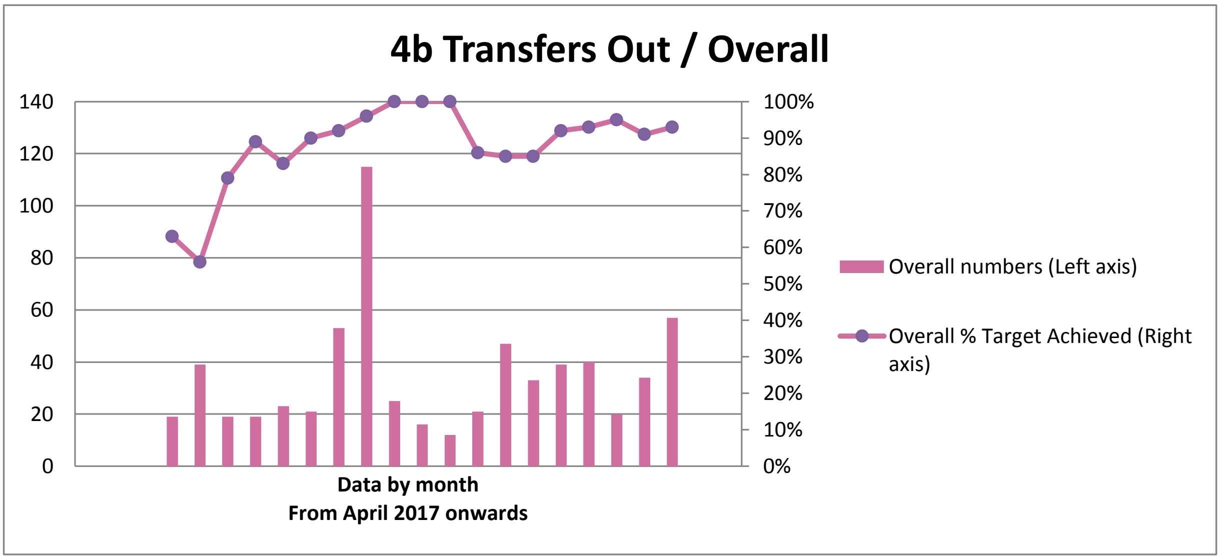


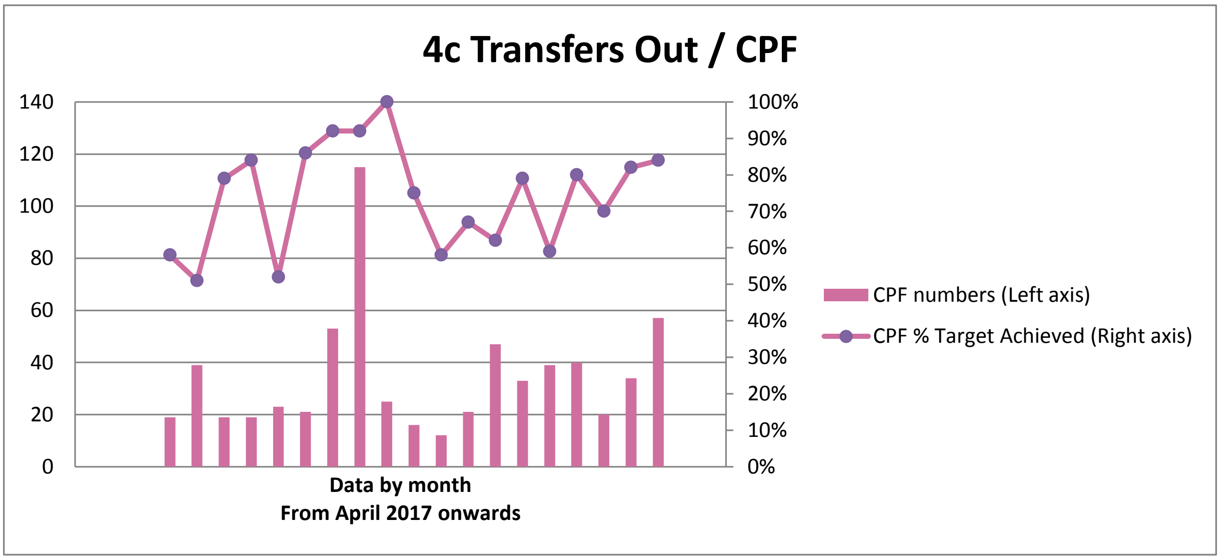




Key Performance Indicators - relating to 31 October 2018







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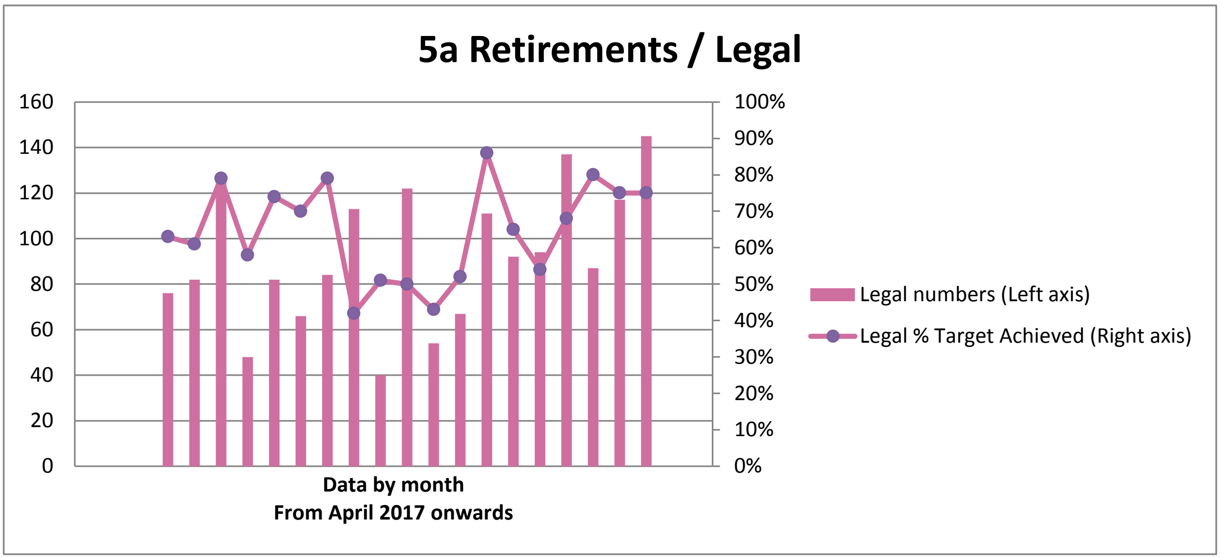
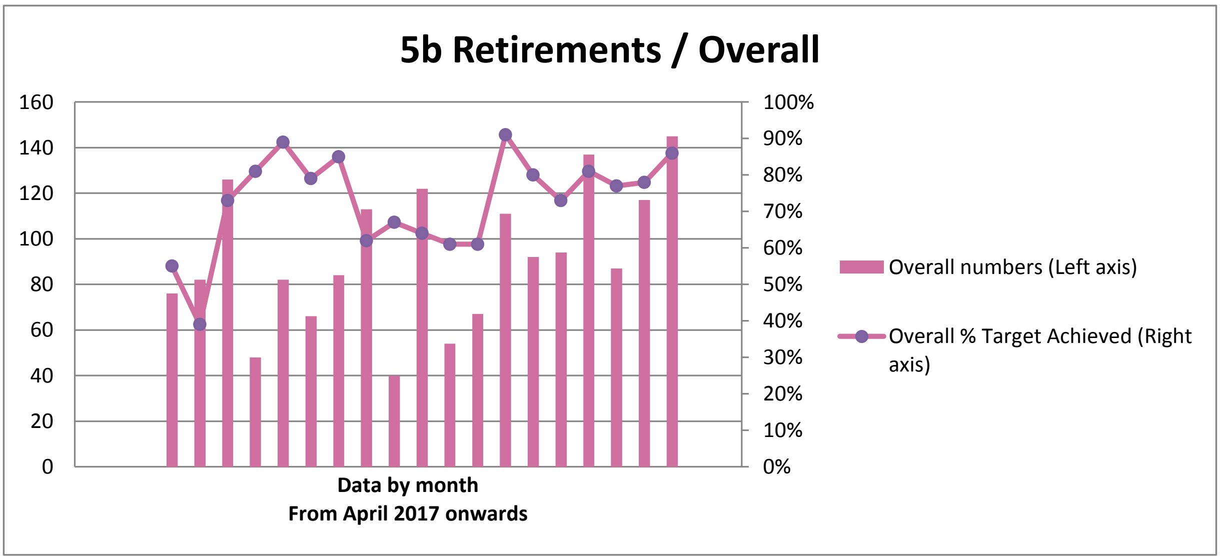
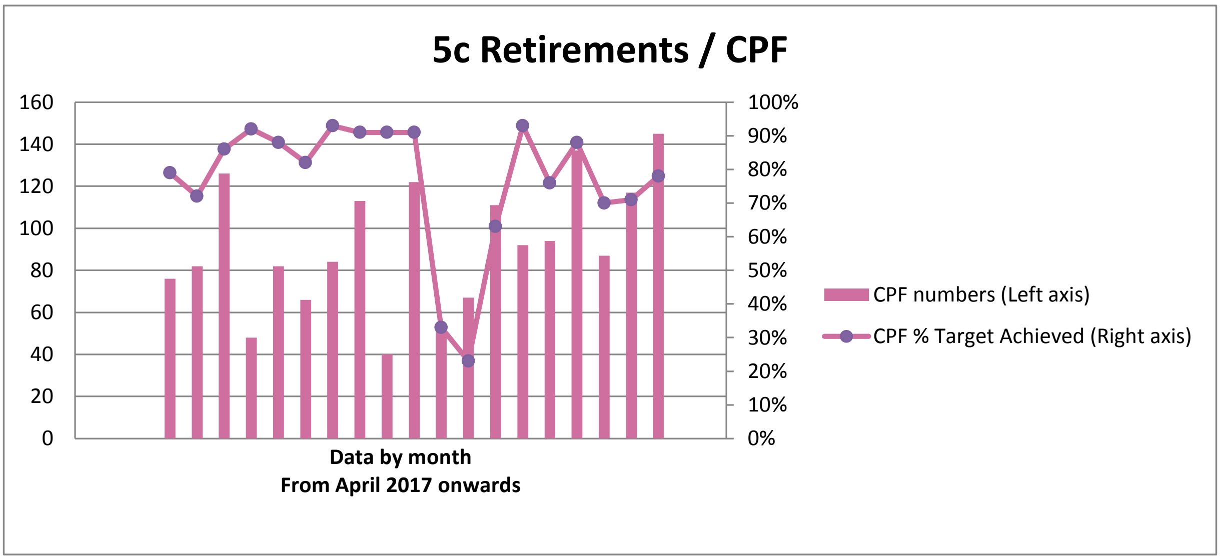
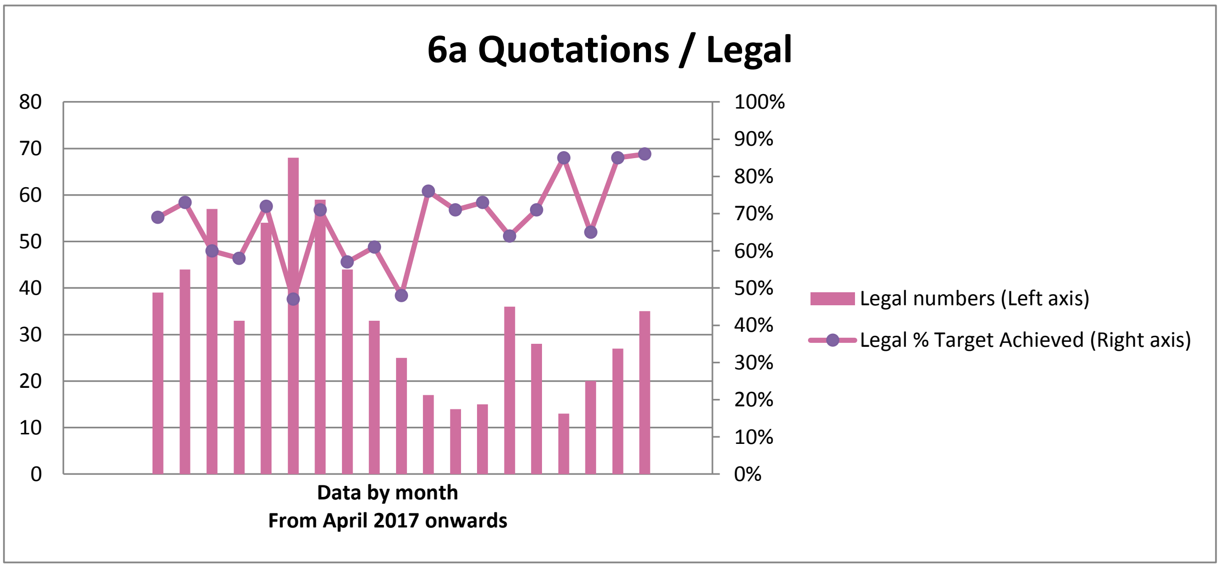
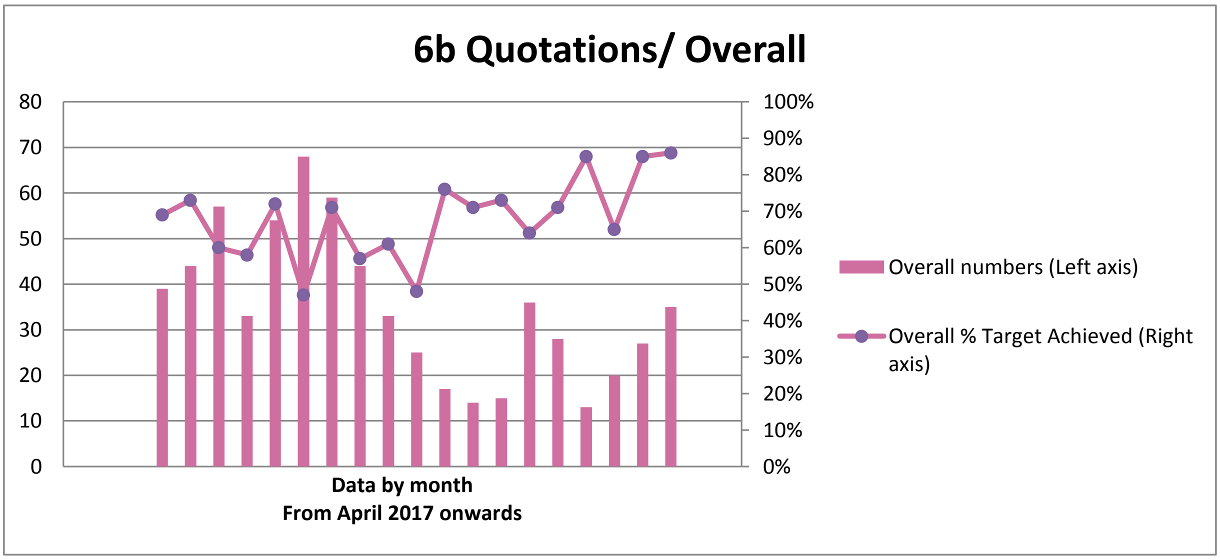


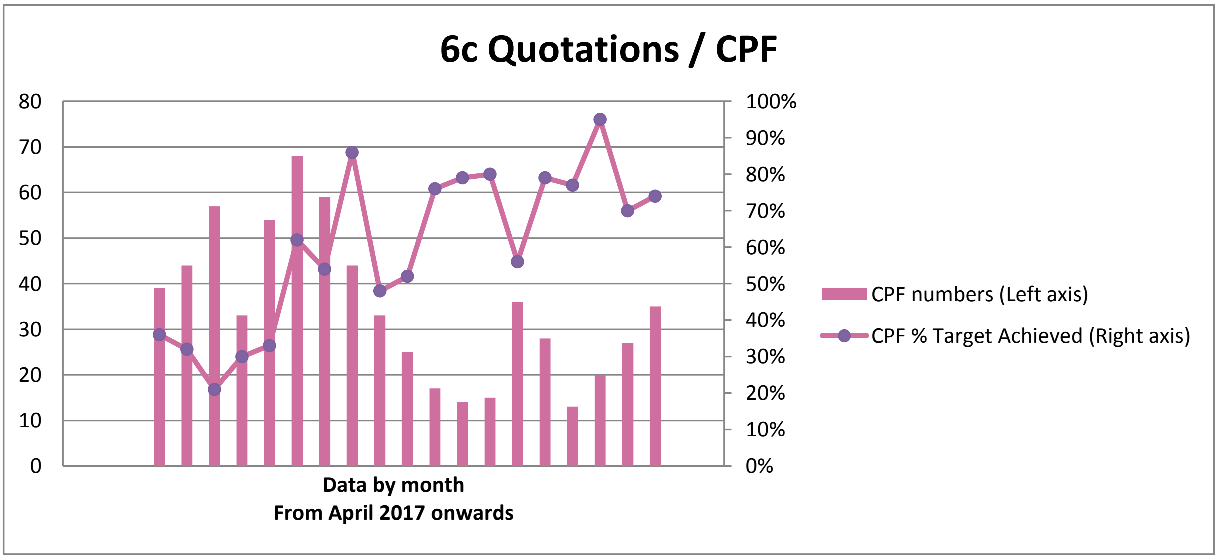




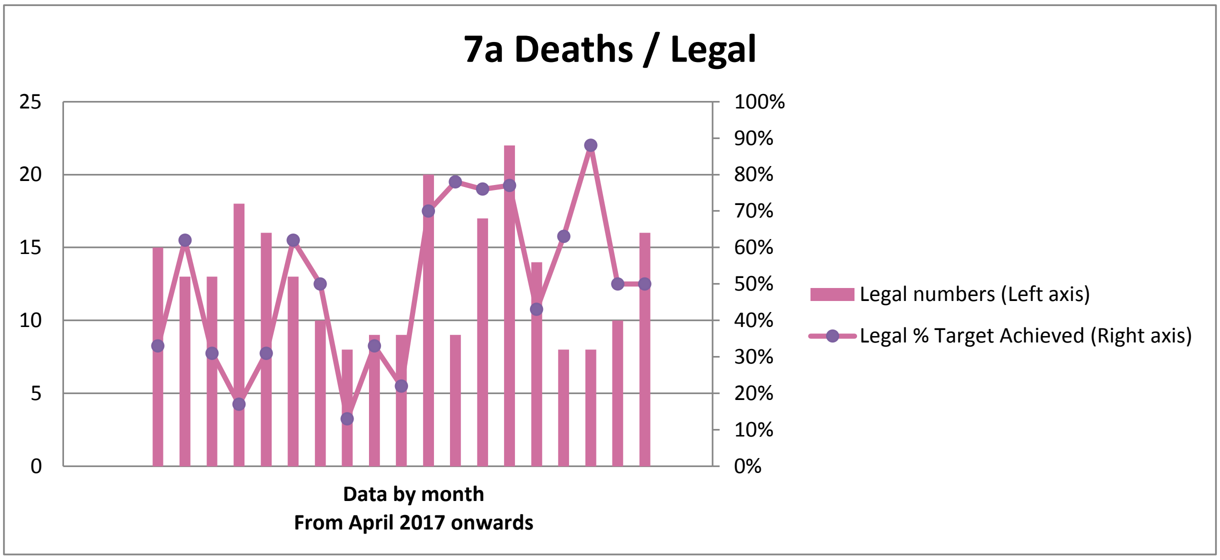
Key Performance Indicators - relating to 31 October 2018

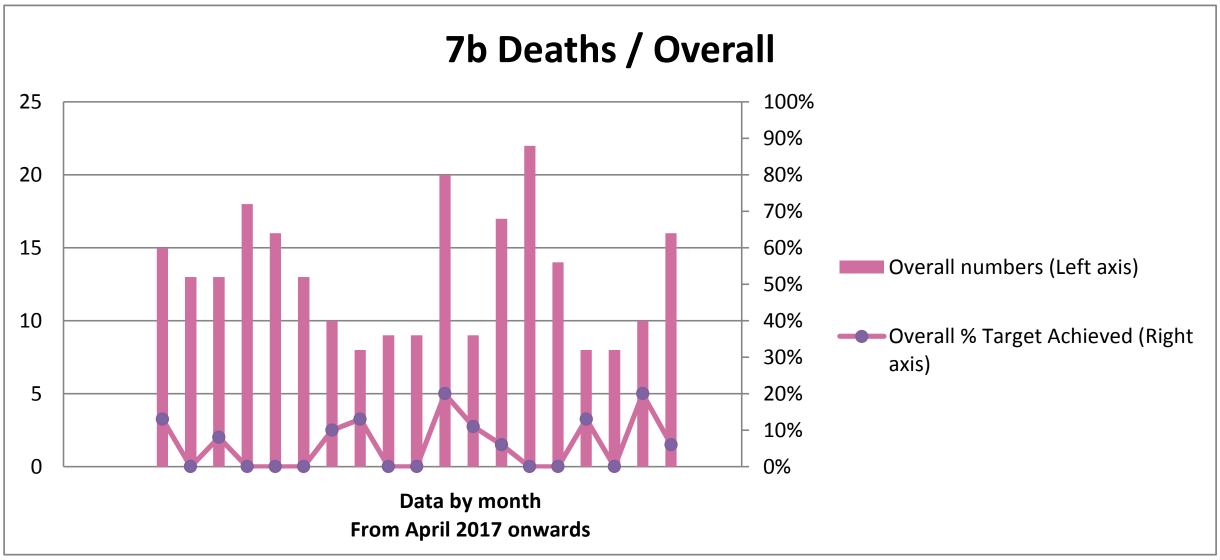


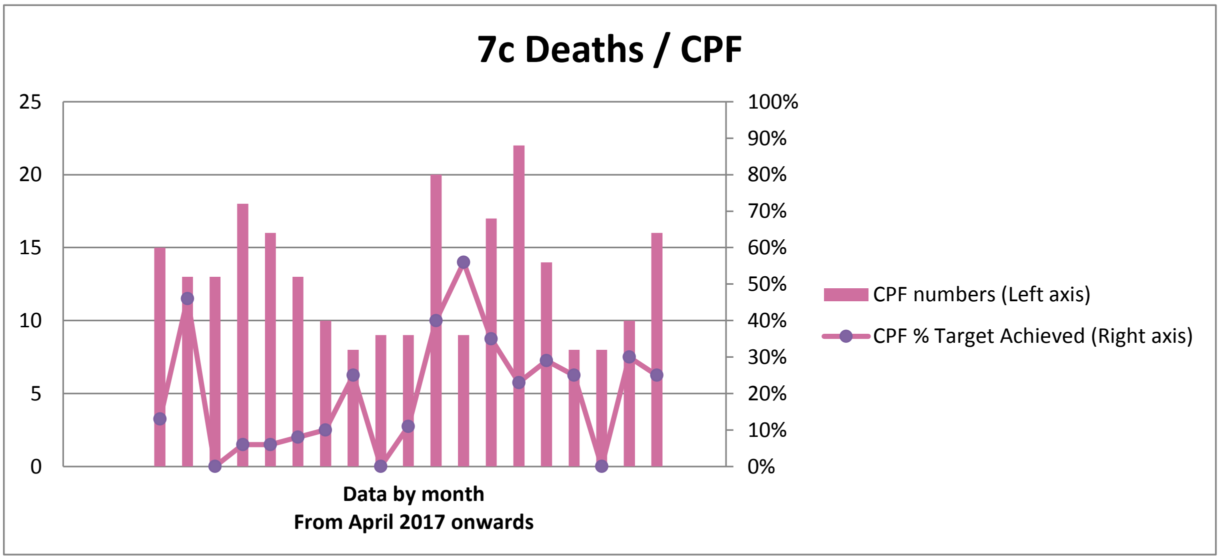




Key Performance Indicators - relating to 31 October 2018







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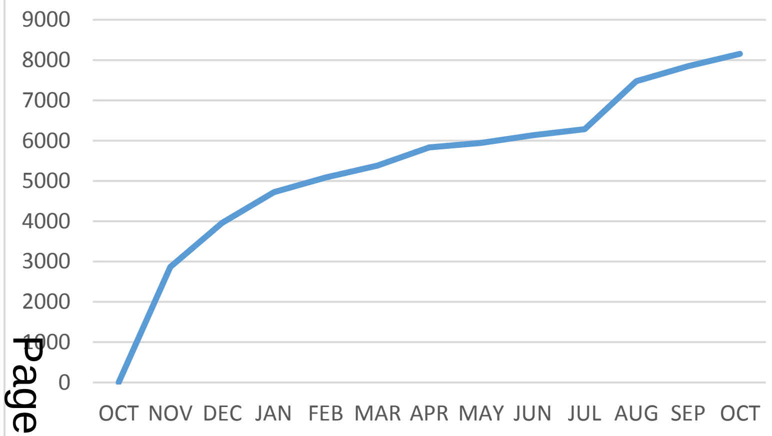
Cronfa Bensiynau Clwyd
Clwyd Pension Fund

MEMBER SELF SERVICE – 15/11/18

Registered Members - 8155 - 24.38%

8498 have interacted with MSS
(password reset, disabled, requested activation link)



12 months of Member Self Service (11/11/18)

1 in 4 of all members have interacted with MSS
1 in 3 active members are currently registered
31,044 benefit projections calculated
664 'Contact Us' cases (average 2.32 day response time)

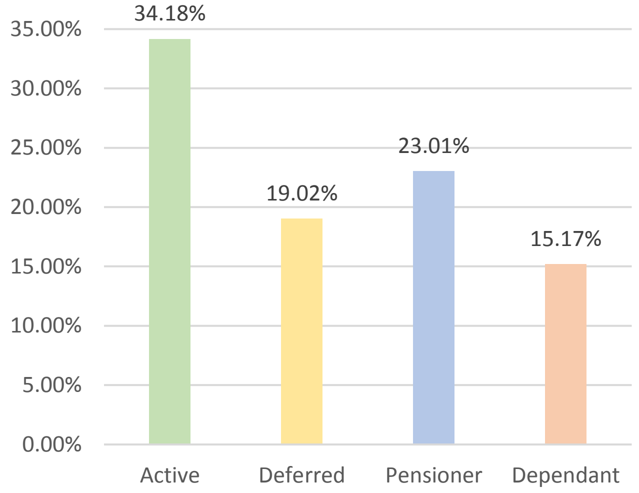
Update from September to October 2018

Initial conference call regarding nationwide 'MSS User Group' with GMPF and 30+ funds.

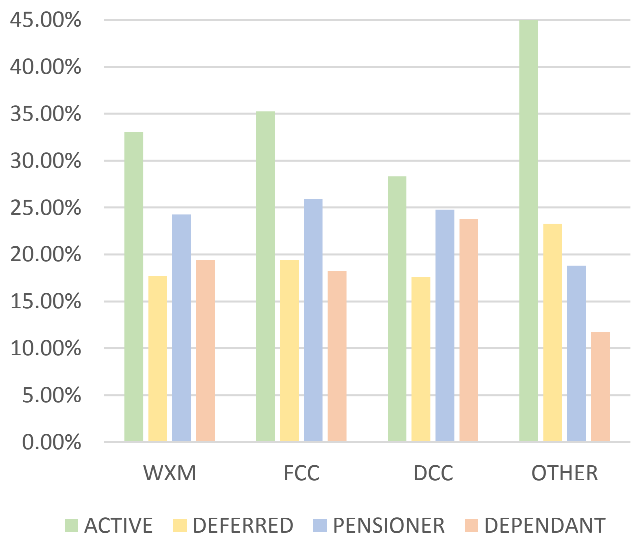
To group knowledge, develop ideas for best practice, ways to enhance membership and in-house processes.

Product owner from Aquila Heywood possibly appointed in order to oversee any technicalities and software needs.

Percentage by status



% Split between status



Statistics between

18/08/18 to 15/11/18 (91 days)

CONTACT US TASKS

74	MSSKEY	Key requests
73	MSSENQ	Enquiry tasks
10	MSSEST	Estimate tasks
50	MSSRET	Retirement tasks
14	MSSTRVT	Transfer tasks
147	**Contact Us (1.62 p/day)**	
296	**MSSADD Address update (new)**	
9	**Bank details updated**	

BENEFIT PROJECTIONS

9,376 BENEFIT PROJECTIONS CALCULATED

103.03 per day (up by 17 estimates per day)

EXPRESSION OF WISH

368 CHANGES OF EXPRESSION OF WISH

4.04 per day

ELECTED FOR POSTAL CORRESPONDANCE

1,909 - 5.70% of overall members
189 have registered also

222	ACTIVE
115	DEFERRED
1374	PENSIONER
198	DEPENDANTS

Average Age **72 years 197 days**

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Administration and Communication Risks Heat Map and Summary

Administration & Communication Risks

Impact						
Negligible						6
Marginal				4		
Critical	2	1	3			
Catastrophic			5			
	Extremely High	**Very High**	**Significant**	**Low**	**Very Low**	**Unlikely**
						Likelihood

Key

1 — Each risk is represented in the chart by a number in a square.
- The number denotes the risk number on the risk register.
- The location of the square denotes the current risk exposure.

1 — The background colour within the square denotes the target risk exposure.

New risks since the last reporting date are denoted with a blue and white border.

An arrow denotes a change in the risk exposure since the previous reporting date, with the arrow coming from the previous risk exposure.

21 November 2018

Clwyd Pension Fund - Control Risk Register
Administration & Communication Risks

Objectives extracted from Administration Strategy (03/2017) and Communications Strategy (04/2016):

A1 Provide a high quality, professional, proactive, timely and customer focussed administration service to the Fund's stakeholders
A2 Administer the Fund in a cost effective and efficient manner utilising technology appropriately to obtain value for money
A3 Ensure the Fund's employers are aware of and understand their roles and responsibilities under the LGPS regulations and in the delivery of the administration functions of the Fund
A4 Ensure the correct benefits are paid to, and the correct income collected from, the correct people at the correct time
A5 Maintain accurate records and ensure data is protected and has authorised use only
C1 Promote the Scheme as a valuable benefit and provide sufficient information so members can make informed decisions about their benefits
C2 Communicate in a clear, concise manner
C3 Ensure we use the most appropriate means of communication, taking into account the different needs of different stakeholders
C4 Look for efficiencies in delivering communications through greater use of technology and partnership working
C5 Regularly evaluate the effectiveness of communications and shape future communications appropriately

Risk no:	Risk Overview (this will happen)	Risk Description (if this happens)	Strategic objectives at risk (see key)	Current impact (see key)	Current likelihood (see key)	Current Risk Status	Internal controls in place	Target Impact (see key)	Target Likelihood (see key)	Target Risk Status	Meets target?		Date Not Met Target From	Expected Back On Target	Further Action and Owner	Risk Manager	Next review date	Last Updated
1	Unable to meet legal and performance expectations (including inaccuracies and delays) due to staff issues	That there are poorly trained staff and/or we can't recruit/retain sufficient quality of staff, including potentially due to pay grades	All	Critical	Very High		1 - Training Policy, Plan and monitoring in place 2 - BP 2017/18 improvements assist with staff engagement 3 - Benefit consultants available to assist if required 4 - Ongoing task/SLA reporting to management/AP/PC/LPB to quickly identify issues 5 - Data protection training, policies and processes in place 6 - System security and independent review/sign off requirements 7 - ELT established 8 - Temporary staff changed to permanent, and further resource increase	Negligible	Low		☹	Current impact 2 too high Current likelihood 2 too high	01/07/2016	Mar 2020	1 - Ongoing training (HB) 2 - Ongoing bedding in of aggregation team and use of Mercers with backlogs (HB) 3 - Ongoing monitoring of ELT and Ops resource/workload for backlogs (HB) 4 - Recruitment to new posts (PPOs) 5 - Ongoing consideration of resource levels post recruitment of new posts (PL)	Pensions Administration Manager	28/02/2019	20/11/2018
2	Unable to meet legal and performance expectations (including inaccuracies and delays) due to employer issues	Employers: -don't understand or meet their responsibilities -don't have access to efficient data transmission -don't allocate sufficient resources to pension matters	A1 / A4 / A5 / C2 / C3 / C4 / C5	Critical	Extremely High		1 - Administration strategy updated 2 - Employer steering group established 3 - Greater engagement through Pension Board 4 - Backlog project in place 5 - Establishment of ELT 6 - Increased data checks/analsyis (actuary and TPR)	Negligible	Very Low		☹	Current impact 2 too high Current likelihood 4 too high	01/07/2016	Mar 2019	1 - Ongoing roll out I-connect (HB) 2 - Ongoing monitoring of ELT resource/workload (HB) 3 - Implement further APP data checks to identify issues (PL) 4 - Develop and roll out APP training (PL) 5 - Identify other employer data issues and engage directly with employers on these (PPOs)	Pensions Administration Manager	28/02/2019	20/11/2018
3	Unable to meet legal and performance expectations due to external factors	Big changes in employer numbers or scheme members or unexpected work increases (e.g. severance schemes or regulation changes)	A1 / A4 / A5 / C2 / C3 / C4 / C5	Critical	Significant		1 - Ongoing task and SLA reporting to management/AP/PC/LPB to quickly identify issues 2 - Benefit consultants available to assist if required	Marginal	Low		😐	Current impact 1 too high Current likelihood 1 too high	27/08/2018	Mar 2019	1 - Recruitment to new posts (PPOs) 2 - Ongoing consideration of resource levels post recruitment of new posts (PL)	Pensions Administration Manager	28/02/2019	20/11/2018
4	Scheme members do not understand or appreciate their benefits	Communications are inaccurate, poorly drafted or insufficient	C1/ C2 / C3	Marginal	Low		1 - Communications Strategy in place 2 - Annual communications survey for employees and employers 3 - Specialist communication officer employed 4 - Website reviewed and relaunched (2017) 5 - Member self service launched (2017)	Negligible	Very Low		😐	Current impact 1 too high Current likelihood 1 too high	01/07/2016	Mar 2019	1 -Ongoing promotion of member self service (HB) 2 - Ongoing identification of data issues and data improvement plan (HB) 3 - Review of effectiveness of new website/iConnect planned for 2018/19 (HB)	Pensions Administration Manager	28/02/2019	04/06/2018
5	High administration costs and/or errors	Systems are not kept up to date or not utilised appropriately, or other processes inefficient	A2 / A4 / C4	Catastrophic	Significant		1- Business plan has number of improvements (I-connect/MSS etc) 2 - Review of ad-hoc processes (e.g. deaths and aggregation) 3 - Participating as a founding authority on national framework for admin systems (if it proceeds) 4 - Procurement of Altair on business plan 5 - Joined latest Heywood Testing Party	Negligible	Very Low		☹	Current impact 3 too high Current likelihood 2 too high	01/07/2016	Mar 2020	1 - Ongoing roll out of iConnect 2 - Ongoing identification of data issues and data improvement plan (HB) 3- Review of effectiveness of new website/iConnect planned for 2018/19 (HB) 4 - Implementation of other Altair modules in 2018/19 business plan (HB) 5 - Increased engagement with Heywood about change in their business model (HB)	Pensions Administration Manager	28/02/2019	20/11/2018
6	Service provision is interupted	System failure or unavailability	A1 / A4 / C2	Negligible	Unlikely		1 - Disaster recover plan in place and regularly checked 2 - Hosting implemented	Negligible	Unlikely		☺				1 - Ongoing checks relating to interface of recovery plan with non-pensions functions (HB) 2 - Resolve other areas identified by last disaster recovery test (HB) 3 - Implement lump sum payments via pensioner payroll facility (HB)	Pensions Administration Manager	28/02/2019	13/11/2007

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 28th November 2018
Report Subject	Investment and Funding Update
Report Author	Pension Finance Manager

EXECUTIVE SUMMARY

An investment and funding update is on each quarterly Committee agenda and includes a number of investment and funding items for information or discussion. The items for this quarter are:

(a) The Business Plan 2018/19 update for quarter 2 (July to September 2018) is attached as Appendix 1. There are three tasks relating to this quarter, Asset Pooling (progressing on target), Interim Funding Review (on target) and Employer Risk Management Framework (on target)

(b) Current Developments and News – News and development continues to be dominated by the Pooling across the LGPS which has been covered in agenda item 4.

(c) Delegated responsibilities (Appendix 2). This details the responsibilities which have been delegated to officers since the last Committee meeting. These can include, cash management, short term tactical decisions, investments in new opportunities and monitoring of fund managers. There are no items of exception to report.

(d) An update on the Funding Strategy Statement consultation. This was carried out due to the updates needed due to the introduction to the possibility of exit credits under the LGPS Amendment Regulations 2018, and also the work undertaken by the Fund in adopting equity protection strategies. A “tracked changes” version of the updated Funding Strategy Statement is attached at Appendix 4.

(e) An update on the findings and outcomes of the 2018 Funding Review – the slides that were presented to employers at the AJCM are attached at Appendix 5.

(f) An annual update on the AVC arrangements following a review carried out by Mercer performed in 2017.

RECOMMENDATIONS	
1	That the Committee consider and note the update for delegated responsibilities and provide any comments.
2	The Committee review and approve the changes made to the FSS following the consultation performed as required by the LGPS regulations.
3	The Committee receive and note the findings and outcomes of the 2018 Funding Review as performed by the Fund Actuary.

REPORT DETAILS

1.00	**INVESTMENT AND FUNDING RELATED MATTERS**
1.01	**Business Plan Update** Appendix 1 provides a summary of progress against the Investment and Funding section of the Business Plan up to the end of quarter 2 to 30 September 2018. The three projects are on target.
1.02	**Policy and Strategy Implementation and Monitoring** The Advisory Panel receive a detailed investment report from the Fund's Investment Consultants, JLT which shows compliance with the approved Investment Strategy Statement and reports on fund manager performance. A summary of this performance is shown in the JLT report included in agenda item 10. The Advisory Panel also receive reports from the following groups: • Tactical Asset Allocation Group (TAAG) • Funding and Risk Management Group (FRMG) • Private Equity and Real Assets Group (PERAG) Any delegations arising from these meetings are detailed in Appendix 2.
1.03	**AVC Annual Update** It was agreed that Mercer would provide an annual update on the AVC arrangements following the review carried out in 2017. In the 2017 Review, Mercer made a number of recommendations which have been actioned. - Lifestyling options offered by Prudential have been updated. The previous options have now been closed, and been replaced by two of Prudential's Dynamic Growth strategies; one targeting retirement options for those unsure how to use the proceeds, and the other targeting 100% cash - There is no longer a default fund for future new contributors. A

	positive investment choice is now required from members - Prudential have sought to contact AVC members to remind them of the options available across a range of investment strategies. The annual monitoring update found that: - Unit-linked investments performed well over year to 31 March 2018 - Prudential has reduced its Annual Management Charge / total charges for unit-linked funds by broadly 0.1% p.a. in most cases, and overall remain broadly competitive in the market - Underlying investment performance of the With-Profits funds has continued to be good compared to other With-Profits funds - Prudential are ceasing to provide its member presentation and individual meeting service. The client management function will continue to support on governance reporting. There was a presentation by Prudential at the Annual Employer Meeting earlier in November. Further details are provided in a recently received report by Mercer (Appendix 6) which include other areas which will be considered by the Advisory Panel.
1.04	**Funding Strategy Statement Consultation** As discussed at the June Committee meeting, the Local Government Pension Scheme (Amendment) Regulations 2018 were laid before Parliament on 19th April 2018. They covered a number of issues, in particular, the introduction of “exit credits”. This applies when an employer exits the Fund and, based on an actuarial assessment at that exit date, there is a surplus of assets in excess of the liabilities. Historically any surplus would be subsumed by the guarantor (or the whole Fund if no guarantor exists) as the Fund was not permitted to refund a surplus to an employer under the Regulations. This Regulation change now requires the Fund the pay the surplus directly to the exiting employer within 3 months of their exit. Given the significance of the change, it was agreed that the Fund should review its Funding Strategy Statement and associated policies (in particular the termination policy) to ensure that they allow sufficiently for the introduction of exit credits. The Funding Strategy Statement was therefore reviewed and changes were proposed (the updated version is included at Appendix 4). A consultation process commenced with all interested parties (as required by the LGPS Regulations) and this was completed on 21 September 2018. During this time, whilst the Fund did not receive any feedback from employers, additional meetings with some employers have taken place on exit credits. The update to the Funding Strategy Statement also incorporated details about the Flightpath strategy (Section 9) changes made; in particular, the adoption of a dynamic Equity Protection strategy on 24 May 2018. This replaced the previous “static” strategy after rigour analysis and value for

	money considerations by the FRMG. Members are now asked to review and approve the revised FSS.
1.05	**2018 Interim Funding Review** The 2018 interim funding review commenced during Quarter 2. The funding review itself excluded any allowance for the impact of Scheme improvements costing c0.5% of pay expected from the cost management process and also the recent High Court Judgment on GMP Equalisation. More detail on these is in the separate LGPS current issues report. The Actuary performed initial modelling of the expected return over CPI inflation when compared to the previous valuation. This modelling showed that the discount rates used at the 2016 valuation (CPI plus 2% for past service (assessment of the funding level) and CPI plus 2.75% for future service which is used to assess the ongoing cost of benefit accrual for current employees) were no longer appropriate. Based on the analysis performed, the Actuary concluded that the assumptions appropriate for the funding review were CPI plus 1.75% for past service and CPI plus 2.25% for future service. Updates were also made to mortality assumptions allowing for the slowdown in improvement in longevity compared to previous estimates. A critical aspect of this was that the discount rate was adjusted to reflect the level of risk being controlled by the Flightpath strategy. All things being equal this reduced the deficit and increased the funding level assessed. The initial results for the whole Fund and the major employers were communicated to Fund officers on 28th September 2018. A Steering Group Meeting for the Finance Directors of the three Unitary Authorities also took place on 3rd October 2018. The headline results were then communicated to the remaining employers at the Annual Joint Consultative Meeting on 6th November 2018. The slides presented to the employers are attached as Appendix 5. Employers were informed that the change in their own results may vary significantly from that of the whole Fund. This is because the membership profile can have a significant impact on individual results, particularly for some of the smaller employers where experience effects can be more volatile. A summary of the whole Fund results is set out below (the 2016 valuation results are also shown for comparison purposes):

	31 March 2016 Valuation	31 March 2018 (allowing for updated return outlook and updated mortality assumptions)
Assets	£1,381m	£1,785m
Liabilities	£1,818m	£2,026m
Deficit	£437m	£240m
Funding Level	76%	88%
Future Service Rate	15.3% of pay	18.0% of pay

The results shown are a snapshot at that point in time. Employers were also informed of the updated position at September 2018 (the deficit had further reduced to £167m with an increased funding level at 92%). This meant that at a total Fund level the overall contributions (deficit and ongoing future service costs combined) would be reducing which was a positive outcome.

However, since September the funding position has moved back to broadly the March position (when measured consistently) due to the recent volatility in the markets.

The separate 'Funding and Flightpath Update' (Agenda item 11) will provide further information on the Fund's current position and the outlook going forwards. The position will be reviewed as part of the actuarial valuation as it is important that we get a balanced outcome in terms of affordable employer contributions and the financial health of the Fund.

Delegated Responsibilities

1.06 The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. Appendix 2 updates the Committee on the areas of delegation used since the last meeting.
To summarise:

- There is sufficient liquidity to meet short term requirements but this needs to be monitored closely over the next few months.
- Shorter term tactical decisions continue to be made by the Tactical Asset Allocation Group (TAAG).
- Within the "In House" portfolio, 1 commitment has been made in the Private Equity portfolio which follows the strategy agreed by the Advisory Panel for this asset class. The appointed Manager, Development Bank of Wales, presented to the AJCM earlier in November.

2.00	**RESOURCE IMPLICATIONS**
2.01	The AVC arrangement will continue to kept under annual review (in terms of performance of funds), as per the original recommendations by Mercer. In particular, dialogue and feedback will be sought from members and employers following the cessation of the member/employer support services previously offered. In addition to this, Fund Officers will continue to meet and have dialogue with the Prudential Client Managers in respect of the arrangements.

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	No further consultations will be needed directly as a result of this report. However, further dialogue will take place between stakeholders as the 31 March 2019 actuarial valuation approaches. An Employer consultation was carried out as part of the update to the Funding Strategy Statement (as required by the LGPS Regulations), although no responses from interested parties were received

4.00	**RISK MANAGEMENT**
4.01	Appendix 3 provides the dashboard and risk register showing the current risks relating to Investments and Funding matters.
4.02	Five of the eight risks are currently at their overall target risk albeit the individual current impact or likelihood risk may be slightly higher than target. Of the remaining three risks in Investments and Funding, one is substantially different to the target risk, F6 with the other two being just one step away from their targets. Risk F6 remains the only risk with a significant likelihood and this relates to matters related to Pooling and Brexit. We have now removed MiFID II as a. risk.

5.00	**APPENDICES**
5.01	Appendix 1 - 2018/19 Business plan update Appendix 2 – Delegated Responsibilities Appendix 3 – Risk dashboard and register – Investments and Funding Appendix 4 – Funding Strategy Statement Appendix 5 – Interim Funding Review Slides Appendix 6 – Summary paper of the 2018 AVC Review Update

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	None **Contact Officer:** Debbie Fielder, Pension Finance Manager **Telephone:** 01352 702259 **E-mail:** debbie.a.fielder@flintshire.gov.uk

7.00	GLOSSARY OF TERMS
7.01	(a) **The Fund - Clwyd Pension Fund** – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region (b) **Administering authority or scheme manager** – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund. (c) **The Committee - Clwyd Pension Fund Committee** - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund (d) **TAAG – Tactical Asset Allocation Group** – a group consisting of The Clwyd Pension Fund Manager, Pensions Finance Manager and consultants from JLT Employee Benefits, the Fund Consultant. (e) **AP – Advisory Panel** – a group consisting of Flintshire County Council Chief Executive and Corporate Finance Manager, the Clwyd Pension Fund Manager, Fund Consultant, Fund Actuary and Fund Independent Advisor. (f) **PERAG – Private Equity and Real Asset Group** – a group chaired by the Clwyd Pension Fund Manager with members being the Pensions Finance Managers, who take specialist advice when required. Recommendations are agreed with the Fund's Investment Consultant and monitored by AP. (g) **In House Investments –** Commitments to Private Equity / Debt, Property, Infrastructure, Timber, Agriculture and other Opportunistic Investments. The due diligence, selection and monitoring of these investments is undertaken by the PERAG. (h) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of (i) **ISS – Investment Strategy Statement** – the main document that outlines our strategy in relation to the investment of assets in the Clwyd Pension Fund. (j) **FSS – Funding Strategy Statement** – the main document that outlines how we will manage employers contributions to the Fund (k) **Funding & Risk Management Group (FRMG)** - A subgroup of Pension Fund officers and advisers set up to discuss and implement any changes to the Risk Management framework as delegated by the Committee. It is made up of the Clwyd Pension Fund Manager,

	Pension Finance Manager, Fund Actuary, Strategic Risk Adviser and Investment Advisor. (l) **GMP** – **Guaranteed Minimum Pension** – This is the minimum level of pension which occupational pension schemes in the UK have to provide for those employees who were contracted out of the State Earnings-Related Pension Scheme (SERPS) between 6 April 1978 and 5 April 1997. (m) A full glossary of Investments terms can be accessed via the following link. http://www.fandc.com/uk/private-investors/tools/glossary/

Business Plan 2018/19 to 2020/21 – Q2 Update
Funding and Investments

Key Tasks

Key:

	Complete
	On target or ahead of schedule
	Commenced but behind schedule
	Not commenced
xN	Item added since original business plan
xM	Period moved since original business plan due to change of plan /circumstances
~~x~~	Original item where the period has been moved or task deleted since original business plan

Funding and Investments (including accounting and audit) Tasks

Ref	Key Action –Task	2018/19 Period				Later Years	
		Q1	Q2	Q3	Q4	2019/20	2020/21
F1	Asset Pooling Implementation	x	x	x	x	x	
F3	Interim Funding Review		x	x			
F4	Employer Risk Management Framework		x	x			

Funding and Investments (including accounting and audit) Task Descriptions

F1 –Asset Pooling Implementation

What is it?

To enable the Wales funds to pool assets an operator has been appointed to provide the investment infrastructure and advice for the Wales Pensions Partnership ("WPP"). A plan will be developed in relation to what and when assets will transition. Then we will need to adapt internal processes and methods as assets transition, and ensure reporting received from the Operator and WPP. The timescales shown below are best estimates and subject to change when the WPP business plan and asset transition plan have been developed.

Timescales and Stages

Develop and agree on initial asset transition plan (reserved matter)	2018/19 Q1
Understand and feed into the development of the role, responsibilities and discretions of the Operator	2018/19 Q1/2
Identify impact on and develop internal processes and resources	2018/19 Q1
Approve the WPP's business plan (reserved matter)	2018/19 Q1 (to be confirmed)
Review and feed into suitability of reporting and performance monitoring templates (including meeting the Fund's Responsible Investment Policy and Cost Transparency requirements)	2018/19 Q1/2
Review of how accounts and finances relating to investments - recording, preparation and publishing	2018/19 Q1 - 4, and 2019/20 Q1/2
Understand infrastructure opportunities	2018/19
Develop process to capture WPP cost versus existing costs to identify benefits and savings of asset pooling	2018/19
Develop and agree any supplementary transition plans (reserved matter)	2018/19 (to be confirmed)

Resource and Budget Implications

2018/19 and future budgets will include the cost of the Operator. For 2018/19 a provisional amount of £50k has been included for a proportion of the year. Along with budgeted WPP costs of £24k. The Consultant and Adviser budgets include an additional estimated amount of £192k for expected ongoing advice during the transitional period. The remaining costs will be covered within the internal resource budget.

F3 – Interim Funding Review

What is it?

It is important for the Fund to consider the possible implications that the 2019 valuation will have on employers, especially as employer budgets are often set well in advance of the valuation year. The review will allow for the latest market outlook and investment returns. It will also incorporate:

- Any membership changes / movements for employers including large outsourcings
- the potential impact of any removal of pay restraint for Councils
- appropriate updates to Fund policies
- updated cash flow projections
- outcomes for individual employers (as necessary) to feed into budgets and also the employer risk management framework.

This will enable major employers to plan for any contribution changes and capture any affordability concerns in advance of the 2019 valuation and facilitate further discussions.

Timescales and Stages

Results and discussion with employers	Q2/3 2018/19

Resource and Budget Implications

This exercise will be performed by the Fund Actuary. It is an important exercise for the Fund and will involve input from both the Clwyd Pension Fund Administration and Finance teams. It will also involve discussions with the Fund's employers. The Fund Actuary's costs in relation to this exercise have been included in the budget.

F4 – Employer Risk Management Framework

What is it?

The Fund is subject to funding risks in respect of employers on an ongoing basis and in particular who cease to participate without being able to recover the full exit contributions due under the Regulations. The Fund is in the process of setting up a monitoring framework to capture any employers that pose a significant risk. The framework will categorise employers into different risk profiles based on their covenant and funding positions. This will allow officers to identify any potential risk of unrecoverable debt and affordability restraints on contribution requirements,

The framework will also consider the outcome of the tier 3 review performed by the Scheme Advisory Board which is expected during 2018 (tier 3 employers are those that do not have tax-payer backing; i.e. colleges, universities, housing associations, charities, admission bodies that do not have a guarantee from a Council, etc.). For the Fund, the potential impact is restricted to colleges and universities.

Timescales and Stages

Monitoring will be performed alongside the 2018 interim review	
Preliminary Covenant Work	Q1 2018/19
Further development of risk framework	Q2&3 2018/19

Resource and Budget Implications

Managing employer risk will require support from the Fund Actuary. It will involve the officers gathering financial information from all employers regularly to monitor covenant strength and funding positions to inform on which employers pose the greatest risk to the Fund and the remedial actions necessary. The Fund Actuary costs in relation to this exercise have been included in the budget.

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DELEGATED RESPONSIBILITIES

	Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
1.061	Rebalancing and cash management	PFM (having regard to ongoing advice of the IC and PAP)	High level monitoring at PFC with more detailed monitoring by PAP

Rebalancing Asset Allocation

Background

The Investment Strategy Statement (ISS) includes a target allocation against which strategic performance is monitored (Strategic Allocation). There are strategic ranges for each asset category that allow for limited deviation away from the strategic allocation as a result of market movements. In addition there is a conditional medium term asset allocation range (Conditional range) to manage major risks to the long term strategic allocation which may emerge between reviews of the strategic allocation.

The Tactical Asset Allocation Group (Investment Consultant & Officers) which meets each month consider whether it is appropriate to re-balance to the strategic asset allocation. Recommendations are made to the Clwyd Pension Manager who has delegated authority to make the decision. Re-balances or asset transitions may be required due to market movements, new cash into the Fund or approved changes to the strategic allocation following a strategic review.

Action Taken

In the quarter to September 2018 there were no movements of assets.

Cash Management

Background

The Pension Finance Manager forecasts the Fund's 3 year cash flows in the Business Plan and this is monitored and revised quarterly. The bank account balance is monitored daily. The main payments are pension related, expenses and investment drawdowns. New monies come from employer and employee contributions and investment income or distributions. This cash flow management ensures the availability of funds to meet payments and investment drawdowns. The LGPS investment regulation only allow a very limited ability to borrow. There is no strategic asset allocation for cash, although there is a strategic range of +5% and a conditional range of +30% which could be used during times of major market stress.

Action Taken

The cash balance as at 30th September 2018 was £18.9m (£26.3m at 30th June 2018). Cash balance as at 31st October 2018 was £17.29m. The cash flow is monitored to ensure there is sufficient monies to pay benefits and capital calls for investments. The current cash flow (as seen in Appendix 1 of agenda item 5) is estimating a final cash balance of £500k. This compares to an original budget of £4.2m. It was expected that cash flows would be a challenge given that some employers paid their 3 year deficit payment up front in 2017/18 and this is proving to be the case. Work is ongoing with the Consultant and Actuary to monitor the situation and be aware of any unforeseen issues. Monthly cash flows from April are shown graphically at the end of the delegations appendix.

	Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
1.062	Short term tactical decisions relating to the 'best ideas' portfolio	PFM (having regard to ongoing advice of the IC and PAP)	High level monitoring at PFC with more detailed monitoring by PAP

Background

The Tactical Asset Allocation Group (Investment Consultant and Officers) meet each month to consider how to invest assets within the 'Best Ideas' portfolio given the shorter term market outlook (usually 12 months). The strategic asset allocation is 11% of the Fund (increased from 9% at the last strategic review). The investment performance target is CPI +3 %, although the aim is to also add value to the total pension fund investment performance.

Action Taken

Since the previous Committee the following transactions were agreed within the portfolio:

- Switch LGIM US Equity to unhedged –£ 27.3m (crystallised +14.2%)
- Switch BlackRock European Equity to unhedged - £20.3m (crystallised +3.8%)
- Part redemption of BlackRock Emerging Market Equity – £14.8m (crystallised +7.2%)
- Additional Investment of £7.4m in BlackRock European Equities
- Additional investment of £7.4m in BlackRock Japanese Equities

The current allocations within the portfolio following the transactions are:

- US Equities (4.0%)
- Emerging Market Equities (0.8%)
- European Equities (1.4%)
- Japanese Equities (1.8%)
- Commodities (0.8%)
- Real Estate (1.4%)
- Infrastructure (0.8%)

Detailed minutes of the Group identifying the rationale behind the recommendations made to the Clwyd Pension Fund Manager and decisions made under this delegation are be circulated to the Advisory Panel.

As at the end of September 2018, the Best Ideas portfolio has outperformed its target since inception by 3.1% per annum.

	Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
1.063	Investment into new mandates / emerging opportunities	PFM and either the CFM or CEO (having regard to ongoing advice of the IC)	High level monitoring at PFC with more detailed monitoring by PAP

Background

The Fund's investment strategy includes a 22% asset allocation to private equity (10%), property (4%), infrastructure (7%) and agriculture (1%). The last strategic investment review reduced the property allocation by 3% and increased the infrastructure allocation by 4%. Given the illiquid nature of these investments this transition will take a number of years to implement. These are higher risk investments, usually in limited partnerships, hence small commitments are made of £8m in each. Across these asset categories there are currently in excess of 50 investment managers, investing in 115 limited partnerships or other vehicles.

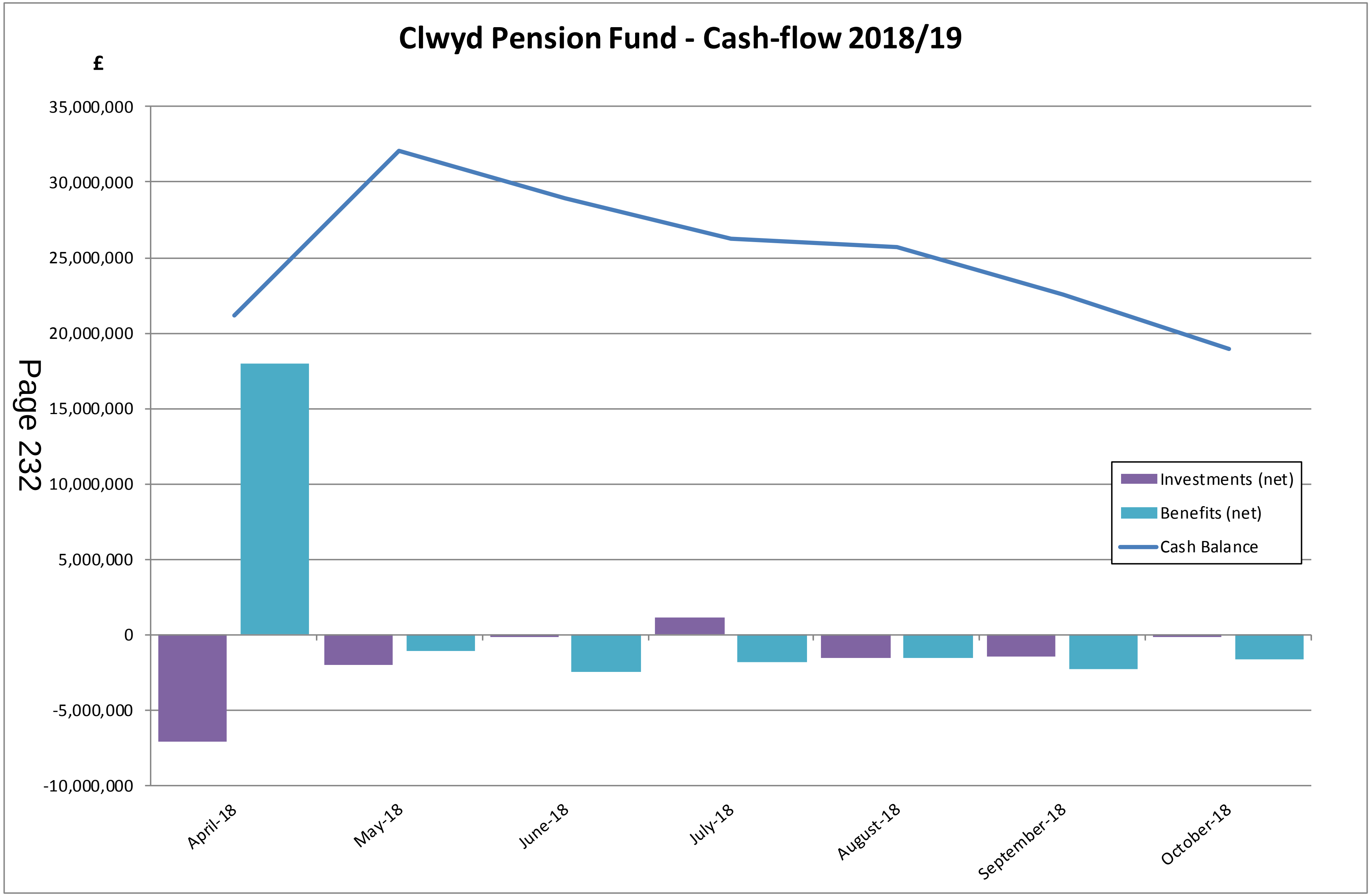
The Private Equity & Real Estate Group (PERAG) of officers and advisor meet quarterly and are responsible for implementing and monitoring the investment strategy and limited partnerships across these asset classes. The investments in total are referred to as the 'In-House portfolio'. There is particular focus on Environmental, Social and Governance (ESG) aspects on the investments made.

A review was undertaken of the existing portfolio and future cash flows and the results were incorporated into the forward work plan. As a result, extensive work has been carried out to identify suitable Infrastructure investments. Several commitments have already been agreed and further due diligence is still being undertaken on other possible opportunities. It is anticipated that an allocation of 7% to Infrastructure will be achievable by 2020. Within the remaining In House portfolio, officers are continuing to look at any opportunities which fulfil their agreed strategy. The minutes of the PERAG Group are circulated to the Advisory Panel

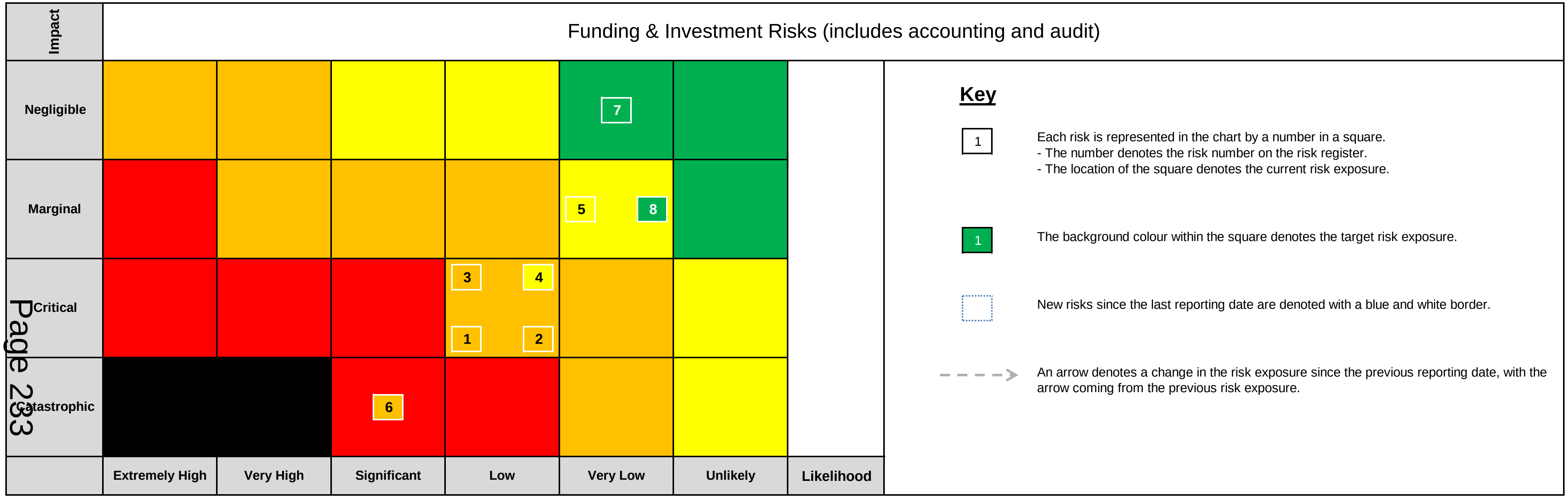
Action Taken

Due diligence has been undertaken on the following Private Equity Fund. This is a new Manager who presented to the Annual Employer Meeting earlier in November. It is a small Fund (£25m) which is focussed on supporting SME's and other companies in Wales. The following commitment has been made under delegated authority since the last Committee:

- £10 million to Development Bank of Wales, Wales Management Succession Fund I (Wales Private Equity Fund targeting 15% Net IRR)


Clwyd Pension Fund - Cash-flow 2018/19
£
35,000,000
30,000,000
25,000,000
20,000,000
15,000,000
10,000,000
5,000,000
0
-5,000,000
-10,000,000
April-18
May-18
June-18
July-18
August-18
September-18
October-18
Investments (net)
Benefits (net)
Cash Balance

Funding and Investment Risks (Including Accounting & Audit) Heat Map and Summary



20 November 2018

Clwyd Pension Fund - Control Risk Register

Funding & Investment Risks (includes accounting and audit)

Objectives extracted from Funding Strategy Statement (3/2017) and Statement of Investment Principles (3/2017):

F1 Achieve and maintain assets equal to 100% of liabilities within the 15 year average timeframe whilst remaining within resonable risk parameters
F2 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
F3 Recognising the constraints on affordability for employers, aim for sufficient excess investment returns relative to the growth of liabilities
F4 Strike the appropriate balance between long-term consistent investment performance and the funding objectives
F5 Manage employers' liabilities effectively through the adoption of employer specific funding objectives
F6 Ensure net cash outgoings can be met as/when required
F7 Minimise unrecoverable debt on employer termination.
F8 Ensure that its future strategy, investment management actions, governance and reportin gprocedures take full account of longer-term risks and sustainability
F9 Promote acceptance of sustainability principles and work tougher with others to enhance the Fund's effectiveness in implementing these.

Risk no:	Risk Overview (this will happen)	Risk Description (if this happens)	Strategic objectives at risk (see key)	Current impact (see key)	Current likelihood (see key)	Current Risk Status	Internal controls in place	Target Impact (see key)	Target Likelihood (see key)	Target Risk Status	Meets target?	Date Not Met Target From	Expected Back on Target	Further Action and Owner	Risk Manager	Next review date	Last Updated
1	Employer contributions are unaffordable and/or unstable	An appropriate funding strategy can not be set	F1 / F2 / F3 / F4 / F5	Critical	Low		1 - Ensuring appropriately prudent assumptions on an ongoing basis 2 - All controls in relation to other risks apply to this risk 3 - Consider employer covenant and reasonable affordability of contributions for each employer as part of the valuation process	Critical	Very Low		😐 Current likelihood 1 too high	31/03/2016	Mar 2019	1 - Finalise employer covenant monitoring and ill health captive (DF)	CPFM	28/02/2019	13/11/2017
2	Funding level reduces, increasing deficit	Movements in assets and/or liabilities (as described in 3,4,5) in combination	F1 / F2 / F3 / F4 / F5 / F7	Critical	Low		See points within points 3,4 and 5	Marginal	Low		😐 Current impact 1 too high	31/03/2016	Mar 2019	1 - Revised Equity Protection Strategy to be put in place (PL) - See points within points 3,4 and 5	CPFM	28/02/2019	04/06/2018
3	Investment targets are not achieved therefore reducing solvency / increasing contributions	-Markets perform below actuarial assumptions - Fund managers and/or in-house investments don't meet their targets - Market opportunities are not identified and/or implemented.	F1 / F2 / F3 / F4 / F7	Critical	Low		1 - Use of a diversified portfolio (regularly monitored) 2 - Flightpath in place to exploit these opportunities in appropriate market conditions 3 - Monthly monitoring of funding position versus flightpath targets 4 - Annual formal reviews of the continued appropriateness of the funding/investment strategies by the Pensions Advisory Panel and Committee 5 - On going monitoring of appointed managers (including in house investments) managed through regular updates and meetings with key personnel 6 - Officers regularly meet with Fund Managers, attend seminars and conferences to continually gain knowledge of Investment opportunities available.	Critical	Low		☺			1 - The impact on performance relative to assumptions will be monitored regularly (FRMG & TAAG) (DF)	Pension Finance Managers	28/02/2019	13/11/2017
4	Value of liabilities increase due to market yields/inflation moving out of line from actuarial assumptions	Market factors impact on inflation and interest rates	F1 / F2 / F4 / F5 / F7	Critical	Low		1 - LDI strategy in place to control/limit interest and inflation risks. 2 - Use of a diversified portfolio which is regularly monitored. 3 - Monthly monitoring of funding and hedge ratio position versus targets. 4 - Annual formal reviews of the continued appropriateness of the funding/investment strategies by the Pensions Advisory Panel and Committee.	Marginal	Very Low		😐 Current impact 1 too high Current likelihood 1 too high	31/03/2016	Mar 2019	1 -The level of hedging will be monitored and reported regularly via FRMG (DF)	Pension Finance Managers	28/02/2019	13/11/2017
5	Value of liabilities/contributions change due to demographics being out of line with assumptions	This may occur if employer matters (early retirements, pay increases, 50:50 take up), life expectancy and other demographic assumptions are out of line with assumptions	F1 / F2 / F5 / F7	Marginal	Very Low		1 - Regular monitoring of actual membership experience carried out by the Fund. 2 - Actuarial valuation assumptions based on evidential analysis and discussions with the Fund/employers. 3 - Ensure employers made aware of the financial consequences of their decisions 4 - In the case of early retirements, employers pay capital sums to fund the costs for non-ill health cases.	Marginal	Very Low		☺			1 - Assumptions and experience will be reviewed at the 2019 valuation (DF)	Pension Finance Managers	28/02/2019	13/11/2017
6	Investment and/or funding objectives and/or strategies are no longer fit for purpose	Legislation changes such as LGPS regulations (e.g. asset pooling), progression of Brexit and other funding and investment related requirements - ultimately this could increase employer costs	F1 / F2 / F3 / F4 / F5 / F6 / F7	Catastrophic	Significant		1 - Ensuring that Fund concerns are considered by the Pensions Advisory Panel and Committee as appropriate 2 - Employers and interested parties to be kept informed and impact monitored 3 - Monitor developments over time, working with investment managers, investment advisers, Actuary and other LGPS 4 - Particiaption in National consultations and lobbying	Marginal	Low		😐 Current impact 2 too high Current likelihood 1 too high	31/03/2016	Mar 2019	1 - Ensure proactive responses to consultations etc. (PL)	CPFM	28/02/2019	20/11/2018
7	Insufficient assets to pay benefits	Insufficient cash (due to failure in managing cash) or only illiquid assets available - longer term this will likely become a problem and would result in unanticipated investment costs. Further risk presented with the introduction of Exit Credits for exiting employers in the 2018 Regulations update.	F1 / F6	Negligible	Very Low		1 - Cashflow monitoring to ensure sufficient funds 2 - Ensuring all payments due are received on time including employer contributions (to avoid breaching Regulations) 3 - Holding liquid assets 4 - Monitor cashflow requirements 5 - Treasury management policy is documented	Negligible	Very Low		☺			1 - Inform major employers of the requirement to notify Fund of any significant restructuring exercises. (Need to consider controls currently in place). (DF) 2 – Contact major employers to highlight the change and ensure any potential contract end dates are notified to the Fund in sufficient time so that the risk of large payments can be reduced (i.e. through a contribution rate review in advance of the contract end date) (DF)	Pension Finance Managers	28/02/2019	04/06/2018
8	Loss of employer income and/or other employers become liable for their deficits	Employer ceasing to exist with insufficient funding (bond or guarantee)	F5 / F7	Marginal	Very Low		1 - Consider profile of Fund employers and assess the strength their covenant and/or whether there is a quality guarantee in place. 2 - When setting terms of new admissions require a guarantee or bond. 3 - Formal consideration of this at each actuarial valuation plus proportionate monitoring of employer strength. 4 - Identify any deterioration and take action as appropriate through discussion with the employer.	Marginal	Unlikely		😐 Current likelihood 1 too high	31/03/2016	Mar 2019	1 - Employer risk management framework to be finalised (DF)	Pension Finance Managers	28/02/2019	13/11/2017

Cronfa Bensiynau Clwyd
Clwyd Pension Fund

Sir y Fflint
Flintshire

FUNDING STRATEGY STATEMENT

CLWYD PENSION FUND

~~MARCH 2017~~SEPTEMBER 2018

FLINTSHIRE COUNTY COUNCIL

This Funding Strategy Statement has been prepared by Flintshire County Council (the Administering Authority) to set out the funding strategy for the Clwyd Pension Fund ("the Fund"), in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

I
EXECUTIVE SUMMARY

The LGPS Regulations and CIPFA Guidance provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS).

THE DETAILS CONTAINED IN THIS FUNDING STRATEGY STATEMENT WILL HAVE A FINANCIAL AND OPERATIONAL IMPACT ON ALL PARTICIPATING EMPLOYERS IN THE CLWYD PENSION FUND. IT IS IMPERATIVE THEREFORE THAT EACH EXISTING OR POTENTIAL EMPLOYER IS AWARE OF THE DETAILS CONTAINED IN THIS STATEMENT.

The FSS is a document that must be revised and published whenever there is a material change in either the policy set out in the FSS or the Investment Strategy Statement (ISS). A consultation with employers must take place before the Administering Authority can publish their funding strategy.

The funding strategy is applicable to all types of employer within the Fund and contains a number of policies that employers should be aware of, including the admission and termination policy and the covenant policy. A glossary is included at the end to assist with understanding of the technical terms and definitions.

The drafting of the FSS has been delegated to the Pension Fund Committee by the Administering Authority, following advice from the Fund Actuary. Some aspects have also been delegated to Fund officers.

The FSS is also subject to scrutiny and possible intervention under Section 13(4)(c) of the Public Service Pensions Act 2013 which may place some restrictions on the parameters that can be applied to employers.

Key elements of the funding strategy are as follows:

- Employer covenant and investment strategy will have a major influence on the valuation results.
- Deficit recovery periods will be determined by the Administering Authority with the aim of recovering deficits as quickly as possible and vary by employer. Subject to affordability, existing deficit contribution plans will not be reduced. The average recovery period for the Fund is 15 years. Deficit recovery contributions will be expressed as £s amounts.
- It will be possible for employers to prepay their deficit contributions for the full 3 years or annually at each April which would result in a cash saving.
- The key financial assumption – the discount rate – has been derived by considering the long term expected return on the Fund's investment over and above assumed future Consumer Price Inflation (CPI).
- The demographic assumptions for the whole Fund have been determined by carrying out a bespoke analysis of the Fund's membership along with a review of other LGPS Funds.
- It is strongly recommended that employers consider and understand the Fund policies which primarily relate to employers joining the Fund, ongoing monitoring of the financial strength of employers (covenant) and the approach adopted when employers leave the Fund (termination).

Ensuring that the Clwyd Pension Fund (the "Fund") has sufficient assets to meet its pension liabilities in the long-term is the fiduciary responsibility of the Administering Authority (FLINTSHIRE COUNTY COUNCIL). The Funding Strategy adopted by the Clwyd Pension Fund will therefore be critical in achieving this.

The purpose of this Funding Strategy Statement ("FSS") is to set out a clear and transparent funding strategy that will identify how each Fund employer's pension liabilities are to be met going forward.

Given this, and in accordance with governing legislation, all interested parties connected with the Clwyd Pension Fund have been consulted and given opportunity to comment prior to this Funding Strategy Statement being finalised and adopted. This statement takes into consideration all comments and feedback received.

THE FUND'S OBJECTIVE

The Administering Authority's long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due. This objective will be considered on an employer specific level where appropriate.

The general principle adopted by the Fund is that the assumptions used, taken as a whole, will be chosen sufficiently prudently for pensions and benefits already in payment to continue to be paid, and to reflect the commitments which will arise from members' accrued pension rights.

The funding strategy set out in this document has been developed alongside the Fund's investment strategy on an integrated basis taking into account the overall financial and demographic risks inherent in the Fund. The funding strategy includes appropriate margins to allow for the possibility of events turning out worse than expected. Individual employer results will also have regard to their covenant strength.

SOLVENCY AND LONG TERM COST EFFICIENCY

Each employer's contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund's liabilities i.e. benefit payments can be reasonably met as they arise.

Employer contributions are also set in order to achieve long term cost efficiency. Long-term cost-efficiency implies that the rate must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time. Equally, the FSS must have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

When formulating the funding strategy the Administering Authority has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary's Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the "solvency" of the pension fund and "long term cost efficiency" of the Scheme so far as relating to the Fund.

DEFICIT RECOVERY PLAN AND CONTRIBUTIONS

As the solvency level of the Fund is 76% at the valuation date i.e. the assets of the Fund are less than the liabilities, a deficit recovery plan needs to be implemented such that additional contributions are paid into the Fund to meet the shortfall.

Deficit contributions paid to the Fund by each employer will be expressed as £s amounts (flat or increasing year on year) and it is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford given other competing cost pressures. This may result in some flexibility in recovery periods by employer which would be at the sole discretion of the Administering Authority. The recovery periods will be set by the Fund, although employers will be free to select any shorter deficit recovery period if they wish. Employers may also elect to make prepayments of contributions which would result in a cash saving over the valuation certificate period.

The objective is to recover any deficit over a reasonable timeframe, and this will be periodically reviewed. Subject to affordability considerations a key principle will be to maintain the deficit contributions at the expected monetary levels from the preceding valuation (allowing for any indexation in these monetary payments over the recovery period). Full details are set out in this FSS.

The average recovery period for the Fund as a whole is 15 years at this valuation which is 3 years shorter than the average recovery period of 18 years from the previous valuation. Subject to affordability and other considerations individual employer recovery periods would also be expected to reduce by 3 years at this valuation.

Where there is an increase in contributions required at this valuation, subject to affordability constraints, the employer may be able to step-up contributions over a period of 3 years. Employers should be aware that if they elect to step-up their contributions, this may have an effect on the level of contributions required in the future. Equally employers will be able to phase in their contributions changes to tie in with their financial year if this does not end on 31 March.

ACTUARIAL ASSUMPTIONS

The actuarial assumptions used for assessing the funding position of the Fund and the individual employers, the "Primary" contribution rate, and any contribution variations due to underlying surpluses or deficits (i.e. the "Secondary" rate) are set out in an appendix to this FSS.

The discount rate in excess of CPI inflation (the "real discount rate") has been derived based on the expected return on the Fund's assets based on the long term strategy set out in its Investment Strategy Statement (ISS). When assessing the appropriate prudent discount rate, consideration has been given to the level of expected asset returns in excess of CPI inflation (i.e. the rate at which the benefits in the LGPS generally increase each year). It is proposed at this valuation the real return over CPI inflation for determining the past service liabilities is 2.0% per annum and for determining the future service ("primary") contribution rates is 2.75% per annum.

The demographic assumptions are based on the Fund Actuary's bespoke analysis for the Fund taking into account the experience of the wider LGPS where relevant.

EMPLOYER ASSET SHARES

The Fund is a multi-employer pension scheme that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving the employer asset share.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation. In addition, the asset share maybe restated for changes in data or other policies.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.

FUND POLICIES

In addition to the information/approaches required by overarching guidance and Regulation, this statement also summarises the Fund's approach and polices in a number of key areas:

1. Covenant assessment and monitoring

An employer's financial covenant underpins its legal obligation and crucially the ability to meet its financial responsibilities to the Fund now and in the future. The strength of covenant to the Fund effectively underwrites the risks to which the Fund is exposed, including underfunding, longevity, investment and market forces.

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital to the overall risk management and governance of the Fund. The employers' covenants will be assessed and monitored objectively in a proportionate manner and their ability to meet their obligations in the short and long term will be considered when determining an individual employer's funding strategy.

The Fund will continue to monitor changes in covenant in conjunction with the funding position over the inter-valuation period which will enable the Fund to anticipate and pre-empt employer any material issues arising and thus adopt a proactive approach in partnership with the employer. More details are provided in the relevant appendix in this statement.

2. Admitting employers to the Fund

Various types of employers are permitted to join the LGPS under certain circumstances, and the conditions upon which their entry to the Fund is based and the approach taken is set out in Appendix C. Examples of new employers include:

- Scheme Employers
- Designated bodies - those that are permitted to join if they pass a resolution
- Admission bodies - usually arising as a result of an outsourcing or an entity that provides some form of public service and their funding primarily derives from local or central government.

Certain employers may be required to provide a guarantee or alternative security before entry will be allowed.

3. Termination policy for employers exiting the Fund

When an employer ceases to participate within the Fund, it becomes an exiting employer under the Regulations. The Fund is then required to obtain an actuarial valuation of that employer's liabilities in respect of benefits of the exiting employer's current and former employees along with a termination contribution certificate.

Where there is **no guarantor** who would subsume the liabilities of the exiting employer, the Fund's policy is that a discount rate linked to Government bond yields and a more prudent longevity assumption is used for assessing liabilities on termination. Any exit payments due should be paid immediately although instalment plans will be considered by the Administering Authority on a case by case basis. Any exit credits (surplus assets over liabilities) will be paid from the Fund to the exiting employer within 3 months of cessation by the Actuary. The Administering Authority also reserves the right to modify this approach on a case by case basis if circumstances warrant it.

Where there is a **guarantor** who would subsume the assets and liabilities of the outgoing employer the policy is that any deficit or surplus would be subsumed into the guarantor and taken into account at the following valuation. This is subject to agreement from all interested parties who will need to consider any separate agreements that have been put in place between the exiting employer and the guarantor.

4. Insurance arrangements

The Fund ~~is currently implementing~~has implemented an internal captive ill health insurance arrangement which pools these risks for eligible employers. This arrangement will not affect eligible employer contribution rates at this valuation but may affect them going forward. More details are provided in **Appendix E**.

CONTENTS

APPENDICES

1 INTRODUCTION

The Local Government Pension Scheme Regulations 2013 (as amended) ("the 2013 Regulations"), ~~and~~ the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the 2014 Transitional Regulations") and The Local Government Pension Scheme (Amendment) Regulations 2018 ("the 2018 Amendment Regulations") (collectively; "the Regulations") provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS). The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the Clwyd Pension Fund the Administering Authority will prepare and publish their funding strategy;
- In preparing the FSS, the Administering Authority must have regard to:
  - the guidance issued by CIPFA for this purpose; and
  - the Investment Strategy Statement (ISS) for the Scheme published under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended);
- The FSS must be revised and published whenever there is a material change in either the policy set out in the FSS or the ISS.

BENEFITS

The benefits provided by the Clwyd Pension Fund are specified in the governing legislation contained in the Regulations referred to above. Benefits payable under the Clwyd Pension Fund are guaranteed by statute and thereby the pensions promise is secure for members. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time facilitating scrutiny and accountability through improved transparency and disclosure.

The Fund is a defined benefit arrangement with principally final salary related benefits from contributing members up to 1 April 2014 and Career Averaged Revalued Earnings ("CARE") benefits earned thereafter. There is also a "50:50 Scheme Option", where members can elect to accrue 50% of the full scheme benefits in relation to the member only and pay 50% of the normal member contribution.

EMPLOYER CONTRIBUTIONS

The required levels of employee contributions are specified in the Regulations. Employer contributions are determined in accordance with the Regulations (which require that an actuarial valuation is completed every three years by the actuary, including the provision of a rates and adjustments certificate specifying the "primary" and "secondary" rate of the employer's contribution).

PRIMARY RATE

The "Primary rate" for an employer is the contribution rate required to meet the cost of the future accrual of benefits including ancillary, death in service and ill health benefits together with administration costs. It is expressed as a percentage of pensionable pay, ignoring any past service surplus or deficit, but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer's covenant.

The Primary rate for the whole fund is the weighted average (by payroll) of the individual employers' Primary rates.

SECONDARY RATE

The "Secondary rate" is an adjustment to the Primary rate to reflect any past service deficit or surplus, to arrive at the rate each employer is required to pay. The Secondary rate may be expressed as a percentage adjustment to the Primary rate, and/or a cash adjustment in each of the three years beginning 1 April in the year following that in which the valuation date falls.

The Secondary rate is specified in the rates and adjustments certificate.

For any employer, the rate they are actually required to pay is the sum of the Primary and Secondary rates.

Secondary rates for the whole fund in each of the three years shall also be disclosed. These will be calculated as the weighted average based on the whole fund payroll in respect of percentage rates and as a total amount in respect of cash adjustments.

2
PURPOSE OF FSS IN POLICY TERMS

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the actuary.

The Administering Authority's long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due.

The purpose of this Funding Strategy Statement is therefore:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward by taking a prudent longer-term view of funding those liabilities;
- to establish contributions at a level to "secure the solvency of the pension fund" and the "long term cost efficiency",
- to have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

3

AIMS AND PURPOSE OF THE FUND

THE AIMS OF THE FUND ARE TO:

- manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due
- enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers, scheduled, designated and admitted bodies, while achieving and maintaining fund solvency and long term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future due to sector changes
- maximise the returns from investments within reasonable risk parameters taking into account the above aims.

THE PURPOSE OF THE FUND IS TO:

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of scheme benefits, transfer values, exit credits, costs, charges and expenses as defined in the 2013 Regulations, the 2014 Transitional Regulations, ~~and~~ the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and the 2018 Amendment Regulations.

4
RESPONSIBILITIES OF THE KEY PARTIES

The efficient and effective management of the pension fund can only be achieved if all parties exercise their statutory duties and responsibilities conscientiously and diligently. The key parties for the purposes of the FSS are the Administering Authority (in particular the Pensions Committee), the individual employers and the Fund Actuary, and details of their roles are set out below. Other parties required to play their part in the fund management process are bankers, custodians, investment managers, auditors and legal, investment and governance advisors, along with the Local Pensions Board created under the Public Service Pensions Act 2013.

KEY PARTIES TO THE FSS

The **Administering Authority** should:

- operate the pension fund
- collect employer and employee contributions, investment income and other amounts due to the pension fund as stipulated in the Regulations
- pay from the pension fund the relevant entitlements as stipulated in the Regulations
- invest surplus monies in accordance the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- take measures as set out in the Regulations to safeguard the fund against the consequences of employer default
- manage the valuation process in consultation with the Fund's actuary
- prepare and maintain a FSS and an ISS, both after proper consultation with interested parties, and
- monitor all aspects of the Fund's performance and funding, amending the FSS/ISS as necessary
- effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and a scheme employer, and
- establish, support and monitor a Local Pension Board (LPB) as required by the Public Service Pensions Act 2013, the Regulations and the Pensions Regulator's relevant Code of Practice.

The **Individual Employer** should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations)
- pay all contributions, including their own as determined by the actuary, promptly by the due date
- develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain, and
- have regard to the Pensions Regulator's focus on data quality and comply with any requirement set by the Administering Authority in this context, and
- notify the Administering Authority promptly of any changes to membership which may affect future funding.

The **Fund Actuary** should:

- prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency after agreeing assumptions with the Administering Authority and having regard to their FSS and the Regulations
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as pension strain costs, ill health retirement costs etc
- provide advice and valuations on the termination of admission agreements
- provide advice to the Administering Authority on bonds and other forms of security against the financial effect on the Fund of employer default
- assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as required by the Regulations
- advise on funding strategy, the preparation of the FSS and the inter-relationship between the FSS and the ISS, and
- ensure the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to the Fund Actuary's role in advising the Fund.

5

SOLVENCY FUNDING TARGET

Securing the "solvency" and "long term cost efficiency" is a regulatory requirement. To meet these requirements the Administering Authority's long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the "funding target") assessed on an ongoing past service basis including allowance for projected final pay where appropriate. In the long term, the employer rate would ultimately revert to the Future Service or Primary Rate of contributions.

SOLVENCY AND LONG TERM EFFICIENCY

Each employer's contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund's liabilities i.e. benefit payments can be reasonably met as they arise.

Employer contributions are also set in order to achieve long term cost efficiency. Long-term cost-efficiency implies that the rate must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time.

When formulating the funding strategy the Administering Authority has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary's Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the "solvency" of the pension fund and "long term cost efficiency" of the Scheme so far as relating to the Fund.

DETERMINATION OF THE SOLVENCY FUNDING TARGET AND DEFICIT RECOVERY PLAN

The principal method and assumptions to be used in the calculation of the funding target are set out in **Appendix A**. The Employer Deficit Recovery Plans are set out in **Appendix B**.

Underlying these assumptions are the following two tenets:

- that the Fund is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

This allows the Fund to take a longer term view when assessing the contribution requirements for certain employers.

In considering this the Administering Authority, based on the advice of the Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful, potentially taking into account any changes in funding after the valuation date up to the finalisation of the valuation by 31 March 2017 at the latest.

As part of each valuation, separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy between the distinct employers in the Fund.

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2016 actuarial valuation:

- The Fund does not believe it appropriate for deficit contribution reductions to apply compared to the existing funding plan (allowing for indexation where applicable) where deficits remain unless there is compelling reason to do so.

- Subject to consideration of affordability, as a general rule the deficit recovery period will reduce by at least 3 years for employers at this valuation when compared to the preceding valuation. This is to target full solvency over a similar (or shorter) time horizon. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. Subject to affordability considerations and other factors a bespoke period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Deficit Recovery Plan in **Appendix B**). This has resulted in an average recovery period of 15 years being adopted across all employers.

- For any employers assessed to be in surplus, their individual contribution requirements will be adjusted to such an extent that any surplus is used (i.e. run-off) over a 15 year period, subject to a total contribution minimum of zero. If an employer is expected to exit the Fund before this period, contribution requirements will be set to target a nil termination deficit within reasonable expectations (subject to periodic review).

- The employer contributions will be expressed and certified as two separate elements:
    - the **Primary rate**: a percentage of pensionable payroll in respect of the cost of the future accrual of benefits and ancillary death in service and ill health benefits
    - the **Secondary rate**: a schedule of lump sum monetary amounts and/or % of pay amendments over 2017/20 in respect of an employer's surplus or deficit (including phasing adjustments)

- Where increases (or decrease) in employer contributions are required from 1 April 2017, following completion of the 2016 actuarial valuation, the increase (or decrease) from the rates of contribution payable in the year 2017/18 may be implemented in steps, over a maximum period of 3 years. Any step up in future service contributions will be implemented in steps of at least 0.5% of pay per annum. Alternative patterns of contribution, on grounds of affordability, will be considered on an individual employer basis, subject to the total contribution requirement being met over the 2017/20 period covered by the contribution certificate. Employers should be aware that varying their contribution pattern could have an effect on the level of contributions required in the future.

- For employers that do not have a financial year end of 31 March 2017 (e.g. 31 July 2017), the Fund can allow the employer to continue to pay their current contribution plan until their financial year end date. The new contribution plan would then be implemented after this date (i.e. 1 August 2017 in this case).

- On the cessation of an employer's participation in the Fund, in accordance with the Regulations, the Fund Actuary will be asked to make a termination assessment. In such circumstances:

  The policy for employers who have a **guarantor** participating in the Fund:

  The residual assets and liabilities and hence any surplus or deficit will transfer back to the guarantor. This is subject to agreement from all interested parties who will need to consider any separate agreements that have been put in place between the exiting employer and the guarantor. If all parties do not agree, then the surplus will be paid directly to the exiting employer within 3 months of cessation (despite any other agreements that may be in place).

  The Fund will notify all parties in the event that agreement cannot be reached, however ultimately the Fund will comply with the Regulations and therefore pay the exit credit to the exiting employer. In some instances the outgoing employer may only be responsible for part of the residual deficit or surplus as per the separate agreement. This would only be taken into account if the Administering Authority is made aware of any such arrangement.

  In maintaining a consistent approach the Fund will seek to recover any deficit from the exiting employer in the first instance although if this is not possible then the deficit will be recovered from the guarantor either as a further contribution collection or at the next valuation.

  If a guarantor unjustifiably deviates from the policy to subsume the residual assets, liabilities and any surplus or deficit, future termination events with regard to the payment of the surplus or deficit will be treated in line with the approach adopted for employers without a guarantor in the Fund (the ongoing valuation basis will still be adopted in this case).

  The policy for employers who do not have a **guarantor** participating in the Fund:

  - In the case of a surplus, the Fund pays the exit credit to the exiting employer following completion of the termination process (within 3 months of cessation).

  - In the case of a deficit, the Fund would require the exiting employer to pay the termination deficit to the Fund as a lump sum cash payment (unless agreed otherwise by the Administering Authority at their sole discretion) following completion of the termination process.

  The Administering Authority can vary the treatment on a case by case basis at its sole discretion if circumstances warrant it based on the advice of the Actuary. ~~Any deficit in the Scheme in respect of the employer will be due to the Scheme as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Scheme to another participating employer.~~ The termination policy is summarised set out in **Appendix C**.

7
LINK TO INVESTMENT POLICY AND THE INVESTMENT STRATEGY STATEMENT (ISS)

The results of the 2016 valuation show the liabilities to be 76% covered by the current assets, with the funding deficit of 24% being covered by future deficit contributions.

In assessing the value of the Fund's liabilities in the valuation, allowance has been made for growth asset out-performance as described below, taking into account the investment strategy adopted by the Fund, as set out in the ISS.

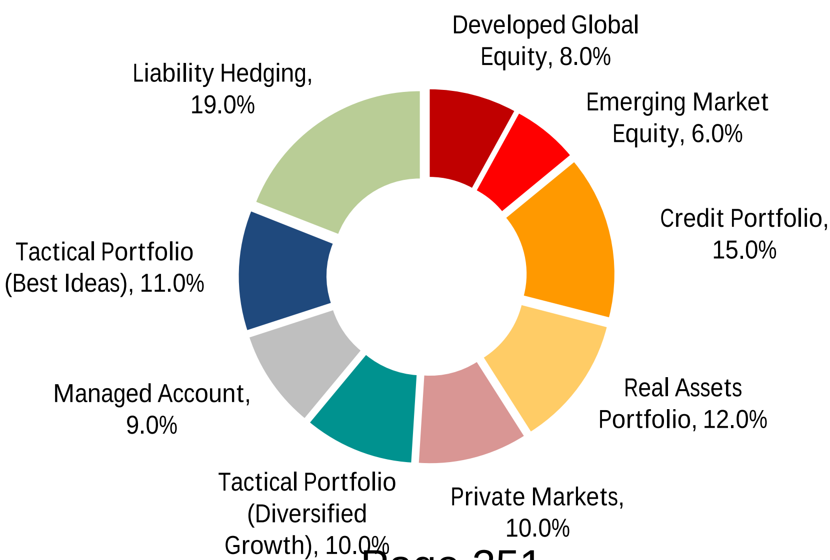
It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which represents the "minimum risk" investment position which would deliver a very high certainty of real returns above assumed CPI inflation. Such a portfolio would consist of a mixture of long-term index-linked, fixed interest gilts and possible swaps.

Investment of the Fund's assets in line with this portfolio would minimise fluctuations in the Fund's funding position between successive actuarial valuations.

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out this valuation it would not be appropriate to make any allowance for growth assets out-performance or any adjustment to market implied inflation assumption due to supply/demand distortions in the bond markets. This would result in real return versus CPI inflation of nil per annum at the valuation date. On this basis of assessment, the assessed value of the Fund's liabilities at the valuation would have been significantly higher, resulting in a funding level of 52%.

Departure from a minimum risk investment strategy, in particular to include growth assets such as equities, gives a better prospect that the assets will, over time, deliver returns in excess of CPI inflation and reduce the contribution requirements. The target solvency position of having sufficient assets to meet the Fund's pension obligations might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The strategic allocation is:



Based on the investment strategy above and the Investment Consultant's (JLT) assessment of the return expectations for each asset class leads to an overall best estimate average expected return of 4.3% per annum in excess of CPI inflation at the valuation date. For the purposes of setting funding strategy however, the Administering Authority believes that it is appropriate to take a margin for prudence on these return expectations.

8

IDENTIFICATION OF RISKS AND COUNTER-MEASURES

The funding of defined benefits is by its nature uncertain. Funding is based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the actuary that the greatest risk to the funding level is the investment risk inherent in the predominantly equity based strategy, so that actual asset out-performance between successive valuations could diverge significantly from that assumed in the long term. The Actuary's formal valuation report includes a quantification of the key risks in terms of the effect on the funding position.

FINANCIAL

The financial risks are as follows:-

- Investment markets fail to perform in line with expectations
- Market outlook moves at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- Future underperformance arising as a result of participating in the larger asset pooling vehicle
- Employer contributions are unaffordable and/or unstable
- Investment and/or funding objectives and/or strategies are no longer fit for purpose
- Insufficient assets to pay benefits
- Loss of employer income and/or other employers become liable for their deficits
- An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements.

Any increase in employer contribution rates (as a result of these risks) may in turn impact on the service delivery of that employer and their financial position.

In practice the extent to which these risks can be reduced is limited. However, the Fund's asset allocation is kept under regular review and the performance of the investment managers is regularly monitored.

DEMOGRAPHIC

The demographic risks are as follows:-

- Longevity horizon continues to expand

- Deteriorating pattern of early retirements (including those granted on the grounds of ill health)
- Unanticipated acceleration of the maturing of the Fund resulting in materially negative cashflows and shortening of liability durations

Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, result in a greater liability for pension funds.

Apart from the regulatory procedures in place to ensure that ill-health retirements are properly controlled, **employing bodies should be doing everything in their power to minimise the number of ill-health retirements**. Early retirements for reasons of redundancy and efficiency do not affect the solvency of the Fund because they are the subject of a direct charge.

With regards to increasing maturity (e.g. due to further cuts in workforce and/or restrictions on new employees accessing the Fund), the Administering Authority regularly monitors the position in terms of cashflow requirements and considers the impact on the investment strategy.

INSURANCE OF CERTAIN BENEFITS

The contributions for any employer may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs being insured with a third party or internally within the Fund. This for example could include insurance of ill-health costs or death in service benefits for members. Further information on the insurance of ill health costs is set out in **Appendix E**.

REGULATORY

The key regulatory risks are as follows:-

- Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to scheme,
- Changes to national pension requirements and/or HMRC Rules

Membership of the Local Government Pension Scheme is open to all local government staff and should be encouraged as a valuable part of the contract of employment. However, increasing membership does result in higher employer monetary costs.

GOVERNANCE

The Fund has done as much as it believes it reasonably can to enable employing bodies and scheme members (via their trades unions) to make their views known to the Fund and to participate in the decision-making process. So far as the revised Funding Strategy Statement is concerned, it circulated copies of the first draft to all employing bodies for their comments and placed a copy on the Fund's website. The first draft was approved at the Committee meeting on 5th July 2016 and finalised on 21 March 2017 after the Fund received consultation feedback from the employing bodies and the final document was ratified by the Committee. A further consultation took place following the publication of the 2018 Amendment Regulations and the introduction of exit credits. The revisions to the FSS have been incorporated into this draft and the updated FSS was agreed following the Committee meeting on [28 November 2018].

The Fund has restructured their governance arrangements with the implementation of the Advisory Panel. The Advisory Panel is made up of Fund Officers, Investment Consultants, an Independent Advisor and the Fund Actuary.

Governance risks are as follows:-

- The quality of membership data deteriorates materially due to breakdown in processes for updating the information resulting in liabilities being under or overstated
- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level
- Administering Authority not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates
- An employer ceasing to exist with insufficient funding or adequacy of a bond.
- Changes to Committee membership

For these risks to be minimised much depends on information being supplied to the Administering Authority by the employing bodies. Arrangements are strictly controlled and monitored (e.g. the implementation of iConnect for transferring data from employers), but in most cases the employer, rather than the Fund as a whole, bears the risk.

Full details of the risks and the controls in place are set out in the CPF risk register.

9
MONITORING AND REVIEW

The Administering Authority has taken advice from the actuary in preparing this Statement, and has also consulted with employing organisations.

A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full actuarial valuation. Any review will take account of then current economic conditions and will also reflect any legislative changes.

FLIGHTPATH - DE-RISKING STRATEGY

In the context of managing various aspects of the Fund's financial risks, the Administering Authority has implemented a "Flightpath" risk management investment strategy with effect from 1 April 2014. A Liability Driven Investments (LDI) mandate has also been implemented.

The principal aim of this risk management strategy is to effectively control and limit interest and inflation risks being run by the Fund (as these factors can lead to significant changes to liability values). At the valuation date the level of hedging was approximately 20% in relation to interest rates and 40% in relation to inflation. The intention is that the Fund will achieve a hedge ratio of 80% in the long term for both interest and inflation rates. The overall funding flightpath strategy structure was reviewed in conjunction with the actuarial valuation and a summary of the real yield triggers above CPI is shown below (split by duration of liabilities). In practice the triggers are split into separate interest rate and inflation triggers. Further details are set out in the November 2016 committee report.

		Real rate above CPI			
Proposed triggers	**Hedge ratio**	**15y**	**20y**	**30y**	**40y**
Trigger 1	30%	-	-	-	-
Trigger 2	40%	-	-	-	-
Trigger 3	50%	1.40%	1.40%	1.40%	1.40%
Trigger 4	60%	1.60%	1.60%	1.60%	1.60%
Trigger 5	70%	1.80%	1.80%	1.80%	1.80%
Trigger 6	80%	2.00%	2.00%	2.00%	2.00%

FLIGHTPATH – MONITORING/TRIGGER REVIEW

A summary report is provided to the Fund (on a monthly and quarterly basis) which includes a "traffic light" analysis of the key components of the Flightpath and hedging mandate. The "traffic light" indicates whether the Flightpath and hedging mandate are operating in line with expectations or if any actions are required. In particular, a separate fund-wide mechanism has been introduced, such that if the funding level falls more than 5% below the "expected" funding level (based on valuation assumptions), then discussions will follow at the Advisory Panel level as to the continued appropriateness of the funding strategy. There are no formal funding level triggers in place ~~at the time of writing but these are being considered and will be implemented~~although it has been agreed that when the funding level hits 100% or higher consideration will be given to whether the allocation to more liability matching assets should be increased.

The funding level has materially improved since the valuation date due in part to strong equity performance in the portfolio including the exposure via the risk management mandate with Insight. ~~There are no formal funding level triggers in place at the time of writing but these are being considered and will be implemented.~~ ~~In addition it has been agreed that the Fund will seek to protect itself against falls in equity markets. This will be done via insurance contracts and it will be put in place to cover only the exposure to equity markets within the Insight mandate.~~ The Fund implemented a static equity protection strategy in relation to the Insight mandate protecting against equity market falls on exposure of £330m. This was in place from 24th April 2017 which ran until 24th May 2018.

On 24th May 2018 and a new dynamic Equity Protection strategy was put in place. This was after rigorous analysis and value for money considerations by the FRMG. The strategy protects against falls of 15% or more of the average market position over the previous 12 months on the £360m of equity exposure in the Insight portfolio. This will be financed by giving up some potential upside return on a monthly basis. Whilst more complex to set up, the dynamic strategy provides advantages versus the previous static approach as follows:

1. Improved protection levels in upward trending markets
2. Expectation of better long-term risk adjusted returns (after fees and transaction costs) except in some extreme scenarios
3. Improved flexibility and on-going governance as it allows the structure to easily adapt to changing requirements including switching the protection off

Due to the requirements of implementing the strategy on a daily rolling basis, it was agreed that the strategy would be delivered using a counterparty bank rather than an investment manager. Mercer went through a process of determining the best counterparty bank and it was agreed that JP Morgan would deliver the strategy via the existing Insight investment vehicle.

Further ~~D~~details of the updated funding level triggers and Equity market protection will be shown in the relevant Committee report~~ and they will then be reflected in the future updates of the FSS~~.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations as part of the Flightpath monitoring detailed above and regular funding reviews. If considered appropriate, the funding and flightpath strategy will be reviewed (other than as part of the triennial valuation process), for example:

- if there has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- if there have been significant changes to the CPF membership, or LGPS benefits
- if there have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy e.g. closure to new entrants
- if there have been any significant special contributions paid into the CPF
- there has been a change in Regulations or Guidance which materially impacts on the policies within the funding strategy

When monitoring the funding position, if the Administering Authority considers that any action is required, the employing authorities will be contacted to provide an update and details of any proposed remedial actions at the next valuation or earlier if appropriate.

FURTHER INFORMATION

If you require further information about anything in or related to this Funding Strategy Statement, please contact:

Philip Latham, Clwyd Pension Fund Manager, Flintshire County Council

E-mail - Philip.latham@flintshire.gov.uk

Telephone - 01352 702264

APPENDIX A - ACTUARIAL METHOD AND ASSUMPTIONS

METHOD

The actuarial method to be used in the calculation of the solvency funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the scheme on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, an alternative method is adopted, which makes advance allowance for the anticipated future ageing and decline of the current closed membership group potentially over the period of the rates and adjustments certificate.

FINANCIAL ASSUMPTIONS – SOLVENCY FUNDING TARGET

Investment return (discount rate)

The discount rate has been derived based on the expected return on the Fund assets base on the long term strategy set out in the Investment Strategy Statement (ISS). It includes appropriate margins for prudence. When assessing the appropriate discount rate consideration has been given to the returns in excess of CPI inflation (as derived below). The discount rate at the valuation has been derived based on an assumed return of 2.0% per annum above CPI inflation i.e. a real return of 2.0% per annum and a total discount rate of 4.2% per annum. This real return will be reviewed from time to time based on the investment strategy, market outlook and the Fund's overall risk metrics. The discount rate will be reviewed as a matter of course at the time of a formal valuation.

Inflation (Consumer Prices Index)

The inflation assumption will be taken to be the investment market's expectation for RPI inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Scheme's accrued liabilities, but subject to an adjustment due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index

The overall reduction to RPI inflation at the valuation date is 1.0% per annum.

Salary increases

In relation to benefits earned prior to 1 April 2014, the assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.25% p.a. over the inflation assumption as described above. This includes allowance for promotional increases. In addition to the long term salary increase assumption allowance has been made for expected short term pay restraint for some employers as budgeted in their financial plan. For example for public sector employers this results in a total salary increase of 1% per annum to 2019/20 in line with Government policy. Depending on the circumstances of the employer, the variants on short term pay that have been applied are either no allowance or an allowance of 1% per annum for each year from the valuation date up to 2020.

Pension increases/Indexation of CARE benefits

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the CPI (e.g. Guaranteed Minimum Pensions where the LGPS is not required to provide full indexation).

DEMOGRAPHIC ASSUMPTIONS

Mortality/Life Expectancy

The mortality in retirement assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity and the experience of the scheme. The mortality tables used are set out below, with a loading reflecting Fund specific experience. The derivation of the mortality assumption is set out in a separate paper as supplied by the Actuary. Current members who retire on the grounds of ill health are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 4 years older whereas for existing ill health retirees we assume this is at an age 3 years older. For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in a minimum level of longevity 'improvement' year on year in the future in line with the CMI projections with a long-term improvement trend of 1.75% per annum for males, and 1.5% per annum for females.

The mortality before retirement has also been adjusted based on LGPS wide experience.

Commutation

It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take the standard 3/80ths cash sum. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.

Other Demographics

Following an analysis of Fund experience carried out by the Actuary, the incidence of ill health retirements, withdrawal rates and the proportions married/civil partnership assumption have been modified from the last valuation. In addition, no allowance will be made for the future take-up of the 50:50 option (an allowance of 5% of current and future members (by payroll) for certain employers was made at the last valuation). Where any member has actually opted for the 50:50 scheme, this will be allowed for in the assessment of the rate for the next 3 years. Other assumptions are as per the last valuation.

Expenses

Expenses are met out the Fund, in accordance with the Regulations. This is allowed for by adding 0.6% of pensionable pay to the contributions as required from participating employers. This addition is reassessed at each valuation and is calculated by estimating the level of expenses for the Fund over the period from 1 April 2017 to 31 March 2020. Investment expenses have been allowed for implicitly in determining the discount rates. In addition, any expenses that are directly attributable to specific employers via the Employer Liaison team, will be included in the assessment of that employer's ~~expenses~~ expense allowance from the 2019 actuarial valuation.

Discretionary Benefits

The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation

METHOD AND ASSUMPTIONS USED IN CALCULATING THE COST OF FUTURE ACCRUAL (OR PRIMARY RATE)

The future service liabilities are calculated using the same assumptions as the funding target except that a different financial assumption for the discount rate is used. A critical aspect here is that the Regulations state the desirability of keeping the "Primary Rate" (which is the future service rate) as stable as possible so this needs to be taken into account when setting the assumptions.

As future service contributions are paid in respect of benefits built up in the future, the Primary Rate should take account of the market conditions applying at future dates, not just the date of the valuation, thus it is justifiable to use a slightly higher expected return from the investment strategy. In addition the future liabilities for which these contributions will be paid have a longer average duration than the past service liabilities as they relate to active members only.

At the valuation date, the financial assumptions in relation to future service (i.e. the normal cost) are based on an overall assumed real discount rate of 2.75% per annum above the long term average assumption for consumer price inflation of 2.2% per annum.

EMPLOYER ASSET SHARES

The Fund is a multi-employer pension scheme that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving the employer asset share.

In attributing the overall investment performance obtained on the assets of the Fund to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Scheme as a whole unless agreed otherwise between the employer and the Fund at the sole discretion of the Administering Authority.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.

SUMMARY OF KEY WHOLE FUND ASSUMPTIONS USED FOR CALCULATING FUNDING TARGET AND COST OF FUTURE ACCRUAL (THE "PRIMARY RATE") FOR THE 2016 ACTUARIAL VALUATION

Long-term yields	
Market implied RPI inflation	3.20% p.a.
Solvency Funding Target financial assumptions	
Investment return/Discount Rate	4.20% p.a.
CPI price inflation	2.20% p.a.
Long Term Salary increases*	3.45% p.a.
Pension increases/indexation of CARE benefits	2.20% p.a.
Future service accrual financial assumptions	
Investment return/Discount Rate	4.95% p.a.
CPI price inflation	2.20% p.a.
Long Term Salary increases*	3.45% p.a.
Pension increases/indexation of CARE benefits	2.20% p.a.

*short term salary increases of 1% per annum for each year from the valuation date up to 2020 also apply for most employers

Life expectancy assumptions

The post retirement mortality tables adopted for this valuation are set out below:

Current Status	Retirement Type	Mortality Table
Pensioner	Normal Health	99% S2PMA_CMI_2015[1.75%] / 90% S2PFA_CMI_2015[1.5%]
	Dependant	130% S2PMA_CMI_2015[1.75%] / 103% S2DFA_CMI_2015[1.5%]
	Ill Health	99% S2PMA_CMI_2015[1.75%] + 3 years / 90% S2PFA_CMI_2015[1.5%] + 3 years
Active	Normal Health	99% S2PMA_CMI_2015[1.75%] / 86% S2PFA_CMI_2015[1.5%]
	Ill Health	99% S2PMA_CMI_2015[1.75%] + 4 years / 86% S2PFA_CMI_2015[1.5%] + 4 years
Deferred	All	124% S2PMA_CMI_2015[1.75%] / 99% S2PFA_CMI_2015[1.5%]
Future Dependant	Dependant	106% S2PMA_CMI_2015[1.75%] / 98% S2DFA_CMI_2015[1.5%]

Life expectancies at age 65:

Membership Category	Male Life Expectancy at 65	Female Life Expectancy at 65
Pensioners	22.8	25.4
Actives aged 45 now	25.4	28.1
Deferreds aged 45 now	23.5	26.9

Other demographic assumptions are set out in the Actuary’s formal report.

APPENDIX B – EMPLOYER DEFICIT RECOVERY PLANS

As the assets of the Fund are less than the liabilities at the effective date, a deficit recovery plan needs to be adopted such that additional contributions are paid into the Fund to meet the shortfall.

Deficit contributions paid to the Fund by each employer will be expressed as £s amounts and it is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford based on the Administering Authority's view of the employer's covenant and risk to the Fund.

Recovery periods will be set by the Fund on a consistent basis across employer categories where possible and communicated as part of the discussions with employers. This will determine the minimum contribution requirement although employers will be free to select any shorter deficit recovery period and higher contributions if they wish, including the option of prepaying the deficit contributions in one lump sum either on an annual basis or a one-off payment. This will be reflected in the monetary amount requested via a reduction in overall £ deficit contributions payable.

The determination of recovery periods is summarised in the table below:

Category	Average Deficit Recovery Period (whole years)	Derivation
Unitary Authority Councils	15 years	Determined by reducing the period from the preceding valuation by 3 years.
Other Tax-raising Scheduled and Designating Bodies	11 years	Determined by reducing the period from the preceding valuation on a case by case basis with the intention of reducing by at least 3 years.
Education Bodies (Universities and Colleges)	13 years	Determined by reducing the period from the preceding valuation by at least 3 years.
Admission Bodies (guaranteed by another Scheme Employer within the Fund)	16 years	Subject to agreement with guarantor.

Individual employers have been notified separately of their individual recovery periods when they were provided with their individual valuation results.

In determining the actual recovery period to apply for any particular employer or employer grouping, the Administering Authority may take into account some or all of the following factors:

- The size of the funding shortfall;
- The business plans of the employer;
- The assessment of the financial covenant of the Employer, and security of future income streams;
- Any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets etc.

- changes in the funding position after the valuation date which is deemed reasonable.

The objective is to recover any deficit over a reasonable timeframe, and this will be periodically reviewed. Subject to affordability considerations a key principle will be to maintain the deficit contributions at the expected monetary levels from the preceding valuation.

OTHER FACTORS AFFECTING THE EMPLOYER DEFICIT RECOVERY PLANS

As part of the process of agreeing funding plans with individual employers, the Administering Authority will consider the use of contingent assets and other tools such as bonds or guarantees that could assist employing bodies in managing the cost of their liabilities or could provide the Fund with greater security against outstanding liabilities. All other things being equal this could result in a longer recovery period being acceptable to the Administering Authority, although employers will still be expected to at least cover expected interest costs on the deficit.

It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Administering Authority therefore would be willing to use its discretion to accept an evidenced based affordable level of contributions for the organisation for the three years 2017/2020. Any application of this option is at the ultimate discretion of the Fund in order to effectively manage risk across the Fund. It will only be considered after the provision of the appropriate evidence as part of the covenant assessment and also the appropriate professional advice. Typically this will be managed primarily through an adjustment to the recovery period and/or phasing/stepping of contributions.

For those bodies identified as having a weaker covenant, the Administering Authority will need to balance the level of risk plus the solvency requirements of the Fund with the sustainability of the organisation when agreeing funding plans. As a minimum, the annual deficit payment must meet the on-going interest costs to ensure, everything else being equal, that the deficit does not increase in monetary terms.

Notwithstanding the above, the Administering Authority, in consultation with the Fund Actuary, retains ultimate discretion in agreeing final employer contribution plans, and will consider whether any exceptional arrangements should apply to any participating employer within the Fund.

APPENDIX C - ADMISSION AND TERMINATION POLICY

INTRODUCTION

This document details the Clwyd Pension Fund's (CPF) policy on the methodology for assessment of ongoing contribution requirements and termination payments in the event of the cessation of an employer's participation in the Fund. This document also covers CPF's policy on admissions into the Fund and sets out the considerations for current and former *admission bodies*. It supplements the general policy of the Fund as set out in the Funding Strategy Statement (FSS).

- Admission bodies are required to have an "admission agreement" with the Fund. In conjunction with the Regulations, the admission agreement sets out the conditions of participation of the admission body including which employees (or categories of employees) are eligible to be members of the Fund.

- Scheme Employers have a statutory right to participate in the LGPS and their staff therefore can become members of the LGPS at any time, although some organisations (Part 2 Scheme Employers) do need to designate eligibility for its staff.

A list of all current employing bodies participating in the CPF is kept as a live document and will be updated by the Administering Authority as bodies are admitted to, or leave the CPF.

Please see the glossary for an explanation of the terms used throughout this Appendix.

ENTRY TO THE FUND

Prior to admission to the Fund, an Admitted Body is required to carry out an assessment of the level of risk on premature termination of the contract to the satisfaction of the Administering Authority. If the risk assessment and/or bond amount is not to the satisfaction of the Administering Authority (as required under the LGPS Regulations) it will consider and determine whether the admission body must pre-fund for termination with contribution requirements assessed using the minimum risk methodology and assumptions.

Some aspects that the Administering Authority may consider when deciding whether to apply a minimum risk methodology are:

- Uncertainty over the security of the organisation's funding sources e.g. the body relies on voluntary or charitable sources of income or has no external funding guarantee/reserves;

- If the admitted body has an expected limited lifespan of participation in the Fund;

- The average age of employees to be admitted and whether the admission is closed to new joiners.

In order to protect other Fund employers, where it has been considered undesirable to provide a bond, a guarantee must be sought in line with the LGPS Regulations.

ADMITTED BODIES PROVIDING A SERVICE

Generally Admitted Bodies providing a service will have a guarantor within the Fund that will stand behind the liabilities. Accordingly, in general, the minimum risk approach to funding and termination will not apply for these bodies.

As above, the Admitted Body is required to carry out an assessment of the level of risk on premature termination of the contract to the satisfaction of the Administering Authority. This assessment would normally be based on advice in the form of a “risk assessment report” provided by the actuary to the CPF. As the Scheme Employer is effectively the ultimate guarantor for these admissions to the CPF it must also be satisfied (along with the Administering Authority) over the level (if any) of any bond requirement. Where bond agreements are to the satisfaction of the Administering Authority, the level of the bond amount will be subject to review on a regular basis.

In the absence of any other specific agreement between the parties, deficit recovery periods for Admitted Bodies will be set in line with the Fund’s general policy as set out in the FSS.

Any risk sharing arrangements agreed between the Scheme Employer and the Admitted Body will be documented in the commercial agreement between the two parties and not the admission agreement.

In the event of termination of the Admitted Body, any orphan liabilities in the Fund will be subsumed by the relevant Scheme Employer.

An exception to the above policy applies if the guarantor is not a participating employer within the CPF, including if the guarantor is a participating employer within another LGPS Fund. In order to protect other employers within the CPF the Administering Authority may in this case treat the admission body as pre-funding for termination, with contribution requirements assessed using the minimum risk methodology and assumptions

PRE-FUNDING FOR TERMINATION

An employing body may choose to pre-fund for termination i.e. to amend their funding approach to a minimum risk methodology and assumptions. This will substantially reduce the risk of an uncertain and potentially large debt being due to the Fund at termination. However, it is also likely to give rise to a substantial increase in contribution requirements, when assessed on the minimum risk basis.

For any employing bodies funding on such a minimum risk strategy a notional investment strategy can be assumed as a match to the liabilities if agreed by the Administering Authority based on the advice of the Actuary. In particular the employing body’s notional asset share of the Fund will be credited with an investment return in line with the minimum risk funding assumptions adopted rather than the actual investment return generated by the actual asset portfolio of the entire Fund. The Fund reserves the right to modify this approach in any case where it might materially affect the finances of the Scheme, or depending on any case specific circumstances.

EXITING THE FUND

TERMINATION OF AN EMPLOYER'S PARTICIPATION

When an employing body terminates for any reason, employees may transfer to another employer, either within the Fund or elsewhere. If this is not the case the employees will retain pension rights within the Fund i.e. either deferred benefits or immediate retirement benefits.

In addition to any liabilities for current employees the Fund will also retain liability for payment of benefits to former employees, i.e. to existing deferred and pensioner members except where there is a complete transfer of responsibility to another Fund with a different Administering Authority.

In the event that unfunded liabilities arise that cannot be recovered from the employing body, these will normally fall to be met by the Fund as a whole (i.e. all employers) unless there is a guarantor or successor body within the Fund.

EMPLOYERS WITHOUT A GUARANTOR

The CPF's policy is that a termination assessment will be made based on a minimum risk funding basis, unless the employing body has a guarantor within the Fund or a successor body exists to take over the employing body's liabilities (including those for former employees). This is to protect the other employers in the Fund as, at termination, the employing body's liabilities will become orphan liabilities within the Fund, and there will be no recourse to it if a shortfall emerges in the future (after participation has terminated). The policy for such employers will be:

- In the case of a surplus, the Fund pays the exit credit to the exiting employer following completion of the termination process (within 3 months of cessation).

- In the case of a deficit, the Fund would require the exiting employer to pay the termination deficit to the Fund as a lump sum cash payment (unless agreed otherwise by the Administering Authority at their sole discretion) following completion of the termination process.

EMPLOYERS WITH A GUARANTOR

If, instead, the employing body has a guarantor within the Fund or a successor body exists to take over the employing body's liabilities, the CPF's policy is that the valuation funding basis will be used for the termination assessment unless the guarantor informs the CPF otherwise.

The guarantor or successor body will then, following any termination payment made by the exiting employer, subsume the assets and liabilities (and any surplus or deficit) of the employing body within the Fund. (For Admission Bodies, this process is sometimes known as the "novation" of the admission agreement.) This is subject to the agreement of all parties involved (i.e. the Fund, the exiting employer and the guarantor) who will need to consider any separate agreements that have been put in place between the exiting employer and the guarantor.

This may, if agreed by the successor body, constitute a complete amalgamation of assets and liabilities to the successor body, including any funding deficit on closure. In these circumstances no termination payment will be required from the outgoing employing body itself, as the deficit would be recovered via the successor body's own deficit recovery plan.

In the event of a surplus, if all parties do not agree, then the surplus will be paid directly to the exiting employer within 3 months of cessation (despite any other agreements that may be in place). In some instances the outgoing employer may only be responsible for part of the residual deficit or surplus as per the separate agreement. This would only be taken into account if the Administering Authority is made aware of any such arrangement.

In maintaining a consistent approach the Fund will seek to recover any deficit from the exiting employer in the first instance although if this is not possible then the deficit will be recovered from the guarantor either as a further contribution collection or at the next valuation.

If a guarantor unjustifiably deviates from the policy to subsume the residual assets, liabilities and any surplus or deficit, future termination events with regard to the payment of the surplus or deficit will be treated in line with the approach adopted for employers without a guarantor in the Fund (the ongoing valuation basis will still be adopted in this case).

It is possible under certain circumstances that an employer can apply to transfer all assets and current and former members' benefits to another LGPS Fund in England and Wales. In these cases no termination assessment is required as there will no longer be any orphan liabilities in the CPF. A separate assessment of the assets to be transferred will be required.

FUTURE TERMINATIONS

In many cases, termination of an employer's participation is an event that can be foreseen, for example, because the organisation's operations may be planned to be discontinued and/or the admission agreement is due to cease. Under the Regulations, in the event of the Administering Authority becoming aware of such circumstances, it can amend an employer's minimum contributions such that the value of the assets of the employing body is neither materially more nor materially less than its anticipated liabilities at the date it appears to the Administering Authority that it will cease to be a participating employer. In this case, employing bodies are encouraged to open a dialogue with the Fund to commence planning for the termination as early as possible. Where termination is disclosed in advance the Fund will operate procedures to reduce the sizeable volatility risks to the debt amount in the run up to actual termination of participation. The Fund will modify the employing body's approach in any case, where it might materially affect the finances of the Scheme, or depending on any case specific circumstances.

The Fund's standard policy is to recover termination deficits (including interest and expenses) as a one off payment. However, at the discretion of the Administering Authority, the deficit can be recovered over an agreed period as certified by the Actuary. This period will depend on the Administering Authority's view on the covenant of the outgoing employer. In the case of a surplus, the Fund pays the exit credit to the exiting employer following completion of the termination process (within 3 months of cessation).

MINIMUM RISK TERMINATION BASIS

The minimum risk financial assumptions that applied at the actuarial valuation date (31 March 2016) are set out below in relation to any liability remaining in the Fund. These will be updated on a case-by-case basis, with reference to prevailing market conditions at the relevant employing body's cessation date.

Minimum risk assumptions	**31 March 2016**
Discount Rate	2.2% p.a.
CPI price inflation	2.2% p.a.
Pension increases/indexation of CARE benefits	2.2% p.a.

All demographic assumptions will be the same as those adopted for the 2016 actuarial valuation, except in relation to the life expectancy assumption. Given the minimum risk financial assumptions do not protect against future adverse demographic experience a higher level of prudence will be adopted in the life expectancy assumption.

The termination basis for an outgoing employer will include an adjustment to the assumption for longevity improvements over time by increasing the long term trend of improvement in mortality rates to 2% p.a. from the 1.75% p.a. and 1.5% p.a. used for males and females respectively, in the 2016 valuation for ongoing funding and contribution purposes.

APPENDIX D – COVENANT ASSESSMENT AND MONITORING POLICY

An employer's covenant underpins its legal obligation and ability to meet its financial responsibilities now and in the future. The strength of covenant depends upon the robustness of the legal agreements in place and the likelihood that the employer can meet them. The covenant effectively underwrites the risks to which the Fund is exposed, including underfunding, longevity, investment and market forces.

An assessment of employer covenant focuses on determining the following:

- Type of body and its origins
- Nature and enforceability of legal agreements
- Whether there is a bond in place and the level of the bond
- Whether a more accelerated recovery plan should be enforced
- Whether there is an option to call in contingent assets
- Is there a need for monitoring of ongoing and termination funding ahead of the next actuarial valuation?

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital.

RISK CRITERIA

The assessment criteria upon which an employer should be reviewed could include:

- Nature and prospects of the employer's industry
- Employer's competitive position and relative size
- Management ability and track record
- Financial policy of the employer
- Profitability, cashflow and financial flexibility
- Employer's credit rating
- Position of the economy as a whole

Not all of the above would be applicable to assessing employer risk within the Fund; rather a proportionate approach to the consideration of the above criteria would be made, with further focus given to the following:

- The scale of obligations to the pension scheme relative to the size of the employer's operating cashflow
- The relative priority placed on the pension scheme compared to corporate finances
- An estimate of the amount which might be available to the scheme on insolvency of the employer as well as the likelihood of that eventuality.

ASSESSING EMPLOYER COVENANT

The employer covenant will be assessed objectively and its ability to meet their obligations will be viewed in the context of the Fund's exposure to risk and volatility based on publically available information and/or information provided by the employer. The monitoring of covenant strength along with the funding position (including on the termination basis) enables the Fund to anticipate and pre-empt employer funding issues and thus adopt a proactive approach. In order to objectively monitor the strength of an employer's covenant, adjacent to the risk posed to the Fund, a number of fundamental financial metrics will be reviewed to develop an overview of the employer's stability and a rating score will be applied using a Red/Amber/Greed (RAG) rating structure.

In order to accurately monitor employer covenant, it will be necessary for research to be carried out into employers' backgrounds and, in addition, for those employers to be contacted to gather as much information as possible. Focus will be placed on the regular monitoring of employers with a proactive rather than reactive view to mitigating risk.

The covenant assessment will be combined with the funding position to derive an overall risk score. Action will be taken if these metrics meet certain triggers based on funding level, covenant rating and the overall risk score

FREQUENCY OF MONITORING

The funding position and contribution rate for each employer participating in the Fund will be reviewed as a matter of course with each triennial actuarial valuation. However, it is important that the relative financial strength of employers is reviewed regularly to allow for a thorough assessment of the financial metrics. The funding position will be monitored (including on the termination basis) using an online system provided to officers by the Fund Actuary.

Employers subject to a more detailed review, where a risk criterion is triggered, will be reviewed at least every six months, but more realistically with a quarterly focus.

COVENANT RISK MANAGEMENT

The focus of the Fund's risk management is the identification and treatment of the risks and it will be a continuous and evolving process which runs throughout the Fund's strategy. Mechanisms that will be explored with certain employers, as necessary, will include but are not limited to the following:

1. Parental Guarantee and/or Indemnifying Bond
2. Transfer to a more prudent actuarial basis and investment strategy (e.g. the termination basis)
3. A higher funding target, shortened recovery periods and increased cash contributions
4. Managed exit strategies
5. Contingent assets and/or other security such as escrow accounts.

APPENDIX E – INSURANCE ARRANGEMENTS

OVERVIEW OF ARRANGEMENTS

The Fund is setting up an internal captive ill health insurance arrangement which pools these risks for eligible employers. The aim of the arrangement would be that smaller employers, whose funding position could be significantly affected by the retirement of one or more of their members on the grounds of ill health, would pay a premium to the Fund within their future service contribution rate. This arrangement will not affect eligible employer contribution rates at this valuation but may affect them going forward.

INTERNAL CAPTIVE INSURANCE

The internal captive arrangement would operate as follows:

- “Premiums” are paid by the eligible employers into the captive arrangement which is tracked separately by the Fund Actuary in the valuation calculations. The premiums are included in the employer’s primary rate.

- The captive arrangement is then used to meet strain costs (over and above the premium paid) emerging from ill-health retirements in respect of both active and deferred members i.e. so there is no initial impact on the deficit position for employers within the captive.

- The premiums are set with the expectation that they will be sufficient to cover the costs in the 3 years following the valuation date. If any excess premiums over costs are built up in the Captive, these will be used to offset future adverse experience and/or lower premiums at the discretion of the Administering Authority based on the advice of the actuary.

- In the event of poor experience over a valuation period any shortfall in the captive fund is effectively underwritten by the other employers within the Fund. However the future premiums will be adjusted to recover any shortfall over a reasonable period with a view to keeping premiums as stable as possible for employers. Over time the captive arrangement should therefore be self-funding and smooth out fluctuations in the contribution requirements for those employers in the captive arrangement.

- Premiums payable are subject to review from valuation to valuation depending on experience and the expected ill health trends. They will also be adjusted for any changes in the LGPS benefits. They will be included in employer rates at each valuation or on commencement of participation for new employers.

SUMMARY

The relevant employers will be notified of their participation. New employers entering the Fund who fall into the “small employer” category would also be included.

For all other employers who do not form part of the captive arrangement, the current treatment of ill-health retirements will still apply i.e. the Fund continues to monitor ill-health retirement strain costs incurred against the allowance certified with recovery of any excess costs from the employer once the allowance is exceeded either at the next valuation or at an earlier review of the contributions due including on termination of participation.

APPENDIX F - GLOSSARY

ACTUARIAL VALUATION: an investigation by an actuary into the ability of the Fund to meet its liabilities. For the LGPS the Fund Actuary will assess the funding level of each participating employer and agree contribution rates with the administering authority to fund the cost of new benefits and make good any existing deficits as set out in the separate Funding Strategy Statement. The asset value is based on market values at the valuation date.

ADMINISTERING AUTHORITY: the council with a statutory responsibility for running the Fund and that is responsible for all aspects of its management and operation.

ADMISSION BODIES: A specific type of employer under the Local Government Pension Scheme (LGPS) who do not automatically qualify for participation in the Fund but are allowed to join if they satisfy the relevant criteria set out in the Regulations.

BENCHMARK: a measure against which fund performance is to be judged.

BEST ESTIMATE ASSUMPTION: an assumption where the outcome has a 50/50 chance of being achieved.

BONDS: loans made to an issuer (often a government or a company) which undertakes to repay the loan at an agreed later date. The term refers generically to corporate bonds or government bonds (gilts).

CAREER AVERAGE REVALUED EARNINGS SCHEME (CARE): with effect from 1 April 2014, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.

MINIMUM RISK BASIS: an approach where the discount rate used to assess the liabilities is determined based on the market yields of Government bond investments based on the appropriate duration of the liabilities being assessed. This is usually adopted when an employer is exiting the Fund.

CPI: acronym standing for “Consumer Prices Index”. CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. The reference goods and services differ from those of RPI. These goods are expected to provide lower, less volatile inflation increases. Pension increases in the LGPS are linked to the annual change in CPI.

COVENANT: the assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term or affordability constraints in the short term.

DEFICIT: the extent to which the value of the Fund’s past service liabilities exceeds the value of the Fund’s assets. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).

DEFICIT RECOVERY PERIOD: the target length of time over which the current deficit is intended to be paid off. A shorter period will give rise to a higher annual contribution, and vice versa.

DISCOUNT RATE: the rate of interest used to convert a cash amount e.g. future benefit payments occurring in the future to a present value i.e. the liabilities. A higher discount means lower liabilities and vice versa.

EMPLOYER'S FUTURE SERVICE CONTRIBUTION RATE ("PRIMARY RATE"): the contribution rate payable by an employer, expressed as a % of pensionable pay, as being sufficient to meet the cost of new benefits being accrued by active members in the future. The cost will be net of employee contributions and will include an allowance for the expected level of administrative expenses.

EMPLOYING BODIES: any organisation that participates in the LGPS, including admission bodies and scheme employers.

EQUITIES: shares in a company which are bought and sold on a stock exchange.

EQUITY PROTECTION: an insurance contract which provides protection against falls in equity markets. Depending on the pricing structure, this may be financed by giving up some of the upside potential in equity market gains.

EXIT CREDIT: the amount payable from the Fund to an exiting employer in the case where the exiting employer is determined to be in surplus at the point of cessation based on a termination assessment by the Fund Actuary.

FLIGHTPATH: a framework that defines a de-risking process whereby exposure to growth assets is reduced as and when it is affordable to do so i.e. when "triggers" are hit, whilst still expecting to achieve the overall funding target.

FUNDING OR SOLVENCY LEVEL: the ratio of the value of the Fund's assets and the value of the Fund's liabilities expressed as a percentage.

FUNDING STRATEGY STATEMENT: This is a key governance document that outlines how the administering authority will manage employer's contributions and risks to the Fund.

GOVERNMENT ACTUARY'S DEPARTMENT ("GAD"): the GAD is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury.

GUARANTEE / GUARANTOR: a formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's covenant to be as strong as its guarantor's.

HEDGING: a strategy that aims to reduce funding volatility. This is achieved by investing in assets that capture levels of yields based on agreed trigger levels so the assets mimic the change in liabilities.

HEDGE RATIO: The level of hedging in place as a percentage of the liabilities. This can be in relation to interest rates, inflation rates or real rates of return.

ILL HEALTH CAPTIVE: this is a notional fund designed to immunise certain employers against excessive ill health costs in return for an agreed insurance premium.

INVESTMENT STRATEGY: the long-term distribution of assets among various asset classes that takes into account the Funds objectives and attitude to risk.

LETTING EMPLOYER: an employer that outsources part of its services/workforce to another employer, usually a contractor. The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer.

LIABILITIES: the actuarially calculated present value of all benefit entitlements i.e. scheme cashflows of all members of the Fund, built up to date or in the future. The liabilities in relation to the benefit entitlements earned up to the valuation date are compared with the present market value of Fund assets to derive the deficit and funding/solvency level. Liabilities can be assessed on different set of actuarial assumptions depending on the purpose of the valuation.

LGPS: the Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements.

MATURITY: a general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

MEMBERS: The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).

MINIMUM RISK FUNDING BASIS: more cautious funding basis than the existing valuation basis. The relevant discount rate used for valuing the present value of liabilities is based on the yields from Government Bonds or Swaps.

ORPHAN LIABILITIES: liabilities in the Fund for which there is no sponsoring employer within the Fund. Ultimately orphan liabilities must be underwritten by all other employers in the Fund.

PERCENTILES: relative ranking (in hundredths) of a particular range. For example, in terms of expected returns a percentile ranking of 75 indicates that in 25% of cases, the return achieved would be greater than the figure, and in 75% cases the return would be lower.

PHASING/STEPPING OF CONTRIBUTIONS: when there is an increase/decrease in an employer's long term contribution requirements, the increase in contributions can be gradually stepped or phased in over an agreed period. The phasing/stepping can be in equal steps or on a bespoke basis for each employer.

POOLING: employers may be grouped together for the purpose of calculating contribution rates, (i.e. a single contribution rate applicable to all employers in the pool). A pool may still require each individual employer to ultimately pay for its own share of deficit, or (if formally agreed) it may allow deficits to be passed from one employer to another.

PREPAYMENT: the payment by employers of contributions to the Fund earlier than that certified by the Actuary. The amount paid will be reduced in monetary terms compared to the certified amount to reflect the early payment.

PRESENT VALUE: the value of projected benefit payments, discounted back to the valuation date.

PROFILE: the profile of an employer's membership or liability reflects various measurements of that employer's members, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc.

PRUDENT ASSUMPTION: an assumption where the outcome has a greater than 50/50 chance of being achieved i.e. the outcome is more likely to be overstated than understated. Legislation and Guidance requires the assumptions adopted for an actuarial valuation to be prudent.

RATES AND ADJUSTMENTS CERTIFICATE: a formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.

REAL RETURN OR REAL DISCOUNT RATE: a rate of return or discount rate net of (CPI) inflation.

RECOVERY PLAN: a strategy by which an employer will make up a funding deficit over a specified period of time ("the recovery period"), as set out in the Funding Strategy Statement.

SCHEDULED BODIES: types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

SCHEME EMPLOYERS: employers that have the statutory right to participate in the LGPS. These organisations (set out in Part 1 of Schedule 2 of the 2013 Regulations) would not need to designate eligibility, unlike the Part 2 Scheme Employers.

SECTION 13 VALUATION: in accordance with Section 13 of the Public Service Pensions Act 2014, the Government Actuary's Department (GAD) have been commissioned to advise the Department for Communities and Local Government (DCLG) in connection with reviewing the 2016

LGPS actuarial valuations. All LGPS Funds therefore will be assessed on a standardised set of assumptions as part of this process.

SOLVENCY FUNDING TARGET: an assessment of the present value of benefits to be paid in the future. The desired funding target is to achieve a solvency level of a 100% i.e. assets equal to the accrued liabilities at the valuation date assessed on the ongoing concern basis.

VALUATION FUNDING BASIS: the financial and demographic assumptions used to determine the employer's contribution requirements. The relevant discount rate used for valuing the present value of liabilities is consistent with an expected rate of return of the Fund's investments. This includes an expected out-performance over gilts in the long-term from other asset classes, held by the Fund.

50/50 SCHEME: in the LGPS, active members are given the option of accruing a lower personal benefit in the 50/50 Scheme, in return for paying a lower level of contribution.

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CLWYD PENSION FUND

2018 INTERIM FUNDING REVIEW AND EMPLOYER COSTS

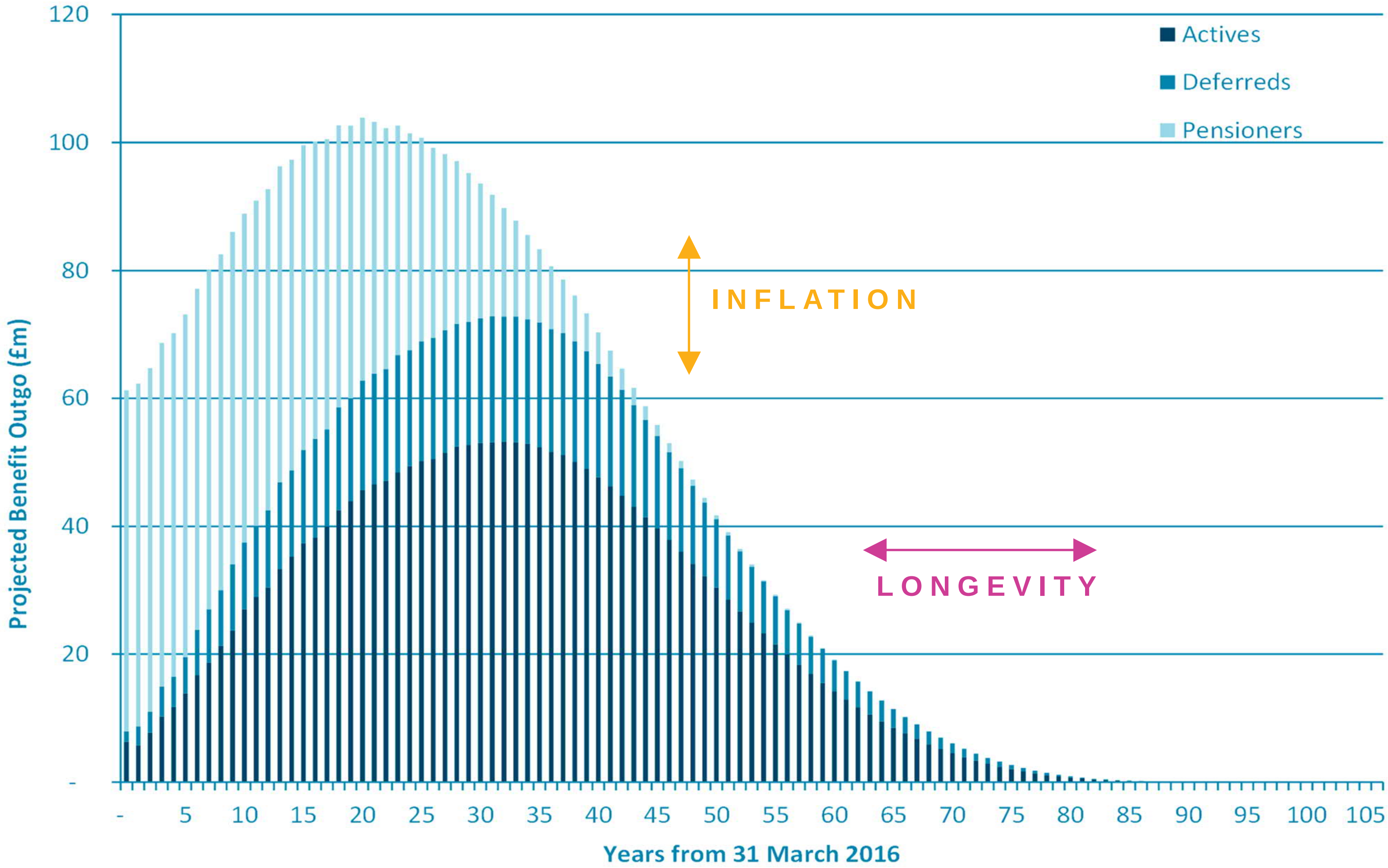
NOVEMBER 2018

MAKE TOMORROW, TODAY MERCER

2018 FUNDING REVIEW
AGENDA

1. What is an Actuarial Valuation and Recap of the 2016 Valuation Results and Current Funding Strategy
2. What has changed since 2016?
3. 2018 Funding Review Results and Sensitivities
4. Conclusions and Next Steps

WHAT IS AN ACTUARIAL VALUATION
LIABILITIES…IT'S ALL ABOUT THE CASHFLOWS



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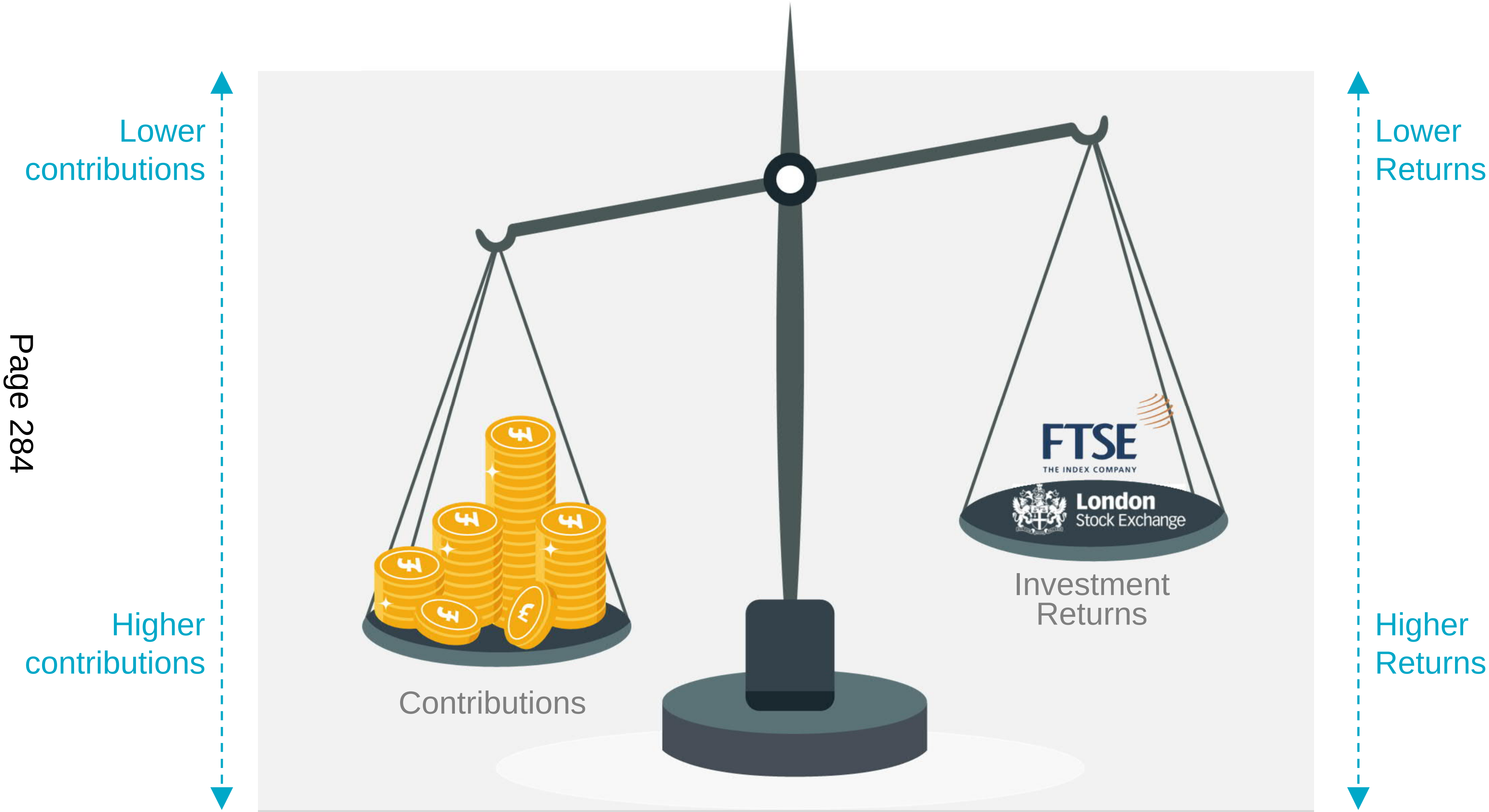
WHAT IS AN ACTUARIAL VALUATION
FINANCING THE BENEFITS



OBJECTIVE IS TO HAVE SUFFICIENT ASSETS TO PAY BENEFITS AS AND WHEN THEY FALL DUE.

RECAP OF 2016 VALUATION
KEY FUNDING STRATEGY PARAMETERS

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Discount rates explicitly linked to real returns versus CPI
Past service = CPI + 2%
Future service = CPI + 2.75%

Short term pay growth – 1% per annum for four years
Long term pay growth – CPI + 1.25% per annum

Demographic assumptions all based on scheme specific analysis
Mortality – built in further prudence to the future long term improvement rates
Removal of the 50/50 allowance for future costs
Introduction of an ill health captive for smaller employers

Reduced the deficit recovery period (subject to affordability)
Average of 15 years across the Fund

Employers were given the option to prepay deficit contributions and phase in any increases

WHAT HAS HAPPENED SINCE 2016
KEY CONSIDERATIONS

Continuation of strong real investment returns

Equity markets have continued to drive higher than expected returns. Investment returns achieved of c27% since the last valuation to 31 March 2018. **<u>However the outlook is less certain for future real returns.</u>**

Risk management

The Fund has the Flightpath in place which has reduced risk and increased certainty. Now includes dynamic equity protection strategy.

Life expectancy trends

Latest national data from the Continuous Mortality Investigation (CMI) shows life expectancy improvements are slowing down meaning a possible reduction in liabilities. Will require more analysis for the Fund and the LGPS but consider impact of CMI 2017 data in isolation.

Prepayments

3 employers (incl. WCBC) opted to prepay all three years of deficit contributions in April 2017 (totalling c£34m), 10 employers (incl. FCC and DCC) opted to prepay each April.

WHAT HAS HAPPENED SINCE 2016
KEY CONSIDERATIONS

Public Sector Pay cap

The public sector pay cap was removed. Consider the impact of short term salary increases increasing by at least 2% p.a. for the remaining 2 years to 2020 which impacts on liabilities

Data Quality

Focus on improving the quality of the Fund's data ahead of the 2019 valuation. Estimated liability impact included in the assessment.

Fund Employers

Significant increase in employers including outsourcings for the Councils. Also 3rd tier employer review report published.

Ill-Health Captive

The ill health captive was introduced from 1 April 2017 which will reduce the volatility in contributions for employers within it. To be reviewed at the valuation.

WHAT HAS HAPPENED SINCE 2016
DATA QUALITY – POTENTIAL IMPACT ON LIABILITIES

- An assessment of the data quality has been done and will continue on an annual basis as part of the Fund’s ongoing efforts to improve data quality. There are a number of initiatives going on to improve the data quality e.g. backlog, aggregation and work the ELT are doing directly for employers. Over time we would expect the data quality to improve further.
- Where data is missing or inconsistent we make prudent estimates of this data based on other data sources and general trends. On balance we would expect this to overestimate the liabilities although the final impact can only be known if we had a completely clean and complete dataset so the figures should only be taken as indicative of the potential impact.
- We have assessed that our estimates in the liability figures could result in an increased liability figure of **c£29m** which could affect the contribution requirements. We would expect that this is at the very top of the range of outcomes.
- We are working with the Fund to clean up the most significant areas. However, there are areas where employers can help.

LIABILITY IMPACT

Where data is missing or incorrect (i.e. pension, salary, lump sum, spouses etc), the Actuary is required to estimate this data. A prudent approach will be taken to estimations and this will therefore impact on your liabilities and hence the required contributions that you pay each year. An illustration of the potential impact based on the data provided is shown below:

	Active Data Issues	Deferred Data Issues	Pensioner Data Issues	Total Impact
Additional liabilities	£18,598,000	£2,796,000	£7,841,000	£29,235,000
Impact on deficit contributions p.a.	£1,308,250	£196,680	£551,570	£2,056,500

INVESTORS IN PEOPLE

MARSH & McLENNAN COMPANIES

WHAT HAS HAPPENED SINCE 2016
KEY CONSIDERATIONS

Cost Management Process

Remains to be seen what emerges from the HMT / SAB assessments – will there be an improvement in benefits / contributions from 2019?

The threshold SAB contribution rate is 19.5% of pay (split 13% employer and 6.5% member contribution rate). Initial indications are that the total cost of the Scheme under the SAB process is actually 19.0% of pay. As this is lower than the threshold there is a chance that benefit improvements could take place

Exit Credits / Employers

The introduction of Exit Credits for exiting employers from May 2018 will impact on the Fund's admission / termination policies and also potentially on funding strategy adopted for certain employers.

The Fund has performed a consultation process with employers following a review of the Funding Strategy Statement and termination policy.

WHAT HAS HAPPENED SINCE 2016
KEY CONSIDERATIONS

Guaranteed Minimum Pension (GMP) Equalisation

- The High Court made a landmark judgment confirming that pension schemes are required to equalise male and female members' benefits for the effect of GMPs. This will increase the liabilities of affected schemes, a cost that will need to be met either from additional asset returns or from additional contributions.

- The impact will vary by pension scheme depending on the benefit structure and profile of the members.

- Government consulted on GMP indexation/equalisation and proposed methods to address this pending the court case.

- Possible liability cost in the order of £2-3m for CPF based on most likely approach.

2018 FUNDING REVIEW RESULTS AND SENSITIVITIES

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KEY CHANGES FOR DISCUSSION

Return Outlook and Assumptions

Outlook for returns is lower than in 2016. The real discount rate will need to be adjusted. Future service discount rate needs to be reduced but how much? The life expectancy assumption should be updated also, however it is overall assumptions that are critical.

Risk & Prudence Considerations

A critical determinate of the level of reduction in discount rate is the overall level of risk in the strategy. Any reduction in risk e.g. the implementation of the equity protection strategy allows more flexibility as it gives greater certainty of outcomes.

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Contributions versus Risk / Return Outlook

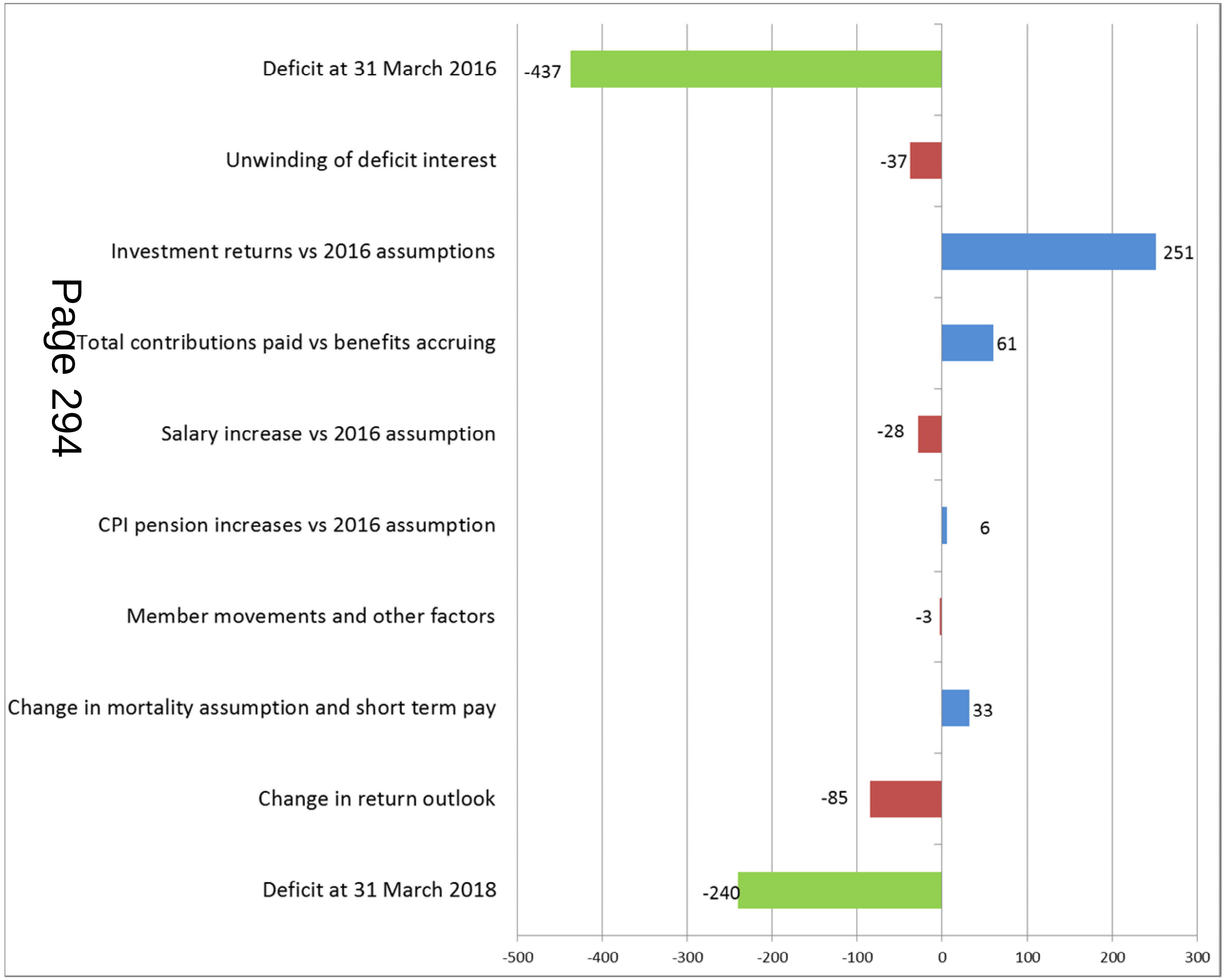
There is a balance to be struck between the overall contributions required and the reliance on future investment returns. This must take into account the uncertainty in real investment returns and the ability of the Councils to withstand any future requirements to fund increases in contribution. This will need acceptance of the competing requirements to achieve the objectives of both the Fund and employers.

2018 TOTAL FUND RESULTS
RESULTS AND SENSITIVITIES

		31 March 2018	September 2018		
	2016 Valuation	Updated Return Outlook Updated Mortality Minimum 2% Short Term Pay (A)	Updated Return Outlook Updated Mortality Minimum 2% Short Term Pay (A)	(A) with 0.25% Reduction in Past and Future Service Discount Rates	(A) with 0.25% Increase in Past and Future Service Discount Rates
Assets	£1,381m	£1,785m	£1,893m	£1,893m	£1,893m
Liabilities	£1,818m	£2,026m	£2,060m	£2,150m	£1,969m
Surplus / Deficit	-£437m	-£240m	-£167m	-£258m	-£76m
Funding Level	76%	88%	92%	88%	96%
Future Service Rate (% of pay)	15.3%	18.0%	18.0%	19.4%	16.7%
Deficit Recovery Period	15 years	12 years	12 years	12 years	12 years
2020/21 Deficit Recovery Amount	£34m	£22m	£15m	£23m	£7m
Real Discount Rate (Past)	2.00% p.a.	1.75% p.a.	1.75% p.a.	1.50% p.a.	2.00% p.a.
Real Discount Rate (Future)	2.75% p.a.	2.25% p.a.	2.25% p.a.	2.00% p.a.	2.50% p.a.
Short Term Pay	2016 Valuation (2 years remaining)	2016 Valuation with 2% minimum p.a. for 2 years	2016 Valuation with 2% minimum p.a. for 2 years	2016 Valuation with 2% minimum p.a. for 2 years	2016 Valuation with 2% minimum p.a. for 2 years
Life Expectancy Assumption	CMI 2015 1.75% (males) 1.5% (females)	CMI 2017 1.75% (males) 1.5% (females)	CMI 2017 1.75% (males) 1.5% (females)	CMI 2017 1.75% (males) 1.5% (females)	CMI 2017 1.75% (males) 1.5% (females)

2018 TOTAL FUND RESULTS
ANALYSIS OF CHANGE SINCE 2016

PAST SERVICE



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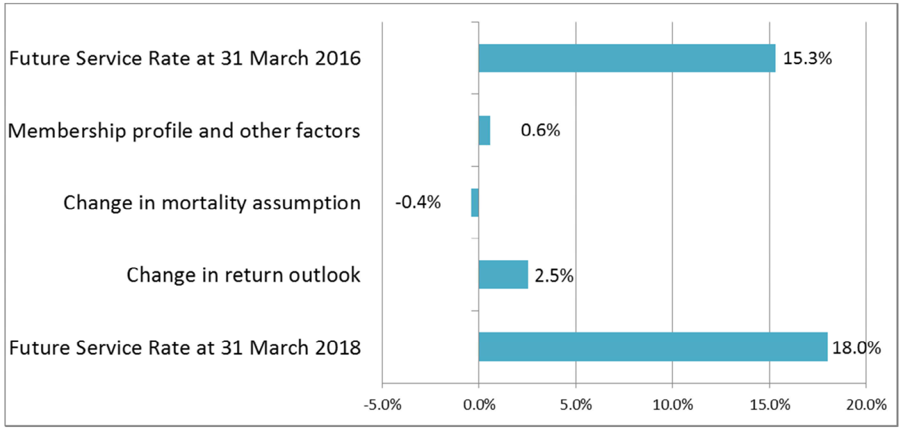
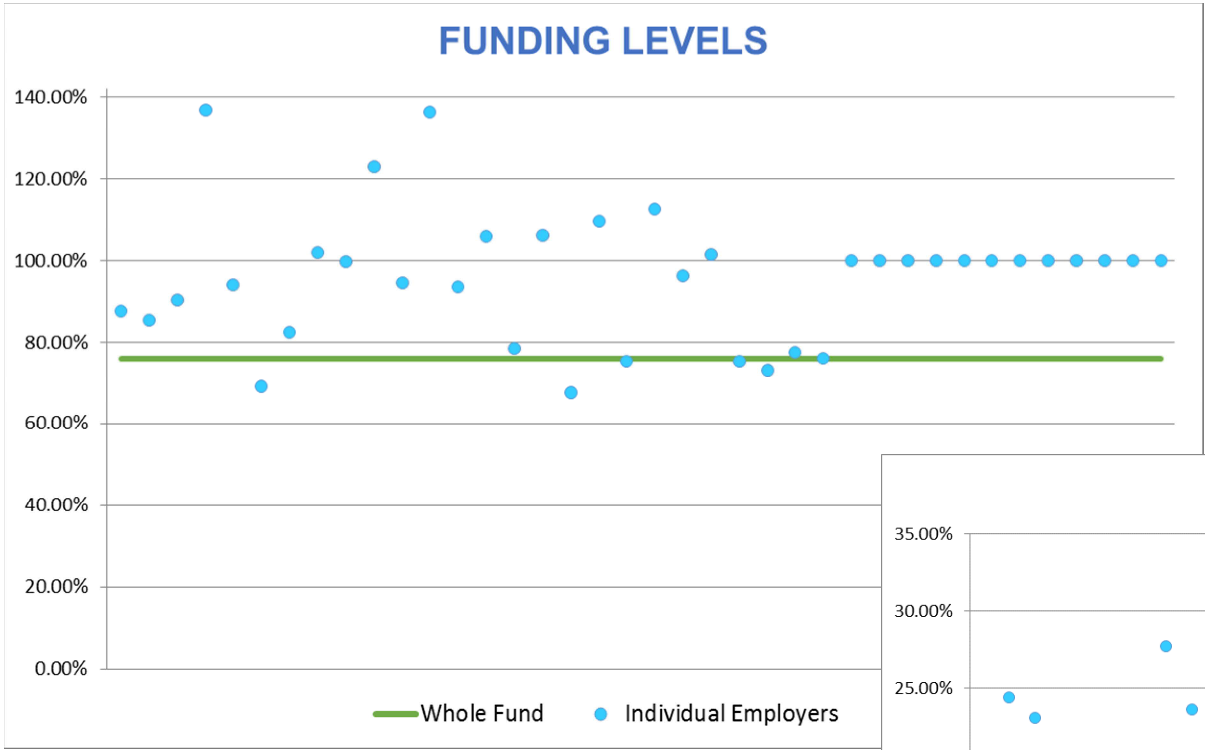
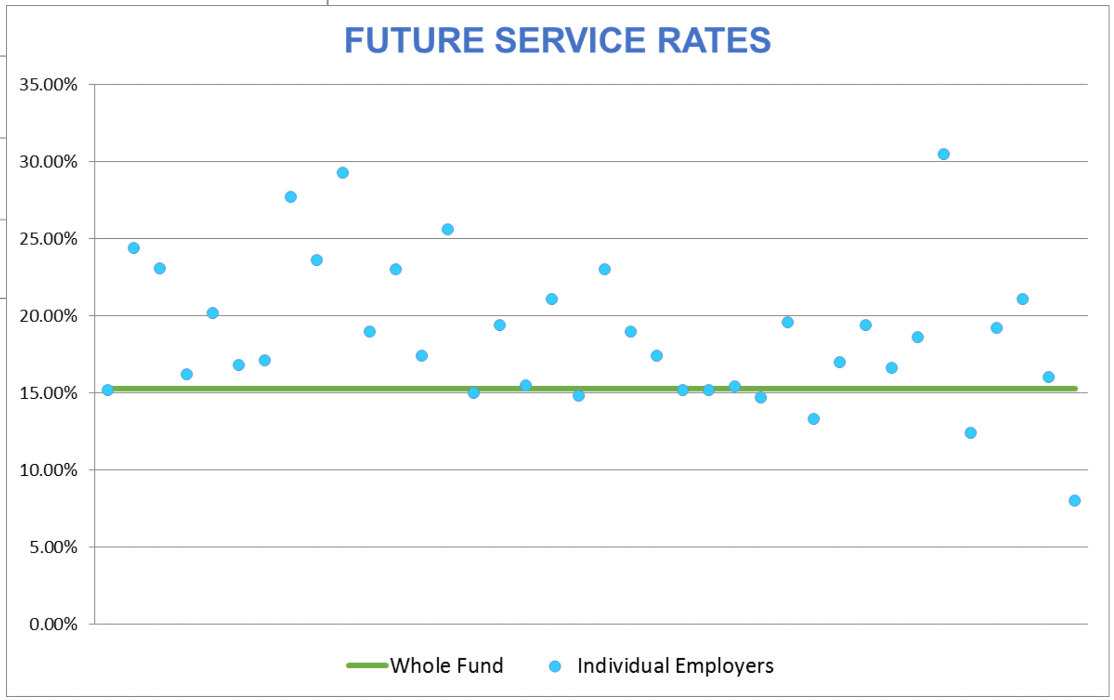
FUTURE SERVICE



INDIVIDUAL EMPLOYERS
SPREAD OF RESULTS AT 2016





IMPACT OF POST 31 MARCH 2018 MARKET MOVEMENTS
SUMMARY

- During October 2018 there has been a downturn in the markets thus eliminating the gains over Q2 and Q3.
- The current funding position is therefore likely to be similar to that at 31 March 2018 (if measured on the same basis).
- It's possible, or likely! there may be further market spikes between now and 31 March 2019 as the various geo-political risks (Brexit etc) play out.
- Need to continue to monitor position between now and 31 March 2019 and consider the longer term return outlook and other demographic factors.

CONCLUSIONS AND NEXT STEPS

Future Investment Return/Discount Rate

Consider the real discount rate and level of "prudence" desired. This is critical to the funding discussions.

Risk Management

Continue to monitor the Flightpath strategy to ensure its working to its optimum level. It has significantly benefited outcomes for employers in relation to deficit contributions.

Fund Employers

Updated individual employer results have not been done for all employers. They can be provided on request to the Fund officers.

Develop 2019 funding strategy

The key funding parameters will be developed over the coming months and will be communicated next year.

ACTUARIAL ADVICE

- We have prepared this document for the Administering Authority for the purpose of the 2018 Funding Review.
- Unless otherwise stated, we have relied on the information and data supplied to us in preparing the information, without independent verification. We will not be responsible for any inaccuracy in the advice that is a result of any incorrect information provided to us.
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- This paper is correct as at November 2018. It will not be updated unless requested.

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CLWYD PENSION FUND
2018 AVC REVIEW UPDATE

This paper is addressed to Flintshire County Council as the Administering Authority of the Clwyd Pension Fund (the "Fund"). This paper is a summary of the full update within our April 2017 report, and should be read in conjunction with that report. This update, building on our previous recommendations, primarily reviews the past performance information of the Fund's AVC arrangements and also includes an update on current AVC issues.

EXECUTIVE SUMMARY

The main findings of this annual review are:

- Unit-linked investments performed well over the year to 31 March 2018, with upper quartile performance for many of them. No funds experienced "bottom" quartile returns for 2018, and only one (Prudential Ethical) returned 3rd quartile performance.

- Prudential has reduced its Annual Management Charge / total charges for their unit-linked funds by broadly 0.1% p.a. in most cases. These charges remain reasonably competitive within the AVC market based on our market data.

- The underlying investment performance of the With Profits Fund has continued to be good, comparing well to other With Profits funds held on Mercer's database (exceeding the average return by 11%).

- Following on from our full review last year, the Lifestyling options offered by Prudential have been updated. The three previous options are now closed to new members, and have been replaced by two of Prudential's "Dynamic Growth" strategies; one targeting retirement options for those who are unsure how they will draw these funds on retirement, and the other for those targeting 100% cash.

- Following on from our previous report, and subsequent steps taken, there is no longer a default fund for future new contributors. This was adopted given the Clwyd Fund provides access to communication material (directly and via the AVC provider) designed to assist members with making investment decisions.

- We understand that the Clwyd Pension Fund, together with Prudential, have sought to contact AVC members in order to remind them of the options available across a range of investment strategies.

- In May, Prudential announced that it would be ceasing to provide its member presentation and individual member meeting service for public sector AVC scheme clients. They will continue to provide pension products to their existing clients both in the public sector and private sector. The client management function will continue to support clients with governance reporting, investment performance and overall relationship management. We understand that the Fund will be monitoring this situation, in particular via employer/member feedback and we fully support this approach at this time.

PAST PERFORMANCE SUMMARY

Unit Linked Funds

The table below summarises the 5 year performance details of the investment fund range under the Fund's AVC arrangement with Prudential. The benchmark/Index returns for each fund are also shown.

As previously, we suggest that two consecutive years of "bottom" quartile performance, at least, is classified as necessitating a closer monitoring and potential review.

Key:	Quartile	Top	2nd	3rd	Bottom

Annualised Performance % to 31 March **Prudential**	2014	2015	2016	2017	2018
Prudential UK Equity Passive	9.21	6.34	-4.35	22.12	1.34
Index : FTSE All Share TR in GB	8.81	6.57	-3.92	21.95	1.25
Prudential Long Term Gilt Passive	-3.07	26.93	3.93	12.42	2.23
Index : FTSE Actuaries UK Conventional Gilts Over 15 Years	-3.14	26.96	4.03	12.32	2.21
Prudential Cash	0.40	0.46	0.46	0.26	0.26
London Interbank LIBID 7 Day Deposit Rate	0.40	0.40	0.40	0.20	0.20
Prudential Dynamic Growth IV			-2.45	24.65	2.66
Benchmark: ABI Mixed Investment 40-85% Shares	4.68	11.26	-2.95	17.94	0.76
Prudential Dynamic Growth II			-1.38	19.40	2.60
Benchmark: ABI Mixed Investment 0-35% Shares	2.05	9.79	-0.82	8.82	0.47
Prudential Ethical	13.42	8.09	-3.63	20.51	-0.82
Index : FTSE4Good UK TR in GB	9.83	7.86	-4.81	21.13	1.52
Prudential UK Equity	11.28	5.52	-2.92	22.14	2.24
Index : FTSE All Share TR in GB	8.81	6.57	-3.92	21.95	1.25
Prudential Global Equity*	9.54	9.06	-2.61	26.05	2.75
*Benchmark: ABI Global Equities**	6.91	15.69	-2.66	27.72	1.68
Prudential International Equity	8.21	17.14	-1.61	35.20	4.01
Benchmark: Prudential internal composite	7.20	18.50	-1.80	33.40	5.00
Prudential Index Linked	-4.03	21.69	2.69	22.53	1.41
Index : FTSE Actuaries UK Index Linked Gilts Over 5 Years	-4.45	21.05	1.86	22.01	0.69
Prudential Fixed Interest	-1.85	14.34	3.52	6.84	0.96
Index : FTSE Actuaries UK Conventional Gilts All Stocks	-2.56	13.91	3.25	6.64	0.46
Prudential Discretionary	7.89	10.86	-1.25	26.13	3.23
Benchmark: ABI Mixed Investment 40-85% Shares	4.68	11.26	-2.95	17.94	0.76
Prudential UK Property	8.24	23.25	11.03	-3.64	9.82
All Balanced Property Fund component of the AREF / IPD UK Quarterly Property Fund Index	11.90	16.60	10.60	3.70	10.00

- *The Global Equity Fund's benchmark returns (mix of FTSE and MSCI Regional Indices) are not readily available - sector performance therefore shown above.
- Performance objectives for the passive funds are to match the benchmark (mostly net of fees where stated); and for the active funds, to outperform the benchmark, generally by 0.75%-1.00% p.a., before charges on a rolling 3 year basis.
- Performance above is shown gross of charges (actual charges are shown overleaf).

The table shows that the funds being used by the members performed well over 2018, with upper quartile performance for many. No funds experienced bottom quartile returns for 2018, and only one (Prudential Ethical) returned 3rd quartile performance.

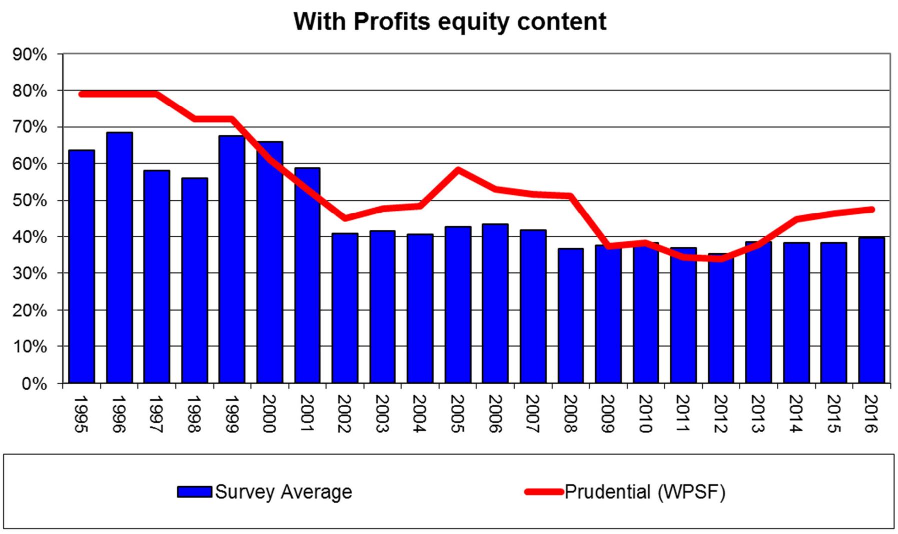
Lifestyle strategy options – During the last year, two Prudential Dynamic Growth IV Lifestyle strategies have been introduced. They provide what Prudential describe as medium risk investment during the "growth phase" and, over the final 10 year period before the anticipated retirement age, monies are gradually switched into the lower risk Prudential Dynamic Growth II Fund and the Prudential Cash Fund:

- One version (the lifestyle "targeting retirement options") is designed for members who are unsure how they will draw these funds on retirement, and
- The other ("the lifestyle targeting 100% cash") is entirely invested in the Prudential Cash Fund on retirement.

Annual Management Charges (AMC) – since last year, Prudential has confirmed that the annual management charge / total charges for their unit linked funds have reduced to 0.55% or 0.65% p.a. (a reduction of 0.10% in most cases). This is obviously an improvement, albeit disappointing that they still impose a 1% exit charge on contributions which started before 19 March 2017 if funds are withdrawn within 3 years i.e. a temporary issue.

With Profits Funds

The updated chart from our report below shows the With Profits equity content continues to be below 50%, albeit higher than the survey average.



Underlying investment performance

The underlying investment performance of the Prudential With Profits Fund has been good during the decade to 31 December 2016. This is shown by its quartile rankings relative to other With Profits Funds in the table below, and has exceeded the average return on the underlying assets of the With Profits funds in our database by 11%. The "index returns" row indicates the average return from the types of investment in which the With Profits Fund invests, allowing for the asset allocation at each year end. Effectively, this shows Prudential has been very successful at managing the underlying investments, as the Fund has exceeded these index returns by 20% over the decade to 31 December 2016.

Quartile rankings	Top	2nd	3rd	Bottom

To 31st December:	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Performance over decade
Prudential (WPSF)	7.2%	-19.7%	18.7%	12.7%	2.1%	10.5%	10.3%	8.3%	3.6%	14.5%	84%
Index returns	2.0%	-16.2%	12.2%	10.7%	3.5%	7.3%	8.4%	9.5%	3.3%	13.1%	64%
75th percentile	5.6%	-8.8%	15.2%	12.9%	5.5%	10.4%	10.5%	9.7%	4.2%	13.4%	109%
Median	4.8%	-13.2%	11.5%	12.2%	3.2%	8.9%	9.0%	8.3%	2.4%	12.1%	73%
25th percentile	3.4%	-16.3%	9.0%	9.8%	1.0%	7.2%	5.0%	7.1%	1.3%	10.3%	41%

Deposit Fund

The main update here is that the Prudential Deposit Fund closed to new members on 31 May 2017. The unit-linked Prudential Cash Fund is still open to new members. However, whilst the performance results shown earlier indicate the marginally positive performance of the Cash Fund, this is gross of its (reduced) 0.55% annual management charge i.e. performance has been negative.

Annualised performance to the periods to 31 March 2018 is:

Quartile ranking	Top	2nd	3rd	Bottom

Annualised performance over periods to: 31/03/2018

	1 year	**3 years**	**5 years**
Prudential	0.35%	0.39%	0.44%
Providers in universe	6	6	6

The above fund provides capital security. Most Money Market (unitised cash) funds could go negative (particularly after charges).

We note that the Bank of England increased the bank base rate to 0.5% in November 2017 and this was reflected in the rate of interest provided from the Prudential Deposit Fund, 0.5% from December 2017.

CURRENT ISSUES UPDATE

"Freedom & Choice" Flexibilities

Tax Free Cash Implications

Members can:

- If they wait until they draw their main benefits from the Fund, receive the whole of their AVC fund tax free, or
- Utilise the "Freedom & Choice" flexibilities which, on or after age 55, enable them to draw their whole AVC fund as a lump sum. This payment would be subject to the member's marginal rate of PAYE tax on the excess over 25% of their fund. Payment will also limit future tax relieved pension contributions (from the employer and employee combined) to £4,000 p.a. (the "Money Purchase Annual Allowance")

towards a defined contribution arrangement, with the full Annual Allowance limit applying to all pension saving (inclusive of AVCs). This option would necessitate the member transferring their AVC fund outside of the Scheme.

The full legislation also gave members the right to transfer their AVCs outside of the Fund, regardless of the Fund's rules, whilst leaving their defined benefit pension behind. However, if a member requesting this option has any other DC assets within the arrangement, this legislation necessitates all the DC assets being transferred, including any AVCs.

Hence, members have multiple options; cash, purchasing an annuity and / or using income drawdown. Each of these options should impact on members' pre-retirement investment decisions.

Transaction Costs

The 2015 DC Minimum Governance legislation requires trustees to disclose information about charges and administration costs in their annual Chair's Statement. To facilitate compliance, the Financial Conduct Authority has placed a requirement on investment firms to disclose administration charges and transaction costs to trustees, on request, using a standard approach. This information has been required to be available on request from January 2018. "Investment firms", in the context of AVC arrangements, generally means the product provider.

In February 2018, the Government considerably expanded these requirements for any scheme which is required to publish a Chair's Statement in respect of scheme years ending after 5th April 2018.

Guidance Guarantee

Members with AVC and/or DC assets who are over age 50 are required to be "signposted" to Pension Wise, the Government sponsored provider of the "Guidance Guarantee".

Pension Scams

The Pensions Regulator is understandably concerned with the increase in pension scams. It is encouraging providing warnings regarding common scenarios, such as options to cash a fund in before age 55, transfers without obtaining regulated advice, cold callers and unsolicited emails and text messages: www.thepensionsregulator.gov.uk/pension-scams

The General Data Protection Regulation (GDPR)

As of May 25, 2018 the General Data Protection Regulation (GDPR) increased privacy rights for individuals and obligations for corporations while giving regulators greater enforcement powers.

The GDPR imposes increased or new obligations including, 72-hour breach notification to the regulators and the need to engage in "privacy by design" when developing new products, systems and processes. The Administering Authority is required to appoint Data Protection Officers to manage member information. The Administering Authority must also conduct 'Privacy Impact Assessments' for projects with higher privacy risks.

Additionally, the Administering Authority should ensure appropriate technical & security measures are in place; these may include steps like encryption and pseudonymization of data (where identifiable information is replaced with artificial identifiers).

Members will have a right to a detailed notice of what data is being collected and how it is being used. Members have the right to access and correct personal data as well as to object to certain uses of it.

The introduction of the GDPR will mean increased corporate obligations and the risk of fines of up to 4% of annual global revenue or €20 million (whichever is greater).

It is important that the Administering Authority is aware they will need to contact processors who handle members' personal information (e.g. AVC providers) separately for details of their processing of members personal information.

Prudential

On 9 May 2018, Prudential announced it would be ceasing to provide its member presentation and individual member meeting service for public sector AVC scheme clients. They will continue to provide pension products to their existing clients both in the public sector and private sector. The client management function will continue to support clients with governance reporting, investment performance and overall relationship management.

"Prudential is committed to the corporate pensions market and maintaining our leading presence in it, with a focus on providing a better experience for these existing clients. The changes we are making will allow us to concentrate our resources on areas where customer demand is much stronger".

Prudential is entering into a new partnership with Tata Consultancy Services (TCS) to streamline pensions administration. They say that the corporate pensions business will be developed and enhanced to deliver a focussed, digitally led, service. This is a core component of the transformation activity they are currently working on. Further information on these developments is awaited.

Equitable Life

Equitable Life has announced its intention to transfer all its policies to Reliance Life.

As part of this deal, the Equitable Life With Profits Fund will close and be disinvested into unit linked funds. The current 35% Capital Distribution, the enhancements to disinvestments from the With Profits Fund is expected to increase to 60%-70% but not until the "proposal" is implemented, probably towards the end of 2019. Further details are promised for "later this year" and it will then be subject to a vote by Members of the Society as well as High Court approval.

In our view there are a number of areas that Administering Authorities should consider following the announcement, which we set out below:

- Administering Authorities should urgently consider delaying any Equitable Life With Profits Fund disinvestments, including any in respect of retirees. If disinvestments from with profits cannot be deferred, those members potentially lose an additional 30% increase in value.

- As the substantially enhanced Capital Distribution probably will not be available until the sale of Equitable is approved by the High Court, which could be towards the end of 2019, the questions this raises include:

  » Are your pending retirees permitted to defer their With Profits Fund disinvestment until the end of 2019 (to gain the enhanced Capital Distribution)?

  » If yes, will disinvestment post retirement prevent any of the Equitable Life assets being drawn as tax-free cash (HMRC rules currently permit tax-free lump sums to be paid up to 6 months before or 12 months after the pension on which it is based comes into payment).

- You should consider whether your administration team can have a “flag” on the systems to ensure that they communicate this issue out to any members seeking to disinvest, whether on retirement, transfer or otherwise.

- Indeed, the Administering Authority should perhaps consider a general communication to all Equitable Life investors?

Important Notices

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This report is not intended to convey any guarantees as to the future investment performance of these products. In addition:

Past performance is not necessarily a guide to the future. The value of investments may fall as well as rise and investors may not get back the amount invested. Income from the investment may fluctuate in value. The value of investments in a foreign currency will vary as a result of changes in the rates of exchange. Where charges are deducted from capital, the capital may be eroded or future growth constrained.

CYNGOR Sir y Fflint Flintshire COUNTY COUNCIL

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 28 November 2018
Report Subject	Economic and Market Update
Report Author	Clwyd Pension Fund Manager

EXECUTIVE SUMMARY

The purpose of the report is to provide Committee Members with an economic and market update for the quarter.

This report covers the period ending 30 September 2018.

Over the last three months, equities have broadly maintained their positive momentum from the second quarter. Nonetheless, it certainly hasn't been a clean sweep this time around. We have seen a divergence of returns as developed market stocks, with the exception of the UK market, topped the performance tables; whilst emerging markets, both debt and equity, have come under continued pressure.

Similar themes have dominated the direction of travel this quarter. Global economic growth continues at a robust rate; corporate balance sheets remain fairly healthy and earnings growth remains supportive of valuations. However, political rhetoric has remained elevated over protectionist trade policies, whilst currency volatility has rapidly increased and unsettled markets throughout. Moreover, in Europe, Italian politics have failed to appease tensions and provide the much needed unity across the European bloc ahead of Brexit next year.

There were positive returns across most equity markets in the period, with the exception of the UK and Frontier markets. The North American market increased by 8.5% in the quarter, and was the main driver behind the 6.7% return in developed overseas markets. Japanese equities also showed strong performance returning 5.0%. Commodities markets were broadly neutral during the quarter but have returned 20.9% over the last twelve months. With rising yields, bond markets showed negative returns.

Sterling continued to weaken against the US dollar and the Euro, although strengthened against the Yen during the quarter.

RECOMMENDATIONS	
1	To note and discuss the Economic and Market Update 30 September 2018.
2	To note how the information in the report effectively "sets the scene" for what the Committee should expect to see in the Investment Strategy and Manager Summary report in terms of the performance of the Fund's asset portfolio.

REPORT DETAILS

1.00	INVESTMENT AND FUNDING RELATED MATTERS
1.01	**Economic and Market Update 30 September 2018** The economic and market update for the quarter from the Fund's Investment Consultant is attached and will be presented at Committee. The report contains the following sections: • **Market Background** – section contains key financial markets data during the period in question including performance of specific markets including equities, bonds, inflation and currencies. • **Economic Statistics** – section contains key economic statistics during the period in question including Gross Domestic Product (GDP) Growth, Inflation, Unemployment and Manufacturing • **Market Commentary** – section provides detailed commentary on the economic and market performance of major global regions and financial markets (including alternative assets).

2.00	RESOURCE IMPLICATIONS
2.01	None directly as a result of this report.

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	None directly as a result of this report.

4.00	RISK MANAGEMENT
4.01	None.

5.00	**APPENDICES**
5.01	Appendix 1 – Economic and Market Update Period Ending 30 September 2018

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	Economic and Market Update Period Ending 30 June 2018. **Contact Officer:** Philip Latham, Clwyd Pension Fund Manager **Telephone:** 01352 702264 **E-mail:** philip.latham@flintshire.gov.uk

7.00	**GLOSSARY OF TERMS**
7.01	A list of commonly used terms are as follows: (a) **Absolute Return –** The actual return, as opposed to the return relative to a benchmark. (b) **Annualised –** Figures expressed as applying to 1 year. (c) **Duration –** The weighted average time to payment of cashflows (in years), calculated by reference to the time and amount of each payment. It is a measure of the sensitivity of price/value to movements in yields. (d) **Market Volatility –** The impact of the assets producing returns different to those assumed within the actuarial valuation basis, excluding the yield change and inflation impact. (e) **Money-Weighted Rate of Return –** The rate of return on an investment including the amount and timing of cashflows. (f) **Relative Return –** The return on a fund compared to the return on index or benchmark. This is defined as: Return on Fund minus Return on Index or Benchmark. (g) **Three-Year Return –** The total return on the fund over a three year period expressed in percent per annum. (h) **Time-Weighted Rate of Return –** The rate of return on an investment removing the effect of the amount and timing of cashflows. (i) **Yield (Gross Redemption Yield) –** The return expected from a bond if held to maturity. It is calculated by finding the rate of return that equates the current market price to the value of future cashflows. **A comprehensive list of investment terms can be found via the following link:** http://www.barings.com/ucm/groups/public/documents/marketingmaterials/021092.pdf

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JLT

CLWYD PENSION FUND

ECONOMIC AND MARKET UPDATE PERIOD ENDING 30 SEPTEMBER 2018

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1 MARKET BACKGROUND
PERIOD ENDING 30 SEPTEMBER 2018

MARKET STATISTICS

Market Returns Growth Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	-0.8	5.9	11.5
Overseas Developed	6.7	14.7	20.6
North America	8.5	20.3	22.8
Europe (ex UK)	3.2	2.5	15.1
Japan	5.0	13.9	18.6
Asia Pacific (ex Japan)	0.9	6.5	19.7
Emerging Markets	0.6	2.0	17.5
Frontier Markets	-3.2	-6.7	6.3
Property	1.6	9.1	7.5
Hedge Funds**	0.2	2.3	4.3
Commodities**	0.9	20.9	1.8
High Yield**	1.9	0.5	7.1
Emerging Market Debt	-0.6	-4.7	10.6
Senior Secured Loans**	1.7	3.3	4.1
Cash	0.2	0.5	0.4

Market Returns Bond Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Gilts (>15 yrs)	-3.3	1.3	5.3
Index-Linked Gilts (>5 yrs)	-1.4	1.4	7.2
Corporate Bonds (>15 yrs AA)	-0.7	-0.4	6.6
Non-Gilts (>15 yrs)	-0.9	-0.7	6.7

Exchange Rates: Change in Sterling	3 Mths %	1 Year %	3 Years % p.a.
Against US Dollar	-1.2	-2.8	-4.9
Against Euro	-0.7	-1.1	-6.1
Against Yen	1.3	-1.9	-6.5

Inflation Indices	3 Mths %	1 Year %	3 Years % p.a.
Price Inflation – RPI	1.2	3.5	3.0
Price Inflation – CPI	0.7	2.7	2.0
Earnings Inflation*	0.9	3.2	2.5

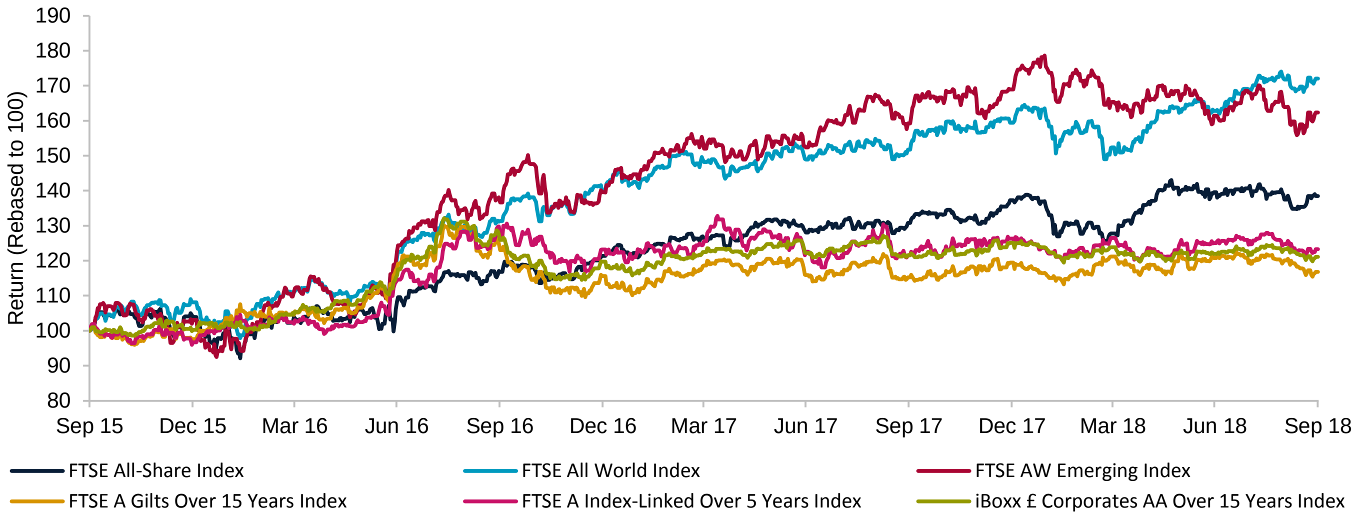
Yields as at 30 September 2018	% p.a.
UK Equities	3.80
UK Gilts (>15 yrs)	1.86
Real Yield (>5 yrs ILG)	-1.50
Corporate Bonds (>15 yrs AA)	2.81
Non-Gilts (>15 yrs)	3.28

Absolute Change in Yields	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	0.16	0.12	0.09
UK Gilts (>15 yrs)	0.19	0.02	-0.52
Real Yield (>5 yrs ILG)	0.09	0.02	-0.66
Corporate Bonds (>15 yrs AA)	0.09	0.17	-0.82
Non-Gilts (>15 yrs)	0.12	0.23	-0.68

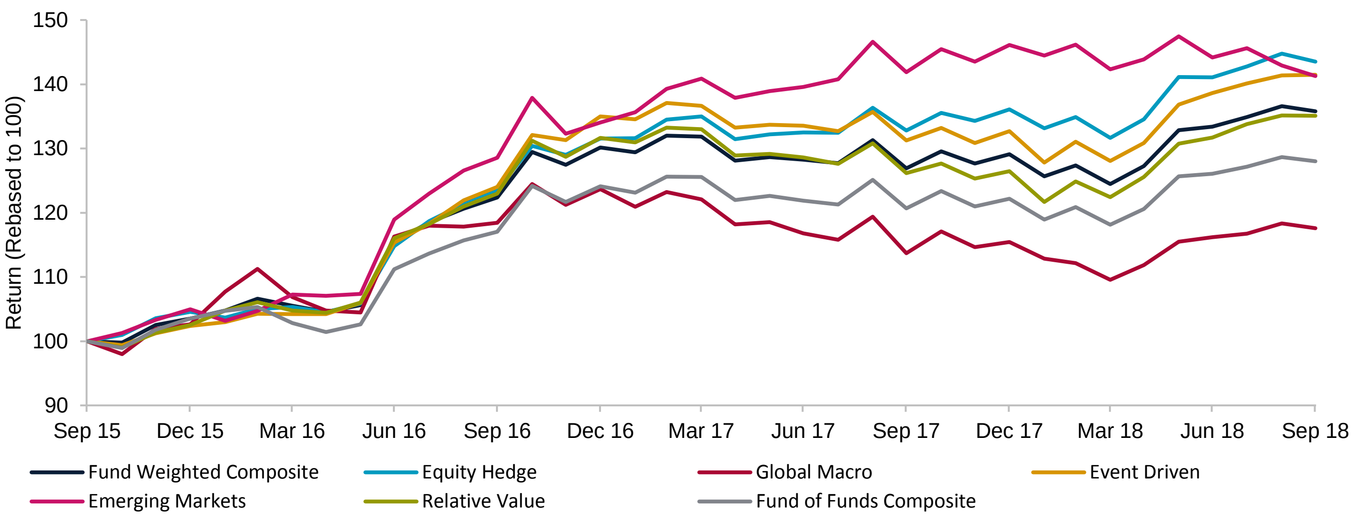
Source: Thomson Reuters.
Notes: * Subject to 1 month lag ** GBP Hedged

MARKET SUMMARY CHARTS

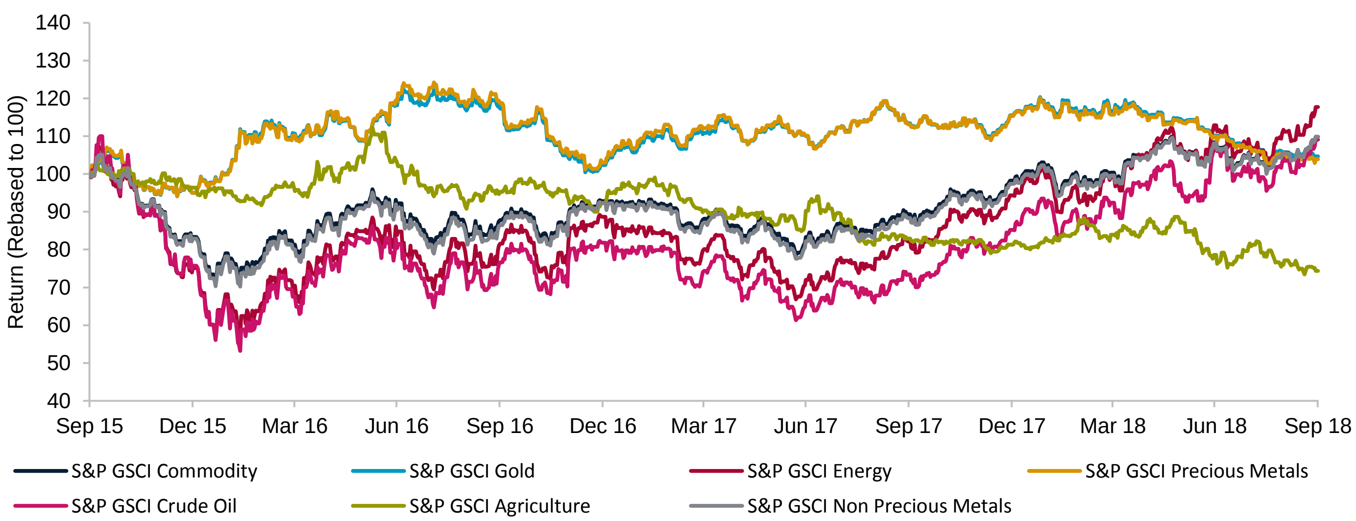
Market performance – 3 years to 30 September 2018



Hedge Funds: Sub-strategies performance – 3 years to 30 September 2018

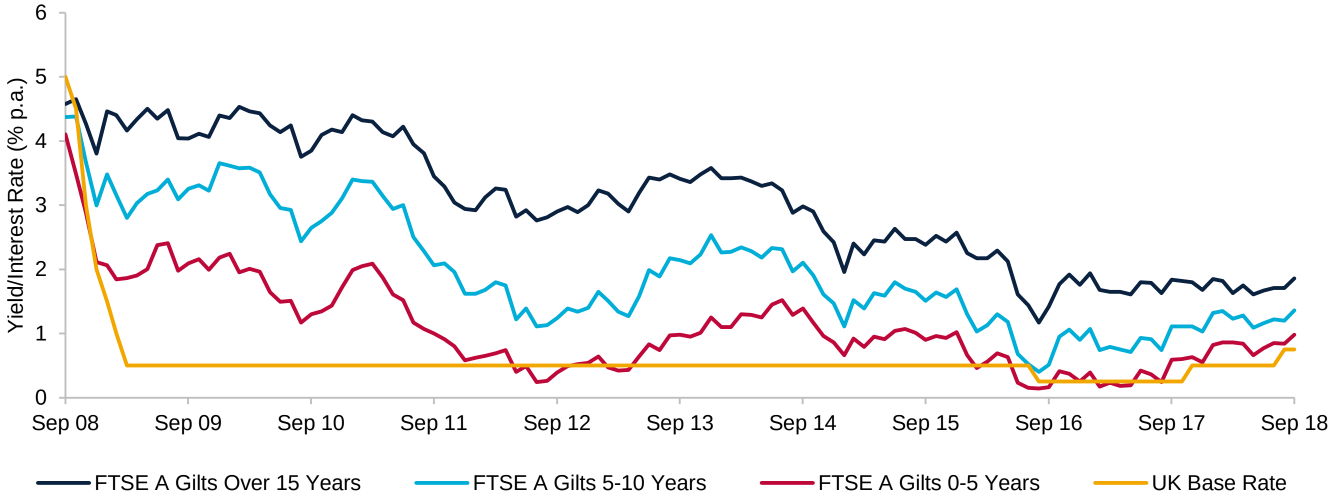


Commodities: Sector performance – 3 years to 30 September 2018

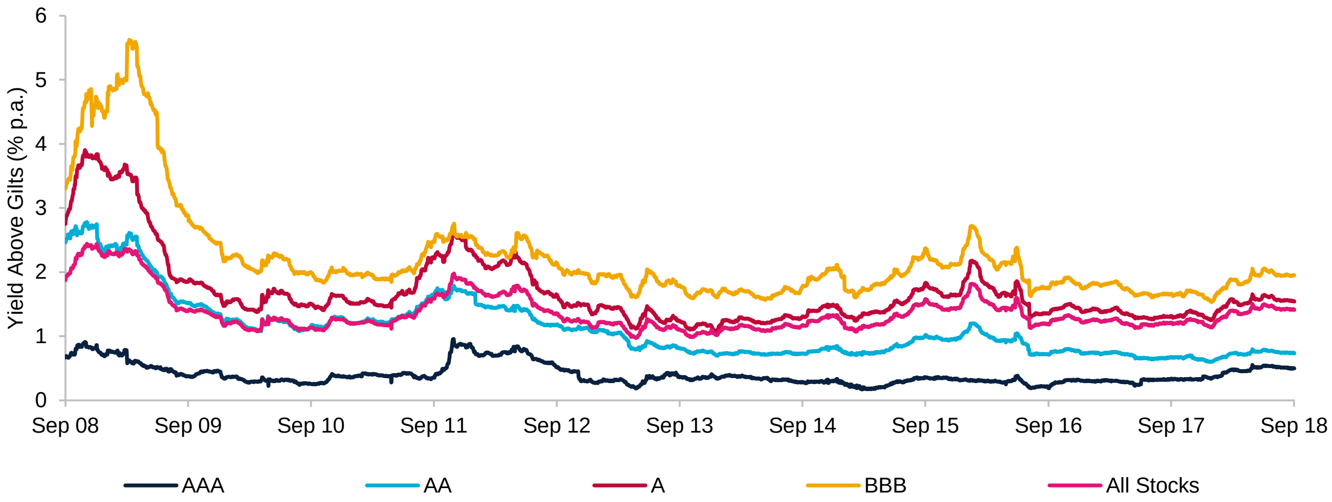


Source: Thomson Reuters

UK government bond yields – 10 years to 30 September 2018



Corporate bond spreads above government bonds – 10 years to 30 September 2018



Source: Thomson Reuters

2 ECONOMIC STATISTICS

Economic Statistics as at:	30 Sep 2018			30 June 2018			30 Sep 2017		
	UK	Euro[1]	US	UK	Euro[1]	US	UK	Euro[1]	US
Annual Real GDP Growth[2]	1.2%	3.5%	2.9%	1.1%	3.8%	2.6%	1.9%	3.6%	2.1%
Annual Inflation Rate[3]	2.4%	2.1%	2.3%	2.4%	2.0%	2.9%	3.0%	1.5%	2.2%
Unemployment Rate[4]	4.0%	8.1%	3.8%	4.2%	8.3%	3.9%	4.3%	9.0%	4.3%
Manufacturing PMI[5]	53.8	53.2	55.6	54.2	54.9	55.4	55.6	58.1	53.1

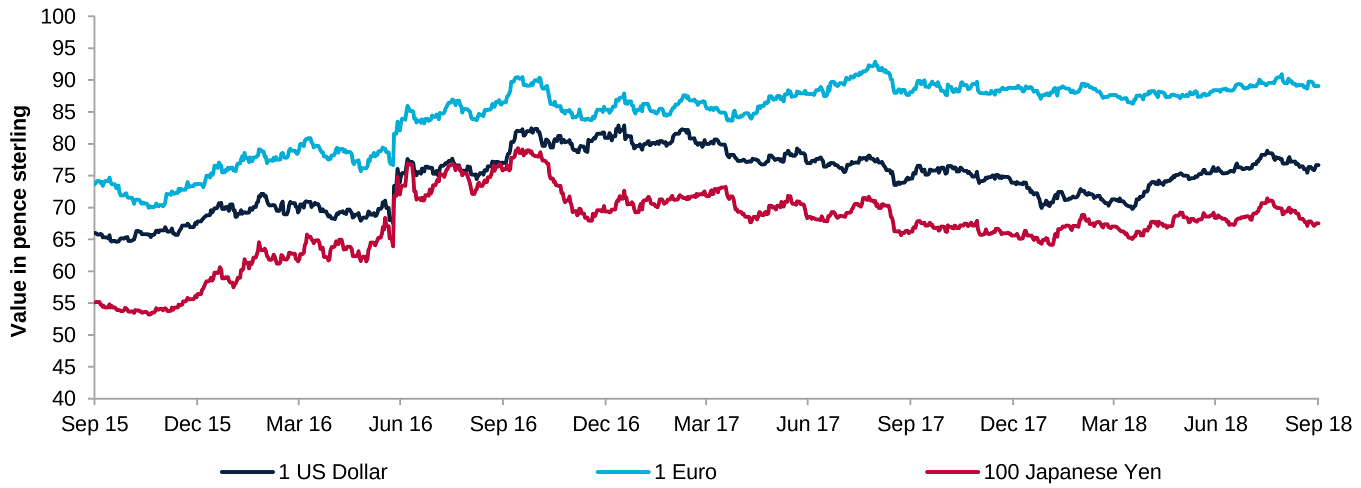
Change over periods ending:	3 months			12 months		
30 September 2018	UK	Euro[1]	US	UK	Euro[1]	US
Annual Real GDP Growth[2]	0.1%	-0.3%	0.3%	-0.7%	-0.1%	0.8%
Annual Inflation Rate[3]	0.0%	0.1%	-0.6%	-0.6%	0.6%	0.1%
Unemployment Rate[4]	-0.2%	-0.2%	-0.1%	-0.3%	-0.9%	-0.5%
Manufacturing PMI[5]	-0.4	-1.7	0.2	-1.8	-4.9	2.5

Notes: 1.Euro Area 19 Countries. 2. GDP is lagged by 3 months. 3. CPI inflation measure. 4. UK unemployment is lagged by 1 month. 5. Headline Purchasing Managers Index.

EXCHANGE RATES

Economic Statistics as at:	Value in Sterling (Pence)			Change in Sterling	
	30 Sep 18	30 Jun 18	30 Sep 17	3 months	12 months
1 US Dollar is worth	76.68	75.74	74.54	-1.2%	-2.8%
1 Euro is worth	89.07	88.44	88.11	-0.7%	-1.1%
100 Japanese Yen is worth	67.51	68.38	66.22	1.3%	-1.9%

Exchange rate movements – 3 years to 30 September 2018



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

3 MARKET COMMENTARY

INTRODUCTION

Over the last three months, equities have broadly maintained their positive momentum from the second quarter. Nonetheless, it certainly hasn't been a clean sweep this time around. We have seen a divergence of returns as developed market stocks, with the exception of the UK market, topped the performance tables; whilst emerging markets, both debt and equity, have come under continued pressure.

Similar themes have dominated the direction of travel this quarter. Global economic growth continues at a robust rate; corporate balance sheets remain fairly healthy and earnings growth remains supportive of valuations. However, political rhetoric has remained elevated over protectionist trade policies, whilst currency volatility has rapidly increased and unsettled markets throughout. Moreover, in Europe, Italian politics have failed to appease tensions and provide the much needed unity across the European bloc ahead of Brexit next year.

UNITED KINGDOM

- From a data perspective the UK economy continues to show its resilience despite the political noise.
- Unemployment levels remain at multi-decade lows whilst quarterly economic growth has picked up throughout the year after a slow, weather affected start.
- Business surveys, whilst highlighting a somewhat cautious tone over Brexit, continue to show that both manufacturing and service led industries are still in expansionary territory. Furthermore, with the devaluation of Sterling since the UK voted to leave the EU, the market for mergers and acquisition has been fairly buoyant with buyers looking to take advantage of the somewhat depressed valuations.
- However, the fog above the UK market continues to thicken as Brexit negotiations fail to yield any clarity on the UK leaving the European Union come March 2019.
- The UK equity market rounded off the period 0.8% lower, significantly lagging almost all developed markets including our European neighbours. Unsurprisingly, the larger blue chip equities continue to be influenced daily by currency movements, politics and Brexit negotiations.

NORTH AMERICA

- It was a record breaking quarter for US equities on a number of fronts. Firstly, during the normally low-key summer month of August, the S&P 500 index reached a fresh intra-day record high.
- Furthermore, US stocks marked this period by setting the longest bull market (a rally without a 20% correction) in US stock market history. The current run exceeded the previous record, which was set during the dot.com era and stretched some 3,452 days without a major correction. At this point it is worth highlighting that although this is the longest bull run, the current streak has some way to go to topple the cumulative return delivered during the tech bubble in 2000-02 which yielded over 400%.
- The final landmark during August belonged to tech giant Apple which became the world's first publically traded trillion dollar company with online retailer Amazon joining the exclusive club shortly after in September.
- Such returns have been underpinned by remarkable corporate earnings, loose fiscal policy, in the form of corporate tax cuts, and for international investors some momentum in a rising US dollar.

- As the market had anticipated, the Federal Reserve raised interest rates for the third time this year in September by 0.25% to leave the short-term rate now standing at 2.25%. This was the 8th rate hike in the current economic cycle with the market expecting a further rise, the fourth in 2018, in December.
- Fed Chairman, Jay Powell, cited low unemployment, wage growth and stable inflation in an upbeat press conference.
- Moreover, the Federal Open Market Committee crucially removed their assurances that monetary policy will be 'accommodative' going forward. This marked a slight change on the Fed's stance towards the outlook for monetary policy which had been in place since the end of the financial crisis; and most certainly suggests further tightening will follow to ensure the US economy does not overheat.
- The market, being forward looking, has already updated its forecasts for further interest rates hikes in 2019 and ahead.
- Whilst records typically only occur during the very last stages of a business cycle; to paraphrase Einstein, 'it would be of unsound mind to do the same thing and expect a different result'. Conversely it would be wrong to follow averages and standardised lengths of stock market bull runs or business cycles given the gargantuan levels of support delivered to the US economy post the financial crisis.

EUROPE (EX UK)

- Despite political tensions returning during the third quarter, Europe (ex UK) equities managed to deliver a return of 3.2% return over the last three months. In turn, European stocks now stand in positive territory for 2018, recovering fully after the severe sell-off during Q1. These robust returns were even more impressive considering the continued difficult backdrop Europe faces, with the reduction and eventual end of their quantitative easing programme, together with the forthcoming departure of the UK from the European Union.
- As ever, the European political landscape has been fragile this quarter, therefore it has been particularly encouraging that corporate earnings across the Eurozone remained firm.
- To date, over half of the region's large-cap companies have reported earnings updates between July and September, with more than 60% delivering revenue growth which exceeded analyst estimates. Furthermore, some 50% have also surpassed analysts' forecasts on underlying earnings too, as profit margins slowly started to increase.
- At the end of September investors jitters over the Italian political situation proved justified. The newly formed populist coalition government surprised markets as Giovanni Tria, the country's economic minister, delivered a budget deficit of 2.4% of GDP for 2019. This materially deviated away from Brussels' guidelines and put further pressure on Italian debt at a time when spreads (the difference in the rate of borrowing) over German debt were already elevated. Equity markets reacted accordingly with a large sell-off in Italian banks and financial services stocks.
- Going forward, without an earnings tailwind to drive markets, political risks may again drive markets over the near-term and increase volatility. Nonetheless, with European equity performance materially behind their US counterparts, valuations are beginning to look relatively attractive once more. With investment returns being skewed towards the US year to date, Europe and other developed markets may be a beneficiary of a rotation away from the US should certain segments in America start to overheat.

JAPAN

- The third quarter has seen an exceptional run in Japanese equities with the main index returning 5.0%. This propelled Japan's large-cap stocks to, once again, reach the heights set back in 1991. There are a number of factors that have supported these strong returns: US dollar vs Yen remained in a narrow trading range and a continuation of the ultra-loose monetary policy deployed by the Bank of Japan both ensured a fair tailwind for Japanese stocks.

- Furthermore, the political cloud has now cleared with the re-election of President Shinzo Abe as leader of the Liberal Democratic Party. This has helped to reduce uncertainty surrounding the administration's wider goal of improving corporate governance and company profitability in Japan.
- The market is now seeing material signs that governance reforms are starting to take effect and have a positive impact on corporate profitability. Notable improvements to capital efficiency and corporate net profit margins are coming through, with a number of analysts turning positive and upgrading company earning estimates going forward.
- Should the Yen continue to remain weak vs the US dollar, earnings per share growth will receive a tailwind boost as companies typically base their earnings assumptions on a stronger Yen than at the current level.
- Although external factors, including trade wars, are likely to drive short term sentiment in Japan, looking further ahead, foundations for structural reform have now been laid.
- Private consumption continues to rebound strongly while wage inflation looks encouraging, hitting 3.6% year-on-year in June – it's highest yearly increase in more than 20 years.

ASIA PACIFIC (EX JAPAN) / EMERGING MARKETS

- It has been a precarious period for emerging markets (EM) as they continued their sharp and indiscriminate sell-off during the third quarter. Two themes have dominated investors concerns; firstly, trade tensions have festered with persistent rhetoric, and secondly a number of constituents of the EM bloc also grappled with a currency crisis over the period.
- During the first week of July, Chinese equities, considered the driving force of EM and Asia, very much set the tone for the rest of the quarter as they endured heightened volatility and a severe stock market decline. Unsurprisingly, trade wars were once again a major root cause of investors' anxiety with focus surrounding the longer term impact of trade tariffs on the wider Chinese economy. Moreover, with President Trump's trade tariffs already outlining levies on half of Chinese imports, uncertainty over the remaining $200bn of imports still continues to unsettle markets.
- Before the impact of trade tariffs hit, market concerns were confirmed by mid July when China released gross domestic product (GDP) growth figures which slipped to 6.7% for the second quarter of 2018, its slowest pace since 2016. Whilst largely driven by slowing domestic demand and significant deleveraging, the decline was enough for the Chinese government to step in to stimulate their economy.
- Currency concerns exacerbated international investors weakening sentiment towards EM equities throughout this period. The Turkish Lira came under an extreme onslaught of selling as inflation spiralled higher and the independence of their central bank was brought into question again. Other currencies whose economies are particularly exposed to US dollar strength struggled, most notably South Africa, Brazil and China, as global liquidity and the Federal Reserve continued to tighten.
- With a number of EM equity markets already reaching bear territory (20% off previous peaks). Investors will be required to tread carefully as some countries are clearly more vulnerable to US trade tariffs and sanctions than others. Furthermore, a number of economies within the EM space have an enhanced ability to absorb higher interest rates and dollar momentum.

FIXED INCOME

- With anxieties rising around emerging markets, liquidity concerns and trade tensions during the third quarter, some developed market government bonds benefited from a slight degree of risk aversion.
- US 10 year treasuries briefly touched June levels with yields, which move opposite to price, hitting 2.86% from 2.96%. Meanwhile the US yield curve continued to flatten - which is where the borrowing costs over differing time periods get closer - over the period.

- Many commentators were quick to remind us that an inverted yield curve, which typically shows government two year borrowing costs higher than 10-year debt, has been, in the past, a reasonable indicator of an impending recession.
- With yields touching over 3% at the end of the quarter, 10-year US treasuries may actually start to appear attractive to some yield deprived international investors.
- In Europe, as is often the case, it was a tale of mixed fortunes. Italian bonds came under substantial pressure after the newly formed anti-establishment government surprised markets with additional spending plans at the end of September. Meanwhile the 10-year German bund yield dropped as low as 0.33% in August as political uncertainly from Italy mounted.
- During September, the European Central Bank (ECB) president Mario Draghi reaffirmed plans for policymakers to withdraw part of the stimulus they had deployed since the financial crisis. Furthermore, Mr Draghi highlighted his confidence that inflation, a key objective for the ECB, is projected to advance further over the near term as the tightening labour market helps push up wage growth.
- In markets we are starting to see that positive economic data actually increases borrowing costs of European governments as the market interprets this as confirmation that central bank policy will begin to tighten sooner and the previous employed backstop removed completely.
- Within developed markets, corporate balance sheets remain in robust health and we expect default rates to remain at low levels. Capital appreciation from this asset class will remain a difficult objective to achieve given the current environment. This was encapsulated by extreme weekly net withdrawals from global bond funds in the third quarter.
- As with emerging market equities, emerging market debt came under pressure during the quarter. Currency concerns continue to exacerbate as India, Indonesia, Turkey, South African, Korea and China, to name just a few, all experienced significant declines to their currency value.
- The US dollar is still very much the preferred currency when issuing bonds which automatically becomes more expensive to service should local currencies depreciate. Compounding this is the looming prospect of lower growth among a number of these countries when trade tariffs feed through.

ALTERNATIVES

- Overall, Hedge Funds returned 0.6% in US dollar terms and 1.8% in Sterling terms, as strong performance from Technology and Event-Driven strategies was partially offset by volatility associated with expectations for higher US rates, as well as trade and tariff volatility. Emerging Markets were the only strategy that declined over the quarter and 12 month period, returning -2.0% and -0.4%, respectively.
- Commodity markets gained by 2.6% in Sterling terms and 1.3% in US dollar terms over the quarter, as positive performance in August and September offset the falls seen in July. Agriculture was the only sector that gained in July following shortage concerns, drought conditions in Germany and the possibility of Ukraine setting limits on exports. This position was reversed in August and September as agriculture became the worst performing sector whilst energy posted the highest returns. Over the last 12 months, the majority of sectors posted double digit returns led by crude oil which returned 52.9% (in Sterling terms).
- As expected, the lack of progress with Brexit negotiations has somewhat dampened appetite for UK commercial property, which returned 1.6% over the quarter. Adding to these pressures is the concern surrounding struggling traditional bricks and mortar retailers, and their ability to swallow rising rents going forward as online competitors continue to disrupt this sector. Outside of prime commercial real estate in London, industrial units such as distribution warehouses continue to deliver robust returns and stable occupancy levels.

CONCLUSION

Naturally, the political landscape remains perilous and has the potential to derail returns over the short term. On the radar remains the US mid-term election during November. The fall out from this could be significant to markets as split houses may prove troublesome for the current administration to get a number of policies through.

4 INDICES USED IN THIS REPORT

Asset	Index
Growth Assets	
UK	FTSE All-Share Index
Overseas Developed	FTSE World (ex UK) Index
North America	FTSE North America Index
Europe (ex UK)	FTSE AW Developed Europe (ex UK) Index
Japan	FTSE Japan Index
Asia Pacific (ex Japan)	FTSE AW Developed Asia Pacific (ex Japan) Index
Emerging Markets	FTSE All Emerging Index
Frontier Markets	FTSE Frontier 50 Index
Property	IPD UK Quarterly Property Index
Hedge Funds	HFRI Fund Weighted Composite Index (GBP Hedged)
Commodities	S&P GSCI TR Index (GBP Hedged)
High Yield	ICE BoAML Global High Yield Index (GBP Hedged)
Emerging Markets Debt	JPM GBI-EM Global Diversified Composite Index
Senior Secured Loans	S&P Leveraged Loan Index (GBP Hedged)
Cash	IBA GBP LIBOR 7 Day Index
Bond Assets	
UK Gilts (>15 yrs)	FTSE A Gilts Over 15 Years Index
Index-Linked Gilts (>5 yrs)	FTSE A Index-Linked Over 5 Years Index
Corporate Bonds (>15 yrs AA)	iBoxx £ Corporate Over 15 Years AA Index
Non-Gilts (>15 yrs)	iBoxx £ Non-Gilts Over 15 Years Index
Yields	
UK Equities	FTSE All-Share Index (Dividend Yield)
UK Gilts (>15 yrs)	FTSE A Gilts Over 15 Years Index (Gross Redemption Yield)
Real Yield (>5 yrs ILG)	FTSE A Index-Linked Over 5 Year Index 5% Inflation (Gross Redemption Yield)
Corporate Bonds (>15 yrs AA)	iBoxx £ Corporate Over 15 Years AA Index (Gross Redemption Yield)
Non-Gilts (>15 yrs)	iBoxx £ Non-Gilts Over 15 Years Index (Gross Redemption Yield)
Inflation	
Price Inflation – RPI	UK Retail Price Index (All Items NADJ)
Price Inflation – CPI	UK Consumer Price Index (All Items NADJ)
Earnings Inflation	UK Average Weekly Earnings Index (Whole Economy excluding Bonuses NADJ)
Exchange Rates	
USD / EUR / JPY vs GBP	WM/Reuters 4:00 pm Closing Spot Rates

Note: All indices above are denominated in Sterling unless stated otherwise.

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CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 28 November 2018
Report Subject	Investment Strategy and Manager Summary
Report Author	Clwyd Pension Fund Manager

EXECUTIVE SUMMARY

The purpose of the Investment Strategy and Manager Summary is to update Committee Members on the performance of the Fund's investment strategy and performance of the Fund's investment managers.

The report covers the quarter ending 30 September 2018.

From an Investment Strategy perspective, the In-House portfolios and the Tactical Allocation Portfolio produced positive returns and outperformed their composite targets. Equity assets achieved a positive return, but underperformed their composite target, and Total Credit and Managed Account Platform had negative returns in absolute and relative terms. Key facts covered in the report are as follows:

- Over the 3 months to 30 September 2018, the Fund's total market value increased by £39.0m to £1,886,749,578
- Funding level information has not been provided. However liability roll forwards are now based on the discount rate methodology on the CPI basis.
- Over the quarter, total Fund assets returned 2.5% marginally ahead of the composite target which returned 2.4%.

The benchmarks are reflective of the new strategic weightings, although commitments to Private Credit will take some time to be fully invested.

There was mixed performance amongst the Fund's investment managers in terms of outperforming or underperforming their respective targets during the quarter.

RECOMMENDATIONS	
1	To note and discuss the investment strategy and manager performance in the Investment Strategy and Manager Summary 30 September 2018.
2	That the Committee considers the information in the Economic and Market Update report to provide context in addition to the information contained in this report.

REPORT DETAILS

1.00	INVESTMENT AND FUNDING RELATED MATTERS
1.01	**Investment Strategy and Manager Summary 30 September 2018** Over the 3 months to 30 September 2018, the Fund's total market value increased by £39.0m to £1,886,748,578. Total Fund assets returned 2.5% over the quarter, outperforming slightly the composite target returned 2.4%. Over the one year period, Total Fund assets returned 7.7%, compared with a composite target of 7.6%. Over the last three years, Total Fund assets returned 11.8% p.a., ahead of the composite target of 10.3% p.a. The strongest absolute returns over the quarter came from the In-House assets and the Best Ideas portfolio. In addition, in relative terms the Credit portfolio also performed well against its benchmark. The Fund's asset portfolio is broadly within the new strategic ranges set for the asset classes as agreed in the recent strategy review. The largest overweight position is within the LDI portfolio which is being reviewed as part of the wider assessment of the Fund's risk management strategy.
1.02	At this time, there are no immediate concerns with any of the Fund's investment managers and there are regular meetings held with the managers to discuss individual mandates. As part of the Funds Strategic Asset Allocation review scheduled for 2019, individual manager mandates will be reviewed. The Fund will need to be conscious of the plans of the Wales Pension Partnership when assessing its investment managers, as the costs of transitioning to new management arrangements ahead of any potential move to the Pool could be significant. This work will take place with the Fund's investment consultant in conjunction with the 2019 Actuarial Valuation.

2.00	RESOURCE IMPLICATIONS
2.01	None directly as a result of this report.

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	None directly as a result of this report.

4.00	RISK MANAGEMENT
4.01	The Fund's investment strategy has been designed to provide an appropriate trade off between risk and return. The Fund faces three key investment risks: Equity risk, Interest Rate Risk and Inflation Risk. Diversification of the Fund's growth assets away from equities seeks to reduce the amount of the equity risk (though it should be recognised that Equities remain an important long term source of expected growth). The implementation of the Fund's De-Risking Framework (Flightpath) has been designed to mitigate the Fund's Interest Rate and Inflation Risks.

5.00	APPENDICES
5.01	Appendix 1 – Investment Strategy and Manager Summary 30 September 2018

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	Investment Strategy and Manager Summary 30 June 2018. **Contact Officer:** Philip Latham, Clwyd Pension Fund Manager **Telephone:** 01352 702264 **E-mail:** philip.latham@flintshire.gov.uk

7.00	GLOSSARY OF TERMS
7.01	A list of commonly used terms are as follows: (a) **Absolute Return –** The actual return, as opposed to the return relative to a benchmark. (b) **Annualised –** Figures expressed as applying to 1 year. (c) **Duration –** The weighted average time to payment of cashflows (in years), calculated by reference to the time and amount of each payment. It is a measure of the sensitivity of price/value to movements in yields.

	(d) **Market Volatility –** The impact of the assets producing returns different to those assumed within the actuarial valuation basis, excluding the yield change and inflation impact. (e) **Money-Weighted Rate of Return –** The rate of return on an investment including the amount and timing of cashflows. (f) **Relative Return –** The return on a fund compared to the return on index or benchmark. This is defined as: Return on Fund minus Return on Index or Benchmark. (g) **Three-Year Return –** The total return on the fund over a three year period expressed in percent per annum. (h) **Time-Weighted Rate of Return –** The rate of return on an investment removing the effect of the amount and timing of cashflows. (i) **Yield (Gross Redemption Yield) –** The return expected from a bond if held to maturity. It is calculated by finding the rate of return that equates the current market price to the value of future cashflows. **A comprehensive list of investment terms can be found via the following link:** http://www.barings.com/ucm/groups/public/documents/marketingmaterials/021092.pdf

CLWYD PENSION FUND

INVESTMENT STRATEGY AND MANAGER SUMMARY PERIOD ENDING 30 SEPTEMBER 2018

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1 IMPACT ON CLWYD PENSION FUND INVESTMENT STRATEGY

This report is produced by JLT Employee Benefits ("JLT") to assess the performance and risks of the investment managers of the Clwyd Pension Fund (the "Fund"), and of the Fund as a whole. The report does not comment on the Fund's Liability Driven Investment ("LDI") portfolio, as information in respect of this allocation is produced separately by Mercer.

OVERALL

Over the 3 months to 30 September 2018, the Fund's total market value increased by £39.0m to £1,886,749,578.

Over the quarter, total Fund assets returned 2.5%, slightly ahead of its target of 2.4%, mainly attributable to positive stock selection, especially within the in-House assets. Total Fund (ex LDI) returned 1.6%, compared with its target of 1.7%.

In-House assets returned 4.4% followed by Best Ideas assets which returned 3.3%. Total Credit and Total Equity assets rose by 0.8% and 0.3%, respectively, whilst the Managed Account Platform declined, returning -2.2%.

In relative terms, total Fund assets exceeded their target by 0.1%, mainly due to the In-House assets which outperformed its target by 3.0%, contributing 0.7% to total relative performance.

Best Ideas assets outperformed its target by 1.8%, adding 0.2% to total relative performance.

Total Credit outperformed its target by 0.3%, returning 0.8% against a target of 0.5% and added 0.1% to overall relative performance.

Total Equities underperformed its target by 3.6% and detracted 0.5% from total relative performance.

Managed Futures and Hedge Funds fell by -0.8% and underperformed its target by 1.8%. This detracted 0.1% from overall relative performance.

Insight's LDI portfolio rose by 5.3% over the quarter, mainly due to its exposure to equity markets which offset the negative impact from rising yields. Overall, the overweight allocation to the LDI portfolio contributed 0.1% to relative performance.

EQUITIES

Global equities were positive over the third quarter, with the exception of UK equities which declined and consequently lagged all of the major regions.

US equities gained the most in developed markets, aided by strong economic momentum and tax cuts which led to US corporates outperforming both revenue and profit expectations. Meanwhile, returns in Asian and Emerging Markets equities were dampened by poor sentiment and protectionist fears. US-China trade uncertainties and US monetary tightening continue to dominate Emerging Markets; countries with large current account deficits such as Turkey and South Africa were negatively impacted by a sell-off in their respective currencies. Chinese stocks also sold off amid the trade war with the US and concerns its own monetary tightening is dampening economic growth.

In Developed Markets, North America led performance returning 8.5%, followed by Japan which returned 5.0% and Europe (ex UK) which rose by 3.2%. Asia Pacific (ex Japan) returned 0.9% whilst UK declined by 0.8%.

Over the past year, all developed regions witnessed positive returns, led by North America and Japan with respective returns of 20.3% and 13.9%. UK equities delivered 5.9% over this period whilst Europe (ex UK) equities increased by 2.5%.

Emerging and Frontier Markets delivered returns of 0.6% and -3.2%, respectively, over the quarter. Over the 12 months to 30 September 2018, Emerging Markets gained 2.0% whilst Frontier Markets declined by 6.7%.

Total Equity assets posted returns of 0.3% compared to a composite target of 3.9%. Mixed performance was experienced over the quarter, however, all funds underperformed their respective targets. Investec Global Strategic returned 3.7% against a target of 6.2% while BlackRock ACS World Multifactor posted gains of 4.3%, behind its target by 2.1%. Both Wellington Emerging Markets (Core) and Wellington Emerging Market (Local) declined, posting returns of -2.9% and -5.8% and behind their targets by 3.4% and 6.6%, respectively.

None of the funds achieved their 3 year target objectives.

Global equity exposures to Consumer Discretionary and Information Technology created a drag on performance, mainly due to the stock selection within this sector. In particular, US casino operator, Las Vegas Sands, experienced setbacks in both its domestic and Asian markets. The newly created Communication Services sector helped returns due to the lack of investment in Tencent and Facebook, which were impacted by concerns about increasing regulation and slower growth prospects.

South Africa and China contributed to the majority of gains due to positive stock selection, although this was offset to some extent by stock selection in India and Russia. Energy and Real Estate were the leading sectors, mainly due to stock selection, however, this was partially offset by stock selection in Information Technology and Financials.

CREDIT

Global credit markets were mixed over the quarter; US treasuries cheapened in July and September on the back of strong economic data, however, the sell-off was paused in August as concerns of a global trade war took center stage. Yields across the curve rose in most developed markets over the quarter; UK gilt yields rose as investors expect monetary policy continuity from the Bank of England's Governor Mark Carney's extended term whilst German bund yields rose in response to hawkish comments from the European Central Bank's President regarding a tighter labour market in the Eurozone.

In the Corporate Bond market, spreads tightened in July before being slightly undone in August due to concerns on trade tariffs and turmoil in the emerging markets. Following a unanimous vote by the Federal Open Market Committee in September, the US Federal Reserve (Fed) increased interest rates to 2.25%, in line with market expectations. The Bank of England also increased interest rates by 25bps over the quarter, whilst the European Central Bank left rates unchanged and reiterated its pledge to keep rates low until at least the summer of 2019.

Over the quarter, Long Dated Fixed Interest Gilts, Long Dated Index-Linked Gilts and Long Dated UK Corporate Bonds declined by 3.3%, 1.4% and 0.7% respectively. Emerging Market Debt and Global High Yield posted returns of -0.6% and 1.9%, respectively.

Total Credit, which includes an allocation to Private Credit, returned 0.8% over the quarter, ahead of its target by 0.3% and added 0.1% to total relative return.

Within Investment Grade Credit, Wirelines, Cable Satellite and Midstream were the best performing sectors whilst Gaming, Home Construction and Automotive were the worst performing.

In US High Yield, all industry sectors posted positive returns led by Cable and Satellite, Healthcare and Telecommunications. CCC-rated securities outperformed over the quarter as strong earnings and low default rates continue to attract investors into lower quality credits. European High Yield was positive, with the top performers being Pharmaceuticals, Transportation and Machinery.

Emerging Market Debt experienced a volatile quarter driven by deteriorating US-China trade relations, rising Italian bond yields and the strengthening of the US Dollar. However, capital flows remained steady over the period, with modest outflows in August and inflows in July and September.

HEDGE FUNDS

Hedge Funds returned 0.6% in US dollar terms and 0.2% in Sterling terms, as strong performance in Technology and Event-Driven strategies was partially offset by volatility associated with trade and tariffs and expectations for higher US rates. Emerging Markets were the only strategy to decline over 3 and 12 month periods, returning -2.0% and -0.4%, in GBP, respectively. Total Hedge Funds over the year returned 4.0% in USD and 2.3% in GBP.

ManFRM's Managed Futures & Hedge Funds strategy declined by 0.8%, behind its target of 1.0% and detracting 0.1% from total relative performance.

ManFRM Hedge Funds (Legacy) which consists of Duet (S.A.R.E.), Liongate and Pioneer (until August 2016) assets generated a return of -38.5%, over the quarter. In August, S.A.R.E. was placed into receivership and consequently, Man FRM's Independent Pricing Committee recommended that the value at the end of September is marked down by 46.6% i.e. £2,177,909. This explains the significant negative performance generated.

TACTICAL ALLOCATION PORTFOLIO

DIVERSIFIED GROWTH

Total Diversified Growth assets fell by 0.3% over the quarter, behind its target of 2.0%. Overall, this detracted 0.2% from total relative performance.

Pyrford returned 0.8% and was behind its target by 1.2%. Both the fund's equity and bond holdings performed well; equities provided the biggest contribution to returns with overseas equities performing strongly whilst short duration bonds safeguarded client capital as bond yields rose over the quarter. Holdings in overseas bonds contributed positively, with the depreciation of Sterling adding to the performance. The fund's cash and currency hedging positions marginally detracted from performance as a result of Sterling weakness.

Investec generated a return of -1.3%, and underperformed its target by 3.2%. The fund's negative performance was driven by its 'Defensive strategies', as positions taken to hedge against market risks proved to be expensive as most of these risks did not materialise. Additionally, a strong US dollar and further Fed hikes pushed yields upward, making long dated US treasury holdings the main detractor. Within the fund's 'Growth strategies', the US homebuilders equity basket was the largest detractor from performance over concerns that the US housing market has reached its peak. However, positive contributions from the total return equity insurance basket along with holdings in Japanese equities helped to offset the negative impact on the fund's overall performance. Within the fund's 'Uncorrelated strategies', the long Japanese Yen vs. Swiss Franc position was the main detractor as instability in Italy saw investors flocking to the Swiss Franc, due to its safe haven status.

BEST IDEAS PORTFOLIO

The Best Ideas Portfolio rose by 3.3%, ahead of its target by 1.8%. Overall, this added 0.2% to total Fund relative performance. Over the last 12 months, the Best Ideas Portfolio delivered a return of 7.5% and outperformed its target of CPI +3.0% p.a. by 2.0%. Over three years, the portfolio returned 11.5% p.a., 6.2% p.a. ahead of its target.

All funds within the Best Ideas Portfolio posted positive returns with the exception of LGIM Infrastructure Equities, which declined by 0.7% and BlackRock Emerging Market Equities which was flat.

LGIM North American Equities was the best performer, gaining 6.8% and outperformed the CPI +3.0% p.a. target of 1.5%. BlackRock Japanese Equities, BlackRock US Opportunities and BlackRock European Equities (Hedged) returned 5.6%, 5.1% and 4.5%, respectively. Whilst LGIM Global Real Estate Equities (+1.1%) and Investec Global Natural Resources (+0.3%) underperformed their targets.

Over the quarter, £11,000,000 was disinvested from the BlackRock Emerging Markets Equities Fund with the proceeds being equally split and reinvested in the BlackRock US Opportunities and BlackRock Japanese Equities Funds. Additionally, the position in the Investec Emerging Markets Local Currency Debt Fund was exited, and the proceeds which totalled £9,670,211 were transferred into the LGIM Global Real Estate Equity Fund.

IN-HOUSE ASSETS

Total In-House assets returned 4.4%, ahead of its composite target by 3.0%. Overall this added 0.7% to total relative performance. The two sub-sections of the In-House assets; the Real Assets Portfolio and the Private Markets Portfolio returned 1.6% and 7.2%, respectively.

Private Equity was the top performer, returning 8.3%, ahead of its target by 6.9%. This added 0.5% to total relative performance.

Opportunistic and Infrastructure assets both exceeded their target of 1.4%, returning 2.6% and 2.3%, respectively.

Property assets, which are overweight the strategic allocation and have exceeded the strategic range, returned 1.7% and were slightly ahead of their target of 1.6%.

Timber/Agriculture assets declined by 0.1% over the quarter and underperformed their target by 1.5%. This had a neutral contribution to overall performance.

2 STRATEGIC ASSET ALLOCATION
30 SEPTEMBER 2018

Allocation by underlying asset class

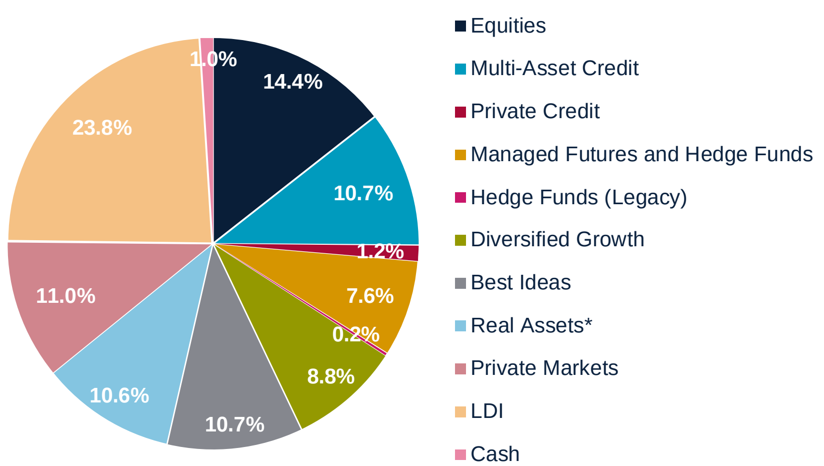
Asset Class	Market Value £	Weight %	Strategic Allocation %	Relative %	Strategic Range %
Global Equities	159,033,857	8.4	8.0	+0.4	5.0 – 10.0
Emerging Market Equities	113,360,656	6.0	6.0	0.0	5.0 – 7.5
Multi-Asset Credit	201,871,148	10.7	12.0	-1.3	10.0 – 15.0
Private Credit^	23,202,737	1.2	3.0	-1.8	2.0 – 5.0
Managed Futures and Hedge Funds	143,069,048	7.6	9.0	-1.4	7.0 – 11.0
Hedge Funds (Legacy)*	3,457,308	0.2	0.0	+0.2	–
Diversified Growth	165,430,291	8.8	10.0	-1.2	8.0 – 12.0
Best Ideas	201,589,573	10.7	11.0	-0.3	9.0 – 13.0
Property	115,677,476	6.1	4.0	+2.1	2.0 – 6.0
Infrastructure / Timber / Agriculture	84,075,238	4.5	8.0	-3.5	5.0 – 10.0
Private Equity / Opportunistic	207,191,308	11.0	10.0	+1.0	8.0 – 12.0
LDI & Synthetic Equities	449,885,328	23.8	19.0	+4.8	10.0 – 30.0
Cash	18,905,608	1.0	0.0	+1.0	0.0 – 5.0
TOTAL CLWYD PENSION FUND	**1,886,749,578**	**100.0**	**100.0**	**0.0**	

Notes: * Hedge Funds (Legacy) include the S.A.R.E (Duet) and Liongate portfolios. ^ The Private Credit allocation is not yet fully funded.
Totals may not sum due to rounding.

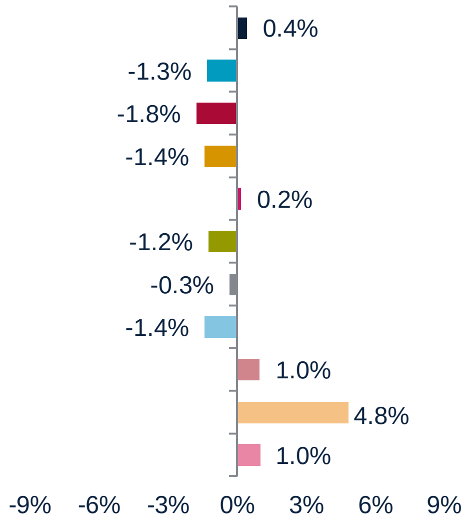
Points to note

- Asset allocation reflects the strategy to be implemented as part of the 2016 Investment Strategy Review; as such a number of asset classes will be underweight for an interim period until the portfolio is fully constructed.
- Total allocation to LDI has increased by 0.7% over the quarter and is 4.8% overweight relative to its strategic allocation. This overweight position is under review, and is likely to be reduced in the next month or two.

Strategic Asset Allocation as at 30 September 2018



Deviation from Strategic Allocation



Note: Totals may not sum due to rounding.
* In-House Property, Infrastructure and Timber/Agriculture portfolios.

3 VALUATION AND ASSET ALLOCATION
AS AT 30 SEPTEMBER 2018

Manager	Fund	Market Value £	Weight %	Strategic Allocation %	Strategic Range %
Investec	Global Strategic Equity	83,783,857	4.4	4.0	5.0 – 10.0
BlackRock	ACS World Multifactor Equity	75,250,000	4.0	4.0	
Wellington	Emerging Markets (Core)#	55,948,324	3.0	3.0	5.0 – 7.5
Wellington	Emerging Markets (Local)#	57,412,332	3.0	3.0	
Total Equity		**272,394,514**	**14.4**	**14.0**	
Stone Harbor	LIBOR Multi-Strategy	131,235,211	7.0	12.0	10.0 – 15.0
Stone Harbor	Multi-Asset Credit	70,635,938	3.7		
Multi-Asset Credit Portfolio		**201,871,148**	**10.7**	**12.0**	**10.0 – 15.0**
Permira	Credit Solutions III	23,202,737	1.2	3.0	2.0 – 5.0
Private Credit Portfolio		**23,202,737**	**1.2**	**3.0**	**2.0 – 5.0(1)**
Total Credit		**225,073,885**	**11.9**	**15.0**	**10.0 – 20.0**
ManFRM	Managed Futures & Hedge Funds	143,069,048	7.6	9.0	7.0 – 11.0
ManFRM	Hedge Funds (Legacy)*	3,457,308	0.2	0.0	–
Managed Account Platform		**146,526,357**	**7.8**	**9.0**	**7.0 – 11.0**
Pyrford	Global Total Return	82,995,511	4.4	5.0	8.0 – 12.0
Investec	Diversified Growth	82,434,780	4.4	5.0	
Diversified Growth Portfolio		**165,430,291**	**8.8**	**10.0**	**8.0 – 12.0**
LGIM	North American Equities (Hedged)	27,533,181	1.5	11.0	9.0 – 13.0
BlackRock	US Opportunities	41,560,504	2.2		
BlackRock	European Equities (Hedged)	20,740,205	1.1		
BlackRock	Japanese Equities	27,908,731	1.5		
BlackRock	Emerging Markets Equities	29,250,152	1.6		
Investec	Global Natural Resources	15,391,565	0.8		
LGIM	Infrastructure Equities MFG (Hedged)	14,294,250	0.8		
LGIM	Global Real Estate Equities	24,900,964	1.3		
LGIM	Sterling Liquidity	10,020	0.0		
Best Ideas Portfolio		**201,589,573**	**10.7**	**11.0**	**9.0 – 13.0**
Tactical Allocation Portfolio		**367,019,864**	**19.5**	**21.0**	**15.0 – 25.0**
In-House	Property	115,677,476	6.1	4.0	2.0 – 6.0
In-House	Infrastructure	59,756,280	3.2	8.0	5.0 – 10.0
In-House	Timber / Agriculture	24,318,958	1.3		
Real Assets Portfolio		**199,752,714**	**10.6**	**12.0**	**10.0 – 15.0**
In-House	Private Equity	166,497,385	8.8	10.0	8.0 – 12.0
In-House	Opportunistic	40,693,923	2.2		
Private Markets Portfolio		**207,191,308**	**11.0**	**10.0**	**8.0 – 12.0**
Total In-House Assets		**406,944,022**	**21.6**	**22.0**	
Insight	LDI Portfolio	449,885,328	23.8	19.0	10.0 – 30.0
Total Liability Hedging		**449,885,328**	**23.8**	**19.0**	**10.0 – 30.0**
Trustees	Cash	18,905,608	1.0	-	0.0 – 5.0
TOTAL CLWYD PENSION FUND		**1,886,749,578**	**100.0**	**100.0**	

Notes: * ManFRM Hedge Funds (Legacy) valuation includes S.A.R.E (Duet) and Liongate portfolio and is provided by ManFRM.
Wellington Emerging Markets Core and Local valuations have been converted from US Dollar to Sterling using the WM/Reuters closing price exchange rates for the respective dates. 1 The Private Credit allocation is not yet fully funded.

4 PERFORMANCE SUMMARY
PERIODS ENDING 30 SEPTEMBER 2018

	Manager	Fund	3 months %		12 months %		3 years % p.a.		3 Yr Performance vs Objective
			Fund	Target	Fund	Target	Fund	Target	
	Investec	Global Strategic Equity	3.7	6.2	18.7	18.1	22.1	23.8	Target not met
n/a	BlackRock	ACS World Multifactor Equity	4.3	6.4	n/a	n/a	n/a	n/a	n/a
	Wellington	Emerging Markets (Core)#	-2.9	0.5	1.1	3.4	17.7	19.7	Target not met
	Wellington	Emerging Markets (Local)#	-5.8	0.8	-4.4	4.5	15.8	20.9	Target not met
Total Equity			**0.3**	**3.9**	**7.0**	**10.6**	**18.1**	**21.3**	
	Stone Harbor	LIBOR Multi-Strategy	0.8	0.4	0.0	1.5	3.2	1.4	Target met
n/a	Stone Harbor	Multi-Asset Credit	0.7	0.4	-1.6	1.5	n/a	n/a	n/a
Multi-Asset Credit Portfolio			**0.8**	**0.4**	**-0.6**	**1.5**	**2.8**	**1.4**	
n/a	Permira	Credit Solutions III	1.5	1.5	7.1	6.0	n/a	n/a	n/a
Private Credit Portfolio			**1.5**	**1.5**	**7.1**	**6.0**	**n/a**	**n/a**	
Total Credit			**0.8**	**0.5**	**0.0**	**1.8**	**n/a**	**n/a**	
	ManFRM	Managed Futures & Hedge Funds	-0.8	1.0	0.3	4.0	-0.7	4.0	Target not met
n/a	ManFRM	Hedge Funds (Legacy)*	-38.5	1.0	-25.1	4.0	-25.1	4.8	n/a
Managed Account Platform			**-2.2**	**1.0**	**-0.7**	**4.0**	**-2.5**	**4.0**	
	Pyrford	Global Total Return	0.8	2.0	1.2	7.9	4.2	7.8	Target not met
	Investec	Diversified Growth	-1.3	1.9	-5.3	7.1	2.4	7.0	Target not met
Diversified Growth Portfolio			**-0.3**	**2.0**	**-2.2**	**7.5**	**3.3**	**7.4**	
	Best Ideas Portfolio		**3.3**	**1.5**	**7.5**	**5.5**	**11.5**	**5.3**	**Target met**
Tactical Allocation Portfolio			**1.6**	**1.5**	**2.9**	**5.5**	**7.4**	**5.3**	
	In-House	Property	1.7	1.6	8.1	9.2	7.3	7.4	Target not met
	In-House	Infrastructure	2.3	1.4	9.9	5.5	15.0	5.5	Target met
	In-House	Timber / Agriculture	-0.1	1.4	0.4	5.5	6.9	5.5	Target met
Real Assets Portfolio			**1.6**	**1.5**	**7.4**	**6.7**	**n/a**	**n/a**	
	In-House	Private Equity	8.3	1.4	19.5	5.5	14.7	5.5	Target met
	In-House	Opportunistic	2.6	1.4	23.3	5.5	3.8	5.5	Target not met
Private Markets Portfolio			**7.2**	**1.4**	**20.1**	**5.5**	**n/a**	**n/a**	
Total In-House Assets			**4.4**	**1.4**	**13.6**	**6.2**	**10.9**	**5.7**	
n/a	Insight	LDI Portfolio	5.3	5.3	14.8	14.8	23.4	23.4	n/a
TOTAL (ex LDI)			**1.6**	**1.7**	**5.7**	**6.0**	**8.4**	**7.7**	
TOTAL CLWYD PENSION FUND			**2.5**	**2.4**	**7.7**	**7.6**	**11.8**	**10.3**	
Strategic Target (CPI +4.1%)			**1.6**		**6.3**		**6.3**		
Actuarial Target (CPI +2.0%)			**1.1**		**4.2**		**4.2**		

Notes: 'n/a' against the objective is for funds that have been in place for less than three years.
* ManFRM Hedge Funds (Legacy) currently includes the Duet (S.A.R.E) and Liongate portfolios.
\# Wellington Emerging Markets Core and Wellington Emerging Markets Local data has been converted from US Dollar to Sterling using the WM/Reuters closing price exchange rates for the respective dates.
Strategic and Actuarial targets derived from the latest JLT Market Forecast Group assumptions (Q2 2018 forecasts based on conditions at 31 March 2018). Current long term 10 year CPI assumption is 2.2% p.a.

.

Fund has met or exceeded its performance target   Fund has underperformed its performance target

5 STRATEGIC ASSET CLASSES
PERFORMANCE TO 30 SEPT 2018

Strategy	3 months %	12 months %	3 years % p.a.
Total Equities	**0.3**	**7.0**	**18.1**
Composite Objective	3.9	10.6	21.3
Composite Benchmark	3.5	9.0	19.1
Multi-Asset Credit Portfolio	**0.8**	**-0.6**	**2.8**
Objective	0.4	1.5	1.4
Benchmark	0.2	0.5	0.4
Managed Account Platform	**-2.2**	**-0.7**	**-2.5**
Objective	1.0	4.0	4.0
Benchmark	1.0	4.0	4.0
Total Hedge Funds (Legacy)	**-38.5**	**-25.1**	**-25.1**
Composite Objective	1.0	4.0	4.8
Composite Benchmark	1.0	4.0	4.8
Total Diversified Growth	**-0.3**	**-2.2**	**3.3**
Composite Objective	2.0	7.5	7.4
Composite Benchmark	2.0	7.5	7.4
Best Ideas Portfolio	**3.3**	**7.5**	**11.5**
Objective	1.5	5.5	5.3
Benchmark	1.5	5.5	5.3
Total In-House Assets	**4.4**	**13.6**	**10.9**
Composite Objective	1.4	6.2	5.7
Composite Benchmark	1.4	6.2	5.7
Total LDI Portfolio	**5.3**	**14.8**	**23.4**
Composite Objective	5.3	14.8	23.4
Composite Benchmark	5.3	14.8	23.4
Total (ex LDI)	**1.6**	**5.7**	**8.4**
Composite Objective	1.7	6.0	7.7
Composite Benchmark	1.6	5.6	7.1
Total Clwyd Pension Fund	**2.5**	**7.7**	**11.8**
Composite Objective	2.4	7.6	10.3
Composite Benchmark	2.3	7.3	9.8

Source: Performance is calculated by JLT Employee Benefits based on data provided by the managers and is only shown for complete periods of investment.

Note: Objective performance includes the funds' outperformance targets above the relevant underlying benchmarks, as shown in the Appendix. Benchmark performance is based on the underlying benchmarks without the explicit outperformance targets for the relevant funds within the Equity and Multi-Asset Credit portfolios.

6 SUMMARY OF MANDATES

Manager	Fund	Strategic Asset Class	Performance Objective (Net of Fees)	Strategic Allocation
Investec	Global Strategic Equity	Global Developed Equities	MSCI AC World NDR Index +2.5% p.a.	4.0%
BlackRock	World Multifactor Equity Tracker	Global Developed Equities	MSCI World Index	4.0%
Wellington	Emerging Market (Core)	Emerging Markets Equities	MSCI Emerging Markets Index +1.0% p.a.	3.0%
Wellington	Emerging Market (Local)	Emerging Markets Equities	MSCI Emerging Markets Index +2.0% p.a.	3.0%
Total Equity			**Composite Weighted Index**	**14.0%**
Stone Harbor	LIBOR Multi-Strategy	Multi-Asset Credit	1 Month LIBOR Index +1.0% p.a.[1]	12.0%
Stone Harbor	Multi-Asset Credit	Multi-Asset Credit	1 Month LIBOR Index +1.0% p.a.	
Permira	Credit Solutions III	Private Credit	Absolute Return 6.0% p.a.	3.0%
Total Credit Portfolio			**Composite Weighted Index**	**15.0%[4]**
ManFRM	Managed Futures & Hedge Funds	Managed Account Platform	3 Month LIBOR Index +3.5% p.a.	9.0%[3]
Managed Account Platform			**3 Month LIBOR Index +3.5% p.a.**	**9.0%**
Pyrford	Global Total Return	Diversified Growth	UK Retail Price Index +4.5% p.a.[2]	5.0%
Investec	Diversified Growth	Diversified Growth	UK Consumer Price Index +4.6% p.a.	5.0%
Best Ideas	Best Ideas	Best Ideas Portfolio	UK Consumer Price Index +3.0% p.a.	11.0%
Tactical Allocation Portfolio			**UK Consumer Price Index +3.0% p.a.**	**21.0%**
In-House	Private Equity	Private Markets	3 Month LIBOR Index +5.0% p.a.	8.0%
In-House	Opportunistic	Private Markets	3 Month LIBOR Index +5.0% p.a.	2.0%
In-House	Property	Property	IPD UK Monthly Property Index[5]	4.0%
In-House	Infrastructure	Infrastructure	3 Month LIBOR Index +5.0% p.a.	6.0%
In-House	Timber / Agriculture	Infrastructure	3 Month LIBOR Index +5.0% p.a.	2.0%
Total In-House			**Composite Weighted Index**	**22.0%**
Insight	LDI Portfolio	LDI & Synthetic Equities	Composite Liabilities & Synthetic Equity	19.0%
Total Liability Hedging			**Composite Liabilities & Synthetic Equity**	**19.0%**

Notes: 1 FTSE A Gilts All Stocks Index until 31 March 2014. 2 UK Retail Price Index +4.4% p.a. until 31 March 2015. 3 Strategic Allocation represents the composite benchmark for the Managed Account Platform. 4 Committed but uninvested element of the Private Credit strategic allocation is represented by 1 Month LIBOR Index +1.0% p.a. 5. IPD Quarterly Property Index sourced from Schroders has been used to calculate the performance between 31 December 2017 and 30 September 2018.

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CLWYD PENSION FUND COMMITTEE

Date of Meeting	28 November 2018
Report Subject	Funding, Flightpath and Risk Management Framework Update
Report Author	Clwyd Pension Fund Manager

EXECUTIVE SUMMARY

Members should note that:

- On a consistent basis, the estimated funding position at the end of October is 89% which is around 9% ahead of the expected position from the 2016 actuarial valuation. However, there still remains uncertainty regarding future inflation and investment return expectations, especially given the recent market volatility.

- The level of hedging remains at 20% for interest rate and 40% for inflation at 31 October 2018.

- No triggers have been breached since the interest rate triggers were re-structured in September 2017. Mercer recommended no change to the interest rate trigger levels as part of the flightpath healthcheck.

- As reported at the last Committee, Insight were instructed to close out the relative value position over August 2018. This trading has now been completed and resulted in an overall gain of £26.7m net of costs.

- The new dynamic equity protection strategy was implemented on 24 May 2018. As at 31 October 2018, the dynamic protection strategy had decreased by £11m or 3.0% since inception of the strategy. The Fund is protected from falls in equity markets of 13% or more from current levels. More detail is provided separately in the Mercer report in Appendix 1.

- Mercer indicated that there is an opportunity to release £100m in cash from the collateral holding to potentially invest in other assets without impacting the overall risk management profile of the flightpath strategy. Officers have been working with Mercer and JLT to identify a suitable destination for this additional cash. It has provisionally been agreed that c. £50m will be retained at Insight and a so-called collateral waterfall implemented to efficiently manage collateral in a low governance manner. The remaining c. £50m will be released from the Insight QIAIF to be invested elsewhere in the portfolio.

RECOMMENDATIONS	
1	That the Committee note the updated funding and hedging position for the Fund and the progress being made on the various elements of the Risk Management Framework.
2	That the Committee note the restructuring of the LDI strategy has been completed and a positive mark-to-market gain has been realised.
3	That the Committee note that the Officers are working with their advisors in order to finalise a collateral waterfall process at Insight to better manage collateral requirements. Further, it has been provisionally agreed that c. £50m will be removed from the Insight QIAIF to be invested elsewhere in the portfolio.

REPORT DETAILS

1.00	FUNDING, FLIGHTPATH AND RISK MANAGEMENT STRUCTURE UPDATE
1.01	***Update on funding and the flightpath framework*** The monthly summary report as at 31 October 2018 from Mercer on the funding position and an overview of the liability hedging mandate is attached in Appendix 1. It includes a "traffic light" of the key components of the Flightpath and hedging mandate with Insight. The report will be presented at the meeting including a reminder of the principle objectives of the framework.
1.02	The estimated funding level is 89% with a deficit of £221m at 31 October 2018 which is 9% ahead of the expected position when measured relative to the 2016 valuation expected funding plan. Uncertainty continues to be prevalent in the investment environment due to ongoing external political and fiscal factors. To illustrate the impact, a reduction of 0.25% p.a. in the assumed future investment return/real discount rate would reduce the funding level by c. 4% to c. 85% with a corresponding increase in deficit of £94m to £315m.
1.03	None of the interest rate triggers have been satisfied since they were re-structured in September 2017.
1.04	The level of hedging was around 20% for interest rates and 40% for inflation at 31 October 2018. The hedging implemented to date provides access to a lower risk investment strategy but maintaining a sufficiently high real yield expectation to achieve the funding targets.
1.05	Based on data from Insight, our analysis shows that the management of the Insight mandate is rated as "green" meaning it is operating in line within the tolerances set by our strategic risk advisors. The LIBOR Plus Fund is rated "amber" due to the temporary limit on future investments into the fund. This should not affect the operation of the

	mandate but it will be kept under watch. The collateral and counterparty position is rated “green”; collateral is within the agreed constraints and the Officers are taking action with their advisors to improve the efficiency of the collateral position (see section 1.08).
1.06	***Update on Risk Management framework*** (i) Restructuring the Insight Portfolio As reported previously Insight were instructed to exit the relative value trade and completed trading by 31 August 2018. This was because the gains had been realised far more quickly than expected and it was felt appropriate to close off exposure to the future risk of losing this gain, The gain on the relative value element was £16.8m, which, when combined with the long term gain of £10.2m from locking in a lower inflation rate, resulted in a gain of £27m gross of costs. This was above the “soft trigger” test of £25m. The £16.8m gain from the relative value trade was realised immediately, whilst the £10.2m gain from locking in a lower inflation rate will continue to be accrued over a 50 year period. These immediate gains can be used to invest elsewhere in the portfolio along with the further release of collateral as noted in this report. Total transaction costs for the trade were c. £269k, which compares favourably to the estimated range of £0.8-£2.2m. By phasing the trades over a number of days, Insight were able to take advantage of trading opportunities which helped to keep costs down materially. This change has had no impact on the level of hedging or the expected return on the portfolio. Critically, closing out this gain does not impact on the risk profile of the flightpath.
1.07	(ii) Dynamic equity protection implementation and progress It was previously approved by Committee that, subject to fair market pricing, protection against potential falls in the equity markets via the use of Equity Options should be implemented. This was to provide further stability (or even a reduction) in employer deficit contributions (all other things equal) in the event of a significant equity market fall although it is recognised it will not protect the Fund in totality. It should be noted that, having an equity protection policy in place will protect from any large changes in equity markets which is currently prevalent given the long period of strong equity returns that we have seen. Importantly over the longer-term the increased security allows the Actuary to include less prudence in the Actuarial Valuation assumptions; this would translate into lower deficit contributions at the 2019 valuation whilst maintaining equity exposure supports a lower cost of accrual that under traditional de-risking methods. This will be quantified in the 2018 interim review. As at 31 October 2018, the dynamic protection strategy had decreased by c. £11m or 3.0% since inception of the strategy. Relative to investing in passive equities (and assuming no costs to do so), the strategy has underperformed by c. £0.2m or 0.05% since inception. Should equity

	markets fall by more than 13% then the protection structure will kick in, and the strategy should outperform passive equities. There was a significant market fall over October, but not enough so that the protection "kicked in". The protection will be monitored on an ongoing basis and the Committee papers have been updated as part of the reporting in Appendix 1.
1.08	(iii) Collateral position Due to the positive performance of the framework since its implementation, Mercer indicated that there is an opportunity to release cash collateral from the Insight strategy to invest in higher returning assets. Mercer have calculated, and Insight have confirmed, that £100m (inclusive of the gain of unwinding the relative value trade) can be released from the strategy whilst still supporting the current positions and maintaining the flightpath strategy. This still leaves sufficient collateral in the event of market moves or in the event of any triggers being hit in line with the agreed guidelines. The Officers have provisionally agreed to retain c. £50m of the excess collateral within the Insight QIAIF but to be invested in higher yielding credit assets and making use of a collateral waterfall process. The additional c. £50m of excess collateral will be released from the Insight QIAIF to invest elsewhere in the portfolio as advised by JLT. Mercer has proposed the use of a collateral waterfall structure to increase the efficiency of the collateral position within the Insight QIAIF. The premise is to hold three tiers of assets: - Tier 1 comprises of gilts and cash to be used to support collateral requirements on a day to day basis. - Tier 2 comprises of high quality liquid alternative credit assets that act as a ready source of funds to top up Tier 1 quickly, but offer a higher yield than Tier 1. - Tier 3 comprises of less liquid alternative credit assets used predominantly as a return driver within the collateral portfolio. A collateral waterfall ensures that the Insight QIAIF provides the necessary collateral requirements but makes those assets work harder, increasing yield in a low governance manner. The Officers with the advice of JLT and Mercer are considering these proposals and the Committee will be updated in due course.

2.00	RESOURCE IMPLICATIONS
2.01	None directly as a result of this report

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	None required

4.00	RISK MANAGEMENT
4.01	This report addresses some of the risks identified in the Fund's Risk Register. Specifically, this covers the following (either in whole or in part): • Governance risk: G2 • Funding and Investment risks: F1 - F6
4.02	The Flightpath Strategy manages/controls the interest rate and inflation rate impact on the liabilities of the Fund to give more stability of funding outcomes and employer contribution rates. The Equity option strategy will provide protection against market falls for the synthetic equity exposure via the Insight mandate only.

5.00	APPENDICES
5.01	Appendix 1 - Monthly monitoring report – October 2018

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	Report to Pension Fund Committee – Flightpath Strategy Proposals – 8 November 2016, Report to Pension Fund Committee – 2016 Actuarial Valuation and Funding/Flightpath Update – 27 September 2016 and Report to Pension Fund Committee – Funding and Flightpath Update – 22 March 2016.
6.02	Report to Pension Fund Committee – Overview of risk management framework – Previous monthly reports and more detailed quarterly overview. **Contact Officer:** Philip Latham, Clwyd Pension Fund Manager **Telephone:** 01352 702264 **E-mail:** philip.latham@flintshire.gov.uk

7.00	GLOSSARY OF TERMS
7.01	(a) **The Fund – Clwyd Pension Fund** – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region. (b) **Administering Authority or Scheme Manager** – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund. (c) **The Committee – Clwyd Pension Fund Committee -** the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund. (d) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of

	(e) **FSS – Funding Strategy Statement** – the main document that outlines how we will manage employers contributions to the Fund (f) **Actuary -** A professional advisor, specialising in financial risk, who is appointed by Pension Funds to provide advice on financial related matters. In the LGPS, one of the Actuary's primary responsibilities is the setting of contribution rates payable by all participating employers as part of the actuarial valuation exercise. (g) **ISS – Investment Strategy Statement** The main document that outlines our strategy in relation to the investment of assets in the Clwyd Pension Fund Further terms are defined in the Glossary in the report in Appendix 1.

CLWYD PENSION FUND

RISK MANAGEMENT FRAMEWORK MONTHLY MONITORING REPORT 31 OCTOBER 2018

November 2018

Paul Middleman FIA

OVERRIDING OBJECTIVES

Stable and affordable contribution rate

versus

Achieve returns in excess of CPI required under funding arrangements

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Objectives are two-fold but conflicting

- Risk needs to be taken in order to achieve returns, but risk does not guarantee returns

Need to ensure a reasonable balance between the two objectives

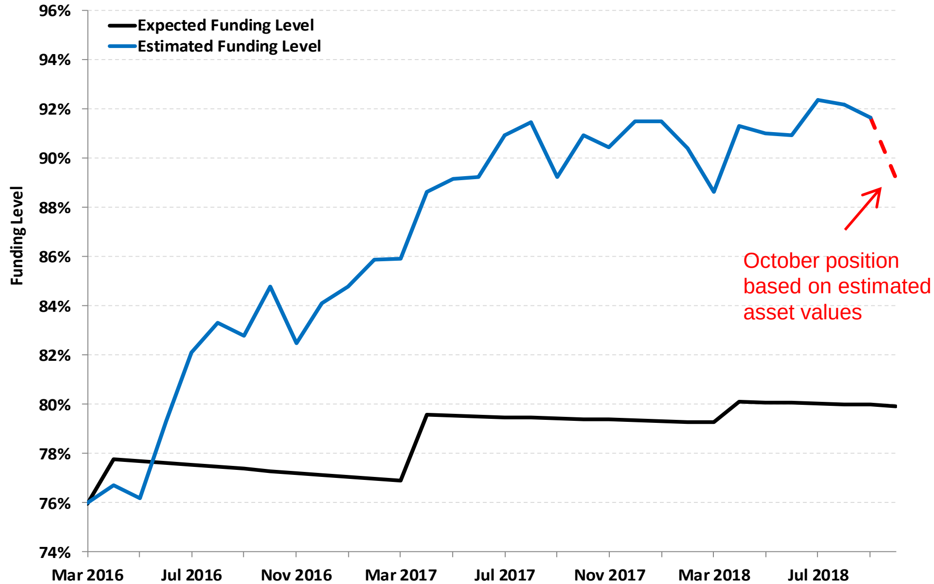
- Do you need to take the same level of risk when 70% funded (say) as when 110% funded?

EXECUTIVE SUMMARY

● = as per or above expectations ● = to be kept under review ● = action required

Green	**Overall funding position** • Ahead of existing recovery plan • Funding level below the first soft trigger	In absolute terms the funding position is c.9% ahead of target. However there is continuing uncertainty in the outlook for future returns which could impact on the future funding requirements.
Green	**Liability hedging mandate** • Insight in compliance with investment guidelines • Outperformed the benchmark over Q2 2018 and since inception • Hedge ratios marginally below target levels	No action required.
Green	**Synthetic equity mandate** • Insight in compliance with investment guidelines • Performed in line with the benchmark over Q2 2018 • Maturity constraints as expected	A new dynamic protection structure was implemented 24 May 2018.
Amber	**LIBOR Plus Fund** • Underperformed over Q2 2018 but ahead of target since inception • Management team stable and no change in manager rating • Allocation of £56m remains appropriate	No action required. The temporary limit on future investments into the Fund at any weekly dealing point remains in place - to be kept under review.
Green	**Collateral and counterparty position** • Collateral within agreed constraints • The Insight QIF can sustain at least a 1.25% rise in interest rates and fall in inflation, in combination with a 35% fall in equity markets without eliminating all collateral	Collateral adequacy to be monitored quarterly. Potential to release c.£100m based on the agreed collateral guidelines as at 30 June 2018.

Estimated funding position since 31 March 2016



The positions from April 2018 onwards have been adjusted to reflect the actual 2018 revaluation/pension increase awarded. Where applicable the above funding positions will be updated to allow for the results of the 2018 Interim Review once completed.

Funding Level Triggers

It was concluded at the FRMG on 20 June 2017 that the funding level is not currently sufficiently high to warrant de-risking in a traditional sense via a change in long term strategy.

It was agreed that a “soft” trigger will be put in place to prompt FRMG discussions regarding potential actions as the funding level approaches 100% on the current funding basis. This funding level will be monitored approximately by Mercer on a daily basis.

Comments

The **black line** shows a projection of the *expected* funding level from the 31 March 2016 valuation based on the assumptions (and contributions) outlined in the 2016 actuarial valuation. The *expected* funding level at 31 October 2018 was around 80%.

The **blue line** shows an estimate of the progression of the funding level from 31 March 2016 to 30 September 2018. The **red line** shows the progression of the estimated funding level over October 2018. At 31 October 2018, we estimate the funding level and deficit to be:

89% (£221m*)

This shows that the Fund’s position was ahead of the expected funding level at 31 October 2018 by around 9% on the current funding basis.

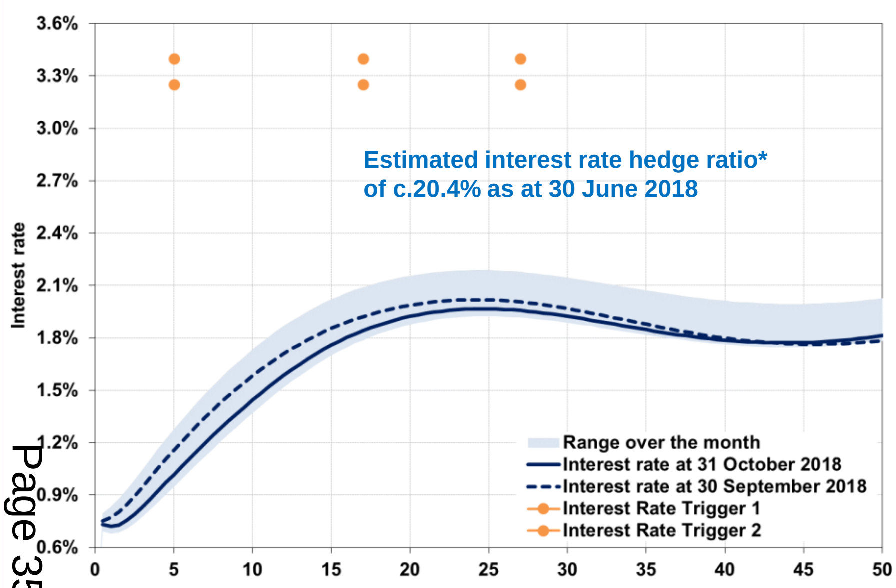
Uncertainty continues to be prevalent in the investment environment due to ongoing external political and fiscal factors. This could mean that the likelihood of achieving the assumed real returns going forward has fallen. To illustrate the impact, a reduction of 0.25% p.a. in the assumed future investment return/real discount rate would reduce the funding level by c.4% to c.85% with a corresponding increase in deficit of £94m to £315m.

This will be kept under review in light of changing market conditions.

**Asset values estimated based on market indices and an estimate of performance of the Insight liability hedging mandate from 30 September 2018 to 31 October 2018. We will monitor this estimate over time against the actual position once final asset values are available, and update the asset values on a monthly basis.*

U P D A T E O N M A R K E T C O N D I T I O N S A N D T R I G G E R S

Change in interest rates



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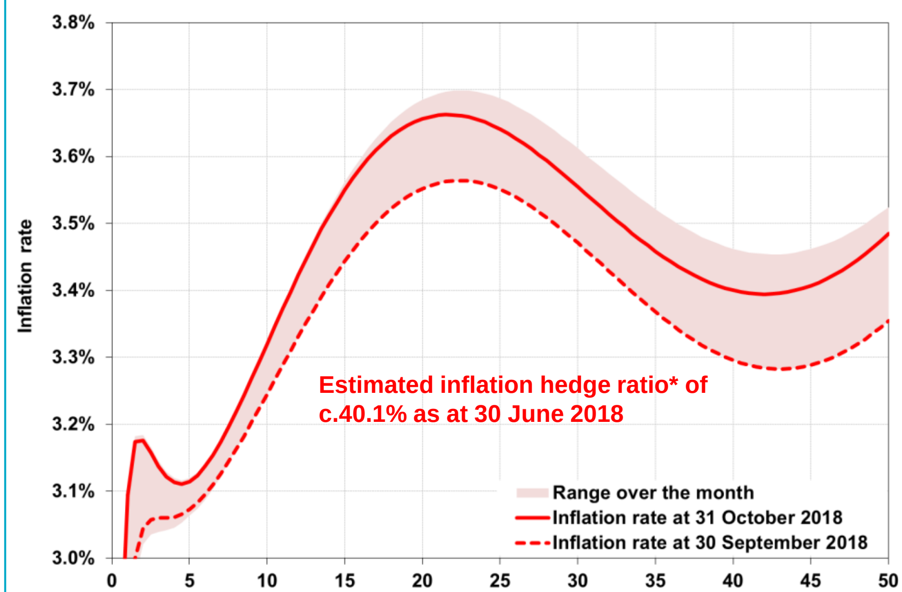
Date	Band 1	Band 2	Band 3	Band 4	Actual
30 June 2018	20.0%	20.0%	20.0%	20.0%	20.0%

Change in inflation rates (note: different scale)



Date	Band 1	Band 2	Band 3	Band 4	Actual
30 June 2018	40.0%	40.0%	40.0%	40.0%	40.0%

Comments

Interest rates fell over October 2018 at all but the longest durations, where they remained broadly stable. The largest decreases were observed at short durations.

Based on market conditions as at 31 October 2018, yields would need to rise by c.1.3% p.a. before the Fund would hit any of the revised interest rate triggers implemented by Insight in Q3 2017.

Comments

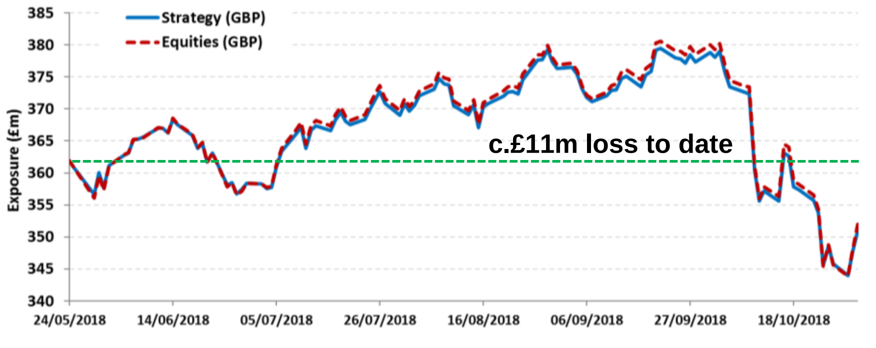
Inflation expectations rose materially across the curve over the month, with average increases of c.0.1% observed.

It has been agreed that Insight will not resume monitoring of the level of inflation hedging until the interest rate and inflation hedge ratios have been aligned.

** Hedge ratios calculated with reference to 2016 valuation cashflow analysis and relying on a discount rate of gilts + 2.0% p.a..*

UPDATE ON EQUITY PROTECTION MANDATE

Strategy versus equity index



GBP returns	Equity return	Hedging return	Financing return	Costs	Overall return	Relative return
MTD	(7.79%)	0.84%	0.06%	(0.04%)	(6.93%)	**0.86%**
YTD	(2.93%)	(0.07%)	0.17%	(0.14%)	(2.98%)	**(0.05%)**

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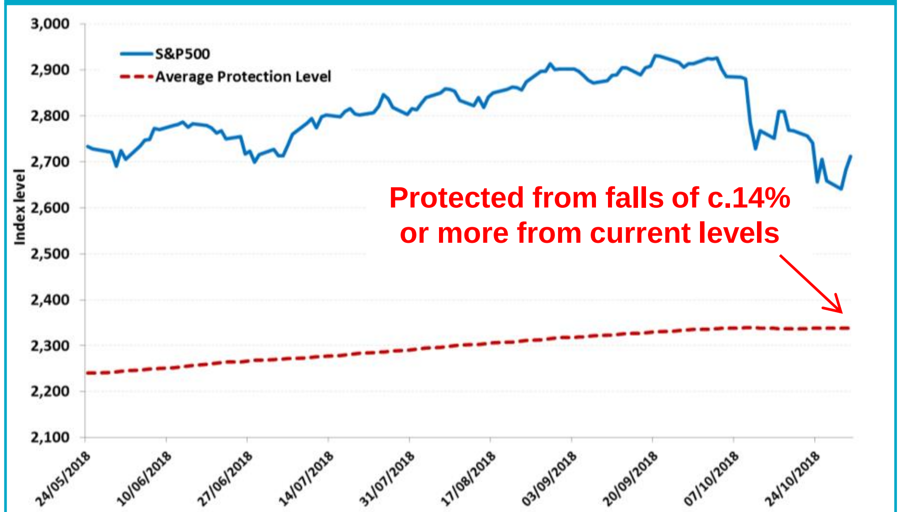
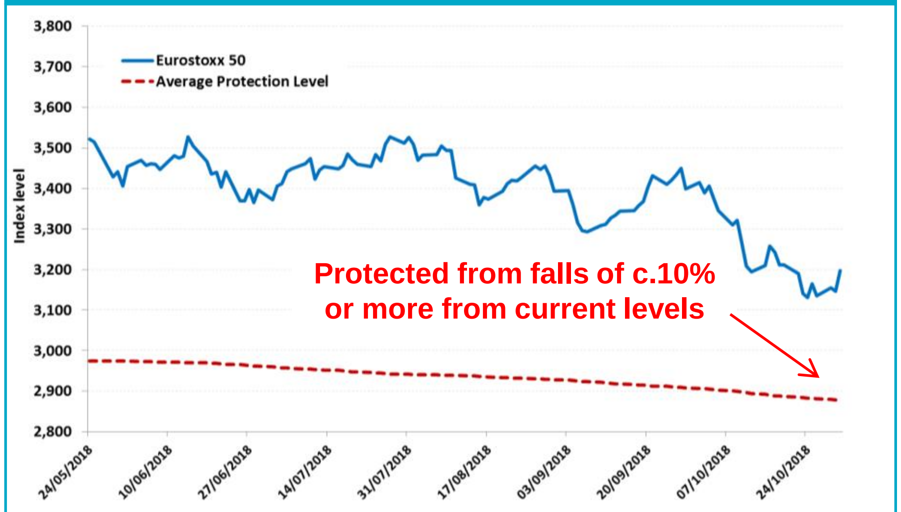
Comments

- The Fund implemented a dynamic equity protection strategy on 24 May 2018 with exposure of £362m. As at 31 October 2018, the value of the synthetic equity exposure had fallen by c.£11.1m to £351m. Relative to investing in passive equities (with no frictional costs), the strategy has underperformed by c.£0.2m since inception.
- The majority of this underperformance is due to the return drag from paying for hedging and the market being c.13% from the protection levels at a combined level. If markets fall by this amount or more, the protection will kick in.
- This was partially offset due to collecting premium through selling upside, known as the financing return.
- The strategy rolls daily and therefore the protection changes over time to react to market changes.

US equity exposure



European equity exposure



- Actuarial Valuation - The formal valuation assessment of the Fund detailing the solvency position and determining 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.
- Collateral – Liquid assets held by the Fund as security which may be used to offset the potential loss to a counterparty.
- Counterparty – Commonly an investment bank on the opposite side of a financial transaction (e.g. swaps).
- Deficit - The extent to which the value of the Fund's liabilities exceeds the value of the Fund's assets.
- Dynamic protection strategy – Strategy to provide downside protection from falls in equity markets where the protection levels vary depending on evolution of the market.
- Equity option – A financial contract in which the Fund can define the return it receives for movements in equity values.
- Flightpath - A framework that defines a de-risking process whereby exposure to growth assets is reduced as and when it is affordable to do so i.e. when "triggers" are hit, whilst still expecting to achieve the overall funding target.
- Funding level - The difference between the value of the Fund's assets and the value of the Fund's liabilities expressed as a percentage.
- Funding & Risk Management Group (FRMG) - A subgroup of Pension Fund officers and advisers set up to discuss and implement any changes to the Risk Management framework as delegated by the Committee. It is made up of the Clwyd Pension Fund Manager, Pension Finance Manager, Fund Actuary, Strategic Risk Adviser and Investment Advisor.
- Hedging - A strategy aiming to invest in low risk assets when asset yields are deemed attractive. Achieved by investing in government backed assets (or equivalent) with similar characteristics to the Fund future CPI linked benefit payments.
- Hedge ratio – The level of hedging in place in the range from 0% to 100%.
- Insight QIAIF (Insight Qualifying Investor Alternative Investment Fund) – An investment fund specifically designed for the Fund to allow Insight to manage the liability hedging and synthetic equity assets.
- London Interbank Offer Rate (LIBOR) - An interest rate at which banks can borrow funds from other banks in the London interbank market.

IMPORTANT NOTICES

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