

CLWYD PENSION FUND COMMITTEE
20 March 2024

Minutes of the meeting of the Clwyd Pension Fund Committee of Flintshire County Council, held as a hybrid meeting at County Hall at 9.30am on Wednesday, 20 March 2024, with remote attendance available via Zoom.

PRESENT: Councillor Ted Palmer (Chairman), Councillor Dave Hughes (Vice-chair)
Councillors: Jason Shallcross, Antony Wren,

CO-OPTED MEMBERS: Councillor Anthony Wedlake (Wrexham County Borough Council), Councillor Andy Rutherford (Other Scheme Employer Representative), and Mr Steve Hibbert (Scheme Member Representative – Present from item 44)

ALSO PRESENT (AS OBSERVERS): Elaine Williams (PFB Scheme member representative).

APOLOGIES: Councillor Sam Swash, Councillor Gwyneth Ellis (Denbighshire County Council),

Advisory Panel comprising: Philip Latham (Head of Clwyd Pension Fund), Karen McWilliam (Independent Adviser – Aon), Paul Middleman (Fund Actuary – Mercer), Steve Turner (Fund Investment Consultant – Mercer).

Officers/Advisers comprising: Neal Cockerton (Chief Executive – Flintshire County Council) Debbie Fielder (Deputy Head of Clwyd Pension Fund), Karen Williams (Pensions Administration Manager), David Bateman (Fund Accountant), Matt Grundy (Graduate Accountant), Ieuan Hughes (Graduate Investment Trainee), Morgan Nancarrow (Governance Administration Assistant – taking minutes), Nick Page (Mercer – Strategic Risk Advisor), Chris Emmerson (Aon – Public Sector Consultant),

The Chairman commented on the Lifetime Achievement Award which Mrs Fielder received at the recent LGC conference at Carden Park, and congratulated her on the national recognition of her work for Clwyd Pension Fund as well as funds across Wales through WPP and across the wider LGPS.

The Chairman welcomed Chris Emmerson of Aon who will be presenting part of the Fund's business plan.

Mrs McWilliam of Aon informed the Committee that Mr Phil Pumford has stepped down from his role on the Pension Board, and the Committee thanked Mr Pumford for his contributions over the years.

41. DECLARATIONS OF INTEREST (including conflicts of interest)

The Chairman invited attendees to declare any potential conflicts of interest that they may have in relation to the Fund, other than those already recorded in the Fund's register.

There were no new declarations of interest.

42. MINUTES 28 February 2024

The minutes of the meeting of the Committee held on 28 February were agreed.

RESOLVED:

The minutes of 28 February 2024 were received, approved, and will be signed by the Chairman.

43. INVESTMENT STRATEGY REVIEW PHASE 1 AND UPDATE TO INVESTMENT STRATEGY STATEMENT

Mr Turner of Mercer took the Committee through this report. He explained the rationale and scope of the Phase 1 review, which focussed on formalising a plan to achieve the target allocation to the WPP sustainable active equities fund. There was also an objective to ensure that a clear and robust plan was in place to meet the Fund's liquidity needs for covering regular pension payments and meeting private markets' commitments, over the next two years. This was carried out with consideration for how potential strategy changes may assist the Fund in achieving its responsible investment objectives.

Mr Turner explained some of the potential strategy changes that were considered, and outlined the proposed changes to the strategic asset allocation and the Investment Strategy Statement (ISS) as a result of the review.

RESOLVED:

The Committee agreed the proposed strategic asset allocation for the Fund, and approved the updated ISS.

44. INVESTMENT STRATEGY REVIEW PHASE 2 - 110% FUNDING LEVEL TRIGGER FRAMEWORK

Mr Middleman of Mercer explained that since the papers were issued for this Committee, the Fund's 110% funding level trigger had been reached and the current funding level was estimated to be 112%. The funding level was being verified in line with the existing protocol, before any action could be taken but it was expected to still be comfortably over the 110% .

Mr Nick Page of Mercer took the Committee through this report. He explained that the review looked at what strategic refinements could be made in the event of reaching the 110% funding level trigger, and how the governance framework around implementing the trigger could be updated. The approach taken for this part of the review was to strike a balance between using surplus funding to reduce employer contributions at the next actuarial valuation, at the same time reducing some investment risk from the strategy in order to further stabilise the future funding position and therefore employer contributions.

The review also looked at the implementation of the suggested changes and proposed an update to the scheme of delegations to reduce the delay between hitting the trigger and taking action. The proposal was for the committee to define a default course of action to de-risk when the trigger is hit, which will be followed unless the Head of Clwyd

Fund, having received formal advice as part of the Funding and Risk Management Group, decides not to proceed with the default action. In this scenario, a special Pension Fund Committee meeting would be called where the issues will be considered and the Committee will be asked to decide whether to endorse the Head of Clwyd Pension Fund's intended way forward.

Mrs McWilliam noted that the news that the funding level trigger had been hit (subject to verification) should not influence the Committee's decision on this recommendation.

Cllr Shallcross asked if there was any sign of a downturn in market performance, and Mr Page said Mercer retained a positive view on equity markets. Cllr Shallcross asked why not maintain the current risk level until the performance changes and how quickly could employer contributions be changed, because given the current financial position of the Councils, this may be a good time to take advantage of surplus. Mr Page said that any changes to the contribution rates would not take effect until after the next formal valuation (effective as at 31 March 2025) with new rates starting from 1 April 2026, and that while the view of equities was currently favourable this can change quickly. Therefore if the decision was to retain the current level of risk, there is a possibility that a downturn before the next actuarial valuation would then impact on any possible reduction to contribution rates due to the higher surplus that the fund currently has.

Mr Turner added that the option to maintain the current risk level was considered as part of the review but noted that the intention of the trigger was to consider de-risking. He confirmed that the proposal would not reduce expected returns below the Fund's needs and there is still room for potential gain in the portfolio going forward. He said the two review phases together improve liquidity, accelerate decarbonisation, and reduce risk to improve stability in the funding and therefore also in the employer contribution position.

Cllr Shallcross asked whether there is an equivalent action to increase risk again if the funding level falls below a threshold. Mr Turner said that there is not currently a re-risking trigger being proposed, but this is on the agenda for discussion by the Funding and Risk Management Group and any recommendations on this would be brought back to the Committee for agreement.

Cllr Wedlake stated that he thought the proposal was a balanced strategy allowing the Fund to reduce risk and have the best prospect of maintaining acceptable return. He said that he recognises stakeholder pressures, but the recommendation supports employers and scheme members in the long term while reducing exposure to unnecessary risk.

RESOLVED:

- a) The Committee agreed the proposed default action to de-risk by reducing equity exposure by 10% upon attaining the 110% trigger.
- b) The Committee agreed the updates to the scheme of delegations framework for implementing the 110% trigger if attained.

45. DRAFT CLWYD PENSION FUND RISK MANAGEMENT POLICY

Mrs McWilliam took the Committee through this report, outlining the background of the review and connections to Flintshire County Council's Risk Management Framework. She explained the main changes to the Fund's Risk Management Policy (formerly Risk Policy) including a new section outlining the responsibilities of the Committee and senior officers, the monthly review of risk registers by officers, changes to the way risks are scored which mean red risks will be more serious than under the existing scoring mechanism, and the formal process for escalating red risks.

RESOLVED:

The Committee approved the changes to the Risk Management Policy.

46. DRAFT WALES PENSION PARTNERSHIP BUSINESS PLAN 2024-25 TO 2026-27

Mrs Fielder explained that WPP Business Plan was received by the Joint Governance Committee last week and no changes were requested, meaning the version provided in the background papers was the final version for approval. She took the Committee through the main points of the report, particularly the budget and annual costs. She noted the introduction of private markets allocators which attract higher fees based on committed amounts or invested capital, and that these costs are now included in the WPP budget,

Mr Hibbert commented that he had no complaints regarding the Business Plan, but noted his concerns regarding the governance of the WPP and the JGC in particular. He referred to page 11 which states:

"The Constituent Authorities are heavily involved in all aspects of the WPP's governance structure, while the WPP's Joint Governance Committee and Officers Working Group are comprised respectively of elected councillors, scheme member representative and officer representatives from the Constituent Authorities".

Mr Hibbert said this gives the impression that the Scheme Member Representative is on equal footing with other JGC members. Mr Hibbert explained his view is this is not accurate as the Scheme Member Representative is subject to satisfying a person specification, job description, interview, is subject to a two-year time limitation and is a non-voting role, unlike any other member of the JGC. He asked if there was any progress made on making the scheme member representative an equal member of the JGC.

The Chairman said he was not aware of any update on this and highlighted that all constituent authorities must agree to implement any change. He said that the current JGC Scheme Member Representative has changed the mind of the JGC on multiple occasions, and while he does not have a vote, he is influential. The Chairman said he will take this up with JGC but does not anticipate any changes being made.

RESOLVED:

The Committee noted the update and approved the draft WPP Business Plan 2024/25 to 2026/27, including the WPP objectives and budget.

47. DRAFT CLWYD PENSION FUND BUSINESS PLAN 2024-25 TO 2026-27

Mr Latham took the Committee page by page through the introduction to the draft Business Plan, highlighting key areas of work and risk.

Mr Emmerson of Aon took the Committee through the Governance Appendix of the draft Business Plan. He highlighted key tasks and risks including:

- Succession planning and proposed review of the management structure
- The Regulator's new General Code of Practice which is expected to impact on future policy reviews
- The Investment Consultant tender will begin early in the year in order to ensure the benefit of Mrs Fielder's knowledge in the area before her retirement. This will allow training of staff for the independent adviser contract when it is put out to tender later in the year.
- Upcoming reviews of the Pension Board Scheme Member Representatives.

Cllr Shallcross emphasised the importance of work shadowing by officers in order to retain knowledge.

Mr Hibbert asked whether the Committee's Scheme Member Representative would be reviewed at the same time as the Pension Board Scheme Member Representative. Mrs McWilliam said that she would not recommend this due to the difference in timescales.

Mr Middleman and Mr Turner presented the Finance, Funding and Investment Appendix of the Business Plan. Mr Middleman highlighted the Interim Valuation Review which takes place this year and will cover a number of themes discussed earlier regarding phase 2 of the strategy review. He explained that Committee will be provided with Funding Strategy and Actuarial Valuation training in preparation for next year's formal Actuarial Valuation. Mr Turner explained the key investment-related themes including the ISS review and Taskforce for Nature-Related Financial Disclosures (TNFD) reporting.

Mrs Karen Williams presented the Administration Appendix, highlighting changes to the list of business as usual activities to reflect growth of the administration team's day-to-day responsibilities. Several key tasks were carried forward from last year's business plan as discussed at the February Committee, and there were some new tasks including documenting procedures around the Fund's discretionary policy with respect to death grants, and developing an escalation policy to support employers who are not meeting their responsibilities relating to the Fund.

Mr Bateman presented the operating costs budget for 2024-25, explaining the main areas of change including:

- Employee costs are based on the current establishment, allowing for a 5% pay increase. The actual 2023-24 employee cost was lower than budgeted due to staff vacancies which have now been recruited to.
- Training costs are now being reported separately for Committee members, Pension Board members and Officers.
- All consultant costs include projects identified within the business plan and are based on the agreed inflation uplifts within the contracts. However, the Fund will be

tendering for the investment consultant contract during the year 2024-25 so these may be subject to change.

- The budget for investment management expenses has increased due to the Fund's increasing net asset value, based on the latest 2023-24 estimates.
- Administration costs in 2023-24 were underspent, because planned software changes were not implemented due to delays in national projects including the publication of McCloud regulations and implementation of the National Pensions Dashboard. This cost has been carried forward into the 2024-5 budget.

Mrs Fielder presented the cashflow, highlighting:

- Total benefit payments have continued to increase.
- Expenses are estimated in line with the agreed uplift for the year.
- Income and employer contributions are based on the last actuarial valuation, and contact is maintained with employers to determine how they will treat any surplus.
- Employee and employer contributions are based on estimated pensionable pay.
- Private market drawdowns and distributions are difficult to estimate, and income from these has been below expectation in 2023-24.

RESOLVED:

The Committee approved the Business Plan relating to the period 2024/25 to 2026/27, including the budget for 2024/25.

48. INVESTMENT AND POOLING UPDATE

The Chairman invited comments or questions on this report, of which there were none.

RESOLVED:

The Committee noted and commented on the update.

49. FUNDING AND INVESTMENT PERFORMANCE

The Chairman invited comments or questions on this report, of which there were none.

RESOLVED:

The Committee noted the report and the various actions taken in relation to the funding and risk management framework.

50. 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 by virtue of exempt information under Paragraph(s) 14 of Part 4 of Schedule 12A of the Local Government Act 1972 (as amended).

51. WALES PENSION PARTNERSHIP OPERATOR PROCUREMENT

This item of the agenda was presented and discussed.

RESOLVED:

The Committee noted receipt of the report, and agreed to:

- a) request further information from WPP to inform this decision, and
- b) reconvene at a remote Special Meeting in April to discuss and make a decision on this recommendation.

52. FUTURE MEETINGS

The Chairman asked the Committee to note the following future Committee meetings:

- Wednesday 19 June 2024
- A Special Meeting will be scheduled to take place in April (date to be determined)

Cllr Wedlake gave his apologies for the afternoon training session due to a clash with a County Council meeting. He asked for regard to be given to these meetings when planning future meeting dates.

Mr Latham noted that the proposed future Committee dates were included in the meeting pack, and asked members to inform officers if there are any issues with these dates including any clashes with dates of Denbighshire and Wrexham Council meetings.

RESOLVED:

The Committee noted the upcoming Committee dates.

The Chairman announced that Mrs McWilliam was now standing down from her position as the Fund's Independent Adviser, and Ms Alison Murray of Aon will take over this role. The Chairman thanked Mrs McWilliam for her advice while Independent Adviser for the Fund and highlighted she would be continuing in her role as Chair of the Pension Board.

The Chairman thanked everyone for their attendance and participation. The next formal Committee meeting is on 19 June. The meeting finished at 11:45am.

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Chairman