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Gareth Owens LL.B Barrister/Bargyfreithiwr
Chief Officer (Governance)
Prif Swyddog (Llywodraethu)

To: Cllr Alan Diskin (Chair)

Councillors: Haydn Bateman, Brian Dunn,
Ron Hampson and Matt Wright

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

CS/NG

20 November 2015

Maureen Potter 01352 702322
maureen.potter@flintshire.gov.uk

Dear Sir / Madam

A meeting of the **CLWYD PENSION FUND COMMITTEE** will be held in the **DELYN COMMITTEE ROOM, COUNTY HALL, MOLD CH7 6NA** on **THURSDAY, 26TH NOVEMBER, 2015** at **10.00 AM** to consider the following items.

Please note that the above meeting will be preceded immediately by a Key Performance Indicators (KPI) training session at 9.30 a.m. which all Clwyd Pension Fund Committee members are expected to attend.

Yours faithfully

Peter Evans
Democracy & Governance Manager

AGENDA

1 **APOLOGIES**

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

3 **MINUTES** (Pages 5 - 12)

To confirm as a correct record the minutes of the last meeting.

GOVERNANCE

4 **GOVERNANCE UPDATE.** (Pages 13 - 68)

Report of Chief Officer (People and Resources).

5 **POOLING INVESTMENTS (NATIONAL PICTURE)** (Pages 69 - 74)

Report of Chief Officer (People and Resources).

6 **COLLABORATIVE WORKING IN WALES** (Pages 75 - 104)

Report of Chief Officer (People and Resources).

ADMINISTRATION AND COMMUNICATIONS

7 **LGPS UPDATE** (Pages 105 - 126)

Report of Chief Officer (People and Resources).

8 **PENSION ADMINISTRATION/COMMUNICATIONS UPDATE** (Pages 127 - 144)

Report of Chief Officer (People and Resources).

9 **PENSION ADMINISTRATION AND COMMUNICATION STRATEGIES** (Pages 145 - 146)

Report of Chief Officer (People and Resources).

INVESTMENT AND FUNDING

10 **INVESTMENT AND FUNDING UPDATE** (Pages 147 - 162)

Report of Chief Officer (People and Resources).

11 **ECONOMIC AND MARKET UPDATE** (Pages 163 - 178)

Report of Chief Officer (People and Resources).

12 **INVESTMENT STRATEGY AND MANAGER SUMMARY** (Pages 179 - 192)

Report of Chief Officer (People and Resources).

13 **FUNDING AND FLIGHT PATH UPDATE** (Pages 193 - 202)

Report of Chief Officer (People and Resources).

14 **2016 ACTUARIAL VALUATION** (Pages 203 - 206)

Report of Chief Officer (People and Resources).

CLWYD PENSION FUND COMMITTEE
21 MAY 2015

Minutes of the meeting of the Clwyd Pension Fund Committee of Flintshire County Council, held at County Hall, Mold, on Thursday, 21 May 2015.

PRESENT: Councillor Alan Diskin (Chairman)
Councillors: Haydn Bateman (Vice Chair), Brian Dunn, and Ron Hampson

APOLOGIES: Councillor 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)

IN ATTENDANCE:
Advisory Panel comprising: Chief Executive, Philip Latham (Clwyd Pension Fund Manager), Gary Ferguson (Corporate Finance Manager), Karen McWilliam (Independent Advisor - Aon Hewitt), Mr. Paul Middleman (Fund Actuary – Mercers), Mr. Kieran Harkin (Fund Investment Consultant – JLT Group)

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

Prior to the start of the meeting the Chief Executive referred to the indisposition of the Chief Officer (People and Resources). The Committee expressed their best wishes for her full recovery.

1. APPOINTMENT OF CHAIR

The Committee was advised that Councillor Alan Diskin had been reappointed to this role at the Annual Meeting.

RESOLVED:

That the Committee noted the appointment of Chair.

2. APPOINTMENT OF VICE-CHAIR

The Committee was advised that Councillor Haydn Bateman had been reappointed to this role at the Annual Meeting.

RESOLVED:

That the Committee noted the appointment of Vice-Chair.

3. **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.

4. **MINUTES**

The minutes of the meeting of the Committee held on 4 February 2015 were submitted.

RESOLVED:

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

5. **GOVERNANCE POLICY STATEMENT**

The Chief Executive introduced a report on the changes to the Fund's Governance Policy and Compliance Statement as a result of the establishment of the local Pension Board for the Clwyd Pension Fund. He provided background information and referred to the LGPS requirements and the Clwyd Pension Fund Governance Policy Statement. He advised that the draft updated Governance Policy and Compliance Statement was appended to the report for approval.

RESOLVED:

That the revised Governance Policy Statement as set out in Appendix 1 to the report be agreed.

6. **GOVERNANCE UPDATE**

The Chief Executive introduced a report to provide an update on governance related issues. He provided background information and referred to the establishment of a new Local Pension Board (LPB). He explained that the first meeting of the LPB was scheduled to be held on 23 July 2015 and gave a brief update on progress concerning the recruitment of employer and member representatives.

The Chief Executive drew attention to the routine annual audit of Pensions Administration and Pensions Investment Management undertaken during the final quarter of 2014/15. He commented on the process whereby the Internal Audit reports for the Clwyd Pension Fund were submitted to the Audit Committee as well as the Clwyd Pension Fund Committee and expressed a concern around duplication of work. .

Karen McWilliam (Independent Advisor - Aon Hewitt), said that the matter had been given some consideration when the constitution for Clwyd Pension Fund Committee had been set up. She acknowledged the point made and agreed that current arrangements may need to be reviewed.

The Clwyd Pension Fund Manager referred to the key considerations as detailed in the report. He also drew attention to the training plan which was appended to the report which outlined the proposed training sessions for 2015/16. He reminded Members that under the Clwyd Pension Fund Training Policy they were required to attend at least one day of general awareness training per year.

Karen McWilliam referred to the Conflicts of Interest Policy specific to the Clwyd Pension Fund and commented that it was “broader” than required by local authority law and highlighted the examples in the appendix which demonstrated the difference. She advised that the focus of the policy was to ensure potential and actual conflicts were identified and considered at the earliest possible stage and appropriate records maintained to ensure transparency. Mrs. McWilliam advised that the Policy applied to all members of the Pension Fund Committee and the Pension Board, including scheme member and employer representatives. She also referred to the amendments which had been made to the Policy following the discussions which had been held under delegated responsibilities and agreed to circulate the revised Policy to the Committee.

RESOLVED:

That the report be noted.

7. RISK POLICY AND REGISTER

The Chief Executive introduced a report to consider the Fund’s approach to risk management. He provided background information and explained that the draft Risk Policy appended to the report outlined the approach to risk management it was proposed be adopted for the Clwyd Pension Fund. Also appended to the report was the updated risk register which incorporated all the risks identified as part of the recent risk review exercise. He invited the Clwyd Pension Fund Manager to report on the risks identified as part of the recent risk review exercise.

Steve Hibbert asked if a quarterly update could be provided to the Committee to identify any changes to the risks. Karen McWilliam acknowledged the need for members to be kept updated and said this was work in progress. It was agreed that a quarterly update would be provided to the Committee.

RESOLVED:

(a) That the Risk Policy be approved; and

(b) That the contents of the risk register be noted.

8. LOCAL GOVERNMENT PENSION SCHEME (LGPS) CURRENT ISSUES UPDATE

Mr. Paul Middleman (Fund Actuary – Mercers), introduced a report to inform the Committee of the national and local issues facing the management and operation of the LGPS. He provided background information and advised that a "current issues "document was appended to the report which provided detail around the Regulations and other matters referred to in the report.

Mr. Middleman reported on the key considerations for the Fund. He referred to the impact the new Government would have on the pension landscape following the General Election, a cut to the standard Lifetime Allowance, work on deficit management, methodology for calculating club transfer values, the TPRs Code of Practice, and AVC arrangements.

RESOLVED:

That the report be noted.

9. PENSION ADMINISTRATION AND COMMUNICATIONS UPDATE

The Pensions Administration Manager introduced a report to provide a quarterly update on administration and communication related issues. She advised that the report provided an update on the following items:

- Business Plan 2015/16
- Policy and Strategy
- Delegated responsibilities

The Pensions Administration Manager advised that the Administration and Communications section of the Business Plan 2015/16 was appended to the report and referred to the key actions for quarter 1. She reported on the main considerations in relation to Policy and Strategy matters and Delegated Responsibilities which were detailed in the report.

Referring to the Communications Policy and the information due to be sent out in quarter 1, Steve Hibbert requested that the Committee also be included in the distribution of pensioner and employee newsletters for future information.

RESOLVED:

That the report be noted.

10. STATEMENT OF INVESTMENT PRINCIPLES (SIP)

The Clwyd Pension Fund Manager introduced a report on the Fund's Statement of Investment Principles for the period 1 June 2015 – 31 May 2016.

He provided background information and advised that the main changes to the SIP were as follows:

- the content updated to include the changes to the investment strategy as a result of the 2014 Fund Review

- the Sustainability Policy and the Myners Principles Compliance updated.

Steve Hibbert referred to the SIP which was appended to the report and raised a concern around the wording in section 7 on Sustainability. The Clwyd Pension Fund Manager responded to the comments made and explained that if an issue arose with a company the Fund would receive a LAPFF alert and contact the relevant Fund manager. Referring to voting rights the Pensions Finance Manager explained that the Fund included a summary of voting activity from managers in the Annual Report. During further discussion Officers agreed to undertake a review of the wording in section 7 on Sustainability to emphasise the positive work undertaken in this area.

Huw Llewellyn Jones referred to section 2 on Objectives and sought confirmation that the next implementation of employer rates would be effective from April 2017. The Clwyd Pension Fund Manager confirmed that this was correct.

RESOLVED:

(a) That, subject to the above, the Statement of Investment Principles including the Sustainability Policy and Myner's Principles and Stewardship Code Compliance Statements attached be approved; and

(b) That the new SIP be published on the Fund's website by 1 July 2015.

11. 2015 FUNDING STRATEGY STATEMENT

The Clwyd Pension Fund Manager introduced a report on updating the Funding Strategy Statement (FSS) for the Clwyd Pension Fund. He provided background information and advised that the FSS had been amended to incorporate updated regulatory references, information regarding the flightpath strategy, and the new investment strategy as detailed in the Statement of Investment Principles.

RESOLVED:

That the updated Funding Strategy Statement be approved.

12. INVESTMENT AND FUNDING UPDATE

Debbie Fielder, Pensions Finance Manager, introduced a report to provide a quarterly update on investment and funding related issues. She advised that the report provided an update on the following items:

- Business Plan 2015/16
- Delegated Responsibilities

The Pensions Finance Manager advised that the Funding and Investments section of the Business Plan 2015/16 was appended to the report and referred to the key actions for quarter 1. She reported on the main considerations concerning the Business Plan 2015/16 and Delegated responsibilities and invited Mr. Kieran Harkin, Fund Investment Consultant – JLT Group, to report on the Tactical Management Portfolio

Mr. Harkin advised that monthly meetings of the Tactical Asset Allocation Group (TAAG) involving Fund officers and JLT Consultants were in place. He explained that agenda items covered the short term (12 months) market outlook and determination of which asset classes should be included in the 9% of the Fund's assets which were based on JLT's suggested "best ideas". He referred to the rationale behind the short term tactical allocation and advised that the TAAG had been considering the most appropriate solution to implement this, within a single investment vehicle, and had identified a Unit Linked Life Insurance Policy with Mobius Life Limited. He outlined the benefits of this option and advised that it would be identified as the Clwyd Tactical Fund.

The Committee was asked to consider and approve the appointment of a Unit Linked Life Insurance Policy with Mobius Life Limited.

RESOLVED:

That the appointment of a Unit Linked Life Insurance Policy with Mobius Life Limited be approved

13. ECONOMIC AND MARKET UPDATE

Mr. Kieran Harkin, Fund Investment Consultant – JLT Group, introduced a report to provide the Committee with an economic and market update.

Mr. Harkin presented the Economic and Market update for Quarter 1 2015, which was appended to the report. He reported on market performance and advised that in general there had been positive returns in January and February, however, markets had begun to diverge since the beginning of March.

During discussion Mr. Harkin responded to the question raised by Councillor Huw Llewellyn Jones concerning whether the rate of inflation was influenced by lower fuel prices, and to a query raised by Councillor Haydn Bateman around commodities.

RESOLVED:

That the update be noted.

14. INVESTMENT STRATEGY AND MANAGER SUMMARY

Mr. Kieran Harkin, Fund 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. Harkin presented the Investment Strategy and Manager Summary report for Quarter 1 2015 which was appended to the report and advised that the Fund had performed in line with its benchmark over the quarter ending 31 March 2015. Mr. Harkin reported that Appendix 1 of the Report contained a summary of mandates which showed the benchmark and outperformance targets of the funds invested. He explained that some of these had been revised since the last Report to targets which were considered achievable under current financial conditions.

Mr. Harkin reported that the Fund had undergone a strategic review which had resulted in a new strategic benchmark allocation starting to be implemented during March 2015. He explained that further restructuring would take place during Quarter 2 2015 which would enable the next Report to be produced in terms of the new strategic allocation.

RESOLVED:

That the report be noted.

15. 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 referred to the key considerations as detailed in the report. He reported that the monthly summary report on the funding position and an overview liability hedging mandate was appended to the report as at 30 April 2015. Mr. Middleman gave a verbal update and explained that analysis showed that all traffic lights were "green" as at end of April 2015 which indicated that the mandate was operating in line with the tolerances set by the Advisory Panel. However, there was continuing volatility in the markets so the current funding position was closer to an "amber" rating.

Mr. Middleman provided an update on interest rate hedging and inflation rate hedging activity and advised that no funding triggers had been reached.

Mr. Middleman reported on the estimated funding position as at 30 April 2015 and the estimated deficit. He explained that the hedges applied had protected the funding position against recent changes in interest and inflation rates to the extent that the deficit would have been £90m higher 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.

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

RESOLVED:

That the press and public be excluded from the meeting for the following item as it is considered to contain exempt information by virtue of paragraphs 12 and 14 of Part 4 of Schedule 12A of the Local Government Act 1972 (as amended).

17. APPOINTMENT OF PROVIDER TO CREATE A MANAGED ACCOUNT PLATFORM

Mr. Kieran Harkin, Fund Investment Consultant – JLT Group, introduced a report to seek ratification for the appointment of a Managed Account Platform (MAP) Provider and Advisor. He provided background information and reported on the selection and shortlisting process, and subsequent due diligence meetings. Mr. Harkin advised that the principle findings from the extensive due diligence conducted by the Clwyd Pension Fund Manager (CPFM) and JLT was that Man FRM was the preferred provider for the reasons as detailed in the report.

RESOLVED:

That the decision to appoint Man FRM to implement and act as an advisor to the Managed Account Platform for the Clwyd Pension Fund be approved.

18. ATTENDANCE BY MEMBERS OF THE PRESS AND PUBLIC

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

(The meeting commenced at 10.30 am and ended at 12.10 pm)

……………………………………….

Chairman

FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CLWYD PENSION FUND COMMITTEE**

DATE: **26th NOVEMBER 2015**

REPORT BY: **CHIEF OFFICER (PEOPLE AND RESOURCES)**

SUBJECT: **GOVERNANCE UPDATE**

1.00 PURPOSE OF REPORT

1.01 To provide Committee Members with an update on governance related issues.

2.00 BACKGROUND

2.01 A governance update is on each quarterly Committee agenda and includes a number of governance items for information or discussion. The items for this quarter are:

- Business Plan 2015/16 update (Appendix 1)
- Local Pension Board update (Appendix 2)
- Risk register update (Appendix 3)
- Draft Procedure for Reporting Breaches of the Law (Appendix 4)
- Other miscellaneous governance matters
- Training Policy and Implementation update (Appendices 5 and 6)
- Delegated responsibilities (Appendices 7 and 8)

2.02 Due to the cancellation of the 23rd September Committee meeting a number of the agenda items within this report will, where appropriate, report on both quarters 1 and 2.

3.00 BUSINESS PLAN UPDATE – QUARTER 2

3.01 Appendix 1 provides a summary of progress against the governance section of the Business Plan up to the end of quarter 2 to 30th September 2015. The majority of items are as originally planned but the Committee is asked to note the following:

Changes to Business Plan

3.02 Following a review of the key tasks the following changes are proposed:
- Key action-task reference G4 Review/Tender Actuarial Contract be deferred to 2017/18
- Additional key action-task reference G12 Implement Breaches of Law Procedure and Register is added.

Local Pension Board

3.03 In accordance with legislative requirements, Flintshire County Council established the Clwyd Pension Board (the Board) on the 3rd March 2015 with the first meeting being held on the 27th July 2015.

3.04 The members of the Board are:

- Member Representatives – Mrs Gaynor Brooks, Mr James Duffy
- Employer Representatives – Mr Steve Jackson, Mr Mark Owen

3.05 The Board also confirmed Mrs Karen McWilliam (Independent Member) as Chair of the Board.

3.06 The minutes of Board meetings will, once formally agreed by the Board, be shared with the Committee, as such, the minutes of the meeting held on 27th July 2015 are enclosed at Appendix 2. Since this meeting a further meeting of the Board was held on the 12th October 2015; the minutes of this meeting will be approved at the Pension Board meeting on the 1st March 2016 and reported to the 22nd March 2016 Committee. At the inaugural meeting of the Board the majority of the business was the formal adoption of the Pension Board Protocol, Conflicts of Interest Policy, Training Policy, Interim Breaches Policy and other administrative matters.

3.07 The key discussions during the latest meeting was around the early draft of the Administration and Communications Strategies Statement and the future work plan for the Board. The former resulted in a number of action points which are reflected in Agenda item 9.

3.08 Whilst the minutes for this meeting are yet to be formally agreed the main areas that the Board will be looking at in future meetings include:

- Changes resulting from the Government policy on the pooling of investments
- The communication process with employers for the 2016 Actuarial Valuation
- Input into the 2016/17 Internal Audit Plan
- Input into the draft 2016/17 Business Plan

External Factors Impacting the Fund

3.09 The CPFM attended the Interim Scheme Advisory Board (SAB) event on the 21st August. This was an event on Pooled Investments in the LGPS and also outlined the forward work plans of the SAB, namely:

- Deficit management (21st May 2015 agenda)
- Separation options (24th March 2015 agenda) – this work has been put aside for now after the announcements by the Government around the pooling of assets that could impact on any outcomes.
- A review of the implementation of local pension boards.
- Revised ill health retirement process.
- More data cleansing, member friendly communications and training.

Cash-flow and Operational Budget

3.10 Appendix 1 also details progress against the projected cash-flows and budgeted operating costs for 2015/16. The Committee is asked to note the following:

- Early indications do not highlight any areas of concern within operating costs although the following are worthy of note. The under-spend for outsourcing within Administration is due to the project being over two years (2015/16 and 2016/17). The increase in the fund manager fees budget reflects changes necessary to ensure that the manager fees disclosed are compliant with best practice as determined by CIPFA.
- Early indications have only highlighted one area of major difference in the projected cash-flow for 2015/16. This relates to a variance of £10 million between the budgeted and estimated rebalancing of the portfolio due to the greater use of in-house cash to fund the investments within the tactical portfolio.

4.0 <u>RISK REGISTER UPDATE</u>

4.01 In accordance with the Clwyd Pension Fund's Risk Policy, progress in managing risks will be monitored and recorded on the risk register and key information will be provided on a quarterly basis to the Clwyd Pension Fund Committee and the Pension Board as part of the regular update reports on governance, investments and funding, and administration and communications.

4.02 Appendix 3 provides the dashboard showing all the Fund's current risks. In addition, in relation to the governance risks, it provides details of:

- the key risks (i.e. ranked 8 or above in the above dashboard)
- any new risks
- risks that have changed by a score of 3 or more and
- risks that have been removed since the previous report.

4.03 In summary, the current high level risks for the Fund which are considered throughout the Committee agenda:

- Potential changes from Government, and within Wales, relating to the governance of investments.
- Maintaining the required level of knowledge, skills and resource both within the Fund and employers to achieve our objectives with increasingly complex regulation, policies and strategies for administration, funding and investments and governance.

4.04 In terms of Governance, since the last update, it has been necessary to review the actions relating to the following risks:

- *Governance structure unable to adapt to change either through national governance change (separation) or Wales working together including a CIV* (risk reference 10) – Impact increased to 4 and likelihood increase to 5. This is to reflect the current Government moves to consult on pooling investments and the certainty that there will be changes forthcoming.
- *Unable to properly (and within timescale) establish, fill posts and train new Pension Board* (risk reference 16) – Following the establishment of the

Pension Board this risk has now been removed.

- *Poor attendance at Board meetings by Pension Board members resulting in a poor standard of monitoring* (risk reference 18) – Following the establishment of the Pension Board this becomes a risk. The impact and likelihood are considered low at 3 and 2 respectively.
- *Failure to record and/or report breaches in accordance to The Pensions Regulator Code of Practice* (risk reference 19) – The procedure will be in place from 1st December 2015 (agenda items 5.01 – 5.04 refers), however, until then, and also allowing for a bedding in period, the impact and likelihood are considered high at 4 and 4 respectively.

5.00 CURRENT DEVELOPMENTS AND NEWS

Draft Procedure for Reporting Breaches of the Law

5.01 Section 70 of the Pensions Act 2004 imposes a requirement on specific persons to report a matter to The Pensions Regulator (TPR) as soon as is reasonably practicable where that person has reasonable cause to believe that a legal duty relating to the administration of the scheme has not been or is not being complied with, and, that the failure to comply is likely to be of material significance to TPR. 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.

5.02 TPR has developed a Code of Practice to provide guidance in relation to this legal requirement.

5.03 Flintshire County Council has developed this procedure in relation to the Clwyd Pension Fund. This document (Appendix 4) 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. This Procedure delegates the responsibility for the implementation of the Procedure to the Clwyd Pension Fund Manager. As part of this Procedure the Committee will be kept informed of all breaches whether reportable or not.

Clwyd Pension Fund Annual Report and Accounts

5.04 The Fund Annual Report and Accounts has now been published and is available on the Fund website. I am pleased to report that the Accounts were given an unqualified report by the Wales Audit Office.

Christmas 2015

5.05 Flintshire County Council have, as part of the drive to manage budgets and resources as efficiently as possible, decided to completely close County Hall and the campus buildings between Christmas and New Year. The impact of this on the Clwyd Pension Fund is that no Fund staff will be working in the period between Christmas and the New Year.

5.06 As part of our policy to keep stakeholders as informed as possible a communication will be sent to all employers and a note will be put on the Fund's website.

Key Performance Indicators (KPI) – Interim Scheme Advisory Board (SAB)

5.07 The SAB are developing a number of KPI indicators (4 core and 18 supplementary) in order to provide funds with the ability to assess themselves against best practice benchmarks both across the scheme and across time. The indicators will also enable the SAB to provide support to funds in a targeted manner.

5.08 A pilot was run in March/April 2015 during which funds were given the opportunity to help develop the KPIs. The feedback from this pilot helped inform a revised set of KPIs that was sent for completion to all funds during October 2015. Whilst the completion was, at this stage, voluntary it was decided that the Fund would complete and return the KPIs as this would provide a base level against which to measure ourselves in future years.

5.09 A training course is being held before the start of Committee that will explain why the KPIs have been introduced, what they are measuring and how the Fund has responded.

The Pensions Regulator and Annual Benefit Statement

5.10 There is a statutory requirement that all funds must issue annual benefit statements to scheme members in accordance with the deadline set out in the Public Service Pension Act. The Fund was one of only seven funds in England and Wales that did send out the annual benefit statements in time.

5.11 As this is clearly an issue for many schemes The Pensions Regulator (TPR) has acknowledged that all public sector schemes face a significant task in implementing the major public sector reforms due to significant data and IT issues. TPR expects that all schemes will comply with the law and that further investigations may take place if schemes have not issued statements by the 30 November. Additionally, the TPR would consider whether a different response was appropriate if the delays were due to other reasons.

5.12 Whilst this clearly does not impact on the Fund it is worth noting the TPR has noted the issue and stated what is expected and indicated that further investigations may take place if appropriate.

Awards

5.13 I am pleased to report to Committee that the Fund has been successful at the recent LAPF Investments 2015 Awards winning the ‘Risk Management Project of the Year’ category. I am also pleased to report that JLT were also successful winning ‘Consultant of the Year’ category.

6.00 POLICY IMPLEMENTATION AND MONITORING

Training Policy - Revision

6.01 The Clwyd Pension Fund Training Policy was originally approved by the Pension Fund Committee in November 2014. Since then, CIPFA has issued a further Knowledge and Skills Framework which applies to Local Pension Board members, and The Pensions Regulator has issued his final Code of Practice for Public Service Pension Schemes. As a result, it is good practice to update the Training Policy to accurately reflect both of these developments and to clarify that the Fund adopts the principles of both, in addition to the existing CIPFA Framework (that applies to Pension Fund Committee members) and the CIPFA Code of Practice which are mentioned within the existing Training Policy. The draft updated Training Policy, within which the suggested changes are highlighted, is included in Appendix 5.

Training Policy - Implementation and Monitoring

6.02 The Clwyd Pension Fund Training Policy requires all Pension Fund Committee and Pension Board members to:

- Have training on the key elements identified in the CIPFA Knowledge and Skills Framework
- Attend training sessions relevant to forthcoming business
- Attend at least one day each year of general awareness training or events.
- Have an individual training plan.

6.03 Appendix 6 details progress made to date in relation to the CIPFA Knowledge and Skills Framework training. Some Committee Members have outstanding modules to complete and officers will be in touch with those concerned to arrange suitable dates.

6.04 Appendix 6 also shows The Pension Regulator modules undertaken together with any additional training and other external events attended by Committee Members during 2015/16. In terms of future events Members should note the LGC Investments Seminar at Carden Park, Chester on the 3rd and 4th March 2016.

6.05 The Training Policy states that an individual training plan will be developed to assist each Pension Fund Committee member, Pension Board member or officer in achieving their identified individual training requirements. This will commence in early 2016.

7.00 DELEGATED RESPONSIBILITIES

7.01 The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. Appendix 7 updates the Committee on the area of delegation used since the last meeting. The minutes of the discussion are at Appendix 8.

8.00 RECOMMENDATIONS

8.01 That Committee Members discuss and note the report and approve the following:

- The changes to the Business plan detailed in 3.02.
- The changes to the Risk Register detailed in 4.04.

- The draft Procedure for Reporting Breaches of the Law to include the delegation for its implementation to the Clwyd Pension Fund Manager as detailed in 5.01 to 5.03.

9.00 FINANCIAL IMPLICATIONS

9.01 None directly as a result of this report.

10.00 ANTIPOVERTY IMPACT

10.01 None directly as a result of this report.

11.00 ENVIRONMENTAL IMPACT

11.01 None directly as a result of this report.

12.00 EQUALITIES IMPACT

12.01 None directly as a result of this report.

13.00 PERSONNEL IMPLICATIONS

13.01 None directly as a result of this report

14.00 CONSULTATION REQUIRED

14.01 None directly as a result of this report.

15.00 CONSULTATION UNDERTAKEN

15.01 None directly as a result of this report.

16.00 APPENDICES

16.01 Appendix 1 - 2015/16 Business plan update
16.02 Appendix 2 - Local Pension Board minutes
16.03 Appendix 3 - Risk register update
16.04 Appendix 4 - Draft Procedure for Reporting Breaches of the Law
16.05 Appendix 5 - Training Policy update
16.06 Appendix 6 - Training implementation and monitoring
16.07 Appendix 7 - Delegated responsibilities
16.08 Appendix 8 – Minutes from Delegated Decision Making Meeting 23 September

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LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: 24th March 2015 Pension Fund Committee
- Clwyd Pension Fund Business Plan 2015/16 to 2017/18
- Clwyd Pension Fund Risk Policy and Register

Contact Officer: Philip Latham, Clwyd Pension Fund Manager

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Business Plan 2015/6 to 2017/8 – Q2 Update
Governance

Budget
All the costs associated with the management of the Fund are a charge to the Fund and not to the Council. Actual 2015/16 figures are to end of Quarter 2 (30 September 2015)

Cashflows projections for 2015/16

	2013/14 £000s	2014/15 £000s	2015/16 £000s			
	Actual	**Actual**	**Budget**	**Actual**	**Projected for full year**	**Projected under/ over**
Opening Cash	(15,874)	(30,520)	(43,735)	(43,735)		
Payments						
Pensions	46,858	50,415	53,600	25,867	53,600	0
Lump Sums & Death Grants	12,861	17,317	18,000	7,395	18,000	0
Transfers Out	3,260	2,036	2,800	630	2,800	0
Expenses (including In House)	2,436	2,691	3,450	2,176	3,450	0
Support Services	242	219	250	167	167	(83)
Total Payments	65,657	72,678	78,100	36,235	78,017	(83)
Income						
Employer Contributions	(27,451)	(29,608)	(31,765)	(18,515)	(31,765)	0
Employee Contributions	(14,629)	(14,532)	(15,200)	(6,833)	(15,200)	0
Employer Deficit Payments	(24,666)	(28,079)	(27,320)	(26,954)	(27,320)	0
Transfers In	(3,802)	(2,347)	(4,000)	(1,036)	(4,000)	0
Pension Strain	(1,104)	(3,030)	(2,350)	(1,773)	(2,350)	0
Investment Income	(2,901)	(3,070)	(3,000)	(1,130)	(3,000)	0
Total Income	(74,553)	(80,666)	(83,635)	(56,241)	(83,635)	0
In House Investments						
Draw downs	46,624	40,212	44,376	11,018	35,965	(8,411)
Distributions	(33,135)	(59,824)	(61,606)	(35,678)	(75,699)	(14,093)
Net Expenditure /(Income)	13,489	(19,612)	(17,230)	(24,660)	(39,734)	(22,504)
Net Purchases/(Sales)	(1,259)	(615)	(600)	0	(600)	0
Rebalancing Portfolio	(17,980)	15,000	40,000	76,402	50,000	10,000
Total Net Cash Flow	(14,646)	(13,215)	16,635	(31,736)	4,048	
Closing Cash	(30,520)	(43,735)	(27,100)	(11,999)	(39,687)	

Operating Costs

	2013/14	2014/15	2015/16			
	Actual £000s	Actual £000s	Budget £000s	Actual £000s	Projected for full year £000s	Projected under/ over £000s
Governance Expenses						
Employee Costs (Direct)	182	218	226	113	226	0
Support & Services Costs (Internal Recharges)	23	13	19	0	19	0
Premises	19	8	17	0	17	0
IT (Support & Services)	10	12	10	0	10	0
Other Supplies & Services)	47	49	56	23	56	0
Audit Fees	35	37	36	10	36	0
Actuarial Fees	148	205	192	60	192	0
Consultant Fees	229	403	341	105	341	0
Advisor Fees	0	142	156	99	218	62
Legal Fees	31	21	30	5	30	0
Performance Monitoring Fees	25	20	25	18	25	0
Total Governance Expenses	749	1,128	1,108	433	1,170	62
Investment Management Expenses						
Fund Manager Fees*	5,571	16,127	**14,490**	1,495	14,627	137
Custody Fees	17	32	34	8	34	0
Total Investment Management Expenses	5,588	16,159	14,524	1,503	14,661	137
Administration Expenses						
Employee Costs (Direct)	599	592	662	304	662	0
Support & Services Costs (Internal Recharges)	69	53	82	0	82	0
Outsourcing	0	32	800	107	370	(430)
Premises	78	33	75	0	75	0
IT (Support & Services)	223	218	250	147	250	0
Other Supplies & Services)	63	75	70	46	70	0
Miscellaneous Income	(2)	(1)	0	0	0	0
Total Administration Expenses	1,030	1,002	1,939	604	1,509	430
Total Costs	**7,367**	**18,289**	**17,571**	**2,540**	**17,340**	**(231)**

*Fund manager fees include elements now required to be disclosed by CIPFA.
The 2015/16 budget for manager fees has been revised to £14.490m

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	2015/6 Period				Later Years	
		Q1	Q2	Q3	Q4	2016/17	2017/18
G1	Implement local Pension Board	x	x				
G2	Service local Pension Board		x	x	x		
G3	Implement Training Policy	x	x	x	x		
G4	Review/Tender Actuarial Contract		x	x			xM
G8	Allow for impact of external factors	x	x	x	x	x	x
G11	Review People Strategy		x	x			
G12	Implement breaches of law procedure and register			x	x	x	x

Governance Task Descriptions

G1 – Implement local Pension Board

What is it?

Each LGPS Pension Fund is required to set up its own local Pension Board to oversee the decision making Pension Committee and to assist the Administering Authority with the efficient and effective governance of the Scheme. The new Board must be established by 1 April 2015 in line with the LGPS Governance Regulations, and should be fully populated and operational by 1 August 2015.

Timescales and Stages

Member Appointment Process:	2015/16 Q1/2
Member Training:	2015/16 Q1/2
Initial Meeting:	2015/16 Q2

Resource and Budget Implications

To be led by Pension Fund Manager with assistance from the Independent Adviser with all key decisions being made by the Chief Officer People and Resources. All internal costs are being met from the existing budget. There will be external adviser costs associated with this exercise.

G2 – Service local Pension Board

What is it?

Once the new Pension Board is established it will need ongoing support in carrying out its operational duties. As per the Board's Terms of Reference the responsibility for providing this support (e.g. arranging meetings, setting agendas, producing minutes etc.) will fall to the Board Secretary (the Pension Fund Manager) within the Council with it being chaired by the Independent Adviser (subject to confirmation). The Board Secretary will need to liaise closely with the Board members and, in particular, the Chair of the Board to ensure that Board meetings run as smoothly as possible.

Timescales and Stages

Board Secretary to liaise with Chair to determine support required:	2015/16 Q2
Board Secretary to determine support resource required:	2015/16 Q2/3
Ongoing support provided:	2015/16 Q2-4

Resource and Budget Implications

To be led by Pension Fund Manager with assistance from the Independent Adviser. All internal costs are being met from the existing budget and there will be external adviser costs associated with this exercise.

G3 – Implement Training Policy

What is it?

The Fund's Training Policy details how the Fund will ensure that training is delivered, and how the required training is identified for each member. A Training Plan will be submitted to the March 2015 Pension Fund Committee meeting. A new requirement is that the Pension Board members are legally required to have the appropriate level of knowledge and understanding to sit on the Board and, as such, will need to be appropriately trained. The Council will need to ensure that it implements the training in line with the Training Plan which will include training to Pension Committee members and senior officers in addition to the Pension Board members.

Timescales and Stages

Identify individual training needs for new board members:	2015/16 Q1/2

Source and ensure delivery of identified training needs:	2015/16 Q2/4
Keep appropriate records of training received:	2015/16 Q2/4

Resource and Budget Implications

Training requirements to be determined by Pension Fund Manager with assistance from the Independent Adviser. Other advisers and external sources may be used for delivering training. There will be external adviser costs associated with this exercise.

G4 – 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 also Benefit Consultancy Services. Following this review, and discussions with procurement, the Council needs to put the actuarial contract out to tender, perhaps using a national framework.

Timescales and Stages

Review current actuarial contract and identify tender process:	2015/16 Q2
Conduct tender for actuarial services:	2015/16 Q2/3

Resource and Budget Implications

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

G8 – Allow for impact of external factors

What is it?

We are aware of a number of national issues currently under various stages of discussion which will eventually impact on the Council. These include the Government's 2014 Call for Evidence, Consideration of the Welsh CIV proposal, Local Authority Reorganisation in Wales and Scheme Advisory Board's recommendations on separation from the administering authority role. The impact of these issues, and others that arise, will be formally brought into the business plan as and when they are known in more detail.

Timescales and Stages

To be confirmed

Resource and Budget Implications

Unknown.

G11 – Review People Strategy

What is it?

The Council needs to review the continued appropriateness of the current operational staffing levels with the Pensions Administration department. In addition, annual appraisals need to be undertaken for all Pension Administration staff.

Timescales and Stages

Review staffing levels:	2015/6 Q1/2
Undertake appraisals:	2015/6 Q1/2

Resource and Budget Implications

To be led by Pension Fund Manager. All internal costs are being met from the existing budget albeit any necessary changes to staffing levels or numbers may impact on the budget.

G12 – Implement Breaches of Law Procedure and Register

What is it?

The Council needs to implement a breaches of law procedure to comply with Section 70 of The Pensions Act 2004. All breaches will be recorded in a breaches register.

Timescales and Stages

Implement the breaches procedure and register:	2015/6 Q3

Resource and Budget Implications

To be led by Pension Fund Manager with assistance from the Independent Adviser. All internal costs are being met from the existing budget. There will be external adviser costs associated with this exercise.

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 Monday, 27 July 2015 at 2pm.

THE BOARD:

Present:

Member Representatives: Mrs Gaynor Brooks, Mr James Duffy

Employer Representatives: Mr Steve Jackson, Mr Mark Owen

IN ATTENDANCE

Mrs Karen McWilliam (Independent Member)
Mr Colin Everett (Flintshire County Council Chief Executive)
Mr Philip Latham (Clwyd Pension Fund Manager and Secretary to the Board)
Mr Alwyn Hughes (Pension Finance Manager)

Actions

Mr Latham welcomed everyone to the inaugural meeting of the Board.

1. **APOLOGIES:** There were no apologies.

2. **ADOPTION OF PENSION BOARD PROTOCOL**

The Board Secretary went over the Board Protocol, previously circulated, highlighting key points and emphasising that the Board is expected to act in the interest of all members and employers of the Clwyd Pension Fund. Board minutes will be routinely presented to the Clwyd Pension Fund Committee and thus be public documents.

The Board Secretary then requested that the Board formally adopted The Board Protocol. This was agreed and all were in favour.

RESOLVED:

The Board adopted the Pension Board Protocol.

3. **MOTION TO CONFIRM CHAIR OF PENSION BOARD**

The Board Secretary presented a motion to confirm that the Chair of the Pension Board would be the Independent Member. This was

Actions

formally moved by Mr Owen and seconded by Mrs Brooks. This was agreed and all were in favour.

RESOLVED:

The unanimous decision of the Board was to agree to the appointment of the Independent Member (or alternate) as Chair of the Board.

The Independent Member assumed the position of the Chair for the remainder of the meeting.

4. DECLARATIONS OF INTEREST AND ADOPTION OF CONFLICTS OF INTEREST POLICY

The Chair introduced The Conflicts of Interest Policy which was adopted by the Clwyd Pension Fund Committee at their meeting on the 24 March 2015. This Policy applies not only to the Committee but also to the Pension Board, key officers and any external advisors to the Clwyd Pension Fund. The Chair explained that it was best practice for the Board to formally adopt this Policy and highlighted the key points of the Policy including the need to complete a declaration of interests return. The Chair also informed the Board that the Register of Interest would be published in the Fund's Annual Report.

A discussion was held regarding the Policy and completion of the declaration form and further clarifications were sought and given.

The Chair proposed that the Board formally adopts the Conflict of Interest Policy. This was agreed and all were in favour.

RESOLVED:

The Board adopted the Conflicts of Interest Policy and all Board Members completed the declaration forms.

5. ADOPTION OF TRAINING POLICY AND PLAN

The Chair introduced the Training Policy and explained that there was a legislative requirement for the Board Members to meet a higher knowledge and understanding threshold than that required for the Pension Fund Committee Members. The Chair highlighted certain requirements of the Policy such as the need to meet individual requirements in line with the CIPFA Framework, training on 'hot' topics as well as having a general awareness of the broader pension issues.

The Training Plan had been shared with the Board and detailed a variety of planned training events for 2015/16. A Calendar of Meetings and Events was also shared which, amongst other things, identified a

Actions

number of the relevant conferences. Attendance of at least one of these conferences would satisfy the annual general awareness aspect of the Training Policy. It was agreed that the Board Members, during the training day on the 25 August, would visit the offices of the Fund.

A discussion then ensued regarding the Policy and training requirements resulting in Mr Duffy requesting that the CIPFA Knowledge and Skills ***documents be shared*** with the Board. The Chair added that a ***pack made up of key documents would also be shared*** with the Board after completion of the induction training.

Board Secretary

Board Secretary

The Chair proposed that the Board formally adopts the Training Policy. This was agreed and all were in favour.

RESOLVED:

The Board adopted the Training Policy and noted the training plan and calendar of future events.

6. ADMINISTRATION MATTERS INCLUDING REMUNERATION

The Chair clarified that this agenda item was a catch all item to deal with various administration matters for the Board.

In respect of remuneration the Board Members were referred to the Schedule of Member Remuneration, previously circulated, and informed that they are entitled to receive remuneration at the rates agreed by Flintshire CC and detailed in paragraph 6 of the Pension Board Protocol. However, where Board Members were been given paid time to attend by their employers then a claim should not be made.

Additionally, Board Members would be entitled to claim for travel and subsistence costs in accordance with the Schedule. For clarification, the Fund would cover the costs of attendance at conferences including travelling.

Various discussions were had regarding the above with no issues being raised by Board Members. Board Members were ***requested to contact the Board Secretary*** if they wished to make any claims.

Board Members

Discussions then moved on to the budget for the Board. As part of this the issue of printing or electronic documents was raised. It was agreed that Board Members could elect to have paper copies where necessary but that electronic documents would be used when possible to save printing costs. The Chair offered to ***produce a draft budget*** for discussion at the next Board meeting; as this was the first year for the Board it would be an evolving budget that would improve in accuracy with experience. This was agreed.

Chair

Actions

The Chair informed the Board that draft minutes would be produced within 10 working days of a meeting and that the agenda and any papers would be circulated 5 working days prior to the meeting. The Chair also requested that the Board Secretary should ***arrange for the Board Members to be added to the Pension Committee circulation list.*** The Board Members were also encouraged to attend Pension Committee meetings as well as the Annual Joint Consultative Meeting.

Board Secretary

7. NOTE OF INTERIM BREACHES PROCEDURE

The Chair referred back to the first training session attended by the Board Members and the discussions had then regarding the requirement to report breaches to The Pension Regulator and the Clwyd Pension Fund. The Chair stated that the formal procedure document is programmed to be drafted in the autumn of 2015. In the meantime, all breaches should be reported to the Clwyd Pension Fund Manager (PL) or the Chair of the Pension Board.

Pension Board

RESOLVED:

The Board noted that a Breaches Procedure would be drafted.

8. CONSIDERATION OF 21 MAY 2015 PENSION FUND COMMITTEE MEETING PAPERS

As the Committee papers had previously been circulated, the Chair opened the floor to any questions that the Board Members had regarding the Committee papers.

Mr Owen made an opening remark that he considered the Committee papers were easily followed whilst comprehensive. A wide ranging discussion ensued following which the Chair welcomed the Board Member's engagement and encouraged them to continue asking questions of the Pension Committee business.

The discussions resulted in some action points:

Board Secretary (points (a) to (d))

a) ***The full Fund business plan should be added to the Board's work plan.***
b) ***The risk register should be reviewed to determine whether it was possible to reduce the number by combining or condensing individual risks.***
c) ***The Funding Strategy Statement should be circulated to all employers.***
d) ***Ensure that the Flightpath is covered as part of the training day.***

	Actions
9. FUTURE WORK PLAN	
The Chair opened the discussion by explaining that this is more around project type work, however, this will not be set in stone. ***A work plan will be produced prior to the next meeting*** for ongoing input by the Board. A discussion ensued and a draft list of possible areas identified:	Chair
a) Draft Administration and Communications Strategy including: i. Engagement with employers around funding matters ii. Supporting employers to understand their role and responsibilities	
b) Compliance checklist based on The Pension Regulator requirements.	
c) 2015/16 business plan of the Fund.	
d) Key documents identified from the Training Policy.	
e) The Board's annual report – due summer 2016.	
f) Input into the Annual Joint Consultative Meeting.	
g) Input into the Advisory Panel and the Pension Fund Committee.	
h) Input into 2016/17 Internal Audit Plan.	
<u>RESOLVED:</u>	
The Board agreed the items for the future work plan.	
10. FUTURE DATES	
Following a discussion it was agreed that the ***Board Member's availability would be determined*** during the first two weeks in October, a date in February and also one further date for future Pension Board meetings.	Chair
11. ANY OTHER BUSINESS	
No further business was raised. It was agreed that the ***draft minutes would be circulated***.	Board Secretary

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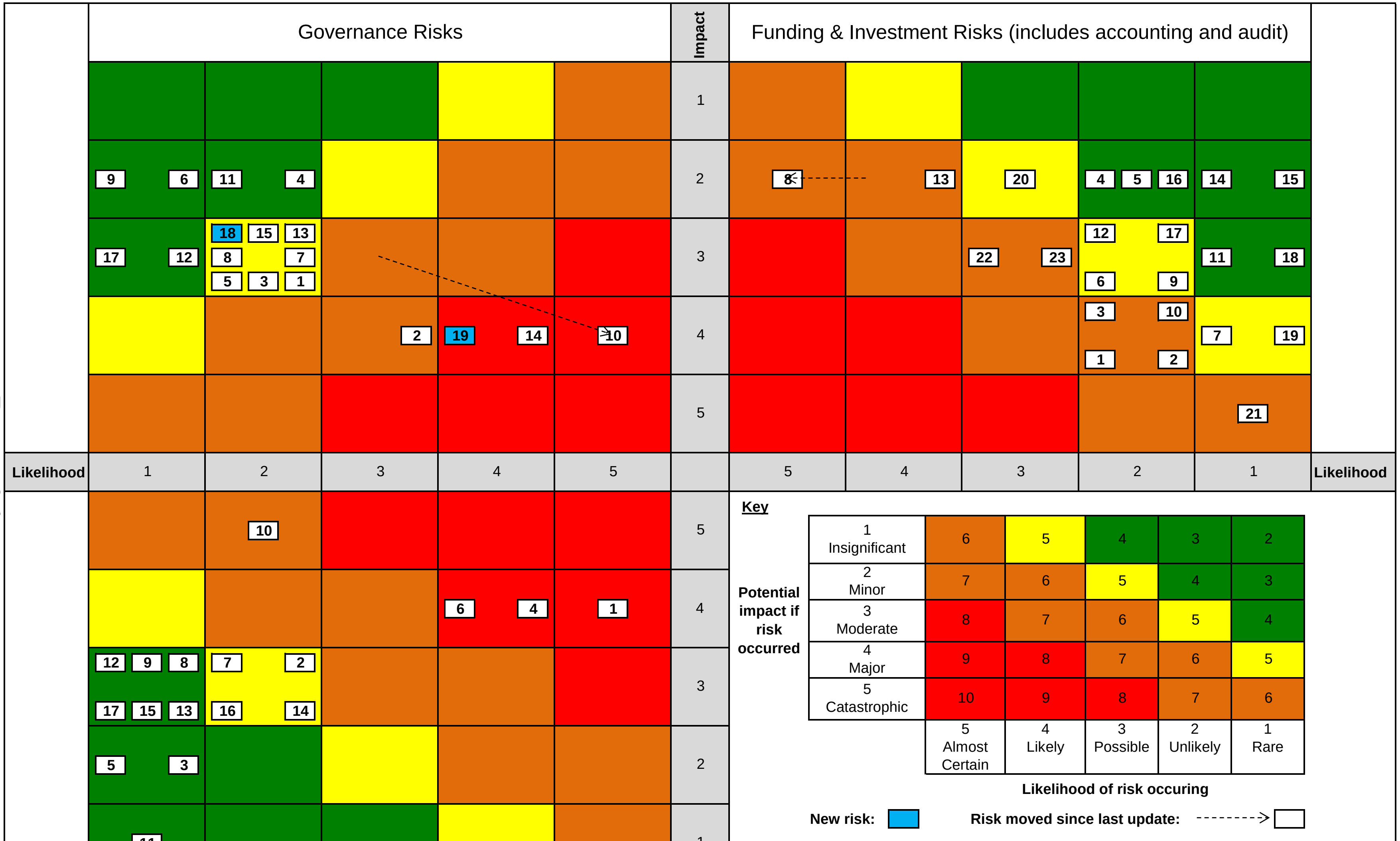
Governance



In accordance with the Clwyd Pension Fund Risk Policy, information relating to the ongoing monitoring and management of risks will be provided on a quarterly basis to the Clwyd Pension Fund Committee and the Pension Board . The information relating to the key risks, new risks , movement of risks and changes to agreed actions is included in each Update report.

Governance Risks Summary

Risk no:	Risk	Strategic objective at risk (see key)	Risk category	Impact (see key)	Likelihood (see key)	Risk Status	Internal controls in place	Further Action?	Owner	Last Updated	Previous Impact	Previous Likelihood	Previous Risk Status	Risk removed (date)
Key Risks (ranked 8 or above):														
10	Governance Structure unable to adapt to change either through national governance change (separation) or all Wales working together including a CIV.	Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based	Regulatory/Compliance	4	5		Monitor and participate into consultation on national governance changes including current consultations of pooling assets. Participate in developing governance around a potential Wales CIV.			07.09.15	3	3		
14	Lack of understanding of the impact of LGR on the Fund and its stakeholders (e.g. employer costs or split up of fund and impact on strategy)	Act in the best interests of the Fund's members and employers	Employer	4	4		Monitoring via the Advisory Panel agenda and engage at a senior level within the Council and employers				4	4		
19	Failure to record and/or report breaches in accordance to the Pension Regulator Code of Practice	Ensure that the Clwyd Pension Fund is in compliance with the Pension Regulator Code of Practice	Regulatory/Compliance	4	4		No documented procedure in place until 1st December 2015	Ensure new procedure is fully implemented and communicated to relevant parties		17.11.15				
New Risks:														
18	Poor attendance at board meetings by Local Board Members resulting in poor standard of monitoring.	Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies	Reputational	3	2		Local board constitution includes a quorum. Attendance is reported in the fund's Annual Report.			07.09.15				
19	Failure to record and/or report breaches in accordance to the Pension Regulator Code of Practice	Ensure that the Clwyd Pension Fund is in compliance with the Pension Regulator Code of Practice	Regulatory/Compliance	4	4		No documented procedure in place until 1st December 2015	Ensure new procedure is fully implemented and communicated to relevant parties		17.11.15				
Removed Risks:														
16	Unable to properly (and within timescales) establish, fill posts and train new Pension Boards	Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies	Regulatory/Compliance				Plan in place for recruitment, training planned, communications already taken place at employer forum, training policy, conflict policy				4	3		07.09.15
Key Changes (moved by 3 or more):														
10	Governance Structure unable to adapt to change either through national governance change (separation) or all Wales working together including a CIV.	Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based	Regulatory/Compliance	4	5		Monitor and participate into consultation on national governance changes including current consultations of pooling assets. Participate in developing governance around a potential Wales CIV.			07.09.15	3	3		

Cronfa Bensiynau Clwyd
Clwyd Pension Fund

Sir y Fflint
Flintshire

FLINTSHIRE COUNTY COUNCIL

Administering Authority for Clwyd Pension Fund

Procedure for Recording and Reporting Breaches of the Law

December 2015

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 Finance Office (Section 151 Officer), and the Chief Officer, People and Resources
- 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.

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[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).

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:

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

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:

- 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.

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 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.

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.

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

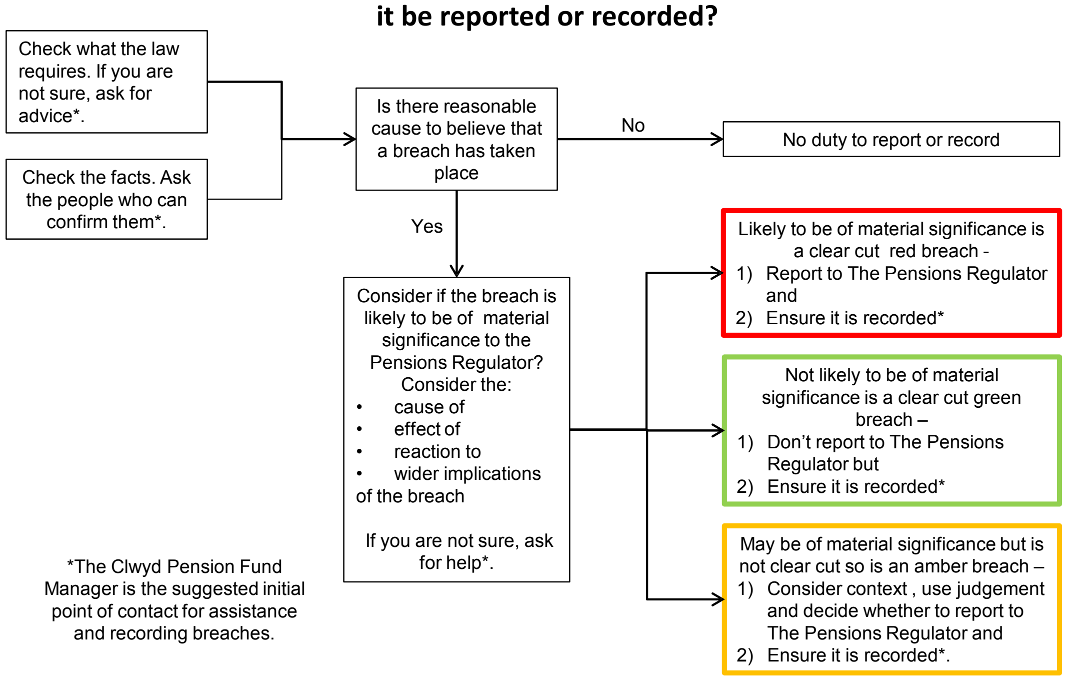
In cases of immediate risk to the scheme, for instance, where there is any indication of dishonesty, The Pensions Regulator does not expect individuals to seek an explanation or to assess the effectiveness of proposed remedies. They should only make such immediate checks as are necessary.

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 approved at the Clwyd Pension Fund Committee on 26 November 2015 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.

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	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.

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

Date	Category (e.g. administration, contributions, funding, investment, criminal activity)	Description and cause of breach	Possible effect of breach and wider implications	Reaction of relevant parties to breach	Reported / Not reported (with justification if not reported and dates)	Outcome of report and/or investigations	Outstanding actions

*New breaches since the previous meeting should be highlighted

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Cronfa Bensiynau Clwyd
Clwyd Pension Fund

FLINTSHIRE COUNTY COUNCIL

Administering Authority for Clwyd Pension Fund

TRAINING POLICY

November 2014
Updated November 2015

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:

- ~~around 33~~over 40,000 current and former members of the Fund, and their dependants
- ~~around~~over 25 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 and
- the knowledge and skills elements of the Public Service Pensions Act 2013 and ~~the~~The Pensions Regulator's (~~tPR~~TPR) Code of Practice for Public Service Schemes ~~(due to be published in autumn 2014).~~.

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 Finance Officer (Section 151 Officer) and the Chief Officer, People and Resources (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~~TPR 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 ~~sets~~details the ~~skill set for~~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 ~~six~~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 ~~legislative and~~legislation
- Public sector pensions governance ~~context~~
- Pensions administration
- Pension accounting and auditing standards
- Financial services procurement and relationship ~~development~~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 ~~Framework~~Frameworks (or an alternative training programme)
- ensure that the appropriate policies and procedures are put in place to meet the requirements of the ~~Framework~~Frameworks (or an alternative training programme);
- publicly report how these arrangements have been put into practice each year.

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 ~~to be~~ incorporated and expanded on within ~~a tPR~~the TPR Code of Practice which ~~is due to be issued in the autumn of 2014~~came into force on 1 April 2015. It is expected that guidance will also be issued by the Local Government Pension Scheme Advisory Board which will explain further how these requirements will relate to LGPS administering authorities.

Application to the Clwyd Pension Fund

Flintshire County Council fully supports the use of the CIPFA Knowledge and Skills ~~Framework~~Frameworks, and ~~tPR's~~TPR's Code of Practice. Flintshire County Council adopts the principles contained in ~~both~~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 Training Plan 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
- 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 (LGPS)
- The latest Actuarial Valuation report
- The Annual Report and Accounts, which incorporate:
  - The Funding Strategy Statement
  - The Governance Policy and Compliance Statement
  - The Statement of Investment Principles 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

In addition, an 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

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 amendments to incorporate the requirements of the CIPFA Local Pension Boards Framework were approved on 26 November 2015. 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

	Cllr A Diskin	Cllr H Bateman	Cllr R Hampson	Cllr B Dunn	Cllr M Wright	Cllr H. Jones	Cllr S Wilson	A Rutherford	S Hibbert
Committees (3hrs)									
May 2015	✓	✓	✓	✓		✓	✓	✓	✓
September 2015(Cancelled)									
November 2015									
February 2016									
March 2016 (Special)									
CIPFA Framework Requirements									
Governance (1 day)	✓	✓	✓	✓	✓	✓	✓	✓	✓
Funding & Actuarial (1 day)		✓	✓	✓	✓	✓	✓	✓	✓
Investments (1 day)		✓	✓	✓	✓	✓	✓	✓	✓
Accounting (Included with Investments)		✓	✓		✓	✓	✓		✓
Additional Training									
Budget Freedoms (2 hrs)	✓	✓	✓	✓		✓	✓	✓	✓
Fees & Charges (2 hrs)	✓	✓	✓			✓	✓	✓	✓
Private Equity & Opportunistic (1 hr)	✓	✓	✓			✓	✓	✓	✓
Property, Infrastructure, Timber & Agriculture (1 hr)	✓	✓	✓			✓	✓	✓	✓
Pensions Regulator Code of Practice (2 hrs)	✓	✓	✓			✓	✓	✓	✓
Key Performance Indicators									

	Cllr A Diskin	Cllr H Bateman	Cllr R Hampson	Cllr B Dunn	Cllr M Wright	Cllr H. Jones	Cllr S Wilson	A Rutherford	S Hibbert
Alternative Delivery Models									
Actuarial Valuations									
Annual Employer Meeting (4 hrs)		✓				✓	✓		
Pensions Regulator Modules									
Conflicts of Interest							✓	✓	✓
Managing Risk & Internal Controls									
Maintaining Accurate Member Data									
Maintaining Contributions									
Providing Information to Members & Others									
Resolving Disputes									
Reporting Breaches									
Conferences									
LGC Investment Summit (1.5 days)	✓	✓							
LGC Seminar (1.5 days)									
LAPFF Annual Conference (1.5 days)									✓

DELEGATED RESPONSIBILITIES

	Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
7.01	Other urgent matters as they arise	PFM and either CFM or COPR, subject to agreement with Chairman and Deputy Chairman (or either, if only one is available in timescale)	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.
Action taken - As a result of apologies made in advance, it was noted that the Committee would not be quorate and therefore did not meet as planned. The Committee agenda included items for which a decision was necessary and thus a discussion was held between the Corporate Finance Manager and the Clwyd Pension Fund Manager. The minutes of this discussion is appended at Appendix 8. The forms of delegation have been signed by the Vice Chair and the officers involved.			

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PENSION FUND COMMITTEE DELEGATED RESPONSIBILITIES

Minutes from discussion held at County Hall, Mold on Wednesday, 23 September 2015 (commencing approximately 11.30am)

PRESENT:
Councillors: None.
Co-opted Members: None

Officers and advisers: Gary Ferguson (Corporate Finance Manager) and Philip Latham (Clwyd Pension Fund Manager)

BACKGROUND TO REASON FOR DISCUSSION:
The Pension Fund Committee was scheduled to meet at 10.30am on 23 September 2015. As a result of apologies made in advance, it was noted that the Committee would not be quorate and therefore could not meet as planned.

The Pension Fund Committee had previously agreed a number of delegated responsibilities including the following:

Function delegated to PFC	Further Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
The Committee may delegate a limited range of its functions to one or more officers of the Authority. The Pension Fund Committee will be responsible for outlining expectations in relation to reporting progress of delegated functions back to the Pension Fund Committee.	Other urgent matters as they arise	PFM and either CFM or COPR, subject to agreement with Chairman and Deputy Chairman (or either, if only one is available in timescale)	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.

Key: PFC – Pension Fund Committee / PFM – Pension Fund Manager / CFM – Corporate Finance Manager / COPR - Chief Officer, People & Resources

It was considered in consultation with the Chief Executive and Chair that there were a number of items that were due to be considered at the Pension Fund Committee that required urgent attention. The Pension Fund Committee were advised of the need for the delegation by e mail on 16th September 2015 to the Clwyd Pension Fund Manager and Corporate Finance Manager (Section 151 officer).

The draft papers prepared were circulated to enable agreement with the Chair and Deputy Chair but also enable comments from all Committee Members to be considered. The Local Board had also been invited to the cancelled meeting and the representatives had been were provided with the draft papers.

The draft papers were also circulated to members of the Advisory Panel.

MINUTES:
Clwyd Pension Fund Manager (PFM) explained the above background to the Corporate Finance Manager (CFM) and shared the two responses received from Steve Hibbert (Committee Trade Union Representative) and Gaynor Brooks (Local Board Member Representative). The response from the Committee Member included support for recommendations made regarding the urgent items. The Local Board representative also provided positive acknowledgement of the recommendations.

In terms of the cancelation of the Committee the PFM has asked the Independent Chair to include on the agenda of the next Local Board in October 2015.

<u>Item 1 – Pooling Investments</u>

Although this item did not require a decision in its own right it provided important background to the national picture relating to the following 2 urgent items.

The draft Committee report prepared by the PFM explained the recent budget announcement on pooling investments and provided the national picture in terms of assets by asset class and by region as these are both potential methods for pooling. Examples of current collaboration in the UK were also included.

The implication for the Clwyd Pension Fund was explained. In summary about 51% of the assets are relatively straightforward to pool. For the remaining 49% in alternative assets, liability matching and the managed account (which is already a collaborative vehicle) it would make less financial or practical sense.

There remains a case for the Welsh funds to continue with collaboration as outlined in the urgent items to follow. However, confirmation of support should be formally requested from the DCLG as it is possible that Wales alone may not meet any size and saving criteria stated by the Government for pooling.

The CPF also provided the CFM a paper for the Scheme Advisory Board of 21st September on pooling investments. It was noted that Wales was mentioned in a footnote and shown as separate from ‘English pools’ in illustrative examples in the Annex.

The discussion concluded that there was no option for any fund in Wales or England to do nothing as backstop legislation will force pooling.

<u>Item 2 – Collaborative Working in Wales</u>

The PFM explained that the report from Mercer was being presented to all 8 pension funds in Wales during September and should now be seen in context of item 1 above as a potential solution in Wales to the Government’s demand.

The principle recommendation is that the 8 funds in Wales should rent a collective investment vehicle from a third party provider. The asset classes in the vehicle would grow overtime, starting with active equity.

A governance structure will be developed to include both investment officers and members from across the 8 funds. Importantly there is no compulsion to participate but each fund would need to note item 1 above.

The PFM expressed the view that this should demonstrate to all stakeholders in Wales that, if properly implemented, this is the best way forward. To enable implementation an adviser should be appointed, the fee for whom is shared across the 8 funds.

Pension Fund Manager and Corporate Finance Manager agreed the appointment of an adviser to assist the 8 funds in Wales with the implementation of the recommendations in the Mercer report.

Item 3 – Wales Passive Investment Collaboration

The PFM explained that this item is linked to item 1 & 2 above and as with item 2 the recommendation is going to all 8 Committees in Wales.

There are two options considered in the draft report:

1. Joint Procurement in Wales to appoint one passive manager
2. For the Welsh funds to use a national framework to be developed for passive managers.

Investment practitioners across Wales have been asked by the SWT (Pension Sub Group) to write a briefing paper on the options for their next meeting on 23rd October. If option 1 is chosen the Clwyd framework agreement will be used to procure an adviser.

The Clwyd Fund has 19% exposure to passive regional developed market equities via a total return SWAPS within the Insight mandate as part of the risk management strategy. In addition there will be varying passive exposures on Mobius platform (9% of the Fund) which will change on a tactical basis as advised by JLT. Hence, significant immediate allocation to a new manager or framework may not be applicable to the Fund but future participation could be possible.

Therefore the view was expressed by the PFM that the Fund should collaborate in this project.

Pension Fund Manager and Corporate Finance Manager agreed to:

1. **Support investment officers looking at the appropriate procurement method, that is the joint direct procurement or National Framework**
2. **The participation of the Fund in the joint procurement exercise for a passive manager, if decided to continue with this approach.**

Conclusion to meeting

The Scheme of Delegation forms for item 2 and 3 above were signed and dated by the PFM and CFM and post the meeting, by the Deputy Chair. The PFM confirmed that he will inform the SWT (Pension Sub Group) of the Clwyd Fund's decision and that the results of the delegation will be reported for noting at the next Committee on 26th November 2015.

FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CLWYD PENSION FUND COMMITTEE**

DATE: **26th NOVEMBER 2015**

REPORT BY: **CHIEF OFFICER (PEOPLE AND RESOURCES)**

SUBJECT: **POOLING INVESTMENTS (NATIONAL PICTURE)**

1.00 PURPOSE OF REPORT

1.01 To provide Committee Members with an update on the Government's proposal for pooling investments for the LGPS across England and Wales.

2.00 BACKGROUND

2.01 Central Government mentioned the LGPS in the recent budget, and section 2.19 of the 'Red Book' stated:

Local Government Pension Scheme pooled investments -

The Government will work with Local Government Pension Schemes administering authorities to ensure that they pool investments to significantly reduce costs, while maintaining overall investment performance. The government will invite local authorities to come forward with their own proposals to meet common criteria for delivering savings. A consultation to be published later this year will set out those detailed criteria as well as backstop legislation which will ensure that those administering authorities that do not come forward with sufficiently ambitious plans are required to pool.

2.02 Following this came further comment, from both the Chancellor (at the Conservative Party Conference on 6th October 2015) and from the Department for Communities and Local Government ("DCLG"), via a letter from Chris Megainey to all administering authorities on 7th October 2015, regarding the vision for how pooling could be used to fund major UK regional infrastructure projects.

2.03 Any proposals brought forward by administering authorities will need to satisfy three criteria:

- **Scale** (six asset pools of c.£30bn has been used as an illustrative, but not essential number)
- **Savings/Costs** (but no specific level of savings is expected to be set)
- **Governance** (this could be through arrangements like the London Collective Investment Vehicle ("CIV") and its Authorised Contractual Scheme structure but could also take place through Joint Committees or other structures)

2.04 According to the DCLG the intention is for administering authorities to take the initiative (reinforcing the point in section 2.19 of the 'Red Book' referencing coming forward with "sufficiently ambitious proposals") and recommend solutions as a LGPS community. The Government is not wedded to any particular solution provided they meet the criteria.

2.05 The Government will provide more detail on each of these criteria by the end of November. The consultation mentioned in the budget statement applies only to changes to investment regulations and backstop legislation, not the criteria. Hence now is the time for administering authorities to influence the criteria.

2.06 In this respect there has taken place numerous meetings and discussions between LGPS funds, the LGA, DCLG, HM Treasury and an array of advisors and fund managers.

2.07 There has been the announcement of a number of collaborations within the LGPS. Though the nature of these collaborations differs, those that have announced such collaborations are:

- London Boroughs (via London CIV)
- London Pension Fund Authority ("LPFA") and Lancashire
- "Shires" Group (7 separate funds including Cheshire, Staffordshire, Leicestershire and 4 other Funds from the Midlands region)
- South West (8 funds within this region)
- Wales
- "Other" (joint collaboration between Surrey, Cumbria and East Riding funds)

2.08 The remainder of this report provides some more detail to assist Committee Members to understand the national debate.

3.00 <u>CONSIDERATIONS</u>

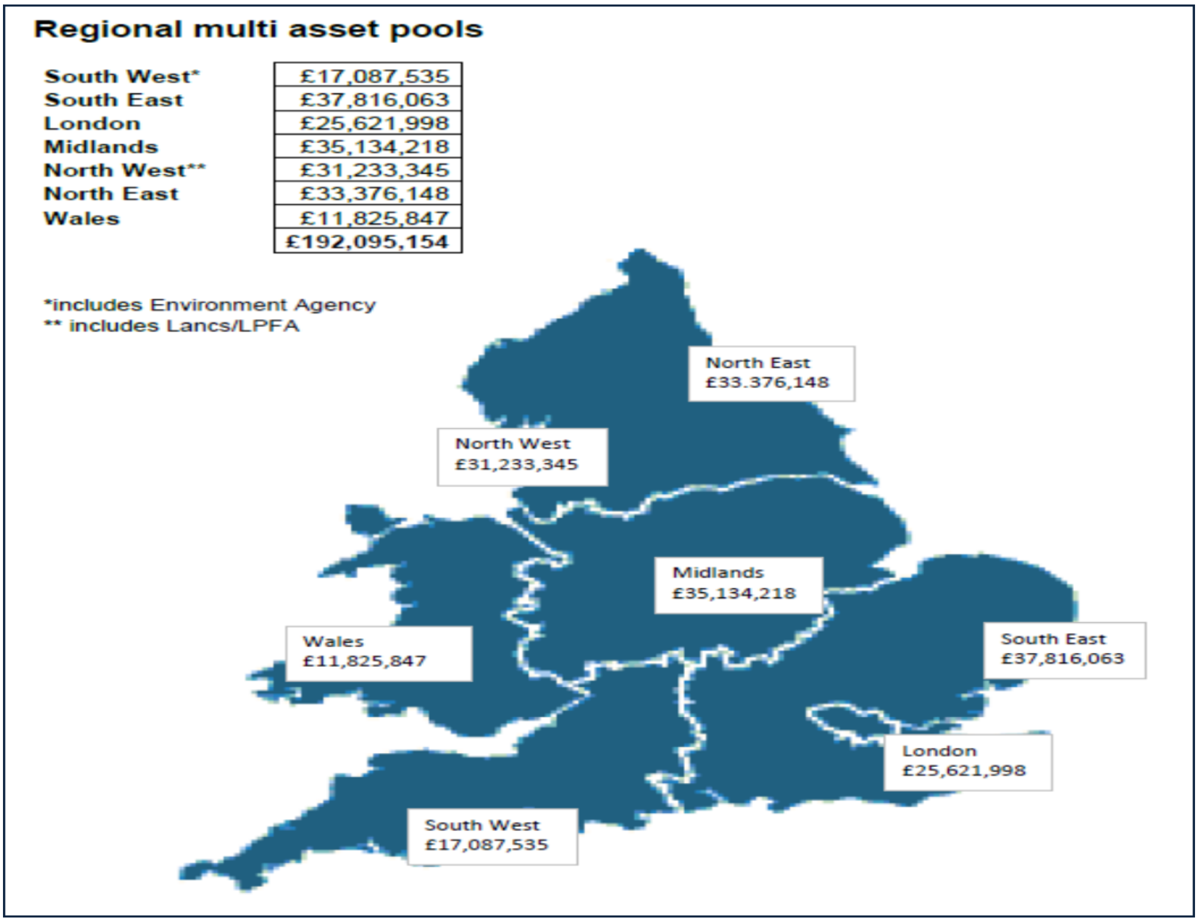
Asset Allocation across LGPS funds in England and Wales

3.01 Across the LGPS in England and Wales there are circa £200bn of assets invested across various asset classes. It is estimated £50bn of assets are invested on a passive basis (£3bn in Wales). The table overleaf shows the asset allocation of the LGPS in England and Wales.

Equites	%	AUM	Bonds	%	AUM
Global Pooled (inc UK)	7.0	£14bn	UK	9.2	£18.4bn
UK	21.2	£42.4bn	Overseas	2.3	£ 4.6bn
North America	8.2	£16.4bn	Index Linked	4.2	£ 8.4bn
Europe	6.3	£12.6bn	Pooled Bonds	1.3	£ 2.6bn
Japan	2.9	£ 5.8bn	**Alternatives**		
Pacific Ex	2.8	£ 5.6bn	Private Equity	4.3	£ 8.6bn
Emerging Markets	3.8	£ 7.6bn	Hedge Funds	2.2	£ 4.4bn
Global Ex UK	9.3	£18.6bn	Other Alternatives	1.4	£ 2.8bn
			Pooled Multi Asset	2.8	£ 5.6bn
Cash	2.7	£ 5.4bn	Property	8.1	£16.2bn

Source: State Street Global Services Local Authority Annual League Tables – March 2015
85 Funds £199,896m AUM

3.02 On 21st September 2015 the Scheme Advisory Board outlined thoughts on the potential to pool assets on a regional basis. The table below demonstrates how it was envisaged that this could happen, although this is not definitive bearing in mind there may be a move towards six pools rather than seven shown below:



What has occurred to date in respect of pooling?

3.03 Of the collaborations to date outlined in section 2.07, the London CIV is expected to have funded its first collectively managed assets by end 2015 and other funds will be able to invest via this structure. The South West Group are progressing towards establishing a Governance structure for the initial pooling of their assets, whilst the collaboration between Surrey, Cumbria and East Riding has yet to provide any further definitive information (other than the intention to create a pool).

3.04 LPFA and Lancashire have applied for FCA registration to allow for the pooling of their assets to occur (and for other funds to potentially join their pool). Wales are currently progressing with a procurement exercise for assistance in appointing a manager to run a passive mandate. (See agenda item 6).

3.05 In respect of the Government's desire to create regional UK infrastructure investment, there has been no concrete progress as yet, given that the final position of asset pooling is still to be determined. Existing options include the PIP (Pensions infrastructure Platform) which has raised over £1bn, sold as 'design and built by pension funds for pension funds'. There is also a Greater Manchester/London Pension Fund Authority (LPFA) infrastructure platform with potential to expand to other parties.

Internal management of assets

3.06 14 of the 89 funds manage some or all of their equity and fixed income allocations in house, totalling circa £30bn of assets. Evidence suggests that this can be achieved at a lower cost without compromise to performance. It is unclear at this stage to what extent, if any, internal management of fund(s) assets will be allowed to continue in the medium to long term.

What is due to happen in the immediate to short term?

3.07 The pooling criteria is due to be confirmed by the end of November 2015. DCLG has confirmed that proposals from each of the LGPS are expected by February 2016, although these proposals can be broad principles and do not have to be finalised.

What is due to happen in the medium term?

3.08 Comments from DCLG are that the progress expected during the term of the current Parliament is that asset pools are established/FCA authorised and operational. It is not expected that all LGPS assets will be pooled during this time.

3.09 It is expected that criteria in respect of regional UK infrastructure investing will be provided – this is seen as "a long term direction of travel" for the LGPS.

What is due to happen in the long term?

3.10 Comments from DCLG are that all LGPS assets are to be transferred into pools during the life of the next Parliament although quite how this will be achieved has not been stated.

4.00 RECOMMENDATIONS

4.01 That Committee Members note the report.

5.00 FINANCIAL IMPLICATIONS

5.01 None directly as a result of this report

6.00 ANTIPOVERTY IMPACT

6.01 None directly as a result of this report.

7.00 ENVIRONMENTAL IMPACT

7.01 None directly as a result of this report.

8.00 EQUALITIES IMPACT

8.01 None directly as a result of this report.

9.00 PERSONNEL IMPLICATIONS

9.01 None directly as a result of this report

10.00 CONSULTATION REQUIRED

10.01 None directly as a result of this report.

11.00 CONSULTATION UNDERTAKEN

11.01 None directly as a result of this report.

12.00 APPENDICES

12.01 None

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: Presentations on Scheme Advisory Board Website

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FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CLWYD PENSION FUND COMMITTEE**

DATE: **26th NOVEMBER 2015**

REPORT BY: **CHIEF OFFICER (PEOPLE AND RESOURCES)**

SUBJECT: **COLLABORATIVE WORKING IN WALES**

1.00 PURPOSE OF REPORT

1.01 To update Committee Members with the on-going collaborative work across the 8 Welsh Pension Funds.

2.00 BACKGROUND

2.01 Mercer were appointed to produce a report for the Society of Welsh Treasurer's (Pension Sub-Group) on a business case for a common investment approach. All Pension Committees/Panels in Wales received the attached summary report during the September meeting cycle.

2.02 With reference to the previous agenda item on the national pooling of investments, it is hoped that these recommendations, based on independent expert advice, will satisfy the Government's requirements and also demonstrates to all stakeholders in Wales that this is the best way forward.

3.00 CONSIDERATIONS

A Summary of the Wales Collaboration Report

3.01 The principle recommendation in the report is for the 8 funds in Wales to 'rent' a collective investment vehicle (CIV) from a third party provider. A build option, like the London CIV, was considered but would be more expensive to set up and take considerable time to implement.

3.02 The types of investments in the vehicle will grow over time, starting with active equity. The analysis by Mercer shows that these mandates offer the greatest saving and potential for improved net of fee investment returns.

3.03 A governance structure will be developed to include both officers and elected members from across the 8 funds. Although there will be no compulsion to participate each fund would now need to consider their own position in terms of UK Government's requirements to pool investments, which has arisen since the Mercer work was completed.

3.04 In addition, Mercer advised that by procuring one passive investment manager for the 8 Welsh funds significant fee savings could be achieved and this could be implemented ahead of the CIV.

3.05 A third party should be appointed to assist with the procurement process.

Current Position & Timetable

3.06 All 8 Committees/Panels have agreed with the recommendations of the Mercer report.

3.07 The Gwynedd Fund has led the procurement of an adviser to assist with the implementation of the CIV. An appointment should be made in December 2015. The CIV should be in place by the end of 2016/17, or soon after.

3.08 The Clwyd Fund has led the procurement for an adviser to assist with the selection of one passive investment manager. This investment of circa £3bn will account for approximately one quarter of the funds invested by the 8 funds. The joint procurement of the passive manager should be completed this financial year.

3.09 With the national developments in mind, the Society of Welsh Treasurer's (Pension Sub-Group) has written to DCLG to outline the above position.

Clwyd Pension Fund Implications

3.10 The following paragraphs outline the practical implications for the Clwyd Fund of the Wales CIV, joint procurement for passive investments or a mandated Government pooling approach. The table below summarises our investment strategy.

Asset Class	**£000s**	**%**	**£000s**	**%**
Active Equity	238,000	17		
Multi Asset Credit	210,000	15		
Tactical Asset Allocation	266,000	19	714,000	51
Alternative Assets	294,000	21		
Liability Matching	266,000	19		
Managed Account	126,000	9	686,000	49

3.11 51% of our strategy would be relatively straightforward to 'pool' i.e, active equities, multi asset credit and tactical allocations. It is probable that it could be delivered at a lower cost due to scale. Whether it would improve investment performance is a matter for debate. Of course the Fund is likely to lose direct control of the fund managers chosen to deliver these strategies and there will be 'one off' transition costs.

3.12 The remainder of our strategy would be more difficult to pool. The 21% in property, private equity and infrastructure are in long term limited partnerships. They could be sold on the secondary market at a discount but this would not make financial sense. However, future commitments could be made collaboratively if such models are developed.

3.13 19% is invested in assets to match the Fund's liabilities, which is fund specific and hence not suitable for pooling This would require a change in strategy, loss of interest rate and inflation protection, as well as being costly to exit, estimated to be about £3m. In terms of the passive fund manager joint procurement, the Fund has 19% exposure to passive regional developed market equities via a total return swaps within this mandate and there is potential for some of this equity exposure to be transferred to the new passive manager.

3.14 9% of managed futures and hedge fund exposure is already invested in a collaborative structure with Cornwall which is open to other LGPS investors.

3.15 In conclusion, the investment strategy of the Clwyd Fund provides more practical difficulties and transition costs than many other funds and these risks will require careful consideration going forward, where any local discretion remains.

4.00 RECOMMENDATIONS

4.01 That Committee Members note the report and support developments.

5.00 FINANCIAL IMPLICATIONS

5.01 The advisor fees will be shared between the 8 funds.

6.00 ANTIPOVERTY IMPACT

6.01 None directly as a result of this report.

7.00 ENVIRONMENTAL IMPACT

7.01 None directly as a result of this report.

8.00 EQUALITIES IMPACT

8.01 None directly as a result of this report.

9.00 PERSONNEL IMPLICATIONS

9.01 None directly as a result of this report

10.00 CONSULTATION REQUIRED

10.01 With the other 7 pension funds in Wales.

11.00 CONSULTATION UNDERTAKEN

11.01 With the other 7 pension funds in Wales.

12.00 APPENDICES

12.01 Mercer Report – All Wales Collaboration

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: None

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ALL WALES COLLABORATION

JULY 2015

MARSH & McLENNAN COMPANIES

CONTENTS

1

Executive Summary

This paper provides an overview of the work completed to support the eight Welsh LGPS Funds ("the Welsh Funds") in their considerations in establishing a collaborative governance and investment framework. The paper recommends that the Welsh Funds:

- Spend time to develop a shared set of principles for collaboration.
- Pursue a more collaborative approach in order to avail the key benefits which include economies of scale and lower costs, increased consistencies, enhanced governance and operational management across the Welsh Funds.
- Select a single passive provider for passive assets to obtain immediate cost savings. A pooling structure would not be required to achieve these gains.
- Establish a pooling framework to extend on collaboration beyond passive assets.
- Adopt a regulated (pooling) vehicle along with a model that supports leveraging the infrastructure of a third party provider (rather than building such infrastructure internally).
- Consider framing the new collaborative framework as optional for each Welsh Fund but target mandates that are common to all to ensure strong uptake and an engaged and simple approach.
- Consider active equity as the immediate mandate to commence under the new collaborative framework. The analysis conducted highlights that these mandates offer the greatest potential for cost savings and improved net of fees returns.

Agree a set of next steps to take forward the project, including a workshop / training session and development of a project plan, including the potential tender process to assess suitable partners/providers to support the new collaborative framework.

2

Background

We begin at the point at which the eight LGPS Funds in Wales have decided there is merit in exploring whether investing their assets together is (tangibly) worthwhile.

There are a range of options for investing collectively and for each option we have considered;

- The costs of set up
- The financial benefits
- Implementation issues
- The governance implications
- The legal implications

We have made recommendations in terms of the options we feel should be taken forward and as such have provided details of next steps for implementation.

Proven Benefits?

At the outset of the project, Officers of the eight Funds were clear that a discussion was needed on the benefits of collaborative investing and the extent to which these were proven; the rationale being that this may help form the guiding principles or aims of any collaboration project.

In order for collaboration to be “proven”, we arguably need to obtain improved investment returns after fees.

Reductions in fees are of course tangible, but arriving at improved investment returns can be a result of a number of inter-related factors, and so the singular impact of collaboration may be difficult to definitively prove.

Nonetheless, there are a range of factors, be they direct or indirect, that collaboration will bring to the table, which we believe will have a measurable benefit;

- Increased scale would **reduce costs** but also allow for more **diversified, but focused** portfolios

Care would need to be taken not to “over-diversify”; however, a weight of collective assets would allow for more focused or specialised portfolios, perhaps covering opportunities that would not be possible on an individual Fund basis. We also believe there is a real opportunity to take a long term approach in illiquid, alternative assets that may not exist at an individual Fund level presently. A carefully considered collective vehicle, tailored for the needs of the LGPS, would have distinct merits – managed by the LGPS for the LGPS.

There needs to be an awareness of **diseconomies of scale** however (for example, smaller boutique managers may not be able to facilitate large pools of assets).

- Improvements in governance

By delegating manager decisions to a joint Welsh body, individual Funds will have more time to spend on strategic issues such as funding and investment strategy. Structured correctly, a joint body operating outside the usual Committee cycle will increase the speed of decision making and be able to be more “market aware”. There is of course also the point that “eight heads may be better than one” in terms of diversity of ideas.

- Increasing operational efficiencies

Currently eight Funds are independently diverting internal resources and paying fees to external providers. Where there is commonality in services required, whether it be investment related (e.g. a manager selection requirement for a particular asset class) or operational (e.g. use of a custodian), collaboration can drive operational efficiencies of a significant magnitude.

3

Governance

Governance is Key

Key to any potential collaborative project is whether each individual Fund is on board and willing to commit to a **shared set of principles**. With this in place, a sensible governance structure will be easier to achieve.

It is worth noting that we are not recommending any degree of compulsion for any individual Welsh Fund to invest in a collaborative Welsh entity; although clearly the direction of travel post Budget is that meaningful steps are likely to be required by all Funds in England and Wales. However, each Fund (and its associated Committees), if deciding to use the structure, will need to be on board with the concept of delegation to a collective entity of some description with respect to manager selection, monitoring and implementation. With this in mind, we would suggest that it is crucial that a joint vision or set of principles is established at outset that local Committees can buy into and reference at future points.

We would strongly recommend that after consideration of this report, the eight Funds prioritise the establishment of a shared set of principles. Issues to resolve will include:

- What is the primary aim of collaboration?
    - Cost savings
    - Pursuit of excellence – governance and investments
    - Implementation of a long term investment philosophy
- How will success be measured?
- Will decisions require a majority or full consent?
- Will all Funds approach engagement with Committees collectively or individually (at outset and on an ongoing basis)?
- How will operational issues such as procurement be dealt with?
- How often and where will the group meet, and with the difficulties presented by geography and travel, will sub groups for potentially separate work streams be established?
- What asset classes / mandates to include in the initial collaboration framework?

Good governance is crucial

There is academic research that suggests the existence of a good governance premium; ranging from 0.05% p.a. (Clarke, 2007) to 1-3% p.a. (Ambachtsheer 2007, Watson Wyatt 2006)

"Pension Fund Governance can make a positive difference to financial performance, cost efficiency, and the trust of stakeholders in the institution" (Clark, 2007)

There are several reasons as to the relevance of a governance premium in this case. In the first instance, by delegating investment manager issues to a collective entity, the more important considerations of funding and investment policies can be given more time by Committees (locally) at each Welsh Fund. Second, the governance structure of the collective entity itself is of utmost importance in the role it plays in efficient decision making and implementation.

Any collective entity will have an Investment Committee of some description that will need a Terms of Reference to determine its precise make up and roles / responsibilities and this will become more tangible once a collective model is established. In the meantime, we would make the following initial suggestions:

- All Funds participating will require representation, but on the grounds that it is our opinion (and experience) that smaller groups tend to operate more efficiently, we would recommend that each Fund has just one representative;

- Depending on the structure chosen, it may be that an independent chair and a secretary are considered. Otherwise, it may be worth considering having a rotating chair with perhaps each Fund's representative serving as chair for six months;

- To maximise the professionalism of decision making, we would suggest that the Fund representatives are Officers with investment experience / expertise;

- It may be worth considering having an elected official from each local Committee form a Consultative Committee that could receive periodic reports from the Investment Committee.

Summary:

- Key to any potential collaborative project is whether each individual Fund is on board and willing to commit to a shared set of principles.

- We would suggest that these principles are formalised at outset and are focused around:

    - Aims of collaboration
    - Measures of success
    - Decision making process
    - Engagement at a local level
    - Operational considerations

- In putting in place an appropriate governance structure, a balance needs to be struck between retention of issues at a local level (where appropriate); but the need to delegate aspects where it "makes sense" to do so.

4

Avoiding Complexity

What can be done within the current arrangements for each Fund?

It would seem sensible before embarking on a project requiring change, to consider whether there are efficiencies that can be easily exploited within the existing arrangements.

We have considered the following areas:

- Investment manager fees (based on commonalities across current assets / manager structure);

- Other expenses (e.g. custodian and consulting costs).

Investment manager fees

An obvious place to start is to review the aggregate investment manager fees currently in place across the eight Funds. We reviewed the following areas:

- Aggregate fees – how do fees of the eight Funds in aggregate compare to other large mandates?
- Potential for savings within passive mandates
- Commonalities within active mandates
- Initial thoughts on alternatives
- Implications for bond portfolio

A summary of our findings is below. Further detail on each aspect is outlined in the appendix.

	Comment
Aggregate fees	Current fees are generally competitive across the board compared to our Global Fee Survey (used to benchmark fees relative to the industry). However, due to the lack of comparable data, our Fee Survey does not provide information on mandates of the scale possible across the eight Welsh funds collectively.
Potential for savings within passive mandates	Fees are relatively good value compared to other passive mandates globally. However, this is an area of increasing focus for joint procurements, so it may be an area worthy of investigation. We believe there is potential for fee savings in Wales as a collective seeking to negotiate with the leading passive managers. Based on recent experience, this ***could*** lead to savings of £800,000 p.a. We would caution however that other factors (such as profits on stock lending and costs of trading) would also need due consideration in addition to headline manager fees.
Commonalities within active UK and global equity strategies	There is limited commonality between the Funds' manager line-up. Even where there are consistencies at a manager level, due to Fund specific requirements in the majority of cases there is little scope to enable Funds

	to leverage any economies of scale under the current structure. However, there is consistency of strategy and allocation across the Funds and so equity mandates may actually offer the greatest scope for initial collaboration.
Initial thoughts on alternative assets	It is very difficult to quantify any potential for immediate cost savings through leveraging any commonalities due to complex structures in place. There is also little point in attempting to renegotiate fees with private markets managers given the Funds are "locked in" to these investments. There is potential for significant savings should Funds collaborate on alternatives under a revised model that aggregates Funds' assets – but the "model" will need to be in place first.
Implications for bond portfolios	The make-up of the individual Funds' bond portfolios are wide ranging, and can broadly be categorised into UK Government, UK Corporate and Global bonds. There is little commonality between mandates and so little scope to harvest significant fee savings with mandates in their current formats. We do however note that from a strategic perspective the case for holding bonds in the current environment is changing. Therefore to the extent to which these mandates are up for review there may be more potential for collaboration going forward.
Other expenses	The Funds incur "other" expenses of c£1.6m p.a., with the largest expenses relating to custodian and consulting costs. We would view custody as an area where fee savings could be made. From the data provided, there are at least 3 named custodians and by looking to procure a single custodian across Wales we would expect significant savings to be made as a result of incredibly aggressive pricing in the market. We would suggest any wins here are considered as part of the wider collective investment model for Wales as opposed to a stand-alone custodian decision being made.

Summary:

- We have investigated the potential for cost efficiencies in respect of investment manager fees and other expenses under the existing arrangements. Given the allocations and consistency of UK and global equity across the Funds, these mandates offer the greatest scope for initial collaboration.
- The diversity across mandates at present suggests that there are limited initial savings to be made without aggregating assets in some way. The exception would be the passively managed funds, which could achieve savings of c£800,000 p.a. should the funds appoint a common manager.
- There are also potential fee savings to be made in respect of appointing a common custodian. We would however suggest that this is considered as part of any wider collective investment model considered.

5

Asset Pooling

Should Assets be Pooled?

In order to achieve lasting scale, we believe that there needs to be some form of asset pooling across Funds. This need not be wholescale; we would suggest that careful consideration is given to the type of assets or mandates that would provide either the greatest efficiencies, or the greatest opportunity for creating excellence in investment.

Joint procurements would provide an initial level of cost savings, but there still needs to be some sort of structure in place to enable the project to “have legs” and with that in mind, joint procurements probably have more mileage for less complex mandates such as passive.

The advantage of pooling is that it provides some sort of physical structure on which a joint entity can be based.

As part of this exercise, Officers considered in detail various methods of asset pooling and the types of structure that exist. The conclusion was reached that from a risk management perspective, a regulated structure with proper operational controls and expertise will provide a more robust solution and establish a professional framework that would stand up to best practice and provide longevity of approach.

Whilst at first glance, an unregulated structure like a Common Investment Fund may feel like a more simple solution it doesn’t solve any governance issues for the Welsh Funds. There would need to be a lead authority or a joint body of some description that would take responsibility for manager selections, reporting and monitoring, transitions, and unitisation.

6

A Joint Structure

How to achieve a joint, regulated structure

In order to establish a Welsh fund / vehicle, a Management Company will be required and there are two options; either "build" a Welsh Management Company, or "rent" the structure from a provider.

In practice, the two options become three;

1. Establish a Welsh Management Company ("build");
2. Use the Management Company of a third party custodian ("rent");
3. Access the Management Company of third party provider to tailor a Welsh solution ("rent").

Option 1 – Establish a Management Company (the "build" option)

Costs and Timescales

Officers have considered in detail the requirements, timelines, costs and ongoing obligations associated with the establishment of a management company and related regulated fund structure.

As a guide, we estimate that the minimum timeframe involved to establish a fund and related entities is **12-18 months**. The timeframe is also contingent on a dedicated team of internal and external resources working on this project on a full-time basis and all aspects of the project going to plan.

In addition to the external tax and legal costs that we expect will be incurred (estimated to be in the region of £0.5m to £0.8m) considerable resources, both internal and external (in the form of consultants) in terms of time and costs need to be considered.

We estimate total resource related costs (internal and external) to be in the region of £2.7 to £3.1m, bringing the **total initial cost estimate to between £3.2m and £3.9m**.

This estimate is based on Mercer's own experience and cannot be relied upon as a definitive figure and is also contingent on no OJEU processes being triggered for providers, which we believe in practice is unlikely.

Under the appropriate regulation, the initial capital requirement for the Management Company is estimated to be between £3 - £6 million. This amount is subject to regulatory change and ongoing monitoring by the Welsh Funds.

On-going considerations

Having established a Management Company and related Fund, the Welsh Funds have ultimate fiduciary responsibility.

While certain functions may be outsourced, there is a requirement that the Fund is not a "letter box" entity. The Management Company will need to satisfy the Regulator on an ongoing basis that it has adequate management resources to conduct its activities effectively and employs personnel with the skills, knowledge necessary for the discharge of the responsibilities allocated to them.

There are considerable ongoing governance, oversight and reporting requirements to be undertaken by the Welsh Funds as a result of the establishment of regulated entities and funds. Examples include:

- Board representation and quarterly Board meetings
- Required governance structure and committees, internal policies and procedures to mitigate risk
- Oversight of all service providers
- Regulatory reporting and filings

The Welsh Funds will be subject to the Regulator's supervision, which is carried out as follows:

- Analysis of returns submitted to the Regulator
- Risk-rating of companies
- Themed and general inspections
- Review meetings
- Regular correspondence and engagement with companies under Central Bank supervision

The Regulator has the power to impose sanctions on regulated entities for breaches of regulatory requirements ranging from substantial fines to, ultimately, the loss of authorisation. It is therefore crucial that any regulated entity has access to an adequately resourced and experienced team of compliance professionals. As is common with regulators around the world, the Central Bank is increasingly focused on supervision and enforcement.

Option 2 – Access the Management Company of a third party provider (the "rent" option)

The second option would be to use the standalone, pre-existing Management Company of a Custodian or an Investment Manager (for example). This approach would provide the benefits of avoiding to "build" an internal management company and would therefore avoid the associated cost and complexity outlined in Option 1.

There are of course a range of governance considerations related to this option and Officers will consider these in detail before and as part of any potential procurement exercise.

However, it should also be noted, that while a Custodian and/or Investment Manager may be able to provide a Management Company and infrastructure, the needs to support a collaboration framework are typically wider. The Welsh Funds would still require internal resources to support the governance and operations layer outside the Management Company to cover project management, manager appointments and implementation and asset transition.

A Custodian would not typically have the internal investment expertise or capabilities to provide this wider support. In addition, the appointment of an investment manager in this role may create challenges with other investment managers managing the assets of the Welsh Funds in that they would need to provide their stock holdings and undertake fee negotiations (typically confidential information) with a competitor.

Notwithstanding this, Option 2 would be a viable option where the Welsh Funds would like to establish an internal team (significantly less than would be required under Option 1) to co-ordinate their investment arrangements.

Option 3 – Access the Management Company of third party provider to tailor a Welsh solution (a further "rent" option)

The third option is for a third party provider to tailor a solution for Wales using their existing infrastructure and **in addition, to support the operational co-ordination of the new framework on a day to day basis**.

Ideally a provider would be found who has experience of this role with other UK pension schemes and has established a number of different umbrella fund structures. This means that the Welsh Funds would not need to go through the full legal process of establishing a fund - the provider could simply launch a bespoke fund via an umbrella structure.

In addition, Option 3 would not require the development of internal Wales' resources as the appointed provider would provide the expertise, project management and operational governance to set up and operate the new arrangement on behalf of the Welsh Fund.

Some thoughts on the differences between Options 2 and 3

The difference between Option 2 and Option 3 is that the latter allows for an integrated investment advisory support to the Welsh Investment Committee decision-making process, along with implementation in terms of set up, execution of manager appointments / replacements, transitions and rebalancing etc. **These services would need to be contracted separately under Option 2**.

It is also unlikely that Option 2 would provide support in terms of co-ordinating and execution between managers, transition managers, custodians, pension advisors, legal advisors. It is therefore likely to require specialist / specific Officer support; perhaps in the form of a dedicated project manager or internal team or delegated to external consultants.

Specifically, Option 2 would also not allow for any potential manager fee reductions above and beyond the scale of the Welsh assets (no access to global buying power, which may be important if take up amongst the Welsh Funds is low to begin with).

Because the set up costs of option 3 are likely to be absorbed by the provider (and probably recouped by way of a minimum ongoing fee once assets are invested) there are no cost implications for Funds who decide not to participate from the outset. This does however assume that a minimum scale is achieved via those Funds who do invest.

It is also worth raising the issue of ongoing advice in terms of manager selection and implementation, and monitoring. Under Option 3, all these items are covered and there would be no requirement for individual Funds who are committed to engage these services at a Fund level. Of course, it may be the case that existing Fund consultants and advisors are engaged to provide advice on the recommendations of the Investment Committee to the collective structure, but that would be an individual Fund choice.

Nonetheless, we understand that, in order to fully assess the differences between Options 2 and 3, the Welsh Funds may wish to seek proposals from interested parties along with associated cost estimates.

Costs of rental (Options 2 and 3) versus current approach

Officers have considered in detail the indicative costs associated with the existing approach compared with either of the two rental options.

As a starting point, and for simplicity, we looked at the eight Funds' **active UK and global equity** allocation and assessed the potential costs of a collaborative approach according to various levels of take up.

There were several reasons for starting with one asset class only:

- It is more tangible in the sense that the simpler we make it, the fewer assumptions that are needed;
- We believe that by starting with one asset class and getting a structure in place, it is more likely that any collaboration project will actually get off the ground;

- Equity is arguably far less controversial (and easier for a collective to agree on) than a wider ranging project such as “alternatives”;
- Once a robust governance structure is in place, more complex decisions such as the structure of an alternatives portfolio have a proper forum for discussion.

The potential estimated cost savings for options 2 and 3 are outlined below:

Cost saving (p.a.)	100% take up	50% take up	25% take up
Option 2	£1.6m	-£0.3m	-£0.5m
Option 3	£2.7m	£1.0m	£0.1m

The calculations above relate only to the tangible expected cost savings relating to investing UK and global equities collaboratively. Further savings would be achieved as more assets (in particular alternative assets) were introduced to the structure. In addition, the performance impact of an improved governance structure has not been incorporated.

There are several notes to the estimated and these can be found in the appendix.

Recommendation

We would discount the build option (option 1) on the grounds of initial cost, timings and resource constraints and would recommend that consideration is given to Option 2 or 3. The differences between Option 2 and 3 relate to the desire for the Welsh Funds to establish an internal team to co-ordinate and manage day to day the various components of the new collaborative arrangements. This is the key question that should be considered (along with the cost) between Option 2 and 3.

We would **further recommend** that the Welsh Funds consider the following question:

Is there a need for a “big bang” solution (i.e. having a collaborative approach that covers all asset classes from day 1) or should a solution be phased or incremental?

We would strongly recommend that consideration is given to the latter, on the following grounds:

- Although the costs savings associated with a single asset class are clearly lower than the entire asset allocation, starting singularly means that a platform and governance structure can be built that will allow more complex decisions to be given proper consideration.

- We would predict that by starting with an asset class such as equity and allowing others to follow, the project will have a much shorter timescale to fruition.

Summary:

- In order to establish a Welsh fund / vehicle, a Management Company will be required – this can be **"built"** or the structure could be **"rented"** from an existing provider.

- The estimated costs of build would be c£3-4million and it would take at least 12-18 months to establish, plus any procurement time in addition. The internal resource required to build would also be significant. On this basis, **we have discounted "build" as a viable option for Wales.**

- There are two main ways in which the Funds could "rent" a Management Company – either solely purchasing the infrastructure (option 2) or by using a tailored third party approach, which would also incorporate governance and operational oversight (option 3). **The upfront costs, internal team requirements, and timescales are significantly reduced under the rental option and is therefore our favoured approach.**

- There are **expected to be cost savings associated with collaboration** and we have provided information using active UK and global equities as a starting point. The costs do however vary depending upon take up and the solution sought (from an increase in fees of £0.5m p.a. to a reduction of fees of £2.7m p.a.). **The savings would increase as more asset classes are incorporated; significantly in the case of alternatives**. In addition, the additional benefits in terms of long term investment philosophy and the governance premium should also be considered.

- The **key question to decide between Options 2 and 3 relates to the desire to develop internal resources and priority for cost-efficiency** across the Welsh Funds. **Costs savings are expected to be increased further if other asset classes are adopted over time** – most notably from alternatives, albeit noting that this is likely to be a longer term project first in terms of running off existing commitments and second building a long term collective strategy.

- In setting up an appropriate course of action, we would **strongly advocate a phased / incremental approach to collaboration** (e.g. using global equities as a starting point); as opposed to a "big bang" solution (which might cover all asset classes from day 1). This would reduce the timescales for implementation and the level of complexity in the shorter term.

- We would suggest that the **next step for the Welsh Funds would be to invite non-binding proposals from potential "rental" providers** in order that a comparison of services and costs can be made.

7

Legal Issues

Advice has been sought from Sacker and Partners who looked at the following principal questions:

- do the Councils have power to implement the Proposals being considered;
- how do the proposals interact with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 ("Investment Regulations"); and
- what procurement obligations apply?

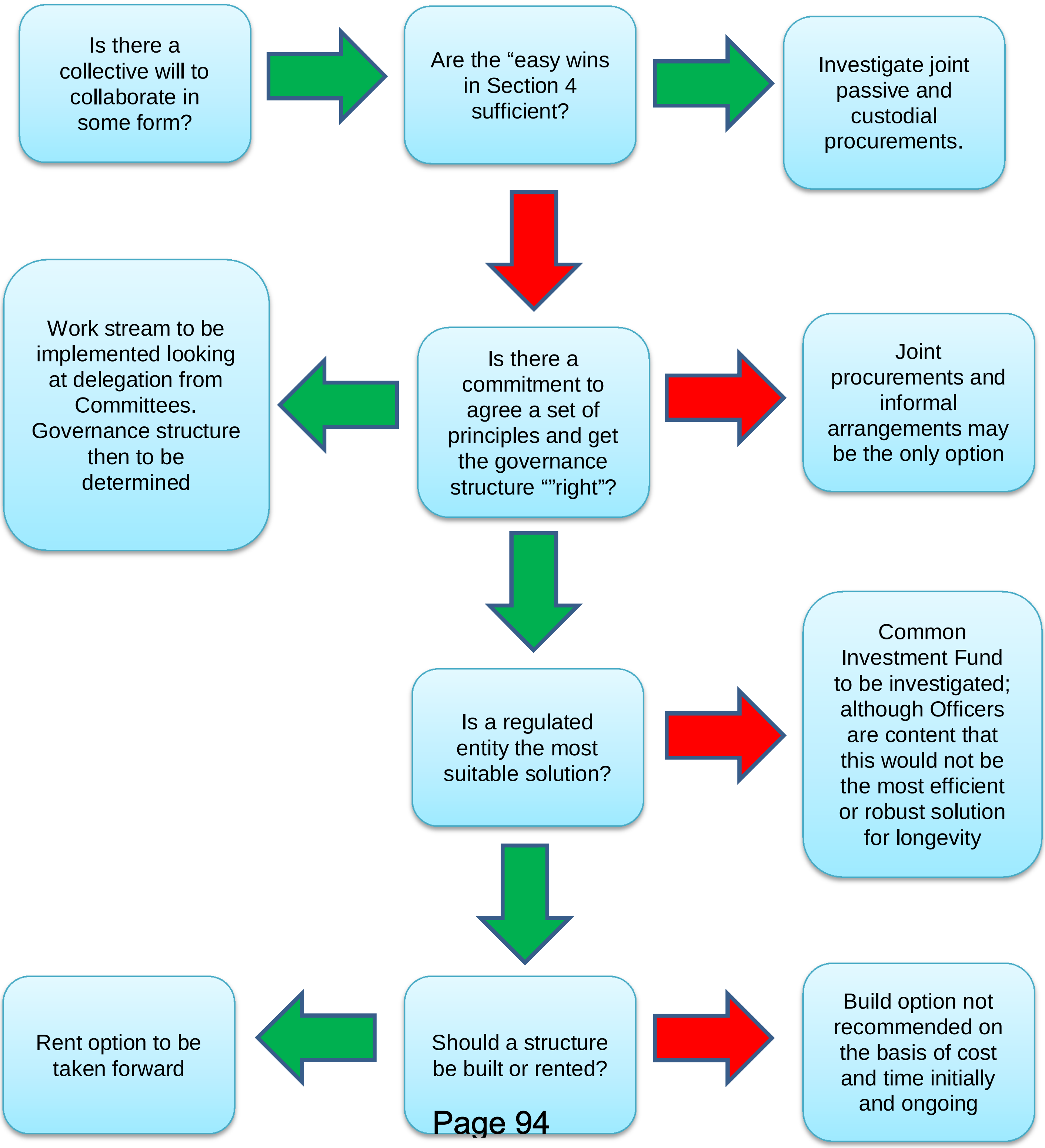
Sackers have not identified any legal show stoppers which would prevent the Councils proceeding. However, they do identify a number of points in relation to governance, delegation and procurement that Officers will take into account as the project progresses.

8

Decision Making – An Overview

The project undertaken by Officers has been all encompassing, and a summary has been provided within this report.

By way of a summary, the following diagram may help the reader work through the decisions that Officers are minded to make:



9

Summary and Recommendations

There are significant savings to be made; both direct and indirect, some more quantifiable than others, through pooling assets and investing collectively.

Governance and delegation

For the Welsh Funds to use a collective structure there must be a shared vision and we would suggest that a set of principles are established at outset.

We believe that there is a premium to be achieved through good governance and sufficient time should be spent in establishing the correct construct of an investment committee of a collective investment structure.

We further believe that there is a real opportunity here to establish a collective with long term principles of investment at its heart; a philosophy that in itself has been show to add real value.

Steps that could be taken without the need for a collective structure

In the particular circumstances that the Welsh Funds find themselves (most notably little cross-over of existing mandates), we conclude that there are few "easy wins" in terms of leveraging existing mandates. We do however recommend that a joint procurement is effected for passive management and possibly custodial arrangements (once decisions have been made on a collective structure).

We would suggest that a single passive manager for Wales would not need to operate under a collective structure and that savings of around £800,000 p.a. could be made if all Funds participated at current levels of assets under passive management. It is likely that this would need to be procured under OJEU due to the additional services deployed by passive managers, such as swing management / rebalancing roles. We have not allowed for transition costs in this instance, on the grounds that passive mandates ought to be transferred between managers on an in-specie basis.

In addition, we note that a joint custodian procurement, presumably utilising the National LGPS Custodian Framework, could harvest further savings. ***However, this is not a step we would suggest considering until decisions are made on collective investing***.

A collective structure

We have recommended, for reasons of future proofing and efficiency, that ***a regulated vehicle is the optimal solution*** for any collective vehicle.

We would further recommend that ***a structure is "rented"*** (i.e. leveraging the existing infrastructure of a third party) ***as opposed to "built"*** (on the grounds of cost, resource and time). An increasing number of sophisticated institutional investors across Europe are moving in this direction.

The attraction of a rental model lies in its ***flexibility***; there will be minimum asset sizes that need to be committed in order to make it a viable proposition for the provider, but by no means do all eight Funds need to commit all of their assets to make it work. We suggest that a rental model using active equity as a starting point will offer tangible savings. This feels like an "easy win"; a starting point to try out a collective arrangement whilst a longer term plan on more complex assets is determined.

There are reduced or no set up costs to be incurred under Options 2 and 3, other than procuring the provider, by the Funds. These are bourne by the provider who will likely charge a minimum ongoing fee for an initial period in order to cover this; just an ongoing operating cost, which means that Funds need only commit (and pay) when they are ready to invest. Of course the cost savings would be greater the more Funds that invest, but we would suggest that the idea of a platform being available to rent / use when needed may be more attractive than compulsion to use a model that has been expensive to build independently.

Under the right model / provider, there would be no "give up" in innovation; the Funds would be free to consider a range of options and perhaps these are more plentiful in the alternative assets space.

The next step will be to assess the options that are available from the various providers under this model and we can help formulate a template for discussion if required.

Critical Mass

Under the rental model, critical mass will be determined by the minimum fee set down by the chosen provider, but it will also depend on the time period over which savings need to be demonstrated.

For example, if half of the Funds (by asset value) commit to looking at global equities first under a rental model, then the immediate fee savings may be net neutral and a commitment would be needed towards a longer term aim of adding additional asset classes.

Legal Issues

Sackers' high level advice confirms that the use of a contractual vehicle should not, in their view, be subject to any limits under the LGPS Investment Regulations. They have not identified any show-stopper legal issues with the use of a manager, either rented or built.

Sackers have also confirmed their view that there is no legal obligation to go through a formal Procurement Regulations 2015 (or "OJEU") procedure in respect of the initial investment into a bespoke pooled vehicle or in respect of the appointment of a "rented" manager. However, they note that some Councils choose to go through a procurement obligation for policy and/or reputational reasons even where the Regulations do not require this.

Recommendations

- To consider the appointment of a single passive manager across the eight Welsh Funds (regardless of any decision to proceed with a collective structure; although noting that this could just as easily fall under the collective structure for ease).

For actively managed assets:

- To avoid compulsion; a collection of the willing with a shared set of principles is likely to result in a more robust, focused arrangement;
- To be clear on guiding principles;
- To consider the governance structure;
- To consider the set-up of a regulated vehicle;

- To consider leveraging the infrastructure of a third party provider to tailor a Welsh solution.

- To start with a single asset class, with a view to adding more complex propositions once the structure and its governance arrangements are up and running. Given our analysis, both UK and global equity would offer a strong starting point to fit into the new collaborative framework given the allocation and consistency of these mandates across the schemes and the potential to leverage material cost savings.

- We would suggest a training workshop to discuss the details and workings of the new framework to be set up for the summer period.

- After the workshops, the next step for the Welsh Funds would be to invite non-binding proposals from potential providers in order that a comparison of services and costs can be made.

Next steps

We would see the next steps of the project being as follows:

Stage	**Time scale**
Development of guiding principles	Summer 2015
Training for Key Stakeholders on principles and options	Summer 2015
Workshop / training for Officers on the operational aspects of the “rent” option.	Summer 2015
Draft of specification for providers	Q3 2015
Draft Terms of Reference for All Wales Investment Committee	Q3 2015
Each Fund to work through constitutional issues in terms of delegation to All Wales Investment Committee	Q3 2015
Initial due diligence meetings with providers	Q4 2015
OJEU Process to begin (if required)	Q4 2015

10

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Jo Holden
Mercer
July 2015

APPENDIX

Notes to cost savings calculations

The savings quoted are in relation to manager fees only and for one asset class (UK and global equity) only. It should also be noted that recent fees for UK equity have been higher than has historically been the case due to strong performance and the addition of performance related fees. Therefore, rather than use more recent fees, we have taken a longer term historic average.

Alternative assets are the area where anecdotally the largest savings could be made but this would be a longer term project first in terms of running off existing commitments and second building a long term collective strategy.

Over time, for a Fund committing a significant proportion of assets, there would be associated reductions in fees for:

- Custody
- Reporting
- Procurement / manager selections

Based on each Fund committing to the collective arrangement, we estimate an additional £0.1m of savings per annum per Fund (or £0.8m collectively).

In addition, the additional premia discussed earlier in terms of ***long term investment philosophy*** and the ***governance premium*** should also be considered.

Additional costs

There would also be transaction costs in migrating to the new arrangement. However, in practice, we would expect the fund to be built around existing high quality managers where appropriate.

There would also be the costs of procurement and internal resource to be incorporated.

Implementation fee

Options 2 and 3 may have an "implementation fee", be that implicit or direct.

All services will be included within Option 3 and the provider may well waive the fee.

Option 2 however will require the Welsh Funds to undertake, or outsource, the following tasks and therefore there will be a set up or implementation cost:

- Advice in relation to manager selection and portfolio construction
- Procurement of managers
- Transition services

Assumptions

The key assumptions outlined in the analysis are as follows:

- Current approach:

  We have assumed the current manager fees (including performance fees) represent the cost of the typical manager fees under the existing arrangements. Where take up is reduced, we have assumed the basis points fee remains the same.

- Option 2 – Custodian approach:

  We have assumed that, based on the size of assets in place should manager appointments be made as a collective the costs could reduce should all global equities be moved into this structure. The fees secured under the 50% and 25% take up options are higher to reflect the discounts being secured with managers reducing.

  The structural fee in adopting this approach with a custodian increases (in basis point terms) as take up rates fall.

- Option 3 – Tailored approach:

  We have assumed that using a third party provider, the fees secured with managers would be the same regardless of the take up. This is owing to the buying power already being in place from a global organisation with extensive assets under management

  In line with Option 2, the structural fee in adopting this approach with a custodian increases (in basis point terms) as take up rates fall.

The numbers outlined here are indicative and would be dependent upon the managers and structural platform used.

Clearly the above relates solely to actual monetary cost savings and does not allow for any potential for improved decision making and the extent to which this translates to improved investment returns.

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FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CLWYD PENSION FUND COMMITTEE**

DATE: **26th NOVEMBER 2015**

REPORT BY: **CLWYD PENSION FUND MANAGER**

SUBJECT: **LGPS CURRENT ISSUES UPDATE**

1.00 PURPOSE OF REPORT

1.01 The purpose of this report is to ensure that the Members of the Committee as far as possible remain aware of the National and Local issues facing the management and operation of the Local Government Pension Scheme.

2.00 BACKGROUND

2.01 Mercer's rolling "current issues" documents focus on the Regulations and other matters and form the background of this report for the Committee meeting.

2.02 Any items that the Fund Actuary, a Pension Fund officer, or a member of the Advisory Panel believe is of key significance will be highlighted in section 3 of this report.

2.03 In addition to the "current issues" document tabled for the September Committee meeting, also attached is an Employer facing "current issues" document that was produced for the recent Annual Joint Consultative Forum.

3.00 CONSIDERATIONS

3.01 It is recommended that all Members familiarise themselves with all the current issues listed in both documents.

3.02 Key items to be noted in current issues and employer facing papers are:

- HM Treasury's decision to implement a Public Sector exit payments cap on redundancy pay-offs (a decision will be needed by the Welsh Government under its devolved powers in order to implement in Wales). This is to **include** payments related to early access to an unreduced pension - a benefit available to members of the LGPS who are above aged 55 at the time.
- The Government has invited LGPS administering authorities to work together and pool assets in order to reduce costs.
- CPI for year to September was negative, affecting LGPS and other UK public service and state pension benefits.
- The 2015 Summer Budget included some far reaching changes:
    - Annual Allowance will reduce from 6 April 2016 for high earners

  - Pension Input Periods to change from 6 April 2016. The LGPS will see a transition from the current Input Period (1 April - 31 March) to tax years.
  - A Green Paper consultation was issued in order to seek views on whether there is a case for reforming the pension tax relief system, or keep the current one. An announcement is expected in the Autumn Statement.
- The Association of British Insurers provide the first insight of behaviours of pension savers following the introduction of the new Freedoms.
- The LGPS Cost Management process likely to need work and agreement from Administering Authorities, potentially with cost implications given the level of detail requested.
- A New Fair Deal consultation is expected to emerge, likely to run for three months.
- The Pensions Ombudsman accepts an LGPS member's complaint over early retirement access. The case serves as a reminder to all funds and employers to ensure that up-to-date discretionary policies are in place.

3.03 The Fund Actuary, Advisory Panel members and pension fund officers will be present to answer any questions that Members may have.

3.04 Some of the resultant actions for the Fund will be noted in other reports.

4.00 <u>RECOMMENDATIONS</u>

4.01 That Committee Members note the report.

5.00 <u>FINANCIAL IMPLICATIONS</u>

5.01 None directly as a result of this report.

6.00 <u>ANTIPOVERTY IMPACT</u>

6.01 None directly as a result of this report.

7.00 <u>ENVIRONMENTAL IMPACT</u>

7.01 None directly as a result of this report.

8.00 <u>EQUALITIES IMPACT</u>

8.01 None directly as a result of this report.

9.00 <u>PERSONNEL IMPLICATIONS</u>

9.01 None directly as a result of this report

10.00 <u>CONSULTATION REQUIRED</u>

10.01 None directly as a result of this report.

11.00 CONSULTATION UNDERTAKEN

11.01 None directly as a result of this report.

12.00 APPENDICES

12.01 LGPS Current Issues.
12.02 Employer Facing Document.

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: Attached documents from Mercer

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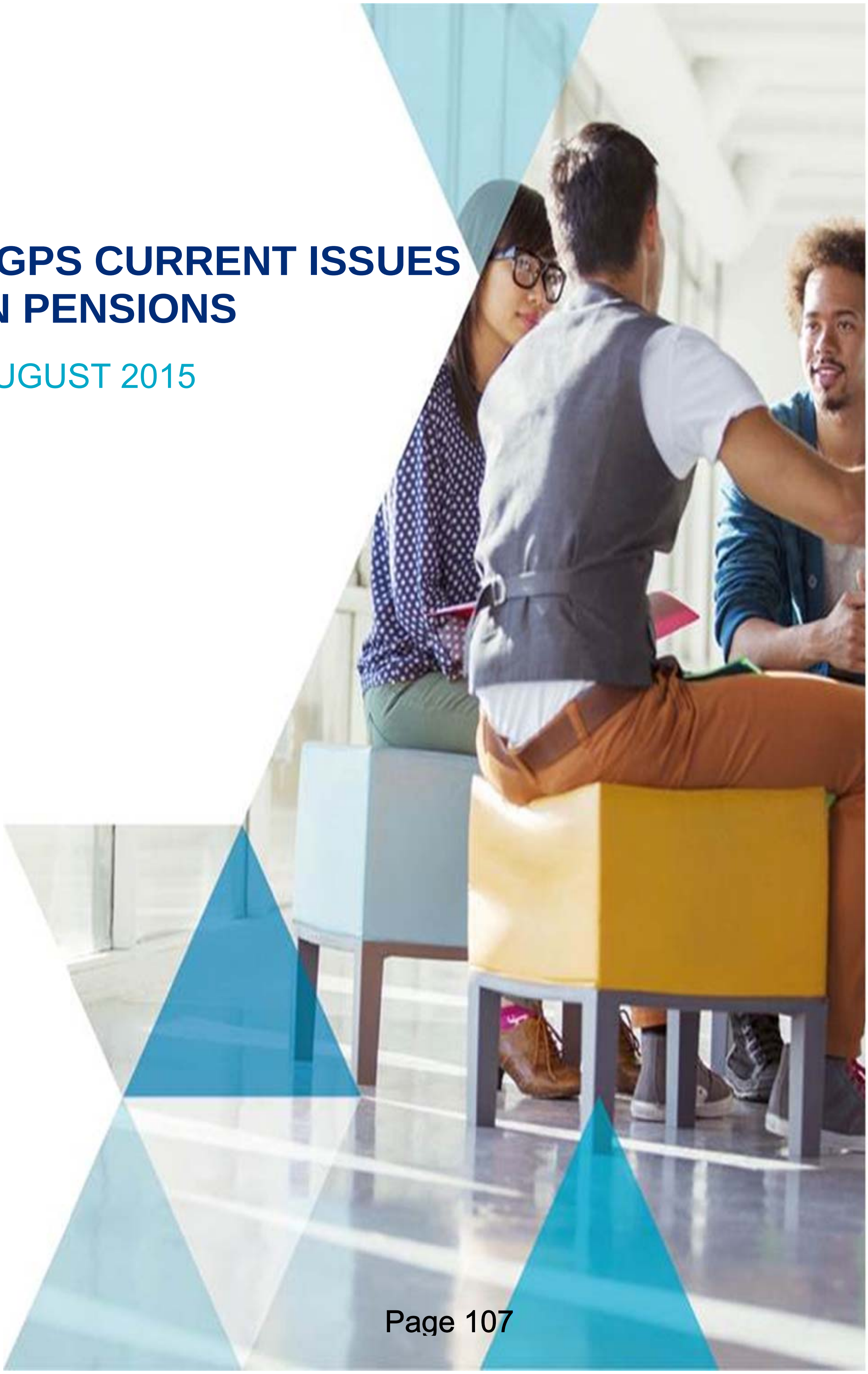
LGPS CURRENT ISSUES IN PENSIONS

AUGUST 2015



IN THIS EDITION

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MARSH & McLENNAN COMPANIES

SUMMER BUDGET

The end of meaningful tax-free pension savings?

The 2015 Summer Budget, delivered on 8 July, was the first conservative Government budget in almost 20 years, and some far-reaching changes were announced. Pension tax was once again an area of focus for the Chancellor, following on from the previously announced reduction in the lifetime allowance to £1 million.

A high-level overview of the three main pension issues announced is given below – more information can be found in our *Summer Budget 2015* paper. We will report on these areas in *Current Issues* over the coming months as further details emerge.

- The annual allowance will reduce from 6 April 2016 for high earners. This change will mean that, for individuals with "incomes" over £150,000, the annual allowance will reduce by £1 for every £2 of income, with a minimum annual allowance of £10,000. "Income" - to determine the amount of annual allowance someone has - is effectively defined as total taxable income, ***including*** the value of any pension contributions or accrual, and any income not related to main employment, such as rental income or income from other sources. Therefore many people may not be able to calculate their annual allowance until after the relevant tax year has ended and they have completed their annual tax return.

- Pension input periods to change. From 6 April 2016, all pension input periods will be the same period as the tax year. As this is not currently the case for the LGPS, 2015/16 will see a transition from the current pension input period to the tax year. The transition applies irrespective of whether or not a scheme already uses tax years. In general, the approach is that an individual can save (without an annual allowance charge) £80,000 in the current tax year but no more than £40,000 after 8 July 2015. For most individuals this approach to the transition is generous, and some may be able to save more through Additional Voluntary Contributions (AVCs) than they originally anticipated.

- Green Paper: a consultation on pension tax relief. Included in the Budget was the launch of a consultation on whether there is a case for reforming pension tax relief, or whether it is best to keep the current system. The Government has now issued its Green Paper consultation. It does not put forward any specific proposals, although it does outline some basic principles it believes any reform should meet. The paper acknowledges that there are many ways in which tax relief on pensions savings can be structured and indicates that all are open for consideration, including the option of keeping the current system of annual and lifetime allowances. At the other end of the range of options it gives the example of reversing the current position so that pension contributions would be paid out of taxed income, possibly with a government top-up of contributions, but benefits at retirement would be paid tax free.

  The paper gives the background to the consultation, highlighting increasing life expectancy and the marked shift from defined benefit to defined contribution pension provision. It sets out a framework for any reforms, citing the principles of simplicity, personal responsibility and fiscal sustainability, and the need to build on the early success of automatic enrolment.

The consultation asks for input on eight high-level questions, although respondents are encouraged to add any additional information they feel is relevant. **The closing date is 30 September 2015**.

- Annuity cash-ins. Following the earlier consultation on the establishment of a secondary market for annuities, the government will set out their plans for this in the Autumn. Implementation will be delayed until 2017 to ensure that appropriate support for consumers is in place.

The *annual allowance* is the maximum amount of tax-relievable pension savings that can be built up for an individual in one tax year. This includes savings made by the individual and the employer. The most that can be saved by the individual tax-free towards all of their pension arrangements is the lower of 100% of earnings and the *annual allowance*. Each pension scheme has a *pension input period*, over which an individual's savings in the scheme are measured for comparison with the *annual allowance*.

HM Revenue & Customs announced on 21 July that Fixed Protection 2016 and Individual Protection 2016 will be made available to individuals who are impacted by the reduction in the lifetime allowance from April 2016. These will be very similar to Fixed Protection 2014 and Individual Protection 2014; however HMRC is considering changing the deadlines for applying for these protections and potentially allowing individuals to apply for them at any time before they take their benefits. Full details of the new regime will be published later this summer.

PENSION FREEDOMS: THE STORY SO FAR

Pension freedoms gather pace in the DC world

Data released by the Association of British Insurers (ABI) in July gives us our first indication of what pension savers are doing with their funds in the new world of pension freedoms.

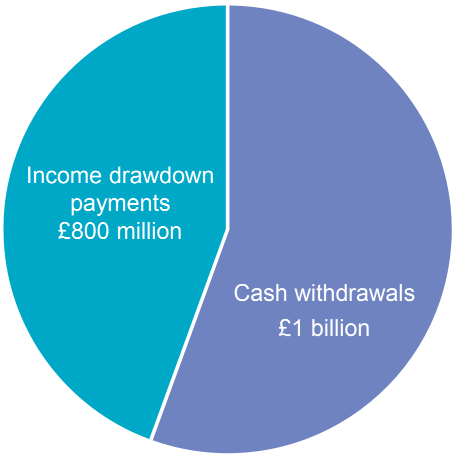
The headline conclusions are not surprising - people with small Defined Contribution pension pots tend to take them as cash (the average cash withdrawal was £15,500) and those with larger pots are more likely to buy an income, either via an annuity or income drawdown.

Digging a little deeper, the amount of money used to purchase income drawdown products has increased significantly, with £720 million used in the first two months compared to only £100 million per month in 2012. This surpasses the amount used to purchase annuities; however the actual number of people purchasing such products is still slightly less than the number purchasing annuities.

During April and May, £1.8 billion was paid out of pension pots and a further £1.35 billion was used to purchase retirement products. Figures 1 and 2 show how these amounts are broken down.

The ABI research also shows that customers are shopping around for the best deal – 45% of annuities and 52% of income drawdown products were purchased from a provider different to the one with which individuals were invested prior to taking their benefit.

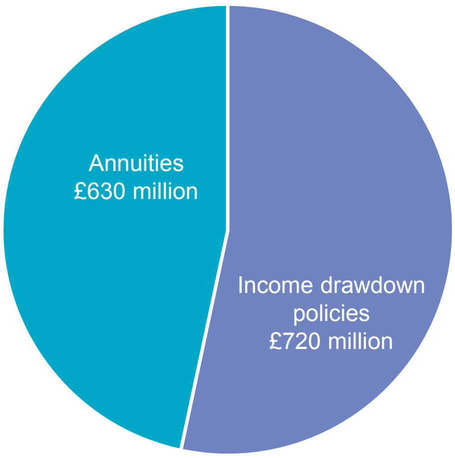
FIG 1: AMOUNT PAID OUT FROM PENSION POTS APRIL AND MAY 2015



No. of cash withdrawals:	65,000
Average cash withdrawal:	£15,500
No. of income drawdown payments:	170,000

Data source: Association of British Insurers, 16 July 2015

FIG 2: AMOUNT SPENT ON RETIREMENT PRODUCTS APRIL AND MAY 2015



No. of annuities purchased:	11,300
Average fund used for annuity purchase:	£55,750
No. of income drawdown policies purchased:	10,300
Average fund put into drawdown:	£69,900

Data source: Association of British Insurers, 16 July 2015

MARSH & McLENNAN COMPANIES

It is clear from the results to date that there is a large member appetite to cash in small pension pots (less than £30,000) through trivial commutation. LGPS funds who have not yet considered running a bulk trivial commutation exercise may perhaps reconsider this in light of the survey results to date as this can be an effective way of reducing administration costs as well as longer term pensions risks.

Furthermore, although drawdown type arrangements are not directly available through the LGPS, the survey could highlight an increased trend in members transferring out of the LGPS prior to retirement to access the freedoms through a Defined Contribution arrangement.

CESSATION OF CONTRACTING OUT

Loss of employer and employee NI rebated and costs of GMP reconciliation

DWP Consultation Response

On 16 July, the Department for Work & Pensions published a response to its consultation on draft regulations concerning the upcoming abolition of contracting out. The final regulations set out the rules with which schemes that currently contract out on a defined benefit basis will need to comply, on and from 6 April 2016, in respect of accrued contracted-out benefits. They aim to ensure that members' entitlements derived from contracted-out employment continue to be preserved, and that formerly contracted-out schemes continue to be operated appropriately.

As reported previously, there is currently no proposed mechanism in the LGPS through which employers can claw back lost National Insurance rebates as a result of the cessation of contracting out. Councils as well as other LGPS employers should therefore factor in the increased net costs of LGPS provision from 6 April 2016 onwards (which for a typical membership, could average out at around 2% to 3% of payroll). Furthermore, employers should also ensure employees are adequately informed of the impact of the lost NI rebates on take home pay.

Further consultation is expected later this year on a number of issues, including changes to the regulations governing transfers of contracted-out rights between schemes, and whether employers will need to notify and consult with members in advance of the cessation of contracting out.

GMP reconciliation

All Funds should now have registered with HMRC's reconciliation service to assist with the reconciliation of scheme GMP membership records in advance of the State Scheme changes and cessation of contracting-out in April 2016. This is a significant exercise for Funds and the level of resource needed to reconcile these records should not be underestimated. In the results of the stage 1 reconciliations we have seen to date, it is clear that in some instances HMRC's records differ markedly to those held by Funds.

Currently, a group of bodies, including the Local Government Association (LGA) are negotiating with the Treasury on how accurately LGPS funds' data must match that held by HMRC and will report further so that the agreed level of tolerance can be factored in to funds' reconciliation exercises.

CLOSURE OF THE EQUITABLE LIFE PAYMENT SCHEME

Closure to new claims on 31 December 2015

The Chancellor's Summer Budget announced that the Equitable Life Payment Scheme (ELPS) will close to new claims on 31 December 2015. Prior to this, the ELPS will undertake a further effort to trace the remaining investors who are due compensation of £50 or more.

With Profits annuitants will continue to receive the annual compensation payments for their lifetimes, as originally intended. However, the Chancellor also announced that the ELPS will make a further payment to Equitable Life policyholders (presumably including members of group pension schemes) who are in receipt of Pension Credit. This further payment will be equal to the payment they have already received and will be made early in 2016.

Any LGPS funds that have some AVC's invested with Equitable Life should ensure that any ELPS work is conclude prior to the year end.

The Equitable Life Payment Scheme was set up to make payments to Equitable Life With-Profits policyholders who suffered financial losses as a result of the Government's maladministration in the regulation of Equitable Life. Since the ELPS began making payments in 2011, it has paid out over £1 billion (of the £1.5 billion that Government set aside in 2010) to around 87% of the eligible policyholders it has managed to contact. To be considered for compensation, a policy must have been taken out between 1 September 1992 and 31 December 2000, and a qualifying member must have contributed to the policy between 1 January 1993 and 31 December 2000.

DC QUALITY FEATURES SURVEY

Increased focus on AVC schemes

The Pensions Regulator recently published the results of its 2015 survey into the presence of the defined contribution quality features in trust-based DC schemes.

As reported in our last issue, whilst not an explicit requirement as yet, it is likely that the Regulator is going to expect public sector schemes such as the LGPS to adopt the same standards for associated AVC arrangements.

Additionally, in its Code of Practice for the governance and administration of public service pension schemes the Regulator does make clear that "Where DC or DC AVC options are offered, pension board members should also be familiar with the requirements for the payment of member contributions to the providers, the principles relating to the operation of those arrangements, the choice of investments to be offered to members, the provider's investment and fund performance report and the payment schedule for such arrangements."

The 31 quality features - as set out in the November 2013 DC code of practice and associated guidance - are designed to ensure that schemes are run to a high standard, so that they can deliver good outcomes for members.

The survey revealed that large schemes (over 1,000 members) and master trusts had a very high level of awareness of the quality features and were also able to demonstrate the presence of a higher proportion of features. In contrast, three quarters of small schemes (12-99 members) and around half of medium-sized schemes (100-999 members) had little or no knowledge or understanding of the quality features.

The results showed that the areas with greatest scope for improvement across all schemes related to assessing and improving knowledge and understanding, linking investment strategies to member needs, and maintaining robust administration systems. These areas are covered by new legal minimum governance standards for DC schemes, which came into effect in April.

We are recommending to all LGPS clients that they should review their own AVC arrangements to demonstrate compliance/best practice versus the quality features.

LGPS COST MANAGEMENT

Funds could face onerous data requirements

The LGA have recently written to Funds concerning the accounting data which they will need to provide in connection with the cost management process. We envisage those requirements being somewhat complex, requiring benefit payments to be split between those in relation to pre April 2014 and post April 2014 service, and a further split of benefits and contributions between those in relation to the main scheme and 50:50 benefits. We envisage this split being somewhat difficult to provide (and this is a point we have been making for over well over 18 months since this methodology was first disclosed). It is almost certain to need the involvement of the pensions administration software and pensions payroll providers. At this stage we have not seen a specification of how the benefits will need to be split, so at this stage we do not know how it will work in practice or how much it will cost. The calculation of the data required could potentially be very intricate, so the costs of provision could be very significant.

One of the current proposals is to amend the Accounts and Audit Regulations so as to require Funds to provide the split of the information. This would mean administering authorities are being asked to commit to providing information in a format which is as yet unknown, and therefore with a cost which cannot be quantified. Against the background of continuing cuts to local authority budgets, this seems to us a cost which is unnecessary. We have made these points to the DCLG, and will continue to do so.

SINGLE FRAUD INVESTIGATION SERVICE (SFIS) – BULK TRANSFERS

Transfer terms soon to be finalised

The Single Fraud Investigation Service (SFIS) involves the transfer of about 600 local authority staff to the DWP (2-3 staff per local authority on average). The staff will be offered membership of the Civil Service Pension Scheme, and will be given the option of transferring their LGPS benefits across to the Civil Service Scheme. We and the other local authority advisory firms have been engaged in discussions with GAD about the transfer terms which can be offered. The discussions have centred around a “share of fund” methodology for the calculation, and we expect to be approaching our clients within the next few weeks with the formal proposals. The benefits in the Civil Service Scheme to be provided from the transfers will be calculated on a "year for year" basis, adjusted to reflect the different benefit structures between the two schemes.

HMT CONSULTATION ON PUBLIC SECTOR EXIT PAYMENTS CAP

Consultation on new £95,000 cap closes 27 August

HM Treasury has published a consultation on a proposed public sector exit payment cap on redundancy payoffs in the public sector which could limit early pension payments from the (LGPS).

The Government is consulting on introducing a £95,000 cap on the total payments when a public sector worker loses their job in certain circumstances. This is in response to concerns over the increasing cost to the taxpayer of financing early retirement packages.

Of particular note is that the Government said the cap is to ***include*** exit payments such as employer pension contributions associated with early access to an unreduced pension.

This would conflict with LGPS regulations where members aged 55 and over are entitled as of right to an immediate and unreduced payment of accrued pension where their employment ends on the grounds of redundancy or efficiency. Currently, the employer normally has to pay a "strain cost" to the LGPS in order to "buy out" the reduction in pension benefits which the member would normally face on retiring early.

Under the proposals public sector employees would still be able to take early retirement but the extra cost to the employer of buying out part or all of the early retirement reduction should not exceed the £95,000 cap. If a lump sum redundancy payment is offered as well, this when taken together with the total employer cost of buying out the reduction in pension must not exceed the cap.

These costs can be substantial. For example, if an employer wanted to make a 55 year old LGPS employee redundant with 35 years' past service and a pensionable salary of £50,000 per annum, the cost of providing an immediate pension unreduced could be up to £150,000 (depending on the particular circumstances). This cost falls on the employer at the time of redundancy – in addition to any other non-pension related redundancy costs.

This would require a change to the current LGPS regulations to facilitate this cost cap for public sector employees and quite how this will be incorporated into the regulations remains to be seen.

In addition, it is not yet clear how the new policy would affect other (non-public sector) employers in the LGPS.

Mercer will be responding to the consultation, but we would also encourage you to respond to this consultation with a view to ensuring that there are no unintended consequences from a change to the LGPS Regulations as a result of the new policy.

NEW FAIR DEAL

Further consultation due September 2015

As reported in the last issue, DCLG have formed a working group, made up of the LGA, Trade Unions and practitioners, to consider how the principles of new Fair Deal might apply for the LGPS – in the spirit as it applies to the other public sector schemes.

There have been no major developments to report over the summer and it is expected that there will be a further consultation in September 2015, which will run for three months. It is hoped that any new regulations will be implemented in the second Quarter of 2016.

TPR's PUBLIC SECTOR PENSION SCHEME SURVEY

Take the survey now

The Pensions Regulator (TPR) are currently asking schemes to take part in their survey on the governance and administration standards in public service schemes.

TPR are strongly encouraging public sector administrators/officers to participate in this survey.

The results will play a key part in TPR's understanding of how schemes are meeting legal requirements and will help them to focus on areas where we can provide more support, help and guidance.

You can start the survey here

OMBUDSMAN ACCEPTS LGPS MEMBER'S COMPLAINT OVER EARLY RETIREMENT ACCESS

Consequences of not having clearly defined policies

The Pensions Ombudsman (PO) has ruled in favour of a deferred member of the Local Government Pension Scheme (LGPS) who sought early access to her pension.

Jacqueline Elliot had become a deferred member of the LGPS in 2011 after having accrued a significant amount of service and had a Rule of 85 age of 55. In August 2011, when she turned 55, Elliot wrote to the East Riding Pension Fund (ERPF) to request unreduced early retirement from deferred status and the ERPF pointed out that she would need the consent of her employer Care Trust Plus (CTP). However, CTP turned down the request on the ground that she had opted out of the LGPS before age 55.

In March 2013, the Department of Health inherited responsibility for the defunct Care Trust Plus. It told Elliott that a discretions policy regarding early retirement had come into effect from July 2012 which meant no one would have been granted employer consent to take their benefits before age 60. But Elliott argued the discretion policy was written after she applied for her benefits. She also discovered through a Freedom of Information request that other members had accessed early retirement under the rule of 85 following the employment transfers.

The Ombudsman agreed it would be unfair for Elliott's request to be considered under a discretions policy that came into effect after she made her application. He also rejected claims by Care Trust Plus that the application could only be considered alongside a ‘trigger event' (meaning when she left the LGPS scheme and not when she applied later).

The case serves as a reminder to all funds and employers to ensure appropriate up-to-date discretionary policies are in place, particularly with regard to accessing early retirement pensions from active and deferred status.

UPDATE ON THE 50:50 SCHEME

Take up lower than expected

Take up rates to the LGPS 50:50 scheme have been far lower than expected prior to the scheme being rolled out. Initially, it was expected that take up rates of the 50:50 would be towards the 10% mark. However, experience to date suggests that take up is only around 1% and this is primarily higher earners who would exceed the Annual Allowance of Lifetime Allowance tax charge.

It’s not clear why take up has been so much lower than expected, with some commentators suggesting that it has not been publicised adequately.

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LOCAL GOVERNMENT PENSION SCHEME

ARE YOU UP TO DATE WITH THE CURRENT ISSUES?

Some of the big issues facing the LGPS are set out below alongside a comment from us. It is important that you and your colleagues are aware of these.

EXIT PAYMENTS CAP AND POTENTIAL CLAW BACK

The Government recently consulted and responded on its intention to introduce an “exit cap” of £95,000 on the total amount a public sector worker could receive on redundancy. This is to include costs related to early access to pension benefits.

This is in addition to the separate provisions that were consulted on by the previous Coalition Government last year where rejoiners within 12 months earning more than £100k p.a. must repay a portion of their exit payment.

The Government recognises that there will be some practical difficulties in applying this both for Funds and employers. Details of how the two proposals will work and interact with each other have yet to emerge although changes to the LGPS benefit structure is possible.

ASSET POOLING

The Government has invited LGPS Administering Authorities to work together and pool assets in order to reduce costs. Common criteria for delivering costs savings will be set out in a forthcoming consultation along with backstop legislation to ensure those Funds not meeting them will be required to pool.

Separately, the Chancellor has announced that work is underway to create 6 British Wealth Funds spread across the country. He has said that this arrangement will save hundreds of millions and they’ll invest billions in infrastructure.

The Chancellor’s statement provides the clearest sign yet of the scale of ambition that the LGPS has been tasked to come up with on pooling and facilitating investment in the nation’s infrastructure, albeit he has backtracked a little since. However, we should not lose sight of the LGPS’s ultimate objective of providing pensions in a cost effective manner. This requires a holistic approach; credible and transparent funding plans, effective cost management, best-in-class governance, return generation and risk management. There is no silver bullet.

NEGATIVE CPI

UK inflation as measured by the Consumer Prices Index (CPI) has fallen to -0.1% in September. The September figure is important as it is used for the LGPS and other UK public service pension schemes for calculating increases in benefits in the following April. For those who have retired/left service, they will receive no increases to benefits.

For those members in service, post 2014 CARE benefits could be reduced if HM Treasury chose to use their powers under the legislation. This is at odds with the "triple lock" on state benefits where at least a 2.5% increase will apply. The very low CPI figure will also have an effect on the 2016/17 Annual Allowance calculations.

PENSIONS TAX CHANGES

The Lifetime Allowance will be reduced to £1 million from April 2016 and the £40k Annual Allowance will get progressively lower for people who have an "adjusted income" over £150k p.a. to a low of £10k if "adjusted income" is £210k p.a. or more. There will be two Pension Input Periods (PIPs) this year, and they will align to tax years from 6 April 2016.

A Green Paper introduced a consultation on whether the pension tax relief system should be reformed or kept as it is. This consultation has now closed.

Many more employees will pay more tax following the cuts to the Annual Allowance unless action is taken. The tax limits on pension savings only used to apply to the very highest earners but these changes mean many more long serving middle earners will be affected. It is important that anyone who thinks they may be affected gets specialist advice quickly.

As regards the consultation, we await the Government's response....

CESSATION OF CONTRACTING-OUT

The State Pension changes and the ending of Contracting-Out will have an impact on pension scheme administrators, members and employers. HMRC will stop tracking Contracted-Out benefits, and members and employers will lose their National Insurance rebates and so increase the cost of pension provision.

Lots of work is needed for administrators to ensure that the record keeping is up-to-date before HMRC stops tracking these benefits in 2016.

Currently, there is no option for members and employers to claw back the lost rebates through the LGPS and for employers this is likely to mean an increase of the order of 2-3% of the payroll of pension fund members. Employers should be notifying members and allowing for this impact when setting next year's budgets.

OMBUDSMAN RULING OVER ACCESS TO EARLY RETIREMENT

The Pensions Ombudsman (PO) has ruled regarding early access to benefits. In 2011, after having met their Rule of 85 at age 55, they requested unreduced early retirement. As before age 60, employer consent was needed and the employer refused. In 2012 the employer put a policy in place such that no one would be granted consent to take benefits before age 60. The member argued that this policy was adopted after their request and that others had been granted consent.

The PO agreed that it was unfair that their request was considered in line with a policy set after the request. The PO in his ruling awarded compensation to the member and referred the original decision back to the employer.

This case serves a useful reminder to all funds and employers to ensure that appropriate up-to-date discretionary polices are in place, particularly those where costs and access to benefits from active and deferred status are involved.

IAS19 TIMESCALES

We are aware of even tighter timescales needed for the reporting of accounting figures for Councils from 2017.

We are looking at options for earlier delivery which will involve detailed discussions with auditors.

The new timescales focussing on earlier delivery, will present its challenges and inevitably there will be more estimation required. We are working with many Funds and employers to do a "dummy run" in 2016, so if not done so already, we encourage you to make the Fund aware of your requirements as soon as you can.

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FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CLWYD PENSION FUND COMMITTEE**

DATE: **26th NOVEMBER 2015**

REPORT BY: **CHIEF OFFICER (PEOPLE AND RESOURCES)**

SUBJECT: **ADMINISTRATION AND COMMUNICATIONS UPDATE**

1.0 PURPOSE OF REPORT

1.01 To provide Committee Members with an update on administration and communications related issues.

2.0 BACKGROUND

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

- Business Plan 2015/16 update (Appendix 1)
- Risk register update (Appendix 2)
- Policy and strategy implementation and monitoring.
- Delegated responsibilities (Appendix 3)

3.0 BUSINESS PLAN UPDATE – QUARTER 2

3.01 Appendix 1 provides a summary of progress against the administration and communications section of the Business Plan up to the end of quarter 2 to 30 September 2015. The majority of items are as originally planned but the Committee is asked to note the following:

- A5 – Backlog of Transfers and Aggregation, whilst progression has been made, guidance is still awaited in some aspects from GAD
- A10 – Pensions Administration Strategy and Performance Standards - see agenda item 9.
- A13 – I-Connect – good progress is being made with Denbighshire CC commencing testing and a number of medium sized employers showing interest following the demonstration at the employers' meeting
- A14 – Delays due to implementation of LGPS, progress made but still awaiting amending regulations.
- A17 – Communications Strategy – see agenda item 9.

3.02 The following tasks have been added to the business plan:

- A20 – Document Production and Word Integration – work to commence in quarter 2, this is to assist the staff within the pensions section for automated letters and standardised documentation.
- A21 – 3rd Party Administrator Framework – work to commence on this project in quarter 3. (See paragraph 3.03)

3.03 The Clwyd Pension Fund Manager and the Pensions Administration Manager attended a meeting with other LGPS to discuss a national framework for 3rd party administrators. Although full outsourcing is not on our agenda, we have asked for a "project lot" to be included which can be used where Fund's require additional resource or expertise.

The Fund will be a "founder member" of the framework along with other Funds and it is anticipated that there will be a financial cost of approximately £5k - £20k associated with this. As the framework is utilised by subsequent LGPS, these costs will be recovered.

4.0 RISK REGISTER UPDATE

4.01 Appendix 2 provides the dashboard showing the current risks relating to administration and communications. In addition, in relation to these risks, it provides details of:

- the key risks (i.e. ranked 8 or above in the above dashboard)
- any new risks
- risks that have changed by a score of 3 or more and
- risks that have been removed since the previous report.

5.0 POLICY AND STRATEGY IMPLEMENTATION AND MONITORING

Update on staffing matters

5.01 There has been a minor restructure within the section. Following the resignation of a Principal Pension Officer, the operations teams have been reduced from 3 to 2. To improve workflow, the pensions officer posts have been reduced and new posts with additional responsibilities have been created, "lead pension officer". Instead of 8 pension officers, we now have 4 lead pension officers and 4 pension officers.

5.02 All temporary posts have now been made permanent.

Performance measures on day to day tasks

5.03 Despite the manual intervention required, the workflow is being managed by the operational team. The table below shows the number of cases completed during this and last financial year, split by quarter.

	Q2 2014	Q3	Q4	Q1 2015	Q2
Retirements	224	217	184	201	198
Deaths	75	105	114	89	94
Transfers In	44	30	2	3	3
Transfers Out	17	9	7	4	7
Estimates	175	152	142	155	26
Deferred	266	347	155	117	373

In addition, Mercers have been working through a historical backlog of cases and to the end of October, 667 cases from a total of 2363 had been completed (28%). Mercers are confident that the backlog is on schedule to be completed by next summer.

The latest membership figures for the last six quarters are:

Status	Q1 2014	Q2	Q3	Q4	Q1 2015	Q2
Active (full LGPS)	15,726	15,550	15,798	15,887	15,827	15,792
Active (50:50 LGPS)	12	10	6	6	10	19
Undecided Leaver	3,065	3,465	3,266	3,400	3,736	3,640
Deferred	8,600	8,768	9,413	9,026	9,314	9,556
Pensioner	8,930	9,048	9,186	9,250	9,381	9,494
Spouse/Dependants	1,557	1,575	1,593	1,587	1,587	1,599
Frozen	821	813	856	871	871	884
Total	**38,711**	**39,229**	**40,118**	**40,027**	**40,726**	**41,787**
Opt Outs*	529	585	628	662	734	800

* This excludes members who have opted out prior to March 2013.

There are no matters to report on the Councillors scheme. The membership numbers are shown below:

Status	As at 30 September 2015
Active	54
Undecided Leaver	2
Deferred	5
Pensioner & Spouse/Dependants	26
Total	**87**

Communications Policy

5.04 The Communication Officer has provided the following services during quarter 1 and 2.

- A pre-retirement seminar (35 participants)
- One training session for Pension Fund Councillor Members
- 6 days of pension surgeries (1 -2 1's)

5.05 The following communications have been distributed in quarter 1 and 2, all of which include information about Freedom & Choice and Pension Board opportunities:

- Clwyd Catch Up - Pensioner Newsletter
- Deferred Benefit Statements
- PenPal – Active Members Newsletter

6.0 DELEGATED RESPONSIBILITIES

6.01 The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. Appendix 3 updates the Committee on the areas of delegation used since the last meeting.

7.0 RECOMMENDATIONS

7.01 That Committee Members note the contents of the report and agree the amendments to the Business Plan in paragraph 3.02.

8.0 FINANCIAL IMPLICATIONS

8.01 Approximately £5k - £20k for "founder members" of the 3rd Party Administrators Framework.

9.0 ANTIPOVERTY IMPACT

9.01 None directly as a result of this report.

10.0 ENVIRONMENTAL IMPACT

10.01 None directly as a result of this report.

11.0 EQUALITIES IMPACT

11.01 None directly as a result of this report.

12.0 PERSONNEL IMPLICATIONS

12.01 None directly as a result of this report

13.0 CONSULTATION REQUIRED

13.01 None directly as a result of this report.

14.0 CONSULTATION UNDERTAKEN

14.01 None directly as a result of this report.

15.0 APPENDICES

15.01 Appendix 1 - 2015/16 Business plan update
15.02 Appendix 2 - Risk register update
15.03 Appendix 3 – Delegated Responsibilities

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: 24th March 2015 Pension Fund Committee
- Clwyd Pension Fund Business Plan 2015/16 to 2017/18
- Clwyd Pension Fund Risk Policy and Register

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Business Plan 2015/6 to 2017/8 – Q1 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

Ref	Key Action -Task	2015/6 Period				Later Years	
		Q1	Q2	Q3	Q4	2016/17	2017/18
A1	Preparation of Member Data for Valuation and Funding reviews		x	x		x	
A2	Normal Year End returns	x	x			x	x
A3	Annual Benefit Statements	x	x	x		x	x
A5	Backlog of transfers and aggregation	x	x	xM	xM		
A8	End of contracting out incl GMP issues	x	x	x	x	x	x
A9	Freedom and Choice	x	x				
A10	Pension Administration Strategy and Performance Standards	x	x	xN	xN		
A12	Dealing with backlog	x	x	x	x	x	
A13	I-Connect		x	x	x	x	x
A14	Delays due to implementation of LGPS2014	x	x	xM	xM		
A16	Trivial Commutation	x	x	x		x	
A17	Communications Strategy	x	x	xN	xN		
A20	Document production and word integration		xN	xN	xN		
A21	3rd Party Administrators Framework			xN	xN	xN	

Administration and Communication Task Descriptions

A1 – Preparation of Member Data for Valuation and Funding reviews

What is it?

Triennial actuarial valuation as at 31 March 2016 and a funding review as at 31 March 2015 require the pensions administration team to provide data to the actuary. This generally involves additional year end cleansing. This work is particularly detailed for the 2016 actuarial valuation.

Timescales and Stages

Data for 31 March 2015 review:	2015/16 Q2/3
Data for 31 March 2016 valuation:	2016/17 Q1/2

Resource and Budget Implications

Carried out by the Technical Team in the main with assistance from the Communications Officer when communicating the valuation results. All internal costs are being met from the existing budget.

A2 – Normal year end returns

What is it?

The validation and cleansing of the member data received from the Fund Employers, followed by the posting to Fund member records which will allow the information to be used in the production of Annual Benefit Statements, the actuarial valuation and year end accounts.

Timescales and Stages

Receive data from Fund employers:	Q1 each year
Validate and cleanse data:	Q1/2 each year
Post clean data to member records:	Q1/2 each year

Resource and Budget Implications

Carried out by the Technical Team. All internal costs are being met from the existing budget.

A3 – Annual Benefit Statements

What is it?

Statements that we send out to all current employees and deferred pensioners on an annual basis detailing the pension benefits they are entitled (or are projected at retirement) to receive from the Fund as at 31 March of that year. There are statutory deadlines setting out when these statements must be issued by, and preparing accurate statements depends on receiving timely and correct data on all employees from each employer in the Fund.

Timescales and Stages

Receive and process data from employers:	Q1 each year
Prepare and check statements:	Q1/2 each year
Issue statements to all members:	Q2/3 each year

Resource and Budget Implications

Carried out in the main by the Technical Team with input from the Communications Officer and Operations Team. All internal costs are being met from the existing budget.

A5 – Backlog of transfers and aggregation

What is it?

Given national uncertainty as to how exactly transfers were going to work regarding the new LGPS 2014 CARE scheme, and as to how members' benefits would be aggregated, a backlog of such cases has built up. Now that this uncertainty has largely been resolved, this case backlog needs to be revisited to eliminate it, although it should be noted that investing resources to reduce this backlog will have a knock on effect that could result in day to day administration cases being delayed.

Timescales and Stages

Identify cases and establish plan to resolve:	2015/16 Q1
Clear cases internally:	2015/16 Q1/2
Clearing cases using external support:	2015/16 Q1/2

Resource and Budget Implications

To be completed by the Operations Team. Internal costs are being met from the existing budget albeit this will utilise some of the overtime budget.

A8 – End of Contracting out including GMP issues

What is it?

The government's announcement that contracting out will cease and that HMRC will no longer be responsible for maintaining GMP member records. This means that the onus will be on individual Funds to ensure that the GMP data they hold on their systems matches up to the data held by HMRC before they cease holding these records. Unfortunately this has generally shown significant discrepancies between the two sets of GMP data, and a significant amount of work will be required to determine the correct benefits, ensure all systems are updated and to process a significant number of over/underpayment calculations. After the GMP records are reconciled for former pensionable employees, the Fund will also verify national insurance information held for active members. All GMPs and national insurance information must be reconciled by December 2018, the date HMRC will cease to provide their services. The timescales below are subject to change depending on the magnitude of the work.

Timescales and Stages

GMP data reconciliation and investigation:	2015/16 to 2017/8
Benefit correction and system updates:	2015/16 to 2017/8
Reconciliation of national insurance information:	2017/8 Q1-4
Communication of end of contracting out:	Ongoing

Resource and Budget Implications

This project will be led by the Technical Team with assistance from a dedicated team within Operations and some future assistance from the Communications Officer. However, due to the magnitude of this project, we are investigating utilising assistance from an external supplier.

A9 – Freedom and Choice

What is it?

The recent changes announced by government whereby members of Defined Contribution (DC) Pension Schemes can choose to take all of their pension pot as a lump sum (rather than purchasing a pension) delivered a considerable amount of additional flexibility to people about to retire. Although not directly relevant to the LGPS, the knock on implication is that deferred members may choose to transfer their LGPS benefits into a DC scheme, subject to satisfying certain conditions (like having received financial advice). Alternatively they may be able to take AVCs in accordance with the new flexibilities. Depending on the numbers of members choosing to transfer, this could potentially cause cashflow implications for the fund, or funding implications for employers within the Fund

Timescales and Stages

Understand new requirements:	2015/16 Q1
Update internal process:	2015/16 Q1/2
Communicate to scheme members:	2015/16 Q1/2

Resource and Budget Implications

This will impact all of the Technical Team, Communications Officer and Operations Team. All internal costs are being met from the existing budget.

A10 – Pension Administration Strategy and Performance Standards

What is it?

A documented strategy outlining how we deliver our administration services, the high level service standards we will provide and we expect from employers, how these will be measured and reported, and the key risks to this service. The draft strategy must be consulted on with key stakeholders (mainly employers) prior to approval. A key output will be regular monitoring of standards against those included in the strategy.

Timescales and Stages

Develop draft strategy:	2015/16 Q1
Consult:	2015/16 Q1/2
Pension Fund Committee Approval:	2015/16 Q1/2

Resource and Budget Implications

To be led by Pension Fund Administration Manager with assistance from the Technical Team and the Communications Officer. All internal costs are being met from the existing budget. There will also be some external costs associated with this exercise relating to advice on the appropriate strategy.

A12 – Dealing with backlog

What is it?

A backlog of member cases to be dealt with (calculations and updating of member records). Initially this was identified as being 3,000 cases and this has been reduced by the pensions administration team to around 1,700 (as at February 2015). Plans are now in place to further reduce and eventually eliminate this accumulated backlog over time, including using the Fund's Actuary to help in a number of cases. This will be subject to oversight by a Project Steering Group involving key employers and chaired by the Chief Officer People and Resources.

Timescales and Stages

Management of project including prioritisation:	2015/16 Q1/2
Ongoing support from external providers:	2015/16 Q3/4
Working through and eliminating backlog:	to 2016/17

Resource and Budget Implications

The majority of this work is being outsourced to the Fund's Actuary and it will be managed by one of the Operations Principal Pensions Officers (at least initially) with her duties being backfilled to a large degree by others in the Operations Team. It will also require some assistance from the rest of the Operations Team. Employers will also need to dedicate appropriate time to providing the information to reduce the backlog. There will be substantial external costs associated with this exercise.

A13 – I-Connect

What is it?

On-line computer module that will allow information to be submitted by employers more directly and efficiently into the pension administration system. It involves employers uploading data directly into I-Connect from their payroll systems. I-Connect will be provided to the Fund's three Councils as separate stages. The first stage will be ensuring that the correct member records are held on the administration system.

Timescales and Stages

Denbighshire CC:	2015/16 Q2-Q4
Flintshire CC;	2016/17 Q1-Q4
Wrexham CBC:	2016/17 Q3 to 2017/18 Q1

Resource and Budget Implications

Data cleansing will be carried out by the Operations Team and then the Technical Team will roll out I-Connect to the employers. All employers will also need to dedicate appropriate resource to develop file uploads and carry out testing. All internal costs are being met from the existing budget.

A14 – Delays Due to Implementation of LGPS2014

What is it?

As a result of the late issue of the Regulations governing the new LGPS 2014 scheme and the significant amount of work preparing for the new scheme and the administration system not being fully operational for all cases on 1 April 2014, there are number of cases to be dealt with that have built up.

Timescales and Stages

Identify cases and establish plan to resolve:	2015/16 Q1

Resource and Budget Implications

To be determined.

A16 – 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, to reduce the administrative burden on Funds 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 recently increased the allowable limit for members to trivially commute their pension in relation to their single pension (£10,000 value) and total benefits (£30,000), and this has meant that more members are now eligible to choose this. The pension administration team will need to identify all historical cases that are eligible in the two categories and communicate with them to determine whether they would like to commute their pensions for lump sums. In addition, they will need to update their processes for all future retirements.

Timescales and Stages

Update processes for future cases:	2015/6 Q2
Identify members eligible to commute under £10,000:	2015/16 Q1/2
Communicate with eligible members and pay lump sums:	2015/16 Q2/3
Identify members eligible to commute under £30,000:	2016/17 Q2/3
Communicate with eligible members and pay lump sums:	2016/17 Q3/4

Resource and Budget Implications

Identification of cases will be by the technical team with the processes dealt with by a small team within the Operations Team. All internal costs are being met from the existing budget.

A17 – Communications Strategy

What is it?

A documented strategy setting out how we will engage and communicate with stakeholders and customers, and our communication objectives for the forthcoming financial year. The strategy is developed and signed off by the Pension Fund Committee. A strategy is already in place but is due to be reviewed.

Timescales and Stages

Review existing strategy:	2015/16 Q1
Consult:	2015/16 Q1/2
Pension Fund Committee Approval:	2015/16 Q1/2

Resource and Budget Implications

To be led by Pension Fund Administration Manager with assistance from the Communications Officer. All internal costs are being met from the existing budget. There will also be some external costs associated with this exercise relating to advice on the appropriate strategy.

A20 - Document Production and Word Integration

What is it?

Utilising the Pensions Software (Altair) to set up documents to create and maintain the standard layout of letters, summaries and other documents. Variable data may be populated from data held within the system.

After the completion of a benefit calculation or a bulk calculation, or following a selection of members, the variable data is merged with the document text to produce the required generated documents for each member. Documents are listed in the Document History List. They can be printed immediately or late.

Timescales and Stages

Obtain all current letters in use	2015/16 Q2/3
Update System with all letters including testing	2015/16 Q3/4

Resource and Budget Implications

To be led by the Technical Team with assistance from the Operational Team. All internal costs being met by the existing budget.

A21 - 3rd Party Administrators Framework

What is it?

To set up a national Framework with other Pensions Fund to enable the procurement of 3rd Party Administrators to assist in project work, where internal resources are not sufficient to cope or have the required knowledge and experience to undertake whilst continuing to do "business as usual"

Timescales and Stages

Procurement of advisor to Framework	2015/16 Q3
Out to Tender	2015/16 Q4
Appointment to Framework	2016/17 Q1/2

Resource and Budget Implications

To be led by the Pension Fund Administration Manager. All internal costs to be met by the existing budget. There will be some initial set-up costs involved in this process, to be determined.

Administration and Communication

Impact	Administration & Communication Risks					
1					11	
2					3, 5	
3				14, 16, 2, 7	13, 15, 17, 8, 9, 12	
4	1	4, 6				
5				10		
	5	4	3	2	1	**Likelihood**

Key

Potential impact if risk occurred						
	1 Insignificant	6	5	4	3	2
	2 Minor	7	6	5	4	3
	3 Moderate	8	7	6	5	4
	4 Major	9	8	7	6	5
	5 Catastrophic	10	9	8	7	6
		5 Almost Certain	4 Likely	3 Possible	2 Unlikely	1 Rare

Likelihood of risk occuring

New risk: **Risk moved since last update:** --------->

In accordance with the Clwyd Pension Fund Risk Policy, information relating to the ongoing monitoring and management of risks will be provided on a quarterly basis to the Clwyd Pension Fund Committee and the Pension Board . The information relating to the key risks, new risks , movement of risks and changes to agreed actions is included in each Update report.

Administration & Communication Risks Summary

Risk no:	Risk	Strategic objective at risk (see key)	Risk category	Impact (see key)	Likelihood (see key)	Risk Status	Internal controls in place	Further Action?	Owner	Last Updated	Previous Impact	Previous Likelihood	Previous Risk Status	Risk removed (date)
Key Risks (ranked 8 or above):														
1	Lack or reduction of skilled resources due to difficulty retaining and recruiting staff members and also staff absence due to sickness.	Deliver a high quality, friendly and professional service to all employers.	Resource/Skill	4	5		Continually monitor staffing levels, providing training and external resource to assist. Multi-skilled staff to avoid too much reliance on key staff members. Internal review of staff responsibilities to provide adequate cover in the short term.	Consider People Strategy during 2014/15			4	5		
4	Failure for employers to provide accurate and timely information resulting in incomplete and inaccurate records , which could lead to incorrect valuation results and incorrect benefit, which in turn could lead to complaints.	Deliver a high quality, friendly and professional service to all employers.	Liability	4	4		Data accuracy checks performed by senior officers. Training policy (for staff training)Liaise with employers to ensure timely and accurate submission of data. Validation checks undertaken by Actuary at valuation. Current project to clear data and backlog. Use of electronic interface to reduce the need for manual updates. Complaints managed by senior officers and referred to Pension Admin Manager if appropriate resulting in a low level of IDRP's.	Implement I-Connect. Ensure SLA is detailed enough and employers are provided with info (such as LGA guides).			4	4		
6	Failure to administer scheme in line with regulations and policies e.g. LGPS 2014 due to delays in enhancement to software or regulation guidance (e.g. transfers).	Deliver a high quality, friendly and professional service to all members	Regulatory/Compliance	4	4		Manual calculations performed by staff members during the period of change. There may be short periods of time when turnaround times may be delayed. Transfers currently on hold. Collaboration with other funds and LGA to determine how to deal with things in the meantime.				4	4		
New Risks:														
None														
Removed Risks:														
None														
Key Changes (moved by 3 or more):														
None														

DELEGATED RESPONSIBILITIES

<table>
<tr><th></th><th>Delegation to Officer(s)</th><th>Delegated Officer(s)</th><th>Communication and Monitoring of Use of Delegation</th></tr>
<tr><td>6.01</td><td>Agreeing the terms and payment of bulk transfers into and out of the Fund where there is a bulk transfer of staff from the Fund. Exceptions to this would be where there is a dispute over the transfer amount or it relates to significant assets transfers relating to one employer or the Fund as a whole</td><td>PFM and either the CFM or COPR after taking appropriate advice from the FA.</td><td>Ongoing reporting to PFC for noting</td></tr>
<tr><td colspan="4">Action taken –

There are discussions underway regarding a potential transfer of staff to a new body from 1st September 2015.</td></tr>
<tr><td>6.02</td><td>Making decisions relating to employers joining and leaving the Fund and compliance with the Regulations and policies. This includes which employers are entitled to join the Fund, any requirements relating to their entry, ongoing monitoring and the basis for leaving the Fund where the employer.</td><td>PFM and either the CFM or COPR after taking appropriate advice from the FA.</td><td>Ongoing reporting to PFC for noting</td></tr>
<tr><td colspan="4">Action taken –

A number of Community Councils have expressed interest in joining the Clwyd Pension Fund and information has been forwarded to them</td></tr>
</table>

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FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CLWYD PENSION FUND COMMITTEE**

DATE: **26th NOVEMBER 2015**

REPORT BY: **CHIEF OFFICER (PEOPLE AND RESOURCES)**

SUBJECT: **ADMINISTRATION AND COMMUNICATIONS STRATEGIES**

1.00 PURPOSE OF REPORT

1.01 To provide Committee Members with an update on the development of the administration and communications strategies.

2.00 BACKGROUND

2.01 The Fund currently has a communications strategy that is updated annually and a service level agreement with employers. However, to date it has not had an administration strategy. An administration strategy is key to ongoing engagement and partnership working with employers. As part of this year's business plan, it was agreed that an administration strategy should be developed and the communications strategy should be reviewed. The aim is to implement both strategies from 1st April 2016.

3.00 PROGESS MADE AND ANTICIPATED TIMESCALES

3.01 A draft joint administration and communications strategy was presented to the Pension Board in October 2015. Following discussions a number of amendments were made to the draft and, in particular, separating it into two distinct documents. In addition a communications focus group has been held and any feedback from that will be incorporated into the draft Communications Strategy.

3.02 The next stage will be to consult employers in relation to the draft strategies and it is anticipated that this will take place during January. Subject to any further changes from that consultation, we would expect this to be brought to the Pension Fund Committee in February or March for approval.

4.00 RECOMMENDATIONS

4.01 That Committee Members note progress being made on the development of the Administration and Communications Strategies.

5.00 FINANCIAL IMPLICATIONS

5.01 None directly as a result of this report.

6.00 ANTIPOVERTY IMPACT

6.01 None directly as a result of this report.

7.00 ENVIRONMENTAL IMPACT

7.01 None directly as a result of this report.

8.00 EQUALITIES IMPACT

8.01 None directly as a result of this report.

9.00 PERSONNEL IMPLICATIONS

9.01 None directly as a result of this report

10.00 CONSULTATION REQUIRED

10.01 As per paragraph 3.01, a focus group has been established.

11.00 CONSULTATION UNDERTAKEN

11.01 None directly as a result of this report.

12.00 APPENDICES

12.01 None

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: 24th March 2015 Pension Fund Committee
- Clwyd Pension Fund Business Plan 2015/16 to 2017/18

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FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CLWYD PENSION FUND COMMITTEE**

DATE: **26th NOVEMBER 2015**

REPORT BY: **CHIEF OFFICER (PEOPLE AND RESOURCES)**

SUBJECT: **INVESTMENT AND FUNDING UPDATE**

1.00 PURPOSE OF REPORT

1.01 To provide Committee Members with an update on investment and funding related issues.

2.00 BACKGROUND

2.01 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:

- Business Plan 2015/16 update (Appendix 1)
- Risk register update (Appendix 2)
- Delegated responsibilities (Appendix 3)

3.00 BUSINESS PLAN UPDATE – QUARTER 2

3.01 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 2015. All the items except for FI5 are on target or achieved as originally planned. All tasks relating to quarter 3 are also on target.

3.02 FI5 relates to the review of admission and termination policy. The original timescale for this was quarter 2 and 3. This task has now been split into 2 tasks. FI5a will review the application of the existing policy for the remainder of the year and the review is now covered in FI5b for 2016/17.

3.03 There are two new tasks which have been added to the Business Plan and are linked to G8 in the Governance section, “Allow for external factors”.

- FI16 - Collaboration across Welsh Funds for pooling of Passive Assets
- FI17 - Implement CIV for Welsh Funds

4.0 RISK REGISTER UPDATE

4.01 Appendix 2 provides the dashboard showing the current risks relating to investment and funding. In addition, in relation to these risks, it provides details of:

- the key risks (i.e. ranked 8 or above in the above dashboard)
- any new risks

- risks that have changed by a score of 3 or more and
- risks that have been removed since the previous report.

4.02 Currently there are no key risks which score above 8 or any new risks to report. However, Funding and Investments by nature are significant risks but these are currently being managed and discussed with the Fund's Actuary and Consultant.

5.00 <u>CURRENT DEVELOPMENTS AND NEWS</u>

LGPS Pooling of Investments

5.01 Further details relating to pooling of investments across the LGPS and the collaborative projects across the 8 Welsh Funds are both covered in individual agenda items 5 and 6 within this committee agenda.

Annual Accounts and Investment Costs

5.02 As reported in agenda item 4, Governance Update, the accounts were given an unqualified opinion by Wales Audit Office. Whilst the accounts followed the same basic format as previous years there is was one important addition, namely the need to fully disclose all manager fees including the annual management charge (AMC), underlying fees, performance fees and transaction fees. CIPFA consider that the full disclosure of these fees is best practice and, as such, this recommendation was followed.

5.03 The consequence of this had no impact on the bottom line of the Fund, fees have always been paid either directly or indirectly. The 2014/15 fund management fees totalled £16.127m which compares to £15.359m for 2013/14 if the accounts had been restated. Whilst fees do generally rise and fall with the value of the Fund a full review was undertaken during 2014/15 that should, on a full year basis, lead to a reduction of approximately £1.5m on the AMC.

5.04 This is a European wide issue as reported by Investments & Pensions Europe (IPE). They suggested that much of the quality of the cost data within Pension Fund Annual Reports (both LGPS and Corporate Schemes) varies as Funds do not work with the same standards or information. As a result, it is exceedingly difficult to make meaningful comparisons between Funds. It was estimated that costs could be more than twice those calculated as Funds are not asking the right questions to keep track of their expenses. Such discrepancies can result in the perverse situation where those who are most open about their full range of costs can suffer as a result and be punished as appearing at the top end of the cost scale.

Markets in Financial Instruments Directive II (MiFID)

5.05 MiFID II is a proposal by the European Commission to amend and expand on the original MiFID directive which came into force on 1st November 2007.The two core aims are to improve transparency in financial markets and to further strengthen investor protection. The updated directive has been passed into European Law and the final rules were originally expected to be effective from

January 2017. This date now looks likely to be delayed as the European Commission has accepted that more time may be needed for its implementation due to the large amount of technical work involved.

5.06 The potential impact for local authorities is that they will be categorised as retail clients with the ability to opt – up to elective professional status where they meet specific qualifying criteria (based on the assessment of the client's expertise, experience and knowledge of the transactions or services concerned).

6.00 DELEGATED RESPONSIBILITIES

6.01 The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. Appendix 3 updates the Committee on the areas of delegation used since the last meeting.

6.02 As can be seen in paragraph 6.03 of the delegated responsibilities, the Fund has committed £8 million to the Foresight Regional Development Fund. This is a collaborative venture with other LGPS including Greater Manchester and South Yorkshire. The Fund is focused on investments in SME's in the North West of England and North East Wales and will look to invest between £1m and £5m in smaller growth businesses to deliver sustainable economic and social benefits in those targeted regions.

7.00 RECOMMENDATIONS

7.01 That Committee Members discuss and note the report and agree to the amendments to the Business Plan in paragraphs 3.02 – 3.03.

8.00 FINANCIAL IMPLICATIONS

8.01 None directly as a result of this report.

9.00 ANTIPOVERTY IMPACT

9.01 None directly as a result of this report.

10.00 ENVIRONMENTAL IMPACT

10.01 None directly as a result of this report.

11.00 EQUALITIES IMPACT

11.01 None directly as a result of this report.

12.00 PERSONNEL IMPLICATIONS

12.01 None directly as a result of this report

13.00 CONSULTATION REQUIRED

13.01 None directly as a result of this report.

14.00 CONSULTATION UNDERTAKEN

14.01 None directly as a result of this report.

15.00 APPENDICES

15.01 Appendix 1 - 2015/16 Business plan update
15.02 Appendix 2 - Risk register update
15.03 Appendix 3 – Delegated Responsibilities

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: 24th March 2015 Pension Fund Committee
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- Clwyd Pension Fund Risk Policy and Register

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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
~~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	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		~~x~~	~~x~~		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.

FI17 – 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.

Funding and Investment

Funding & Investment Risks (includes accounting and audit)

Impact	5	4	3	2	1
1					
2	8	13	20	4, 5, 16	14, 15
3			22, 23	12, 17, 6, 9	11, 18
4				3, 10, 1, 2	7, 19
5					21
	5	4	3	2	1

Likelihood

Key

Potential impact if risk occurred

1 Insignificant	6	5	4	3	2
2 Minor	7	6	5	4	3
3 Moderate	8	7	6	5	4
4 Major	9	8	7	6	5
5 Catastrophic	10	9	8	7	6
	5 Almost Certain	4 Likely	3 Possible	2 Unlikely	1 Rare

Likelihood of risk occuring

New risk: **Risk moved since last update:**

In accordance with the Clwyd Pension Fund Risk Policy, information relating to the ongoing monitoring and management of risks will be provided on a quarterly basis to the Clwyd Pension Fund Committee and the Pension Board . The information relating to the key risks, new risks , movement of risks and changes to agreed actions is included in each Update report.

Funding & Investment (Including Accounting & Audit) Risks Summary

Risk no:	Risk	Strategic objective at risk (see key)	Risk category	Impact (see key)	Likelihood (see key)	Risk Status	Internal controls in place	Further Action?	Owner	Last Updated	Previous Impact	Previous Likelihood	Previous Risk Status	Risk removed (date)
Key Risks (ranked 8 or above):														
None														
New Risks:														
None														
Removed Risks:														
None														
Key Changes (moved by 3 or more):														
None														

DELEGATED RESPONSIBILITIES

<table>
<tr><th></th><th>Delegation to Officer(s)</th><th>Delegated Officer(s)</th><th>Communication and Monitoring of Use of Delegation</th></tr>
<tr><td>6.01</td><td>Rebalancing and cash management</td><td>PFM (having regard to ongoing advice of the IC and PAP)</td><td>High level monitoring at PFC with more detailed monitoring by PAP</td></tr>
<tr><td colspan="4">Action taken –
In – house cash balances as at 31st October 2015 were £9.3m (£33.1m at 30th June 2015). Funds have been utilised for ongoing transitions and funding of the “Best Ideas” portfolio.</td></tr>
<tr><td>6.02</td><td>Short term tactical decisions relating to the 'best ideas' portfolio</td><td>PFM (having regard to ongoing advice of the IC and PAP)</td><td>High level monitoring at PFC with more detailed monitoring by PAP</td></tr>
<tr><td colspan="4">Action taken –
Meetings of the Tactical Asset Allocation Group (TAAG) involving Fund officers and JLT Consultants take place on a monthly basis. Standard agenda items for the meetings cover the short term (12 months) market outlook and discussions to determine which asset classes should be included in the 9% of the Fund’s assets which is based on JLT’s suggested “best ideas”. Detailed minutes of the TAAG identifying the rationale behind any decisions agreed are circulated to the Advisory Panel.

The following areas have been identified since the last committee:

• Redemption of Commodity Portfolio (2%)
• Allocation to Japanese Equities (2%)
• Allocation to Equity Linked Bonds (2%)</td></tr>
<tr><td>6.03</td><td>Investment into new mandates / emerging opportunities</td><td>PFM and either the CFM or COPR (having regard to ongoing advice of the IC)</td><td>High level monitoring at PFC with more detailed monitoring by PAP</td></tr>
<tr><td colspan="4">Action taken –

As previously reported, following the approval of the strategic review in 2014, the Fund has been progressing with a review of the In-House portfolio of Private Equity and Real Asset holdings. The second stage of the review is now complete and has now been reviewed by the Fund’s consultant, JLT before being presented at Advisory Panel. In the meantime, the Fund is currently undertaking due diligence on several investments areas which fulfil the criteria identified within the review:
• A Trade Finance Fund.
• An Opportunistic UK Property Fund.
• A follow on investment with a UK Property Fund.
• A follow on investment with a US Residential Opportunities Fund.

In addition, the Fund has made the following commitments:

• $15 million to Standard Life Capital Secondary Opportunities II Fund.
• €11 million to Capital Dynamics Mid-Market Direct IV Fund.
• $12 million to Neuberger Berman Marquee Brands Partners Room.
• £8 million to Foresight Regional Development Fund.</td></tr>
</table>

	Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
6.04	Ongoing monitoring of Fund Managers	PFM, CFM and COPR (having regard to ongoing advice of the IC) and subject to ratification by PFC	High level monitoring at PFC with more detailed monitoring by PAP

Action taken –

The in-house team monitor the Fund's managers on a regular basis. A record of the managers monitored is shown in the following table. Further details on the managers are reported by JLT, the Fund's Investment Consultant, in agenda item 12 of the committee papers. There are no strategic issues to report.

Manager	Mandate	Strategic Weight %	Jun 2015	Sept 2015	Dec 2015	Mar 2016
Insight	LDI	19		✓		
Stone Harbor	Multi Asset Credit	15	✓		✓	
Investec	Global Equity (8) & DGF (5)	13	✓		✓	
MAN FRM	Managed Account Platform	9		✓		
Wellington	Emerging Market Equity	6.5	✓		✓	
Pyrford	DGF	5	✓		✓	
Aberdeen	Frontier Market Equity	2.5	✓		✓	

The following managers have been redeemed from and are subject to transition over the coming months, therefore they have been excluded from the table above for manager monitoring:

- Liongate
- SSARIS

The next stage of the transition of assets has now been completed:

- £43m redemption from Duet
- £34 m redemption from Bluecrest
- £36m partial redemption from SSARIS
- £115m subscription to MAN FRM

FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CLWYD PENSION FUND COMMITTEE**

DATE: **26th NOVEMBER 2015**

REPORT BY: **CHIEF OFFICER (PEOPLE AND RESOURCES)**

SUBJECT: **ECONOMIC AND MARKET UPDATE**

1.00 PURPOSE OF REPORT

1.01 To provide Committee Members with an economic and market update.

2.00 BACKGROUND

2.01 A role of the Committee is to monitor the performance of the Fund's investment strategy. The investment performance of the Fund will reflect global economic and market conditions. Hence considering these drivers of performance is key to understanding current investment returns, manager performance and funding position which are explained in the following agenda items. In addition, understanding where we are in economic and market cycles may impact on asset allocation decisions by the Advisory Panel going forward.

3.00 CONSIDERATIONS

3.01 The economic and market update for the quarter from the Fund's Investment Consultant is attached and will be presented at Committee.

4.00 RECOMMENDATIONS

4.01 That Committee Members note and discuss the economic and market update.

5.00 FINANCIAL IMPLICATIONS

5.01 None directly as a result of this report.

6.00 ANTIPOVERTY IMPACT

6.01 None directly as a result of this report.

7.00 ENVIRONMENTAL IMPACT

7.01 None directly as a result of this report.

8.00 EQUALITIES IMPACT

8.01 None directly as a result of this report.

9.00 PERSONNEL IMPLICATIONS

9.01 None directly as a result of this report

10.00 CONSULTATION REQUIRED

10.01 None directly as a result of this report.

11.00 CONSULTATION UNDERTAKEN

11.01 None directly as a result of this report.

12.00 APPENDICES

12.01 Economic and Market Update

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: None

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CLWYD PENSION FUND

ECONOMIC AND MARKET UPDATE
PERIOD ENDING 30 SEPTEMBER 2015

TABLE OF CONTENTS

1 MARKET BACKGROUND
PERIOD ENDING 30 SEPTEMBER 2015

MARKET STATISTICS

Market Returns Growth Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	-5.7	-2.3	7.2
Global Developed Equities	-4.8	2.1	11.5
USA	-3.2	6.1	14.9
Europe	-4.7	-1.8	9.5
Japan	-8.0	6.2	12.1
Asia Pacific (ex Japan)	-13.2	-8.0	1.6
Emerging Markets	-14.6	-13.3	-2.9
Frontier Markets	-7.1	-18.5	9.0
Property	3.4	15.3	13.7
Hedge Funds	-0.3	5.5	6.2
Commodities	-16.2	-37.7	-18.1
High Yield	-1.0	1.4	5.3
Emerging Market Debt	-1.7	-0.6	1.5
Senior Secured Loans	0.2	3.8	5.8
Cash	0.1	0.5	0.5

Market Returns Bond Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Gilts (>15 yrs)	5.1	14.0	6.7
Index-Linked Gilts (>5 yrs)	2.3	11.8	9.4
Corporate Bonds (>15 yrs AA)	1.6	6.3	6.0
Non-Gilts (>15 yrs)	1.0	4.7	5.7

Exchange Rates: Change in Sterling	3 Mths %	1 Year %	3 Years % p.a.
Against US Dollar	-3.7	-6.6	0.1
Against Euro	-3.9	5.7	4.5
Against Yen	-5.7	2.0	15.4

Inflation Indices	3 Mths %	1 Year %	3 Years % p.a.
Price Inflation – RPI	0.3	0.8	2.1
Price Inflation – CPI	0.0	-0.1	1.3
Earnings Inflation*	0.0	2.5	1.4

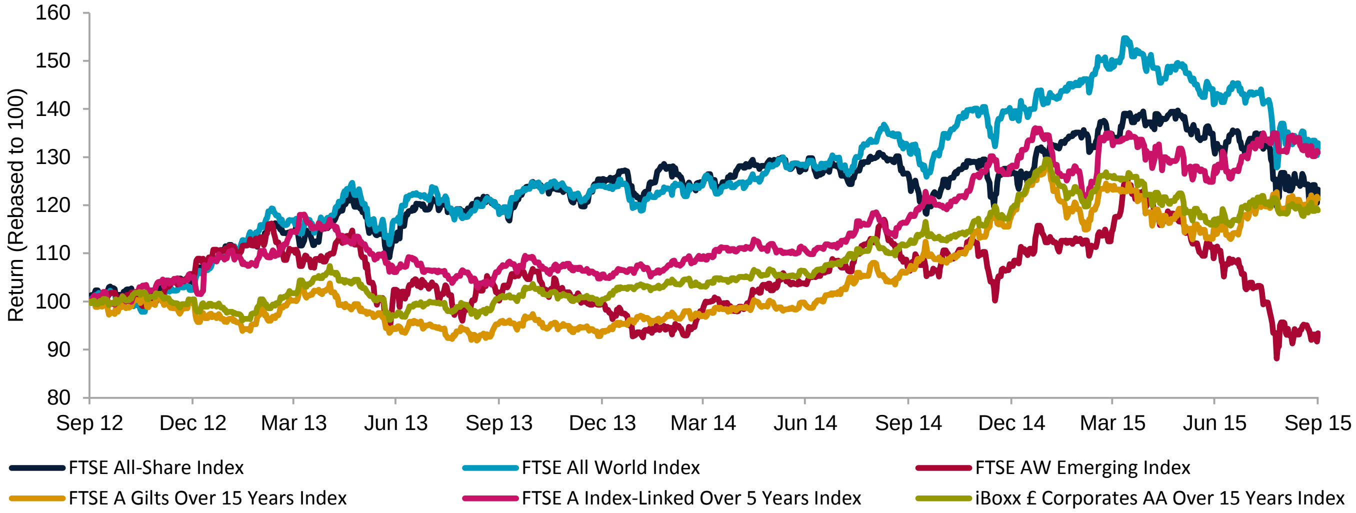
Yields as at 30 September 2015	% p.a.
UK Equities	3.71
UK Gilts (>15 yrs)	2.38
Real Yield (>5 yrs ILG)	-0.84
Corporate Bonds (>15 yrs AA)	3.63
Non-Gilts (>15 yrs)	3.96

Absolute Change in Yields	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	0.25	0.37	0.07
UK Gilts (>15 yrs)	-0.25	-0.60	-0.52
Real Yield (>5 yrs ILG)	-0.08	-0.47	-0.93
Corporate Bonds (>15 yrs AA)	-0.06	-0.21	-0.39
Non-Gilts (>15 yrs)	-0.02	-0.20	-0.29

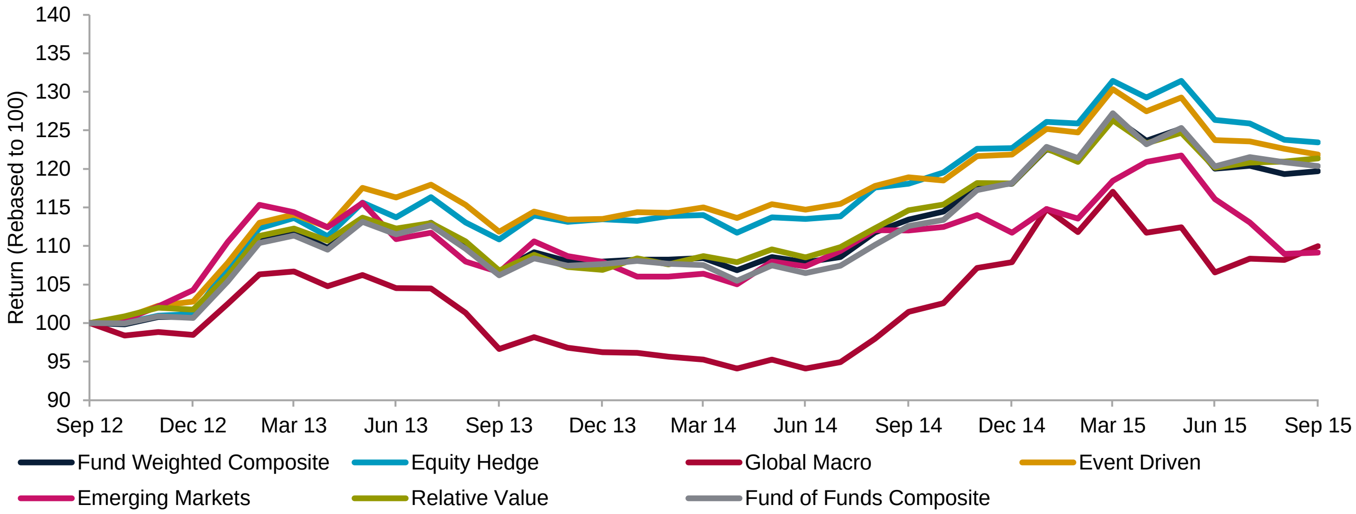
Source: Thomson Reuters and Bloomberg
* Earnings inflation is lagged by 1 month.

MARKET SUMMARY CHARTS

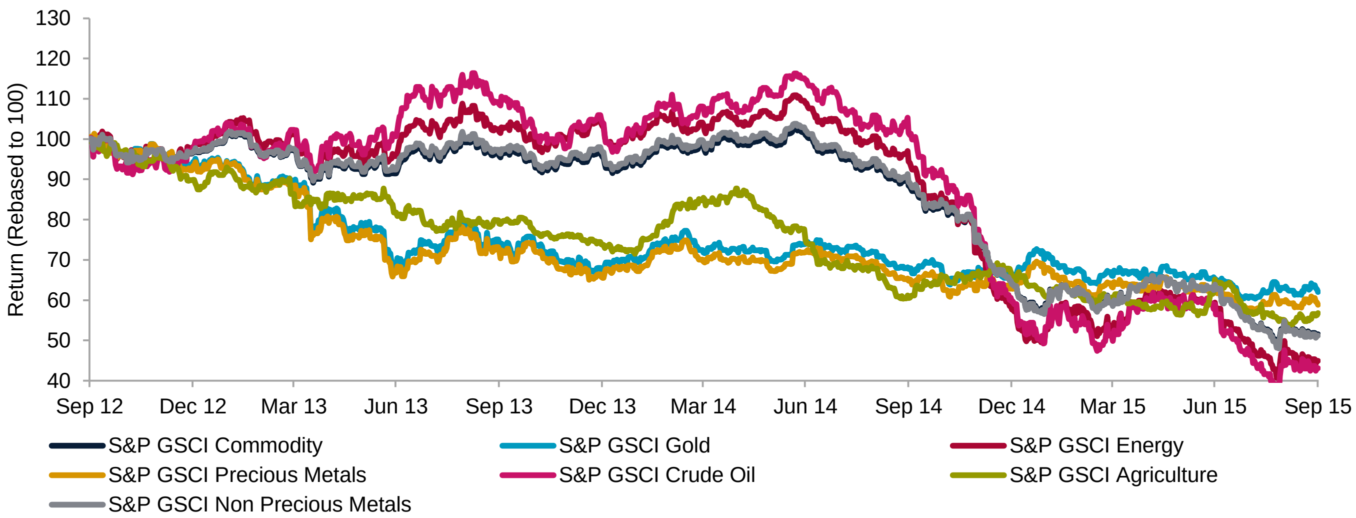
Market performance – 3 years to 30 September 2015



Hedge Funds: Sub-strategies performance – 3 years to 30 September 2015

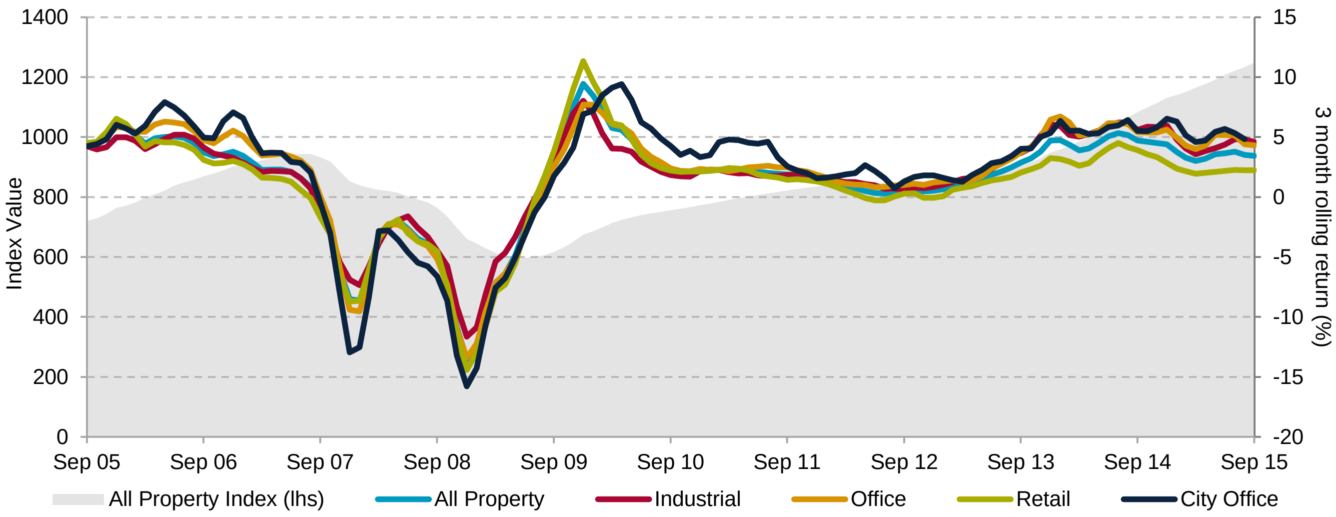


Commodity sector performance – 3 years to 30 September 2015

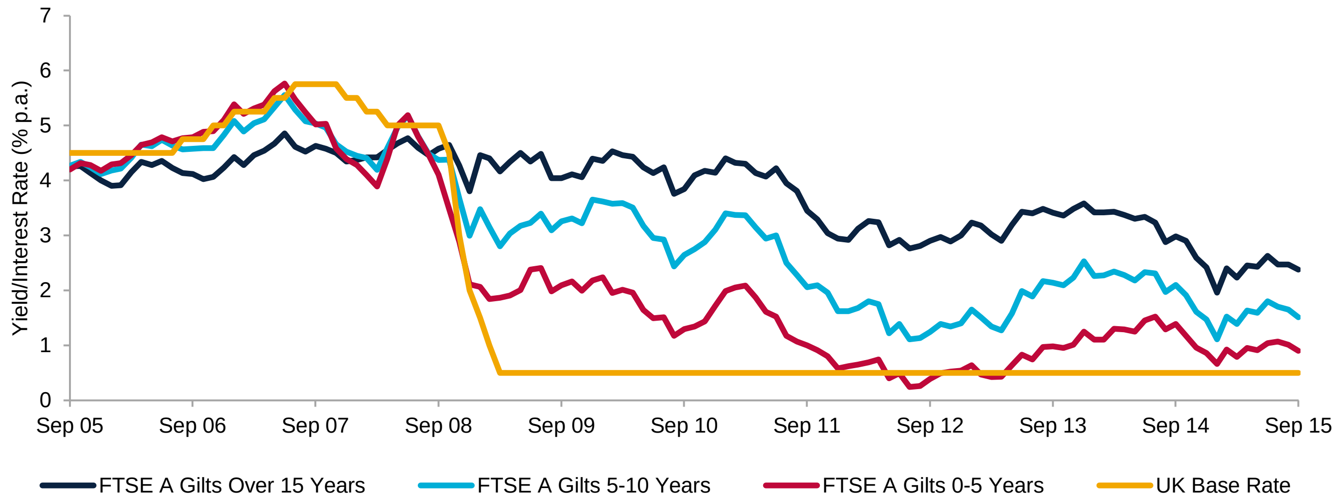


Source: Thomson Reuters

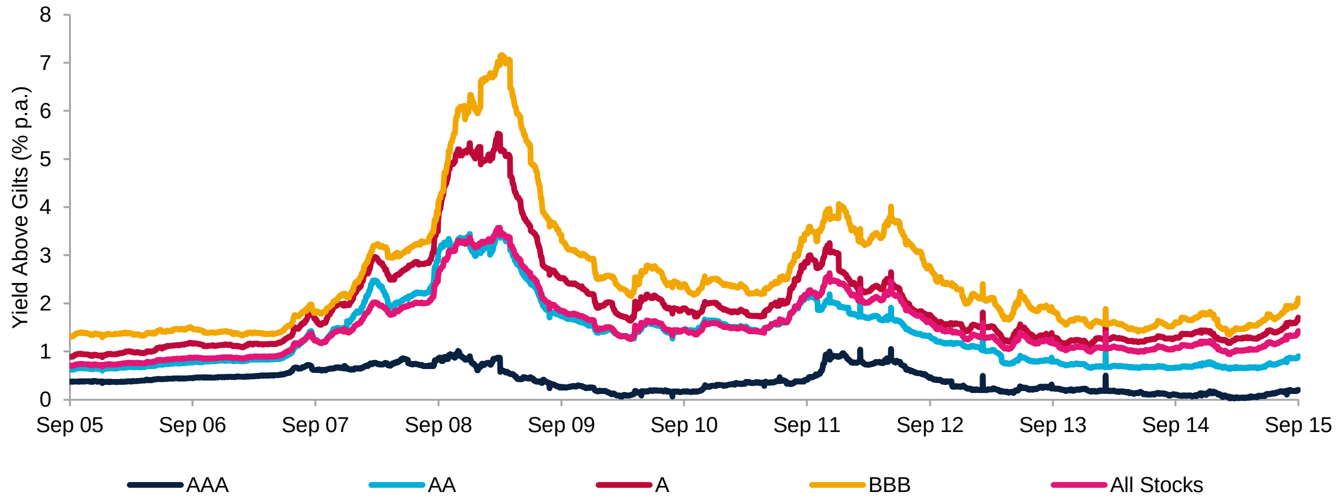
Property sector performance – 10 years to 30 September 2015



UK government bond yields – 10 years to 30 September 2015



Corporate bond spreads above government bonds – 10 years to 30 September 2015



Source: Thomson Reuters

2 ECONOMIC STATISTICS

Economic Statistics as at:	30 September 2015			30 June 2015			30 September 2014		
	UK	Euro[1]	US	UK	Euro[1]	US	UK	Euro[1]	US
Annual Real GDP Growth[2]	2.3%	2.8%	2.0%	2.4%	2.3 %	2.7%	2.9%	1.5%	2.9%
Annual Inflation Rate[3]	-0.1%	-0.1%	0.0%	0.0%	0.2%	0.1%	1.2%	0.3%	1.7%
Unemployment Rate[4]	5.4%	11.1%	5.2%	5.6%	11.2%	5.4%	6.0%	11.6%	6.1%
Manufacturing PMI[5]	51.5	52.0	53.1	51.4	52.5	53.6	51.6	50.3	57.5

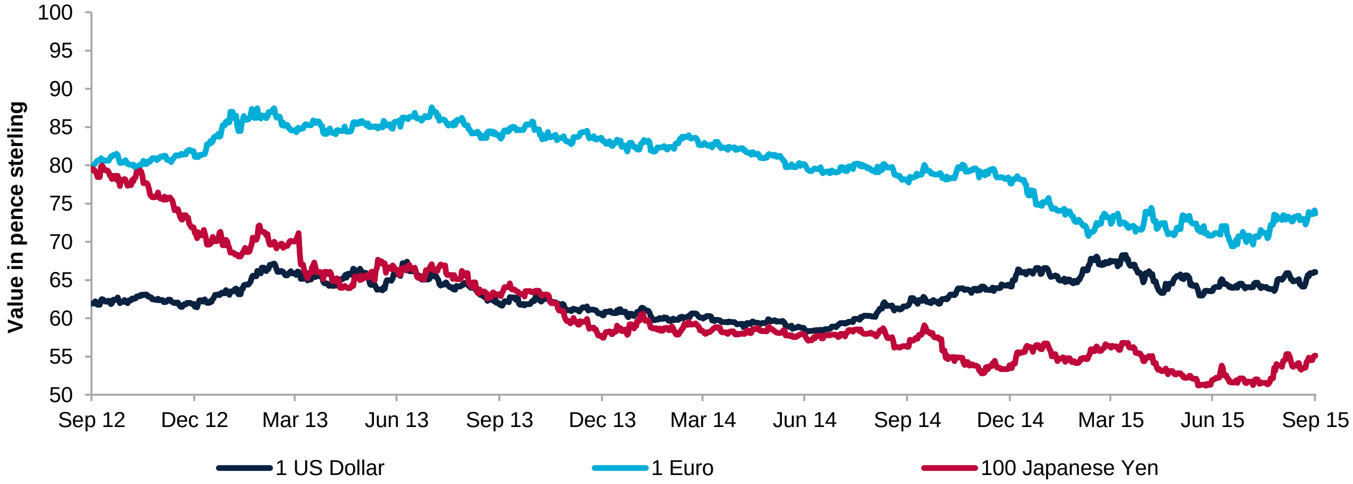
Change over periods ending:	3 months			12 months		
30 September 2015	UK	Euro[1]	US	UK	Euro[1]	US
Annual Real GDP Growth[2]	-0.1%	0.5%	-0.7%	-0.6%	1.3%	-0.9%
Annual Inflation Rate[3]	-0.1%	-0.3%	-0.1%	-1.3%	-0.4%	-1.7%
Unemployment Rate[4]	-0.2%	-0.1%	-0.2%	-0.6%	-0.5%	-0.9%
Manufacturing PMI[5]	0.1	-0.5	-0.5	-0.1	1.7	-4.4

Notes: 1. Euro Area 19 Countries. 2. Euro GDP is lagged by 1 quarter. 3. CPI inflation measure. 4. Euro unemployment is lagged by 1 quarter. 5. Headline Purchasing Managers Index.

EXCHANGE RATES

Economic Statistics as at:	Value in Sterling (Pence)			Change in Sterling	
	30 Sep 15	30 Jun 15	30 Sep 14	3 months	12 months
1 US Dollar is worth	66.02p	63.58p	61.68p	-3.7%	-6.6%
1 Euro is worth	73.69p	70.85p	77.92p	-3.9%	5.7%
100 Japanese Yen is worth	55.12p	51.96p	56.23p	-5.7%	2.0%

Exchange rate movements – 3 years to 30 September 2015



Source: Thomson Reuters, Markit, Institute for Supply Management, Eurostat, US Department of Labor and US Bureau of Economic Analysis.

3 MARKET COMMENTARY

INTRODUCTION

'Markets love volatility' said Christine Lagarde, the head of the International Monetary Fund (IMF) in 2011. Investors might beg to differ, after just experiencing the worst quarter for equity returns since that very year.

'The Great Fall of China' was the press headline. The collapse in the Chinese stock market, and some worrying economic figures from Beijing, triggered a global market sell-off.

China was, and is, a convenient scapegoat, but there are other problems in the world economy that have been lurking in the background and which are just as important, perhaps more so.

Oil prices and other commodity prices have continued to fall, with oversupply greater than originally thought and demand still slowing. Share prices of many commodity stocks are at multi-year lows. For example, markets have never seen such a large appreciation of the US dollar at the same time as such a large surplus of oil. This has been greatly increasing the pressure on Emerging Market producers.

Also, first the Bank of International Settlements (BIS) and recently the IMF have warned – stridently – that debt levels are at extremes across the world, significantly higher than before the 2007/8 financial crisis. Offshore borrowing in US dollars stands at a record $9.6 trillion. Both the BIS and the IMF say that this leaves the global financial system extremely vulnerable to any monetary tightening by the US Federal Reserve, which will lead to a worldwide shortage of US dollars.

In September the Fed was widely expected to start the process of increasing interest rates to more 'normal' levels (although what nowadays is considered 'normal' is the major question). Despite the fact that their remit is supposedly domestic only, with taking account of overseas events usually outside its function, the Fed obviously viewed the market falls around the world with alarm, and chose to postpone any decision.

This proved a further disappointment to investors, and the quarter ended with another fall in equity prices. This is discussed below, but a small rate rise was then expected to occur in December – until the latest set of jobless figures in the US would seem to suggest the rise could be postponed yet again.

This has been a torrid time for markets, which shows few signs of easing in the short term.

And, for once, Greece has been ignored, overshadowed by the refugee crisis in Europe.

UNITED KINGDOM

- Mark Carney, the Governor of the Bank of England, recently said there was no immediate need to raise interest rates, thanks to disinflationary forces from abroad. Despite the sharpest drop in unemployment for forty years and a tighter labour market leading to stronger pay growth, there are as yet no signs of inflationary pressures.
- He also said in August that 'developments in China are unlikely to change the process of rate increases from limited and gradual to infinitesimal and inert'. The domestic economic outlook was 'benign', he added. Early 2016 is the most likely starting point for the Bank's process of 'normalisation' of rates. This matters more in the UK than in the US because of the direct – and immediate – effect on mortgage rates, and thus the consumer.
- The All-Share has fallen 3% over the year to the end of September, but nearly 6% over the quarter. The index is weighed down by energy and commodity stocks (over 20% of its market capitalisation) and this has hidden better news from domestically related sectors. But market liquidity has been poor, which has led to several days of unnerving falls in both the indices and individual stocks.

- The election of Jeremy Corbyn as leader of the Opposition has had little effect on the market – not surprisingly, this far from the next election. It could lead to problems in Parliament over time, with unexpected consequences, but so far the reaction from investors seems to be the right one.
- The equity market was in a trading range during the summer. It briefly broke downwards through the 6000 level on several occasions, but it has always bounced back rapidly.

EUROPE EX UK

- For once, Eurozone economies and bail-outs in Greece faded from the headlines across the summer.
- 'No one leaves home unless home is in the mouth of a shark' wrote Warsan Shire, the Somali-British poet. The refugee crisis has hit much of mainland Europe and has exposed many divisions hitherto hidden from view. Calls for unity have gone unheeded and, with winter quickly approaching and no sign of any lessening in the number of refugees, a solution is being sought with ever-increasing urgency.
- This humanitarian crisis has overshadowed economics (but not politics), but the Eurozone has been experiencing the same headwinds as the rest of the world. Growth across the region has been – and is forecast to be – minimal and inflation is back below zero.
- Markets are expecting the European Central Bank to launch another burst of Quantitative Easing soon, possibly before the end of the year. However monetary growth is already at its highest level since pre-crisis and some commentators have suggested the 'official' figures are hiding a more promising picture underneath.
- The Eurozone performed slightly better than expected in the first half of the year, as the weaker euro boosted exports and lower inflation helped consumer spending. All members of the eurozone saw some improvement, except France. Since then industrial production has been higher than forecast.
- It is impossible not to mention Greece. A third bail-out was agreed and the subsequent election called by Syriza returned the previous government, albeit now in a coalition. Very few outside Greece expect this bail-out to be any more successful than the first two, and difficult decisions still have to be made on debt write-downs, but for the time being the crisis has disappeared into the background, which is positive for all concerned.
- European equity markets experienced the same volatility as the rest of the world over the summer but in the end fell less than 1% in sterling terms. Earnings growth has held up, led by domestic companies but is more problematical in some areas that have been relying on growth in emerging markets.
- And then there was Volkswagen! The scandal which has engulfed the company will be very costly, it goes without saying, but it also has potential political consequences for the 'Made in Germany' label, so highly rated across the globe. Only time will tell.

NORTH AMERICA

- Much to the markets' surprise there was no interest rate rise in September. For once the Federal Reserve decided its global responsibilities outweighed domestic concerns, and chose not to rock the boat in the midst of the China / Emerging Markets storm. Looking at just the US, it was generally accepted that the first rise was needed now – although this immediately came under question by poor jobless figures.
- Inflation is well under the target of 2% (currently it is 0.3%) but the unemployment level is now only 5.1% - where the Fed believes the economy is in balance (although this figure seems less 'fixed' than previously).
- When it eventually comes, it will be the first rate rise in more than nine years (0.25% since December 2008) but even so monetary policy will remain 'accommodative'. The Fed is now not only looking at inflation and the jobs market, but also overall financial conditions.
- Elsewhere economic momentum has been building. Business confidence is rising, jobs are being created (despite what the most recent figures might suggest), wages are increasing as is consumer confidence and the housing market. However, the growth in the economy (2.7% year-on-year) is considered by many as sluggish at this stage in the recovery.
- The strong dollar is causing headwinds. Many export-dependent companies are experiencing flat revenues and earnings only showing growth by balance sheet manoeuvring. Companies are scaling back stock purchases

and are less able to issue bonds to buy their own shares, as hitherto. As a consequence, the US corporate bond market is suffering from a lack of liquidity.

- Falling oil prices are also leading to major problems for oil producers and the newer shale companies, where finances are deteriorating rapidly. Energy stocks represent 8% of the index and energy is its worst performing sector.
- Politics are also beginning to intrude. Hilary Clinton's accusation of 'profiteering' in the health care industry led to a dramatic sell-off, exacerbated by investors reducing their margin debt (from an all-time high) in those sectors that had previously shown the greatest upward momentum, for example biotech. The possibility of a Clinton v Trump election next year is beginning to concern investors – although there is still a long road ahead for them both.
- So far this year, earnings have largely kept up with valuations, which have been at the top end of their range – at least until the recent weakness in share prices. Should earnings begin to disappoint more widely, the market may take fright.

JAPAN

- The main Japanese index reached a high for the year in mid-August, but then fell to be down 8% over the quarter in sterling. However, it is still up 4.5% this year – the only major market to show positive returns.
- The culprits in August were the Chinese 'devaluation' of its currency – of which more below – and, more importantly, concerns about global growth.
- Growth in Japan has stalled, inflation has returned to zero (against a target of 2%), exports have weakened and industrial production has been disappointing. As Japan imports about 90% of its energy needs, the fall in inflation is not surprising, but the other economic statistics are proving worrisome.
- The Japanese government is expected to downgrade its forecasts, especially if the yen appreciates, and another round of Quantitative Easing is possible towards the end of the year.
- Mr Abe's popularity has also taken a hit recently. General MacArthur's post-war constitution only allowed Japan a 'self-defence force'. The Government's majority in both the Upper and Lower House has enabled them to change this for the first time. From now Japanese forces can act in 'collective self-defence' with its partners, and can fight overseas if necessary. The Japanese public has viewed this negatively, believing Mr Abe should be concentrating on the economy to the exclusion of all else.
- Corporate profits have remained positive, so far being unaffected by events overseas. Company forecasts are likely to be met, although, not surprisingly, upward revisions are few and far between.
- The market as a whole is looking at events abroad, not at domestic matters, and sentiment in the short term is poor.

ASIA PACIFIC EX JAPAN / EMERGING MARKETS

- China has apparently been the cause of all the global markets' woes in the last few months. Citibank has warned that a 'hard landing in China could lead to world recession next year and into 2017', with over 50% probability. Their estimate is for only 4% growth in the Chinese economy – against the official figure of 7% - and other analysts are following suit, lowering their forecasts.
- The figures being released by the Chinese authorities have certainly been disappointing. Investment is growing at the slowest pace in 15 years, with fixed asset investment the slowest since 2000. Industrial output and construction growth have also been weaker than expected.
- The renmimbi 'devaluation' – which caused such a panic in Asian markets – was in fact only 2% and is a bit of a red herring. Between 2007 and 2015, the currency has risen 52% in real terms against the US dollar which puts the 2% fall into context. However, markets now expect further devaluations, with China trying to boost exports at the expense of its competitors.

- The collapse in the Chinese stock market, which led to most of the negative press coverage, was not really a collapse at all, given its previous meteoric rise. Painful for its participants, many of whom were (and are) highly leveraged, the fall has probably more affected sentiment than the overall economy.
- The result is that investors now expect the authorities to launch their equivalent of Quantitative Easing in the near future – with unknown consequences (they are sure to be different to elsewhere).
- The rest of the Pacific Region's stock markets have been hard hit by these events. The Asian index (in sterling) fell over 13% in the last quarter and is down over 10% for the year to the end of September.
- Valuations became close to the lows seen in 2008 and investors were very underweight the region. However earnings estimates are being reduced (and earnings have fallen 8% in US dollars in the last year).
- Investors were even more underweight in other Emerging Markets, where the problems resulting from falling commodity prices coupled with a rising US dollar seem insuperable in the short term. Add in to the equation debt levels (both government and corporate) that in many countries were higher than during the 2007/8 crisis and it is understandable that investors have been liquidating their holdings indiscriminately.

FIXED INCOME

- All eyes have remained on the major Central Banks, especially the Federal Reserve. The 'will they, won't they' argument has persisted across the summer, with rate rises in the US (and the UK) expected sooner rather than later. The most important, in the US, is constantly being pushed out another quarter, for both internal and external reasons, leading to both confusion and disappointment.
- However, with oil prices still on a downward path (significantly so, according to Goldman Sachs), inflationary expectations have been lowered in much of the developed world, and the pressure for an early increase has been somewhat eased.
- Equity market volatility in the quarter has led bonds – particularly US Treasuries – to be yet again considered as safe havens, despite being expensive.
- The concern is that Central Banks, who are charged with ensuring the stability of the financial system, have by their policy of ultra-low interest rates led to a price bubble in many asset classes. A rate rise now may have more of a negative effect than if it had happened sooner.
- Since the end of 2006, collectively global Central Banks have printed the equivalent of US$ 11.3 trillion of extra liquidity (Source: Crossborder Capital), and somehow this has to be reduced.
- If global growth weakens, and company sales and profits come under pressure, there are also implications for the corporate bond sector, already suffering from a lack of liquidity in markets, and possibly pricing that fails to reflect underlying reality.

ALTERNATIVES

- Hedge Funds (in sterling terms) returned -0.3% over the quarter, showing an improvement in performance when compared to the second quarter. Emerging Markets (-6.0%) were the worst performing strategies over the quarter and also have the worst returns over 12 months and 3 years. Global Macro strategies were the strongest over the quarter with a return of 3.2%, and is the leading strategy over 12 months with a return of 8.4%. Hedge Funds have provided protection against falling equity markets, albeit returns were marginally negative over the quarter.
- The UK Property return declined marginally to 3.4% over the quarter, compared to 3.6% last quarter, as the market stabilised. Offices and industrials were the leading sectors, however, the returns from Offices in Central London declined. The retail sector continued to lag behind. As at the end of September 2015, the annual property yield stood at around 5.7%.
- Commodities returned -16.2% over the quarter, reversing the brief positive returns obtained last quarter. Energy prices declined as oil prices weakened due to continuing supply surpluses and anticipation of higher Iranian oil exports in 2016. Coal, natural gas and metal prices declined on continued weak demand and excess supply. Agriculture prices fell on comfortable supply prospects, despite fears that the El Niño weather pattern

may reduce supply. Precious metals prices declined on weakening investment demand which reflected expectations of a US interest rate hike and dollar appreciation.

CONCLUSION

Christine Lagarde said ‘Markets love volatility’. However Jeremy Grantham’s view is that ‘volatility is a symptom that people have no idea of the underlying value’. This is certainly true today.

There are several questions.

When is the Federal Reserve going to raise interest rates, by how much, and how quickly? The addition, possibly temporary, of ‘financial conditions’ to the Fed’s remit, makes this even more difficult to forecast, especially after the most recent jobless figures – which might suggest an increase later rather than sooner. Recently she said she ‘still expects a rate rise later this year, followed by a gradual pace of tightening elsewhere’, but this could easily change. Does the Yellen ‘put’ still apply? This means that if conditions worsen for whatever reason, will the Federal Reserve (and other Central Banks), come to the rescue yet again, like the cavalry? If they do, what ammunition can they use this time round?

With China slowing and Japan and Europe showing little growth, this leaves the US (and to a lesser extent the UK) as potential drivers of global growth. Will this be enough? It seems unlikely. Emerging Markets will not recover until either commodity prices reverse their falls or the US dollar weakens. Neither seems probable in the short term. However all is not doom and gloom. JP Morgan is still forecasting a quite respectable 3% World growth in 2015 (against 3.2% last year) and profits in many areas are still rising.

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FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CLWYD PENSION FUND COMMITTEE**

DATE: **26th NOVEMBER 2015**

REPORT BY: **CHIEF OFFICER (PEOPLE AND RESOURCES)**

SUBJECT: **INVESTMENT STRATEGY AND MANAGER SUMMARY**

1.00 PURPOSE OF REPORT

1.01 To update Committee Members on the performance of the Fund's investment strategy and performance of fund managers.

2.00 BACKGROUND

2.01 A role of the Committee is to monitor the performance of the Fund's investment strategy and fund managers.

2.02 On behalf of the Committee, the Investment Consultant and Pension Finance Managers:

- Undertake regular monitoring to ensure that the investment strategy is operating within the approved Statement of Investment Principles (SIP).
- Regularly monitor fund manager and investment performance.
- Recommend to Advisory Panel alternative investments within the asset allocations agreed within the SIP.
- Recommend to Advisory Panel changes to asset allocation allowed within the SIP, including re-balancing.
- Report investment performance to the Advisory Panel and Committee.
- Recommend changes to the investment strategy to Committee.

3.00 CONSIDERATIONS

3.01 The report from the Fund's Investment Consultant on the performance of the investment strategy as at 30th September 2015 is attached.

3.02 In summary, over the quarter ending 30th September 2015 the Fund's return was -2.6% compared with a composite target of -1.5%. In Appendix 1 of the Investment Consultant's report there is a summary of mandates which shows the benchmark and outperformance targets of the funds invested. The targets are based on managers' stated targets, the views of the Investment Consultant's Market Forecast Group or a combination of these. All performance figures are compared to targets net of fees which include the expected outperformance above relevant indices, where appropriate.

3.03 The Fund has undergone a strategic review, which continues to be implemented. The Investment Consultant's report is written in terms of the new strategic benchmark, and so deviation from this should be seen in this context. Further restructuring will take place during the coming quarter.

4.00 RECOMMENDATIONS

4.01 That Committee Members note and discuss the performance of the investment strategy and fund managers.

5.00 FINANCIAL IMPLICATIONS

5.01 None directly as a result of this report.

6.00 ANTIPOVERTY IMPACT

6.01 None directly as a result of this report.

7.00 ENVIRONMENTAL IMPACT

7.01 None directly as a result of this report.

8.00 EQUALITIES IMPACT

8.01 None directly as a result of this report.

9.00 PERSONNEL IMPLICATIONS

9.01 None directly as a result of this report

10.00 CONSULTATION REQUIRED

10.01 None directly as a result of this report

11.00 CONSULTATION UNDERTAKEN

11.01 None directly as a result of this report

12.00 APPENDICES

12.01 Investment Strategy and Fund Manager Summary

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: None

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CLWYD PENSION FUND

INVESTMENT STRATEGY AND MANAGER SUMMARY PERIOD ENDING 30 SEPTEMBER 2015

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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 2015, the Fund's total market value decreased by £40.4m to £1,338,670,558.

As at 30 June 2015, the Fund’s liabilities were valued at £2,081 million, resulting in a funding level of 66%.

As at 30 September 2015, the value of the Fund’s liabilities had increased by £77 million to £2,158 million, resulting in a funding level of 62%.

Over the 3 months to 30 September 2015, total Fund assets returned -2.6% compared with a composite target of -1.5%. The majority of the negative absolute return was a driven by the Equity Assets, which returned -9.7%. The In-House Portfolio produced the highest return of the strategic asset classes, rising 5.1% over the quarter.

In relative terms, total Fund assets produced a return 1.1% below the target, as all the strategies apart from the In-House portfolio detracted against absolute objectives. The In-House portfolios outperformed their overall target objectives by 3.0%. There was a neutral contribution from the underweight allocation to equities (which fell sharply) although this was offset by the overweight allocation to LDI, but the majority of the underperformance was due to manager underperformance relative to their targets.

EQUITIES

Global equity markets declined over the quarter, with negative growth seen in all major regions. Volatility in global equity markets stemmed from fears in the slowdown in China, a steep decline in the Chinese stock market and the subsequent devaluation of the Renmimbi all of which was compounded by a depression in commodity prices and the uncertainty around the timing of the US Federal Bank’s initial rate hike.

In developed markets, Asia Pacific (ex Japan) equities proved to be the weakest as they declined by 13.2% over the quarter. Japanese equities declined by 8% followed by UK equities which were down by 5.7%. European equities and US equities declined by 4.7% and 3.2%, respectively.

Over the last 12 months, Japanese and US equities provided the strongest returns, increasing by 6.2% and 6.1%. Asia Pacific (ex Japan) experienced the lowest return of the developed markets, declining by 8.0%.

Emerging Markets declined by 14.6% and Frontier Markets were down by 7.1% over the quarter, both markets saw a negative annual return of -18.5% and -13.3% respectively.

The Fund’s equity assets returned -9.7%, which was 0.7% below its composite target. All funds in the strategy produced negative returns, however, all funds with the exception of the Investec Global Strategic Equity Fund managed to outperform their targets over the quarter. Global equity exposure to industrials, energy and telecommunication were the main contributors to performance, while consumer discretionary, consumer staples and financials were the biggest detractors from returns.

In Emerging Markets, exposures to Mexico, Brazil, China and South Korea contributed to the majority of gains, although this was offset to some extent to exposure in South Africa.

In Frontier Markets, the underweight allocation to Argentina was the largest contributor to relative performance as the market and currency dropped sharply due to the upcoming presidential elections. The lack of direct exposure to Kazakhstan also proved beneficial as the price of oil continued to decline. Meanwhile, the off-benchmark position in South African stock MTN Group (which derives around half its earnings from its Nigerian subsidiary) plummeted by over 30% over the quarter and was the largest detractor from the fund.

MULTI-ASSET CREDIT

Bond markets had a mixed quarter as a number of key topics continued to put strain on global markets. There was a dramatic increase in market volatility as investors became increasingly concerned about global growth, particularly the risks emanating from China and its central bank's decision to devalue the Renmimbi. The US Federal Reserve's decision to delay an increase in rates added to the uncertainty in markets. Continuing nervousness was also apparent toward the end of the quarter, as central banks deferred any moves to hike interest rates higher. The falling prices of oil and energy also compounded a particularly difficult period for High Yield and Emerging Markets.

Global investment grade bonds, UK government and corporate bond markets rose, however, High Yield and Emerging Market bonds suffered, with US High Yield Bond markets reporting their worst quarter since 2011. The High Yield underperformance reflected a growing fear that the slowdown in growth in China, which up until now had largely impacted Emerging Markets and the energy sector, might spill over into broader developed economy weakness.

Over the quarter, there was an increase in long-dated corporates (+1.6%), long-dated fixed interest gilts (+5.1%) and long-dated index-linked gilts (+2.3%). Declines were seen in Emerging Market Debt (-1.7%) and High Yield bonds (-1.0%). Elsewhere, Global Bonds increased by 1.2% and Leveraged Loans increased by 0.2%.

The Fund's Multi-Asset Credit assets generated a negative return of -2.8% over the quarter, behind its cash based target by 3.2%. Overall this detracted 0.5% from total Fund performance.

All asset classes in the Multi-Asset Credit portfolio detracted over the period, although exposures to High Yield bonds and Emerging Market debt detracted around 1.5% as market volatility extended across industry sectors other than oil and energy. Underweight allocations to European countries were detrimental as European sovereign Emerging Market debt outperformed the broader market. Exposure to net exporters of oil suffered during the quarter as oil prices slumped by over 22%. Holdings in Latin American bonds also contributed to underperformance as every country in the region, except Argentina, generated negative returns.

HEDGE FUNDS

Global hedge fund capital saw the largest decline since the Financial Crisis over the quarter, as global financial market volatility surged on uncertainty over US interest rates, China and M&A transactions. Estimated hedge fund capital declined by $95 billion across all strategy areas to end the quarter at $2.87 trillion. In Sterling terms, equity based strategies Emerging Markets (-6.0%) and Equity Hedge (-2.3%) were the worst performing strategies while Global Macro (+3.2%) and Relative Value (+1.0%) were positive. However, in US Dollar terms, all hedge fund strategies were negative over the last three months.

Total Hedge Fund assets returned -1.7%, behind their absolute target of 1.2%. Overall this detracted 0.3% from total Fund relative performance. All funds with the exception of BlueCrest (+1.9%) produced negative returns, below their targets.

BlueCrest's Multi-Strategy Credit strategy was the only one from its 7 strategies to deliver a negative return, whilst its BlueTrend 2x Leveraged strategy took advantage of market volatility with its short biased equity positions. The outgoing Duet Fund returned -1.8% over the quarter.

Liongate (-6.3%) suffered losses mainly due to its Long/Short Equity and Event Driven exposures. SSARIS A (-2.2%), underperformed as a result of its Managed Futures, Credit and Global Macro strategies, although these losses were partially reduced through positive Long/Short Equity and Convertible Arbitrage exposures.

TACTICAL ALLOCATION PORTFOLIO

DIVERSIFIED GROWTH

Total Diversified Growth assets returned -2.4%, behind their absolute target of 1.3%. Overall this detracted 0.4% from the total Fund relative performance. Despite increased market volatility and falling risk assets the Diversified Growth Funds were relatively well protected, and the negative return was somewhat below that of global equities.

Investec's exposures to equities, High Yield, EMD and commodities were all particularly detrimental to the strategy, although its positions in developed market government and corporate bonds absorbed some of the losses.

The defensive nature of the Pyrford portfolio sheltered the strategy from large falls seen elsewhere in the markets, benefiting from its short duration stance and high allocation to UK denominated bonds. However, the portfolio did fall, but only modestly, by 0.5% over the quarter.

BEST IDEAS PORTFOLIO

The Best Ideas portfolio returned -8.4% and was behind its target of 0.7%. Overall this detracted 0.7% from total Fund performance.

Commodities were the worst performing strategy, returning -11.1% while US equities returned -4.6%.

There were several changes that were implemented within the Best Ideas Portfolio over the quarter:

- On 6 August 2015, £12,403,729 SSARIS A2 fund were effectively transferred from Best Ideas portfolio into the SSARIS A1 fund held in the Hedge Fund portfolio.
- Also on 6 August 2015, £13,500,000 was invested into each of the LGIM Japanese Equities Fund and the LGIM Japanese Equities (Hedged) Fund.
- At the start of September, the Fund redeemed its holding in the Wellington Commodities Fund and reinvested the proceeds into the BMO UK Equity-Linked Gilts Fund.

IN-HOUSE PORTFOLIO

Total In-House assets returned 5.1%, ahead of their composite target by 3.0%. Overall this contributed 0.7% to total Fund performance. Private Equity, Property and Infrastructure assets contributed to the positive performance of the strategy, with each of them generating returns above their targets.

Infrastructure, which is marginally overweight relative to its strategic allocation, posted the highest return of the In-House assets of 7.7%, ahead of its target by 6.3%.

Private Equity, which is the largest portfolio in the strategy, produced an absolute return of 7.2% and outperformed its target by 5.8%. Overall this added 2.4% to the strategy and 0.6% to total Fund performance.

Property assets delivered a return of 4.1%, outperforming its target by 0.7%.

Timber/Agriculture posted 1.0%, which was below the target by 0.4%, but ahead of equivalent commodity markets.

Opportunistic assets were the poorest performing of the In-House assets, returning -9.1% and underperforming its target by 10.5%.

2 STRATEGIC ASSET ALLOCATION
30 SEPTEMBER 2015

Allocation by underlying asset class

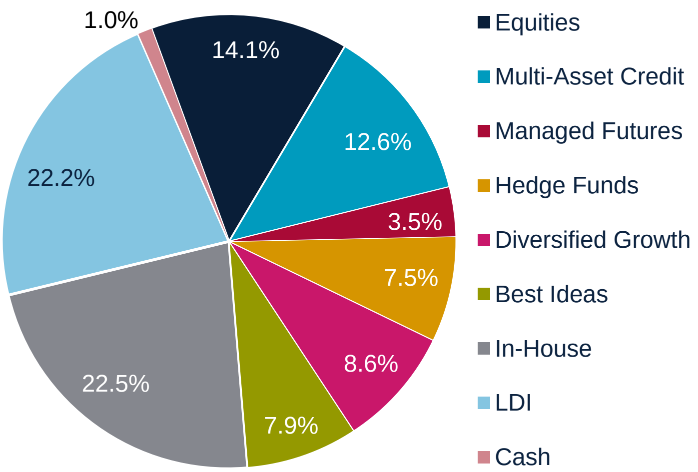
Asset Class	Market Value £	Weight %	Strategic Allocation %	Relative %	Strategic Range %
Global Equities	90,717,960	6.8	8.0	-1.2	5.0 – 10.0
Emerging Market Equities	71,300,390	5.3	6.5	-1.2	5.0 – 7.5
Frontier Market Equities	26,433,393	2.0	2.5	-0.5	1.0 – 4.0
Multi-Asset Credit	168,869,299	12.6	15.0	-2.4	12.5 – 17.5
Managed Futures and Hedge Funds	47,115,000	3.5	9.0	-5.5	7.0 – 11.0
Hedge Funds (Legacy)*	100,730,486	7.5	0.0	+7.5	–
Diversified Growth	114,526,605	8.6	10.0	-1.4	15.0 – 25.0
Best Ideas	106,396,037	7.9	9.0	-1.1	
Property	100,021,945	7.5	7.0	+0.5	5.0 – 10.0
Private Equity & Opportunistic	148,025,679	11.1	10.0	+1.1	8.0 – 12.0
Infrastructure / Timber / Agriculture	53,372,470	4.0	4.0	0.0	2.0 – 7.0
LDI & Synthetic Equities	297,776,210	22.2	19.0	+3.2	10.0 – 30.0
Cash	13,385,084	1.0	0.0	+1.0	0.0 – 5.0
TOTAL CLWYD PENSION FUND	**1,338,670,558**	**100.0**	**100.0**	**0.0**	

Notes: The strategic allocation represents the benchmark in the new investment strategy; this is effective from 31 March 2015.
* Proceeds from the redemption of the legacy Hedge Funds are to fund part of the strategic allocation to Managed Futures and Hedge Funds.

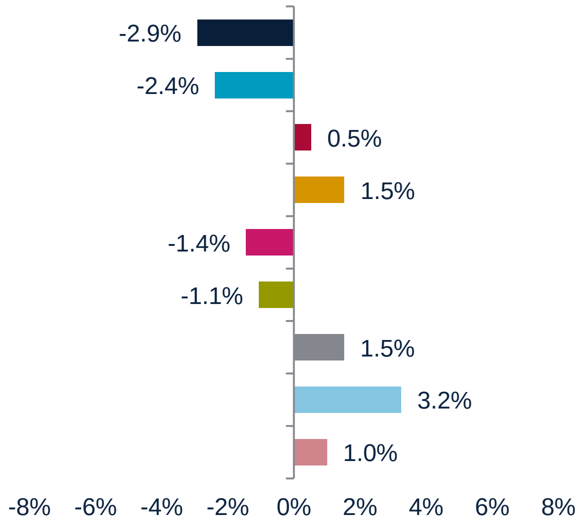
Points to note

- Allocation to LDI fell by 0.3% over the quarter but is 3.2% overweight relative to its strategic allocation.

Strategic Asset Allocation as at 30 Sept 2015*



Deviation from Strategic Allocation*



* Strategic asset class categorisations have been revised to reflect the new investment strategy effective from 31 March 2015.

3 VALUATION AND ASSET ALLOCATION
AS AT 30 SEPTEMBER 2015

Manager	Fund	Market Value £	Weight %	Strategic Allocation %	Strategic Range %
Investec	Global Strategic Equity	90,717,960	6.8	8.0	5.0 – 10.0
Wellington	Emerging Market Equities (Core)[#]	34,316,629	2.6	3.25	5.0 – 7.5
Wellington	Emerging Market Equities (Local)[#]	36,983,761	2.8	3.25	
Aberdeen	Frontier Markets[#]	26,433,393	2.0	2.5	1.0 – 4.0
Total Equities		**188,451,743**	**14.1**	**17.0**	
Stone Harbor	Libor Multi-Strategy Portfolio	168,869,299	12.6	15.0	12.5 – 17.5
Total Multi-Asset Credit		**168,869,299**	**12.6**	**15.0**	**12.5 – 17.5**
ManFRM	Managed Futures and Hedge Funds	47,115,000	3.5	9.0	7.0 – 11.0
Managed Account Platform		**47,115,000**	**3.5**	**9.0**	**7.0 – 11.0**
Pioneer	Fund of Hedge Funds*[#]	1,224,411	0.1	0.0	–
SSARIS A	Fund of Hedge Funds*	37,164,524	2.8		
Liongate	Fund of Hedge Funds[+]	20,810,832	1.6		
Duet	Global Opportunities*	7,055,591	0.5		
BlueCrest	AllBlue Ltd[+]	34,475,128	2.6		
Total Hedge Funds (Legacy)		**100,730,486**	**7.5**	**0.0**	**–**
Pyrford	Global Total Return	58,119,988	4.3	5.0	–
Investec	Diversified Growth	56,406,617	4.2	5.0	
Total Diversified Growth		**114,526,605**	**8.6**	**10.0**	**–**
BlackRock	US Equities	24,357,636	1.8	9.0	
BMO	UK Equity-Linked Gilts	21,678,874	1.6		
SSARIS Z	Fund of Hedge Funds*	36,915,992	2.8		
LGIM	Japanese Equities	12,121,830	0.9		
LGIM	Japanese Equities (Hedged)	11,321,706	0.8		
Best Ideas Portfolio		**106,396,037**	**7.9**	**9.0**	**–**
Tactical Allocation Portfolio		**220,922,641**	**16.5**	**19.0**	**15.0 – 25.0**
In-House	Property	100,021,945	7.5	7.0	5.0 – 10.0
In-House	Infrastructure	28,699,074	2.1	2.0	2.0 – 7.0
In-House	Timber / Agriculture	24,673,396	1.8	2.0	
In-House	Private Equity	138,408,181	10.3	10.0	8.0 – 12.0
In-House	Opportunistic	9,617,498	0.7		
In-House Portfolio		**301,420,094**	**22.5**	**21.0**	
Insight	LDI Portfolio	297,776,210	22.2	19.0	10.0 – 30.0
Total LDI		**297,776,210**	**22.2**	**19.0**	**10.0 – 30.0**
Trustees	Cash	13,385,084	1.0	-	0.0 – 5.0
TOTAL CLWYD PENSION FUND		**1,338,670,558**	**100.0**	**100.0**	

Notes: Figures may not sum due to rounding.
* Duet, SSARIS and Pioneer valuations are subject to a 1 month lag. + BlueCrest and Liongate valuations are based on estimates provided by the managers.
# Wellington Emerging Markets Core and Local, Aberdeen Frontier Markets and Pioneer valuations have been converted from US Dollar to Sterling using the WM/Reuters closing price exchange rates for the respective dates.

4 PERFORMANCE SUMMARY
PERIODS ENDING 30 SEPTEMBER 2015

	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	-8.5	-5.4	1.9	0.4	13.7	10.7	Target met
	Wellington	Emerging Markets (Core)[#]	-12.5	-14.4	-12.6	-12.4	-2.3	-1.5	Target not met
	Wellington	Emerging Markets (Local)[#]	-10.6	-14.2	-8.9	-11.6	1.6	-1.4	Target met
	Aberdeen	Frontier Markets[#]	-5.4	-6.7	-16.7	-20.1	-2.3	1.6	Target not met
Total Equities			**-9.7**	**-9.0**	**-3.2**	**-1.3**	**9.8**	**11.1**	
	Stone Harbor	Libor Multi-Strategy	-2.8	0.4	-3.5	1.5	-0.7	0.0	Target not met
Total Multi-Asset Credit			**-2.8**	**0.4**	**-3.5**	**1.5**	**-0.7**	**0.0**	
	SSARIS A	Fund of Hedge Funds*	-2.2	0.8	1.0	3.5	2.6	3.5	Target not met
	Liongate	Fund of Hedge Funds[+]	-6.3	1.4	-8.5	5.6	-1.0	5.6	Target not met
	Duet	Global Opportunities*	-1.8	1.3	1.4	5.1	1.9	5.1	Target not met
	BlueCrest	AllBlue Ltd[+]	1.9	1.1	3.7	4.6	4.2	4.6	Target not met
Total Hedge Funds (Legacy)			**-1.7**	**1.2**	**-6.6**	**4.8**	**0.0**	**4.8**	
	Pyrford	Global Total Return	-0.5	1.4	-0.1	5.5	1.9	6.6	Target not met
n/a	Investec	Diversified Growth	-4.2	1.1	n/a	n/a	n/a	n/a	n/a
Total Diversified Growth			**-2.4**	**1.3**	**-4.5**	**5.2**	**-1.1**	**6.2**	
Best Ideas Portfolio			**-8.4**	**0.7**	**n/a**	**n/a**	**n/a**	**n/a**	
	In-House	Property	4.1	3.4	15.5	15.5	10.4	13.8	Target not met
	In-House	Infrastructure	7.7	1.4	23.0	5.7	14.6	5.6	Target met
	In-House	Timber / Agriculture	1.0	1.4	-2.5	5.6	0.9	5.5	Target not met
	In-House	Private Equity	7.2	1.4	14.4	5.6	10.7	5.6	Target met
	In-House	Opportunistic	-9.1	1.4	-8.8	5.7	1.0	5.5	Target not met
Total In-House Assets			**5.1**	**2.1**	**13.2**	**8.8**	**9.9**	**8.2**	
n/a	Insight	LDI Portfolio	-4.0	-4.0	13.6	13.6	n/a	n/a	n/a
Total (ex LDI)			**-2.1**	**-1.0**	**-0.4**	**2.5**	**4.8**	**5.8**	
TOTAL CLWYD PENSION FUND			**-2.6**	**-1.5**	**2.6**	**4.7**	**6.2**	**7.0**	

Notes: 'n/a' against the objective is for funds that have been in place for less than three years.
Best Ideas portfolio includes SSARIS A and SSARIS Z funds, BlackRock US Equity Fund, Wellington Commodities, LGIM Japanese Equity Index Fund, LGIM Japanese Equity Index (GBP Hedged) Fund and BMO UK Equity-Linked Gilts.
Total Equities historically includes SSgA passive equity funds until March 2014 and Aberdeen Asia Pacific Equity (ex Japan) Fund until March 2015.
Total Hedge Funds (Legacy) historically includes Pioneer and Blackrock GASL until disinvestment in April 2015.
* Duet, SSARIS and Pioneer valuations are subject to a 1 month lag.
\+ BlueCrest and Liongate valuations are based on estimates provided by the managers.
\# Wellington Emerging Markets Core and Local, Aberdeen Frontier Markets and Pioneer valuations have been converted from US Dollar to Sterling using the WM/Reuters closing price exchange rates for the respective dates.
Performance for the Managed Account Platform is excluded for this report only due to very short term performance period.

Fund has met or exceeded its performance target

Fund has underperformed its performance target

5 STRATEGIC ASSET CLASSES
PERFORMANCE TO 30 SEPTEMBER 2015

Strategy	3 months %	12 months %	3 years % p.a.
Total Equities	**-9.7**	**-3.2**	**9.8**
Composite Objective	-9.0	-1.3	11.1
Composite Benchmark	-9.5	-3.3	9.6
Total Multi-Asset Credit	**-2.8**	**-3.5**	**-0.7**
Objective	0.4	1.5	0.0
Benchmark	0.1	0.5	-0.5
Total Hedge Funds (Legacy)	**-1.7**	**-6.6**	**0.0**
Composite Objective	1.2	4.8	4.8
Composite Benchmark	1.2	4.8	4.8
Total Diversified Growth	**-2.4**	**-4.5**	**-1.1**
Composite Objective	1.3	5.2	6.2
Composite Benchmark	1.3	5.2	6.2
Best Ideas Portfolio	**-8.4**	**n/a**	**n/a**
Objective	0.7	n/a	n/a
Benchmark	0.7	n/a	n/a
In-House Portfolio	**5.1**	**13.2**	**9.9**
Composite Objective	2.1	8.8	8.2
Composite Benchmark	2.1	8.8	8.2
Total LDI Portfolio	**-4.0**	**13.6**	**n/a**
Composite Objective	-4.0	13.6	n/a
Composite Benchmark	-4.0	13.6	n/a
Total (ex LDI)	**-2.1**	**-0.4**	**4.8**
Composite Objective	-1.0	2.5	5.8
Composite Benchmark	-1.1	1.9	5.2
Total Clwyd Pension Fund	**-2.6**	**2.6**	**6.2**
Composite Objective	-1.5	4.7	7.0
Composite Benchmark	-1.6	4.1	6.5

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; the Equity and Multi-Asset Credit portfolios and the Wellington Commodities Fund.

APPENDIX: SUMMARY OF MANDATES

Manager	Fund	Strategic Asset Class	Performance Objective (Net of Fees)	Strategic Allocation
Investec	Global Strategic Equity	Global Equities	MSCI AC World NDR Index +2.5% p.a.	8.0%
Wellington	Emerging Market (Global)	Emerging Markets Equities	MSCI Emerging Markets Index +1.0% p.a.	3.25%
Wellington	Emerging Market (Local)	Emerging Markets Equities	MSCI Emerging Markets Index +2.0% p.a.	3.25%
Aberdeen	Frontier Markets	Frontier Markets Equities	MSCI Frontier Equities Index +1.5% p.a.	2.5%
Stone Harbor	Libor Multi-Strategy Portfolio	Multi-Asset Credit	1 Month LIBOR Index +1.0% p.a. (1)	15.0%
ManFRM	Managed Futures & Hedge Funds	Managed Account Platform	3 Month LIBOR Index +3.5% p.a.	9.0% (3)
SSARIS	Multi-Manager Absolute Return	Fund of Hedge Funds (Legacy)	3 Month LIBOR Index +3.0% p.a.	0.0%
Liongate	Multi-Strategy	Fund of Hedge Funds (Legacy)	3 Month LIBOR Index +5.0% p.a.	0.0%
Duet	Global Opportunities	Hedge Funds (Legacy)	3 Month LIBOR Index +4.5% p.a.	0.0%
BlueCrest	AllBlue Ltd	Hedge Funds (Legacy)	3 Month LIBOR Index +4.0% p.a.	0.0%
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.	9.0%
In-House	Private Equity	Private Equity / Opportunistic	3 Month LIBOR Index +5.0% p.a.	8.0%
In-House	Opportunistic	Private Equity / Opportunistic	3 Month LIBOR Index +5.0% p.a.	2.0%
In-House	Property	Property	IPD Balanced Funds Weighted Average	7.0%
In-House	Infrastructure	Infrastructure / Timber / Agriculture	3 Month LIBOR Index +5.0% p.a.	2.0%
In-House	Timber / Agriculture	Infrastructure / Timber / Agriculture	3 Month LIBOR Index +5.0% p.a.	2.0%
Insight	LDI Portfolio	LDI & Synthetic Equities	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 fully funded Managed Account Platform (expected to be completed in December 2015) including Managed Futures and Hedge Fund portfolios.

 This analysis has been based on information supplied by our data provider Thomson Reuters and by investment managers. While every reasonable effort is made to ensure the accuracy of the data JLT Employee Benefits cannot retain responsibility for any errors or omissions in the data supplied.

It is important to understand that this is a snapshot, based on market conditions and gives an indication of how we view the entire investment landscape at the time of writing. Not only can these views change quickly at times, but they are, necessarily, generic in nature. As such, these views do not constitute advice as individual client circumstances have not been taken into account. Please also note that comparative historical investment performance is not necessarily a guide to future performance and the value of investments and the income from them may fall as well as rise. Changes in rates of exchange may also cause the value of investments to go up or down. Details of our assumptions and calculation methods are available on request.

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FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CLWYD PENSION FUND COMMITTEE**

DATE: **26th NOVEMBER 2015**

REPORT BY: **CHIEF OFFICER (PEOPLE AND RESOURCES)**

SUBJECT: **FUNDING AND FLIGHT-PATH UPDATE**

1.00 PURPOSE OF REPORT

1.01 To update Committee Members on the funding position and liability hedging undertaken as part of the Flight-path strategy for managing liability risks.

2.00 BACKGROUND

2.01 A role of the Committee is to monitor the funding position of the Fund and the management of the liabilities.

2.02 Mercer provides advice to the Fund on liability hedging and flight-paths. Insight Investments were appointed to manage the assets on behalf of the Fund.

2.03 The flight-path strategy commenced from 1st April 2014 with the following aims:

- Achieve a 'base level' of interest rate and inflation hedging (10% hedge ratio) at the outset.
- Aim for a target interest rate and inflation hedge of 40% by April 2019.
- Achieve a target interest rate and inflation hedge ratio of 80% in the long term.

To this end, Insight will construct and manage a portfolio of assets that aims to hedge a proportion of the Fund's liability cash flows.

2.04 By replacing the Fund's passive equity exposure with an Equity Total Return Swap (synthetic equity exposure) the Fund freed up capital to be used as collateral for a liability hedging portfolio. This enables the Fund to maintain its exposure to return seeking assets, while reducing the interest and inflation risks.

2.05 From the 'base level' further hedging will be achieved through an incremental build up over time overlaid with triggers according to prevailing market conditions. In addition there are funding level triggers which will result in the disinvestment of growth assets as the funding level improves. All the above is fully documented and understood by Mercer and Insight.

2.06 The triggers have been formulated on the understanding that the Fund's overall objective is to be fully funded within 10 to 12 years which is ahead of the average recovery plan based on deficit contributions of 18 years.

3.00 CONSIDERATIONS

3.01 The monthly summary report from Mercer on the funding position and an overview liability hedging mandate is attached as at 30th September 2015. There was no hedging activity in September 2015. It includes a "traffic light" of the key components of the Flightpath and hedging mandate with Insight. This will be presented at the Committee meeting including a verbal update on how things have moved. It is noted in the report that the funding position is now at 62%, which is c.8% behind the "expected funding level". Given this, and the continuing volatility in markets, the current funding position rating has been retained as an "amber" rating (it was also amber at 31 August). Since the end of September, the funding position has improved to c.64%. This will continue to be monitored and any action will be considered within the Actuary's interim funding review in advance of next year's actuarial valuation.

3.02 This deterioration was largely driven by falls in equity markets over the month to end September and the volatility in markets is continuing due to the uncertainty over the Chinese economy. As indicated previously the funding assumptions (in particular the expected real return over CPI inflation which determines the valuation discount rate used) and approach will be reviewed in light of the risk management framework and the overall expected return on the growth assets portfolio. The discount rate used can have a material effect on the funding position and deficit. For example an increase in the expected return/discount rate of 0.25% p.a. would increase the estimated funding level to 65% and reduce the deficit to £720m at 30th September 2015.

3.03 Since the commencement of the strategy a number of interest rate triggers have been met and the Fund had an interest rate hedge of approx. 21.3% and an inflation hedge of approx. 40.0% at 30th September. No funding triggers had been reached.

3.04 As a result of the hedging noted above we have already reached the planned target level for inflation hedging at April 2019, namely a 40% hedge ratio. Mercer has recently produced a health check for the flightpath which contains a number of options for enhancing the overall framework. These recommendations are to be considered in light of the upcoming funding review and we will report back on any actions at a future committee meeting.

3.04 The estimated funding position as at 30th September is 62% and an estimated deficit of £821m which is behind expectations. The hedges in 3.03 have protected the funding position against the recent changes in interest and inflation rates to the extent the deficit would have been approx. £75m higher if the hedges since inception had not been implemented via the triggers and the original strategy had remained in place.

3.05 The Actuary will verbally update the Committee on developments since the previous Committee meeting.

4.00 RECOMMENDATIONS

4.01 That Committee Members note the estimated funding level and the liability hedging undertaken to 30^{th} September 2015 plus that the overall funding framework is being reviewed in the run up to the full 2016 actuarial valuation, noting the funding level improvement to c.64%.

5.00 FINANCIAL IMPLICATIONS

5.01 None directly as a result of this report.

6.00 ANTIPOVERTY IMPACT

6.01 None directly as a result of this report.

7.00 ENVIRONMENTAL IMPACT

7.01 None directly as a result of this report.

8.00 EQUALITIES IMPACT

8.01 None directly as a result of this report.

9.00 PERSONNEL IMPLICATIONS

9.01 None directly as a result of this report

10.00 CONSULTATION REQUIRED

10.01 None directly as a result of this report

11.00 CONSULTATION UNDERTAKEN

11.01 None directly as a result of this report

12.00 APPENDICES

12.01 Risk management framework – monthly monitoring report September 2015

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: None

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CLWYD PENSION FUND

RISK MANAGEMENT FRAMEWORK MONTHLY MONITORING REPORT

October 2015

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Paul Middleman
Adam Lane

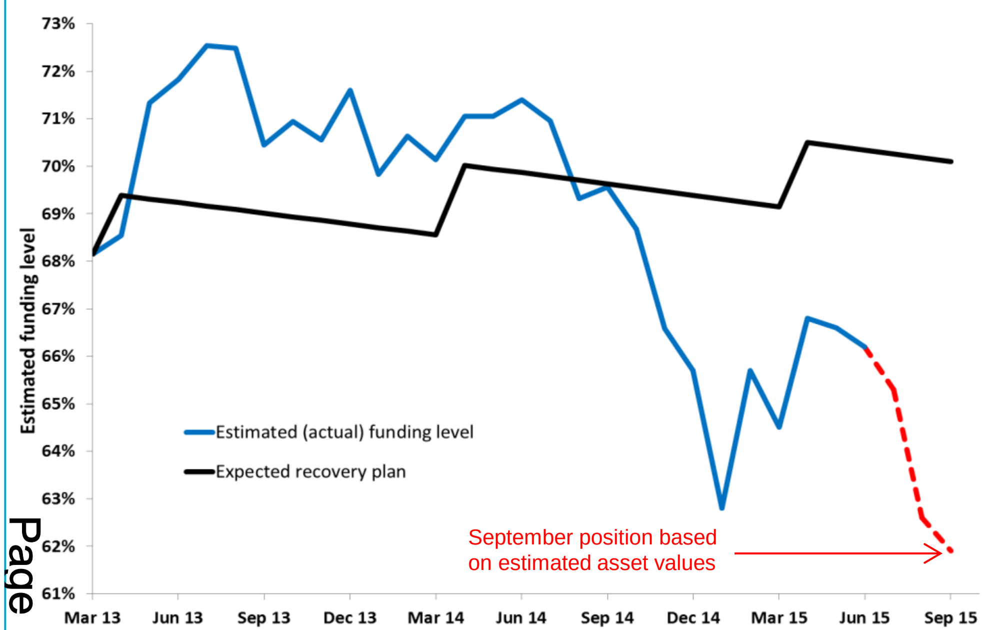
EXECUTIVE SUMMARY

= as per expectations (green) = to be kept under review (amber) = action required (red)

Amber	**Overall funding position** • Currently behind existing recovery plan and outside acceptable limits • Funding level below the first de-risking trigger	The position needs to be monitored closely given it is behind target and action may be required. This will be discussed as part of the 2015 funding review
Green	**Liability hedging mandate** • Insight in compliance with investment guidelines • Performance in line with expectations	No immediate action required
Green	**Synthetic equity mandate** • Insight in compliance with investment guidelines • Performance in line with expectations • Maturity constraints as expected	No action required
Green	**Collateral and counterparty position** • Collateral within agreed constraints • The Insight QIF can sustain at least a 1.25% rise in interest rates and inflation in combination with a 35% fall in equity markets before requiring further collateral	No action required
Green	**LIBOR Plus Fund** • Fund is ahead of performance target net of fees since inception • Management team stable and no change in manager rating • Allocation of £50m (plus growth) remains appropriate	No action required

FUNDING LEVEL MONITORING TO 30 SEPTEMBER 2015

Estimated funding position since 31 March 2013



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Comments

The **black line** shows a projection of the *expected* funding level from the 31 March 2013 based on the assumptions (and contributions) outlined in the actuarial valuation. The *expected* funding level at 30 September was around 70%.

The **blue line** shows an estimate of the progression of the *actual* funding level from 31 March 2013. At the 30 September 2015, we estimate that the *actual* funding level and deficit was as follows:

62% (£821m*)

This shows that the Fund was behind the expected funding level at 30 September 2015 by around 8%.

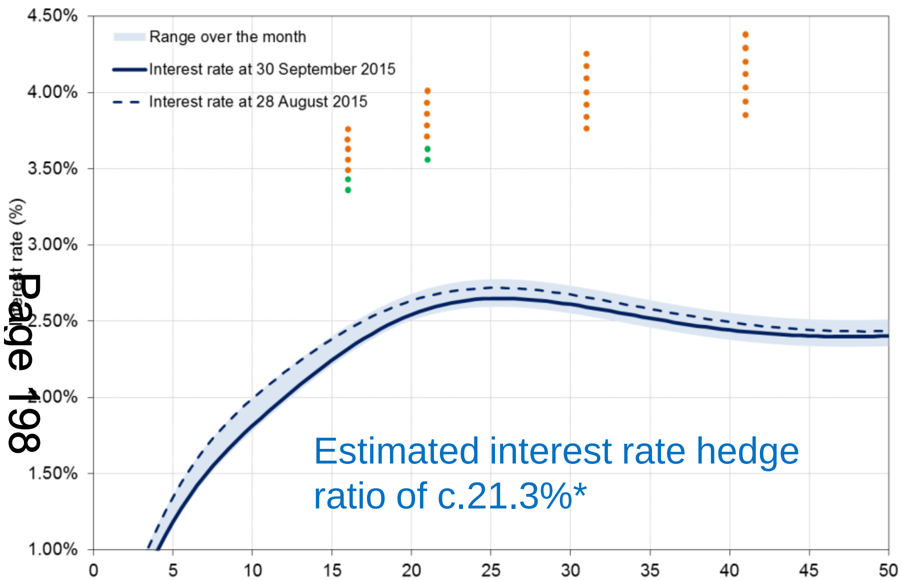
The funding level is currently below the first funding level trigger which is set at 80% (please see the table below).

	Funding level	Impact on strategic asset allocation	Change to the hedge ratio
30 September 2015	**62%**	**No action**	**No action**
Funding level Trigger 1	80%	Reduce the Insight equity exposure by 50%	Increase hedge ratio to 40%
Funding level Trigger 2	85%	Remove the Insight equity exposure	Increase hedge ratio to 50%
Funding level Trigger 3	90%	Increase Insight allocation from 19% of assets to 25%	Increase hedge ratio to 60%
Funding level Trigger 4	95%	Increase Insight allocation from 25% of assets to 30%	Increase hedge ratio to 70%
Funding level Trigger 5	100%	Increase Insight allocation from 30% of assets to 35%	Increase hedge ratio to 80%

*Asset values estimated based on market indices and an estimate of performance of the Insight liability hedging mandate from 30 June 2015 to 30 September 2015 . We will monitor this estimate over time against the actual position once final asset values are available, and update the asset values on a quarterly basis.

UPDATE ON LIABILITY HEDGING

Interest rate hedging activity

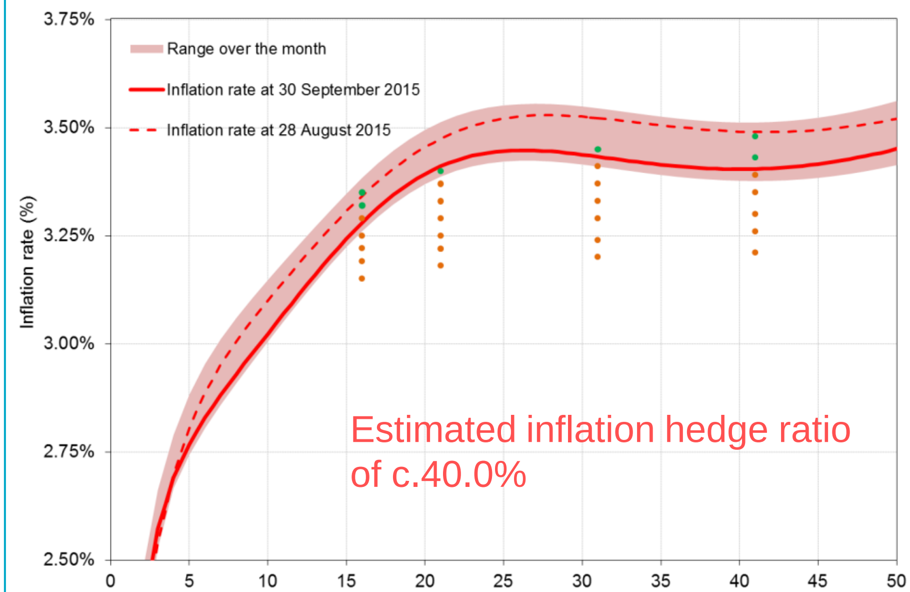


*based on benchmark position at 30 June 2015

Triggers transacted   Triggers not transacted

	Band 1	Band 2	Band 3	Band 4
Hedge ratio at 30 September	**36.8%**	**33.0%**	**13.0%**	**13.0%**

Inflation hedging activity



Triggers transacted   Triggers not transacted

	Band 1	Band 2	Band 3	Band 4
Hedge ratio at 30 September	**51.1%**	**30.0%**	**30.0%**	**50.0%**

- No interest rate hedging activity occurred over September 2015.
- Interest rates remained fairly stable at longer durations at the month end compared to 28 August 2015.
- Falls of up to 0.2% were observed at shorter durations over the month.

- No inflation hedging activity occurred during September.
- Inflation expectations fell at all but the shortest durations by up to 0.1% over the month.

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FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CLWYD PENSION FUND COMMITTEE**

DATE: **26th NOVEMBER 2015**

REPORT BY: **CHIEF OFFICER (PEOPLE AND RESOURCES)**

SUBJECT: **2016 ACTUARIAL VALUATION**

1.00 PURPOSE OF REPORT

1.01 To update Committee Members on the actuarial valuation project, including key milestones, communications with employers and other events.

1.02 This is the first report of what is anticipated to be a series of regular reports for all Committee meetings throughout 2016/17 until the conclusion of the project. Future reports will be updated as progress is made and developments occur.

2.00 BACKGROUND

2.01 Legislation requires that every three years, an actuarial valuation is performed by the Fund Actuary in order to assess the overall funding position of the Fund, and to determine the employer contributions for the following three years.

2.02 The actuarial valuation represents a major activity in managing the Clwyd Pension Fund and acts as a key Governance tool to shape its direction. It will be the first actuarial valuation completed following the implementation of the new CARE scheme structure, and will also be the first one completed under the new Governance structure of the Clwyd Pension Fund.

2.03 This will also be the first actuarial valuation completed under the new Public Service Pensions Act 2013 (PSPA) which requires the Government Actuary's Department (GAD) to undertake its own valuation of the aggregate LGPS (ie all Funds) on behalf of HM Treasury and the DCLG/Scheme Advisory Board at the same date. This will allow analysis of the effects of experience on the overall cost of the scheme and the results will feed into the Cost Management considerations.

2.04 Alongside this (although technically a separate exercise), a key change at this valuation is that there will be a further degree of scrutiny for individual Funds carried out under Section 13 of the PSPA. GAD will review the individual Fund valuations to assess the adequacy of the employer contributions set and the robustness of the funding strategy as regards ensuring each Fund's solvency (ie the ability to pay all Fund benefits as they fall due) and "cost efficiency" as set out in the PSPA.

2.05 The effective date of the actuarial valuation is 31 March 2016, and the employer contributions that will be certified by the Fund Actuary will be for the three-year period 2017/20.

2.06 During previous valuations, the Clwyd Pension Fund Officers and the former Clwyd Pension Fund Panel have conducted the process in an open and transparent way by working closely with key stakeholders at the Fund employers. This has worked well from all perspectives, and it is planned that the same, partnership-orientated approach will be adopted for the 2016 valuation.

3.00 CONSIDERATIONS

3.01 The valuation project can generally be split into three categories:

- ***Initial planning and strategy*** for the Fund and employers, includes the review and update of the Funding Strategy Statement (FSS) in light of the discussions.
- ***Data provision and actuarial calculations***, including renewal data from the employers, quality testing and then the actuarial calculations,
- ***Finalise results and formally certify contribution requirements,*** includes the conclusion of the FSS consultation and its ratification by the Committee. The employers can consider their results and liaise with the Fund (including the actuary as required) to arrive at the final results within agreed parameters as documented in FSS.

3.02 Broadly, the timeframes for the three categories are:

	Start	End
Initial planning & strategy	October 2015	May 2016
Data provision & calculations	April 2016	October 2016
Finalise results & certify contribution requirements	October 2016	March 2017

3.03 As indicated by the timeframes above, the first stages of the actuarial valuation project have effectively already begun. The Fund Actuary has completed an initial Funding Review exercise as at 30 September 2015, including a number of scenarios. An update was also presented to the **Annual Joint Consultative Forum** in October.

3.04 A **Steering Group meeting** is taking place on 16th November, in order to discuss the results of the Funding Review with representatives of the major employers in order to enable them to plan for the results likely to emerge when the calculations are performed next year. The Steering Group will be attended by the Fund Actuary, along with:

Section 151 Officers of Denbighshire CC
Wrexham CBC
Flintshire CC

Flintshire Chief Executive
Clwyd Pension Fund Manager, and the
Pensions Finance Manager.

3.05 It is anticipated that an employer meeting/workshop will be held as soon as is practicable after 31 March 2016, in order to provide more information on the strategic direction of the Fund and the results likely to emerge at whole Fund level. Invitations will be extended to further groups of participating employers (eg Colleges and Town and Parish Councils) at this stage.

3.06 Detailed employer results are planned to be provided to all employers around October 2016, alongside an invitation to feed in comments on the draft Funding Strategy Statement.

4.00 RECOMMENDATIONS

4.01 It is recommended that all Committee members note this report and the intention to add it to the regular reports produced until the actuarial valuation is completed.

5.00 FINANCIAL IMPLICATIONS

5.01 None directly as a result of this report.

6.00 ANTIPOVERTY IMPACT

6.01 None directly as a result of this report.

7.00 ENVIRONMENTAL IMPACT

7.01 None directly as a result of this report.

8.00 EQUALITIES IMPACT

8.01 None directly as a result of this report.

9.00 PERSONNEL IMPLICATIONS

9.01 None directly as a result of this report

10.00 CONSULTATION REQUIRED

10.01 None directly as a result of this report

11.00 CONSULTATION UNDERTAKEN

11.01 None directly as a result of this report

12.00 APPENDICES

12.01 None

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: None

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