

CLWYD PENSION FUND COMMITTEE
13 JUNE 2018

Minutes of the meeting of the Clwyd Pension Fund Committee of Flintshire County Council, held at County Hall, Mold at 10.00am on Wednesday, 13 June 2018.

PRESENT: Councillor Dave Hughes (Chairman)

Councillors: Ted Palmer, Ralph Small, Haydn Bateman, Billy Mullin (until item 9).

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

ALSO PRESENT (AS OBSERVERS): Mr Mark Owen (PFB Employer Representative), Mr Phil Pumford (PFB Scheme Member Representative)

APOLOGIES: Councillor Nigel Williams, Colin Everett (Chief Executive) and Helen Burnham (Pension Administration Manager)

IN ATTENDANCE:

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

Officers/Advisers comprising: Debbie Fielder (Pensions Finance Manager), Sandra Beales (Principal Pension Officer) – joined at item 7, Kerry Robinson (Employer Liaison Team), – joined at item 7, Nick Buckland (Fund Investment Consultant – JLT Group), Matthew Edwards (Welsh Audit Office), Peter Worth (Worth Technical Accounting Solutions Ltd) and Megan Fellowes (Apprentice – Mercer - taking minutes).

The Chairman welcomed Matthew Edwards and Peter Worth who has been assisting the Fund with the preparation of the annual accounts.

1. **DECLARATIONS OF INTEREST (including conflicts of interest)**

No new conflicts were declared.

2. **APPOINTMENT OF VICE CHAIR**

The Chairman notified the Committee of his appointment as Chair of this Committee at the recent Flintshire County Council meeting, and in accordance with the Council's Constitution, this also meant he was the duly appointed Member of the Joint Governance Committee (JGC) for the Wales Pension Partnership (WPP). The Chairman highlighted that the Vice Chair position for the Pension Fund Committee was a matter for decision by the Committee and this person would also be the Deputy for the Wales Pension Partnership (WPP). Councillor Bateman was nominated for the role of Vice Chair.

RESOLVED:

This appointment was agreed by the Committee.

3. **MINUTES**

The minutes of the meeting of the Committee held on 21 March 2018 were submitted. The Chair thanked Miss Fellowes on the continued high standard of the minutes.

RESOLVED:

It was agreed the minutes could be received, approved and signed by the Chairman.

4. **CLWYD PENSION FUND ACCOUNTS 2017/18**

Mr Ferguson, the Corporate Finance Manager, introduced this item by explaining his role having legal responsibility for the administration of finance and for the submission of accounts on time. He explained a change in legislation resulting in the Pension Fund accounts now being separate to the Council's main accounts. As a result of this, the Pension Fund Committee was now responsible for the formal agreement of their own accounts, whereas in the past this was a responsibility of Council as they were part of the Council's accounts.

The Chairman then passed this item over to Mr Worth, an independent consultant appointed to prepare the Fund accounts for the current year until there is a permanent replacement to a vacant Finance Team post. Mr Worth gave a brief introduction on his experience and current role in Clwyd Pension Fund and clarified that the draft annual accounts are to be submitted to the Wales Audit Office (WAO) by 15th June 2018. WAO will commence the audit in June/July 2018.

The Chairman added that it is important to look into the style, format and quality of the accounts.

Mr Worth outlined that the accounts are to be prepared in line with the CIPFA Code of Practice ("The Code") where each year a new code is issued reflecting the changes to the Accounting Standards. This is the first year that the accounts are being separated out from the Council accounts. Wales are now following the model adopted by Scotland three years ago i.e. LGPS accounts are no longer included in the administering authority's separate statement of accounts but continue to be reported in the Annual Report by 1 December 2018 at the latest. The audited accounts will be included in the Fund's Annual Report and submitted for approval by the Committee on 5th September 2018.

Mr Worth presented the accounts and emphasised certain elements to the Committee for background knowledge. The key points were:

- From slide 4, the normal contributions are the contributions that the employer makes for employees during the year

- Deficit contributions are to remove the funding deficit which is below 100% funded. In the 2016/17 accounts, the deficit contributions were c£28 million whereas in 2017/18 this figure was c£52 million. This reflects that three employers paid their deficit contributions upfront. This is an advantage because it's a discounted figure (using the actuary's discount rate) since the employer has paid three years of contributions in the first year.
- Augmentation contributions are the additional contributions such as for non-ill health early retirement i.e. the unreduced benefits before normal retirement age.
- A key figure is the change in market value of investments since this dictates the movement in market value which reconciles the opening and closing assets.
- Management expenses comprise administration costs, oversight and governance costs and investment management expenses. Some investment management costs are billed directly to the Fund but most of those costs are netted off the reported asset values.

Councillor Llewelyn Jones queried the difference between the net investment assets shown in the draft accounts and the total market value reported by JLT in their report as at 31 March 2018. Mrs Fielder stated that the valuation that JLT based the figures on was at a date prior to final close of the accounts. Therefore, some difference would be expected due to updated private market valuations and the fact that the Fund accounts include debtors and creditors. The Fund accounts are the final figures (once audited).

Mr Worth described the various notes on the accounts which are important to focus on, for example;

- Note 13 shows the investment assets and includes investment vehicles
- Notes 16-17 set out the instruments the Fund has for trading and the financial risks which impact them.

Outlined on page 29 of the Fund accounts is the actuarial present value under the IAS26 exercise. This is prepared under a different accounting standard as IAS26 and IAS19 are accounting standards which provide normalised valuation for pension liabilities across employers.

The Actuary's statement shows the liabilities at the last valuation e.g. a funding level of 76% in 2016 whereas the latest estimate is 89%.

Councillor Bateman wanted clarification for the change from c£318 million in 2016/17 down to c£87 million in 2017/18 in the net return on investments on page 1 of the Fund accounts.

Mr Worth clarified that the change in market value reflected the relative differences in returns over 2016/17 versus 2017/18 from global markets.

Mr Edwards from the WAO added that WAO will now audit the final accounts with a view to ensuring the proposed accounts represent a true and fair

view, and they comply with the CIPFA requirements. They will then prepare their formal opinion will be reported back with the final accounts to the Committee for approval on 5th September 2018.

RESOLVED:

That Members noted the delegation of the approval of the accounts and commented on the draft unaudited Pension Fund accounts.

5. **POOLING INVESTMENTS IN WALES**

The Chairman informed the Committee that Cllr Mark Norris (RCT) is the new appointed Chair of the JGC for the calendar year and Cllr Peter Lewis (Powys) is the Vice Chair.

The Chairman commented that the WPP prospectus for the ACS is completed and will be submitted to the FCA for approval. It was a difficult process and required significant legal and adviser input. The Government has requested an update on the progress being made by the WPP and it is anticipated that 80% of assets across Wales will be transferred in 12 months' time.

Mr Latham highlighted the presentation from First State Investments on the Swansea Tidal Bay Lagoon to the Officer Working Group (OWG), at which members of the JGC were also present. The presentation was shared with the Committee together with the press release. He explained the OWG was not decision making and therefore this had been an information session and no formal agreement was therefore made on whether any investment would be made. Those in attendance did, however, come to a consensus that WPP would give their support to the project. Following the meeting a Press Release was released highlighting the WPP's support to the project.

Councillor Llewelyn Jones noted that the Fund should not be forced to invest into something that doesn't benefit the members so the appropriate due diligence needs to be done.

Mr Hibbert also noted the recent Court judgement which found in favour of the Government on whether they could direct Funds as to where they can invest. It was hoped that the Government would not force any schemes to invest in projects which weren't in the best interests of the members.

The Independent Adviser, Mrs McWilliam, who is also the Chair of the Clwyd Pension Fund Board, highlighted that the Board would as a matter of course be considering whether appropriate processes were being followed in relation to decision making by the WPP.

RESOLVED:

The Committee noted the report and discussed the progress being made by the Wales Pension Partnership.

6. GOVERNANCE UPDATE

Mr Latham led this item of the agenda and reported that everything is set in place for GDPR.

In relation to the Business Plan there were two changes to note:

- a deferral of the update in the Conflicts of Interest policy
- in relation to the staffing where three positions will be created (Pension Fund Accountant, Investment Officer and Governance & Business Support Officer) and the old Pension Finance Manager role will be removed.

These individuals are required to be experienced and fully qualified however; this comes at a higher cost. Therefore an increase in the staffing budget is requested.

Mr Hibbert asked whether it is necessary for the salaries to be tied to the Council pay scales/job evaluation for Flintshire or can alternative pay levels be provided. Mr Latham explained that this was something discussed at the recent PLSA conference as there are difficulties recruiting across all Funds. It was confirmed that the current recruitment process must follow the FCC job evaluation and therefore FCC pay scales but additional market supplements can be requested. Councillor Mullin commented that, as HR and Governance were part of his portfolio, he was aware of situations the existing pay policies restricted recruitment and where flexibility could be used for specialist staff. Mr Latham commented that he will be discussing it with the Chief Executive.

In terms of pay, Mr Owen noted that employees working for the Fund are Flintshire County Council (FCC) employees, therefore any changes to salaries will impact in terms of FCC employees generally under the policy. Any amendments to pay would be the responsibility of the council rather than the Committee and would be determined by the Chief Executive in consultation with others.

Mrs McWilliam outlined that the budget setting for the Fund is delegated to the Committee meaning the Committee should decide the costs associated with staffing but that this has to be agreed in line with the Council's policies. Mr Ferguson added that if the Fund went out to market and recruited, then the FCC policy would need to be followed.

Councillor Rutherford commented that the Fund is committed to single status; therefore the only way that they can go beyond the pay scales determined by job evaluation is through market rate supplements.

After discussion it was agreed that the decision will be delegated to the Chair, the Chief Executive and the Corporate Finance Manager. The recommendation would be changed in the minutes.

The Chairman stated that he went to the Scheme Advisory Board Pension Committee Chair and Board Chair's meeting on 27 March and noted that the Fund is in a good position in relation to overall Governance and Oversight.

Mr Hibbert noted at PLSA meeting that there was an excellent session on passive investment by one of the Fund's active managers which covered the unintended consequences of passive investing. It covered the effect on markets and competition within markets and changed some of his previous views on passive investing.

RESOLVED:

- (a) The Committee considered the Business Plan update and provide any comments.
- (b) That the Committee agreed the two changes relating to the business plan i.e.
- Item G3 – The deferral of the approval of changes to the Conflict of Interest Policy until September 2018 (as part of the annual report and accounts)
 - Item G5 – The increase in staffing budget for the Finance Team of a maximum of £60.6k per annum, which may be subject to further change as the review of the structure is progressed. The Committee agreed that any decision relating to further change as part of this review are delegated to the Chairman of the Pension Fund Committee, the Chief Executive and the Corporate Finance Manager.

7. **LGPS UPDATE**

The Chairman passed over to this item of the agenda to Mr Middleman to highlight anything particular about the LGPS current issues this quarter.

Mr Middleman noted that the Fund was discussing the implications of the recent introduction of Exit Credits which will be discussed in the Investment and Funding update agenda item. Also noted that the Section 13 2016 valuation comparison report from the GAD was expected at the end of July. The outcome will be reported on the September Committee but it was expected the Fund will have a clean bill of health.

RESOLVED:

The Committee members noted this report and made themselves aware of the various current issues affecting the LGPS, some of which are significant to the operation of the Fund.

8. **PENSION ADMINISTRATION/COMMUNICATIONS UPDATE**

The Chairman announced in Mrs Burnham's absence, Mrs Beales and Mrs Robinson will update the Committee on this item of the agenda. Mrs Beales noted that there has been a positive improvement in KPI's and improvements on the take up of Member Self-Service (MSS) but there are still some underlying issues affecting the turnaround times of services.

Mrs Beales gave the business plan update. With recent changes to the amendment regulations, the administration team have had an increase in their workloads such as the ability for deferred members to access benefits from age 55. This has resulted in members requesting estimated value of their benefits earlier than was previously the case.

Mrs Robinson stated that, due to these changes and the ongoing challenges with the overall quantity of work, the administration team are developing a full business case to review the team structure, including the number of staff. The business case will highlight the increased volume of work including due to the much increased complexities in the CARE scheme. The team acknowledge there are and will continue to be challenges due to difficulties in recruitment and training new members of staff. Accordingly external help on a project by project basis much like the work currently being done by Mercer is expected to be needed for some time.

Mrs Robinson added the following key examples of additional projects or changes, some of which are introducing efficiencies;

- The Fund is working towards HMRC deadlines in regards to the GMP reconciliation.
- All of the literature has been reviewed for GDPR compliance.
- The administration team reviewed every case since 2008 to identify if each member has a partner that is entitled (but hasn't yet been nominated) for the member's pension. If so, it is required for the Fund to contact the individual and let them know that there may be a pension available for them.
- Electronic benefit statements have been a success. The annual benefit statements are on target to go out at the end of August.
- A trivial commutation exercise will result in less work and create efficiencies since the Fund pays out a small lump sum amount. This project will commence for historic cases once it has been decided how it will be resourced.

The Chairman thanked both Mrs Robinson and Mrs Beales for their work and their update on this item on the agenda and commented that it was clear that additional resources will be required.

RESOLVED:

- (a) The Committee considered the update and provided comments;
- (b) That the Workforce Review which was intended for quarter 4 and 2019/20 is brought forward to commence in quarter 2 2018/19 and
- (c) That the Committee approved that the Chair, the Chief Executive and the Corporate Finance Manager under delegation approve further staffing resources upon receipt of a more detailed business case.

9. **INVESTMENT AND FUNDING UPDATE**

The Chairman passed over this item of the agenda to Mrs Fielder where she gave the Committee an investment update over the last quarter.

Mr Middleman explained the introduction of Exit Credits. This is a fundamental change for employers who exit the Fund and their guarantors. The change in the LGPS Amendment Regulations means that if an employer is in surplus, the Fund must pay out the surplus if the employer exits the Fund. Previously the Fund was not required to pay out the surplus.

It is critical that employers are aware of this and all policies are aligned with the recent change – in particular in relation to outsourcings or the recent admissions of the wholly owned Local Authority Trading Companies where any commercial contracts could also be affected. It will require consultation on changes to the Funding Strategy Statement (FSS). The Fund is currently writing to all employers regarding the change and to notify of the forthcoming consultation. The correspondence will have a slightly different emphasis for some employers e.g. Councils who guarantee the liabilities of other employers in the Fund.

RESOLVED:

- (a) The Committee considered and noted the steps proposed due to the Regulation changes for exit credits; and
- (b) The Committee considered and noted the update for delegated responsibilities and provided comments.

10. **ECONOMIC AND MARKET UPDATE**

The Chairman passed this item of the agenda over to Mr Harkin who briefly updated the Committee with the following points;

- There has been a significant amount of critical events that have dominated the recent headlines, for example the US base interest rate has increased.
- The markets are staying 'risk on'.
- Nominal UK Government Bonds which had performed well during Q1 are now starting to fall away in terms of return.
- Sterling had appreciated against both the US Dollar and the Euro over the quarter.

RESOLVED:

- (a) The Committee noted and discussed the Economic and Market Update 31 March 2018; and
- (b) The Committee noted how the information in the report effectively "sets the scene" for what the Committee should expect to see in the Investment Strategy and Manager Summary report in terms of the performance of the Fund's assets portfolio.

11 **INVESTMENT STRATEGY AND MANAGER SUMMARY**

Mr Buckland led this item of the agenda and highlighted that the Fund's total market value over the past three months was c£1,777 million at the end of March, c£1,820 million at the end of April and approximately c£1,850 million at the end of May. JLT are still awaiting confirmation for this figure however there has been an increase of around 5% since the end of March.

Mr Buckland directed the Committee to page 209 which outlined the performance summary at the end of March. The three month performance was disappointing for the Fund which was driven mainly by equity returns being negative. However, overall the three year Total Fund return is ahead of the benchmark despite this.

Mr Buckland highlighted the Best Ideas Portfolio had not performed well in the three months to 31 March 2018. There was a decline of 4.1% making a total market value of c£188 million at the end of March 2018. However, as at the end of May 2018 there had been improved performance, which gave a total market value of c£198 million.

The overall in-house assets performed well as a whole over the past twelve months and three years, exceeding the benchmark across both time periods.

Mr Latham commented the performance of the LGPS as a whole was analysed at a meeting he previously attended and the Fund was the fourth best for equity returns across the LGPS. Equity is an asset class that the Fund usually struggles with in comparison to its peers so that was a pleasing outcome. Mr Buckland noted that exposure to emerging markets helped the Fund's performance in equities.

RESOLVED:

- (a) The Committee noted and discussed the investment strategy and manager performance in the Investment Strategy and Management Summary 31 March 2018; and
- (b) The Committee considered the information in the Economic and Market Update report to provide context in addition to the information contained in this report.

11. **FUNDING AND FLIGHT PATH UPDATE**

The Chairman handed this item of the agenda over to Mr Middleman. He stated that the estimated funding level was 92% at the end of May which was ahead of target by 12%. Mr Middleman reminded the Committee on the following key points;

- The Flightpath critically involves managing risk and getting better outcomes for Funds in terms of employer contribution rates. This is critical as to why we are doing all the work currently on updating the equity protection.

- The FRMG have looked at different options on the equity protection and concluded a more dynamic strategy gives a better risk adjusted return and protection for the funding position in most scenarios.
- After discussing the approach with various parties it has been decided that the structure will be rolled on a daily rolling basis using a counterparty investment bank (JP Morgan). Mercer advised that this was the best option overall (in terms of value for money, flexibility and capability) after discussing with a number of parties.
- This will still be through the Insight investment vehicle and therefore as part of the Flightpath structure and was implemented on 24th May.
- Further details and training on the new strategy would be provided to the committee over the next few meetings as part of the training plan.

In terms of the Flightpath strategy, Councillor Llewelyn Jones asked for clarification in regards to the pooling of the strategy.

Mr Middleman agreed with Councillor Llewelyn Jones point on the complexity of the flightpath and it is important that WPP could accommodate the strategy before it was made part of the pool. This is some way off and due diligence on the approach to this would be required before it should be agreed to transition it into the pool. This was recognised by the pool operator as dialogue has been ongoing from the start.

RESOLVED:

- (a) The Committee noted the updated funding and hedging position for the Fund and the progress being made on the various elements of the Risk Management Framework; and
- (b) The Committee noted the new dynamic equity protection strategy now in place which puts the Fund in a good strategic position in the run up to the next Actuarial Valuation.

13. **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 remainder of the meeting 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).

14. **EMPLOYER CARE PAY ISSUE**

The CPF Manager presented a report on an issue affecting payments to CPF members. The report included an assessment of the likely impact on the resources of the service whilst the issue was addressed

RESOLVED:

The Committee members noted this report and made themselves aware of the issue affecting a number of LGPS members, which will have a significant, albeit temporary, impact on the Administration Section's resources and therefore could impact services provided by that Section.

The Chairman thanked everyone for their attendance and updates at the Committee meeting and noted that the next Committee meeting is on 5th September and there is a training day on 13th September.

The meeting finished at 1:50pm.

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Chairman