

CLWYD PENSION FUND COMMITTEE

23 March 2021

Minutes of the meeting of the Clwyd Pension Fund Committee of Flintshire County Council, held remotely at 9.30am on Wednesday, 23 March 2021.

PRESENT: Councillor Ted Palmer (Chairman)

Councillors: Ralph Small, Billy Mullin, Tim Roberts, Haydn Bateman.

CO-OPTED MEMBERS: Councillor Nigel Williams (Wrexham County Borough Council), Mr Steve Hibbert (Scheme Member Representative) and Councillor Andy Rutherford (Other Scheme Employer Representative).

ALSO PRESENT (AS OBSERVERS):

Advisory Panel comprising: Colin Everett (Chief Executive) – joined at item 138, Philip Latham (Head of Clwyd Pension Fund), Gary Ferguson (Corporate Finance Manager), Karen McWilliam (Independent Adviser – Aon Hewitt), Paul Middleman (Fund Actuary – Mercer).

Officers/Advisers comprising: Debbie Fielder (Deputy Head of the Clwyd Fund), Karen Williams (Pensions Administration Manager), Nick Buckland (Fund Investment Consultant – Mercer), Paul Vaughan (Clwyd Fund Accountant) – joined at item 138, Megan Fellowes (Actuarial Analyst – Mercer - taking minutes), Ieuan Hughes (Graduate Investment Trainee).

APOLOGIES: Councillor Julian Thompson-Hill (Denbighshire County Council), Kieran Harkin (Fund Investment Consultant - Mercer) as member of the Advisory Panel

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

Mrs Fielder noted her recent appointment as non-executive director for Pensions for Purpose, which had been approved by Human Resources and the Chief Executive.

There were no other declarations of interest.

134. **MINUTES 10 FEBRUARY 2021**

The minutes of the meeting of the Committee held on 10 February 2021 were reviewed.

RESOLVED:

The minutes of 10 February 2021 were received, approved and signed by the Chairman.

135. **GENERAL FUND UPDATE**

Mr Latham updated the Committee in a number of areas, which had occurred since the previous meeting, outlined in the executive summary of the report. Since publishing the pack, The Pensions Regulator had issued a consultation on a new code of practice and has requested responses in May. Mr Latham confirmed that the Fund's response would be approved using delegated powers.

Councillor Williams drew the Committee's attention to the Wrexham County Borough Council climate change motion noted in the report. Mr Latham confirmed information on this would be presented to the Committee as part of the Responsible Investment road map at the next meeting in June. He suggested that a further session could be provided to the Committee and the Committee agreed it would be helpful to have a briefing session arranged on this matter.

RESOLVED:

- (a) The Committee noted the update.

136. **FUNDING STRATEGY STATEMENT – POLICY UPDATES**

Mr Latham noted that there were two key policy updates regarding changes to the regulations, which related to additional flexibilities around employer exit payments and reviewing employer contributions. The Funding Strategy Statement (FSS) had been updated in line with the changes in regulations and was required to go to consultation with employers. Despite the Fund not having many employers that can exit due to their statutory nature, Mr Latham emphasised the importance of having the policies in place especially as employers themselves can request a review of their contributions.

Mr Latham also noted that the Committee report and appendices included further information on the scheme of delegation which had been updated to incorporate the new policies, as well as a proposed process if employers appeal against the initial decision made on these flexibilities.

Mr Middleman noted the key points for consultation in paragraph 1.03 and 1.09 of the report where employer input is important.

RESOLVED:

- (a) The Committee approved the draft policies for inclusion in the FSS and consultation with employers.
- (b) The Committee delegated final minor changes, following consultation, to be made by the Head of Clwyd Pension Fund and Deputy Head of Clwyd Pension Fund, with any substantive changes being brought back to Committee for consideration.
- (c) The Committee agreed the updates to the Delegation of Functions, attached in Appendix 3.

137. **ADMINISTRATION STRATEGY**

Mr Latham introduced this report by highlighting that an administration strategy is not legally required but has been good practice albeit in recent months the Scheme Advisory Board (“SAB”) had formally advised the MHCLG that an administration strategy should be a legal requirement. The Fund has had an administration strategy for a number of years. The aim of the strategy is to outline the responsibilities for the Fund and its employers. Mrs Williams noted that the main changes related to the incorporation of new reporting with employers to replace the existing Service Level Agreements. She stressed that the requirements in the main are not new; it is how they are being communicated and reported on that is changing. It is hoped the new approach will be more convenient and efficient for both employers and the Fund, as well as helping more quickly identify if employers are equipped and able to deliver their responsibilities so assistance can be provided. Item 1.06 highlighted the key changes within the strategy.

Mr Latham asked whether the principal employers e.g. Council and other major employers, were prepared to meet the Fund’s expectations on this matter. Mrs Williams noted that the target timescales were something that employers had to previously adhere to. However, given that the team had not previously provided reports, it was difficult to comment, as employers may not be aware whether they are complying with the timescales or not. The reports will identify whether any employers are failing to comply in any key areas.

Councillor Bateman asked how many employers the Fund has. Mrs Williams confirmed that the Fund has around 50 employers.

RESOLVED:

- (a) The Committee considered and approved the updated Administration Strategy, which is attached in Appendix 1, subject to consultation with stakeholders.
- (b) The Committee delegated final minor changes, following consultation, to be made by the Head of Clwyd Pension Fund and Pensions Administration Manager, with any substantive changes being brought back to Committee for consideration.

138. **BUSINESS CONTINUITY AND CYBERCRIME**

Mr Latham noted that the Fund were undertaking significant work understanding the Fund's resilience to cybercrime. Further information will be provided to the Committee in due course albeit this is likely to be a Part 2 item for security reasons. Mr Latham also highlighted The Pension Regulator's expectations for scheme managers to properly understand and manage cybercrime risk.

Mr Latham explained that the Fund had also previously completed business continuity planning and therefore should have comfort that there had not been any issues in the past, but further work is being done to ensure business continuity remains up to date and appropriate. As part of this a

Business Continuity Policy has been developed for the Committee to consider and approve.

Councillor Bateman noted that cybercrime must be one of the Fund's key risks and Mr Latham confirmed it was a key risk and so it is important to get assurances around how this is being managed.

Councillor Williams asked what the Fund were actively doing to look at succession planning. Mrs Williams confirmed that this item was on the risk register and a lot of time was spent considering this. A wider range of staff within the team were either undergoing training or were already trained to manage this area.

Councillor Williams asked whether the Fund has changed their pay structure as other authorities were paying qualified staff at a higher level. Mrs Williams confirmed that she has not noticed this as an issue as any staff who had previously left the team, have since re-joined.

In respect of succession planning, Mrs McWilliam said that, as part of the business continuity review, the Fund is carrying out a gap analysis, which will include considering who would cover work if a member of staff were unavailable. This will help identify any key person risk.

RESOLVED:

- (a) The Committee reviewed and approved the Business Continuity Policy for the Fund.
- (b) The Committee commented on the ongoing work in relation to business continuity and cyber security for the Fund.

139. **WALES PENSION PARTNERSHIP BUSINESS PLAN 2021/22 TO 2023/24**

Mr Latham reminded the Committee that all Funds within the WPP had worked closely to develop the WPP business plan under review, with the focus on Responsible Investment, climate risk and private markets. The business plan must be approved by all eight Constituent Authorities who participate in WPP.

Mr Hibbert highlighted his concern around proposals on how the appointment of the Scheme Member Representative was to take place through the Joint Governance Committee (JGC). Given the appointment of a Scheme Member Representative is part of the business plan, he had concerns about approving the business plan as this may result in the issues around how the appointment is made being ignored. He emphasised that based on previous discussions at Committee, there was a strong desire for the appointment of the Scheme Member Representative to be made by the scheme members and their representative bodies, rather than the JGC.

Mr Latham acknowledged the concern but noted that the issue should not be a reason to not approve the business plan given the focus of the business plan itself does not state who or how the appointment is made.

Mrs McWilliam recommended approving the business plan and leaving the Chairman to take forward the Committee's concerns on this matter as part of the separate JGC agenda item. She emphasised that the Fund were one of eight and therefore despite the Chairman having raised these concerns, other members of the JGC would need to agree also.

Mr Everett agreed with the difficulty of the situation given the Fund was caught between procedure and principle. His advice was for the Chairman and Mr Latham to ensure that the expectations on the Scheme Member Representative appointment was clear.

All members of the Committee agreed the recommendations except Mr Hibbert who noted his concerns with the approach relating to the appointment of the Scheme Member Representative.

RESOLVED:

The Committee approved the draft WPP Business Plan, including the objectives of the pool on page 7 and the budget on page 14, relating to the period 2021/22 to 2023/24 before agreement by the JGC on 24th March 2021. The Committee also agreed that their view on the process of approving the Scheme Member Representative was to be taken to the JGC by the Chair.

140. **BUSINESS PLAN 2021/22 TO 2023/24**

Mr Latham introduced the proposed Clwyd Pension Fund business plan for the next three years and noted the following key points:

- He thanked the team efforts in preparing the business plan and stated that it did not include any new major matters.
- He highlighted that it was good practice to regularly review Fund policies so this was included.
- Given its importance, climate change was now being considered separately within the plan.
- Pooling guidance is due to be released and this could have a significant impact on the Fund.
- The Fund will undergo an interim actuarial review this year. The interim review helps employers' budget planning and allows their finance officers to identify in advance expected costs that will arise as a result of the next actuarial valuation.
- The administration and communications section is now separated into areas that are regulatory driven or not.

Mr Hibbert asked for a report from the JGC on their stock lending activity, as promised. Mr Latham confirmed that this is reported at every JGC meeting, however it was a confidential item. Mr Latham confirmed he will investigate how this information can be shared with the Committee.

In presenting the introductory section of the Business Plan, Mrs Fielder made the following key points:

- She noted the introduction from page 128 and the changes made in the Fund update to the structure charts (highlighted on page 129).
- In addition to business as usual, the Fund had identified the areas of focus for the next three years on page 134 to 137.
- As part of the cashflows, the Fund had been quite conservative in estimating 2022/23 contributions given that this will be the next year after the actuarial valuation.
- The estimations of drawdowns and distributions in private markets had continued to be difficult following the COVID-19 related market volatility seen in February and March 2020. In the past year, the Fund's distributions were higher than expected. The estimated net distributions in excess of drawdowns were c£17 million compared to original budget of c£8 million. This highlighted the difficulty to estimate this figure.

On the lump sum payments on page 139 of the agenda, Councillor Bateman queried the increase on actual budgets of c£3 million. Mrs Fielder confirmed this figure included both retirement lump sums and death grants. She noted it was difficult to determine lump sums that members plan to take when they retire as members have the option to commute which results in a larger lump sum in return for a smaller pension.

Mr Vaughan noted the following key points regarding the operating budget 2021/22 on page 140.

- Overall, the governance expenses were budgeted at c£2.9 million, which was a slight increase on last year's budget.
- The budget for the investment manager expenses were c£20.8 million.
- Employee costs had increased, but this was due to additional costs in relation to the McCloud remedy programme. He added that the budget did not include any inflationary increases, apart from employees with pay of less than £24,000.
- There was an increase in IT costs also in respect of additional work surrounding the McCloud judgment.
- The additional costs relating to the McCloud remedy programme were c£645k as outlined separately at the bottom of page 140.
- The overall operational budgeting costs were c£26.2 million.

Councillor Bateman queried the significant increase of investment consulting fees. Mr Vaughan clarified that the increase was due to planned project work in respect of mostly private markets and responsible investment. This was in the main work that would tail off over this and the next few years.

Mr Everett stated the potential annual pay award for 2021/22 (set nationally) remains a financial risk for all public sector employers.

Mrs Fielder expected the training sessions to remain virtual over the next few months and welcomed views from the Committee and Board around how training should be delivered in the future.

RESOLVED:

The Committee approved the Business Plan in Appendix 1 relating to the period 2021/22 to 2023/24, including the budget therein for 2021/22, which includes some changes to the existing staffing structure as noted therein.

The Chairman thanked everyone for their attendance and updates at the Committee meeting. The next formal Committee meeting is on 9 June 2021. The meeting finished at 10:45am.

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Chairman