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To: Cllr Dave Hughes (Chairman)

Councillors: Haydn Bateman, Billy Mullin, Ted Palmer and Ralph Small

Co-opted Members
Steve Hibbert, Karen McWilliam, Cllr. Andrew Rutherford, Nigel Williams and Cllr. Huw Llewelyn Jones

14 February 2019

Dear Councillor

You are invited to attend a meeting of the Clwyd Pension Fund Committee which will be held at 9.30 am on Wednesday, 20th February, 2019 in the Delyn Committee Room, County Hall, Mold CH7 6NA to consider the following items

A G E N D A

1 **APOLOGIES**

To receive any apologies.

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

To receive any Declarations and advise Members accordingly.

3 **MINUTES** (Pages 5 - 16)

To confirm as a correct record the minutes of the last meeting held on the 28th November 2018.

GOVERNANCE

4 **BUSINESS PLAN 2019/20 TO 2021/22** (Pages 17 - 62)

To provide Committee Members with the Business Plan for approval.

5 **POOLING INVESTMENTS IN WALES** (Pages 63 - 90)

To provide Committee Members with an update on implementation of Pooling Investments in Wales and to agree the response to the MHCLG consultation on Statutory Guidance on Asset Pooling.

6 **GOVERNANCE UPDATE** (Pages 91 - 178)

To provide Committee Members with an update on governance related matters and to agree the response to the MHCLG consultation on Fair Deal – strengthening pension protection.

ADMINISTRATION AND COMMUNICATIONS

7 **LGPS UPDATE** (Pages 179 - 192)

To provide Committee Members with current matters affecting the management of the LGPS.

8 **PENSION ADMINISTRATION/COMMUNICATIONS UPDATE** (Pages 193 - 228)

To update Committee Members on administration and communication matters for the Clwyd Pension Fund

INVESTMENTS AND FUNDING

9 **INVESTMENT AND FUNDING UPDATE** (Pages 229 - 250)

To provide Committee Members with an update of investment and funding matters for the Clwyd Pension Fund.

10 **ECONOMIC AND MARKET UPDATE** (Pages 251 - 266)

To provide Committee Members with an economic and market update

11 **INVESTMENT STRATEGY AND MANAGER SUMMARY** (Pages 267 - 284)

To update Committee Members on the performance of the Fund's investment strategy and Fund Managers

12 **FUNDING AND FLIGHT PATH UPDATE** (Pages 285 - 300)

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

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

The following item is considered to be exempt by virtue of Paragraph(s) 14 of Part 4 of Schedule 12A of the Local Government Act 1972 (as amended).

The report contains information relating to the financial affairs of the Pension Fund and the public interest in not disclosing the information outweighs the public interest in disclosing the information.

ADMINISTRATION AND COMMUNICATIONS

13 **EMPLOYER CARE PAY ISSUE** (Pages 301 - 308)

To provide Committee Members with an update on this project.

The following item is considered to be exempt by virtue of Paragraph(s) 14 of Part 4 of Schedule 12A of the Local Government Act 1972 (as amended).

The report contains the proposed terms for a commercial transaction and the public interest in not revealing the information outweighs the public interest in revealing the information until the transaction has been completed.

INVESTMENTS AND FUNDING

14 **APPOINTMENT OF AN ACTUARIAL AND BENEFITS PROVIDER** (Pages 309 - 314)

To provide Committee Members with the process undertaken to procure the services of an Actuarial and Benefits provider and to approve the appointment of that Provider.

Yours sincerely

Robert Robins
Democratic Services Manager

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CLWYD PENSION FUND COMMITTEE
28 NOVEMBER 2018

Minutes of the meeting of the Clwyd Pension Fund Committee of Flintshire County Council, held at County Hall, Mold at 9.30am on Wednesday, 28 November 2018.

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

CO-OPTED MEMBERS: Councillor Nigel Williams (Wrexham County Borough Council), Councillor Huw Jones (Denbighshire County Council) and Mr Steve Hibbert (Scheme Member Representative).

ALSO PRESENT (AS OBSERVERS): Mr Phil Pumford (PFB Scheme Member Representative)

APOLOGIES: Helen Burnham (Pension Administration Manager) and Councillor Andrew Rutherford (Other Scheme Employer Representative)

IN ATTENDANCE:

Advisory Panel comprising: Colin Everett (Chief Executive), 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), Karen Williams (Principal Pensions Officer), Nick Buckland (Fund Investment Consultant – JLT Group), and Megan Fellowes (Actuarial Analyst – Mercer - taking minutes).

The Chairman welcomed Mr Pumford and invited his input to the meeting and Cllr Mullin mentioned that he needed to leave early.

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

Conflicts were declared by Mrs McWilliam, Mr Harkin and Mr Buckland regarding item 4 of the agenda in relation to the consultancy contracts. However, as it was simply agreeing to an extension it was agreed they could remain present unless they felt conflicted professionally. It was also highlighted by Mr Everett that the resource matters referred to in items 5 and 7 would not result in any direct conflict for officers present.

31. **MINUTES**

The minutes of the meeting of the Committee held on 5 September 2018 were submitted.

Mr Hibbert noted that the comments on page 10 regarding the active global equity transition which was a positive outcome as a win-win, and asked what would happen if was a lose-lose situation. Mr Latham confirmed that he would cover this in the next item of the agenda.

RESOLVED:

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

32. **POOLING INVESTMENTS IN WALES**

Mr Latham ran through this item of the agenda noting the business that was picked up at the last JGC meeting that he and the Chairman attended on 25 September 2018. He noted that the majority of work that has been recently completed has been in relation to securing a transition manager for global equity assets which is planned to take place on 14th January 2019.

Mr Latham said that 4% of the Funds' assets will be transitioning from the current Investec global equity mandate to the WPP Authorised Contractual Scheme (ACS) and this equates to around £80 million. There has also been work around the UK and European mandates, which the Fund will not be investing in, but is going well and he anticipates the assets to be transitioned in March 2019.

The main concentration is on the fixed income strategy and Russell Investments, as part of the Operator, has been looking at different proposals to meet the needs of the administering authorities.

Mr Latham referred back to Mr Hibbert's point from earlier and added that the global equity mandate is a clear win-win situation. However, the fees that the Fund currently pays for certain mandates may not always reduce as part of asset pooling, as many existing mandates already have very competitive fees that are unlikely to be made available to the WPP.

On the investment side of the WPP, Mr Latham believed that everything is still going well from his point of view. Mr Latham added that on 30th November, Mrs Fielder is attending the Officer Working Group meeting and she will ensure that the Fund's aims are safeguarded in relation to the fixed income portfolio.

In relation to the governance side of the WPP, the Host Authority has undertaken interviews for the vacant officer position.

Mr Latham acknowledged the agenda for the Officer Working Group on 30th November and that stock lending is a matter for the JGC to consider.

Mr Hibbert asked whether there is an intention to comply with SAB requirements in relation to scheme representation on the JGC. He asked this point is highlighted at the Officers' Working Group on Friday and Mrs Fielder confirmed that she would.

Cllr Jones queried the point relating to Pension Board's discussions on the governance of the pool on page 59 and raised his own concerns around the lack of business planning. Mrs McWilliam confirmed that across Wales the Local Pension Boards were considering writing a letter to the pool regarding the business plan and other governance matters. Mrs McWilliam confirmed she was part of discussions with the other Local Pension Board chairs.

Mr Latham added that there needs to be a Responsible Investment Policy put in place by the pool. Currently the Government state that it is an administering authority responsibility locally. However, it may be challenging to meet all individual Fund's responsible investment objectives in a pooling environment. This will be something to consider once the WPP draft policy has been developed.

Mr Everett noted that this would be a potential topic that could become political and does need collaboration across Wales as much as possible.

On page 26, Cllr Bateman wanted to confirm how benchmarking will be used to assess performance of the Fund and the WPP. Mr Latham said that there are a number of benchmarks that he expects to report on which will be in line with CEM benchmarking.

RESOLVED:

That the Committee note the report and discussed progress being made by the Wales Pension Partnership.

33. **GOVERNANCE UPDATE**

Mr Everett left the Committee room on this item of the agenda.

Mr Latham noted that the Fund were unsuccessful in trying to appoint three new members in the Finance Team. After considering the Investment Officer post and testing the market, Mr Latham said that this post will be re-advertised as a Graduate Investment Officer because the salary was not considered adequate to attract an appropriately qualified person. The Accountant post had a similar issue but it will now be re-advertised at a higher grade. The Governance and Support Officer will be re-advertised at the same grade as before.

For the Graduate Investment Officer post, Mr Hibbert raised his concerns about hiring and training a graduate who could then leave the administering authority after two or three years for a position with another employer with better pay. Mr Latham agreed there was a risk and highlighted that, if the Graduate post is successful, there may be other senior posts that might become available in the Fund in the future. The Chairman added that this issue is also happening with other authorities. Mr Latham thought that the Clwyd Fund may be different in its needs given the structure but there are similar challenges in other funds.

Mr Hibbert asked whether there were any opportunities to job share with another fund but Mr Latham confirmed that this was not a possibility as there are a number of unique elements required for this position. The Chairman highlighted the risk relating to the knowledge and expertise of the existing officers.

Mr Latham then went on to note that Marsh and McLennan are in the process of purchasing JLT and that Marsh and McLennan also own Mercer. This means that if completed the existing contract with JLT would initially be novated to acknowledge the change of company.

Mr Latham moved on to the next section which is around the Pension Board where there was a meeting held in October and the main points are outlined in the report including that the Board had considered the Fund's approach to managing the risk of cybercrime. Mr Latham and Mr Pumford attended the Cheshire Pension Fund Local Board meeting and the Boards are working together to see if they can learn anything from each other. The Chairman asked whether it was encouraging. Mr Pumford confirmed that it was a very good exercise and extremely useful.

In relation to the LGPS Scheme Advisory Board (the “SAB”), Mr Latham highlighted the update. He particularly highlighted the separation project which is being undertaken and the issue of potential conflict of interests arising between the management of LGPS Pension Fund and the existing functions and objectives of the Parent Local Authority.

Mr Hibbert advised the Committee that he had attended a Unison Pensions event where Clwyd Pension Fund were positively highlighted for their responsible investment policy.

Mr Latham went on to highlight that on page 40, there is a link for the annual reports from the Local Pension Board and the Independent Adviser and invited the Committee to feel free to ask questions about this.

Mr Latham also referred to agenda item 1.06, highlighting that the Annual Joint Consultative Meeting (the "AJCM") had received very positive feedback however he stated that he would like to see more attendees next year.

Mr Latham noted that some of the Committee member had recently attended a conference in Cardiff covering responsible investment. The feedback that Mr Latham received was that the Committee found it extremely interesting and wanted more information about what the Fund do. The Fund historically provided a separate report on responsible investment when there was a panel. Mr Latham added that they are looking to confirm whether the Committee want this included on the agenda for the meeting in February or March 2019. The Committee agreed that they would like this added because it is currently a hot topic. Mr Latham also confirmed this would include an update on where the WPP is with its policy if possible.

Mr Latham spoke about the review of policies on the bottom of page 41 and 42, such as the review of the Training Policy and the Breaches of Law Policy. On agenda item 1.10, Committee members were asked to consider whether they fully understand their responsibilities under these two policies. The Chairman emphasised that Committee members should raise any future needs with Mrs Fielder. Mr Hibbert raised that he would like more training on administration aspects and it was agreed this would happen at the February or March meetings and Mrs McWilliam would contact Mr Hibbert to fully understand what he would like.

For the Compliance with the TPR Code of Practice on page 42, Mr Latham noted that Mrs Fielder and Mrs Williams have gone through this in detail and will be producing d action plan for improving compliance.

Mrs Fielder noted that on 19th December between 12pm and 6pm, there is catch-up training for Committee members which has been organised in the Pensions room. Mrs Fielder also thanked everyone for their commitment to attending training and conference events over the past year.

Mr Latham noted from agenda item 1.16 that the Committee took part in the Hymans Robertson survey on national confidence in the LGPS. The results were attached in Appendix 13 and 14. Mr Latham highlighted that the Committee and Board had already completed their own self-assessment of training needs.

Lastly, Mr Latham presented a report to the Audit Committee on 21st November in relation to Fund Governance. Following this meeting, Mr Everett intends on speaking to the

Chair of the Audit Committee to help them better understand how they perform their administering authority role in relation to the Pension Fund.

RESOLVED:

(a) That the Committee considered the update and provided comments.

(b) That the Committee discussed what actions could be taken as a result of the information received at the recent Wales Responsible Investment event, and confirmed the Fund's approach to RI/ESG should be included on the next agenda for discussion and debate.

(c) That the Committee considered the current Training Policy and Procedure for Recording and Reporting Breaches of the Law and confirmed if they would not require any changes to be made to either of these.

34. **LGPS CURRENT ISSUES**

Miss Fellowes gave a brief update on the key issues that are affecting the LGPS at the moment. She noted the following points;

- CPI has been confirmed as 2.4% for September 2018, this means that pensions will increase by 2.4% in April 2019.
- The Section 13 report from GAD was published in September where the Fund was not flagged. The four main actuarial firms who advise LGPS funds had a number of concerns about the report and they have jointly written to MHCLG and SAB to express their concerns. Discussions will no doubt continue regarding these concerns.
- There have been discussions around moving to a 4-year valuation cycle where the 2019 valuation will still go ahead, but a review of employer contribution rates will follow mid-cycle (likely 2022) with the subsequent statutory valuation being in 2024. Further updates from Mercer will follow on this.
- In October, the High Court made a decision to equalise GMPs for members who had Contracted-Out of the State Scheme. This affects all members with GMPs dating back to 17 May 1990 and is expected to have an effect on liabilities and costs for private sector schemes. For the LGPS and the Fund, the preliminary view is that the impact will be dependent on the profile of the members and is likely to be much less significant due to the method of indexation which is used, and likely to be extended, in the LGPS. The actuaries are keeping this under review.

Cllr Jones wanted clarification whether all of the LGPS administering authorities are on the same cycle for actuarial valuations. Mr Middleman confirmed that currently all LGPS administering authorities in England and Wales are in line with Scottish LGPS being a year behind. In 2024, it will be aligned if the proposed changes proceed. Mr Middleman noted that a 4-year cycle is a long time when a fund has active risk management policy so it is important were have the power to review contributions mid-cycle if need be.

Mr Hibbert queried about an update on the Cost Management process. Mr Middleman explained that under the HMT process if costs go up above 2% of the target, the members will have to pick up the costs whereas if the cost go down by more than 2% of the target the members will get the benefit (through benefit improvements or contribution reductions). However, there is a further process run by the SAB which can override the HMT process where there are some discretions where cost changes are between 0-2% of pay. It is looking likely that there will be some benefit improvements and/or contributions rate reductions in the LGPS based on latest trend data (in particular life expectancy reductions).

Mr Middleman expects there to be more detail on this topic soon where the intention is that it will be implemented from April next year. The changes that will follow will be in relation to payroll systems, communication and administration, and the Actuarial Valuation will be affected by it but the contributions will not change until 2020.

Mr Latham asked what the contribution rate will increase by. Mr Middleman confirmed that it is not finalised but it could be over 1% with all of the other things being equal. Mr Middleman said that this is an average across the LGPS but changes will impact to each employer in different proportions. Some employers will be impacted more or less depending on what they change and the employer's membership profile.

Mr Hibbert mentioned that from a Fund perspective, the impact of the change in benefits could be costly in terms of the administration. Mr Middleman responded stating that the changes in relation to the member contributions is more an employer issue which will need addressing very quickly if implemented from 1 April 2019. On the benefit changes some of them would be more difficult than others and it is possible some complexities around ill health may be removed e.g. Tier 3 option which has been talked about for a while.

Mrs McWilliam agreed with Mr Middleman's points in relation to the scheme changes, and that all scheme members and employers need to have awareness of these changes, and she highlighted that the short timescales for implementing the change will be very challenging for both employers and the Fund.

Mr Middleman confirmed that there would initially need to be a consultation on the changes because the Regulations will need to be changed.

RESOLVED:

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

35. **ADMINISTRATION AND COMMUNICATIONS UPDATE**

Mrs Williams noted the business plan update on item 1.01, where the dates may need to be amended slightly around the completion of the backlog administration project given other priorities. She noted that the completion date will be clearer at the next Committee meeting.

The administration team are under a lot of pressure with large amounts of work as a result of the CARE pay issue, referred to as Project Apple, which is considered further in the Part II agenda item. The work is being completed but not reported as part of the KPI procedures.

As previously mentioned by Mr Middleman, the Cost Management process will be significant to the administration team. She added, however, that if the tier 3 ill-health benefit is removed, this would save the Fund a small amount of administration.

The admission agreement document and process has been reviewed following recent changes in the regulations and is now in use. She confirmed the new process appears to be working well.

Mrs Williams stated the Fund had undertaken a data quality assessment in line with The Pension Regulator's expectations using a facility provided by Aquila Heywood, their administration system provider. The findings showed that the percentage of member records without a single common data failure is 92.7%. Whereas, the percentage of member records without a single scheme-specific data failure is 68.2%. In preparation for the 2019 Actuarial Valuation, the Fund also received some data quality checks from Mercer which included the potential implications on liability calculations. Dealing with these data issues is being prioritised prior to the valuation as it impacts on employer costs.

Mr Latham raised the importance of data quality at the AJCM. The results of this are likely to be covered in a letter from the Chief Executive to all employers. The detail in this letter will differ for each employer as each employer has different data challenges. Mrs Williams added that an employer may not receive a letter which means that their data has no fundamental concerns at this point.

Mrs Williams noted from page 179 that it has been announced that Equiniti has bought the Aquila element of the firm Aquila Heywood who provides the Fund's administration software Altair. Mrs Williams believes it is more relevant to private sector schemes but she will find out more details on this matter at a later date as she is due to attend a meeting which will cover this. She noted that this issue is on the risk register. There is still the intention to have a national third party administration system procurement framework but it could be affected by the Aquila Heywood change.

There was positive feedback following the AJCM. In terms of Policy and Strategy information, Mrs Williams noted that performance against KPIs is improving. She also noted that there are interviews that are being held for the new communication officer role.

Cllr Bateman questioned whether the administration backlog project has been put on hold. Mrs Williams replied that it has not been put on hold. However, Mercer have also taken on Project Apple and that has taken priority. She highlighted that some of the members in these projects overlap and therefore the affect might not be that significant in the longer term. Mrs Williams expected that Project Apple will be finishing in February 2019.

The Chairman thanked all the Principal Pension Officers for continuing to step into Mrs Burnham's place whilst she is absent and keeping things moving during these challenging times.

RESOLVED:

(a) The Committee considered the update and provided comments

(b) The Committee approved the changes in timescales to the business plan as outlined in paragraph 1.01.

The Committee agreed to change the order of the agenda and Item 11 Employer CARE pay issue was considered next.

36. **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).

37. **EMPLOYER CARE PAY ISSUE**

Mr Latham presented a report on an issue affecting payments to Clwyd Pension Fund members due to the incorrect calculation of CARE pay by an employer in the Fund. The report included the agreed principles on how the issue will be resolved and communicated.

There are several versions of letters that the Fund are sending out to members. Mr Latham hoped that letters would begin to be sent out a week after the Committee meeting.

Mr Latham had spoken to the Pension Regulator on this matter where they have asked for an update to the project on a monthly basis.

Mr Hibbert asked whether it has been identified as a software problem that affects other employers in the Fund. It was confirmed this has not affected other employers in the Fund.

Cllr Jones asked whether the Fund will be preparing their Press team to respond to anything once the issue becomes “public”. Mr Everett said that he will give it some thought and deal with it appropriately although his view was that it is not affecting the public interest.

Cllr Bateman questioned whether he had any ideas of final costs to the Fund. Mrs McWilliam said that final costs are not yet available but work to date shows only very small total impact.

The Chairman concluded that it was good to see that the work was progressing well. It obviously is still very worrying and he supposed next few weeks would be key in understanding how the Fund’s scheme members are responding to the news.

RESOLVED:

(a) The Committee noted this report.

38. **END OF EXCLUSION OF THE PRESS AND PUBLIC**

The Chairman noted that the private session of the meeting had been completed and the meeting was now open again to the press and public.

39. **INVESTMENT AND FUNDING UPDATE**

Mrs Fielder gave an update on this item of the agenda and firstly mentioned that the business plan is on target for three tasks. She noted that that approval is required from the Committee regarding the update on the Funding Strategy Statement. Updates in the FSS incorporate the recent changes in the exit credit regulations and the additions to on the flightpath strategy e.g. dynamic equity protection.

The Appendix to the report covers the movement in cash during the period. As requested by Mr Hibbert at the last Committee meeting, there is a graph to reflect the cash management on page 232.

Mr Middleman summarised the results of the 2018 Interim Funding Review which allowed for updates of investment outlook and life expectancy trends (based on national statistics). The whole Fund funding level at 31 March 2018 was estimated to be 88% but the position has been volatile since then (rising to 92% and then back towards 88%). The estimated future service was 18% of pay (versus 15.3% of pay at the last valuation) although this ignores the potential costs related to the cost management outcome. However, it was still ahead of target and continues to be which is positive. Mr Middleman explained that whilst the Fund has had a strong run a critical factor will be the expectations of future returns above inflation and ensuring contributions are sufficient to maintain the financial health of the Fund. Mr Middleman confirmed this will be discussed in more detail as we move towards the valuation date and Mr Ferguson confirmed there is a meeting scheduled with the finance directors of the authorities at the end of January

Mr Middleman said that there are expected changes in relation to the demographic assumptions relating to life expectancy which will have an effect on costs and outcomes. At the moment these are based on national trends but a bespoke analysis will be done for the Fund early in the New Year which will refine this for the valuation.

Mr Everett mentioned to Mr Middleman that this item of the agenda was very helpful. He questioned how the Fund can get certainty for a long term stability, given the tight employer budgets, especially given Brexit at the end of March 2019 as well as other factors that may leave the Fund in a worse position. Mr Middleman agreed that this uncertainty is not helpful but with the flightpath strategy and asset structure in place the Fund has mitigated some of the risks. Critical is the impact on long term UK inflation which affects liabilities.

However, Mr Middleman confirmed that part of the discussions is setting a long term strategy and the balance between cash contributions and returns. If markets crashed by, say, 20% due to uncertainty around Brexit, Mr Middleman would not automatically assume that this is the position to set the contributions at, as it is a combination of the market position and future outlook e.g. if markets are (in the opinion of all advisers) temporarily depressed we would factor the recovery into the future investment return assumptions within acceptable bounds.

RESOLVED:

a) The Committee considered and noted the update for delegated responsibilities and provided comments.

(b) The Committee reviewed and approved the changes made to the FSS following the consultation performed as required by the LGPS regulations.

(c) The Committee received and noted the findings and outcomes of the 2018 Funding Review as performed by the Fund Actuary.

40. ECONOMIC AND MARKET UPDATE

Mr Harkin gave an update on the economy and markets over the latest quarter. Page 315 reflects what happened in the market over the quarter ending 30 September 2018. The key points that Mr Harkin raised where that;

- The market statistics show that over the three months, the markets were in ‘risk on’ mode.
- There was a strong return across the board, and Emerging Markets which had been under pressure but now returned positively.
- From an investment perspective, there was a lot of positive sentiment particularly around the US, as the stance of the Federal Reserve had taken some heat off the economy.
- Sterling came under pressure against the US Dollar and the Euro, this will affect currencies for pension funds that are UK based for their overseas holdings.

Since then, there has been significant pressure on equity markets. In October 2018, global market equities faced significant losses. The key points that Mr Harkin raised were that;

- There has been some analysis on Bloomberg, whether there will be a Brexit deal rejected, and what will the impact be on the Sterling,
- France and Germany are facing presidential pressures, and there is a lot of pressure globally and a lot of negative news flow.

Cllr Bateman questioned whether the Sterling against the US Dollar is good for exporters. Mr Harkin agreed that it is, however there are always winners and losers in the market. He added that the UK exports a significant amount of goods therefore it would be good for an exporter as a business if they had a significant amount coming out of the US. The current position of the Sterling against others is still weak due to Brexit and the drop is significant particularly against the US Dollar, however it is not as weak as it has been.

RESOLVED:

(a) Noted and discussed the Economic and Market Update 30 September 2018.

(b) 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 asset portfolio.

41. INVESTMENT STRATEGY AND MANAGER SUMMARY

Mr Buckland gave a brief update on this item of the agenda, page 336 and 337 reflects a more detailed portfolio paper that was prepared at the end of 30 September 2018. Looking at the overall performance of the asset allocation on page 337, Mr Buckland wanted to highlight a couple of allocations that were underweight/overweight for example the LDI portfolio was overweight. Mr Buckland noted that private credit was slightly underweight which is due to this allocation being new to the Fund. On page 339, the performance summary of the Fund is set out at 30 September 2018. The first thing to highlight is the exceptional performance of the Fund for all periods. The Fund performed 11.8% against a target of 10.3% over 3 years. There were some significant positives in terms of individual areas, such as positive returns for equities and the best ideas portfolio which performed 11.5% against a target of 5.3%.

The Fund suffered over October 2018 and the performance results are almost entirely red. The total market value dropped from £1,886m to £1,839m, a fall of just under 2.5%, however the diversification has benefited the Fund somewhat over this period.

RESOLVED:

a) Noted and discussed the investment strategy and manager performance in the Investment Strategy and Manager Summary 30 September 2018.

(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.

42. **FUNDING, FLIGHTPATH AND RISK MANAGEMENT FRAMEWORK UPDATE**

Mr Middleman stated that the Fund unwound a relative value trade with Insight resulting in an overall gain of £26.7m (net of costs) after this trade was completed. This represented around 75% of the total gain that the Fund expected at the start over a period of c50 years. However, as reported at the last meeting, it was decided to cash it in now in order to remove any risk of loss in future. Mr Middleman also mentioned that the expenses for this trade was £269k which was significantly better than the initial estimated range of £0.8-£2.2m. This is a very good outcome and demonstrated how good governance can make significant gains for the Fund.

Mr Middleman noted that Mercer have calculated (and Insight have confirmed) that £100m of excess collateral can be released out of the risk management strategy without affecting the overall hedging position. There have been various discussions about how the Fund uses this. It was decided to use £50m to remain in a collateral waterfall which would be developed further with Insight and £50m elsewhere in the portfolio. This approach has been working well with positive outcomes that will set the Fund up well for the future.

As the Fund has protections and hedging in place so that they are in a better position than otherwise with the current volatility in the markets.

Mr Hibbert asked what the increased costs are for the protections compared to what the Fund had put in place previously. Mr Middleman stated that there are two factors that have affected the costs of the protections – the level of protection and the perceived volatility of markets. When putting the protection in place the cost versus benefit was considered and felt appropriate given the expected (risk adjusted) returns. However, it is right to say the financing of the protections now is costlier given the market volatility but this is offset by the value of the protection being of a higher value (given the volatility of markets and the level of the market positions)

The reality is that with any protection, there will always be a cost (as by definition you are giving something up to protect against the downside) but the critical aspect is that you are "insuring" against a bad outcome in terms of contributions for employers. He noted that everything is working, but there hasn't been a need to trigger any protections yet. However, given the volatility in the markets the protection is more valuable than when it was implemented.

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.

(b) The Committee noted the restructuring of the LDI strategy has been completed and a positive mark-to-market gain has been realised.

(c) The Committee noted that the Officers are working with their advisors in order to finalise a collateral waterfall process at Insight to better manage collateral requirements. Further, it has been provisionally agreed that c.£50m will be removed from the Insight QIAIF to be invested elsewhere in the portfolio.

The Chairman thanked everyone for their attendance and updates at the Committee meeting and noted that the next Committee meeting is on 20th February.

The meeting finished at 12:30pm.

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Chairman

CLWYD PENSION FUND COMMITTEE

Date of Meeting	20 February 2019
Report Subject	Business Plan 2019/20 to 2021/22
Report Author	Clwyd Pension Fund Manager

EXECUTIVE SUMMARY

The Committee approves a three year Business Plan in February or March of every year and receives updates each quarter on progress. The purpose of this report is to present the proposed Business Plan for 2019/20 to 2021/22. The Business Plan includes business as usual, other tasks or projects, risks and an estimate of the financial resources required.

Looking ahead, the next few years will continue to be challenging for those involved in the governance, management and operation of the Fund for a number of reasons including the ongoing transition to the Wales Pension Partnership and a range of expected changes to the scheme benefits which are also likely to increase the cost of the scheme. The Fund's Business Plan covering the period from 2019/20 to 2021/22, which the Committee is asked to approve, has been prepared to ensure that all our known risks are being managed and resourced as well as possible.

RECOMMENDATIONS	
1	That the Committee approve the Business Plan in Appendix 1 relating to the period 2019/20 to 2021/22.

REPORT DETAILS

1.00	**Review of the Fund's Business Plan**
1.01	The updated Plan for the three years commencing 2019/20 is attached as Appendix 1. It includes business as usual, main tasks or projects with descriptions, a current risk assessment and an estimate of the financial resources required.
1.02	Looking ahead for 2019/20 key tasks include: • The triennial actuarial valuation of the Fund • Finalising the transition to Wales Pension Partnership • Reviewing the Fund's Responsible Investment Policy • Implementation of the "cost cap" changes and other expected national changes • Ongoing implementation of systems including iConnect for greater efficiencies in administration • Ensuring any existing backlogs of administration work are completed • Finalising the implementation of the new staffing structures • Preparation for and procurement of two of our key advisers (investment consultant and independent adviser).
1.03	Looking ahead, 2019/20 will continue to be challenging for those involved in the governance, management and operation of the Clwyd Pension Fund but we hope the benefits of a number of initiatives are already being realised and will continue to assist in delivering this three year Business Plan. The Plan has been updated to ensure that all our known risks are being managed and resourced.

2.00	**RESOURCE IMPLICATIONS**
2.01	The resources required for managing the Fund are estimated in the Business Plan.

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	None directly as a result of this report.

4.00	**RISK MANAGEMENT**
4.01	The key risks are considered as part of the business planning process and articulated within the draft Business Plan.

5.00	**APPENDICES**
5.01	Appendix 1 – Business Plan 2019/20 to 2021/22

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	Previous business plans including Clwyd Pension Fund Business Plan 2018/19 to 2020/21 (March 2018 PFC). **Contact Officer:** Philip Latham, Clwyd Pension Fund Manager **Telephone:** 01352 702264 **E-mail:** philip.latham@flintshire.gov.uk

7.00	**GLOSSARY OF TERMS**
7.01	(a) **CPF – Clwyd Pension Fund** – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region. (b) **Administering authority or scheme manager** – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund. (c) **PFC – Clwyd Pension Fund Committee** - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund. (d) **LPB or PB – Local Pension Board or Pension Board** – each LGPS Fund has an LPB. Their purpose is to assist the administering authority in ensuring compliance with the scheme regulations, the Pensions Regulator requirements and efficient and effective governance and administration of the Fund. (e) **LGPS – Local Government Pension Scheme** – the national scheme, of which Clwyd Pension Fund is part. NB: Other terms used in the report and its appendix are explained within Appendix 1.

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Cronfa Bensiynau Clwyd
Clwyd Pension Fund

Sir y Fflint
Flintshire

FLINTSHIRE COUNTY COUNCIL

Administering Authority for Clwyd Pension Fund

BUSINESS PLAN 2019/20 TO 2021/22

February 2019

Introduction

This is the business plan for the Clwyd Pension Fund, which is managed and administered by Flintshire County Council. The business plan details our priorities and areas of key focus in relation to the Clwyd Pension Fund for 2019/20, 2020/21 and 2021/22. This business plan was approved at the Clwyd Pension Fund Committee meeting on 20 February 2019. The business plan is formally reviewed and agreed every year. However, throughout the year it is monitored and the Pension Fund Committee may be asked to agree to changes to it.

The purpose of the business plan is to:

- explain the background and objectives of Flintshire County Council for the management of the Clwyd Pension Fund
- document the priorities and improvements to be implemented by the pension service during the next three years to help achieve those objectives
- enable progress and performance to be monitored in relation to those priorities
- provide staff, partners and customers with a clear vision for the next three years.

In addition, this business plan includes a budget for expected payments to and from the Clwyd Pension Fund during 2019/20 including the resources required to manage the Fund.

Further Information

If you require further information about anything in or related to this business plan, please contact:

Philip Latham, Clwyd Pension Fund Manager, Flintshire County Council
E-mail - Philip.latham@flintshire.gov.uk
Telephone - 01352 702264

Background to the Clwyd Pension Fund

The Clwyd Pension Fund ("CPF") is a £1.8bn[1] Local Government Pension Fund which provides death and retirement benefits for local government employees (other than teachers, police and firefighters) in North East Wales and employees of other qualifying bodies which provide similar services.

Total Fund membership is about 48,100 (46,500) with about 16,300 (16,000) active contributors from 44 (41) contributing employers and about 31,800 (30,500) retired, survivor, deferred and other members. The figures shown in brackets were as at March 2018.

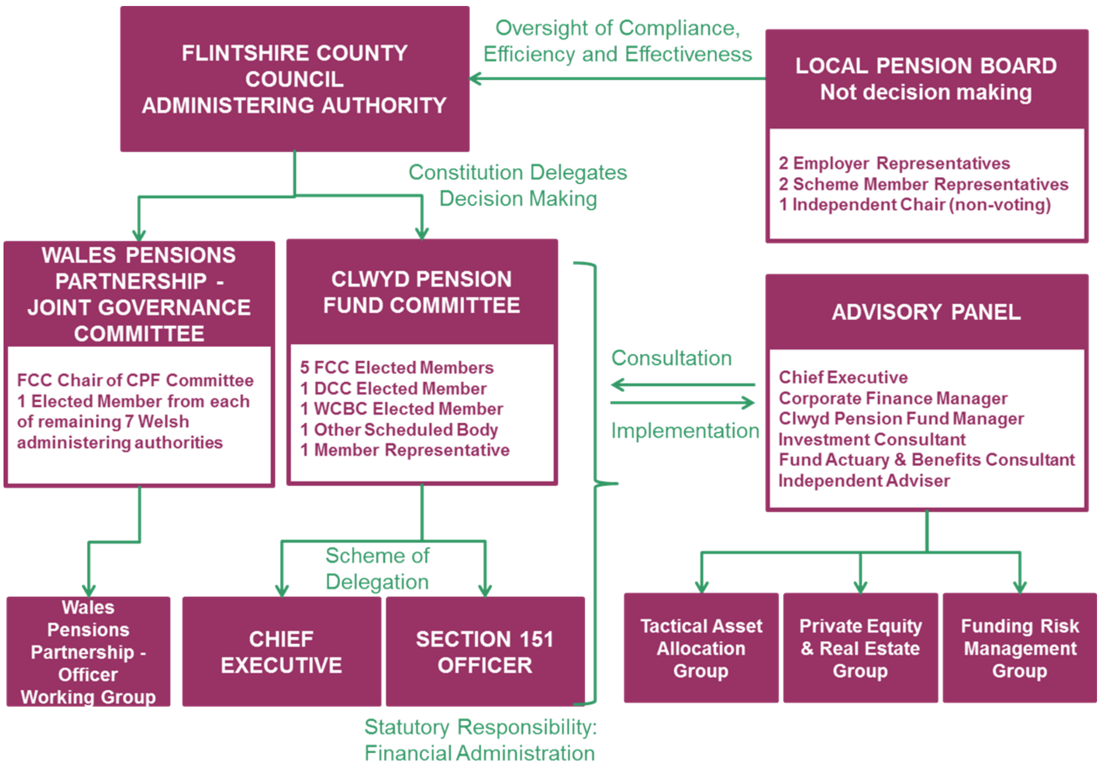
Governance and Management of the Fund

The key decision making and management of the Fund has been delegated by Flintshire County Council ("the Council") to a formal Pension Fund Committee ("PFC"), supported by a Pensions Advisory Panel ("AP"). The Corporate Finance Manager is the Section 151 Officer and therefore has a statutory responsibility for the proper financial affairs of the Council including Fund matters. In addition, the Council has delegated specific responsibilities to the Chief Executive.

A Local Pension Board is in place to assist in:

- securing compliance of Fund matters and
- ensuring the efficient and effective governance and administration of the Fund.

This structure is illustrated below.



[1] Information correct as at February 2019.

The Joint Governance Committee (JGC) for the Wales Pool (known as the Wales Pension Partnership) is a joint committee of the eight participating administering authorities. An inter-authority agreement has been agreed which delegates certain investment decisions to the JGC. The JGC will be advised by an Officer Working Group on which each of the administering authorities will be represented.

The Pension Fund Management Team

The day to day operations of the Fund are managed by the Clwyd Pension Fund Manager. He is supported by two sections:

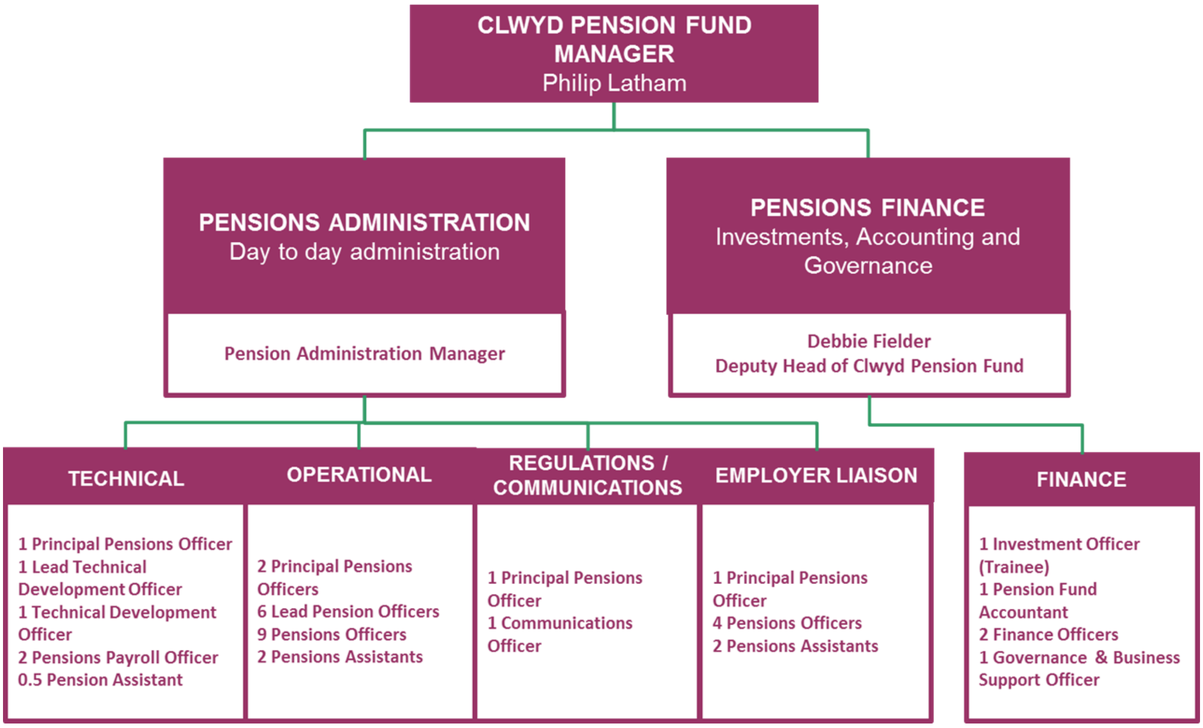
- The Pensions Administration Section which is responsible for the day to day administration of pension benefits and is headed by Pension Administration Manager. The section is split between an Operational Team, a Technical Team and a Regulations and Communications Team. The Operational Team delivers a pensions service for approximately 48,100 scheme members and 44 employing bodies. This includes the calculation of various benefits, transfers in and out, refunds and maintenance of individual records. The Technical Team implements and maintains the pension software systems, reconciles employer records, and a pensioner payroll service for 12,500 pensioners, survivors and dependents. The Regulations and Communications Team is responsible for ensuring all communications are good quality and kept up to date, including the Fund's website.

- Additionally within the Pensions Administration Section there is an Employer Liaison Team that undertakes employer responsibilities which are recharged to the employer through their employer contribution rate. This team was created in late 2016/17 and will continue to be developed depending on the number of employers which take up the option of using the service. Two of the unitary authorities currently use this service.

- The Pensions Finance Section which is responsible for accounting, investment and governance matters, is headed by the Deputy Head of the Clwyd Pension Fund. The section is responsible for the day to day accounting and closure of the accounts. Additionally, the section is responsible for the monitoring of 9 core external fund managers as well as 45 non-core external fund managers responsible for around 120 separate funds[2]. The Deputy Head of the Clwyd Pension Fund is involved with management of the Fund's assets working with the Wales Pension Partnership and is also responsible for sourcing and recommending new in-house investments. Due to the implementation of asset pooling and the departure of a previous Pension Finance Manager, the Pensions Finance Section structure has recently been reviewed and there are three vacant posts which will hopefully be filled at the beginning of 2019.

[2] Information correct as at February 2019

The structure as at February 2019 is illustrated below.



The Pension Fund Management Team and Pension Fund Committee are assisted by a range of specialist consultants, suppliers and fund managers.

Aims and Objectives for the Management of the Fund

Our Mission Statement is:

- to be known as forward thinking, responsive, proactive and professional, providing excellent customer focused reputable and credible service to all customers.
- to have instilled a corporate culture of risk awareness, financial governance, and to provide the highest quality distinctive services within the resource budget.
- to work effectively with partners, being solution focused with a ‘can do’ approach.

Our key strategies and policies which guide the management of the Fund are listed below and can be found on our website at www.clwydpensionfund.org.uk

- Governance Policy and Compliance Statement
- Training Policy, Conflicts of Interest Policy, Risk Management Policy and Reporting and Recording Breaches of the Law Procedure
- Investment Strategy Statement and Compliance Statement
- Funding Strategy Statement
- Administration Strategy
- Communications Strategy
- Employer Service Level Agreements including Employer Liaison and Communications Team agreements.

The key actions and areas of focus in our business plan (as shown in the appendix) are grouped into the areas of governance, funding, investments, and administration, communications and employer liaison team to align with the key aims and objectives of these strategies and policies. These aims and objectives are summarised below.

Governance

- Act in the best interests of the Fund's members and employers
- Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies
- Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise
- Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based
- Understand and monitor risk
- Strive to ensure compliance with the appropriate legislation and statutory guidance, and to act in the spirit of other relevant guidelines and best practice guidance
- Clearly articulate our objectives and how we intend to achieve those objectives through business planning, and continually measure and monitor success.

Funding and Investments

- Achieve and maintain assets equal to 100% of liabilities within the 15 year average timeframe, whilst remaining within reasonable risk parameters
- Determine employer contribution requirements, whilst recognising the constraints on affordability and strength of employer covenant, with the aim being to maintain as predictable an employer contribution requirement as possible
- Recognising the constraints on affordability for employers, aim for sufficient excess investment returns relative to the growth of liabilities
- Strike the appropriate balance between long-term consistent investment performance and the funding objectives
- Manage employers' liabilities effectively through the adoption of employer specific funding objectives
- Ensure net cash outgoings can be met as/when required
- Minimise unrecoverable debt on employer termination
- Ensure that its future strategy, investment management actions, governance and reporting procedures take full account of longer-term risks and sustainability
- Promote acceptance of sustainability principles and work together with others to enhance the Fund's effectiveness in implementing these.

Administration

- Provide a high quality, professional, proactive, timely and customer focussed administration service to the Fund's stakeholders
- Administer the Fund in a cost effective and efficient manner utilising technology appropriately to obtain value for money
- Ensure the Fund's employers are aware of and understand their roles and responsibilities under the LGPS regulations and in the delivery of the administration functions of the Fund
- Ensure the correct benefits are paid to, and the correct income collected from, the correct people at the correct time

- Maintain accurate records and ensure data is protected and has authorised use only.

Communications

- Promote the Scheme as a valuable benefit and provide sufficient information so members can make informed decisions about their benefits
- Communicate in a clear, concise manner
- Ensure we use the most appropriate means of communication, taking into account the different needs of different stakeholders
- Look for efficiencies in delivering communications through greater use of technology and partnership working
- Regularly evaluate the effectiveness of communications and shape future communications appropriately.

Employer Liaison Team

- Provide a high quality, professional, proactive, timely and customer focused service to the employer
- Provide the agreed service in a cost effective and efficient manner utilising technology appropriately to obtain value for money
- Ensure the employer is aware of and understands their role and responsibilities under the LGPS regulations and the Fund's Administration Strategy
- Ensure that accurate member information is provided to the Fund, in the correct format, within the agreed timescales
- Ensure data is protected and has authorised use only.

Business as usual

The appendix to this business plan highlights what our key priorities are for the next three years. This focusses on areas of change and project like tasks which are in addition to our day to day “business as usual” duties. On a day to day basis our focus is on the following key elements of Fund management:

- Paying pension benefits to all our beneficiaries, as prescribed by the LGPS regulations
- Communicating with our scheme members about their membership of the Fund
- Ensuring we receive all the pension contributions paid by active members of the Fund, again as prescribed by the LGPS regulations
- Ensuring all the employers in the Fund pay their pension contributions
- Safeguarding the money in the Fund (the Fund’s assets)
- Investing any Fund assets that are not currently needed to pay benefits
- Working with the actuary so, every three years, he determines how much employers need to pay into the Fund to ensure we have enough money to pay pension benefits in the future

Understanding the continuing pressure on resources and budgets for employers and the administering authority, Flintshire County Council has established an Employer Liaison team which can provide assistance to employers by carrying out a number of the employer responsibilities on the employers' behalf.

Managing the Fund on a day to day basis involves a wide range of processes and procedures, some of which are outlined below and all of which have been designed around achieving our Fund's objectives as outlined in our strategies and policies. The management of the Fund is significant, complex and highly regulated. As such, these processes and procedures require expert knowledge and experience from both officers and external advisors in several diverse areas as illustrated below.

Governance

- Setting the agenda, reporting and presenting to the Pension Fund Committee, Local Pension Board and Advisory Panel
- Implementing and monitoring the achievement of other governance areas such as training policy, conflict of interest policy, risk management policy, breaches of law procedure and The Pension Regulator's Code of Practice
- Ensuring we adhere to Council and legal requirements for procurement, health & safety and data protection
- Procurement of and payment for, advisers and other services
- Assisting internal and external audit in their role
- Replying to Freedom of Information requests
- Participation at the Joint Governance Committee and Officer Working Group of the Wales Pension Partnership
- Managing the risk of cybercrime and ensuring our data and systems are safeguarded.

Accountancy

- Preparing and publishing the Fund's Annual Report
- Completing the Annual Accounts and assisting with external auditors
- Preparing and quarterly monitoring of the Annual Budget
- Preparation of statutory and non-statutory returns as required
- Monthly bank reconciliations
- Quarterly cash flow and treasury management
- Monthly monitoring of income and expenditure including employer and scheme member contributions
- Quarterly invoicing of employers for pensions strain and added years.

Funding

- Agreeing the funding strategy with the actuary every three years, consulting with employers and monitoring continued appropriateness annually
- Assisting the actuary with the triennial Actuarial Valuation by providing membership data and presenting results and explanations to employers of future employer contributions and deficit payments
- Arranging through the Actuary data required by the Government Actuary's Department ("GAD")
- Monitoring the employer's covenant including their ability to pay contributions and managing any employers who wish to join or leave the Fund.

Investments

- Carrying out a fundamental review of the investment strategy every three years
- Appointing, monitoring and dismissing of fund managers including within a pooling environment
- Quarterly monitoring and reporting on investment performance
- Monthly monitoring and reporting on the Fund’s funding position and implementation of our funding risk management strategy (‘Flight-path’) with annual ‘health checks’
- Monthly monitoring and implementation of the tactical asset allocation decisions
- Procurement and monitoring of over 100 investments in private equity, property, infrastructure, agriculture and timber funds
- Ensuring costs are fully disclosed in line with the Cost Transparency
- Developing and monitoring the Fund's approach to Responsible Investment
- Working with other LGPS funds in Wales and nationally to pool investments through our role within the Joint Governance Committee and Officer Working Group.

Administration

- Providing ongoing information to scheme members and their beneficiaries as they join, leave or change their status in the Fund
- Calculating and notifying entitlement to pension and death benefits
- Providing quotations of retirement benefits including any additional costs to employers
- Providing information on how scheme members can increase their pension benefits
- Maintaining scheme member records
- Providing a scheme members’ help line for ad-hoc enquiries
- Administering the Fund’s Internal Dispute Resolution Procedure.

Payroll

- Calculating and paying monthly pensions to all pensioners and beneficiaries
- Issuing payslips (where net pay has changed)
- Issuing P60’s
- Investigating returned payments and dealing with any under or overpayment of pensions
- Updating and maintaining accuracy of pensioner member details.

Communication

- Providing Annual Benefit Statements to all active and deferred scheme members
- Providing information to members via one to ones, workshops and newsletters
- Maintaining the Fund’s website and member's self-service facility
- Provide new employers with information about their Fund responsibilities
- Providing ongoing training and technical updates to employers
- Running an Annual Meeting for Employers and members reps.

Technical

- Maintaining and updating the pensions software system, including overseeing the monthly employer returns
- Providing guidance on changes in processes following legislation updates

- Developing reporting to provide information on progress against key performance indicators and daily work management
- Providing reports and extracts for the Fund Actuary and GAD
- Reporting and making payments to HMRC
- Processing bulk updates to data such as annual pensions increases and year end employer returns.

Employer Liaison Team

- Providing notifications regarding new starters, personal/employment changes and leavers/retirements in the Fund
- Undertaking estimates of benefits for scheme members and the employer
- Undertake response to outstanding requests for information in order to cleanse the pension records
- Providing information to the Fund's actuary as required for new alternative delivery models for employer services
- Undertake work as necessary to clear outstanding year-end or other data queries.

The plan for the next three years

Key Challenges and Influences

This decade has seen and continues to see an unprecedented amount of external factors that impact or could impact the management of the Fund on top of major changes that have been implemented to the Fund in recent years, such as:

- Implementation of a new governance structure, including creation of a Pension Fund Committee, Advisory Panel and Local Pension Board in 2014/15/16.
- A fundamental review of the investment strategy in 2014/15, to ensure a closer relationship with the funding strategy through implementation of a flight-path risk management plan, which was refreshed in 2016/17.
- The implementation of the new Local Government Pension Scheme from April 2014 and each year introducing innovative ways of working within the Administration Section.
- Contributing towards the development of the governance arrangements for the Wales Pension Partnership since 2016/17.

This puts us in a strong position to meet the challenges ahead. The following are just some of the key areas of focus for the Fund over the next three years:

- The ongoing transition of the Fund's assets to the Wales Pension Partnership Operator (Link)
- Continuing to promote our on-line facilities which provide enhanced services for our scheme members
- Finalising the roll-out of improved systems to our employers, allowing more timely submission of data and in a more automated manner
- Implementing any required changes to the benefit structure or scheme member contribution rates as a result of the national changes, including those driven by legal challenges and the LGPS Cost Control mechanisms.

These, and other priorities for the next three years, are articulated in more detail in the appendix to this business plan, split into four sections; governance, funding and investments, administration and communications and employer liaison team.

Budget

All the costs associated with the management of the Fund are a charge to the Fund and not to the Council. The following shows the expected income and expenditure to the Fund (cash flow) as well as the expected operating costs.

Cash flow projection for 2018/19

	Estimated 2018/19 £000s	Budget 2019/20 £000s	Budget 2020/21 £000s	Budget 2021/22 £000s
Opening Cash	(21,188)	(3,599)	(9,618)	(10,654)
Payments				
Pensions	59,976	61,600	62,800	64,000
Lump Sums & Death Grants	15,178	15,000	15,000	15,000
Transfers Out	6,142	6,000	6,000	6,000
Expenses (excluding investments)	3,865	4,600	4,600	4,600
Support Services	259	140	140	140
Total Payments	85,420	87,340	88,540	89,740
Income				
Employer Contributions	(39,104)	(40,000)	(41,100)	(42,500)
Employee Contributions	(14,002)	(14,400)	(14,690)	(14,400)
Employer Deficit Payments	(18,781)	(19,800)	(20,500)	(21,200)
Transfers In	(4,179)	(4,000)	(4,000)	(4,000)
Pension Strain	(1,671)	(1,200)	(1,200)	(1,200)
Income	(43)	(48)	(48)	(48)
Total Income	(77,780)	(79,448)	(81,538)	(83,348)
Cash-flow Net of Investment Income	7,640	7,892	7,002	6,392
Investment Income	(6,503)	(6,000)	(6,000)	(6,000)
Investment expenses	3,020	3,000	3,000	3,000
Total Net of In House Investments	4,157	4,892	4,002	3,392
In House Investments				
Draw downs	99,540	77,019	78,208	74,897
Distributions	(75,988)	(77,930)	(83,246)	(74,326)
Net Expenditure /(Income)	23,552	(911)	(5,038)	571
Total Net Cash-Flow	27,709	3,981	(1,036)	3,963
Rebalancing Portfolio	(10,120)	(10,000)		
Total Cash Flow	17,589	(6,019)	(1,036)	3,963
Closing Cash	(3,599)	(9,618)	(10,654)	(6,691)

Operating Cost Budget 2019/20

	Budget 2018/19 £000s	Estimate 2018/19 £000s	Budget 2019/20 £000s
Governance Expenses			
Employee Costs (Direct)	243	194	299
Support & Services Costs (Internal Recharges)	18	18	22
IT (Support & Services)	5	5	5
Other Supplies & Services	63	63	70
Audit Fees	40	40	40
Actuarial Fees	324	409	435
Consultant Fees	589	691	664
Advisor Fees	143	388	179
Legal Fees	24	66	40
Pension Board	59	59	69
Pooling	224	109	109
Total Governance Expenses	1,732	2,042	1,932
Investment Management Expenses			
Fund Manager Fees	16,593	20,500	21,000
Custody Fees	31	34	31
Performance Monitoring Fees	66	66	66
Pooling	50	9	186
Total Investment Management Expenses	16,740	20,609	21,283
Administration Expenses			
Employee Costs (Direct)	776	776	893
Support & Services Costs (Internal Recharges)	66	66	66
Outsourcing	1000	300	900
IT (Support & Services)	413	413	424
Other Supplies & Services)	106	70	63
Total Administration Expenses	2,361	1,625	2,346
Employer Liaison Team			
Employee Costs (Direct)*	194	202	213
Total Employer Liaison Team	194	202	213
Total Costs	**21,027**	**24,478**	**25,774**

* Costs incurred by the Employer Liaison Team will be recovered from the participating employers making use of the service through their employer contribution rate.

Delivering the Business Plan

Monitoring and Reporting

In order to identify whether we are meeting our agreed business plan we will:

- continue to monitor progress of the key priorities and the agreed budgets on an ongoing basis within the Pension Fund Management Team and the Pension Fund Advisory Panel
- provide updates on progress against these key priorities on a quarterly basis to the Pension Fund Committee, which will be shared with the Pension Board
- as part of these quarterly updates:
  - highlight any areas where we are exceeding or failing to achieve our targets and the reasons why, and identify any changes to the planned priorities as a result of this
  - highlight any significant additional spend or underspend in relation to the agreed budget as it is becomes apparent.

Key Risks

The Clwyd Pension Fund has embedded risk management into the governance of the Fund. The Committee has approved a Risk Management Policy and a detailed Risk Register is maintained. Changes to the level of risk are reported at each Committee.

Given that many pension fund risks are outside of our control, our risk management focusses on measuring the current risk against the Fund's agreed target risk (which may still be relatively high) and identifying the further controls and actions that can be put in place. This risk management process is integral in identifying actions that are then included in the Fund's Business Plan.

Overall the next few years will be challenging for those involved in the governance, management and operation of the Fund. The risks discussed below are documented in the Risk Register which will continue to be updated at each Committee meeting as circumstances change. The risks shown are those risks which are currently identified as amber i.e. with moderate consequences that are considered a possible occurrence, or higher, and where we are not currently meeting the target risk exposure.

Key:

Risk Exposure	Impact/Likelihood
Black	Catastrophic consequences, almost certain to happen
Red	Major consequences, likely to happen
Amber	Moderate consequences, possible occurrence
Yellow	Minor consequences, unlikely to happen
Green	Insignificant consequences, almost very unlikely to happen

Governance

Risk Description (if this happens)	Risk Overview (this will happen)	Current Risk Status	Target Risk Status	Further Action
Externally led influence and change such scheme change, national reorganisation and asset pooling	The Fund's objectives/legal responsibilities are not met or are compromised - external factors			1 - Regular ongoing monitoring by AP to consider if any action is necessary 2 - Ensure Board requests to JGC/OWG are responded to 3 - Regular consideration of impact national reorganisation at APs
Insufficient staff numbers (e.g. sickness, resignation, retirement, unable to recruit) - current issues include age profile, implementation of asset pools and local authority pay grades.	Services are not being delivered to meet legal and policy objectives			1 - Complete and implement Finance team restructure, including fundamental review of future service requirements 2 - Ongoing consideration of succession planning 3 - Implement the agreed outcome of the admin staff structure review 4 - Recruit to vacant Pensions Administration Manager post

Funding & Investment

Risk Description (if this happens)	Risk Overview (this will happen)	Current Risk Status	Target Risk Status	Further Action
An appropriate funding strategy cannot be set	Employer contributions are unaffordable and/or unstable			1 - Finalise employer covenant monitoring and ill health captive
Movements in assets and/or liabilities (as described in 3,4,5) in combination	Funding level reduces, increasing deficit			1 - Revised Equity Protection Strategy to be put in place 2 - See also actions below that will impact this
-Markets perform below actuarial assumptions - Fund managers and/or in-house investments don't meet their targets - Market opportunities are not identified and/or implemented.	Investment targets are not achieved therefore reducing solvency / increasing contributions			1 - The impact on performance relative to assumptions will be monitored regularly (FRMG & TAAG)
Market factors impact on inflation and interest rates	Value of liabilities increase due to market yields/inflation moving out of line from actuarial assumptions			1 -The level of hedging will be monitored and reported regularly via FRMG
Legislation changes such as LGPS regulations (e.g. asset pooling), progression of Brexit and other funding and investment related requirements - ultimately this could increase employer costs	Investment and/or funding objectives and/or strategies are no longer fit for purpose			1 - Ensure proactive responses to consultations etc.

Administration & Communication

Risk Description (if this happens)	Risk Overview (this will happen)	Current Risk Status	Target Risk Status	Further Action
That there are poorly trained staff and/or we can't recruit/retain sufficient quality of staff, including potentially due to pay grades	Unable to meet legal and performance expectations (including inaccuracies and delays) due to staff issues			1 - Ongoing training 2 - Ongoing bedding in of aggregation team and use of Mercers with backlogs 3 - Ongoing monitoring of ELT and Ops resource/workload for backlogs 4 - Recruitment to new posts 5 - Ongoing consideration of resource levels post recruitment of new posts
Employers: -don't understand or meet their responsibilities -don't have access to efficient data transmission -don't allocate sufficient resources to pension matters	Unable to meet legal and performance expectations (including inaccuracies and delays) due to employer issues			1 - Ongoing roll out I-connect 2 - Ongoing monitoring of ELT resource/workload 3 - Implement further APP data checks to identify issues 4 - Develop and roll out APP training - in house and employers 5 - Update Admin Strategy to include a compliance declaration and focus on availability of payroll system/information 5 - Identify other employer data issues and engage directly with employers on these
Big changes in employer numbers or scheme members or unexpected work increases (e.g. severance schemes or regulation changes)	Unable to meet legal and performance expectations due to external factors			1 - Recruitment to new posts 2 - Ongoing consideration of resource levels post recruitment of new posts
Communications are inaccurate, poorly drafted or insufficient	Scheme members do not understand or appreciate their benefits			1 -Ongoing promotion of member self service 2 - Ongoing identification of data issues and data improvement plan 3 - Review of effectiveness of new website/iConnect planned for 2019/20 4 - Recruitment of Comms Officer
Systems are not kept up to date or not utilised appropriately, or other processes inefficient	High administration costs and/or errors			1 - Ongoing roll out of iConnect 2 - Ongoing identification of data issues and data improvement plan 3- Review of effectiveness of new website/iConnect planned for 2019/20 4 - Implementation of other Altair modules in 2018/19 business plan 5 - Increased engagement with Heywood about change in their business model

Training Plan

A Clwyd Pension Fund Training Policy has been established to aid Pension Fund Committee, 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. The following training plan has been developed for 2019/20 to assist in meeting that aim. A significant amount of training was completed during 2018 and early 2019 following a Training Needs Self-Assessment completed by all Pension Fund Committee and Pension Board members during January 2018. Accordingly the focus for 2019/20 is on subject matters that will be relevant to key decisions by the Committee.

Title of session	Training Content	Timescale	Audience
PLSA Local Authority Conference, Gloucestershire	Various topical presentations spanning all fund matters	13-15/05/2019	Committee, Pension Board and Officers
CIPFA and Barnett Waddingham: Local Pension Boards Annual Seminar	Update by key players together with a focus on the Scheme's financial viability and the problem of managing data.	TBC	Pensions Board
Internal training day	Agenda to be confirmed (based on key topics)	To be confirmed – possibly September 2019	Committee, Pension Board and Officers
LGC Investment Summit, Newport	Various topical presentations. Agenda not yet available.	6-6/9/2019	Committee, Pension Board and Officers
LAPFF, Bournemouth	Various topical presentations around the work of the LAPFF	4-6/12/2019	Committee, Officer
LGPS Trustees Conference	Various topical presentations. Agenda not yet available.	Expected early 2020	Committee, Pension Board and Officers
LGC Investment Seminar, Carden Park	Various topical presentations. Agenda not yet available.	Expected March 2020	Committee, Pension Board and Officers
Internal training day	Agenda to be confirmed (based on key topics)	To be confirmed – possibly February/March 2020	Committee, Pension Board and Officers

Appendix - BUSINESS PLAN 2019/20 - 2021/22 – Key Tasks

Governance

Ref	Key Action –Task	2019/20 Period				Later Years	
		Q1	Q2	Q3	Q4	2020/ 21	2021/ 22
G1	Develop business continuity plan		x	x			
G2	Review pension administration system contract	x	x	x	x	x	
G3	Review/Tender Investment Consultancy and Independent Adviser Contracts			x	x		
G4	Review appointment of Pension Fund Committee Representatives and Local Board Members				x	x	x
G5	Review of Governance Related Policies				x	x	x
G6	Outcome of Scheme Advisory Board separation/efficient governance review					x	x

G1 – Develop business continuity plan

What is it?

The Fund has carried out a number of tests in recent years to ensure services can continue to be maintained in various scenarios, such as an office fire. It is now necessary to capture the Fund's business continuity plans and processes into one central document, based on the current methods of working, within a central document that will be maintained and subject to further testing.

Timescales and Stages

Develop business continuity plan	2019/20 Q2 & Q3

Resource and Budget Implications

To be led by the Deputy Head of Clwyd Pension and the Pensions Administration Manager and it is hoped that all costs can be met from existing budgets.

G2 - Review administration system contract

What is it?

The Fund has a rolling one year contract with Aquila Heywood in relation to their Altair administration system. It has not been subject to a full review through tender for a number of years and it would be good practice to carry this out in the near future.

However, due to significant projects involving the administration system (e.g. 2016 actuarial valuation, implementing iConnect and scheme/GMP reconciliation) and to tie in with end dates of existing add-on modules within Altair, it was agreed as part of the 2017/18 business plan to defer this until 2019/20. In recent months, a feasibility study has been carried out into whether a national framework can be put in place for LGPS administration systems. CPF has been participating in carrying out this study. It is therefore recommended that CPF participates as a founding authority in the development of the national framework (assuming it proceeds) and then carries out the CPF tender for the administration system once that framework is in place. It is hoped that this will allow a new contract to be appointed to before the end of 2020/21.

Timescales and Stages

Take part in national framework for pensions administration system and conduct tender for CPF administration system	2019/20 & 2020/21

Resource and Budget Implications

To be led by Pension Administration Manager and Principal Pensions Officer - Technical. Any associated costs or assistance from advisers will be considered nearer the time.

G3 – Review/Tender Investment Consultancy and Independent Adviser Contracts

What is it?

The Fund's investment consultancy and independent Adviser contracts reached their initial break point on 31 March 2017 albeit, due to Government changes to investment regulations, asset pooling, the implications of MIFID II and other Fund priorities, they were extended for a total of 3 years (to 31 March 2020) to provide stability and consistency of approach. For these reasons the contracts will be reviewed during 2019/20. This will initially involve a review of whether the existing services should be retendered in their current format or whether there is a more appropriate consultancy contracts that could be put in place.

Timescales and Stages

Review appropriateness/decide format of future contracts	2019/20 Q3
Conduct tender for services	2019/20 Q4

Resource and Budget Implications

To be led by the Clwyd Pension Fund Manager and Deputy Head of Clwyd Pension Fund within existing budget.

G4 - Review appointment of Pension Fund Committee Representatives and Local Board Members

What is it?

The employer and scheme member representatives on the Local Board are appointed for a period of three years. This period may be extended to up to five years. The currently appointments will be subject to review as follows:

- Two scheme employer representatives – July 2020 (five year point)
- Scheme member representative (trade union) – October 2020 (three year point)
- Scheme member representative (non-trade union) – July 2021 (assumed three year point)

The representative members (for other scheme employers and scheme members) on the Pension Fund Committee are appointed for a period of not more than six years. The existing representative members were appointed in July 2014 and may be reappointed for further terms. However their existing appointments will need reviewed by July 2020.

Timescales and Stages

Review and recruit current Pension Board representatives (2 x employer plus trade union scheme representative)	2019/20 Q4 & 2020/21 Q1/2
Review existing Pension Fund Committee representatives	2019/20 Q4 & 2020/21 Q1/2
Review Pension Board scheme member representative (non-trade union)	2021/22 Q1/2

Resource and Budget Implications

It is expected this will mainly involve the Pension Fund Manager taking advice from the Independent Adviser. All costs are being met from the existing budget.

G5– Review of Governance Related Policies

What is it?

The Fund has several policies focussing on the good governance of the Fund, all of which are subject to a fundamental review, usually at least every three years. The policies and the due dates for their reviews are as follows:

Policy	Last reviewed	Next review due
Governance Policy and Compliance Statement	March 2017	March 2020
Risk Policy	September 2017	September 2020
Conflicts of Interest Policy	September 2018	September 2021
Procedure for Recording and Reporting Breaches of the Law	November 2018	As and when deemed appropriate
Training Policy	November 2018	November 2021

Timescales and Stages

Governance Policy and Compliance Statement	2019/20 Q4
Risk Policy	2020/21 Q2
Conflicts of Interest, Breaches and Training Policies	2021/22 Q2/3

Resource and Budget Implications
It is expected this will mainly involve the Pension Fund Manager taking advice from the Independent Adviser. Estimated costs are included in the budget.

G6 – Outcome of Scheme Advisory Board separation / efficient governance review

What is it?
The national LGPS Scheme Advisory Board (SAB) is carrying out a project to help and assist with the successful management of potential conflict of interests arising between a pension fund and its parent local authority. It is investigating options for change regarding the separation of LGPS pension funds and their host authorities for consideration prior to potentially making recommendations to the Secretary of State. The key options being considered include:

- Separation within the existing functions – greater ring-fencing of pension fund officers within a discreet organisational unit with a dedicated senor officer, potentially including separation of the section 151 officer role for the pension fund,
- Separation via new structures – the responsibilities of the administering authority would be delegated entirely to an alternative body that would retain democratic accountability in some form.

The impact of this project on CPF is clearly uncertain at this point and the timescales will depend on the final proposals and how MHCLG respond to them. It is estimated that any impact will fall into 2020/21 or later years.

Timescales and Stages

Respond to any requirements as a result of LGPS national separation project	2020/21 & 2021/22

Resource and Budget Implications
The costs are uncertain at this stage in time.

Funding and Investments (including accounting and audit)

Ref	Key Action –Task	2019/20 Period				Later Years	
		Q1	Q2	Q3	Q4	2020/ 21	2021/ 22
F1	Review CPF's Responsible Investment Policy	x	x	x			
F2	Cash Flow and Liquidity Analysis	x	x	x	x		
F3	Triennial Actuarial Valuation and associated tasks	x	x	x	x		
F4	Review of Investment Strategy	x	x	x	x	x	
F5	Asset Pooling Implementation	x	x	x	x	x	
F6	Employer Risk Management Framework		x	x			
F7	Interim Funding Review						x

F1 –Review CPF's Responsible Investment Policy

What is it?

The Fund has had in place a Responsible Investment policy/Sustainability Policy for several years, and this is contained within the Investment Strategy Statement. Responsible Investing or investing in a sustainable way has moved into the mainstream in recent years. It is now generally accepted that, at the very least considering Environmental, Social and Governance (ESG) factors/risks within the investment process is entirely appropriate for institutional investors. As the market has moved significantly in recent years, it is appropriate for CPF to review its existing policies to ensure they remain appropriate, and relevant. As part of the review CPF will need to consider, and input into, the policies being created by the Wales Pension Partnership, as this will be the implementation vehicle.

Timescales and Stages

Responsible Investing Training session for CPF Committee	2018/19 Q4
Work with consultants/advisers to review existing policies	2019/2020 Q1/2
Present revised policies to CPF Committee	2019/2020 Q2/3

Resource and Budget Implications

Costs and resources for the review are contained within existing plans/budgets. Officers will review with support from Investment consultant.

F2 –Cash Flow and Liquidity Analysis

What is it?

The Fund has a significant number of factors to consider when looking at cash-flow requirements. These include contributions from employees and employers, payments to pensioners and transfer values in and out. On the investment side this includes income/dividends receivable from investments, commitments to Private Markets require regular draw-downs and repayments of investments, and transition of existing investments can also require cash.

As a result of all of these moving parts it is to ensure that the Fund has sufficient cash flow to meet all its commitments, but without maintaining a significant balance in cash which would, potentially be a drag on investment returns.

This assessment of cash flow and liquidity therefore has a number of elements, including input from the Actuary's analysis of the Fund's assets and liabilities as at 31 March 2019. This process will form the basis of information for the Funding and Risk Management Group which will be working to assess how the cash flow requirements of the Fund can be best met through a designated asset allocation structure within the risk management framework.

In addition to this, the CPF's Investment Consultant, JLT is undertaking a review of the In-house Private Markets portfolio within the first few months of 2019, and this will include a significant focus on future cash flow requirements to meet existing and future commitments.

The final piece in the analysis will be incorporated into the review of the Fund's Investment Strategy. As part of the work on reviewing the strategy the Fund's Investment Consultant will review the liquidity of the asset portfolio versus the projected cash flow requirements.

All of these individual elements will ensure that CPF is well placed in terms of cash flow and will be able to design and implement an efficient mechanism to manage the demands/requirements going forward.

Timescales and Stages

Actuarial assessment of benefits cash flows (in conjunction with the 2019 valuation)	2019/20
Funding Risk Management Group	2019/20
Review of Private Markets cash flow requirements	Concluding Q2 2019/20
Review of Investment Strategy	2019/20

Resource and Budget Implications

The cost of this work is included within the Fund's budgets for 2019/20 and will include significant input from the Actuary and Investment Consultant.

F3 – Triennial Actuarial Valuation and associated tasks

What is it?

It is the formal actuarial valuation of the Fund detailing the solvency position and other financial metrics. It is a legal requirement of the LGPS Regulations. It determines the contribution rates payable by the employers to fund the cost of benefits and make good any existing shortfalls as set out in the separate Funding Strategy Statement. The exercise will include cash flow projections.

Timescales and Stages

Effective date	31 March 2019
Initial whole Fund results (expected)	2019/20 Q2
Individual Employer results (expected)	2019/20 Q2&3
Deadline for agreement of all contributions and sign-off	31 March 2020

Resource and Budget Implications

Exercise will be performed by the Fund Actuary and it will determine contribution requirements for all participating employers from 1 April 2020. It is a major exercise for the Fund and will take a lot of input from the Administration and Finance teams. Employers will be formally consulted on the funding strategy as part of the process. The Fund Actuary's costs in relation to this exercise will be included in the 2019/20 budget.

F4 – Review of Investment Strategy

What is it?

This relates to the triennial review of the Investment Strategy once the Actuarial Valuation has been finalised and the Funding Strategy agreed. If required, there may be a need to undertake a light touch review (asset modelling scenarios) of the Fund's strategy and asset allocation position to feed into the actuarial valuation process.

Timescales and Stages

Triennial review	2019/20 Q1,2 & 3
Implement changes to Investment Strategy	2019/20 Q4 & 2020/21 Q1

Resource and Budget Implications

The majority of work will be carried out by JLT as Investment Adviser together with the CPF Manager and Deputy Head of Clwyd Pension Fund prior to final submission of proposals to Advisory Panel and Pension Fund Committee. Costs of the review are included within the budgets shown.

F5 –Asset Pooling Implementation

What is it?

To enable the Wales funds to pool assets an operator has been appointed to provide the investment infrastructure and advice for the Wales Pension Partnership ("WPP"). A plan will be developed in relation to what and when assets will transition. Then we will need to adapt internal processes and methods as assets transition, and ensure reporting received from the Operator and WPP. The timescales shown below are best estimates and subject to change when the WPP business plan and asset transition plan have been developed.

Timescales and Stages

Undertake and feed into discussions with the Operator regarding structure of underlying asset class options.	2019/20 & 2020/21
Ongoing development and approval of the asset transition plan (reserved matter)	2019/20 & 2020/21
Contribute to the development of the WPP RI Policy and ensure it enables implementation of the CPF RI Policy.	2019/20
Identify impact on and develop internal processes and resources	2019/20 & 2020/21
Approve the WPP's business plan (reserved matter)	2019/20 Q1 (to be confirmed)
Review and feed into suitability of reporting and performance monitoring templates (including meeting the Fund's Responsible Investment Policy and Cost Transparency requirements)	2019/20 Q1/2
Review of how accounts and finances relating to investments - recording, preparation and publishing	2019/20
Understand infrastructure opportunities	2019/20

Resource and Budget Implications

2019/20 and future budgets will include the cost of the Operator. For 2019/20 a provisional amount of £109k has been included for a proportion of the year. Along with budgeted WPP costs of £59k. The Consultant and Adviser budgets include an estimated amount of £42k for expected ongoing advice during the transitional period. The remaining costs will be covered within the internal resource budget.

F6 – Employer Risk Management Framework

What is it?

The Fund is subject to funding risks in respect of employers on an ongoing basis and in particular who cease to participate without being able to recover the full exit contributions due under the Regulations. The Fund is in the process of setting up a monitoring framework to capture any employers that pose a significant risk. The framework will categorise employers into different risk profiles based on their covenant and funding positions. This will allow officers to identify any potential risk of unrecoverable debt and affordability restraints on contribution requirements. Data requests will be sent to employers in advance of the 2019 valuation so that the latest covenant data can be considered alongside their funding results.

The framework will also consider the outcome of the tier 3 review performed by the Scheme Advisory Board which is expected during 2019 (tier 3 employers are those that do not have tax-payer backing; i.e. colleges, universities, housing associations, charities, admission bodies that do not have a guarantee from a Council, etc.). For the Fund, the potential impact is restricted to colleges and universities.

A dry run of the initial covenant data gathering phase of the framework has been completed as per previous business plans.

Timescales and Stages

Monitoring will be performed alongside the 2019 valuation	
Further development of risk framework (in conjunction with the 2019 valuation)	2019/20 Q2/3

Resource and Budget Implications

Managing employer risk will require support from the Fund Actuary. It will involve the officers gathering financial information from all employers regularly to monitor covenant strength and funding positions to inform on which employers pose the greatest risk to the Fund and the remedial actions necessary. The Fund Actuary costs in relation to this exercise have been included in the budget.

F7 – 2022 Interim Funding Review

What is it?

The Government will be moving to a four-year statutory valuation cycle for the LGPS. This is in order to align the LGPS with the cost management assessment undertaken by the GAD. The 2019 statutory valuation will go ahead as normal, however, consideration is being given to a compulsory mid-cycle review of contribution rates in 2021/22, before fully aligning the statutory valuations in 2024. As well as this compulsory interim review it is expected that Funds will have the power to vary contributions mid-cycle and a policy will need to be implemented on this as part of the 2019 valuation.

The ability to change rates mid-cycle will be an important part of the Fund's risk management as it will allow us to adapt to changing circumstances more readily.

The 2022 interim review will be carried out in the same way as a full actuarial valuation process. It will allow the Fund to update the contribution requirements in the same way as a statutory valuation.

This will ensure that the Fund implements the required contribution changes and captures any affordability concerns or high risk employers.

Timescales and Stages

Carry out interim funding review	2021/22
Results and discussion with employers	2021/22

Resource and Budget Implications

This exercise will be performed by the Fund Actuary. It is an important exercise for the Fund and will involve input from both the Clwyd Pension Fund Administration and Finance teams. It will also involve discussions with the Fund's employers.

Administration (including Communications)

Ref	Key Action -Task	2019/20 Period				Later Years	
		Q1	Q2	Q3	Q4	2020/21	2021/22
A1	Workforce Review	x					
A2	Project Apple	x					
A3	Develop Under/Over Payment Policies	x					
A4	Review Administration & Communications Strategy Statements	x			x		
A5	Preparation of Member Data for Valuation and Funding Reviews	x	x				
A6	Implement Survivor Benefits Changes	x	x				
A7	Member Tracing	x	x	x			
A8	GMP Reconciliation	x	x	x			
A9	Aggregation Project	x	x	x			
A10	Data Improvement Plan Development / Implementation	x	x	x	x		
A11	LGPS Legal Timescales Analysis	x	x	x	x		
A12	iConnect	x	x	x	x	x	
A13	Employer Relationship Manager (ERM)			x	x		
A14	Trivial Commutation			x	x	x	
A15	Consider success of website, on-line tools and interactive functionality				x		
A16	National Pensions Dashboard				x	x	x
A17	Other Expected National Changes (dates unknown)						

A1 - Workforce Review

What is it?

The resource requirement relating to the Administration Team (including the Employer Liaison Team) were considered during 2019/20 resulting in an increase in posts. These posts are continuing to be filled and this, and the associated training, is likely to continue into 2019/20. The appropriate resources will continue to be monitored during

2019/20 to ensure existing backlogs are reduced whilst implementing ongoing changes to the scheme and striving to meet the Fund's agreed key performance indicators.

Timescales and Stages

Filling vacancies and ongoing training	2019/20 Q1

Resource and Budget Implications

All internal costs are being met from the existing budget albeit any necessary changes to staffing levels or numbers may impact on the budget which will be amended accordingly from time to time, subject to agreement by the PFC.

A2 – Project Apple

What is it?

Due to incorrect Assumed Pensionable Pay figures being provided by an employer, the Employer Liaison and Operations Teams of CPF are recalculating a number of scheme members benefits. This is resulting in some changes to benefits which require rectification and communication with scheme members. The project is expected to be largely finished by 31 March 2019 but it is assumed there will be some final elements that will need completed during the beginning of 2019/20 including verifying the final financial impact on the employer and the Fund, and further testing of the fix to the payroll system.

Timescales and Stages

Completion of delivery of Project Apple	2019/20 Q1

Resource and Budget Implications

The work is being completed by ELT, Operations, Mercers and Aon. All expected costs are outlined in the budgets. The majority of the costs are subsequently being recharged to the affected employer through its employer pension contribution rate.

A3 – Develop Under/Over Payment Policies

What is it?

It is good practice for a pension fund to have clearly agreed policies and procedures relating to how to deal with benefits that have been under or over calculated and, where relevant, under or over paid. This could be for several reasons, including incorrect information being provided by an employer or a scheme member, late notification of a change of circumstances (such as a death of a pensioner) or CPF carrying out a benefit calculation incorrectly. CPF is currently undertaking the GMP reconciliation exercise which is likely to result in benefits being recalculated. It therefore is timely to produce a CPF policy which will consider how members will be dealt with because of the GMP reconciliation exercise, as well as other situations.

Timescales and Stages

Drafting, approval of and implementation of policy	2019/20 Q1

Resource and Budget Implications

The initial drafting work was carried out during 2018/19 by Aon. The majority of the final work will be completed internally and within the budgets shown.

A4 - Review Administration and Communication Strategies

What is it?

The CPF Administration Strategy and Communications Strategy were approved at the March 2016 PFC. The Communication Strategy was due to be formally reviewed in March 2019 but that was deferred due to team member changes. The Administration Strategy was updated in March 2017 and is therefore due for review in March 2020, but this may be carried out as the same time as the Communications Strategy for consistency purposes. They must be reviewed at least once every three years to ensure they remain relevant and up to date. Given the close relationship between the two strategies, it is advantageous to review them at the same point.

Timescales and Stages

Review of Communications Strategy	2019/20 Q1
Review of Administration Strategy (if not done before)	2019/20 Q4

Resource and Budget Implications

This will be led by the Pensions Administration Manager. All costs are being met from the existing budget.

A5 – Preparation of Member Data for Valuation and Funding Reviews

What is it?

The triennial actuarial valuation as at 31 March 2019 requires the pension administration team to provide data to the actuary. This involves additional year end cleansing exercise post 31 March 2019 to ensure the data is of sufficient quality for the valuation and to then rectify any anomalies discovered during the valuation process. The CPF data is expected to be more robust than in previous years due to ongoing work implementing iConnect, dealing with backlogs and carrying out data cleansing since the last valuation.

Timescales and Stages

Preparation of data for 31 March 2019 valuation	2019/20 Q1 & Q2

Resource and Budget Implications

Carried out by the Technical Team in the main with assistance from the rest of the Administration team depending on the requirement. All internal costs are being met from the existing budget.

A6 – Implement Survivor Benefit Change: Amendment LGPS Regulations & Elmes versus Essex High Court Ruling

What is it?

The LGPS (Miscellaneous Amendment) Regulations 2018 (SI2018/1366) came into force with effect from 10 January 2019. These included changes that impact on the calculation of and entitlement to surviving partner pensions in respect of Civil Partners or same sex marriages. The Local Government Association are reviewing the amendment regulations and will issue an impact analysis to LGPS Funds during Q4 of 2018/19 as to how this will affect the administration of survivor benefits in the future and clarifying where previous dependant pensions already in payment need to be re-visited or where a review is required for cases where no dependant pension was paid. Once this analysis has been received, we will be required to carry out a major review of affected cases.

In addition, LGPS Funds need to action the outcome of Elmes versus Essex case where it has been ruled in the High Court that any LGPS members leaving the scheme between 1 April 2008 and 31 March 2014, and who subsequently died leaving a Cohabiting Partner, that partner could have a survivors pension paid to them even without a completed nomination form in place so long as they still meet the eligibility criteria. Any potential cohabiting partners need to be contacted and surviving partner pensions put into payment if applicable.

Timescales and Stages

Tracing, contacting, verifying entitlement and recalculating affected surviving partners	2019/20 Q1 & Q2

Resource and Budget Implications

This project will be absorbed by the Operations Team within Pensions Administration to ensure all surviving partners prior to the regulation change have been reviewed and amended where applicable. Any new cases from the date of the amendment regulations will be dealt with as per the amended legislation and will be treated as business as usual.

A7 – Member Tracing

What is it?

To ensure data accuracy, we periodically carry out a member tracing exercise. This includes carrying out additional verification checks for pensioners living overseas as well as trying to trace members where they appear to have left the address held on our pension records. The ability to trace members has become more important as the 2014 LGPS introduced a requirement to pay unclaimed refunds of contributions at the point of 5 years since date of leaving to those members who are not entitled to a scheme pension. There are several companies who carry out tracing services for pension schemes and we will therefore carry out a procurement exercise to identify and appoint a suitable supplier.

If we find we are still unable to trace any members and the payments are not made within the required timescales, this could result in the Fund making payments that are not permitted by law or the payments could incur additional tax charges for both the Fund and the scheme member. Therefore another element of this project will be to set up an ESCROW account to facilitate these payments in the future.

Timescales and Stages

Identify members and initiate tender process	2019/20 Q1 & Q2
Establish an Escrow account	2019/20 Q1 & Q2
Carry out initial member tracing/verification exercise	2019/20 Q2 & Q3

Resource and Budget Implications

There will be external costs relating to the appointment of a supplier but these have not yet been identified. Internal costs will be met by existing budget. This is likely to impact internal resources in relation to the initial identification process and the resulting case work.

A8– GMP Reconciliation

What is it?

The government removed the status of "contracted-out" from pension schemes in April 2016. Prior to then, contracted-out pension schemes had to ensure the benefits they paid met a minimum level and one element of this was a Guaranteed Minimum Pension (GMP) figure that accrued individually for each scheme member up to April 1997. Historically pension schemes would go to HMRC to get confirmation of the GMP amount on retirement. However, as a result of the demise of contracted-out status, HMRC will no longer be maintaining GMP and other contracting out member records. This means that the onus will be on individual pension schemes to ensure that the contracting out and GMP data they hold on their systems matches up to the data held by HMRC. HMRC will cease to provide their services from April 2019.

Initial work identified that there were significant discrepancies between the two sets of data (HMRC v CPF), and a significant amount of work is ongoing to determine the correct benefits, ensure all systems are updated and to process a potentially significant number of over/underpayment calculations. After the records are reconciled for former pensionable employees, the Fund must also ensure the accuracy of national insurance information held for active members. All GMP's and national insurance information must be reconciled by dates determined by HMRC. Clwyd Pension Fund decided to outsource this exercise in 2017/18 to Equiniti and the project commenced during that year. The timescales below are subject to change depending on the magnitude of the work and changes to deadlines by HMRC.

Timescales and Stages

GMP data reconciliation and investigation	2019/20 Q1 & Q2
Reconciliation of national insurance information (Active Members)	2019/20 Q1 & Q2
Benefit correction and system updates	2019/20 Q2 & Q3

Resource and Budget Implications

All costs to be met from the existing budget which includes expected costs for Equiniti who are carrying out the work and who were appointed as part of a procurement exercise. This is likely to impact internal resources in relation to any adjustments to be made to current pension amounts (i.e. under or overpayments) but the impact of this is not yet known.

A9 – Aggregation Project

What is it?

When members move/leave employments there are a number of options available to them and all of these options need to be conveyed to the members concerned. There are approximately 2,000 records where members need to either be informed that their records have been aggregated or be provided with their respective options. Software providers have developed calculations to accommodate these changes. The recent recruitment to the Aggregation Team has facilitated procedures to be put in place to address backlogs and maintain these cases as "business as usual" going forward. Some of the historical cases were outsourced to Mercer for the initial deferment with approximately 500 still outstanding to be returned to the Aggregation Team for completion.

Timescales and Stages

This is a high priority project and will be completed as soon as possible.

Clear cases and eliminate backlog	2019/20 Q1 – Q3

Resource and Budget Implications

All costs to be met from the existing budget which includes expected costs for Mercer who are carrying out some of the work. The rest of the work is to be carried out by the Pensions Administration Team.

A10 – Data Improvement Plan Development and Implementation

What is it?

From 2018/19, the Pension Regulator (TPR) expected all pension schemes to review their common and conditional (now called scheme-specific) and score the quality of that data. To assist customers in undertaking this practical assessment of their data, both common and /scheme specific Aquila Heywood provided a Data Quality service. This serviced was used during 2018/19 to identify potential issues with the Fund's data. The LGPS Scheme Advisory Board will also be providing guidance on what LGPS scheme specific data should be (to provide consistency in checks between administering authorities).

In addition to measuring and capturing the results of the common and scheme specific data reviews, the Fund will develop a data improvement plan to capture any other elements of data that they consider to be inaccurate and ongoing plans.

Timescales and Stages

Develop initial data improvement plan	2019/20 Q1
Research and correct any data anomalies	2019/20 Q1 – Q4
Review scheme specific data checks based on national LGPS requirements	2019/20 Q1 - Q4

Resource and Budget Implications

To be carried out by the Pensions Administration Team. This may also require input/information from the employers (subject to findings). The data reports are part of the system costs included within the budget.

A11 – LGPS Legal Timescales Analysis

What is it?

Following the implementation of monitoring performance against the seven key legal timescales (as part of the monthly Key Performance Indicators (KPIs) reporting), a full review is being undertaken of our workflow systems and data quality to enable monitoring against a wider range of legal deadlines such as those relating to refunds and divorce. This review will also coincide with the CIPFA Benchmarking KPI review.

Timescales and Stages

Develop further legal timescales reporting process	2019/20 Q1 - Q4

Resource and Budget Implications

All internal costs are to be met by existing budget. It may be effective to outsource some of the development work to Aquila Heywood but this is not expected to be a material cost, and it is not included in the budget.

A12 - iConnect

What is it?

iConnect is the on-line computer module that allows information to be submitted by employers more directly and efficiently into the pension administration system (Altair). This is being implemented on a phased basis by employer. We have currently on-boarded 25% of our employers including Denbighshire County Council and Flintshire

County Council. Data cleansing work is currently being undertaken to prepare for Wrexham CBC to on-board.

Timescales and Stages

Onboard Wrexham CBC	2019/20 Q1- Q3
Onboard other employers	2019/20 & 2020/21

Resource and Budget Implications

There will be a time and resource commitment required from employers. All internal costs are being met from existing budget. The system cost is also incorporated into the budget. The roll out of iConnect, particularly to Wrexham CBC will involve significant internal resources which may impact on other day to day work.

A13 – Employer Relationship Manager (ERM)

What is it?

This is a tool within the Altair administration system that acts as a directory for all individual employer information that we intend to implement. ERM will streamline where information is held and make it more accessible to the Administration Team. This will reduce paper files and is easier to keep up to date and maintain than existing processes.

Timescales and Stages

This is a lower priority project and will be completed as and when resource allows.

Develop, collate, update and maintain	2019/20 Q3 & Q4

Resource and Budget Implications

All internal costs are to be met from the existing budget and the cost of ERM is included within the existing systems budget.

A14 - 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. A project will be carried out to identify any pensioners and dependants who may be eligible for trivial commutation and to offer it to them. This will reduce the administrative burden on the Fund 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 a limit for members to trivially commute their pension in relation to their single pension (£10,000 value – called a "small pot") and total benefits (£30,000 – called "trivial commutation"). As well as reducing the number of pensioner payments that require ongoing payment this could also have a positive impact on the funding level as it removes the liabilities for these members. It will also be welcomed by a number of pensioners who would prefer a one-off lump sum payment rather than ongoing smaller payments of little value.

Timescales and Stages

Timescales below are indicative and subject to prioritisation of other administration work streams.

Identify members eligible to commute under £10,000	2019/20 Q3 & Q4
Communicate with eligible members and pay lump sums	2019/20 Q3 & Q4
Identify members eligible to commute under £30,000	2020/21
Communicate with eligible members and pay lump sums	2020/21

Resource and Budget Implications

The majority (if not all) of this work may be outsourced to Mercer or another external provider to assist with resourcing. The precise cost of this is as yet unknown but a contingency has been included for 2019/20 within the budget to cover potential costs. It will also require input by the Technical Team with some assistance from the Operational Team, with any such input being focussed on the later stages of the project. All internal costs are to be met by existing budget.

A15 – Consider success of website, on-line tools and interactive functionality with employers and scheme members

What is it?

Consider the success of new systems that have been implemented, including the new website, Member Self Service, iConnect and TEC (the Technical Education Centre which provides on-line training), and decide if any further development or systems should be put in place.

Timescales and Stages

Identify outcomes and any further development	2019/20 Q4

Resource and Budget Implications

To be completed by the Communications Principal Pensions Officer. Internal costs are being met from the existing budget.

A16 – National Pensions Dashboard

What is it?

The Pensions Dashboard is a Government initiative first announced in the Budget 2016. The idea behind the Dashboard is to allow all pension savers in the UK access to view the values of all of their pension pots, including state pension, through one central platform. A consultation was undertaken by Government in early 2019 which sought views on the potential phasing of the introduction of the pensions dashboards as well as how the architecture, funding and governance arrangements would work.

The expectation is that Master Trust DC schemes will be invited to voluntarily participate with the Pensions Dashboard in 2019. It is predicted that legislative requirements to participate in the Pension Dashboard for schemes (including public sector schemes) will be forthcoming and the consultation proposed that all schemes should be onboarded to the Pensions Dashboard in the next 3-4 years. Ongoing engagement with public sector schemes as well as the need for the Government's response to the consultation means that the timescales below are estimated.

Timescales and Stages

Development and testing of software	2019/20 Q4 & 2020/21
Potential target launch	2021/22

Resource and Budget Implications

Resource and budget implications cannot be determined until more detail is available.

A17 - Other Expected National Changes

There are a number of further changes that are expected in due course but the final details of the impact of them and the timescales are not yet available. These include the following.

Fair deal

What is it?

In May 2016 MHCLG initially proposed that the New Fair Deal be extended to the LGPS. This would mean that for any staff being outsourced they would remain in the LGPS scheme and their 'new' employer would gain admission body status, rather than using the previous option of being able to offer a pension scheme that is broadly comparable to LGPS.

On 10 January 2019 a consultation document was published around the topic of Fair Deal – Strengthening Pension Protection. The consultation confirmed the 2016 proposal of service providers offering LGPS membership to individuals who have been compulsory transferred from an LGPS employer, even if the outsourced provider is outsourced a second time (and removal of the option of a broadly comparable scheme). Within the 2019 consultation, there are also proposals about automatically transferring LGPS assets and liabilities when scheme employers are involved in a merger or takeover. This consultation closes on 4 April 2019. This will not be progressed further until final regulations are made.

Indexation and Equalisation of GMPs

What is it?

A recent court case determined it is necessary to revisit pension benefits for scheme members who have accrued GMPs to ensure the equal treatment between men and women. This was (in the main) pre-empted by the LGPS and a consultation on indexation and equalisation of GMPs has determined that the current position that has been used to deal with indexation up to 5 December 2018 has been extended for a further 2 years and 4 months. (This was to be reviewed for 6 December 2018 as this was the date when state pension age equalised to age 65 for both genders). The extension of current rules will now cover those members with a GMP who reach state pension age between 6 December 2018 and 5 April 2021 where full indexation will be applied to their full pension value regardless of whether there is a GMP element to it. Alternative options of conversion, case by case, and continuation of full indexation will be investigated to see if it will be implemented from 6 April 2021 and further guidance will be provided to LGPS Funds when a decision is made. However, conversion seems to be the most favourable option.

Cost Cap Exercise

What is it?

Public Sector Pension Schemes (including LGPS) have been designed to ensure sustainability for 25 years. LGPS has a 2% buffer either side of 19.5% for employer future service pension rates. On 6 September 2018 it was announced that the buffer had been breached which means that LGPS is currently under review in order to bring it back to within tolerance. Possible scheme change recommendations to address this issue include: removal of tier 3 ill health retirement, death in service lump sum to be no lower than £75,000, reduction in early retirement factors, change to CARE revaluation method, reduction in employee contribution rates. In turn, employer contribution rates could increase. Any scheme changes were originally to be effective from 1 April 2019. However, as at 30 January 2019 the Government has published a written statement which announces a pause in the cost cap exercise pending the outcome of a Supreme Court appeal regarding the McCloud case. The McCloud case has highlighted that the introduction of the new benefit structure which included benefit calculation underpins to safeguard older scheme members in both the Firefighters and Judges schemes were unlawful. This could impact on other public service pension schemes including the LGPS.

Timescales and Stages

Implementation of any scheme changes	TBC

Resource and Budget Implications

Most scheme changes will have an impact on the CPF administration system, Altair, as any new factors, calculations etc will need to be updated into the pension software. As the cost cap exercise is currently on hold and may not be resolved until 2020 with a view to backdating it to 2019, this would cause more project work for Clwyd Pension Fund as we would have to go back over a scheme year of work to make amendments to pension records retrospectively. There would also be a period where manual calculations will be needed until the software has been amended. Changes as a result of court case judgements tend also to be very cumbersome due to the need to make retrospective changes.

Depending on the scheme changes, this could have a direct effect on employers and these changes will need to be communicated to them urgently as soon as they are confirmed, e.g. changes to employee contribution rates will need to be updated in employers' payroll software. The expected changes are also likely to impact on employer costs.

Employer Liaison Team

Ref	Key Action -Task	2019/20 Period				Later Years	
		Q1	Q2	Q3	Q4	2020/21	2021/22
E1	Review processes	x		x			
E2	Ongoing development of workflow reporting	x			x		
E3	Design financial reporting and recharge procedures	x	x				
E4	On-board Wrexham CBC to iConnect	x	x				
E5	Plan for ELT further business and review of resources	x	x				
E6	Review of Agreements	x	x			x	x

Understanding the continuing pressure on resources and budgets for employers and the administering authority, the Clwyd Pension Fund offer assistance to Fund Employers in providing accurate and complete notifications to the Fund (and other Employer duties) in a timely manner. The Employer Liaison Team (ELT) mainly assists in providing notifications regarding new starters, personal/employment changes and leavers/retirements in the LGPS. It undertakes outstanding requests for information in order to cleanse the pension records. The ELT will be monitored and progress reported on a regular basis. All costs will be met by employers through their employer contribution rate, following the task reporting process. Resources will may need to be adapted to match demand depending on ongoing employer uptake. The total budget allocated for 2019/20 is £213k which will cover all of the following unless indicated otherwise.

E1 – Review processes

What is it?

Checking reports from employer payroll systems are comprehensive and accurate. Covering all requirements including Audit. Potentially extend current reporting and automate/streamline other processes.

Timescales and Stages

Review FCC processes following job transfer updates	2019/20 Q1
Review procedures following iConnect with Wrexham CBC	2019/20 Q3

E2 – Ongoing development of workflow reporting

What is it?

Making sure processes for recording completed work, are accurate and meet the legal requirements and service standards within the ELT Agreement and provide appropriate monthly and annual reporting for employers and internal workflow management purposes.

Measuring the outstanding cases and reviewing the progress, as follows:

- Proportion of outstanding cases completed per employer against service standards
- Volume of cases completed and any recording and/or reporting of breaches of the law

Timescales and Stages

Review and recommend updates	2019/20 Q1
Review updated procedures	2019/20 Q4

E3 – Design financial reporting and recharge procedures

What is it?

Consider the staff time spent and tasks completed in order to break down charges to be applied to each employer as part of 31 March 2019 actuarial valuation.

Timescales and Stages

Review timesheets to formulate reporting and recharge procedures	2019/20 Q1/2
Provide costs to employers and actuary	2019/20 Q2

E4 – On-board Wrexham CBC to iConnect

What is it?

Wrexham CBC, ELT and the Operations Team are all keen to onboard Wrexham CBC to iConnect. However this will be a major onboarding including the supply (manually) of significant volumes of missing data, in order to match records between the employer's payroll system and the iConnect software in preparation for automatic monthly uploads going forward.

ELT will:

- consider and estimate how many cases can be completed per month to show how historical cases will be cleared up in addition to maintaining business as usual.
- establish adjustments required to accommodate Wrexham CBC transfer to iConnect and data cleaning involved.

Timescales and Stages

Continue reviewing inconsistencies, working through spreadsheets	2019/20 Q1

Continuous refining of mismatches going forward	2019/20 Q2
Review cases completed and project according to staffing levels	2019/20 Q1/2

E5 – Plan for ELT further business and review of resources

What is it?

Consider capacity of the ELT and review the service standards being recorded against other Fund employers with a view to offering the ELT service to a wider range of employers.

Timescales and Stages

Consider current and potential staffing levels	2019/20 Q1
Review service standards and open contact with potential new ELT serviced employers	2019/20 Q2

E6 – Review of Agreements

What is it?

Periodic review of the scope of the agreements for each employer taking into account iConnect requirements and scope/success of ELT service to date.

Timescales and Stages

Fundamental review of agreement - FCC	2019/20 Q1
Whistle-stop review to address any issues/new requirements - FCC	2020/21 Q1
Fundamental review of agreement – Wrexham CBC	2019/20 Q2
Whistle-stop review to address any issues/new requirements – Wrexham CBC	2020/21 Q2

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CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 20th February 2019
Report Subject	Pooling Investments in Wales
Report Author	Clwyd Pension Fund Manager

EXECUTIVE SUMMARY

The project to pool investments across the eight LGPS funds in Wales continues with the recent focus on the transition of global equity assets, issuing the UK and European equity prospectus to the Finance Conduct Authority (FCA) and continuing work on the fixed income strategy.

The Joint Governance Committee (JGC) meeting on 31st January 2019 was cancelled due to the weather conditions. The agenda included finalising the Fixed Income sub funds and the development of a Responsible Investment Policy. These decisions are now deferred to the next JGC on 27th March 2019.

The Officer Working Group (OWG) have been considering whether the Wales Pension Partnership (WPP) should participate in Stock Lending. The only method of efficient implementation is for all eight Wales funds to agree. It is recommended that the Clwyd Fund should agree to stock lending by WPP.

An informal consultation has begun on statutory guidance which sets out the requirements on administering authorities in relation to pooling LGPS assets. A response drafted by officers with advice from our consultants is enclosed, however it is important that this reflects the view of this Committee. Hence there is a recommendation that this is discussed and any agreed changes to the draft delegated to the Clwyd Pension Fund Manager to incorporate before submitting. The WPP JGC will also be responding to the consultation.

The next meeting of the Officer Working Group is 7th March 2019.

RECOMMENDATIONS	
1	That the Committee note the report and discuss progress being made by the Wales Pension Partnership.
2	The Committee agree that the WPP can participate in Stock Lending.
3	The Committee discuss the informal consultation response and delegate agreed changes to be made by the Clwyd Pension Fund Manager.

REPORT DETAILS

1.00	**Pooling Investment in Wales**
1.01	This update report follows a series of previous reports on the progress of the work of the Wales Pension Partnership (WPP). The previous report explained that Legal & General Investment Management (LGIM) had been appointed as the transition manager for the global equity sub funds. To update, the Clwyd Fund transitioned 4% of total Fund assets from the current Investec global equity mandate (circa £75m) to the WPP Authorised Contractual Scheme (ACS) on 14th January 2019. The transition manager has been providing the OWG with weekly update calls on progress and the outcome will be summarised in a post trade report. This will be will be reviewed by Hymans Robertson who have been appointed to oversee the efficiency of the transition. This will highlight the costs of the transition and any impact on investment performance during the transition. This is a major pooling milestone for the Clwyd Pension Fund and the WPP. The final outcome will be reported to this Committee and it will be the first opportunity for us to consider the costs of the transition against fund management fee savings. The Host Authority are working with the Operator on investment reporting to the funds going forward.
1.02	The most recent JGC is still the 25th September 2018, as the planned JGC for the 31st January 2019 was cancelled due to the poor weather conditions in Mid Wales. Although, the minutes of the September JGC have not been formally agreed as a correct record they are attached as Appendix 1, as previously agreed. The main decision related to the sub fund proposals for UK and European Equity which were agreed by the JGC. The Clwyd Fund does not currently have a strategic allocation to these regional equity mandates, hence is not participating in this tranche. To update the prospectus is now with the FCA for approval. No launch date has been agreed. The cancelled JGC agenda included: • A presentation by Link and the Host authority on progress • Responsible Investment – Development of Policy • MHCLG consultation on asset pooling (as discussed in this report) • Presentation on Fixed Income Sub Funds for decision (private) Despite the absence of a JGC there have been several OWGs and weekly calls to ensure the pooling project continues. The next OWG is 7th March and next JGC is 27th March, which will be longer to catch up on the agenda items above.
1.03	The next tranche is fixed income which includes allocations to government stocks, corporate bonds and multi asset credit. As previously reported Clwyd Pension Fund's officers and investment consultant have outlined our current strategic requirements to the Operator. Although, the details must remain confidential, and not yet agreed by JGC, CPF officers and advisors can confirm that the multi asset credit solution to be

	recommended meets our strategic requirements. It is anticipated that this fund will be launched in late June and recommendation will be made to the 12 June 2019 Committee.
1.04	The OWG have been considering whether to recommend to the JGC that the WPP should participate in a Stock Lending programme. In this case all eight funds must agree otherwise separate sub funds would need to be created which is not practical or efficient. The definition of stock lending has been added to the glossary of terms in 7.01 below. From a Clwyd Pension Fund point of view, this is very low impact given our low allocation to equities, hence income and risks from such a programme will be low. The Clwyd Pension Fund Manager can provide more details on stock lending including, process, risks (very low) and implications for voting stocks (which can be partly mitigated) if necessary. However, in this case the recommendation is that the Clwyd Fund should agree to stock lending as a benefit to the WPP as a whole. For information, the Clwyd Pension Fund has participated in stock lending in the past when investments were made through segregated mandates. A small amount of income was earned and there were no issues.
1.05	Clwyd Pension Fund officers remain involved in the work of the WPP and the national asset pooling programme. The Deputy Head of Clwyd Pension Fund represents Wales at the national Infrastructure Cross Pool and Responsible Investment Cross Pool meetings and, at the request of the Host Authority, has also represented WPP at national Cross Pooling meetings.
1.06	The MHCLG have issued an informal consultation which sets out the requirements on administering authorities in relation to the pooling of LGPS assets. Both the consultation and the draft response which includes the view and opinions of officers and advisors are attached as Appendices 2 and 3. These include comments on structure and scale, governance, transition of assets, making new investments outside the pool and reporting. The response is from this Committee, hence it is important that it is discussed, and changes and additions made to reflect an agreed position, which can then be delegated to the Clwyd Pension Fund Manager to incorporate into the final response. The WPP will also respond which will be considered by the OWG and agreed by the JGC.
1.07	The vacant Senior Financial Services Officer at the Host Authority has now been filled and the successful person commenced the position on 4 February 2019.

2.00	**RESOURCE IMPLICATIONS**
2.01	The costs of the Host Authority and advisors appointed on behalf of the eight funds to assist with the implementation process are being shared equally between the eight WPP LGPS funds and are included in the

	2018/19 budget (within the separate business plan report for this meeting). The estimated Operator costs are also included within that budget.
2.02	There has been considerable time allocated by the Clwyd Pension Fund Manager and Deputy Head of Clwyd Pension Fund on this project which has impacted on time available for other Fund matters. This is expected to continue for the foreseeable future and may result in greater reliance on external advisers for other matters than would otherwise be the case.

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	None.

4.00	**RISK MANAGEMENT**
4.01	How the Wales Pension Partnership operates will be key in enabling the Fund to implement its investment strategy in the future. If performance is not in line with the assumptions in our strategy, it will impact on the cost of the scheme to employers at future Actuarial Valuations.
4.02	This risk has been identified as significant in the Fund's risk register.

5.00	**APPENDICES**
5.01	Appendix 1 – Minutes of WPP JGC 25th September 2018 Appendix 2 - Statutory Guidance on asset pooling in LGPS Appendix 3 - Draft Response to statutory guidance on asset pooling

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	• Earlier Committee reports on the progress of the WPP. • The Wales Pension Partnership Inter-Authority Agreement. **Contact Officer:** Philip Latham, Clwyd Pension Fund Manager **Telephone:** 01352 702264 **E-mail:** philip.latham@flintshire.gov.uk

7.00	**GLOSSARY OF TERMS**
7.01	(a) **The Fund – Clwyd Pension Fund** – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region

	(b) **Administering authority or scheme manager** – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund. (c) **The Committee – Clwyd Pension Fund Committee** - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund (d) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of **(e) Inter-Authority Agreement (IAA) –** the governance agreement between the eight Wales pension funds for purposes of pooling **(f) Wales Pension Partnership (WPP) –** the name agreed by the eight Wales pension funds for the Wales Pool of investments **(g) The Operator –** an entity regulated by the FCA which provides both the infrastructure to enable the pooling of assets and fund management advice. For the Wales Pension Partnership, the appointed Operator is Link (h) **Financial Conduct Authority (FCA)** – the regulator of the financial markets and financial services firms in the UK **(i) Stock – Lending –** is the act of loaning a stock to an investor. This requires the borrower to put up collateral whether cash or security. When a stock is loaned the title and ownership are transferred to the borrower.

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WALES PENSION PARTNERSHIP JOINT GOVERNANCE COMMITTEE

Tuesday, 25 September 2018

PRESENT: Councillor P. Lewis (Vice-Chair)

Councillors:
Cllr. G. Caron, Cllr. D. Hughes, Cllr. C. Lloyd, Cllr. J.Pugh Roberts, Cllr. R. Smith (In place of Cllr. M Norris), Cllr. C. Weaver and Cllr. D.E. Williams

The following Officers were in attendance:
C. Moore, Joint Committee Section 151 Officer (CCC)
L.R. Jones, Joint Committee Monitoring Officer (CCC)
J. Dong, Chief Treasury & Technical Officer (C&CS)
D. Edwards, Director of Finance (GCC)
C. Salter, Corporate Director of Resources (CoC)
C. Lee, Director Corporate and Frontline Services (RCTCBC)
A. Parnell, Treasury & Pensions Investments Manager (CCC)
D. Powell, Acting Chief Executive (PCC)
D. Fielder, Pensions Finance Manager (FCC)
K. Davies, Head of Corporate Pensions (C&CS)
G. Morgan, Head of Democratic Services (CCC)

Also present:-

Denise Jones- Link Asset Services
Peter Hugh Smith, Link Asset Services
Sasha Mandich, Russell Investments
Jim Leggate, Russell Investments
Eamonn Gough, Link Asset Services
Duncan Lowman, Link Asset Services
Paul Potter, Hymans Robertson

Siambr Dafydd Orwig, - Gwynedd County Council, Council Offices, Caernarfon, Gwynedd, LL55 1SH - 10.00 - 11.00 am

1. APOLOGIES FOR ABSENCE

An Apology for absence was received from the Chair of the Joint Committee, Councillor Mark Norris, of Rhondda Cynon Taf County Borough Council.

Apologies for absence were also received from Nigel Aurelius of Torfaen County Borough Council and of Philip Latham of Flintshire County Council.

2. DECLARATIONS OF INTEREST

Councillor	**Nature of Personal Interest**
G. Caron	Member of Greater Gwent Pension Fund Wife is deferred Member of the Greater Gwent Pension Fund
D. Hughes	Member of the Clwyd Pension Fund;
P. Lewis	Member of the Powys Pension Fund;
C. Lloyd	Member of the City and County of Swansea Pension Fund;
R. Smith	Member of the Rhondda Cynon Taf Pension Fund;
J. Pugh Roberts	Member of the Gwynedd Pension Fund;
E. Williams	Member of the Dyfed Pension Fund.

(Note: There is an exemption within the Code of Conduct for Members, which allows a member who has been appointed or nominated by their authority to a relevant body to declare that interest but remain and participate in the meeting).

3. TO SIGN AS A CORRECT RECORD THE MINUTES OF THE MEETING HELD ON THE 11TH JUNE 2018

The Chair advised that there was one correction to the minutes as Cllr C. Weaver was not a member of the local government Pension Fund. Cllr Weaver confirmed this was correct.

UNANIMOUSLY RESOLVED that the minutes of the meeting of the Committee held on the 11th June be signed as a correct record, subject to the above amendment.

4. PRESENTATION BY LINK AND HOST AUTHORITY ON MILESTONES AND PROGRESS UPDATE

The Chair welcomed Denise Jones – Head of Change Management of Link Fund Solutions to provide a presentation on Key Milestones and progress in respect of the Wales Pension Partnership.

Ms Jones provided the Joint Committee with a list of the provisional dates for the key milestones, progress to-date on Initial Funds (Global Equity) Tranche 2 (UK and European Equities) and the next steps.

Ms Jones advised that Link were currently working through the reporting templates with a sample pack having been considered by the Officers Working Group in July, it was therefore hoped that agreement on the pack would be received shortly in readiness for the first fund launch.

Ms Jones also informed the Joint Committee that Investment Manager Agreements were underway and it was hoped that all agreements would be signed by the end of September 2018.

In terms of the Global Equity Sub-fund, Link were still targeting mid November 2018 for the launch of the first two funds and it was hoped that agreement would be made within Agenda item 6 for the Tranche 2 funds - UK and European Equities, with approval of the schedule 5 additions to the Fund prospectus by 5th October.

In terms of Transition Manager Appointments for the first two funds (Global Equities), all bids had been received and an initial evaluation had been undertaken, reviewed with officers and final approval was expected within the next week.

In terms of progress to-date, the Joint Committee was advised that:-

- FCA approval was received for the initial funds on the 24th July;
- An Initial Manager engagement day was held on the 5th September with the 3 Global Growth and 3 Global Opportunities Manager in attendance, an additional 4 managers would meet with the Joint Committee later that morning
- Contract negotiations had commenced with Northern Trust for the depositary agreement, as per the report, with the execution copy due for completion later in the week
- Link had reviewed the Administration agreement and fed initial comments back to Northern Trust
- Letters of engagement were now in place for Audit, Legal and Tax advisors.

In terms of Tranche 2 Link had considered UK and European equities, and the fund proposals had been agreed with the investing local authorities of Cardiff and Torfaen, with the schedule 5 additions completed and issued for initial review by the Officers and then approved for submission to the FCA with a view to launch in mid January 2019. It was hoped that Transition Mangers would be appointed by the 11th October 2018. Work had also commenced on fixed income proposals which would hopefully be agreed in November 2018 so that work could commence on the third FCA submission.

Reference was made to the key milestones and dates detailed within the report, and clarification was sought regarding the appointment process for the Transition Manager. The Joint Committee S151 Officer advised that the Transitional Manager would require appointment by each individual authority, and each Authority's appointments process would apply.

In response to a question, Ms Jones advised that the appointment of Global Growth and Global Opportunities Managers would be subject to performance on the first tranche, and it was not therefore guaranteed that the same managers would be appointed to the different funds.

Mr Anthony Parnell provided the Committee with the following update on the host authority's responsibilities:-

- Staffing – following a resource issue, the Host Authority was currently undertaking a recruitment process in respect of the Wales Pension

Partnership Officer and it was hoped that an appointment would be made in the next few months.

- In terms of communications, the first reporting pack had now been produced and discussions were ongoing with another Pension Partnership to ascertain if a consistent approach for reporting could be agreed. The Partnership was also required to provide a progress report to the MHCLG (Ministry of Housing, Communities & Local Government) every season, the Autumn report would shortly be drafted in consultation with Hymans Robertson, and following consultation with the Officer Working Group, the progress report would be circulated for signing off via email by the JGC.
- Governance – Officer Working Groups continued to meet on a regular basis, prospectuses had been approved and the Joint Committee arrangements were working well and compared favourably with other similar pension pools. Work on the development of the website was ongoing. Reporting arrangements continued to be developed in line with CIPFA recommendations and Government expectations.

The Chair congratulated the Partnership on its recent success in being highly commended in the Pool of the Year category at the LAPF Investment Awards 2018 held at the Savoy Hotel, London on Thursday 20th September 2018.

The Committee's Section 151 Officer advised that a request had been received from the Minister for Housing, Communities and Local Government to meet with the Chair of the Committee and officers to discuss the Joint Committee's infrastructure potential proposals, and this meeting would take place shortly.

UNANIMOUSLY RESOLVED that the presentation from Link and the host Authority on milestones and progress update be received.

5. EXCLUSION OF THE PUBLIC

UNANIMOUSLY RESOLVED, pursuant to the Local Government Act 1972, as amended by the Local Government (Access to Information)(Variation) (Wales) Order 2007, that the public be excluded from the meeting during consideration of the following item as the report contained exempt information as defined in paragraph 14 of Part 4 of Schedule 12A to the Act.

6. PRESENTATION BY LINK / RUSSELL ON UK AND EUROPEAN EQUITY SUB-FUNDS

Following the application of the public interest test it was UNANIMOUSLY RESOLVED, pursuant to the Act referred to in minute number 5 above, to consider this matter in private, with the public excluded from the meeting on the basis disclosure of the information detailed in the report would include details of the finer detail of investment opportunities which had yet to be negotiated fully or renegotiated and disclosing the presentation would prejudice those negotiations and impact upon the Funds' costs and returns.

The Committee welcomed Peter Hugh Smith - Managing Director - Link Asset Services and Sasha Mandich - Director, Russell Investments to the meeting.

The Committee proceeded to receive a presentation on the structure of the two regional equity funds namely UK and Europe ex-UK, and considered recommendations in respect of those funds.

Members of the Committee were afforded the opportunity of asking questions on the funds, including fund performance, diversification of investment styles, how funding was split between the two sub-funds, fund manager changes/staffing turnover, and the process for investment./withdrawal.

UNANIMOUSLY RESOLVED:-

1. **That the presentation be noted.**

2. **to invest in two separate sub funds in order to achieve effective diversification, and to employ five specialist managers per fund, namely:-**

    - **UK Equities – Majedie, Lazard Omega, Baillie Gifford, Investec and Liontrust.**

    - **Europe ex-UK equities – Blackrock, Pzena, Invesco, SW Mitchell and Liontrust.**

3. **to reduce trading costs through an 'enhanced implementation' approach, which would involve offsetting overlapping manager trades rather than directing every manager to trade separately with their own brokers.**

CHAIR **DATE**

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Local Government Pension Scheme

Statutory guidance on asset pooling

Contents

Foreword

The reform of investment management in the Local Government Pension Scheme (LGPS) for England and Wales began in 2015 with the publication of criteria and guidance on pooling of LGPS assets, following extensive consultation with the sector. LGPS administering authorities responded by coming together in groups of their own choosing to form eight asset pools.

Through the hard work and commitment of people across the scheme, those eight pools are now operational. Their scale makes them significant players at European or global level, and significant annual savings have already been delivered, with the pools forecasting savings of up to £2bn by 2033. Along the way many lessons have been learnt and great progress has been made in developing expertise and capacity, including in private markets and infrastructure investment.

This is a considerable achievement in itself, but there is still a long way to go to complete the transition of assets and to deliver the full benefits of scale. In the light of experience to date with pooling and the challenges ahead, authorities have requested guidance on a range of issues. The time is now right for new guidance to support further progress.

1 Introduction

1.1 This guidance sets out the requirements on administering authorities in relation to the pooling of LGPS assets, building on previous Ministerial communications and guidance on investment strategies, and taking account of the current state of progress on pooling. It is made under the powers conferred on the Secretary of State by Regulation 7(1) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the 2016 Regulations). Administering authorities are required to act in accordance with it.

1.2 This guidance replaces the section at pages 7 to 8 of Part 2 of *Guidance for Preparing and Maintaining an Investment Strategy*, issued in September 2016 and revised in July 2017, which deals with regulation 7(2)(d) of the 2016 Regulations. It also replaces *Local Government Pension Scheme: Investment Reform Criteria and Guidance,* issued in November 2015.

2 Definitions

2.1 This guidance introduces a set of definitions for use in this and future guidance, as follows:

'Pool' the entity comprising all elements of a Local Government Pension Scheme (LGPS) asset pool
'Pool member' an LGPS administering authority which has committed to invest in an LGPS pool and participates in its governance
'Pool governance body' the body used by pool members to oversee the operation of the pool and ensure that the democratic link to pool members is maintained (for example, Joint Committees and officer committees)
'Pool company' the Financial Conduct Authority (FCA) regulated company which undertakes selection, appointment, dismissal and variation of terms of investment managers, and provides and operates pool vehicles for pool members
'Pool fund' a regulated unitised fund structure operated by a regulated pool company, such as an Authorised Contractual Scheme (ACS)
'Pool vehicle' an investment vehicle (including pool funds) made available to pool members by a regulated pool company
'Pooled asset' an investment for which the selection, appointment, dismissal and variation of terms for the investment manager is delegated to a regulated pool company, or an investment held in a pool vehicle
'Retained asset' an existing investment retained by a pool member during the transition period
'Local asset' a new investment by a pool member which is not a pooled asset

3 Structure and scale

3.1 All administering authorities must pool their assets in order to deliver the benefits of scale and collaboration. These include:
- reduced investment costs without affecting gross risk-adjusted returns
- reduced costs for services such as custody, and for procurement
- strengthened governance and stewardship and dissemination of good practice
- greater investment management capacity and capability in the pool companies, including in private markets
- increased transparency on total investment management costs
- diversification of risk through providing access to a wider range of asset classes, including infrastructure investments

3.2 In order to maximise the benefits of scale, pool members must appoint a pool company or companies to implement their investment strategies. This includes:
- the selection, appointment, dismissal and variation of terms of investment managers, whether internal or external

- the management of internally managed investments
- the provision and management of pool vehicles including pool funds

It is for the pool companies to decide which investment managers to use for pool vehicles, including whether to use in-house or external management. Pool members may continue to decide if they wish to invest via in-house or externally managed vehicles.

3.3 Pool companies may be wholly owned by pool members as shareholders or may be procured and appointed by the pool members as clients.

3.4 A pool company must be a company regulated by the Financial Conduct Authority (FCA) with appropriate FCA permissions for regulated activities. This helps ensure the pools comply with financial services legislation, and provides additional assurance to scheme members and employers. Depending on the structure of the pool, appropriate permissions may include permissions for execution, acting as agent, provision of advice, or such other permissions as required by the FCA. Where regulated funds (e.g. in an ACS) are operated by the pool company it should comply with relevant UK legislation.

Regular review of services and procurement
3.5 Pool governance bodies, working with the pool company, should regularly review the provision of services to the pool, and the process of procurement, to ensure value for money and cost transparency. Where services are procured or shared by pool members, pool members should regularly review the rationale and cost-effectiveness of such arrangements, compared to procurement and management through the pool company. Pool members and pool companies should consider using the national LGPS procurement frameworks (www.nationallgpsframeworks.org) where appropriate.

Regular review of active and passive management
3.6 Pool members, working with the pool company, should regularly review the balance between active and passive management in the light of performance net of total costs. They should consider moving from active to passive management where active management has not generated better net performance over a reasonable period. Pool members should also seek to ensure performance by asset class net of total costs is at least comparable with market performance for similar risk profiles.

4 Governance

4.1 Pool members must establish and maintain a pool governance body in order to set the direction of the pool and to hold the pool company to account. Pool governance bodies should be appropriately democratic and sufficiently resourced to provide for effective decision making and oversight.

4.2 Pool members, through their internal governance structures, are responsible for effective governance and for holding pool companies and other service providers to account. Strategic asset allocation remains the responsibility of pool members, recognising their authority's specific liability and cash-flow forecasts.

4.3 Members of Pension Committees are elected representatives with duties both to LGPS employers and members, and to local taxpayers. Those who serve on Pension Committees and equivalent governance bodies in LGPS administering authorities are, in many ways, required to act in the same way as trustees in terms of their duty of care to scheme employers and members, but are subject to a different legal framework, which derives from public law. In particular while they have legal responsibilities for the prudent and effective stewardship of LGPS funds, LGPS benefits are not dependent on their stewardship but are established and paid under statute in force at the time.

4.4 Those who serve on Pension Committees and equivalent governance bodies in pool members should therefore take a long term view of pooling implementation and costs. They should take account of the benefits across the pool and across the scheme as a whole, in the interests of scheme members, employers and local taxpayers, and should not seek simply to minimise costs in the short term.

4.5 Local Pension Boards of pool members have a key role in pool governance, given their responsibilities under the LGPS Regulations 2013 (regulation 106 (1)) for assisting authorities in securing compliance with legislation, and ensuring effective and efficient governance and administration of the LGPS. They can provide additional scrutiny and challenge to strengthen pool governance and reporting, and improve transparency and accountability for both members and employers.

4.6 Local Pension Boards may also provide a group of knowledgeable and experienced people from which observers may be drawn if pool members wish to include observers on pool governance bodies.

Strategic and tactical asset allocation

4.7 Pool members are responsible for deciding their investment strategy and asset allocation, and remain the beneficial owners of their assets, in accordance with *Guidance for Preparing and Maintaining an Investment Strategy.*

4.8 Pool members collectively through their pool governance bodies should decide the pool's policy on which aspects of asset allocation are strategic and should remain with the administering authority, and which are tactical and best undertaken by the pool company. Pool governance bodies, when determining where such decisions lie, should be mindful of the trade-off between greater choice and lower costs and should involve the pool company to ensure the debate is fully informed on the opportunities and efficiencies available through greater scale.

4.9 Providing pool members with asset allocation choices through an excessively wide range of pool vehicles or investment managers will restrict the pool company's ability to use scale to drive up value. On the other hand maximising scale by significantly limiting asset allocation options may not provide all pool members with the diversification needed to meet their particular liability profile and cash flow requirements. Pool members should set out in their Funding Strategy Statement and Investment Strategy Statement how they, through the pool governance body, have balanced these considerations and how they will keep this under regular review.

4.10 Where necessary to deliver the asset allocation required by pool members, pool companies may provide a range of pool vehicles and in addition arrange and manage segregated mandates or access to external specialist funds. Pool governance bodies should ensure that their regulated pool companies have in place the necessary permissions to enable pool vehicles to be made available where appropriate.

4.11 Determining where asset allocation decisions lie will not be a one-off decision as pool member requirements will change over time. Pool governance bodies should ensure that a regular review process, which involves both pool members and pool companies, is in place.

5 Transition of assets to the pool

5.1 Pool members should transition existing assets into the pool as quickly and cost effectively as possible. Transition of listed assets should take place over a relatively short period.

5.2 Pool governance bodies, working with pool companies and, where appointed, external transition managers, should seek to minimise transition costs to pool members while effectively balancing speed, cost and timing, taking into account exit or penalty costs and opportunities for crossing trades.

5.2 The transition process will incur direct or indirect costs which may fall unevenly across pool members. For example, where the selected managers are used by some pool members but not others. In such cases pool members who are already using the selected manager may incur significantly lower (if any) transition costs than those who do not.

5.3 Inter-authority payments (or other transfers of value) may be desirable in order to share these costs equitably between pool members. The Government's view is that such payments are investment costs within Regulation 4(5) of the 2016 Regulations, and payments made by a pool member to meet its agreed share of costs may be charged to the fund of that pool member, whether the payments are made to other pool members, the pool company, or another body by agreement.

Temporary retention of existing assets

5.4 In exceptional cases, some existing investments may be retained by pool members on a temporary basis. If the cost of moving the existing investment to a pool vehicle exceeds the benefits of doing so, it may be appropriate to continue to hold and manage the existing investment to maturity before reinvesting the funds through a pool vehicle.

5.5 In many cases there will be benefits in such retained assets being managed by the pool company in the interim. However pool members may retain the management of existing long term investment contracts where the penalty for early exit or transfer of management would be significant. These may include life insurance contracts ('life funds') accessed by pool members for the purpose of passive equity investment, and some infrastructure investments. Pool members may also retain existing direct property assets where these may be more effectively managed by pool members.

Regular review of retained assets

5.6 Pool members, working with the pool company, should undertake regular reviews (at least every three years) of retained assets and the rationale for keeping these assets outside the pool. They should review whether management by the pool company would deliver benefits. Pool members should consider the long term costs and benefits across the pool, taking account of the guidance on cost-sharing, and the presumption should be in favour of transition to pool vehicles or moving such assets to the management of the pool company.

6 Making new investments outside the pool

6.1 Pool members should normally make all new investments through the pool company in order to maximise the benefits of scale. Following the 2019 valuation, pool members will review their investment strategies and put revised strategies in place from 2020. From 2020, when new investment strategies are in place, pool members should make new investments outside the pool only in very limited circumstances.

6.2 A small proportion of a pool member's assets may be invested in local initiatives within the geographical area of the pool member or in products tailored to particular liabilities specific to that pool member. Local assets should:

- Not normally exceed an aggregate 5% of the value of the pool member's assets at the point of investment.
- Be subject to a similar assessment of risk, return and fit with investment strategy as any other investment.

6.3 Pool members may invest through pool vehicles in a pool other than their own where collaboration across pools or specialisation by pools can deliver improved net returns.

6.4 During the period of transition, while pool governance bodies and pool companies work together to determine and put in place the agreed range of pool vehicles, a pool member may make new investments outside the pool, if following consultation with the pool company, they consider this is essential to deliver their investment strategy. This exemption only applies until the pool vehicles needed to provide the agreed asset allocation are in place.

7 Infrastructure investment

7.1 Infrastructure investment has the potential to provide secure long term returns with a good fit to pension liabilities, and form part of investment strategies of authorities. The establishment of the pools was intended to provide the scale needed for cost-effective investment in infrastructure, and to increase capacity and capability to invest in infrastructure.

7.2 There is no target for infrastructure investment for pool members or pools, but pool members are expected to set an ambition on investment in this area. Pool companies may provide pool vehicles for investment in UK assets, or overseas assets, or both, as required to provide the risk and return profile to meet pool member investment strategies. However the Government expects pool companies to provide the capability and capacity for pools over time to move towards levels of infrastructure investment similar to overseas pension funds of comparable aggregate size.

7.3 Pool companies may provide pool vehicles for investment in existing (brownfield) or new (greenfield) infrastructure, based on an assessment of the benefits and risks in relation to pool member liabilities, and non-financial factors where relevant. Pool members may invest in their own geographic areas but the asset selection and allocation decisions should normally be taken by the pool company in order to manage any potential conflicts of interest effectively, maintain propriety, and ensure robust evaluation of the case for investment.

7.4 For the purpose of producing annual reports, infrastructure assets are defined in the Chartered Institute of Public Finance and Accountancy (CIPFA) guidance *Preparing the Annual Report* as follows:

Infrastructure assets are the facilities and structures needed for the functioning of communities and to support economic development. When considered as an investment asset class, infrastructure investments are normally expected to have most of the following characteristics:

- *Substantially backed by durable physical assets;*
- *Long life and low risk of obsolescence;*
- *Identifiable and reliable cash flow, preferably either explicitly or implicitly inflation-linked;*
- *Revenues largely isolated from the business cycle and competition, for example, through long term contracts, regulated monopolies or high barriers to entry;*
- *Returns to show limited correlation to other asset classes.*

Key sectors for infrastructure include transportation networks, power generation, energy distribution and storage, water supply and distribution, communications networks, health and education facilities, social accommodation and private sector housing.

Conventional commercial property is not normally included, but where it forms part of a broader infrastructure asset, helps urban regeneration or serves societal needs it may be.

7.5 All residential property is included in this definition of infrastructure. It is not restricted to social accommodation or private sector housing.

7.6 A variety of platforms may be required to implement the infrastructure investment strategies of pool members. Pool companies are expected to provide access to a range of options over time including direct and co-investment opportunities.

8 Reporting

8.1 Pool members are required to report total investment costs and performance against benchmarks publicly and transparently in their annual reports, following the CIPFA guidance *Preparing the Annual Report*, with effect from the 2018-19 report.

8.2 In summary, pool member annual reports should include:

- opening and closing value and proportion of pooled assets by asset class
- opening and closing value and proportion of local assets by asset class
- net and gross performance of pooled assets by asset class
- total costs of pooled assets by asset class
- for actively managed listed assets, net performance by asset class net of total costs compared to appropriate passive indices over a one, three and five year period
- net and gross performance of local assets by asset class
- total costs of local assets by asset class
- asset transition during the reporting year
- transition plans for local assets
- pool set-up and transition costs, presented alongside in-year and cumulative savings from pooling
- ongoing investment management costs by type, with a breakdown between pooled assets and local assets

8.3 Investments should be classed as pool assets on the basis of the definition in the CIPFA guidance *Preparing the Annual Report.*

For the purpose of defining those assets which are classed as being within an asset pool, 'pooled assets' are those for which implementation of the investment strategy – i.e. the selection, appointment, dismissal and variation of terms for the investment managers (including internal managers) – has been contractually, transferred to a third party out with the individual pension fund's control.

8.4 Any investment where a pool member retains the day to day management, or the responsibility for selecting or reappointing an external manager, is not a pool asset.

8.5 Pool members should provide a rationale for all assets continuing to be held outside the pool, including the planned end date and performance net of costs including a comparison which costs of any comparable pool vehicles. They should also set out a high level plan for transition of assets.

8.6 The SAB will publish an annual report on the pools based on aggregated data from the pool member annual reports, in the Scheme Annual Report. Pool members should comply with all reasonable requests for any additional data and information from the SAB to enable it to publish a comprehensive report.

8.7 Pool members should ensure that pool companies report in line with the SAB Code of Cost Transparency. They should also ensure that pool companies require their internal and external investment managers to do so.

8.8 Pool members should also ensure that the annual report of the pool company is broadly consistent with the reports of pool members, and with the Scheme Annual Report, in so far as it relates to their investments, and that the report includes a narrative to explain differences. These may arise for example from reporting periods of pool companies which differ from that of the pool member.

8.9 Pool members are required to report any change which results in failure to meet the requirements of this guidance to the LGPS Scheme Advisory Board (SAB) and to MHCLG.

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CLWYD PENSION FUND

Statutory Guidance on Asset Pooling

Introduction

The Clwyd Pension Fund Committee welcomes the opportunity to contribute to this informal consultation on Statutory Guidance on Asset Pooling for administering authorities. The Clwyd Pension Fund will also participate in the response from the Wales Pension Partnership, therefore this will focus on matters of specific interest, and from the perspective of, the Clwyd Fund.

Background

Flintshire County Council (FCC) is administering authority for the Clwyd Pension Fund (CPF) and delegates responses to such consultations to the CPF Committee. The CPF Committee is five elected members from FCC, an elected member from each of the other two unitary authorities, a representative for other employers and a scheme member representative appointed via the joint trade unions, all with equal voting rights.

The Committee have also considered the views of the CPF Advisory Panel (which is the FCC Chief Executive, FCC Chief Financial Officer, Clwyd Pension Fund Manager, Independent Governance Advisor, Investment Consultant and Fund Actuary) on this consultation response at our Committee on 20th February 2019.

Context for CPF Response

The CPF Investment Strategy Statement (ISS) already outlines in some detail how the CPF manages investment and funding risks to achieve our objectives, including pooling. In terms of this consultation there are some points in our ISS the CPF Committee would like to emphasise:

- Before taking any investment decisions, whether strategic, tactical, passive or active management, private market investments (geographically local or otherwise), social impact investments etc., the CPF Committee ensures proper advice is taken. The CPF considers proper advice as being from a FCA regulated advisor which we think is much stronger than the definition within the LGPS Regulations. Additional due diligence is ensured by the Independent Governance Advisor including considering any conflicts of interest on advice received.
- In the longer term CPF is committed to investing assets through the WPP for the reasons outlined in the consultation subject to WPP providing the appropriate portfolios in line with the CPF's investment strategy. However, the CPF investment allocation is not a ‘typical’ LGPS fund allocation with focus on the risk management strategy (LDI or funding flightpath being a fundamental part), a relatively low allocation to listed equities (especially actively managed)

and a relatively high allocation to illiquid private markets. Early discussions between our Investment Consultants and the WPP Pool Company have identified difficulties of delivering certain parts of our strategy via the Pool, especially the risk management strategy. The CPF investment strategy is shown below for illustration and will be reviewed by our Investment Consultant next financial year. The CPF Committee is determined that pooling should not undermine our risk management approach and will continue to hold local assets **whilst proper advice is received to do so in the interests of our stakeholders**.

Asset Class	Strategic Allocation (%)
Developed Global Equity	8.0
Emerging Market Equity	6.0
Credit Portfolio	15.0
Multi-Asset Credit (liquid)	*12.0*
Private Credit (illiquid)	*3.0*
Real Assets Portfolio	12.0
Property	*4.0*
Infrastructure	*8.0*
Private Markets	10.0
Tactical Portfolio	21.0
Diversified Growth	*10.0*
Best Ideas	*11.0*
Managed Account	9.0
Liability Hedging	19.0

NB: 4% of the Developed Global equity allocation already transitioned to WPP. The other 4% is allocated to a Blackrock Smart Beta product which is part of a joint procurement for passive investments with member funds of WPP which is outside the definition of a 'pooled asset'; in the consultation.

The Informal Consultation

On the whole the CPF Committee is content with the statutory guidance with the exception of some points of principle and detail relating to the CPF context above.

Para 3 Structure and Scale

1. **Para 3.1 – benefits of scale and collaboration**

We agree with the ambition to achieve the goals set out in this paragraph. However, the CPF Pension Committee already goes to great lengths to ensure that these benefits have been achieved for assets allocated prior to pooling.

We feel there are certain instances where pooling cannot improve the benefits set out over and above what the Committee has already achieved. This combined with the bespoke nature of some of the strategies held by the CPF mean we feel that the ambitions set out cannot be improved in a pooled environment for a select number of our holdings. An example of this is the Liability Hedging portfolio which has been designed to meet the specific liability profile of CPF and we make some comments about Responsible Investment and Social Impact at the end of the response.

2. **Para 3.6 – Regular review of active and passive management**

Although we agree that this should be reviewed, we do not agree that this is a matter for the pool company. There is a conflict of interest, especially as per para 5.5, passive investments can be held outside the pool and hence the pool company will not earn fees. This should remain a local decision with the pool member taking proper local advice and reviewing their Fund ISS appropriately. In addition the comment that “they should consider moving from active to passive management” should be followed by the wording “or vice-versa”. We believe each style of management offers benefits to investors.

Para 4 Governance

3. **Para 4.4**

We agree that as a CPF Pension Committee we should take a long term view of pooling implementation and costs and that we should take account of the interests of our scheme members, our employers and our local taxpayers and should not seek to simply minimize costs in the short term.

However, the CPF Committee’s fiduciary responsibilities are to our local scheme members and employers. Although decisions made in the interests of our local stakeholders will usually also benefit wider stakeholders across the pool and the scheme as a whole, we do not agree that we should be making decisions where it is to the detriment of our local stakeholders simply for pooling purposes, which this paragraph currently implies.

4. **Para 4.5 & 4.6**

Our observation on the paragraphs relating to the role of pension boards is that they are more statements of fact rather than giving any guidance as such. The CPF Committee is supportive of the 'Pool Governance body' considering advice from wider stakeholders, and would prefer some more definite guidance here than as stated 'they can' and 'they may'. However we are not blind to how contentious this issue has become within and across pools with varying opinions likely to be expressed.

5. **Para 4.8 & 4.9**

Our observation of these two paragraphs is similar to 4.5 & 4.6, the statements are factual, but don't draw any conclusions on the role of pool bodies and pool members in asset allocation. We understand the sentiment, but feel that the guidance is sufficiently loose to allow for significant differences in interpretation, which in turn could result in lack of clarity around where responsibilities lie.

Para 5 Transition of assets to the pool

6. **Para 5.5**

We believe there are some asset holdings (in addition to direct property, infrastructure and passive life contracts) that can be more effectively managed by individual pool members. In particular risk management strategies that are bespoke and have limited or no applicability to other pool members. We feel that local member funds should have the opportunity to demonstrate where they feel asset holdings are more effectively outside of a pooled environment.

Provided that member funds are able to demonstrate the value for money and benefit of these holdings they should be granted an exemption until such a time as the Pool Company can demonstrate it can manage the asset as effectively as the pool member. For the avoidance of doubt we feel this should extend beyond direct property, infrastructure and passive life contracts to any asset where superior local management can be demonstrated.

Para 6 Making new investments outside the pool

7. **Para 6.2**

This states that a small proportion of a pool members assets may be invested in local initiatives within the geographical area or in products tailored to particular liabilities specific to that pool member. It then states that local assets would not normally exceed an aggregate of 5% of the value of pool member assets. Generally, we believe stating any limit (albeit appreciating not normally stated) is a step backwards to previous regulation that quoted several limits that have now been removed, and can be explained and justified locally in the ISS. Despite this we are uncomfortable with mixing investments within a geographical area and products tailored to particular liabilities within one definition and limit. The amount of assets for liability hedging is a strategic allocation that would be reviewed subject to the Fund's future cash flows, market opportunities to hedge out interest and inflation risk and funding position, not by ad hoc limit or for a requirement to pool.

Para 6.2 also states that the local assets should be 'subject to a similar risk assessment…' which we agree with, but especially in terms of 'local initiatives within the geographical area' this should cross reference to existing regulations on being able to consider Social Impact providing the policy is explained with a fund's ISS.

For clarity we also note that paragraph 7.3 – infrastructure - mentions investments 'in their own geographic areas'. We assume that if these are not invested through the pool then they will be subject to the 5% 'normal limit' as a local asset.

8. **Para 6.3**

Although we are not against pool members being able to invest in other pools for the reasons stated i.e. collaboration or specialisation we are uncomfortable with the justification for this being simply 'improved net returns'. We would prefer the reason to be 'to deliver the pool members investment strategy which cannot be delivered via their own pool company'. If the wording remains as it is, it has the potential for pool members to be regularly switching from one pool to another in the search for better returns, and ultimately putting at risk achievement of investment and pooling objectives of of themselves, and other pool members, and pool companies.

9. **Para 7.5**

We would be a little uncomfortable with the comment that all residential property is included within the definition of infrastructure. Whilst we understand the reasoning for this inclusion, and believe that a number of residential property investments do fit the definition of infrastructure, there are a number of higher risk, higher returning examples of residential property investments that, in our mind do not fit.

Para 8 Reporting and Para 2 Definitions

The Wales funds, and we understand other funds, have made considerable savings through joint procurement of passive global equity. As explained in your consultation (para 5.5) these are outside your definition of a pooled asset. It does seem a shame that these benefits are not reported in 8.2 to our stakeholders. We also believe that by having a separate category for these 'jointly procured assets' it would help the MHCLG identify those funds holding local assets without reason. The Clwyd Fund invest in a Managed Account which is also a platform which other LGPS funds can join and again fee savings have been achieved by this approach, but we recognize is outside the pooling definition.

Additional Point

One final point we would like to add is that there is no mention of responsible investment. We understand there will be separate guidance being issued from SAB on this but it would still be helpful to consider in due course whether that merits some additional wording to be incorporated in here (perhaps cross referring). In particular the challenge of pool companies meeting the requirements of individual fund RI policies may be worth consideration.

We recognize responsible investment is now becoming a matter of increased interest and focus of our stakeholders. For context the Clwyd Pension Fund has considered within its private markets portfolios (25% of the Clwyd Fund) the level of compliance with Social Development Goals, with an objective to increase current compliance from 30% to 50% over time. However, within private markets this will require niche and relatively small investments for which there will be no fee saving from pooling. We are concerned that without local discretion to invest in these areas our local responsible investment and social impact objectives will be sacrificed which is contrary to the wishes of our stakeholders. This is a further reason for our comments made earlier on paragraph 5 & 6 of the consultation and consider this another reason why assets can continue to be invested locally.

We would welcome further discussion as a Fund or through our participation in the WPP on how we demonstrate value for money to all our stakeholders.

Cllr David Hughes

Chair of Clwyd Pension Fund Committee

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 20 February 2019
Report Subject	Governance Update
Report Author	Clwyd Pension Fund Manager

EXECUTIVE SUMMARY

An update is on each quarterly Committee agenda and includes a number of governance related items for information or discussion. The items for this quarter include:

(a) Business Plan 2018/19 update, including an update on the recruitment to the three new posts in the Finance Team and a recommendation to extend the existing Custodian contract
(b) The latest Local Pension Board meeting minutes
(c) An update on the Pensions Administration Manager
(d) The update from the latest national LGPS Scheme Advisory Board (SAB) meeting and further information on various national items of significance including the cost management process being paused, the Fair Deal consultation and LGPS SAB's effective governance project
(e) Training implementation and monitoring
(f) The latest changes to our breaches of the law register.

RECOMMENDATIONS	
1	That the Committee consider the update and provide any comments.
2	That the Committee agree to the extension of the existing Custodian contract until it is no longer required due to asset pooling.
3	The Committee considers the proposed response to the Fair Deal consultation, highlights any changes they would like to make and agrees to the response being submitted to MHCLG, subject to delegating incorporating any further changes agreed to the Clwyd Pension Fund Manager.

REPORT DETAILS

1.00	GOVERNANCE RELATED MATTERS

1.01	**Business Plan 2018/19 Update**
	
	Progress against the business plan items for this year is summarised in Appendix 1. The includes the following items:
	• G5 – Structure Review of Finance Team – as previously reported, three new positions have been created in the Finance Team; an Investment Officer, an Accountant and a Governance Support Officer. These posts were advertised earlier in 2018 but no suitable applications were received. As highlighted at the last meeting:
	  ○ the Investment Officer post will be re-advertised as a Graduate Investment Officer, which will start at a lower grade with the focus being on recruiting someone who can be trained to the appropriate level of expertise
	  ○ the Accountant post has been reviewed and will now be re-advertised at a higher grade
	  ○ the Governance Support Officer will also be re-advertised but with no change to the grade.
	Unfortunately, the advertising of these posts was delayed for a number of reasons. The Accountant post and Governance Support Officer have been advertised with a closing of 17 February 2019, with interviews to be held on 21 and 22 February 2019. At the time of writing, the revised job description for the Graduate Investment Officer post is currently being reviewed by Human Resources with a view to advertising as soon as possible.
	• G6 – Review/Tender Actuarial Contract – Subject to the Committee agreeing to the appointment of the recommended provider (see separate Part II report), and the signing of the contract, this item of work will be finalised just a few weeks behind schedule.
	• G8 – Review/Tender Custodian Contract – The Fund was due to retender its custodian contract during Q4 of 2018/19. However, because of asset pooling, the need for a custodian will diminish over time. It is therefore recommended that the current contract continues until the point that it is no longer required. The value of this contract is approximately £34k per annum and this will in due course be replaced by services which will be part of the ongoing asset pooling costs.

1.02	The Committee is asked to note the contents of the business plan update and agree to the extension of the existing Custodian Contract.
1.03	**Current Developments and News** *Pensions Administration Manager Post* Following a long period of illness, Mrs Helen Burnham will not be returning to her post as Pensions Administration Manager. Mrs Burnham has worked with the Fund since 2004 and will be sadly missed by the many colleagues she has worked with during her time with the Council. The vacant position of Pensions Administration Manager is now being

	advertised internally, and should this be successful, the appointment will be made by the end of March 2019. The Committee will be notified via email of the outcome of the interviews.
1.04	*Pension board update* A summary of the key points from the 11 October 2018 Clwyd Pension Fund Board meeting was included at the last Committee meeting. The approved minutes of the meeting are attached in Appendix 2. The next meeting of the Pension Board is on 27 February 2019.
1.05	*National LGPS Scheme Advisory Board (SAB) Update* The LGPS SAB Board met on 10 October 2018. A summary of that meeting, provided by the Secretary to the SAB, is attached in Appendix 3.
1.06	*Cost management process (also referred to as "cost cap")* In the last few weeks, there has been a major development in the implementation of the cost management requirements. This is included in the LGPS SAB update, and a further update will be provided at the Committee meeting of the latest developments, but in summary: • Valuations are carried out at a national level to ensure that the ongoing future cost of the scheme is maintained within a specified range of costs • If those valuations find that the ongoing scheme cost is below the acceptable cost range, scheme member benefits are increased and/or scheme member contributions are decreased; if it is found to be above the acceptable cost range, then scheme member benefits are reduced and/or scheme member contributions are increased. • For the LGPS, valuations are carried out by both by Her Majesty's Treasury (HMT) and by SAB, albeit using different parameters, with the SAB process being considered first, which then hopefully negates the need for any adjustment as a result of the HMT valuation. • The LGPS SAB results had been confirmed at the end of 2018 and it was found the cost of the scheme was lower than the acceptable cost range, and accordingly improvements to the scheme's benefits, as well as a reduction to scheme member contribution rates, were due to be consulted on with a view to them coming into force from 1 April 2019. • However, on 20 December 2018 the Court of Appeal found that transitional protections that were put in place as part of the reform of both the Judges' and the Firefighters' Pension Schemes were unlawful on the grounds of age discrimination and could not be justified. This is being referred to as the McCloud case, and a summary of the judgement is included in Appendix 4. • Similar protections, which applied to all members within 10 years of retirement, were included in the reforms of all public service schemes, albeit the form of these protections varied from scheme to scheme. Although the McCloud case only relates directly to the Judges and Firefighters Pension Schemes it is anticipated that the principles of the outcome could be accepted as applying to all public service schemes.

	• As a result, both LGPS SAB and HMT have paused their cost management processes. LGPS SAB has announced "there are currently no changes to benefits planned in respect of the cost cap. This situation will be reviewed once McCloud is resolved which is not expected for some months." The full statement issued by SAB to all administering authorities is included in Appendix 5. This is a major development which could have a fundamental impact on the Fund, its employers and scheme members: • Perhaps the least impact would occur if the McCloud judgement is ultimately overturned, and the cost management process therefore continues as originally planned; this would result in some employer contribution rate increases and benefit/contribution changes, but any retrospection to 1 April 2019 (if required) would be difficult to implement. • A much greater impact would occur if the McCloud judgement was determined to apply to the LGPS too, and the scheme benefits had to be adjusted accordingly to remove the inequality. This would probably result in a major review of scheme benefits, and would be more likely to result in improvements and consequently an increase in employer pension costs. More information is expected to be released by LGPS SAB imminently which is also expected to consider the impact on the 2019 actuarial valuation. A verbal update will be provided at the Committee meeting if this information has been provided by then.
1.07	*Fair Deal Consultation* On 10 January the MHCLG published its latest consultation on the “New” Fair Deal, concerning the introduction of greater pensions protection for employees of LGPS employers who are compulsorily transferred to service providers. The consultation closes on Thursday 4 April. As well as covering Fair Deal, it also includes a proposed miscellaneous amendment which will affect some employers who seek to end their participation in the Fund on merger. A copy of the consultation is included in Appendix 6 and the Fund’s proposed response to this consultation is enclosed in Appendix 7. A useful summary of the changes, including their implications, is included as an appendix to the separate LGPS Current Issues report. The Committee is asked to consider the proposed response to the consultation, highlight any changes they would like to make and agree to the response being submitted to MHCLG, subject to delegating incorporating any further changes agreed to the Clwyd Pension Fund Manager. Given this has an impact on several of the Fund's participating employers, particularly the Councils and colleges, the consultation has been shared with the employers and they have been encouraged to respond.

1.08	*LGPS SAB separation (good governance) project* The following email has recently been issued by the Secretary to the LGPS SAB: "*The LGPS Scheme Advisory Board (SAB) is established under the Public Service Pensions Act 2013 to advise the Secretary of State for the Ministry of Housing, Communities and Local Government on the development of the Local Government Pension Scheme.* *The SAB has commissioned Hymans Robertson to facilitate a consultation on good governance structures for the LGPS. The purpose of the consultation is to consider how best to accommodate LGPS functions within the democratically accountable local authority framework in a way that ensures that conflicts of interest are addressed and managed appropriately and that the LGPS remains appropriately resourced and able to deliver its statutory functions. We have asked Hyman Robertson to help the SAB identify the real issues and potential options for change to the current arrangements which are proportionate, pragmatic and would improve LGPS governance in these areas.* *Through the consultation process, SAB will be seeking the views of as many stakeholders, representing all elements of the LGPS, as possible. Scheme stakeholders will be invited to complete a short online questionnaire which asks for examples of actual conflicts that can arise, your views on the effectiveness of current LGPS governance arrangements and your suggestions for improvement. Further stages of the consultation will include interviews and workshops with key stakeholders. This will allow the SAB to consult on a series of options that reflect the reality of LGPS governance as experienced by those who experience it first-hand.* *This work will begin immediately, with reports coming to the SAB in April and July. Colleagues from Hymans Robertson will be in touch shortly with further details of the project including information on how to complete the questionnaire and further engagement plans.* *Commenting on the appointment of Hymans Robertson, Chair of SAB, Councillor Roger Phillips said "I look forward to working closely with Hymans Robertson and would encourage all those who wish to see the continued success of the LGPS to participate in this important piece of work*." Officers and advisers will develop the initial response and it is hoped that the timing of the survey will allow discussion with the Committee, so that their views can be incorporated into any response. It is expected that a separate response will be returned on behalf of the Pension Board.
  1.09	**Policy and Strategy Implementation and Monitoring** *Training Policy* The Clwyd Pension Fund Training Policy requires all Pension Fund Committee, Pension Board members and Senior Officers to: • have training on the key elements identified in the CIPFA Knowledge and Skills Framework

	• attend training sessions relevant to forthcoming business and • attend at least one day each year of general awareness training or events. Appendix 8 details progress made to date in relation to the CIPFA Knowledge and Skills Framework training. Appendix 8 also includes training and various external events attended by Committee members and Pension Board members during 2018/19. Appendix 9 includes details of planned training events including forthcoming events considered suitable for general awareness training. This includes the Committee on 20 March 2019 which will include a significant amount of training and which all Committee and Board members should attend. It is possible there will also be Committee business that will need to be considered on that day and therefore all members are asked to be available for the full day starting from 9.30am. The training will focus on administration and responsible investment, and an agenda will be issued nearer the time. Committee members are reminded to highlight, at any point, topics they feel they need further training on.
1.10	*Recording and Reporting Breaches Procedure* The Fund's procedure requires that the Clwyd Pension Fund Manager maintains a record of all breaches of the law identified in relation to the management of the Fund. Appendix 10 details the current breaches that have been identified. As highlighted in the Part 2 report, the breach relating to the employer error has been reported to The Pensions Regulator and there are ongoing discussions with The Pensions Regulator which are considered further in the Part II report.
  1.11	**Delegated Responsibilities** The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. No delegated responsibilities were used in the last quarter in relation to governance matters.
  1.12	**Calendar of Future Events** Appendix 11 includes a summary of all future events for Committee and Pension Board members, including Pension Fund Committee meetings, Pension Board meetings, Training and Conference dates. As mentioned previously, Committee members are asked to note that the 20 March 2019 PFC will include training.

2.00	**RESOURCE IMPLICATIONS**
2.01	The report touches on the ongoing challenges as a result of the current workloads, the retirement of a Finance Manager at the end of 2017 and now the vacant Pensions Administration Manager post. The Pension Fund Manager and Principal Pensions Officers are continuing to ensure work is prioritised appropriately, but it is likely that some non-essential tasks are not being carried out until the full staffing establishment is achieved.

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	None directly as a result of this report.

4.00	RISK MANAGEMENT
4.01	Appendix 12 provides the dashboard showing the current risks relating to the Fund as a whole, as well as the extract of governance risks. The key governance risks continue to relate to: • potentially insufficient resource, which puts a risk on us being able to deliver our legal and policy objectives • the impact of externally led influence and scheme change (such as asset pooling) which could also restrict our ability to meet our objectives and/or legal responsibilities.
4.02	Although there have been no changes to the scores this quarter, the following changes have been made to the ongoing actions: • Risk number 6 (the Fund's services not being delivered due to insufficient staff numbers) has been updated to note the need to recruit to the vacant Pensions Administration Manager role. • Risk number 7 (legal requirements and/or guidance are not complied with due to lack of training or not understanding responsibilities) has had the following outstanding action removed as it is now considered complete – "Ongoing work to ensure breaches are identified and the procedure used appropriately". Note that all actions will be reviewed to incorporate the projects from the 2019/20 to 2021/22 business plan once it has been approved.
4.03	In addition, the target dates have been extended given the recruitment and training of staff is ongoing (including now the Pensions Administration Manager) and the potential impact of the Cost Management exercise/McCloud judgement. The longer than expected periods taken for recruitment have also meant some actions have also been delayed due to the need to prioritise work.

5.00	APPENDICES
5.01	Appendix 1 – Business plan progress Appendix 2 – 11 October 2018 Pension Board minutes Appendix 3 – LGPS SAB update Appendix 4 – McCloud case summary Appendix 5 – SAB communication pausing cost cap Appendix 6 – Fair Deal consultation Appendix 7 – Draft CPF response to Fair Deal consultation Appendix 8 – Training undertaken Appendix 9 – Training plan Appendix 10 – Breaches Appendix 11 – Calendar of future events Appendix 12 – Risk register

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	No relevant background documents. **Contact Officer:** Philip Latham, Clwyd Pension Fund Manager **Telephone:** 01352 702264 **E-mail:** philip.latham@flintshire.gov.uk

7.00	GLOSSARY OF TERMS
7.01	(a) **CPF – Clwyd Pension Fund** – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region (b) **Administering authority or scheme manager** – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund. (c) **PFC – Clwyd Pension Fund Committee** - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund (d) **LPB or PB – Local Pension Board or Pension Board** – each LGPS Fund has an LPB. Their purpose is to assist the administering authority in ensuring compliance with the scheme regulations, TPR requirements and efficient and effective governance and administration of the Fund. (e) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of (f) **SAB – The national Scheme Advisory Board** – the national body responsible for providing direction and advice to LGPS administering authorities and to MHCLG. (g) **MHCLG – Ministry of Housing, Communities and Local Government** – the government department responsible for the LGPS legislation. (h) **JGC – Joint Governance Committee** – the joint committee established for the Wales Pension Partnership asset pooling arrangement.

Business Plan 2018/19 to 2020/21 – Q3 Update
Governance

Cashflows projections for 2018/19

	2016/17 £000s	2017/18 £000s	2018/19 £000s			
	Actual	Actual	Budget	Actual	Projected for full year	Final under/ over
Opening Cash	(13,640)	(13,623)	(21,188)	(21,188)		
Payments						
Pensions	54,684	57,452	59,280	44,656	59,976	696
Lump Sums & Death Grants	14,857	13,500	15,000	11,428	15,178	178
Transfers Out	5,473	5,600	3,200	5,142	6,142	2,942
Expenses	3,001	3,935	3,400	2,865	3,865	465
Support Services	300	120	130	129	259	129
Total Payments	78,315	80,607	81,010	64,220	85,420	4,410
Income						
Employer Contributions	(32,787)	(34,617)	(35,200)	(30,204)	(39,104)	(3,904)
Employee Contributions	(13,779)	(15,259)	(14,000)	(10,502)	(14,002)	(2)
Employer Deficit Payments	(28,474)	(52,612)	(18,123)	(18,541)	(18,781)	(658)
Transfers In	(2,540)	(4,813)	(2,000)	(3,679)	(4,179)	(2,179)
Pension Strain	(2,282)	(1,057)	(1,200)	(1,471)	(1,671)	(471)
Income	(146)	(29)	(40)	(33)	(43)	(3)
Total Income	(80,008)	(108,387)	(70,563)	(64,430)	(77,780)	(7,217)
Cashflow Net of Investment Income	(1,693)	(27,780)	10,447	(210)	7,640	(2,807)
Investment Income	(3,019)	(3,540)	(3,000)	(5,753)	(6,503)	(3,503)
Investment Expenses	2,991	3,035	3,000	2,270	3,020	20
Total Net of In House Investments	(1,721)	(28,285)	10,447	(3,693)	4,157	(6,290)
In House Investments						
Draw downs	45,146	73,893	86,790	70,642	99,540	12,750
Distributions	(56,614)	(52,294)	(80,337)	(48,364)	(75,988)	4,349
Net Expenditure /(Income)	(11,468)	21,599	6,453	22,278	23,552	17,099
Total Net Cash Flow	(13,189)	(6,686)	16,900	18,585	27,709	10,809
Rebalancing Portfolio	13,206	(879)		(10,120)	(10,120)	(10,120)
Total Cash Flow	17	(7,565)	16,900	8,465	17,589	
Closing Cash	(13,623)	(21,188)	(4,288)	(12,723)	(3,599)	

Operating Costs

	2016/17	2017/18	2018/19			
	Actual	Actual	Budget	Actual	Projected for full year	Projected under/ over
	£000s	£000s	£000s	£000s	£000s	£000s
Governance Expenses						
Employee Costs (Direct)	236	229	243	144	194	(49)
Support & Services Costs (Internal Recharges)	22	23	18	0	18	0
IT (Support & Services)	4	5	5	0	5	0
Other Supplies & Services)	58	69	87	59	79	(8)
Miscellaneos Income	(11)	0		0	0	0
Audit Fees	39	39	40	7	40	0
Actuarial Fees	335	217	324	309	409	85
Consultant Fees	703	458	589	591	691	102
Advisor Fees	188	202	178	331	431	253
Legal Fees	59	37	24	46	66	42
Pooling (Additional Costs)		53	224	46	144	(80)
Total Governance Expenses	1,633	1,332	1,732	1,533	2,077	345
Investment Management Expenses						
Fund Manager Fees*	14,386	20,539	16,593	2,159	20,500	3,907
Custody Fees	31	31	31	16	34	3
Performance Monitoring Fees	57	67	66	42	66	0
Pooling (Additional Costs)			50	0	9	(41)
Total Investment Management Expenses	14,474	20,637	16,740	2,217	20,609	3,869
Administration Expenses						
Employee Costs (Direct)	648	649	776	566	776	0
Support & Services Costs (Internal Recharges)	100	105	66	0	66	0
Outsourcing	260	227	1,000	236	300	(700)
IT (Support & Services)	290	271	413	361	413	0
Member Self Service	0	15	0	0	0	0
Other Supplies & Services)	70	139	106	47	70	(36)
Miscellaneous Income	0	0	0	0	0	0
Total Administration Expenses	1,368	1,406	2,361	1,210	1,625	(736)
Employer Liaison Team						
Employee Costs (Direct)		163	194	150	202	8
Total Costs	**17,475**	**23,538**	**21,027**	**5,110**	**24,513**	**3,486**

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	2018/19 Period				Later Years	
		Q1	Q2	Q3	Q4	2019/20	2020/21
G3	Review of Governance Related Policies	x	xM	x		x	x
G5	Structure Review of Finance Team	x	x	x			
G6	Review/ Tender Actuarial Contract	x	x	x			
G7	Review/Tender Investment Consultancy and Independent Adviser Contracts			x	x	xM	

Governance Task Descriptions

G3– Review of Governance Related Policies

What is it?

The CPF has a number of policies focussing on the good governance of the Fund, as follows:

- Conflicts of Interest Policy - March 2015
- Procedure for Recording and Reporting Breaches of the Law - November 2015
- Training Policy – November 2015
- Risk Policy – September 2017
- Governance Policy and Compliance Statement – March 2017

All of these policies are subject to a fundamental review at least every three years. In addition, the reviews will incorporate any changes as a result of the move to asset pooling with the Wales Pensions Partnership.

Timescales and Stages

Conflicts of Interest Policy - March 2015	2018/19 Q1
Procedure for Recording and Reporting Breaches of the Law & Training Policy - November 2015	2018/19 Q3
Governance Policy and Compliance Statement – March 2017	2019/20 Q1
Risk Policy – September 2017	2020/21 Q2/3

Resource and Budget Implications

It is expected this will mainly involve the Pension Fund Manager taking advice from the Independent Adviser. Estimated costs are included in the budget.

G5 – Structure review of Finance Team

What is it?

As a result of the retirement of a Finance Manager, the impact of asset pooling, the increased work associated with Governance, and the need to reduce the risk associated with key persons within the structure, the Finance Team is being restructured.

Timescales and Stages

Finalise structure and carry out recruitment	2018/19 Q1 to Q3

Resource and Budget Implications

To be led by Pension Fund Manager with FCC Human Resources Team. All internal costs are being met from the existing budget albeit any necessary changes to staffing levels or numbers may impact on the budget and these are not yet included in the proposed budget. Additional costs that may arise as a result of greater use of consultants during the period of implementation and whilst posts remain vacant are estimated in the proposed budget.

G6 – 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 Benefit Consultancy Services. Following this review, and discussions with procurement, the Council needs to put the actuarial contract out to tender. Due to the triennial actuarial valuation of the Fund during 2016/17 and the ongoing need to prioritise work around asset pooling, this was deferred.

Timescales and Stages

Review current actuarial contract and identify tender process	2018/19 Q1
Conduct tender for actuarial services	2018/19 Q2/3

Resource and Budget Implications

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

G7 – Review/Tender Investment Consultancy and Independent Adviser Contracts

What is it?

The Fund's investment consultancy and independent Adviser contracts reached their initial break point on 31 March 2017 albeit, due to Government changes to investment regulations, including pooling, and also the implications of MIFID II, they were extended for 2 years (to 31 March 2019) to provide stability and consistency of approach. For these reasons the contracts will be reviewed during 2018/19. This will initially involve a review of whether the existing services should be retendered in their current format or whether there is a more appropriate consultancy contracts that could be put in place. Note that, as a result of pooling, it may be preferred to look for options to extend these contracts for a further short period, so as to identify the most appropriate services going forward.

Timescales and Stages

Review appropriateness/decide format of future contracts	2018/19 Q3
Conduct tender for services	2018/19 Q4

Resource and Budget Implications

To be led by Pension Finance Manager within existing budget.

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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 Thursday, 11 October 2018 at 9.30am.

THE BOARD:

Present:

Chair: Mrs Karen McWilliam (Independent Member)

Member Representatives: Mr Paul Friday, Mr Phil Pumford

Employer Representatives: Mr Steve Jackson, Mr Mark Owen

IN ATTENDANCE

Mr Philip Latham (Clwyd Pension Fund Manager and Secretary to the Board) – Dialling in
Mrs Debbie Fielder (Pension Finance Manager)
Mrs Karen Williams (Principal Pensions Officer)
Ms Heidi Catherall, (Cheshire Pension Fund, Pensions Operations Manager) – Observing
Ms Mary Lambe, (Aon, Senior Benefit and Governance Consultant) – Recording minutes

PRESENTERS – ITEM 5
Ms Deb Sainsbury (Information Compliance Officer, Flintshire County Council)
Mr Paul Owens (Head of Customer Relationship, Aquila Heywood)

		Actions
1.	**APOLOGIES/ WELCOME**	
	Helen Burnham (Karen William substituted).	
	The Chair welcomed Mr Paul Friday to his first official Board meeting and Ms Heidi Catherall to the Board as an observer. Mr Neil Harvey (Cheshire Pension Fund Board member representative) was unable to attend.	
	Cheshire Pension Fund's attendance at this meeting follows Mr Pumford and Mr Latham's recent attendance at a Cheshire Pension Fund Board meeting. Attendance at that meeting was noted by Mr Latham and Mr Pumford to be extremely beneficial and the Chair noted that it would be helpful for both sides to share observations following this meeting.	**Board**

Actions

Secretary

New action – Clwyd and Cheshire Pension Fund officers set up a discussion to share observations with Chairs and those who attended.

The Chair introduced Ms Mary Lambe, observing today's meeting and recording the minutes as part of her induction to Aon.

The Board and officers introduced themselves for the benefit of both Ms Catherall and Ms Lambe.

2. DECLARATIONS OF INTEREST

Three declarations of interest made including:

For item 18, Independent Advisor Contract / Chair of the Board, the Chair and Mary Lambe noted their conflict and confirmed they would leave the room during that discussion.

Mr Pumford informed the Board that he knew Ms Lambe in a personal capacity and it was agreed no conflict existed.

It was also noted that Ms Catherall and Ms Lambe knew each other in a professional capacity having previously worked together and it was agreed no conflict existed.

3. MINUTES AND MATTERS ARISING

The draft minutes of the meeting held on the 28 June 2018 were confirmed as a correct record by all Board members. The Chair thanked Mrs Fielder for preparing the minutes.

Completed and/or outstanding actions were considered as part of agenda item 4, action tracker.

4. ACTION TRACKER

The Chair introduced this item explaining that the document was designed to track all action points identified by the Board, identify completed or outstanding actions and also ensure that none are overlooked.

The contents of the Action Tracker were discussed. As previously agreed, completed actions are now removed from the Action Tracker once reported as completed to the Board.

The following points were made in relation to the Action Tracker

Actions

with other actions noted as ongoing:

- 1st action (Freedom of Information (FOI)) – Training is needed; it had been scheduled for September training day. Ms Fielder will pick up and FOI will be covered at the next training event and in new starter training.

- 12th action (Disaster recovery) – Progress now due to be reported at the next meeting as this was delayed due to resource constraints.

- 14th action (Cybercrime/IT Security/ GDPR) – Presentation to Board today 11th October.

- 15th & 16th actions (TPR Code of Practice) – These remain deferred as it was noted resource constraints are still delaying the update.

- 18th action & 20th action (WPP IAA and WPP Business Plan) – both on today's agenda.

- 25th action (ELT and WCBC agreement) – Mrs Williams provided an update noting very positive progress with Wrexham following recent meetings. It is expected that things should continue to progress well now. Mr Owen suggested it could be removed from the list and Chair asked that it be marked as complete.

- 26th action (Asset Pooling) – Picked up in the agenda by Mrs Fielder.

- 27th action (Consideration of Committee papers) – Consideration needs to be given to how the CEMs training can be delivered; this remains ongoing and outstanding.

- 28th action (Consideration of Committee papers) - Ensure balance between risk and return is explained; this remains ongoing.

- 35th action (Action Tracker) – Engagement with Chairs of Boards and letter to WPP; on today's agenda.

- 37th action (Employer Pay Issue) – Update on Project APPLE; on today's agenda

- 40th action (CIPFA Pension Board guidance) – Purchased and Mr Owen noted that it has been received by the Board. The Board agreed that there was nothing in it that wasn't

Actions

already being included in the way the Clwyd Pension Fund Board operated. It was agreed it could now be removed from action tracker.

RESOLVED:

The Board noted the ***action tracker which is to be updated*** as agreed.

Board Secretary

5. CYBERCRIME PRESENTATIONS

The Chair introduced this item highlighting the importance of protecting pension funds from Cybercrime and welcomed the first of two external speakers, Ms Deb Sainsbury. Ms Sainsbury from Flintshire County Council (FCC)'s Information Governance team shared slides with the Board which covered key messages including the top 10 controls and sources for further advice including the National Cyber Security Centre and the Information Commissioners Office (ICO).

Ms Sainsbury outlined that the fundamental key message is that there is no silver bullet in how to be completely cyber compliant and that we are only as strong as our weakest link.

Ms Sainsbury noted that it is a fine balance between the risks you are prepared to tolerate (for example, offering on-line systems) and not prepared to tolerate and she was aware that the Fund has a comprehensive risk register.

There are a number of key controls including:

1. Patching – extremely important that software patches are applied ASAP. ICO take a dim view of organisations where patches not applied in a timely manner. It would likely result in high fines if breach found as a result of such inaction.
2. Malware – this must be set up correctly and needs to be as up to date as possible to ensure that Fund is always searching for threats and vulnerabilities.
3. Filtering – Emails are scanned for malicious content.
4. Passwords – at least 8 complex characters recommended and for administrators then its 15 characters (with letters and numbers).
5. Cloud data – Aquila Heywood holds member record data in the Cloud. Therefore the Fund should be asking all same questions of Heywood regarding cyber compliance.
6. Staff training – FCC has a regular programme of training.

	Actions
Evidence of that training must be recorded and held. Example of a recent situation for another organisation was mentioned where a data stick was lost (resulting in £125,000 fine) and where the fine may have been less if staff training could have been evidenced. 7. GDPR compliance – since May 2018 both processors and data controllers can be fined. FCC is reviewing all contracts at the moment to ensure they are compliant. All GDPR controls are also expected to be in place by Fund suppliers, including Aquila Heywood and any third parties they use. 8. Part of public services network – Requires an annual health check be undertaken. The Board discussed the helpful presentation and made some observations. A number of questions raised including one by Mr Owen who asked if there has been penetration testing of systems including iTrent, Masterpiece and Heywood's Altair? ***New action – Board Secretary to check and provide an update to the Board.***	
The Chair thanked Ms Sainsbury and asked her to remain for the second presentation with Aquila Heywood and to participate in the discussion.	**Board Secretary**
The Chair welcomed Mr Paul Owens from Aquila Heywood to the Board meeting. Following a brief update on Aquila Heywood and its partners Mr Owens gave an update on cyber security threats, Altair hosting solution and relevant accreditations (ISO 9001/ ISO27001) as well as their data centre partner Blue chip, and the infrastructure improvement programme that they have underway. Hosting is undertaken by their partners Blue chip with a site located near Bedford. Aquila Heywood regularly audit and check Blue chip. As part of that they undertake annual penetration tests and will share the results of those with clients who request it. There CIA (confidentiality, integrity, availability) security incident model is being rolled out; the first customer has moved over to this and Aquila Heywood will be speaking to the Fund in the coming months about moving across. Mr Owens took questions from the Board including from Mr Pumford who asked how the daily system back up gets from site to site (given he confirmed it was sent off site daily). Mr Owens wasn't sure but confirmed that the files are encrypted.	

	Actions
There was a discussion about learning lessons from experience and the Chair and Mr Friday asking what breaches the company have had to date. Mr Owens confirmed only minor issues have arisen. They had once dealt with what they thought was a server attack but it transpired to be faulty software; nonetheless it was considered a good learning experience. The Chair asked if Fund or Council has cyber insurance in place. Ms Sainsbury noted that FCC don't have it specifically but she believes any attacks would be covered to some degree by their public liability insurance. Mr Owens was unsure if Aquila Heywood have cybercrime insurance but agreed to find out. ***New action – Mr Owens to let Board Secretary know if Aquila Heywood have cybercrime insurance.***	**Board Secretary**
Mrs Fielder asked if Aquila Heywood undertake third party screening as part of their audit. Mr Owens said he would take that question away. ***New action – Mr Owens to provide confirmation to the Board Secretary as to whether Aquila Heywood undertake third party screening.***	**Board Secretary**
Mr Owen and Mrs Fielder asked if officers should receive the annual report detailing the penetration report, as a matter of course. Mr Owens confirmed it can be shared on request. Mrs Fielder also asked Mr Owens a question on the level of training and he confirmed he would circulate report of what training is undertaken by staff. ***New action – Mr Owens agreed to provide the training report for Aquila Heywood staff to the Board Secretary.***	**Board Secretary**
The Chair asked Mr Latham about the issue of cyber security in respect of their other advisers including asset managers and the Welsh Investment Pool. Mr Latham confirmed he asked a question of those parties and they all confirmed they have controls in place. Specifically Russell has internal control checks for all managers which includes cybercrime. The Chair noted that it is good to see the proactive stance of the Fund in considering cybercrime and recommended that this is considered on an ongoing basis going forward given the continual changing environment relating to cybercrime. The Chair thanked both speakers for their helpful presentations.	

	Actions
6. ASSET POOLING	
The Board received an update from the Chair on her recent discussions with other Chairs of Welsh Pension Boards and a draft letter which has been prepared by the chairs relating to issues of governance standards for WPP. The Board asked for views on whether a joint approach from all Wales Pension Boards is the best way forward and on the contents of the draft letter.	
The Board confirmed they supported the sending of the letter as currently drafted, if being sent from all the Wales Pension Boards and asked the Chair to discuss this further with the other Chairs. The Board also concluded that the letter should be addressed to both the JGC and the Host Authority.	
New action – The Chair to confirm the Board's acceptance of the draft letter at 31 October Chair of Pension Boards meeting.	**Chair**
The Board received an update from the JGC meeting held 25 September from Mrs Fielder including the tender for a transition manager, the fixed income portfolio, preparation of the reporting pack and the appointment to the vacant post at the Host Authority. Ms Catherall also gave a brief update of Central Pool progress which Cheshire are part of for comparison purposes..	
Note that Mr Jackson left the meeting.	
7. SECTION 13 REPORT	
The Board received an update on the recent Government Actuary Department (GAD) Section 13 report, as required under the Public Service Pensions Act 2013. Mr Latham noted that a letter from the four actuarial firms was sent to MHCLG given some concerns arising from the report. It was agreed that letter should be shared with the Board for information.	
New action – Actuaries' letter to MHCLG to be circulated to Board members.	**Board Secretary**
8. COST CAP PROCESS	
The Board received an update on the recent government announcement on public sector schemes valuations, and the separate cost cap process underway for the LGPS.	

	Actions
The outcome of the cost cap process confirmed that the current benefit structure is coming out cheaper than the target cost. This is likely to result in a change to the existing benefits and/or contribution rates, which in turn will create an increase in work for both the administration and communication teams with 1 April 2019 being the likely date for any changes to benefits and contributions.	
9. THIRD TIER EMPLOYERS REVIEW	
The Board received an update on the report for the Scheme Advisory Report on third tier employers participating in the LGPS in England and Wales. Mr Latham noted that the Fund has two employers that fall in this category i.e. with a poor covenant, one university and one college. It may also impact on charitable organisations, although those in the Fund would have backing from a local authority or other organisation.	
10. TPR ANNUAL SCHEME RETURN REQUEST	
The Board received an update on the requirements of the annual scheme return for TPR from Mrs Williams. This year the return includes a requirement to include information on the common and scheme specific scores. Mrs Williams explained certain areas of the scoring where data cleansing may be required. This included address data and Mrs William confirmed that member address tracing is to be carried out for deferred members which will help improve that score.	
The Chair outlined that the SAB is seeking to find a way to have a standard set of scheme-specific data checks for all LGPS funds but that hasn't been put in place for 2018 return.	
Mrs Williams highlighted that the results of the exercise are being used to develop a Fund Data Improvement Plan. The Board requested that the data improvement plan with priority areas should be brought back to a future Board meeting.	
New action – Data improvement plan to be taken to future Board meeting.	**Board Secretary**
The Board also asked Mrs Williams to ask Aquila Heywood if they can share all Funds' results anonymously so that CPF can see how they measure up.	
New action – Board Secretary to contact Aquila Heywood	**Board**

	Actions
to request an anonymous summary of the results.	**Secretary**

11. PROJECT APPLE UPDATE

The Chair reminded the Board members that the information being provided in relation to this project is confidential due to the need to manage communications carefully. The Chair then provided the Board with a summary of the assumed pensionable pay issue and the work being undertaken to rectify the errors for up to 2,200 records (1,300 members).

Work is underway to develop letters for various types of members and to seek a build a bulk approach to resolve the cases that need to be dealt with.

The Board considered if a similar issue could exist with other employers and officers confirmed they have used workarounds where issues have been found. It was also noted that the impact of this work would be felt by the team given the increasing volume of work needed to rectify the errors.

The Board noted the intention to include some references for assumed pensionable pay to be included in presentations at the next employer forum meeting.

12. ADMINISTRATION UPDATE

Mrs Williams provided an administration update to the Board including:

Key Performance Indicators

The Board received the summaries of KPI's for the previous quarters. These were explained to the Board and also noted that staffing appointments have been made and additional resources should increase administration activity going forward.

Current Workloads

Mrs Williams presented details of the due dates and outstanding cases relating to the Operations, Employer Liaison and Aggregation teams.

Mr Owen asked for an update on the GMP cases recently progressed and Mrs Williams confirmed that the reconciliation project is on track . Mrs William noted that the team are mindful of further activity which will arise from this project and that

	Actions
updating member records may align with timing of pension increase activity which could cause some challenges. iConnect files were noted as an issue for FCC, with concern that in recent months (since June) there is a resource constraint with the employer resulting in lack of files being transmitted to the Fund. The Board asked that the Board Secretary liaise with the employer to understand and resolve this and express the Board's concern. ***New action – Board Secretary to raise late iConnect extract concerns with FCC.***	**Board Secretary**
Staffing update The staffing appointments to the vacant finance roles were also discussed and in particular the challenge of offering appropriate salaries to attract candidates. The Board noted its support for the Fund in filling those vacancies as soon as possible and the Chair asked that the Board's concern regarding the time and process being imposed on the Fund is fed back to relevant HR colleagues at the administering authority. The Board expressed their gratitude and support to the officers given the progress that is being made in an ongoing difficult environment.	
13. CONSIDERATION OF 5TH SEPTEMBER 2018 PENSION FUND COMMITTEE MEETING PAPERS The Board noted the papers from the latest Pension Fund Committee Board meeting.	
14. INPUT INTO ADVISORY PANEL AND CPF COMMITTEE The Board asked that resource issues and their impact on the team are brought to the next advisory panel and Committee. In addition Cybercrime information should be taken to the next Advisory Panel meeting so that a plan for ongoing action can be agreed. ***New action – Items to be taken forward to agendas at Advisory Panel.***	**Board Secretary**
15. COMPLIMENTS AND COMPLAINTS	

	Actions
An anonymised log of the latest compliments and complaints had been circulated to the Board with the agenda. The Board noted some excellent compliments received and no major complaints included.	
16. FUTURE WORK PLAN	
The Board received an update from the Chair on the future work plan. It was noted that some items had been pushed back and it would be good to see those at a future Board meeting.	
Mr Owen noted the Board's key role relating to the TPR Code of Practice activity and the Board requested that it should be brought to the next Board meeting. The Board suggested that the disaster recovery testing could be deferred to February or later depending on the ongoing resource constraints.	
New action – Update work plan.	**Board Secretary**
17. PENSION BOARD BUDGET MONITORING	
The Board received an update on the Board's budget. Mr Friday and Mr Owen raised a query regarding year to date figures and cumulative figures. Mrs Fielder agreed to review figures and provide explanation to the Board.	
New action – Updated information on Budget to be provided to the Board.	**Board Secretary**
18. INDEPENDENT ADVISOR CONTRACT / CHAIR OF THE BOARD	
The Chair and Ms Lambe left the meeting for this item following a declaration of interest. The Board discussed the future role of the independent Chair	
19. FUTURE DATES	
The Board noted forthcoming dates including 31st October Wales Pension Board Chairs/Wales Pension Partnership event and AJCM on 6th November.	
The Chair reminded the Board that members are invited to attend Pension Fund Committee meetings with the next	

Actions

Committee meeting taking place 28th November.

20. ANY OTHER BUSINESS

No other business raised.

Dear LGPS Colleague – The Scheme Advisory Board is keen to improve communication of the work it is undertaking on your behalf. Although the Board's website at www.lgpsboard.org can be helpful in this respect, the Board has now agreed that a bullet point summary of each Board meeting should be sent to scheme stakeholders as soon as possible after each meeting. A more detailed summary will be available on the Board's website in the "Board Publications" section.

This email covers the main points of the Board meeting held on the 16th January 2019. The meeting commenced with a minutes silence in memory of the late Councillor Ian Greenwood.

SAB Cost Cap

- Statement detailing the SAB package circulated on the 21st December 2018
- Ongoing discussions with HMCLG and other interested parties
- Q&A paper for administering authorities being prepared
- 1st April deadline for scheme changes is becoming increasingly challenging
- MHCLG confirmed that a consultation paper is almost ready to go
- A shortened consultation could take place once government has given the green light
- On introduction of the SAB package, the HM Treasury cost cap scheme valuation will then be undertaken

Cost Transparency – Compliance System

- Deadline for bids for the compliance contract was the 22nd January
- Four bids were received
- SAB will consider recommendation from the bidding panel.
- Northern Ireland LGPS is to be added to the Code of Transparency

Academies and Third Tier Employers' Projects

- SAB was advised that work on both projects had been deferred because of other competing priorities but that work would recommence as a matter of urgency in January.

Good Governance in the LGPS Project

- Contract has been awarded to Hymans Robertson
- SAB agreed to rename the project to allay fears of separation from local government

Responsible Investment

- The Board agreed that the guidance on Responsible Investment should be extended to include a checklist on climate change risk.
- Work also to be undertaken on assisting administering authorities in developing policy statements on climate change risk.

MHCLG Draft Statutory Guidance on Pooling

- MHCLG confirmed that this was not a public consultation
- Informal comments from SAB, administering authorities, local pension boards and pool companies requested
- SAB will submit a composite response but member's organisations may respond directly
- Closing date for comments is 28th March

IORP II Directive

- SAB agreed to open discussions with MHCLG on the scope for introducing some of the key elements of the Directive into scheme regulations or guidance

Local Pension Boards

- SAB agreed that the Secretariat should prepare a follow up survey to test the ongoing effectiveness of local pension boards for consideration at the next meeting in April

2019/20 Budget and Workplan

- 2019/20 to be a year of consolidation
- Some work on annual and lifetime tax allowances may need to be undertaken
- Secretariat to firm up 2019/20 budget and workplan for final consideration by SAB

Pensions Regulator

- SAB was advised that no reply had been received to the Chair's letter of November 2018.
- SAB tasked the Secretariat to chase a reply.

Stop Press – Following an exchange of emails it transpires that Lesley Titcomb had replied in December but that this had not been received by the Chair or the Secretariat. A copy of the missing letter has been requested. Lesley Titcomb also confirmed that a senior member of her team will be asked to attend the next SAB meeting in April.

BOB HOLLOWAY
Pensions Secretary
Scheme Advisory Board
4 February 2019

Robert.holloway@local.gov.uk

20 December 2018

PRESS SUMMARY

***The Lord Chancellor and Secretary of State for Justice and another v McCloud and Mostyn and others* [2018] EWCA Civ 2844**
On appeal from UKEAT/0071/17/LA

***Sargeant v London Fire and Emergency Planning Authority and others* [2018] EWCA Civ 2844**
On appeal from UKEAT/0116/17/LA and UKEAT/0137/17/LA

The Court: Longmore LJ, Sir Colin Rimer and Sir Patrick Elias.

BACKGROUND TO THE APPEALS

The claimants in McCloud are judges, each of whom had been members of the Judicial Pension Scheme ("**JPS**"). On 1 April 2015, a New Judicial Pension Scheme ("**NJPS**") was introduced, membership of which is admitted to be substantially less attractive than membership of the JPS. The claims in McCloud concern not the reformed scheme itself, but rather the transitional provisions by which that scheme was introduced. Those provisions define judges' entitlement to remain active members of the JPS by reference to their age. Existing members of the JPS who were born on or before 1st April 1957 have full protection and remain entitled to continuing active membership of the JPS; those born between 2nd April 1957 and 1st September 1960 are entitled to time-limited protection; and those born after 1st September 1960 are not entitled to any protection and are excluded from active membership of the JPS. The claimants, who are all entitled to limited or no protection, brought claims (i) alleging direct discrimination on grounds of age; (ii) for equal pay on the basis that the transitional provisions disproportionately adversely affect women; and (iii) alleging indirect sex and race discrimination. The respondents do not dispute that the transitional provisions discriminate on grounds of age, but argue that they are justified as a proportionate means of achieving a legitimate aim.

The claimants in Sargeant are English and Welsh firefighters, each of whom had been members of the Firefighters' Pension Scheme 1992 (the "**1992 FPS**") or an equivalent scheme. On 1 April 2015, new firefighters' pension schemes were introduced in England and Wales (together, the "**2015 FPS**"). The terms of the 2015 FPS are admitted to be less favourable than those of the 1992 FPS. As with the claims in McCloud, the claims in Sargeant concern the transitional provisions by which the 2015 FPS was introduced. The structure of the transitional provisions, and the types of claim advanced, are essentially the same as in McCloud.

The Employment Tribunal (the "**ET**") in McCloud held that the respondents had failed to identify a legitimate aim, or to demonstrate that the transitional provisions were a proportionate means of achieving any assumed legitimate aim. In contrast, the ET in Sargeant held that the transitional provisions in issue in those claims did comprise a proportionate means of achieving legitimate aims.

The Employment Appeal Tribunal ("**EAT**") in McCloud held that the ET had misdirected itself in concluding that no legitimate aim had been established by focusing on an absence of evidence to conclude that the aim of protecting older judges was irrational, in circumstances where that aim was not susceptible to evidential proof because it was informed by moral or political value judgments. The decision of the ET was nevertheless not to be disturbed because its analysis of proportionate means was unimpeachable. In particular, the ET had in its analysis of both aims and means accorded the respondents a sufficient 'margin of discretion'. There was a tension between European authorities requiring that a wide margin of discretion be accorded by the court to the government's identification of legitimate aims and proportionate means; and English authorities which encouraged judicial scrutiny of aims and means. However, those conflicting authorities had been reconciled by the Supreme Court in Seldon v Clarkson Wright & Jakes [2012] UKSC 16.

The EAT in Sargeant held that a margin of discretion was to be applied in relation to aims but not means. The ET had applied that margin correctly in its analysis of aims, but had erred by failing to scrutinise whether the means adopted was proportionate. The EAT therefore ordered that matter to be remitted to the ET.

JUDGMENT

Age discrimination claims

The Court of Appeal held that the age discrimination claims in both McCloud and Sargeant were made out. In the judges' case the court upheld the ET's conclusions on legitimate aims. As such, the issue of proportionate means did not fall to be considered **[95]**. The court nevertheless expressed its view that although the reasoning of the ET on proportionate means disclosed some errors, none of them vitiated the conclusion reached **[96]-[99]**. As for Sargeant, the court overturned the ET's finding that the government parties had established legitimate aims **[164]**, such that the issue of proportionate means did not fall to be considered **[165]**.

The central issue of law concerned the margin of discretion to be applied. There was no tension between the European and domestic authorities on this issue **[84]**. The correct approach, and the approach consistent with both the domestic and the European authorities, was for the court to afford the government some margin of discretion in relation to both aims and means, but to determine for itself what the appropriate margin should be in each particular case; and then, applying that appropriate margin, to determine whether a particular aim is legitimate or a means proportionate **[85]-[87]; [143]-[145]**. The Court emphasised that once a court has established a social policy aim is capable of being a legitimate aim, it must further determine whether it is in fact legitimate in the particular circumstances of the case **[86]; [151]**. The ET in McCloud followed that approach **[89]**. The ET in Sargeant failed to follow that approach in relation to legitimacy of aims by proceeding straight from a finding that the claimed aims were social policy aims, to the conclusion that they were also legitimate aims **[152]-[155]**.

A further issue concerned whether supporting evidence was required to substantiate the legitimacy of the aims relied on by the government parties in both actions. The court held that the legitimacy of those aims could not be established without supporting evidence. It was not sufficient simply to assert a claimed belief that it ‘felt right’ to protect older firefighters or older judges, and then to characterise the decision to do so as a moral decision incapable of evidential substantiation **[157]**. The government needed to show how it had arrived at the conclusion that that aim ‘felt right’, which analysis would have to be supported by evidence **[157]-[160]**. So far as concerns Sargeant, the ET erred in finding that the aims relied upon were legitimate in the absence of any supporting evidence **[163]**. The EAT erred in finding the reasoning of the ET to be unimpeachable **[164]**. As for McCloud, the moral and political aims relied upon before the EAT were not argued as separate aims before the ET, such that the reliance the ET placed on a lack of evidence did not concern such aims **[91]-[92]**.

Equal pay and indirect race discrimination claims

Given the success of the age discrimination claims, the equal pay and indirect race discrimination claims were “*of no real practical significance*” **[166]**. The court nevertheless stated its view, holding that the claims in McCloud were made out and, subject to one matter on which remission would have been required if the age discrimination claims had not been successful, also in Sergeant.

Note

This summary is provided to assist in understanding the Court’s decision. It does not form part of the reasons for the decision. The full judgment of the Court is the only authoritative document.

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To all administering authorities and local pension boards

Local Government Pension Scheme Advisory Board (SAB) pauses its cost management process

On 7th February the SAB received confirmation that the cost cap pause and the uncertainty caused by the McCloud case announced in last week's Written Ministerial Statement (as notified in our email of 30th January) applies equally to the LGPS as to the unfunded public service pension schemes. This is disappointing, however given that confirmation the SAB considers it has no option but to pause its own cost management process pending the outcome of McCloud.

The SAB remains committed to honouring the result of its cost management process once the outcome of McCloud is known. In pausing the process it has reserved its position regarding the resubmission of the same or a revised package of benefit improvements and contribution reductions when clarity in this matter has been achieved.

As a result there are currently no changes to benefits planned in respect of the cost cap. This situation will be reviewed once McCloud is resolved which is not expected for some months.

Administering authorities and employers should therefore proceed on the assumption that the scheme will not change in April. In particular employee contributions should be collected in April on the basis of current regulations. The table of employee contribution bands and rates to be implemented with effect from 1st April 2019 under current regulations is shown below.

Contribution bandings 2019/20			
		main scheme	50/50 section
up to	£ 14,400.00	5.50%	2.75%
£ 14,401.00	£ 22,500.00	5.80%	2.90%
£ 22,501.00	£ 36,500.00	6.50%	3.25%
£ 36,501.00	£ 46,200.00	6.80%	3.40%
£ 46,201.00	£ 64,600.00	8.50%	4.25%
£ 64,601.00	£ 91,500.00	9.90%	4.95%
£ 91,501.00	£ 107,700.00	10.50%	5.25%
£ 107,701.00	£ 161,500.00	11.40%	5.70%
£ 161,501.00	or more	12.50%	6.25%

Further information including a copy of the McCloud Appeal Court Judgement, the Written Ministerial Statement (WMS) and the letter confirming LGPS inclusion in the WMS is available on the SAB website by following this link http://www.lgpsboard.org/index.php/structure-reform/cost-management.

A Q&A for administering authorities covering the McCloud case and including the potential outcomes and possible timelines will appear on the site shortly.

8th Feb 2019

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Ministry of Housing,
Communities &
Local Government

Local Government Pension Scheme: Fair Deal – Strengthening pension protection

Policy consultation

January 2019
Ministry of Housing, Communities and Local Government

This document/publication is also available on our website at www.gov.uk/mhclg

If you have any enquiries regarding this document/publication, complete the form at
http://forms.communities.gov.uk/ or write to us at:

Ministry of Housing, Communities and Local Government
Fry Building
2 Marsham Street
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For all our latest news and updates follow us on Twitter: https://twitter.com/mhclg

January 2019

ISBN: 978-1-4098-5403-6

Contents

Scope of the consultation

Topic of this consultation:	This consultation seeks views on proposals to amend the rules of the Local Government Pension Scheme in England and Wales, as set out in the draft Local Government Pension Scheme (Amendment) Regulations 2019 (Annex A). It covers the following areas: 1. Amendments that would require service providers to offer LGPS membership to individuals who have been compulsorily transferred from an LGPS employer (and remove the option of a broadly comparable scheme). 2. Proposals that would automatically transfer LGPS assets and liabilities when employers in the scheme are involved in a merger or takeover.
Scope of this consultation:	MHCLG is consulting on changes to the regulations governing the Local Government Pension Scheme (LGPS).
Geographical scope:	These proposals relate to the Local Government Pension Scheme in England and Wales only.
Impact Assessment:	Our Fair Deal proposals will strengthen the pensions protections that apply following an outsourcing and it is intended that all transferred staff of relevant LGPS employers will benefit equally from the new provisions. We do not believe our proposals will have an adverse impact on any section of the LGPS employer workforce, and believe they will have equal positive impacts on groups with and without particular protected characteristics. This is including in relation to staff who work flexibly, part-time or who have taken career breaks. This is because our reforms are intended to equalise pensions rights between those who have and have not been outsourced from their LGPS employer, with them all having continued access to membership of the LGPS. None of the changes contained in this consultation require a Regulatory Impact Assessment under the Small Business, Enterprise and Employment Act 2015. Our Fair Deal proposals will require bodies who provide services to LGPS employers to provide employees with continued access to the LGPS following a transfer. For a small number of transfers, there may be some additional costs associated with outsourcing staff under the new provisions. This may be the case where an LGPS employer is not currently subject to the 2007 or 2012 Directions (see paragraph 8), but it is proposed they would be subject to our new regulations. Nevertheless, we expect this to apply in a minority of situations and only to outsourcings from public bodies or publicly owned companies.

	Additionally our proposals to introduce a new way for contractors to participate in the LGPS (the 'deemed employer' approach) are intended to give greater flexibility to outsourcing employers which will potentially help them obtain better value from their contracts. For contractors, the proposals are intended to give them greater certainty on the pensions costs they will face over the life of the contract. The proposals in chapter 3 that provide for the automatic transfer of assets and liabilities where an employer is subject of a merger or takeover are intended to protect LGPS funds from the unintended consequences of organisational changes. They are also intended to give greater certainty to all parties about the responsibility for pensions liabilities after such events.

Basic Information

To:	This consultation is particularly aimed at those with an interest in the obligations that apply when a service or function is outsourced from an LGPS employer, including employees, outsourcing employers, and service providers. Any change to the LGPS is likely to be of interest to other stakeholders as well, such as local pension administrators, those who advise them, other LGPS employers and local taxpayers.
Body/bodies responsible for the consultation:	Local Government Finance Reform and Pensions, Ministry of Housing, Communities and Local Government
Duration:	This consultation will last for 12 weeks from Thursday 10 January 2019 to Thursday 4 April 2019.
Enquiries:	For any enquiries about the consultation please contact LGPensions@communities.gov.uk.
How to respond:	Please respond by email to: LGPensions@communities.gov.uk Alternatively, please send postal responses to: LGF Reform and Pensions Team Ministry of Housing, Communities and Local Government 2nd Floor, Fry Building 2 Marsham Street London SW1P 4DF When you reply it would be very useful if you could make it clear which questions you are responding to. Additionally,

	please confirm whether you are replying as an individual or submitting an official response on behalf of an organisation and include: - your name, - your position (if applicable), - the name of organisation (if applicable), - an address (including post-code), - an email address, and - a contact telephone number.

Chapter 1 – Introduction

1. The Ministry of Housing, Communities and Local Government (MHCLG) consulted in May 2016[1] on the introduction of greater pensions protection for employees of LGPS employers who are compulsorily transferred to service providers. The 2016 consultation proposed that, in line with the Government's Fair Deal guidance of October 2013[2], most LGPS members in this position should have continued access to the LGPS in their employment with the service provider. In doing so, it was proposed that the option to provide transferring staff with access to a broadly comparable scheme should be removed.

2. On 19 April 2018, the Government response to the consultation confirmed our commitment to introduce the strengthened Fair Deal in the LGPS but noted that respondents to the 2016 consultation had raised a number of concerns regarding the specific approach we proposed to adopt. We said we would give full consideration to the points raised and committed to consult on new proposals by the end of the year.

3. Chapter 2 of this document sets out our new policy proposals for introducing Fair Deal in the LGPS, which will enable LGPS employers to obtain better value from outsourced service contracts, and ensure that transferred employees retain the security which comes with membership of the LGPS, a statutory scheme with benefits set out in law. We welcome comments from respondents on our questions.

4. We are also taking this opportunity to consult on another change to the rules of the LGPS (as set out in more detail in Chapter 3). This change would provide for the automatic transfer of LGPS assets and liabilities to a successor body when an exiting LGPS employer is taken over or is part of a merger.

5. Your comments are invited on the questions contained in chapters 2 and 3 and the set of draft regulations at Annex A.

6. **The closing date for responses on the draft regulations at Annex A, and the related questions in Chapters 2 and 3, is Thursday 4 April 2019.**

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[1] https://www.gov.uk/government/consultations/local-government-pension-scheme-regulations
[2] https://www.gov.uk/government/publications/fair-deal-guidance

Chapter 2 – Fair Deal

7. The Government's 'Fair Deal' policy was introduced in 1999 and sets out how pensions issues should be dealt with when staff are compulsorily transferred from the public sector to independent providers delivering public services. Under the original Fair Deal guidance, transferred staff had to be given access to a scheme certified as being 'broadly comparable' to their previous public service pension scheme.

8. Following the publication of the Government's original Fair Deal guidance, pensions protection for local government employees in England and Wales was provided through:

    - the Best Value Staff Transfers (Pensions Direction) 2007 ('the 2007 Direction' - covering employees of English best value authorities and Welsh Police authorities), and
    - the Welsh Authorities Staff Transfers (Pensions) Direction 2012 ('the 2012 Welsh Direction' - covering employees of Welsh improvement authorities and community councils).

9. Under these Directions, protected employees who are contracted out to a new employer following the transfer of a service or function must be given either continued access to the LGPS by their new employer, or access to a scheme certified by an actuary as 'broadly comparable' to the LGPS.

10. The Government announced in July 2012 that the Fair Deal policy would be reformed. Under the 'new' Fair Deal policy, staff transferring from the public sector would have continued access to their public service pension scheme rather than being offered a broadly comparable private pension scheme, as was previously the case.

11. HM Treasury published its revised Fair Deal guidance in October 2013[3]. It covers central government departments and their agencies, the NHS, schools that are not local authority maintained (such as academies), and any other parts of the public sector under the control of Ministers where staff are eligible to be members of a public service pension scheme.

12. As set out in the Introduction, the Government now intends to introduce the strengthened Fair Deal in the LGPS. The proposed reforms will mean that independent providers will no longer have the option of providing transferred staff with access to a broadly comparable scheme. Instead, employees will always have continued access to the LGPS. This strengthens existing protections significantly. Protected employees will have increased confidence and security in knowing that, despite their transfer, they will retain a right to all the benefits that come with membership of the LGPS, not least that it is a statutory scheme with benefits set out in law. Moreover, so long as the protected employees remain wholly or mainly employed on the delivery of the service or function

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[3] https://www.gov.uk/government/publications/fair-deal-guidance

transferred, they will continue to have that protection even if the service is subsequently sub-contracted or transferred out again.

13. Responses to the 2016 consultation were mixed. Whilst many respondents were supportive of our aims in providing transferred staff with continued access to the LGPS, there were a variety of concerns on the detail of the proposals. More detail on the issues raised are contained in the Government's April 2018 response, but they can be summarised as concerns:

- regarding the employers to which our Fair Deal regulations would apply.
- that those already transferred out under the 2007 Direction would not have continued protection.
- that the proposals did not refer to the protections that apply in Wales (i.e. the 2012 Welsh Direction).
- that the regulations were a missed opportunity to consider introducing more explicit risk sharing provisions.
- that continued use of the admitted body framework could lead to a growing administrative burden for LGPS administrators.
- the lack of guidance.

14. In the following sections, we set out the detail of new proposals which are intended to address each of those concerns in turn and provide the framework for a workable, efficient system of pension protection.

The basics of Fair Deal in the LGPS

Protected transferees

15. The draft regulations apply in both England and Wales. They provide for the introduction of a new regulation 3B in the LGPS Regulations 2013[4]. Under this, an LGPS employer must ensure that protected transferees are given access to membership of the LGPS for so long as they remain a protected transferee and have an entitlement to membership of the scheme. A protected transferee is an individual who:

    a. is an active member or is eligible to be an active member of the LGPS,
    b. was employed by a Fair Deal employer (as defined) immediately before that person's employment was compulsorily transferred under a contract to a service provider in relation to the delivery of a service or a function of the Fair Deal employer.

16. A protected transferee will remain a protected transferee for so long as they remain wholly or mainly employed on the delivery of the service or function transferred, even if the service is subsequently sub-contracted or otherwise transferred to a different service provider.

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[4] S.I. 2013/2356 (as amended)

17. Where an employee is transferred out to an employer which offers membership of another public service pension scheme, the draft regulations provide that they would not be eligible for the LGPS but that they would remain a protected transferee. This ensures that if, following a re-tender, they are subsequently transferred to a new provider which does not offer a public service pension scheme, they do not lose their protection.

18. Service providers and Fair Deal employers may wish to consider offering the same status and protection to all staff who are providing a service as part of contract negotiations, whether or not they were previously employed by the Fair Deal employer. The draft regulations therefore also provide that an employee who is working wholly or mainly on the delivery of the service or function transferred may be treated as a protected transferee even if they were not formerly in the employment of the Fair Deal employer. However, protection for additional staff who are not covered by Fair Deal will remain subject to contract terms. The draft regulations therefore provide that protected transferee status for staff will require the agreement of both the Fair Deal employer and the service provider and it is proposed either party can determine at any time that such an individual is no longer a protected transferee.

Question 1 – Do you agree with this definition?

Fair Deal employers

19. The draft regulations define a new type of scheme employer, a ‘Fair Deal employer’. As defined, Fair Deal employers are those LGPS employers whose employees will have protected access to the LGPS following a compulsory transfer of the type outlined above.

20. Some respondents to the 2016 consultation queried our approach on the employers covered by Fair Deal. One concern raised was regarding consistency. It was suggested that it was inconsistent for further and higher education institutions who participate in the LGPS to be excluded on the grounds that they are non-public sector bodies[5], whilst admission bodies, the majority of whom are also non-public sector bodies, would be covered by the requirements. Aside from those admission bodies who participate in the LGPS in relation to the transfer of a service or function (‘transferee’ admission bodies), admission bodies are bodies who normally participate in the LGPS because of close links with a local authority or because they provide a public service (‘community’ admission bodies). They include charities, housing associations and other non-public sector bodies, and are not required to participate in the LGPS.

21. In light of the concerns raised, it is proposed that admission bodies which undertake an outsourcing will have the option of requiring service providers to offer continued access to the LGPS as they do now, but will not be obliged to do so. Whilst we are committed to ensuring that public sector workers who are eligible for the LGPS are protected after being outsourced, we do not wish to limit the freedom that non-public sector

[5] In the terms set out by the Office for National Statistics, https://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/datasets/publicsectorclassificationguide

organisations can reasonably expect in the total package they offer to their staff, including pay and pension.

22. Other respondents felt that the employees of police and crime commissioners (PCCs) worked in the public sector and should be protected under our Fair Deal regulations. In the 2016 consultation, we said that PCCs should not be required to follow Fair Deal because they are not best value authorities. However, in order to be consistent with the approach we are taking for local government and noting the concerns made by respondents to our previous consultation, it is now proposed that employees of PCCs are in the scope of the new regulations, in the same way as is proposed for employees of chief constables.

23. In light of the points noted above, under our draft regulations all LGPS scheme employers will be Fair Deal employers with the exception of:

- further education corporations, sixth form college corporations and higher education corporations (i.e. post-1992 universities), and
- admission bodies.

As they do now, contractors providing services to the organisations listed above will be able to provide access to the LGPS to transferred staff via entering into an admission agreement with the pension fund (subject to meeting requirements and with the agreement of the contracting employer), but there would be no obligation for them to do so under scheme regulations.

Question 2 – Do you agree with this definition of a Fair Deal employer?

Transitional arrangements

24. It is important to the Government that those who have previously worked in local government and who are protected under either the 2007 Direction or 2012 Welsh Direction do not lose out from the changes we are making. Our draft regulations therefore provide that when contracts that fall under the 2007 Direction or 2012 Welsh Direction are next re-tendered, protected staff will become protected transferees under the LGPS Regulations 2013 and gain a right to membership of the LGPS.

25. This level of protection goes beyond the current requirements of the 2007 and 2012 Directions, which provide that service providers have the option of providing staff with access to a broadly comparable scheme instead. It is our intention to take the necessary steps to ensure that staff who were transferred out under the 2007 Direction or under the 2012 Welsh Direction gain the improved protections the next time a contract is re-tendered. We will work with the Welsh Government on transitional arrangements to deliver this in relation to transfers that have taken place under the 2012 Direction.

26. Transferred employees who were entitled to pension protection under the 2007 Direction or the 2012 Direction and were given access to a scheme certified as broadly comparable to the LGPS will have a right to transfer their benefits from that scheme to the LGPS if the fund receives a request. Under our draft regulations, such transfers would be treated as individual transfers under existing provisions contained in

regulations 100 and 101 of the LGPS Regulations 2013. We propose that the value of transfers be calculated using Cash Equivalent Transfer Value (CETV) factors contained in actuarial guidance issued by the Secretary of State. CETV factors are issued to convert the transfer value received by an LGPS fund to an amount of career average pension on an actuarially neutral basis. This approach is intended to ensure that inward transfers are calculated using an established process that is fair to scheme members, scheme employers and local taxpayers.

Question 3 – Do you agree with these transitional measures?

Question 4 – Do you agree with our proposals regarding the calculation of inward transfer values?

Risk sharing

27. A significant issue highlighted by respondents to the 2016 consultation was in relation to risk sharing, sometimes known as 'pass-through'. Pass-through is a mechanism for limiting a service provider's exposure to pensions risk as a scheme employer. As the LGPS is a funded, defined benefit pension scheme there are a number of risks which scheme employers are exposed to, in particular:

- Contributions risk – employer contribution rates are assessed every three years via a funding valuation. If the valuation shows that the financial or demographic position of the employer, or both, has changed since the previous valuation, contribution rates can go up or down.
- Funding risk – when an employer's last active member leaves the LGPS, any deficit that has built up in relation to the employer's liabilities has to be paid to the LGPS fund by the scheme employer. For service providers, these deficits can be quite large, even by reference to the total value of the contract.

Under pass-through, a service provider may pay a fixed contribution rate for the life of the contract, or pay the contributions within a certain range. The outsourcing employer may retain the responsibility for any shortfall in contributions, as well as the benefit of any surplus.

28. There are a number of benefits to using a pass-through approach:

- For the service provider, they do not necessarily bear the risks listed above. This makes their cost/benefit analysis when considering bidding or a contract more straightforward. We are aware that for small and medium service providers in particular, pensions risk is a significant barrier, and can mean they do not bid for contracts they otherwise would, because they cannot bear the risk of significant contribution rate increases or of the risk of a large exit payment being required at the end of the contract.
- For the Fair Deal employer they do not have to pay the 'risk premium' which service providers sometimes build into their contract prices. Because of contributions risk and funding risk, we understand that service providers often build a buffer into their prices to ensure that it is still profitable for them to operate a contract even if, for example, LGPS contributions end up being much higher than originally stated.

Using pass-through removes the need for such a buffer (and should therefore mean Fair Deal employers get better value for money).

The 'deemed employer' approach

29. We are aware that some LGPS employers already use pass-through arrangements with their service providers where greater flexibility assists outsourcing. However, in light of the views expressed in the responses to the 2016 consultation we want to ensure that Fair Deal employers actively consider the potential benefits of including risk sharing provisions in their service contracts. To achieve this, we are proposing that service providers do not necessarily need to become admission bodies in the LGPS to participate in the scheme. Instead, 'deemed employer' status could be used instead.

30. Deemed employer status is available under the LGPS Regulations 2013 already (see the table in part 4 of schedule 2). It means that, for specific groups of employees, their 'scheme employer' in the LGPS is not their employer in employment law, but is the 'deemed employer' instead. For example, under the LGPS Regulations 2013, the 'deemed employer' for the employees of voluntary schools is the associated local authority.

31. Under our proposals, when an employee is compulsorily transferred from their Fair Deal employer to a service provider, their former employer will have the option of remaining the deemed employer for the transferred staff.

32. Using this approach, the service provider would not have full scheme employer responsibilities under the LGPS Regulations 2013. Instead, the default position would be that the Fair Deal employer would retain the majority of scheme employer responsibilities (including contributions and funding risk). However, we envisage that this would only be a starting point, and the service contract between the parties would cover the detail of the pensions relationship, including the sharing of risk.

33. With appropriate provisions in the service contract, deemed employer status will give Fair Deal employers like local authorities greater flexibility when transferring services and functions to external providers. This will enable them to achieve the benefits of pass-through while enabling flexibility for negotiations around price and risk sharing between the two parties.

34. In addition, a major benefit of this approach is that it will provide a more seamless transition for LGPS members. A frequent issue under the current system is that a contract commences before the admission agreement is signed, leaving members in limbo for long periods of time. Under the deemed employer approach, members would continue in the section of their Fair Deal employer and there would be no uncertainty regarding their pension rights. Administering authorities would also benefit from not having to backdate admission agreements or seek to enforce these retrospectively.

35. The deemed employer approach will also help to tackle a growing issue in the LGPS; the large and rising number of scheme employers (over 16,000 across the scheme in England and Wales), which causes administrative issues at a local level. Making use of deemed employer status would slow the rate of increase and could therefore have administrative benefits for LGPS pension funds.

36. Using deemed employer status may also give greater flexibility to contractors in how they account for their pensions obligations. Currently, contractors who participate in the LGPS via an admission agreement but who have entered into pass-through arrangements may have to account for their liabilities on a defined benefit basis (even though their obligations are more akin to defined contribution liabilities). The deemed employer approach may enable a different accounting treatment because the legal responsibility would remain with the Fair Deal employer.

37. Using deemed employer status in this way has potential risks for Fair Deal employers because it means they are, by default, responsible for the pension liabilities which would, under an admission agreement, automatically be the responsibility of the service provider. However, the Fair Deal employer would be able to protect itself from these risks by including detailed provisions on the pensions relationship between the Fair Deal employer and the service provider in the service contract.

38. The draft regulations state that advice will be issued by the LGPS Scheme Advisory Board (SAB) to help Fair Deal employers put in place service contracts which give them flexibility and protect them from potential risks. We will want to ensure that this advice gives Fair Deal employers the knowledge and confidence they need to outsource services in a way that provides them with value and gives increased certainty to service providers. We will work closely with the SAB on the development of this advice, and expect that it will be will be issued before or at the same time the Fair Deal regulations are issued.

39. The draft regulations also provide that the deemed employer approach can only be used by the proprietor of an academy where that proprietor has followed guidance on the use of the deemed employer approach given by the Department for Education. Guidance issued by the Department for Education will set out the provisions that must be included in the service contract between a proprietor of an academy and a service provider to protect the proprietor, and ultimately the Department for Education, from pensions risks which should in all cases be met by the service provider.

Question 5 – Do you agree with our proposals on deemed employer status?

Question 6 – What should advice from the scheme advisory board contain to ensure that deemed employer status works effectively?

Responsibilities for employers

40. In practice, even where the deemed employer approach is used, the service provider will retain an administrative role in relation to the pensions of their employees. As the legal employer, they will be responsible for deducting employee contributions and providing information to the pension fund (for example, for end of year processing). To ensure that the actions of the service provider do not prevent the Fair Deal employer from meeting their responsibilities, the draft regulations state that the service provider must provide sufficient and timely information to enable the Fair Deal employer to meet its scheme functions. We anticipate that this point will be addressed in more detail in advice issued by the Scheme Advisory Board.

41. We are also keen to ensure that, unless service contracts explicitly provide otherwise, responsibility for certain decisions that may give rise to costs arising is retained by the service provider, as well as the responsibility for meeting those costs. In particular, the draft regulations provide that the service provider shall retain the decision-making responsibility for decisions where costs may be payable under regulation 68 of the LGPS Regulations 2013. This covers a variety of costs, including ill-health, redundancy, flexible retirement and the award of additional pension.

Question 7 – Should the LGPS Regulations 2013 specify other costs and responsibilities for the service provider where deemed employer status is used?

Existing arrangements

42. Whilst we believe there are significant advantages of making use of deemed employer status, we propose that the admission body option is retained so that Fair Deal employers can choose to require their service providers to become full scheme employers in the LGPS if they wish. This approach may be more appropriate for larger, longer term contracts where it is more fitting for a service provider to have full employer responsibilities under the LGPS regulations.

43. To make clear that risk sharing practices can also be used where the admission body option is used, our draft regulations insert a paragraph into part 3 of schedule 2 of the LGPS Regulations 2013 confirming that admission agreements may also contain details of risk sharing arrangements agreed between the Fair Deal employer and the service provider. We anticipate that advice issued by the SAB will contain detail on the provisions that may be put into an admission agreement on risk sharing between the parties involved.

Question 8 – Is this the right approach?

Timely consideration of pensions issues

44. An issue that is frequently raised with regard to outsourcing by LGPS employers is the lack of priority given to pensions issues. Often admission agreements are not signed before the contract takes effect leading to periods of limbo for members. This can be a barrier to the parties to a contract sharing risk effectively. Indeed, lack of consideration of pensions issues at the contract negotiation stage could be damaging to those Fair Deal employers using the deemed employer approach. In our April 2018 response to the 2016 consultation, we said we would consider the issues around this further.

45. The draft regulations we are consulting on require that the service contract between a Fair Deal employer and the service provider state whether continued access to the LGPS will be provided via the deemed employer route or via the admission body route. We intend that this requirement will ensure consideration is given to pensions issues at an early stage, and the substantive differences between the two options are fully appreciated.

46. We also expect timely consideration of pensions issues to be covered in the SAB advice, with the benefits of doing so. For example, to ensure that the best value can be obtained from outsourcing exercises, Fair Deal employers should confirm the approach

they intend to adopt at the point they are inviting bids from potential service providers. We welcome views from consultees on other ways in which we can encourage early consideration of pensions issues.

Question 9 – What further steps can be taken to encourage pensions issues to be given full and timely consideration by Fair Deal employers when services or functions are outsourced?

Public sector equality duty

47. Our Fair Deal proposals will strengthen the pensions protections that apply following an outsourcing and it is intended that all transferred staff of relevant LGPS employers will benefit equally from the new provisions. We do not believe our proposals will have an adverse impact on any section of the LGPS employer workforce, and believe they will have equal positive impacts on groups with and without particular protected characteristics.

Question 10 – Are you aware of any other equalities impacts or of any particular groups with protected characteristics who would be disadvantaged by our Fair Deal proposals?

Chapter 3 – Transferring pension assets and liabilities

48. In recent years, the frequency with which LGPS scheme employers have been involved in mergers or takeovers has increased. This increase is partly a consequence of reforms within the public sector (including local authority schools becoming academies, whose proprietors have employer responsibilities in their own right), and of new organisational structures being used by LGPS employers for the delivery of services and functions.

49. When the last active member of an LGPS scheme employer leaves the scheme, the regulations provide that an exit payment usually needs to be paid to the LGPS fund. This means the exiting employer becomes liable for the payment of an amount which is intended to cover the costs of their entire pensions liability, and which is calculated on a low-risk basis. Because of this, the exit payment is often high, particularly in relation to the size of the ceasing employer.

50. Where an LGPS scheme employer merges into, or is taken over by, another organisation this exit payment can sometimes be triggered unintentionally and potentially leave the ceding organisation with a liability they cannot meet. If they cannot do so, the liability will be met by the other employers in the fund (and ultimately the local taxpayer).

51. To address these concerns we propose to amend the regulations to provide that when an LGPS scheme employer is merged into or taken over by another organisation, the responsibility for that pensions liability automatically transfers to the successor body, unless specific legislative provisions require otherwise. This is intended to ensure that normal business activities, such as mergers and takeovers, can take place effectively and efficiently without unintended consequences occurring in respect of an employer's LGPS liabilities.

52. In addition, we propose that where the successor body is also an LGPS employer with active members in another fund, the assets and liabilities must be automatically transferred to that fund and combined with the successor body's assets and liabilities.

53. We propose that the Secretary of State should issue guidance on this area and that, in particular, guidance should cover the terms of transfers of assets and liabilities between pension funds.

Question 11 – Is this the right approach?

Question 12 – Do the draft regulations effectively achieve our aims?

Question 13 – What should guidance issued by the Secretary of State state regarding the terms of asset and liability transfers?

About this consultation

This consultation document and consultation process have been planned to adhere to the Consultation Principles issued by the Cabinet Office.

Representative groups are asked to give a summary of the people and organisations they represent, and where relevant who else they have consulted in reaching their conclusions when they respond.

Information provided in response to this consultation, including personal data, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 2018 (DPA), the General Data Protection Regulation, and the Environmental Information Regulations 2004.

If you want the information that you provide to be treated as confidential, please be aware that, as a public authority, the Department is bound by the Freedom of Information Act and may therefore be obliged to disclose all or some of the information you provide. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

The Ministry of Housing, Communities and Local Government will process your personal data in accordance with the law and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties. A full privacy notice is included at Annex B.

Individual responses will not be acknowledged unless specifically requested.

Your opinions are valuable to us. Thank you for taking the time to read this document and respond.

Are you satisfied that this consultation has followed the Consultation Principles? If not or you have any other observations about how we can improve the process please contact us via the complaints procedure.

Annex A – Draft regulations

S T A T U T O R Y   I N S T R U M E N T S

2019 No.

PUBLIC SERVICE PENSIONS, ENGLAND AND WALES

The Local Government Pension Scheme (Amendment) Regulations 2019

Made - - - -	***
Laid before Parliament	***
Coming into force - -	***

These Regulations are made in exercise of the powers conferred by sections 1, 3 and 25 of, and Schedule 3 to the Public Service Pensions Act 2013([a]).

In accordance with section 21 of that Act, the Secretary of State has consulted the representatives of such persons as appeared to the Secretary of State to be likely to be affected by these Regulations.

In accordance with section 3(5) of that Act, these Regulations are made with the consent of the Treasury.

The Secretary of State makes the following Regulations:

Citation, commencement and extent

1.—(1) These Regulations may be cited as the Local Government Pension Scheme (Amendment) Regulations 2019.

(2) These Regulations come into force on [xxx] but have effect as follows [xxx].

(3) These Regulations extend to England and Wales.

Amendment of the Local Government Pension Scheme Regulations 2013

2. The Local Government Pension Scheme Regulations 2013([b]) are amended in accordance with regulations 3 to 6.

3. After Regulation 3A([c]) (civil servants etc engaged in probation provision) insert the following regulations—

([a]) 2013 c. 25.
([b]) S.I. 2013/2356; those Regulations have been amended by S.I. 2014/44, S.I. 2014/525, S.I. 2014/1146, S.I. 2015/57, S.I. 2015/755 and by S.I. 2018/493.
([c]) Regulation 3A was inserted by S.I. 2014/1146.

“Pensions protection following a compulsory transfer

3B.—(1) A protected transferee for the purposes of these Regulations is an active member or a person who is eligible to be an active member who was employed by a Fair Deal employer immediately before that person’s employment was compulsorily transferred to a service provider under an ongoing contract in relation to the delivery of a service or a function of the Fair Deal employer on or after [xxx: the date on which the Local Government Pension Scheme (Amendment) Regulations come into force].

(2) The employer of a protected transferee must ensure that the protected transferee has access to membership of the Scheme for so long as that person remains a protected transferee and is entitled to be an active member of the Scheme.

(3) If the employer of a protected transferee is not a Scheme employer under Part 1 or Part 2 of Schedule 2 who designates the protected transferee as being eligible for the LGPS, the Fair Deal employer must provide in their contract with the service provider that a protected transferee must be provided with access to the Scheme either by—

(a) the service provider entering into an admission agreement under paragraph 1(d) of Part 3 of Schedule 2 to these Regulations; or

(b) subject to sub-paragraph (4), the Fair Deal employer determining to act as the deemed employer in respect of the protected transferee.

(4) Any determination under sub-paragraph (3)(b) by a Fair Deal employer listed in paragraph 20 of Part 1 of Schedule 2 must be made in accordance with guidance issued by the Secretary of State.

(5) A person remains a protected transferee for so long as that person is wholly or mainly employed on the delivery of the service or function transferred, even if the service or function is subsequently sub-contracted or otherwise transferred to a different service provider.

(6) A person remains a protected transferee even if for a period they are not entitled to be a member of the Scheme because they are entitled to membership of another public service pension scheme in relation to the employment transferred from their Fair Deal employer.

(7) An employee of a service provider who is working wholly or mainly on the delivery of the service or function transferred from a Fair Deal employer other than by a compulsory transfer under sub-paragraph (1) may be treated as a protected transferee with the written agreement of the Fair Deal employer and the service provider.

(8) An agreement under sub-paragraph (7) may be terminated by either the Fair Deal employer or the service provider at any time.

(9) A person who is a former employee of a best value authority or a police authority in Wales([a]) and who is entitled to pension protection or would be entitled to pension protection following a subsequent transfer under the Best Value Authorities Staff Transfers (Pensions) Direction 2007 is to be—

(a) regarded as being a protected transferee when the contract is next renewed with the same contractor, or the contract passes to a new service provider, and

(b) shall remain so regarded for such period as that person is—

(i) entitled to membership of the Scheme; and

(ii) remains wholly or mainly employed on the delivery of the service or function transferred from the best value authority or police authority in Wales.

(10) A person who is a former employee of a Welsh improvement authority([b]) or a community council who is entitled to pension protection or would be entitled to pension protection following a subsequent transfer under the Welsh Authorities Staff Transfers (Pensions) Direction 2012 is to be—

(a) regarded as being a protected transferee when the contract is next renewed with the same contractor, or the contract passes to a new service provider, and

(b) shall remain so regarded for such period as that person is—

([a]) Section 1 of the Local Government Act 1999 (c. 27) designates the bodies which are best value authorities.
([b]) Section 1 of the Local Government (Wales) Measure 2009 (c. 02) designates the bodies which are Welsh improvement authorities.

(i) entitled to membership of the Scheme, and

(ii) remains wholly or mainly employed on the delivery of the service or function transferred from the Welsh improvement authority or community council.

(11) A person who is an employee of a service provider working on the delivery of a service or function transferred from a Fair Deal employer who has not been compulsorily transferred to the provider from that Fair Deal employer in relation to the delivery of that service or function is not a protected transferee for the purposes of these Regulations.

(12) Where a transfer is requested under regulation 100(1) (inward transfers of pension rights), the administering authority must grant that request if the request relates to the transfer of a protected transferee's pension rights accrued in a pension scheme to which they had access under the Best Value Authorities Staff Transfers (Pensions) Direction 2007 or the Welsh Authorities Staff Transfers (Pensions) Direction 2012.

(13) A Fair Deal employer must have regard to advice issued by the Scheme Advisory Board on the matters to be considered in regard to the provision of pensions protection to a protected transferee or persons who may be regarded as protected transferees, including the sharing of risk.

(14) The employer of a protected transferee must—

(a) provide sufficient and timely information to enable the Fair Deal employer to meet its Scheme functions under these Regulations; and

(b) be responsible for, and meet any costs arising from, decisions taken by the employer which may give rise to payments under regulation 68 (employer's further payments) in the absence of express provision to the contrary in the service contract between the Fair Deal employer and the service provider.

(15) In this regulation "employer of a protected transferee" means a service provider who employs a protected transferee who is provided with access to the LGPS under this regulation.".

4. In regulation 64 (special circumstances where revised actuarial valuations and certificates must be obtained), after sub-paragraph (10) insert—

"(11) Where a Scheme employer becomes an exiting employer as a consequence of the Scheme employer being merged into, or taken over by, another organisation—

(a) the successor body becomes responsible for the exiting employer's assets and liabilities, in the absence of any express legislative provision to the contrary; and

(b) shall be treated for the purpose of these Regulations as the Scheme employer in relation to the employees and former employees of the exiting employer.

(12) Where the successor body is a Scheme employer with active members in that administering authority or another administering authority, the assets and liabilities of the exiting employer must be automatically transferred to the administering authority of the successor body and combined with the successor body's assets and liabilities.

(13) A transfer of assets and liabilities under sub-paragraph (12) must be determined in accordance with guidance issued by the Secretary of State.".

5.—(1) Schedule 1([a])(interpretation) is amended as follows.

(2) After the definition of "European pensions institution" insert—

""Fair Deal employer" means a Scheme employer listed in paragraphs 1 to 13 and 15 to 25 of Part 1 of Schedule 2 or in paragraphs 1 to 3 and 5 to 15 of Part 2 of Schedule 2;".

(3) After the definition of "permanently incapable" insert—

""protected transferee" has the meaning given in regulation 3B(1);".

(4) After the definition of "Scheme year", insert—

""service provider" means a body contracted to deliver a service or a function of a Fair Deal employer; ".

(a) There are amendments to Schedule 1 which are not relevant to these Regulations.

(5) After the definition of "statutory pay" insert—

""successor body" means a body which either—

(a) takes over a Scheme employer, causing that employer to become an exiting employer; or

(b) takes on the functions of a Scheme employer following a merger between that employer and one or more organisations, and which causes that employer to become an exiting employer;".

6.—(1) Schedule 2 (Scheme employers) is amended as follows.

(2) In Part 3, after paragraph 5 insert—

"**5A.** An admission agreement made under paragraph 1(d)(i) may include details of risk sharing arrangements between the Scheme employer and the admission body, provided that the Scheme employer has had regard to any advice issued by the Local Government Pension Scheme Advisory Board.".

(3) In Part 4, in the table insert at the end—

"An employee of a service provider who is a protected transferee, where the Fair Deal employer has determined under regulation 3B(3)(b)) that the protected transferee should be deemed to be an employee of the Fair Deal employer	The Fair Deal employer referred to in column 1"

We consent to the making of these Regulations.

Names

Date Two of the Lords Commissioners of Her Majesty's Treasury

Signed by authority of the Secretary of State for Housing, Communities and Local Government.

Minister

Minister of State

Date Ministry of Housing, Communities and Local Government

EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations amend the Local Government Pension Scheme Regulations 2013 ("the 2013 Regulations").

Regulations 3, 5 and 6 implement the Government's "Fair Deal" policy for local government workers with the effect that most members of the Local Government Pension Scheme who are compulsorily transferred to another employer will retain the right to membership of the Scheme.

Regulation 4 provides that where a Scheme employer becomes an exiting employer as a consequence of a takeover or a merger, the assets and liabilities of that employer automatically transfer to the successor body.

Annex B

Personal data

The following is to explain your rights and give you the information you are be entitled to under the Data Protection Act 2018.

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

1. **The identity of the data controller and contact details of our Data Protection Officer**
The Ministry of Housing, Communities and Local Government (MHCLG) is the data controller. The Data Protection Officer can be contacted at dataprotection@communities.gov.uk.

2. Why we are collecting your personal data
Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data
The Data Protection Act 2018 states that, as a government department, MHCLG may process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

Section 21 of the Public Service Pension Act 2013 requires the responsible authority, in this case the Secretary of State, to consult such persons as he believes are going to be affected before making any regulations for the Local Government Pension Scheme. MHCLG will process personal data only as necessary for the effective performance of that duty.

3. With whom we will be sharing your personal data
We do not anticipate sharing personal data with any third party.

4. For how long we will keep your personal data, or criteria used to determine the retention period.
Your personal data will be held for two years from the closure of the consultation.

5. Your rights, e.g. access, rectification, erasure
The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right:

a. to see what data we have about you
b. to ask us to stop using your data, but keep it on record
c. to ask to have all or some of your data deleted or corrected

d. to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at https://ico.org.uk/, or telephone 0303 123 1113.

6. Your personal data will not be sent overseas

7. Your personal data will not be used for any automated decision making.

8. Your personal data will be stored in a secure government IT system.

CLWYD PENSION FUND

CONSULTATION - NEW FAIR DEAL FOR THE LGPS

We set out below our response to each of the questions posed in the consultation document dated 10th January.

The general thrust of the proposals is that employees whose employment is outsourced from a "Fair Deal Employer" will be guaranteed to be able to access the LGPS. The option of the new employer establishing a "broadly comparable" scheme as an alternative will effectively become redundant. The consultation also proposes an alternative "Deemed Employer" route for achieving pension protection, by allowing the Fair Deal employer to be regarded as the relevant employer for pension purposes. Overall, these seem to us sensible proposals. Broadly comparable schemes are relatively rare in practice and we think this will achieve more consistency of approach with other public sector schemes. Whilst the deemed employer route may be simpler in some respects, some of the operational challenges from a Fund perspective will remain the same. We feel that it will be important that the Fair Deal employers have a clear policy on how they intend to operate in terms of service delivery as in some instances the Admitted Body route will be the better option. One area that does not seem to have been addressed as a potential advantage is whether under the Deemed Employer route the new employer would be required to account for pension costs (under IAS19 or equivalent disclosure) as per the Admitted Body route. Whilst this is predominately a matter for the new employer and its auditor it would be an advantage not to have to do this if the arrangements are done on a complete pass through basis as the cost sits with the Fair Deal Employer. Some clarity on this would be helpful for employers formulating their policies and would help the Pension Funds with operating the arrangements.

We have followed the format of the consultation document in our response.

THE BASICS OF FAIR DEAL IN THE LGPS

Q1	RESPONSE
Do you agree with the definition of Protected Transferee?	The draft regulations define a “protected transferee” as someone who has transferred from the Fair Deal employer at the outset, and also clarify that an employee who joins after the contract has started does not acquire protected status when the contract is retendered. We agree that the definition seems sensible although we see this as an employer consideration. However, as a Pension Fund it is critical that the protected status of employees is communicated to the Fund clearly at the outset of a contract and any subsequent re-letting. It is therefore paramount that the employers (including any subsequent employers) are compelled to maintain this information on their records in a clear and concise fashion and that it is provided automatically. Their payroll providers also need to be aware of this.

Q2	RESPONSE
Do you agree with the definition of Fair Deal Employer?	It seems to us that the definition will cover all LGPS scheme employers other than admission bodies, charities, further education corporations, sixth form college corporations and higher education corporations, although such employers could choose to apply the provisions if they wished. It now specifically <u>includes</u> police and crime commissioners, for example. We see the definition of Fair Deal employer as a general policy decision by the Government, but it does not seem unreasonable. The scope is similar to existing provisions, albeit a little wider, which simplifies matters and provides greater clarity. It does mean that employers will need to be clear on their policy decisions and ensure the Fund is kept up to date on these. However, under draft Regulations 3B(1) and 3(B)11 it appears that employees working for a different Fair Deal Employer from the one carrying out the outsourcing are not protected. This seems unlikely to be a policy decision so needs clarity for all parties. The Regulations seem to us to introduce an anomaly in this area, best illustrated by an example. If, say, a fire authority sources its cleaning service from the local authority in its area, but decides it

	wants to outsource that service then the fire authority is not the "Fair Deal Employer" in relation to those employees, and our reading of the draft Regulations is that these employees' pension rights are not protected. If, on the other hand, they had been working directly for the fire authority then the fire authority would be their "Fair Deal Employer" so the employees would be protected. For consistency of treatment we would suggest that such employees should be protected by virtue of the fact that they are working for a Fair Deal Employer, but either way we feel this should be a deliberate policy decision which needs clarifying.

Q3	RESPONSE
Do you agree with the transitional arrangements?	Overall, this seems to us a sensible proposal. Broadly comparable schemes are now relatively rare in practice and we think this will achieve more consistency of approach with other public sector schemes. Equally any historic staff under the existing protections should be brought into the new regime otherwise you would be operating two regimes for many years to come. Where a service provider currently has a broadly comparable scheme, that service provider and the Fair Deal Employer will need to prepare for a change of approach when the contract is next retendered. It is important that authorities review their historic contracts to consider if they are affected and decide on their policy. **This should be made compulsory under any new guidance.**

Q4	RESPONSE
Do you agree with our proposals regarding the inward transfer of pension rights?	The employees concerned will be able to take a transfer from their existing scheme and use it to secure career average benefits within the LGPS, we suspect using the normal individual LGPS transfer in terms (although the intention here needs to be clarified). Under the proposals, the

	relevant LGPS or Fair Deal employer will not be able to refuse such a transfer. This will mean additional (and potentially large) risk and cost is taken on by the Fair Deal Employer. The number of contracts operated on the basis of a broadly comparable scheme is relatively small, and the proposal will apply only to those still in service at the end of the contract, so we suspect it will have only limited effect in practice. It also does not necessarily provide the employees with full continuity of pension benefits. However, given that the transfer in terms offered by the LGPS are currently relatively generous compared to those normally offered in private sector schemes, on average we suspect members will not lose out if this proposal is implemented and may in fact gain (possibly materially) in relative terms. Nevertheless, we would expect there to be a mixture of gainers and losers. Also, if there are guaranteed bulk transfer terms written into the original contract then these could be very generous and could produce windfall gains for members and increase the exposure for the new employer and ultimately the Fair Deal Employer through the pass through arrangement where before there would not necessarily have been any exposure to additional cost/risks. Overall we understand the policy intention here but have some concerns over the possibility of windfall gains for members given the individual transfer-in terms on offer in the LGPS. What might be preferable is that some standardisation of the terms offered on transfer back (depending on the original LGPS benefits secured in the broadly comparable scheme) would be more equitable. However, given the relatively low number of broadly comparable schemes still in existence, on balance it is something that could be overall acceptable to the LGPS to achieve the policy outcome.

RISK SHARING

Q5	RESPONSE
Do you agree with our proposals on Deemed Employer status?	It appears it will be the Fair Deal Employer's choice, when initially putting the contract out to tender, whether the Admission Agreement or Deemed Employer approach will be used. ***This***

	makes it imperative that each Fair Deal Employer has a clear policy on the treatment of each type of employer. This is a simplified method of achieving pension protection for the employees, as it avoids the new employer having to consider and sign an admission agreement with the Fund which is a positive from an administrative viewpoint. It could be used in conjunction with some limited risk sharing (i.e. where the contractor is only responsible for redundancy costs etc.) between the Fair Deal Employer and the new employer, but in our view any significant passing of the pensions risks to the new employer would be better served by the existing approach using an admission agreement with the Fund. Therefore, the policy of the Fair Deal Employer is critical to the successful operation from a Fund perspective.

Q6	RESPONSE
What should advice from the SAB contain to ensure that Deemed Employer status works effectively?	***At a high level the advice should cover that the Fair Deal employer must have a clear policy on the approach it will take. Equally the advice should cover what Funds are required to do both on a policy basis and operationally in terms of dealing with both "Employers" in the arrangement given there will be no admission agreement to define all parties' obligations.*** It should also cover when the Deemed Employer route works better versus the Admitted Body route and vice versa. We have set out below the main benefits and issues for further clarification in the advice from SAB. Main benefits of Deemed Employer Route: • Simple to put in place as no admission agreement needed • Very convenient for contracts done on a pure "pass-through" or "fixed cost" basis

	• Can incorporate some limited risk sharing arrangements relatively easily, albeit probably only the more straightforward ones such as early retirement strains and awards of additional pension • It avoids the need to assess exit debt or credit for the Fund at the end of the contract. Issues needing further advice: • The admission agreement approach works better than Deemed Employer where the outsourced employer takes on wider risks, as the admission agreement route provides for a better segregation of the assets and liabilities from the those of the Fair Deal Employer • Clarity will be needed on whether the Fund deals for administrative purposes with the Fair Deal Employer or the new employer (it could be a mixture of both, and Funds may still need to establish a separate employer code for the new employer e.g. for dealing with payroll queries) • Clarity will be needed on whether the new employer operates its own discretions policy or whether the Fair Deal Employer's policies will apply • Clear communication will be needed and Funds/employers will need to update the relevant policies • The contribution rate in respect of the outsourced employees will need to be agreed and documented, as will the mechanism for making payments under any risk-sharing arrangements: given that there is no direct link between the Fund and the new employer, we would expect these would be matters between the Fair Deal Employer and the new employer and as such would need to be covered under the contractual arrangements. However, there would need to be a clear agreement on how costs (e.g. strain costs on redundancy etc.) would be funded and by whom. Specific allocation of costs would mean that the Deemed Employer would still need to be monitored somehow unless it was a complete pass through of all costs • It needs to be clear on whether the Deemed Employer is required to account for pension costs (under IAS 19 or otherwise) in the same way as under Admitted Body status. Therefore the advice from the SAB needs to address this point in conjunction with auditors as it will be critical to the policy of the Fair Deal Employer.

RESPONSIBILITY FOR EMPLOYERS

Q7	RESPONSE
Should the LGPS Regulations 2013 specify other costs and responsibilities for the service provider where deemed employer status is used?	We believe the responsibilities of the service provider need to be made absolutely clear and they are **compelled to adopt these** as per the service contract or a separate agreement with the Fair Deal Employer. Essentially this needs to replicate the provisions of an admission agreement where relevant and could be embedded in the Regulations but we would prefer the Regulations to refer to specific guidance from the SAB as this would allow easier updates to the process as undoubtedly it would need some adaptation as all parties become accustomed to the new environment. It would then seem sensible for this to be part of the advice from the SAB with template clauses or wording for Fair Deal Employers to include in their bidding documentation. With regards to costs we would not agree that the Regulations or Guidance should prescript this for all costs but instead give guidance on Fair Deal Employers adopting their policy. For example where the ill health costs are insured outside the Fund it may be sensible for those costs to be passed across in a different way.

EXISTING ARRANGEMENTS

Q8	RESPONSE
Is it right that the Admitted Body route is retained and that risk sharing arrangement can be included in the Admission Agreement?	We agree that the existing arrangements should be retained as they are more appropriate in certain circumstances e.g. a separate local authority trading company set up by the Council. However, the change should add more flexibility to the drafting of admission agreements although we see no barrier to including risk sharing arrangements under the current regulations. Traditionally our preference has been for admission agreements to be standardised and simply reflect the responsibilities of all parties on participation. Any risk sharing arrangements could be

	covered in the contractual agreements as they are a matter for the authority and the outsourced employer. On a general basis this would still be our preference (as the risk sharing is a matter for the two parties not the pension fund) but allowing for this explicitly in the Admission Agreement would help all parties with clarity on how the employer should be treated and what arrangements are in place. This is particularly important given the introduction of Exit Credits.

TIMELY CONSIDERATION OF PENSION ISSUES

Q9	RESPONSE
What further steps can be taken to encourage pension issues to be given full and timely consideration by Fair Deal Employers when services or functions are outsourced?	We agree that the Regulations and advice from SAB needs to prescript and encourage timely consideration of the pension issues. However, this is likely to only have limited impact given that often the problem is those departments or officers (who aren't pension specialists) in a Council are usually unaware of the obligations in the Regulations or guidance and are understandably focussed on the service being outsourced. This is principally the reason for the lack of engagement under the current arrangements. Initially an effective way will be to educate the various parties on the new requirements and this would likely be best through each pension fund so some guidance from the SAB on how that should be done would seem sensible. However, this is not always effective unless a continued campaign is sustained. A long term solution that we think would be effective is make consideration of the pension issues part of the mandatory tendering process and guidance which would mean a Fair Deal Employer's procurement department (or national framework) would need to include reference to the approaches as a mandatory requirement. This could even cover standard clauses to include in contracts and/or bid documents and could refer to the SAB advice, the LGPS Regulations and the

	Fair Deal Employer's policy on the matter. We do not know how easy this is to achieve but we would recommend it is at least considered by the SAB and MHCLG.

PUBLIC SECTOR EQUALITY DUTY

Q10	RESPONSE
Are you aware of any other equalities impacts or any particular groups with protected characteristics which would be disadvantaged by our Fair Deal proposals?	We have not considered this issue in detail the context of general equality impacts but none immediately come to mind. However, as identified in Q2 in relation to a subset of employees it would appear to us that under draft Regulations 3B(1) and 3(B)11 it appears that employees working for a different Fair Deal employer from the one carrying out the outsourcing are not protected therefore causing some inequality in terms of pension treatment. This seems unlikely to be a policy decision so needs clarity for all parties. The Regulations seem to us to introduce an anomaly in this area, best illustrated by an example. If, say, a fire authority sources its cleaning service from the local authority in its area, but decides it wants to outsource that service then the fire authority is not the "Fair Deal employer" in relation to those employees, and our reading of the draft Regulations is that these employees' pension rights are not protected. If, on the other hand, they had been working directly for the fire authority then the fire authority would be their "Fair Deal employer" so the employees would be protected. For consistency of treatment we would suggest that such employees should be protected by virtue of the fact that they are working for a Fair Deal employer, but either way we feel this should be a deliberate policy decision which needs clarifying.

TRANSFERRING PENSION ASSETS AND LIABILITIES

Where an employer exits an LGPS Fund and transfers the employees to a successor employer, it is proposed that the pension liabilities will automatically transfer on to that successor employer, even if that successor participates in a different LGPS Fund.

Q11	RESPONSE
Is this the right approach?	There has been concern amongst some Funds about the potential for employers to be dissolved without paying off any exit debt (whilst in some cases even transferring the active members to a successor employer). This amendment seeks to change that, by making any successor employer responsible for the original employer's LGPS assets and liabilities, even if the successor employer is in a different LGPS Fund. This seems a positive step to us as it gives clarity and certainty to all parties. In our view the aim of this policy is sensible, and on the whole it will work well when the intention is for the assets and liabilities to simply consolidate into one Fund. However, we have concerns about it not needing the consent of at least the receiving Fund as essentially it could increase risk to taxpayers if the employer could not support the combined liabilities in the long term – for example where an employer with a weak covenant consolidates a large pension deficit in one Fund. We would therefore prefer it to **still require consent** subject to that not being unreasonably withheld to provide protection to the receiving Fund.

Q12	RESPONSE
Do the draft regulations effectively achieve our aims?	We cannot of course give a legal view on the enforceability/application of the Regulations but they do appear to achieve the aims of the policy set out in the consultation document assuming the guidance is clear on how this should be done effectively.

Q13	RESPONSE
What should the guidance issued by the Secretary of State state regarding the terms of the asset and liability transfers?	As per the answer to Q11 above we believe some sort of consent should be needed taking into account the circumstances of the transfer. With regards to the terms of the transfer of assets and liability transfers the main issue is usually to determine the assets transferred (as normally the liabilities transferred are determined by the membership records). We think the guidance should as a minimum include: • Details of how the date and transfer of administration and payroll records to the successor employer and Fund should be dealt with (in terms of verification and transitional arrangements such as pension payments). If the original and successor employer are in the same Fund some of the requirements will fall away but verification of the data should still be a requirement to avoid dispute at a later date when it is possible that the original employer records do not exist anymore. • Detailed of the acceptable approaches to determining the asset amount which could be based on a roll forward from the previous valuation or a share of assets if the original employer was part of a group of employers for contribution purposes. This asset value should be agreed and certified as reasonable by the Actuary (or the Actuary to each Fund where a transfer is to another Fund) • Confirmation that the costs of the transfer should be incurred by the successor employer including any asset transition costs or other fees.

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	Cllr D Hughes	Cllr H Bateman	Cllr Billy Mullin	Cllr R Small	Cllr N Williams/ Cllr T Bates	Cllr H LL Jones	A Rutherford	**Cllr T Palmer**	S Hibbert
Committees (3hrs)									
June 2018	✓	✓	✓	✓		✓	✓	✓	✓
September 2018	✓	✓	✓	✓		✓	✓	✓	✓
November 2018									
Special Committee February 2019									
March 2019									
CIPFA Framework Requirements 2017/18 – 2019/20 Refreshers									
Governance (0.5 day)	✓	✓	✓	✓		✓	✓		✓
Administration (day)									
Funding & Actuarial (0.5 day)	✓	✓	✓	✓		✓	✓		✓
Investments (1 day)	✓	✓	✓	✓	✓	✓	✓	✓	
Accounting									
Additional Training & Hot Topics									
Statement of Accounts (June Committee)	✓	✓	✓	✓		✓	✓	✓	✓
CPF Annual Employer Admin Meeting (am)	✓				✓	✓			
CPF AJCM (pm)	✓				✓	✓			✓

	Cllr D Hughes	Cllr H Bateman	Cllr Billy Mullin	Cllr R Small	Cllr N Williams/ Cllr T Bates	Cllr H LL Jones	A Rutherford	Cllr T Palmer	S Hibbert
Conferences (Restricted spaces)									
PLSA 21-23 May 2018									✓
LGC Investment Summit (1.5 days) Sept 2018	✓	✓		✓					
AON Governance (1 day) July 2018	✓								
AON Investments (1 day) July 2018	✓								✓
LGC Fundamentals Day 1 (Oct 218)									
PIRC Responsible Investing for WPP (1 day Oct 2018)	✓		✓	✓		✓			✓
LGC Fundamentals Day 2 (Nov 2018)						✓	✓		
LGA Infrastructure (1 day Nov 2018)	✓								
LGC Fundamentals Day 3 (Dec 2018)						✓	✓		
LAPFF Annual Conference (1.5 days) Dec 2018	✓								
LGA Annual Conference 1.5 days (Jan 2018)	✓		✓			✓			✓
LGC Seminar (1.5 days) March 2019	✓	✓	✓	✓	✓	✓			✓
Cross Pool Open Forum March 2019									

Clwyd Pension Fund

Training Plan 2018/ 19 - as at 13 February 2019

Title of session	Training Content	Timescale	Training Length	Audience	Complete
Employer Risk Management	Employer Risk Management including the monitoring framework (employer covenant, fundiong and protections)	20/09/2017	Before Cttee	Committee, Pensions Board and Officers	Deferred
Day 1 - Induction / Refresher Training Investments	New Member Induction and additional identified from individual TNA.	11/04/2018	1 day	Committee, Pensions Board and Officers	Y
Day 2 - Induction / Refresher Training Governance & Funding	New Member Induction and additional identified from individual TNA.	25/04/2018	1 day	Committee, Pensions Board and Officers	Y
Day 2 - Induction / Refresher Training Governance & Funding	New Member Induction and additional identified from individual TNA. Additional Date	19/12/2018	1 day	Committee, Pensions Board and Officers	Y
PLSA Local Authority Conference, Gloucestershire	Various	21-23/05/2018	3 days	Committee, Pensions Board and Officers	Y
CIPFA Local Pension Board Seminars	Annual Event	27/06/2018 London	9.30 - 16.00	Pension Board	Y
AON Day Training	Governance	05/07/2018	1 Day	Committee, Pensions Board	Y
AON Day Training	Investments	30/07/2018	1 Day	Committee, Pensions Board	Y
Day 3 - Induction / Refresher Training Agenda TBC	New Member Induction and additional identified from individual TNA.	13/09/2018	1 day	Committee, Pensions Board and Officers	Deferred
LGC Investment Summit, Newport	Various topical presentations.	5-7/09/2018	1.5 days	Committee, Pensions Board and Officers	Y
Day 4 - Induction / Refresher Training Agenda TBC	New Member Induction and additional identified from individual TNA.	TBC	1 day	Committee, Pensions Board and Officers	
CIPFA Local Pension Board Seminar	Update event	12/10/ 18 Liverpool 15/10/18 London	1 day	Pension Board	Y
Welsh Pension Funds Responsible Investment Seminar	Pirc Responsible Investing	31/10/2018 Cardiff	1 day	Committee, Pensions Board and Officers	Y
LGA Fundamentals Training	Day 1 Benefits, Investments, Costs	02/10/18 Leeds 10/10/18 London 17/10/18 Cardiff	1 day	Committee, Pensions Board	Y
LGA Fundamentals Training	Day 2 Actuarial Valuation, FSS, Committee responsibilities, Communication Strategies, Alternative Investments	06/11/18 Leeds 30/10/18 London 13/11/18 Cardiff	1 day	Committee, Pensions Board	Y
LGA Fundamentals Training	Day 3 Responsible Investing, Data quality, Governance	05/12/18 Leeds 4/12/18 London 11/12/18 Cardiff	1 day	Committee, Pensions Board	Y
LAPFF, Bournmouth	Various topical presentations around the work of the LAPFF	5-7/12/2018	2 days	Committee, Officer	Y
LGA Annual Conference	Various	17 - 18 Jan 2018	2 day	Committee, Pensions Board and Officers	Y
LGC Investment Seminar, Carden Park	Various	28/02/2019	2 days	Committee, Pensions Board and Officers	

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Ref.	A1	**Date entered in register**	19/9/2017
Current status	Open	**Date breached closed (if relevant)**	
Title of Breach	Late notification of joining	**Owner**	SB/JT
Party which caused the breach	CPF + various employers		
Description and cause of breach	Requirement to send a Notification of Joining the LGPS to a scheme member within 2 months from date of joining (assuming notification received from the employer), or within 1 month of receiving jobholder information where the individual is being automatically enrolled / re-enrolled. Due to a combination of late notification from employers and untimely action by CPF the legal requirement was not met. 20/11/18 - (Q2) Staff turnover in August/September reduced number actioned. 29/1/19 The introduction of I-connect is also producing large backlogs at the point of implementation for each employer. I-connect submission timescales can also leave only a few days for CPF to meet the legal timescale.		
Category affected	Active members		
Numbers affected	2017/18: 2676 cases completed / 76% (2046) were in breach. 2018/19: - Q1 - 1246 cases completed / 84%(1050) were in breach - Q2 - 551 cases completed / 87% (480) were in breach - Q3 - 1123 cases completed / 50% (563) were in breach		
Possible effect and wider implications	- Late scheme information sent to member which may result in lack of understanding. - Potential complaints from members. - Potential for impact on CPF reputation.		
Actions taken to rectify breach	- Roll out of iConnect where possible to scheme employers including new admitted bodies to ensure monthly notification of new joiners (ongoing). - Set up of Employer Liasion Team (ELT) to monitor and provide joiner details more timelessly. - Training of new team members to raise awareness of importance of time restraint. - Prioritising of task allocation. KPIs shared with team members to further raise awareness of importance of timely completion of task. - 6/6/18 - Updating KPI monitoring to understand employers not sending information in time.		
Outstanding actions (if any)	- Ongoing roll out of i-Connect. - Bedding in of new staff/ training. - Carrying out backlogs of previous joiners (most of which are due to i-Connect roll out). - Contacting employers which are causing delays. - Reviewing staff resources. 28/1/19: - Introduce process to analyse specific employers causing		

	problems. - Ongoing streamlining of aggregation cases with major employers. - Consider feasibility and implications of removing reminders for joining pack. - Consider feasibility of whether tasks can be prioritsed by date of joining.
Assessment of breach and brief summary of rationale	29/1/19 Large proportion of joining members affected but business case has been put forward to increase resources. In the meantime, temporary resources are being requested to assist.
Reported to TPR	No

Ref.	A2	**Date entered in register**	19/9/2017
Current status	Open	**Date breached closed (if relevant)**	
Title of Breach	Late transfer in estimate	**Owner**	JT
Party which caused the breach	CPF + various previous schemes		
Description and cause of breach	Requirement to obtain transfer details for transfer in, and calculate and provide quotation to member 2 months from the date of request. Breach due to late receipt of transfer information from previous scheme and late completion of calculation and notification by CPF. Only 2 members of team fully trained to carry out transfer cases due to new team structure and additional training requirements. 29/1/19 National changes to transfer factors meant cases were put on hold/stockpiled end of 2018/early 2019.		
Category affected	Active members		
Numbers affected	2017/18: 235 cases completed / 36% (85) were in breach. 2018/19: - Q1 - 60 cases completed / 42% (25) were in breach - Q2 - 66 case completed / 38% (25) were in breach - Q3 - 31 case completed / 32% (10) were in breach		
Possible effect and wider implications	- Potential financial implications on some scheme members. - Potential complaints from members/previous schemes. - Potential for impact on CPF reputation.		
Actions taken to rectify breach	- Continued training of team members to increase knowledge and expertise to ensure that transfers are dealt with in a more timely manner.		
Outstanding actions (if any)	- Completion of training of team members in transfer and aggregation processes. 29/1/19: - If KPIs don't improve, investigate how much of the delay is due to external schemes and look for ways to improve this.		
Assessment of breach and brief	29/1/19 Stockpiling will likely make KPIs worse in short term but then longer term additional training will result in		

summary of rationale	improvements.
Reported to TPR	No

Ref.	A3	**Date entered in register**	19/9/2017
Current status	Open	**Date breached closed (if relevant)**	
Title of Breach	Late transfer out estimate	**Owner**	JT
Party which caused the breach	CPF		
Description and cause of breach	Requirement to provide details of transfer value for transfer out on request within 3 months from date of request (CETV estimate). Late completion of calculation and notification by CPF. Only 2 members of team fully trained to provide transfer details due to new team structure and additional training requirements.		
Category affected	Deferred members mainly but potentially some active members		
Numbers affected	2017/18: 382 cases completed / 9% (33) were in breach. 2018/19: - Q1 - 119 cases completed / 10% (12) were in breach - Q2 - 94 case completed / 2% (2) were in breach - Q3 - 76 case completed / 3% (2) were in breach		
Possible effect and wider implications	- Potential financial implications on some scheme members. - Potential complaints from members/new schemes. - Potential for impact on CPF reputation.		
Actions taken to rectify breach	- Continued training of team members to increase knowledge and expertise to ensure that transfers are dealt with in a more timely manner.		
Outstanding actions (if any)	- Completion of training of team members in transfer and aggregation processes.		
Assessment of breach and brief summary of rationale	29/1/19 - Low number of cases impacted now.		
Reported to TPR	No		

Ref.	A4	**Date entered in register**	19/9/2017
Current status	Open	**Date breached closed (if relevant)**	
Title of Breach	Late notification of retirement benefits	**Owner**	SB
Party which caused the breach	CPF + various employers + AVC providers		
Description and cause of breach	Requirement to provide notification of amount of retirement benefits within 1 month from date of retirement if on or after Normal Pension Age or 2 months from date of retirement if before Normal Pension Age. Due to a combination of: - late notification by employer of leaver information		

	- late completion of calculation by CPF - for members who have AVC funds, delays in receipt of AVC fund values from AVC provider.
Category affected	Active members mainly but potentially some deferred members
Numbers affected	2017/18: 960 cases completed / 39% (375) were in breach. 2018/19: - Q1 - 297 cases completed / 31% (91) were in breach - Q2 - 341 case completed / 26% (89) were in breach - Q3 - 357 case completed / 30% (108) were in breach
Possible effect and wider implications	- Late payment of benefits which may miss payroll deadlines and result in interest due on lump sums/pensions (additional cost to CPF). - Potential complaints from members/employers. - Potential for impact on CPF reputation.
Actions taken to rectify breach	- Roll out of iConnect where possible to scheme employers including new admitted bodies to ensure monthly notification of retirees (ongoing). - Set up of ELT to monitor and provide leaver details in a more timely manner. - Prioritising of task allocation. - Set up of new process with one AVC provider to access AVC fund information. - Increased staff resources.
Outstanding actions (if any)	- Further training of newly promoted team member to deal with volume of work. - Identifying which employers are causing delays. - Reviewing staff resources.
Assessment of breach and brief summary of rationale	29/1/19 - Improvements have been made and more should be made as staff are settled in and trained. Business case will also assist if approved.
Reported to TPR	No

Ref.	A5	**Date entered in register**	20/9/2017
Current status	Open	**Date breached closed (if relevant)**	
Title of Breach	Late estimate of benefits	**Owner**	SB
Party which caused the breach	CPF		
Description and cause of breach	Requirement to provide quotations on request for potential retirements as soon as is practicable, but no more than 2 months from date of request unless there is a previous request in the last year. Delays are due to: - late completion of calculation by CPF. - Increasing numbers of estimate requests being made by members.		
Category affected	Active members mainly but potentially some deferred members		

Numbers affected	2017/18: 487 cases completed / 37% (182) were in breach. 2018/19: - Q1 - 79 cases completed / 32% (25) were in breach - Q2 - 60 case completed / 22% (13) were in breach - Q3 - 123 case completed / 15% (18) were in breach
Possible effect and wider implications	- Late notification of benefits/costs to member/employer. - Potential complaints from members/employers. - Potential for missed opportunities by members/employers. - Potential for impact on CPF reputation.
Actions taken to rectify breach	- Introduction of MSS should alleviate the volume of requests received as member will be able to calculate own estimate through database. - Further training of team members also required. - Task allocation reviewed by team leader to ensure estimates are given a higher priority.
Outstanding actions (if any)	- Additional staff training. - Reviewing staff resources.
Assessment of breach and brief summary of rationale	29/1/19 - Improvements have been made including from MSS and more should be made as staff are settled in and trained. Business case will also assist if approved.
Reported to TPR	No

Ref.	A6		**Date entered in register**	20/9/2017
Current status	Open		**Date breached closed (if relevant)**	
Title of Breach	Late notfication of death benefits		**Owner**	SB
Party which caused the breach	CPF			
Description and cause of breach	Requirement to calculate and notify dependant(s) of amount of death benefits as soon as possible but in any event no more than 2 months from date of becoming aware of death, or from date of request by a third party (e.g. personal representative). Due to late completion by CPF the legal requirements are not being met. Due to complexity of calculations, only 2 members of team are fully trained and experienced to complete the task.			
Category affected	Dependant members + other contacts of deceased (which could be active, deferred, pensioner or dependant).			
Numbers affected	2017/18: 153 cases completed / 58% (88) were in breach. 2018/19: - Q1 - 53 cases completed / 32% (17) were in breach - Q2 - 26 case completed / 35% (9) were in breach - Q3 - 41 case completed / 39% (16) were in breach			
Possible effect and wider implications	'- Late payment of benefits which may miss payroll deadlines and result in interest due on lump sums/pensions (additional cost to CPF).			

	- Potential complaints from beneficaries, particular given sensitivity of cases. - Potential for impact on CPF reputation.
Actions taken to rectify breach	- Further training of team - Review of process to improve outcome - Recruitment of additional, more experienced staff.
Outstanding actions (if any)	- Additional staff training. - Reviewing staff resources.
Assessment of breach and brief summary of rationale	29/1/19 - Improvements have been made and more should be made as staff are trained. Business case will also assist if approved.
Reported to TPR	No

Ref.	A7	**Date entered in register**	5/6/2018
Current status	Open	**Date breached closed (if relevant)**	

Title of Breach	Incorrect APP notified	**Owner**	PL
Party which caused the breach	One employer (confidential)		
Description and cause of breach	CARE should be enhanced to Assumed Pensionable Pay (APP) in some circumstances where normal pay is reduced due to sickness or parental leave. The APP extracted from the payroll system was incorrect. This resulted in provision of an extract by the employer to CPF Administration team that included incorrect CARE pay information for some cases since 1 April 2014.		
Category affected	Active members, deferred members, pensioners, dependants and other exits (e.g. transfers out)		
Numbers affected	Approximately 1,400 members being investigated, albeit not all will have been affected.		
Possible effect and wider implications	- CARE pension may be under or over stated on annual benefit statements, member self-service and other notifications of benefits. - For those who have retired, transferred out, died or received a trivial commutation benefit, CARE pension may be under or overpaid. - The amount of employer contributions may also be under or over paid.		
Actions taken to rectify breach	Working group set up to: - Identify cases that have been impacted/carry out rectification exercise. - Work with payroll provider to ensure root problem is resolved. Project Plan developed with detailed actions.		
Outstanding actions (if any)	- Ongoing work to check all cases and rectify where necessary. - Ongoing work with payroll provider and employer to resolve root problem.		
Assessment of breach and brief summary of rationale	Large number of members affected.		

Reported to TPR	Yes

Ref.	A8	**Date entered in register**	5/6/2018
Current status	Open	**Date breached closed (if relevant)**	
Title of Breach	Incorrect CARE pension calculated and/or paid	**Owner**	PL
Party which caused the breach	CPF		
Description and cause of breach	CARE should be enhanced to Assumed Pensionable Pay (APP) in some circumstances where normal pay is reduced due to sickness or parental leave. The APP extracted and provided to CPF Administration team was incorrectly calculated in some cases since 1 April 2014. This resulted in CPF incorrectly calculating CARE pensions for those members.		
Category affected	Active members, deferred members, pensioners, dependants and other exits (e.g. transfers out)		
Numbers affected	Approximately 1,400 members being investigated, albeit not all will have been affected.		
Possible effect and wider implications	- CARE pension may be under or over stated on annual benefit statements, member self-service and other notifications of benefits. - 2018 annual benefit statements delayed for members who are potentially affected/need checked. - For those who have retired, transferred out, died or received a trivial commutation benefit, CARE pension may be under or overpaid. - The amount of employer contributions may also be under or over paid.		
Actions taken to rectify breach	Working group set up to: - Identify cases that have been impacted/carry out rectification exercise. - Work with payroll provider to ensure root problem is resolved. Project Plan developed with detailed actions.		
Outstanding actions (if any)	- Ongoing work to check all cases and rectify where necessary. - Ongoing work with payroll provider and employer to resolve root problem.		
Assessment of breach and brief summary of rationale	Large number of members affected.		
Reported to TPR	Yes		

Ref.	A9	**Date entered in register**	29/8/2018
Current status	Open	**Date breached closed (if relevant)**	
Title of Breach	Late notification of leaver rights and options	**Owner**	SB/JT

Party which caused the breach	CPF + various employers
Description and cause of breach	Requirement to inform members who leave the scheme of their leaver rights and options, as soon as practicable and no more than 2 months from date of initial notification (from employer or from scheme member). Due to a combination of late notification from employers and untimely action by CPF the legal requirement was not met. 20/11/18 - (Q2) Staff turnover in August/September reduced number actioned. 29/1/19 The introduction of I-connect is also producing large backlogs at the point of implementation for each employer. I-connect submission timescales can also leave only a few days for CPF to meet the legal timescale.
Category affected	Active members
Numbers affected	2018/19: - Q1 - 437 cases completed / 40% (173) were in breach - Q2 - 1463 cases completed / 66% (963) were in breach - Q3 - 951 cases completed / 51% (481) were in breach
Possible effect and wider implications	- Late notification of benefits/costs to member/employer. - Potential complaints from members/employers. - Potential for missed opportunities by members/employers. - Potential for impact on CPF reputation.
Actions taken to rectify breach	- Roll out of iConnect where possible to scheme employers including new admitted bodies to ensure monthly notification of leavers (ongoing). - Set up of Employer Liasion Team (ELT) to monitor and provide leaver details in a more timely manner. - Training of new team members to raise awareness of importance of time restraint. - Prioritising of task allocation. KPIs shared with team members to further raise awareness of importance of timely completion of task. - 6/6/18 - Updating KPI monitoring to understand employers not sending information in time.
Outstanding actions (if any)	- Ongoing roll out of i-Connect. - Bedding in of new staff/ training. - Carrying out backlogs of previous leavers (most of which are due to i-Connect roll out). - Contacting employers which are causing delays. - Reviewing staff resources. 28/1/19: - Introduce process to analyse specific employers causing problems. - Ongoing streamlining of aggregation cases with major employers. - Consider feasibility of whether tasks can be prioritsed by date of leaving.
Assessment of breach and brief summary of rationale	29/1/19 Large proportion of leaving members affected but business case has been put forward to increase resources. In the meantime, temporary resources are

	being requested to assist.
Reported to TPR	No

Ref.	F1	**Date entered in register**		29/1/2019
Current status	Closed	**Date breached closed (if relevant)**		17/1/2019
Title of Breach	Late payment of contributions		**Owner**	DF
Party which caused the breach	Marchwiel			
Description and cause of breach	Contributions must be paid by the 22nd (if BACs) or 19th (if cheque) of the month following the deductions. Contributions were only received for November 2018 on 17/1/19.			
Category affected	Active members and employer			
Numbers affected	One active member			
Possible effect and wider implications	- Could expose employers to late payment interest charge. - Assumptions regarding funding assume regular monthly payment; not adhering to this regulatory requirement could result in changed actuarial assumptions for the employer.			
Actions taken to rectify breach	- Contacted employer to chase payment of contributions			
Outstanding actions (if any)	- Ensure subsequent payments are paid by BACS.			
Assessment of breach and brief summary of rationale	29/1/19 Matter now resolved.			
Reported to TPR	No			

Ref.	F2	**Date entered in register**		29/1/2019
Current status	Closed	**Date breached closed (if relevant)**		6/2/2019
Title of Breach	No submission of contribution remittance advice		**Owner**	DF
Party which caused the breach	Coedpoeth			
Description and cause of breach	A remittance advice detailing information in relation to contribution payments should be submitted to CPF at the same point as the payment is made. Contributions relating to December 2018 were received on 22 January 2019 but no remittance advice has been received.			
Category affected	Active members and employer			
Numbers affected	Approx six active members			
Possible effect and wider implications	Unable to verify information being paid or reconcile with member year end information.			

Actions taken to rectify breach	- Contacted employer to chase submission of remittance advice
Outstanding actions (if any)	6/2/19 No outstanding actions. Advice now received
Assessment of breach and brief summary of rationale	29/1/19 Likely to receive remittance shortly. Payment has been made.
Reported to TPR	No

Calendar of Future Events

Month	Date	Day	Committee	Training	Pension Board	Location
2019						
January	17 - 18 Jan	Thur - Fri		LGA Annual Governance Conference		Bristol
February	20-Feb	Wed	9.30am - 1pm			County Hall
	25-Feb	Mon		CIPFA PB Seminar		Leeds
	27-Feb	Wed			9.30am - 12.30pm	County Hall
	27-Feb	Wed		CIPFA PB Seminar		London
	28 Feb - 1 Mar	Thur - Fri		LGC Investment Seminar		Carden Park Chester
March	01-Mar	Fri		CIPFA PB Seminar		Bristol
	13-Mar	Wed		CIPFA PB Seminar		Liverpool
	20-Mar	Wed	9.30am - 1pm			County Hall
May	13 - 15 May	Mon - Wed		PLSA Local Authority Conference		Gloucestershire
June	12-Jun	Wed	9.30am - 1pm			County Hall
	27-Jun	Thu			9.30am - 12.30pm	County Hall
September	4 - 6 Sept	Wed - Fri		LGC Investment Summit		Newport

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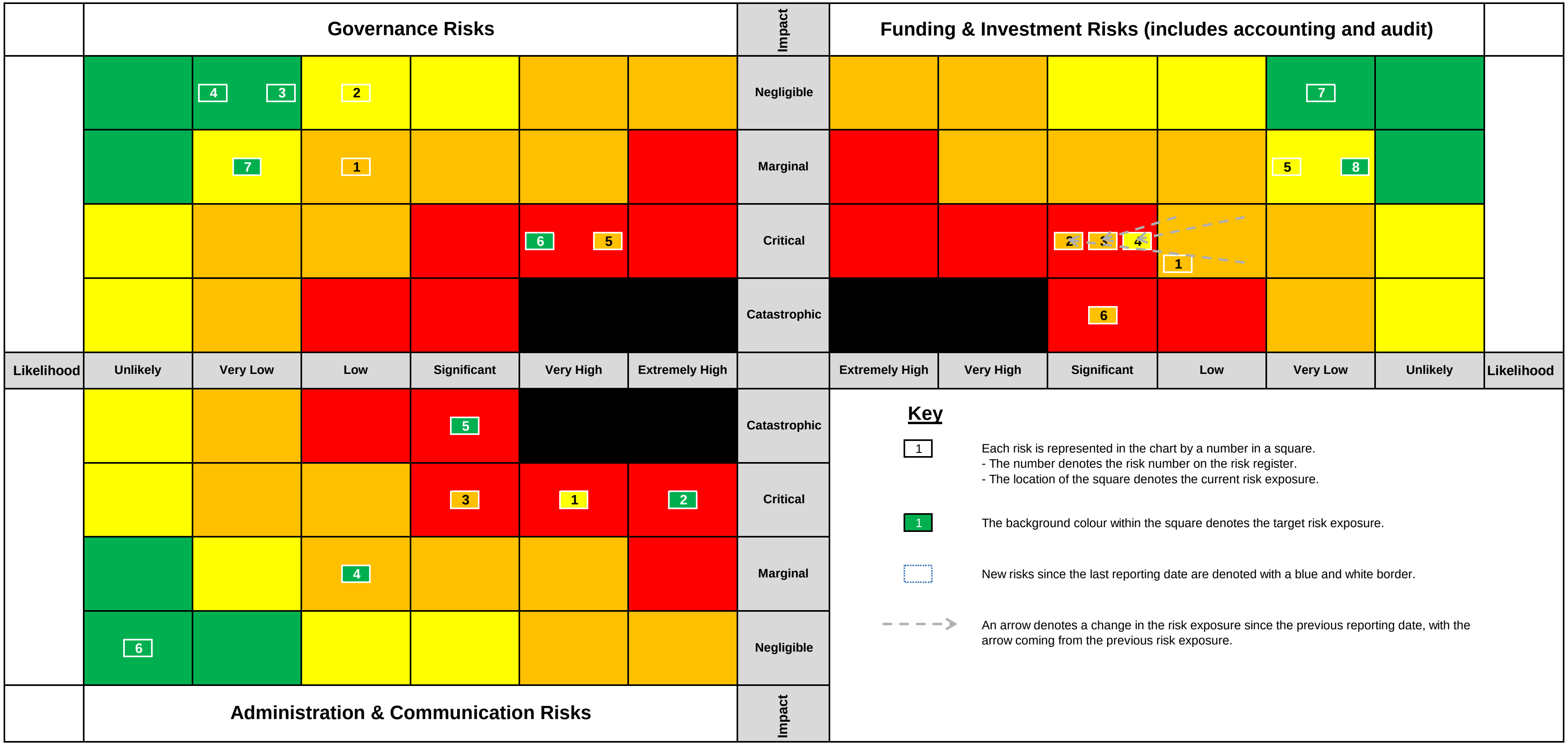
All Fund Risk Heat Map and Summary of Governance Risks



14 February 2019

<u>Clwyd Pension Fund - Control Risk Register</u>

Governance Risks

Objectives extracted from Governance Policy (03/2017), Training Policy (11/2015) and Procedures for Reporting Breaches of the Law (11/2015)

G1 Act in the best interests of the Fund's members and employers
G2 Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies
G3 Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise
G4 Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based
G5 Understand and monitor risk
G6 Strive to ensure compliance with the appropriate legislation and statutory guidance, and to act in the spirit of other relevant guidelines and best practice guidance
G7 Clearly articulate our objectives and how we intend to achieve those objectives through business planning, and continually measure and monitor success
T1 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.
T2 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.
B1 Ensure individuals responsible are able to meet their legal obligations and avoid placing any reliance on others to report.
B2 Assist in providing an early warning of possible malpractice and reduce risk.

Risk no:	Risk Overview (this will happen)	Risk Description (if this happens)	Strategic objectives at risk (see key)	Current Impact (see key)	Current Likelihood (see key)	Current Risk Status	Internal controls in place	Target Impact (see key)	Target Likelihood (see key)	Target Risk Status	Meets target?	Date Not Met Target From	Expected Back on Target	Further Action and Owner	Risk Manager	Next review date	Last Updated
1	Losses or other determintal impact on the Fund or its stakeholders	Risk is not identified and/or appropriately considered (recognising that many risks can be identified but not managed to any degree of certainty)	All	Marginal	Low		1 - Risk policy in place 2 - Risk register in place and key risks/movements considered quarterly and reported to each PFC 3 - Advisory panel meets at least quarterly discussing changing environment etc 4 - Fundamental review of risk register annually 5 - TPR Code Compliance review completed annually 6 - Annual internal and external audit reviews 7 - Breaches procedure also assists in identifying key risks	Marginal	Low		☺			None	CPFM	31/05/2019	13/04/2017
2	Inappropriate or no decisions are made	Governance (particularly at PFC) is poor including due to: - short appointments - poor knowledge and advice - poor engagement /preparation / commitment - poor oversight	G1 / G2 / G3 / G4 / G5 / G6 / G7	Negligible	Low		1 - Independent advisor focussing on governance including annual report considering structure, behaviour and knowledge 2 - Oversight by Local Pension Board 3 - Annual check against TPR Code 4 - Training Policy, Plan and monitoring in place for PC and PB members 5 - Training Needs self assessment carried out (January 2018) and training programme reviewed based on results 5 - There is a range of professional advisors covering all Fund responsibilities guiding the PC, PB and officers in their responsibilities 6 - Induction training programme in place for new Committee members which covers CIPFA Knowledge and Skills requirements and can be delivered quickly. 7 - Terms of reference for the Committee in the Constitution allows for members to be on the Committee for between 4-6 years but they can be re-appointed.	Negligible	Low		☺			None	CPFM	31/05/2019	04/06/2018
3	Our legal fiduciary responsibilities are not met	Decisions, particularly at PFC level, are influenced by conflicts of interest and therefore may not be in the best interest of fund members and employers	G1 / G2 / G4 / G6 / T2	Negligible	Very Low		1 - Conflicts of Interest policy focussed on fiduciary responsibility regularly discussed and reviewed 2 - Independent advisor focussing on governance including annual report considering structure, behaviour and knowledge 3 - All stakeholders to which fiduciary responsibility applies represented at PFC and PB 4 - Training Policy, Plan and monitoring in place for PC and PB members including section on responsibilities 5 - There is a range of professional advisors covering all Fund responsibilities guiding the PC, PB and officers in their responsibilities 6 - Clear strategies and policies in place with Fund objectives which are aligned with fiduciary responsibility	Negligible	Very Low		☺			None	CPFM	31/05/2019	13/11/2017
4	Appropriate objectives are not agreed or monitored - internal factors	Policies not in place or not being monitored	G2 / G7	Negligible	Very Low		1- Range of policies in place and all reviewed at least every three years 2 - Review of policy dates included in business plan 3 - Monitoring of all objectives at least annually (work in progress) 4 - Policies stipulate how monitoring is carried out and frequency 5 - Business plan in place and regularly monitored	Negligible	Unlikely		😐 Current likelihood 1 too high	01/07/2016	Oct 2019	1- Ensure work relating to annual monitoring is completed and included in PFC papers (PL)	Dep. Head of CPF	31/05/2019	13/11/2017
5	The Fund's objectives/legal responsibilities are not met or are compromised - external factors	Externally led influence and change such scheme change, national reorganisation and asset pooling	G1 / G4 / G6 / G7	Critical	Very High		1 - Continued discussions at AP, PFC and PB regarding this risk 2 - Involvement of CEO / links to WLGA and WG 3 - Fund's consultants involved at national level/regularly reporting back to AP/PFC 4 - Key areas of potential change and expected tasks identified as part of business plan (ensuring ongoing monitoring) 5 - Asset pooling IAA in place 6 - Officers on Wales Pool OWG 7 - Ongoing monitoring of cybercrime risk by AP	Marginal	Low		😐 Current impact 1 too high Current likelihood 2 too high	28/02/2017	Mar 2020	1 - Regular ongoing monitoring by AP to consider if any action is necessary (PL) 2 - Ensure Board requests to JGC/OWG are responded to (PL) 3 - Regular consideration of impact national reorganisation at APs (PL)	CPFM	31/05/2019	20/11/2018
6	Services are not being delivered to meet legal and policy objectives	Insufficient staff numbers (e.g. sickness, resignation, retirement, unable to recruit) - current issues include age profile, implementation of asset pools and local authority pay grades.	G3 / G6 / G7 / T1	Critical	Very High		1 - 2018/19 business plan includes workforce matters 2 - Review of admin structure in 2015/16 3 - Finance team restrcuture commenced (2017/18) 4 - Quarterly update reports consider resourcing matters 5 - Advisory Panel provide back up when required 6- Additional resources, such as outsourcing, considered as part of business plan	Negligible	Very Low		☹ Current impact 2 too high Current likelihood 3 too high	01/07/2016	Dec 2019	1 - Complete and implement Finance team restructure, including fundamental review of future service requirements (PL) 2 - Ongoing consideration of succession planning (PL) 3 - Implement the agreed outcome of the admin staff structure review (PL) 4 - Recruit to vacant Pensions Administration Manager post (PL)	CPFM	31/05/2019	08/02/2019
7	Legal requirements and/or guidance are not complied with	Those tasked with managing the Fund are not appropriately trained or do not understand their responsibilities (including recording and reporting breaches)	G3 / G6 / T1 / T2 / B1 / B2	Marginal	Very Low		1 - TPR Code Compliance review completed annually 2 - Annual internal and external audit reviews 3 - Breaches procedure also assists in identifying non-compliance areas (relevant individuals provided with a copy and training provided) 4 - Training policy in place (fundamental to understanding legal requirements) 5 - Use of nationally developed administration system 6 - Documented processes and procedures 7 - Strategies and policies often included statements or measures around legal requirements/guidance 8 - Wide range of advisers and AP in place 9 - Independent adviser in place including annual report which will highlight concerns	Negligible	Very Low		😐 Current impact 1 too high	01/07/2016	Oct 2019	1 - Further documented processes (as part of TPR compliance) e.g. contribution payment failure (DF) 2 - Embed system of reviewing outstanding actions relating to TPR Code (HB/DF)	CPFM	31/05/2019	08/02/2019

CLWYD PENSION FUND COMMITTEE

Date of Meeting	20 February 2019
Report Subject	LGPS Current Issues
Report Author	Clwyd Pension Fund Manager

EXECUTIVE SUMMARY

The purpose of this report is to provide an update on the key issues affecting the LGPS. This covers many of the current ongoing issues and the latest news since the last Committee update in November 2018, in particular:

- The LGPS Cost Cap Mechanism – on 21 December 2018, SAB published its proposals on varying benefits to bring the cost back up to the long term target of 19.5%. This was followed by a written statement on 30 January 2019 (subsequently confirmed on the 7 February 2019 to apply to the LGPS), announcing a pause on this pending the outcome of an appeal in the age-discrimination McCloud case affecting the Judges Pension Scheme.
- The long awaited consultation from MHCLG on New Fair Deal was published on 10 January. The consultation also covers miscellaneous amendments. The consultation closes on 4 April and Mercer has shared their preliminary views.
- The previous consultation on the indexation and equalisation of GMPs concluded and the outcome is for indexation costs for members reaching State Pension Age between 6 April 2016 and 5 December 2018 to be extended to 5 April 2021. During this time, the Government will explore an alternative long term approach known as "conversion".
- The continuing changing landscape to AVCs – significant changes are due at both Prudential and Equitable Life during 2019. Prudential are due to alter their offering on lifestyle strategies while all investments at Equitable Life are due to transfer to Reliance Life.
- In December, the Continuous Mortality Investigation published a new series of mortality tables (the S3 series), using data compiled over 2009/2016. These are expected to replace the current (S2) series, albeit, adjustments will be needed to introduce consistency.
- On 3 December 2018, the Department for Work and Pensions published a feasibility report and consultation inviting views on aspects relating to the creation of a pensions dashboard.

RECOMMENDATIONS	
1	It is recommended that all Committee members note this report and make themselves aware of the various current issues affecting the LGPS, some of which are significant to the operation of the Fund.

REPORT DETAILS

1.00	LGPS Current Issues
1.01	The purpose of this report is to provide a general update to Committee Members on various current issues affecting the LGPS. Appendix 1 sets out a brief update on a number of significant specific issues, and also wider issues affecting the whole of the pensions industry.

1.02	Key points to be aware of are:
	
	• The LGPS Cost Cap Mechanism – on 21 December 2018, SAB published its proposals on varying benefits to bring the cost back up to the long term target of 19.5%. The changes proposed included:
	  ○ removal of Tier 3 ill health option
	  ○ a minimum lump sum death in service benefit of £75,000 per member, regardless of salary
	  ○ enhanced early retirement factors for all members that are active on 1 April 2019 in respect of their final salary linked benefits only
	  ○ lower contributions for those with salaries at the lower end of the contribution bands.
	However, this was followed by a written statement from the Government on 30 January 2019, announcing a pause on this for Public Service Pension Schemes, subsequently confirmed on the 7 February 2019 to apply to the LGPS, pending the outcome of an appeal in the age-discrimination McCloud case affecting the Judges Pension Scheme. Given that confirmation, the SAB considers it has no option but to pause its own cost management process pending the outcome of the appeal.
	Although no timescales were indicated, it is understood that it could be late 2019/early 2020, or even longer before this is resolved. We will work with the Fund Actuary to ensure the Fund is as well placed as it can be in the context of this during the 2019 valuation project.
	• The long awaited consultation from MHCLG on New Fair Deal was published on 10 January. The consultation also covers miscellaneous amendments. The consultation closes on 4 April and Mercer has shared their preliminary views.
	• The previously noted consultation on the indexation and

	equalisation of GMPs has now concluded and the outcome is for the indexation costs for members reaching State Pension Age between 6 April 2016 and 5 December 2018 currently being met by the Fund is to be extended to cases arising up to and including 5 April 2021. During this time, it is understood that, the Government will explore an alternative long term approach known as “conversion” where previous GMP benefits are effectively converted to non-GMP on an actuarially equivalent basis. It is possible that this approach will remove the need for any further equalisation activities needed. • Significant changes are due at both Prudential and Equitable Life during 2019. Prudential are due to alter their offering by removing most of their lifestyle strategies. The Clwyd Pension Fund has recently reviewed its AVC arrangements, including modifying the lifestyling strategies available to members. Fund officers will keep under close watch and consider any announcement (in light of actions taken following the review). In addition, major changes are due at Equitable Life as it is expected that all investments are to transfer to Reliance Life. The Fund Officers will keep this under review as more information becomes available. • In December, the Continuous Mortality Investigation published a new series of mortality tables (the S3 series), using data compiled over 2009/2016. These are expected to replace the current (S2) series, albeit, adjustments will be needed to introduce consistency. It is expected that analysis and scheme specific characteristics will be reviewed as part of this year’s actuarial valuation. • On 3 December 2018, the Department for Work and Pensions published a feasibility report and consultation inviting views on aspects relating to the creation of a pensions dashboard.

2.00	**RESOURCE IMPLICATIONS**
2.01	Some of the actions arising out of the issues identified could mean significant changes to operational matters for the Fund. In particular, if the benefit changes discussed as part of the LGPS Cost Cap Mechanism go ahead, this would require additional administration resources to implement the changes.

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	None directly as a result of this report.
4.00	**RISK MANAGEMENT**
4.01	This report addresses some of the risks identified in the Fund’s Risk Register. Specifically, this covers the following (either in whole or in part): • Governance risks: G2 & G7.

	• Funding and Investment risks: F1, F5

5.00	**APPENDICES**
5.01	Appendix 1 – LGPS Current Issues – February 2019 edition

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	Earlier editions of the LGPS Current Issues document, tabled at previous Committee meetings. **Contact Officer:** Philip Latham, Clwyd Pension Fund Manager **Telephone:** 01352 702264 **E-mail:** philip.latham@flintshire.gov.uk

7.00	**GLOSSARY OF TERMS**
7.01	(a) **The Fund – Clwyd Pension Fund** – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region (b) **Administering Authority or Scheme Manager** – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund. (c) **The Committee – Clwyd Pension Fund Committee** - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund (d) **LPB or PB – Local Pension Board or Pension Board** – each LGPS Fund has an LPB. Their purpose is to assist the administering authority in ensuring compliance with the scheme regulations, TPR requirements and efficient and effective governance and administration of the Fund. (e) **GAD** - The Government Actuary's Department. (f) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of (g) **MHCLG – Ministry of Housing, Communities and Local Government** - Central Government department responsible for the LGPS (h) **LGA - The Local Government Association** - a politically-led, cross-party organisation that works on behalf of councils to ensure local government has a strong, credible voice with national government. Performs various Secretariat and support roles for the LGPS.

(i) **Actuarial Valuation** - The formal valuation assessment of the Fund detailing the solvency position and determine the contribution rates payable by the employers to fund the cost of benefits and make good any existing shortfalls as set out in the separate Funding Strategy Statement.

(j) **GMP** – **Guaranteed Minimum Pension** – This is the minimum level of pension which occupational pension schemes in the UK have to provide for those employees who were contracted out of the State Earnings-Related Pension Scheme (SERPS) between 6 April 1978 and 5 April 1997.

(k) **CARE** – **Career Average Revalued Earnings –** With effect from 1 April 2014, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.

(l) **Annual Allowance –** the annual allowance is a limit on the capital amount that individuals can contribute to their pension each year, while still receiving tax relief. The standard Annual Allowance is £40,000 in any year. For members who taxable earnings are over £110,000 they can fall into the Tapered Annual Allowance which falls between £10,000 and £40,000 depending on their level of earnings.

(m)**Fair Deal** - guidance issued by the Government which applies to compulsory transfers of employment out of the public sector. Updated guidance was issued in October 2013, referred to as “New Fair Deal”, which amends some of the previous guidance.

(n) **Scheme Pays** – the option for a member to ask the Fund to pay any tax associated with breaching the Annual Allowance. The Mandatory Scheme Pays option applied where a member exceeds the statutory Annual Allowance limit of £40,000. The Voluntary Scheme Pays option applies when a member falls into Tapered Annual Allowance or their tax charge is less then £2,000. Voluntary Scheme Pays can be used at the discretion of the Administering Authority.

(o) **Section 114 Notice** – Refers to Section 114 of the Local Government Finance Act 1988. Once a council issues a notice under section 114 it is prohibited from entering into new agreements that incur expenditure and must strive to set a balanced budget.

(p) **TPR** – The Pensions Regulator - the UK regulator of workplace pension schemes. TPR is focussed on ensuring that employers put their staff into a pension schemes and pay money into it, together with making sure that workplace pension schemes are run properly so that people can save safely for their later years. TPR has a specific remit in the context of Public Service Pension Schemes as defined by the Public Service Pensions Act 2013 (see its Code of Practice 14).

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LGPS CURRENT ISSUES

NEWS IN BRIEF

NEW FAIR DEAL IN THE LGPS

On 10 January the MHCLG published its latest consultation on the "New" Fair Deal, concerning the introduction of greater pensions protection for employees of LGPS employers who are compulsorily transferred to service providers. The consultation closes on Thursday 4 April, and we will be responding in due course as well as setting out our views to clients so that they can frame their own responses.

IN THIS ISSUE

This latest consultation is long overdue, with the government having issued its New Fair Deal guidance back in 2013 and the MHCLG having had an initial consultation in 2016. As well as covering Fair Deal, it also includes a proposed miscellaneous amendment which will affect some employers who seek to end their participation in the Fund on merger.

We will shortly provide a more detailed view on the implications and practicalities to assist Funds in responding to the consultation. In the meantime, if you have any queries in this area please contact us.

INDEXATION AND EQUALISATION OF GUARANTEED MINIMUM PENSIONS

The consultation discussed in our November issue on indexation and equalisation of GMP in public service pension schemes has concluded. The government has been implementing an "interim solution" on *indexation* between 6 April 2016 and 5 December 2018. The outcome of this consultation is that this solution will be extended for a further two years and four months. i.e. to extend the full indexation window to those reaching state pension age between 6 April 2016 and 5 April 2021. During this period, the government will investigate the possibility of an alternative long-term methodology, known as "conversion". The response paper to the consultation can be found here.

As reported in November, it has been mooted that this may potentially remove the need to consider a separate *equalisation* exercise, as any indexation solution may solve the bulk of the GMP equalisation issue at the same time. We will provide further details once this is known.

UPDATE FROM THE LGPS AVC CLUB – PRUDENTIAL AND EQUITABLE LIFE CHANGES

The AVC landscape continues to change and, during 2019 there will be significant changes at both Prudential and Equitable Life. Prudential will be writing to LGPS Funds shortly to communicate the withdrawal of most of their existing lifestyle strategies. At Equitable Life, all investments are to be transferred to Reliance Life later this year following closure of their With-Profits Fund, and the Equitable Life With-Profits Fund investments are expected to be enhanced by 60%-70%. Hence, from a governance perspective we would recommend that LGPS Funds affected by these changes consider the AVC arrangements they currently have in place and take regulated investment advice.

By participating in the LGPS AVC Club, Funds will be able to better understand the changing AVC landscape, monitor their own AVC arrangements and provide members with the best possible service in a cost-efficient way. Further details can be provided by your usual Mercer consultant.

LGPS COST CAP MECHANISM

On 21 December 2018 the LGPS Scheme Advisory Board (SAB) published its paper on cost management.

The LGPS in England and Wales has a separate cost management process which is completed prior to finalisation of the HMT public sector cost cap calculations.

Under this initial phase, the SAB are proposing an improvement to benefits equating to 0.5% of payroll, taking the cost back up to the long term target of 19.5% of payroll. The proposals are broadly as follows:

- Removal of Tier 3 ill Health
- A minimum lump sum death in service benefit of £75,000 per member (regardless of salary)
- Enhanced early retirement factors for all members who are active on 1st April 2019 in respect of their final salary-linked membership only
- Lower employee contributions for those with salaries at the lower end of the contribution band scale

The HMT cost cap process will be completed once the outcome of the above proposals and subsequent consultation is known.

However, on 30 January 2019 the Government published a written statement which announces a pause in the cost cap process for public service pension schemes pending the outcome of the application to appeal the McCloud case to the Supreme Court. A copy of the judgement can be found here: Judgment

The statement can be found here: Statement

Although the statement gives no timescales for the outcome of this case we understand it could be late 2019 or early 2020 before we know.

The LGPS Advisory Board (SAB) will now consider whether, given this announcement, it should withdraw the benefit change recommendations made to MHCLG as a result of its own cost cap process.

We understand that the LGPS could, if McCloud is upheld, be required to make changes to the underpin (potentially expanding this to cover more members). Such changes would need to be taken into account in a revised SAB cost cap result as this could potentially increase rates materially.

THE BRAND NEW S3 SERIES….MORTALITY TABLES

In December 2018, the CMI (Continuous Mortality Investigation) published a new series of mortality tables - the S3 series.

The S3 series is a set of mortality tables based on the mortality experience of large private ***and*** public sector defined benefit occupational pension schemes between 2009 and 2016. The S3 tables are expected to replace, over time, the S2 tables, which were based on occupational pension scheme experience between 2004 and 2011 (and which excluded data from public sector schemes).

The two sets of tables are not directly comparable because they are based on experience over different periods of time and different schemes. Hence, a straight switch from an S2 table to the corresponding S3 table would not be appropriate. However, if a such a switch was done, without any scheme-specific adjustments, then in general (and depending on the table being used) adopting the S3 tables would result in longer life expectancies and an increase in liabilities of around 1% to 3%. This largely reflects the fact that the pensioner life expectancy in public sector pension schemes is higher than in private sector schemes.

When setting mortality assumptions, standard tables often need to be adjusted, using scheme specific data, to reflect the expected mortality for the scheme. Changing from the S2 to the S3 tables will alter how a scheme's mortality assumption is expressed but, provided the current assumption is up to date, it should not affect estimates of period life expectancies (that is, the experience expected within that scheme at a given point in time). To ensure this, when adopting the S3 tables, consideration will be needed as to what adjustments are required to reflect scheme-specific characteristics and this will be carried out as part of our demographic analysis for the 2019 valuations.

PENSIONS DASHBOARD – A REALITY?

On 3 December 2018, the Department for Work and Pensions (DWP) published 'Pensions Dashboards – working together for the consumer', a feasibility report and consultation which invites views on a range of questions relating to the creation of pensions dashboards. The closing date for the consultation was 28 January 2019.

The DWP's favoured option is, initially, a single, non-commercial, Government sponsored dashboard hosted by the Single Financial Guidance Body (SFGB) and delivered (and largely paid for) by the pensions industry. The SFGB is replacing the Money Advice Service and Pension Wise services and the advice section of the Pensions Advisory Service.

The first dashboard is to include State Pension figures (initially by provision of a link to the www.gov.uk site, 'Check your State Pension'), and will include a Pension Finder Service, with compulsion for pension providers to supply data.

The SFGB will be responsible for delivering the initial Pensions Dashboard, leading a small Steering Group with representatives of the pensions industry, consumer bodies and Government. It is proposed that working groups and stakeholder advisory groups will be used to ensure the best and most up-to-date solutions can be accessed and that the development stays on course. Phased-in delivery is expected, starting in 2019, with Master Trusts and some DC schemes being first. Other arrangements are expected to follow over the next 3-4 years.

The Government is proposing that all ongoing costs (apart from changes to legislation and the provision of State Pension information) will be met by industry via a levy, although it has committed £5 million to help start the project. The consultation paper invites comments on who should pay the levy and how it should be calculated.

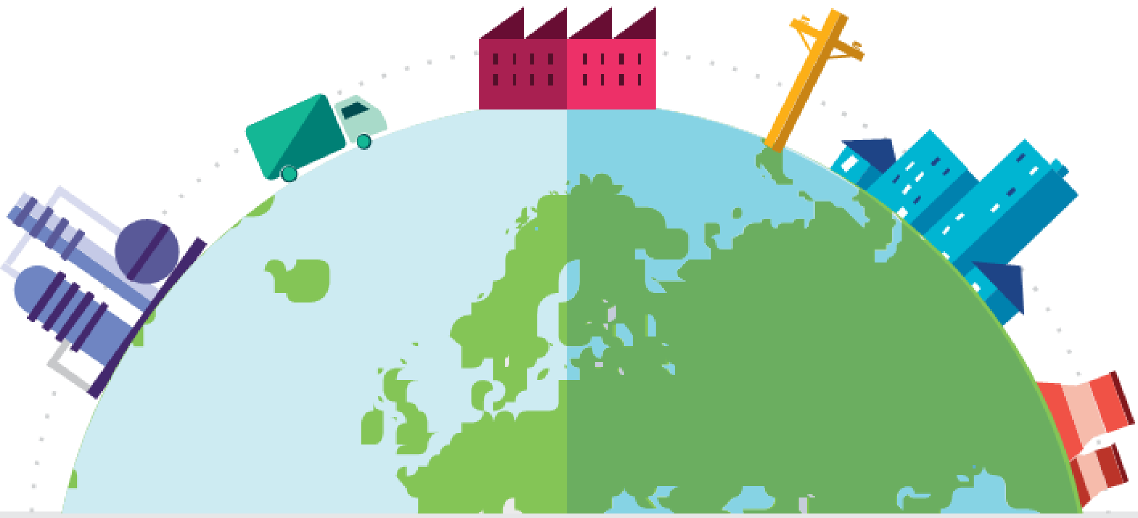
OTHER DEVELOPMENTS ON REGULATIONS AND CONSULTATIONS

TECHNICAL AMENDMENTS TO BENEFITS CONSULTATION

As mentioned in our November issue, the MHCLG issued a small consultation on a number of amendments to the provisions of the LGPS. The three main sections of the consultation were:

- Amendments to benefits payable to same-sex married or civil partners in order for them to receive the same benefits on survival as a widow
- Power to issue statutory guidance to the Secretary of State
- Early access to benefits for deferred members of 1995 Scheme

The consultation has now closed and in December, the MHCLG issued a response to the consultation, with most of the responses being positive. The original consultation and the response paper can be found here.



DATES TO REMEMBER

DATE	ISSUE	THE LATEST
2018/2019	Regulator powers	Consultation on changes to the Pensions Regulator's Funding Code of Practice and strengthening its scheme funding and anti-avoidance powers has now started.
1 January 2019	HMRC brief on VAT and treatment of pension fund management services provided by insurance companies.	Date by which, where an insurance company provides pension fund management and administration services, only the services for schemes classed as "special investment funds" will continue to be treated as VAT exempt.
1 January 2019	Plan Amendment, Curtailment or Settlement (IAS19)	Date after which if a plan amendment, curtailment or settlement occurs, a full remeasurement is mandatory under IAS19.
13 January 2019	IORP II	Date by which member states must adopt the new EU directive covering occupational pensions.
March 2019	Brexit	It is expected that the UK will formally leave the EU by the end of March 2019.
31 March 2019	Actuarial Valuations	For all LGPS Funds in the England and Wales, the next actuarial valuation effective date will be 31 March 2019.
6 April 2019	Auto-enrolment	The minimum contribution rates for auto-enrolment will rise to 3% employer, 5% employee on this date.
6 April 2019	Change in the Lifetime Allowance (LTA)	The LTA for 2019/20 increases from £1,030,000 to £1,055,000
2019	Pensions Dashboard	These are expected to go live some time in 2019

MEET SOME OF THE TEAM

THINGS YOU MAYBE DIDN'T KNOW

Name: Susan Greenwood
Role: Investment Consultant
Joined Mercer: 2007
Place of Birth: Liverpool
Favourite film: The English Patient
How did you spend the holidays?: Chasing kids around
What was your favourite Christmas present? Chocolate
Did you make a New Year's resolution and was it?: No – I can't stick to them!

Name: Will Dunn
Role: Wealth Analyst
Joined Mercer: August 2016
Place of Birth: Douglas, Isle of Man
Favourite film: Inception
How did you spend the holidays?: Stayed in the Lake District for a couple of days
What was your favourite Christmas present? Indoor skydiving tickets
Did you make a New Year's resolution and was it?: Get over my fear of heights

Name: Kieran O'Connor
Role: Wealth Analyst
Joined Mercer: September 2017
Place of Birth: Whiston
Favourite film: The Departed
How did you spend the holidays?: Gorging on festive food
What was your favourite Christmas present? Socks – you can never have enough!
Did you make a New Year's resolution and was it?: Yes, to run a longer distance each week, every week. So far, so good.

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CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 20 February 2019
Report Subject	Administration and Communications Update
Report Author	Principal Pensions Officer

EXECUTIVE SUMMARY

An update is on each quarterly Committee agenda and includes several administration and communications related items for information or discussion. The items for this quarter are:

(a) Business Plan 2018/19 moving into 2019/20 update – this includes details of amendments to backlog and aggregation timescales and expected legislation changes.

(b) Current Developments and News – this includes updates relating to lump sum payment functionality, recent employer meetings and the involvement in the national CIPFA Benchmarking review.

(c) Resource – an update on recruitment and staffing.

RECOMMENDATIONS	
1	That the Committee consider the update and provide any comments.

REPORT DETAILS

1.00	ADMINISTRATION AND COMMUNICATIONS RELATED MATTERS
	Business Plan 2018/19 Update
1.01	Progress against the business plan items for this this year is generally on track as illustrated in Appendix 1. Key items to note are as follows: • A1 – Additional Payroll Functionality - This has now been completed. The new functionality allows lump sum payments to be made through our current internal payroll, rather than relying on FCC finance function to prepare these payments. Although initial teething issues were encountered which impacted on resources, these have now been corrected. Lump sum payments totalling £2,421,860 were made to 370 members via this new functionality in the period to 31 January 2019, ensuring members receive payment in a timelier manner. • A4 & A5 Expanded Backlog and Aggregation Project – Mercer have continued to work on these areas and have made good progress. It is expected that A4 will be completed by the end of Q4. However, due to the additional work undertaken by Mercers as mentioned in the Part 2 paper relating to Project Apple, the timescales for A5 will need to be extended into 2019/20 as part of the business plan. • A8 – GMP reconciliation project is going to plan. There are some policy decisions that will require to be made at or before the March committee meeting regarding the treatment of pensions that have transpired to have been under or overpaid as a result of cleansing of the GMPs. The timing of this will depend on response times from HMRC and progress made by Equiniti. • A11 - National Pensions Dashboard – in recent weeks the Government has commenced a further consultation relating to the development and implementation of the dashboard which provides greater certainty over the expected timescales. Accordingly this item has been carried forward into the 2019/20 to 2021/22 business plan. • A16 – Other Expected National Changes – The Chancellor of the Exchequer announced a change to the SCAPE discount rate in his Budget statement on 29 October 2018. The SCAPE discount rate affects all sets of factors based on the valuation of public sector schemes. A stop on calculating transfers out was imposed whilst awaiting updated factors. New factors were received mid-January and work has commenced calculating the backlog of cases that accumulated since October.
1.02	The Committee is asked to note the updates relating to the 2018/19 business plan projects.
	Current Developments and News
1.03	A separate LGPS report has been provided by Mercer and is included with the Committee Papers. In general the Administration Team are aware of the points highlighted in the report and a number of these are specifically referred to in the Business Plan for 2019/20 to 2021/22. The following includes some of these points as well as other developments and news:

- Following the provision of data from Mercer relating to the quality of data in the 2018 interim valuation extract, work continues to be undertaken within the Administration Team to check and cleanse the highlighted member records. Good progress has been made and the team is on target to complete the initial 981 member queries supplied. This work will be completed by 31/03/19 and will result in better quality data for the 2019 valuation. A further report has now been received from Mercer relating to further member records that require checking. Work is also being undertaken by the Administration Team to determine what communication is required to be sent to employers where the data queries relate to information provided by, or missing from, employers. This will detail any specific actions required by them to improve the data they provide.
- Testing of Altair 9.1 as successfully completed as part of the Testing Working Party (TWP), which is a small group of administering authorities who volunteer to carry out testing of our administration system's new software updates. This exercise proved beneficial as it allows the CPF to have early insight into forthcoming software changes and it enabled testing of the impact of the Welsh rate of Income Tax from April 2019 to be undertaken.
- As part of our ongoing initiative to improve the quality of data and timeliness of processes, a successful meeting between Wrexham payroll managers, iConnect representatives and CPF representatives took place. Processes and data cleansing preparation were discussed and changes agreed. This included work to improve the supply of data which will introduce efficiencies for the current aggregation process. This will also assist in the preparation for the on-boarding of Wrexham CBC onto iConnect in 2019/20.
- Regular meetings are also being held between Flintshire County Council (FCC) and CPF, including HR and payroll representatives. This is to facilitate more streamlined processes for both FCC and CPF.
- Principal Pensions Officers have also developed a new year end Compliance Certificate. This is an additional checklist which employers will be required to complete to confirm they understand their responsibilities and have supplied correct member data.
- Mrs Karen Williams, Principal Pensions Officer, recently participated in the CIPFA Benchmarking questionnaire review. This review is to primarily encourage more funds to participate in its completion by making it a more valuable document. The review is also intended to incorporate standard Key Performance Indicators (KPIs) to allow a comparison between funds. In light of the timescales and amount of work anticipated these changes are not expected to be implemented until 2020 and then reported to CIPFA in 2021. Once these KPIs have been agreed, the Committee will be asked to adopt the new KPIs and the Administration Team will develop the existing KPI reporting to incorporate the changes. These additional statistics will then be presented as part of the KPI reporting process to Committee.
- Mrs Williams is also currently part of an LGPS Framework party focusing on software providers. As a potential founder member, CPF will have valuable insight and input into the provision of a framework to facilitate a more robust procurement process for this vital administration software.

	Policy and Strategy Implementation and Monitoring
1.04	*Administration Strategy* The latest monitoring information in relation to administration is outlined below: • Team leaders are incorporating the newly introduced TEC (Technology Education Centre) module as part of the mid-year reviews for team development. This is an on-line training tool which targets specific areas and can be visited as a refresher or an LGPS point of reference. This will assist with training of new team members and will form part of the appraisal process. • Day to day tasks – Appendix 2 provides the analysis of the numbers of tasks received and completed on a monthly basis since April 2015 as well as how this is split in relation to our three unitary authorities and all other employers. The number of outstanding cases continues to reduce on a monthly basis despite a short working month in December. There continues to be a high volume of workflow, resulting from projects such as Project Apple, the implementation of iConnect, the additional data quality project from Mercers and preparing a Data Improvement Plan for TPR. • Key performance indicators – Appendix 3 shows the performance against the key performance indicators that are measured on a monthly basis up to December 2018. The chart continues to illustrate that the Administration Team are not managing to meet most of the agreed standards. However, although improvement is still required, there has been a noticeable increase in the number of death cases completed within the timeframes. In addition the team are consistently paying over 100 new retirement benefits each month. It is envisaged that there will be further improvements across some of the KPIs in the coming months following the recent appointments of staff. However, the additional work relating to Project Apple (as explained in the Part 2 report) will continue have a temporary negative impact on some of the KPIs. The number of cases remaining at the end of each month, as shown in Appendix 6, continues to decrease due to the efforts to reduce backlog cases despite the clear increase in cases over the past few years. The Principal Pensions Officers are continuing to undertake additional duties whilst ensuring the section performs during the on-going absence of a Pensions Administration Manager. This includes involvement in LGPS Framework plans, attending Pension Manager meetings, liaising with legal specialists in relation to Admission Agreements and the recent recruitment of the additional Principal Pensions Officer responsible for Regulations and Communications (see below).
1.05	*Internal dispute resolution procedures* The two outstanding cases for 2017/18 are still ongoing. In relation to the cases received so far this year (2018/19): • there are four Stage One appeals which are all currently ongoing against the employer. These are all in respect of the non-award of ill health benefits. • there are two Stage One appeals against the Administering Authority which are being considered. One is due to an overstated estimate of benefits which was because of an incorrectly recorded period of time in

	the Scheme. The second appeal is against the award of a deferred benefit rather than a refund of contributions which the member was expecting. • The Stage 2 ongoing appeal has been referred back to the employer to be reconsidered.

	2018/19			
	Received	Upheld	Rejected	Ongoing
Stage 1 - Against Employers	5	1		4
Stage 1 - Against Administering Authority	2			2
Stage 2 - Against Employers	3	2		1
Stage 2 - Against Administering Authority				

	2017/18			
	Received	Upheld	Rejected	Ongoing
Stage 1 - Against Employers	13	2	9	2
Stage 1 - Against Administering Authority	1		1	
Stage 2 - Against Employers	4	3	1	
Stage 2 - Against Administering Authority	1		1	

1.06 *Communications Strategy*

The Communications Team has provided the following communications since the last update:

- Details of the new Fair Deal proposals that have been put out for consultation (closing date 4th April 2019) were emailed to employers. Feedback has been requested to be sent directly to the MHCLG.
- The latest update regarding the Cost Cap exercise and pending court case decision has been distributed to employers. The outcome of the court case may impact the cost cap exercise. Any further information will be communicated appropriately.

1.07 The new Regulations and Communications Principal Pensions Officer commenced employment on 14th January 2019. Kathleen Meacock previously worked at Mercer and, prior to that, worked in the CPF Administration Team. This new post will facilitate progression of the Communications Strategy and assist the Fund to communicate changes to all stakeholders whilst moving forward at this time of uncertainty and change within the LGPS.

A greater focus on member uptake of Member Self Service (MSS) will be one of the main priorities of the new Communications team. A new MSS User Group has been set-up which Ms Meacock will be attending later this month. This will assist with best practice ideas including member uptake and functionality.

A review of the Pension Increase letters (including the Clwyd Catchup pensioners newsletter), Annual Benefit Statements and Penpal (the active members newsletter) is currently being undertaken in readiness for the new scheme year.

The Communications Team along with the Technical team have been rolling out and training staff members on the use of the new on-line training tool, TEC.

1.08 Appendix 4 provides an updated summary of Member Self Service (MSS)

	registered users, this illustrates that enrolment to Member Self Service continues to grow. It has increased by over 200 members since the last meeting with over 35% of active members now registered to use this on-line facility.
1.9	**Delegated Responsibilities** The Pension Fund Committee have delegated a number of responsibilities to officers or individuals. Appendix 5 updates the Committee on the area of delegation used since the last meeting. This relates to the entry of Churchills as a scheme employer in the Fund and expanding the Chartwells admission agreement.

2.00	RESOURCE
2.01	As mentioned Kathleen Meacock has been successfully appointed to the new Principal Pensions Officer post. The Communications Officer post has been re-advertised for the month of January due to lack of interest in the first advertisement. It is hopeful that an appointment will be made shortly. The position of a part-time Pensions Payroll Officer has become available due to the retirement of a valued team member. This post is currently being advertised with interviews due by end of March. Staffing levels will be continuously reviewed to measure the impact of the new team members on our workloads.

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	None directly as a result of this report.

4.00	RISK MANAGEMENT
4.01	Appendix 6 provides the dashboard and the extract of administration and communications risks. The key risks continue to relate to: • Employers not understanding or meeting their responsibilities which could lead to us being unable to meet our legal or performance expectations, and • Poorly trained or insufficient staff numbers which could lead to us being unable to meet our legal or performance expectations – this will remain a risk while recruitment continues and new team members undergo training.
4.02	Since the last update, there has been no changes to the risk scores. However some additional actions to assist in reducing these risks have been added as follows: • Risk number 2 – unable to meet legal and performance expectations due to employer issues e.g. not understanding their responsibilities, poor data transmission and insufficient resources. An action has been added

	to update the Administration Strategy to include a requirement for employers to complete a compliance declaration, and to ensure greater focus on the availability of employer payroll system/information. • Risk number 4 – scheme members do not understand or appreciate their benefits due to communications being inaccurate, poorly drafted or insufficient. An additional action has been added to recruit to the vacant Communications Officer post. • Risk number 6 – service provision is interrupted due to system failure or unavailability. An additional action has been added to carry out a further disaster recovery test. Note that all actions will be reviewed to incorporate the projects from the 2019/20 to 2021/22 business plan once it has been approved.
4.03	In addition, the target dates have been extended given the recruitment and training of staff is ongoing (including now the Pensions Administration Manager) and the implementation of iConnect and some of the other actions are ongoing. Some of this is partly due to additional unexpected work during 2018/19 such as Project Apple.

5.00	APPENDICES
5.01	Appendix 1 – Business plan update 2019/20 Appendix 2 – Analysis of cases received and completed Appendix 3 – Key Performance Indicators Appendix 4 – Member Self Service update Appendix 5 – Delegated decisions Appendix 6 – Risk register update

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	Report to Pension Fund Committee – Business Plan 2018/19 to 2020/21 **Contact Officer:**Sandra Beales/Karen Williams, Principal PensionsOfficers **Telephone:** 01352 702876/01352 702963 **E-mail:** sandra.beales@flintshire.gov.uk / karen.williams@flintshire.gov.uk

7.00	GLOSSARY OF TERMS
7.01	(a) **CPF – Clwyd Pension Fund** – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region (b) **Administering authority or scheme manager** – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund.

(c) **PFC – Clwyd Pension Fund Committee -** the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund

(d) **LPB or PB – Local Pension Board or Pension Board** – each LGPS Fund has an LPB. Their purpose is to assist the administering authority in ensuring compliance with the scheme regulations, TPR requirements and efficient and effective governance and administration of the Fund.

(e) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of.

(f) **TPR – The Pensions Regulator** – a government organisation with legal responsibility for oversight of some matters relating to the delivery of public service pensions including the LGPS and CPF.

(g) **SAB – The national Scheme Advisory Board** – the national body responsible for providing direction and advice to LGPS administering authorities and to DCLG.

(h) **MHCLG – Ministry of Housing, Communities and Local Government** – the government department responsible for the LGPS legislation.

Business Plan 2018/19 to 2020/21 – Q3 Update
Administration and Communications & Employer Liaison Team

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

Administration (including Communications) Tasks

Ref	Key Action –Task	2018/19 Period				Later Years	
		Q1	Q2	Q3	Q4	2019/20	2020/21
A1	Additional Payroll Functionality	x		x			
A3	iConnect	x	x	x	x	x	
A4	Expanded Backlog to 31 March 2014	x	x	x	x		
A5	Aggregation Project	x	x	x	x	x	
A6	Electronic and Centralised internal procedures	x	x	x	x	x	
A7	Data Improvement Plan Development	x	x	x	x		
A8	GMP Reconciliation	x	x	x	x	x	
A9	Trivial Commutation	x	x	x	x	xM	
A10	LGPS Legal Timescales Analysis		x	x	x	xM	
A11	National Pensions Dashboard			x	x	x	xM
A16	Other Expected National Changes (dates unknown)						

Administration and Communication Task Descriptions

A1 – Additional Pensioner Payroll Functionality

What is it?

Currently lump sum payments (i.e. retirement lump sums, transfer payments and death grants) are made via the Council's main financial system. The Altair pensioner payroll system which is used by the Pensions Administration Team has the functionality to allow these payments to be made through it. This reduces the reliance on systems outside of the control of the pension administration team and it would also result in quicker payments to scheme members. .

Timescales and Stages

Testing and implementation	2018/19 Q1

Resource and Budget Implications

All internal costs are to be met from the existing budget. External costs amount to £3,800 one off cost.

A3 - iConnect

What is it?

iConnect is the on-line computer module that allows information to be submitted by employers more directly and efficiently into the pension administration system (Altair). It involves employers uploading data directly into iConnect from their payroll systems. iConnect is to be rolled out to all employers of the Fund on a phased basis. For each employer being transitioned onto iConnect, the first stage is ensuring that the correct member records are held on the Altair administration system before entering into testing and live roll out of iConnect. This will be done on a phased basis by employer. The project commenced in 2017/18 and Denbighshire County Council, Bodelwyddan Castle Trust, Prestatyn Town Council, Careers Wales, Cartref NI Ltd Flintshire County Council, Aura and Newydd have been successfully implemented.

Timescales and Stages

Other employers	2018/19 Q2/Q3/Q4
WCBC	2019/20

Resource and Budget Implications

There will be a time and resource commitment required from employers. All internal costs are being met from existing budget. The system cost is also incorporated into the budget. The roll out of iConnect, particularly to WCBC will involve significant internal resources which may impact on other day to day work.

A4 – Expanded Backlog to 31 March 2014 (Mercers)

What is it?

A backlog of tasks prior to 31 March 2013 has been expanded to 31 March 2014 and approximately 350 additional member cases have been identified for completion by Mercers.

Timescales and Stages

Clear cases externally and eliminate backlog	2018/19

Resource and Budget Implications

Resource provided by Mercer. The costs in relation to this exercise have been included in the budget.

A5 – Aggregation Project

What is it?

When members move/leave employments there are a number of options available to them and all of these options need to be conveyed to the members concerned. There are approximately 3,500 cases (as at 30 September 2017) where members need to either be informed that their records have been aggregated or be provided with their respective options. Software providers are still developing calculations to accommodate these changes. The recent recruitment and creation of the Aggregation Team has facilitated procedures to be put in place to address this backlog and maintain these cases as "business as usual" going forward. Whilst still in the planning stages it is expected that approximately 1700 of these cases may be outsourced to Mercers for the initial stage of the process to be actioned and returned to the Aggregation Team for completion.

Timescales and Stages

This is a high priority project and will be completed as soon as possible.

Ongoing progress with data cleansing	2018/19
Clear cases and eliminate backlog	2018/19 & 2019/20

Resource and Budget Implications

An additional £13,683 for changing Pensions Assistants to Pensions Officers is included within the budget (previously agreed in 2017/18. There will also be further costs relating to the work which may be outsourced to Mercers and an estimated cost for 2018/19 has been included in the budget figures.

A6 – Electronic and Centralised internal procedures

What is it?

This relates to the development of an on-line procedures manual for use by the Pensions Administration staff. This will amalgamate, expand and update current procedure documents, and ensure consistency, easy access and efficient working as well as providing a useful training tool. These updated procedures will also be linked into staff competencies and training plans.

Timescales and Stages

This is a lower priority project and will be completed as and when resource allows.

Develop, collate, update and maintain	2018/19 & 2019/20

Resource and Budget Implications

To be carried out by the full Pensions Administration team. All internal costs are to be met from the existing budget.

A7 – Data Improvement Plan Development

What is it?

In 2015, the Pensions Regulator (TPR) assumed responsibility for Public Sector Pension Schemes. Prior to this, in June 2010, TPR issued guidance on the approach that they expected to be adopted by private sector pension schemes to consider data. This referred to checks being expected on 'common' data (e.g. Name, Address, Date of Birth, National Insurance number). TPR also outlined 'conditional' data checks but did not set prescriptive targets as the data is deemed to be scheme-specific (e.g. Member data – divorce, transfers in, AVCs, deferred information). The guidance did target pension scheme trustees to ensure that 'reasonable endeavours' were undertaken to provide evidence of assessment and measurement, together with an action plan to meet the scheme specific targets (i.e. a data improvement plan). From 2018/19, TPR is expecting all pension schemes to review their common and conditional (now called scheme-specific) and score the quality of that data.

To assist customers in undertaking this practical assessment of their data, both common and /scheme specific Aquila Heywood offers a Data Quality service. The LGPS Scheme Advisory Board will also be providing guidance on what LGPS scheme specific data should be (to provide consistency in checks between administering authorities) but this is unlikely to be available until later in 2018/19.

In addition to measuring and capturing the results of the common and scheme specific data reviews, the Fund will develop a data improvement plan to capture any other elements of data that they consider to be inaccurate and ongoing plans.

Timescales and Stages

Run reports and ascertain data quality	2018/19 Q1
Research and correct any data anomalies where practical*	2018/19 Q1 – Q4
Review scheme specific data checks based on national LGPS requirements	2018/19 Q3/4 (to be confirmed)

*Where not practical, a timescale will be included in the Fund's data improvement plan.

Resource and Budget Implications

To be carried out by the Pensions Administration Team. This may also require input/information from the employers (subject to findings). The data reports are provided at an annual cost of £5,000 (assuming this is taken over at least three years).

A8– GMP Reconciliation

What is it?

The government removed the status of "contracted-out" from pension schemes in April 2016. Prior to then, contracted-out pension schemes had to ensure the benefits they paid met a minimum level and one element of this was a Guaranteed Minimum Pension (GMP) figure that accrued individually for each scheme member up to April 1997. Historically pension schemes would go to HMRC to get confirmation of the GMP amount on retirement. However, as a result of the demise of contracted-out status, HMRC will no longer be maintaining GMP and other contracting out member records. This means that the onus will be on individual pension schemes to ensure that the contracting out and GMP data they hold on their systems matches up to the data held by HMRC. All GMP's and national insurance information must be reconciled by March 2019, the date the HMRC will cease to provide their services.

Initial work has identified that there was significant discrepancies between the two sets of data, and a significant amount of work will be required to determine the correct benefits, ensure all systems are updated and to process a potentially significant number of over/underpayment calculations. After the records are reconciled for former pensionable employees, the Fund must also ensure the accuracy of national insurance information held for active members. All GMP's and national insurance information must be reconciled by December 2018, the date the HMRC will cease to provide their services. Clwyd Pension Fund decided to outsource this exercise in 2017/18 to Equiniti and the project commenced during that year. The timescales below are subject to change depending on the magnitude of the work.

Timescales and Stages

GMP data reconciliation and investigation	2018/19
Reconciliation of national insurance information	2018/19
(Active Members) Benefit correction and system updates	2018/19 & 2019/20

Resource and Budget Implications

All costs to be met from the existing budget which includes expected costs for Equiniti who are carrying out the work. This is likely to impact internal resources in relation to any adjustments to be made to current pension amounts (i.e. under or overpayments) but the impact of this is not yet known.

A9 - 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. A project will be carried out to identify any pensioners and dependants who may be eligible for trivial commutation and to offer it to them. This will reduce the administrative burden on the Fund 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 a limit for members to trivially commute their pension in relation to their single pension (£10,000 value – called a "small pot") and total benefits (£30,000 – called "trivial commutation"). As well as reducing the number of pensioner payments that require ongoing payment this could also have a positive impact on the funding level as it removes the liabilities for these members. It will also be welcomed by a number of pensioners who would prefer a one-off lump sum payment rather than ongoing smaller payments of little value.

Timescales and Stages

Timescales below are indicative and subject to prioritisation of other administration work streams.

Identify members eligible to commute under £10,000	2018/19
Communicate with eligible members and pay lump sums	2018/19
Identify members eligible to commute under £30,000:	2019/20
Communicate with eligible members and pay lump sums	2019/20

Resource and Budget Implications

The majority (if not all) of this work may be outsourced to Mercer or another external provider to assist with resourcing. The precise cost of this is as yet unknown but a contingency has been included for 2018/19 within the budget to cover potential costs. It will also require input by the Technical Team with some assistance from the Operational Team, with any such input being focussed on the later stages of the project. All internal costs are to be met by existing budget.

A10 – LGPS Legal Timescales Analysis

What is it?

Following the implementation of monitoring performance against the seven key legal timescales (as part of the monthly Key Performance Indicators (KPIs) reporting), a full review is being undertaken of our workflow systems and data quality to enable monitoring against a wider range of legal deadlines such as those relating to refunds and divorce.

Timescales and Stages

Develop further legal timescales reporting process	2018/19 Q2/Q3

Resource and Budget Implications

All internal costs are to be met by existing budget. It may be effective to outsource some of the development work to Aquila Heywood but this is not expected to be a material cost, and it is not included in the budget.

A11 – National Pensions Dashboard

What is it?

The Pensions Dashboard is a Government initiative first announced in the Budget 2016. The idea behind the Dashboard is to allow all pension savers in the UK access to view the values of all of their pension pots, including state pension, through one central platform. A basic prototype was developed in 2017 and the full launch is planned for 2019. The implications on public service pension schemes, including whether they will be required to participate and the cost, and resource implications, is not yet known. The timescales below are therefore estimated.

Timescales and Stages

Development expected	2018/19 Q3/4 & 2019/20
Launch	2019/20

Resource and Budget Implications

Resource and budget implications cannot be determined until more detail is available.

A16 - Other Expected National Changes

What is it?

There are a number of national changes that are expected in due course. Given the focus on Brexit, it is not expected that many, if any, changes will take place during 2018. Areas where change may be forthcoming in due course could include:

- Scheme Changes as a result of the Cost Management Process (now A18)
- Changes in Exit Payments
- Indexation of GMP's for members reaching SPA from December 2018
- GMP equalisation (now A17)
- Fair Deal

- LGPS amendment regulations in relation to drafting problems or other areas of improvement (e.g. ill health provisions and aggregation)
- Welsh income tax changes

Timescales and Stages
To be determined

Resource and Budget Implications
Any significant changes will be reported to PFC when more information becomes available.

Employer Liaison Team Tasks

Ref	Key Action –Task	2018/19 Period				Later Years	
		Q1	Q2	Q3	Q4	2019/20	2020/21
E1	Design financial reporting and recharge procedures	x	x				
E2	Data preparation for iConnect	x	x	x	x	x	
E3	Development of workflow reporting to employers		~~x~~	~~x~~	xM		

Employer Liaison Team Task Descriptions

E1 – Design financial reporting and recharge procedures

What is it?

Consider the staff time spent and tasks completed in order to break down charges to be applied to each employer.

Timescales and Stages

Develop charging structure and information	2018/19 Q1
Finalise first year end charges to be built into valuation recharge costs	2018/19 Q1/2

E2 – Data preparation for iConnect

What is it?

The supply (manually) of significant volumes of missing data, in order to match records between the employer's payroll system and the iConnect software in preparation for automatic monthly uploads going forward.

Timescales and Stages

Reviewing inconsistencies, working through spreadsheets (WCBC)	2018/19 Q1 to Q4
Continuous refining of mismatches going forward (WCBC)	2019/20 Q1/2

E3 – Development of workflow reporting to employers

What is it?

Developing the standard reports that will be sent out on a monthly basis to employers who use ELT.

Timescales and Stages

Review and recommend updates:	2018/19 Q2/3

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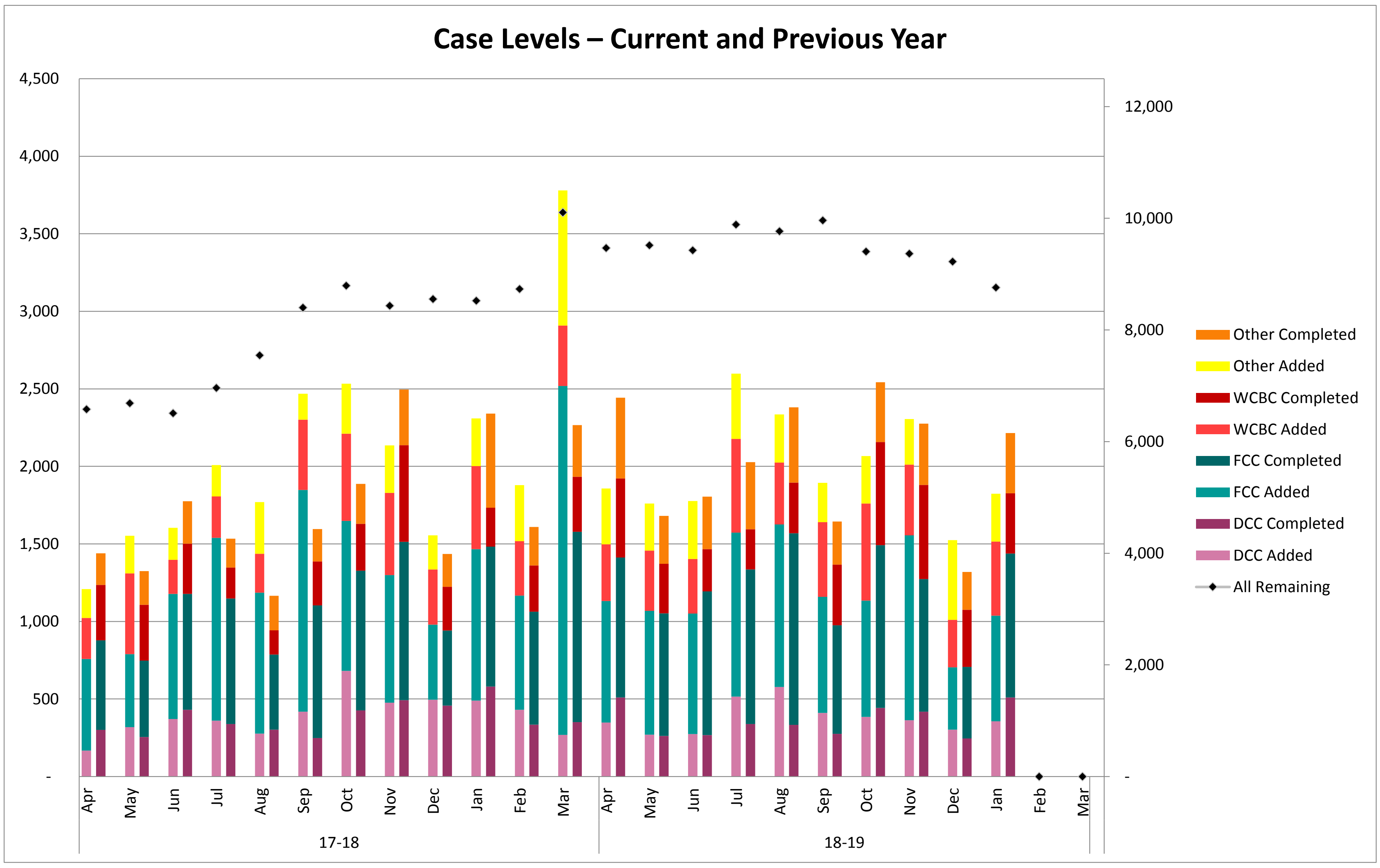
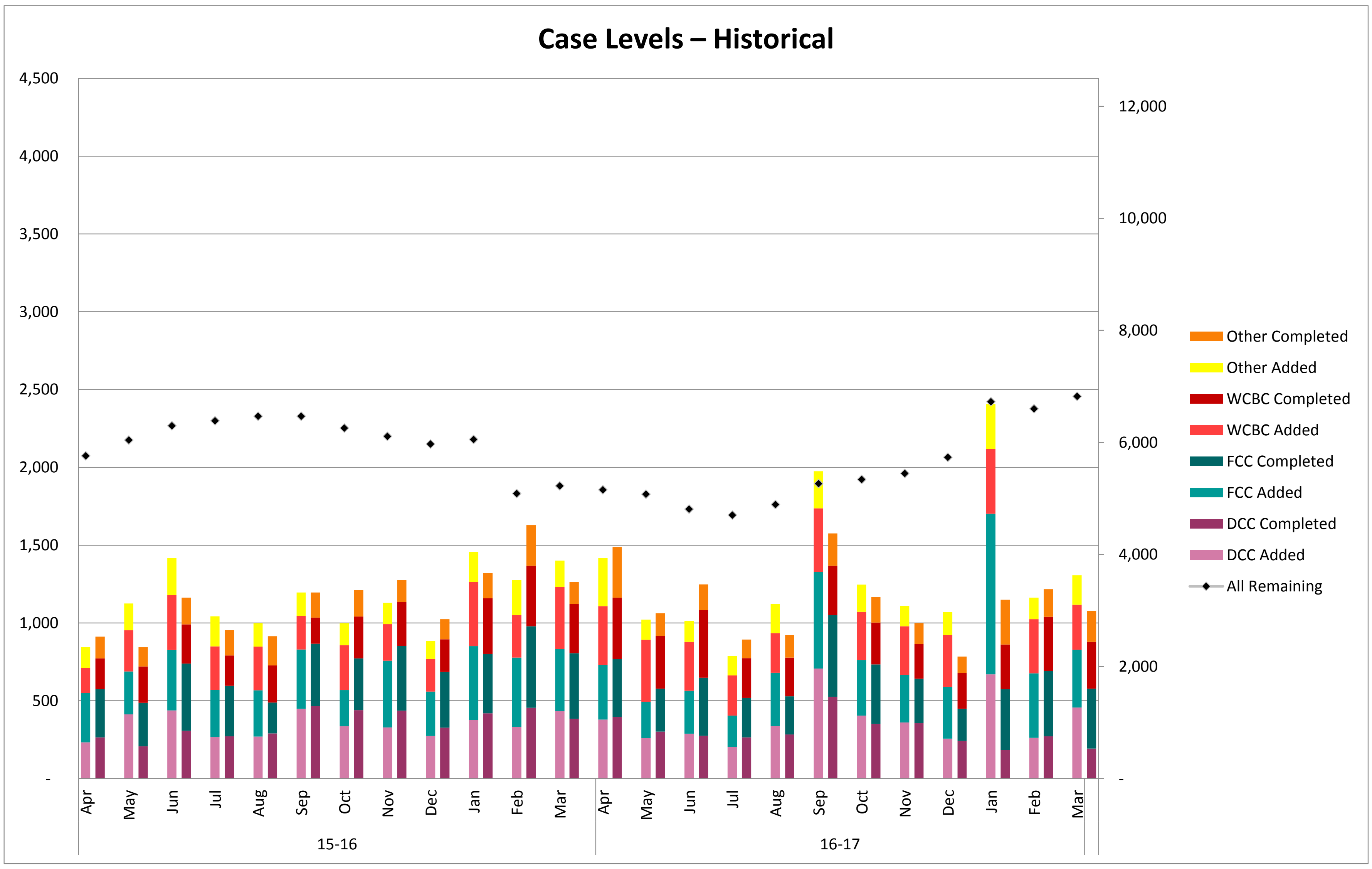

Case Levels – Current and Previous Year
Other Completed
Other Added
WCBC Completed
WCBC Added
FCC Completed
FCC Added
DCC Completed
DCC Added
All Remaining
17-18
18-19


Case Levels – Historical
Other Completed
Other Added
WCBC Completed
WCBC Added
FCC Completed
FCC Added
DCC Completed
DCC Added
All Remaining
15-16
16-17

Key Performance Indicators

The following pages show the performance against the key performance indicators (KPIs) which have been agreed within Clwyd Pension Fund's Administration Strategy. They cover seven areas of work, and for each there is a KPI for each of the following:

- The legal timescale that must be met
- The overall timescale for the process (including any time taken by employers and/or scheme members)
- The timescale relating to the Clwyd Pension Fund administration team only

The KPIs are specific to each process (as set out in the Administration Strategy) and illustrated by the graphs are as follows:

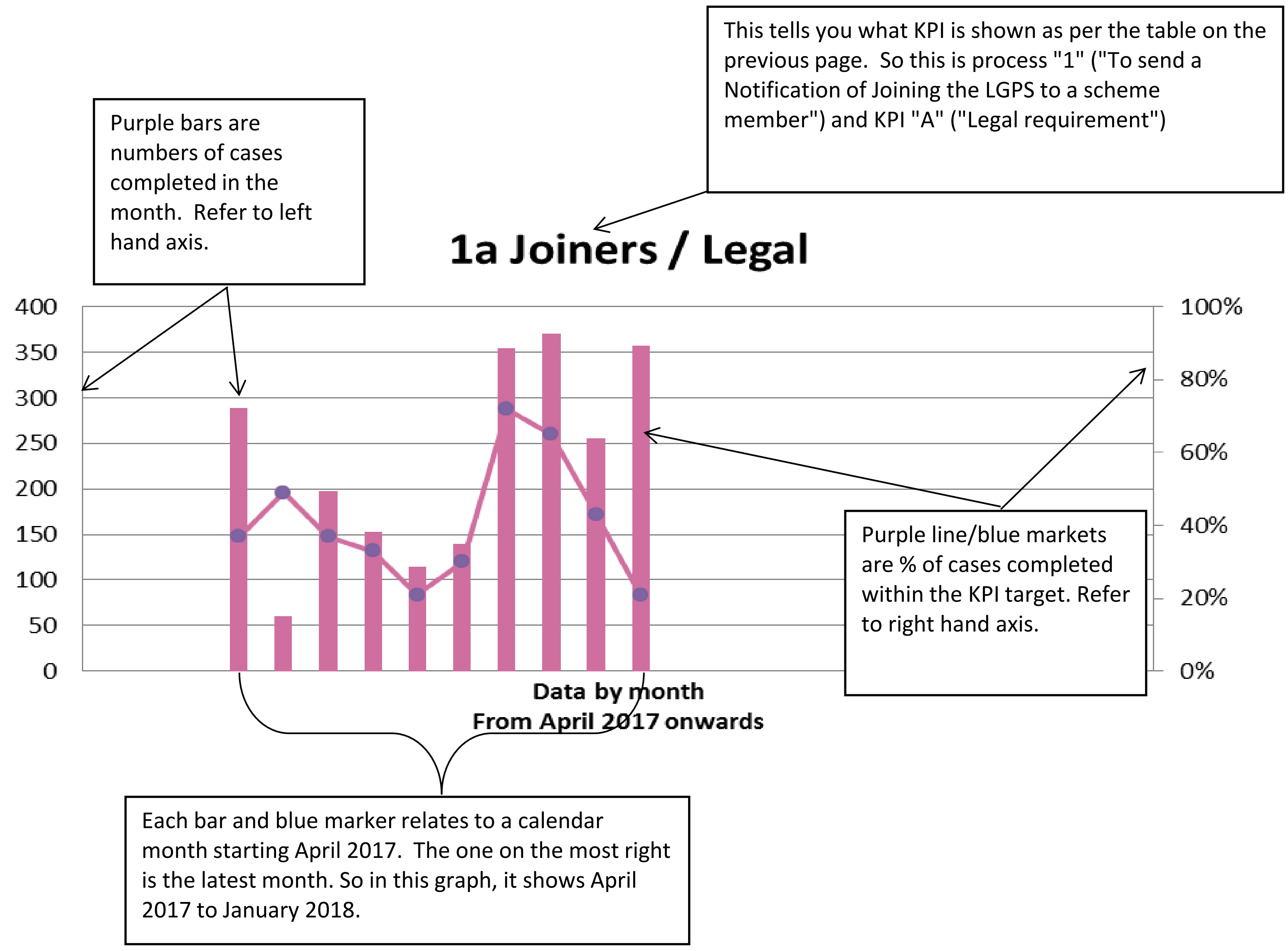
		A	B	C
	Process	**Legal Requirement**	**Overall**	**CPF Administration element target**
1	To send a Notification of Joining the LGPS to a scheme member	2 months from date of joining (assuming notification received from the employer), or within 1 month of receiving jobholder information where the individual is being automatically enrolled / re-enrolled	46 working days from date of joining (ie 2 months)	15 working days from receipt of all information
2	To inform members who leave the scheme of their leaver rights and options	As soon as practicable and no more than 2 months from date of initial notification (from employer or from scheme member)	46 working days from date of leaving	15 working days from receipt of all information
3	Obtain transfer details for transfer in, and calculate and provide quotation to member	2 months from the date of request	46 working days from date of request	20 working days from receipt of all information
4	Provide details of transfer value for transfer out, on request	3 months from date of request (CETV estimate)	46 working days from date of request	20 working days from receipt of all information
5	Notification of amount of retirement benefits	1 month from date of retirement if on or after Normal Pension Age or 2 months from date of retirement if before Normal Pension Age [4]	23 working days from date of retirement	10 working days from receipt of all information
6	Providing quotations on request for retirements	As soon as is practicable, but no more than 2 months from date of request unless there has already been a request in the last 12 months	46 working days from date of request	15 working days from receipt of all information
7	Calculate and notify dependant(s) of amount of death benefits	As soon as possible but in any event no more than 2 months from date of becoming aware of death, or from date of request by a third party (e.g. personal representative)	25 working days from date of death	10 working days from receipt of all information

Interpretation of graphs

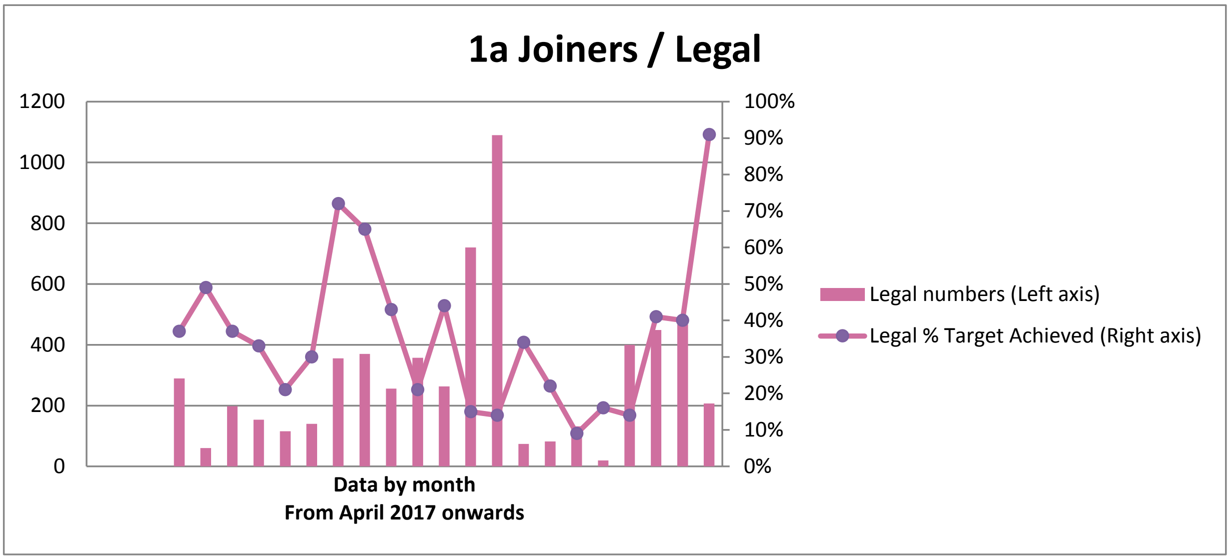
One graph has been provided for each KPI in the table above. Each graph shows month by month:

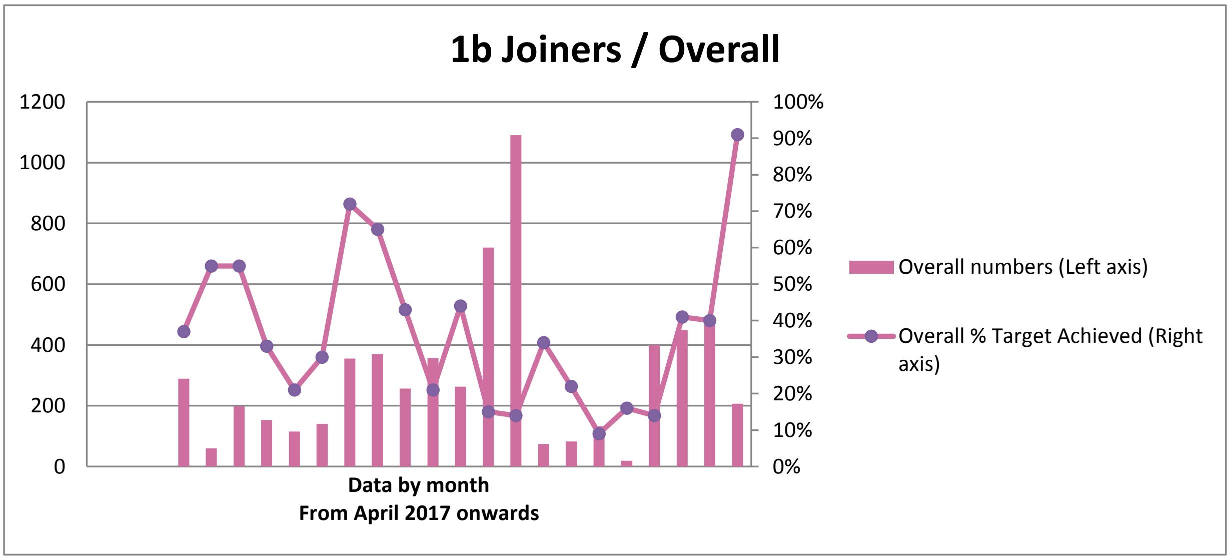
- The number of cases which have been completed each month
- The percentage of those cases completed that were completed within the KPI target

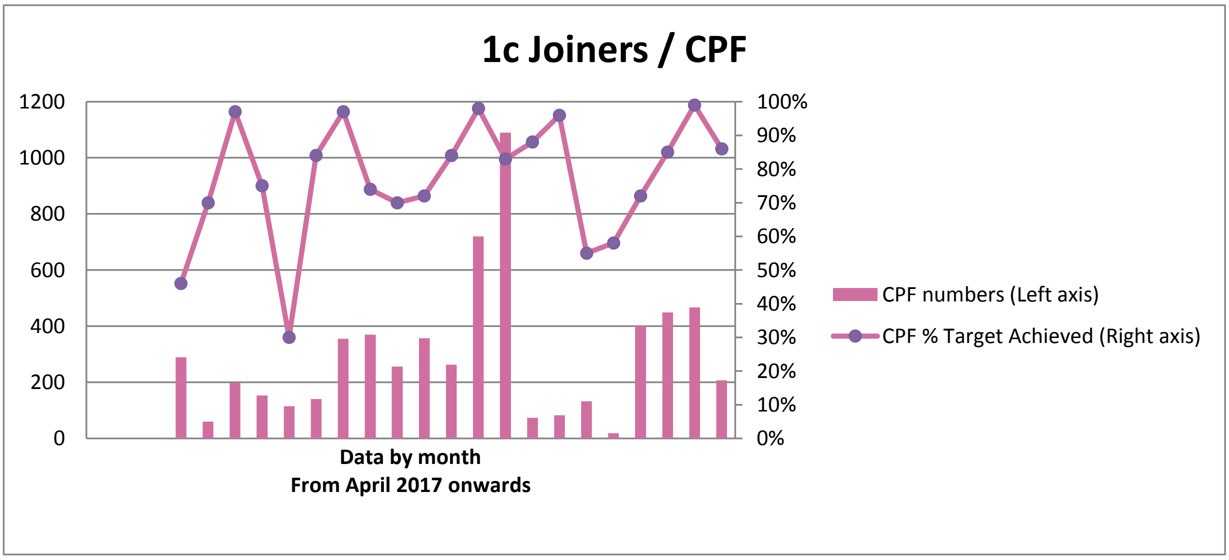
This is illustrated further below.



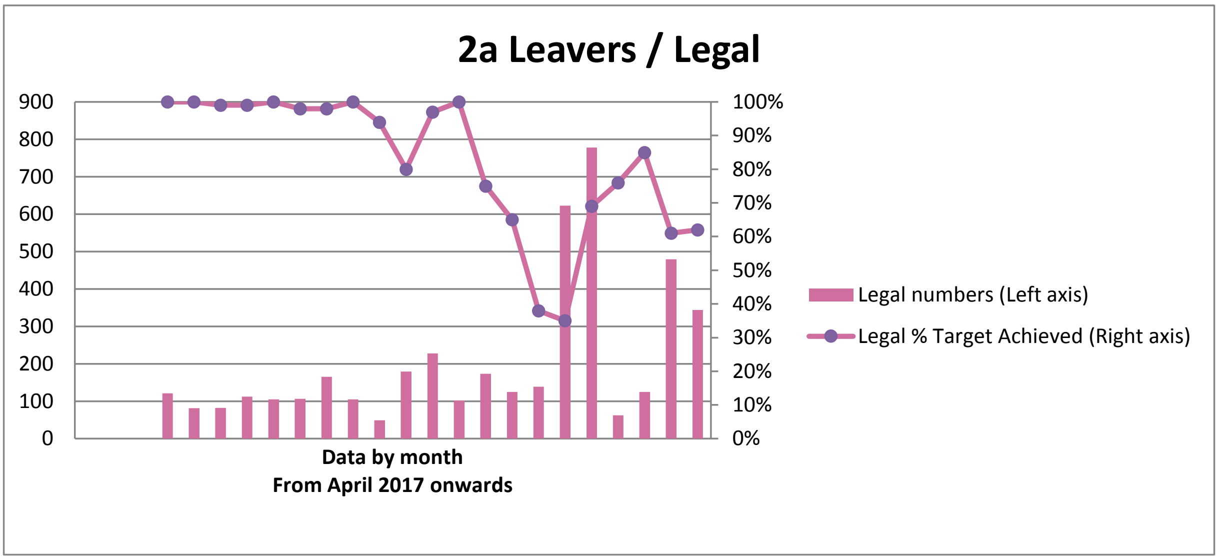
Key Performance Indicators - relating to 31 December 2018

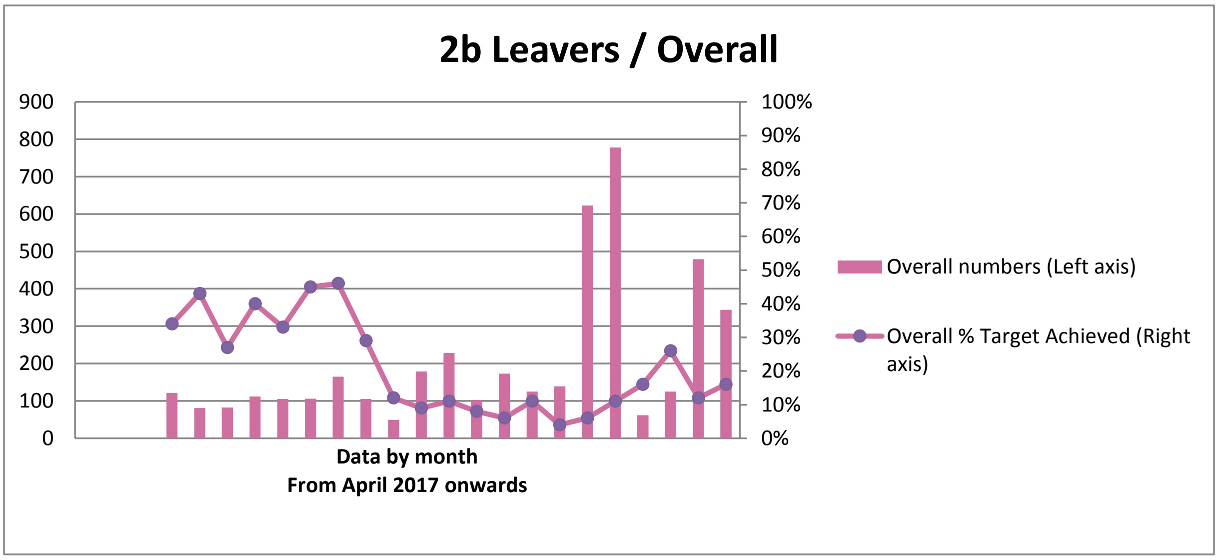


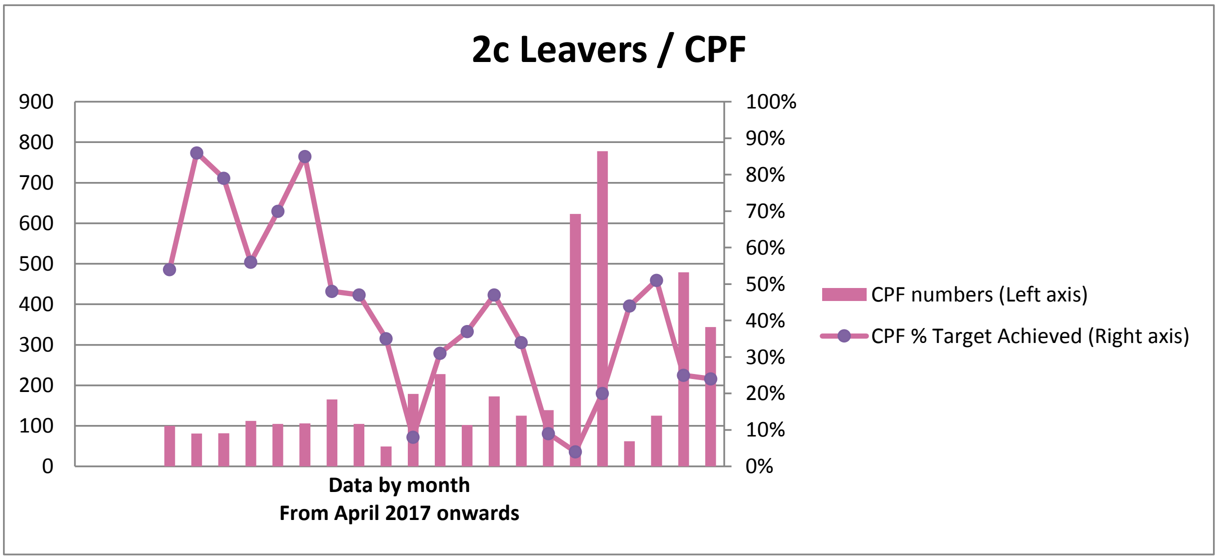




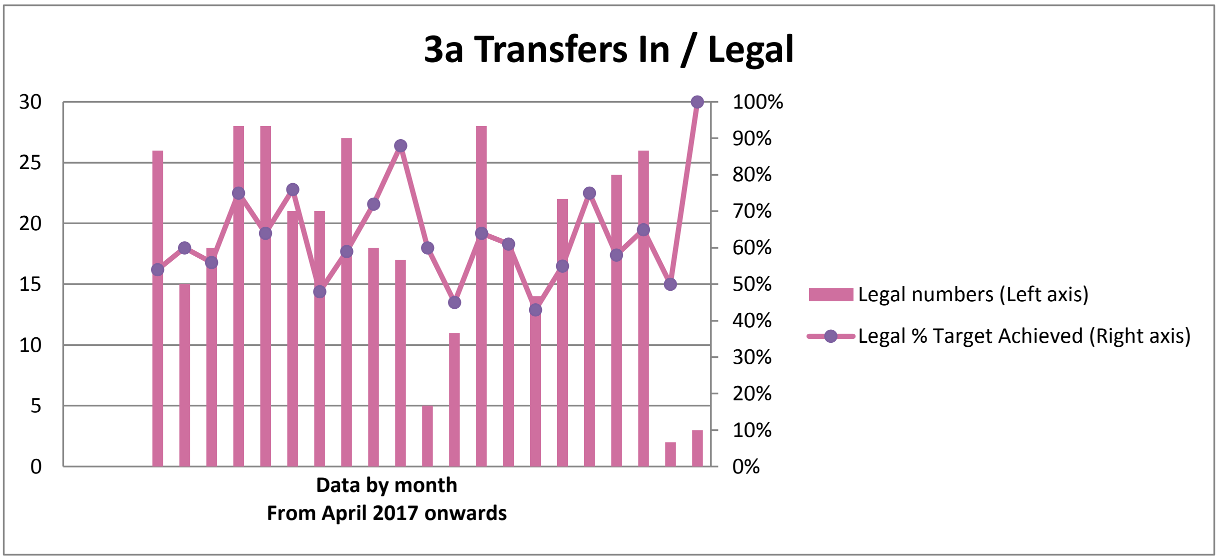
Key Performance Indicators - relating to 31 December 2018

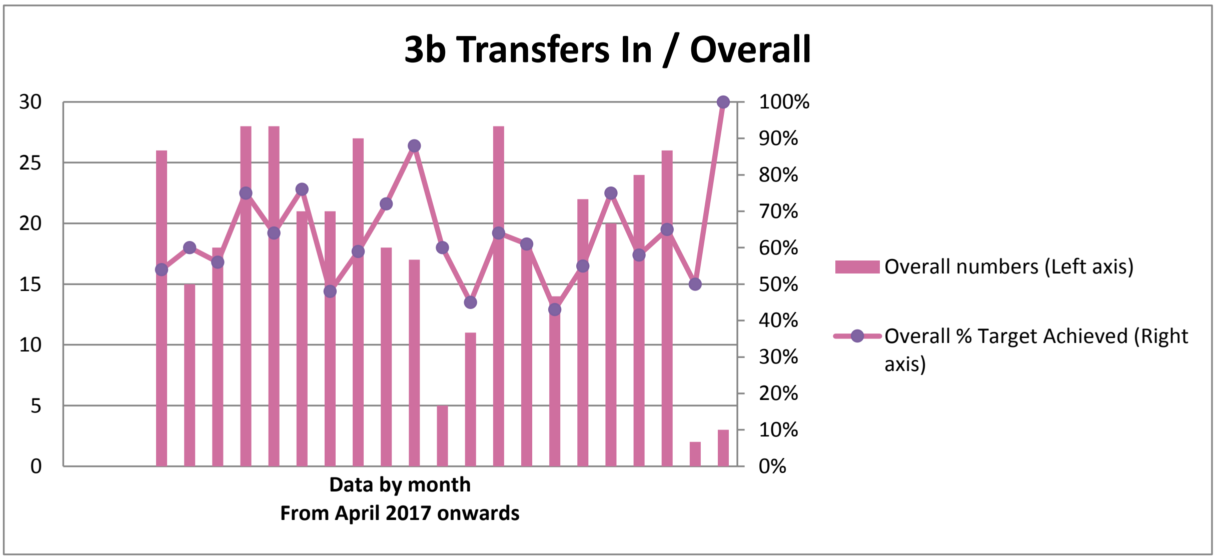


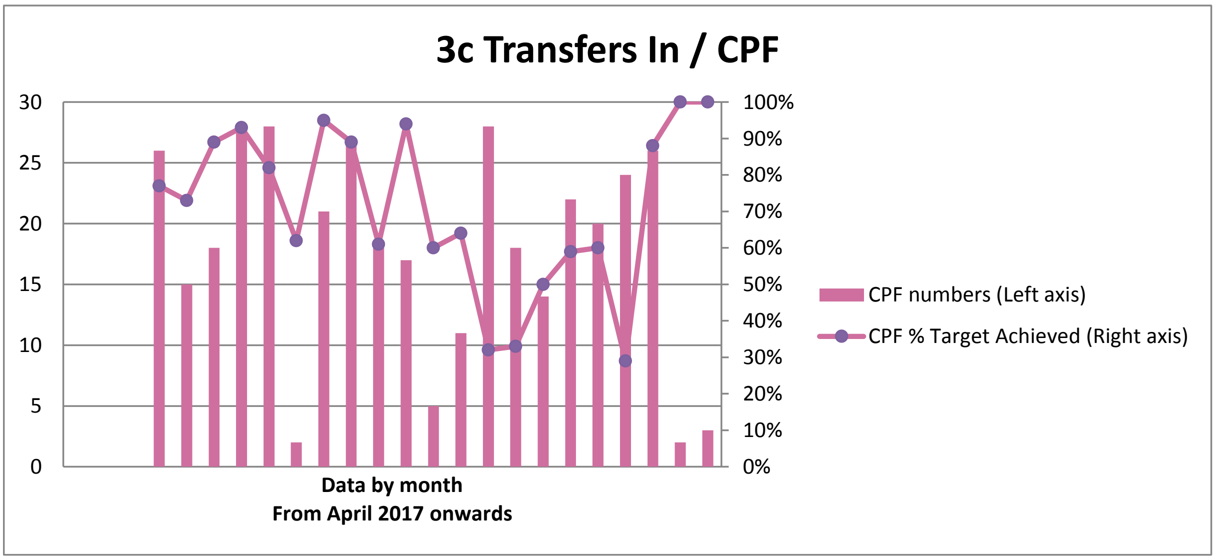




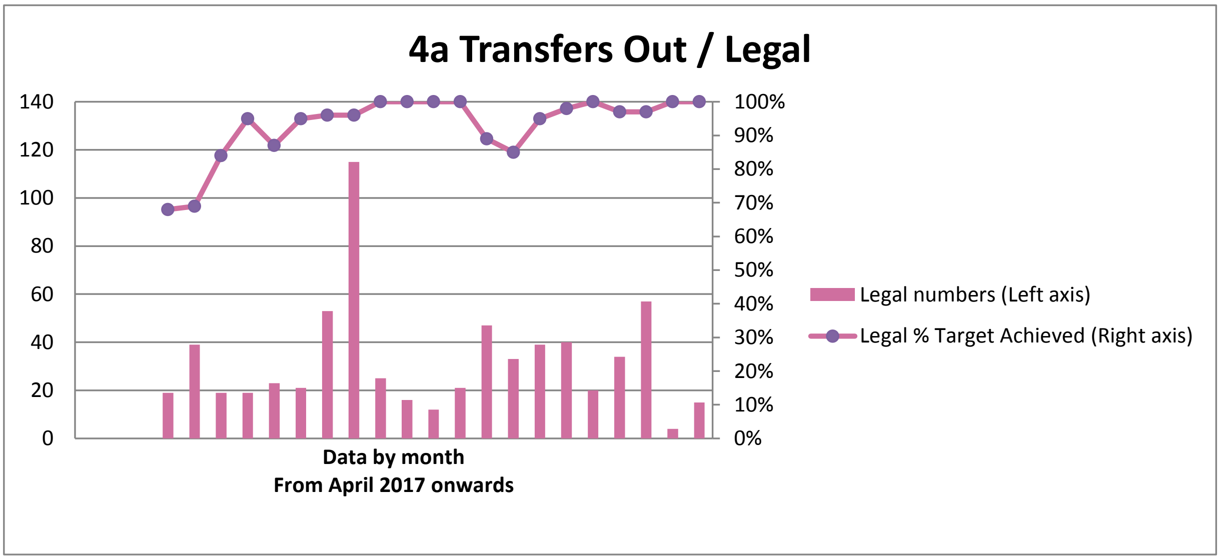
Key Performance Indicators - relating to 31 December 2018

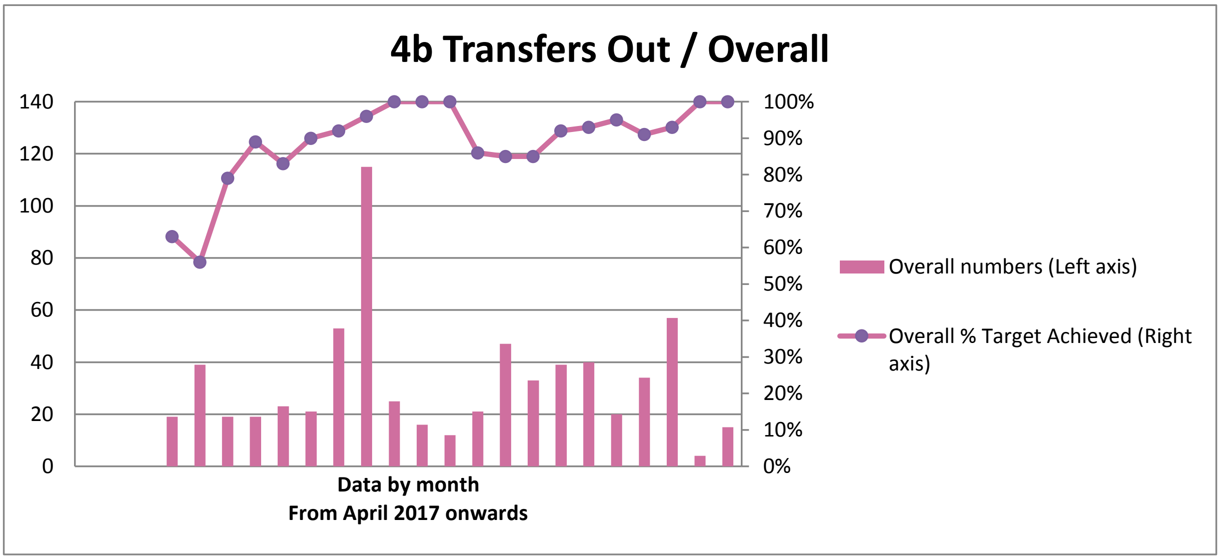


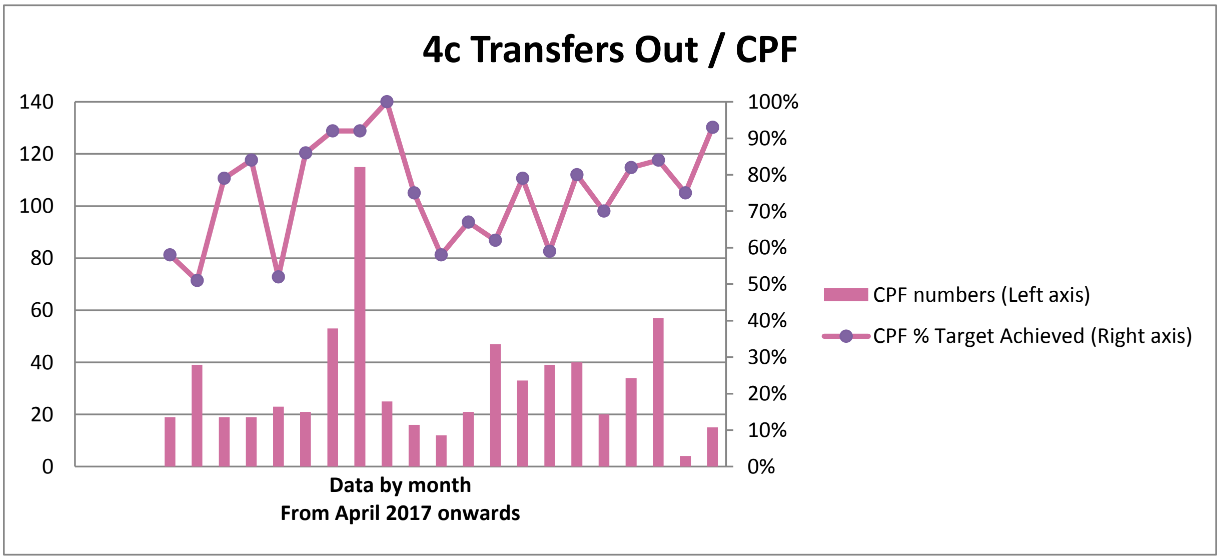




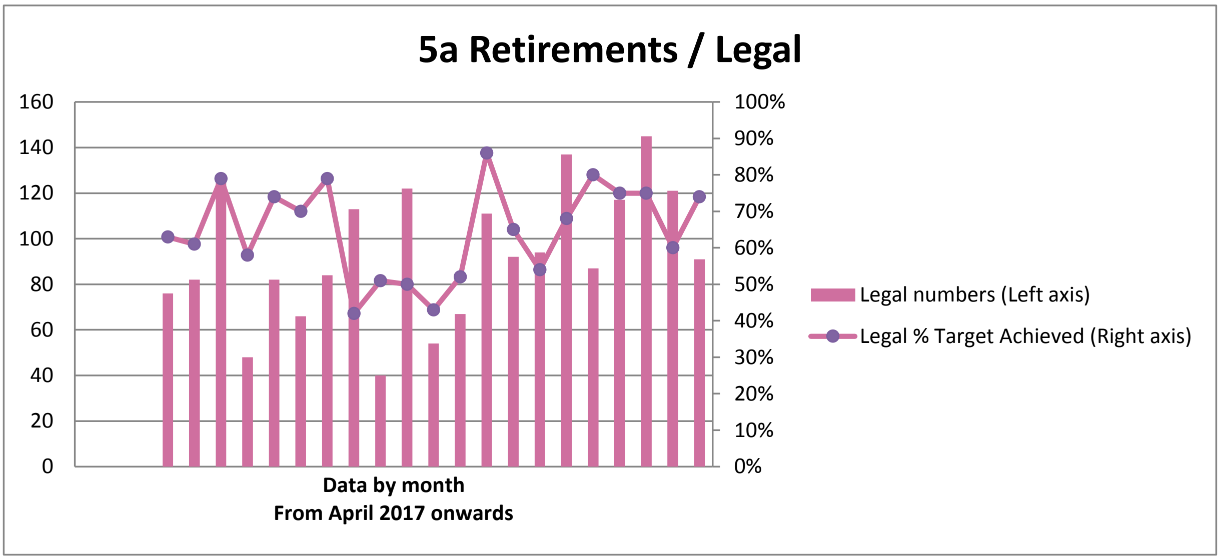
Key Performance Indicators - relating to 31 December 2018

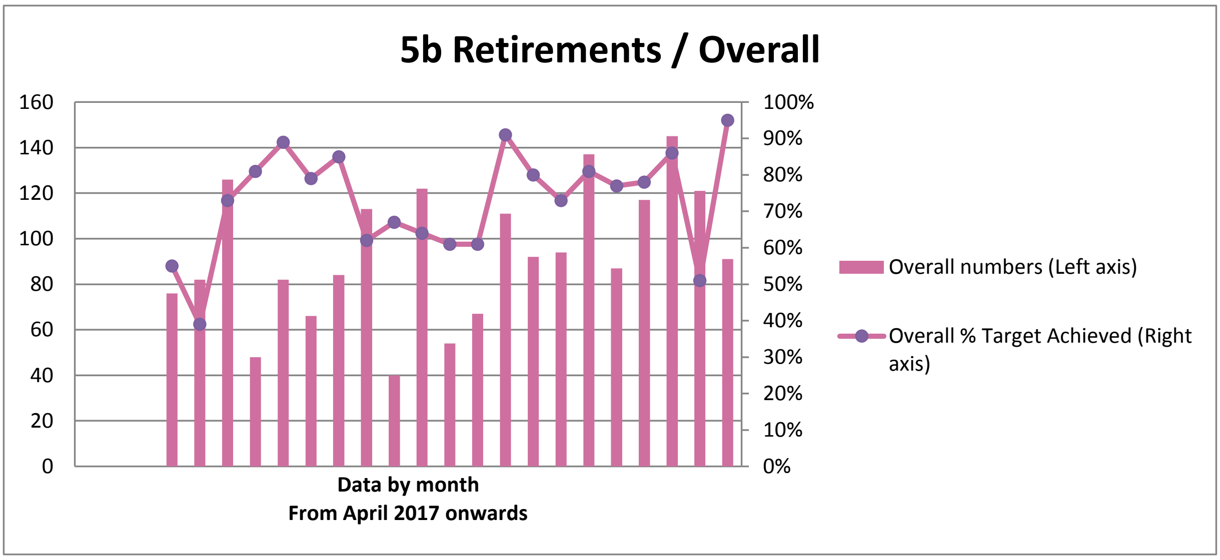


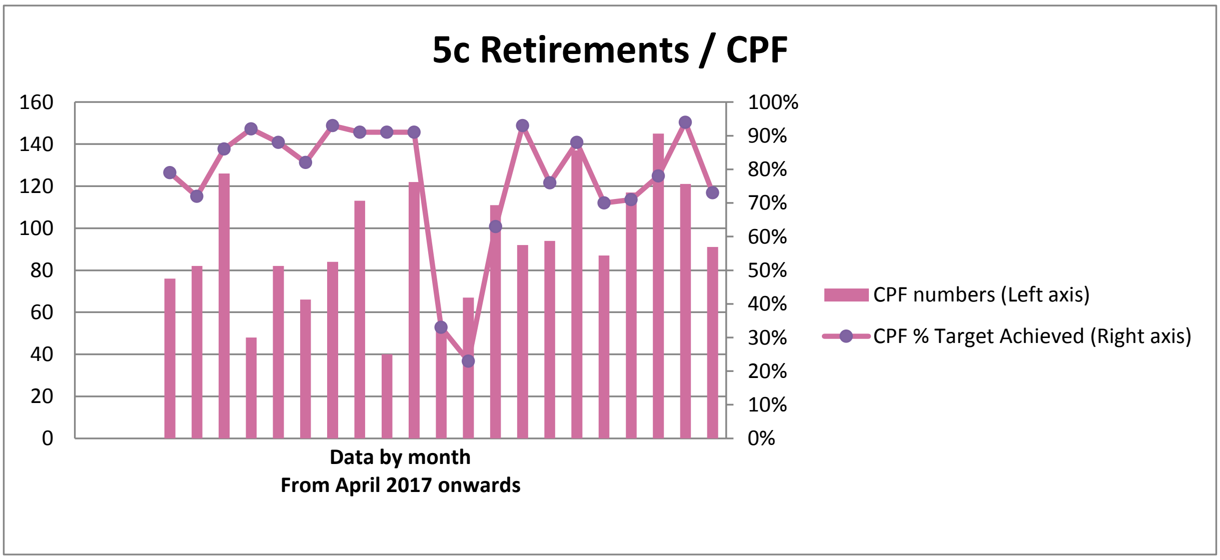




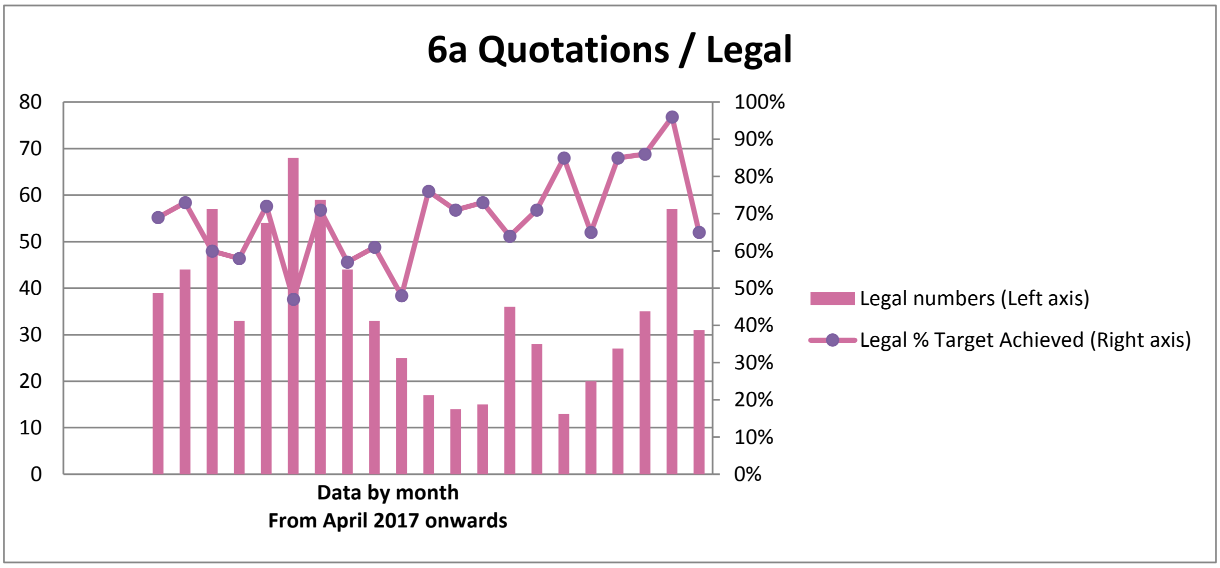
Key Performance Indicators - relating to 31 December 2018

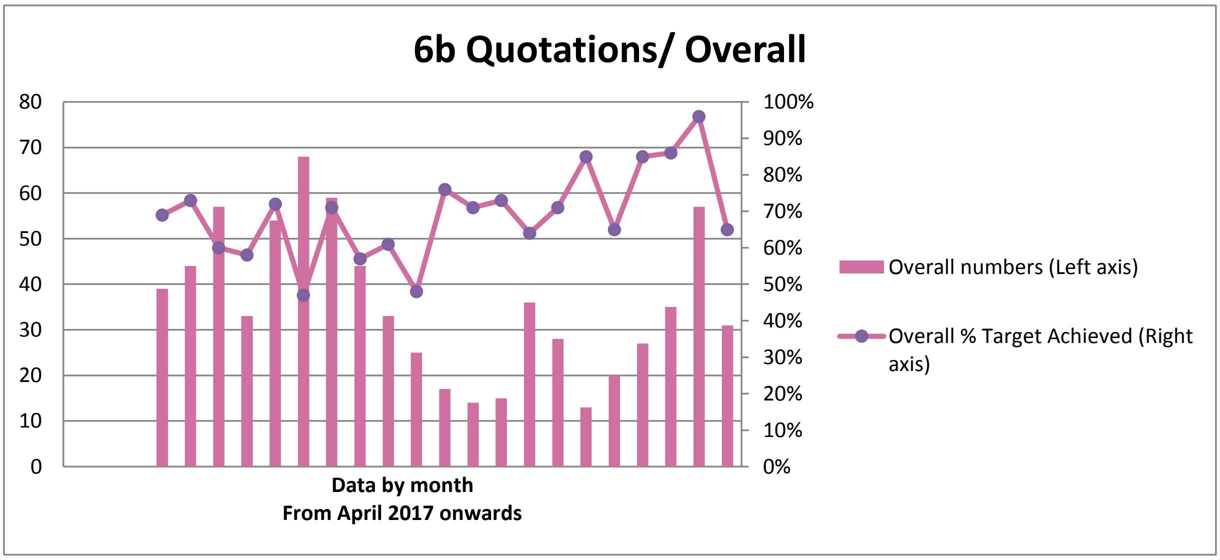


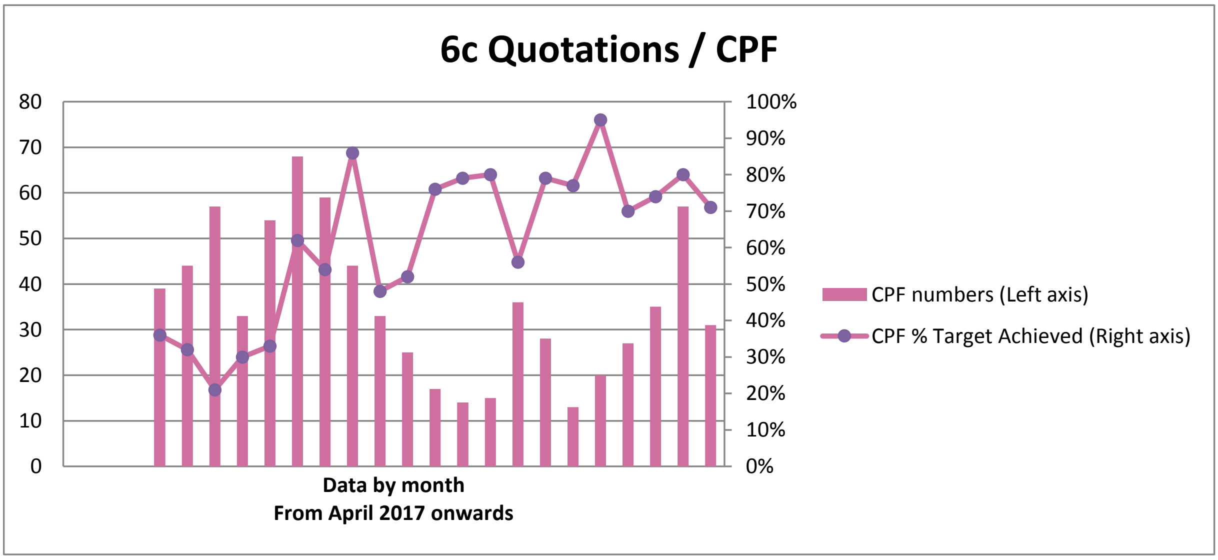




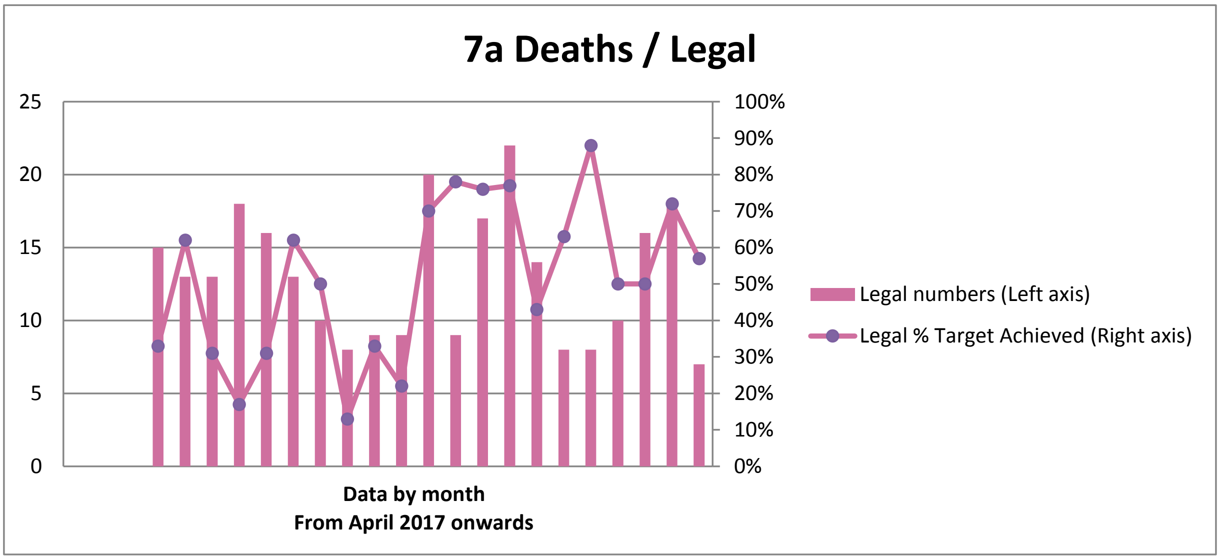
Key Performance Indicators - relating to 31 December 2018

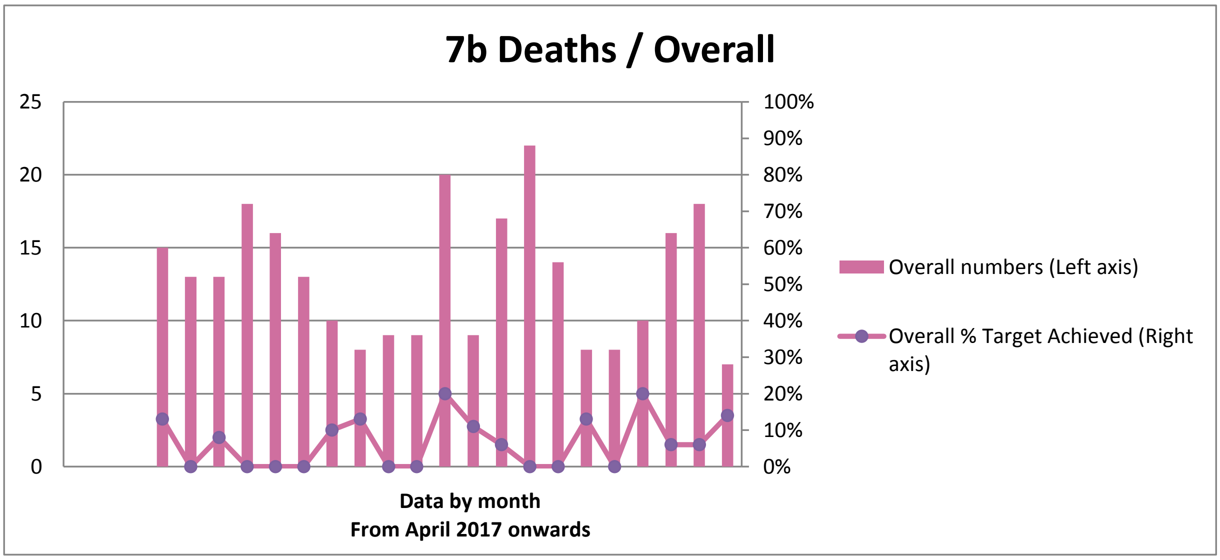


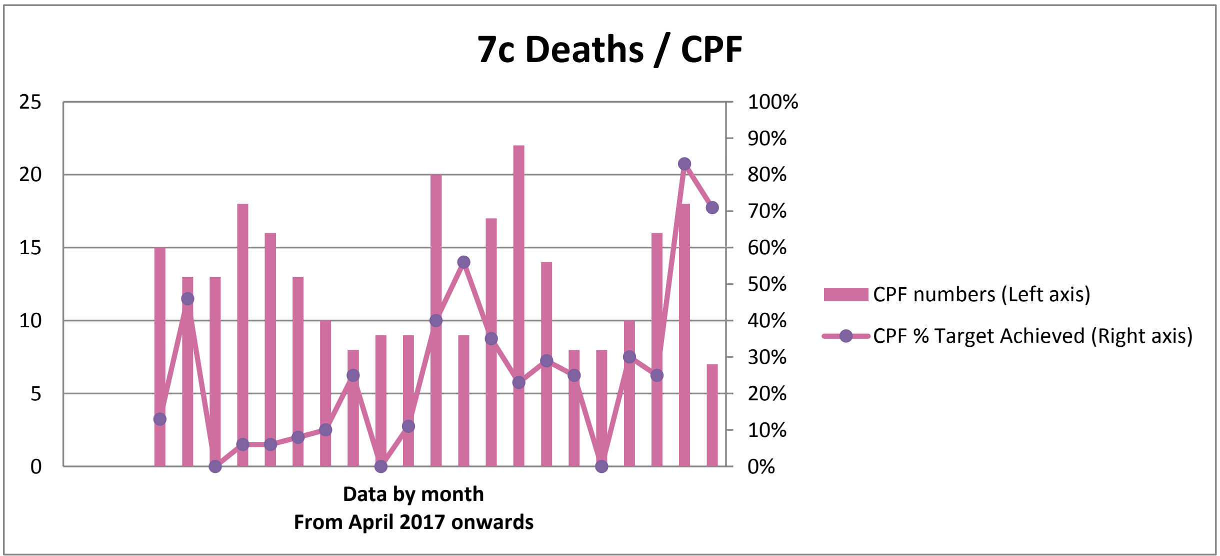




Key Performance Indicators - relating to 31 December 2018







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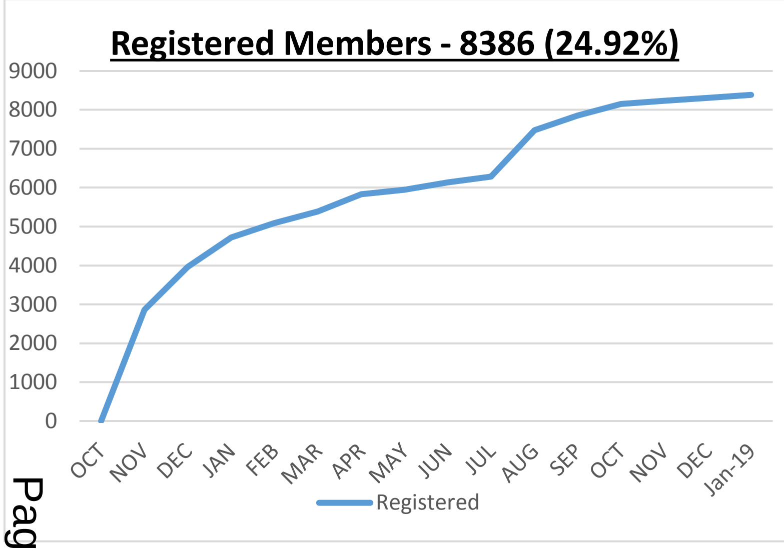
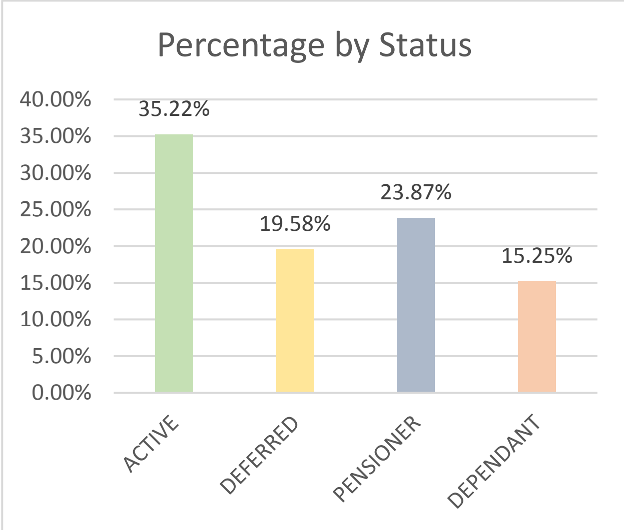
Cronfa Bensiynau Clwyd
Clwyd Pension Fund

MEMBER SELF SERVICE – 20/02/2019



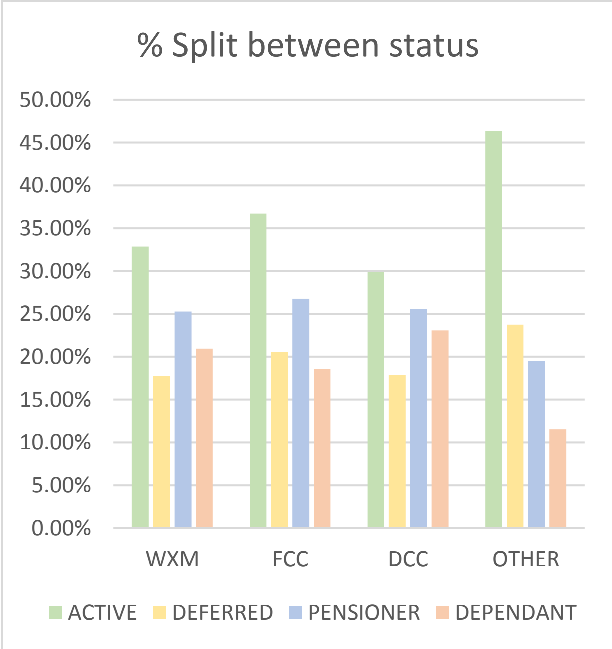


Update from November 2018 to February 2019

Member take-up on MSS has slowed a little over the last 3 months but numbers are still steadily increasing with regards to MSS users.

A representative from the Regulations and Communications Team will be attending the first MSS User Group meeting on 28th February 2019 in Manchester.

The group will pool knowledge, develop ideas for best practice, and develop ways to enhance membership and in-house processes with regards to MSS usage. This will ensure that Clwyd Pension Fund staff and members are using MSS to its full potential.



Statistics between
16/11/2018 to 20/02/2019 (97 days)

CONTACT US TASKS

52	MSSKEY	Key requests
56	MSSENQ	Enquiry tasks
16	MSSEST	Estimate tasks
41	MSSRET	Retirement tasks
12	MSSTVT	Transfer tasks
125	**Contact Us (1.29 p/day)**	
212	**MSSADD Address update (new)**	
7	**Bank details updated**	

BENEFIT PROJECTIONS

5,874 BENEFIT PROJECTIONS CALCULATED

Avg 60.56 per day

EXPRESSION OF WISH

124 CHANGES OF EXPRESSION OF WISH

1.27 per day

ELECTED FOR POSTAL CORRESPONDANCE

1,915 – 6.03% of overall members
197 have registered also

258	ACTIVE
76	DEFERRED
1382	PENSIONER
199	DEPENDANTS

DELEGATED RESPONSIBILITIES

<table>
<tr><th>Delegation:</th><th>Delegated Officer(s):</th><th>Communication and monitoring of Use of Delegation</th></tr>
<tr><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="3">Action taken –
Churchill Contract Services Ltd has joined the Clwyd Pension Fund as a new employer. The admission agreement is in the process of being signed by all parties. The current membership in the Fund is 6 members and is retrospective to 15 June 2015. Churchill is a contractor carrying out services for Denbighshire County Council.

An amendment has also been made to the existing admission agreement for Chartwells to include an additional 19 members.</td></tr>
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Administration and Communication Risks Heat Map and Summary

Administration & Communication Risks

Impact	Extremely High	Very High	Significant	Low	Very Low	Unlikely
Negligible						6
Marginal				4		
Critical	2	1	3			
Catastrophic			5			
						Likelihood

Key

1 — Each risk is represented in the chart by a number in a square.
- The number denotes the risk number on the risk register.
- The location of the square denotes the current risk exposure.

1 — The background colour within the square denotes the target risk exposure.

New risks since the last reporting date are denoted with a blue and white border.

An arrow denotes a change in the risk exposure since the previous reporting date, with the arrow coming from the previous risk exposure.

14 February 2019

Clwyd Pension Fund - Control Risk Register

Administration & Communication Risks

Objectives extracted from Administration Strategy (03/2017) and Communications Strategy (04/2016):

A1 Provide a high quality, professional, proactive, timely and customer focussed administration service to the Fund's stakeholders
A2 Administer the Fund in a cost effective and efficient manner utilising technology appropriately to obtain value for money
A3 Ensure the Fund's employers are aware of and understand their roles and responsibilities under the LGPS regulations and in the delivery of the administration functions of the Fund
A4 Ensure the correct benefits are paid to, and the correct income collected from, the correct people at the correct time
A5 Maintain accurate records and ensure data is protected and has authorised use only
C1 Promote the Scheme as a valuable benefit and provide sufficient information so members can make informed decisions about their benefits
C2 Communicate in a clear, concise manner
C3 Ensure we use the most appropriate means of communication, taking into account the different needs of different stakeholders
C4 Look for efficiencies in delivering communications through greater use of technology and partnership working
C5 Regularly evaluate the effectiveness of communications and shape future communications appropriately

Risk no:	Risk Overview (this will happen)	Risk Description (if this happens)	Strategic objectives at risk (see key)	Current impact (see key)	Current likelihood (see key)	Current Risk Status	Internal controls in place	Target Impact (see key)	Target Likelihood (see key)	Target Risk Status	Meets target?	Date Not Met Target From	Expected Back On Target	Further Action and Owner	Risk Manager	Next review date	Last Updated
1	Unable to meet legal and performance expectations (including inaccuracies and delays) due to staff issues	That there are poorly trained staff and/or we can't recruit/retain sufficient quality of staff, including potentially due to pay grades	All	Critical	Very High		1 - Training Policy, Plan and monitoring in place 2 - BP 2017/18 improvements assist with staff engagement 3 - Benefit consultants available to assist if required 4 - Ongoing task/SLA reporting to management/AP/PC/LPB to quickly identify issues 5 - Data protection training, policies and processes in place 6 - System security and independent review/sign off requirements 7 - ELT established 8 - Temporary staff changed to permanent, and further resource increase	Negligible	Low		☹ Current impact 2 too high Current likelihood 2 too high	01/07/2016	Sep 2019	1 - Ongoing training (SB/JT) 2 - Ongoing bedding in of aggregation team and use of Mercers with backlogs (SB/JT) 3 - Ongoing monitoring of ELT and Ops resource/workload for backlogs (PL) 4 - Recruitment to new posts (PPOs) 5 - Ongoing consideration of resource levels post recruitment of new posts (PL)	Pensions Administration Manager	31/03/2019	20/11/2018
2	Unable to meet legal and performance expectations (including inaccuracies and delays) due to employer issues	Employers: -don't understand or meet their responsibilities -don't have access to efficient data transmission -don't allocate sufficient resources to pension matters	A1 / A4 / A5 / C2 / C3 / C4 / C5	Critical	Extremely High		1 - Administration strategy updated 2 - Employer steering group established 3 - Greater engagement through Pension Board 4 - Backlog project in place 5 - Establishment of ELT 6 - Increased data checks/analsyis (actuary and TPR)	Negligible	Very Low		☹ Current impact 2 too high Current likelihood 4 too high	01/07/2016	Mar 2020	1 - Ongoing roll out I-connect (KW) 2 - Ongoing monitoring of ELT resource/workload (KR) 3 - Implement further APP data checks to identify issues (KW/KR) 4 - Develop and roll out APP training - in house and employers (KM) 5 - Update Admin Strategy to include a compliance declaration and focus on availability of payroll system/information (KW) 5 - Identify other employer data issues and engage directly with employers on these (KW/SB)	Pensions Administration Manager	31/03/2019	20/11/2018
3	Unable to meet legal and performance expectations due to external factors	Big changes in employer numbers or scheme members or unexpected work increases (e.g. severance schemes or regulation changes)	A1 / A4 / A5 / C2 / C3 / C4 / C5	Critical	Significant		1 - Ongoing task and SLA reporting to management/AP/PC/LPB to quickly identify issues 2 - Benefit consultants available to assist if required	Marginal	Low		😐 Current impact 1 too high Current likelihood 1 too high	27/08/2018	Sep 2019	1 - Recruitment to new posts (PPOs) 2 - Ongoing consideration of resource levels post recruitment of new posts (PL)	Pensions Administration Manager	31/03/2019	20/11/2018
4	Scheme members do not understand or appreciate their benefits	Communications are inaccurate, poorly drafted or insufficient	C1/ C2 / C3	Marginal	Low		1 - Communications Strategy in place 2 - Annual communications survey for employees and employers 3 - Specialist communication officer employed 4 - Website reviewed and relaunched (2017) 5 - Member self service launched (2017)	Negligible	Very Low		😐 Current impact 1 too high Current likelihood 1 too high	01/07/2016	Mar 2020	1 -Ongoing promotion of member self service (KR) 2 - Ongoing identification of data issues and data improvement plan (SB/KW) 3 - Review of effectiveness of new website/iConnect planned for 2019/20 (new PPO) 4 - Recruitment of Comms Officer (KR)	Pensions Administration Manager	31/03/2019	04/06/2018
5	High administration costs and/or errors	Systems are not kept up to date or not utilised appropriately, or other processes inefficient	A2 / A4 / C4	Catastrophic	Significant		1- Business plan has number of improvements (I-connect/MSS etc) 2 - Review of ad-hoc processes (e.g. deaths and aggregation) 3 - Participating as a founding authority on national framework for admin systems (if it proceeds) 4 - Procurement of Altair on business plan 5 - Joined latest Heywood Testing Party	Negligible	Very Low		☹ Current impact 3 too high Current likelihood 2 too high	01/07/2016	Mar 2020	1 - Ongoing roll out of iConnect (KW) 2 - Ongoing identification of data issues and data improvement plan (SB/KW) 3- Review of effectiveness of new website/iConnect planned for 2019/20 (KM) 4 - Implementation of other Altair modules in 2018/19 business plan (KW) 5 - Increased engagement with Heywood about change in their business model (KW)	Pensions Administration Manager	31/03/2019	20/11/2018
6	Service provision is interupted	System failure or unavailability	A1 / A4 / C2	Negligible	Unlikely		1 - Disaster recover plan in place and regularly checked 2 - Hosting implemented	Negligible	Unlikely		☺			1 - Ongoing checks relating to interface of recovery plan with non-pensions functions (JT) 2 - Resolve other areas identified by last disaster recovery test (JT) 3 - Implement lump sum payments via pensioner payroll facility (KW) 4 - Redo disaster recovery test (JT)	Pensions Administration Manager	31/03/2019	13/11/2007

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 20th February 2019
Report Subject	Investment and Funding Update
Report Author	Deputy Head, Clwyd Pension Fund

EXECUTIVE SUMMARY

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:

(a) The Business Plan 2018/19 update for quarter 3 (October to December 2018) is attached as Appendix 1. There are three tasks relating to this quarter, Asset Pooling (progressing on target), Interim Funding Review (completed) and Employer Risk Management Framework (completed)

(b) Current Developments and News – News and development continues to be dominated by the Pooling across the LGPS which has been covered in agenda item 5.

(c) Delegated responsibilities (Appendix 2). This details the responsibilities which have been delegated to officers since the last Committee meeting. These can include, cash management, short term tactical decisions, investments in new opportunities and monitoring of fund managers. There are no items of exception to report.

(d) An update on the plans and timescales for the 2019 Actuarial Valuation, as we approach the valuation date of 31 March 2019. There are a number of areas which will require approval from the Committee and these are set out with the report. A timetable for the valuation has also been included as Appendix 3.

RECOMMENDATIONS	
1	That the Committee consider and note the update for delegated responsibilities and provide any comments.
2	The Committee note the timescales for the 2019 valuation plan and understand the areas that will require Committee approval.

REPORT DETAILS

1.00	INVESTMENT AND FUNDING RELATED MATTERS
1.01	**Business Plan Update** Appendix 1 provides a summary of progress against the Investment and Funding section of the Business Plan up to the end of quarter 3 to 31 December 2018. Two projects have been completed and the third is ongoing.
1.02	**Policy and Strategy Implementation and Monitoring** The Advisory Panel receive a detailed investment report from the Fund's Investment Consultants, JLT which shows compliance with the approved Investment Strategy Statement and reports on fund manager performance. A summary of this performance is shown in the JLT report included in agenda item 10. The Advisory Panel also receive reports from the following groups: • Tactical Asset Allocation Group (TAAG) • Funding and Risk Management Group (FRMG) • Private Equity and Real Assets Group (PERAG) Any delegations arising from these meetings are detailed in Appendix 2.
1.03	**2019 Actuarial Valuation** 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. The actuarial valuation represents a major activity in managing the Clwyd Pension Fund and acts as a key governance tool to shape its direction. The effective date of the actuarial valuation is 31 March 2019, and the employer contributions that will be certified by the Fund Actuary will be for the three-year period 2020/23. As we are approaching the valuation date, it is important that the Committee understand their role in the process, in particular: • Approval of the draft Funding Strategy Statement. This will then be provided to employers for formal consultation following approval at the September 2019 committee meeting. The decisions required are as follows: o Agreement to the proposed financial and demographic assumptions to adopt in the calculations o Agreement to the approach to dealing with employer data issues o Agreement to the Fund policies to apply e.g. ▪ the admission and termination policy ▪ the approach to covenant monitoring ▪ the approach to apply when setting employer contributions with regard to length of recovery period etc. ▪ setting the ill health captive arrangement

	◦ The approach to take when communicating with employers regarding their valuation results • Approval of the final Funding Strategy Statement following the consultation process. This is required to sign off the formal valuation report and we expect this to be required in the February 2020 committee meeting. Appendix 4 provides an overview of the project plan in relation to the 2019 actuarial valuation. This highlights the key milestones in the coming months with regard to data provision and the delivery of results and includes the known scheduled meeting dates for 2019/20. The Committee will continue to be updated on the progress of the actuarial valuation over the year.
1.04	**Delegated Responsibilities** The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. Appendix 2 updates the Committee on the areas of delegation used since the last meeting. To summarise: • Cashflow forecasting identified low short term liquidity which resulted in redeeming £10m from the Insight LDI collateral pool. The Funds cashlow continues to be monitored closely. • Shorter term tactical decisions continue to be made by the Tactical Asset Allocation Group (TAAG). • Within the "In House" portfolio, 4 commitments have been made in the Private Equity and Infrastructure portfolios which follow the strategy agreed by the Advisory Panel for this asset class. • As reported to the previous Committee, the Fund made a commitment of £10m to the Development Bank of Wales Management Succession Fund. The press release that was issued is attached as Appendix 3.

2.00	**RESOURCE IMPLICATIONS**
2.01	None directly as a result of this report. Significant resource requirements will be required from the administration and investment teams to complete the Actuarial process.

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	The Fund is required to consult with employing bodies over the development of the FSS and overall framework of the actuarial valuation.

4.00	**RISK MANAGEMENT**
4.01	The Actuarial Valuation addresses some of the risks identified in the

	Fund's Risk Register. Specifically, this covers the following (either in whole or in part): • Governance risk: G2 • Funding and Investment risks: F1 - F6
4.02	Appendix 5 provides the dashboard and risk register highlighting the current risks relating to Investments and Funding matters.
4.03	Risks 2, 3 and 4 relating to the value of assets and liabilities not being as expected - The Likelihood score has been changed to "Significant" from "Low". This is to reflect the increased risks associated with Brexit given the uncertainty. This may well be a short term position as we are currently considering the hedging of the currency risk before exit. We have considered the impact of this and this has been added as a new internal control. Note that all actions will be reviewed to incorporate the projects from the 2019/20 to 2021/22 business plan once it has been approved. In addition, the target dates have been extended due to potential risk of impact from Brexit, the ongoing bedding in and transitions to WPP and the ongoing work on employer covenant monitoring / ill health captive. The latter has been extended from its original timescale due to recruitment in the Finance Team taking longer than originally envisaged.

5.00	**APPENDICES**
5.01	Appendix 1 - 2018/19 Business plan update Appendix 2 – Delegated Responsibilities Appendix 3 – Development Bank of Wales press release Appendix 4 – 2019 Actuarial Valuation Project Plan Appendix 5 – Risk dashboard and register – Investments and Funding

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	Current FSS and 2016 Actuarial Valuation report. **Contact Officer:** Debbie Fielder, Deputy Head, Clwyd Pension Fund **Telephone:** 01352 702259 **E-mail:** Debbie.a.fielder@flintshire.gov.uk

7.00	**GLOSSARY OF TERMS**
7.01	(a) **The Fund - Clwyd Pension Fund** – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region (b) **Administering authority or scheme manager** – Flintshire County

Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund.

(c) **The Committee - Clwyd Pension Fund Committee** - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund

(d) **TAAG – Tactical Asset Allocation Group** – a group consisting of The Clwyd Pension Fund Manager, Pensions Finance Manager and consultants from JLT Employee Benefits, the Fund Consultant.

(e) **AP – Advisory Panel** – a group consisting of Flintshire County Council Chief Executive and Corporate Finance Manager, the Clwyd Pension Fund Manager, Fund Consultant, Fund Actuary and Fund Independent Advisor.

(f) **PERAG – Private Equity and Real Asset Group** – a group chaired by the Clwyd Pension Fund Manager with members being the Pensions Finance Managers, who take specialist advice when required. Recommendations are agreed with the Fund's Investment Consultant and monitored by AP.

(g) **In House Investments –** Commitments to Private Equity / Debt, Property, Infrastructure, Timber, Agriculture and other Opportunistic Investments. The due diligence, selection and monitoring of these investments is undertaken by the PERAG.

(h) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of

(i) **ISS – Investment Strategy Statement** – the main document that outlines our strategy in relation to the investment of assets in the Clwyd Pension Fund.

(j) **FSS – Funding Strategy Statement** – the main document that outlines how we will manage employers contributions to the Fund

(k) **Funding & Risk Management Group (FRMG)** - A subgroup of Pension Fund officers and advisers set up to discuss and implement any changes to the Risk Management framework as delegated by the Committee. It is made up of the Clwyd Pension Fund Manager, Pension Finance Manager, Fund Actuary, Strategic Risk Adviser and Investment Advisor.

(l) **GMP** – **Guaranteed Minimum Pension** – This is the minimum level of pension which occupational pension schemes in the UK have to provide for those employees who were contracted out of the State Earnings-Related Pension Scheme (SERPS) between 6 April 1978 and 5 April 1997.

(m) **Actuarial Valuation** - The formal valuation assessment of the Fund detailing the solvency position and determine the contribution rates payable by the employers to fund the cost of benefits and make good

	any existing shortfalls as set out in the separate Funding Strategy Statement. (n) **Actuary -** A professional advisor, specialising in financial risk, who is appointed by pension Funds to provide advice on financial related matters. In the LGPS, one of the Actuary's primary responsibilities is the setting of contribution rates payable by all participating employers as part of the actuarial valuation exercise. (o) A full glossary of Investments terms can be accessed via the following link. http://www.fandc.com/uk/private-investors/tools/glossary/

Business Plan 2018/19 to 2020/21 – Q3 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	2018/19 Period				Later Years	
		Q1	Q2	Q3	Q4	2019/20	2020/21
F1	Asset Pooling Implementation	x	x	x	x	x	
F3	Interim Funding Review		x	x			
F4	Employer Risk Management Framework		x	x			

Funding and Investments (including accounting and audit) Task Descriptions

F1 –Asset Pooling Implementation

What is it?

To enable the Wales funds to pool assets an operator has been appointed to provide the investment infrastructure and advice for the Wales Pensions Partnership ("WPP"). A plan will be developed in relation to what and when assets will transition. Then we will need to adapt internal processes and methods as assets transition, and ensure reporting received from the Operator and WPP. The timescales shown below are best estimates and subject to change when the WPP business plan and asset transition plan have been developed.

Timescales and Stages

Develop and agree on initial asset transition plan (reserved matter)	2018/19 Q1
Understand and feed into the development of the role, responsibilities and discretions of the Operator	2018/19 Q1/2
Identify impact on and develop internal processes and resources	2018/19 Q1
Approve the WPP's business plan (reserved matter)	2018/19 Q1 (to be confirmed)
Review and feed into suitability of reporting and performance monitoring templates (including meeting the Fund's Responsible Investment Policy and Cost Transparency requirements)	2018/19 Q1/2
Review of how accounts and finances relating to investments - recording, preparation and publishing	2018/19 Q1 - 4, and 2019/20 Q1/2
Understand infrastructure opportunities	2018/19
Develop process to capture WPP cost versus existing costs to identify benefits and savings of asset pooling	2018/19
Develop and agree any supplementary transition plans (reserved matter)	2018/19 (to be confirmed)

Resource and Budget Implications

2018/19 and future budgets will include the cost of the Operator. For 2018/19 a provisional amount of £50k has been included for a proportion of the year. Along with budgeted WPP costs of £24k. The Consultant and Adviser budgets include an additional estimated amount of £192k for expected ongoing advice during the transitional period. The remaining costs will be covered within the internal resource budget.

F3 – Interim Funding Review

What is it?

It is important for the Fund to consider the possible implications that the 2019 valuation will have on employers, especially as employer budgets are often set well in advance of the valuation year. The review will allow for the latest market outlook and investment returns. It will also incorporate:

- Any membership changes / movements for employers including large outsourcings
- the potential impact of any removal of pay restraint for Councils
- appropriate updates to Fund policies
- updated cash flow projections
- outcomes for individual employers (as necessary) to feed into budgets and also the employer risk management framework.

This will enable major employers to plan for any contribution changes and capture any affordability concerns in advance of the 2019 valuation and facilitate further discussions.

Timescales and Stages

Results and discussion with employers	Q2/3 2018/19

Resource and Budget Implications

This exercise will be performed by the Fund Actuary. It is an important exercise for the Fund and will involve input from both the Clwyd Pension Fund Administration and Finance teams. It will also involve discussions with the Fund's employers. The Fund Actuary's costs in relation to this exercise have been included in the budget.

F4 – Employer Risk Management Framework

What is it?

The Fund is subject to funding risks in respect of employers on an ongoing basis and in particular who cease to participate without being able to recover the full exit contributions due under the Regulations. The Fund is in the process of setting up a monitoring framework to capture any employers that pose a significant risk. The framework will categorise employers into different risk profiles based on their covenant and funding positions. This will allow officers to identify any potential risk of unrecoverable debt and affordability restraints on contribution requirements,

The framework will also consider the outcome of the tier 3 review performed by the Scheme Advisory Board which is expected during 2018 (tier 3 employers are those that do not have tax-payer backing; i.e. colleges, universities, housing associations, charities, admission bodies that do not have a guarantee from a Council, etc.). For the Fund, the potential impact is restricted to colleges and universities.

Timescales and Stages

Monitoring will be performed alongside the 2018 interim review	
Preliminary Covenant Work	Q1 2018/19
Further development of risk framework	Q2&3 2018/19

Resource and Budget Implications

Managing employer risk will require support from the Fund Actuary. It will involve the officers gathering financial information from all employers regularly to monitor covenant strength and funding positions to inform on which employers pose the greatest risk to the Fund and the remedial actions necessary. The Fund Actuary costs in relation to this exercise have been included in the budget.

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DELEGATED RESPONSIBILITIES

	Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
1.041	Rebalancing and cash management	PFM (having regard to ongoing advice of the IC and PAP)	High level monitoring at PFC with more detailed monitoring by PAP

Rebalancing Asset Allocation

Background

The Investment Strategy Statement (ISS) includes a target allocation against which strategic performance is monitored (Strategic Allocation). There are strategic ranges for each asset category that allow for limited deviation away from the strategic allocation as a result of market movements. In addition there is a conditional medium term asset allocation range (Conditional range) to manage major risks to the long term strategic allocation which may emerge between reviews of the strategic allocation.

The Tactical Asset Allocation Group (Investment Consultant & Officers) which meets each month consider whether it is appropriate to re-balance to the strategic asset allocation. Recommendations are made to the Clwyd Pension Manager who has delegated authority to make the decision. Re-balances or asset transitions may be required due to market movements, new cash into the Fund or approved changes to the strategic allocation following a strategic review.

Action Taken

In the quarter to December 2018 the cashflow forecasting identified low short term liquidity at the end of December which resulted in redeeming £10m from the Insight LDI collateral pool to assist with cash-flow. This was actioned on 21st December 2018.

Subsequently, on 14th January 2019, the Investec Global Equity Portfolio (£75m) was transitioned into the Wales Pension Partnership transition account before being transferred to the Russell Investments Global Opportunities fund in mid-February.

Cash Management

Background

The Deputy Head of the Clwyd Pension Fund forecasts the Fund's 3 year cash flows in the Business Plan and this is monitored and revised quarterly. The bank account balance is monitored daily. The main payments are pension related, expenses and investment drawdowns. New monies come from employer and employee contributions and investment income or distributions. This cash flow management ensures the availability of funds to meet payments and investment drawdowns. The LGPS investment regulation only allow a very limited ability to borrow. There is no strategic asset allocation for cash, although there is a strategic range of +5% and a conditional range of +30% which could be used during times of major market stress.

Action Taken

The cash balance as at 31st December 2018 was £12.7m (£18.9m at 30th September 2018). As reported above, the cash flow forecasting identified the possibility that the Fund may experience a negative cash position and as such redeemed £10m from the Insight collateral pool. A Private Equity cash distribution was paid into the Fund bank account during the period which ensured the balance would have, in fact, been positive. Cash balance as at 31st January 2019 was £5.26m. The cash flow is monitored to ensure there is sufficient monies to pay benefits and capital calls for investments. The current cash flow (as seen in Appendix 1 of agenda item 6) is estimating a final cash balance of £3.6m. This compares to an original budget of £4.2m but now includes the additional £10m cash injection. It was expected that cash flows would be a challenge given that some employers paid their 3 year deficit payment up front in 2017/18 and this is proving to be the case. Work is ongoing with the Consultant and Actuary to monitor the situation and be aware of any unforeseen issues. Monthly cash flows from April are shown graphically at the end of the delegations appendix.

	Delegation to Officer(s)	**Delegated Officer(s)**	**Communication and Monitoring of Use of Delegation**
1.042	Short term tactical decisions relating to the 'best ideas' portfolio	PFM (having regard to ongoing advice of the IC and PAP)	High level monitoring at PFC with more detailed monitoring by PAP

Background

The Tactical Asset Allocation Group (Investment Consultant and Officers) meet each month to consider how to invest assets within the ‘Best Ideas’ portfolio given the shorter term market outlook (usually 12 months). The strategic asset allocation is 11% of the Fund (increased from 9% at the last strategic review). The investment performance target is CPI +3 %, although the aim is to also add value to the total pension fund investment performance.

Action Taken

Since the previous Committee the following transactions were agreed within the portfolio:

- Partial Redemption of BlackRock US Opps Fund –£ 10.0m (crystallised +5.5%)
- Partial Redemption of LGIM NA Equity (unhedged) - £10.0m (crystallised -4.5%)
- Part Redemption of BlackRock Japan Equity -£7.5m (crystallised +2.4%)
- Part Redemption of BlackRock European Equity – £2.5m (crystallised -5.8%)
- Part Redemption of BlackRock European Equity - £6.33m (crystallised -7.1%)
- Part Redemption of BlackRock Japanese Equities -£6.33m (crystallised -0.5%)
- Partial Redemption of LGIM NA Equity - £6.33m (crystallised -7.5%)
- Additional Investment of £15.0m in LGIM Infrastructure Fund
- Additional Investment of £5.0m in LGIM Global Real Estate Equity Fund
- Additional Investment of £5.0m in BlackRock Emerging Market Equities
- Additional investment of £5.0m in Investec Global Natural Resourses Fund
- New investment of £19.0m in Pimco Emerging Market Local Bond Fund

The current allocations within the portfolio following the transactions are:

- US Equities (2.5%)
- Emerging Market Equities (1.2%)
- European Equities (0.8%)
- Japanese Equities (0.9%)
- Commodities (1.1%)
- Real Estate (1.7%)
- Infrastructure (1.7%)
- Emerging Market Bonds (1.1%)

Detailed minutes of the Group identifying the rationale behind the recommendations made to the Clwyd Pension Fund Manager and decisions made under this delegation are be circulated to the Advisory Panel.

As at the end of December 2018, the Best Ideas portfolio 3 year performance was +5.5% against a target of +5.3%.

	Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
1.043	Investment into new mandates / emerging opportunities	PFM and either the CFM or CEO (having regard to ongoing advice of the IC)	High level monitoring at PFC with more detailed monitoring by PAP

Background

The Fund's investment strategy includes a 22% asset allocation to private equity (10%), property (4%), infrastructure (7%) and agriculture (1%). The last strategic investment review reduced the property allocation by 3% and increased the infrastructure allocation by 4%. Given the illiquid nature of these investments this transition will take a number of years to implement. These are higher risk investments, usually in limited partnerships, hence small commitments are made of £8m in each. Across these asset categories there are currently in excess of 50 investment managers, investing in 115 limited partnerships or other vehicles.

The Private Equity & Real Estate Group (PERAG) of officers and advisor meet quarterly and are responsible for implementing and monitoring the investment strategy and limited partnerships across these asset classes. The investments in total are referred to as the 'In-House portfolio'. There is particular focus on Environmental, Social and Governance (ESG) aspects on the investments made.

A review was undertaken of the existing portfolio and future cash flows and the results were incorporated into the forward work plan. As a result, extensive work has been carried out to identify suitable Infrastructure investments. Several commitments have already been agreed and further due diligence is still being undertaken on other possible opportunities. It is anticipated that an allocation of 7% to Infrastructure will be achievable by 2020. Within the remaining In House portfolio, officers are continuing to look at any opportunities which fulfil their agreed strategy. The minutes of the PERAG Group are circulated to the Advisory Panel

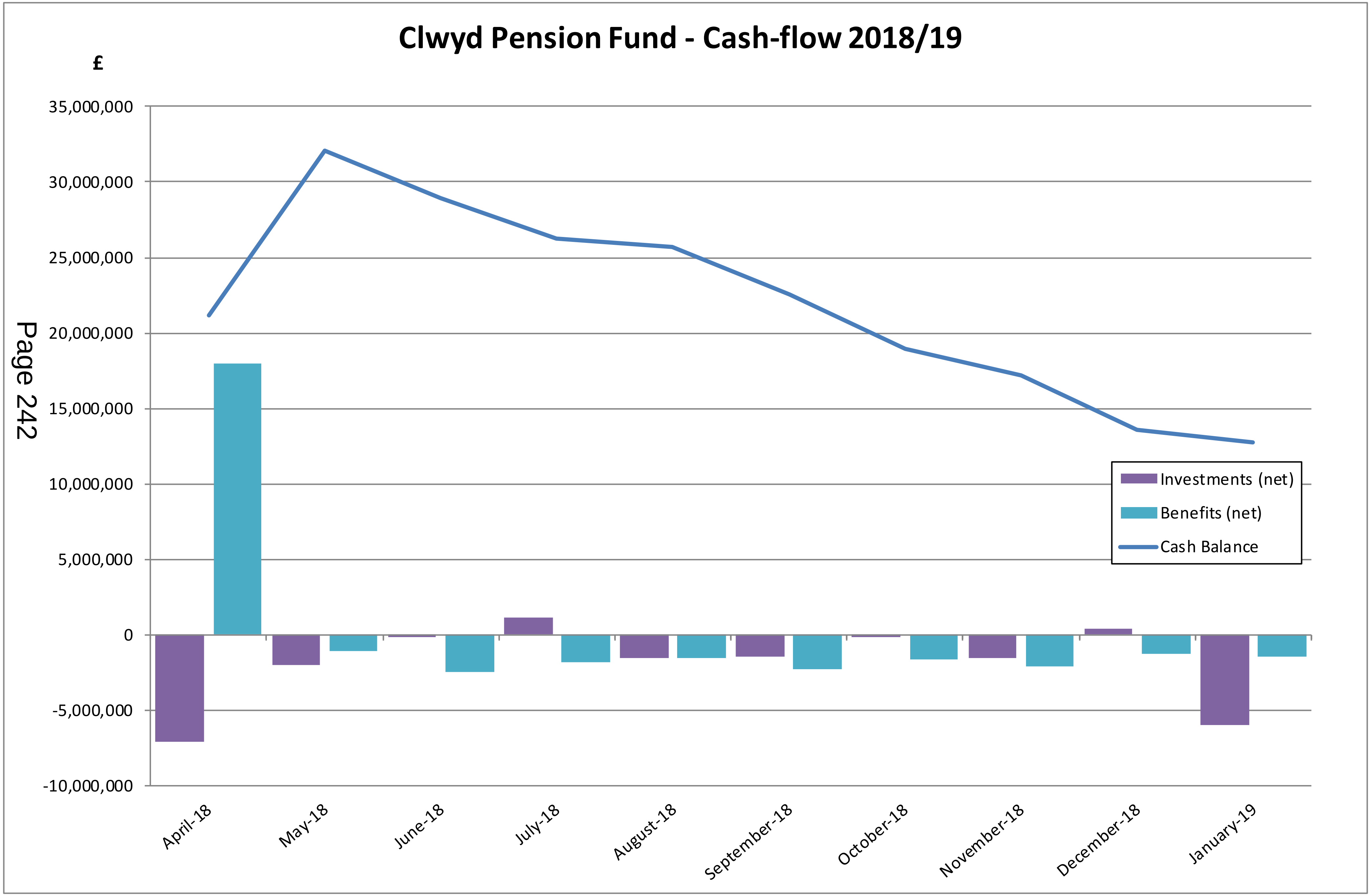
Action Taken

Due diligence has been undertaken on the following Private Equity Funds, all of whom are existing managers included in our forward work program, coming back to the market with follow on Funds The following commitments have been made under delegated authority since the last Committee:

- €9 million to Partners Group Life Fund (Global Private Equity Fund focusing on sustainable goals and targeting 9 - 11% Net IRR plus ,measurable RISI results)
- $10 million to North Haven Private Equity Asia Fund V (Asian Private Equity Fund targeting 15 – 20% Net IRR)
- €10 million to BlackRock European Property Fund V (European Property Fund targeting 12 – 14% Net IRR)

Due diligence has also been undertaken on the following Infrastructure Fund. This is a new Manager who looks to take advantage of strategic opportunities in the Infrastructure area. The following commitment has been made under delegated authority since the last Committee:

- £8 million to Newcore Strategic Situations Fund IV (Infrastructure Fund targeting 14 - 16% Net IRR)


Clwyd Pension Fund - Cash-flow 2018/19
£
35,000,000
30,000,000
25,000,000
20,000,000
15,000,000
10,000,000
5,000,000
0
-5,000,000
-10,000,000
April-18
May-18
June-18
July-18
August-18
September-18
October-18
November-18
December-18
January-19
Investments (net)
Benefits (net)
Cash Balance

Media release

5 February 2019

PENSION FUND INVESTS £10 MILLION IN WELSH BUSINESS OWNERS

The Clwyd Pension Fund has confirmed a £10 million equity investment in the £25 million Wales Management Succession Fund. This is the first time an institutional equity investor has backed a fund managed by the Development Bank of Wales or its predecessor Finance Wales.

The Wales Management Succession Fund was first launched in 2016 by Welsh Government with an initial £10 million investment alongside £5 million of legacy funding. The fund provides ambitious Welsh business owners and management teams with the funding they need to buy established Welsh small and medium-sized businesses (SMEs) when their current owners retire or sell. Equity investments of between £500,000 and £3 million are available.

£4.275 million has been invested to date with the Development Bank of Wales backing the successful management buy-outs of Glamorgan Telecom, First Choice Accident Repair Centre, ALS Managed Service (Holdings) Limited, Camtronics Vale and Minerva Laboratories (Coltrun Limited).

The £25 million fund will now support 20 businesses, leverage £15 million of private sector funding and create/safeguard 1000 jobs over the next five years.

Economy Minister Ken Skates said: “I am very pleased that Clwyd Pension Fund are investing alongside Welsh Government in the Wales Management Succession Fund. Attracting institutional investment at a fund level is a significant step forward in the evolution of the Development Bank of Wales, proving that Wales and Welsh business is an attractive proposition for investors.”

Colin Everett, Administrator of Clwyd Pension Fund said: “As a forward thinking and responsible investor we actively seek opportunities which deliver on both fund performance and sustainability objectives. We are delighted to make this investment which will support economic growth and employment in a segment of the market vital for the health of the Welsh Economy. The investment also underpins the commitment of local authorities, as our principal fund employers, to supporting economic growth in Wales."

Chief Executive of the Development Bank of Wales Giles Thorley and Group Investment Director Mike Owen presented an overview of the £10m investment into the Wales Management Succession Fund at Clwyd Pension Fund's annual meeting with employers and member representatives in November 2018.

Mike Owen said: "Management succession is a critical element of a vibrant and successful economy. Without a mechanism to transfer companies to the next generation of business leaders, companies can stagnate, downsize, relocate, or even close.

"The Wales Management Succession Fund endeavours to meet this gap in the Welsh market by providing funding to businesses where an acquisition will help safeguard jobs within the business in Wales; jobs which would have been lost if no buyer for the business could be found, or where the business would otherwise be relocated.

"This is the first time in our history that we have secured equity investment at fund level, and is an important step in diversifying our funding sources as a model for future fundraising. This investment by the Clwyd Pension Fund will enable us to support Welsh businesses to transition their leadership, create and safeguard jobs and ensure business longevity for a more prosperous Wales."

ENDS

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Notes to editors:

About the Development Bank of Wales

- The **Development Bank of Wales** was set up by the Welsh Government to support the economy of Wales by making it easier for businesses to get the finance needed to start up, strengthen and grow. The purpose of the Development Bank is to unlock potential in the economy of Wales by increasing the provision of sustainable, effective finance in the market.

- Launched in October 2017 it is a cornerstone organisation for delivery of public sector financial products, supporting micro to medium businesses in Wales and increasing the supply of finance. It promotes economic development through an adaptable delivery model that is responsive to market needs whilst providing continued value for money for public funds. It delivers key Welsh Government policy objectives measured through performance targets and providing investment management and support services across the whole of Welsh Government.

- Formerly known as Finance Wales, the Development Bank of Wales has supported 344 businesses in Wales with £72m worth of investment funds in its first year of operation (figures correct as of October 2018) which has in turn, attracted £84m in private investment.

- The **Development Bank of Wales** has made £0.5bn direct investment into Welsh businesses, attracting £0.6bn private sector leverage creating a total impact into the Welsh economy of £1.3bn.

- During the 2018-19 financial year the **Development Bank of Wales** has:
    - invested £59 million directly into Welsh businesses through 276 investments
    - attracted £75 million additional investment from banks and other private- sector funders
    - Made a £134 million growth capital injection into the Welsh economy;
    - created or safeguarded 2533 jobs in Wales

  (Figures correct as at 31 December 2018)

Development Bank of Wales Plc (Banc Datblygu Cymru ccc) is the holding company of a Group that trades as Development Bank of Wales. The Group is made up of a number of subsidiaries which are registered with names including the initials DBW. Development Bank of Wales Plc is a development finance company wholly owned by the Welsh Ministers and it is neither authorised nor regulated by the Prudential Regulation Authority (PRA) or the Financial Conduct Authority (FCA). The Development Bank of Wales has three subsidiaries which are authorised and regulated by the FCA. Please note that neither the Development Bank of Wales Plc nor any of its subsidiaries are banking institutions or operate as such. This means that none of the group entities are able to accept deposits from the public. A complete legal structure chart for Development Bank of Wales Plc can be found at www.developmentbank.wales.

About Clwyd Pension Fund

The Clwyd Pension Fund is part of the statutory Local Government Pension Scheme (LGPS) and is administered by Flintshire County Council.
The Clwyd Pension Fund provides retirement benefits for local government employees in North East Wales and for employees of other bodies providing similar services to local authorities that have been admitted to the LGPS.
Teachers, police officers and firefighters are not included as they come within other national pension schemes.
Further details about Clwyd Pension Fund can be found at: mss.clwydpensionfund.org.uk

			2019												2020			
	2019 VALUATION TIMETABLE	Owner	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Comments and Actions
	COMMITTEE MEETING DATES			20th	20th			12th										Dates to be agreed
	OTHER MEETING DATES (INCLUDING AJCM)																	Dates to be agreed
	ADVISORY PANEL MEETING DATES		15th	20th			16th											Dates to be agreed
	STEERING GROUP MEETINGS		31st															Dates to be agreed
	VALUATION PROCESSING																	
1	Demographic analysis	NG / PM																Data and scope provided
2	Consideration of data requirements by employers	NG / DF																
3	Provision of preliminary valuation data to Actuary:																	
(a)	- Employer cashflows (Schedule 1)	DF																
(b)	- Reconciliation of employers in Fund - update employer information spreadsheet as at March 2019 (Schedule 2)	SB / KW																
(c)	- Employer reorganisations (Schedule 3 if applicable)	SB / KW																
(d)	- Financial information including investment returns and ISS	DF																
(e)	- Other miscellaneous data requested	SB / KW																
4	Indicative results provided based on preliminary data only	NG / PM																Meeting dates to be agreed
5	Provision of full data covering all individual members and employers to the Fund Actuary	KW / RJ																Data expected to be provided by 30 June 2019
6	Provision of 2019 Data Quality Report	NG / PM																
7	Processing the whole Fund calculations and provide results and sensitivities	NG / PM																Meeting dates to be agreed
8	Processing major employer calculations and provide results	NG / PM																Meeting dates to be agreed
9	Processing the other individual employer calculations and provide results	NG / PM																Delivery method to employers to be agreed
10	Submission of standardised results information to the SAB, data to GAD and KPI info to National Board	NG / PM																Awaiting confirmation of timescales from GAD
11	Final sign off of results on the basis of the final approved FSS	PM																
12	Provision of formal report and actuarial certificates	PM																
	FUNDING STRATEGY REVIEW & COVENANT																	
13	Covenant assessment work	TB / DF / NG																Send data requests Q1 2019
14	Preliminary discussions with officers regarding assumptions, including results of demographic analysis	All																Meeting dates to be agreed
15	Discussions with officers regarding indicative approximate results	All																Meeting dates to be agreed
16	Meetings with required employers regarding indicative results	All																Meeting dates to be agreed
17	Draft the Funding Strategy Statement	All																
18	Formal review and update of the FSS by Committee at meeting	PL / PM									tbc							Draft of FSS agreed by Pension Fund Committee at the September 2019 meeting
19	FSS consultation with other interested parties	PL / PM										consultation						Taking into account outcomes of preliminary discussions
20	Review of responses to FSS consultation and formal ratification of FSS by Pension Fund Committee	PL / PM																Finalise FSS at the February 2020 Pension Fund Committee meeting
	COMMUNICATIONS, TRAINING AND OTHER																	
21	Plan management of results:																	
(a)	- Planning meeting	PL / PM																Meeting dates to be agreed
(b)	- PFaroe training	PL / PM																
(c)	- Discussions regarding the database and draft letters for distributing results	DF / NG																
(d)	- Assistance with employer results	DF / NG																
22	Consideration of the current equity protection structure	All																
23	Consider updates to the Flightpath strategy and LDI framework	All																
24	Valuation / FSS training for Pensions Committee / Local Board	PL / PM																Fund to confirm date
25	Major employer results / discussions with FDs regarding the outcomes, affordability and likely impact on budgets	All																
26	Final individual employer results and contribution requirements for all remaining employers	NG / PM																
27	Fund disseminate results	DF / NG																
28	AJCM to discuss the valuation results	PL / PM																
29	Presentation of whole Fund and main Council results to the Pensions Committee	PL / PM																
30	Instruct employers for rates	DF / PL																
31	Identify employers prepaying lump sums	DF / PL																

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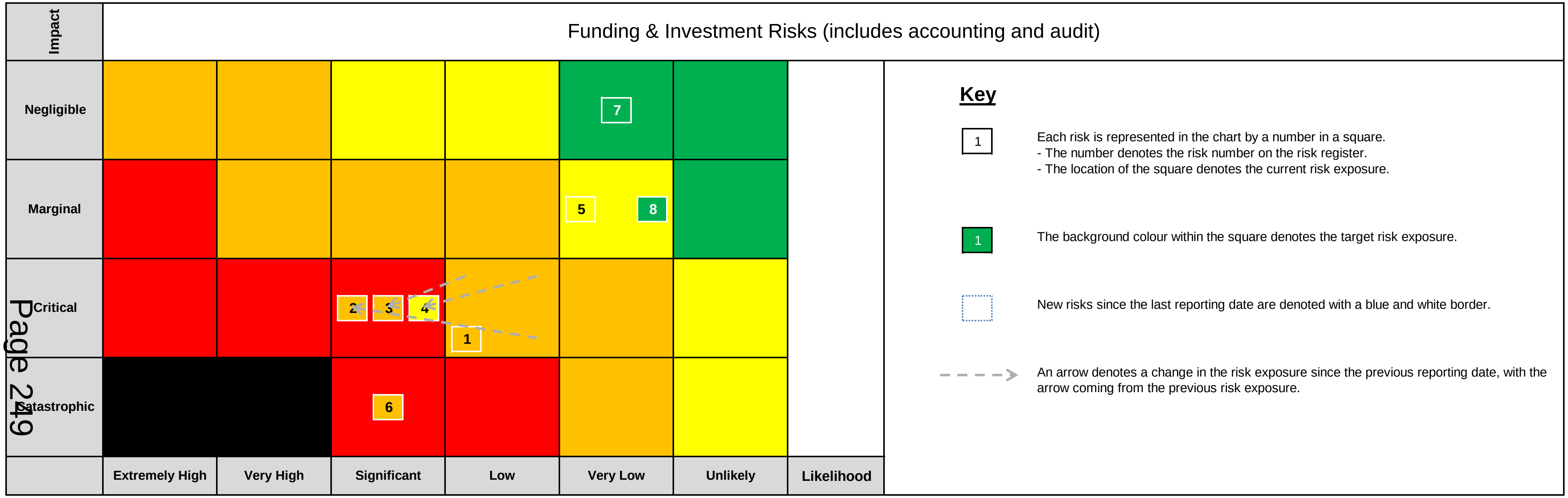
Funding and Investment Risks (Including Accounting & Audit) Heat Map and Summary



14 February 2019

Clwyd Pension Fund - Control Risk Register

Funding & Investment Risks (includes accounting and audit)

Objectives extracted from Funding Strategy Statement (3/2017) and Statement of Investment Principles (3/2017):

F1 Achieve and maintain assets equal to 100% of liabilities within the 15 year average timeframe whilst remaining within resonable risk parameters
F2 Determine employer contribution requirements, recognising the constraints on affordability and strength of employer covenant, with the aim being to maintain as predictable an employer contribution requirement as possible
F3 Recognising the constraints on affordability for employers, aim for sufficient excess investment returns relative to the growth of liabilities
F4 Strike the appropriate balance between long-term consistent investment performance and the funding objectives
F5 Manage employers' liabilities effectively through the adoption of employer specific funding objectives
F6 Ensure net cash outgoings can be met as/when required
F7 Minimise unrecoverable debt on employer termination.
F8 Ensure that its future strategy, investment management actions, governance and reportin gprocedures take full account of longer-term risks and sustainability
F9 Promote acceptance of sustainability principles and work tougher with others to enhance the Fund's effectiveness in implementing these.

Risk no:	Risk Overview (this will happen)	Risk Description (if this happens)	Strategic objectives at risk (see key)	Current impact (see key)	Current likelihood (see key)	Current Risk Status	Internal controls in place	Target Impact (see key)	Target Likelihood (see key)	Target Risk Status	Meets target?	Date Not Met Target From	Expected Back on Target	Further Action and Owner	Risk Manager	Next review date	Last Updated
1	Employer contributions are unaffordable and/or unstable	An appropriate funding strategy can not be set	F1 / F2 / F3 / F4 / F5	Critical	Low		1 - Ensuring appropriately prudent assumptions on an ongoing basis 2 - All controls in relation to other risks apply to this risk 3 - Consider employer covenant and reasonable affordability of contributions for each employer as part of the valuation process	Critical	Very Low		Current likelihood 1 too high	31/03/2016	Dec 2019	1 - Finalise employer covenant monitoring and ill health captive (DF)	CPFM	31/03/2019	13/11/2017
2	Funding level reduces, increasing deficit	Movements in assets and/or liabilities (as described in 3,4,5) in combination	F1 / F2 / F3 / F4 / F5 / F7	Critical	Significant		See points within points 3,4 and 5	Marginal	Low		Current impact 1 too high Current likelihood 1 too high	31/03/2016	Sep 2019	1 - Revised Equity Protection Strategy to be put in place (PL) - See points within points 3,4 and 5	CPFM	31/03/2019	08/02/2019
3	Investment targets are not achieved therefore reducing solvency / increasing contributions	-Markets perform below actuarial assumptions - Fund managers and/or in-house investments don't meet their targets - Market opportunities are not identified and/or implemented.	F1 / F2 / F3 / F4 / F7	Critical	Significant		1 - Use of a diversified portfolio (regularly monitored) 2 - Flightpath in place to exploit these opportunities in appropriate market conditions 3 - Monthly monitoring of funding position versus flightpath targets 4 - Annual formal reviews of the continued appropriateness of the funding/investment strategies by the Pensions Advisory Panel and Committee 5 - On going monitoring of appointed managers (including in house investments) managed through regular updates and meetings with key personnel 6 - Officers regularly meet with Fund Managers, attend seminars and conferences to continually gain knowledge of Investment opportunities available 7 - Consideration and understanding of potential Brexit implications.	Critical	Low		Current likelihood 1 too high	14/02/2019	Sep 2019	1 - The impact on performance relative to assumptions will be monitored regularly (FRMG & TAAG) (DF)	Dep. Head of CPF	31/03/2019	14/02/2019
4	Value of liabilities increase due to market yields/inflation moving out of line from actuarial assumptions	Market factors impact on inflation and interest rates	F1 / F2 / F4 / F5 / F7	Critical	Significant		1 - LDI strategy in place to control/limit interest and inflation risks. 2 - Use of a diversified portfolio which is regularly monitored. 3 - Monthly monitoring of funding and hedge ratio position versus targets. 4 - Annual formal reviews of the continued appropriateness of the funding/investment strategies by the Pensions Advisory Panel and Committee. 5 - Consideration and understanding of potential Brexit implications.	Marginal	Very Low		Current impact 1 too high Current likelihood 2 too high	31/03/2016	Sep 2019	1 -The level of hedging will be monitored and reported regularly via FRMG (DF)	Dep. Head of CPF	31/03/2019	08/02/2019
5	Value of liabilities/contributions change due to demographics being out of line with assumptions	This may occur if employer matters (early retirements, pay increases, 50:50 take up), life expectancy and other demographic assumptions are out of line with assumptions	F1 / F2 / F5 / F7	Marginal	Very Low		1 - Regular monitoring of actual membership experience carried out by the Fund. 2 - Actuarial valuation assumptions based on evidential analysis and discussions with the Fund/employers. 3 - Ensure employers made aware of the financial consequences of their decisions 4 - In the case of early retirements, employers pay capital sums to fund the costs for non-ill health cases.	Marginal	Very Low					1 - Assumptions and experience will be reviewed at the 2019 valuation (DF)	Dep. Head of CPF	31/03/2019	13/11/2017
6	Investment and/or funding objectives and/or strategies are no longer fit for purpose	Legislation changes such as LGPS regulations (e.g. asset pooling), progression of Brexit and other funding and investment related requirements - ultimately this could increase employer costs	F1 / F2 / F3 / F4 / F5 / F6 / F7	Catastrophic	Significant		1 - Ensuring that Fund concerns are considered by the Pensions Advisory Panel and Committee as appropriate 2 - Employers and interested parties to be kept informed and impact monitored 3 - Monitor developments over time, working with investment managers, investment advisers, Actuary and other LGPS 4 - Particiaption in National consultations and lobbying	Marginal	Low		Current impact 2 too high Current likelihood 1 too high	31/03/2016	Mar 2020	1 - Ensure proactive responses to consultations etc. (PL)	Dep. Head of CPF	31/03/2019	20/11/2018
7	Insufficient assets to pay benefits	Insufficient cash (due to failure in managing cash) or only illiquid assets available - longer term this will likely become a problem and would result in unanticipated investment costs. Further risk presented with the introduction of Exit Credits for exiting employers in the 2018 Regulations update.	F1 / F6	Negligible	Very Low		1 - Cashflow monitoring to ensure sufficient funds 2 - Ensuring all payments due are received on time including employer contributions (to avoid breaching Regulations) 3 - Holding liquid assets 4 - Monitor cashflow requirements 5 - Treasury management policy is documented	Negligible	Very Low					1 - Inform major employers of the requirement to notify Fund of any significant restructuring exercises. (Need to consider controls currently in place). (DF) 2 – Contact major employers to highlight the change and ensure any potential contract end dates are notified to the Fund in sufficient time so that the risk of large payments can be reduced (i.e. through a contribution rate review in advance of the contract end date) (DF)	Dep. Head of CPF	31/03/2019	04/06/2018
8	Loss of employer income and/or other employers become liable for their deficits	Employer ceasing to exist with insufficient funding (bond or guarantee)	F5 / F7	Marginal	Very Low		1 - Consider profile of Fund employers and assess the strength their covenant and/or whether there is a quality guarantee in place. 2 - When setting terms of new admissions require a guarantee or bond. 3 - Formal consideration of this at each actuarial valuation plus proportionate monitoring of employer strength. 4 - Identify any deterioration and take action as appropriate through discussion with the employer.	Marginal	Unlikely		Current likelihood 1 too high	31/03/2016	Dec 2019	1 - Employer risk management framework to be finalised (DF)	Dep. Head of CPF	31/03/2019	13/11/2017

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 20 February 2019
Report Subject	Economic and Market Update
Report Author	Clwyd Pension Fund Manager

EXECUTIVE SUMMARY

The purpose of the report is to provide Committee Members with an economic and market update for the quarter.

This report covers the period ending 31 December 2018.

Over the last three months, global markets have suffered a significant sell-off, driven largely by two on-going themes. The first of these was the end and reversal of loose monetary policy, combined with the speed at which the US Federal Reserve intended to raise interest rates. The second issue which has been underlying market sentiment for several months was the prospect of slower growth in the global economy, exacerbated by the trade tensions between the US and China.

In the UK the FTSE All-Share fell more than 10% in the quarter, resulting in its worst annual return since the global financial crisis ten years previous. Whilst the UK equity market has been broadly in line with other developed markets globally, the UK remains firmly under the Brexit cloud, which has seen increased volatility. US stocks were also hit at the start of the quarter in what turned out to be a very difficult month for investors, so bad it is now referred to as ‘Red October’.

Elsewhere there was a similar story: Japan was the worst equity market falling 12.4%, and whilst Emerging Market equities suffered less, they still ended the quarter down 3.9%, and 7.6% down for the year.

2018 proved to be a disappointing year for investors in all asset classes, and looking ahead we still see signs of continued volatility, although we are not currently seeing any signs that we are about to enter a recessionary period. The current economic cycle is the longest since the First World War, and whilst there have been signs of slowdown in parts of the world, leading indicators are still not suggesting a global recession is imminent.

RECOMMENDATIONS	
1	To note and discuss the Economic and Market Update 31 December 2018.
2	To note 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 asset portfolio.

REPORT DETAILS

1.00	INVESTMENT AND FUNDING RELATED MATTERS
1.01	**Economic and Market Update 31 December 2018** The economic and market update for the quarter from the Fund's Investment Consultant is attached and will be presented at Committee. The report contains the following sections: • **Market Background** – section contains key financial markets data during the period in question including performance of specific markets including equities, bonds, inflation and currencies. • **Economic Statistics** – section contains key economic statistics during the period in question including Gross Domestic Product (GDP) Growth, Inflation, Unemployment and Manufacturing • **Market Commentary** – section provides detailed commentary on the economic and market performance of major global regions and financial markets (including alternative assets).

2.00	RESOURCE IMPLICATIONS
2.01	None directly as a result of this report.

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	None directly as a result of this report.

4.00	RISK MANAGEMENT
4.01	None.

5.00	**APPENDICES**
5.01	Appendix 1 – Economic and Market Update Period Ending 31 December 2018

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	Economic and Market Update Period Ending 30 September 2018. **Contact Officer:** Philip Latham, Clwyd Pension Fund Manager **Telephone:** 01352 702264 **E-mail:** philip.latham@flintshire.gov.uk

7.00	**GLOSSARY OF TERMS**
7.01	A list of commonly used terms are as follows: (a) **Absolute Return –** The actual return, as opposed to the return relative to a benchmark. (b) **Annualised –** Figures expressed as applying to 1 year. (c) **Duration –** The weighted average time to payment of cashflows (in years), calculated by reference to the time and amount of each payment. It is a measure of the sensitivity of price/value to movements in yields. (d) **Market Volatility –** The impact of the assets producing returns different to those assumed within the actuarial valuation basis, excluding the yield change and inflation impact. (e) **Money-Weighted Rate of Return –** The rate of return on an investment including the amount and timing of cashflows. (f) **Relative Return –** The return on a fund compared to the return on index or benchmark. This is defined as: Return on Fund minus Return on Index or Benchmark. (g) **Three-Year Return –** The total return on the fund over a three year period expressed in percent per annum. (h) **Time-Weighted Rate of Return –** The rate of return on an investment removing the effect of the amount and timing of cashflows. (i) **Yield (Gross Redemption Yield) –** The return expected from a bond if held to maturity. It is calculated by finding the rate of return that equates the current market price to the value of future cashflows. **A comprehensive list of investment terms can be found via the following link:** http://www.barings.com/ucm/groups/public/documents/marketingmaterials/021092.pdf

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CLWYD PENSION FUND

ECONOMIC AND MARKET UPDATE
PERIOD ENDING 31 DECEMBER 2018

TABLE OF CONTENTS

1 MARKET BACKGROUND
PERIOD ENDING 31 DECEMBER 2018

MARKET STATISTICS

Market Returns Growth Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	-10.2	-9.5	6.1
Overseas Developed	-11.0	-2.7	12.9
North America	-11.5	0.8	14.6
Europe (ex UK)	-11.0	-9.1	8.4
Japan	-12.4	-7.6	9.1
Asia Pacific (ex Japan)	-7.6	-8.7	12.9
Emerging Markets	-3.9	-7.6	14.8
Frontier Markets	-4.1	-15.3	5.9
Property	0.9	6.6	6.8
Hedge Funds**	-6.2	-6.2	1.8
Commodities**	-23.4	-15.5	-1.0
High Yield**	-3.9	-3.7	5.9
Emerging Market Debt	4.6	-0.4	11.2
Senior Secured Loans**	-4.9	-2.3	3.2
Cash	0.2	0.6	0.4

Market Returns Bond Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Gilts (>15 yrs)	2.6	0.3	7.1
Index-Linked Gilts (>5 yrs)	2.0	-0.4	9.2
Corporate Bonds (>15 yrs AA)	1.4	-1.9	7.0
Non-Gilts (>15 yrs)	-0.5	-4.1	6.4

Exchange Rates: Change in Sterling	3 Mths %	1 Year %	3 Years % p.a.
Against US Dollar	-2.34	-5.85	-4.75
Against Euro	-0.77	-1.10	-6.36
Against Yen	-5.66	-8.30	-7.63

Inflation Indices	3 Mths %	1 Year %	3 Years % p.a.
Price Inflation – RPI	0.5	2.7	3.1
Price Inflation – CPI	0.5	2.1	2.2
Earnings Inflation*	0.2	3.4	2.8

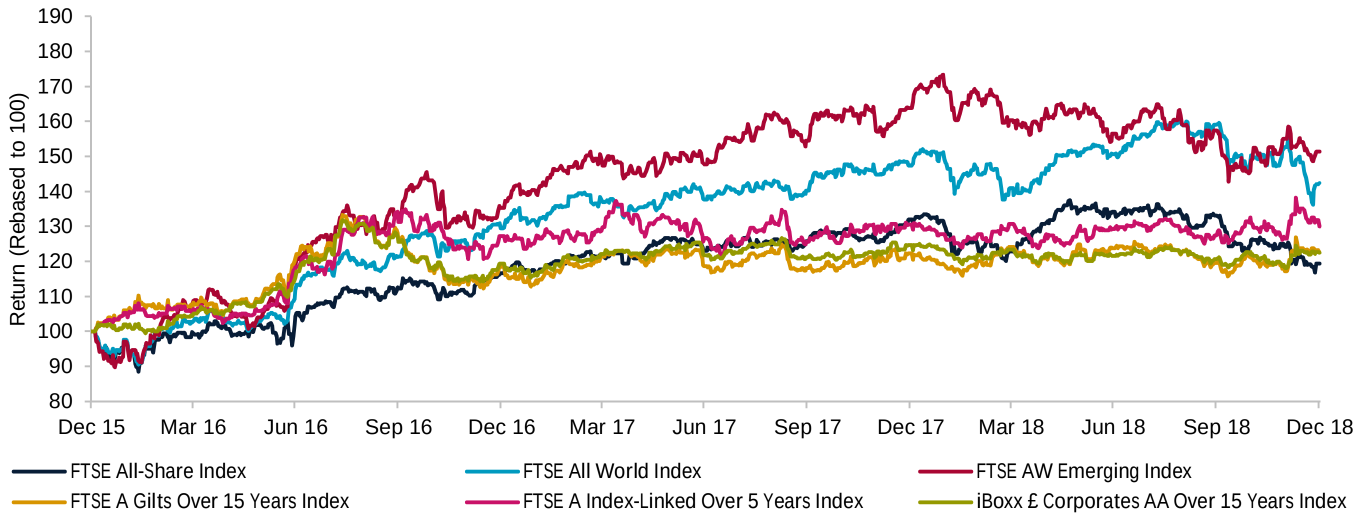
Yields as at 31 December 2018	% p.a.
UK Equities	4.46
UK Gilts (>15 yrs)	1.76
Real Yield (>5 yrs ILG)	-1.59
Corporate Bonds (>15 yrs AA)	2.77
Non-Gilts (>15 yrs)	3.36

Absolute Change in Yields	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	0.66	0.87	0.76
UK Gilts (>15 yrs)	-0.10	0.08	-0.81
Real Yield (>5 yrs ILG)	-0.09	0.08	-0.88
Corporate Bonds (>15 yrs AA)	-0.04	0.33	-0.92
Non-Gilts (>15 yrs)	0.09	0.46	-0.64

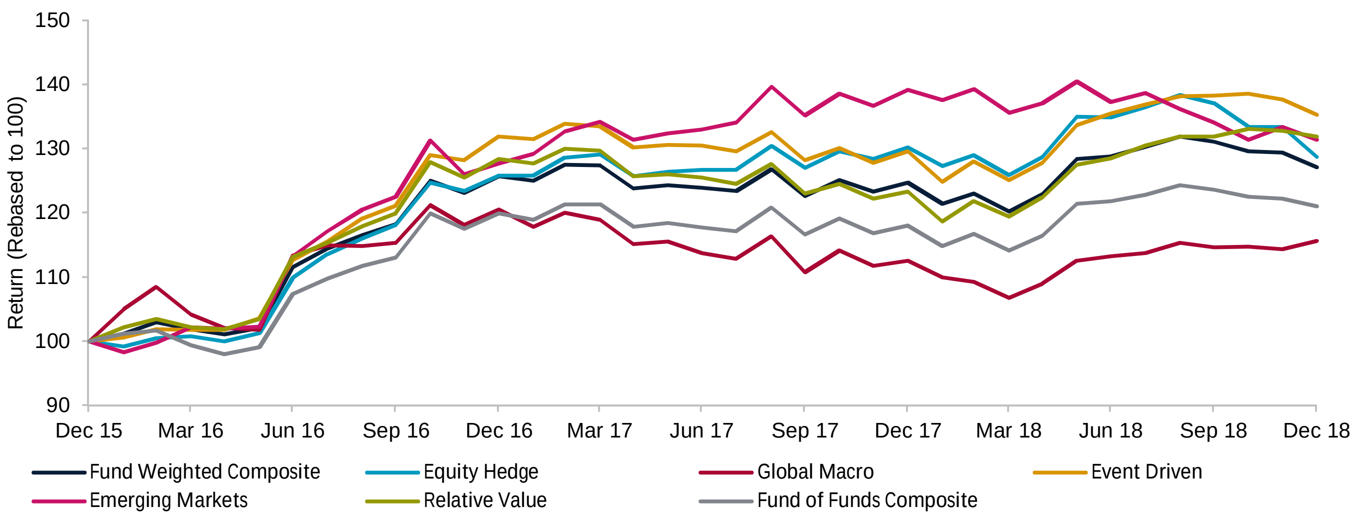
Source: Thomson Reuters.
Notes: * Subject to 1 month lag ** GBP Hedged

MARKET SUMMARY CHARTS

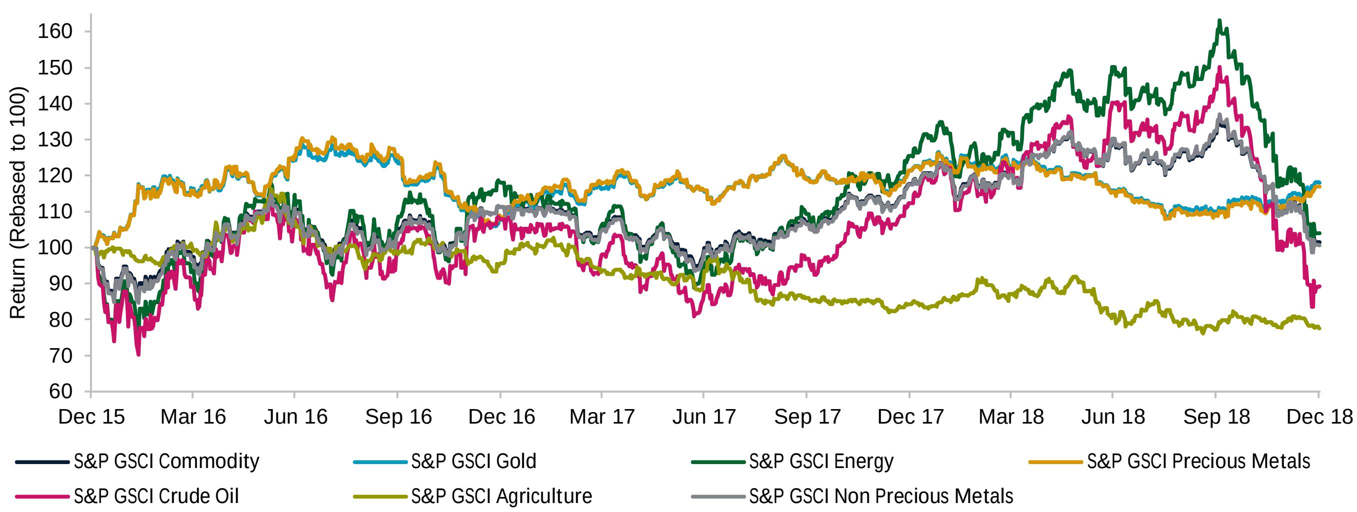
Market performance – 3 years to 31 December 2018



Hedge Funds: Sub-strategies performance – 3 years to 31 December 2018

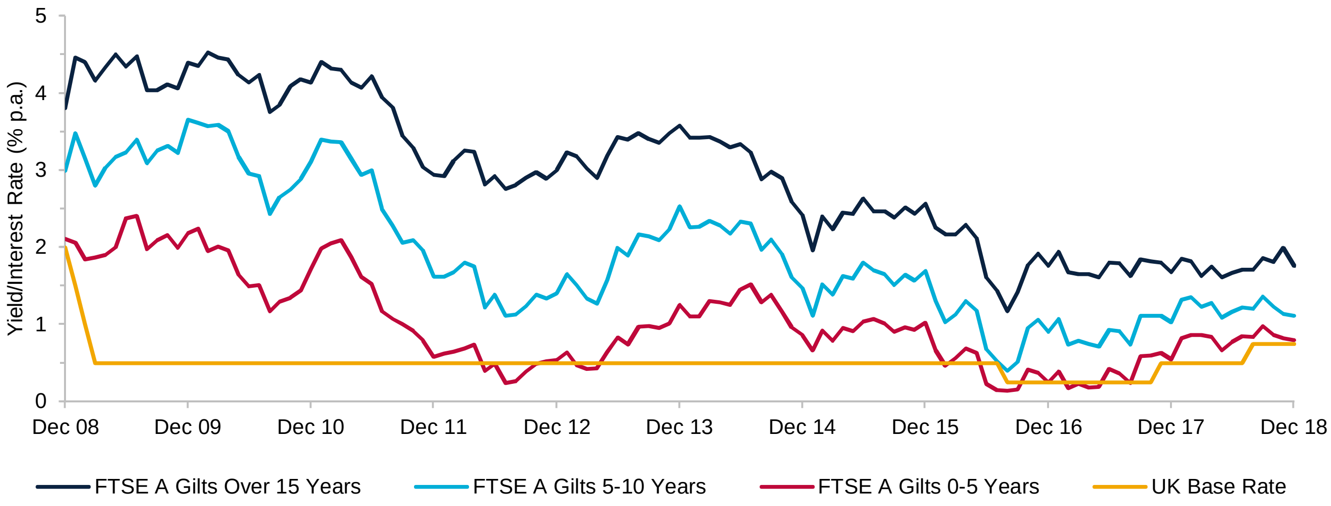


Commodities: Sector performance – 3 years to 31 December 2018

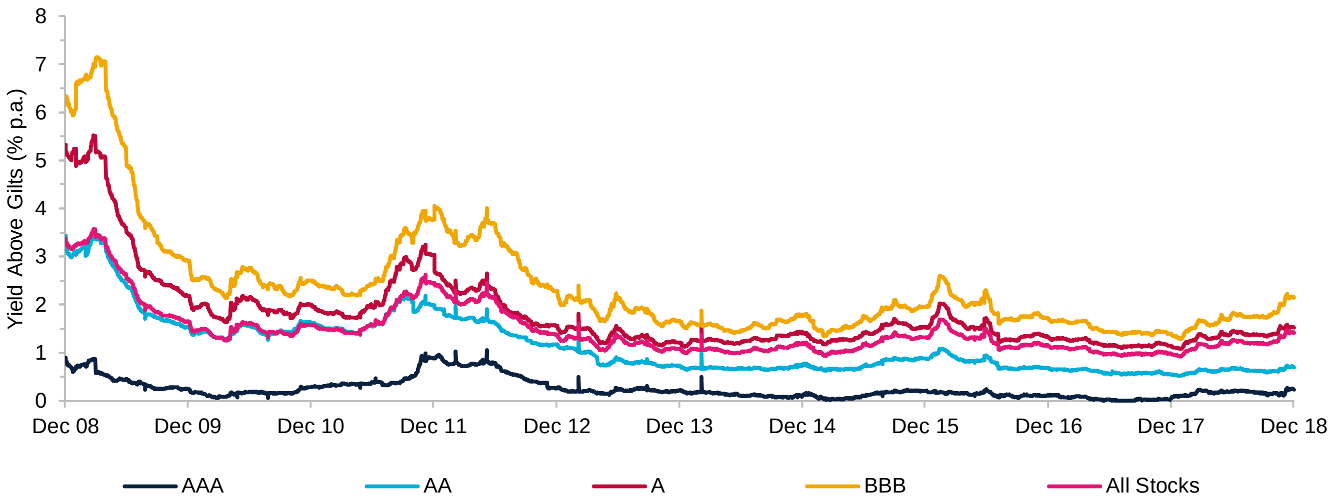


Source: Thomson Reuters

UK government bond yields – 10 years to 31 December 2018



Corporate bond spreads above government bonds – 10 years to 31 December 2018



Source: Thomson Reuters

2 ECONOMIC STATISTICS

Economic Statistics as at:	31 Dec 2018			30 Sep 2018			31 Dec 2017		
	UK	Euro[1]	US	UK	Euro[1]	US	UK	Euro[1]	US
Annual Real GDP Growth[2]	1.5%	3.0%	3.0%	1.4%	3.5%	2.9%	2.0%	4.1%	2.3%
Annual Inflation Rate[3]	2.1%	1.6%	1.9%	2.4%	2.1%	2.3%	3.0%	1.4%	2.1%
Unemployment Rate[4]	4.0%	7.9%	3.8%	4.0%	8.0%	3.8%	4.3%	8.7%	4.1%
Manufacturing PMI[5]	54.2	51.4	53.8	53.8	53.2	55.6	55.7	60.6	55.1

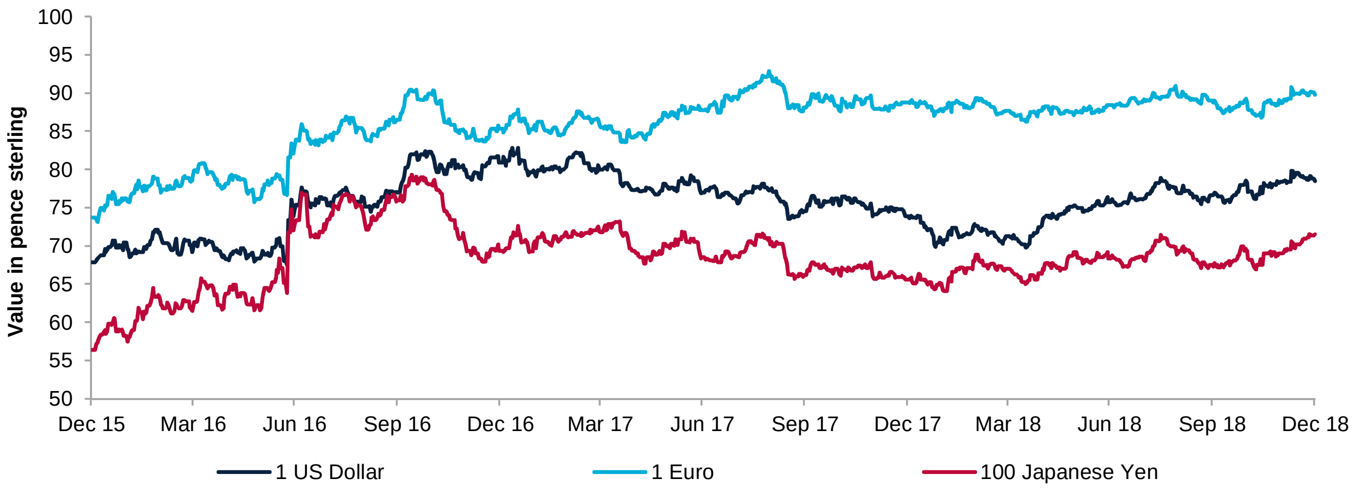
Change over periods ending:	3 months			12 months		
30 September 2018	UK	Euro[1]	US	UK	Euro[1]	US
Annual Real GDP Growth[2]	0.1%	-0.5%	0.1%	-0.5%	-1.1%	0.7%
Annual Inflation Rate[3]	-0.3%	-0.5%	-0.4%	-0.9%	0.2%	-0.2%
Unemployment Rate[4]	0.0%	-0.1%	0.0%	-0.3%	-0.8%	-0.3%
Manufacturing PMI[5]	0.4	-1.8	-1.8	-1.5	-9.2	-1.3

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

EXCHANGE RATES

Economic Statistics as at:	Value in Sterling (Pence)			Change in Sterling	
	31 Dec 18	30 Sep 18	31 Dec 17	3 months	12 months
1 US Dollar is worth	78.52	76.68	73.92	-2.3%	-5.9%
1 Euro is worth	89.76	89.07	88.77	-0.8%	-1.1%
100 Japanese Yen is worth	71.57	67.51	65.62	-5.7%	-8.3%

Exchange rate movements – 3 years to 31 December 2018



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

3 MARKET COMMENTARY

INTRODUCTION

As the curtain came down on 2018 it will go down in history as a year investors will want to quickly forget. What started off with much promise and exuberance in equity markets rapidly dissipated by the final quarter, ending the year at significantly lower levels than at the start. The result was global markets slumping to their worst annual return in more than 7 years. Even a belated 'Santa rally' on Boxing Day proved short lived as daily gains of over 5% in US equities quickly evaporated before December was out.

The market pull back was largely driven by two on-going themes. Firstly the end and reversal of loose monetary policy combined with how quickly the Federal Reserve was going to raise interest rates and secondly, the prospect of a slower global economy, exacerbated by trade battles between US and China.

UNITED KINGDOM

- The FTSE All-Share Index dropped more than 10% during the fourth quarter, to post its worst yearly return since the global financial crisis a decade ago.
- Although such declines have broadly been in line with other equity markets globally, the UK market remains firmly under the Brexit cloud as the clock to 29th March 2019 continues to tick down without a deal.
- The lack of cohesion over the political landscape certainly hasn't helped proceedings over the period. Ironically a move meant to challenge Theresa May's leadership of the Conservative party, after receiving a vote of no confidence, may have actually boosted her own stock having fending off the contest with a backing of 200 to 117 (a winning margin that was actually bigger than the number of MPs who voted for her as PM initially).
- Looking ahead, the direction of the UK equity market remains on a knife edge. If the UK leaves the EU without a deal we would expect equities, in particular blue-chip stocks, to be highly volatile and continue to detract; although currency movements should, inferably limit this potential for losses.
- Conversely any deal, even if negative for the longer term economic outlook, is likely to provide a boost for the FTSE at least in the short term. However, after such a dramatic sell-off, UK equities are now trading significantly below their 5 year valuation averages and our view is the fundamentals remain supportive of UK equities at present levels.

NORTH AMERICA

- Confidence in US equities was shaken at the start of the fourth quarter in what proved to be a rather bruising October for investors, so bad it is now referred to as 'Red October'.
- The initial shock to the market occurred when Federal Reserve Chairman, Jay Powell, implied, during the first week in October, that interest rate rises in 2019 may be faster than the market had previously forecast, sending the 10-year US treasury yield spiralling to an eight year high of 3.26%. Consequently this triggered an abrupt repricing of US equities, notably in growth stocks which are vulnerable as yields rise as their future cash flows are discounted further.
- Mid-term elections also delivered control of congress to the Democrats, as the market expected. As a result, the implementation of pro-growth policies going forward is therefore likely to be somewhat more challenging.

- Unsurprisingly technology stocks which provided much of the excess returns during recent years lost significant value into the year-end with the ‘Faang’ stocks (Facebook, Apple, Amazon, Netflix and Google) combined market capitalisation losing more than 24%.
- The likes of Apple and Amazon’s $1 trillion valuation also proved to be a flash in the pan. Rather interestingly, Microsoft which now trades more like a utility stock, and a dominant name in the computing world for many decades toppled the new kids on the block to be crowned America’s most valuable company at the end of 2018.
- Nonetheless, every sector in the index ended the year lower except for the defensive duo of Utilities and Healthcare which posted tepid positive returns in 2018.
- Overall the returns for US equities in 2018 proved disappointing despite holding up considerably well compared to their international counterparts. After ending the first three quarters some 9% up (in USD terms), the S&P 500 recorded unwanted history by then ending 2018 in negative territory (-7%).
- This came after the index fell -7% in October, and the losses accelerated with the worst Christmas period since the December of the Great Depression in 1931 with a further drop of 7.8% during December.
- The US Equity market is under pressure to perform and has been hit by trade and political tensions, however, pressure is now beginning to be applied to those issues and we still believe that the economy has the ability to perform and deliver.

EUROPE (EX UK)

- Concerns of a global economic slowdown led to contagion across Europe in the fourth quarter. As a result, European equities gave back all of their third quarter gains and overall the Euro Stoxx 50 Index (blue-chip equities) declined by 15% in 2018. This was its worst yearly return since 2008.
- Unfortunately the corporate earnings season fizzled out with a number of disappointing results during October. Bellwether stocks in both Germany and France missed market forecasts, whilst a slowdown in China’s GDP numbers also negatively impacted the regions auto-makers who are especially sensitive to this data due to their large reliance on exports to the country.
- Political tensions remained high over the last quarter. France was the latest country to grapple with civil unrest as President Macron’s proposed tax rise on diesel and petrol backfired. This sparked widespread protests by the populist movement - the Gilets Jaunes (yellow vests) who succeeded in bringing many parts of Paris and other cities to gridlock and got a U-turn from the President.
- A slightly brighter note was the progress made late in December on Italy’s budget. After a 10 week standoff between Rome and Brussels, the European Commission approved a watered-down budget which will now constitute a deficit of 2.04% of Italy’s GDP. Although this was largely overshadowed by global events, this represents some much needed respite ahead of the UK’s exit from the European Union.
- Hopes of an economic recovery during the fourth quarter remained improbable, whilst forward looking indicators from the regions manufacturers and service providers highlight that confidence has been severely hit by the global slowdown and protectionist trade policies.
- Furthermore, without the aid of the European Central Bank’s stimulus programme (quantitative easing) that concluded in December, we expect a difficult backdrop for European equities over the near term.

JAPAN

- It was a dismal quarter for Japanese equities as the main index, the Nikkei 225, shed 12.9% over the period. As with other markets, the primary driver was external, as the prospect of further increases to US interest rates and the persistent trade tensions weighed heavily on investor sentiment in Japan.
- It is worth noting that whilst Japan has largely evaded conflict with President Trump over trade, we acknowledge the trade imbalances within sectors such as Autos could become a target for the Trump Administration in 2019.

- Internally, the picture of the Japanese economy remained largely unchanged. Having been besieged by natural disasters over the summer, recent economic data published in November pointed toward a speedy recovery.
- After disappointing inflation data in December, the Bank of Japan crucially reaffirmed its stance towards accommodative monetary policy with Governor Haruhiko Kuroda stating they would wait patiently until its inflationary goals have been achieved. There is also an ever tightening labour market which will help further progress towards its inflationary goals in 2019.
- Political stability is a significant positive for Japanese markets in 2019. With much uncertainly on the horizon globally, the reappointment of Kuroda and the snap election victory for Prime Minister Shinzo Abe last year mean they are both able to continue to pursue their stance of loose monetary policy and structural reform.

ASIA PACIFIC (EX JAPAN) / EMERGING MARKETS

- Both Asian and Emerging Markets suffered as concerns surrounding global growth and trade tariffs continue to dominate investor sentiment. Third quarter GDP numbers in China exacerbated such worries with quarterly annualised growth rates of 6.5%, China's weakest quarterly rate since the financial crisis. The Chinese authorities' initial response of lowering the cash reserve requirements for banks proved futile as markets brushed off such measures and continued to dramatically sell off.
- The FTSE Developed Asia Pacific ex Japan Index returned -7.6% over the fourth quarter, as export-led economies including South Korea, Malaysia and Taiwan also experienced sharp losses amid slower growth and a persistently strong US dollar. The significant fall in the price of Crude Oil over the quarter provided support to the net importers of this commodity which favoured Indonesian and Indian markets.
- The G20 summit was a missed opportunity to ease tensions and ended firm progress on trade tariffs in late November, although the delay in the implementation of the planned 1st January 2019 tariffs was welcomed. Politically, Russia, Turkey, Indonesia, Brazil and India have all contributed to the uncertainty through elections and populists policies.
- Underpinning the uncertain political backdrop, corporate earnings remain reasonably solid, providing a support level for a potential recovery and future growth. This is also supported by the predicted slower and more orderly rate of interest rate rises in the US.
- The Chinese market is trading at reasonably low valuations compared to history; in fact the Emerging Markets as a whole have traded higher than current values for 70% of the time in the past 25 years. Clearly the potential for continued near-term Emerging Market volatility is present, however, the potential for growth still exists and structural tailwinds remain intact over the medium to long term – more robust economic fundamentals, strong economic growth, favourable demographic trends and healthy corporate earnings growth.
- Market valuations suggest the negative market sentiment is overdone. With the recent sell-off, Emerging Market equities are back below their long-term average and trading at the largest discount to US equities in 14 years, offering an interesting entry-point on a longer-term view.

FIXED INCOME

- Whilst the volatility within equity markets has dominated many of the headlines over the last quarter, some of the most relatively dramatic moves have actually come from government bonds. More specifically within US Treasuries which are perceived to be the bellwether of government debt globally.
- Initially, 10 year Treasury yields, which move inversely to price, started to decline as Jay Powell (Head of the US Federal Reserve) commented that US interest rates were close to neutral.
- As concerns persisted regarding the potential for a slowdown in global economic growth, yields went from 3.24% during early November to hovering around 2.75% at year end.
- This is an unprecedented move when taking into consideration the Fed also hiked interest rates in December for the fourth time in 12 months. This market flight to safety was largely replicated, albeit not at the same

velocity, throughout developed markets over the last quarter with German Bund and UK Gilt yields ending lower.

- If there are any positives to come from the recent bout of volatility, it is the diminishing prospect of US Treasury yields racing away and a potential negative crowding out effect for the private sector. Taking into consideration the Fed's latest comments, which suggest a potential pause in their tightening cycle, it is our view that over the near term we are unlikely to see the 10 year yield make fresh highs.

ALTERNATIVES

- Hedge Funds endured a negative period, experiencing steep losses led by equity based strategies. Overall, Hedge Funds returned -5.8% in US dollar terms and -3.5% in Sterling terms, with weak performance across all strategies in US dollar terms. Equity Hedge were the worst strategies returning -8.3% (in US dollar) and -6.1% (in Sterling), Global Macro was the least negative, returning -1.9% in US dollars, but returned +0.5% in Sterling.
- Over the quarter, commodity markets decreased by -21.1% in Sterling terms (-22.9% in US dollar terms). Energy and Crude Oil had the highest declines over the quarter, Crude Oil decreased -36.5% in Sterling terms (-37.9% in US dollar terms), whilst Energy decreased by -32.0% in Sterling terms (-33.6% in US dollar terms). Precious Metals and Agriculture were the only sectors that had gains over the quarter.
- With Brexit continuing to produce uncertainty, the backdrop for the UK Commercial Property market remains subdued. Clearly with certain segments of the UK economy struggling, particularly the high street, a selected approach to sector allocation remains vital. Nonetheless, the UK economy generally is proving, thus far, to be rather resilient despite the politics with third quarter GDP numbers of 0.6% year on year. In November, UK Commercial Property capital values decreased by 0.4% and rental income posted a marginal fall of 0.2%. Despite this slowdown, the market returned 0.9% over the quarter and 6.5% over 12 months. The standout sector for 2018 was Industrial; with a rental growth of c.5%, the growth of this sector has been supported by the growth of online retailing which has boosted occupational demand by almost 30%. At the end of December, the annual property yield stood at 4.8%.

OUTLOOK

Although it has been a disappointing 2018 for markets, looking ahead we are not currently seeing concrete evidence that firmly points to a recessionary period. It is clear that the current economic cycle has been incredibly long – in fact the longest since the First World War, and there has been a notable slowdown in parts of the world, but we are not of the view that there is to be a global recession in the near term as leading indicators do not support this. An economic adage states, 'bull markets don't die of old age, they tend to get killed off by something first'. If this is to hold true this time around, our principal case would be central banks tightening too far and too fast. However, with Jay Powell's latest comments suggesting rates, for now, are on hold this threat has dissipated, particularly as the economic imbalances that one would normally associate with the end of an economic phase are currently absent.

4 INDICES USED IN THIS REPORT

Asset	Index
Growth Assets	
UK	FTSE All-Share Index
Overseas Developed	FTSE World (ex UK) Index
North America	FTSE North America Index
Europe (ex UK)	FTSE AW Developed Europe (ex UK) Index
Japan	FTSE Japan Index
Asia Pacific (ex Japan)	FTSE AW Developed Asia Pacific (ex Japan) Index
Emerging Markets	FTSE All Emerging Index
Frontier Markets	FTSE Frontier 50 Index
Property	IPD UK Quarterly Property Index
Hedge Funds	HFRI Fund Weighted Composite Index (GBP Hedged)
Commodities	S&P GSCI TR Index (GBP Hedged)
High Yield	ICE BoAML Global High Yield Index (GBP Hedged)
Emerging Markets Debt	JPM GBI-EM Global Diversified Composite Index
Senior Secured Loans	S&P Leveraged Loan Index (GBP Hedged)
Cash	IBA GBP LIBOR 7 Day Index
Bond Assets	
UK Gilts (>15 yrs)	FTSE A Gilts Over 15 Years Index
Index-Linked Gilts (>5 yrs)	FTSE A Index-Linked Over 5 Years Index
Corporate Bonds (>15 yrs AA)	iBoxx £ Corporate Over 15 Years AA Index
Non-Gilts (>15 yrs)	iBoxx £ Non-Gilts Over 15 Years Index
Yields	
UK Equities	FTSE All-Share Index (Dividend Yield)
UK Gilts (>15 yrs)	FTSE A Gilts Over 15 Years Index (Gross Redemption Yield)
Real Yield (>5 yrs ILG)	FTSE A Index-Linked Over 5 Year Index 5% Inflation (Gross Redemption Yield)
Corporate Bonds (>15 yrs AA)	iBoxx £ Corporate Over 15 Years AA Index (Gross Redemption Yield)
Non-Gilts (>15 yrs)	iBoxx £ Non-Gilts Over 15 Years Index (Gross Redemption Yield)
Inflation	
Price Inflation – RPI	UK Retail Price Index (All Items NADJ)
Price Inflation – CPI	UK Consumer Price Index (All Items NADJ)
Earnings Inflation	UK Average Weekly Earnings Index (Whole Economy excluding Bonuses NADJ)
Exchange Rates	
USD / EUR / JPY vs GBP	WM/Reuters 4:00 pm Closing Spot Rates

Note: All indices above are denominated in Sterling unless stated otherwise.

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CYNGOR Sir y Fflint Flintshire COUNTY COUNCIL

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 20 February 2019
Report Subject	Investment Strategy and Manager Summary
Report Author	Clwyd Pension Fund Manager

EXECUTIVE SUMMARY

The purpose of the Investment Strategy and Manager Summary is to update Committee Members on the performance of the Fund's investment strategy and performance of the Fund's investment managers.

The report covers the quarter ending 31 December 2018.

From an Investment Strategy perspective, the In-House portfolios and the Private Credit portfolios were the only areas that produced positive absolute returns. In contrast the Equity portfolio, Best Ideas and LDI portfolios suffered significant falls due to ongoing market volatility. Key facts covered in the report are as follows:

- Over the 3 months to 31 December 2018, the Fund's total market value decreased by £102.7m to £1,784,066,451
- Funding level information has not been provided. However liability roll forwards are now based on the discount rate methodology on the CPI basis.
- Over the quarter, total Fund assets returned -5.1% behind the composite target which returned -2.3%.

The benchmarks are reflective of the new strategic weightings, although commitments to Private Credit will take some time to be fully invested.

There was mixed performance amongst the Fund's investment managers in terms of outperforming or underperforming their respective targets during the quarter.

RECOMMENDATIONS	
1	To note and discuss the investment strategy and manager performance in the Investment Strategy and Manager Summary 31 December 2018.
2	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.

REPORT DETAILS

1.00	INVESTMENT AND FUNDING RELATED MATTERS
1.01	**Investment Strategy and Manager Summary 31 December 2018** Over the 3 months to 31 December 2018, the Fund's total market value decreased by £102.7m to £1,784,066,451. Total Fund assets returned -5.1% over the quarter, underperforming the composite target which returned -2.3%. Over the one year period, Total Fund assets returned -1.4%, compared with a composite target of 2.2%. Over the last three years, Total Fund assets returned 8.8% p.a., ahead of the composite target of 8.6% p.a. The strongest absolute returns over the quarter came from the In-House assets, which was the only segment of the Fund that produced positive returns in total. In addition, the Private Credit portfolio (which forms part of the credit segment) also performed well in relative and absolute terms. The Fund's asset portfolio is broadly within the new strategic ranges set for the asset classes as agreed in the recent strategy review. The largest overweight position is within the LDI portfolio which is being reviewed as part of the wider assessment of the Fund's risk management strategy.
1.02	At this time, there are no immediate concerns with any of the Fund's investment managers and there are regular meetings held with the managers to discuss individual mandates. As reported at the last meeting, as part of the Funds Strategic Asset Allocation review scheduled for 2019, individual manager mandates will be reviewed. The Fund will need to be conscious of the plans of the Wales Pension Partnership when assessing its investment managers, as the costs of transitioning to new management arrangements ahead of any potential move to the Pool could be significant. This work will take place with the Fund's investment consultant in conjunction with the 2019 Actuarial Valuation.

2.00	RESOURCE IMPLICATIONS
2.01	None directly as a result of this report.

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	None directly as a result of this report.

4.00	RISK MANAGEMENT
4.01	The Fund's investment strategy has been designed to provide an appropriate trade off between risk and return. The Fund faces three key investment risks: Equity risk, Interest Rate Risk and Inflation Risk. Diversification of the Fund's growth assets away from equities seeks to reduce the amount of the equity risk (though it should be recognised that Equities remain an important long term source of expected growth). The implementation of the Fund's De-Risking Framework (Flightpath) has been designed to mitigate the Fund's Interest Rate and Inflation Risks.

5.00	APPENDICES
5.01	Appendix 1 – Investment Strategy and Manager Summary 31 December 2018

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	Investment Strategy and Manager Summary 30 September 2018. **Contact Officer:** Philip Latham, Clwyd Pension Fund Manager **Telephone:** 01352 702264 **E-mail:** philip.latham@flintshire.gov.uk

7.00	GLOSSARY OF TERMS
7.01	A list of commonly used terms are as follows: (a) **Absolute Return –** The actual return, as opposed to the return relative to a benchmark. (b) **Annualised –** Figures expressed as applying to 1 year. (c) **Duration –** The weighted average time to payment of cashflows (in years), calculated by reference to the time and amount of each payment. It is a measure of the sensitivity of price/value to movements in yields.

(d) **Market Volatility –** The impact of the assets producing returns different to those assumed within the actuarial valuation basis, excluding the yield change and inflation impact.

(e) **Money-Weighted Rate of Return –** The rate of return on an investment including the amount and timing of cashflows.

(f) **Relative Return –** The return on a fund compared to the return on index or benchmark. This is defined as: Return on Fund minus Return on Index or Benchmark.

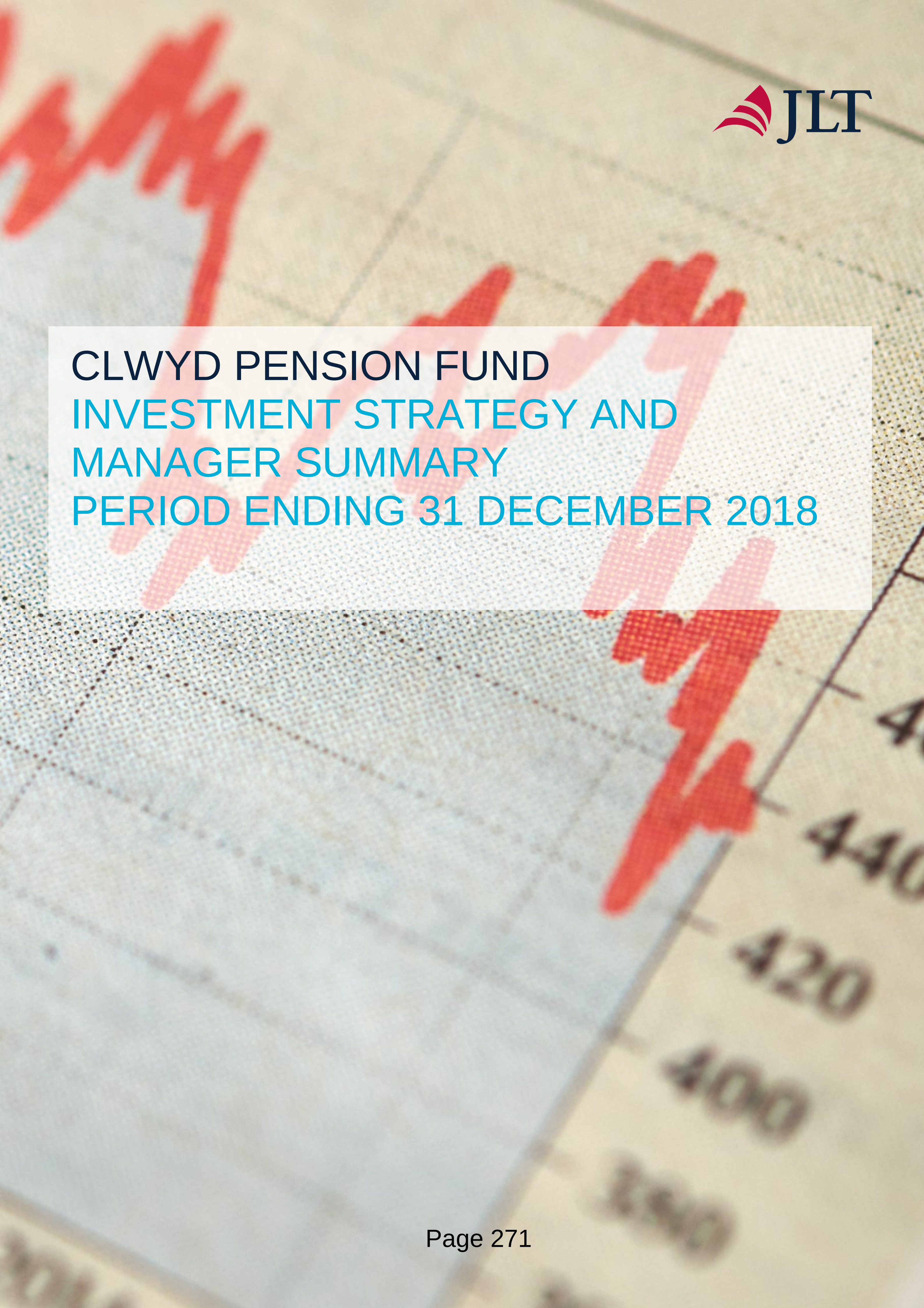
(g) **Three-Year Return –** The total return on the fund over a three year period expressed in percent per annum.

(h) **Time-Weighted Rate of Return –** The rate of return on an investment removing the effect of the amount and timing of cashflows.

(i) **Yield (Gross Redemption Yield) –** The return expected from a bond if held to maturity. It is calculated by finding the rate of return that equates the current market price to the value of future cashflows.

A comprehensive list of investment terms can be found via the following link:

http://www.barings.com/ucm/groups/public/documents/marketingmaterials/021092.pdf



CLWYD PENSION FUND

INVESTMENT STRATEGY AND MANAGER SUMMARY PERIOD ENDING 31 DECEMBER 2018

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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 31 December 2018, the Fund’s total market value decreased by £102.7m to £1,784,066,451.

Over the quarter, total Fund assets returned -5.1%, behind its target of -2.3%. Total Fund (ex LDI) returned -3.7%, compared with its target of -0.5%.

Total In-House Assets was the only section to post positive returns (+2.6%) and exceed its target over the period. Total Credit returned -2.1% and was the section that suffered the least severe negative impact over the quarter, this was followed by the Managed Account Platform (-6.0%) and the Tactical Allocation Portfolio (-6.4%), whilst Total Equity assets fell by 9.4% over the quarter.

In relative terms, total Fund assets were behind their target by 2.8%, mainly attributable to the Best Ideas assets which underperformed their target by 10.4%, detracting 1.2% from total relative performance.

In-House assets outperformed its target by 1.3%, as all sub-portfolios except Timber/Agriculture delivered a positive gain over the quarter. Overall this added 0.3% to total relative performance.

Total Credit underperformed its target by 2.6%, returning -2.1% against a target of 0.5%. The Private Credit sub-portfolio gained over the period, with a return of 1.7%. Overall this detracted 0.5% from total relative performance.

Managed Futures and Hedge Funds fell by 4.4% and underperformed its target by 5.4%. This detracted 0.5% from overall relative performance.

Total Equities underperformed its target by 1.2%, returning -9.4% against a target of -8.2%. Overall this detracted 0.2% from total relative performance.

Insight’s LDI portfolio fell by 9.7% over the quarter, as negative performance from equity markets offset the impact of falling yields. Overall, the overweight allocation to the LDI portfolio detracted 0.4% from relative performance.

EQUITIES

Global equities tumbled over the quarter, with most developed markets posting double digit negative returns as fears of a slowdown in global growth, concerns regarding the pace of monetary tightening, increasing geopolitical tensions and trade uncertainty all dominated markets.

Japanese equities were the most affected as increased global growth risks impacted its export-dependent economy. In the US, indications of slowing revenue growth, immigration issues (which led to a partial shut down of the US government) and the US Federal Reserve’s rate rise of 0.25%, all contributed to the market sell-off in December.

In Europe, negotiations between the European Union and the UK failed to reach a conclusion and rattled the markets as a result. Emerging Market Equities declined but outperformed developed markets; this was surprising given their tendency to lag the market during periods where there are concerns on excessive monetary tightening.

In Developed Markets, Japan (-12.4%) was the worst region over the quarter, followed by North America (-11.5%). Europe (ex UK), UK and Asia Pacific (ex Japan) returned -11.0%, -10.2% and -7.6%, respectively.

Over the last 12 months, with the exception of North America which gained by 0.8%, all Developed Equity markets declined. UK and Europe (ex UK) equities suffered the largest falls, returning -9.5% and -9.1% respectively.

Emerging and Frontier Markets delivered returns of -3.9% and -4.1%, respectively over the quarter. Whilst over the last 12 months, Emerging Markets returned -7.6% and Frontier Markets returned -15.3%.

Total Equity assets posted returns of -9.4% compared to a composite target of -8.2%. Whilst all funds declined, Wellington Emerging Market (Local) was the only fund to outperform its target over the quarter. Investec Global Strategic returned -14.1% against its target of -10.1%, BlackRock World Multifactor returned -12.7%, against its target of -11.2%. Wellington Emerging Markets (Core) and Wellington Emerging Market (Local) both declined, posting returns of -5.7% and -1.8%, compared to targets of -4.9% and -4.7% respectively.

None of the equity funds achieved their 3 year performance objectives.

Global equity exposure to the Consumer Discretionary and Communication Services sectors were a drag on performance due to poor stock selection. Information Technology and Health Care were the best performing sectors of the portfolio over the period, driven by strong stock selection.

Peru and Hungary contributed the majority of gains due to stock selection and allocation, respectively, whilst China and Mexico detracted the most. Industrials and Health Care were the leading sector driven by positive stock selection, however, this was partially offset by poor stock selection in the Energy sector.

CREDIT

In Global credit markets, US Treasuries came under pressure early in the quarter as economic data remained strong and markets priced in a faster pace of monetary policy normalisation. The yield on 10 year US Treasuries reached 3.2% in October, its highest level in 7 years. However, fears of a global slowdown grew and contributed to a decline in US yields. Concerns on Brexit and the weakening of European growth indicators contributed to a fall in UK and European sovereign gilt yields. Italian bonds rallied as its government reached a budget agreement with the European Commission, enabling Italy to avoid an EU process which could have led to financial sanctions.

The US Federal Reserve increased interest rates to 2.50% in December, the fourth rate hike in 2018, but indicated that the pace of tightening would slow. The European Central Bank (ECB) concluded its quantitative easing programme in December and announced that it would continue its reinvestment policy for an extended period of time. The ECB's first interest rate hike is expected later in 2019. In the UK, the Bank of England left rates unchanged.

Over the quarter, Long Dated Conventional Gilts, Index-Linked Gilts and UK Corporate Bonds increased by 2.6%, 2.0% and 1.4% respectively. Emerging Market Local Currency Debt and Emerging Market Hard Currency Debt returned 4.6% and 1.2%, respectively. Global High Yield declined by 1.5% over the period.

Total Credit returned -2.1% over the quarter, behind its target by 2.6%. Overall this detracted 0.5% from total relative performance, due to poor selection within the Multi-Asset Credit sub-portfolio. Being underweight to Private Credit (which is currently in its commitment phase) was detrimental to performance as the Private Credit sub-portfolio delivered gains of 1.7% over the quarter.

Additionally, an initial investment into the BlackRock Middle Market Senior Fund (North American mandate) was made in December, representing c.20% of the total commitment to this fund. Permira Credit Solutions III Fund (European mandate) was c.80% funded at the end of December 2018.

In Investment Grade Credit, Tobacco, Independent Energy and Oil Field services detracted the most from returns.

In US High Yield, all 36 industry sectors posted negative returns as the US High Yield market returned -4.7% (in US dollar terms), its worst quarterly return since Q2 2015. This negative performance was largely driven by declining oil prices, poor equity performance and signs of slowing global growth.

In Emerging Market Debt, Local Currency issues outperformed Hard Currency issues; this was mainly attributable to events in Turkey, Brazil and Indonesia. In Turkey, domestic debt and the Turkish Lira rallied as the country's central bank hiked policy rates.

HEDGE FUNDS

Hedge Funds endured a negative period, experiencing steep losses led by equity based strategies. Overall, Hedge Funds returned -5.8% in US dollar terms and -3.5% in Sterling terms, with weak performance across all strategies in US dollar terms. Equity Hedge were the worst strategies returning -8.3% (in US dollar) and -6.1% (in Sterling), Global Macro was the least negative, returning -1.9% in US dollars, but returned +0.5% in Sterling.

Over the last 12 months, performance from the various strategies was mixed, with Emerging Markets (-11.1%) and Equity Hedge (-6.2%) strategies falling significantly in US dollar terms. Relative Value strategies posted -0.2% in US dollar terms and +6.0% in Sterling.

ManFRM's Managed Futures & Hedge Funds strategy declined by 4.4%, behind its target of 1.1% and detracted 0.5% from total relative performance.

ManFRM Hedge Funds (Legacy) consists of Liongate and previously included Pioneer and Duet (S.A.R.E.) until August 2016 and November 2018, respectively. The assets generated a return of -71.6% over the quarter as the S.A.R.E. holding was marked down to nil at the end of November 2018. S.A.R.E. was placed into receivership in August and an initial write down of 46.6% was recommended by Man FRM's Independent Pricing Committee and applied to the valuation at the end of September.

TACTICAL ALLOCATION PORTFOLIO

DIVERSIFIED GROWTH

Total Diversified Growth assets fell by 2.9% over the quarter, behind its target of 1.6%. Overall, this detracted 0.5% from total relative performance.

Pyrford returned -2.0% and was behind its target by 3.6%. The fund's negative performance was primarily driven by its equity holdings. However, its bond holdings and cash & currency hedging positions marginally offset the negative performance. The main equity detractors were holdings in British American Tobacco, Reckitt Benckiser Group and Legal & General Group. Within the bond portfolio, positions in long duration bonds safeguarded capital and offset some losses seen over the quarter, as a 'flight to safety' in the final quarter saw high quality bond markets rally with longer duration bonds outperforming.

Investec generated a return of -3.7%, and underperformed its target by 5.3 %. The fund's negative performance was driven by its 'Growth Strategies' as almost all of the holdings in this strategy detracted from performance. Mining equities and a significant fall in oil prices hurt the fund's long position in US oil companies. However, partial hedging of the Japanese equity position and interest rate sensitivity helped. A long position in Japanese Yen contributed as the Yen appreciated meaningfully due to its safe haven status during the market sell off. Both Defensive and Uncorrelated strategies helped to mitigate losses experienced elsewhere in the portfolio.

BEST IDEAS PORTFOLIO

The Best Ideas Portfolio fell by 9.2%, behind its target by 10.4%, as volatility in markets rocked the performance of sub-funds due to the significant exposure to equities. Overall, this detracted 1.2% from total relative performance.

BlackRock US Opportunities, Investec Global Natural Resources and BlackRock Japanese Equities saw double digit declines of -14.1%, -13.7% and -12.2%, respectively. BlackRock Emerging Markets Equities, LGIM Global Real Estate and LGIM Infrastructure Equities also declined, posting returns of -4.1%, -3.3% and -1.3%.

All the sub-funds underperformed their targets.

In October, the holdings in LGIM North American Equities (Hedged) and BlackRock European Equities (Hedged) were transferred to the non-hedged version of the same funds. Following the switch, c.£14.8m was disinvested from BlackRock Emerging Markets Equities and the proceeds were allocated equally between LGIM North American Equities (Unhedged), BlackRock European Equities (Unhedged) and BlackRock Japanese Equities.

In November, £10m was disinvested from both LGIM North American Equities (Unhedged) and BlackRock US Opportunities. The proceeds were divided between the LGIM Infrastructure Equities (Hedged) and the LGIM Global Real Estate Equity Fund, with the former receiving £15m and the latter receiving £5m. Additionally, £7.5m and £2.5m were sold from the BlackRock Japanese Equities Fund and BlackRock European Equity Fund, respectively. The proceeds totalling £10m were divided equally between the BlackRock Emerging Markets Equities Fund and Investec Global Natural Resources Fund.

IN-HOUSE ASSETS

Total In-House assets returned 2.6%, ahead of its composite target by 1.3%. Overall this added 0.3% to total relative performance. The two sub-sections of the In-House assets; the Real Assets Portfolio and the Private Markets Portfolio returned 1.8% and 3.3%, respectively.

All assets within the In-House assets portfolio rose, with the expectation of Timber/Agriculture assets which declined by -1.3% over the quarter and underperformed their target by -2.7%.

Infrastructure assets led performance, returning 4.2% and outperforming its target by 2.8%. This added 0.1% to total relative performance.

Opportunistic and Private Equity assets both exceeded their target of 1.4%, returning 3.5% and 3.3%, respectively.

Property assets, which are overweight the strategic allocation and have exceeded the strategic range, returned 1.2% and were ahead of their target of 0.9%.

2 STRATEGIC ASSET ALLOCATION
31 DECEMBER 2018

Allocation by underlying asset class

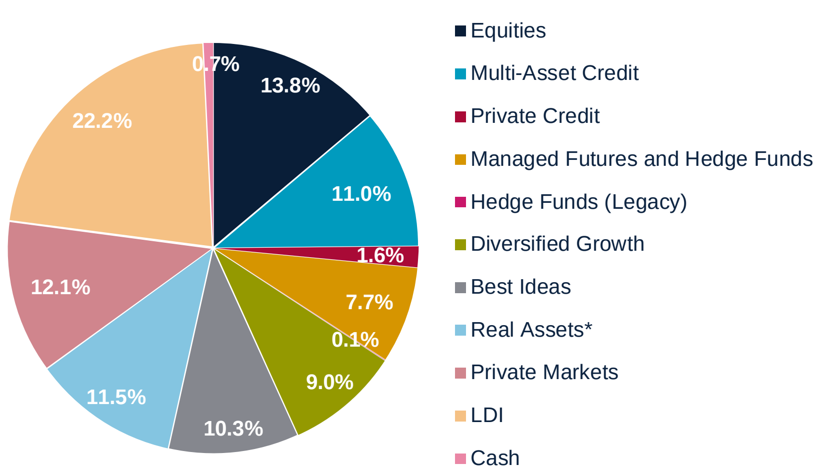
Asset Class	Market Value £	Weight %	Strategic Allocation %	Relative %	Strategic Range %
Global Equities	137,719,447	7.7	8.0	-0.3	5.0 – 10.0
Emerging Market Equities	109,132,355	6.1	6.0	+0.1	5.0 – 7.5
Multi-Asset Credit	196,686,265	11.0	12.0	-1.0	10.0 – 15.0
Private Credit^	29,183,814	1.6	3.0	-1.4	2.0 – 5.0
Managed Futures and Hedge Funds	136,814,821	7.7	9.0	-1.3	7.0 – 11.0
Hedge Funds (Legacy)*	982,440	0.1	0.0	+0.1	–
Diversified Growth	160,670,295	9.0	10.0	-1.0	8.0 – 12.0
Best Ideas	182,975,941	10.3	11.0	-0.7	9.0 – 13.0
Property	121,018,403	6.8	4.0	+2.8	2.0 – 6.0
Infrastructure / Timber / Agriculture	84,270,069	4.7	8.0	-3.3	5.0 – 10.0
Private Equity / Opportunistic	215,728,607	12.1	10.0	+2.1	8.0 – 12.0
LDI & Synthetic Equities	396,160,810	22.2	19.0	+3.2	10.0 – 30.0
Cash	12,723,185	0.7	0.0	+0.7	0.0 – 5.0
TOTAL CLWYD PENSION FUND	**1,784,066,451**	**100.0**	**100.0**	**0.0**	

Notes: * Hedge Funds (Legacy) include the S.A.R.E (Duet) and Liongate portfolios. ^ The Private Credit allocations are not yet fully funded.
Totals may not sum due to rounding.

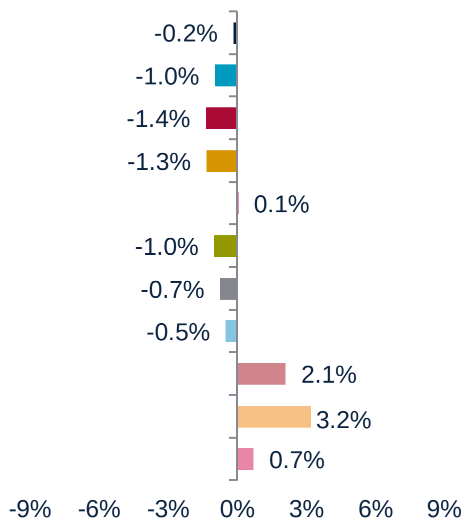
Points to note

- In December, an initial allocation to the BlackRock Private Credit mandate was funded which represents c.20% of the capital committed to this investment. Permira's allocation is now c. 80% funded.
- Total allocation to LDI has fallen by 1.6% over the quarter and remains 3.2% overweight relative to its strategic allocation. The LDI portfolio released £10,000,000 to top up the Fund's cash balance during December.

Strategic Asset Allocation as at 31 December 2018



Deviation from Strategic Allocation



Note: Totals may not sum due to rounding.
* In-House Property, Infrastructure and Timber/Agriculture portfolios.

3 VALUATION AND ASSET ALLOCATION
AS AT 31 DECEMBER 2018

Manager	Fund	Market Value £	Weight %	Strategic Allocation %	Strategic Range %
Investec	Global Strategic Equity	71,989,447	4.0	4.0	5.0 – 10.0
BlackRock	ACS World Multifactor Equity	65,730,000	3.7	4.0	
Wellington	Emerging Markets (Core)#	52,776,656	3.0	3.0	5.0 – 7.5
Wellington	Emerging Markets (Local)#	56,355,699	3.2	3.0	
Total Equity		**246,851,802**	**13.8**	**14.0**	
Stone Harbor	LIBOR Multi-Strategy	128,045,810	7.2	12.0	10.0 – 15.0
Stone Harbor	Multi-Asset Credit	68,640,455	3.8		
Multi-Asset Credit Portfolio		**196,686,265**	**11.0**	**12.0**	**10.0 – 15.0**
Permira	Credit Solutions III	24,749,779	1.4	1.8	2.0 – 5.0
BlackRock	Middle Market Senior	4,434,035	0.2	1.2	
Private Credit Portfolio		**29,183,814**	**1.6**	**3.0**	**2.0 – 5.0**[(1)]
Total Credit		**225,870,078**	**12.7**	**15.0**	**10.0 – 20.0**
ManFRM	Managed Futures & Hedge Funds	136,814,821	7.7	9.0	7.0 – 11.0
ManFRM	Hedge Funds (Legacy)*	982,440	0.1	0.0	–
Managed Account Platform		**137,797,261**	**7.7**	**9.0**	**7.0 – 11.0**
Pyrford	Global Total Return	81,324,587	4.6	5.0	8.0 – 12.0
Investec	Diversified Growth	79,345,708	4.4	5.0	
Diversified Growth Portfolio		**160,670,295**	**9.0**	**10.0**	**8.0 – 12.0**
BlackRock	US Opportunities	26,615,846	1.5	11.0	9.0 – 13.0
BlackRock	Japanese Equities	21,703,273	1.2		
BlackRock	Emerging Markets Equities	18,725,886	1.0		
Investec	Global Natural Resources	18,039,565	1.0		
LGIM	Infrastructure Equities MFG (Hedged)	28,975,156	1.6		
LGIM	Global Real Estate Equities	28,961,820	1.6		
LGIM	Sterling Liquidity	10,039	0.0		
LGIM	North American Equities (Unhedged)	19,488,376	1.1		
BlackRock	European Equities (Unhedged)	20,455,981	1.1		
Best Ideas Portfolio		**182,975,941**	**10.3**	**11.0**	**9.0 – 13.0**
Tactical Allocation Portfolio		**343,646,236**	**19.3**	**21.0**	**15.0 – 25.0**
In-House	Property	121,018,403	6.8	4.0	2.0 – 6.0
In-House	Infrastructure	60,635,194	3.4	8.0	5.0 – 10.0
In-House	Timber / Agriculture	23,634,875	1.3		
Real Assets Portfolio		**205,288,472**	**11.5**	**12.0**	**10.0 – 15.0**
In-House	Private Equity	170,035,213	9.5	10.0	8.0 – 12.0
In-House	Opportunistic	45,693,394	2.6		
Private Markets Portfolio		**215,728,607**	**12.1**	**10.0**	**8.0 – 12.0**
Total In-House Assets		**421,017,079**	**23.6**	**22.0**	
Insight	LDI Portfolio	396,160,810	22.2	19.0	10.0 – 30.0
Total Liability Hedging		**396,160,810**	**22.2**	**19.0**	**10.0 – 30.0**
Trustees	Cash	12,723,185	0.7	-	0.0 – 5.0
TOTAL CLWYD PENSION FUND		**1,784,066,451**	**100.0**	**100.0**	

Notes: * ManFRM Hedge Funds (Legacy) valuation includes S.A.R.E (Duet) and Liongate portfolio and is provided by ManFRM.
Wellington Emerging Markets Core and Local valuations have been converted from US Dollar to Sterling using the WM/Reuters closing price exchange rates for the respective dates. 1 The Private Credit allocation is not yet fully funded.

4 PERFORMANCE SUMMARY
PERIODS ENDING 31 DECEMBER 2018

	Manager	Fund	3 months % Fund	3 months % Target	12 months % Fund	12 months % Target	3 years % p.a. Fund	3 years % p.a. Target	3 Yr Performance vs Objective
● (red)	Investec	Global Strategic Equity	-14.1	-10.1	-8.2	-1.4	15.6	18.3	Target not met
n/a	BlackRock	ACS World Multifactor Equity	-12.7	-11.2	-6.6	-2.5	n/a	n/a	n/a
● (red)	Wellington	Emerging Markets (Core)#	-5.7	-4.9	-10.3	-8.0	14.0	16.3	Target not met
● (red)	Wellington	Emerging Markets (Local)#	-1.8	-4.7	-13.6	-7.1	12.8	17.4	Target not met
Total Equity			**-9.4**	**-8.2**	**-9.5**	**-4.2**	**12.1**	**15.9**	
● (green)	Stone Harbor	LIBOR Multi-Strategy	-2.4	0.4	-2.8	1.6	2.3	1.4	Target met
n/a	Stone Harbor	Multi-Asset Credit	-2.8	0.4	-4.7	1.6	n/a	n/a	n/a
Multi-Asset Credit Portfolio			**-2.6**	**0.4**	**-3.5**	**1.6**	**1.7**	**1.4**	
n/a	Permira	Credit Solutions III	1.8	1.5	9.6	6.0	n/a	n/a	n/a
Private Credit Portfolio			**1.7**	**1.5**	**9.5**	**6.0**	**n/a**	**n/a**	
Total Credit			**-2.1**	**0.5**	**-2.4**	**1.9**	**2.0**	**1.6**	
● (red)	ManFRM	Managed Futures & Hedge Funds	-4.4	1.1	-6.3	4.1	-2.4	4.0	Target not met
n/a	ManFRM	Hedge Funds (Legacy)*	-71.6	1.1	-72.7	4.1	-43.0	4.0	Target not met
Managed Account Platform			**-6.0**	**1.1**	**-8.7**	**4.1**	**-4.7**	**4.0**	
● (red)	Pyrford	Global Total Return	-2.0	1.6	-1.3	7.3	2.7	7.8	Target not met
● (red)	Investec	Diversified Growth	-3.7	1.6	-10.3	6.8	0.3	7.0	Target not met
Total Diversified Growth			**-2.9**	**1.6**	**-6.0**	**7.0**	**1.5**	**7.4**	
● (green)	**Best Ideas Portfolio**		**-9.2**	**1.2**	**-7.0**	**5.1**	**5.6**	**5.3**	**Target met**
Tactical Allocation Portfolio			**-6.4**	**1.2**	**-6.5**	**5.1**	**3.6**	**5.4**	
● (green)	In-House	Property	1.2	0.9	7.6	6.5	7.2	6.7	Target met
● (green)	In-House	Infrastructure	4.2	1.4	14.6	5.7	13.6	5.5	Target met
● (green)	In-House	Timber / Agriculture	-1.3	1.4	7.2	5.6	7.0	5.5	Target met
Real Assets			**1.8**	**1.3**	**9.4**	**5.9**	**8.5**	**4.9**	
● (green)	In-House	Private Equity	3.3	1.4	18.7	5.6	16.5	5.5	Target met
● (green)	In-House	Opportunistic	3.5	1.4	21.1	5.7	6.7	5.5	Target met
Private Markets Portfolio			**3.3**	**1.4**	**19.1**	**5.6**	**15.1**	**5.5**	
Total In-House Assets			**2.6**	**1.3**	**14.2**	**5.8**	**11.7**	**5.5**	
n/a	Insight	LDI Portfolio	-9.7	-9.7	-2.2	-2.2	18.6	18.6	n/a
Total (ex LDI)			**-3.7**	**-0.5**	**-1.2**	**3.3**	**6.2**	**6.7**	
TOTAL CLWYD PENSION FUND			**-5.1**	**-2.3**	**-1.4**	**2.2**	**8.8**	**8.6**	
Strategic Target (CPI +4.1%)			**1.6**		**6.3**		**6.3**		
Actuarial Target (CPI +2.0%)			**1.1**		**4.2**		**4.2**		

Notes: 'n/a' against the objective is for funds that have been in place for less than three years.
* ManFRM Hedge Funds (Legacy) currently includes the Duet (S.A.R.E) and Liongate portfolios.
\# Wellington Emerging Markets Core and Wellington Emerging Markets Local data has been converted from US Dollar to Sterling using the WM/Reuters closing price exchange rates for the respective dates.
Strategic and Actuarial targets derived from the latest JLT Market Forecast Group assumptions (Q4 2018 forecasts based on conditions at 30 September 2018). Current long term 10 year CPI assumption is 2.2% p.a.

● (green) Fund has met or exceeded its performance target ● (red) Fund has underperformed its performance target

5 STRATEGIC ASSET CLASSES
PERFORMANCE TO 31 DEC 2018

Strategy	3 months %	12 months %	3 years % p.a.
Total Equities	**-9.4**	**-9.5**	**12.1**
Composite Objective	-8.2	-4.2	15.9
Composite Benchmark	-8.5	-5.5	13.9
Multi-Asset Credit Portfolio	**-2.6**	**-3.5**	**1.7**
Objective	0.4	1.6	1.4
Benchmark	0.2	0.6	0.4
Managed Account Platform	**-6.0**	**-8.7**	**-4.7**
Objective	1.1	4.1	4.0
Benchmark	1.1	4.1	4.0
Total Hedge Funds (Legacy)	**-71.6**	**-72.7**	**-43.0**
Composite Objective	1.1	4.1	4.0
Composite Benchmark	1.1	4.1	4.0
Total Diversified Growth	**-2.9**	**-6.0**	**1.5**
Composite Objective	1.6	7.0	7.4
Composite Benchmark	1.6	7.0	7.4
Best Ideas Portfolio	**-9.2**	**-7.0**	**5.6**
Objective	1.2	5.1	5.3
Benchmark	1.2	5.1	5.3
Total In-House Assets	**2.6**	**14.2**	**11.7**
Composite Objective	1.3	5.8	5.5
Composite Benchmark	1.3	5.8	5.5
Total LDI Portfolio	**-9.7**	**-2.2**	**18.6**
Composite Objective	-9.7	-2.2	18.6
Composite Benchmark	-9.7	-2.2	18.6
Total (ex LDI)	**-3.7**	**-1.2**	**6.2**
Composite Objective	-0.5	3.3	6.7
Composite Benchmark	-0.6	2.9	6.2
Total Clwyd Pension Fund	**-5.1**	**-1.4**	**8.9**
Composite Objective	-2.3	2.2	8.6
Composite Benchmark	-2.4	1.9	8.1

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 within the Equity and Multi-Asset Credit portfolios.

6 SUMMARY OF MANDATES

Manager	Fund	Strategic Asset Class	Performance Objective (Net of Fees)	Strategic Allocation
Investec	Global Strategic Equity	Global Developed Equities	MSCI AC World NDR Index +2.5% p.a.	4.0%
BlackRock	World Multifactor Equity Tracker	Global Developed Equities	MSCI World Index	4.0%
Wellington	Emerging Market (Core)	Emerging Markets Equities	MSCI Emerging Markets Index +1.0% p.a.	3.0%
Wellington	Emerging Market (Local)	Emerging Markets Equities	MSCI Emerging Markets Index +2.0% p.a.	3.0%
Total Equity			**Composite Weighted Index**	**14.0%**
Stone Harbor	LIBOR Multi-Strategy	Multi-Asset Credit	1 Month LIBOR Index +1.0% p.a.[1]	12.0%
Stone Harbor	Multi-Asset Credit	Multi-Asset Credit	1 Month LIBOR Index +1.0% p.a.	
Permira	Credit Solutions III	Private Credit	Absolute Return 6.0% p.a.	1.8%
BlackRock	Middle Market Senior	Private Credit	Absolute Return 9.0% p.a.	1.2%
Total Credit Portfolio			**Composite Weighted Index**	**15.0%**[4]
ManFRM	Managed Futures & Hedge Funds	Managed Account Platform	3 Month LIBOR Index +3.5% p.a.	9.0%[3]
Managed Account Platform			**3 Month LIBOR Index +3.5% p.a.**	**9.0%**
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.	11.0%
Tactical Allocation Portfolio			**UK Consumer Price Index +3.0% p.a.**	**21.0%**
In-House	Private Equity	Private Markets	3 Month LIBOR Index +5.0% p.a.	8.0%
In-House	Opportunistic	Private Markets	3 Month LIBOR Index +5.0% p.a.	2.0%
In-House	Property	Property	IPD UK Monthly Property Index[5]	4.0%
In-House	Infrastructure	Infrastructure	3 Month LIBOR Index +5.0% p.a.	6.0%
In-House	Timber / Agriculture	Infrastructure	3 Month LIBOR Index +5.0% p.a.	2.0%
Total In-House			**Composite Weighted Index**	**22.0%**
Insight	LDI Portfolio	LDI & Synthetic Equities	Composite Liabilities & Synthetic Equity	19.0%
Total Liability Hedging			**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 composite benchmark for the Managed Account Platform. 4 Committed but uninvested element of the Private Credit strategic allocation is represented by 1 Month LIBOR Index +1.0% p.a. 5. IPD Quarterly Property Index sourced from Schroders has been used to calculate the performance between 31 December 2017 and 31 December 2018.

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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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CLWYD PENSION FUND COMMITTEE

Date of Meeting	20 February 2019
Report Subject	Funding, Flightpath and Risk Management Framework Update
Report Author	Clwyd Pension Fund Manager

EXECUTIVE SUMMARY

Members should note that:

- On a consistent basis, the estimated funding position at the end of January is 89% which is around 9% ahead of the expected position from the 2016 actuarial valuation. However, there still remains uncertainty regarding future inflation and investment return expectations, especially given the recent market volatility.

- The level of hedging remains at 20% for interest rate and 40% for inflation at 31 January 2019.

- No triggers have been breached since the interest rate triggers were re-structured in September 2017. Mercer recommended no change to the interest rate trigger levels as part of the flightpath healthcheck.

- The dynamic equity protection strategy was implemented on 24 May 2018. As at 31 January 2019, the strategy had decreased by £20m or 5.6% since inception of the strategy. The Fund is protected from falls in equity markets of 14% or more from current levels. More detail is provided separately in the Mercer report in Appendix 1.

- The Officers, with the advice of JLT and Mercer have decided to implement a collateral waterfall structure to increase the efficiency of the collateral position within the Insight QIAIF in a low governance manner, but without impacting the overall risk management profile of the flightpath strategy. The collateral waterfall will be fully in place by end February 2019 and introduces two new funds at Insight; the Global ABS Fund (c. £45m investment) and the Secured Finance II fund (c. £50m investment). It has also been decided that c. £30m will be released from the Insight QIAIF to be invested in infrastructure as directed by JLT in due course.

RECOMMENDATIONS	
1	That the Committee note the updated funding and hedging position for the Fund and the progress being made on the various elements of the Risk Management Framework.
2	That the Committee note that the Officers have been working with their advisers in order to implement a collateral waterfall process at Insight to better manage collateral requirements. Insight are in the process of implementing the collateral waterfall which will be in place by end February 2019. It has also been agreed that c. £30m will be removed from the Insight QIAIF to be invested in infrastructure as directed by JLT in due course.

REPORT DETAILS

1.00	FUNDING, FLIGHTPATH AND RISK MANAGEMENT STRUCTURE UPDATE
1.01	***Update on funding and the flightpath framework*** The monthly summary report as at 31 January 2019 from Mercer on the funding position and an overview of the liability hedging mandate is attached in Appendix 1. It includes a “traffic light” of the key components of the Flightpath and hedging mandate with Insight. The report will be presented at the meeting including a reminder of the principle objectives of the framework.
1.02	The estimated funding level is 89% with a deficit of £225m at 31 January 2019 which is 9% ahead of the expected position when measured relative to the 2016 valuation expected funding plan. Uncertainty continues to be prevalent in the investment environment due to ongoing external political and fiscal factors. To illustrate the impact, a reduction of 0.25% p.a. in the assumed future investment return/real discount rate would reduce the funding level by c. 4% to c. 85% with a corresponding increase in deficit of £96m to £321m.
1.03	None of the interest rate triggers have been satisfied since they were re-structured in September 2017.
1.04	The level of hedging was around 20% for interest rates and 40% for inflation at 31 January 2019. The hedging implemented to date provides access to a lower risk investment strategy but maintaining a sufficiently high real yield expectation to achieve the funding targets.
1.05	Based on data from Insight, our analysis shows that the management of the Insight mandate is rated as “green” meaning it is operating in line within the tolerances set by our strategic risk advisors. The LIBOR Plus Fund is rated “amber” due to the temporary limit on future investments into the fund. This should not affect the operation of the mandate but it will be kept under watch.

	The collateral and counterparty position is rated “green”; collateral is within the agreed constraints and the Officers are taking action with their advisors to improve the efficiency of the collateral position (see section 1.07).
1.06	***Update on Risk Management framework*** (i) Dynamic equity protection implementation and progress It was previously approved by Committee that, subject to fair market pricing, protection against potential falls in the equity markets via the use of Equity Options should be implemented. This was to provide further stability (or even a reduction) in employer deficit contributions (all other things equal) in the event of a significant equity market fall although it is recognised it will not protect the Fund in totality. It should be noted that, having an equity protection policy in place will protect from any large changes in equity markets which is currently prevalent given the significant volatility of equity returns that we have seen over Q4 2018. Importantly over the longer-term the increased security allows the Actuary to include less prudence in the Actuarial Valuation assumptions; this would translate into lower deficit contributions at the 2019 valuation whilst maintaining equity exposure supports a lower cost of accrual that under traditional de-risking methods. This will be quantified in the 2018 interim review. As at 31 January 2019, the dynamic protection strategy had decreased by c. £20m or 5.6% since inception of the strategy. Relative to investing in passive equities (and assuming no costs to do so), the strategy has underperformed by c. £7.8m or 2.1% since inception. It should be noted that the strategy did outperform passive equities by providing protection during the December equity market downturn; the subsequent equity market rally in January, however, has meant that this protection is now less valuable and hence the underperformance. This underperformance is essentially the cost of reducing the risk of contribution increases for employers. The strategy provides protection from equity market falls of 14% or more. If such a downside event occurred then the protection structure should outperform passive equities. The protection will be monitored on an ongoing basis and the Committee papers have been updated as part of the reporting in Appendix 1.
1.07	(ii) Collateral position Due to the positive performance of the flightpath framework since its implementation, Mercer indicated that there was an opportunity to increase the efficiency of the collateral in the QIAIF by implementing a collateral waterfall process at Insight and the Officers, with the advice of JLT and Mercer, have decided to implement this structure. The waterfall will be fully in place by end February 2019, and introduces two new funds, namely the Global ABS Fund (c. £45m investment) and the Secured Finance II fund (c. £50m investment). Mercer calculated, and Insight have confirmed, the minimum level of collateral required whilst still supporting the current positions and

	maintaining the flightpath strategy to be £170m. This would still leave sufficient collateral in the event of market moves or in the event of any triggers being hit in line with the agreed guidelines. The waterfall at outset can be summarised as follows: • Tier 1: c. £215m in cash and gilts to support collateral requirements on a day to day basis • Tier 2: c. £100m of additional collateral that acts as a buffer invested high quality liquid funds (Global ABS fund and Libor Plus fund) • Tier 3: £50m of excess collateral that is invested in high quality but illiquid assets (Secured Finance II fund) Approximately £30m will be released from the QIAIF to be invested in infrastructure assets as directed by JLT in due course. The waterfall requires that Insight hold at least £170m in Tier 1 assets at any time and if the value falls below that amount, they have discretion to sell assets from Tier 2 to top this up. Tier 2 funds are daily traded and can act as a ready source of collateral as required whilst generating a higher expected yield in the meantime. This approach is expected to generate an additional yield of £3m p.a. whilst still providing adequate security that the collateral position is managed effectively. A collateral waterfall ensures that the Insight QIAIF provides the necessary collateral requirements but makes those assets work harder, increasing yield in a low governance manner. The Committee will be updated in due course once Insight have completed the implementation towards end February 2019.

2.00	**RESOURCE IMPLICATIONS**
2.01	None directly as a result of this report

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	None required

4.00	**RISK MANAGEMENT**
4.01	This report addresses some of the risks identified in the Fund's Risk Register. Specifically, this covers the following (either in whole or in part): • Governance risk: G2 • Funding and Investment risks: F1 - F6
4.02	The Flightpath Strategy manages/controls the interest rate and inflation rate impact on the liabilities of the Fund to give more stability of funding outcomes and employer contribution rates. The Equity option strategy will provide protection against market falls for the synthetic equity exposure via the Insight mandate only.

5.00	**APPENDICES**
5.01	Appendix 1 - Monthly monitoring report – January 2019

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	Report to Pension Fund Committee – Flightpath Strategy Proposals – 8 November 2016, Report to Pension Fund Committee – 2016 Actuarial Valuation and Funding/Flightpath Update – 27 September 2016 and Report to Pension Fund Committee – Funding and Flightpath Update – 22 March 2016.
6.02	Report to Pension Fund Committee – Overview of risk management framework – Previous monthly reports and more detailed quarterly overview. **Contact Officer:** Philip Latham, Clwyd Pension Fund Manager **Telephone:** 01352 702264 **E-mail:** philip.latham@flintshire.gov.uk

7.00	**GLOSSARY OF TERMS**
7.01	(a) **The Fund – Clwyd Pension Fund** – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region. (b) **Administering Authority or Scheme Manager** – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund. (c) **The Committee – Clwyd Pension Fund Committee -** the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund. (d) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of (e) **FSS – Funding Strategy Statement** – the main document that outlines how we will manage employers contributions to the Fund (f) **Actuary -** A professional advisor, specialising in financial risk, who is appointed by Pension Funds to provide advice on financial related matters. In the LGPS, one of the Actuary's primary responsibilities is the setting of contribution rates payable by all participating employers as part of the actuarial valuation exercise. (g) **ISS – Investment Strategy Statement** The main document that outlines our strategy in relation to the investment of assets in the Clwyd Pension Fund

	Further terms are defined in the Glossary in the report in Appendix 1

HEALTH WEALTH CAREER

CLWYD PENSION FUND

RISK MANAGEMENT FRAMEWORK MONTHLY MONITORING REPORT 31 JANUARY 2019

February 2019

Peter Gent FIA

MAKE TOMORROW, TODAY MERCER

OVERRIDING OBJECTIVES

Stable and affordable contribution rate

versus

Achieve returns in excess of CPI required under funding arrangements

Objectives are two-fold but conflicting

- Risk needs to be taken in order to achieve returns, but risk does not guarantee returns

Need to ensure a reasonable balance between the two objectives

- Do you need to take the same level of risk when 70% funded (say) as when 110% funded?

EXECUTIVE SUMMARY

● = as per or above expectations ● = to be kept under review ● = action required

Overall funding position
- Ahead of existing recovery plan
- Funding level below the first soft trigger

In absolute terms the funding position is c.9% ahead of target. However there is continuing uncertainty in the outlook for future returns which could impact on the future funding requirements.

Liability hedging mandate
- Insight in compliance with investment guidelines
- Outperformed the benchmark over the quarter and since inception
- Hedge ratios marginally below target levels

No action required.

Synthetic equity mandate
- Insight in compliance with investment guidelines
- Performed in line with the benchmark over the quarter to 31 December 2018
- Underperformed the benchmark over the month to 31 January 2019

A new dynamic protection structure was implemented in late May 2018. This is being monitored in terms of performance and protection levels.

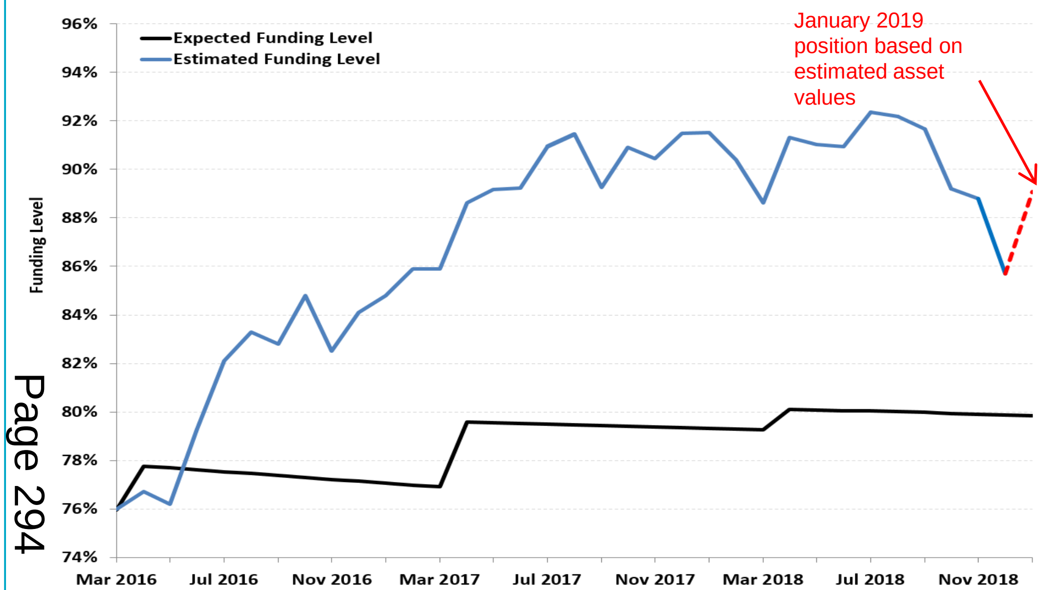
LIBOR Plus Fund
- Underperformed over the quarter but ahead of target since inception
- Management team stable and no change in manager rating
- Allocation of £56m remains appropriate

No action required. The temporary limit on future investments into the Fund at any weekly dealing point remains in place - to be kept under review.

Collateral and counterparty position
- Collateral within agreed constraints
- The Insight QIF can sustain at least a 1.25% rise in interest rates and fall in inflation, in combination with a 35% fall in equity markets without eliminating all collateral

Collateral adequacy to be monitored quarterly. c.£80m to be released from the Insight collateral waterfall at the next available dealing date.

Estimated funding position since 31 March 2016



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The positions from April 2018 onwards have been adjusted to reflect the actual 2018 revaluation/pension increase awarded.

Funding Level Triggers

It was concluded at the FRMG on 20 June 2017 that the funding level is not currently sufficiently high to warrant de-risking in a traditional sense via a change in long term strategy.

It was agreed that a “soft” trigger will be put in place to prompt FRMG discussions regarding potential actions as the funding level approaches 100% on the current funding basis. This funding level will be monitored approximately by Mercer on a daily basis.

Comments

The **black line** shows a projection of the *expected* funding level from the 31 March 2016 valuation based on the assumptions (and contributions) outlined in the 2016 actuarial valuation. The *expected* funding level at 31 January 2019 was around 80%.

The **blue line** shows an estimate of the progression of the funding level from 31 March 2016 to 31 December 2018. The **red line** shows the progression of the estimated funding level over January 2019. At 31 January 2019, we estimate the funding level and deficit to be:

89% (£225m*)

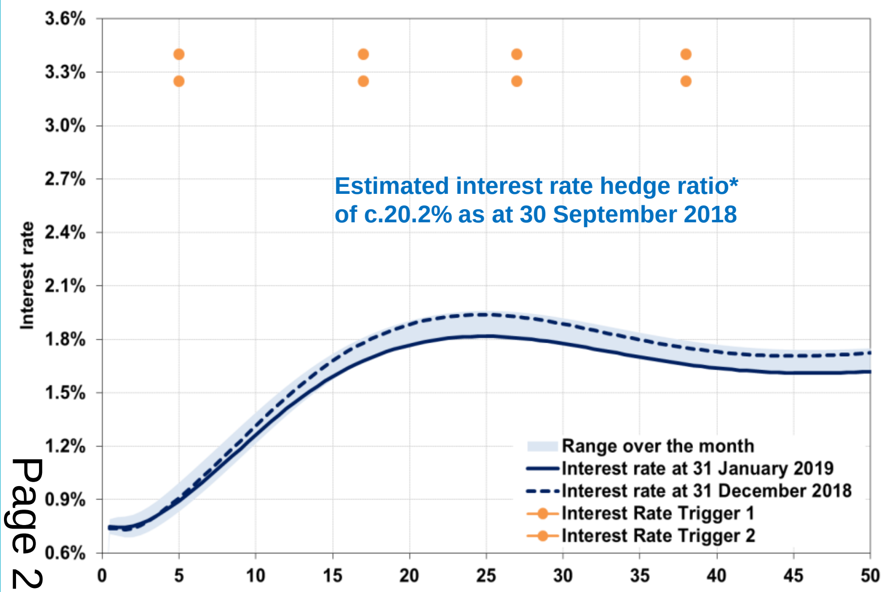
This shows that the Fund’s position was ahead of the expected funding level at 31 January 2019 by around 9% on the current funding basis.

Uncertainty continues to be prevalent in the investment environment due to ongoing external political and fiscal factors. This could mean that the likelihood of achieving the assumed real returns going forward has fallen. To illustrate the impact, a reduction of 0.25% p.a. in the assumed future investment return/real discount rate would reduce the funding level by c.4% to c.85% with a corresponding increase in deficit of £96m to £321m.

This will be kept under review in light of changing market conditions.

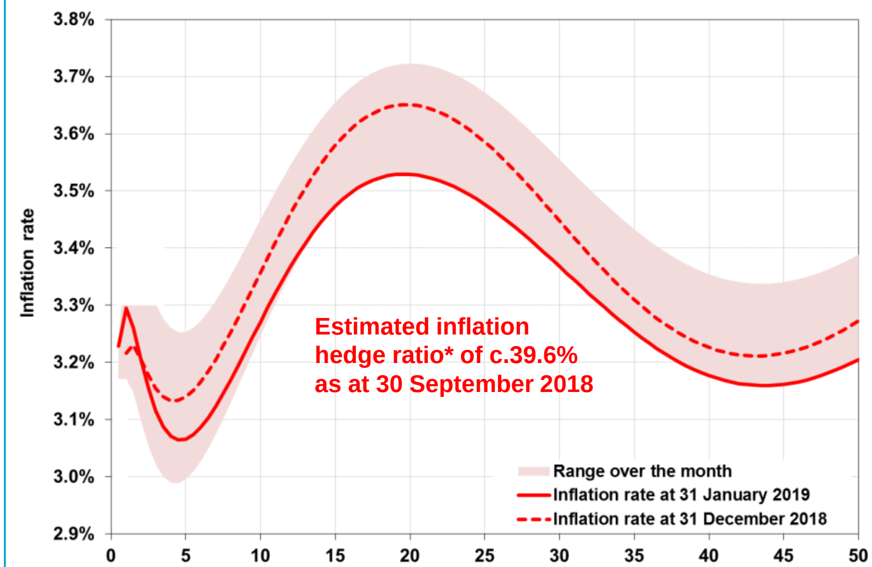
**Asset values estimated based on market indices and an estimate of performance of the Insight liability hedging mandate from 31 December 2018 to 31 January 2019. We will monitor this estimate over time against the actual position once final asset values are available, and update the asset values on a monthly basis.*

Change in interest rates



Date	Band 1	Band 2	Band 3	Band 4	Actual
30 September 2018	20.0%	20.0%	20.0%	20.0%	20.0%

Change in inflation rates (note: different scale)



Date	Band 1	Band 2	Band 3	Band 4	Actual
30 September 2018	40.0%	40.0%	40.0%	40.0%	40.0%

Comments

Interest rates were relatively stable at very short durations over January 2019, but fell by an average of c.0.1% at other durations.

Based on market conditions as at 31 January 2019, yields would need to rise by c.1.4% p.a. before the Fund would hit any of the revised interest rate triggers implemented by Insight in Q3 2017.

Comments

Inflation expectations at all but the shortest durations over the month, with falls of up to c.0.1% observed at medium durations.

It has been agreed that Insight will not resume monitoring of the level of inflation hedging until the interest rate and inflation hedge ratios have been aligned.

** Hedge ratios calculated with reference to 2016 valuation cashflow analysis and relying on a discount rate of gilts + 2.0% p.a..*

UPDATE ON EQUITY PROTECTION MANDATE

Strategy versus equity index

GBP Returns	Equity return	Hedging return	Financing return	Costs	Overall return	Relative return
MTD	8.76%	(2.65%)	(1.41%)	(0.04%)	**4.66%**	(4.10%)
YTD	(3.43%)	(1.29%)	(0.59%)	(0.26%)	**(5.57%)**	(2.14%)

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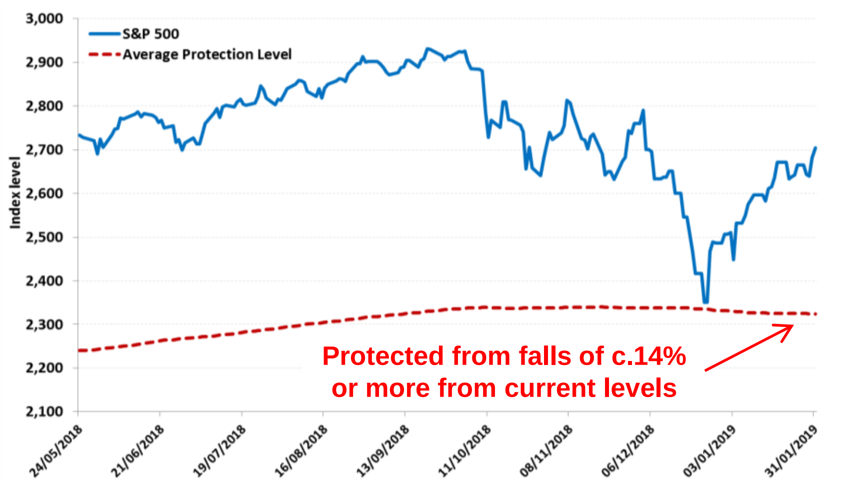
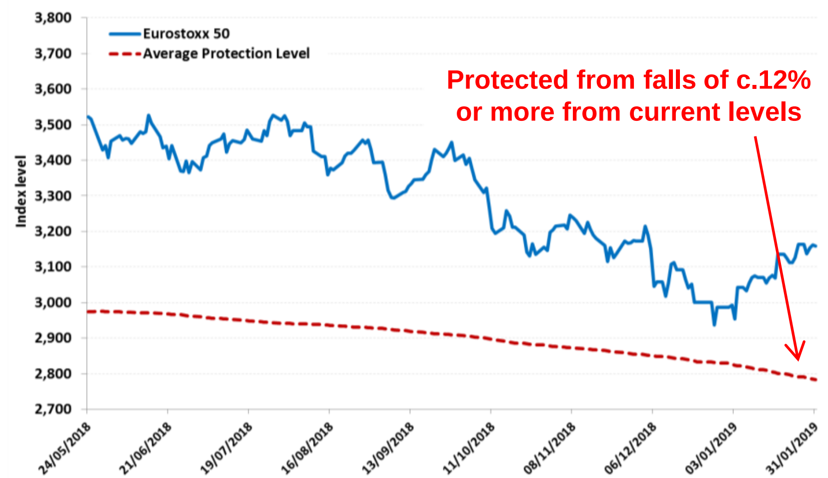
Comments

- The Fund implemented a dynamic equity protection strategy on 24 May 2018 with exposure of £362m. As at 31 January 2019, the value of the synthetic equity exposure was £342m, an increase of c. £15m since the end of December. Relative to investing in passive equities (with no frictional costs), the strategy has underperformed by £7.8m since inception.
- Positive equity returns meant that the strategy exhibited a negative hedging return over January due to the decrease in the intrinsic value of the options. This was the main driver in underperformance.
- The financing return was also negative as markets rose rapidly towards the cap.
- The rise in equity markets over January means that the strategy is c.14% from the protection levels at a combined level.

US equity exposure



European equity exposure



GLOSSARY

- Actuarial Valuation - The formal valuation assessment of the Fund detailing the solvency position and determining the contribution rates payable by the employers to fund the cost of benefits and make good any existing shortfalls as set out in the separate Funding Strategy Statement.
- Collateral – Liquid assets held by the Fund as security which may be used to offset the potential loss to a counterparty.
- Counterparty – Commonly an investment bank on the opposite side of a financial transaction (e.g. swaps).
- Deficit - The extent to which the value of the Fund's liabilities exceeds the value of the Fund's assets.
- Dynamic protection strategy – Strategy to provide downside protection from falls in equity markets where the protection levels vary depending on evolution of the market.
- Equity option – A financial contract in which the Fund can define the return it receives for movements in equity values.
- Flightpath - A framework that defines a de-risking process whereby exposure to growth assets is reduced as and when it is affordable to do so i.e. when "triggers" are hit, whilst still expecting to achieve the overall funding target.
- Funding level - The difference between the value of the Fund's assets and the value of the Fund's liabilities expressed as a percentage.
- Funding & Risk Management Group (FRMG) - A subgroup of Pension Fund officers and advisers set up to discuss and implement any changes to the Risk Management framework as delegated by the Committee. It is made up of the Clwyd Pension Fund Manager, Pension Finance Manager, Fund Actuary, Strategic Risk Adviser and Investment Advisor.
- Hedging - A strategy aiming to invest in low risk assets when asset yields are deemed attractive. Achieved by investing in government backed assets (or equivalent) with similar characteristics to the Fund future CPI linked benefit payments.
- Hedge ratio – The level of hedging in place in the range from 0% to 100%.
- Insight QIAIF (Insight Qualifying Investor Alternative Investment Fund) – An investment fund specifically designed for the Fund to allow Insight to manage the liability hedging and synthetic equity assets.
- London Interbank Offer Rate (LIBOR) - An interest rate at which banks can borrow funds from other banks in the London interbank market.

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Agenda Item 13

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