

Business Plan 2015/6 to 2017/8 – 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
*	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	2015/6 Period				Later Years	
		Q1	Q2	Q3	Q4	2016/17	2017/18
FI1	2015 Funding review		x	x			
FI3	Employer risk monitoring framework		x	x		x	x
FI5a	Review Application of existing admission and termination policy		xN	xN	xN		
FI5b	Review of admission and termination strategy/policy		*	*		xM	
FI6	Consider financial impact of the budget reforms		x				
FI8	Final Accounts, Production of Annual Report and External Audit	x	x			x	x
FI9	Review of In-House investments	x	x	x	x		
FI10	Establishment of Managed Account Platform	x	x				
FI11	Introduction of Tactical Management Portfolio and on-going management	x	x	x	x	x	x
FI15	Re-organisation of Asset Portfolio	x	x	x	x		
FI16	Collaboration across Welsh Funds for pooling of Passive Assets			xN	xN		
FI17	Implement CIV for Welsh Funds			xN	xN	xN	

Funding and Investments (including accounting and audit) Task Descriptions

FI1 – 2015 Funding review

What is it?

In the year prior to the formal actuarial valuation an interim actuarial assessment is performed to gauge likely valuation contribution outcomes and identify key issues which may arise in terms of affordability. This will cover issues such as appropriate actuarial assumptions, experience since the last valuation date and how the funding requirements allow for the Flightpath strategy in place. These can then be discussed with the Fund and participating employers ahead of the formal valuation to support budget planning and ensure the right balance of outcomes for all parties.

Timescales and Stages

Effective date:	31 March 2015 (with a later update included)
Initial Whole Fund results:	Q3/15
Individual Employer results:	As required
Communication:	Results will be discussed with finance officers of unitary authorities in Q3/4 15.

Resource and Budget Implications

Exercise will be performed by the Fund Actuary and discussed initially with the Fund officers.

FI3 – Employer risk monitoring framework

What is it?

The Fund is subject to funding risks in respect of employers who cease to participate without the Fund being able to recover the full exit contributions due under the Regulations. This can be mitigated by increasing contributions and/or requesting a contingent bond or guarantee to be provided to protect against the possibility of an unrecoverable debt. A risk-monitoring framework would identify and monitor participating employers who may be more likely than average to pose such a risk. This would monitor funding positions and covenant strength on a proportionate basis to flag any potential issues at an early stage. The governance around the framework would include ensuring employers are aware they should inform the Fund of any significant changes in membership numbers or underlying demographics.

Timescales and Stages

Develop framework and processes:	Q2&3/15
Implement framework:	Q3/15
Review framework and identified employers:	Annually.

Resource and Budget Implications

The framework would be implemented taking advice from the Fund Actuary. It will involve the officers gathering financial information from certain employers periodically to monitor covenant strength and also the implementation of a funding monitoring framework for the employers who pose the greatest risk.

FI5a – Application of existing admission and termination policy

What is it?

The Fund agreed a policy in 2013 relating to the admission of employers into the Fund and to how termination of participation is dealt with, the primary aim of the policy being to protect the Fund against incurring any unfunded liabilities as far as possible.

The policy has different requirements depending on the nature of the admitted employer but includes the use of pre-admission risk assessments, contingent security where deemed necessary, monitoring of the employer and termination funding. The detail and application of this policy should be regularly reviewed, especially in light of regulatory changes, to ensure it remains appropriate and is not exposing the Fund to funding risk.

Timescales and Stages

Application of existing policy:	Q2&3/15
Implement changes:	Q4/15

Resource and Budget Implications

Fund Actuary and Benefits Advisor will liaise with the administration team to review policy and process application, updating documentation appropriately.

FI5b – Review of admission and termination strategy/policy

What is it?

The Fund implemented a policy in 2013 relating to the admission of employers into the Fund and to how termination of participation is dealt with. Alongside the wider review of the Funding Strategy Statement (FSS), it is appropriate to review the admission and termination strategy in tandem. This is to ensure that the approach taken by the Fund is consistent and serves to protect the Fund against incurring any unfunded liabilities as far as possible

The policy should be reviewed in light of any changes to the overall Funding Strategy of the Fund, and/or to any other specific employer risk management arrangements.

Timescales and Stages

Review of policy and consult (alongside FSS):	Q2&3/16
Implement changes:	Q4/16

Resource and Budget Implications

Fund Actuary will work closely with the Fund Officers in reviewing the policy. It is anticipated that this will be carried out in tandem with the review of the Funding Strategy Statement (where there is a Regulatory requirement for the Administering Authority to consult with all interested parties).

FI6 – Consider the financial impact of budget reforms

What is it?

From April 2015 individuals have greater flexibility in how they take their benefits from defined contribution schemes – referred to as “Freedom and Choice”, and therefore the Fund may see a greater demand for transfer payments prior (and possibly at) retirement. In addition the trivial commutation limits have increased and therefore more retired individuals are expected to be able to take their total benefits as taxable lump sum cash. This in turn could mean the Fund will be required to retain or disinvest more cash.

Timescales and Stages

Legislation effective:

6 April 2015.

Resource and Budget Implications

The funding and liability impact will be assessed at a high level as part of the 2015 Funding Review. Employers may request the Fund to consider bulk processes as part of their own liability management requirements.

Impact and resource will need to be considered once legislation is finalised. It will potentially mean significant adjustments to transfer quotation and potentially retirement processes. A bulk exercise covering the trivial commutation limits will be done by the administration team over the next 12 months.

FI8 – Final Accounts, Production of Annual Report and External Audit

What is it?

Final accounting records compiled at the end of the fiscal year for the Fund, which include all transactions, charges, revenues and expenses for that year. These include the balance sheet for the Fund together with changes in asset values. These are prepared in accordance with appropriate accounting standards. Statement of Accounts submitted to Audit Committee (30/6/15 tbc) and County Council (30/6/15 tbc) for approval. Approved accounts to CPF Committee for information (23/9/15 tbc).

The Annual Report is produced whilst adhering to guidance and regulation as to content and layout. Submitted to CPF Committee 23/9/15 (tbc).

Wales Audit Office undertakes the annual audit of the Final Accounts together with sampling work on key systems. They also ensure that the Annual Report is fully reflective of the approved accounts and CIPFA guidance as to layout and content.

Timescales and Stages

Final Accounts – preparation and completion:

All years Q1

Annual Report – preparation and completion:

All years Q1/2

External Audit -

All years Q1/2

Resource and Budget Implications

To be led and undertaken by Pension Finance Managers with assistance from the Accounting Technician and Finance Assistant. All internal costs are met from the existing budget.

FI9 – Review of In-House investments

What is it?

A fundamental review of the current specific in-house property, private equity and infrastructure investment strategies. This is to include a review of current performance, a report to the Advisory Panel with recommendations and followed up with a workshop for the Members of the CPF Committee.

Timescales and Stages

A review of current performance	2015/16 Q1/Q2
Report(s) to the Advisory Panel:	2015/16 Q1/Q2
Workshops for Members:	2015/16 Q3/Q4

Resource and Budget Implications

To be led and undertaken by the Pension Finance Managers with assistance from Mr Bob Young (YCS UK Limited). All costs are met from the existing budget.

FI10 – Establishment of Managed Account Platform

What is it?

As part of the revised strategy agreed by the Advisory Panel and Committee in November 2014 it was agreed to re-organise the current Hedge Fund holdings and introduce Managed Futures to the asset structure. It was agreed that the best structure, to provide the flexibility to manage the allocation between the various underlying managers and funds on the Managed Futures and Hedge Fund allocations, was to establish a Managed Account Platform (MAP).

Timescales and Stages

Due diligence carried out on both the MAP established by Cornwall Pension Fund and the three incumbent managers.	Q1 2015
If a suitable solution is not found, a full OJEU process will be undertaken.	Q2 2015

Resource and Budget Implications

There will be costs for research and analysis and the due diligence by JLT. However, it is intended that these costs can be 'passed through' to the successful manager. There will also be a cost of officers' time in both the consideration and due diligence efforts which will be managed within the existing budget.

FI11 – Introduction of Tactical Management Portfolio and on-going management

What is it?

The Tactical Management Portfolio was agreed as part of the revised Investment Strategy. The purpose of this portfolio is to take advantage of short term (approximately one year) opportunities that are consistent with the long term risk and return goals of the Fund. This work includes the review of the Total Return Swaps (TRS) structure within the Liability Driven Investment (LDI) Hedging Portfolio. The 'mix' between the various geographic equity regions needs review and monitoring to ensure that full advantage is taken of the expected differences of return between the regions and exposures are consistent with the overall investment strategy.

Timescales and Stages

This consists of a monthly review meeting to review potential opportunities and adjustments to the Fund.

Resource and Budget Implications

There are agreed costs for the work carried out by JLT which are being judged against the value that is added through decisions made. There will also be a cost of officers' time in preparing for and being involved in the monthly reviews, which is being managed within the existing budget. There may also be costs for the implementation of the portfolio changes.

FI15 – Re-organisation of Asset Portfolio

What is it?

This follows the agreement of the new strategy as agreed with the Advisory Panel and Committee in November 2015 and involves the transition of assets between managers.

Timescales and Stages

A phased approach is being adopted as certain of the structures and new managers need to be appointed before transitions can take place, but the intention is that the work is completed during Q3 2015.

Resource and Budget Implications

The budget is currently under discussion. There are various possibilities for carrying out this work ranging from officers completing the work, JLT Transition team being employed to using a specialist Transition manager (or a combination of all three).

The work is currently being scoped and it is intended that the suggested method and budget will be provided and agreed at the next Advisory panel.

FI16 – Collaboration across Welsh Funds for pooling of Passive Assets

What is it?

The Society of Welsh Treasurers have recommended that the 8 Welsh Pension Funds seek to appoint one Manager for all their collective passive mandates. This was formally agreed by each Committee in September 2015. The process will cover 2 stages. The 1st involves the procurement of a consultant to assist the Funds in selecting a Manager. This Process is being led by the Clwyd Pension Fund but all 8 Funds will be involved in the appointment process. The 2nd stage will be appointing a manager and transitioning the assets.

Timescales and Stages

Procurement of a consultant to assist with the Manager search	Q3 2015
Appointment of a Manager for Passive Assets across the 8 Welsh Funds	Q4 2015

Resource and Budget Implications

Officer time for the Pension Finance Manager will be met from the existing budget. The Consultant costs are unknown until the procurement for a Manager commences but will be met equally by the 8 Welsh Funds. This cost has not been factored into the 2015/16 budget.

F117 – Implement CIV for Welsh Funds.

What is it?

The Society of Welsh Treasurers have recommended that the 8 Welsh Pension Funds seek to implement a CIV for Wales. This was formally agreed by each Committee in September 2015. The process will cover 2 stages. The 1st involves the appointment of an Advisor to assist the Funds in implementing a CIV. This procurement is being led by the Gwynedd Pension Fund but all the 8 Funds will be involved in the appointment process. The 2nd stage is the implementation of the CIV.

Timescales and Stages

Appointment of an Advisor to implement a CIV	Q3 2015
Implement CIV for Wales	2016/17

Resource and Budget Implications

Officer time for the Clwyd Pension Fund Manager and Pension Finance Manager will be met from the existing budget. The Advisor and CIV costs are as yet unknown but will be met by the 8 Welsh Funds.

