

CLWYD PENSION FUND COMMITTEE
5 NOVEMBER 2014

Minutes of the meeting of the Clwyd Pension Fund Committee of Flintshire County Council held at Delyn Committee Room, County Hall, Mold CH7 6NA on Wednesday, 5th November, 2014

PRESENT: **Councillor Alan Diskin (Chairman)**
Councillors Haydn Bateman, Ron Hampson, and Matt Wright

CO-OPTED MEMBERS: Steve Hibbert (Scheme Member representative), Councillor Huw Llewelyn Jones (Denbighshire County Council), Councillor Andrew Rutherford (Other Scheme Employer Representative), and Councillor Steve Wilson (Wrexham County Borough Council).

APOLOGIES: Councillor Brian Dunn.

IN ATTENDANCE:

Advisory Panel comprising: Helen Stappleton (Chief Officer - People and Resources), Philip Latham (Clwyd Pension Fund Manager), Gary Ferguson (Corporate Finance Manager), Karen McWilliam (Independent Advisor - Aon Hewitt), Mr. John Finch (Investment Consultant – JLT Group), Mr. Paul Middleman (Fund Actuary – Mercers)

Officers/Advisers comprising: Alwyn Hughes (Pensions Finance Manager), Debbie Fielder (Pensions Finance Manager), Helen Burnham (Pensions Administration Manager) and Committee Officer

15. **DECLARATIONS OF INTEREST (INCLUDING WHIPPING DECLARATIONS)**

Councillor Stephen Wilson and Councillor Huw Llewelyn Jones declared that they had a personal interest as being members of the Clwyd Pension Fund for all items.

16. **MINUTES**

The minutes of the meeting of the Committee held on 22 July 2014 were submitted.

Matters arising

Governance update:

The Clwyd Pension Fund Manager confirmed that a letter of thanks had been sent to Mr. Bob Young.

RESOLVED:

That the minutes be received, approved and signed by the Chairman as a correct record.

17. **TRAINING POLICY**

The Chairman invited Karen McWilliam, Independent Advisor - Aon Hewitt, to present a report to seek approval for the Fund's Training Policy. She provided background information and advised that the Policy detailed the proposed training strategy for members of the Pension Fund Committee, Pension Board, and senior officers responsible for the management of the Fund. It had been created to provide a formal framework and greater transparency on the training regime in accordance with national requirements. Members of the Pension Fund Committee would be provided with ongoing opportunities to attend training events to assist them to adhere to the policy.

Members were asked to consider the draft Training Policy which was appended to the report. The Independent Advisor responded to the comments made and referred to the initial information and induction process, the monitoring of attendance and identification of training needs.

RESOLVED:

- (a) That the Training Policy be approved; and
- (b) That the need for each Committee member to adhere to the Training Policy and maintain the required level of knowledge and skills be noted.

18. **GOVERNANCE UPDATE**

The Clwyd Pension Fund Manager introduced a report to update the Committee on governance related issues. He provided background information and referred to the key considerations as detailed in the report.

The Clwyd Pension Fund Manager advised that the deadline for responses to the Government consultation on governance and cost management was 21 November 2014. Referring to the implementation of a Local Pension Board for the Clwyd Pension Fund, he reported that at the meeting of the Constitution Committee held on 15 October 2014, a protocol for the new Board was recommended for approval by the County Council. Subject to final regulations it was hoped that the protocol would be approved at the meeting of the County Council to be held on 27 January 2015.

The Clwyd Pension Fund Manager reported that the LGPS regulations required the Fund to publish an Annual Report before 1 December 2014. An extract of the Fund's draft Annual Report, which excluded statutory documents already approved, was appended to the report for consideration. The Wales Audit Office have now reviewed the Annual Report and some minor amendments are required which will be made before publication.

The Clwyd Pension Fund Manager referred to the Service Plan 2014/15 and advised that the update appended to the report provided an outline of progress against the internal and external governance section of the Plan. He explained that whilst the majority of items were as originally planned a number of changes had been made and these were as detailed in the report.

RESOLVED:

- (a) That the Clwyd Pension Fund Annual Report 2013/2014 be approved with the amendments advised by the Wales Audit Office; and
- (b) That the changes to the Service Plan 2014/15, as detailed in the report, be approved.

19. **EXTERNAL AUDIT REPORT**

The Corporate Finance Manager introduced a report on the Wales Audit Office (WAO) 2013/14 audit findings. He provided background information and advised that the Fund had received an unqualified opinion on the accounts.

The Corporate Finance Manager referred to the Audit of Financial Statements Report for the Clwyd Pension Fund which was appended to the report and included the ISA260 and letter of representation produced by the WAO. He drew attention to paragraph 10 of the Report which summarised the corrections highlighted during the audit of the accounts which were agreed and changed in the final statement of accounts. The corrections related to under accrual of lump sum and death grant payments in the accounts and an adjustment to the valuation of "In House" holdings where there was a delay in receiving the valuations. The Corporate Finance Manager referred to the ISA260 which had highlighted the two issues arising from the audit.

Councillor Matt Wright raised a query concerning the under accrual of death grant payments. The Pensions Administration Manager explained that issues had arisen due to lack of notification.

RESOLVED:

That the report be noted.

20. **LOCAL GOVERNMENT PENSION SCHEME (LGPS) CURRENT ISSUES UPDATE**

Mr. Paul Middleman, Fund Actuary - Mercer, introduced a report to inform the Committee of the national and local issues concerning management and operation of the Local Government Pension Scheme (LGPS). He advised that a "current issues" document was appended to the report which provided detail on the Regulations and other matters.

Mr. Middleman reported on the key considerations for the Fund. He advised that national discussions were taking place regarding transfer payments to defined contribution arrangements for individual members from the LGPS, should the member want to take advantage of the new "freedoms". He explained that there is some concern on the impact on Local Government Pension Funds if there were a large number of members transferring out and this is being considered as part of the national discussions. It was also noted that in terms of managing the risks in the LGPS members transfer out is not necessarily a bad outcome. More detail was to be provided at the AJCM.

RESOLVED:

That the report be noted.

21. **PENSION ADMINISTRATION AND COMMUNICATIONS UPDATE**

The Clwyd Pension Fund Manager introduced a report to enable the Committee to monitor the performance of the pension administration service and provide updates on:

- progress of administration and communication matters against the Service Plan for 2014/15
- progress against the Fund's Communications Policy
- delegated functions

The Clwyd Pension Fund Manager advised that the report provided an update against the Fund's annual Service Plan under the following two key areas:

Part 1 - Projects and Improvements

Part 2 - Performance measurements against day to day tasks

The Clwyd Pension Fund Manager explained that there has been a significant increase in the day to day workload. New starters had increased 75% year on year due to auto enrolment and retirements increased by 35%. In addition, as previously reported, there remained some manual calculations required relating to the new CARE Scheme while systems are updated. Prioritising the above has led to some delays with the Improvement Projects in the Service Plan. The Clwyd Pension Fund Manager also reported on delivery of the Communications Policy and on the delegated functions.

In response to a query from Councillor Steve Wilson around the arrangements concerning staffing in the Pensions Administration section, it was agreed that information on staffing levels and turnover in Pensions Administration would be included in future reports.

RESOLVED:

- (a) That the report be noted; and
- (b) That information on the staffing levels and turnover in Pensions Administration be included in future reports.

22. **INVESTMENT AND FUNDING UPDATE**

The Clwyd Pension Fund Manager introduced a report to provide an update on investment and funding matters for the Clwyd Pension Fund including:

- progress of investment, funding, and accounting tasks against the Service Plan for 2014/15
- delegated functions
- training events and seminars for Pension Finance Officers

- matters of relevant interest

The Clwyd Pension Fund Manager provided background information and reported on progress made against the key projects within the Finance Service Plan for 2014/15. He advised that most of the projects for investment, funding and accounting had been completed or were on target. He explained that the review of the AVC provider performance had been deferred to quarter 4. The 2014/15 budget had been reported in the Annual Report, however, monitoring arrangements were to be revised to incorporate new guidance issued by CIPFA for accounting for LGPS management costs. He also commented on rebalancing and cash management and the monitoring of fund managers.

The Clwyd Pension Fund Manager reported on other matters of relevant interest and referred to the Fund's response to the DCLG consultations for Opportunities for Collaboration, Cost Savings and Efficiencies. He advised that consultation had closed on 11 July 2014 but no further information had been released by the DCLG to date. He also reported that there was a meeting planned with all eight Welsh Pension Fund Treasurers on 11th November 2014 to discuss the recommendations in the Society of Welsh Treasurers' 'Working Together' Report. The cost for a business case for a collective investment vehicle was being shared between the eight funds with the Clwyd Fund contributing £8,500.

RESOLVED:

That the report be noted.

23. **ECONOMIC AND MARKET UPDATE**

Mr. John Finch, Investment Consultant - JLT Group, introduced a report to provide the Committee with an economic and market update. He provided background information and context and presented the Economic and Market Update Report for Quarter 2 – 2014.

During discussion Mr. Finch responded to the comments and observations made by members and gave an overview of market performance and volatility.

RESOLVED:

That the update be noted.

24. **INVESTMENT STRATEGY AND MANAGER SUMMARY**

Mr. John Finch, Investment Consultant - JLT Group, introduced a report to provide an update on the performance of the Fund's investment strategy and performance of fund managers.

Mr. Finch presented the Investment Strategy and Manager Summary report for Quarter 2, 2014, which was appended to the report. He advised that the Fund had underperformed its benchmark over the quarter ending 30 June 2014, however, this position was reversed in the September quarter when the Fund had outperformed its benchmark by 1.2%. He referred to the summary of mandates contained in the Report which showed a number of fund managers or asset classes which had long term absolute return targets of 8-10% or 15% per

annum and advised that under current financial conditions the targets were unachievable and needed to be reviewed. He explained that the 'red circles' in the manager performance section of the report should be considered in this context. Mr. Finch reported that the Fund was currently undergoing a strategic review.

RESOLVED:

That the report be noted.

25. **FUNDING AND FLIGHT PATH UPDATE**

Mr. Paul Middleman, Fund Actuary - Mercer, introduced a report to provide an update on the funding position and liability hedging undertaken as part of the Flight-path strategy for managing liability risks.

Mr. Middleman provided background information and presented the Overview of Risk Management Framework report for Quarter 3, 2014. He explained that the report included "traffic light" analysis of the key components of the Flightpath and hedging mandate with Insight which, as at 30 September 2014, demonstrated that the mandate was operating in line with expectations.

Mr. Middleman gave a verbal update on developments and referred to the key considerations around interest rate and inflation rate changes and triggers. He reported that the estimated funding position as at 30 September 2014 was 70% and that the estimated deficit of £568m was on track versus expectations. Mr. Middleman explained the interest rate and inflation rate hedges had protected the funding position against recent changes in interest and inflation rates to the extent that the deficit would have been higher (by the order of £30m) if the hedges, since inception, had not be implemented via the triggers and the original strategy had remained in place.

RESOLVED:

That the report be noted.

26. **INVESTMENT STRATEGY REVIEW**

Mr. John Finch, Investment Consultant - JLT Group, introduced a report on the recommendations for changes to the Investment Strategy for the Clwyd Pension Fund.

Mr. Finch provided background information and advised that the current investment strategy was as a result of the previous review undertaken in 2010 and the introduction of the 'Flightpath' mandate. The findings from the further investment strategy review undertaken in 2014 concluded that no radical re-organisation of the current investment structure was required and the portfolio was well diversified with the introduction of the de-risking framework. The Flightpath was well designed and its implementation ahead of the majority of the LGPS funds. However, there were a number of further opportunities to reduce risk without sacrificing return which would necessitate four main areas of change and these were detailed in the report. The changes, based on the

recommended allocation for the Tactical portfolio, meant that expected return could be maintained with risk being reduced. Mr. Finch drew attention to the revised Strategic Asset Allocation and Conditional Asset Allocation ranges which were also detailed in the report.

RESOLVED:

- (a) That the recommended and revised Strategic Asset Allocation and Conditional Asset Allocation ranges be approved;
- (b) That the amendments (shown in bold) to the Fund's Delegation of Functions to Officers in Appendix 1 be approved as follows:
 - (i) The addition of a new delegation of responsibility for decisions relating to the 'best ideas' section of the Tactical portfolio to the Pension Fund Manager, having regard to the advice of JLT with ongoing monitoring by both the Pension Advisory Panel and the Pension Fund Committee; and
 - (ii) Two further clarification amendments
- (c) That appropriate objectives and monitoring be developed in relation to the new 'best ideas' section of the Tactical portfolio; and
- (d) That the existing Delegation of Functions which already provides powers for officers to implement the strategy, including the appointment of suitable investment managers, be subject to final ratification by the Pension Fund Committee.

27. ATTENDANCE BY MEMBERS OF THE PRESS AND PUBLIC

There were no members of the press or public in attendance.

(The meeting commenced at 10.00 am and ended at 11.25 pm)

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Chairman