

FLINTSHIRE COUNTY COUNCIL

REPORT TO: FLINTSHIRE COUNTY COUNCIL

DATE: TUESDAY, 16 APRIL 2013

REPORT BY: HEAD OF FINANCE

SUBJECT: CLWYD PENSION FUND UPDATE

1.00 PURPOSE OF REPORT

1.01 To update Members on issues relating to the Clwyd Pension Fund (“the Fund”).

2.00 BACKGROUND

- 2.01 As set out in previous reports to Council, the Clwyd Pension Fund is a defined benefit final salary scheme under which the benefits are specified in the governing legislation (the Local Government Pension Scheme Regulations). The required levels of employee contributions are also specified in the Regulations. Employer contributions are determined in accordance with the Regulations which require that an actuarial valuation is completed every three years.
- 2.02 The Fund is administered by Flintshire County Council on a “lead authority” basis. Flintshire County Council is a member of the Fund along with Wrexham County Borough Council, Denbighshire County Council and a range of other scheduled and admitted bodies.
- 2.03 Pension Fund matters are a Council rather than Executive function. Authority to manage the Clwyd Pension Fund is delegated to the Head of Finance who is Treasurer and Administrator to the Fund. The Clwyd Pension Fund Panel, made up of elected Members from Flintshire, Wrexham and Denbighshire, is an advisory body on pension fund issues. The Panel also has a Staff/Union Observer nominated by Trade Unions and is advised by an Independent Adviser/Consultant.
- 2.04 The Pension Fund Panel holds quarterly meetings, the minutes of which are available from the Contact Officer. The Council is updated twice a year and the previous update was to Special County Council on 25th September 2012. This report covers the items discussed at the 14th November 2012 Panel, 21st February 2013 Panel and a Special Panel Meeting on 15th March 2013 (see para. 3.07 below).

The Panel members and substitutes are:-

Panel Member	Position/Authority	Substitute
Cllr. Alan Diskin	Chair	Cllr. Ron Hampson
Cllr. Hadyn Bateman	Vice Chair	Cllr. Brian Dunn
Cllr. Ted Evans	Flintshire CC	Cllr. Brian Dunn
Cllr. Huw Ll. Jones	Denbighshire CC	Cllr. Julian Thompson-Hill
Cllr. Steve Wilson	Wrexham CBC	Cllr. Dana Davies

NB: Cllr. Hadyn Bateman is Chair in the absence of Cllr. Alan Diskin.

3.00 UPDATE

LGPS 2014

- 3.01 Following general support from both membership and employers for the new Career Average Re-valued Earnings (CARE) Scheme statutory consultation commenced in January 2013 on the new benefit regulations. The views of the All Wales Pension Officer Group were included in a response to the consultation by the Local Government Association. The consultation closed on 8th February 2013 and the UK Government remain on target to implement the new scheme from 1st April 2014.
- 3.02 There is an outstanding work stream of LGPS 2014 which is considering cost management and governance. Consultation on this is expected in April.
- 3.03 An additional consultation is also expected on the future of the Councillors' Pension Scheme. Timescales for this are not yet known.

WELSH PENSION FUND COLLABORATION

- 3.04 As previously reported, The Society of Welsh Treasurers (Pensions Sub-Group) has commissioned work to look at collaboration opportunities across the eight Funds in Wales. The project features in the COMPACT on collaboration in Wales following the Simpson Review.
- 3.05 An interim report Welsh Local Government Pension Funds Working Together was issued for consultation to all relevant stakeholders (including the eight Welsh Pension Funds and Employing Bodies) from 1st March 2013 to 31st March 2013.
- 3.06 The intention of The Society of Welsh Treasurers (Pensions Sub-Group) in issuing an interim report was to consider the view of all stakeholders on this complex matter before finalising the report and a further meeting of the group is planned during April 2013.

3.07 The key recommendations taken from the interim report are:-

1. *The “as is” or no change option is not supported. The pension’s environment requires a more pro-active approach to managing service standards and costs within the LGPS within Wales.*
2. *Enhanced collaboration is seen as the area where medium term savings can be optimised. This is the option where the balance of service delivery and efficiency, cost of change, time and resource can be blended in the most effective way and should be pursued further.*
3. *To create a Full Business Case for a common investment approach to encompass the common attributes that appear to benefit larger funds with the aim of implementation thereafter.*
4. *To create an appropriate and responsive governance structure to drive and manage future collaboration initiatives within Wales which will:*
 - (a) *explore the potential in the longer term for consistent Valuation and funding assumptions and standards.*
 - (b) *develop minimum administrative service standards for Wales and an agreed measurement framework.*
 - (c) *take advantage of joint procurement initiatives to help consistency and efficiencies.*
5. *The prospect of merger to regional funds or a single Welsh Fund is both complex and the transition would be costly with long lead-in time and a loss of local autonomy. Changing funding strategies could also have a destabilising effect with a loss of local accountability. Whilst this may merit additional investigation in the future, it is not recommended for further work at this time, especially where it is believed that the most significant gains can be realised through greater collaboration and, specifically a common investment approach.*

3.08 To assist with considering a response, the Clwyd Pension Panel received opinion on the report, and how it applies specifically to the Clwyd Pension Fund, from the Fund’s Actuary and Independent Adviser/Consultant, at a special meeting on 15th March 2013.

3.09 The summary response of the Panel is as set out below:-

- The Clwyd Pension Fund Panel agrees with the main conclusion of the report in terms of not pursuing options for merger but working together.
- However, the Panel does not believe that there is sufficient evidence in the report to support a full business case for a common investment approach at this stage or understand what is meant by a 'common investment approach'. It is advocated that in order to move matters forward, an interim step is taken before moving to a business case, setting out details of what joint arrangements are proposed and how they might work.
- Similarly, the Panel is unclear on the need for introducing a new governance structure when existing structures can be used. Clearly, the outcomes from LGPS 2014 in governance and administration will be key before taking this further.

3.10 For information, the response from Flintshire County Council as an employer within the Fund, supported that of the Panel.

FINANCIAL UPDATE

3.11 As required by LGPS Investment Regulations, investments are monitored quarterly and performance reported in detail to each Clwyd Pension Fund Panel. The report of 21st February 2013 highlighted a market value as at 31st December 2012 of £1.1bn (£1.04bn, as at 31st December 2011) and a funding level of 64% (59% as at December 2011). The Clwyd Pension Fund Panel receive presentations from the four largest fund managers each quarter and investment performance statistics from all the fund managers. There are no changes planned to fund managers as a result of performance.

3.12 The Wales Audit Office (WAO) presented the outcome of the 2011/12 external audit of the Pension Fund accounts in the November 2012 Panel. As reported to Council on 25th September 2012, the Fund received an unqualified audit opinion. The WAO had no concerns about the qualitative aspects of the Fund's accounting practice and reporting. The working papers provided were of good quality incorporating all the information required to audit the Statement of Accounts.

3.13 As a result of a number of future changes to the scheme and the continuing weak economic environment the Fund asked the actuary to undertake a Funding Review. The results were presented to all employers at the Annual Joint Consultative Meeting (AJCM) on 14th November 2012, and considered the possibility of increased employer contributions from 2014/15, unless the financial environment improved. As part of the 2013 Valuation process, work will be

undertaken with the actuary, in consultation with employers, on potential options to stabilise employer contributions for the three years starting from 2014/15.

NEW INVESTMENT UPDATE

3.14 In line with the Fund's Medium Term Plan and previously agreed priorities:-

- Two £5m commitments have been made to the agriculture sector via GMO Farmland Optimisation Fund and Insight Global Farmland Fund. Due diligence had been undertaken on five short-listed managers.
- After research of the shipping sector and appropriate due diligence of the funds including a presentation to the Clwyd Pension Fund Panel, £5m was invested in a shipping fund managed by Marine Capital Ltd.
- Following satisfaction with current investments, follow on investments have been made in Ludgate Environmental Fund 2 (£6m) and InfraRed Europe Active Property 2 (£5m). Following a presentation to the Clwyd Pension Fund Panel a new property commitment has been made to Threadneedle Low-Carbon Workplace Fund (£5m).

3.15 After consultation which the Fund participated in, the UK Government has agreed to increase the limit that can be invested in Partnership structures from 15% to 30%. This will enable Local Government Pension Funds to invest more in certain asset classes such as infrastructure, property and private equity, similar to those in 3.14 above.

3.16 As previously reported to Council, the Fund is considering a 'Flight-path' solution for managing funding risk by managing some inflation and interest rate risk whilst maximising returns from other assets. A tender notice via the European Journal was issued on 28th December 2012 and due diligence on long listed managers is in progress with contract award likely to be in mid 2013.

OTHER INFORMATION

3.17 A number of other items have been reported to the Clwyd Pension Fund Panel for information or agreement:-

- The success of the Fund in two categories at the IPE 2012 European Pension Fund Awards. The Fund received the award for Best Public Sector Fund in Europe and Best Use of Alternatives.

- Quarterly update on progress with the implementation of the Fund's Sustainability Policy.
- Details of the on-going communication service for employers and members and other aspects of the benefit administration service.

4.00 RECOMMENDATIONS

4.01 Members are asked to note the report.

5.00 FINANCIAL IMPLICATIONS

5.01 None directly as a result of this report.

6.00 ANTI POVERTY IMPACT

6.01 None directly as a result of this report.

7.00 ENVIRONMENTAL IMPACT

7.01 None directly as a result of this report.

8.00 EQUALITIES IMPACT

8.01 None directly as a result of this report.

9.00 PERSONNEL IMPLICATIONS

9.01 None directly as a result of this report.

10.00 CONSULTATION REQUIRED

10.00 None directly as a result of this report.

11.00 CONSULTATION UNDERTAKEN

11.01 None directly as a result of this report.

12.00 APPENDICES

12.01 None.

LOCAL GOVERNMENT (ACCESS TO INFORMATION ACT) 1985 BACKGROUND DOCUMENTS

Pension Fund Panel Papers

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