

CLWYD PENSION FUND COMMITTEE
1 SEPTEMBER 2021

Minutes of the meeting of the Clwyd Pension Fund Committee of Flintshire County Council, held remotely at 9.30am on Wednesday, 1 September 2021.

PRESENT: Councillor Ted Palmer (Chairman)

Councillors: Dave Hughes, Tim Roberts, Haydn Bateman.

CO-OPTED MEMBERS: Councillor Nigel Williams (Wrexham County Borough Council), Councillor Julian Thompson-Hill (Denbighshire County Council) – left during item 5 and re-joined during item 11, Councillor Andy Rutherford (Other Scheme Employer Representative) and Mr Steve Hibbert (Scheme Member Representative).

ALSO PRESENT (AS OBSERVERS): Elaine Williams (PFB Scheme Member Representative) .

APOLOGIES: Councillor Ralph Small.

Advisory Panel comprising: Colin Everett (Chief Executive), Philip Latham (Head of Clwyd Pension Fund), Gary Ferguson (Corporate Finance Manager), Karen McWilliam (Independent Adviser – Aon), Paul Middleman (Fund Actuary – Mercer), .

Officers/Advisers comprising: Debbie Fielder (Deputy Head of the Clwyd Fund), Karen Williams (Pensions Administration Manager), Paul Vaughan (Clwyd Fund Accountant), Ieuan Hughes (Graduate Investment Trainee), Nick Buckland (Investment Adviser – Mercer), Megan Fellowes (Actuarial Analyst – Mercer - taking minutes), Sandy Dickson (Mercer – Investment Adviser).

Guest speakers presenting comprising: Michelle Phoenix (Audit Wales) – left after item 4.

Mr Everett confirmed this was his last meeting as Chief Executive and Administrator for the Fund and thanked the Committee for all their hard work. He was pleased to leave on such a positive note with the Fund being in a strong funding position and emphasised the strong network that the Committee have. He said it was a privilege to work with everyone.

The Chairman thanked Mr Everett for his hard work as administrator to the Fund. His knowledge and influence at a national level helped the Fund get to an extremely good position from all aspects. The Committee gave Mr Everett a round of applause as a thank you for his hard work and dedication.

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

Mrs McWilliam and Mr Buckland declared an interest in relation to Item 9 on the agenda as Aon and Mercer could be interested in bidding in the next stage of the ongoing procurement contract for WPP.

There were no other declarations of interest.

13. **MINUTES 9 JUNE 2021**

On item 143, Mr Hibbert asked to update the sentence 'represent the interest of scheme members' to 'represent the interest of all scheme members'. The Committee agreed.

The minutes of the meeting of the Committee held on 9 June 2021 were revised accordingly.

RESOLVED:

The minutes of 9 June 2021 were received, approved and signed by the Chairman.

14. **CLWYD PENSION FUND ANNUAL REPORT 2020/21**

Mr Vaughan noted that the annual report needs to be produced by 1 December each year and as such, the draft was presented for consideration. He highlighted the following key points from the annual report:

- The report covered the year 2020-2021 where the impact of the COVID-19 outbreak dominated.
- The investments returned 7.1% p.a. over the three years to 31 March 2021 compared to a benchmark of 7.7% p.a.
- There had been increasing focus on carbon foot printing and responsible investment priorities. More details were on page 83.
- The administration team completed c30,000 member cases during the year. The team have also been working on improving data quality, KPI's, continuing the roll-out of iConnect, the GMP project and the impact of the McCloud remedy. More details were on page 57.
- Total contributions for the year from members and employees were c£85 million with benefits and other payments to members around £83 million. Total management expenses paid by the Fund were £22 million. In addition, the net return on investments was c£469 million. Overall, the closing net assets of the scheme at 2020/21 was £2.226 billion.
- To summarise, the Fund's financial position had improved over the duration of the year and the Fund continued to deliver a high quality service to members and employers.

Mr Vaughan explained that the Annual Report which includes the accounts needs to be audited and authorised by the end of November to comply with Regulations. It was unlikely that the audit would be completed in time to bring a fully audited Annual Report to the next Committee meeting on 10th November for authorisation. It was therefore proposed that there would be an update at that meeting and agreement of any further changes before the end of November would be delegated to the Chair of the Committee and Flintshire County Council's Section 151 Officer.

Mrs Phoenix added that despite the audit team being unable to start the audit until October, she was confident that Audit Wales would meet the December deadline. However she confirmed that due to the late start, the audit team are unlikely to sign off the accounts before the next Committee on 10 November, however a verbal update on the progress of the audit would be provided.

Mr Everett thanked the team for the preparation of the report. However, he raised his concerns regarding the lateness of the audit. Regarding final minor adjustments to the accounts, Mr Everett supported the proposed delegations should there be a need.

On page 82, Mr Hibbert asked for clarification on the exit cap regulations in respect of the Welsh Government. Mr Middleman noted that the outcomes of the discussions on the exit cap are awaited and he will update the Committee at the next meeting. Mr Hibbert was concerned about the lack of reference to the Welsh Government approach in the annual report in this context. Mr Everett agreed and Mr Vaughan said that they would add in extra wording to clarify that the Welsh Government has jurisdiction and therefore a potentially different position to mitigate the impact of the exit cap.

Mr Vaughan referred to Appendix 2 to the report which was a draft response to a routine audit queries letter from Audit Wales.

RESOLVED:

- (a) The Committee considered the Fund's draft Annual Report for 2020/21, including the draft Statement of Accounts and agreed on the amendment in relation to the exit cap.
- (b) The Committee noted the Audit Enquiries letter and response.

15. CLWYD PENSION FUND POLICIES

The Chairman noted that the first policy presented within this report covered the Fund's requirements around the knowledge and skills of Committee members and key officers. The Policy was updated to meet the requirements of the new CIPFA code of practice on this topic. The second Policy covered conflicts of interest and guides all Pension Fund Committee members, Pension

Board members, officers and advisers on how actual and potential conflicts of interest in relation to the management of the Fund are identified and managed. The final Policy was the over and underpayment of pension scheme benefits. This new Policy was developed to ensure that there was clarity on how overpayments and underpayments in relation to the Fund were managed.

Mrs McWilliam stated the following key points:

- The Training Policy was renamed as the Knowledge and Skills Policy to better reflect the wording of the latest CIPFA Knowledge and Skills Code and Framework, and recognising that the requirements are wider than just delivering training.
- There are national requirements for members and senior officers to have a strong level of knowledge, some of which are driven by legislation, she stressed the need and focus on this at a Fund level.
- CIPFA had amalgamated and strengthened their expectations into a new Code and Framework and the Fund's new Policy was updated to be in line with these. As a result there were some fundamental changes to the Policy with the main changes summarised in item 1.03 on page 183 and 184.
- Page 193 included a new objective around how individuals are committed to attend training in accordance with the Knowledge and Skills Policy. She added that members and officers were required to attend 75% of training (previously 80%) and that this would be monitored and reported on.

Mrs McWilliam then presented the Conflicts of Interest Policy outlining that only minor changes were being proposed. She highlighted importance of the Policy as members and officers must adhere to the requirements of the Policy and declare any interests. She highlighted that the Fund Policy included additional requirements beyond Council expectations and it was important for members and officers to recognise their pension fund responsibilities when carrying out pension fund duties. The key updates made to the Policy are summarised in item 1.07.

On page 217 on the examples of conflicts of interest, Mr Hibbert noted an error in one of the examples where WPP should have been quoted. Mrs McWilliam confirmed that she would update it for the final versions.

Clr Rutherford wondered whether the Fund could provide the Committee with a 30-minute refresher session on meeting the requirements of the Conflicts of Interest Policy. Mrs McWilliam agreed and it was confirmed a separate training session would be set up.

Mrs Williams introduced the proposed Clwyd Pension Fund Policy on the Overpayment and Underpayment of Pension Scheme Benefits. She explained that the new Policy outlines that where a member has been underpaid, Fund

officers will increase the pension to the correct amount and write to members to inform them of their underpayment. Mrs Williams clarified that the Policy will ensure consistency and give protection to members and assurance to the Committee that a formal policy was in place. The Policy incorporates the principles set out in Flintshire County Council's corporate debt recovery procedures, delegation of responsibilities and its financial procedure rules, as well as details on how various scenarios of under and over payments will be managed more specific to the Fund.

Mrs Williams also added that internal controls were set in place to minimise events such as large write off amounts occurring in the first instance. The Committee were asked to approve that they should seek an amendment to the Flintshire County Council's Financial Procedural Rules relating to writing off large debts so the Pension Fund Committee approved them as opposed to Cabinet. Mr Everett replied that this amendment was a technical adjustment but would still need to go through Council and it made sense given the Committee had the knowledge of Fund matters.

RESOLVED:

- (a) The Committee reviewed and approved the updated Knowledge and Skills Policy.
- (b) The Committee reviewed and approved the updated Conflicts of Interest Policy.
- (c) The Committee reviewed and approved the newly created Policy on the Overpayment and Underpayment of Pension Scheme Benefits.
- (d) The Committee agreed to recommend an amendment to Flintshire County Council's Financial Procedural Rules relating to the write-off of bad debts, changing references from "Cabinet" to the "Pension Fund Committee".

16. GOVERNANCE UPDATE

Mrs McWilliam noted the update and added that:

- As outlined on page 261, in response to a consultation held for the cost control mechanism, a Fund consultation response was approved by the Chairman and senior officers using urgency delegations.
- Page 248 demonstrated the proportion of Committee member's attendance at hot topic sessions. Further training opportunities could be found on page 265.
- Members received an email from Mrs Fielder regarding the CIPFA event, which was opened up to Committee members this year. Members were encouraged to attend the virtual session on 8 October.

RESOLVED:

The Committee considered and noted the update.

17. PENSION ADMINISTRATION AND COMMUNICATIONS UPDATE

Mrs Williams commented the following key points regarding the pension administration and communications update:

- Two members of staff passed their pensions professional qualifications in August, which is a requirement for a team leader level and upwards. Therefore, this qualification gives staff the opportunity to progress in their career.
- Prudential had installed a new finance system last March, which incurred delays since then in members receiving their benefits. The Fund offered solutions to members whilst members await their money from Prudential. The Fund had reported this issue to TPR and was due to meet with senior management at Prudential to discuss the issues.
- The Fund advertised available positions within the McCloud support team but had difficulties recruiting. Two members of staff who were on temporary contracts had moved on to other opportunities outside the Fund. However, two modern apprentices are due to start with the Fund in due course.
- A new format of KPI measures was included on page 284 which was a higher level summary. Members can still receive the more detailed graphs on request. This included new KPIs, for example in relation to the notification of CETV for divorce purposes.
- Improvements were made in most KPI areas in this update, but the impact of transfers-in being put on hold by the other schemes as permitted by TPR was reflected in the Fund's performance figures where there was a slight decline.

Cllr Bateman asked about the team members that had left the Fund. Mrs Williams confirmed that they were on temporary contracts. One member of staff moved to the graduate scheme within the Council and the other member of staff found a permanent position elsewhere.

Cllr Williams asked for an update on iConnect for Wrexham County Borough Council. Mrs Williams stated that Wrexham are fully on board with iConnect, however there are still a few issues with uploading member records to iConnect due to the format and incorrect information in designated fields. Despite this, Mrs Williams clarified she was optimistic this would be resolved as the CPF team and Wrexham are working closely together to rectify the remaining issues.

Mr Everett thanked Mrs Williams and the team for the continued great progress.

RESOLVED:

The Committee considered and noted the update.

18. INVESTMENT AND FUNDING UPDATE

Mr Fielder stated that the Fund are currently on track in all areas within the business plan. She commented the following key points:

- WPP formally requested to establish an active sustainable global equity sub-fund, which is continuing to progress.
- A new investment was made with Bridges Property Fund V, within impact and local investments.
- The Fund attended a session with Together Creating Communities (TCC), which discussed how the Fund are progressing with Responsible Investment (RI), in particular, rapidly divesting in carbon.
- In regards to the Fund's cashflow position, the Fund reduced the risk of insufficient cashflow through improved monitoring as outlined in the risk register. In addition, the Fund are currently cashflow positive given that the Fund are receiving distributions from the private market investments.
- WPP were due to go out to tender for a Private Markets allocator, and both Aon and Mercer have registered their interest.
- Due to the WPP taking longer to implement private markets, they would not be in a position to implement the infrastructure and private debt portfolios for another couple of years. Therefore, Mercer had their remit extended to support the Fund in making any allocations to these asset classes, and accordingly there will be an increase in the consultancy costs, albeit these costs are offset by the reduction in management costs to Link and Russell.
- The Fund are progressing the net zero ambition and expect improvements and updates in due course.

Mr Everett thanked the team and the Chairman. He noted the importance of Committee members helping the Fund with communicating their strategic position on Responsible Investment with a focus on engagement initially and particularly that implementing the Fund's net zero ambition would take time. Mr Hibbert raised his concerns and difficulty in wholly supporting Mr Everett's point and stressed the importance of divesting from carbon and investing in renewables as soon as possible. Mrs McWilliam clarified that the Fund's strategy was to focus on engagement with divestment being an option where engagement was not successful. Mrs Fielder added that divesting is an evolution for the Fund and that they had invested in renewables for a long time. The Fund can also expect to see some improvements from the proposed investment with WPP in sustainable active equities.

Mr Buckland agreed with Mrs Fielder and appreciated Mr Hibbert's concerns. He stated that ultimately the Fund might well end up divesting from assets in a number of areas, however this would be because of the appropriate analysis and assessment of the existing position. Mr Hibbert was grateful for this

explanation, and confirmed that he was not in favour of “blunt divestment” but supported the plan that divestment may be final option.

RESOLVED:

The Committee considered and noted the update.

19. POOLING INVESTMENT IN WALES

Mrs Fielder noted the following key points regarding asset pooling in Wales:

- Bfinance has been recently been appointed following a procurement process by the Private Markets sub-group, and they were tasked with procuring an allocator for WPP. However, this will take a considerable amount of time.
- The focus was the recommendation in relation to the WPP Inter-Authority Agreement to Flintshire County Council. The addendum for this was circulated prior to the meeting with the existing Inter-Authority Agreement and the addendum is attached in appendix 1. The approval was in relation to the new member scheme representative on the JGC and with the appointment of allocator to the Private Markets sub-group.

Mr Everett noted that if the Committee were in agreement with this, a further report would be presented at the next Flintshire County Council meeting including the changes to the Financial Procedure Rules for the over and underpayments policy.

Mr Hibbert stated his vote against the second and third recommendations surrounding the scheme member representative elements, as he believed the current process for appointing a representative was discriminatory due to the expectation that the representative would be subject to:

1. A selection process including a job description, person specification and interview.
2. A time limitation on membership.
3. Having no right to vote.

These restrictions will only be applied to trade unionised Scheme Member Representatives on the JGC.

RESOLVED:

- (a) The Committee considered and noted the JGC agenda and agreed any comments or questions for WPP.

- (b) The Committee recommended the Addendum to the WPP Inter-Authority Agreement to Flintshire County Council for approval, and that the amendments are incorporated appropriately into the Council's Constitution.
- (c) The Committee recommended to Flintshire Council that the Protocol for the Clwyd Pension Board is amended to allow the Board to nominate a Scheme Member Representative to the JGC.

20. **ECONOMIC AND MARKET UPDATE AND INVESTMENT STRATEGY AND MANAGER SUMMARY**

Mr Dickson introduced himself and noted that from 30 June to 31 August 2021, global equities were up by approximately 5%, defensive assets were up by approximately 2% and index-linked gilts were also up by approximately 7 to 8%. As the economy opened up, Mr Dickson stated that he was cautious but optimistic about how markets moved going forward.

Mr Buckland added that the Fund had strong performance over the quarter to 30 June 2021 with total market value £2,326.4m. As outlined on page 363, the Fund were marginally behind the total 3-year benchmark. However, the Fund was already achieving those levels of return.

On page 369, Cllr Bateman queried whether the inflation factors for food away from home was in regards to takeaways. Mr Dickson confirmed this since the amount of takeaways increased a significant amount over the past year or two and it also extended to building supplies and restaurant supplies.

RESOLVED:

The Committee noted the Economic and Market update.

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

Mr Middleman updated the Committee and said that the Fund had not gone below 100% funded. At 30 June 2021, the funding level was 105% and as at current date was 1%-2% higher than this because of the strong asset performance. He added that there was still some nervousness going forward in regards to inflation, but the Fund was in a positive position.

As noted at the last meeting, given the positive funding position, consideration was needed on whether to take action to in order to bank some of this gain. The FRMG met after the last meeting and had a detailed discussion on this matter.

Mr Middleman confirmed that after consideration the FRMG had agreed that a new soft trigger point at a 110% funding level was a more appropriate to consider whether to make changes to the strategy. He noted that the Fund might

hit this trigger sooner than expected, given the direction of travel that the Fund is going.

Mr Hibbert suggested changing the soft trigger to a hard trigger, as he believed discussions were needed soon, with the intention of making a decision about banking the gain the Fund have made. Mr Middleman noted his point but stated that there were a number of factors to take into consideration before making any changes to the strategy. In particular, there would need to be a balance in the reduction in risk versus corresponding reduction in expected return. As this could affect employer contributions to much if, too much risk was taken out. A discussion will be needed in order to make these changes factoring in all stakeholder views not just a decision based on the trigger. Mr Middleman confirmed however that the 110% is likely to mean some change will happen. Mr Everett agreed that it was important that the Committee were engaged with this matter.

Mr Everett thanked the Committee for their support over the years and wished everyone the best for the future.

RESOLVED:

The Committee noted the Funding, Flightpath and Risk Management Framework update.

The Chairman thanked everyone for their attendance. The next formal Committee meeting is on 10 November 2021. The meeting finished at 11:15am.

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Chairman