

**CLWYD PENSION FUND COMMITTEE**  
**27 SEPTEMBER 2016**

Minutes of the meeting of the Clwyd Pension Fund Committee of Flintshire County Council held at Delyn Committee Room, County Hall, Mold CH7 6NA on Tuesday, 27th September, 2016

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

Councillors: Haydn Bateman (Vice Chair), and Brian Dunn

**CO-OPTED MEMBERS:** Steve Hibbert (Scheme Member Representative), Councillor Andrew Rutherford (Other Scheme Employer Representative) and Councillor Steve Wilson (Wrexham County Borough Council)

**APOLOGIES:** Councillors Huw Llewelyn Jones (Denbighshire County Council), Ron Hampson and Matt Wright, Philip Latham (Clwyd Pension Fund Manager).

**ALSO PRESENT (AS OBSERVERS):** Mark Owen (Employer Representative Clwyd Pension Fund Board), Gaynor Brooks (Member Representative Clwyd Pension Fund Board) and Steve Jackson (Employer Representative Clwyd Pension Fund Board)

**IN ATTENDANCE:**

Advisory Panel comprising: Colin Everett (Chief Executive), Gary Ferguson (Corporate Finance Manager), Karen McWilliam (Independent Advisor - Aon Hewitt), Paul Middleman (Fund Actuary – Mercers), Kieran Harkin and Anthony Kershaw (Fund Investment Consultants – JLT Group),

Officers/Advisers comprising: Alwyn Hughes (Pensions Finance Manager), Debbie Fielder (Pensions Finance Manager), Helen Burnham (Pensions Administration Manager), Karen Williams (Principal Pensions Officer), Matthew Edwards (Wales Audit Office - up to item 4 only), Simon Monkhouse (Wales Audit Office - up to item 4 only) and Kerry Robinson Communications Officer taking minutes.

Prior to the start of the meeting the Chair welcomed the members of the Clwyd Pension Fund Board and the Committee agreed that they could contribute to the meeting.

24. **DECLARATIONS OF INTEREST (INCLUDING CONFLICTS OF INTEREST)**

Councillor Stephen Wilson declared a personal interest as being a member of the Clwyd Pension Fund for all items.

Karen McWilliam declared an interest under item 5: Pooled Investments as an employee of Aon Hewitt who may submit a tender submission to be the operator of the Wales Pool. Mrs McWilliam also declared an interest under item 6 (in relation to the independent adviser contract) as an employee of Aon Hewitt.

Paul Middleman also declared an interest under item 5: Pooled Investments as an employee of Mercer for the same reason.

Kieran Harkin declared an interest under item 6 (in relation to the investment consultancy contract) as an employee of JLT.

25. **MINUTES**

- (i) The minutes of the meeting of the Committee held on 24 May 2016 were submitted.
- (ii) The minutes of the meeting of the Committee held on 5 July 2016 were submitted

**RESOLVED:**

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

26. **CLWYD PENSION FUND ANNUAL REPORT, ACCOUNTS AND AUDIT 2015/16.**

The Pension Finance Manager, Debbie Fielder, introduced the draft 2015/16 Annual Report welcoming comments. She confirmed that they would resolve the formatting issues that exist in relation to some tables in the document.

Mrs Fielder also highlighted that there had been several changes to the layout and contents of the report compared to last year. This included external reports from JLT and Mercers along with other additional information including a breakdown of the underlying investment fees. Documents have been attached in line with CIPFA's recommended best practice. The report has been agreed in principle by the Wales Audit Office.

Steve Hibbert requested that the training records within the report are amended to highlight that some events were only open to limited numbers of members.

The Chief Executive commented on how well balanced the report was and thanked the Pension Fund Team for their dedication and assistance in developing the report and confirmed the accounts had been formally approved by Council on the 26 September 2016.

Matthew Edwards referred to the Audit of Financial Statements Report highlighting its production in late August, demonstrating the very impressive commitment from the team. He confirmed that all suggested adjustments have been made and there are two areas highlighted in their report, firstly relating reconciling information on financial transactions between the financial ledger and the administration system and secondly relating to the accuracy of the number of active member records. Paul Middleman confirmed this latter point did not have a material impact on employers' liability assessments.

Councillor Steve Wilson noted a letter highlighting those issues and enquired about any possible financial loss. Helen Burnham confirmed no

members suffered financial loss due to the discrepancies although this has been an issue for a number of years. The Chief Executive suggested that this matter be assessed in proportion and that he was confident the matter could be resolved. Councillor Steve Wilson agreed with this.

**RESOLVED:**

- (a) That the Members note and comment on the draft unaudited Annual Report and delegate finalisation to officers; and
- (b) That the members note the management response to the external audit report.

27. **POOLED INVESTMENTS**

Debbie Fielder, Pensions Finance Manager, gave a verbal update, referring to the email sent to Committee members by the Clwyd Pension Fund Manager, Philip Latham, on 23<sup>rd</sup> September 2016 relating to the Wales Pool Memorandum of Understanding (MoU) for the Joint Chairs Group. The Chair presented a motion to agree consideration of the recommendations as contained in that email which were:

- (i) Discuss the contents of the email and attachment
- (ii) Advise of any changes you would like
- (iii) Delegate to officers agreement of any subsequent changes which are not fundamental to the intention of the Memorandum of Understanding
- (iv) In relation to para 11 of Memorandum of Understanding agree the member to be appointed as our representation and a substitute.

This was formally moved by Councillor Haydn Bateman and seconded by Councillor Steve Wilson.

Steve Hibbert drew attention to Item 10, stating costs were to be recovered on an equal basis irrelevant of the net asset value. Mr Hibbert also suggested that the Chair be on a rota basis.

The Chief Executive stated that normally with All Wales arrangements costs are proportionate. He noted a rotating chair can often not be productive. The Chief Executive also highlighted the need for strong leadership. Karen McWilliam agreed and suggested that an independent chair may assist. She noted that the MoU was purely for the Joint Chairs Group and was therefore just of a temporary nature and there would be an opportunity to feed into the formal permanent MoU or equivalent.

Mr Hibbert raised that accepting the temporary and fluid situation can become permanent so queries should be raised sooner rather than later.

Mrs Fielder updated the Committee on the procurement process for the Wales Pool Operator. She confirmed that Clwyd was asked by the Welsh Authorities to lead on Operator procurement. They had received a good number of expressions of interest and two engagement days had been held with potential

providers presenting to assist the authorities in developing the specification. The plan is to commence the procurement process in the first week in November.

Mrs Fielder went on to explain that no letter to proceed had yet been received from DCLG/HMT but this was expected during the 1<sup>st</sup> week of October. She confirmed she would email the Committee members as soon as a response was received.

**RESOLVED:**

That the Committee:

- (a) Delegate to officers agreement of any subsequent changes which are not fundamental to the intention of the Memorandum of Understanding; and
- (b) In relation to para 11 of Memorandum of Understanding appoint Councillor Alan Diskin as the Clwyd Pension Fund member representation and Councillor Haydn Bateman a substitute on the Joint Chairs Group of the Wales Pool.

28. **GOVERNANCE UPDATE**

Karen McWilliam, Kieran Harkin and Anthony Kershaw left the room for this agenda item.

Alwyn Hughes, Pensions Finance Manager, introduced a report to provide a quarterly update on governance related issues. Mr Hughes reported on the main considerations, as detailed in the report, concerning the business plan 2016-17, the National Scheme Advisory Board, Local Pension Board, governance related policy/ strategy implementation and monitoring and the use of delegated responsibilities.

In 2008, the Fund put in place a framework which would allow for the effective and quick appointment of consultants when required. The term of the framework has now come to an end and the Fund needs to consider whether it wishes to bring the framework to a conclusion or run a further framework. Since the Clwyd Framework was launched, there have been a number of other frameworks relating to LGPS services. The key ones are run by the National LGPS Frameworks (managed by Norfolk County Council).

The officers of the Fund have carried out an analysis against the services available by the National LGPS Frameworks compared to the Clwyd Framework and it would appear the majority of the services are covered by the National LGPS Frameworks.

Using the National LGPS Frameworks in the future, rather than a Clwyd specific Framework would result in efficiencies for officers. The Fund could also still run individual procurement exercises for any services not covered by the National LGPS Frameworks.

The Committee was asked to approve that no further Clwyd Pension Fund Framework be established and that the National LGPS Frameworks be used in future where possible.

The Independent Advisor and Investment Consultant were appointed on 3 year contracts from April 2014 with the option to extend for a further 2 years. Following a performance review of both contracts the officer recommendation is to use the option to extend to March 2019. During this period the performance of both will be regularly monitored.

The Committee was asked to approve the option to extend the contract period for a further two years to March 2019.

Councillor Bateman requested clarification regarding any impact on the fees charged by the external advisor and consultants of extending their contracts for a further two years to March 2019. Mrs Fielder confirmed that under the current contracts there would be no increase in fees charged for these additional two years.

Mr. Hibbert asked whether Item 1.03 (G1 Review of CPF Adviser Procurement Framework) and 1.04 (G3 Review/ Tender Investment Consultancy and Independent Adviser Contracts) were linked. Additional background was given by Mrs Fielder regarding the Clwyd pension Fund framework agreements and the National LGPS Framework run by Norfolk County Council. If the contracts were not extended then the matter of procurement would be dependent on the outcome of whether to renew the local framework.

Councillor Andrew Rutherford asked whether moving onto the National Framework would affect the Pooling in Wales. Mrs Fielder explained that the Fund's framework is out of date and that the involvement of the external advisor and consultants in the discussions around pooling possibly favoured extending the contracts for two years.

**RESOLVED:**

- (a) That no further Clwyd Pension Fund Framework be established and that the National LGPS Frameworks be used in future where possible; and
- (b) The option to extend the contract period for a further two years to March 2019 for the Independent Advisor and Investment Consultant contracts with ongoing review.

29. **LGPS UPDATE**

The Clwyd Pension Fund Actuary, Paul Middleman, drew attention to the following two points:

- (i) The potential changes to the Education Sector insolvency arrangements which mainly apply to England. However, the insolvency elements will impact the covenant of educational establishments in Wales so will need to be borne in mind as part of the valuation and ongoing monitoring.

- (ii) The proposals to restrict exit payments; which are also devolved to Welsh Government. He noted that payment of immediate unreduced benefits on early retirement may be removed in the future. It was also noted that this is distinct from other policies on limiting exit payments. There is still the intention to introduce the £95,000 and also the clawback provisions for those ex-employees who return to sector employment. The timeline for this is still uncertain.

The Chief Executive stated that Welsh discussions on the latter had gone cold as far as he was aware. He noted that if it is introduced in Wales, it could bring significant issues for the Employers as well as the Fund.

**RESOLVED:**

That the report be noted.

30. **PENSION ADMINISTRATION/COMMUNICATIONS UPDATE**

Helen Burnham, Pensions Administration Manager, highlighted the key points from the report. She commented that the KPI reporting is not included as they are still being developed but it is hoped that they will be included for the next meeting. She also highlighted that progress can now commence on the procurement for a provider for GMP reconciliation as the national framework will shortly be available.

Mrs Burnham highlighted an increase in the volume of work with good progress being made with the backlog cases being managed within the Council. The backlog outsourced to Mercers had been delayed and is now targeting a completion by the end of November (subject to resolution of a number of issues), rather than September. This was due to office relocation, training and ICT operation and access issues.

She highlighted that all Annual Benefit Statement have been issued other than approximately 400 deferred cases which are delayed due to further guidance being required as a result of negative revaluation.

There are a number of new small employers joining the scheme, details of which will be available at the next meeting.

Mrs Burnham then highlighted the key administration and communications risks as outlined in paragraph 4.0 of the report. She referred to the initial risk around the inability to meet the Fund's legal and performance expectations due to employer issues. She explained that the idea had been shared with the steering group, involving the three unitary authorities, and they had welcomed the proposition to create an employer liaison team to assist with their responsibilities, with costs then being recharged to the employers. Helen Burnham then asked for Committee's approval to proceed with putting this team in place. The Committee agreed and asked for further information to be provided as this project progressed.

Councillor Andrew Rutherford enquired if these delays and issues were causing frustration with current staff as clearly these issues had been continuing for some time. Mrs Burnham responded stating that some of the employers are

suffering cut backs and cannot uphold the Service Level Agreements. The Administration Team have been covering some of the employers' responsibilities for some time within their existing resources.

Mrs Burnham highlighted that the details of how the service will work are still to be developed and it is hoped this service could also be rolled out to other employers.

Mark Owen requested feedback on year end reconciliation sooner, to give an opportunity for corrections. Mrs Burnham assured Mr Owen that the members affected have low impact. Karen Williams responded stating reconciliation cannot be completed until all year end data has been received and matched, which gives very little time for employers then to respond by the year end deadlines.

**RESOLVED:**

That the report be noted.

31. **INVESTMENT AND FUNDING UPDATE**

Debbie Fielder, Pensions Finance Manager, gave an update on the Business Plan including the actuarial valuation which would be covered in more detail by Paul Middleman, asset pooling as covered in the previous agenda and the Investment Strategy Statement (ISS) which has been delayed due to new investment regulations which are yet to be released. She explained that the deadline for preparing the ISS is April 2017 and it is intended to arrange a briefing session for members at the November Committee. Officers have met with consultants to discuss 'light touch' review.

Mrs Fielder provided an explanation of the information included in the delegated responsibilities (Appendix 4) confirming cash was still being monitored. The tactical asset group is proving to be working well and benefiting the Fund. She confirmed that the significant risks in this area relate to the actuarial Valuation and Flightpath and would be covered in the update from Paul Middleman.

Anthony Kershaw, Fund Investment Consultants – JLT Group, provided an overview of the recent CEMs survey looking at data from 2013/14/15 with a mix of public and private sector schemes. He explained that it shows that, whilst the Fund does not compare favourably in relation to investment management costs, it achieved a very high 'net value-add' relative to other funds in the LGPS.

Steve Hibbert questioned the costs within the report and Debbie Fielder was able to confirm the Clwyd Pension Fund costs were accurate. A discussion then took place in relation to how Clwyd Pension Fund might benefit from pooling compared to other LGPS funds due to the complexity of the investment arrangements in the Fund.

Paul Middleman, Fund Actuary – Mercers, then went on to introduce the Government Actuary's Section 13 Report explaining its purpose was to identify any funding issues needing to be addressed by LGPS funds by highlighting areas of risk such as inappropriately low contributions or high risk investment

strategies. Mr Middleman reported under the “dry run” report based on the 2013 valuation that Clwyd Pension Fund received green flags for all measures.

Mark Owen queried whether the Clwyd Pension Fund membership data had been submitted on time and Mr Middleman confirmed it had.

**RESOLVED:**

That the report be noted including the delegated responsibilities.

32. **ECONOMIC AND MARKET UPDATE**

Kieran Harkin, Fund Investment Consultant – JLT Group, presented the report to provide an economic and market update for the period ending 30 June 2016 highlighting that, despite on-going volatility in markets, assets have increased in value post the Brexit position.

Mr Harkin reported on market performance and volatility and referred to the key issues which were highlighted in the report concerning lower economic growth than forecast, the slowdown in China, and the continued slump in the price of oil. He advised that despite the uncertain outlook markets had rallied strongly over the quarter with good returns across many Growth assets. Returns from UK Government Bonds had been negative during the quarter due to a rise in yields.

**RESOLVED:**

That the report be noted, including how it sets the scene for the Investment Strategy and Manager Summary report.

33. **INVESTMENT STRATEGY AND MANAGER SUMMARY**

Kieran Harkin, Fund Investment Consultant – JLT Group, presented a report to provide an update on the performance of the Fund’s investment strategy and performance of the Fund’s investment managers for the quarter ending 30 June 2016.

Mr Harkin reported on market performance and volatility and advised that the Fund’s total market value had increased by nearly £97.8m to £1.48b. He then noted that the liabilities had not been as positive and the funding level had decreased to 60% if you assess liabilities on the existing valuation basis but this had been updated as part of the 2016 valuation. Mr Harkin highlighted the Equity investment performance pointing out that Investec performance had been poor but that following previous periods of poor performance, Investec have demonstrated that the investment process tends to produce a strong recovery. He also noted that there had been a positive display in the diversified growth portfolio from Pyrford and the best ideas portfolio was now benefiting the Fund.

**RESOLVED:**

(a) That the report be noted; and



- (b) That the Committee considers the information in the Economic and Market Update report to provide context in addition to the information contained in this report.

34. **2016 ACTUARIAL VALUATION, FUNDING AND FLIGHT PATH UPDATE**

Paul Middleman, Fund Actuary - Mercer, introduced the report to provide an update on the actuarial valuation project alongside an update on the flightpath strategy.

Mr Middleman advised that the Administration team had supplied data regarding the backlog which had been analysed and led to a reduction in the liabilities (and therefore total deficit) estimated to be approximately £0.5million. He explained that, as a part of the valuation project, they had considered the Fund's demographic experience e.g. ill health trends, life expectancy and withdrawal rates. The Clwyd Pension Fund had a positive liability experience as a result of lower ill health rates and higher pensioner death rates. Based on provisional assumptions the funding rate had moved from 68% to 76% from 2013 to 2016 and an average future service rate (Primary Rate) for the cost of ongoing benefits increasing to 15.3% of pay from 13.9% of pay. However, Mr Middleman also highlighted that a drop in the future service discount rate, the maturing membership and the removal of the 50/50 allowance all contributed to this increase with a slight offset due to the change in life expectancy assumptions.

Mr Middleman explained the consultation of the Funding Strategy Statement would take place over October/November starting with the AJCM in November with a view to reaching agreement on all the employer contribution rates early next year.

Karen McWilliam, Independent Adviser, queried whether the final work on the backlog could impact the liabilities. Mr Middleman confirmed this should not have a huge impact and is comfortable the existing data is fit for purpose and is therefore sufficient to proceed with signing off the results. Mercer will carry out further checks as the backlog is completed and an updated data cut is taken in 2017.

Mr Middleman then introduced the report on the Flightpath Risk Management Framework. He highlighted the potential changes to the Flightpath Framework including hedging against equity markets and noted that recommendations will be brought to the next Committee for consideration.

Steve Hibbert commented that there was no graph for the flightpath. Mr Middleman confirmed the funding check will be rebased once the new Funding Strategy Statement is agreed. He stated that if you measured the position on a consistent basis with the 2013 Valuation was slightly behind plan and the 2016 valuation was slightly ahead at the current time. This is principally to do with the 2013 valuation plan understating the expected future investment returns

**RESOLVED:**

- (a) That the report be noted including the progress being made with the actuarial valuation project, the current position regarding the funding and flightpath framework and its review over the coming months; and
- (b) That the preliminary results of the Clwyd Pension Fund valuation be noted.

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

**RESOLVED:**

That the press and public be excluded for the following item by virtue of exempt information under paragraph(s) 14 of Part 4 of Schedule 12A of the Local Government Act 1972 (as amended).

36. **INVESTMENT STRATEGY REVIEW**

Kieran Harkin, Fund Investment Consult – JLT Group, presented the report on the Proposed Investment Strategy Review: Initial Update.. He highlighted a significant review of the strategy had been completed in 2014 and he would not expect to see significant changes at this time but the strategy should be reviewed in light of the 2016 valuation results and to take into accounting asset pooling.

Mr Harkin highlighted the three key considerations as being:

- (i) Reduce equity risk as a proportion of total risk in the short (immediate) term
- (ii) Increase the illiquidity premium in the medium to longer term
- (iii) Maintain the Fund's Flightpath/De-Risking Framework though Mr Harkin highlighted that a review of this overall structure is still ongoing

The report details considerations relating to phasing to the new investment strategy and Mr Harkin noted they would need to consider fees, transition costs, manager selection and the impact of the Wales Pool. He did confirm that he expected the overall level of fees for the proposed strategy to be broadly in line with those currently paid, though this excludes any assessment of potential fee impact of moving to the All Wales Pool given there is currently no clarity on underlying mandate charges that could apply.

He highlighted that the proposed strategy review would have an expected return increasing from the current strategic portfolio of 6.4% to 6.5%, but this excluded the post Brexit JLT Market Forecast assumptions on expected asset returns. Mr Harkin confirmed that the revised post Brexit Market Forecast assumptions would be incorporated into the final modelling output that is due to be undertaken when the review of the Fund's Flightpath/De-Risking Framework is complete. He confirmed the expected return exceeds that assumed in the Funding Strategy Statement that is currently being considered.

Mr Harkin then confirmed that the drafting of the Investment Strategy Statement incorporating these changes and which will be to replace the existing Statement of Investment Principles would be carried out in advance of the 1 April 2017 deadline.

**RESOLVED:**

That the report be noted and agree the proposed initial changes to the Fund's Investment Strategy.

37. **ATTENDANCE BY MEMBERS OF THE PRESS AND PUBLIC**

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

(The meeting commenced at 10.00 a.m. and ended at 1.10 pm)

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**Chairman**