

FLINTSHIRE COUNTY COUNCIL

REPORT TO: **FLINTSHIRE COUNTY COUNCIL**

DATE: **WEDNESDAY, 30 APRIL 2014**

REPORT BY: **HEAD OF FINANCE**

SUBJECT: **CLWYD PENSION FUND UPDATE**

1.00 **PURPOSE OF REPORT**

1.01 To provide Members with a half yearly update on current 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 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. Currently, authority to manage the Clwyd Pension Fund has been 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. See Section 3.00 below for proposed future arrangements.

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 County Council on 10th September 2013. This report covers the items discussed at the 27th November 2013 Panel and 25th February 2014 Panel.

The Panel members and substitutes were:-

Panel Member	Position/ Authority	Substitute
Cllr Alan Diskin	Chair	Cllr Ron Hampson
Cllr Hadyn Bateman	Vice Chair	Cllr Brian Dunn
Cllr Huw Llewelyn Jones	Denbighshire CC	Cllr Julian Thompson – Hill
Cllr Steve Wilson	Wrexham CBC	Cllr Dana Davies

2.05 The Fund invites all employers and active member and pensioner representatives to an Annual Meeting (AJCM) to receive presentations from the Fund's officers and advisers. The last AJCM was held on 27th November 2013 with the focus on the presentation from the Fund Actuary on the Actuarial Valuation.

3.00 UPDATE

FUND GOVERNANCE

3.01 There is a recommendation from the Constitution Committee on this Council agenda to change the governance arrangements for the Clwyd Pension Fund which will create a Pensions Committee in place of the Pensions Panel. The new committee will have responsibility for the Clwyd Pension Fund and it will be advised by an Advisory Panel. If approved by Council, there will be minutes available for the newly constituted Pension Fund Committee, hence these six monthly updates to Council will cease. However, where there are significant items relating to the LGPS in general or the Clwyd Pension Fund, these will still be brought to the attention of the Council.

3.02 The Fund has made two key appointments both of whom will be part of the new Advisory Panel. John Finch, Investment Consultant, JLT and Karen McWilliam, Independent Adviser, Aon Hewitt. They were selected through the Fund's framework for pension fund advisers and their contracts commenced from 1st April 2014.

3.03 The Pension Fund is required by Regulation to publish an Annual Report which must include the Fund's statutory documents on governance, funding and investment and this will continue. The latest Annual Report (2012/13) can be found at clwydpensionfund.org.uk.

MANAGEMENT OF THE LGPS

3.04 As previously reported, The Department for Communities and Local Government (DCLG) and Local Government Association (LGA) issued a call for evidence on the future structure of the Local Government Pension Scheme last year. This includes the consideration of the merger of the 89 local government pension funds into a smaller number of larger funds and the use of collective investment vehicles. The Council responded to the call for evidence and it was expected

that, following the analysis of the submissions, a formal consultation on the options for change would be published by the DCLG last autumn. This did not materialise but an announcement by the Local Government Minister, Brandon Lewis, is expected in the near future.

- 3.05 The Public Service Pension Act 2013 included several key provisions relating to the administration and governance of the new pension service pension schemes. The DCLG issued a Discussion Paper on the Local Government Pension Scheme (England and Wales) new governance arrangements last year to which the Fund responded. It is expected that there will be formal consultation in the near future.

WELSH PENSION FUNDS 'WORKING TOGETHER'

- 3.06 As previously reported, The Society of Welsh Treasurers (Pensions Sub-Group) had commissioned work to look at collaboration opportunities across the eight Funds in Wales. The main recommendation from the project was not to merge the eight pension funds but for a full business case to be created for a common investment vehicle. This business case is on hold until the Government's decision on the management of the LGPS as described in 3.04 above is known.

PENSION ADMINISTRATION

- 3.07 The new scheme was implemented from 1st April 2014. The benefits under the scheme are based on a Career Average Re-valued Earnings (CARE) from 1st April 2014. The Pension Fund Panel was provided with a summary of the new scheme at the 27th November 2013 Panel. The Fund had prepared for this major change by training officers, updating computer software, changing procedures and updating forms and other literature.
- 3.08 The Fund has been active in explaining the new scheme to employers and the membership. There is a short guide on the Fund's web-site which was written in collaboration with the 7 other Welsh Funds.
- 3.09 In terms of improvements to the pension administration service, the Service Plan for the Fund in 2014/15 includes the continuation of working with employers on the quality of new data received, updating historic data and reviewing service standards for pension administration in collaboration with other Welsh Funds.

FINANCIAL UPDATE

- 3.10 As required by LGPS Investment Regulations, investments are monitored quarterly and performance reported in detail to each Clwyd Pension Fund Panel. The report of the 25th February 2014 highlighted a market value as at 31st December 2013 of £1.195bn (£1.178bn, as at 30th June 2013) and an estimated funding level of 70%. 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.

3.11 The Panel agreed the Funding Strategy Statement on 25th February 2014 after consultation with employers. This enabled the Actuary to sign off the 2013 Actuarial Valuation which includes the amounts to be paid by employers over the next three financial years. The Actuary's Valuation report has been issued to all the employers and the DCLG as required by Regulation. The report will also be on the Pension Fund web-site but in terms of the headline results as at 31st March 2013:-

- The assets were valued at £1,181m and liabilities at £1,733m which is a deficit of £552m or a funding level of 68%.
- The total normal contribution rate for retirement and death benefits is 19.9% of pensionable pay (£228m). This is made up of an average member contribution rate of 6.1% and an average employer contribution rate of 13.8%.
- The average deficit recovery period for the Fund is 18 years. On this basis the deficit could be eliminated by a deficit contribution of £32m per annum increasing by 4.1% per annum.

INVESTMENT UPDATE

3.12 The main project for the last year has been the implementation of the 'Funding Flight-path' strategy. This is a risk management framework for managing interest rate and inflation risks. This framework enables the Fund to efficiently reduce risk when market conditions are favourable. Over time, assets will be moved from the growth portfolio (risk assets e.g. equities) to a liability matching portfolio (mainly government bonds). This framework should provide an investment and funding strategy that can be achieved with a higher degree of confidence and, with good market conditions, close the deficit gap in 10-12 years rather than the current 18 year average across the Fund for employer deficit contributions. Although, the theory is relatively straightforward to understand, the practical implementation is very complex. The Fund has been advised by the Fund Actuary who will continue to monitor and report progress as a member of the Advisory Panel. A fund manager, Insight, has been appointed to manage the assets in the liability matching portfolio following an EU procurement process. The Panel have received several training sessions and the theory was explained to employers at the AJCM in November 2013. The framework was implemented from 1st April 2014.

- 3.13 The Panel receive a detailed report each quarter from the Fund's Independent Adviser/Consultant on Alpha Seeking Alternative Investments and Real Assets. In line with the Fund's Medium Term Plan and previously agreed priorities, approximately £20m has been committed to three alpha seeking private equity funds and £9m to two real asset property funds.
- 3.14 The 2014/15 Service Plan includes a fundamental review of the Fund's investment strategy which will be undertaken with the Fund's new investment consultant.

OTHER INFORMATION

- 3.15 A number of other items have been reported to the Panel for information or agreement:
- Quarterly update on progress with the implementation of the Fund's Sustainability Policy.
 - A presentation from the Wales Audit Office on their 2012/13 audit findings.
 - An update on the AVC funds managed by Prudential.
 - An explanation on the new role for the Pensions Regulator in the LGPS from 2015.
 - Staffing updates for pensions administration and business cases for additional permanent and temporary resource, including for pensions payroll.
- 3.16 The training of Panel Members in line with the CIPFA Code of Practice is being progressed. The training received during the year is published in the Fund's Annual Report and Accounts. In this period Panel members attended a conference which focused on challenges ahead for the LGPS and a private equity and infrastructure training session.

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

10.01 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 Minutes for 27th November 2013 and 25th February 2014

Funding Report of the Actuarial Valuation as at 31st March 31st March 2013

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