

**CLWYD PENSION FUND COMMITTEE**  
**22 JULY 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 Tuesday, 22nd July, 2014

**PRESENT: Councillor Alan Diskin (Chairman)**

Councillors: Haydn Bateman, Brian Dunn, 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 Ron Hampson

**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 (Pension Fund Manager), and Committee Officer

Prior to the start of the meeting the Chairman welcomed and introduced Members, Co-opted Members, Karen McWilliam, Mr. John Finch, and Mr. Paul Middleman, to the meeting.

1. **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.

2. **GOVERNANCE POLICY STATEMENT**

The Clwyd Pension Fund Manager introduced a report to seek approval of the Clwyd Pension Fund's Governance Policy Statement. He provided background information and referred to the key considerations in the report concerning the LGPS requirements and the Fund's Governance Policy Statement.

The Clwyd Pension Fund Manager gave an overview of the draft Statement which was appended to the report. He said it had been updated to incorporate the new governance structure relating to the Fund and in particular the establishment of the Pension Fund Committee and the recent review of officers' delegations. The opportunity had also been taken to articulate some

governance related objectives against which the effectiveness of the governance arrangements would be monitored. He reported that the Governance Compliance Statement, which was appended to the Statement, showed that the administering authority was fully compliant in all but one matter when compared to the Secretary of State's Governance Guidance.

The Clwyd Pension Fund Manager advised that the Statement would be updated late 2014 or early 2015 to incorporate information relating to the establishment of a local Pension Board. This was a new requirement to be implemented by 1 April 2015.

The Chairman invited members to raise questions.

Councillor Matt Wright commented on the risk contained in the draft Statement that changes in Pension Fund Committee membership of Flintshire County Council councillors and/or key officers would result in loss of continuity and potentially diminish knowledge and understanding. Officers advised that the length of service and number of members appointed to the Committee was stipulated in the Constitution. Whilst membership of Flintshire County Council councillors is renewed on an annual basis the issue of continuity will be taken into account.

Mr. Steve Hibbert commented on the need to act in the best interests of the Fund stakeholders. He suggested that the aims in relation to the governance of the Fund, detailed on page 7 of the draft Statement, be amended to include development of the objective that refers to having the best interest of the Fund stakeholders in mind and this was agreed by the Committee.

Mr. Hibbert also referred to the membership of the Pension Fund Committee and queried the lack of representation from Officers in Denbighshire and Wrexham Authorities. Officers responded to the comments and explained that the meeting of the Clwyd Pension Fund Committee was a public meeting at which any Employer or scheme member can attend. There could also be an opportunity for officers from employers other than Flintshire County Council to be represented on the new Local Board.

#### **RESOLVED:**

- (a) That the aims in the draft Statement in relation to the governance of the Fund be amended to include development of an objective to refer to having the best interest of the Fund stakeholders in mind; and
- (b) That subject to the above amendment, the revised Governance Policy Statement be approved.

### **3. WORKING PRACTICES**

The Chairman invited Karen McWilliam, Independent Advisor - Aon Hewitt, to present a report to seek approval for the delegation of certain functions to officers. She provided background information and advised that the proposed delegations and means for ongoing reporting on the use of those delegations, which in the main related to sub-sets of the Committee's functions, were

appended to the report. She gave an overview of the information provided on delegation of functions and drew attention to the communication, monitoring, and use of delegation.

The Independent Advisor reported that one of the areas included in the proposed delegations related to the Administering Authority's Discretions Policy. To assist the Committee in understanding the matters being delegated the majority of the areas that were to be covered by the Discretions Policy were listed in Appendix B to the report.

**RESOLVED:**

That the matters outlined in Appendix A be delegated to officers as outlined in the appendix.

4. **DRAFT GOVERNANCE REGULATIONS**

Karen McWilliam, Independent Advisor - Aon Hewitt, introduced a report to provide an update on the draft LGPS Governance Regulations and initial plans for implementing the local Pension Board. She provided background information and advised that the Secretary of State for Communities and Local Government (DCLG) had issued a consultation on draft regulations detailing the expected changes to be made within the LGPS. The consultation closes on 15 August 2014. Final regulations were expected to be made in September or October 2014 with some of the provisions effective from 1 October 2014 to enable the establishment of bodies before 1 April 2015.

The Independent Advisor referred to the two key elements within the draft regulations which were that each LGPS administering authority was required to establish a local Public Service Pension Act (PSPA) Board no later than 1 April 2015, and the introduction of a national Scheme Advisory Board (SAB). She gave an overview of the establishment and membership of the PSPA Board and said it was expected that Flintshire County Council would be responsible for the formation of the Clwyd Fund's PSPA Board including its size, membership and role. She reported that the provisions relating to the establishment of the SAB were set out in the draft regulations contained in the consultation document appended to the report.

The Independent Advisor referred to views sought on other policy matters in the consultation. Due to the short timeframe for responses to the consultation, members were asked to consider delegating responsibility for developing a response to the Clwyd Pension Fund Manager, subject to formal approval by the Chairman of the Committee, or the Vice-Chair in his absence.

Councillor Steve Wilson commented on the financial and workload implications due to the creation of the local PSPA Board and the SAB. The Independent Advisor acknowledged the points made and explained that costs could be recharged to the Clwyd Pension Fund.

**RESOLVED:**

- (a) That the report be noted,

- (b) That responsibility for developing a response to the consultation be delegated to the Clwyd Pension Fund Manager, subject to formal approval by the Chairman of the Pension Fund Committee, or the Vice-Chair in his absence; and
- (c) That the Clwyd Pension Fund Manager works with Democratic Services officers to progress the establishment of the PSPA Board, subject to ongoing updates to and input from the Chairman of the Pension Fund Committee, or the Vice-Chair in his absence.

5. **SERVICE PLAN 2014/15**

The Clwyd Pension Fund Manager introduced a report on the Clwyd Pension Fund Service Plan 2014/15 for approval. He explained the purpose of the draft Plan which was appended to the report and drew attention to the priorities and improvements for 2014/15, achievements in 2013/14, corporate responsibilities, and operational tasks relating to Governance, Pensions Finance and Pensions Administration.

During discussion Mr. Steve Hibbert raised a question concerning employer contribution rates. Officers responded to the query and provided further clarification around the contributions paid by employees and employers and referred to the national cost control mechanism in place.

**RESOLVED:**

That the Clwyd Pension Fund Service Plan for 2014/15 be approved.

6. **GOVERNANCE UPDATE**

The Clwyd Pension Fund Manager introduced a report to provide an update on governance related issues. He gave background information and referred to the key considerations as detailed in the report. The Clwyd Pension Fund Manager advised that a governance update would be provided to the Committee on a quarterly basis.

Members were asked to note the response to the Government's consultation on 'Opportunities for collaboration, cost savings and efficiencies' which was appended to the report. During discussion Officers responded to the comments made by Mr. Steve Hibbert around the opportunity for local investment. Mr. Hibbert also commented on the opportunity for collaboration between the Clwyd Pension Fund and the Welsh Government and referred to the possible social and financial benefits for Wales of such an arrangement. Karen McWilliam agreed to provide information to the Committee on the Queen's Council's (QC) opinion on responsibilities of administering Authorities when making investments.

The Clwyd Pension Fund Manager drew attention to the draft Pension Fund Accounts, the outcomes of the internal audit reports and progress of the Fund's service plan.

The Clwyd Pension Fund Manager advised that one of the areas covered in the 2014/15 Service Plan was the delivery of training for Pension Fund Committee members throughout the year and drew attention to the current events tabled in the report. Councillor Brian Dunn expressed the view that all members of the Committee and appropriate officers should be invited to attend training events to improve knowledge and understanding. He cited the LGC Investment Summit as an example and suggested that the number of places should not be restricted to four. The Clwyd Pension Fund Manager explained that members were encouraged to attend at least one event a year and that further events were to be scheduled into the training programme. It was agreed that officers would liaise with all members of the Committee to determine the events they wished to attend. The Clwyd Pension Fund Manager also highlighted to members of the Committee that Private Equity Training would be provided on 12 November 2014.

The Clwyd Pension Fund Manager referred to the Independent Review of Governance Performance for 2013/14 which was appended. Councillor Steve Wilson asked if it would be appropriate for the Committee to thank the previous Independent Consultant / Advisor, Mr Bob Young, for his Independent Review and his past work for the Fund. The Committee agreed that officers should write to Mr Young to convey their thanks.

**RESOLVED:**

- (a) That the response to the government's consultation on 'Opportunities for collaboration, cost savings and efficiencies' be noted;
- (b) That the draft Pension Fund Accounts 2013/14 be noted;
- (c) That the conclusion from the internal audit reports, the independent review of governance performance for 2013/14 and the Service Plan update be noted; and
- (d) That Officers write to Mr. Bob Young, previous Independent Consultant/Advisor, to thank him for his Independent Review and his past work for the Fund.

7. **LGPS 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. He advised that a "current issues" document was appended to the report and gave an overview of the main considerations and referred to the Pension Fund policy review, software issues, and early retirements.

Mr. Middleman reported that on 21 July 2014, HM Treasury published the Government's response to its consultation "Freedom and Choice in Pensions". He summarised the key points and explained that this followed the Spring 2014 Budget announcement relating to changes in pension options for defined contribution members retiring from April 2015 and possible restrictions to transfer options for defined benefit pension scheme members. The intention was to

legislate on these issues in Autumn 2014 through a Pensions Tax Bill and amendments to the recent Pensions Schemes Bill.

In response to the queries and concerns expressed by members Officers commented on the safeguards that were expected to be put in place concerning the transfer of pension benefits.

**RESOLVED:**

That the report be noted.

8. **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
- new and leaving employers and bulk transfers
- delegated functions

The report also highlighted any additional unplanned or unexpected areas as well as other material administration or communication matters.

The Clwyd Pension Fund Manager provided background information and advised that the report provided an update against the Fund's annual Service Plan under the key areas of Projects and Improvements and Performance measurements against day to day tasks.

Councillor Huw Llewelyn Jones commented on the need to be mindful of Welsh Government plans for local government reorganisation. Officers said this had been included in the Service Plan although it was too early to determine the potential implications.

**RESOLVED:**

That the report be noted.

9. **STATEMENT OF INVESTMENT PRINCIPLES**

The Clwyd Pension Fund Manager introduced a report to provide the Fund's Statement of Investment Principles (SIP) for approval. He provided background information and advised that the SIP had been updated to reflect:

- Implementation of the Flight-path strategy from March 2014 which included the appointment of Insight Investment Management, the changing of Stone Harbor's benchmark to absolute return and the disinvestment from SSGA's passive equity mandates
- The change in the Fund's governance structure
- The changes of assumptions from the actuarial valuation

- Updates to statutory references

The Clwyd Pension Fund Manager gave an overview of the SIP which was appended to the report. He advised that the SIP would require a fundamental review to reflect changes resulting from the investment strategy review to be undertaken later in the year. The SIP would be published on the Fund's website and included in the Annual Report and Accounts 2013/14.

**RESOLVED:**

That the Fund's Statement of Investment Principles be approved.

10. **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 explained that the investment performance of the Fund would reflect global economic and market conditions and an understanding of "where we are" in economic and market cycles may impact on asset allocation decisions by the Advisory Panel going forward.

Mr. Finch presented the Economic and Market update for Quarter 1 2014, which was appended to the report. During discussion Mr. Finch responded to the query raised by Councillor Steve Wilson concerning exposure to Russia and the Middle East. In response to a further question from Councillor Haydn Bateman concerning definition of emerging markets, Mr. Finch agreed to supply information to Councillor Bateman following the meeting.

**RESOLVED:**

That the update be noted.

11. **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 provided background information and presented the Investment Strategy and Manager Summary report for Quarter 1 2014 which was appended to the report. He also gave a verbal update for the quarter ending 30 June 2014.

Mr. Finch advised that the Fund had performed in line with its benchmark over the quarter ending 31 March 2014. Appendix 1 of the Investment Report provided a summary of mandates which showed a number of fund managers or asset classes which had long term absolute return targets of 8-10% or 15% per annum. Mr. Finch explained that under the current financial conditions it should be recognised that the targets were not achievable.

Mr. Finch reported that as part of the Service Plan 2014/15 there would be a fundamental review of the Fund's investment strategy and the implementation of the strategy, including a review of the current fund managers, benchmarks and

targets. It was intended to bring the recommendations of the review to the next meeting of the Committee scheduled for 5 November 2014. The Clwyd Pension Fund Manager advised that officers would liaise with members to establish a suitable date for a workshop to be held in October 2014 to consider a range of options with the Investment Consultant and pension finance officers prior to the meeting of the Committee in November 2014.

During discussion Councillor Haydn Bateman raised a question around investment in emerging markets and the Fund's exposure to Russia. Mr. Finch advised that exposure to Russia was 3% of the 7% holding in the emerging market portfolio.

**RESOLVED:**

- (a) That the report be noted;
- (b) That a workshop be held in October 2014 to enable members to consider a range of options with the Investment Consultant and pension finance officers prior to the next meeting of the Committee scheduled for 5 November 2014.

12. **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 risk management framework monthly monitoring report. He advised that since the commencement of the strategy a number of interest rate triggers had been met and the Fund now had an interest rate hedge of around 21%. No inflation rate or funding triggers had been reached. He also reported that the estimated funding position as at 30 June 2014 was 72% which was ahead of the current funding plan.

**RESOLVED:**

That the report be noted.

13. **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 12.55. pm)

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**Chairman**