CLWYD PENSION FUND COMMITTEE
29 NOVEMBER 2017

Minutes of the meeting of the Clwyd Pension Fund Committee of Flintshire County Council, held at County Hall, Mold on Wednesday 29 November 2017.

PRESENT: **Councillor Dave Hughes (Chairman)**
Councillors Billy Mullin, Ralph Small, Haydn Bateman

CO-OPTED MEMBERS: Councillor Huw Llewelyn Jones (Denbighshire County Council), Councillor Nigel Williams, Mr Steve Hibbert (Scheme Member Representative), Councillor Andrew Rutherford (Other Scheme Employer Representative)

APOLOGIES: None.

ALSO PRESENT (AS OBSERVERS): Phil Pumford (Member representative Clwyd Pension Fund Board)

IN ATTENDANCE:
Advisory Panel comprising: Colin Everett (Chief Executive), Philip Latham (Clwyd Pension Fund Manager), Karen McWilliam (Independent Advisor – Aon Hewitt), Kieran Harkin / Nick Buckland (Fund Investment Consultant – JLT Group), Paul Middleman (Fund Actuary – Mercer).

Officers/Advisers comprising: Debbie Fielder (Pensions Finance Manager), Alwyn Hughes (Pensions Finance Manager), Helen Burnham (Pension Administration Manager) and Megan Fellowes (Apprentice – Mercer - taking minutes),
Richard Lloyd (Communications Manager) (Item 94 only)

Prior to the start of the meeting the Chair asked everyone to introduce themselves and welcome the member of the Pension Board. The Chair also shared the sad news of the death of Anthony Kershaw from JLT at the beginning of November. Mr Latham attended the funeral to represent the Fund and condolences were passed on to his family and colleagues at JLT.

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

Councillors Dave Hughes, Huw Llewelyn-Jones, Haydn Bateman, Nigel Williams and Billy Mullin declared a personal interest as being a member of the Clwyd Pension Fund for all items.

Karen McWilliam (Independent Advisor - Aon Hewitt), Paul Middleman (Fund Actuary – Mercer) and Megan Fellowes (Apprentice – Mercer) declared a personal interest to item 90 (Pooling Investments in Wales) as employees of Aon Hewitt/Mercer respectively with each firm having submitted a tender response to be the operator of the Wales Pool.

The Chairman declared a personal interest under item 91 (Committee and Board Allowances).

88. **MINUTES**

The minutes of the meeting of the Committee held on 20 September 2017 were submitted.

RESOLVED:
It was agreed that the minutes could be received, approved and signed by the Chairman as a correct record.

Councillor Bateman wanted to address the item under item 80 whether it was possible for members to get hard copies of the papers for member. Mr Everett stated that paperless was in line with the policy of the Council generally but if a member really needs hard copy papers, they can be provided on request but there are costs in doing so.

Requests should be directed to Mrs Fielder.

89. **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 14 of Part 4 of Schedule 12A of the Local Government Act 1972 (as amended)

90. **POOLING INVESTMENTS IN WALES**

The Chairman stated that at the last Joint Governance Committee of the Wales Pension Partnership it was agreed that Bidder 1 be recommended to each Pension Fund Committee for appointment and that it was also further agreed that the identity of Bidder 1 would not be disclosed to the Joint Governance Committee at this stage.

Mr Latham provided a background of the appointment process whilst confirming that the decision making for the Funds investment strategy remains with the Committee. Mrs Fielder detailed the overall procurement process leading to the recommendation for appointing Bidder 1.

The Committee had a detailed discussion around the process and appointment of Bidder 1 before voting 7 for and 1 against the appointment.

The Committee were then advised that Bidder 1 was Link Fund Solutions.

RESOLVED:

1. The Committee agreed to the appointment of Bidder 1 as the preferred bidder for the Wales Pension Partnership, and

2. Subject to the completion of the standstill period and the finalisation of the Operator Agreement, appoint Bidder 1 as the Operator under the Operator Agreement.

3. The Committee noted and discussed the Wales Pension Partnership Progress Report.

91. COMMITTEE AND BOARD ALLOWANCES

Mr Everett recommended that £8,700 be paid per year to the Chair of the Committee for the reasons set out in the report. Mr Everett highlighted that they all have a conflict of interest in this area and suggested that the debate should bear this in mind.

The Chairman declared a personal interest and left the room.

After discussion on the issues the Committee members agreed to the proposal to pay the allowance to the Chair. It was also agreed that the allowance would be effective from May 2017 and also backdated to that date.

Following discussions it was also agreed that Mr Everett would discuss within the Council the payment of allowances for other members.

RESOLVED:

1. The Committee recommended to the Council that an allowance of £8,700 be paid to the Chairman each year and this be included in the schedule of member remuneration. The Committee considered and recommended that the additional payment commence from May 2017.

2. It was agreed that allowances for other members should also be considered'

92. GOVERNANCE UPDATE

Mr Hughes highlighted section 1.01 where the Committee is required to express a preference for its meeting pattern and hence whether they should take place in the morning or afternoon.

Councillor Bateman suggested starting at 9:30am rather than 10am. The remaining Committee members agreed to the proposal.

Mrs McWilliam highlighted the training needs analysis referenced in the papers and noted that these would be provided to Members during the following week. All Members were asked to highlight on the training needs analysis where they considered they needed any additional training. This will be a requirement on a regular basis to assist in the scheduling of training sessions.

Mrs Burnham explained how the breaches are updated on a regular basis and that at this point none will be reported to the Pensions Regulator, although this position will be reviewed in January 2018.

RESOLVED

1. Members considered the update.

2. The Committee expressed a preference for meetings to be held at 9:30am and this preference will be given to Constitution and Democratic Services to schedule future meetings.

93. **<u>LGPS UPDATE</u>**

Mr Middleman discussed the LGPS current issues update provided.

He commented specifically on the April 2018 pension increase (based on the September 2017 annual CPI figure) and the impact on liabilities. He also highlighted that there are a number of consultations in the pipeline in particular the exit cap consultation due imminently. Mr Middleman confirmed it is expected in early 2018 but it has slipped before.

The Chairman queried whether the pension increase of 3% is high in comparison to recent years and will this have an impact on the Fund. Mr Middleman informed the Committee that as part of the Actuarial Valuation it was assumed that pension increases would be a long term average of 2.2% per annum and so anything above this level would lead to an increase in liabilities. However, the effect would be relatively small versus other factors (less than 0.5% reduction in the funding level).

Mr Latham asked whether the exit cap would impact on the assumptions made for pension strain calculations.

Mr Middleman responded to say that it is partly related to what happens on the exit cap and whether it was implemented in Wales. He would expect that the LGPS would move to a common set of factors which has been something discussed for a number of years.

Mr Middleman also noted that Mercer have separately reviewed the life expectancy assumptions for the existing factors as this had not been done for a period of time. He stated that strain costs will go up around 5% due to this and that this will have an impact on employers. A possible implementation date would be April 2018. This will be discussed with the administration team.

RESOLVED:

1. The PFC members noted this report and made themselves aware of the various issues affecting the LGPS.

2. Members noted the April 2018 Pension Increase; the latest updates on current Regulations and Consultations; and the taxation issues update

94. **PENSION ADMINISTRATION/COMMUNICATIONS UPDATE**

Mrs Burnham referred to page 105 and highlighted that in July and September/October 2017 there were over 2,000 new administration tasks. She also noted that there was an increase from September to October of over 100 cases (i.e. from 2,469 to 2,578). This was due to an outsourcing of staff from the Council to new arrangements which whilst a one off, illustrates the additional spike in work required.

Mrs Burnham also referred to page 107 and stated that the KPI percentages in respect of TPR legal requirements have improved but there is still further improvement to be made. She also explained that she would be implementing training plans to highlight areas where the Fund needs to prioritise e.g. in respect of death cases. Mrs McWilliam stated that in the future, charts will be provided rather than tables as these are easier to identify trends.

Mr Lloyd demonstrated the new website and Member Self Service (MSS) where members can gain understanding/information regarding their LGPS benefits in the Fund and update their details online. The website has been made as simple as possible to make it easier to navigate and understand.

Mr Lloyd informed the Committee that the website included various areas of interest such as the Governance area which includes details of how the Fund operates and membership of the Committee and the Pension Board. He noted that the website also highlights the changes to the Scheme; and includes member and retirement guides throughout.

It was commented generally that the website looked impressive and another positive step forward (along with MSS) in how the Fund communicates with members.

Mr Hibbert asked whether it was possible to request documentation online to be posted to their home address, in situations where people require paper copies. Mr Lloyd responded by claiming that if people don't want to get documents via MSS or the website they can contact the Fund and request the continuation of paper documentation.

It was asked what statistical information is available regarding the use of the website and member self-service. Mr Lloyd stated that that on the website it is possible to check who has registered and they can see when and where someone has logged on and there is specific information on who has visited the website.

The Chairman thanked Mr Lloyd for his presentation and congratulated him on his development of the website and MSS. Mr Everett also commented that he is very encouraged by the progress in these areas

RESOLVED:

1. The Committee considered the update and provided comments.

95. **INVESTMENT AND FUNDING UPDATE**

Mrs Fielder introduced this section; she noted that the Fund had received three additional requests from managers for updated documentation in relation to MIFID II but the expectation is that all opt-ups will be completed by the deadline of 3rd January.

Mrs Fielder summarised the key points in the report and highlighted that there are no issues with liquidity requirements to pay benefits and it is being monitored carefully.

Mr Hibbert asked Mrs Fielder whether it would be possible to have a graphical interpretation of the cash movements in relation to the cash held.

Mrs Fielder highlighted page 61 contained details of the 3 year cashflow monitoring and projections. It was noted that the cashflow has been skewed for 2017 as some employers had paid 3 years of deficit contribution payments in April 2017.

It was also noted that Mr Hibbert and Mrs Fielder has attended a seminar on cost transparency. Mr Hibbert was grateful for the opportunity to input on this.

The issue of infrastructure investment was discussed and in particular the opportunities in Wales. Mr Everett highlighted the discussion across North Wales and that the opportunities need to be discussed with the Pension Funds. As noted in the report the Fund has been actively looking at opportunities for some time subject to a strong business case for the investment.

RESOLVED:

1. The Committee considered and noted the update including the delegated responsibilities and progress.

96. **ECONOMIC AND MARKET UPDATE**

Mr Harkin noted that Mr Buckland is now the nominated alternate investment advisor and will be supporting the officers and committee going forward.

Mr Harkin directed the room to the market statistic on page 131 which showed the continued strong performance in equities in the quarter. High energy prices resulted in a positive return on commodities but could give some concern for inflation if the trend continues.

The Chairman asked Mr Harkin whether he had any thoughts on the impact of the budget and how it might affect the economic growth. Mr Harkin responded by stating that it was a budget with very little surprises versus the speculation. The Office of Budget Responsibility forecasts on growth and the Government focus on infrastructure investment and innovation in new technology was clear.

It is also important to note that whilst the liabilities are centred in the UK and affected by inflation, the asset allocation is not and has exposure to the global economy which generally has a better outlook so the effect on assets will be dampened. The markets seemed fairly benign in their reaction to the budget on the day.

Councillor Bateman raised the issue of gas prices and the expected increase in costs. Mr Harkin noted that crucially this will depend on supply to the market and relates to wholesale prices but there is an expectation of an increase. It was noted that the effect this will have is hard to predict on markets but it could lead to increased UK inflation if passed onto customers as would affect the CPI measure.

RESOLVED:

1. The Committee noted and discussed the update.

2. The Committee noted how the information effectively “sets the scene” for the next agenda item

97. INVESTMENT STRATEGY AND MANAGER SUMMARY

Mr Buckland highlighted the positive investment returns over the period to 30 September 2017 and the longer term. Over all periods shown all have been above expectations in the funding assumption which is positive and contributed to the improved funding positon.

There was mixed performance across the managers and those that did not meet their target on page 155 (highlighted in red). It was noted that some of the managers shown would move under the pooling structure in 2018.

The Chairman stated that the market values have made an increase (over £1.75 billion at the end of September). The Chairman asked if the figures for October are available yet. Mr Buckland confirmed that the figures are available. He confirmed that they have continued to rise and are close to £1.8 billion. Mr Middleman noted that as of close yesterday now likely to have passed the £1.8bn level.

RESOLVED:

1. The Committee noted and discussed the investment strategy and manager performance over the quarter.

2. The Committee considered this in light of the Economic and Market update report.

98. **FUNDING AND FLIGHT PATH UPDATE**

Mr Middleman summarised the basics of funding a pension scheme:-

- The benefits (i.e. the liabilities) are essentially inflation linked cashflows payable over a very long period. This means that the level of inflation is a major factor in the cost e.g. higher inflation = higher liabilities = higher cost.

- You finance the benefits paid through a balance of investment return (versus inflation) earned and contributions paid e.g. the higher the return versus inflation earned over the long term the less contributions are needed and vice versa.

Essentially the Flighpath strategy is to give more certainty to the returns (over inflation) and also provide protection against changes in expected inflation levels. Central to this is the “hedging” strategy which essentially is investing in assets which more closely “match” changes in liabilities - therefore providing more stability in the level of deficit. This leads to more certainty/stability of contributions for employers which is a key objective of the strategy.

The key relationship is the investment return versus inflation and if inflation increases you want your investment return to increase also by at least the same amount to keep costs stable.

Currently the hedging levels are still 20% in relation to interest rate and 40% in relation to inflation protection (with 100% being fully hedged). The funding level was significantly ahead of target at 91% (12% ahead) at 31 October 2017.

Furthermore it is important to do this in the most efficient/timely manner in terms of the structure and financing of the strategy. This means the timing of any changes and the market level at which you do it is important as you want to do it in the most cost effective manner The example of the restructuring of the hedging mandate in 2017 is an example of this where this is expected to deliver gains of £36.5m over the long term.

This detailed work is delegated to officers and is implemented on the advice provided by the Actuary and Investment Consultant via the Funding and Risk Management Group (FRMG). The next key part of this is to revisit the equity protection element of the strategy before April 2018 when the current contract expires. The outcome will be reported at a future committee.

Taking into account all the above it has proved a successful strategy to date versus the cost of the governance which surrounds it. Since inception in 2014 it has reduced deficit by c£140m all other things equal.

Councillor Llewelyn-Jones had previously raised a question as to why the costs are so sensitive to changes in future investment returns as measured by the discount rate e.g., a 0.25% p.a. fall in investment return would reduce the funding level by 4% and increase the deficit by £91m.

Mr Middleman explained that it is due to the timeframe discussed. The benefits are paid over relatively a long period, on average about 17-18 years across the total Fund for existing benefits. A fall of 0.25% per year gives you a loss of about 4% over that period as there is a cumulative year on year compounding effect.

Mrs Fielder referred to a recent comment at a CIPFA event in Cardiff that if a Fund's funding position has improved materially or it is 100% funded or over, thought should be given to protecting the position and taking risk off the table. This is essentially the concept of the flightpath strategy.

The Chairman highlighted that that the Budget had reaffirmed the potential removal of the public sector pay cap and asked what would happen to the Fund if it was removed?

Mr Middleman noted at the last actuarial valuation the pay progression was assumed to be capped at 1% up to 2020 which was built into the contribution plan.

If the cap is removed, the impact would depend on what was awarded and this can affect employers differently. As an example if the average increase was now 2% p.a. up to the year 2020, the impact on funding would be an increase the deficit of £15-20 million across the Fund. This could mean an increase in deficit contributions of c£1.5m per annum. In addition what is often forgotten is that the ongoing benefit accrual costs (15.3% of pay for the Fund) also increase in £'s terms as payroll increases more than previously budgeted for.

Mr Everett stated that no one had any protection against the pay cap removal in budgets so this would be need to be considered in the discussions moving into the next valuation.

The Chair thanked Mr Middleman for the positive update on the progress and the background to the Flightpath strategy for Committee members.

RESOLVED:

1. That the Committee noted the updated funding and hedging position of the Fund and progress being made in the Risk Management Framework.

(The meeting finished at 1:30pm.)

....

Chairman