

# Clwyd Pension Fund

Annual Report 2016 - 17



**LAPF Investments  
2015 Awards  
WINNER**



**LAPF Investments  
2016 Awards  
FINALIST**

# CLWYD PENSION FUND – AWARDS

## IPE Real Estate Awards – May 2011

Won – Best Pension Fund in UK/Ireland (Country Awards)  
Won – Best Opportunistic Investment (Themed Awards – Europe-wide)  
Won – Best Small Real Estate Investor in Europe (Gold Awards – Europe-wide)

Runner-up – Best European Real Estate Investor (Platinum Award – Europe-wide)

## IPE Awards November 2011

Won – Best Use of Real Estate (Themed Awards – Europe-wide)

Runner-up – Best Use of Specialist investment Managers (Themed Awards – Europe-wide)  
Runner-up – Best Use of Hedge Funds (Themed Awards – Europe-wide)

## IPE Real Estate Awards – May 2012

Won – Best Portfolio Construction (Themed Awards – Europe-wide)  
Won – Best Medium Real Estate Investor in Europe (Gold Awards – Europe-wide)

Runner-up – Best Pension Fund in UK/Ireland (Country Awards)  
Runner-up – Best Indirect Investment Strategy (Themed Award – Europe-wide)  
Runner-up – Best Opportunistic Investment (Themed Award – Europe-wide)

## IPE Awards – November 2012

Won – Best Public Sector Fund in Europe

Won – Best use of Alternatives

Runner-up – Best Fund in Europe  
Runner-up – Best use of Commodities  
Runner-up – Best use of Emerging Markets  
Runner-up – Best use of Hedge Funds  
Runner-up – Best use of Real Estate  
Runner-up – Best use of Specialist investment Managers

## IPE Real Estate Awards – May 2013

Won – Best Institutional Investor in UK/Ireland

## LAPF Investments 2015 Awards – September 2015

Won – Risk Management Project of the Year

## LAPF Investments 2016 Awards – September 2016

Finalist - Governance

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# Introduction

Welcome to the Clwyd Pension Fund Annual Report for 2016/17.

## 2016/17 Overview

In the Annual Report last year we outlined the on-going challenges for the Fund in 2016/17 and over the next few years.

- Completing the March 2016 actuarial valuation and reviewing our future funding and investment strategies
- Continuing the preparatory work for the introduction of asset pooling by April 2018
- Implementing new ways of working to improve our administration and communications for employers and members.

Although, the Actuarial Valuation is dated March 2016 it was during 2016/17 that we prepared and provided the data to our Fund Actuary so he could carry out the valuation. It was during 2016/17 that the employer contribution results were received from him. Overall, there was positive feedback from employers on the process during what, for some, were difficult discussions in terms of finding the balance between the affordability of contributions and the long term financial health of the Fund.

It is the return from investments that plays a vital role in controlling the costs of pensions for employers. Therefore, in conjunction with the Actuarial Valuation they recommended some minor changes. The Investment Consultant considers the level of return assumed by the Actuary in the Actuarial Valuation and seeks to find an investment strategy that will deliver those required returns over the longer term. When doing this the Investment Consultant also considers the risk of the financial markets that we invest in falling significantly in value. Although financial markets can be unpredictable the Fund spends a lot of time finding the correct risk and return balance, taking advantage of market opportunities as they arise. Although only one year, 2016/17 proved to be a kind year in terms of financial markets. The Fund's investment return was 21.5% which was well ahead of the assumptions used by in the Fund's Actuarial Valuation. The Fund's financial position is now as favourable as it has been for two decades but we are very conscious on how quickly this sentiment can change.

We have continued to work with the other seven Welsh LGPS Pension Funds to introduce "asset pooling", in order to meet new guidance from Central Government. The Council has now signed an Inter-Authority Agreement to formally enter into a partnership with the other seven Funds, the name of which is the Wales Pensions Partnership. As a result of this Partnership the Clwyd Pension Fund will increasingly invest collaboratively, rather than making our own individual investment arrangements. This simply means that the Clwyd Pension Fund will continue to decide the type of asset we want to invest in, whilst a professional organisation which will be appointed by the Partnership will decide which asset manager will be used for each type of investment.

The aim of the Wales Pensions Partnership is to reduce costs, increase efficiencies and further improve governance over the Welsh LGPS Pension Funds' investments. This will be a major change in how we operate, which we should have implemented by April 2018. This change will have no impact on scheme members' pensions or other benefits, nor on the way that we pay their pensions. The Inter-Authority Agreement includes provision for an Officer Working Group and Joint Governance Committee, both on which the Fund is represented. Fund officers also represent the Wales Pension Partnership on national groups for Responsible Investment and Infrastructure.

In March 2016, we formalised and launched the Fund's Administration and Communications strategies. The performance targets in our strategies are aspirational and we acknowledged at the time it would take around two years to fully implement and this is proving to be the case. The objectives continue to be focussed on providing a high quality customer focussed service to our stakeholders, with clear concise communications using the most appropriate means of delivery. In 2016/17 progress has been made especially with the creation of an Employer Liaison Team to assist some employers in their role of providing accurate and timely member data to the Fund. We also commenced the roll out of a new system (called i-Connect) to increase efficiency in transferred data between employers and the Fund. The Fund's Business Plan included further projects for improvement. Valuable assistance was provided throughout the year by the Pension Board and progress continued to be monitored by the Pension Committee.

Overall we can look back on 2016/17 in a positive light, as we continued to meet most of the Fund's objectives within a challenging environment, and made good progress at introducing a number of improvements to benefit the Fund and its stakeholders in the future. Hopefully this annual report illustrates the progress that has been and is being made in managing the various complex risks across the Fund.

## **2017/18 and Beyond**

There were local elections in May 2017 and this resulted a change in Pension Committee membership. Of the 9 members on the Committee there are 4 new members, including a new Chair. The priority has been to train the new members to enable them to have the confidence in making decisions on the future of the Fund whilst receiving ongoing advice, and effectively challenging that advice, from both officers and advisors. The induction training is over four days covering governance, funding, investments and administration. Thereafter, training will be on-going in line with the Fund's Training Policy.

Looking to the future, we know there are still ongoing challenges for us to overcome. In addition to business as usual our business plan for the next three years has three key themes:

- Continuing with the implementation of assets pooling in Wales
- Responding to the requirements of the second Markets in Financial Instruments Directive (MiFID II) which is new for 2016/17.
- Achieving the objectives of the Fund's aspirational administration and communication strategy as explained above.

## **This annual report**

We hope you find this annual report useful. Our aim is to be as representative and transparent as practically possible. In it you will find much more detail relating to the points we have highlighted above, as well as all of our main strategy and policy statements. It also includes information on how we manage the Fund, including its governance and operational aspects. Our three key advisers also include their own reports to provide us with greater external assurance on how we are running the Fund and you will also find the annual report from the Fund's Pension Board. More information about the Fund can be found on our pension fund web-site <http://mss.clwydpensionfund.org.uk/>. We welcome any comments or questions on the content of this report.

Our intention is to seek continuous improvement in line with the Fund's Mission Statement as shown below. On that note, we invite any stakeholder to contact us with any comments or suggestions for improvement on any aspect on the management of the Fund.

Finally, we would like to thank all those involved with the management and administration of the Fund for their continuing hard work and dedication through what has been a challenging last decade.

**Dave Hughes**  
**Chair of Pension Fund Committee**

**Colin Everett**  
**Chief Executive**

**September 2017**

## **Mission Statement**

- **We will be known as forward thinking, responsive, pro-active and professional providing excellent customer focused, reputable and credible service to all our customers.**
- **We will have instilled a corporate culture of risk awareness, financial governance, and will be providing the highest quality, distinctive services within our resources.**
- **We will work effectively with partners, being solution focused with a can do approach.**

# **Governance Structure & Overview of the Clwyd Pension Fund**

## **Administering Authority: Flintshire County Council**

In May 2014 the Fund's governance arrangements were reviewed and the Council established a formal Pension Fund Committee, supported by a Pensions Advisory Panel. Additionally, the representation of stakeholders, with full voting rights, on the Committee was widened. In performing their role the Committee takes advice from an advisory panel of officers and professional advisors. The Committee has a scheme of delegation to officers to ensure efficient implementation and receives monitoring reports at each quarterly Committee on governance, funding, investment, administration and communication strategies and progress with the 3 year Business Plan. The minutes of each Committee are available on the Flintshire County Council website. The membership of both the new Committee and Advisory Panel are shown below.

The Public Service Pensions Act 2013, which has been incorporated into the Local Government Pension Scheme (LGPS) regulations, included the establishment of Local Pension Boards. The role of the Board as defined in Regulation is to secure compliance with regulation and legislation and ensure effective and efficient governance. The minutes of Board meetings are included in the Committee agenda papers and Board members attend Committee, making an important contribution to debates and discussion. The Board annual report is included within this Annual Report.

The protocol for the Local Board can be found on the Fund's web-site, [mss.clwydpensionfund.org.uk](http://mss.clwydpensionfund.org.uk).

Following County Council election in May 2017, there were four new members appointed to the Pension Fund Committee, including a new Chair. There is an outstanding appointment to be finalised for the 5<sup>th</sup> Flintshire representative. Details of the new Committee are shown below.

## Clwyd Pensions Fund Committee (Effective from May 2017)

Committee Members		Voting Rights
<b>Flintshire County Council</b>	Cllr Dave Hughes (Chair)	✓
	Cllr Haydn Bateman (Vice Chair)	✓
	Cllr Billy Mullin	✓
	Cllr Ralph Small	✓
	Vacant	✓
<b>Denbighshire County Council</b>	Cllr Huw Llewelyn Jones	✓
<b>Wrexham County Borough Council</b>	Cllr Nigel Williams	✓
<b>Scheduled Body Representative</b>	Cllr Andrew Rutherford	✓
<b>Member Representative</b>	Mr Steve Hibbert	✓

## Advisory Panel

Panel Members	
<b>Chief Executive (FCC)</b>	Colin Everett
<b>Corporate Finance Manager/ S151 Officer (FCC)</b>	Gary Ferguson CPFA
<b>Clwyd Pension Fund Manager (FCC)</b>	Philip Latham
<b>Investment Consultant (JLT Group)</b>	Kieran Harkin
<b>Fund Actuary (Mercer)</b>	Paul Middleman FIA
<b>Independent Advisor (Aon Hewitt)</b>	Karen McWilliam FCIPP

## Clwyd Pension Fund Local Board

Local Board Members		Voting Rights
<b>Independent Chair</b>	Karen McWilliam	X
<b>Employer Representatives</b>	Mark Owen	✓
	Steve Jackson	✓
<b>Scheme Member Representatives</b>	Gaynor Brooks	✓
	Vacant	✓

## Investment Managers

Investment Managers	Address
Insight Investment	160 Queen Victoria Street, London
Investec Asset Management	2 Gresham Street, London
Man FRM	Riverbank House, 2 Swan Lane, London
Pyrford International Ltd	95 Wigmore Street, London
Stone Harbor Investment Partners (UK), LLP	48 Dover Street, London
Wellington Management International Ltd	Cardinal Place, 80 Victoria Street, London

The Fund has a number of investments with managers investing in Property, Private Equity, Infrastructure, Timber & Agriculture which are listed in the Investment Policy & Performance section of this report.

## Other

Service	Address
<u>Custodian:</u> <b>Bank of New York Mellon</b>	160 Queen Victoria Street, London
<u>Actuary:</u> <b>Mercer Ltd</b>	Old Hall Street, Liverpool
<u>Consultant:</u> <b>JLT Employee Benefits</b>	7 Charlotte Street, Manchester
<u>Independent Advisor:</u> <b>Aon Hewitt</b>	122 Leadenhall Street, London
<u>External Auditors:</u> <b>Wales Audit Office</b>	Unit 4, Evolution, Lakeside Business Village, St. David's park, Ewloe
<u>Bank:</u> <b>National Westminster Bank plc</b>	48 High St., Mold
<u>Legal Advisors:</u> <b>This varies depending on the issue and can include the Flintshire County Council in-house legal team as well as organisations listed on the National Framework Agreement .</b>	

## Clwyd Pension Fund Contact Details

Name	Post	Contact details
<b>Philip Latham</b>	Clwyd Pension Fund Manager	(01352) 702264
<b>Helen Burnham</b>	Pensions Administration Manager	(01352) 702872
<b>Debbie Fielder</b>	Pensions Finance Manager	(01352) 702259
<b>Alwyn Hughes</b>	Pensions Finance Manager	(01352) 701811
<b>Pensions Administration Team</b>	pensions@flintshire.gov.uk	(01352) 702761
<b>Pensions Finance Team</b>	pensionsinvestments@flintshire.gov.uk	(01352) 702812

## **Clwyd Pension Fund Training Policy 2016/17**

At a national level, there are expanding requirements for LGPS Pension Committee members, Pension Board members and officers to have an appropriate level knowledge and skills. These are being driven by the Chartered Institute of Public Finance and Accountancy (CIPFA), the Pensions Regulator (tPR) and legislation

The Fund developed a Training Policy which details the proposed training strategy for members of the Pension Fund Committee, Pension Board and senior officers responsible for the management of the Fund. It has been created to provide a formal framework and greater transparency on the training regime in accordance with the national requirements. It will aid existing and future Pension Fund Committee members, Pension Board members and senior officers in their personal development and performance in their individual roles, providing a structure which will ensure that the Clwyd Pension Fund is managed by individuals who have the appropriate levels of knowledge and skills. The full Training Policy is included in the Best Practice section within this Annual Report.

In order to monitor the knowledge and skills and identify whether we are meeting the objectives of this policy, we will compare and report on attendance at training based on the following:

- a) Individual Training Needs – ensuring refresher training on the key elements takes place for each individual at least once every three years.
- b) Hot Topic Training – attendance by at least 80% of the required Pension Fund Committee members and senior officers at planned hot topic training sessions. This target may be focussed at a particular group of Pension Fund Committee members, Pension Board members or senior officers depending on the subject matter.
- c) General Awareness – each Pension Fund Committee member, Pension Board member or officer attending at least one day each year of general awareness training or events.
- d) Induction training – ensuring areas of identified individual training are completed within six months.

The following table details all the training provided to Members of the Committee to satisfy the requirements of the Training Policy. This includes committees attended and relevant training sessions, conferences and seminars. All four Local Board Members also received and completed relevant training in line with the Policy, details of which are included in the Pension Board annual report. The Fund has a Training Plan which is provided to both Committee and Local Board Members and details all the training to be covered during the year.

In line with the Training Policy the follow measures relate to 2016/17 in relation to all Pension Committee, Local Board and senior officers (a total of 19 persons):

- a) Individual Training Needs – all but one have completed the required training on all key elements in the last three years.

b) Hot Topic Training - Of the 5 additional training sessions offered, the attendance was as follow:

- 1 session 74%
- 4 sessions 79%

c) General Awareness – Out of the total of 19 members (Committee and Board) and officers, 16 of them completed at least one general awareness day in accordance with the policy.

### **Committee Attendance / Training and Activity 2016/17**

As previously mentioned there was a substantive change to the membership of the Pension Committee in May 2017. Training is currently being provided to both new Members and as a refresher to existing Committee Members. Initial training days to date have included the following areas which cover the areas recommended in the CIPFA Knowledge and Skills Framework whilst being Clwyd Pension Fund specific:

- Governance
- Actuarial and Funding (including the Fund's Liability Driven Investment mandate)
- Administration and Communications
- Investment Strategy

The table overleaf identifies the attendance at Committees and specific training undertaken during 2016/17 by the Committee in place during that year.

	Chair	Vice Chair	Flintshire Member	Flintshire Member	Flintshire Member	Denbighshire Member	Wrexham Member	Other Scheme Body	Scheme Member Representative
<b>Committees (3hrs)</b>									
<b>Special Committee April 2016</b>	✓	✓	✓	✓	✓	✓	✓	✓	✓
<b>May 2016</b>	✓	✓	✓	✓			✓	✓	✓
<b>Special Committee July 2016</b>	✓	✓	✓	✓	✓		✓	✓	✓
<b>September 2016</b>	✓	✓		✓	✓		✓	✓	✓
<b>November 2016</b>	✓	✓	✓	✓	✓	✓	✓	✓	✓
<b>February 2017</b>	✓	✓	✓		✓	✓	✓	✓	✓
<b>Special Committee March 2017</b>	✓	✓	✓		✓	✓	✓	✓	✓
<b>CIPFA Framework Requirements 2014/15 – 2016/17</b>									
<b>Governance (1 day)</b>	✓	✓	✓	✓	✓	✓	✓	✓	✓
<b>Funding &amp; Actuarial (1 day)</b>		✓	✓	✓	✓	✓	✓	✓	✓
<b>Investments (1 day)</b>		✓	✓	✓	✓	✓	✓	✓	✓
<b>Accounting (Included with Investments)</b>		✓	✓		✓	✓	✓		✓
<b>Additional Training &amp; Hot Topics</b>									
<b>MiFID II</b>	✓	✓		✓	✓		✓	✓	✓
<b>Actuarial Valuations</b>	✓	✓				✓	✓	✓	✓

	Chair	Vice Chair	Flintshire Member	Flintshire Member	Flintshire Member	Denbighshire Member	Wrexham Member	Other Scheduled Body	Scheme Member Representative
<b>GAD Section 13 Data</b>	✓	✓		✓	✓		✓	✓	✓
<b>Pooling Governance</b>	✓	✓	✓	✓	✓	✓	✓	✓	✓
<b>Investment Strategy Statement</b>	✓	✓	✓	✓	✓	✓	✓	✓	✓
<b>Annual Joint Consultative Meeting (4hrs)</b>	✓	✓	✓		✓	✓			✓
<b>LGC Investment Summit (1.5 days) Sept 2016</b>	✓			✓					
<b>LAPFF Annual Conference (1.5 days) Dec 2016</b>									✓
<b>TUC Pension Conference</b>									✓
<b>LGC Seminar (1.5 days) March 2017</b>	✓	✓	✓	✓	✓	✓	✓		✓

# Independent Adviser



## Introduction

*This is my third annual report in my role as Independent Adviser to the Clwyd Pension Fund (the Fund), focussing on the year 2016/17.*

### My role

I was appointed in early 2014 as Independent Adviser to the Fund, and the intention was that I would become a 'critical friend' to the Fund. My remit was to advise the Fund and report annually to stakeholders on whether the administering authority is managing all risks associated with governance, investments, funding, administration and communication, although it should be noted that I am not required to be, nor indeed am, an expert in all of these areas. In particular, the Fund already has an appointed actuary to advise on funding matters and an appointed investment consultant to advise on investment matters, and I therefore use my working knowledge in these areas (and close working relationship with the appointed advisers) to specifically advise on the governance of these areas rather than on these areas themselves.

This is my third annual report, and it sets out my views on the management and administration of the Fund and, in particular, how it this has evolved during 2016/17 (April to March), but also touches on some developments that have taken place after March 2017. I also highlight some of the ongoing challenges Flintshire County Council will face in the future, in its role as Administering Authority to the Fund, both in the short term and in the longer term.

### Overview

Once again, 2016/17 has been another year where there have been significant challenges to the management and operations of the Fund. As before, some challenges have been driven by national changes to the LGPS (particularly around the requirement to implement asset pooling arrangements), whereas others, particularly relating to planned improvements to and evolution of the management of the Fund, have been driven by Flintshire County Council. Once again, my view is that a significant amount has been achieved in an extremely short period of time, which continues to be of great credit to all involved.

### Effective Governance

There are some key benefits from having effective governance in place, including:

- Robust risk management that can assist in avoiding issues arising or at least reducing their impact
- Ensuring resources and time are appropriately focussed
- Timely decision making and implementation of change
- A clear view of how the Fund is being operated for the Pension Fund Committee (or equivalent).

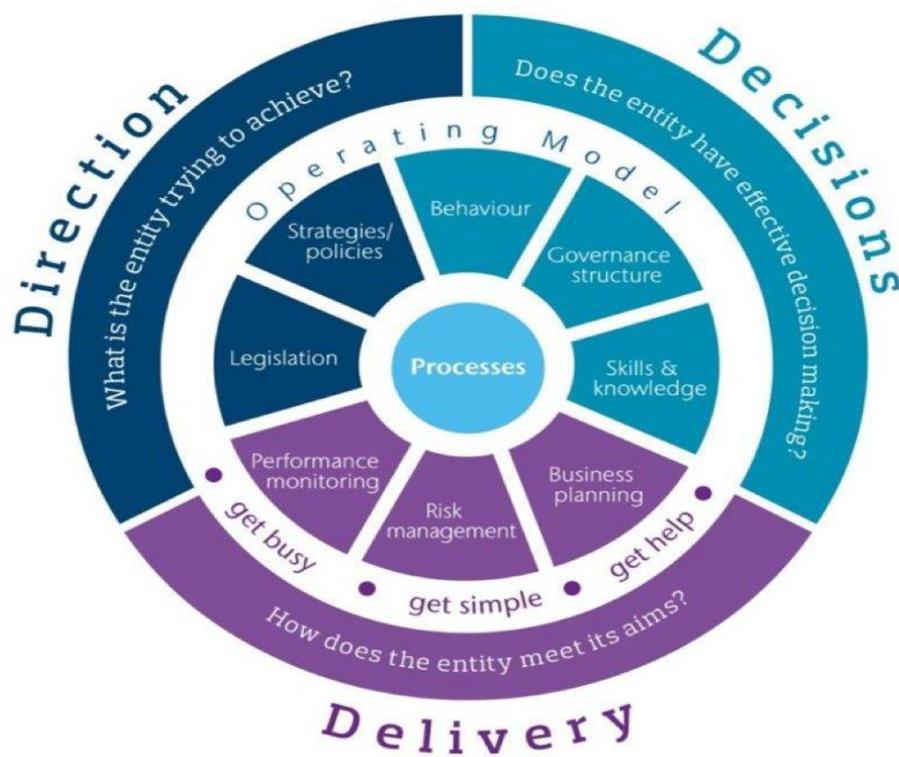
The approach I take in advising Flintshire County Council in its role as Administering Authority to the Fund is to consider its approach to governance

against the Aon Hewitt governance framework. The Aon Hewitt governance framework incorporates our beliefs about what it takes to achieve good governance, and considers the following key areas:

Direction – having clear strategies and policies that also meet legislative requirements are fundamental

Delivery – having a clear plan for implementing the Fund's strategies and policies, together with appropriate monitoring as to whether they are being achieved, and good risk management ensure effective and efficient delivery

Decisions – having an appropriate governance structure, involving the right people, with the right attitude and the appropriate skills and knowledge is critical.



In relation to each of these elements, I consider the key responsibilities for the Fund, in particular:

- the overall governance (aka management and decision making) of the Fund
- having an appropriate approach to funding the liabilities
- the safeguarding and investment of assets
- the administration of the scheme members' benefits and
- communications with the Fund's stakeholders.

My thoughts on each of these areas are set out in the next section.

## Observations

*In this section I consider the progress made in the key areas of focus for the Fund as well as highlighting my thoughts for the future.*

### Governance

Key achievements:

Establishing the Wales Pensions Partnership and agreeing its governance arrangements robust governance structure and ability to respond quickly through delegations excellent business planning and monitoring.

The Fund went into 2016/17 in a strong position with governance arrangements that were well established and operating well including an experienced Pension Fund Committee, a Pension Board providing invaluable assistance and a proactive Advisory Panel. Accordingly during 2016/17, Flintshire County Council governance matters were mainly focussed on responding to national changes, alongside some relatively minor areas of improvement, including:

A few areas which were planned exercises from the Fund's business plan:

The continuing work to be able to implement asset pooling from April 2018 resulted in the eight Welsh administering authorities entering into an Inter-Authority Agreement in March 2017, hence establishing the Wales Pensions Partnership. The Inter-Authority Agreement went through a number of iterations and was subject to comments from officers of the Clwyd Pension Fund, the Advisory Panel and myself. The Pension Board and Pension Fund Committee also had an opportunity to feed into it before the Pension Fund Committee recommended it for approval to Flintshire County Council. From a structural perspective, this means there is now an all Wales Joint Governance Committee and Officer Working Group who will manage the Wales Pensions Partnership and provide instructions to their Operator for running the asset pooling arrangement. The Inter-Authority Agreement also clarifies key matters such as how budgets will be set, business plans developed and who will make key decisions on the running of the asset pooling arrangement.

As a result of entering this agreement, it was necessary to update the Committee's own terms of reference to include areas such as oversight of the Partnership. The Fund's Governance Policy was also updated and is a useful overview of how the governance now operates within the Clwyd Pension Fund, as well as the relationship with the Wales Pensions Partnership.

I was generally very pleased with the final content of the Inter-Authority Agreement as it appears to lay strong and clear foundations as to how the Partnership should operate going forwards. There were a couple of elements that we would have ideally liked to also be incorporated into the agreement that were excluded but nothing of critical importance. For example, the Flintshire Pension Fund Committee would have preferred a more direct appointment of a scheme member representative on the Joint Governance Committee.

The Wales Pensions Partnership also commenced the procurement exercise to appoint an Operator who will be responsible for establishing the sub-funds within which each of the Fund's assets will be invested. Again the officers of the Clwyd

Pension Fund were key contributors to the development of the Operator's requirements and other tender documentation. I am unable to comment on the content or process relating to this procurement as I was not privy to any of the information for confidentiality reasons, but I can confirm that external legal and pensions advisers were used throughout and so the officers of the Fund should have been well advised throughout the process.

The contracts for the Investment Consultant (JLT) and for myself as the Independent Adviser (Aon Hewitt) were subject to review this year. The Pension Fund Committee agreed to extend these (as permitted by their contracts) for a further term to March 2019, at which point they will be subject to procurement.

As I said last year, I continue to feel that the current governance structure is well established and is working as intended. The structure seems to work well allowing decisions to be made urgently where required, which we have seen to be the case a few times during the year. Attendance at Committee, Board and Advisory Panel meetings has been good throughout the year too.

I am also particularly pleased with the value that the Fund is seeing from the Clwyd Pension Fund Board, which I also chair. The Board have produced a separate report (which can be found in the Fund's annual report and accounts) which outlines the work of the Board, and which I believe demonstrates the excellent partnership they have with the Committee and officers of the Fund, and the benefits that they bring to the management of the Fund.

The governance has benefited from good continuity this year too, with very little change to the key decision makers, officers of the Fund and advisers.

I continue to be extremely impressed by the engagement and involvement of the Fund in the Wales Pension Partnership, and particularly the officers who have ensured that they have been on the front foot in the development of the Partnership, and also at a national level. It would be extremely risky for the Fund to take a back seat in these discussions given the impact asset pooling could have on ongoing performance. However, as I will expand on below, I continue to be concerned about the sustainability of undertaking this additional work whilst continuing to deliver day to day services.

The review of the Risk Register, and how risks are captured and monitored, was finalised early in the year. On the back of this, I feel that risk management is much more embedded in the day to day management of the Fund. I also hope that the improved risk register is easier for the Fund's stakeholders to understand.

Business planning continues to be integral to the day to day running of the Fund. The 2016/17 business plan was agreed by the Pension Fund Committee in March 2016 and was monitored throughout the year. The plan continues to be robust, with very little need to adapt it mid-year, and the officers of the Fund have done a tremendous job in delivering the projects and tasks highlighted within it.

My general opinion is that the Clwyd Fund continues to compare well to the Aon Hewitt Governance Framework. The Fund identifies and sets out good clear objectives in all areas, measures itself effectively against these objectives, and has a good attitude to Business Planning and to Risk Management. The Fund's governance structure works well, as mentioned above, and the individuals charged with managing the Clwyd Fund are well engaged, committed to their roles and well trained. The Fund's Conflicts of

Interest Policy is now also well bedded in and I consider that all potential conflicts are identified at an early stage and managed appropriately. Transparency has been key to this and I commend all those involved for their openness and willingness to embrace this.

Looking to the future:

There are three matters relating to governance that I will be particularly interested in during 2017/18:

The knowledge of the existing Committee and Board members during 2016/17 was, in my view, excellent with training needs being focussed on specific areas of business as they arose. However, the Welsh elections in May 2017 have resulted in a significant change in the Committee members. At the time of writing, intensive induction training is being undertaken, which also acts as refresher training for existing Committee and Board members. I have been extremely impressed by the enthusiasm of the new members as they participate in this training. I will be looking for assurance that all new members have taken part in full induction training, and also expect the Fund to continue to identify subject specific training requirements on an ongoing basis over the course of the year. During the autumn of 2017 I will be carrying out a training needs assessment with all Committee and Board members. I also hope that I continue to see a high level of engagement at Pension Fund Committee meetings going forward, and I believe the new Chairman, Councillor Dave Hughes, will be integral to this, supported by the Fund's officers and advisers.

As mentioned above, there has been significant progress in establishing the Wales Pension Partnership for asset pooling. The Clwyd Pension Fund has a very different investment strategy to many other Funds, so they need to be assured that both the Operator and the pooling arrangements themselves can deliver to the Fund's requirements and the governance arrangements, as outlined in the Inter-Authority Agreement, are put into practice. These will be key areas that I will be focussing on during 2017/18 and 2018/19. In the longer term, the crucial measure of success will be whether or not the move to asset pooling results in savings for all funds, and this must also be kept under close consideration.

With so much going on, and so much uncertainty, I continue to recognise the pressures on all those involved and particularly on the officers of the Fund. The Fund has also identified the need for workforce planning given the evolving environment that they work in, and also the age profile of some of the senior members of staff. Although some of this is part of a longer-term vision, short-term priorities should be around prioritising workloads, identifying short-term resourcing solutions, and training and mentoring existing staff.

Not quite as critical, but still on my radar are:

The Fund needs to be mindful of the Pension Regulator's increased interest in the LGPS (and to some degree, the national Scheme Advisory Board's focus on governance matters) when considering their ongoing business plans. I would also expect there to be continuing focus on any areas identified as not meeting best practice as outlined by the Pension Regulator in his Code of Practice for public service pension schemes.

In the short term, there is a major project to be undertaken in agreeing Flintshire County Council's professional status with their fund managers and some professional advisers. This is a change required as a result of the Markets in Financial Instruments Directive II ("MiFID II"). Failure to achieve suitable agreements could impact the Fund's ability to continue investing with those managers or to receive advice from those advisers.

### **Funding and Investments (including accounting and financial management)**

Key achievements:

Successful processes to complete the 2016 actuarial valuation with improved employer engagement Developing and agreeing the Funding Strategy and Investment Strategy Statements

Successful review of the Fund's Flightpath Risk Strategy, including implementing a number of improvements.

I work closely with both the actuary and the investment consultant to the Fund, and each will produce his own report, so this area of my report focusses on how things are done, rather than the detail of what is done. Key areas in relation to investment and funding this year have included:

A number of areas which were planned exercises from the Fund's business plan:

Undertaking the 2016 actuarial valuation of the Fund – the process seems to have gone extremely smoothly. I am aware that the officers and the Fund's Actuary (Mercers) were focussed on increased engagement with employers of the Fund at this valuation, which I understand has been received well by those employers. It goes without saying that this doesn't take away from ongoing pressures around the affordability of pension provision for most employers.

In tandem, the Fund's Investment Consultant (JLT) undertook a light touch review of the Fund's investment strategy. The Fund also agreed its new Funding Strategy Statement and the new Investment Strategy Statement; the latter being the first in a new format in line with Government guidelines. The new Investment Strategy Statement continues to include a clear focus on Responsible Investment including how this will be measured going forward.

The Fund's Actuary also undertook a review of the Fund's Additional Voluntary Contribution ("AVC") arrangement which is with Prudential. Although an extremely small proportion of the overall LGPS pension provision, Flintshire County Council, in its role as the administering authority for the LGPS, have a responsibility to ensure the proper governance of the AVC arrangements, including value for money, efficiency and effectiveness. The Actuary identified a small number of changes or improvements that could be made which are now in progress, and I was pleased to see that the consideration of these AVC arrangements will now be carried out annually (albeit at different levels)

During the year, a fundamental review of the Fund's flightpath / derisking arrangements was carried out by the Fund Actuary, Investment Consultants and officers, and the review was then considered by the Pension Fund Committee. This

resulted in a number of changes to the existing strategy that were quickly and efficiently implemented. I was reassured at the range of options considered and the debate which took place around them, and also that the ongoing reporting against the Flightpath has evolved to incorporate measures against its new objectives.

The Tactical Asset Allocation Group, PERAG (Private Equity Real Asset Group) and Funding Risk Management Group are three Groups involving Fund officers and advisers. I see evidence of the value of these Groups, providing the time for the officers and advisers to focus and implement change, ensuring risk is appropriately managed and that opportunities are quickly identified and implemented.

My general opinion is again that the Clwyd Fund compares well to the Aon Hewitt Governance Framework in this area. The Fund identifies and sets out good clear objectives, has a good attitude to Business Planning and to Risk Management. The Fund's governance structure works well, with appropriate delegations allowing the Pension Fund Committee to spend their time focusing on strategy. The Fund makes good use of consultants as appropriate but the knowledge and understanding of individuals within the Fund continues to be excellent, allowing the Fund to benefit from the best ideas from all sources.

Looking to the future:

As mentioned previously, a significant focus next year will be on asset pooling and ensuring that the Fund's investment strategy can continue to be delivered. 2017/18 will largely be preparatory work which will need to be well planned, resourced and monitored. In 2018/19, key areas will include ensuring:

Appropriate sub-funds are put in place to align with the Clwyd Pension Fund's strategy the smooth transition of assets to those sub-funds ongoing reporting arrangements continue to provide sufficiently specific information for the Clwyd Fund to satisfy the needs of the officers, advisers and the Committee and Board.

In due course it will also be good to see further information on how the Fund is meeting its Responsible Investment objectives.

## Administration and Communications

### Key achievements:

#### Establishment of the Employer Liaison Team

Initial roll out of the i-Connect data collection system for use by employers.

I am pleased to report that, during 2016/17, Flintshire County Council continued to improve the administration and communications of the Fund, working hard across a large number of different areas. They continue to work in a challenging environment, with significant workloads much of which stems back to the introduction of the CARE scheme in 2014. Progress that I have observed during the year has included:

A number of areas which were planned exercises from the Fund's business plan:  
Timely preparation and submission of the member data for the actuarial valuation, which in itself is a major exercise

Commencing the roll out of i-Connect, which is an online administrative module that allows information to be submitted by employers more directly and efficiently into the pension administration system from their own payroll systems. This will be invaluable to the Fund and its employers going forward and will be fully rolled out over two to three years. Denbighshire County Council are now live on the system and initial feedback is that it is resulting in much more timely and accurate information, including a significant reduction in queries at year-end

Identifying the requirements in relation to the GMP reconciliation exercise and then carrying out and appointing a provider to carry out this exercise. This is a major project where contracting out information for many thousands of scheme member records needs to be compared and then reconciled with HMRC's records

Initial preparation for the implementation of an on-line Member Self Service facility which will be launched in the autumn of 2017

Reviewing and updating a number of day to day processes so that document production is now more integrated and automated within the administration system, resulting in greater efficiencies and lower risk of inaccuracies in letters and communications

Making considerable headway clearing the majority of the backlog that relates to pre 2013 cases that was outsourced to Mercer

Good progress with the website review, with the new website due to be launched in the autumn of 2017

The introduction of an employer liaison team; this has been a significant step for the Fund and was not part of the original business plan. On the back of the new Administration Strategy (launched in 2015/16), the officers of the Fund identified challenges in meeting their objectives due to the separate challenges that employers also have in collating and transmitting information to the Fund. To assist, Flintshire County Council has established, within the Pension Fund office, the employer liaison team which will carry out employer responsibilities for them (the cost of which is then recharged back to that employer). This means the Employer Liaison Team and the Pension Fund Operations Teams can work together more efficiently to ensure the

correct information is available so that scheme benefits and other processes can be completed in a more timely manner.

I cannot stress enough what an innovative and effective solution this is and I wish to congratulate the Fund officers for identifying this and putting it in place, obviously with the full support of the Committee and the Board. To the best of my knowledge, this is the first of its kind in the UK LGPS environment. However, I will highlight that this meant that the Pensions Administration Team needed to grow in order to resource the Employer Liaison team. Some staff members relocated from the Pension Fund Operations side of the Administration Team, which in turn means that there continues to be some further workload backlogs due to lower resources there. However, I am quite confident in the long term success of this initiative and the long term benefits to the management and operations of the Fund, its employers and scheme members, once the teams are fully recruited and trained.

It was particularly pleasing to see the involvement of Flintshire County Council officers at a national level, such as Helen Burnham's involvement on the working group which established and appointed providers to the national Third Party Administration framework.

My general opinion is that the Clwyd Fund compares well to the Aon Hewitt Governance Framework in this area. The Fund identifies and sets out good clear objectives, (with some of the measuring still in the process of being developed) and has a good attitude to Business Planning and to Risk Management. The knowledge and understanding of individuals within the Fund continues to be excellent, and the Pension Fund Committee's engagement on administration is also excellent (as is the Board's).

Looking to the future:

I feel optimistic about the future of the administration service, but I should caution that the improvements that are being implemented will, in my view, take another two years or so to fully bed in such that the benefits can be clearly evidenced. For example, moving employers onto i-Connect requires a major review of the quality of scheme member data. That being said, the combination of i-Connect, Member Self Service and the Employer Liaison Team will result in increased efficiencies (for both the Fund and employers), much more effective communications and much quicker turnaround times. In the meantime, I will continue to monitor the Fund's administration key performance indicators and management information to ensure progress is being made, and I will encourage the Fund's officers, Committee and Board to identify short-term solutions to assist with reducing existing workloads, and ensure they have the capacity to implement these new systems and train their expanding teams.

I also look forward to hearing ongoing updates on the progress of the GMP reconciliation exercise that has been outsourced to Equiniti.

- **Final Thoughts**

I want to say a huge thank you to the Pension Fund Committee, Pension Board, officers and other stakeholders of the Fund for continuing to make me extremely welcome, and for being so open and receptive to my many suggestions, particularly during these challenging times. I remain extremely impressed and inspired by the hard work and dedication of the Fund's officers, and the commitment and engagement I see from the Pension Fund Committee and Pension Board members who dedicated many hours to Committee / Board business.

## Contact Information

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## About Aon

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# Clwyd Pension Fund Board - Annual Report 2016/17

## Introduction

This is the second annual report of the Clwyd Pension Fund Board based on the financial year from 1 April 2016 to 31 March 2017.

## Role and Membership of the Clwyd Pension Fund Board

The Public Service Pensions Act (PSPA) 2013 requires each Administering Authority in the LGPS to have a local Pension Board consisting of employer and scheme member representatives. Some Pension Boards also have an Independent Chair, which is the case with the Clwyd Pension Fund Board. The Chair is a non-voting role.

Legislation states that the role of the Pension Board is to assist the Administering Authority in securing compliance with regulations and with requirements imposed by the Pensions Regulator, as well as assisting in ensuring effective and efficient governance and administration of the Scheme. This has generally been interpreted as the Pension Board having an oversight role but not a decision making role. For the Clwyd Pension Fund, we have very much embraced this role as being about partnership. We work closely with the Pension Fund Committee (the decision making committee for the Clwyd Pension Fund) and officers of the Fund in the hope that the questions we ask, and the challenge we sometimes provide, will assist in ensuring that the Fund is managed in the best interests of its scheme members and employers.

We will undertake these roles for a period of between three and five years, although we may be reappointed for future terms if we are selected again through the recruitment process.

## Meetings, training and attendance

During 2016/17 we held three Pension Board meetings (in July 2016, October 2016 and March 2017). Attendance was as follows:

		July 2016	October 2016	March 2017
Mrs Gaynor Brooks	Member Representative	✓	✓	✓
Mr Jim Duffy	Member Representative	✓	✓	
Mr Steve Jackson	Employer Representative	✓	✓	✓
Mr Mark Owen	Employer Representative	✓	✓	✓
Mrs Karen McWilliam	Independent Chair	✓	✓	✓

The meetings were also attended by Pension Fund Officers who support the Pension Board. As members of the Pension Board, we have all committed to following the requirements of the Clwyd Pension Fund's Training Policy and attending a range of events and training in 2016/17 to complement the three days of induction training we undertook during 2015/16. In addition, we are invited to attend the Pension Fund Committee meetings and their training events.

Our full record of attendance at meetings, training and events is shown on the following page.

Event	Mark Owen	Steve Jackson	Gaynor Brooks	Jim Duffy
<b>Committees</b>				
Special Committee April 2016	✓	✓	✓	✓
May 2016	✓		✓	
Special Committee July 2016	✓	✓	✓	
September 2016	✓	✓	✓	
November 2016	✓		✓	
February 2017	✓	✓	✓	
Special Committee March 2017	✓			
<b>CIPFA Framework</b>				
Governance	✓	✓	✓	✓
Funding & Actuarial	✓	✓	✓	✓
Investments	✓	✓	✓	✓
Accounting	✓	✓	✓	
<b>Additional &amp; Hot Topics</b>				
MiFID II	✓	✓	✓	
Actuarial Investments		✓	✓	✓
GAD Section 13 Data	✓	✓	✓	
Pooling Governance	✓		✓	
Investment Strategy Statement	✓		✓	
ESG Training				✓
<b>Conferences</b>				
CIPFA Pension Boards One year On Seminar	✓			✓
LGC Investment Seminar		✓	✓	✓

### What has the Pension Board done during 2016/17?

Our meetings include a number of standing items, such as consideration of the latest Pension Fund Committee papers and monitoring of our allocated budget. In addition to these regular items, we also focused on a number of one-off items. Key areas of discussion for us during the year included:

- We have been working closely with the Fund's pension administration team to better understand the challenges that they face, often due to the complexity of the scheme's benefit structure and the increase in their workloads in recent years. We've considered the challenges employers face in providing timely and accurate information to the administration team, and the challenges then faced by the administration team in not receiving timely and accurate data, and the impact this can have on service delivery. We have discussed potential solutions and are pleased to see significant progress by the administration team in implementing these. These included the initial roll-out of a more automated system (i-Connect)

for some employers and the creation of a dedicated team to assist with carrying out employer responsibilities.

- We received a demonstration of the i-Connect system through which employers will submit information on a monthly basis. The system carries out elements of automatic validation which, together with the monthly submissions, will ensure greater efficiency for employers and the administering authority, as well as more accurate data, in a more timely manner. We recognise the challenges in introducing this system (which is being rolled out over two to three years) but see it as a fundamental long term approach to ensure the accurate and timely administration of scheme members' benefits.
- We also received a demonstration of the new Member Self-Service facility which will allow scheme members to view their pension details on-line via a secure web log-in. This will also provide scheme members with the ability to carry out their own pension retirement projections, to update certain details and to view certain documents, such as their annual benefit statements, on-line. We were very impressed with the system and look forward to hearing further feedback as it is rolled out during 2017/18.
- The administration team also updated us on their plans for completing the Guaranteed Minimum Pension reconciliation exercise, which is a one-off project comparing contracting-out information held for Clwyd Pension Fund members with that held by HMRC. This is a significant project, which must be completed by December 2018.
- Early versions of the improved management information have been shared with the Board. These are produced by the administration team to help them in monitoring their day to day workloads. This is also helping to better identify situations where the team are struggling to meet legal timescales and we discussed the causes of those situations with the Pensions Administration Manager.
- We have taken an interest in the robustness of the administration team's disaster recovery plans, including the resolution of an issue that arose in the testing. We were pleased to see the issue being quickly resolved and we recommended further improvements which have now been implemented.
- We have asked the administration team to maintain a log of all compliments and complaints that they receive. We now see this log at all Pension Board meetings and are pleased to report that the number of complaints appears very low. We are grateful to scheme members and employers who take the time to provide feedback to the team.
- Throughout the year we received ongoing updates on the introduction of asset pooling for LGPS funds. We were able to feed in views and ask questions in the run up to the Committee and Council agreeing to enter into the Wales Asset Pooling Collaboration. Much of the focus during 2016/17 was around the development of the Inter Authority Agreement including the governance structure.
- We provided views on a fundamental review of the Fund's risk register which we believe is now more focused with descriptions of risks that are easier to understand, as well as being clearer on the possible impact of those risks and how those risks are being mitigated.

- We worked closely with officers of the Fund providing feedback on the engagement with employers as part of the 2016 actuarial valuation exercise. We were impressed by the increase in employer engagement, as well as opportunities for employers to receive more information, including sessions with the Fund actuary.
- During the year the matter of insurance for Pension Board members was also considered, as we are not covered by the Council's existing insurance. Following advice from the Secretary to the Board, suitable insurance has now been secured.

### **What will the Pension Board do in the future (in particular in 2017/18)?**

We have a number of items on our forward plan for 2017/18, although the exact agendas and timescales will necessarily remain flexible to consider any further matters that may arise. The following are already on our work plan for the forthcoming year:

- Ongoing consideration of a number of the elements above, including:
  - Feedback on further disaster recovery testing
  - Ongoing review of the Wales Pooling Collaboration's meeting papers, including considering whether the governance operates in the way expected
  - The implementation of the improved systems and processes by the administration team
- Consideration of national survey results and commentary on administration, governance and pension board matters, including the Scheme Advisory Board's survey results
- Review of the latest compliance check for the Fund against The Pensions Regulator's Code of Practice. We'll be particularly focusing on areas which are high on the Regulator's agenda this year, which include record keeping and data maintenance.
- Receiving updates on the Fund's plans to meet the General Data Protection Regulations, the increasing risks from Cybercrime and more generally considering data quality and security.
- Receiving progress reports on the changes required as a result of the Markets in Financial Instruments Directive II ("MIFID II"), where the Fund has to provide a range of information to all of its fund managers to satisfy them of the professional status of the administering authority.
- We will also take the opportunity to review our own effectiveness during the autumn of 2017, now that we've been in existence for over two years.

### **Other observations and general comments**

Once again we feel that 2016/17 has been a successful year for the Board, and we are pleased with the work we have completed, covering a wide range of fund management areas. We continue to have an excellent working relationship with the Pension Fund Committee and the Fund's officers, and are grateful for the way they have all embraced our involvement. In particular, we would like to thank the Committee for welcoming us to their meetings, which helps us put the challenges and successes of the Fund much more easily into context.

We look forward to continuing that relationship, and particularly working closely with the many new Pension Fund Committee members to support them as best we can. We would also like to take this opportunity to thank our fellow board member, Jim Duffy (Member Representative), for his time and commitment as a Board member since the Board's inception. Unfortunately Jim has had to resign recently for health reasons. We wish him a speedy recovery and we look forward to working the new Board member.

Gaynor Brooks, Member Representative  
Steve Jackson, Employer Representative  
Mark Owen, Employer Representative

**Clwyd Pension Fund Board**

## Cash Flow

The Fund operates a rolling three year cash flow which is estimated and monitored on a quarterly basis. There are several unknowns within the cash flow such as transfers in and out of the fund and also drawdowns and distributions across the Fund's Property and Private Equity portfolio for which the current allocation is 21% of the Fund. Cash flow predictions for the drawdowns and distributions are reassessed annually to incorporate the actuals for the year and any further commitments agreed during the period. The following table shows a summarised final cash flow for 2016/17. This is purely on a cash basis and does not take into account any movements in asset values or management investment fees which are included in the pooled vehicles and accounted for at the year end, nor any year end accruals.

2016/17	Estimate £000	Actual £000	Variance £000
<b>Opening In House Cash</b>		(13,640)	
<b>Payments</b>			
<b>Pensions</b>	57,300	54,684	(2,616)
<b>Lump Sums &amp; Death Grants</b>	20,000	14,857	(5,143)
<b>Transfers Out</b>	2,800	5,473	2,673
<b>Expenses (including In House)</b>	3,000	3,001	1
<b>Support Services</b>	250	300	50
<b>Total Payments</b>	83,350	78,315	(5,035)
<b>Income</b>			
<b>Employer Contributions</b>	(33,250)	(32,787)	463
<b>Employee Contributions</b>	(15,200)	(13,779)	1,421
<b>Employer Deficit Payments</b>	(28,500)	(28,474)	26
<b>Transfers In</b>	(4,000)	(2,540)	1,460
<b>Pension Strain</b>	(1,200)	(2,282)	(1,082)
<b>Income</b>	(170)	(146)	24
<b>Total Income</b>	(82,320)	(80,008)	2,312
<b>Cash Flow net of Investment Income</b>	1,030	(1,693)	(2,723)
<b>Investment Income</b>	(3,000)	(3,019)	(19)
<b>Investment Expenses</b>	1,500	2,991	1,491
<b>Total Net of In House Investments</b>	(470)	(1,721)	(1,251)
<b>In House Drawdowns</b>	40,955	45,146	4,191
<b>In House Distributions</b>	(71,043)	(56,614)	14,429
<b>Net Drawdown/Distributions</b>	(30,088)	(11,468)	18,620
<b>Net External Manager Cash</b>	30,000	13,206	(16,794)
<b>Total Net Cash Flow</b>	(558)	17	575
<b>Closing In House Cash</b>	(14,198)	(13,623)	

### **3 Year Cash Flow Forecast**

The following table shows the cash flow forecasts for the next three years to March 2020. These are purely on a cash basis and do not take into account any movements in asset values or management investment fees which are included in the pooled vehicles and accounted for at the year end, nor any year end accruals. An estimate of the asset valuation has been included at the end of the table and has been based on a targeted investment strategy which looks to produce an overall return of 6.5% per annum. Estimates of Manager pooled investment fees are included in the budget report which follows the cash flow report.

	2017/18 £000	2018/19 £000	2019/20 £000
<b>Opening Cash</b>	(13,623)	(30,053)	(20,599)
<b>Payments</b>			
<b>Pensions</b>	55,860	57,720	60,040
<b>Lump Sums &amp; Death Grants</b>	15,000	15,000	15,000
<b>Transfers Out</b>	3,200	3,200	3,200
<b>Expenses (including In House)</b>	3,400	3,400	3,400
<b>Support Services</b>	120	120	120
<b>Total Payments</b>	77,580	79,440	81,760
<b>Income</b>			
<b>Employer Contributions</b>	(34,100)	(35,200)	(36,000)
<b>Employee Contributions</b>	(14,000)	(14,000)	(14,000)
<b>Employer Deficit Payments</b>	(51,784)	(18,123)	(18,247)
<b>Transfers In</b>	(2,000)	(2,000)	(2,000)
<b>Pension Strain</b>	(1,200)	(1,200)	(1,200)
<b>Income</b>	(100)	(100)	(100)
<b>Total Income</b>	(103,184)	(70,623)	(71,547)
<b>Cash Flow net of Investment Income</b>	(25,604)	8,817	10,213
<b>Investment Income</b>	(3,000)	(3,000)	(3,000)
<b>Investment Expenses</b>	3,000	3,000	3,000
<b>Total net of In House Investments</b>	(25,604)	8,817	10,213
<b>In House Drawdowns</b>	47,008	39,607	38,100
<b>In House Distributions</b>	(77,834)	(68,970)	(59,699)
<b>Net Drawdowns/Distributions</b>	(30,826)	(29,363)	(21,599)
<b>Net External Manager Cash</b>	40,000	30,000	15,000
<b>Total Cash Flow</b>	(16,430)	9,454	3,614
<b>Closing Cash</b>	(30,053)	(20,599)	(16,985)
<b>Estimated Asset Valuations</b>	1,759,705	1,874,086	1,995,901

## Analysis of Operating Expenses

The following table shows the actual operating expenses for the Fund for 2016/17 compared to 2015/16 .Actuarial fees have increased as 2016/17 was an actuarial year and Consultancy fees increased due to additional projects connected with the Liability Driven Investment mandate.

	2016/17 £000	2015/16 £000	Net change £000
<b><u>Governance &amp; Oversight Expenses</u></b>			
<b>Employee Costs (Direct)</b>	236	225	11
<b>Support &amp; Service Costs (Internal Recharges)</b>	17	12	5
<b>Premises</b>	5	8	(3)
<b>IT (Support &amp; Services)</b>	4	11	(7)
<b>Other Supplies &amp; Services</b>	58	52	6
<b>Miscellaneous Income</b>	(11)	0	(11)
<b>Audit Fees</b>	39	39	0
<b>Actuarial Fees</b>	335	224	111
<b>Consultant Fees</b>	703	371	332
<b>Advisor Fees</b>	188	225	(37)
<b>Legal Fees</b>	59	35	24
<b>Total Governance Expenses</b>	<b>1,633</b>	<b>1,202</b>	<b>431</b>
<b><u>Investment Management Expenses</u></b>			
<b>Fund Manager Fees</b>	14,386	14,971	(585)
<b>Custody Fees</b>	31	28	3
<b>Performance Monitoring Fees</b>	57	30	27
<b>Total Investment Management Fees</b>	<b>14,474</b>	<b>15,029</b>	<b>(555)</b>
<b><u>Administration Expenses</u></b>			
<b>Employee Costs (Direct)</b>	648	603	45
<b>Support &amp; Service Costs (Internal Recharges)</b>	94	46	48
<b>Outsourcing</b>	260	404	(144)
<b>Premises</b>	6	33	(27)
<b>IT (Support &amp; Services)</b>	290	243	47
<b>Other supplies &amp; services</b>	70	61	9
<b>Miscellaneous Income</b>	0	0	0
<b>Total Administrative Expenses</b>	<b>1,368</b>	<b>1,390</b>	<b>(22)</b>
<b>Total Fees</b>	<b>17,475</b>	<b>17,621</b>	<b>(146)</b>

The following table shows actual costs for 2016/17 compared to the budgeted costs along with the budget for 2017/18. The difference in manager fees compared to budget reflects the estimated valuation rising by 7.1% compared to an actual increase of +21.5%. Consultancy fees increased due to additional work allocated to the restructuring of the LDI mandate and additional costs associated with projects connected to Pooling assets within Wales. Outsourcing costs for the GMP reconciliation or Member Self Service were not implemented during 2016/17.

	2016/17 £000 Actual	2016/17 £000 Budget	2016/17 £000 Variance	2017/18 £000 Budget
<b><u>Governance &amp; Oversight Expenses</u></b>				
<b>Employee Costs (Direct)</b>	236	229	7	238
<b>Support &amp; Service Costs (Internal Recharges)</b>	17	19	(2)	8
<b>Premises</b>	5	17	(12)	7
<b>IT (Support &amp; Services)</b>	4	10	(6)	9
<b>Other Supplies &amp; Services</b>	58	56	2	50
<b>Miscellaneous Income</b>	(11)	0	(11)	
<b>Audit Fees</b>	39	40	(1)	40
<b>Actuarial Fees</b>	335	304	31	202
<b>Consultant Fees</b>	703	389	314	399
<b>Advisor Fees</b>	188	188	0	187
<b>Legal Fees</b>	59	30	29	40
<b>Total Governance Expenses</b>	<b>1,633</b>	<b>1,282</b>	<b>351</b>	<b>1,180</b>
<b><u>Investment Management Expenses</u></b>				
<b>Fund Manager Fees</b>	14,386	11,028	3,358	11,878
<b>Custody Fees</b>	31	34	(3)	34
<b>Performance Monitoring Fees</b>	57	25	32	58
<b>Total Investment Management Fees</b>	<b>14,474</b>	<b>11,087</b>	<b>3,387</b>	<b>11,970</b>
<b><u>Administration Expenses</u></b>				
<b>Employee Costs (Direct)</b>	648	711	(63)	762
<b>Support &amp; Service Costs (Internal Recharges)</b>	94	90	4	42
<b>Outsourcing</b>	260	1,240	(980)	900
<b>Premises</b>	6	75	(69)	33
<b>IT (Support &amp; Services))</b>	290	250	40	250
<b>Other supplies &amp; services</b>	70	70	0	70
<b>Member Self Service</b>	0	107	(107)	75
<b>Miscellaneous Income</b>	0	0	0	0
<b>Total Administrative Expenses</b>	<b>1,368</b>	<b>2,543</b>	<b>(1,175)</b>	<b>2,132</b>
<b>Employer Liaison Team</b>				
<b>Employee costs (Direct)</b>		N/A		<b>144</b>
<b>Total Costs</b>	<b>17,475</b>	<b>14,912</b>	<b>2,563</b>	<b>15,426</b>

## AN UPDATE FROM THE FUND'S INVESTMENT CONSULTANT

I am delighted to provide my update from an investment perspective on the activities of the Clwyd Pension Fund (CPF) during 2016/17. As the Fund's Investment Consultant I provide advice to the Fund on how to manage various investment risks. I also have a specific role in guiding the overall direction of the Fund via my seat on the CPF Advisory Panel.

Investment Strategy Statement (ISS) The Fund's ISS, which is appended, sets out the funding and investment objectives for the fund. The specific investment objectives are:

- Strike an appropriate balance between long-term consistent investment performance and the funding objective to maintain assets equal to 100% of liabilities within the 15 year timeframe.
- Ensure net cash outgoings can be met as and when required.
- 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.

My report demonstrates progress made towards these long term objectives during 2016/17, compliance with the ISS, the economic and market environment and changes implemented or planned during the year.

### Summary of 2016/17

#### **Market Commentary**

One of the main drivers of investment performance of any pension fund is the direction of the financial markets.

Throughout the year 2016/17 protectionist policies gained momentum with the UK voting to leave the EU and further reinforced by US President Donald Trump's win in November. Global equity markets performed strongly, primarily driven by the general optimism surrounding pro-growth and pro-inflation policies alongside reforms proposed by the new US President. Global Developed Equities returned +32.7% with Asia Pacific ex Japan Equity the strongest performer at +36.8% followed by US Equity and Emerging Market Equity which both returned +35.2%. Over the period global government bond yields generally rose on the back of increased inflation expectations, however fell towards the end of the year owing to increasing uncertainty around the implementation of Donald Trump's policies and political risk from a number of impending European elections.

In the UK, the main issue was the build up to and the outcome of the EU referendum. On the night of the referendum, Sterling depreciated as much as 11%, falling to a 30-year low. To stimulate the economy, the Bank of England, at its August 2016 meeting, cut its interest rate to 0.25% and provided additional monetary stimulus, extending the existing quantitative easing programme by £60 billion. UK Equities posted a return of +22.0% with the top 100 companies, whose earnings are primarily derived from overseas, boosted by the depreciating level of Sterling. Towards the end of the year the British Parliament passed the Brexit bill and the British Prime Minister Theresa May invoked Article 50 of the Treaty on European Union to begin the two-year exit process.

On the back of the result of the EU referendum in the UK, nationalist parties gained momentum across Europe in 2016. However, in the Dutch Elections held in March 2017, populism seemed to take a back seat as the centre-right candidate Mark Rutte won against the anti-EU party led by Geert Wilders. In addition terrorist attacks and the refugee crises

divided the EU's 28 member states and there were concerns over European banks, particularly those of Italy and Portugal. The European Central Bank (ECB) decided in December 2016 to extend its monetary easing from March 2017 to December 2017, or beyond if necessary, until it saw a sustainable increase in Eurozone inflation towards the target level.

The US economy showed signs of recovery over the year with consumer sentiment boosted by the pro-growth trade and tax reforms proposed by Donald Trump. During the last calendar quarter of 2016, the US economy grew at an annualized rate of +2.1%, culminating into a growth rate of +1.6% for the calendar year of 2016. Economic data in the US continued to be supportive with unemployment numbers falling to +4.7% in February. With the backdrop of improving economic conditions and the prospects of expansionary fiscal policy, the US Federal Reserve raised its interest rates twice during the year. In December 2016, the Federal Reserve raised its base rate by 0.25% to 0.50%-0.75%, followed by another 0.25% hike in March 2017, thereby increasing the base rate to 0.75%-1.0%. In March 2017, President Trump presented a draft budget for 2018 with the full budget to be announced in May. The beginning of the calendar year 2017 saw the US equity market start on a strong footing, reaching an all-time high. However, uncertainty around implementation of President Trump's economic and fiscal policies, further aggravated by the efforts to repeal Obamacare failing, has lead to markets focusing on the potential risks of new leadership which gave rise to subsequent volatility.

China gained increasing importance in the global market: with its currency joining the IMF's basket of reserve currencies and the possibility of Chinese stocks' inclusion in MSCI indices as the Shenzhen-Hong-Kong stock-connect was approved in August 2016.

In Japan, Prime Minister Shinzo Abe announced a stimulus program of ¥28.1 trillion to be spent over several years. After, adopting the negative interest rate policy early last year, the Bank of Japan introduced 'Yield Curve Control' in September 2016 to maintain the 10-year government bond yield at zero. The yen depreciated against the US Dollar in the first half of the year, however then weakened significantly post the US elections leading to exports rising for the first time in 15 months. Core inflation (which excludes fresh food prices) rose for the first time in a year by +0.1% year on year in January, followed by a +0.2% year on year rise in February 2017. In Q4 2016, its economy expanded at an annualized rate of +1.2%, primarily driven by capital expenditures which grew at the fastest pace in three years.

UK Government Fixed Income securities posted positive returns with the Over 15 Year Gilts Index returning +12.3%. In 2016/17 yields fell sharply following the EU referendum result which is a problem for pension funds as pension fund liabilities are generally measured with reference to a Government bond yield. However the Actuarial Valuation that was undertaken as at 31 March 2016 changed the methodology in the way the Fund's liabilities are valued. The methodology now references CPI inflation instead of a Government bond yield which will reduce the explicit impact on the funding level of any falls in Gilt yields.

Over the year, Brent crude prices rose by 33.4%, with most of its gains arising post September, when OPEC initially indicated a possibility of a cut in its oil production. This was the first agreement since 2008 where they agreed to limit their output to 32.5 million barrels per day. Non-OPEC members such as Russia had also extended support to OPEC's decision to cut their output, thus supporting the oil prices towards the end of the previous year. Meanwhile, gold prices rose marginally as concerns over Brexit and other European elections boosted demand for safe-haven assets. However, a stronger US

dollar, on the back of expectations of economic-boosting policies in the US by its new president, capped the rise.

UK price inflation increased significantly over the year with the CPI increasing by +2.3% due to rising fuel and food prices and the impact of the depreciation of Sterling on import prices. The increase represented the first time in more than three years that UK inflation exceeded the Bank of England's +2.0% target. This is important for pension schemes with inflation linked liabilities such as the LGPS. It will, as noted earlier, impact on the funding level of the CPF as liabilities are now valued by reference to CPI.

### **Clwyd Pension Fund Investment Performance 2016/17**

The Fund returned +21.5% in 2016/17 which is ahead of the expected return assumption of CPI +4.0% as quoted in the Investment Strategy Statement (ISS) (the requirement to produce an ISS replaces the previous requirement to produce a Statement of Investment Principles) and Funding Strategy Statement (FSS). The return of +21.5% compared with a composite benchmark (of the underlying manager benchmarks) of +16.2% and a composite outperformance target of +16.7%. However, despite this strong performance, this is only one year in isolation of a 15 year funding recovery plan.

The Equity portfolio that includes Global, Emerging and Frontier Equity exposures returned +32.9% with both the Developed Global Equity Fund and the Emerging Markets Funds producing exceptional absolute returns. However only the Wellington Emerging Markets (Core) Fund outperformed its individual benchmark. As part of the "light touch" strategic review approved by Committee in September 2016 it was agreed to remove Frontier Markets from the strategy. The Fund disinvested from the Aberdeen Frontier Markets Fund by January and so there is no annual return for this fund. The Multi Asset Credit portfolio produced a positive return of +6.6% outperforming its benchmark.

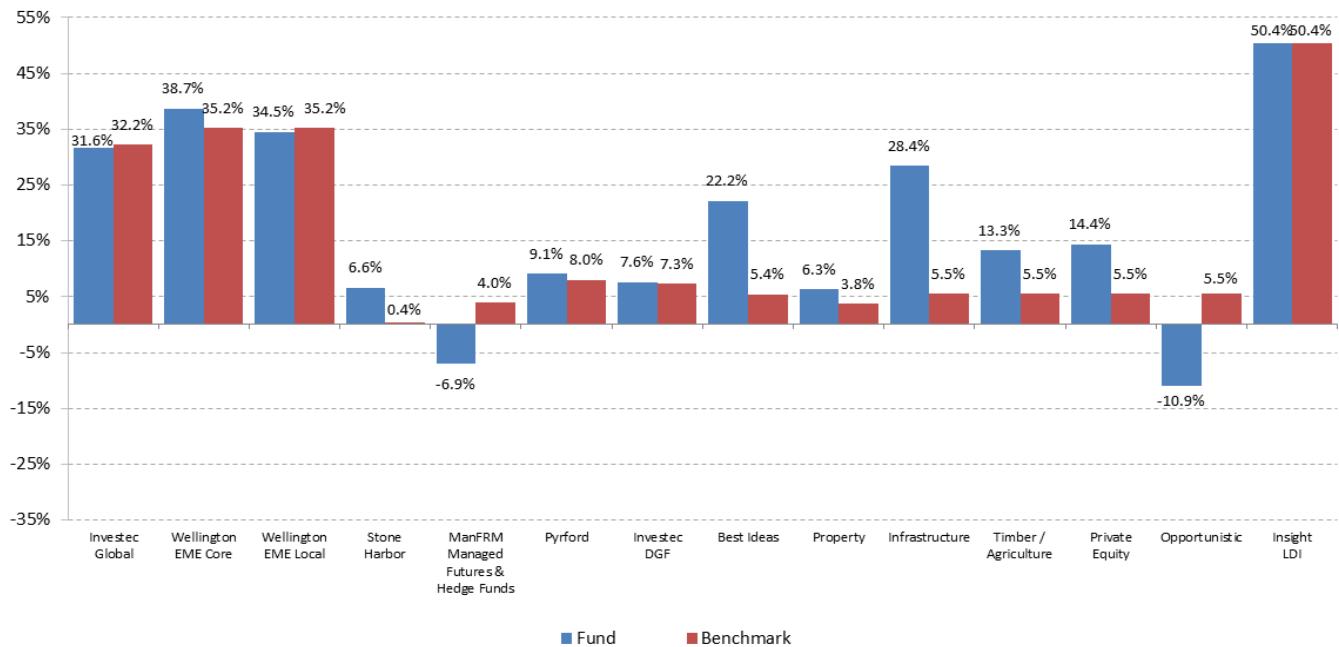
The Tactical Allocation Portfolio returned +15.0% outperforming its objective. This comprises a Diversified Growth Portfolio which returned +8.7% and a Best Ideas Portfolio that produced a return of +22.2%. Within the Diversified Growth Portfolio both the Diversified Growth managers outperformed their benchmarks and produced positive returns.

The Managed Account Platform with ManFRM contains a Managed Futures & Hedge Funds portfolio which produced a negative absolute return of -6.9%. In addition the residual balances of the Fund's illiquid legacy Hedge Funds holdings are contained on the Platform which reduced the overall return of the Managed Account Platform to -8.6%. While this performance has been disappointing, and an improvement is expected in due course, the strategic position in the Fund's asset portfolio remains important and acts as an additional source of diversification and "overlay" relative to the other positions the Fund allocates to.

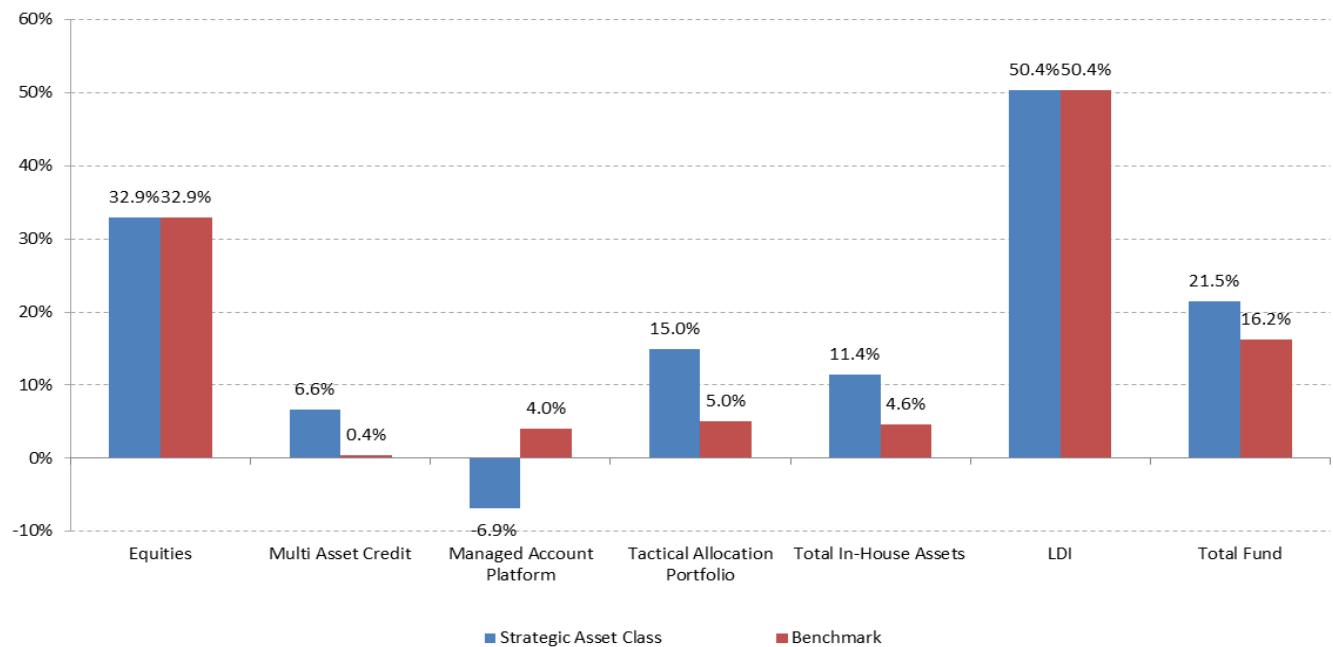
The Fund's In-House portfolio produced a positive overall return of +11.4%. Within this portfolio Infrastructure produced the greatest absolute return +28.4%, whilst Private Equity returned +14.4%, Timber and Agriculture +13.3% and Property +6.3% also produced positive absolute returns. However these were partially offset within the overall return by the Opportunistic assets that declined by -10.9% in the year. Within the context of the revised investment strategy the In-House assets are being divided into two sub categories; Real Assets (containing Property, Infrastructure and Timber/Agriculture) and Private Markets (containing Private Equity and Opportunistic).

The Liability Driven Investment portfolio (a key component of the Flightpath/De-Risking Framework) which consists of regional Global Equity, Gilt and inflation exposures returned +50.4% in 2016/17.

The following charts below summarise the 12 month performance against the benchmark for each of the Fund's asset classes and managers together with the total Fund. It should be noted we have only included those funds/asset classes that have a full 12 month return.



The chart below summarises the key strategic asset classes versus their benchmark.



Source: JLT Employee Benefits

## Summary of Investment Performance

The market conditions experienced in 2016/17 were beneficial for the Fund with most of the major asset classes producing strong positive returns in particular Equity markets. Equity markets produced the strongest returns during the year however, despite this, the markets continued to experience significant volatility which was why the diversification and risk management characteristics inherent in the Fund's investment strategy were very important. This protected the Fund during the periods of volatility.

Whilst the Fund will not have produced a return as high as an investment strategy more heavily weighted to Equities it is important to bear in mind that the Fund is investing for the long term and has a diversified portfolio which aims to achieve a targeted balance between return and risk. However this is not to say that we are not cognisant of shorter term market conditions – as commented in last year's annual report the creation and implementation of the Fund's Best Ideas Portfolio (within the Tactical Allocation Portfolio) is evidence of this.

The section below details the rationale in respect of the Fund's investment strategy and highlights key developments that have taken place across 2016/17 which included a "light touch" review of the existing investment strategy.

### Investment Strategy

In conjunction with the Actuarial Valuation as at 31 March 2016 JLT, as the Fund's Investment Consultant, undertook a review of the investment strategy in 2016 and the recommendations were accepted by Committee at their September 2016 meeting. The review was relatively "light touch" in nature although this did propose some changes to the previously existing strategic weightings.

The review showed that, based upon the JLT Market Forecast Group output for the Quarter 2 2016 the Fund could be expected to generate a return of 6.5% p.a.. This was equivalent to CPI inflation plus 4.3% p.a. taking the CPI assumed in the 31 March 2016 Actuarial Valuation i.e. the strategy was designed to provide an expected real return significantly above the assumed CPI inflation plus 2.0% p.a. return from which the Actuarial discount rate was derived. Due to the uncertainty in the medium term UK and Global macroeconomic outlook, JLT were comfortable that the revised investment strategy is targeting a higher return relative to what is required to adhere to the 2016 Actuarial Valuation assumptions.

A key aspect of the review was to reduce the Fund's equity risk premium as a proportion of total risk by removing the allocation to Frontier Markets Equity (2.5%) and reducing the strategic allocation to Emerging Markets Equity by 0.5%. The allocation to Developed Global Equity is to be split between active Equity and Smart Beta (a form of passive Equity investing that targets specific factors within the equity market). Part of the proceeds from this reduction to Equity were reallocated to the Best Ideas Portfolio which increased its strategic allocation from 9% to 11% resulting in the Tactical Portfolio increasing its strategic allocation from 19% to 21%.

Another important aspect of the review was to increase the Fund's illiquidity premium (to increase the long term expected return) by introducing a 3% allocation to Private Credit within the Fund's Credit Portfolio. The manager search for Private Credit is progressing with the appointment of a European Private Credit manager made post the year end and the process to appoint a North American Private Credit manager ongoing. In addition there was a 1% increase in the strategic weighting to the Fund's Real Assets Portfolio. Within the Real Assets Portfolio there will be a reduction in the strategic weighting to Property

and an increase to Infrastructure although these changes will be a medium to longer term “direction of travel” target due to the illiquid nature of these investments.

Although a number of JLT’s recommendations are more medium term by way of implementation as at 31<sup>st</sup> March 2017 the more short term changes had been implemented. The “light touch” nature of the review has meant that the characteristics of the investment strategy have remained broadly similar to last year. The key features of the Fund’s strategy are outlined overleaf.

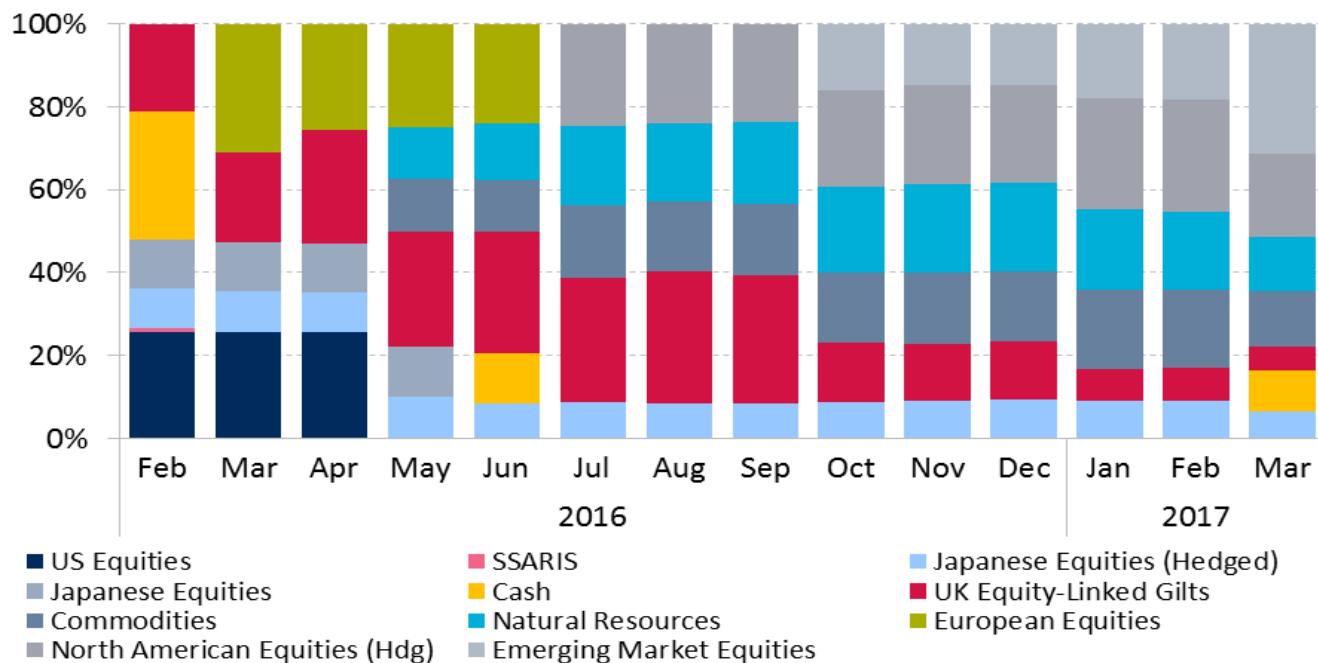
The Fund’s investment strategy is more diversified than most LGPS Funds and incorporates a Flightpath/De-Risking Framework (which was not covered in the strategy review but the structure of which is being reviewed separately), which differentiates the Fund from many other LGPS Funds. The aim of the Fund’s strategy is to reduce the volatility of returns, in line with the objective of stabilising employer contribution rates. Although history suggests that in the long term Equities should out-perform other asset classes, these returns can be very volatile and the asset class can under-perform for many years. On average, LGPS Funds allocate 60% to Equities which is higher than the Clwyd Pension Fund exposure.

The Fund currently has a strategic allocation of 14% to Active Global Equities (this will reduce to 10% following the implementation of the Smart Beta mandate which has a target implementation date of 31 July 2017) and 19% exposure to Passive Developed Equities (through Equity Total Return Swaps within the LDI mandate) and other varying exposures through the Tactical Portfolio. Hence, in years where Equities perform well the investment performance of the Clwyd Fund may lag most of its peers in the LGPS. However, the Fund has already established material protection of its interest rate risk and inflation risk through the design and implementation of the Flightpath/De-Risking Framework. As a result of the hedging that has taken place until 31 March 2017 it is estimated that the impact has been to improve the funding position of the Fund by c.£170m. Further details are included in the Update from the Actuary.

The ManFRM Managed Account Platform (MAP) includes Managed Futures and Hedge Funds. In addition the legacy illiquid Hedge Fund holdings were incorporated onto the MAP pending their full redemption, given the illiquid nature of some of the underlying positions in these funds. During the year proceeds from the holdings redeemed were reallocated within the ManFRM MAP.

The Tactical Allocation Portfolio includes a Diversified Growth Portfolio comprising two DGF managers (Investec and Pyrford) and a Best Ideas Portfolio. The Best Ideas Portfolio is a short term (12 month horizon) tactical allocation based upon JLT’s suggested “best ideas”. Aside from the decisions being made on a tactical (short term) basis, the basic premise of the decisions within this portfolio is that any asset allocation implementation should be liquid (to enable speed of action should it be required) and cost efficient. Given the increase in the Fund’s strategic allocation to the Best Ideas Portfolio, and the material size of this allocation (11% of total Fund assets) we provide further details as to the composition of this portfolio overleaf.

Throughout the year under review a number of positions have been taken within the underlying composition of the Best Ideas portfolio as demonstrated in the chart below. There is a monthly meeting of the Tactical Asset Allocation Group where JLT monitor and review the portfolio and make recommendations to Fund Officers. A robust process has been put in place with a transparent audit trail (including minutes of all meetings) documenting any changes and decisions together with their rationale.



The chart demonstrates the diversified nature of the holdings within the Best Ideas Portfolio which includes regional Equities, Commodities and UK Equity Linked Gilts. It also shows how the underlying holdings have changed following decisions that have been taken by the Tactical Asset Allocation Group since its inception. The relatively large holding in Cash as at 31 March 2017 was due to monies being received within the Best Ideas Portfolio to increase its allocation to the revised strategic weighting. It was a temporary position pending due diligence on a specialist US Mid Cap Equity Fund and was subsequently switched into this Fund in April 2017.

The Fund's current strategic asset allocation, strategic and conditional ranges (established following the 2016 "light touch" review), are shown below:

Strategic Asset Class	Strategic Allocation	Strategic Range (%)	Conditional Range (%)
Global Equity	8.0%	5.0 – 10.0	0 – 30
Emerging Markets Equity	6.0%	5.0 – 7.5	0 – 15
Credit Portfolio	15.0%	10.0 – 20.5	0 – 25
<i>Multi Asset Credit</i>	12.0%	10.0 – 15.0	5 – 20
<i>Private Credit</i>	3.0%	2.0 – 5.0	0 – 10
Managed Account Platform	9.0%	7.0 – 11.0	5 – 15
Tactical Allocation Portfolio	21.0%	15.0 – 25.0	10 – 30
<i>Diversified Growth</i>	10.0%	8.0 – 12.0	5 – 15
<i>Best Ideas Portfolio</i>	11.0%	9.0 – 13.0	5 – 15
Private Markets	10.0%	8.0 – 12.0	8 – 12
Real Assets	12.0%	10.0 – 15.0	5 – 20
<i>Property</i>	4.0%	2.0 – 6.0	0 – 10
<i>Infrastructure*</i>	8.0%	5.0 – 10.0	2 – 12
Liability Hedging	19.0%	10.0 – 30.0	10 – 30
Cash	0.0%	0.0 – 5.0	0 – 30

\* Infrastructure includes exposure to Agriculture and Timber

The following table shows the strategic ranges compared to the actual asset allocations as at 31 March 2017 and 31 March 2016.

Manager	Mandate	Strategic Allocation 15/16	Allocation 31/03/16	Strategic Allocation 16/17	Allocation 31/03/17
<b>Equities</b>					
Investec Asset Management	Global Equity	8.0% <sup>(1)</sup>	7.1%	4.0%	7.8%
Wellington Management International Ltd	Emerging Markets Equity	6.5%	5.6%	6.0%	6.4%
Aberdeen Asset Management	Frontier Markets Equity	2.5%	1.9%	0.0%	0.0%
<b>Multi-Asset Credit</b>					
Stone Harbor Investment Partners	Multi-Asset Credit	15.0% <sup>(2)</sup>	12.3%	12.0%	11.9%
<b>Managed Account Platform</b>					
ManFRM	Managed Futures & Hedge Funds	9.0%	9.1%	9.0%	8.2%
ManFRM	<i>Hedge Funds (Legacy)</i>		1.0%		0.6%
<b>Tactical Allocation Portfolio</b>					
Pyrford International	<i>Diversified Growth</i>	5.0%	4.4%	5.0%	4.9%
Investec Asset Management	<i>Diversified Growth</i>	5.0%	4.1%	5.0%	4.9%
Consultant	<i>Best Ideas Portfolio</i>	9.0%	7.9%	11.0%	10.9%
<b>In-House Assets</b>					
Various	Private Markets / Opportunistic	10.0%	10.9%	10.0%	9.8%
Various	Property	7.0%	7.9%	4.0%	6.7%
Various	Infrastructure	2.0%	2.0%	6.0%	1.9%
Various	Timber/Agriculture	2.0%	1.9%	2.0%	1.7%
<b>Liability Hedging</b>					
Insight	Liability Driven Investments	19.0%	22.8%	19.0%	23.5%
<b>Cash</b>					
			1.1%		0.8%

1) The Global Developed Equity Portfolio will have a 4.0% allocation to Smart Beta that has not yet been implemented

2) The Credit Portfolio will have a 3.0% allocation to Private Credit that has not yet been implemented

## Responsible Investment

The Fund's ISS includes its policy on Responsible Investment which is implemented through a Sustainability Policy. The ISS shows the Fund's compliance with the Financial Reporting Council's UK Stewardship Code and it is planned for the Fund to ask to become a member in 2017/18. The Fund continues to be a member of LAPFF and PLSA who both act on behalf of its members on stewardship matters.

Although the Fund is invested in pooled vehicles, and therefore does not own individual shares, the fund managers still report on how they voted the shares within the vehicle. In particular if corporate governance concerns are raised by LAPFF, these are reported to fund managers and an explanation is received from fund managers on how they voted and the engagement undertaken with the managers of the company.

A summary of the voting activities of the managers for 2016/17 is shown in the following table.

Manager	Annual/Special Meetings	Proposals	Votes For	Votes Against	Votes Abstained	Not Voted/Refer-Withheld
Investec	338	4,132	3,367	222	72	55
Pyrford	52	800	748	50	1	1
Wellington	334	2,636	2,195	245	56	83

The Fund invests in property, private equity, infrastructure, timber and agriculture. A list of these investments is attached with commitments to those with a particular environmental or social objective separately identified. The commitments made to date in these areas amount to £119m.

Investments regulations now allow for LGPS funds to consider social impact where some part of financial return is forgone in order to generate a social impact and there is no significant risk of financial detriment. The Fund's approach to Social Investments is included in the ISS but no investments have been made to date where financial return has been foregone, although many of the investments do have a social impact. The Fund is working on how this can be effectively measured and reported to stakeholders.

Examples from two of our current managers covering a Property Fund and a specific investment within a Private Equity Fund, where the non-financial impacts are recorded, are included at the end of this report.

## **Conclusion and Outlook**

During the year the investment strategy was revisited in conjunction with the Actuarial Valuation as at 31 March 2016. Whilst the review was relatively "light touch" in nature a number of changes were proposed to the previously existing strategic weightings. The two main aspects of the review was a reduction in the Equity risk premium as a proportion of total risk through further diversification whilst also increasing the Fund's illiquidity premium to increase the long term expected return. The expected return from the strategy has been designed to provide a high certainty of real returns above the assumed CPI Inflation plus 2.0% p.a. return from which the Actuarial discount rate was derived.

The review of the Flightpath/De-risking Framework which included changes to triggers, a restructure of the existing LDI portfolio and the introduction of Equity options to protect from falls in the Equity markets was integrated into the strategy.

A significant proportion of the implementation of the Fund's revised investment strategy was completed by 31 March 2017. The planned allocations to Smart Beta and Private Credit are expected to be completed during the second half of 2017, although the planned changes to the Fund's Real Assets Portfolio will not be implemented until the medium to longer term.

### Summary of the Longer Term

The market value of the Fund has increased from approximately £885m in 2007 to approximately £1,688m in 2017. This is detailed in the Management and Financial Performance section of this report.

The table below shows a summary of the annualised investment performance over the last 20 years compared with the Fund's benchmark and corporate pension funds.

Period (Years)	Clwyd Pension Fund (%) pa	Clwyd Benchmark (%) pa	Average Local Authority (%) pa
1	+21.5	+16.2	+21.4
3	+11.4	+9.9	+11.2
5	+9.2	+8.3	+10.7
10	+5.7	+6.3	+7.0
20	+6.8	+6.6	+7.4

Source: JLT Employee Benefits, PIRC

The following table documents the changes in investment strategy since 2001. As can be seen the asset allocation is very different from that of the average local government pension fund. The Fund has been particularly active and very early in its commitments to alternative assets through a broad range of specialist managers. The current weightings were reviewed and agreed in 2016/17 as part of the "light touch" investment strategy review.

Investments	2001 (%)	2004 (%)	2007 (%)	2011 (%)	2015 (%)	2017 (%)	LGPS Average
<b>Equities</b>							
Global Unconstrained	-	-	5.0	5.0	8.0	4.0	
Global Developed (Smart Beta)	-	-	-	-	-	4.0	
Global High Alpha/ Absolute	-	-	-	5.0	-	-	
UK Active (Traditional)	35.0	29.0	15.0	-	-	-	
UK Active (Portable Alpha)	10.0	10.0	12.0	-	-	-	
US Active	7.0	8.0	5.0	-	-	-	
Europe (ex UK) Active	11.0	9.0	6.0	-	-	-	
Japan Active	4.0	4.0	4.0	-	-	-	
Far East (ex UK) Active	2.5	3.0	4.0	7.0	-	-	
Emerging Markets Active	2.5	3.0	4.0	7.0	6.5	6.0	
Frontier Markets Active	-	-	-	-	2.5	-	
Developed Passive	-	-	-	19.0	-	-	
	<b>72.0</b>	<b>66.0</b>	<b>55.0</b>	<b>43.0</b>	<b>17.0</b>	<b>14.0</b>	<b>62.0</b>
<b>Fixed Interest</b>							
Traditional Bonds	10.0	9.5	-	-	-	-	
High Yield/ Emerging	1.5	2.0	-	-	-	-	
Unconstrained	-	-	13.0	15.0	15.0	12.0	
Private Credit (illiquid)	-	-	-	-	-	3.0	
Cash/ Other	2.5	0.5	-	-	-	-	
	<b>14.0</b>	<b>12.0</b>	<b>13.0</b>	<b>15.0</b>	<b>15.0</b>	<b>15.0</b>	<b>17.0</b>
<b>Liability Driven Investment</b>							
	-	-	-	-	<b>19.0</b>	<b>19.0</b>	
<b>Alternative Investments</b>							
Property	5.0	7.0	6.5	7.0	7.0	4.0	
Infrastructure	0.5	5.0	1.5	2.0	2.0	6.0	
Timber/ Alternatives	-	-	1.5	2.0	2.0	2.0	
Commodities	-	-	2.0	4.0	-	-	
Private Equity & Opportunistic	4.5	4.5	6.5	10.0	10.0	10.0	
Hedge Fund of Funds	4.0	4.0	5.0	5.0	-	-	
Hedge Fund Managed Account Platform	-	-	-	-	9.0	9.0	
Currency Fund	-	4.0	4.0	-	-	-	
Tactical Asset Allocation (TAA)	-	2.0	5.0	12.0	-	-	
Tactical Allocation (Diversified Growth)	-	-	-	-	10.0	10.0	
Tactical Allocation (Best Ideas)	-	-	-	-	9.0	11.0	
	<b>14.0</b>	<b>22.0</b>	<b>32.0</b>	<b>42.0</b>	<b>49.0</b>	<b>52.0</b>	<b>21.0</b>

## IN HOUSE PORTFOLIO

### REAL ASSETS

Property Open Ended Holdings	Number of Fund	Environmental/Social Impact	Number of Funds
Schroders	1		
Hermes	1		
LAMIT	1		
Legal & General	1		
BlackRock	1		
<b>Property Closed Ended Holdings</b>			
Aberdeen Property Asia Select	2	Bridges Property	2
BlackRock US Residential	1	Igloo Regeneration	1
Darwin Leisure Property	1	Threadneedle Low Carbon	1
Franklin Templeton	2		
InfraRed Active Property	3		
North Haven Global Real Estate	2		
Paloma Real Estate	1		
Partners Group Global Real Estate	2		
Schroders – Columbus UK Real Estate	1		
<b>Timber</b>			
		RMK Timberland	3
		Stafford Timberland	3
<b>Agriculture</b>			
		Insight Global Farmland	1
		GMO	1
<b>Infrastructure</b>			
Arcus European Infrastructure	1	InfraRed Environmental	1
Carlyle Global Infrastructure	1	Impax Infrastructure	2
GSAM West Street Infrastructure	1		
Harbour Vest Real Assets	1		
Hermes Infrastructure	1		
InfraRed	2		
Innisfree	1		
North Haven Global Infrastructure	2		
Partners Group Direct Infrastructure	1		
<b>Total Funds</b>	<b>31</b>		<b>15</b>

**PRIVATE EQUITY**

<b>Direct Funds</b>	<b>Number of Funds</b>	<b>Environmental/Social Impact</b>	<b>Number of Funds</b>
Access Capital	1	Bridges Ventures	2
Apax	5	Environmental Technologies	2
August Equity	2	Ludgate Environmental	1
Candover	2		
Capital Dynamics	3		
Carlyle	2		
Charterhouse	4		
ECI	3		
Granville Baird	2		
Parallel Ventures	3		
Partners Group Direct	2		
Unigestion	1		
<b>Fund of Funds</b>			
Access Capital	3	Harbour Vest Cleantech	1
Capital Dynamics	7	Hermes Environmental	1
Crossroads	2		
Harbour Vest	6		
Partners Group	10		
Standard Life	2		
Unigestion	2		
<b>Opportunistic</b>			
BlackRock European Property	1	Foresight Regional Investment	1
Carlyle	2		
Dyal	1		
JP Morgan Secondary's	1		
Marine Capital	1		
Marquee Brands	1		
NB Credit Opportunities	1		
Pinebridge Structured Capital	1		
<b>Total Funds</b>	<b>71</b>		<b>8</b>



**Theme** Sustainable Living

**Challenge** Around 1.5 million people in the UK are unemployed. While the rate of unemployment is slowly decreasing in other parts of the UK, it has remained largely static in Wales. The longer someone is unemployed, the less likely he or she is to ever return to work. Sustained employment offers people better health, well-being and opportunities in the long run.

**Investable Solution** Wholebake manufactures and sells gluten-free energy bars from its factory and distribution facilities in North Wales. The company manufactures for third-party national brands and sells under its own brand, NINE. Its products use natural ingredients aimed at the healthier segment of the snack market.

**Target Outcomes** To promote economic dynamism and access to employment and skills training in one of the UK's most underserved communities while also promoting healthier snacking.



#### Investment Origination

The investment opportunity in Wholebake was identified by Bridges Fund Management Partner Oliver Wyncoll through his network and a successful track record in the consumer sector. The investment was secured due to the strong alignment of values between the management, shareholders and Bridges. Bridges and management agreed a plan to create new jobs and opportunities in an economically deprived part of North

Wales and to proactively reduce sugar and fat content in its branded products where possible. We were attracted to the high-growth sector of healthier snacking which is being driven by consumers' and retailers' demands to replace high-sugar and highly processed snacking with more natural wholesome alternatives, such as fruits, nuts and seeds.

#### Impact Thesis

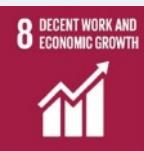
Activity: Through Wholebake's operations of manufacturing and distributing gluten-free snacks, create job opportunities in one of the most deprived parts of the UK.

Output: Employment of low skilled and previously unemployed individuals.

Outcomes: Long term career and development opportunities leading to an improvement in life outcomes for employees and for the wider local community.

## ESG Impact across the UN Sustainable Development Goals (year to 31 March 2017 data)

### Employees



- 92% of new jobs created last year went to individuals who were previously unemployed
- All entry level staff are paid the national living wage
- Over 1,700 hours of training (>10 hours per employee) were provided in 2016/17.

### Customers



- NINE, Wholebake's own brand, is a seed-based energy bar that is a healthier snack
- In 2015 Bridges worked with Wholebake to make NINE healthier, reducing sugar content per bar by an average of 23% across the range. Wholebake also manufactures for other brands that are all related to healthier life styles (e.g. high protein bars, healthy fruit bars and diet)

### Community



- Wholebake provides employment opportunities for individuals in the local area, a deprived part of North Wales
- 78% of the wage bill goes to individuals living in areas within the most deprived 20% of local authorities in the UK (as measured by the Index of Multiple Deprivation, of which employment deprivation is a key factor)

### Environment



Inevitably, Wholebake's manufacturing activities will impact on the environment, but the business seeks to minimise these impacts as far as possible.

- Wholebake limits the amount of waste sent to landfills, recycling or reusing 104 tonnes of waste materials in the year.
- It seeks to actively monitor its electricity consumption; its electricity consumption per tonne of product produced) decreased by 40% in the last year.

### About Bridges Fund Management

Bridges Fund Management Ltd. is a specialist fund manager focused exclusively on sustainable and impact investment, with offices in London, New York and San Francisco. It invests in growth businesses, properties and social sector organisations that can generate superior returns for investors and positive social and environmental impact for society. Founded in 2002, it has since raised over £900 million across its platform of funds.

Bridges' funds are only available to persons categorised as professional clients. Bridges acts only for the funds it manages and it does not act for, or offer advice to, any other persons, nor provide them with the protection it offers its client funds. Past performance is not indicative of future performance.

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## THREADNEEDLE LOW-CARBON WORKPLACE

### AT A GLANCE

The Low Carbon Workplace concept was developed by the Carbon Trust in 2010 to break the 'circle of inertia' that has prevented many cost effective carbon reduction opportunities in non-domestic buildings from being realised. Low Carbon Workplace delivers refurbished low carbon buildings to occupiers who are both motivated and empowered to ensure potential energy and carbon savings are achieved. Occupiers reap the benefits of an efficient, comfortable and environmentally sensitive workplace, and investors and landlords profit from having attractive, 'future-proofed' buildings in their portfolios.

### STRENGTH IN PARTNERSHIP

Low Carbon Workplace is a partnership between the Carbon Trust, fund manager Columbia Threadneedle Investments and property developer Stanhope. Through the Low Carbon Workplace Fund, the partnership acquires commercial office buildings and refurbishes them into modern, energy efficient workplaces. Occupiers benefit from ongoing support from the Carbon Trust, helping them to minimise their energy costs and carbon emissions. Energy and carbon performance is monitored and assessed against the Carbon Trust's Low Carbon Workplace Standard, and occupiers that successfully meet the criteria are awarded with certification to the Standard.



- Asset sourcing and financial appraisal
- Equity raising
- Fund management
- Asset management



- Asset sourcing and low-carbon potential
- Development support – expert advice at refurbishment stage
- Occupier engagement, support and accreditation



- Asset sourcing and pre-screening overview
- Physical refurbishment and project development
- Delivery of finished product for occupation

Single point of accountability

### WHAT WE DO

We acquire commercial office buildings and refurbish them into modern, energy efficient workplaces. We then provide ongoing support to occupiers, helping them to minimise their energy costs and carbon emissions.

## ACQUIRE, REFURBISH, LET

### ACQUIRE

We acquire buildings with the potential to become modern, energy efficient workplaces. Specifically, this means they need to have the potential to:

- Achieve an Energy Performance Certificate (EPC) rating of B or better
- Enable occupiers to achieve specific in-use performance requirements of the Low Carbon Workplace Standard, either in terms of emissions per person or emissions per square metre
- Become a light, airy and pleasant working environment that will engender employee well-being and productivity

### REFURBISH

We minimise energy consumption and carbon emissions from Low Carbon Workplace buildings in three ways:

1. **Passive measures:** Low Carbon Workplace buildings use passive measures wherever possible to regulate temperatures and circulate air without consuming energy. We make the most of existing features such as thick walls and high ceilings. We also introduce new features such as high-performance insulation and glazing.
2. **Active measures:** We ensure that our buildings' mechanical and electrical systems consume as little energy as possible. Where possible we use innovative solutions such as capillary cooling matting and chilled beams, which are highly efficient ways to regulate temperatures and circulate air.
3. **Measuring and monitoring:** We use energy sub-meters and occupancy sensors to monitor energy consumption and compare it with occupancy levels. This helps to identify opportunities to reduce unnecessary energy consumption and optimise performance.

### LET

All occupiers of Low Carbon Workplace buildings must sign the Low Carbon Workplace Charter. This signals their commitment to work collaboratively with the Carbon Trust to minimise their carbon emissions. Occupiers receive ongoing support from the Carbon Trust, including:

- Fit-out advice to ensure their plans complement the building's low carbon design
- Move-in support to ensure the building has been properly commissioned and systems are operating as intended
- Ongoing support including monthly reporting and staff briefings

Energy and carbon performance is monitored and assessed against the Carbon Trust's Low Carbon Workplace Standard. Occupiers that successfully meet the criteria are awarded with certification to the Standard.

## Premier House, Twickenham

- Acquisition price band £0-5m – 38,000 sqft office acquired off market at £85 cap value per sqft.
- Refurbishment programme £0-5m – comprehensive low carbon refurbishment. Building fabric improvements, heat recovery, chilled beam cooling solution and a 12% increase in net lettable area.
- 100% let, 70% pre-let to Thames Valley Housing Association-15-year term at £23.50 per sqft. with fixed uplifts. Remaining 30% let for a 10-year term at £24.50 per sqft. to Adobe completed 01-Jun-13.
- Current value of £17.4m



## Richmond-upon-Thames

- Acquisition price band £5-10m – 31,500 sqft office
- Situated in central Richmond – located 300 metres from Richmond mainline and underground stations, being in an extremely affluent London borough
- Refurbishment programme c£120 per sqft – comprehensive low carbon refurbishment, upgrading façade and windows, full
- Extremely strong letting market due to low supply of Grade A office accommodation – target ERV of c£40 per sqft within an area experiencing strong rental growth
- 100% pre-let to major e-tailer – Entire building let to Not On The High Street at £43.50 per sqft for a 10-year term
- Current value £25.8m



Columbia Threadneedle Investments at 31 March 2017

## OUR IMPACT

The Low Carbon Workplace Fund delivers strong environmental and financial returns, benefitting investors and occupiers alike. Our buildings are highly energy efficient and environmentally sustainable. Evidenced by achieving leading EPC and BREEAM ratings, as well as outperforming industry benchmarks for operational efficiency:

- Average EPC improvement from E to B
- BREEAM Excellent status awarded to all buildings
- 60% more energy efficient than CIBSE's ECON19 office benchmark
- 40% more energy efficient than BBP's Real Estate Environmental Benchmark

The Fund targets a profit on cost from developments of 15%; and to outperform the IPD Quarterly Index Total Return for the Office Sector by 1%. To date it has comfortably outperformed both targets.

To find out more visit [columbiathreadneedle.co.uk](http://columbiathreadneedle.co.uk)



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## AN UPDATE FROM THE ACTUARY

I am delighted to provide my update from an actuarial perspective on the activities of the Clwyd Pension Fund (CPF) during 2016/17. As the Fund's Actuary, I provide advice to the Fund and its employers in relation to managing and monitoring the many financial and demographic risks they face. I also have a specific role in guiding the overall direction of the Fund via my seat on both the CPF Advisory Panel and the Funding and Risk Management Group (FRMG) (established to specifically manage the "Flightpath" strategy). The Advisory Panel provides an opportunity for all of the Fund's professional advisors to collaborate, in conjunction with the Fund Officers, to help the CPF achieve its long term objectives. I feel that, as a group, we have continued to make excellent progress over the year with a number of important enhancements made to the Flightpath framework. It has also been a really important year as the 2016 actuarial valuation - a key financial governance process - was completed.

## ACTUARIAL VALUATION

The Fund's triennial actuarial valuation took place with an effective date of 31 March 2016. This gave us the opportunity to review the financial health of the Fund and refresh the objectives. These objectives are set out in the Funding Strategy Statement. The outcome of the valuation is to set employer contribution levels for the period 1 April 2017 to 31 March 2020 and these contributions are set out in my formal actuarial valuation report.

In assessing these contribution levels, I considered the experience of the Fund since the previous valuation (including demographic factors such as changes in life expectancy and changes in the membership profile). In addition, the updated approach that I adopted focused on the link between overall investment return expectations from the CPF asset portfolio versus the expected level of Consumer Price Inflation (CPI). This is important because the benefits paid by the Fund (which are the liabilities of the Fund) are linked to CPI when in payment, and so this ultimately drives my liability assessment to compare with the assets held, and ultimately the long-term cost to employers.

The results of the valuation showed an improvement in the funding position from 68% to 76%. This improvement allowed us to reduce the average period over which deficit contributions are paid into the Fund from 18 years to 15 years. I am also pleased to report that since the valuation, there has been further improvement in the funding position (this is reported on a monthly basis to the FRMG).

Overall, positive feedback was received from employers on the process and the eventual outcomes in terms of the balance between the affordability of contributions and the long term financial health of the Fund.

# RISK MANAGEMENT

## FLIGHTPATH STRATEGY

A critical aspect of managing risk relates to the flightpath strategy which is central to providing stability of funding and employer contribution rates in the long term. This strategy was originally put in place from 1 April 2014 to support the overall objective to be fully funded (a solvency level of 100%) in 10 to 12 years. The various triggers built into the flightpath strategy were reviewed alongside the actuarial valuation and the updated triggers are now incorporated into the operation of the strategy.

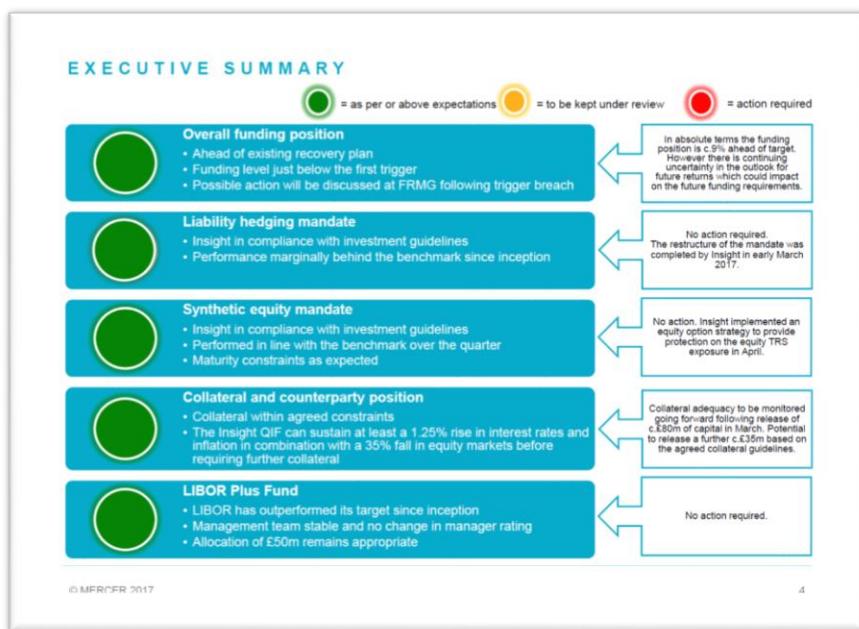
Over 2016/17, the level of risk hedging (the “hedge ratio”) within the framework did not change (remaining at approximately 20% for interest rates and 40% for inflation rates) as the market yields and the funding level remained below the relevant trigger points.

For the LGPS generally over 2016/17, asset returns have been strong due to the impact of sterling currency depreciation and also strong equity market performance. For the CPF, the funding plan was ahead of the target set as part of the 2016 valuation as at 31 March 2017. Overall the funding position was estimated to be 86% as at 31 March 2017 which was 10% ahead of target. Whilst this was a favourable position, there was concern that due to market volatility this improvement may be lost or much reduced hence the implementation of the Equity Protection element of the strategy (see comments below).

The CPF is also in a relatively unique position as the flightpath strategy has provided protection given the level of risk hedging in place.

As a consequence of the flightpath strategy, the disclosed deficit was actually £170million lower than it would otherwise have been, had the current strategy not been implemented.

Whilst monitoring the funding position is central to my role, it is also important that we ensure other operational aspects of the mandate run by Insight are working correctly as this is vital to the success of the flightpath strategy. Therefore we monitor on a monthly basis using a red/amber/green (“RAG”) rating system and the summary at March 2017 is shown. It can be seen that all aspects were at least in line with expectations.



## RESTRUCTURE OF THE HEDGING MANDATE

Whilst the main objective of the Flightpath strategy is to manage risk, it is important to identify opportunities to maximise the operational performance of the mandates.

Insight and Mercer identified an opportunity to restructure the mandate to provide a higher yield on the assets for the same level of risk control. This involved buying assets with a higher yield/return and selling an equivalent asset with a lower yield/return. It was agreed by the Pension Fund Committee that the restructure should proceed subject to a net gain of at least £25m being realised. I am pleased to say that the trade was completed over the period 20th February to 3rd March 2017 and that an expected long-term gain of £36.5m (net of costs) was achieved from this restructure, which was a very positive outcome. Given this value will accrue over a very long time-frame, the position will be monitored by the FRMG. Depending on market conditions a significant proportion or all of the gain (subject to the minimum gain of £25m) could be realised much earlier.

## IMPLEMENTATION OF EQUITY OPTION PROTECTION

In order to protect the Fund's current strong position, the CPF sought to protect itself against potential falls in the equity markets, via the use of an "Equity insurance contract". The aim is to provide further certainty in employer contributions (all other things equal) in the event of a significant equity market fall. The insurance contract was implemented for one year with effect from 24<sup>th</sup> April 2017 and will be monitored monthly alongside the Flightpath (above).

## LOOKING FORWARD

Of course, the political and economic landscape remains uncertain due to the UK and EU BREXIT negotiations. This could have a material effect on the level of UK inflation and also the expected asset returns, both of which are crucial to the financial health of the Fund and the contributions required from the employers. It should be highlighted that the flightpath strategy will continue to provide protection to the funding position against these potential challenges relative to other LGPS Funds. It is therefore my belief that the strong governance structure within which the Fund operates, means we are well placed to navigate any uncertainty and volatility that arises.



**Paul Middleman FIA**

# Pensions Administration Update 2016/17

## Introduction

The Fund's day to day administration service is provided by the Pension Administration Section which consists of a total of 27.2 Full Time Equivalent (FTEs) members of staff including a Pension Administration Manager. It is split between an Operational Team, a Technical Team and an Employer Liaison Team, and is separate from the Finance Team.

The Operational Team of 13.8 FTEs delivers a pensions service for over 42,000 scheme members. This includes the calculation of various benefits, transfers in and out, refunds and maintenance of individual records. The Technical Team of 6.4 FTEs implements and maintains the pension software systems, reconciles employer records and a pensioner payroll service for 12,000 pensioners and dependents. Whilst the Employer Liaison Team of 6 FTEs will provide assistance to Fund Employers in providing accurate and complete notifications to the Fund and provides a communication service for members and employers.

## Challenges

### **Task Management review**

In order to record more accurate and relevant workflow data the task management system continues to be reviewed and updated.

### **Introduction of iConnect**

In November 2016 iConnect was launched for two smaller employers (Bodelwyddan Castle Trust and Prestatyn Town Council) whilst it was fully implemented for Denbighshire County Council from February 2017 meaning that data could now be transferred directly from the employers payroll records to the Clwyd Pension Funds administration system. The introduction of this software has enabled data to be transferred in a timelier manner for starters, leavers or changes to employment. Whilst it has reduced the amount of resource and time required to identify missing information during the year-end procedure.

### **Employer Liaison Team**

From December 2016, the Clwyd Pension Fund introduced the Employer Liaison Team to the Administration Section. Understanding the continuing pressure on resources and budgets for Employers and the Administering Authority, the Clwyd Pension Fund have made provision to step in and provide 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) will mainly assist in providing notifications regarding new starters, personal/employment changes and leavers/retirements in the LGPS. It will also undertake 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. As a new team, depending on the Employer uptake, resources will need to match demand.

### **Pensions help desk**

The operations team launched a pension's help desk process providing a centralised hub for members to communicate with the team regarding any pension related issues. By alternating responsibilities for the help desk, the introduction of this process allows individuals on the operations team the opportunity to commence with their work without interruptions on the days which they are not fulfilling their telephone duties.

## **GMP reconciliation**

After a successful tender process, Clwyd Pension Fund appointed Equiniti to complete the GMP reconciliation exercise. Robust timescales and deadlines have been put in place with regular update meetings to report on progress. This exercise is due for completion December 2018.

## **Communications**

During 2016/17, the Clwyd Pension Fund has published or provided the following communications:-

### **Clwyd Catch Up**

- Distributed issue 12 of the pensioner newsletter to our pensioner members along with their pensions increase notification in Spring 2016. Issue 13 was subsequently sent in Spring 2017 including their first notification that pay slips and P60's will be sent electronically from April 2018 with the introduction of Member Self Service.

### **Penpal**

- Circulated issue 20 of the active members newsletter notifying members of changes to the new flat rate State Pension and the LGPS national insurance database. Issue 21 has since been sent to active members in Spring 2017 providing their first notification of electronic Annual Benefit Statements, details of Member Self Service and upcoming seminars. In order to provide all active members with their second notification of electronic statements, issue 21b was sent alongside the active Annual Benefit Statements in August 2017.

### **Deferred Diaries**

- Deferred Benefit Statements were sent to deferred members in Spring 2016. Whilst Deferred Diaries (a newsletter for deferred members) was sent alongside all members Deferred Benefit Statements in Spring 2017 to notify them of the upcoming changes to electronic benefit statements and Member Self Service.

### **Drop in surgeries and pre-retirement seminars**

- Between April 2016 and March 2017, 27 drop-in surgeries took place for scheme members at their workplace with 380 members attending. Whilst 3 pre-retirement seminars were presented with 42 attendees.

With the aim of developing our communications, the Clwyd Pension Fund is currently undergoing major developments surrounding our website and Member Self Service. By updating our website and incorporating a Member Self Service facility, these developments will only enhance the accessibility to our current and previous members, whilst also providing a centralised hub for aspects surrounding the investments and governance of the Fund, Employers, Councillors and potential members.

A review of the website is currently ongoing in association with Aquila Heywood who provide the pension software for the Fund, with the view of launching in Autumn 2017. Together with Member Self Service and the Funds bilingual Twitter accounts, all three elements hope to provide transparency and information upon the Fund and all LGPS matters.

For further information on Clwyd Pension Fund communications, please refer to our Communication Policy Statement following in this Annual Report.

## **Developing the Service**

The Clwyd Pension Fund is keen to enhance the service it provides to all members past and present at every opportunity, with continuous developments also being made to enhance the scheme employers experience being paramount. The following points have been actioned over the last 12 months to assure that the service provided is improving:

- Maintaining an effective Business Continuity Plan
- Adhering to the Administration Strategy
- Attending manager meetings to discuss LGPS administration and current regulation issues
- Attending LGPS training courses to ensure staff skills and LGPS knowledge are up-to-date
- Rolling out software, provided by a third party, to assist employers in addressing their Auto Enrolment obligations, in respect of record keeping and reporting on employee data. In addition it is a filter for the flow of information from a Scheme Employer to the Administering Authority
- Scanning of documents and post to maintain a paperless office
- Developing Member Self Service software, enabling members to view their individual details online

In 2016/17 progress continued to be made with the new operational model for the Fund. Each Team Leader looks after set scheme employers, giving a direct point of contact and reinforcing the Fund/Employer relationship. There is on-going work with our larger employers on data quality and correcting a backlog of historic records in line with the Pension Regulator's new Code of Practice.

## **Administrative Management Performance**

This section of the report focuses on key administration performance indicators, efficiency and staffing indicators, together with a five year analysis of membership data. The Fund participates in the CIPFA Pensions Administration Benchmarking Club.

### **Cases completed 2016/17:**

Case Type	Cases
New Starters	2,171
Address changes	1,794
Defers	1,370
Retirements (all types)	696
Estimates (all types)	535
Deaths (deferred, active and pensioners)	416
Transfers In	128
Transfers Out	214

## Staff Turnover 2016/17

Description	Number
Total Staff as at 31/03/2017	27.2
Staff leaving up to 31/03/2017	1
Staff joining up to 31/03/2017	3.5

## Ratio of Pensions Staff to LGPS Members 2016/17:

Although there are 27.2 full time equivalent members of staff, 13.8 full time equivalent staff deal with administration. The remaining 13.4 staff deal with I.T., pension payroll, employer liaison and communications.

As at 31/03/2017, there were 42,235 members of the Clwyd Pension Fund, meaning that there are 1,552 members per pension's staff member.

## Member Trends: 5 Years

Period from – to	Contributors	Deferred Members	Pensioners	Dependant Pensioners
01/04/2012 – 31/03/2013	14,920	7,539	8,386	1,488
01/04/2013 – 31/03/2014	16,133	8,307	8,805	1,562
01/04/2014 – 31/03/2015	15,941	9,026	9,272	1,591
01/04/2015 – 31/03/2016	15,989	10,271	9,862	1,616
01/04/2016 – 31/03/2017	15,748	14,502	10,314	1,671

## Pensioners who were awarded enhanced retirement benefits:

Period from – to	No. of Enhanced Benefits
01/04/2012 – 31/03/2013	15 Members (tier 1 & 2 ill health only)
01/04/2013 – 31/03/2014	26 Members (tier 1 & 2 ill health only)
01/04/2014 – 31/03/2015	11 Members (tier 1 only)
01/04/2015 – 31/03/2016	18 Members (tier 1 only)
01/04/2016 – 31/03/2017	27 Members (tier 1 only)

## Internal Dispute Resolution Procedure

The Clwyd Pension Fund operates a two stage Internal Dispute Resolution Procedures (IDRP) if a member feels that they are dissatisfied with a decision made by their employer or the Administration Authority (Flintshire County Council). Where a disagreement is raised by a member, the Pensions Administration Manager or Principal Pension Officers will attempt to action and resolve the problem and confirm this in writing where possible.

Examples of what Employer appeals are about, could be following the termination of employment upon medical grounds or the calculation of a members final salary pensionable pay. Whilst appeals against the Administration Authority could surround the awarding of spouse or children's benefits, death grant nominations or previous pensionable service. Written appeal applications must be made within six months.

Stage One of the appeals process requires the Funds 'nominated person' to investigate the written complaint concerning the pension benefit, who must review the dispute and make a determination as to whether the decision reached was made in line with the scheme regulations. For Stage One, this nominated person is Mr Yunus Gajra, who works for West Yorkshire Pension Fund. Should the member remain dissatisfied with the outcome they can make an application under Stage Two which can be forwarded to the Clwyd Pension Fund. The Chief Executive has appointed a suitably qualified officer to hear Stage Two appeals, this individual is Mr Robert Robins (Flintshire County Council).

If still dissatisfied, members may then take their dispute to the Pension Advisory Service and then onto the Pension Ombudsman. During 2016-17, the Fund received 7 applications under the Stage 1 process, 4 of these cases moved to Stage 2.

2016/17	Received	Upheld	Rejected	Ongoing
Stage 1 - Against Employers	6	1	5	0
Stage 1 - Against Administering Authority	1	0	1	0
Stage 2 - Against Employers	3	0	3	0
Stage 2 - Against Administering	1	0	1	0

Appeal Contact details:	Mrs Helen Burnham Pensions Administration Manager Clwyd Pension Fund, County Hall, Mold, CH7 6NA
Stage One decision maker:	Mr Yunus Gajra West Yorkshire Pension Fund, P O Box 67, Bradford, BD1 1UP
Stage Two decision maker:	Mr Robert Robins, Flintshire County Council, Democratic Services, County Hall, Mold, CH7 6NA

### National Fraud Initiative (NFI)

Clwyd Pension Fund participates in the NFI every other year. The NFI is a data matching exercise designed to detect and prevent fraud and overpayments across England and Wales. As a public body, we are required by law to protect the public funds we administer.

The Auditor General is responsible for carrying out data matching exercises under his powers under the Public Audit (Wales) Act 2004.

As the use of data by the Auditor General for Wales in a data matching exercise is carried out with statutory authority (Part 3A of the Public Audit (Wales) Act 2004), it does not require the consent of the individuals concerned under the Data Protection Act 1998.

In addition to this, Clwyd Pension Fund uses a mortality screening service provided by Atmos, which informs us of deceased members.

## Analysis of Pension Overpayments and Write Offs

The Fund has a policy in which it does not seek to recover any overpayments of pensioner payroll payments which are under £100. Details of those are shown below. Every effort is made to recover any payroll overpayments above £100. In some circumstances these may be written off with agreement from the Chief Executive.

	2016/17	2015/16	2014/15	2013/14	2012/13
Amounts under £100	4,694	6,062	4,228	5,975	3,443
Number of cases	109	146	108	129	97
Overpayments Recovered	30,095	28,126	21,612	19,518	39,625
Number of cases	81	77	40	57	51
Overpayments Written Off	1,741	1,284	5,647	402	0
Number of cases	5	5	10	2	0

## Participating Employers of the Fund at 31 March 2017

The Fund had 40 bodies who contributed to the Fund during 2016/17, 28 scheduled and 12 admitted. Contributions are paid over to the Fund by the 19<sup>th</sup> of the following month to the month that the contributions relate to. An analysis of contributions received during 2016/17 is shown below.

There have been twelve additional bodies admitted to the Fund during 2016/17, eight scheduled and four admitted. No bonds or any other secured funding arrangements have been facilitated.

One employer left the Fund during the year and a termination payment has been received during the year for a further employer (Grosvenor Facilities Management) who left in the previous year.

The Pensions Regulator allows the Fund the option to levy interest on overdue contributions during the financial year. During the year the Fund encountered some issues with some of the new employers joining the Fund. These were monitored for timeliness of contributions and the Fund liaised with employers to overcome any problems they were experiencing. The analysis below shows the number of late contributions made to the Fund, along with the amounts and occasions concerned. The Fund did not exercise its option to levy interest against any of the employers during the year but the occurrences were registered in the Fund's breaches register and reported to the Pension Fund Committee. Five of the ten employers were new to the Fund, a meeting was held with employer D to rectify the issues. The payments totalled £1,156,989.22 (1.5% of the total contributions)

Scheduled Bodies	Employer Contribution (£)	Employee Contribution (£)
Flintshire County Council	21,396,634.18	5,037,821.29
Wrexham County Borough Council	18,836,217.36	3,941,748.01
Denbighshire County Council	14,656,310.16	3,573,675.09
Glyndwr University	1,834,708.36	509,148.14
Coleg Cambria	1,484,280.15	662,132.45
North Wales Fire Service	1,287,330.40	319,723.15
North Wales Valuation Tribunal	50,896.51	11,904.39
Rhyl Town Council	35,706.52	8,040.24
Hawarden Community Council	32,077.61	7,928.11
Prestatyn Town Council	24,251.58	9,174.67
Coedpoeth Community Council	24,210.08	4,357.96
Caia Park Community Council	23,920.18	5,548.82
Buckley Town Council	19,702.10	4,625.55
Mold Town Council	13,309.14	4,407.04
Rhos Community Council	12,844..23	3,531.14
Connah's Quay Town Council	11,210.38	6,460.43
Shotton Town Council	6,939.82	1,714.03
Cefn Mawr Community Council	5,720.64	1,202.34
Argoed Community Council	5,076.89	1,120.41
Acton Community Council	3,622.72	1,050.61
Denbigh Town Council	3,308.66	1,282.27
Offa Community Council	2,242.83	1,412.87
Penyffordd Community Council	1,563.85	420.07
Marchwiel Community Council	1,011.82	294.43
Bagillt Community Council	823.40	365.20
Hope Community Council	806.03	385.20
Llanasa Town Council	221.00	0.00
Gwernymynydd Community Council	115.39	20.88

Admitted Bodies	Employer Contribution (£)	Employee Contribution (£)
Careers Wales	329,860.51	87,070.09
Civica UK	229,876.41	80,044.06
Wrexham Commercial Services	184,577.84	57,151.06
Freedom Leisure	170,993.98	57,490.48
Cartref y Dyffryn Ceiriog	58,740.69	3,361.26
Bodelwyddan Castle Trust	36,337.37	11,688.57
Grosvenor Facilities Management	10,400.00	0.00
Compass Group UK	7,392.85	2,153.42
Glyndwr Students Union	6,832.36	6,220.02
Denbigh Youth Group	5,781.13	1,715.84
Embrace	2,315.99	633.73
Cymryd Rhan	1,077.61	1,789.23

Employer	Late Occasions	Contributions (£)
A	1	1,065,823.99
B (New Employer)	3	52,064.43
C (Payroll provided by Employer A)	1	20,929.13
D	10	13,572.79
E (New Employer)	5	1,890.75
F	2	1,249.48
G (New Employer)	6	573.05
H (New Employer)	3	544.32
I (New Employer)	1	341.28

### Administrative Responsibilities:

The Clwyd Pension Fund is solely responsible for the administration of pensioner payroll. The administration for scheme members is mainly the responsibility of the Clwyd Pension Fund although the Employers must adhere to certain standards set out in the Service Level Agreements. For example, the Employers must supply the Clwyd Pension Fund with documents in a timely manner in order for benefits to be calculated as soon as possible. Although the Clwyd Pension Fund has the power to seek compensation from Employers in respect of any breaches of such standards, the Clwyd Pension Fund has not used this power.

## Other Information

The following information is provided to assist in the production of the scheme annual report compiled by the LGPS scheme advisory board.

### Analysis of Employers of the Fund

The table below shows a summary of the employers in the fund analysed by scheduled bodies and admitted bodies which are active and ceased.

	Active	Ceased	Total
<b>Scheduled body</b>	28	8	36
<b>Admitted body</b>	12	8	20
<b>Total</b>	40	16	56

### Analysis of Fund Assets

The table below provides an analysis of the Fund's assets as at 31 March 2017.

	UK £000	Non -UK £000	Global £000	Total £000
<b>Equities</b>	0	106,336	131,149	237,485
<b>Alternatives</b>	125,727	220,240	476,374	822,341
<b>Bonds &amp; LDI</b>	393,858	0	198,621	592,479
<b>Property (Direct)</b>	0	0	0	0
<b>Cash</b>	33,623	0	0	33,623
<b>Total</b>	553,208	326,576	806,144	1,685,928

The alternatives portfolio comprises pooled investments in the following asset classes:

Hedge Fund Managed Account, Diversified Growth Funds, Property, Private Equity & Opportunistic, Infrastructure, Timber and Agriculture.

## Analysis of Investment Income

The table below provides an analysis of the Fund's investment income accrued as at 31 March 2017.

	UK £000	Non -UK £000	Global £000	Total £000
<b>Equities</b>	0	0	0	0
<b>Alternatives</b>	1,353	5,968	0	7,321
<b>Bonds &amp; LDI</b>	0	0	0	0
<b>Property (Direct)</b>	0	0	0	0
<b>Cash</b>	111	0	0	111
<b>Total</b>	1,464	5,968	0	7,432

## Analysis of Fund Manager Expenses (including underlying fees)

The fees which are disclosed in the statement of accounts within the Annual Report have been disclosed in accordance with the CIPFA guidance which states that fees and expenses should only be included where the Fund has a direct relationship with the investment manager. These fees include the annual management charge as well as additional costs such as operational, administrative and legal expenses. In addition any costs for performance and transaction fees are also disclosed. These are disclosed in Note 3 in the Fund's accounts.

Fees relating to underlying managers are not required to be disclosed in the accounting regulations, however the Fund believes we should provide our stakeholders with all fees relating to our investments.

The Fund has exposures to underlying managers through investments in alternative mandates including Hedge Funds, the "Best Ideas" Tactical Asset Portfolio and Private Equity.

The table below shows the fees and expenses which would have been disclosed if underlying fees and their performance fees were included.

The table also shows an average of the basis points charged for each category of fee for the valuation of core assets, non-core assets and total fund.

Fund Management Fees	Avg bps	2017 £000	Avg bps	2016 £000
<b>CORE (78% of Fund)</b>	<b>68</b>	<b>8,836</b>	<b>73</b>	<b>7,680</b>
<b>Total expenses including AMC</b>	34	4,495	53	5,578
<b>Underlying Fees (includes performance)</b>	33	4,258	17	1,778
<b>Performance Fees</b>	0	0	2	219
<b>Transaction Fees</b>	1	83	1	105
<b>NON CORE (22% of Fund)</b>	<b>343</b>	<b>11,874</b>	<b>338</b>	<b>10,492</b>
<b>Total expenses including AMC</b>	192	6,648	198	6,132
<b>Underlying Fees (includes performance)</b>	60	2,066	46	1,423
<b>Performance Fees</b>	86	2,976	82	2,577
<b>Transaction Fees</b>	5	184	12	380
<b>TOTAL</b>	<b>125</b>	<b>20,710</b>	<b>133</b>	<b>18,172</b>
<b>Total Fees Excluding Underlying</b>	87	14,386	110	14,971
<b>Net Assets (Core)</b>		1,306,388		1,054,945
<b>Net Assets (Non-Core)</b>		345,967		310,343
<b>Total Net Assets (excluding cash)</b>		1,652,305		1,365,288

Assets within the “Core” disclosure include: Active Equities, Unconstrained Fixed Income, Liability Driven Investment, Hedge Fund Managed Account Platform, Diversified Growth Funds and the Tactical Asset Portfolio. These account for 78% of the Fund assets but only 42.7% of the total fees. Assets within the “Non-Core” disclosure include: Private Equity (Direct and Fund of Funds), Property (Open and Closed ended), Infrastructure, Timber and Agriculture. Whilst these account for 22% of the Fund assets the proportion of fees amounts to 57.3%. These figures include the underlying fees. (In comparison, excluding underlying fees, the proportion of fees for core assets is 31.8% ( 39.4% in 2015/16) and non-core, 60.6% (68.2% in 2015/16))

A review of strategy was undertaken by the Fund Consultant in 2014/15 which resulted in changes which partly transitioned during 2015/16, fully in 2016/17. These changes have resulted in a reduction in TER (excluding underlying fees) of 19 bps across the Core Assets.

Non-Core fees have increased as the valuations have increased with a further bps increase in underlying fees, particularly the performance fees associated with those fees.

It should also be noted that performance is shown net of manager fees and whilst the fees of the non – core assets are considerably higher than the core assets, similarly net returns are expected to be higher in the long term.

## CLWYD PENSION FUND ACCOUNTS

for the year ended 31<sup>st</sup> March 2017

### THE MANAGEMENT AND MEMBERSHIP OF THE CLWYD PENSION FUND

The Clwyd Pension Fund is administered by Flintshire County Council on a lead authority basis. The administration and investment strategy of the Fund is set annually by the Clwyd Pension Fund Committee, consisting of eight elected Members and one employee representative, each with equal voting rights, access to training and to information. The Fund's core investment management arrangements were implemented by eight investment managers during 2016/17.

The Clwyd Pension Fund is a statutory Local Government Pension Scheme (LGPS), set up to provide death and retirement benefits for local government employees, other than teachers, police and firefighters in North East Wales. In addition, other qualifying bodies that provide similar services to that of local authorities have been admitted to membership of the LGPS and hence the Fund.

The Clwyd Pension Fund operates a defined benefit scheme whereby retirement benefits are funded by contributions and investment earnings. Contributions are made by active members in accordance with the LGPS Regulations 2013, as amended, and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31<sup>st</sup> March 2017. Employee contributions are added to employer contributions which are set based on triennial actuarial funding valuations. The benefits of the scheme are also prescribed nationally by the 2013 Regulations (as amended). The last valuation was at 31<sup>st</sup> March 2016, the findings of which became effective on 1<sup>st</sup> April 2017. The valuation showed that the funding level increased from the previous valuation (31<sup>st</sup> March 2013) from 68% to 76%. The employers' contribution rates are structured to achieve a gradual return to 100% funding level over a 15 year period from April 2017. This implies an average employer contribution rate of 15.3% and a total initial recovery payment of approximately £51.5m (which also includes allowance for some employers to phase in any increases and allowance for some employers to prepay three years contributions in April 2017). The LGPS (Management and Investment of Funds) Regulations 2016 requires administering authorities to produce and maintain an Investment Strategy Statement which documents how the investment strategy for the fund is determined and implemented. The 2016 Regulations replaced the LGPS (Management and Investment of Funds) Regulations 2009 (as amended) and came into force on 1<sup>st</sup> November 2016.

Membership of the LGPS is voluntary and organisations participating in the Clwyd Pension Fund include:

- Scheduled bodies, that are local authorities and similar bodies whose staff are automatically entitled to be members of the fund.
- Admitted bodies that are organisations which participate in the fund under an admission agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar contractors undertaking a local authority function following outsourcing to the private sector.

The membership of the Fund as at 31<sup>st</sup> March 2017 and 2016 is shown below:

	2017 No.	2016 No.
Active Members	15,748	15,989
Pensioners & Survivors		
Ex employees	10,314	9,862
Survivors	1,671	1,616
Other		
Preserved benefits/ Undecided	14,502	13,176
Frozen Refund	1,177	1,022
	<hr/> <u>43,412</u>	<hr/> <u>41,665</u>

## CLWYD PENSION FUND ACCOUNTS

The scheduled bodies which contributed to the Fund during 2016/17 are:

Unitary Authorities: Flintshire, Denbighshire, Wrexham.

Educational Organisations: Coleg Cambria, Glyndwr University.

Town and Community Argoed, Coedpoeth, Connah's Quay, Hawarden, Rhosllanerchrugog, Buckley,

Councils: Prestatyn, Offa, Mold, Caia Park, Rhyl, Shotton, Llanasa, Gwernymynydd, Marchwiel, Bagillt, Penyffordd, Acton, Hope, Denbigh, Cefn Mawr.

Other: North Wales Fire Service, North Wales Valuation Tribunal,

The admitted bodies contributing to the Fund are:-

Other: Careers Wales, Cartref y Dyffryn Ceiriog, Chartwells, Bodelwyddan Castle Trust, Civica UK, Denbigh Youth Group, Wrexham Commercial Services, Freedom Leisure, Glyndwr Students' Union, Embrace, Cymrhod Rhan, Grosvenor Ltd.

Further information is available in the Clwyd Pension Fund Annual Report and Investment Strategy Statement which are presented to the Annual Joint Consultative Meeting for employers and member representatives that is held annually.

### BASIS OF PREPARATION AND ACCOUNTING POLICIES

The Statement of Accounts summarises the Fund's transactions for the 2016/17 financial year and its position at year end as at 31<sup>st</sup> March 2017. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 16 of these accounts.

In summary, accounting policies adopted are detailed as follows:

- Contributions, benefits and investment income due are included on an accruals basis.
- Investments are included in the accounts at market value, usually bid price.
- Debtors and creditors are raised for all amounts outstanding at 31<sup>st</sup> March.
- Individual Transfer values received and paid out have been accounted for on a cash basis.
- Bulk Transfer values paid out are accounted for on an accruals basis.
- The financial statements do not take account of liabilities to pay pensions and other benefits after the reported accounting period.
- Investment management expenses are accounted for on an accruals basis and include the fees paid and due to the fund managers and custodian, actuarial, performance measurement and investment consultant fees.
- Administration expenses are accounted for on an accruals basis. All Flintshire County Council staff costs are charged direct to the Fund and management, accommodation and other support service costs are apportioned to the Fund in accordance with Council policy.
- Acquisition costs of investments include all direct transaction costs and sales receipts are net of all direct transaction costs.
- Cash comprises cash in hand and demand deposits and includes amounts held by the fund's external managers. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

## CLWYD PENSION FUND ACCOUNTS

	Note	2017 £000	2016 £000	2016 £000	2016 £000
<b>Contributions and Benefits</b>					
Contributions receivable :					
From employers (Normal)	1	(32,257)			(30,488)
From employers (Deficit)	1	(28,562)			(27,277)
From employees or members	1	<u>(14,429)</u>			<u>(14,471)</u>
			(75,248)		
Transfers in		(2,797)			(1,691)
Other income		<u>(1,191)</u>			<u>(3,077)</u>
		<u>(3,988)</u>			<u>(4,768)</u>
			(79,236)		
					(77,004)
Benefits payable :					
Pensions	1	54,744			52,922
Lump sums (retirement)	1	10,413			14,029
Lump sums (death grants)	1	<u>1,560</u>			<u>2,247</u>
			66,717		
					69,198
Payments to and on account of leavers :					
Refunds of contributions		106			121
Transfers out (individual)		5,212			1,936
Transfers out (bulk)	2	0			3,889
Other		268			129
Expenses borne by the scheme	3	<u>17,475</u>			<u>17,621</u>
			23,061		
					23,696
			89,778		
					92,894
<b>NET (ADDITIONS) WITHDRAWALS</b>			10,542		
					15,890
<b>Returns on Investments</b>					
Investment income	5		(7,432)		(5,863)
Change in market value of investments (Realised and Unrealised) [(Increase)/Decrease]	5		(310,601)		4,706
<b>NET RETURNS ON INVESTMENT</b>			<u>(318,033)</u>		<u>(1,157)</u>
<b>NET DECREASE/(INCREASE) IN THE FUND</b>			<u>(307,491)</u>		<u>14,733</u>
<b>OPENING NET ASSETS OF THE SCHEME</b>			<u>1,380,675</u>		<u>1,395,408</u>
<b>CLOSING NET ASSETS OF THE SCHEME</b>			<u>1,688,166</u>		<u>1,380,675</u>

## CLWYD PENSION FUND ACCOUNTS

	Note	2017 £000	2016 £000
<b>Net Assets Statement</b>			
<b>Investment Assets :</b>	<b>5/6</b>		
Fixed Interest Securities		198,621	170,331
Managed overseas equity funds		237,485	202,826
Managed multi strategy funds		349,095	227,037
Property funds		114,714	109,233
Infrastructure funds		31,761	27,351
Timberland / Agricultural funds		29,103	25,937
Private equity funds		152,423	139,582
Hedge Fund		127,279	139,221
Liability Driven Investment		393,858	315,530
Opportunistic Funds		<u>17,966</u>	<u>8,240</u>
		1,652,305	1,365,288
Cash	<b>8</b>	<u>33,623</u>	<u>15,034</u>
		33,623	15,034
<b>Current Assets :</b>			
Due within 1 year	<b>9</b>	<u>4,545</u>	<u>5,349</u>
		4,545	5,349
<b>Current liabilities</b>			
Due within 1 year	<b>9</b>	<u>(2,307)</u>	<u>(4,996)</u>
		(2,307)	(4,996)
<b>NET ASSETS AT 31<sup>st</sup> MARCH</b>		<b><u>1,688,166</u></b>	<b><u>1,380,675</u></b>

## NOTES TO THE CLWYD PENSION FUND ACCOUNTS

### 1. ANALYSIS OF CONTRIBUTIONS RECEIVABLE/BENEFITS PAYABLE

Contributions represent those amounts receivable from various employing authorities in respect of their own contributions and those of eligible pensionable employees. The total contributions received during 2016/17 amounted to £60.819m (£57.765m in 2015/16) from employers and £14.429m (£14.471m in 2015/16) from employees.

The employers total comprised an amount of £32.257m (£30.488m in 2015/16) relating to the common contribution rate average of 13.8% paid by all employers and £28.562m (£27.277m in 2015/16) relating to additional contributions paid in respect of deficit funding for individual employers.

Benefits payable and refunds of contributions have been brought into the accounts on the basis of all valid claims approved during the year.

Analysis of contributions received and benefits payable is shown below:

Scheduled Bodies	2017	2016		
	Benefits Payable £000	Contributions Receivable £000	Benefits Payable £000	Contributions Receivable £000
Flintshire County Council	25,206	26,434	23,903	25,215
Wrexham County Borough Council	20,009	22,778	21,199	22,438
Denbighshire County Council	14,442	18,230	16,632	17,525
Fund apportionment with:				
Gwynedd and Powys County Councils	2,202	0	2,317	0
Educational Organisations	2,967	4,490	3,191	4,215
Town and Community Councils	251	292	124	298
Others - scheduled bodies	734	1,670	888	1,478
Others - admitted bodies	906	1,354	944	1,067
	<hr/> 66,717	<hr/> 75,248	<hr/> 69,198	<hr/> 72,236

The above merely reflects the figures in the accounts. The circumstances pertaining to each of the bodies listed is different for a variety of reasons (contribution and pensioner profiles, employees' contribution rates, early retirement experience etc.) and direct comparisons, therefore, are largely meaningless.

### 2. BULK TRANSFER

No bulk transfers were made during 2016/17.

### 3. EXPENSES BOURNE BY THE FUND

The regulations permit the Council to charge the cost of administering the scheme to the Fund. The external managers' fees have been accounted for on the basis contained within their management agreement.

The cost of pension administration and investment management is shown in the following table. The main increase in oversight and governance expenses relates to additional costs incurred as a result of the formation of the Wales Pension Partnership. Other elements include a light-touch review and implementation of the Fund's investment strategy. The consultancy fees also reflect the ongoing monitoring of the Long Term Management of Funding Risk mandate together with a review of the funding risk management framework.

## NOTES TO THE CLWYD PENSION FUND ACCOUNTS

	2017 £000	2016 £000
<b>Oversight &amp; Governance</b>		
Employee Costs	236	225
Support Services	26	31
Supplies and Services	58	54
Miscellaneous Income	(11)	0
Consultancy & Actuarial	1,226	818
Audit	39	39
Legal	59	35
	<hr/> 1,633	<hr/> 1,202
<b>Investment Management Fees</b>		
Net Fund Management Fees	14,386	14,971
Custody Fees	31	28
Performance Monitoring Fees	57	30
	<hr/> 14,474	<hr/> 15,029
<b>Administration Costs</b>		
Employee Costs	648	603
Support Services	94	146
Outsourcing	260	404
Supplies & Services	366	237
	<hr/> 1,368	<hr/> 1,390
<b>Total Fees</b>	<hr/> <b>17,475</b>	<hr/> <b>17,621</b>

Investment management fees are broadly based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change. The Fund is invested in pooled vehicles of which the majority of fees are charged within the funds. The 2014/15 CIPFA guidance required pension funds to include all investment manager fees including those which are deducted at source to fund of fund investments. In addition to the underlying fees the guidance also required Funds to include transaction costs (which were previously included in a narrative note only).

The CIPFA guidance was revised in 2015/16 and clarified the position with regards to underlying fees, invoking the accounting principle of control. The guidance clarifies that Funds should only include fees where they have a direct relationship with the investment manager, meaning that underlying fees should not be included within the Management Expenses total. This information remains disclosable within the Fund's Annual Report.

The Fund Management Fees shown overleaf show the fees for 2016/17 and 2015/16. Total expenses include Annual Management Charges from Fund Managers and also any additional costs such as operational, administrative and legal costs.

## NOTES TO THE CLWYD PENSION FUND ACCOUNTS

	2017 £000	2016 £000
<b>Fund Management Fees</b>		
<b>Core</b>		
Total Expenses including AMC	4,495	5,578
Performance Fees	0	219
Transaction Fees	83	105
<b>Non-Core</b>		
Total Expenses including AMC	6,648	6,132
Performance Fees	2,976	2,557
Transaction Fees	184	380
	<hr/> 14,386	<hr/> 14,971

**Non-Core** refers to Property, Infrastructure, Private Equity, Opportunistic and Timber and Agriculture investments.

Total fees as a percentage of the net asset value of the fund was 0.87% for 2016/17 (1.09% 2015/16).

## 4. INVESTMENTS AND PERFORMANCE

Further details on the investment strategy are available in the Investment Strategy Statement which can be obtained from the Clwyd Pension Fund Manager, County Hall, Mold, CH7 6NA (Web site [mss.clwydpensionfund.org.uk](http://mss.clwydpensionfund.org.uk) or Telephone 01352 702264).

The Council uses the investment performance services of JLT Consultants. Their report for the financial year 2016/17 showed that the Fund achieved an overall return of 21.5% from its investments (-0.1% in 2015/16). This compares with the Fund's benchmark return of +16.7% (+1.4% 2015/16) for the year.

## 5. ANALYSIS OF TRANSACTIONS AND RETURN ON INVESTMENTS

### Overview

The Fund invests its surplus monies in assets through a wide range of managers. All these main investments are through pooled vehicles where the Fund is one of many investors and where these pooled monies are invested on a common basis although, in the Fund's alternative assets, there are a couple of quoted holdings. Generally, however, the Fund has no direct holdings of equities, bonds, properties, private equity companies, commodities or other financial instruments.

### Transactions and Return on Investments

Details of the 2016/17 investment transactions and the net profit on sales of £64.203m (£4.840m in 2015/16) together with investment income of £7.432m (£5.863m in 2015/16) are set out below. The unrealised profit for 2016/17, because of the change in the market value of investments, amounted to £246.398m (£9.546m loss in 2015/16). Therefore, the increase in market value of investments (realised and unrealised) is £310.601m (£4.706m decrease in 2015/16).

**NOTES TO THE CLWYD PENSION FUND ACCOUNTS**

	Market Value 2015/16 £000	Purchases £000	Sales £000	Realised Gain (Loss) £000	Unrealised Gain (Loss) £000	Market Value 2016/17 £000	Investment Income £000
Fixed Interest Securities	170,331	80,140	(63,140)	2,151	9,139	198,621	0
Liability Driven Investment	315,530	0	(80,000)	41,386	116,942	393,858	0
Overseas Equities Active	202,826	29	(30,126)	3,238	61,518	237,485	0
Multi Strategy	227,037	87,518	0	0	34,540	349,095	0
Property	109,233	7,968	(10,774)	2,875	5,412	114,714	2,501
Infrastructure	27,351	2,281	(5,227)	727	6,629	31,761	1,584
Timber & Agriculture	25,937	219	(1,632)	0	4,579	29,103	0
Private Equity	139,582	24,770	(37,149)	14,135	11,085	152,423	2,537
Opportunistic	8,240	8,520	(446)	332	1,320	17,966	699
Hedge Fund	139,221	0	0	0	(11,942)	127,279	0
	1,365,288	211,445	(228,494)	64,844	239,222	1,652,305	7,321
Cash	15,034	0	0	0	0	33,623	38
Fees within Pooled Vehicles	0	0	0	0	7,176	0	0
Interest	0	0	0	0	0	0	73
Currency	0	0	0	(641)	0	0	0
	15,034	0	0	(641)	7,176	33,623	111
Total 2016/17	1,380,322	211,445	(228,494)	64,203	246,398	1,685,928	7,432
2015/16	1,392,365	432,832	(398,421)	4,840	(9,546)	1,380,322	5,863
	Market Value 2014/15 £000	Purchases £000	Sales £000	Realised Gain (Loss) £000	Unrealised Gain (Loss) £000	Market Value 2015/16 £000	Investment Income £000
Fixed Interest Securities	172,749	0	0	0	(2,418)	170,331	0
Liability Driven Investment	329,101	0	0	0	(13,571)	315,530	0
Overseas Equities Active	247,289	19,909	(50,115)	995	(15,252)	202,826	0
Multi Strategy	205,260	179,620	(148,422)	4,103	(13,524)	227,037	0
Property	103,522	7,192	(10,544)	1,663	7,400	109,233	2,741
Infrastructure	34,128	78	(10,509)	12	3,642	27,351	1,125
Timber & Agriculture	26,207	782	(2,306)	0	1,254	25,937	94
Commodities	24,962	0	(25,703)	(12,246)	12,987	0	0
Private Equity	142,808	21,935	(40,980)	9,669	6,150	139,582	1,644
Opportunistic	9,998	4,036	(496)	93	(5,391)	8,240	201
Hedge Fund	48,750	199,280	(109,346)	692	(155)	139,221	0
	1,344,774	432,832	(398,421)	4,981	(18,878)	1,365,288	5,805
Cash	47,591	0	0	0	0	15,034	0
Fees within Pooled Vehicles	0	0	0	0	9,332	0	0
Interest	0	0	0	0	0	0	58
Currency	0	0	0	(141)	0	0	0
	47,591	0	0	(141)	9,332	15,034	58
Total 2015/16	1,392,365	432,832	(398,421)	4,840	(9,546)	1,380,322	5,863
2014/15	1,212,810	142,377	(149,070)	57,213	127,416	1,392,365	5,345

## NOTES TO THE CLWYD PENSION FUND ACCOUNTS

### 6. MARKET VALUE OF INVESTMENTS (EXCLUDING CASH AND FUTURES)

The book cost of the investments as at 31<sup>st</sup> March 2017 is £1,171.084m (£1,123.290m in 2015/16). The market value of investments as at 31<sup>st</sup> March 2017 is £1,652.305m (£1,365.288m in 2015/16); this can be analysed as follows:

#### By Continent

The UK holdings as at 31<sup>st</sup> March 2017 account for 31% of total investments at market value:

	2017 £000	2016 £000
UK	519,585	429,081
Europe	105,514	103,471
North America	114,726	93,321
Emerging/ Frontier markets	106,336	104,121
Global Investments	806,144	635,294
	<hr/> <u>1,652,305</u>	<hr/> <u>1,365,288</u>

#### By Fund Manager

	2017 £000	%	2016 £000	%
Wellington	106,336	6	77,877	6
Aberdeen	0	0	26,244	2
Insight	393,858	24	315,530	23
Investec	214,023	13	155,632	11
Stone Harbor	198,621	12	170,331	12
Pyrford	82,747	5	60,992	5
Man FRM	127,279	8	139,221	10
Consultant "Best Ideas"	183,474	11	109,118	8
Property	114,714	7	109,233	8
Infrastructure	31,761	2	27,351	2
Timber / Agriculture	29,103	2	25,937	2
Private Equity	152,423	9	139,582	10
Opportunistic	17,966	1	8,240	1
	<hr/> <u>1,652,305</u>	<hr/> <u>100</u>	<hr/> <u>1,365,288</u>	<hr/> <u>100</u>

## NOTES TO THE CLWYD PENSION FUND ACCOUNTS

### By Listed /Managed

	Listed Managed £000	2016		2015	
		Listed £000	Unlisted £000	Listed Managed £000	Unlisted £000
Fixed Interest Securities	0	0	170,331	0	0
Overseas Equities	202,826	0	0	196,990	0
Multi Strategy	227,037	0	0	205,260	0
Property	38,988	0	70,245	36,018	0
Infrastructure	0	11,417	15,934	0	6,712
Timber / Agriculture	0	0	25,937	0	0
Commodities	0	0	0	0	0
Private Equity	0	1,998	137,584	0	1,969
Hedge Fund	0	0	139,221	21,977	0
Opportunistic	0	0	8,240	0	0
Liability Driven Investment	315,530	0	0	329,101	0
	784,381	13,415	567,492	789,346	8,681
			1,365,288		
2017					
	Listed Managed £000	Listed £000	Unlisted £000	Listed Managed £000	2016 Listed £000
Fixed Interest Securities	0	0	198,621	0	0
Overseas Equities	237,485	0	0	202,826	0
Multi Strategy	349,095	0	0	227,037	0
Property	39,919	0	74,795	38,988	0
Infrastructure	0	13,043	18,718	0	11,417
Timber / Agriculture	0	0	29,103	0	0
Private Equity	0	1,013	151,410	0	1,998
Hedge Fund	0	0	127,279	0	0
Opportunistic	0	0	17,966	0	0
Liability Driven Investment	393,858	0	0	315,530	0
	1,020,357	14,056	617,892	784,381	13,415
			1,652,305		

## 7. FAIR VALUE OF INVESTMENTS

### Financial Instruments

Whilst the Fund invests almost exclusively through pooled vehicles, the managers of these vehicles invest in a variety of financial instruments including bank deposits, quoted equity instruments, fixed interest securities, direct property holdings, unlisted equity products, commodity futures and other derivatives. This exposes the Fund to a variety of financial risks including credit and counterparty risk, liquidity risk, market risk and exchange rate risk.

Stock lending is the loan of specific securities from one investor to another that entitles the lender to continue receiving income generated by the stock plus an additional payment by the borrower. Exposure to risk is reduced by the borrower providing high quality collateral (cash, securities or gilts). It is effectively a trading activity to generate income rather than an investment. The Fund has no direct exposure to stock lending.

## NOTES TO THE CLWYD PENSION FUND ACCOUNTS

### Fair Value – Valuation Bases

Investments are shown in the accounts at fair value as at 31<sup>st</sup> March 2017 on the following bases.

- UK and overseas listed securities are valued within the respective pooled vehicles using the official bid prices quoted on the relevant stock exchange. Overseas holdings are converted to sterling at an exchange rate quoted at close of business on 31<sup>st</sup> March 2017.
- Unit trusts are valued at the bid market price.
- Other pooled vehicles are valued at the bid point of the latest process quoted by their respective managers or fund administrators at 31<sup>st</sup> March 2017. Where a bid price is not available the assets are priced at the net asset value provided.
- Property funds are valued at the bid market price, which is based upon regular independent valuation of the pooled vehicles' underlying property holdings.
- Private equity holdings are interests in limited partnerships. It is important to recognise the highly subjective nature of determining the fair value of these investments. They are inherently based on forward looking estimates and judgments involving many factors. These holdings are valued based upon the Fund's share of the net assets of the partnership according to the latest financial statements published by the respective managers. Where these valuations are not at the Fund's balance sheet date, the valuations are adjusted having due regard to the latest dealings, asset values and other financial information available at the time of preparing these statements in order to reflect the Fund's balance sheet date. The managers' valuation statements are prepared in accordance with the European Private Equity and Venture Capital Association (EVCA) Guidelines, net of carried interest. These incorporate the US-based FAS157 protocol on valuation approaches –
  - Market – uses prices and other relevant data generated by market transactions involving identical or comparable assets/liabilities (e.g. money multiples)
  - Income – uses valuation techniques to convert expected future amounts to a single present amount (discounted cash flows or earnings)
  - Cost – based upon the amount that currently would be required to replace the service capacity of an asset (adjusted for obsolescence)

Managers are required "to use the method that is appropriate in the circumstances and for which sufficient data is used and to apply the approach consistently until no longer appropriate." It is also possible to use multiple or combinations of approaches. Most private equity managers use a combination of the "market" and "income" approaches.

- Infrastructure investments are generally carried at the lower of cost and fair value, except where there are specific upward or downward valuations. In estimating fair value, managers use their judgment, having regard to the EVCA guidelines noted above for valuing unquoted investments. Upward valuations are considered only where there is validation of the investment objectives and such progress can be demonstrated. Downward valuations are enacted regardless of the investment stage where the manager considers that there is impairment to the underlying investment.
- Timberland investments are carried at net asset value as determined by the General Partner. In most cases fair value is derived from the audited financial statements provided by underlying managers or vehicles. In circumstances where audited financial statements are not available to 31<sup>st</sup> March, the valuations are derived from unaudited quarterly reports from the underlying managers or vehicles. Where the timber investments are direct rather than through underlying managers, valuations are based upon regular independent valuation of these holdings.

## NOTES TO THE CLWYD PENSION FUND ACCOUNTS

- Hedge funds are valued monthly to create a net asset value on the basis of the Fund's proportionate share of the value of underlying pools on a manager by manager basis. Generally the fair value of the Fund's investment in a related pool represents the amount that the Fund could be reasonably expected to receive from the pool if the Fund's investment was redeemed at the date of valuation, based upon information reasonably available at the time that the valuation was made and that the fund believes to be reliable.
- Diversified Growth and Multi Strategy funds invest for the most part in markets that are not exchange-based. These include OTC or "interdealer" markets and leverage is utilised by such funds to a significant level. If market prices are not available or do not reflect current market prices, the Fund applies its own pricing policies by reference to such relevant prices as are available to establish a fair value for the assets held.

### **Sensitivity of Assets Valued at Level 3**

The valuation methods described above are likely to be accurate within varying ranges dependent on the asset concerned. An indication of the possible impact of these fluctuations on the closing value of the investments is shown in the following table.

	Assessed Valuation Range (+/-)	Market Value 2016/17 Level 3	Value on Increase £000	Value on Decrease £000
Liability Driven Investment	10%	12,768	14,045	11,491
Property	10%	74,795	82,275	67,316
Infrastructure	10%	18,718	20,590	16,846
Timber & Agriculture	10%	29,103	32,013	26,193
Private Equity	15%	151,410	174,122	128,699
Hedge Fund	10%	9,634	10,597	8,671
Opportunistic Funds	10%	17,966	19,763	16,169
		314,394	353,405	275,385

### **Fair Value – Hierarchy**

The valuation of financial instruments has been classified into three levels according to the quality and reliability of information used to determine fair values.

#### **Level 1**

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed interest securities and unit trusts. Listed investments are shown at bid price.

#### **Level 2**

Financial instruments at Level 2 are those where quoted market prices are not available, for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where those techniques use inputs that are based significantly on observable market data.

#### **Level 3**

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would be unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgment in determining appropriate assumption.

## NOTES TO THE CLWYD PENSION FUND ACCOUNTS

The following tables show the position of the Fund's assets at 31<sup>st</sup> March 2017 and 31<sup>st</sup> March 2016 based upon this hierarchy.

	Market Value 2016/17	Level 1	Level 2	Level 3
	£000	£000	£000	£000
Fixed Interest Securities	198,621	0	198,621	0
Liability Driven Investment	393,858	18,137	362,953	12,768
Overseas Equities Active	237,485	234,467	3,018	0
Multi Strategy	349,095	82,747	266,348	0
Property (1)	114,714	0	39,919	74,795
Infrastructure (1)	31,761	13,043	0	18,718
Timber & Agriculture (1)	29,103	0	0	29,103
Private Equity (2)	152,423	1,013	0	151,410
Hedge Fund	127,279	3,554	114,091	9,634
Opportunistic Funds (2)	17,966	0	0	17,966
	1,652,305	352,961	984,950	314,394
Cash	33,623	33,623	0	0
Total 2016/17	1,685,928	386,584	984,950	314,394

(1) Property/ Infrastructure/ Timber and Agriculture - Various valuation bases are used. Direct fund holdings are valued based upon independent valuations, these have been classified as level 2, and some funds also often hold joint venture and partnership interests that are subject to a variety of valuation methodologies. To be conservative, these funds have been classified Level 3 unless the fund itself is quoted.

(2) Private Equity and Opportunistic Funds - Various valuation bases are used including cost, quoted prices (often discounted for "lock-ups"), transaction multiples, market multiples, future realisation proceeds, company prospects, third party opinion etc. Company and fund valuations often reflect combinations of these valuation bases. To be conservative, all funds have been classified Level 3 unless the fund itself is quoted.

Within the investments shown above as (1) or (2), whilst a small proportion are listed, the majority of the holdings are in unquoted investments; £331.911m compared to £296.928m in 2015/16. These are valued at a fair value by the fund managers, using an appropriate basis of valuation. The valuations are reliant upon a significant degree of judgment, and due to the subjectivity and variability of these valuations there is an increased likelihood that the valuations included in the financial statements would not be realised in the event of a sale. The difference could be materially lower or higher.

	Market Value 2015/16	Level 1	Level 2	Level 3
	£000	£000	£000	£000
Fixed Interest Securities	170,331	0	170,331	0
Liability Driven Investment	315,530	0	0	315,530
Overseas Equities Active	202,826	60,073	142,753	0
Multi Strategy	227,037	170,110	56,927	0
Property (1)	109,233	0	38,988	70,245
Infrastructure (1)	27,351	11,417	0	15,934
Timber & Agriculture (1)	25,937	0	0	25,937
Private Equity (2)	139,582	1,998	0	137,584
Hedge Fund	139,221	3,889	127,319	8,013
Opportunistic Funds (2)	8,240	0	0	8,240
	1,365,288	247,487	536,318	581,483
Cash	15,034	15,034	0	0
Total 2015/16	1,380,322	262,521	536,318	581,483

## NOTES TO THE CLWYD PENSION FUND ACCOUNTS

### 8. INVESTMENT RISKS

As demonstrated, the Fund maintains positions in a variety of financial instruments including bank deposits, quoted equity instruments, fixed interest securities, direct property holdings and unlisted equity products. This exposes the Fund to a variety of financial risks including credit and counterparty risk, liquidity risk, market risk and exchange rate risk.

#### Procedures for Managing Risk

The principal powers to invest are contained in the LGPS (Management and Investment of Funds) Regulations 2016, effective from 1<sup>st</sup> November 2016, and which require administering authorities to formulate an Investment Strategy Statement (ISS) in accordance with guidance issued by the Secretary of State. This replaces the requirement to produce and maintain a Statement of Investment Practice. The Administering Authority's overall risk management procedures focus on the unpredictability of financial markets and implementing restrictions to minimise these risks. The Fund will annually review its ISS and corresponding Funding Strategy Statement (FSS), which set out the Pension Fund's policy on matters such as the type of investments to be held, balance between types of investments, investment restrictions and the way risk is managed. The ISS and FSS are on the Fund's website ([mss.clwydpensionfund.org.uk](http://mss.clwydpensionfund.org.uk)).

The Fund carries out a formal review of its structure at least every 4 years, usually every 3 years. The last full review was carried out in 2014 at which the Fund's Consultants, JLT Group determined that the resulting asset mix coupled with the requirements for certain fund managers to outperform their market indices should produce long-term returns of 7.2% with a volatility of around 11%. A light-touch review was undertaken during 2016 that reduced the long-term expected annual return to 6.5% taking account of changes in long-term market trends but also the Government's guidance on infrastructure investment by increasing the Fund's exposure from 2% to 8% over the medium term. A key element in this review process was the consideration of risk and for many years now the Fund has pursued a policy of lowering risk by diversifying investments across asset classes, investment regions and fund managers. Furthermore, alternative assets are subject to their own diversification requirements and some examples are given below.

- private equity – by stage, geography and vintage where funds of funds are not used
- property – by type, risk profile, geography and vintage (on closed-ended funds)
- infrastructure – by type (primary/secondary), geography and vintage
- hedge funds – bespoke funds via a managed account platform

The Fund invests in a Long Term Management of Risk mandate. The strategy provides a framework to enable the Fund to effectively reduce risk when market conditions become more favourable (i.e. bonds become cheaper). The framework includes both market yield based triggers. In particular, the manager makes use of Liability Driven Investment (LDI) techniques to increase the level of hedging within the Fund. This is achieved through the physical purchase of gilts along with repurchase agreements (repo). These allow the fund to gain unfunded exposure to gilts. The manager also replicates the Fund's developed passive equity allocation using Equity Total Return Swaps (TRS). During 2016/17 the Fund's Committee approved a review of the Flightpath framework to improve its efficiency to the long term benefit of the Fund and this was completed on 3<sup>rd</sup> March with an expected net gain of £36.5m over the term of the bonds held. It was also agreed in principle to implement 'equity options' to protect against the impact on employer contributions of material falls in the equity element of the current mandate and take the opportunity to update the interest rate and inflation triggers and potential actions within the flightpath structure if the funding position improves further. The outcome of this review is currently being implemented.

#### Roll risk

The LDI manager has the facility to use repurchase agreements, once these agreements mature, they need to be replaced with other contracts to maintain the relevant exposure (known as "rolling" the contract). This involves managing the operational risks raised to ensure sufficient resources are in place to arrange the trades and manage the process. In addition, as a contract matures, the underlying market for repo may become illiquid and at the extreme, the manager may not be able to roll the position. This is mitigated by structuring the overall repo over a range of maturity dates and diversifying counterparty exposure.

## NOTES TO THE CLWYD PENSION FUND ACCOUNTS

### Manager Risk

The Fund is also well diversified by manager with no single manager managing more than 24% of Fund assets. On appointment fund managers are delegated the power through an investment management agreement to make such purchases and sales as they deem appropriate under the mandate concerned. Each mandate has a benchmark or target to outperform or achieve, usually on the basis of 3-year rolling periods. A formal annual update is required from each manager to discuss their mandates and their performance on them; on-going performance management is also undertaken. There are slightly different arrangements for some of the alternative assets. On private equity, property, infrastructure and timber/agriculture, investment is fund rather than manager-specific, with specific funds selected by the in-house team after careful due diligence. These commitments are smaller in nature than main asset class investments but again regular performance reports are received and such investments are reviewed with managers at least once a year.

### Credit Risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. As noted above, almost all the Fund's investment are through pooled vehicles and a number of these are involved in derivative trades of various sorts, including futures, swaps and options. Whilst the Fund is not a direct counterparty to such trades and so has no direct credit risk, clearly all derivative transactions incorporate a degree of risk and the value of the pooled vehicle, and hence the Fund's holding, could be impacted negatively by failure of one of the vehicle's counterparties. However, part of the operational due diligence carried out on potential manager appointees concerns itself with the quality of that manager's risk processes around counterparties and seeks to establish assurance that these are such as to minimise exposure to credit risk. Once appointed, managers are required to provide copies of their annual internal control reports for review to ensure that the expected standards are maintained.

Deposits are not made with banks and financial institutions unless they are rated independently.

Subject to cash flow requirements, cash can be deposited in one of the following:

- The Pension Fund bank account with the National Westminster Bank for daily liquidity
- A National Westminster deposit account with access up to 180 days' notice.
- A Money Market AAA Fund for unexpected liquidity requirements or higher rates of return.

The Fund believes it has managed its exposure to credit risk and has no experience of default or uncollectible deposits in the last three financial years. The Fund's cash holdings as at 31<sup>st</sup> March 2017 were £33.623m (£15.034m at 31<sup>st</sup> March 2016). This was held as follows:

	Rating	2017 £000	2016 £000
<b>Money Market Funds</b>			
BlackRock	AAA	0	0
Bank of New York Mellon	AAA	20,000	1,395
<b>Bank Deposit Accounts</b>			
National Westminster Bank PLC	BBB+	13,603	13,619
<b>Bank Current Accounts</b>			
National Westminster Bank PLC	BBB+	20	20
		<u>33,623</u>	<u>15,034</u>

Within the Fund, the areas of focus in terms of credit risk are bonds and some of the alternative asset categories.

- The Fund's bond portfolio is managed on an unconstrained basis and has a significant exposure to credit, emerging market debt and loans. At 31<sup>st</sup> March 2017, the Fund's exposure to non-investment grade paper was £93.153m or 46.9% of the fixed interest portfolio (36.5% at 31<sup>st</sup> March 2016).
- On private equity and infrastructure the Fund's investments are almost entirely in the equity of the companies concerned.

## NOTES TO THE CLWYD PENSION FUND ACCOUNTS

### Liquidity Risk

The Pension Fund has its own bank account. At its simplest, liquidity risk is the risk that the Fund will not be able to meet its financial obligations when they fall due, especially pension payments to its members. At a strategic level the Administering Authority, together with its consulting actuary, reviews the position of the Fund triennially to ensure that all its obligations can be suitably covered. Ongoing cash flow planning in respect of contributions, benefit payments, investment income and capital calls/distributions is also essential and undertaken regularly by the Fund.

Specifically on investments, the Fund holds through its managers a mixture of liquid, semi-liquid and illiquid assets. Whilst the Fund's investment managers have substantial discretionary powers regarding their individual portfolios and the management of their cash positions, they hold within their pooled vehicles a large value of very liquid securities, such as equities and bonds quoted on major stock exchanges, which can easily be realised. Traditional equities (including synthetic equity exposure) and bonds now comprise 50.2% of the Fund's total value and, whilst there will be some slightly less liquid elements within this figure (emerging market equities and debt for example), the funds investing in these securities offer monthly trading at worst – often weekly or fortnightly.

On alternative assets the position is more mixed. Whilst there are a couple of quoted vehicles here, most are subject to their own liquidity terms or, in the case of property, redemption rules. Closed-ended funds such as most private equity vehicles and some property and infrastructure funds are effectively illiquid for the specified fund period (usually 10 years), although they can be sold on the secondary market, usually at a discount.

The table below analyses the value of the Fund's investments at 31<sup>st</sup> March 2017 by liquidity profile.

	Market Value 2016/17 £000	1 Month £000	2 - 3 Months £000	3 - 6 Months £000	6 - 12 Months £000	Closed - ended £000	Locked £000
Fixed Interest Securities	198,621	198,621	0	0	0	0	0
Liability Driven Investment	393,858	393,858	0	0	0	0	0
Overseas Equities Active	237,485	237,485	0	0	0	0	0
Multi Strategy	349,095	349,095	0	0	0	0	0
Property	114,714	0	39,919	0	0	74,795	0
Infrastructure	31,761	13,043	0	0	0	18,718	0
Timber & Agriculture	29,103	0	0	0	0	29,103	0
Private Equity	152,423	1,013	0	0	0	151,410	0
Hedge Fund	127,279	101,836	15,809	0	0	0	9,634
Opportunistic Funds	17,966	0	0	0	0	17,966	0
	1,652,305	1,294,951	55,728	0	0	291,992	9,634

It should be noted that different quoted investments are subject to different settlement rules but all payments/receipts are usually due within 7 days of the transaction (buy/sell) date. Because the Fund uses pooled vehicles for quoted investments these are often subject to daily, weekly, 2-weekly or monthly trading dates. All such investments have been designated "within 1 month" for the purposes of liquidity analysis. Open-ended property funds are subject to redemption rules set by their management boards. Many have quarterly redemptions but these can be held back in difficult markets so as not to force sales and disadvantage continuing investors. For liquidity analysis purposes, a conservative approach was applied and all such investments have been designated "within 2-3 months".

## NOTES TO THE CLWYD PENSION FUND ACCOUNTS

Closed-ended funds have been designated illiquid for the purposes of liquidity analysis. However, these closed-ended vehicles have a very different cash flow pattern to traditional investments since the monies committed are only drawn down as the underlying investments are made (usually over a period of 5 years) and distributions are returned as soon as underlying investments are exited (often as early as year 4).

In terms of cash flow, therefore, the net cash flow for such a vehicle usually only reaches a maximum of about 60-70% of the amount committed and cumulative distributions usually exceed cumulative draw-downs well before the end of the specified period, as these vehicles regularly return 1½ to 2½ times the money invested. At the same time, it has been the Fund's practice to invest monies on a regular annual basis so the vintage year of active vehicles ranges from 1997 to 2017. This means that, whilst all these monies have been designated closed-ended and thereby illiquid on the basis of their usual "10-year life", many are closer to maturity than implied by this broad designation.

As can be seen from the table, even using the conservative basis outlined above, around 78% of the portfolio is realisable within 1 month.

### Market Risk

Market risk is the risk that the fair value or future cash flows of a financial institution will fluctuate because of changes in market price. The Fund is exposed to the risk of financial loss from a change in the value of its investments and the consequential danger that its assets will fail to deliver returns in line with the anticipated returns underpinning the valuation of its liabilities over the long term.

Market risk is comprised of two elements:

- The risks associated with volatility in the performance of the asset class itself (beta);
- The risks associated with the ability of managers, where allowed, to move away from index weights and to generate alpha, thereby offsetting beta risk by exceeding market performance.

The following table sets out an analysis of the Fund's market risk positions at 31<sup>st</sup> March 2017 by showing the amount invested in each asset class and through each manager within each main asset class, the index used as a benchmark, the target set for managers against this benchmark and managers' maximum target volatility (or risk) against index in achieving this. This expected risk is based on 10 year historic returns and volatility.

## NOTES TO THE CLWYD PENSION FUND ACCOUNTS

	Manager	Market Value 2016/17 £000	Benchmark	Target	Risk (<)
				(Net)	%
Fixed Interest Securities	Stone Harbor	198,621	1 Month LIBOR	+1.0%	6.0
Liability Driven Investment	Insight	393,858	Liability / FTSE	Match	21.0
Foreign equities-active	Investec	131,149	MSCI AC World NDR	+2.5%	14.0
	Wellington	106,336	MSCI EM Free	+1.5%	21.0
Multi strategy funds	Custodian "Best Ideas"	183,474	UK CPI	+3.0%	9.0
	Investec	82,874	UK CPI	+4.6%	9.0
	Pyrford	82,747	RPI	+4.5%	9.0
Hedge Fund	Man FRM	127,279	3 Month LIBOR	+3.5%	6.0
Property funds	Various	114,714	IPD Balanced PUTs	Exceed	5.0
Infrastructure funds	Various	31,761	3 Month LIBOR	+5.0%	10.0
Timber /Agricultural funds	Various	29,103	3 Month LIBOR	+5.0%	10.0
Private equity funds	Various	152,423	3 Month LIBOR	+5.0%	28.0
Opportunistic funds	Various	17,966	3 Month LIBOR	+5.0%	28.0
		<hr style="border-top: 1px solid black;"/>			
		1,652,305			

The risks associated with volatility in market values are mainly managed through a policy of broad asset diversification. The Fund sets restrictions on the type of investment it can hold through investment limits, in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. The Fund also adopts a specific strategic benchmark (details are in the Fund's ISS) and the weightings of the various asset classes within the benchmark form the basis for asset allocation within the Fund. Under normal conditions, there is quarterly rebalancing to this strategic benchmark within fixed tolerances. This allocation, determined through the Fund's asset allocation model, is designed to diversify and minimise risk for a specific level of performance through a broad spread of investments across both the main and alternative asset classes and geographic regions within each asset class. The current strategic benchmark is targeted to produce long-term returns of 6.5% with a volatility of around 12.6%.

Market risk is also managed through manager diversification – constructing a diversified portfolio across multiple investment managers. On a daily basis, managers will manage risk in line with the benchmarks, targets and risk parameters set for the mandate, as well as their own policies and processes. The Fund itself monitors managers on a regular basis (at least quarterly) on all these aspects. On property and private equity, fund and manager diversification is vital and, whilst a full list of investments is not detailed here, the Fund has exposures as follows:

	Market Value 2017	Managers	Funds	Properties / Companies	Estimated No.
	£000	No.	No.	No.	
Real Assets	175,578	25	41		>280
Private Equity / Opportunistic	170,389	25	70		>4,000

## NOTES TO THE CLWYD PENSION FUND ACCOUNTS

### Other Price Risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments.

The fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the fund to ensure it is within limits specified in the fund's investment strategy.

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the fund's Investment Consultant, JLT Group, the fund has determined that the following movements in market price risk are reasonably possible for the 2016/17 reporting period:

Asset Type	Potential Market Movements (+ / -)
Overseas Equity	11.36%
Fixed Interest Securities	3.20%
Liability Driven Investing	16.76%
Pooled Multi Strategy	5.58%
Hedge Fund	5.67%
Alternatives	4.99%
Property	3.15%
Cash	0.01%

The sensitivities are consistent with the assumptions provided by the JLT Group based on historic data collated for the Fund. The analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates remain the same.

Had the market price of the Fund's investments increased / decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows (prior year comparator also provided).

Asset Type	Market Value 2016/17	Percentage Change %	Value on Increase £000	Value on Decrease £000
<b>Cash and cash equivalents</b>	33,623	0.01	33,626	33,620
<b>Investment portfolio assets:-</b>				
Global Equity inc UK				
Overseas Equity	237,485	11.36	264,456	210,514
Fixed Interest Securities	198,621	3.20	204,980	192,262
Liability Driven Investing	393,858	16.76	459,885	327,831
Pooled Multi Strategy	349,095	5.58	368,588	329,602
Hedge Fund	127,279	5.67	134,494	120,064
Alternatives	231,253	4.99	242,787	219,719
Property	114,714	3.15	118,324	111,104
	<b>1,685,928</b>		<b>1,827,140</b>	<b>1,544,716</b>

## NOTES TO THE CLWYD PENSION FUND ACCOUNTS

Asset Type	Market Value 2015/16	Percentage Change %	Value on Increase £000	Value on Decrease £000
<b>Cash and cash equivalents</b>	15,034	0.01	15,036	15,032
<b>Investment portfolio assets:-</b>				
Global Equity inc UK	98,705	7.31	105,920	91,490
Overseas Equity	104,121	10.35	114,898	93,344
Fixed Interest Securities	170,331	4.03	177,195	163,467
Liability Driven Investing	315,530	13.12	356,928	274,132
Pooled Multi Strategy	227,037	5.67	239,910	214,164
Alternatives	340,331	2.51	348,873	331,789
Property	109,233	2.49	111,953	106,513
	<u>1,380,322</u>		<u>1,470,713</u>	<u>1,289,931</u>

### Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund recognises that interest rates can vary and affect both the income to the fund and the net assets available to pay benefits. The Fund's Fixed Income manager has advised that rates may rise by 61 basis points (bps) over the next year. As the fund does not use Fixed Income securities to provide income, the following sensitivity analysis only refers to cash and cash balances.

Asset Type	Carrying Value			Change in year in net assets available to pay benefits		
	2016/17		+61BPS		-61BPS	
	£000	£000	£000	£000	£000	£000
Cash and cash equivalents	20,000	122	(122)			
Cash balances	13,623	83	(83)			
	<u>33,623</u>	<u>205</u>	<u>(205)</u>			

Asset Type	Carrying Value			Change in year in net assets available to pay benefits		
	2015/16		+25BPS		-25BPS	
	£000	£000	£000	£000	£000	£000
Cash and cash equivalents	1,395	3	(3)			
Cash balances	13,639	34	(34)			
	<u>15,034</u>	<u>37</u>	<u>(37)</u>			

## NOTES TO THE CLWYD PENSION FUND ACCOUNTS

### Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any other currency other than the functional currency of the Fund (GBP). The Fund holds assets denominated in currencies other than GBP.

The following table summarises the Fund's currency exposure as at 31<sup>st</sup> March 2017 and as at the previous year end:

Currency Exposure - Asset Type	Market Value		Market Value	
	2016/17		2015/16	
	£000	£000	£000	£000
Fixed Interest Securities	198,621		170,331	
Overseas Equities Active	237,485		202,826	
Multi Strategy	349,095		227,037	
Hedge Funds	127,279		139,221	
Property	30,952		32,056	
Infrastructure	15,203		12,441	
Timber / Agriculture	29,103		25,937	
Opportunistic	14,632		8,240	
Private Equity	130,350		118,118	
	<u>1,132,720</u>		<u>936,207</u>	

Following analysis of the historical data in consultation with the fund's Investment Consultants, JLT Group, and analysis of the exposures to foreign currency for the year to 31<sup>st</sup> March 2017, it was considered that the likely volatility associated with foreign exchange rate movements to be 5.95%. For the period to 31<sup>st</sup> March 2016, this was calculated to be 5.85%.

This analysis assumes that all other variables, in particular interest rates, remain constant. These individual year percentages strengthening/ weakening against the various currencies in which the fund hold investments would increase/ decrease the net assets available to pay benefits as follows:

Currency Exposure - Asset Type	Market Value	Percentage	Value on	Value on
		Change	Increase	Decrease
	2016/17	%	£000	£000
Fixed Interest Securities	198,621	5.95	210,434	186,808
Overseas Equity - Active	237,485	5.95	251,609	223,361
Multi Strategy	349,095	5.95	369,857	328,333
Hedge Fund	127,279	5.95	134,849	119,709
Timber & Agriculture	29,103	5.95	30,834	27,372
Infrastructure	15,203	5.95	16,107	14,299
Property	30,952	5.95	32,793	29,111
Opportunistic	14,632	5.95	15,502	13,762
Private Equity	130,350	5.95	138,102	122,598
	<u>1,132,720</u>		<u>1,200,087</u>	<u>1,065,353</u>

## NOTES TO THE CLWYD PENSION FUND ACCOUNTS

Currency Exposure - Asset Type	Market	Percentage	Value on	Value on
	Value	Change	Increase	Decrease
	2015/16	%	£000	£000
Fixed Interest Securities	170,331	5.85	180,288	160,374
Overseas Equity - Active	202,826	5.85	214,682	190,970
Multi Strategy	227,037	5.85	240,309	213,765
Hedge Fund	139,221	5.85	147,359	131,083
Timber & Agriculture	25,937	5.85	27,453	24,421
Infrastructure	12,441	5.85	13,168	11,714
Property	32,056	5.85	33,930	30,182
Opportunistic	8,240	5.85	8,722	7,758
Private Equity	118,118	5.85	125,022	111,214
	<u>936,207</u>		<u>990,933</u>	<u>881,481</u>

### 9. RECEIVABLES/PAYABLES

	2017		2016	
	£000	£000	£000	£000
<b>Current Assets :</b>				
Contributions due - Employees	1,129		1,109	
Contributions due - Employers	2,572		2,394	
Added years	38		30	
H.M. Revenue and Customs	12		13	
Pension strain	544		1,635	
Administering authority	0		0	
Miscellaneous	<u>250</u>		<u>168</u>	
	4,545		5,349	
<b>Less Current Liabilities :</b>				
Contributions	(7)		(6)	
Lump sums	(1,079)		(3,324)	
Death grants	(180)		(755)	
Administering authority	(418)		(284)	
Added years	(90)		(195)	
H.M. Revenue and Customs	(2)		(5)	
Miscellaneous	<u>(531)</u>		<u>(427)</u>	
	(2,307)		(4,996)	
<b>Net Current Assets</b>	<b><u>2,238</u></b>		<b><u>353</u></b>	

## NOTES TO THE CLWYD PENSION FUND ACCOUNTS

<b>Analysis of receivables</b>	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Central Government Bodies	12	13
Other Local Authorities	3,935	4,868
Other Entities and Individuals	598	468
	<hr/> <u>4,545</u>	<hr/> <u>5,349</u>

<b>Analysis of payables</b>	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Central Government Bodies	(3)	(5)
Other Local Authorities	(508)	(468)
Other Entities and Individuals	(1,796)	(4,523)
	<hr/> <u>(2,307)</u>	<hr/> <u>(4,996)</u>

## 10. MATERIAL TRANSACTIONS

The Fund undertakes a review of fund management arrangements every three or four years. A light-touch review was undertaken during 2016/17 and the following table details the changes which were completed during 2016/17. Some subscriptions and redemptions were staggered through 2016/17, details are shown below.

<b>2016/17</b>	<b>Manager</b>	<b>Mandate</b>	<b>Allocation</b>		<b>Redemption/ Subscription</b>	
			<b>Initial</b>	<b>Final</b>	<b>Initial</b>	<b>Final</b>
<b>Redemptions/ Change in Allocations</b>						
Aberdeen		Frontier Market Equities	2.5%	0.0%	Nov-16	Jan-17
Stone Harbor		Multi-Asset Credit	15.0%	12.0%	N/A	N/A
Wellington		Emerging Market Equity	6.5%	6.0%	N/A	N/A
<b>Subscriptions</b>						
Consultant		"Best Ideas" Portfolio	9.0%	11.0%	N/A	Feb-17

## 11. POST BALANCE SHEET EVENT

The accounts outlined within the statement represent the financial position of the Clwyd Pension Fund as at 31<sup>st</sup> March 2017. Since this date, the performance of the global equity markets may affect the financial value of pension fund investments. This movement does not affect the ability of the Fund to pay its pensioners.

## 12. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

In accordance with Regulations of 4(1)b of The Pension Scheme (Management and Investment of Funds) Regulations 2016, a market value or an estimate thereof has not been included for the money purchase AVC investments. These assets are specifically allocated to the provision of additional benefits for particular members. The Clwyd Pension Fund has the services of two AVC providers (Prudential and Equitable Life) for members' additional benefits with the funds being invested in a range of investment products including fixed interest, equity, cash, deposit, property and socially responsible funds, as follows :-

Contributions paid	£	807,023
Units purchased	No.	120,657
Units sold	No.	95,008
Market value as at 31st March 2017	£	4,960,248
Market value as at 31st March 2016	£	4,609,979

## NOTES TO THE CLWYD PENSION FUND ACCOUNTS

### 13. RELATED PARTY TRANSACTIONS

#### Governance

Under legislation, introduced in 2004, Councilors are entitled to join the Pension Scheme. As at 31st March 2017, two Members of the Clwyd Pension Fund Committee have taken this option. The four Co-opted Members of the Pension Fund Committee receive fees in relation to their specific responsibilities as members of the Committee in the form of an attendance allowance that is in line with that adopted by Flintshire County Council.

#### Key Management Personnel

The key management personnel of the fund are the Flintshire County Council Chief Executive and the Corporate Finance Manager (S151 Officer). Total remuneration payable to key management personnel for 2016/17 and 2015/16 is set out below for their time apportioned to the Fund.

	2017	2016
	£000	£000
Short-term benefits	16.7	16.8
Post-employment benefits	0.2	0.1
	<hr/> <hr/> 16.9	<hr/> <hr/> 16.9

#### Flintshire County Council

In the course of fulfilling its role as administering authority to the Fund, Flintshire County Council provided services to the Fund for which it charged £1.004m (£1.296m in 2015/16). These costs are in respect of those staff employed in ensuring the pension service is delivered, and other costs such as payroll and information technology. The costs are included in the accounts within oversight and governance, and administration expenses (see note 3). At the year end, a net balance of £0.408m was owing to Flintshire in relation to creditors payments made on behalf of the fund (£0.284m in 2015/16).

### 14. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

As at 31st March 2017, the Fund has contractual commitments of £672.4m (£681.2m in 2015/16) in private equity infrastructure, timber and agriculture and property funds, of which £517.3m (£473.6m in 2015/16) has been deployed, leaving an outstanding commitment of £155.0m (£207.6m in 2015/16).

### 15. AGENCY ACCOUNTING

The Clwyd Pension Fund pays discretionary awards to the former employees of former and current Unitary Authorities, Town and Community Councils and Educational Organisations. The amounts are not included within the Fund Account but are provided as a service and fully reclaimed from the employer bodies. The sums are disclosed below.

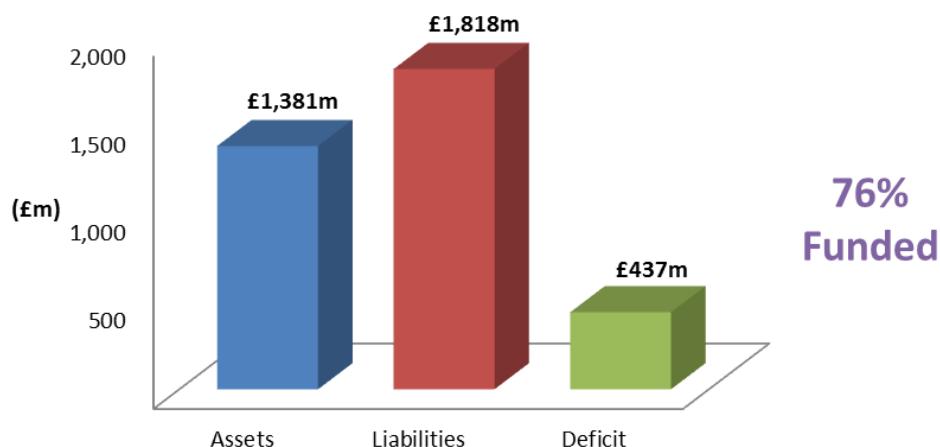
	2017	Payments on behalf of	2016
	£000		£000
2,255	Wrexham County Borough Council		2,315
3,209	Flintshire County Council		3,298
1,823	Denbighshire County Council		1,877
551	Conwy County Borough Council		571
51	Coleg Cambria		48
36	Glyndwr		40
22	Powys County Council		23
9	North Wales Fire Service		10
9	DVLA		8
7	Local Government Management Board		7
0	Welsh Water Authority		4
4	Magistrates Court		4
1	Llanasa Community Council		1
1	Cefn Mawr Community Council		1
	<hr/> <hr/> 7,978		<hr/> <hr/> 8,207

## NOTES TO THE CLWYD PENSION FUND ACCOUNTS

### 16. ACTUARIAL VALUATION & VALUE OF PROMISED RETIREMENT BENEFITS FOR THE PURPOSE OF IAS 26 (Provided by the Fund's Actuary – Mercer Limited)

This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme Regulations 2013. An actuarial valuation of the Clwyd Pension Fund was carried out as at 31<sup>st</sup> March 2016 to determine the contribution rates with effect from 1<sup>st</sup> April 2017 to 31<sup>st</sup> March 2020.

On the basis of the assumptions adopted, the Fund's assets of £1,381 million represented 76% of the Fund's past service liabilities of £1,818 million (the "Funding Target") at the valuation date. The deficit at the valuation was therefore £437 million.



The valuation also showed that a Primary contribution rate of 15.3% of pensionable pay per annum was required from employers. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the Funding Strategy Statement (FSS) is to achieve and then maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall (or contribution reductions to refund any surplus).

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average deficit recovery period is 15 years, and the total initial recovery payment (the "Secondary rate") for the three years commencing 1 April 2017 is approximately £29.4 million per annum. For most employers, the Secondary rate will increase at 3.45% per annum, except where phasing has been applied or where it was agreed with the employer to pay a flat contribution. With the agreement of the Administering Authority employers may also opt to pay some of their employer contributions early (after suitably agreed reductions), with either all three years being paid in April 2017 or payment being made in the April of the year in question.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 31<sup>st</sup> March 2017. In practice, each individual employer's position is assessed separately and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Any different approaches adopted, e.g. with regard to the implementation of contribution increases and deficit recovery periods, are as determined through the FSS consultation process.

## NOTES TO THE CLWYD PENSION FUND ACCOUNTS

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Funding Target and the Primary rate of contribution were as follows:

	For past service liabilities (Funding Target)	For future service liabilities (Primary rate of contribution)
Rate of return on investments (discount rate)	4.20% per annum	4.95% per annum
Rate of pay increases (long term)*	3.45% per annum	3.45% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.2% per annum	2.2% per annum

\* allowance was also made for short-term public sector pay restraint over a 4 year period.

The assets were assessed at market value. The next triennial actuarial valuation of the Fund is due as at 31<sup>st</sup> March 2019. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1<sup>st</sup> April 2020.

### Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes. To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31<sup>st</sup> March 2017 (the 31<sup>st</sup> March 2016 assumptions are included for comparison):

	31 March 2016	31 March 2017
Rate of return on investments (discount rate)	3.6% per annum	2.5% per annum
Rate of pay increases*	3.5% per annum	3.55% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.0% per annum	2.3% per annum

\* includes a corresponding allowance to that made in the latest formal actuarial valuation for short-term public sector pay restraint.

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated 31<sup>st</sup> March 2017.

During the year, corporate bond yields fell, resulting in a lower discount rate being used for IAS 26 purposes at the year end than at the beginning of the year (2.5% p.a. versus 3.6% p.a.). The expected long-term rate of CPI inflation increased during the year, from 2.0% p.a. to 2.3%. Both of these factors combined served to significantly increase the liabilities over the year. The pay increase assumption at the year end has also changed to allow for short-term public sector pay restraint, together with a lower assumed level of "real" pay growth above CPI inflation, both of which serve to reduce the liabilities.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31<sup>st</sup> March 2016 was estimated as £2,164 million. Interest over the year increased the liabilities by c£78 million, though allowing for net benefits accrued/paid over the period then decreased them by c£2 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). There was then a further increase in liabilities of £402 million made up of "actuarial losses" (mostly changes in the actuarial assumptions used, primarily the discount rate and assumed rate of future CPI as referred to above).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31<sup>st</sup> March 2017 is therefore £2,642 million.



## FLINTSHIRE COUNTY COUNCIL

**Administering Authority for  
CLWYD PENSION FUND**

## GOVERNANCE POLICY and COMPLIANCE STATEMENT

**March 2017**

# GOVERNANCE POLICY

## Introduction and Legal Requirements

Flintshire County Council is the Administering Authority responsible for maintaining and managing the Clwyd Pension Fund on behalf of its stakeholders; the scheme members and employers participating in the Fund. These responsibilities are primarily set out in Local Government Pension Scheme (LGPS) Regulations.

Flexibility is provided for each Administering Authority to determine their own governance arrangements. However the LGPS Regulations require each Administering Authority to prepare, publish and maintain a governance policy and compliance statement setting out whether the Administering Authority delegates its functions, or part of its functions to a committee, a sub-committee or an officer of the authority, and if so:

- a) the terms, structure and operational procedures of the delegation,
- b) the frequency of any committee or sub-committee meetings,
- c) whether such a committee or sub-committee includes representatives of Scheme employers or members, and if so, whether those representatives have voting rights
- d) the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying, and
- e) details of the terms, structure and operational procedures relating to the local pension board.

The regulations require Administering Authorities to consult such persons as it considers appropriate when preparing the policy and compliance statement.

This document is the Governance Policy and Compliance Statement for Clwyd Pension Fund that has been prepared to meet the requirement of the LGPS Regulations. The compliance statement required by point (d) is included as Appendix A.

## Aims and Objectives

Flintshire County Council recognises the significance of its role as Administering Authority to the Clwyd Pension Fund on behalf of its stakeholders which include:

- around 45,000 current and former members of the Fund, and their dependants
- around 39 employers within the Flintshire, Denbighshire and Wrexham Council areas
- the local taxpayers within those areas.

Our Fund's Mission Statement is:

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

In relation to the governance of the Fund we will aim to:

- 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

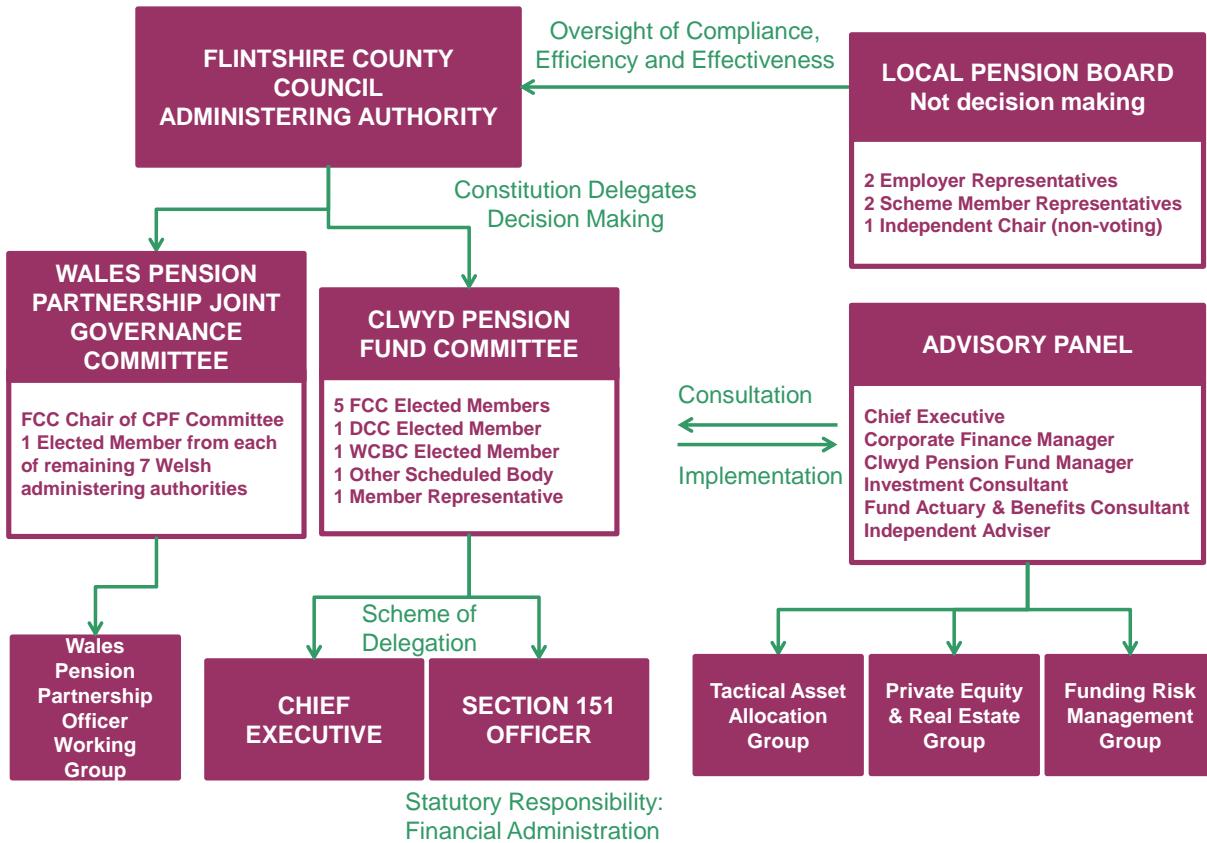
### **Background to Governance Arrangements**

Flintshire County Council reviewed its Governance arrangements for the Clwyd Pension Fund in 2014. Prior to this date, the responsibility for the Clwyd Pension Fund rested with the Head of Finance who reported to the Clwyd Pension Fund Panel made up of elected members from Flintshire County Council, Denbighshire County Council and Wrexham County Borough Council. In addition the panel had non-voting members including an independent adviser and a scheme member representative.

An independent review by CIPFA in 2010 found the governance of the Fund to be very good but recognised that this governance structure did not meet best practice, in particular they recommended:

- Responsibility for the management of the Clwyd Pension Fund should be transferred from the Head of Finance to a newly constituted Committee
- There should be wider representation of stakeholders on the newly constituted committee with voting rights extended to all committee members.

As a result, in May 2014, the Fund's governance arrangements were reviewed and the Council established a formal Pension Fund Committee, supported by a Pensions Advisory Panel. The Corporate Finance Manager is the Section 151 Officer and has a statutory responsibility for the proper financial affairs of Flintshire County Council which include Clwyd Pension Fund matters. In addition, the Council has delegated specific responsibilities to the Chief Executive. This governance structure was expanded in early 2015 as a result of the requirement by the Public Service Pensions Act 2013 to introduce a local pension board to assist in compliance of pension fund matters. It was then further expanded in March 2017 to establish the Wales Pension Partnership Joint Governance Committee and Officer Working Group and facilitate the move to pooling of pension fund assets across the eight LGPS Pension Funds in Wales. The Council's governance structure for pension fund matters is as shown below:



## Clwyd Pension Fund Committee

The Pension Fund Committee's principal aim is to carry out the functions of Flintshire County Council as the Scheme Manager and Administering Authority for the Clwyd Pension Fund in accordance with LGPS legislation.

The members on the Clwyd Pension Fund Committee are not trustees of the Fund, however, they do have a duty of care which is analogous to the responsibilities of trustees in the private sector and they could be more accurately described as 'quasi trustees'. The management of the Clwyd Pension Fund is Non-Political.

The Committee's specific roles as outlined in the Council's Constitution are shown in Appendix B. The Committee may also delegate a limited range of its functions to one or more officers of Flintshire County Council.

No matters relating to Flintshire County Council's responsibilities as an employer participating within the Clwyd Pension Fund are delegated to the Pension Fund Committee.

The Pension Fund Committee meets at least quarterly and is composed of nine members as follows:

- Five Councillors of Flintshire County Council, determined by the Council.
- Four co-opted members comprising:-
  - One Councillor of Wrexham County Borough Council, determined by that Council.
  - One Councillor of Denbighshire County Council, determined by that Council.

- One Representative of the other Scheme Employers (not admission bodies) in the Clwyd Pension Fund as defined by Schedule 2 of the Local Government Pension Scheme 2013, as amended from time to time, appointed in accordance with procedures agreed by the Chief Executive in consultation with the members of the Pension Fund Advisory Panel.
- One Representative of the scheme members of the Clwyd Pension Fund, appointed in accordance with procedures agreed by the Chief Executive in consultation with the members of the Pension Fund Advisory Panel.

The Council's Constitution permits named substitutes for Flintshire County Council members only, providing they satisfy the knowledge and skills policy of the pension fund. The terms of reference for the members range from four to six years, and members may be reappointed for further terms.

All members have equal voting rights.

### **Chief Executive**

Under the Council's Constitution, the Chief Executive is responsible for the following matters:

- The day to day management of Clwyd Pension Fund matters including ensuring arrangements for investment of assets and administration of contributions and benefits, excluding matters delegated to the Pension Fund Committee.
- Establish and Chair a Clwyd Pension Fund Advisory Panel consisting of officers of the Council and advisors to the Clwyd Pension Fund, to provide advice and propose recommendations to the Pension Fund Committee, and to carry out such matters as delegated to it from time to time by the Pension Fund Committee.

### **Section 151 Officer – Corporate Finance Manager**

Under the Council's current operating model, the Chief Finance Officer (S151) role is designated to the Corporate Finance Manager. The Corporate Finance Manager therefore has a statutory responsibility for the proper financial administration of the Clwyd Pension Fund, in addition to that of Flintshire County Council.

### **Clwyd Pension Fund Advisory Panel**

The Clwyd Pension Fund Advisory Panel has been established by the Chief Executive to provide advice and propose recommendations to the Pension Fund Committee, and to carry out such matters as delegated to it from time to time by the Pension Fund Committee.

Its membership consists of:

- The Chief Executive
- The Chief Finance Officer of Flintshire County Council
- The Clwyd Pension Fund Manager
- Investment Consultant
- Fund Actuary
- Independent Adviser

## **Wales Pension Partnership Joint Governance Committee**

To satisfy the Government's requirements to reduce investment related costs, the eight LGPS administering authorities in Wales, including Flintshire County Council, have entered into an Inter Authority Agreement to pool pension fund assets, a key part of which will be done by appointment of an Authorised Contractual Scheme Operator to make the investments on behalf of the administering authorities. This was agreed at the Flintshire County Council meeting on 1<sup>st</sup> March 2017. The report and appendices can be found [here](#).

As part of this pooling arrangement, the authorities have also established a Joint Governance Committee with a number of responsibilities including the following:

- Monitoring the performance of the Operator
- Making decisions on asset class sub-funds to be made available by the Operator to implement the individual investment strategies of the eight Funds
- Providing accountability to the participating Funds on the management of the Pool
- Reporting on the Pool to the UK Government and other stakeholders
- Having oversight of an Officer Working Group

Flintshire County Council has determined that the Clwyd Pension Fund representative on the Joint Governance Committee will be the Chair of the Pension Fund Committee. In his or her absence, the Vice Chair will act as the Deputy.

The Pension Fund Committee will determine which officers of Clwyd Pension Fund will represent the Fund on the Officer Working Group.

The Joint Governance Committee meets at least four times each year and is composed of one elected member from each Administering Authority responsible for maintaining an LGPS Pension Fund in Wales. These are:

- Carmarthenshire County Council
- City & County of Swansea Council
- City of Cardiff Council
- Flintshire County Council
- Gwynedd Council
- Powys County Council
- Rhondda Cynon Taff County Borough Council
- Torfaen County Borough Council.

Each member present at the Joint Governance Committee is entitled to a vote and all members have equal voting rights.

Carmarthenshire County Council acts as Host Council in relation to the Wales Pension Partnership Inter Authority Agreement. This role includes the following in relation to the management of the pooling arrangements:

- Acting as the main point of contact
- Providing administrative resources and facilities, and governance and administrative services
- Entering into contracts for supplies and services
- Liaising with the Operator.

## **Wales Pension Partnership Officer Working Group**

The Wales Pension Partnership Officer Working Group has been established as part of the Wales Pension Partnership Inter Authority Agreement to support and advise the Joint Governance Committee on such matters as the Joint Governance Committee may reasonably request or any matters relating to the pooling agreement which are raised by any of the authorities' Section 151 Officers or Monitoring Officers.

Each authority delegates to officers to the Officer Working Group. In relation to Clwyd Pension Fund, the Pension Fund Committee determines which of its officers sit on the Officer Working Group. Each authority's Section 151 Officer and Monitoring Officer are entitled to attend the Officer Working Group.

The full list of responsibilities and procedures relating to the Joint Governance Committee, Officer Working Group and Host Council are included in the Inter Authority Agreement which can be found on the Clwyd Pension Fund's website – [mss.clwydpensionfund.org.uk](http://mss.clwydpensionfund.org.uk) .

## **Pension Board**

Each LGPS Administering Authority is required to establish a local Pension Board to assist them with:

- securing compliance with the LGPS Regulations and any other legislation relating to the governance and administration of the Scheme, and requirements imposed in relation to the LGPS by the Pensions Regulator
- ensuring the effective and efficient governance and administration of the Pension Fund

Such Pension Boards are not local authority committees; as such the Constitution of Flintshire County Council does not apply to the Pension Board unless it is expressly referred to in the Board's Protocol. The Clwyd Pension Board was established by Flintshire County Council in March 2015 and the full Protocol of the Board can be found within the Council's Constitution. The key points are summarised below.

The Pension Board provides oversight of the matters outlined above. The Pension Board, however, is not a decision making body in relation to the management of the Pension Fund and the Pension Fund's management powers and responsibilities which have been delegated by the Council to the Pension Fund Committee or otherwise remain solely the powers and responsibilities of them, including but not limited to the setting and delivery of the Fund's strategies, the allocation of the Fund's assets and the appointment of contractors, advisors and fund managers. The Pension Board operates independently of the Pension Fund Committee.

The Pension Board consists of five members as follows:

- Two Employer Representatives
- Two Scheme Member Representatives, one of whom is nominated by the joint trade unions, and one who is a member of the Clwyd Pension Fund
- One Independent Member who acts as chair of the Pension Board.

All Pension Board members, excluding the Independent Member, have individual voting rights but it is expected the Pension Board will as far as possible reach a consensus.

A meeting of the Pension Board is only considered quorate when at least three of the five members are present, including at least one Employer Representative, one Scheme Member Representative and the Independent Member.

Members of the Pension Board are required to declare, on appointment and at each meeting, any interests that may lead to conflicts of interest in relation to Pension Fund matters or agenda items..

The Pension Board meets a minimum of twice and a maximum of four times in each calendar year in the ordinary course of business. Additional meetings may be arranged, subject to approval by the Chief Executive, to facilitate its work.

## **Training**

Flintshire County Council recognises that effective financial administration and decision making can only be achieved where those involved have the requisite knowledge and skills. Accordingly, in relation to the management of the Clwyd Pension Fund, we adopt the key recommendations of the CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills.

This means we will ensure that we have formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of the relevant LGPS and related knowledge and skills for those responsible for financial administration and decision-making relating to the Fund. These policies and practices will be guided by reference to the framework of knowledge and skills defined within the CIPFA Pensions Finance Knowledge and Skills Frameworks.

The Clwyd Pension Fund's Training Policy can be found on the Fund's website – [mss.clwydpensionfund.org.uk](http://mss.clwydpensionfund.org.uk)

We will report on an annual basis how well this Policy has been adhered to throughout the financial year as part of the Fund's Annual Report and Accounts.

The Council has delegated the responsibility for the implementation of the requirements of the CIPFA Code of Practice to the Chief Executive, who will act in accordance with the Fund's Policy.

In addition, in accordance with the Wales Pension Partnership Inter Authority Agreement, the Joint Governance Committee is required to prepare, maintain and adhere to a Training and Competence Policy. All members are required to undertake the training that is provided.

## **Conflicts of Interest**

Conflicts of interest have always existed for those with LGPS administering authority responsibilities as well as for advisers to LGPS funds. This simply reflects the fact that many of those managing or advising LGPS funds will have a variety of other roles and responsibilities, for example as a member of the scheme, as an elected member of an employer participating in the LGPS or as an adviser to more than one LGPS administering authority. Further any of those persons may have an individual personal, business or other interest which might conflict, or be perceived to conflict, with their role managing or advising LGPS funds.

It is generally accepted that LGPS administering authorities have both fiduciary and public law duties to act in the best interest of both the scheme beneficiaries and participating employers. This, however, does not preclude those involved in the management of the Fund from having other roles or responsibilities which may result in an actual or potential conflict of interest. Accordingly, it is good practice to document within a policy how any such conflicts or potential conflicts are to be managed.

Clwyd Pension Fund's Conflict of Interest Policy details how actual and potential conflicts of interest are identified and managed by those involved in the management and governance of the Fund whether directly or in an advisory capacity. The Policy is established to guide the Pension Fund Committee members, Pension Board members, officers and advisers. It aims to ensure that those individuals do not act improperly or create a perception that they may have acted improperly. It is an aid to good governance, encouraging transparency and minimising the risk of any matter prejudicing decision making or management of the Fund otherwise.

The Policy can be found on the Fund's website – [mss.clwydpensionfund.org.uk](http://mss.clwydpensionfund.org.uk).

In addition, in accordance with the Wales Pension Partnership Inter Authority Agreement, the Joint Governance Committee is required to prepare, maintain and adhere to a Conflicts of Interest Policy.

### **Welsh Language Standards**

Flintshire County Council has adopted the principle that in the conduct of public business it will treat the Welsh and English languages on a basis of equality. These standards therefore also apply to the governance arrangements for the Clwyd Pension Fund. More information can be found on the Council's website or by contacting the Clwyd Pension Fund Manager.

### **Monitoring Governance of the Clwyd Pension Fund**

The Fund's governance objectives will be monitored as follows:

<b>Objective</b>	<b>Monitoring Arrangements</b>
Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies.	<ul style="list-style-type: none"><li>• The Independent Adviser undertakes an annual review of the effectiveness of the Clwyd Pension Fund's governance arrangements, the findings of which are reported to the Committee and published.</li><li>• The Pension Board prepares and publishes an annual report.</li><li>• In line with the Regulations this document will be filed with the DCLG.</li></ul>
Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise	<ul style="list-style-type: none"><li>• A Training Policy in place together with annual monitoring of all training by Pension Committee members and key officers.</li><li>• The Joint Governance Committee has a Training Policy in place with monitoring arrangements in accordance with the Inter Authority Agreement.</li></ul>

<b>Objective</b>	<b>Monitoring Arrangements</b>
Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based	<ul style="list-style-type: none"> <li>The employers within the Fund, together with union representatives, are invited to an Annual Joint Consultative Meeting. Attendees receive presentations and have the opportunity to ask questions on the governance of the Fund.</li> <li>The Pension Fund Committee includes representatives from scheme members and most employers in the Fund.</li> <li>The Pension Board includes representatives from scheme members and employers in the Fund.</li> <li>The Pension Board prepares and publishes an annual report which may include comment on decision making.</li> <li>The Joint Governance Committee prepares an annual business plan which is brought to the Clwyd Pension Fund Committee for agreement in accordance with the Inter Authority Agreement</li> </ul>
Understand and monitor risk	<ul style="list-style-type: none"> <li>A Risk Policy and register in place.</li> <li>Ongoing consideration of key risks at Pension Fund Committee meetings.</li> </ul>
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	<ul style="list-style-type: none"> <li>The Governance of the Fund is considered by both the External and Internal Auditors. All External and Internal Audit Reports are reported to Committee.</li> <li>The Fund has an Independent Adviser and their annual report includes reference to compliance with key requirements.</li> <li>The Fund maintains a log of all breaches of the law in accordance with the Fund's breaches procedure.</li> <li>The Pension Board prepares and publishes an annual report which may include comment on compliance matters.</li> <li>The Joint Governance Committee has a Breaches and Error Policy in place with monitoring arrangements in accordance with the Inter Authority Agreement.</li> </ul>
Clearly articulate our objectives and how we intend to achieve those objectives through business planning, and continually measure and monitor success	<ul style="list-style-type: none"> <li>All strategies and policies include reference to how objectives will be monitored.</li> <li>Ongoing monitoring against key objectives at Pension Fund Committee meetings.</li> <li>Ongoing monitoring of business plan targets at Pension Fund Committee meetings.</li> <li>Quarterly and annual updates against the Joint Governance Committee's business plan and objectives are provided in accordance with the Inter Authority Agreement.</li> </ul>

## **Key Risks**

The key risks to the delivery of this Strategy are outlined below. The Pension Fund Committee members, with the assistance of the Clwyd Pension Fund Advisory Panel, will monitor these and other key risks and consider how to respond to them.

- Changes in Pension Fund Committee membership, Pension Board membership, Joint Governance Committee and/or key officers resulting in loss of continuity and potentially diminishing knowledge and understanding
- Changes in government / legislative requirements meaning insufficient time allocated to ongoing management, either at Pension Fund Committee meetings or as part of key officers' duties
- Ineffective delegation of duties and/or presentation of Pension Fund Committee items resulting in insufficient time spent on key matters
- Insufficient monitoring of the Joint Governance Committee responsibilities
- Poor attendance and/or a lack of engagement at training and/or formal meetings by Committee members, Board members, Joint Governance Committee members, Advisory Panel members and/or other key officers resulting in a poor standard of decision making and/or monitoring
- Conflicts of interest not being appropriately managed by Committee members, Board members, Joint Governance Committee and/or key officers.

## **Best Practice Compliance Statement**

As required by Local Government Pension Scheme Regulations the statement below compares Clwyd Pension Fund's current governance arrangements with the best practice guidance issued by the Secretary of State for Communities and Local Government. The statement provides an explanation where the Fund is not fully compliant.

## **Approval, Review and Consultation**

The governance structure of the Clwyd Pension Fund was reviewed in 2014. The employers of the Fund were consulted prior to that review. Employer and scheme member representatives have also been party to proposed changes to the structure including the arrangements for entering into the Wales asset pooling arrangement.

This version of the Governance Policy and Statement was approved at the Clwyd Pension Fund Committee on 21 March 2017. It will be formally reviewed and updated at least every three years or sooner if the governance arrangements or other matters included within it merit reconsideration.

## **Further Information**

If you require further information about anything in or related to this Governance Policy and Statement, please contact:

Philip Latham, Clwyd Pension Fund Manager, Flintshire County Council  
E-mail - [Philip.latham@flintshire.gov.uk](mailto:Philip.latham@flintshire.gov.uk)  
Telephone - 01352 702264

## Appendix A - Clwyd Pension Fund Governance Compliance Statement

Best Practice	Compliant or not?	Explanatory Note
<b>A. STRUCTURE</b> <p>a. The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.</p>	COMPLIANT	<p>The majority of elements of administration of benefits and strategic management of fund assets are delegated by the Council to Pension Fund Committee.</p> <p>The Wales Pension Partnership Joint Governance Committee has responsibility for some elements of management of the Wales Pension Partnership.</p>
<p>b. That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.</p>	COMPLIANT	<p>Representatives covering most employers and scheme members are Co-opted Members of the Pension Fund Committee.</p> <p>The Pension Board, although not a formal secondary committee, also includes representatives of scheme members and employers.</p> <p>The Wales Pension Partnership Joint Governance Committee is required to liaise with scheme member and employer representatives.</p>

<b>Best Practice</b>	<b>Compliant or not?</b>	<b>Explanatory Note</b>
c. That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	<b>NOT APPLICABLE</b>	There is no formal secondary committee or panel. However it is worth noting that the Pension Board members are entitled to attend all Pension Fund Committee meetings and are invited to participate. All Pension Board minutes are circulated around Pension Fund Committee members as soon as they are available as well as being included in Pension Fund Committee reports.
d. That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	<b>NOT APPLICABLE</b>	

Best Practice	Compliant or not?	Explanatory Note
<p><b>B. REPRESENTATION</b></p> <p>a. That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:-</p> <p>i) employing authorities (including non-scheme employers, e.g. admitted bodies);</p> <p>ii) scheme members (including deferred and pensioner scheme members),</p> <p>iii) where appropriate, independent professional observers, and</p> <p>iv) expert advisors (on an ad-hoc basis).</p>	<p><b>PARTIALLY COMPLIANT</b></p>	<p>The Pension Fund Committee includes the following Co-opted Members:</p> <ul style="list-style-type: none"> <li>• employer representatives covering all employers with the exception of admission bodies (as admission bodies make up just a small proportion of the liabilities of the Fund)</li> <li>• a scheme member representative covering all categories of scheme member.</li> </ul> <p>In addition, an independent adviser attends all Pension Fund Committee meetings and the Fund's actuary and investment consultant regularly attend meetings on an ad-hoc basis.</p> <p>The Pension Board, although not a formal secondary committee, also includes representatives of scheme members and employers.</p> <p>The Wales Pension Partnership Joint Governance Committee is required to liaise with scheme member and employer representatives.</p>

<b>Best Practice</b>	<b>Compliant or not?</b>	<b>Explanatory Note</b>
<p>b. That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.</p>	<b>COMPLIANT</b>	<p>All Pension Fund Committee members, including Co-opted Members, are treated equally with full opportunity to contribute to the decision making process and with unrestricted access to papers and training, and with full voting rights.</p> <p>There is no formal secondary committee or panel. However it is worth noting that the Pension Board members are entitled to attend all Pension Fund Committee meetings and are invited to participate.</p>
<b>C. SELECTION AND ROLE OF LAY MEMBERS</b>		
<p>a. That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.</p>	<b>COMPLIANT</b>	<p>This is highlighted via regular training and also when presenting the Governance Strategy Statement for approval.</p>

<b>Best Practice</b>	<b>Compliant or not?</b>	<b>Explanatory Note</b>
<p>b. That at the start of any meeting committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.</p>	<b>COMPLIANT</b>	<p>This is no longer a legal requirement but we recognise that potential conflicts of interest can arise between existing roles (e.g. as employer representatives or scheme members) and accordingly we still carry out this practice. The Fund has a Conflicts of Interest Policy outlining the process for identifying and managing actual and potential conflicts of interest.</p>
<p><b>D. VOTING</b></p> <p>a. The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.</p>	<b>COMPLIANT</b>	<p>The Council's Constitution and the Fund's Governance Strategy Statement make it clear that all Pension Fund Committee members have equal voting rights. The Wales Pension Partnership Joint Governance Committee voting arrangements are outlined in the Inter Authority Agreement with one vote per authority.</p>
<p><b>E. TRAINING / FACILITY TIME / EXPENSES</b></p>		

<b>Best Practice</b>	<b>Compliant or not?</b>	<b>Explanatory Note</b>
<p>a. That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.</p>	<p><b>COMPLIANT</b></p>	<p>The Fund has a Training Policy that applies to all Pension Fund Committee members, Pension Board members and officers. Training is delivered through several avenues including:</p> <ul style="list-style-type: none"> <li>• An initial induction for new Pension Fund Committee and Pension Board Members</li> <li>• On-going training through written reports or presentations at Committee meetings</li> <li>• Conferences and seminars.</li> </ul> <p>The actual costs and expenses relating to approved training are met directly or can be reimbursed from the Clwyd Pension Fund. The co-opted members of the Pension Fund Committee and members of the Pension Board receive payments for attendance at meetings (including training events) as detailed within the Flintshire County Council Members' Remuneration Scheme and the Pension Board Protocol.</p> <p>The Wales Pension Partnership Joint Governance Committee is required to prepare, maintain and adhere to a Training Policy.</p>

Best Practice	Compliant or not?	Explanatory Note
b. That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	COMPLIANT	
c. That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	COMPLIANT	A log of individual Member training is maintained. In addition, the Fund has adopted the CIPFA Knowledge and Skills Framework and has a Fund specific Training Policy.
<b>F. MEETINGS (FREQUENCY/QUORUM)</b>		
a. That an administering authority's main committee or committees meet at least quarterly.	COMPLIANT	
b. That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	NOT APPLICABLE	
c. That an administering authority who do not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented	NOT APPLICABLE	Even though we do have lay members on our Pension Committee, we also have an Annual Joint Consultative Meeting (AJCM) for employing bodies and scheme members. The Pension Board also provides a forum for stakeholders to be represented.

Best Practice	Compliant or not?	Explanatory Note
<b>G. ACCESS</b>		
a. That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	<b>COMPLIANT</b>	<p>All Members of the Pension Fund Committee have equal access to papers. In addition, all Pension Board members have access to the same papers.</p> <p>The Joint Governance Committee is a public meeting so all papers (except those classified as exempt) are available to Committee and Board members, as well as members of the public.</p>
<b>H. SCOPE</b>		

<b>Best Practice</b>	<b>Compliant or not?</b>	<b>Explanatory Note</b>
a. That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements	<b>COMPLIANT</b>	<p>The remit of the Pension Fund Committee covers all Fund matters, including administration, communications, funding, investments and governance. The Pension Board provides further opportunity for these matters to be considered.</p>

Best Practice	Compliant or not?	Explanatory Note
<p><b>I. PUBLICITY</b></p> <p>a. That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.</p>	<p><b>COMPLIANT</b></p>	<p>The Fund publishes a detailed Annual Report, newsletters for active and pensioner members, road shows, drop in sessions and an Annual Meeting for Employers and representatives of stakeholders (AJCM). In addition all Pension Fund Committee reports are available to view on the Flintshire County Council website (other than exempt items).</p> <p>Arrangements relating to the Joint Governance Committee are available via this policy, with some information included in Pension Fund Committee papers. In addition the Joint Governance Committee will liaise with scheme member and employer representatives.</p>

## **Appendix B – Delegated Roles and Functions of the Clwyd Pension Fund Committee**

The Pension Fund Committee will have the following specific roles and functions, taking account of advice from the Chief Executive and the Fund's professional advisers:

- a) Ensuring the Clwyd Pension Fund is managed and pension payments are made in compliance with the extant Local Government Pension Scheme Regulations, Her Majesty's Revenue & Customs requirements for UK registered pension schemes and all other relevant statutory provisions.
- b) Ensuring robust risk management arrangements are in place.
- c) Ensuring the Council operates with due regard and in the spirit of all relevant statutory and non statutory best practice guidance in relation to its management of the Clwyd Pension Fund.
- d) Determining the Pension Fund's aims and objectives, strategies, statutory compliance statements, policies and procedures for the overall management of the Fund, including in relation to the following areas:
  - i) Governance – approving the Fund's Governance Policy and Compliance Statement for the Fund within the framework as determined by Flintshire County Council and making recommendations to Flintshire County Council about any changes to that framework.
  - ii) Funding Strategy – approving the Fund's Funding Strategy Statement including ongoing monitoring and management of the liabilities, ensuring appropriate funding plans are in place for all employers in the Fund, overseeing the triennial valuation and interim valuations, and working with the actuary in determining the appropriate level of employer contributions for each employer.
  - iii) Investment strategy - approving the Fund's investment strategy, Statement of Investment Principles and Myners Compliance Statement including setting investment targets and ensuring these are aligned with the Fund's specific liability profile and risk appetite.
  - iv) Administration Strategy – approving the Fund's Administration Strategy determining how the Council will administer the Fund including collecting payments due, calculating and paying benefits, gathering information from and providing information to scheme members and employers.
  - v) Communications Strategy – approving the Fund's Communication Strategy, determining the methods of communications with the various stakeholders including scheme members and employers.
  - vi) Discretions – determining how the various administering authority discretions are operated for the Fund.
- e) Monitoring the implementation of these policies and strategies on an ongoing basis.
- f) In relation to the Wales Pension Partnership Collaboration arrangements:
  - i) Undertaking the following matters reserved to Flintshire County Council as outlined in the Inter-Authority Agreement:

- Appointment, termination or replacement of the Operator following the making of a recommendation by the Joint Governance Committee.
- Approval of additional expenditure not included within the Business Plan which exceeds 30 % of the approved budget in the Business Plan in any one Financial Year.
- Formulation, approval or revisions of each respective Constituent Authority's investment strategy for the purposes of regulation 7 of the Investment Regulations.
- Admitting a new administering authority within the LGPS to the Investment Pool as a Constituent Authority.
- Amendment of the Agreement which is not significant to the operation of the arrangements.
- Material change to the nature of the Operator Contract.
- Approval of the initial strategic objectives to allow preparation of the first Business Plan (which objectives shall reflect the objectives set out in the procurement of the Operator).
- Approval of any evaluation or scoring criteria for any procurement of a replacement Operator.
- Approval of the Business Plan which shall include approval of the ongoing strategic objectives of the Investment Pool.
- Determination of the timing of the transition of the assets held by Clwyd Pension Fund into the Pooling Collaboration and the funds or sub-funds operated by the Operator.

Note the Council shall retain the power to terminate the Inter-Authority Agreement or make amendments to the Inter-Authority Agreement that may be significant to the operation of the arrangements.

- ii) Delegating powers to Flintshire County Council's own officers and the Host Council where required.
- iii) Nominating Flintshire County Council's officers to the Officer Working Group.
- iv) Monitoring of the performance of the Wales Pooling Collaboration and its Operator and recommending actions to the Joint Governance Committee, Officer Working Group or Host Council, as appropriate.
- g) Considering the Fund's financial statements prior to approval by the Council and agreeing the Fund's annual report.
- h) Selection, appointment, dismissal and monitoring of the Fund's advisers, including actuary, benefits consultants, investment consultants, global custodian, fund managers, lawyers, pension funds administrator, and independent professional advisers.
- i) Making decisions relating to employers joining and leaving the Fund. 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.
- j) Agreeing the terms and payment of bulk transfers into and out of the Fund.
- k) Agreeing Pension Fund business plans and monitoring progress against them.

- I) Agreeing the Fund's Knowledge and Skills Policy for all Pension Fund Committee members and for all officers of the Fund, including determining the Fund's knowledge and skills framework, identifying training requirements, developing training plans and monitoring compliance with the policy.
- m) Agreeing the Administering Authority responses to consultations on LGPS matters and other matters where they may impact on the Fund or its stakeholders.
- n) Receiving ongoing reports from the Chief Executive and Pensions Advisory Panel in relation to delegated functions.

Cronfa Bensiynau Clwyd  
Clwyd Pension Fund



# **FUNDING STRATEGY STATEMENT**

## **CLWYD PENSION FUND**

**MARCH 2017**

**FLINTSHIRE COUNTY COUNCIL**

**This Funding Strategy Statement has been prepared by Flintshire County Council (the Administering Authority) to set out the funding strategy for the Clwyd Pension Fund ("the Fund"), in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).**

## EXECUTIVE SUMMARY

The LGPS Regulations and CIPFA Guidance provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS).

**THE DETAILS CONTAINED IN THIS FUNDING STRATEGY STATEMENT WILL HAVE A FINANCIAL AND OPERATIONAL IMPACT ON ALL PARTICIPATING EMPLOYERS IN THE CLWYD PENSION FUND. IT IS IMPERATIVE THEREFORE THAT EACH EXISTING OR POTENTIAL EMPLOYER IS AWARE OF THE DETAILS CONTAINED IN THIS STATEMENT.**

The FSS is a document that must be revised and published whenever there is a material change in either the policy set out in the FSS or the Investment Strategy Statement (ISS). A consultation with employers must take place before the Administering Authority can publish their funding strategy.

The funding strategy is applicable to all types of employer within the Fund and contains a number of policies that employers should be aware of, including the admission and termination policy and the covenant policy. A glossary is included at the end to assist with understanding of the technical terms and definitions.

The drafting of the FSS has been delegated to the Pension Fund Committee by the Administering Authority, following advice from the Fund Actuary. Some aspects have also been delegated to Fund officers.

The FSS is also subject to scrutiny and possible intervention under Section 13(4)(c) of the Public Service Pensions Act 2013 which may place some restrictions on the parameters that can be applied to employers.

Key elements of the funding strategy are as follows:

- Employer covenant and investment strategy will have a major influence on the valuation results.
- Deficit recovery periods will be determined by the Administering Authority with the aim of recovering deficits as quickly as possible and vary by employer. Subject to affordability, existing deficit contribution plans will not be reduced. The average recovery period for the Fund is 15 years. Deficit recovery contributions will be expressed as £s amounts.
- It will be possible for employers to prepay their deficit contributions for the full 3 years or annually at each April which would result in a cash saving.
- The key financial assumption – the discount rate – has been derived by considering the long term expected return on the Fund's investment over and above assumed future Consumer Price Inflation (CPI).
- The demographic assumptions for the whole Fund have been determined by carrying out a bespoke analysis of the Fund's membership along with a review of other LGPS Funds.
- It is strongly recommended that employers consider and understand the Fund policies which primarily relate to employers joining the Fund, ongoing monitoring of the financial strength of employers (covenant) and the approach adopted when employers leave the Fund (termination).

Ensuring that the **Clwyd Pension Fund** (the “Fund”) has sufficient assets to meet its pension liabilities in the long-term is the fiduciary responsibility of the Administering Authority (**FLINTSHIRE COUNTY COUNCIL**). The Funding Strategy adopted by the **Clwyd Pension Fund** will therefore be critical in achieving this.

The purpose of this Funding Strategy Statement (“FSS”) is to set out a clear and transparent funding strategy that will identify how each Fund employer’s pension liabilities are to be met going forward.

Given this, and in accordance with governing legislation, all interested parties connected with the **Clwyd Pension Fund** have been consulted and given opportunity to comment prior to this Funding Strategy Statement being finalised and adopted. This statement takes into consideration all comments and feedback received.



### THE FUND’S OBJECTIVE

The Administering Authority’s long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due. This objective will be considered on an employer specific level where appropriate.

The general principle adopted by the Fund is that the assumptions used, taken as a whole, will be chosen sufficiently prudently for pensions and benefits already in payment to continue to be paid, and to reflect the commitments which will arise from members’ accrued pension rights.

The funding strategy set out in this document has been developed alongside the Fund’s investment strategy on an integrated basis taking into account the overall financial and demographic risks inherent in the Fund. The funding strategy includes appropriate margins to allow for the possibility of events turning out worse than expected. Individual employer results will also have regard to their covenant strength.



### SOLVENCY AND LONG TERM COST EFFICIENCY

Each employer’s contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund’s liabilities i.e. benefit payments can be reasonably met as they arise.

Employer contributions are also set in order to achieve long term cost efficiency. Long-term cost-efficiency implies that the rate must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time. Equally, the FSS must have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

When formulating the funding strategy the Administering Authority has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary’s Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the “solvency” of the pension fund and “long term cost efficiency” of the Scheme so far as relating to the Fund.

### DEFICIT RECOVERY PLAN AND CONTRIBUTIONS



As the solvency level of the Fund is 76% at the valuation date i.e. the assets of the Fund are less than the liabilities, a deficit recovery plan needs to be implemented such that additional contributions are paid into the Fund to meet the shortfall.

Deficit contributions paid to the Fund by each employer will be expressed as £s amounts (flat or increasing year on year) and it is the Fund’s objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford given other competing cost pressures. This

may result in some flexibility in recovery periods by employer which would be at the sole discretion of the Administering Authority. The recovery periods will be set by the Fund, although employers will be free to select any shorter deficit recovery period if they wish. Employers may also elect to make prepayments of contributions which would result in a cash saving over the valuation certificate period.

The objective is to recover any deficit over a reasonable timeframe, and this will be periodically reviewed. Subject to affordability considerations a key principle will be to maintain the deficit contributions at the expected monetary levels from the preceding valuation (allowing for any indexation in these monetary payments over the recovery period). Full details are set out in this FSS.

The average recovery period for the Fund as a whole is 15 years at this valuation which is 3 years shorter than the average recovery period of 18 years from the previous valuation. Subject to affordability and other considerations individual employer recovery periods would also be expected to reduce by 3 years at this valuation.

Where there is an increase in contributions required at this valuation, subject to affordability constraints, the employer may be able to step-up contributions over a period of 3 years. Employers should be aware that if they elect to step-up their contributions, this may have an effect on the level of contributions required in the future. Equally employers will be able to phase in their contributions changes to tie in with their financial year if this does not end on 31 March.

### ACTUARIAL ASSUMPTIONS



The actuarial assumptions used for assessing the funding position of the Fund and the individual employers, the “Primary” contribution rate, and any contribution variations due to underlying surpluses or deficits (i.e. the “Secondary” rate) are set out in an appendix to this FSS.

The discount rate in excess of CPI inflation (the “real discount rate”) has been derived based on the expected return on the Fund’s assets based on the long term strategy set out in its Investment Strategy Statement (ISS). When assessing the appropriate prudent discount rate, consideration has been given to the level of expected asset returns in excess of CPI inflation (i.e. the rate at which the benefits in the LGPS generally increase each year). It is proposed at this valuation the real return over CPI inflation for determining the past service liabilities is 2.0% per annum and for determining the future service (“primary”) contribution rates is 2.75% per annum.

The demographic assumptions are based on the Fund Actuary’s bespoke analysis for the Fund taking into account the experience of the wider LGPS where relevant.

### EMPLOYER ASSET SHARES



The Fund is a multi-employer pension scheme that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving the employer asset share.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation. In addition, the asset share maybe restated for changes in data or other policies.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.



## FUND POLICIES

In addition to the information/approaches required by overarching guidance and Regulation, this statement also summarises the Fund's approach and polices in a number of key areas:

### 1. Covenant assessment and monitoring

An employer's financial covenant underpins its legal obligation and crucially the ability to meet its financial responsibilities to the Fund now and in the future. The strength of covenant to the Fund effectively underwrites the risks to which the Fund is exposed, including underfunding, longevity, investment and market forces.

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital to the overall risk management and governance of the Fund. The employers' covenants will be assessed and monitored objectively in a proportionate manner and their ability to meet their obligations in the short and long term will be considered when determining an individual employer's funding strategy.

The Fund will continue to monitor changes in covenant in conjunction with the funding position over the inter-valuation period which will enable the Fund to anticipate and pre-empt employer any material issues arising and thus adopt a proactive approach in partnership with the employer. More details are provided in the relevant appendix in this statement.

### 2. Admitting employers to the Fund

Various types of employers are permitted to join the LGPS under certain circumstances, and the conditions upon which their entry to the Fund is based and the approach taken is set out in Appendix C. Examples of new employers include:

- Scheme Employers
- Designated bodies - those that are permitted to join if they pass a resolution
- Admission bodies - usually arising as a result of an outsourcing or an entity that provides some form of public service and their funding primarily derives from local or central government.

Certain employers may be required to provide a guarantee or alternative security before entry will be allowed.

### 3. Termination policy for employers exiting the Fund

When an employer ceases to participate within the Fund, it becomes an exiting employer under the Regulations. The Fund is then required to obtain an actuarial valuation of that employer's liabilities in respect of benefits of the exiting employer's current and former employees along with a termination contribution certificate.

Where there is no guarantor who would subsume the liabilities of the exiting employer, the Fund's policy is that a discount rate linked to Government bond yields and a more prudent longevity assumption is used for assessing liabilities on termination. Any exit payments due should be paid immediately although instalment plans will be considered by the Administering Authority on a case by case basis. The Administering Authority also reserves the right to modify this approach on a case by case basis if circumstances warrant it.

### 4. Insurance arrangements

The Fund is currently implementing an internal captive ill health insurance arrangement which pools these risks for eligible employers. This arrangement will not affect eligible employer contribution rates at this valuation but may affect them going forward. More details are provided in **Appendix E**.

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## APPENDICES

- A - ACTUARIAL METHOD AND ASSUMPTIONS
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# 1

## INTRODUCTION

The Local Government Pension Scheme Regulations 2013 (as amended) (“the 2013 Regulations”) and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (“the 2014 Transitional Regulations”) (collectively; “the Regulations”) provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS). The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the **Clwyd Pension Fund** the Administering Authority will prepare and publish their funding strategy;
- In preparing the FSS, the Administering Authority must have regard to:
  - the guidance issued by CIPFA for this purpose; and
  - the Investment Strategy Statement (ISS) for the Scheme published under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended);
- The FSS must be revised and published whenever there is a material change in either the policy set out in the FSS or the ISS.

### BENEFITS

The benefits provided by the **Clwyd Pension Fund** are specified in the governing legislation contained in the Regulations referred to above. Benefits payable under the **Clwyd Pension Fund** are guaranteed by statute and thereby the pensions promise is secure for members. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time facilitating scrutiny and accountability through improved transparency and disclosure.

The Fund is a defined benefit arrangement with principally final salary related benefits from contributing members up to 1 April 2014 and Career Averaged Revalued Earnings (“CARE”) benefits earned thereafter. There is also a “50:50 Scheme Option”, where members can elect to accrue 50% of the full scheme benefits in relation to the member only and pay 50% of the normal member contribution.

### EMPLOYER CONTRIBUTIONS

The required levels of employee contributions are specified in the Regulations. Employer contributions are determined in accordance with the Regulations (which require that an actuarial valuation is completed every three years by the actuary, including the provision of a rates and adjustments certificate specifying the “primary” and “secondary” rate of the employer’s contribution).

### PRIMARY RATE

The “Primary rate” for an employer is the contribution rate required to meet the cost of the future accrual of benefits including ancillary, death in service and ill health benefits together

with administration costs. It is expressed as a percentage of pensionable pay, ignoring any past service surplus or deficit, but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer's covenant.

The Primary rate for the whole fund is the weighted average (by payroll) of the individual employers' Primary rates.

### **SECONDARY RATE**

The "Secondary rate" is an adjustment to the Primary rate to reflect any past service deficit or surplus, to arrive at the rate each employer is required to pay. The Secondary rate may be expressed as a percentage adjustment to the Primary rate, and/or a cash adjustment in each of the three years beginning 1 April in the year following that in which the valuation date falls.

The Secondary rate is specified in the rates and adjustments certificate.

For any employer, the rate they are actually required to pay is the sum of the Primary and Secondary rates.

Secondary rates for the whole fund in each of the three years shall also be disclosed. These will be calculated as the weighted average based on the whole fund payroll in respect of percentage rates and as a total amount in respect of cash adjustments.

# 2

## PURPOSE OF FSS IN POLICY TERMS

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the actuary.

The Administering Authority's long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due.

The purpose of this Funding Strategy Statement is therefore:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward by taking a prudent longer-term view of funding those liabilities;
- to establish contributions at a level to "secure the solvency of the pension fund" and the "long term cost efficiency",
- to have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

# 3

## AIMS AND PURPOSE OF THE FUND

### THE AIMS OF THE FUND ARE TO:

- manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due
- enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers, scheduled, designated and admitted bodies, while achieving and maintaining fund solvency and long term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future due to sector changes
- maximise the returns from investments within reasonable risk parameters taking into account the above aims.

### THE PURPOSE OF THE FUND IS TO:

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses as defined in the 2013 Regulations, the 2014 Transitional Regulations and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016).

# 4

## RESPONSIBILITIES OF THE KEY PARTIES

The efficient and effective management of the pension fund can only be achieved if all parties exercise their statutory duties and responsibilities conscientiously and diligently. The key parties for the purposes of the FSS are the Administering Authority (in particular the Pensions Committee), the individual employers and the Fund Actuary, and details of their roles are set out below. Other parties required to play their part in the fund management process are bankers, custodians, investment managers, auditors and legal, investment and governance advisors, along with the Local Pensions Board created under the Public Service Pensions Act 2013.

### KEY PARTIES TO THE FSS

The **Administering Authority** should:

- operate the pension fund
- collect employer and employee contributions, investment income and other amounts due to the pension fund as stipulated in the Regulations
- pay from the pension fund the relevant entitlements as stipulated in the Regulations
- invest surplus monies in accordance the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- take measures as set out in the Regulations to safeguard the fund against the consequences of employer default
- manage the valuation process in consultation with the Fund's actuary
- prepare and maintain a FSS and an ISS, both after proper consultation with interested parties, and
- monitor all aspects of the Fund's performance and funding, amending the FSS/ISS as necessary
- effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and a scheme employer, and
- establish, support and monitor a Local Pension Board (LPB) as required by the Public Service Pensions Act 2013, the Regulations and the Pensions Regulator's relevant Code of Practice.

The **Individual Employer** should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations)
- pay all contributions, including their own as determined by the actuary, promptly by the due date
- develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain, and

- have regard to the Pensions Regulator's focus on data quality and comply with any requirement set by the Administering Authority in this context, and
- notify the Administering Authority promptly of any changes to membership which may affect future funding.

The **Fund Actuary** should:

- prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency after agreeing assumptions with the Administering Authority and having regard to their FSS and the Regulations
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as pension strain costs, ill health retirement costs etc
- provide advice and valuations on the termination of admission agreements
- provide advice to the Administering Authority on bonds and other forms of security against the financial effect on the Fund of employer default
- assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as required by the Regulations
- advise on funding strategy, the preparation of the FSS and the inter-relationship between the FSS and the ISS, and
- ensure the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to the Fund Actuary's role in advising the Fund.

# 5

## SOLVENCY FUNDING TARGET

Securing the “solvency” and “long term cost efficiency” is a regulatory requirement. To meet these requirements the Administering Authority’s long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the “funding target”) assessed on an ongoing past service basis including allowance for projected final pay where appropriate. In the long term, the employer rate would ultimately revert to the Future Service or Primary Rate of contributions.

### SOLVENCY AND LONG TERM EFFICIENCY

Each employer’s contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund’s liabilities i.e. benefit payments can be reasonably met as they arise.

Employer contributions are also set in order to achieve long term cost efficiency. Long-term cost-efficiency implies that the rate must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time.

When formulating the funding strategy the Administering Authority has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary’s Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the “solvency” of the pension fund and “long term cost efficiency” of the Scheme so far as relating to the Fund.

### DETERMINATION OF THE SOLVENCY FUNDING TARGET AND DEFICIT RECOVERY PLAN

The principal method and assumptions to be used in the calculation of the funding target are set out in **Appendix A**. The Employer Deficit Recovery Plans are set out in **Appendix B**.

Underlying these assumptions are the following two tenets:

- that the Fund is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

This allows the Fund to take a longer term view when assessing the contribution requirements for certain employers.

In considering this the Administering Authority, based on the advice of the Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful, potentially taking into account any changes in funding after the valuation date up to the finalisation of the valuation by 31 March 2017 at the latest.

As part of each valuation, separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy between the distinct employers in the Fund.

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2016 actuarial valuation:

- The Fund does not believe it appropriate for deficit contribution reductions to apply compared to the existing funding plan (allowing for indexation where applicable) where deficits remain unless there is compelling reason to do so.
- Subject to consideration of affordability, as a general rule the deficit recovery period will reduce by at least 3 years for employers at this valuation when compared to the preceding valuation. This is to target full solvency over a similar (or shorter) time horizon. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. Subject to affordability considerations and other factors a bespoke period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Deficit Recovery Plan in **Appendix B**). This has resulted in an average recovery period of 15 years being adopted across all employers.
- For any employers assessed to be in surplus, their individual contribution requirements will be adjusted to such an extent that any surplus is used (i.e. run-off) over a 15 year period, subject to a total contribution minimum of zero. If an employer is expected to exit the Fund before this period, contribution requirements will be set to target a nil termination deficit within reasonable expectations (subject to periodic review).
- The employer contributions will be expressed and certified as two separate elements:
  - the **Primary rate**: a percentage of pensionable payroll in respect of the cost of the future accrual of benefits and ancillary death in service and ill health benefits
  - the **Secondary rate**: a schedule of lump sum monetary amounts and/or % of pay amendments over 2017/20 in respect of an employer's surplus or deficit (including phasing adjustments)
- Where increases (or decrease) in employer contributions are required from 1 April 2017, following completion of the 2016 actuarial valuation, the increase (or decrease) from the rates of contribution payable in the year 2017/18 may be implemented in steps, over a maximum period of 3 years. Any step up in future service contributions will be implemented in steps of at least 0.5% of pay per annum. Alternative patterns of contribution, on grounds of affordability, will be considered on an individual employer basis, subject to the total contribution requirement being met over the 2017/20 period covered by the contribution certificate. Employers should be aware that varying their contribution pattern could have an effect on the level of contributions required in the future.

- For employers that do not have a financial year end of 31 March 2017 (e.g. 31 July 2017), the Fund can allow the employer to continue to pay their current contribution plan until their financial year end date. The new contribution plan would then be implemented after this date (i.e. 1 August 2017 in this case).
- On the cessation of an employer's participation in the Fund, in accordance with the Regulations, the Fund Actuary will be asked to make a termination assessment. Any deficit in the Scheme in respect of the employer will be due to the Scheme as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Scheme to another participating employer. The termination policy is summarised set out in **Appendix C**.

# 7

## LINK TO INVESTMENT POLICY AND THE INVESTMENT STRATEGY STATEMENT (ISS)

The results of the 2016 valuation show the liabilities to be 76% covered by the current assets, with the funding deficit of 24% being covered by future deficit contributions.

In assessing the value of the Fund's liabilities in the valuation, allowance has been made for growth asset out-performance as described below, taking into account the investment strategy adopted by the Fund, as set out in the ISS.

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which represents the "minimum risk" investment position which would deliver a very high certainty of real returns above assumed CPI inflation. Such a portfolio would consist of a mixture of long-term index-linked, fixed interest gilts and possible swaps.

Investment of the Fund's assets in line with this portfolio would minimise fluctuations in the Fund's funding position between successive actuarial valuations.

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out this valuation it would not be appropriate to make any allowance for growth assets out-performance or any adjustment to market implied inflation assumption due to supply/demand distortions in the bond markets. This would result in real return versus CPI inflation of nil per annum at the valuation date. On this basis of assessment, the assessed value of the Fund's liabilities at the valuation would have been significantly higher, resulting in a funding level of 52%.

Departure from a minimum risk investment strategy, in particular to include growth assets such as equities, gives a better prospect that the assets will, over time, deliver returns in excess of CPI inflation and reduce the contribution requirements. The target solvency position of having sufficient assets to meet the Fund's pension obligations might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The strategic allocation is:



Based on the investment strategy above and the Investment Consultant's (JLT) assessment of the return expectations for each asset class leads to an overall best estimate average expected return of 4.3% per annum in excess of CPI inflation at the valuation date. For the purposes of setting funding strategy however, the Administering Authority believes that it is appropriate to take a margin for prudence on these return expectations.

# 8

## IDENTIFICATION OF RISKS AND COUNTER-MEASURES

The funding of defined benefits is by its nature uncertain. Funding is based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the actuary that the greatest risk to the funding level is the investment risk inherent in the predominantly equity based strategy, so that actual asset out-performance between successive valuations could diverge significantly from that assumed in the long term. The Actuary's formal valuation report includes a quantification of the key risks in terms of the effect on the funding position.

### FINANCIAL

The financial risks are as follows:-

- Investment markets fail to perform in line with expectations
- Market outlook moves at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- Future underperformance arising as a result of participating in the larger asset pooling vehicle
- Employer contributions are unaffordable and/or unstable
- Investment and/or funding objectives and/or strategies are no longer fit for purpose
- Insufficient assets to pay benefits
- Loss of employer income and/or other employers become liable for their deficits

Any increase in employer contribution rates (as a result of these risks) may in turn impact on the service delivery of that employer and their financial position.

In practice the extent to which these risks can be reduced is limited. However, the Fund's asset allocation is kept under regular review and the performance of the investment managers is regularly monitored.

## DEMOGRAPHIC

The demographic risks are as follows:-

- Longevity horizon continues to expand
- Deteriorating pattern of early retirements (including those granted on the grounds of ill health)
- Unanticipated acceleration of the maturing of the Fund resulting in materially negative cashflows and shortening of liability durations

Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, result in a greater liability for pension funds.

Apart from the regulatory procedures in place to ensure that ill-health retirements are properly controlled, **employing bodies should be doing everything in their power to minimise the number of ill-health retirements**. Early retirements for reasons of redundancy and efficiency do not affect the solvency of the Fund because they are the subject of a direct charge.

With regards to increasing maturity (e.g. due to further cuts in workforce and/or restrictions on new employees accessing the Fund), the Administering Authority regularly monitors the position in terms of cashflow requirements and considers the impact on the investment strategy.

## INSURANCE OF CERTAIN BENEFITS

The contributions for any employer may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs being insured with a third party or internally within the Fund. This for example could include insurance of ill-health costs or death in service benefits for members. Further information on the insurance of ill health costs is set out in **Appendix E**.

## REGULATORY

The key regulatory risks are as follows:-

- Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to scheme,
- Changes to national pension requirements and/or HMRC Rules

Membership of the Local Government Pension Scheme is open to all local government staff and should be encouraged as a valuable part of the contract of employment. However, increasing membership does result in higher employer monetary costs.

## GOVERNANCE

The Fund has done as much as it believes it reasonably can to enable employing bodies and scheme members (via their trades unions) to make their views known to the Fund and to participate in the decision-making process. So far as the revised Funding Strategy Statement is concerned, it circulated copies of the first draft to all employing bodies for their comments and placed a copy on the Fund's website. The first draft was approved at the Committee meeting on 5th July 2016 and finalised on 21 March 2017 after the Fund received consultation feedback from the employing bodies and the final document was ratified by the Committee.

The Fund has restructured their governance arrangements with the implementation of the Advisory Panel. The Advisory Panel is made up of Fund Officers, Investment Consultants, an Independent Advisor and the Fund Actuary.

Governance risks are as follows:-

- The quality of membership data deteriorates materially due to breakdown in processes for updating the information resulting in liabilities being under or overstated
- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level
- Administering Authority not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates
- An employer ceasing to exist with insufficient funding or adequacy of a bond.
- Changes to Committee membership

For these risks to be minimised much depends on information being supplied to the Administering Authority by the employing bodies. Arrangements are strictly controlled and monitored (e.g. the implementation of iConnect for transferring data from employers), but in most cases the employer, rather than the Fund as a whole, bears the risk.

Full details of the risks and the controls in place are set out in the CPF risk register.

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## MONITORING AND REVIEW

The Administering Authority has taken advice from the actuary in preparing this Statement, and has also consulted with employing organisations.

A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full actuarial valuation. Any review will take account of then current economic conditions and will also reflect any legislative changes.

### FLIGHTPATH - DE-RISKING STRATEGY

In the context of managing various aspects of the Fund's financial risks, the Administering Authority has implemented a "Flightpath" risk management investment strategy with effect from 1 April 2014. A Liability Driven Investments (LDI) mandate has also been implemented.

The principal aim of this risk management strategy is to effectively control and limit interest and inflation risks being run by the Fund (as these factors can lead to significant changes to liability values). At the valuation date the level of hedging was approximately 20% in relation to interest rates and 40% in relation to inflation. The intention is that the Fund will achieve a hedge ratio of 80% in the long term for both interest and inflation rates. The overall funding flightpath strategy structure was reviewed in conjunction with the actuarial valuation and a summary of the real yield triggers above CPI is shown below (split by duration of liabilities). In practice the triggers are split into separate interest rate and inflation triggers. Further details are set out in the November 2016 committee report.

Proposed triggers	Hedge ratio	Real rate above CPI			
		15y	20y	30y	40y
Trigger 1	30%	-	-	-	-
Trigger 2	40%	-	-	-	-
Trigger 3	50%	1.40%	1.40%	1.40%	1.40%
Trigger 4	60%	1.60%	1.60%	1.60%	1.60%
Trigger 5	70%	1.80%	1.80%	1.80%	1.80%
Trigger 6	80%	2.00%	2.00%	2.00%	2.00%

### FLIGHTPATH – MONITORING/trigger review

A summary report is provided to the Fund (on a monthly and quarterly basis) which includes a "traffic light" analysis of the key components of the Flightpath and hedging mandate. The "traffic light" indicates whether the Flightpath and hedging mandate are operating in line with expectations or if any actions are required. In particular, a separate fund-wide mechanism has been introduced, such that if the funding level falls more than 5% below the "expected" funding level (based on valuation assumptions), then discussions will follow at the Advisory Panel level as to the continued appropriateness of the funding strategy.

The funding level has materially improved since the valuation date due to strong equity performance in the portfolio including the exposure via the risk management mandate with Insight. There are no formal funding level triggers in place at the time of writing but these are being considered and will be implemented. In addition it has been agreed that the Fund will seek to protect itself against falls in equity markets. This will be done via insurance contracts and it will be put in place to cover only the exposure to equity markets within the Insight mandate. Details of the updated funding level triggers and Equity market protection will be shown in the relevant Committee report and they will then be reflected in the future updates of the FSS.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations as part of the Flightpath monitoring detailed above and regular funding reviews. If considered appropriate, the funding and flightpath strategy will be reviewed (other than as part of the triennial valuation process), for example:

- if there has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- if there have been significant changes to the CPF membership, or LGPS benefits
- if there have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy e.g. closure to new entrants
- if there have been any significant special contributions paid into the CPF

When monitoring the funding position, if the Administering Authority considers that any action is required, the employing authorities will be contacted to provide an update and details of any proposed remedial actions at the next valuation or earlier if appropriate.

## FURTHER INFORMATION

If you require further information about anything in or related to this Funding Strategy Statement, please contact:

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# APPENDIX A - ACTUARIAL METHOD AND ASSUMPTIONS

## METHOD

The actuarial method to be used in the calculation of the solvency funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the scheme on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, an alternative method is adopted, which makes advance allowance for the anticipated future ageing and decline of the current closed membership group potentially over the period of the rates and adjustments certificate.

## FINANCIAL ASSUMPTIONS – SOLVENCY FUNDING TARGET

### Investment return (discount rate)

The discount rate has been derived based on the expected return on the Fund assets base on the long term strategy set out in the Investment Strategy Statement (ISS). It includes appropriate margins for prudence. When assessing the appropriate discount rate consideration has been given to the returns in excess of CPI inflation (as derived below). The discount rate at the valuation has been derived based on an assumed return of 2.0% per annum above CPI inflation i.e. a real return of 2.0% per annum and a total discount rate of 4.2% per annum. This real return will be reviewed from time to time based on the investment strategy, market outlook and the Fund's overall risk metrics.

### Inflation (Consumer Prices Index)

The inflation assumption will be taken to be the investment market's expectation for RPI inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Scheme's accrued liabilities, but subject to an adjustment due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index

The overall reduction to RPI inflation at the valuation date is 1.0% per annum.

### Salary increases

In relation to benefits earned prior to 1 April 2014, the assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.25% p.a. over the inflation assumption as described above. This includes allowance for promotional increases. In addition to the long term salary increase assumption allowance has been made for expected short term pay restraint for some employers as budgeted in their financial plan. For example for public sector employers this results in a total salary increase of 1% per annum to 2019/20 in line with Government policy. Depending on the circumstances of the employer, the variants on short term pay that have been applied are either no allowance or an allowance of 1% per annum for each year from the valuation date up to 2020.

### Pension increases/Indexation of CARE benefits

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the CPI (e.g. Guaranteed Minimum Pensions where the LGPS is not required to provide full indexation).

## DEMOGRAPHIC ASSUMPTIONS

### Mortality/Life Expectancy

The mortality in retirement assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity and the experience of the scheme. The mortality tables used are set out below, with a loading reflecting Fund specific experience. The derivation of the mortality assumption is set out in a separate paper as supplied by the Actuary. Current members who retire on the grounds of ill health are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 4 years older whereas for existing ill health retirees we assume this is at an age 3 years older. For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in a minimum level of longevity 'improvement' year on year in the future in line with the CMI projections with a long-term improvement trend of 1.75% per annum for males, and 1.5% per annum for females.

The mortality before retirement has also been adjusted based on LGPS wide experience.

### Commutation

It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take the standard 3/80ths cash sum. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.

### Other Demographics

Following an analysis of Fund experience carried out by the Actuary, the incidence of ill health retirements, withdrawal rates and the proportions married/civil partnership assumption have been modified from the last valuation. In addition, no allowance will be made for the future take-up of the 50:50 option (an allowance of 5% of current and future members (by payroll) for certain employers was made at the last valuation). Where any member has actually opted for the 50:50 scheme, this will be allowed for in the assessment of the rate for the next 3 years. Other assumptions are as per the last valuation.

### Expenses

Expenses are met out the Fund, in accordance with the Regulations. This is allowed for by adding 0.6% of pensionable pay to the contributions as required from participating employers. This addition is reassessed at each valuation and is calculated by estimating the level of expenses for the Fund over the period from 1 April 2017 to 31 March 2020. Investment expenses have been allowed for implicitly in determining the discount rates.

### Discretionary Benefits

The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation

## METHOD AND ASSUMPTIONS USED IN CALCULATING THE COST OF FUTURE ACCRUAL (OR PRIMARY RATE)

The future service liabilities are calculated using the same assumptions as the funding target except that a different financial assumption for the discount rate is used. A critical aspect here is that the Regulations state the desirability of keeping the “Primary Rate” (which is the future service rate) as stable as possible so this needs to be taken into account when setting the assumptions.

As future service contributions are paid in respect of benefits built up in the future, the Primary Rate should take account of the market conditions applying at future dates, not just the date of the valuation, thus it is justifiable to use a slightly higher expected return from the investment strategy. In addition the future liabilities for which these contributions will be paid have a longer average duration than the past service liabilities as they relate to active members only.

The financial assumptions in relation to future service (i.e. the normal cost) are based on an overall assumed real discount rate of 2.75% per annum above the long term average assumption for consumer price inflation of 2.2% per annum.

## EMPLOYER ASSET SHARES

The Fund is a multi-employer pension scheme that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving the employer asset share.

In attributing the overall investment performance obtained on the assets of the Fund to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Scheme as a whole unless agreed otherwise between the employer and the Fund at the sole discretion of the Administering Authority.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.

**SUMMARY OF KEY WHOLE FUND ASSUMPTIONS USED FOR CALCULATING FUNDING TARGET AND COST OF FUTURE ACCRUAL (THE “PRIMARY RATE”) FOR THE 2016 ACTUARIAL VALUATION**

<b>Long-term yields</b>	
Market implied RPI inflation	3.20% p.a.
<b>Solvency Funding Target financial assumptions</b>	
Investment return/Discount Rate	4.20% p.a.
CPI price inflation	2.20% p.a.
Long Term Salary increases*	3.45% p.a.
Pension increases/indexation of CARE benefits	2.20% p.a.
<b>Future service accrual financial assumptions</b>	
Investment return/Discount Rate	4.95% p.a.
CPI price inflation	2.20% p.a.
Long Term Salary increases*	3.45% p.a.
Pension increases/indexation of CARE benefits	2.20% p.a.

\*short term salary increases of 1% per annum for each year from the valuation date up to 2020 also apply for most employers

**Life expectancy assumptions**

The post retirement mortality tables adopted for this valuation are set out below:

<b>Current Status</b>	<b>Retirement Type</b>	<b>Mortality Table</b>
Pensioner	Normal Health	99% S2PMA_CMI_2015[1.75%] / 90% S2PFA_CMI_2015[1.5%]
	Dependant	130% S2PMA_CMI_2015[1.75%] / 103% S2DFA_CMI_2015[1.5%]
	III Health	99% S2PMA_CMI_2015[1.75%] + 3 years / 90% S2PFA_CMI_2015[1.5%] + 3 years
Active	Normal Health	99% S2PMA_CMI_2015[1.75%] / 86% S2PFA_CMI_2015[1.5%]
	III Health	99% S2PMA_CMI_2015[1.75%] + 4 years / 86% S2PFA_CMI_2015[1.5%] + 4 years
Deferred	All	124% S2PMA_CMI_2015[1.75%] / 99% S2PFA_CMI_2015[1.5%]
Future Dependant	Dependant	106% S2PMA_CMI_2015[1.75%] / 98% S2DFA_CMI_2015[1.5%]

**Life expectancies at age 65:**

<b>Membership Category</b>	<b>Male Life Expectancy at 65</b>	<b>Female Life Expectancy at 65</b>
Pensioners	22.8	25.4
Actives aged 45 now	25.4	28.1
Deferreds aged 45 now	23.5	26.9

Other demographic assumptions are set out in the Actuary's formal report.

# APPENDIX B – EMPLOYER DEFICIT RECOVERY PLANS

As the assets of the Fund are less than the liabilities at the effective date, a deficit recovery plan needs to be adopted such that additional contributions are paid into the Fund to meet the shortfall.

Deficit contributions paid to the Fund by each employer will be expressed as £s amounts and it is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford based on the Administering Authority's view of the employer's covenant and risk to the Fund.

Recovery periods will be set by the Fund on a consistent basis across employer categories where possible and communicated as part of the discussions with employers. This will determine the minimum contribution requirement although employers will be free to select any shorter deficit recovery period and higher contributions if they wish, including the option of prepaying the deficit contributions in one lump sum either on an annual basis or a one-off payment. This will be reflected in the monetary amount requested via a reduction in overall £ deficit contributions payable.

The determination of recovery periods is summarised in the table below:

Category	Average Deficit Recovery Period (whole years)	Derivation
Unitary Authority Councils	15 years	Determined by reducing the period from the preceding valuation by 3 years.
Other Tax-raising Scheduled and Designating Bodies	11 years	Determined by reducing the period from the preceding valuation on a case by case basis with the intention of reducing by at least 3 years.
Education Bodies (Universities and Colleges)	13 years	Determined by reducing the period from the preceding valuation by at least 3 years.
Admission Bodies (guaranteed by another Scheme Employer within the Fund)	16 years	Subject to agreement with guarantor.

Individual employers have been notified separately of their individual recovery periods when they were provided with their individual valuation results.

In determining the actual recovery period to apply for any particular employer or employer grouping, the Administering Authority may take into account some or all of the following factors:

- The size of the funding shortfall;
- The business plans of the employer;
- The assessment of the financial covenant of the Employer, and security of future income streams;

- Any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.
- changes in the funding position after the valuation date which is deemed reasonable.

The objective is to recover any deficit over a reasonable timeframe, and this will be periodically reviewed. Subject to affordability considerations a key principle will be to maintain the deficit contributions at the expected monetary levels from the preceding valuation.

## OTHER FACTORS AFFECTING THE EMPLOYER DEFICIT RECOVERY PLANS

As part of the process of agreeing funding plans with individual employers, the Administering Authority will consider the use of contingent assets and other tools such as bonds or guarantees that could assist employing bodies in managing the cost of their liabilities or could provide the Fund with greater security against outstanding liabilities. All other things being equal this could result in a longer recovery period being acceptable to the Administering Authority, although employers will still be expected to at least cover expected interest costs on the deficit.

It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Administering Authority therefore would be willing to use its discretion to accept an evidenced based affordable level of contributions for the organisation for the three years 2017/2020. Any application of this option is at the ultimate discretion of the Fund in order to effectively manage risk across the Fund. It will only be considered after the provision of the appropriate evidence as part of the covenant assessment and also the appropriate professional advice. Typically this will be managed primarily through an adjustment to the recovery period and/or phasing/stepping of contributions.

For those bodies identified as having a weaker covenant, the Administering Authority will need to balance the level of risk plus the solvency requirements of the Fund with the sustainability of the organisation when agreeing funding plans. As a minimum, the annual deficit payment must meet the on-going interest costs to ensure, everything else being equal, that the deficit does not increase in monetary terms.

Notwithstanding the above, the Administering Authority, in consultation with the Fund Actuary, retains ultimate discretion in agreeing final employer contribution plans, and will consider whether any exceptional arrangements should apply to any participating employer within the Fund.

# APPENDIX C - ADMISSION AND TERMINATION POLICY

## INTRODUCTION

This document details the Clwyd Pension Fund's (CPF) policy on the methodology for assessment of ongoing contribution requirements and termination payments in the event of the cessation of an employer's participation in the Fund. This document also covers CPF's policy on admissions into the Fund and sets out the considerations for current and former *admission bodies*. It supplements the general policy of the Fund as set out in the Funding Strategy Statement (FSS).

- Admission bodies are required to have an "admission agreement" with the Fund. In conjunction with the Regulations, the admission agreement sets out the conditions of participation of the admission body including which employees (or categories of employees) are eligible to be members of the Fund.
- Scheme Employers have a statutory right to participate in the LGPS and their staff therefore can become members of the LGPS at any time, although some organisations (Part 2 Scheme Employers) do need to designate eligibility for its staff.

A list of all current employing bodies participating in the CPF is kept as a live document and will be updated by the Administering Authority as bodies are admitted to, or leave the CPF.

Please see the glossary for an explanation of the terms used throughout this Appendix.

## ENTRY TO THE FUND

Prior to admission to the Fund, an Admitted Body is required to carry out an assessment of the level of risk on premature termination of the contract to the satisfaction of the Administering Authority. If the risk assessment and/or bond amount is not to the satisfaction of the Administering Authority (as required under the LGPS Regulations) it will consider and determine whether the admission body must pre-fund for termination with contribution requirements assessed using the minimum risk methodology and assumptions.

Some aspects that the Administering Authority may consider when deciding whether to apply a minimum risk methodology are:

- Uncertainty over the security of the organisation's funding sources e.g. the body relies on voluntary or charitable sources of income or has no external funding guarantee/reserves;
- If the admitted body has an expected limited lifespan of participation in the Fund;
- The average age of employees to be admitted and whether the admission is closed to new joiners.

In order to protect other Fund employers, where it has been considered undesirable to provide a bond, a guarantee must be sought in line with the LGPS Regulations.

## ADMITTED BODIES PROVIDING A SERVICE

Generally Admitted Bodies providing a service will have a guarantor within the Fund that will stand behind the liabilities. Accordingly, in general, the minimum risk approach to funding and termination will not apply for these bodies.

As above, the Admitted Body is required to carry out an assessment of the level of risk on premature termination of the contract to the satisfaction of the Administering Authority. This assessment would normally be based on advice in the form of a “risk assessment report” provided by the actuary to the CPF. As the Scheme Employer is effectively the ultimate guarantor for these admissions to the CPF it must also be satisfied (along with the Administering Authority) over the level (if any) of any bond requirement. Where bond agreements are to the satisfaction of the Administering Authority, the level of the bond amount will be subject to review on a regular basis.

In the absence of any other specific agreement between the parties, deficit recovery periods for Admitted Bodies will be set in line with the Fund’s general policy as set out in the FSS.

Any risk sharing arrangements agreed between the Scheme Employer and the Admitted Body will be documented in the commercial agreement between the two parties and not the admission agreement.

In the event of termination of the Admitted Body, any orphan liabilities in the Fund will be subsumed by the relevant Scheme Employer.

An exception to the above policy applies if the guarantor is not a participating employer within the CPF, including if the guarantor is a participating employer within another LGPS Fund. In order to protect other employers within the CPF the Administering Authority may in this case treat the admission body as pre-funding for termination, with contribution requirements assessed using the minimum risk methodology and assumptions

## PRE-FUNDING FOR TERMINATION

An employing body may choose to pre-fund for termination i.e. to amend their funding approach to a minimum risk methodology and assumptions. This will substantially reduce the risk of an uncertain and potentially large debt being due to the Fund at termination. However, it is also likely to give rise to a substantial increase in contribution requirements, when assessed on the minimum risk basis.

For any employing bodies funding on such a minimum risk strategy a notional investment strategy can be assumed as a match to the liabilities if agreed by the Administering Authority based on the advice of the Actuary. In particular the employing body’s notional asset share of the Fund will be credited with an investment return in line with the minimum risk funding assumptions adopted rather than the actual investment return generated by the actual asset portfolio of the entire Fund. The Fund reserves the right to modify this approach in any case where it might materially affect the finances of the Scheme, or depending on any case specific circumstances.

# EXITING THE FUND

## TERMINATION OF AN EMPLOYER'S PARTICIPATION

When an employing body terminates for any reason, employees may transfer to another employer, either within the Fund or elsewhere. If this is not the case the employees will retain pension rights within the Fund i.e. either deferred benefits or immediate retirement benefits.

In addition to any liabilities for current employees the Fund will also retain liability for payment of benefits to former employees, i.e. to existing deferred and pensioner members except where there is a complete transfer of responsibility to another Fund with a different Administering Authority.

In the event that unfunded liabilities arise that cannot be recovered from the employing body, these will normally fall to be met by the Fund as a whole (i.e. all employers) unless there is a guarantor or successor body within the Fund.

The CPF's policy is that a termination assessment will be made based on a minimum risk funding basis, unless the employing body has a guarantor within the Fund or a successor body exists to take over the employing body's liabilities (including those for former employees). This is to protect the other employers in the Fund as, at termination, the employing body's liabilities will become orphan liabilities within the Fund, and there will be no recourse to it if a shortfall emerges in the future (after participation has terminated).

If, instead, the employing body has a guarantor within the Fund or a successor body exists to take over the employing body's liabilities, the CPF's policy is that the valuation funding basis will be used for the termination assessment unless the guarantor informs the CPF otherwise. The guarantor or successor body will then, following any termination payment made, subsume the assets and liabilities of the employing body within the Fund. (For Admission Bodies, this process is sometimes known as the "novation" of the admission agreement.) This may, if agreed by the successor body, constitute a complete amalgamation of assets and liabilities to the successor body, including any funding deficit on closure. In these circumstances no termination payment will be required from the outgoing employing body itself, as the deficit would be recovered via the successor body's own deficit recovery plan.

It is possible under certain circumstances that an employer can apply to transfer all assets and current and former members' benefits to another LGPS Fund in England and Wales. In these cases no termination assessment is required as there will no longer be any orphan liabilities in the CPF. Therefore, a separate assessment of the assets to be transferred will be required.

## FUTURE TERMINATIONS

In many cases, termination of an employer's participation is an event that can be foreseen, for example, because the organisation's operations may be planned to be discontinued and/or the admission agreement is due to cease. Under the Regulations, in the event of the Administering Authority becoming aware of such circumstances, it can amend an employer's minimum contributions such that the value of the assets of the employing body is neither materially more nor materially less than its anticipated liabilities at the date it appears to the Administering Authority that it will cease to be a participating employer. In this case, employing bodies are encouraged to open a dialogue with the Fund to commence planning for the termination as early as possible. Where termination is disclosed in advance the Fund will operate procedures to reduce the sizeable volatility risks to the debt amount in the run up to actual termination of participation. The Fund will modify the employing body's approach in

any case, where it might materially affect the finances of the Scheme, or depending on any case specific circumstances.

The Fund's standard policy is to recover termination deficits (including interest and expenses) as a one off payment. However, at the discretion of the Administering Authority, the deficit can be recovered over an agreed period as certified by the Actuary. This period will depend on the Administering Authority's view on the covenant of the outgoing employer.

## MINIMUM RISK TERMINATION BASIS

The minimum risk financial assumptions that applied at the actuarial valuation date (31 March 2016) are set out below in relation to any liability remaining in the Fund. These will be updated on a case-by-case basis, with reference to prevailing market conditions at the relevant employing body's cessation date.

<b>Minimum risk assumptions</b>	<b>31 March 2016</b>
Discount Rate	2.2% p.a.
CPI price inflation	2.2% p.a.
Pension increases/indexation of CARE benefits	2.2% p.a.

All demographic assumptions will be the same as those adopted for the 2016 actuarial valuation, except in relation to the life expectancy assumption. Given the minimum risk financial assumptions do not protect against future adverse demographic experience a higher level of prudence will be adopted in the life expectancy assumption.

The termination basis for an outgoing employer will include an adjustment to the assumption for longevity improvements over time by increasing the long term trend of improvement in mortality rates to 2% p.a. from the 1.75% p.a. and 1.5% p.a. used for males and females respectively, in the 2016 valuation for ongoing funding and contribution purposes.

# APPENDIX D – COVENANT ASSESSMENT AND MONITORING POLICY

An employer's covenant underpins its legal obligation and ability to meet its financial responsibilities now and in the future. The strength of covenant depends upon the robustness of the legal agreements in place and the likelihood that the employer can meet them. The covenant effectively underwrites the risks to which the Fund is exposed, including underfunding, longevity, investment and market forces.

An assessment of employer covenant focuses on determining the following:

- > Type of body and its origins
- > Nature and enforceability of legal agreements
- > Whether there is a bond in place and the level of the bond
- > Whether a more accelerated recovery plan should be enforced
- > Whether there is an option to call in contingent assets
- > Is there a need for monitoring of ongoing and termination funding ahead of the next actuarial valuation?

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital.

## RISK CRITERIA

The assessment criteria upon which an employer should be reviewed could include:

- Nature and prospects of the employer's industry
- Employer's competitive position and relative size
- Management ability and track record
- Financial policy of the employer
- Profitability, cashflow and financial flexibility
- Employer's credit rating
- Position of the economy as a whole

Not all of the above would be applicable to assessing employer risk within the Fund; rather a proportionate approach to the consideration of the above criteria would be made, with further focus given to the following:

- The scale of obligations to the pension scheme relative to the size of the employer's operating cashflow
- The relative priority placed on the pension scheme compared to corporate finances
- An estimate of the amount which might be available to the scheme on insolvency of the employer as well as the likelihood of that eventuality.

## ASSESSING EMPLOYER COVENANT

The employer covenant will be assessed objectively and its ability to meet their obligations will be viewed in the context of the Fund's exposure to risk and volatility based on publicly available information and/or information provided by the employer. The monitoring of covenant strength along with the funding position (including on the termination basis) enables the Fund to anticipate and pre-empt employer funding issues and thus adopt a proactive approach. In order to objectively monitor the strength of an employer's covenant, adjacent to the risk posed to the Fund, a number of fundamental financial metrics will be reviewed to develop an overview of the employer's stability and a rating score will be applied using a Red/Amber/Green (RAG) rating structure.

In order to accurately monitor employer covenant, it will be necessary for research to be carried out into employers' backgrounds and, in addition, for those employers to be contacted to gather as much information as possible. Focus will be placed on the regular monitoring of employers with a proactive rather than reactive view to mitigating risk.

The covenant assessment will be combined with the funding position to derive an overall risk score. Action will be taken if these metrics meet certain triggers based on funding level, covenant rating and the overall risk score

## FREQUENCY OF MONITORING

The funding position and contribution rate for each employer participating in the Fund will be reviewed as a matter of course with each triennial actuarial valuation. However, it is important that the relative financial strength of employers is reviewed regularly to allow for a thorough assessment of the financial metrics. The funding position will be monitored (including on the termination basis) using an online system provided to officers by the Fund Actuary.

Employers subject to a more detailed review, where a risk criterion is triggered, will be reviewed at least every six months, but more realistically with a quarterly focus.

## COVENANT RISK MANAGEMENT

The focus of the Fund's risk management is the identification and treatment of the risks and it will be a continuous and evolving process which runs throughout the Fund's strategy. Mechanisms that will be explored with certain employers, as necessary, will include but are not limited to the following:

1. Parental Guarantee and/or Indemnifying Bond
2. Transfer to a more prudent actuarial basis and investment strategy (e.g. the termination basis)
3. A higher funding target, shortened recovery periods and increased cash contributions
4. Managed exit strategies
5. Contingent assets and/or other security such as escrow accounts.

# APPENDIX E – INSURANCE ARRANGEMENTS

## OVERVIEW OF ARRANGEMENTS

The Fund is setting up an internal captive ill health insurance arrangement which pools these risks for eligible employers. The aim of the arrangement would be that smaller employers, whose funding position could be significantly affected by the retirement of one or more of their members on the grounds of ill health, would pay a premium to the Fund within their future service contribution rate. This arrangement will not affect eligible employer contribution rates at this valuation but may affect them going forward.

### INTERNAL CAPTIVE INSURANCE

The internal captive arrangement would operate as follows:

- “Premiums” are paid by the eligible employers into the captive arrangement which is tracked separately by the Fund Actuary in the valuation calculations. The premiums are included in the employer’s primary rate.
- The captive arrangement is then used to meet strain costs (over and above the premium paid) emerging from ill-health retirements i.e. there is no initial impact on the deficit position for employers within the captive.
- The premiums are set with the expectation that they will be sufficient to cover the costs in the 3 years following the valuation date. If any excess premiums over costs are built up in the Captive, these will be used to offset future adverse experience and/or lower premiums at the discretion of the Administering Authority based on the advice of the actuary.
- In the event of poor experience over a valuation period any shortfall in the captive fund is effectively underwritten by the other employers within the Fund. However the future premiums will be adjusted to recover any shortfall over a reasonable period with a view to keeping premiums as stable as possible for employers. Over time the captive arrangement should therefore be self-funding and smooth out fluctuations in the contribution requirements for those employers in the captive arrangement.
- Premiums payable are subject to review from valuation to valuation depending on experience and the expected ill health trends. They will also be adjusted for any changes in the LGPS benefits. They will be included in employer rates at each valuation or on commencement of participation for new employers.

### SUMMARY

The relevant employers will be notified of their participation. New employers entering the Fund who fall into the “small employer” category would also be included.

For all other employers who do not form part of the captive arrangement, the current treatment of ill-health retirements will still apply i.e. the Fund continues to monitor ill-health retirement strain costs incurred against the allowance certified with recovery of any excess costs from the employer once the allowance is exceeded either at the next valuation or at an earlier review of the contributions due including on termination of participation.

# APPENDIX F - GLOSSARY

**ACTUARIAL VALUATION:** an investigation by an actuary into the ability of the Fund to meet its liabilities. For the LGPS the Fund Actuary will assess the funding level of each participating employer and agree contribution rates with the administering authority to fund the cost of new benefits and make good any existing deficits as set out in the separate Funding Strategy Statement. The asset value is based on market values at the valuation date.

**ADMINISTERING AUTHORITY:** the council with a statutory responsibility for running the Fund and that is responsible for all aspects of its management and operation.

**ADMISSION BODIES:** A specific type of employer under the Local Government Pension Scheme (LGPS) who do not automatically qualify for participation in the Fund but are allowed to join if they satisfy the relevant criteria set out in the Regulations.

**BENCHMARK:** a measure against which fund performance is to be judged.

**BEST ESTIMATE ASSUMPTION:** an assumption where the outcome has a 50/50 chance of being achieved.

**BONDS:** loans made to an issuer (often a government or a company) which undertakes to repay the loan at an agreed later date. The term refers generically to corporate bonds or government bonds (gilts).

**CAREER AVERAGE REVALUED EARNINGS SCHEME (CARE):** 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.

**MINIMUM RISK BASIS:** an approach where the discount rate used to assess the liabilities is determined based on the market yields of Government bond investments based on the appropriate duration of the liabilities being assessed. This is usually adopted when an employer is exiting the Fund.

**CPI:** acronym standing for “Consumer Prices Index”. CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. The reference goods and services differ from those of RPI. These goods are expected to provide lower, less volatile inflation increases. Pension increases in the LGPS are linked to the annual change in CPI.

**COVENANT:** the assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term or affordability constraints in the short term.

**DEFICIT:** the extent to which the value of the Fund's past service liabilities exceeds the value of the Fund's assets. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).

**DEFICIT RECOVERY PERIOD:** the target length of time over which the current deficit is intended to be paid off. A shorter period will give rise to a higher annual contribution, and vice versa.

**DISCOUNT RATE:** the rate of interest used to convert a cash amount e.g. future benefit payments occurring in the future to a present value i.e. the liabilities. A higher discount means lower liabilities and vice versa.

**EMPLOYER'S FUTURE SERVICE CONTRIBUTION RATE ("PRIMARY RATE"):** the contribution rate payable by an employer, expressed as a % of pensionable pay, as being sufficient to meet the cost of new benefits being accrued by active members in the future. The cost will be net of employee contributions and will include an allowance for the expected level of administrative expenses.

**EMPLOYING BODIES:** any organisation that participates in the LGPS, including admission bodies and scheme employers.

**EQUITIES:** shares in a company which are bought and sold on a stock exchange.

**EQUITY PROTECTION:** an insurance contract which provides protection against falls in equity markets. Depending on the pricing structure, this may be financed by giving up some of the upside potential in equity market gains.

**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 OR SOLVENCY LEVEL:** the ratio of the value of the Fund's assets and the value of the Fund's liabilities expressed as a percentage.

**FUNDING STRATEGY STATEMENT:** This is a key governance document that outlines how the administering authority will manage employer's contributions and risks to the Fund.

**GOVERNMENT ACTUARY'S DEPARTMENT ("GAD"):** the GAD is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury.

**GUARANTEE / GUARANTOR:** a formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's covenant to be as strong as its guarantor's.

**HEDGING:** a strategy that aims to reduce funding volatility. This is achieved by investing in assets that capture levels of yields based on agreed trigger levels so the assets mimic the change in liabilities.

**HEDGE RATIO:** The level of hedging in place as a percentage of the liabilities. This can be in relation to interest rates, inflation rates or real rates of return.

**ILL HEALTH CAPTIVE:** this is a notional fund designed to immunise certain employers against excessive ill health costs in return for an agreed insurance premium.

**INVESTMENT STRATEGY:** the long-term distribution of assets among various asset classes that takes into account the Funds objectives and attitude to risk.

**LETTING EMPLOYER:** an employer that outsources part of its services/workforce to another employer, usually a contractor. The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer.

**LIABILITIES:** the actuarially calculated present value of all benefit entitlements i.e. scheme cashflows of all members of the Fund, built up to date or in the future. The liabilities in relation to the benefit entitlements earned up to the valuation date are compared with the present market value of Fund assets to derive the deficit and funding/solvency level. Liabilities can be assessed on different set of actuarial assumptions depending on the purpose of the valuation.

**LGPS:** the Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements.

**MATURITY:** a general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

**MEMBERS:** The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).

**MINIMUM RISK FUNDING BASIS:** more cautious funding basis than the existing valuation basis. The relevant discount rate used for valuing the present value of liabilities is based on the yields from Government Bonds or Swaps.

**ORPHAN LIABILITIES:** liabilities in the Fund for which there is no sponsoring employer within the Fund. Ultimately orphan liabilities must be underwritten by all other employers in the Fund.

**PERCENTILES:** relative ranking (in hundredths) of a particular range. For example, in terms of expected returns a percentile ranking of 75 indicates that in 25% of cases, the return achieved would be greater than the figure, and in 75% cases the return would be lower.

**PHASING/STEPPING OF CONTRIBUTIONS:** when there is an increase/decrease in an employer's long term contribution requirements, the increase in contributions can be gradually stepped or phased in over an agreed period. The phasing/stepping can be in equal steps or on a bespoke basis for each employer.

**POOLING:** employers may be grouped together for the purpose of calculating contribution rates, (i.e. a single contribution rate applicable to all employers in the pool). A pool may still require each individual employer to ultimately pay for its own share of deficit, or (if formally agreed) it may allow deficits to be passed from one employer to another.

**PREPAYMENT:** the payment by employers of contributions to the Fund earlier than that certified by the Actuary. The amount paid will be reduced in monetary terms compared to the certified amount to reflect the early payment.

**PRESENT VALUE:** the value of projected benefit payments, discounted back to the valuation date.

**PROFILE:** the profile of an employer's membership or liability reflects various measurements of that employer's members, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc.

**PRUDENT ASSUMPTION:** an assumption where the outcome has a greater than 50/50 chance of being achieved i.e. the outcome is more likely to be overstated than understated. Legislation and Guidance requires the assumptions adopted for an actuarial valuation to be prudent.

**RATES AND ADJUSTMENTS CERTIFICATE:** a formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.

**REAL RETURN OR REAL DISCOUNT RATE:** a rate of return or discount rate net of (CPI) inflation.

**RECOVERY PLAN:** a strategy by which an employer will make up a funding deficit over a specified period of time ("the recovery period"), as set out in the Funding Strategy Statement.

**SCHEDULED BODIES:** types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

**SCHEME EMPLOYERS:** employers that have the statutory right to participate in the LGPS. These organisations (set out in Part 1 of Schedule 2 of the 2013 Regulations) would not need to designate eligibility, unlike the Part 2 Scheme Employers.

**SECTION 13 VALUATION:** in accordance with Section 13 of the Public Service Pensions Act 2014, the Government Actuary's Department (GAD) have been commissioned to advise the Department for Communities and Local Government (DCLG) in connection with reviewing the 2016 LGPS actuarial valuations. All LGPS Funds therefore will be assessed on a standardised set of assumptions as part of this process.

**SOLVENCY FUNDING TARGET:** an assessment of the present value of benefits to be paid in the future. The desired funding target is to achieve a solvency level of a 100% i.e. assets equal to the accrued liabilities at the valuation date assessed on the ongoing concern basis.

**VALUATION FUNDING BASIS:** the financial and demographic assumptions used to determine the employer's contribution requirements. The relevant discount rate used for valuing the present value of liabilities is consistent with an expected rate of return of the Fund's investments. This includes an expected out-performance over gilts in the long-term from other asset classes, held by the Fund.

**50/50 SCHEME:** in the LGPS, active members are given the option of accruing a lower personal benefit in the 50/50 Scheme, in return for paying a lower contribution rate.

## **Investment Strategy Statement**

### **Flintshire County Council**

### **Administering Authority for the Clwyd Pension Fund**

#### **1. Statutory Requirement for an Investment Strategy Statement**

Flintshire County Council is the Administering Authority responsible for maintaining and managing the Clwyd Pension Fund (the Fund) on behalf of its stakeholders; the scheme members and employers participating in the Fund. These responsibilities are primarily set out in Local Government Pension Scheme regulations; the regulatory framework is set out below.

The Public Service Pensions Act 2013 (The Act) enables the Secretary of State to make regulations creating schemes of pensions for, amongst others, local government workers.

In England and Wales, such a scheme was created by the Local Government Pension Scheme Regulations 2013 (The Regulations). These Regulations were made by the Secretary of State exercising powers in the Superannuation Act 1972.

Under powers contained in The Act and The Regulations, the Secretary of State made the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, which replace the 2009 Investment Regulations. These regulations came into force on 1<sup>st</sup> November 2016.

Regulation 7(1) requires administering authorities to formulate an Investment Strategy Statement (ISS) which must be in accordance with guidance issued by the Secretary of State, and replaces the existing requirement to produce and maintain a Statement of Investment Principles.

The ISS must include:

- (a) A requirement to invest money in a wide variety of investments;
- (b) The authority's assessment of the suitability of particular investments and types of investments;
- (c) The authority's approach to risk, including the ways in which risks are to be measured and managed;
- (d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
- (e) The authority's approach on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
- (f) The authority's policy on the exercise of rights (including voting rights) attaching to investments.

The ISS must also set out the maximum percentage of the total value of all investments that it will invest in particular investments or classes of investments. This, in effect, replaces Schedule 1 of the 2009 Regulations.

The statement must be published by 1<sup>st</sup> April 2017 and regularly reviewed and at least every three years. Under transitional arrangements key elements of the 2009 Regulations will remain in force until the ISS is published.

This document is designed to comply with the guidance given by the Secretary of State, is effective from 1 April 2017 and will be reviewed on a regular basis, with any material changes published.

The ISS should be read in conjunction with the following statutory documents:

- Funding Strategy Statement
- Governance Policy and Compliance Statement
- Communications Strategy
- Clwyd Pension Fund Annual Report and Accounts
- Clwyd Pension Fund Actuarial Valuation.

All the above statements and documents can be found on the Fund's web site at [mss.clwydpensionfund.org.uk/](http://mss.clwydpensionfund.org.uk/)

## About the Fund

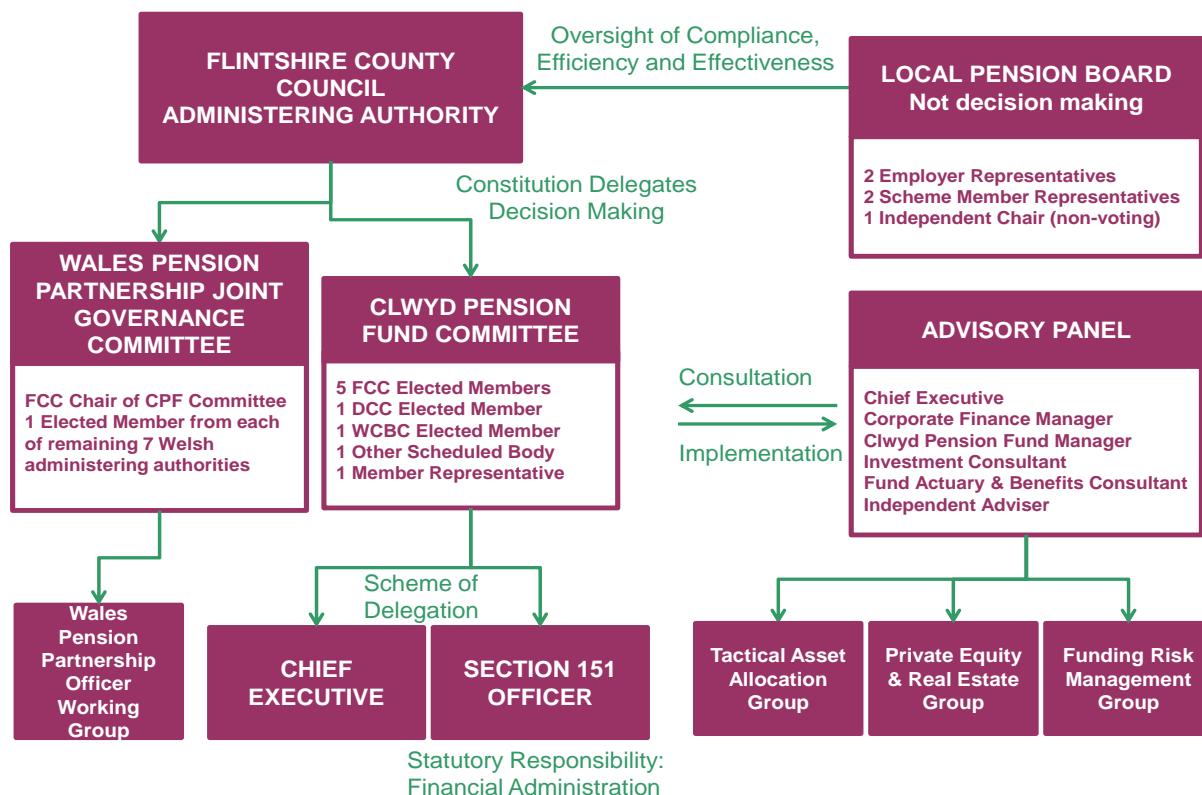
The Clwyd Pension Fund ("CPF") is a £1.6bn Local Government Pension Fund which provides death and retirement benefits for local government employees (other than teachers, police and fire-fighters) in North East Wales and employees of other qualifying bodies which provide similar services.

Total Fund membership is about 45,000 with about 16,000 active contributors from 39 contributing employers and about 29,000 retired members, widows and deferred members.

## 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"). Before making strategic investment decisions the Clwyd Fund takes advice from a regulated investment consultant; JLT Employee Benefits. The Fund also receives advice from the Risk Management Advisers Mercer. The County Council's Section 151 Officer (Corporate Finance Officer) 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.

The Fund's governance structure is illustrated in the diagram below.



- ***Aims and Objectives for the Management of the Fund***

In the Management of the Fund there is a Mission Statement (shown below). These apply to the approach to investing the Fund's monies as well as managing the overall Fund. These holistic objectives have been developed to guide the management of all aspects 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.

The key actions and areas of focus in the Fund's business plan are grouped into the four areas of governance, funding and investments, communications and administration, to align with the key aims and objectives of these strategies and policies. The specific aims relating to the investment management of the Fund are summarised below.

- ***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 rowth 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.

## Investment Strategy of the Clwyd Pension Fund

The following sections details the Fund's investment strategy, which takes into account Regulation 7(2) (a) and 7(2) (b) listed below:

### 2. Investment of money in a wide variety of investments

Regulation 7(2) (a) requires that administering authorities invest in a diversified portfolio of assets to ensure that risk is appropriately managed and volatility of overall return is reduced. The guidance that accompanies the regulations does not prescribe the specific asset classes over which Fund monies must be invested.

### 3. Suitability of particular investments and types of investments

Regulation 7(2) (b) requires that in assessing the strategic allocation for the Fund, an administering authority assesses the suitability of particular investments and types of investments against the need to meet pension obligations as they fall due.

In assessing the suitability and variety of investments, and considering the risks, the starting point should be the Fund's overall objectives. These are listed in the previous section "About the Fund".

In order that these primary objectives can be achieved, the following funding and investment principles have been agreed.

#### - Funding Principles

The Clwyd Pension Fund Funding Strategy implemented for three years from 1st April 2017 includes a number of investment return assumptions:

- An investment return (discount rate) for the funding target of CPI inflation plus 2.0% p.a. (assumed 4.2%).
- An investment return for the future service contribution rate of CPI Inflation plus 2.75% p.a. (assumed 4.95%).

Over a three-year period an investment return above these assumptions will contribute to reducing the funding deficit and thus employer contributions, providing that liability assumptions such as longevity and inflation remain on target. The Fund's triennial Valuation considers all these factors when determining employer contribution rates. New employer rates will be implemented from 1st April 2017. The next Actuarial Valuation will be as at 31st March 2019 with implementation from April 2020.

A Funding Strategy Statement (FSS) was prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013. The Statement outlines the strategy for recovering the funding deficit over 15 years. A copy of the FSS can be

obtained from the Fund's web site at [mss.clwydpensionfund.org.uk/](http://mss.clwydpensionfund.org.uk/). The funding strategy will be monitored during 2017/20.

In managing the Fund, the key objectives are:

- to aim for a funding level of 100% and
- to aim for long term stability in employers' contribution rates.

The Clwyd Pension Fund was funded at 76% of liabilities (2016 Actuarial Valuation) and employers' rates are currently structured to achieve a gradual return to 100% funding by 2031.

Whilst stability of costs from the employers' rates has the higher priority, absolute cost to the employer is also important. This implies that:

- the cost of administering the Fund will be constrained by the adoption of best management practice
- employers will adopt appropriate and economic policies in those areas where they have discretion and where the costs of their actions fall on the Fund
- the Fund's overall investment policy will be aimed at superior investment returns relative to the growth of liabilities. This implies that the Fund will continue to take an active risk relative to its liability profile.

The investment principles of the Fund are stated in full below, and are intended to strike the appropriate balance between the strategy most suitable for long-term consistent performance and the funding objectives. A favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

#### **- Investment Principles**

The key investment objectives for the Fund are to aim for sufficient excess investment returns relative to the growth of liabilities to meet the funding objectives set out above on an on-going basis, whilst maintaining an appropriate balance between long-term consistent investment performance and the funding objectives.

The Fund's overall strategic risk and return profile is currently determined through its strategic asset allocation. In establishing the Fund's long-term strategic asset allocation, or strategic benchmark, the key factors are the overall level of return being sought, the minimum level of risk consistent with this and the impact of diversification in reducing this risk further. At asset class or mandate level, asset class weightings, appropriate benchmarks and out-performance targets are the key building blocks in framing this overall Fund strategy.

It is Fund policy to carry out a fundamental review of the Fund's structure and management arrangements at least every four years. The review includes research on market views for the longer-term risk, return and correlation profiles for different asset classes and a more tactical view on the global economic and market

environment over the next three to five years. This research is used to determine an optimum future balance between the various assets classes and hence the Fund's fixed strategic benchmark.

The latest Fund review was undertaken in 2016/17 and changes as a result of this are in the process of being implemented. Details of the investment strategy are included in following sections.

- **Investment Strategy**
- **Setting the Strategy**

The Committee have determined their investment strategy to meet the objectives outlined earlier in this Statement. This includes consideration for the Fund's liability profile and the Committee's attitude to risk.

The strategic benchmark highlighted later in this section takes account of the risk and return characteristics of each asset class and provides a reasonable long-term balance appropriate to the liabilities of the Fund. The Clwyd Pension Fund considers the mix of asset classes in forming an overall portfolio and considers the correlation in volatility and return of each.

The Committee recognise the benefits of diversification across asset classes, as well as within them, in reducing the risk that results from investing in any one particular market. Where they consider it advisable to do so, the Committee have appointed investment managers to select and manage the allocations across asset classes, in particular where it would not be practical (or appropriate) for the Committee to commit the resources necessary to make these decisions themselves.

In assessing the suitability of investments required to form the overall portfolio the Committee consider a number of characteristics of each asset class, and sub asset class. These characteristics include potential return, risk/volatility of returns, liquidity, duration and interest rate sensitivity. In setting and reviewing an overall investment strategy for the Clwyd Pension Fund the starting point is always the Actuary's assessment of the liabilities of the Fund. This assessment will include cash flow requirements and an assessment of the required return to ensure the long term solvency of the Fund, and it is essential that the investment strategy is compatible with this.

- **2016/17 Review**

The 2016/17 review showed, using JLT Market Forecast Group output for Quarter 2 2016, that the expected market returns over the coming ten year period would mean that the Fund could be expected to generate a return of 6.5% p.a. (CPI inflation plus 4.5% p.a.). This is equivalent to CPI inflation plus 4.3% p.a. taking the CPI assumed in accordance with 31 March 2016 Actuarial Valuation. Investigations showed that the portfolio was well diversified and did not need a significant overhaul and the de-risking framework and Flight-path was well placed, subject to conclusion of a review by the Fund's consultants.

However, there were opportunities to reduce risk without sacrificing return.

These opportunities led to four main areas of change.

- Global Equity exposure to be split between Active and Smart Beta portfolios.
- Remove allocation to Frontier Market Equity, due to continued geo-political risk and the uncertainty of returns in the medium term;
- A new allocation to Private Credit to take advantage of the current opportunity set;
- Reduce UK Property allocation and increase investment in Infrastructure, in the longer term;

These changes meant that the expected return could be increased by 0.1%, with minimal change to the projected Deficit Risk.

Further details in relation to the investment strategy are outlined in this section.

#### **- *Investment Decisions***

The Committee distinguish between three types of investment decision: strategic, tactical and stock-level.

#### **- *Strategic Investment Decisions***

These decisions are long-term in nature and are driven by an understanding of the objectives, needs and liabilities of the Fund.

The Committee takes all such decisions themselves. They do so after receiving advice from their investment consultant. Examples of such decisions and of tasks relating to the implementation of these decisions include the following:

Setting investment objectives

Determining the split between the growth and the stabilising portfolios

Determining the allocation to asset classes within the growth and stabilising portfolios

Determining the Fund benchmark

Reviewing the investment objectives and strategic asset allocation

#### **- *Tactical Investment Decisions***

These decisions are short-term and based on expectations of near-term market movements. Such decisions may involve deviating temporarily from the strategic asset allocation and may require the timing of entry into, or exit from, an investment market or asset class.

These decisions are ultimately the responsibility of the Committee. However, where such decisions are made within a pooled fund, they are the responsibility of the

investment manager of the respective fund. Furthermore, the Committee have delegated certain powers to the Clwyd Pension Fund Manager taking advice from the Tactical Asset Allocation Group. The purpose of the Tactical Allocation Portfolio, managed by the group is to take advantage of short term (approximately one year) opportunities that are consistent with the long term risk and return goals of the Fund. The Tactical Allocation Group is bound by the Tactical Allocation Portfolio Terms of Reference.

- ***Stock Selection Decisions***

All such decisions are the responsibility of the investment managers with which the Fund invests.

- ***Strategic Asset Allocation***

In setting the Strategic Asset Allocation for the Clwyd Pension Fund the Regulations require the Committee to invest in a wide variety of investments and in doing so assess the suitability of particular types of investments. Subject to satisfying these elements of the Regulations the Clwyd Pension Fund is not constrained to certain types of investments; the new requirement is for the Committee to set their own limits. The Fund is therefore permitted to invest across a wide range of asset classes, including, but not limited to, the following:

- Agriculture
- Cash (including currency)
- Commodities
- Convertible bonds
- Diversified growth
- Emerging market debt
- Hedge Funds and Managed Futures (including via a managed account platform)
  - High yield bonds
  - Infrastructure
  - Liability driven investment products
  - Multi –Asset Credit
  - Private credit
  - Private equity
  - Property
  - Timber
  - UK and overseas corporate bonds
  - UK and overseas equities
  - UK and overseas government bonds, fixed and inflation-linked

- **Balance between different types of investments**

The Regulations require the administering authority to have regard for the diversification of the Fund's investments.

The Fund will, at all times, invest across a diversified portfolio of investments to reduce investment risk. In addition to diversifying by assets, the Fund will invest across a number of managers and via different approaches and styles to investing.

The Fund may invest via pooled and segregated portfolios based on the appropriateness of each portfolio. The Fund can invest across a combination of passive, active and absolute return investment approaches based on return potential, cost and flexibility of implementation.

The investment structure agreed in the 2016/17 investment strategy review is detailed in the table below:

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

**Notes:**

\* The Target allocation of the underlying asset classes in the Real Assets portfolio will take some time to achieve due to the illiquidity of the asset classes involved.

\*\*The Best Ideas portfolio is tactically allocated according to shorter-term market views. This can be implemented by increasing the allocation to any of the asset classes listed above or by separate asset classes in any type of investment. This

allocation is made through consultation with the Tactical Allocation Group, which is bound by the Tactical Allocation Portfolio Terms of Reference. The objective of the Tactical Allocation Portfolio is to add value to the overall Clwyd Pension Fund return.

\*\*\* The managed account includes allocations to Managed Futures and Hedge Funds.

The Fund's investment managers are remunerated either by way of an ad valorem fee, i.e. the fee is a percentage of the value of assets under management, or a combination of an ad valorem and performance-related fee. The principle of performance-related fees is that the base fee is lower and that the manager is only paid a higher fee if the performance objective is met or exceeded.

### **Asset Allocation and Long Term Expected Return on Investment**

The Committee is responsible for setting the strategic asset allocation for the Fund which in turn must be consistent with the investment return assumed in the funding strategy.

The investment strategy reflects the medium to long term nature of the liabilities but must also provide flexibility to manage short term volatility in markets. In addition, the investment strategy must take account of possible changes to cash flows as the membership profile of the Fund or the benefits structure changes.

The investment strategy reflects the differing return and risk profiles of each asset class. However, long term risk and return expectations are not consistently generated over all time frames and, for all asset classes, there can be periods of under- or out-performance compared to the long term expectations.

The strategic framework includes a target allocation against which strategic performance will be monitored ('Strategic Allocation'). In addition there are ranges for each asset category that allow limited deviation within the framework ('Strategic Range'). The ranges enable the Fund to reflect changes in the market outlook and provide greater flexibility to implement cash management and rebalancing.

In addition to the Strategic Allocation and Strategic Ranges, a conditional medium term asset allocation (Conditional Range) exists, to manage major risks to the long term strategic asset allocation which may emerge between Fund reviews.

The Fund's strategic allocation, as set out below, does not assume any outperformance from the investment managers. The expected returns stated in this table are as at the date of the 2016/17 strategic review.

Asset Class	Strategic allocation (%)	Strategic range (%)	Conditional range (%) *	Expected return above Inflation (CPI) p.a.**
Developed Global Equity	8.0	5.0 – 10.0	0 – 30	+4.5%
Emerging Market Equity	6.0	5.0 – 7.5	0 – 15	+5.5%
Credit Portfolio	15.0	10.0 – 20.0	5 - 25	+2.1%
<i>Multi-Asset Credit (liquid)</i>	12.0	10.0 – 15.0	5 - 20	+1.8%
	3.0	2.0 – 5.0	0 - 10	+3.5%
<i>Private Credit (illiquid)</i>				
Real Assets Portfolio	12.0	10.0 – 15.0	5 - 20	+4.9%
<i>Property Infrastructure</i>	4.0	2.0 – 6.0	0 – 10	+4.0%
	8.0	5.0 – 10.0	2 – 12	+5.3%
Private Markets	10.0	8.0 – 12.0	8 – 12	+6.5%
Tactical Portfolio	21.0	15.0 – 25.0	10 – 30	+3.6%
<i>Diversified Growth</i>	10.0	8.0 – 12.0	5 – 15	+4.2%
<i>Best Ideas ***</i>	11.0	9.0 – 13.0	5 – 15	+3.0%
Managed Account****	9.0	7.0 – 11.0	5 - 15	+4.0%
Cash	-	0.0 – 5.0	0 – 30	+0.0%
Liability Hedging*****	19.0	10.0 - 30.0	10 - 30	+4.5%

Notes:

\* The Conditional ranges are at a total Fund level, including the Tactical Allocation Portfolio but excluding the Liability Hedging mandate.

\*\* Expected return is expressed as an excess long-term return over CPI Inflation to reflect extra risk being taken, excluding active management. This is based on JLT Market Forecast as at the date of the 2016/17 strategic review. CPI Inflation is used as the basis for expected returns as it is a proxy for valuing the liabilities.

\*\*\* The Best Ideas allocation is a short term (12 month horizon) tactical allocation based on the JLT's (the Fund's Investment consultant) "best ideas". The portfolio should be liquid and cost efficient.

\*\*\*\* The Managed Account includes allocations to Managed Futures and Hedge Funds

\*\*\*\*\* The Liability Hedging Portfolio, a combination of Liability Driven Investment (LDI) and synthetic equity instruments, will be managed as part of a de-risking approach. Given the nature of this mandate i.e. protection against liability changes, it is not intended to rebalance the allocation, which can lead to a movement away from the initial strategic allocation of 19% at inception of the mandate.

The inclusion of a diversified range of assets and the scope for tactical allocation in the strategy is expected to reduce the overall volatility of returns without significantly altering the Fund's expected long term return. This was the case when modelling the revised investment strategy in 2016.

- **LDI Flight path strategy**

In March 2014, the Fund established a Liability Hedging programme covering both nominal and inflation linked interest rates.

A Flight path for increasing the level of protection of the hedges was agreed along with other funding level triggers. An LDI manager was appointed to manage this hedging portfolio in relation to market yield triggers and the Funding and Risk Management group monitors the funding level triggers relating to the overall funding and investment risk management.

As part of the 31<sup>st</sup> March 2016 actuarial valuation and investment strategy review cycle, the officers and Fund consultants (Mercer and JLT) have reviewed the Flight-path and updated the interest rate and inflation triggers.

- **Realisation of investments**

The Fund's investment policy is structured so that the majority of its investments (in equities, DGFs and bonds) can, except in the most extreme market conditions, be readily realised.

However, the availability of alternative investment vehicles enables the Fund to invest in less liquid asset classes and to build well-diversified portfolios. Investments such as property, infrastructure and private equity/debt are long term investments which the Fund is less likely to be able to realise in a short period. "Lock-up" periods are normal practice in hedge funds (to manage the in/out flows to ensure existing clients' capital is protected) which means that these investments are not readily realisable either.

Notwithstanding this, the Fund maintains sufficient investments in liquid assets to meet its liabilities in the short and medium term as they fall due.

## - **Cash Strategy**

From 1st April 2011 the 2009 Investment Regulations required the Pension Fund to have a separate bank account from the Local Authority.

The Pension Fund does not have a strategic allocation to cash for investment purposes but holds surplus cash for paying:

- Benefits and transfers as per the Regulations.
- The administration costs of the Fund.
- The Investment management fees.
- Commitments to real assets and private market investments.

However, in extreme market conditions cash could be used as part of the Conditional Asset Allocation.

The aim is to avoid requiring to borrow for liquidity purposes, although Investment Regulations allow Pension Funds to borrow for a maximum of 90 days.

The cash could be deposited in one of the following, subject to cash flow requirements:

- The Pension Fund bank account with the National Westminster bank for daily liquidity.
- A deposit account with the National Westminster Bank with access up to 180 days' notice.
- The Insight Liquidity Fund for unexpected liquidity requirements or higher rates of return.

The Clwyd Pension Fund Manager will arrange for the daily implementation of the cash strategy.

## - **Stock Lending**

The Fund only currently invests in pooled vehicles so cannot undertake any stock lending. The stock lending policy on pooled funds is determined by the individual investment managers. Any income not retained by the fund manager and / or the lending agent is incorporated in the net asset values of each pooled fund.

#### **4. Approach to risk, including the ways in which risks are to be measured and managed**

Regulation 7(2) (c) requires that funds describe their approach to risk within their investment portfolio, including summarising the key risks and detailing the approach to mitigate the risk (where possible or appropriate).

##### **Risk Register**

The Clwyd Pension Fund has a Risk Management Policy and Risk Register in place.

The Risk Register has a section dedicated to Funding & Investment Risks (including accounting and audit). Specific asset/investment risks highlighted in the risk register include those around investment markets, the failure of managers to achieve their objectives, missing out on market opportunities, and liquidity.

The risk register continually updated and key risks are considered on a regular basis at the Committee and Advisory Panel meetings.

The Committee is aware and seeks to take account, of a number of risks in relation to the Fund's investments, and these are detailed in the following paragraphs.

The main risk for the Fund is the mismatch between its assets and liabilities. As a consequence, if the investment returns are less than that required in the funding strategy the funding level will deteriorate, all else being equal. The main risks within the funding strategy are interest rate, inflation and mortality risks, and investment risk arising from the investment portfolio, which is controlled through diversification of asset holdings. The Fund has a bespoke Flightpath/Risk Management strategy that has established objectives to ensure that the Fund's exposure to interest rate risk and inflation risk is managed and monitored on an ongoing basis.

Investment, by its very nature, is a risk based activity where the returns achieved will reflect differing levels of risk. There are a number of investment risks to consider within an investment fund, namely manager, market, credit, currency and liquidity risks. Consideration of financially material non-financial risks is considered in the Fund's Sustainability Policy is later in this document.

In considering the Fund's investment strategy, one must therefore bear in mind this balance between risk and return. In practice, the investment strategy objective will be to achieve the highest possible return whilst minimising downside risk, within agreed parameters.

##### **Solvency Risk and Mismatching Risk**

- These are measured through a qualitative and quantitative assessment of the expected development of the assets relative to the liabilities.
- These are managed by setting a Fund-specific strategic asset allocation with an appropriate level of risk.

## **Manager Risk (including the All Wales Pool)**

- This is assessed as the expected deviation of the prospective risk and return, as set out in the managers' objectives, relative to the investment policy.
- It is measured by monitoring the actual deviation of returns relative to the objective and factors supporting the managers' investment process, and by monitoring and replacing any managers where concerns exist over their continued ability to deliver the investment mandate.
- The aim of the investment strategy and management structure is to manage the appropriate level of risk for the return target which reflects the funding strategy. The Fund's external investment managers are required to invest in line with the investment guidelines set by the Fund. Independent custodians safe keep the assets on behalf of the Fund.

## **Liquidity Risk**

- This is monitored according to the level of cash-flows required by the Fund over a specified period.
- Whilst ensuring that there is the appropriate liquidity within the assets held, the Fund is invests in less liquid investments to take advantage of the "illiquidity premium" offered.
- Despite this the Fund holds an appropriate amount of readily realisable investments. The Fund's assets are invested in pooled funds which are readily realisable and there is a significant amount of liquidity based upon the existing strategic asset allocation.

## **Political Risk**

- This is measured by the level of concentration in any one market leading to the risk of adverse influence on investment values arising from political intervention.
- The Fund manages this by regular reviews of the investments and through investing in funds which give a wide degree of diversification.

## **Corporate Governance Risk**

- This is assessed by reviewing the Fund's investment managers' policies regarding corporate governance.
- It is managed by delegating the exercise of voting rights to the managers, who exercise this right in accordance with their published corporate governance policies. The Fund's Sustainability Policy explains the approach in detail, and is included later in this document.

## **Legislative Risk**

- This is the risk that legislative changes will require action from the Committee so as to comply with any such changes in legislation.
- The Committee acknowledge that this risk is unavoidable but will seek to address any required changes so as to comply with changes in legislation.

## **Market Risk**

- This is the risk the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices.

- The Fund seeks to manage this risk through the strategic policy which ensures diversification of investments across a range of asset classes and markets that have low correlations with each other and across a selection of managers.
- The Fund has a significant weighting to a Tactical Allocation portfolio (TAP) which aims to take advantage of market risk, by making shorter term tactical allocations which suit the specific characteristics of the Clwyd Fund. This is achieved with an allocation to Diversified Growth (with style diversification across two managers) and via an allocation to a Best Ideas portfolio.
- As most of the portfolio is exposed to market risk, the main risk to the Fund is a fall in market prices. Although market movements cannot be completely avoided, and indeed there are periods when all assets become more highly correlated, the impact can be mitigated through diversifying across asset classes and approaches to investing.
- Market risk comprises of the following three types of risk:

### ***Currency Risk***

- This is the risk that occurs when the price of one currency moves relative to another (reference) currency. In this context, the Fund may be invested in overseas stocks or assets, which are either directly or indirectly linked to a currency other than Sterling. There is a risk that the price of that overseas currency will move in such a way that devalues that currency relative to Sterling, thus negatively impacting the overall investment return.
- The Fund seeks to address this within the TAP but does not take a strategic view on currency movements.

### ***Interest rate risk and Inflation risk***

This covers the following risks:

#### ***Interest rate risk -***

- This is the risk that an investment's value will change due to a change in the level of interest rates. This affects debt instruments more directly than growth instruments.

#### ***Inflation risk -***

- This is the risk that the value of the Fund's liabilities which are inextricably linked to Consumer Price Index (CPI) inflation, increase at greater rate than the assets.
- The Committee also acknowledge the interest rate risk and inflation risk related to individual debt instruments. This is managed by the underlying investment managers through a combination of strategies, such as diversification, duration and yield curve management and investing in assets that move in line with inflation such as Infrastructure.
- Since 2014 the Fund has adopted a Flight-path approach to managing the specific inflation and interest rate risk. The Flight path is regularly reviewed and the appropriate trigger levels set.

## Risk Budgets

In formulating the revised investment strategy, expected risk and return figures were utilised for each asset class. The figures used in the 2016/17 strategic review are as follows.

Asset Class	Expected return above inflation p.a. *	Expected Risk (Volatility) p.a. **
Developed Global Equity	+4.5%	14%
Emerging Market Equity	+5.5%	20%
Credit Portfolio	2.1%	6%
	+1.8%	5%
	+3.5%	12%
Multi-Asset Credit ( <i>liquid</i> )		
Private Credit ( <i>illiquid</i> )		
Real Assets Portfolio	4.9%	11%
<i>Property</i>	4.0%	5%
<i>Infrastructure</i>	5.3%	14%
Private Markets	+6.5%	28%
Tactical Portfolio	+3.6%	9%
<i>Diversified Growth</i>	+4.2%	9%
<i>Best Ideas</i> **	+3.0%	9%
Managed Account ***	+4.0%	6%
Liability Hedging	+4.5%	15%

\* Expected return is expressed as an excess long-term return over Inflation (measured by CPI) to reflect the extra risk being taken, excluding active management. This is based on JLT Market Forecast as at the date of the 2016 strategic review. CPI is used as the basis for expected returns as they are a proxy for valuing the liabilities.

\*\* Expected risk is based on 10 year historic returns and volatility

\*\*\* The managed account includes allocations to Managed Futures and Hedge Funds

## Proper advice

In assessing the Fund's strategy, including an assessment of the implicit risks, and setting the maximum limits Flintshire County Council as Administering Authority for the Clwyd Pension Fund has taken proper advice from Officers, JLT Employee Benefits (Investment Consultants) and Mercer (Actuaries and Risk Management Advisers).

As part of the Fund's governance structure, there are regular meetings between the Fund's officers, the Investment Consultants, the Actuaries and Risk Management Advisers and the Fund receives advice from these parties on a continuous basis.

## 5. Approach to pooling

Regulation 7(2) (d) requires that all authorities commit to a suitable pool to achieve benefits of scale. It also requires that administering authorities confirm the chosen investment pool meets Government's investment reform criteria, or to the extent that it does not, that Government is content for it to continue.

The Clwyd Pension Fund is participating in the development of the WALES Pool. The proposed structure and basis on which the WALES Pool will operate was set out in the July 2016 submission to the Government.

The WALES Pool received confirmation from the Minister for Local Government that he was happy that the proposals met the required criteria, with the exception of the size requirement. However, the Minister confirmed in his letter to the Welsh Funds that given the special position of Wales, and the long history of collaboration he was content with the final proposal.

The agreed objectives of the WALES Pool are:

- To provide pooling arrangements which allow individual funds to implement their own investment strategies (where practical).
- To achieve material cost savings for participating funds while improving or maintaining investment performance after fees.
- To put in place robust governance arrangements to oversee the Pool's activities.
- To work closely with other pools in order to explore the benefits that all stakeholders in Wales might obtain from wider pooling solutions or potential direct investments.

In the longer term, subject to the above mentioned objectives being met, the Clwyd Fund is committed to investing all of its assets through the WALES Pool.

### Structure and governance of the WALES Pool

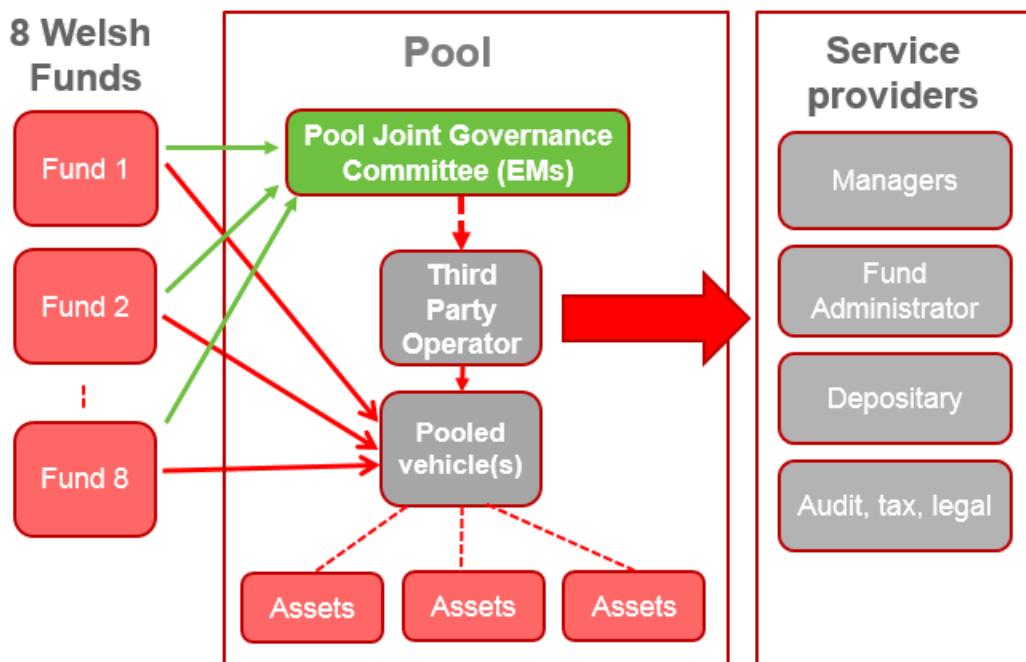
The Pool will appoint a third party operator authorised by the FCA to provide a series of investment sub-funds in which assets of the participating funds will be invested. A diagram showing the proposed structure is shown on the next page.

A Joint Governance Committee (JGC) has been established to oversee the operator. The Committee comprises elected members – one from each of the eight participating funds. It is anticipated that this may be the Chairs of the respective Pensions Committees though administering authorities may choose to nominate alternative members if appropriate. This arrangement will provide accountability for the operator back to individual administering authorities.

The JGC has been setup formally as a Joint Committee between the participating administering authorities. It will operate on the basis of “One Fund, One Vote”, though the intention is that any decisions are reached on a consensus wherever possible. A formal Terms of Reference for the Committee has been drawn up.

Each authority has committed to the pool by agreeing and signing an Inter-Authority agreement. The agreement sets out the principles behind the WALES pool, and will commit the administering authorities to sharing the costs of setup.

### Governance Structure of the WALES Pool



The operator will be responsible for selecting and contracting with investment managers for each of the sub-funds as well as appointing other service providers such as a depository asset servicer, and an external valuer as necessary.

It is anticipated at this stage that listed bonds and equities are likely to be invested through a UK based Authorised Contractual Scheme (ACS) in order to benefit from the tax transparent nature of the vehicle, though this will be discussed with the appointed operator. It may be that alternative vehicles are more appropriate for some asset classes. As well as considering the options with the operator, advice will be sought of the final proposed approach from a tax efficiency and legal compliance basis.

It is likely that it will take some time for the illiquid asset classes to transition into the Pool, and the process and benefits of doing so will be discussed with the operator. Given the Clwyd Fund has a significant proportion of its assets in alternative, less liquid investments it may be some time before all of the Fund's assets are able to be pooled.

## 6. Approach to Environmental, Social and Governance issues

And

## 7. Policy on exercising voting rights

Regulation 7(2)(e) requires administering authorities to demonstrate that it considers any factors that are financially material to the performance of the fund's investments, including social, environmental and corporate governance factors, and over the long term, dependent on the time horizon over which their liabilities arise.

Regulation 7(2) (f) requires administering authorities to explain their policy on exercising rights (including voting rights) attaching to investments. The guidance refers to the Financial Reporting Council's UK Stewardship Code and requires that funds explain, where appropriate their policy on stewardship with reference to the Stewardship Code.

### Responsible Investing Policy

The Fund recognises the importance of its role as stewards of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside. The Fund recognises that ultimately this protects the financial interests of the Fund and its ultimate beneficiaries. The Fund has a commitment to actively exercising the ownership rights attached to its investments reflecting the Fund's conviction that responsible asset owners should maintain oversight of the companies in which it ultimately invests recognising that the companies' activities impact upon not only their customers and clients, but more widely upon their employees and other stakeholders and also wider society.

The Fund has delegated responsibility for voting rights to the Fund's external investment managers and expects them to actively engage with companies, and to vote. Due to the Fund investing mainly in pooled funds it is not possible to impose the Fund's own voting policy, but on appointment the Fund ensures that the fund manager has voting guidelines in line with the Clwyd Fund's policies.

The Clwyd Pension Fund recognises that there is a link between good environmental, social, ethical and governance practices and long-term sustainable business profitability and in its investment strategy aims to place a strong focus on this. It is recognised that, whilst there are links, the three main sustainability areas, environmental, social and ethical, each raise their own issues, although the approaches and guidelines appropriate to each are similar.

As part of this the Fund, subject to fiduciary duties, makes selective investments in environmentally supportive areas such as clean-technologies, clean energy, environmental infrastructure and forestry

The Fund regularly meets with existing and new managers to discuss opportunities within the environmental area.

At the strategic level, a manager's approach to identifying and managing RI risks and opportunities is evaluated as part of the tender process for appointing new managers. It is also incorporated into the on-going process of monitoring the investment managers' performance.

The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) whose primary aims are to seek improvements in the corporate governance of the companies in which member funds invest, and also to promote Socially Responsible Investment (SRI) on environmental issues and issues relating to overseas employment standards. This very much reflects the principles built into the Fund's own Sustainability Policy.

The Fund is also a member of the Pension and Lifetime Savings Association (PLSA) which also provides further guidance on Governance and Social Responsibility issues as well as the wider pension issues.

The Clwyd Pension Fund has incorporated these areas and others into its Sustainability Policy (below).

## Sustainability Policy

### Definition

At its simplest, sustainability is about focusing attention on longer-term issues. More specifically for pension fund investors, it concerns delivering the long-term returns required to fund long-term liabilities by ensuring that the long-term risks inherent in investments are recognised and, where possible, addressed. These risks are many and varied but include environmental, social, ethical and governance issues.

### Legal Framework, Constraints & Considerations

In framing a Sustainability Policy, the following are pertinent –

- There already exists a requirement for the Fund to include within its Investment Strategy Statement (ISS) details of its policy on social, ethical and environmental issues. This Sustainability Policy encompasses such issues and will be updated as required to take account of relevant new regulatory requirements.
- The Fund is required to fulfil its overriding fiduciary duty to focus as a primary consideration on financial performance and the maximisation of Fund returns, after taking full account of all existing and future financial risks. Such risks increasingly include sustainability issues.
- Whilst the financial criterion is maintained as a key investment decision criterion, this has now been broadened to include non-financial criteria, subject to certain caveats, and the Fund is required to give an explanation of the extent to which non-financial factors will be taken into account and its approach to social investments.
- The investment industry tends to focus on short term factors in terms of company interaction, shares prices and performance, and fund managers incentives tend to reflect this rather than being aligned with the longer-term objectives of pension fund investors.

### Objective

#### Objective

Within the above legal framework, constraints and considerations, the Clwyd Pension Fund's objective aim will be –

- 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.

Given the constraints outlined above and particularly the pooled nature of many of the Fund's investments, it would be difficult for the Fund to become a formal signatory to the UNPRI.

#### United Nations Principles for Responsible Investing (UNPRI)

The Clwyd Pension Fund –

- Is committed to the principles underlying the United Nations Principles for Responsible Investing (UNPRI) and will be an active supporter of these;
- Will encourage its external managers to become signatories to the UNPRI.

The Fund Objective stated above already encompasses most of the UNPRI.

#### **Application of Sustainability Principles**

In order to achieve its stated objective, the Clwyd Pension Fund will apply a series of guidelines covering most aspects of pension fund investment under the following headings –

- Sustainability approach
- Investment strategy (UNPRI 1)
- Company engagement & voting (UNPRI 2)
- Investment management & performance monitoring (UNPRI 3)
- Investment manager selection & contracts (UNPRI 4)
- Collaboration (UNPRI 5)
- Reporting & disclosure (UNPRI 6)
- Review

The paragraphs below set out the Fund's thought processes in establishing such guidelines and detail the guidelines adopted as part of this Sustainability Policy document.

## **Sustainability Approach**

In framing an approach to sustainability, the key focus has to be on the UNPRI principles 1 and 2 as these underlie most investment and governance processes. Sustainability-related issues have been considered on a regular basis for many years, with broad corporate governance policy guidelines in place from 1996. More recently these form part of the Fund's ISS and are reviewed annually.

The Clwyd Pension Fund approach has always been and continues to be based upon "active engagement". This involves the Fund's managers researching and forming a view on the sustainability credentials of companies, taking this into account in investment decisions and, where there are sustainability concerns, on environmental, social, ethical or governance grounds, engaging with companies to seek and achieve positive change.

### **Sustainability Approach**

The Clwyd Pension Fund believes in an active engagement approach to the pursuit of its sustainability objectives and, on this broad basis, it –

- Will not adopt a negative approach to sustainability which involves screening and excluding investment opportunities;
- Will not invest in pooled vehicles constructed using this same approach;
- Will encourage its managers to adopt a long-term approach that involves working with companies to encourage improvement in all sustainability areas;
- Will monitor the performance of managers in pursuing such objectives;
- Will invest directly in specific vehicles and investment areas that clearly match its sustainability objectives.

## **Investment Strategy**

The Clwyd Pension Fund recognises that there is a relationship between good environmental, social, ethical and governance practices and long-term sustainable business profitability and in its investment strategy aims to place a strong focus on this. It is recognised that, whilst there are links, the three main sustainability areas, environmental, social and ethical, each raise their own issues, although the approaches and guidelines appropriate to each are similar.

### ***Environmental***

The impact of poor environmental practices on profit sustainability is very clear. There are direct costs in terms of fines for pollution etc. and increasingly now for carbon-charging and waste disposal that can have major impacts on business models. In addition there are potential indirect costs from bad publicity and reputational risk. On the positive side, however, there are opportunities to promote sustainability through investment in new technologies aimed at cleaner solutions.

### ***Social***

This concerns areas such as employee relations, community relations and health & safety and again can lead to direct financial costs from health and safety breaches and strike action etc., as well as more subtle risks to company operations, reputation and long-term profitability.

### ***Ethical***

This is a difficult area as ethical views can vary considerably but there are some areas that are widely accepted for inclusion. These include supply chain issues that reflect potential breaches of human rights and especially the employment of children, bribery and corruption and operations in certain world areas such as Zimbabwe.

## **Investment Strategy**

On forming and implementing its investment strategy, the Clwyd Pension Fund –

- Will encourage its managers to use their own resources or specifically-focused research agencies to identify at company level actual or potential financial risks attributable to sustainability issues – environmental, social or ethical;
- Will seek, through its managers, to engage with companies that have questionable environmental, social or ethical practices in order to seek improvements;
- Will seek, through its managers, to engage with companies that have a carbon-intensive or water-intensive focus in order to promote alternative approaches and longer-term reductions;
- Will encourage the adoption of the best environmental standards amongst its property and infrastructure managers;
- Will, subject to fiduciary duties, make selective investments in environmentally supportive areas such as clean-technologies, clean energy, environmental infrastructure and forestry etc.

broad corporate governance policy guidelines, whilst touching upon environmental, social and ethical issues, were largely designed to address these Board factors and related voting issues. Myners' Principle 5 is also relevant here. This requires that trustees adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee (ISC) Statement of Principles on the responsibilities of shareholders and agents. The Institutional Limited Partners Association (ILPA) has authored the ILPA Private Equity Principles, a document that contains best practice concepts and that speaks to issues relating to the alignment of interest between general partners and limited partners, fund governance, transparency and reporting guidelines in order that these can be taken account of in their investment management decision-making processes.

In order to monitor the performance of external managers in terms of their degree of compliance with the guidelines and the performance of underlying investments with the Fund's sustainability objectives, there needs to be regular reporting and disclosure on sustainability issues, particularly areas of concern, as well as actions taken to address these.

## Company Engagement & Voting

### The Clwyd Fund –

- Will aim to comply with the Myners' Principle 5 on shareholder activism and become more engaged as an active investor, especially with companies where sustainability factors are a matter of concern;
- Will ensure that its managers adopt or ascertain their level of compliance with the ISC Statement of Principles on the responsibilities of shareholders/agents;
- Will ensure that its managers adopt or ascertain their level of compliance with the ILPA private equity principles;
- Will, wherever practical, exercise voting rights through its managers based upon the following broad criteria –
  - The prime consideration must be financial and the protection of the Fund's assets in the long term;
  - There should be a properly structured Board including an appropriate number of contributing independent non-executive directors;
  - Unless there are strong arguments to the contrary and adequate safeguards guidelines, no director should hold the posts of Chairman and Chief Executive at the same time or be in a position of unaccountability by virtue of having absolute control;
  - All Directors should be subject to at least three-yearly re-election;
  - In view of their stewardship role, non-executive directors should normally be independent in terms of other links to the company and other directorships;
  - The issue of shares with reduced or non-existent voting rights often disadvantages the majority of shareholders and should not normally be supported;
  - Existing shareholders in a company should have a right to subscribe for new equity capital raised by a company, normally in proportion to their existing share of the company's equity capital;
  - Unless financial criteria dictate otherwise, the general policy on take-over bids should be to support incumbent management in good standing;
  - Directors' remuneration packages in different companies should reflect relative performance taking business size and complexity into account;
  - A properly constituted Remuneration Committee is the best judge of what is necessary to recruit, train and motivate;
  - If not already in place, companies should be working towards one year fixed term contracts for executives;
  - There should be a properly constituted Audit Committee;
  - No return that is rightfully the Fund's should be diverted to political donations;
  - Charitable donations are acceptable if they are reasonable and have public relations values.
- Will periodically review these criteria and inform investment managers of changes, should there be any.

## **Investment Management & Monitoring of Performance**

Investment managers need to be made aware of the Fund's Sustainability Policy

### Investment Management & Monitoring of Performance

The Clwyd Pension Fund –

- Will endeavour to ascertain the extent to which its fund managers are formal signatories to, support and comply with the UNPRI;
- Will encourage its fund managers to produce policy statements on sustainability issues and report formally on these.
- Will seek, through its managers, to ensure the full disclosure of environmental, social and ethical policies and practices by companies in which the Fund is invested;
- Will ask investment managers for statements on their degree of compliance with the ISC Statement of Principles on the responsibilities of shareholders and agents;
- Will request policy statements and practical evidence of the adoption of the best environmental standards amongst its property and infrastructure managers;
- Will ask private equity managers for statements on their degree of compliance with the ILPA private equity principles;
- Will ensure that investment managers regularly report records of voting on the Fund's investment and periodically produce statements on compliance or otherwise with the broad corporate governance elements of the Fund's Sustainability Policy;
- Will, subject to appropriate return targets, invest directly in funds focused upon environmental and social objectives.
- Will, where feasible, gather data on the environmental and social impact of these and other funds;
- Will assess the performance of managers both in terms of financial returns and on sustainability issues over a time frame that adequately reflects the Fund's sustainability objectives.

## **Investment Manager Selection & Contracts**

The Fund's standard selection process for managers has always incorporated broad questions on sustainability issues but the main focus has been on investment philosophy, process, personnel and performance. Within this process, there has been some limited focus on sustainability inputs to investment decision-making but risk has tended to be quite narrowly defined and linked to shorter-term financial rather than longer-term sustainability considerations. As a result, sustainability has never been a main factor in the comparative assessment of managers prior to appointment or in the formal appointment process itself. This approach has now been reviewed with a view to incorporating into the selection and contracting process a far greater focus on sustainability issues.

### Investment Manager Selection & Contracts

As an active part of this process, the Clwyd Pension Fund –

- Will require from potential managers formal statements of their objectives, policies and practices on sustainability and related factors;
- Will ascertain from potential managers the degree to which sustainability factors are taken into account in the investment decision-making process;
- Will seek from potential managers details and the level of in-house tools, agency inputs and other resources on sustainability factors used in their investment processes;
- Will review with potential managers the quality, integration and impact of such research on their investment processes and performance;
- Will ascertain the ability of potential managers to assess and quantify the environmental and social impact of their investments;
- Will consider the record of potential managers on active engagement with companies, voting and governance issues generally;
- Will, in the assessment of potential managers, give appropriate weight to all these sustainability and related factors;
- Will, where relevant and appropriate, build elements of the Fund's Sustainability Policy and detailed guidelines into investment management agreements.

## **Collaboration**

The Clwyd Pension Fund is already a committed member of the Local Authority Pension Fund Forum (LAPFF), a body that seeks improvements in corporate governance, promotes socially responsible investing (SRI) and, with the Fund's active encouragement, is devoting considerable resources to environmental issues and climate change in particular. LAPFF is already a signatory to the UNPRI. The Fund has also had contact with other relevant bodies on sustainability issues both directly and through its managers.

### Collaboration

The Clwyd Pension Fund –

- Will join and/or collaborate with organisations that are relevant to pursuit of the Fund's sustainability objectives;
- Will, subject to regulatory and operational constraints, seek relevant information from and share relevant information with such organisations in order to further the effective delivery of its Sustainability Policy.

## **Reporting & Disclosure**

The Clwyd Pension Fund Annual Report already includes copies of various regulatory documents, including various policy statements and the Fund's ISS. The latter includes details of the Fund's current policy statements on social, environmental and ethical considerations and corporate governance issues. The Annual Report is circulated widely and all these documents are also published on the Fund's website. It is already accepted that approaches on sustainability and other policy areas tend to evolve and develop over time. It is essential therefore to keep policies and practices under continual review so as to improve their efficacy.

### Reporting & Disclosure

The Clwyd Pension Fund –

- Will, through its quarterly meeting procedure, report regularly and as appropriate on relevant sustainability issues;
- Will, periodically, report formally on managers' level of compliance with its Sustainability Policy, progress made in the year and areas where further progress needs to be made;
- Will, once a year, review its Sustainability Policy in the light of best practice and agree any proposed changes through its governance procedure;
- Will circulate this revised document to relevant bodies and particularly its managers;
- Will incorporate this revised document into its ISS and publish its contents both in the Annual Report and on its website.

## UK Stewardship Code

The Financial Reporting Council (FRC) first published the UK Stewardship Code in 2010, and revised it in 2012. The Code aims to enhance the quality of engagement between asset managers and companies to help improve long-term risk-adjusted returns to shareholders. The Code sets out a number of areas of good practice to which the FRC believes institutional investors should aspire. Since December 2010 all UK-authorised Asset Managers are required by the Financial Conduct Authority to produce a statement of commitment to the Stewardship Code or explain why it is not appropriate to their business model.

The Stewardship Code has seven principles, and the ISS guidance requires that administering authorities become signatories to the Code, and state how they implement the principles on a “comply or explain” basis.

The Fund is not currently a signatory to the Code, however the principles are followed, where appropriate, and there are plans to become a signatory in time. The compliance position is shown in Appendix 2.

In practice the Fund’s policy is to apply the Code both through its arrangements with its asset managers and through membership of the LAPFF. In the future as a member of the WALES Pool, the Committee expects that both the Pool and the underlying fund managers to comply with the Stewardship Code.

## Social investments

The Government guidance also addresses the issue of “social investments”; meaning those that deliver a social impact as well as a financial return. The Government considers that social investments are appropriate for LGPS funds where either the social impact is simply in addition to the financial return. It also considers that investments where some part of the financial return is forgone in order to generate the social impact are also appropriate, where the administering authorities have good reason to think scheme members share the concern for social impact, and there is no risk of significant financial detriment to the fund.

Much of the Fund’s approach is set out in the Sustainability Policy contained earlier in the document, but a specific response to this issue is set out below.

### Approach

The Clwyd Pension Fund is a strong believer in sustainability across all areas, including environmental, social and governance, and fully embodies these non-financial factors in its decision-making and monitoring processes. More specifically, it –

- Will endeavour to ascertain the extent to which potential fund managers are formal signatories to, support and comply with the UNPRI and seek to ensure full disclosure of the environmental, social and ethical policies and practices of such managers;
- Will, as part of its appointment process, give full consideration to a manager's philosophy, people and investment process, as well as its track record in terms of financial returns;
- Will give an appropriate weight to all such non-financial factors, including a manager's environmental, social and governance standing, as part of its decision-making process;
- Will encourage existing and long-standing managers to adopt the best environmental, social and governance standards and monitor progress, as appropriate;
- Will, subject to fiduciary considerations, make selective investments in environmentally supportive areas such as clean-technologies, clean energy, environmental infrastructure and forestry etc.
- Will, subject to fiduciary considerations, make selective investments in managers with a social and environment impact focus whose aim is to “do good as well as doing well commercially”.
- Will look for investment opportunities across all sectors that offer potential for catalysing economic growth, particularly in deprived areas.

## Impact

The Clwyd Pension Fund is eager to ascertain the impact of such this approach and is eager to assess and quantify, where feasible, the outcomes from its investments. More specifically, it -

- Will monitor the performance of managers in pursuing such objectives and specifically seek information on relevant environmental and social factors at all meetings with them;
- Will encourage managers to assess and quantify, where feasible, the impact of such factors in terms of employment, health and well-being and education and training, environmental impact and regeneration etc.
- Will monitor the outcome data of managers investing directly in companies and areas that match the Fund's environmental and social objectives.

## **Further Information**

This Investment Strategy Statement was agreed by the Clwyd Pension Fund Committee on 21 March 2017.

If you require further information about anything in or related to this Investment Strategy Statement, please email:

**Philip Latham,  
Clwyd Pension Fund Manager, Flintshire County Council  
E-mail - [Philip.latham@flintshire.gov.uk](mailto:Philip.latham@flintshire.gov.uk)**

## Appendix A – Myners Principles – 2016/17 Compliance

### Principle 1

Administering authorities should ensure that:

- Decisions are taken by persons or organizations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation, and
- Those persons or organizations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

Key Areas and Guidance	Comment & Actions	Compliance
It is good practice to have an investment sub-committee, to provide the appropriate focus and skills on investment decision-making.	The administering authority delegates investment decisions to the Clwyd Pension Fund Committee. The Committee delegate functions to Officers who take investment advice as required from a Pension Advisory Panel who provide appropriate focus and skills on investment decision making. Further, a Tactical Allocation Group has been formed to take advantage of short term opportunities that are consistent with the long term risk and return goals of the Fund. Representatives and roles are defined in the ISS. This new governance structure was implemented from May 2014.	Full
The board should have appropriate skills for effective decision-making.	Training is given priority status through compliance with CIPFA Knowledge and Skills Code of Practice for elected members and ongoing sessions provided regularly through managers, collaboration and seminars. The Fund has produced a training policy for Members and Senior Officers. A needs assessment process will be introduced for members of the new Committee.	Partial
There should be sufficient internal resources and access to external resources for trustees and boards to make effective decisions.	The Committee has access to experienced and trained officers and an Advisory Panel of professionals qualified to provide proper advice.	Full
There should be an investment business plan with progress regularly evaluated.	The three year business plan includes an investment business plan, which is approved by the Committee who then receive updates on progress each Committee.	Full

The remuneration of trustees should be considered.	Remuneration and expenses are reviewed, considered and set by Council.	Full
Particular attention should be paid to managing and contracting with external advisers (including advice on strategic asset allocation, investment management and actuarial issues).	The Investment Consultant, Actuary and Independent Adviser all have contracts which are regularly reviewed. Performance of the Investment Consultant and Actuary will be monitored by the Independent Adviser. The Investment Consultant and Independent Adviser contracts were tendered in 2013/14 and new provider contracts commenced in April 2014	Full

## Principle 2

Trustees should set out an overall investment objective(s) for the fund that takes account of the scheme's liabilities, the strength of the sponsor covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisers and investment managers.

Key Areas and Guidance	Comment & Actions	Compliance
Benchmarks and objectives should be in place for the funding and investment of the scheme.	The Fund's ISS sets out its investment and funding objectives as well as its overall strategic customized benchmark, asset class targets and Conditional Asset Allocation.	Full
Fund managers should have clear written mandates covering scheme expectations, which include clear time horizons for performance measurement and evaluation.	Fund managers operate to detailed written mandates based in the main on 3-year rolling performance objectives, some market-based with others more absolute return in nature. The Liability Hedging portfolio has a liability based benchmark.	Full
Trustees consider as appropriate, given the size of fund, a range of asset classes, active or passive management styles and the impact of investment management costs when formulating objectives and mandates.	The Fund has always looked very widely at available asset classes and its extremely diversified structure reflects this. Whilst competitive deals are always sought with managers, fee levels have been less of a consideration on the grounds that, in optimizing structures, returns have always been considered on a net basis and that such costs are anyway offset by minimal additional performance. Other fund costs are very carefully considered and monitored.	Full
Trustees should consider the strength of the sponsor covenant.	The Fund is effectively Government-backed but the Fund impact on stakeholders receives appropriate attention. The Fund monitors each of the participating LGPS employers and admitted bodies.	Full

### Principle 3

In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities. These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk.

Key Areas and Guidance	Comment & Actions	Compliance
Trustees should have a clear policy on willingness to accept underperformance due to market conditions.	<p>Most managers have market-related benchmarks. There is clear acceptance of the fact that markets can be volatile in the short term. The setting of the Fund's strategic benchmarks is based upon the probable long-run performance of specific asset classes. Similarly, whilst the Fund's aim is that managers will outperform their benchmarks at all times, periods of under-performance are accepted as long as longer-term performance remains intact.</p> <p>A Tactical Allocation Portfolio, which looks to take advantage of short term opportunities that are consistent with the long term risk and return goals of the Fund, form part of the new investment strategy.</p>	Full
Trustees should analyse factors affecting long-term performance and receive advice on how these impact on the scheme and its liabilities.	<p>At each Fund Review exercise, optimization techniques are used that take account of probable performance and risk factors as well as asset class correlations and the Fund's actuarial position. The implementation of the flight-path strategy now requires regular monitoring of the funding position</p> <p>Such issues will be looked at again as part of the next Fund Structure review.</p>	Full
Trustees should take into account the risks associated with their liabilities' valuation and management.	<p>These risks are considered as part of the Fund's flight-path strategy for managing funding risks such as interest rates and inflation. Each Fund Review exercise is aimed at achieving an overall long-term rate of return adequate to cover liability growth (pay/price inflation, interest rate changes and mortality) and to return, in time, to full funding status.</p>	Full
Trustees have a legal requirement to establish and operate internal controls.	<p>Committee members receive regular independent reports from Internal Audit and External Audit on internal controls. Any actions recommended by these bodies are actioned promptly.</p>	Full
Trustees should consider whether the investment strategy is consistent with the scheme sponsor's objectives and ability to pay.	<p>The Fund's investment strategy is considered as part of the regular actuarial process used to review and set employers' rates of contribution and consistency between the two is an important factor.</p>	Full

## Principle 4

Trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisors. Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

Key Areas and Guidance	Comment & Actions	Compliance
There is a formal policy and process for assessing individual performance of trustees and managers.	The performance of the Committee is assessed by the Independent Adviser and published in the Annual Report. In line with the ISS, the performance of the Fund and its fund managers is formally monitored by the Investment Consultant and Officers. The Investment Consultant provides regular performance monitoring reports to both the Advisory Panel and Committee.	Full
Trustees should demonstrate an effective contribution and commitment to the role (for example measured by participation at meetings).	Records of attendance at Committee and training events are maintained and reported in the Annual Report. Participation is recorded in the Committee minutes.	Full
The chairman should address the results of the performance evaluation.	All current performance evaluation documents (Training records, Independent Adviser, risk, Audit) are brought to Committee. The Chairman has a key role in this, but also taking input from Officers and the Advisory Panel, with appropriate actions being agreed.	Full
There should be a statement of how performance evaluations have been conducted.	Investments and Investment Managers are monitored on a quarterly basis by Committee and Advisory Panel. All advisers have fixed term contracts and the performance of contract specifications is reviewed annually as part of the overall governance review.	Full
When selecting external advisers, relevant factors including past performance and price should be taken into account.	Advisers are selected competitively, based on performance, price and other factors.	Full

## Principle 5

Trustees should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee (ISC) Statement of Principles on the responsibilities of shareholders and agents. A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles. Trustees should report periodically to members on the discharge of such responsibilities.

Key Areas and Guidance	Comment & Actions	Compliance
Policies regarding responsible ownership should be disclosed to scheme members in the annual report and accounts or in the Statement of Investment Principles.	The Fund's Sustainability Policy and its Statement on Non-financial Factors and Social Investing are included as part of the ISS. The Fund is also a member of the Local Authority Pension Fund Forum (LAPFF) which considers responsible investment on a collaborative basis.	Full
Trustees should consider the potential for engagement to add value when formulating investment strategy and selecting investment managers.	In formulating investment strategy, the Fund is always mindful of sustainability issues and these are an increasing focus for the Fund across all asset classes. Similarly, when appointing managers, questions are asked about engagement and sustainability although this is probably not given sufficient weight in the evaluation of managers for selection. To ensure best practice, the Fund has produced its own Sustainability Policy which is regularly monitored and managed. In all manager selection exercises undertaken, the sustainability policy that fund managers apply to their investments is reviewed.	Full
Trustees should ensure that investment managers have an explicit strategy, setting out the circumstances in which they will intervene in a company.	The Fund is aware of the voting policies of its underlying managers. A questionnaire is issued periodically to all fund managers on their sustainability policy and their replies explain their approach.	Full
Trustees ensure that Investment Consultants adopt the ISC's Statement	The Investment Consultant supports and adheres to the standard agreed with the investment consulting industry	Full

## Principle 6

Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives. Trustees should provide regular communication to members in the form they consider most appropriate.

Key Areas and Guidance	Comment & Actions	Compliance
Reporting ensures that the scheme operates transparently and enhances accountability to scheme members and best practice provides a basis for the continuing improvement of governance standards.	Details of the Fund's Communication Policy Statement and all other key reports – ISS, Annual Report, Corporate Governance Policy Guidelines, Funding Strategy Statement, Governance Compliance Statement and Myners' Principles Compliance Statement are all published on the Fund's website. A newsletter is also published periodically. The other two main Scheduled Bodies (Denbighshire and Wrexham) have representation on the Committee along with an employee representative and other employer representative to ensure transparency.	Full

## Appendix B – FRC UK Stewardship Code – 2014/15 Compliance

Principles	Comment & Actions	Compliance
<b>Principle 1</b>		
Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.	<p>The Clwyd Pension Fund takes its responsibilities as a shareholder seriously. It seeks to adhere to the Stewardship Code and encourages its appointed asset managers to do so too. In practice the Fund's policy is to apply the Code both through its arrangements with its asset managers and other agents and through membership of collaborative groups. The Fund makes this explicit through its Sustainability Policy document.</p> <p>The Fund's investment strategy seeks long-term returns from investing in a highly diversified portfolio of assets and appoints asset managers who best reflect this long-term sustainability approach in their investment philosophy and process.</p>	Full
<b>Principle 2</b>		
Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.	<p>Through its Sustainability Policy, the Fund encourages the asset managers it employs to have effective policies addressing potential conflicts of interest, when it comes to matters of stewardship. The Fund requires all those who are directly involved in its management and governance to disclose any interest in any company, or other entity, in which the Fund has an ownership interest.</p>	Full
<b>Principle 3</b>		
Institutional investors should monitor their investee companies.	<p>Day-to-day responsibility for managing our equity holdings is delegated to the Fund's appointed asset managers. The Fund expects them to monitor companies, and intervene where necessary, and to report back regularly on activity undertaken. Regular review meetings with the Fund's asset managers provide an opportunity for particular company issues to be discussed. Under the Fund's Sustainability Policy, managers are required to report any areas of concern.</p>	Full

<b>Principle 4</b>	
Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.	Whilst there is broad guidance in the Fund's ISS and Sustainability Policy, as noted earlier responsibility for day-to-day interaction with companies is delegated to the Fund's asset managers, including the escalation of engagement when necessary. Their guidelines for such activities are expected to be disclosed in their own statement of adherence to the Stewardship Code.
<b>Principle 5</b>	
Institutional investors should be willing to act collectively with other investors where appropriate.	The Fund seeks to work collaboratively with other institutional shareholders in order to maximize the influence that it can have on individual companies. The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), which engages with companies on environmental, social and governance issues on behalf of its member authorities. The LAPFF is a signatory to the United Nations Principles for Responsible Investing.
<b>Principle 6</b>	
Institutional investors should have a clear policy on voting and disclosure of voting activity.	Whilst all the Fund's holding are through pooled voting, it takes its voting responsibilities seriously and its voting policy is detailed as part of its ISS and in its Sustainability Policy document. Within this constraint, the Fund seeks to exercise the voting rights attaching to all its UK equity holdings and, where practical, its overseas stocks. A summary of manager voting is included in the Fund's Annual Report.
<b>Principle 7</b>	
Institutional investors should report periodically on their stewardship and voting activities.	The Fund reviews its ISS and Sustainability Policy document on an annual basis and publishes these both in the Annual Report and Accounts and on the Fund's web site. In addition, the activity undertaken by the LAPFF is reported to the Pension Fund Advisory Panel as are summary voting records from managers. All managers provide details of voting activity and a summary is provided in the Fund's Annual Report.

## COMMUNICATIONS STRATEGY

Cronfa Bensiynau Clwyd  
Clwyd Pension Fund



FLINTSHIRE COUNTY COUNCIL

Administering Authority for  
Clwyd Pension Fund

April 2016

# COMMUNICATIONS STRATEGY

## Introduction and Background

This is the Statement outlining our Pension Communication Strategy for the Clwyd Pension Fund ("the Fund") and has been developed following consultation with employers in the Fund, scheme member representatives, Pension Board members and other interested stakeholders.

The aim of this Communication Strategy is to ensure that scheme members appreciate the benefits of the scheme and all stakeholders are kept informed of developments within the Pension Fund, and effective communications will also help to maintain the efficient running of the Scheme.

Flintshire County Council (the "administering authority") is responsible for the local administration of the Fund, which is part of the Local Government Pension Scheme ("the LGPS"). The Fund comprises around 30 employers with active members, and approximately 40,000 scheme members (including active members, deferred and pensioner members).

The Statement sets out who we will communicate with, how this will be done and how the effectiveness of that communication will be monitored. It outlines the type of communications the administering authority would like to provide to its stakeholders.

The Clwyd Pension Fund recognises that there are several distinct stakeholder groups, such as;

- Scheme Members (active, deferred, pensioner and dependant members) and prospective Scheme Members
- Scheme Employers and prospective Scheme Employers
- Pension Fund Committee and Pension Board members
- Pension Fund Staff
- Other interested organisations including Government Departments, Scheme Advisory Board and Advisors to the Pension Fund.

The main means of communication with these key stakeholders are outlined in this statement, which includes making more use of technology to provide quicker and more efficient communications for the Fund's stakeholders.

## Implementation

The Clwyd Pension Fund's business plan for 2016/17 to 2018/19 includes a number of projects which will improve communications and help meet the aims and objectives of this Statement.

These include:

- a major review of the Fund's website
- implementing self-service web functionality to scheme members
- implementing new software that will allow employer data to be loaded directly, and therefore more efficiently, into the pension administration software – this in turn will assist in more timely communication with scheme members.

This Statement will be effective from 1 April 2016 and the performance indicators mentioned herein will demonstrate ongoing progress towards the Strategy's aims and objectives.

## Regulatory Basis

The LGPS is a statutory scheme, established by an Act of Parliament. Regulation 61 of the Local Government Pension Scheme Regulations 2013, reproduced below, provides the conditions and regulatory guidance surrounding the production and implementation of Communications Strategies:

### Statements of policy concerning communications with members and Scheme employers

61. (1) *An administering authority must prepare, maintain and publish a written statement setting out its policy concerning communications with —*

- (a) *members;*
- (b) *representatives of members;*
- (c) *prospective members; and*
- (d) *Scheme employers.*

(2) *In particular the statement must set out its policy on —*

- (a) *the provision of information and publicity about the Scheme to members, representatives of members and Scheme employers;*
- (b) *the format, frequency and method of distributing such information or publicity; and*
- (c) *the promotion of the Scheme to prospective members and their employers.*

(3) *The statement must be revised and published by the administering authority following a material change in their policy on any of the matters referred to in paragraph (2).*

This statement has been developed to include the information required by those provisions and to describe our approach in relation to meeting these requirements in the delivery of communications.

The Clwyd Pension Fund ensures it complies with the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013.

## Our Aims and Objectives

### *Mission Statement*

The Clwyd Pension Fund 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.

In addition, we have specific aims and objectives in relation to our communication responsibilities as set out below.

### *Communication Aims and Objectives*

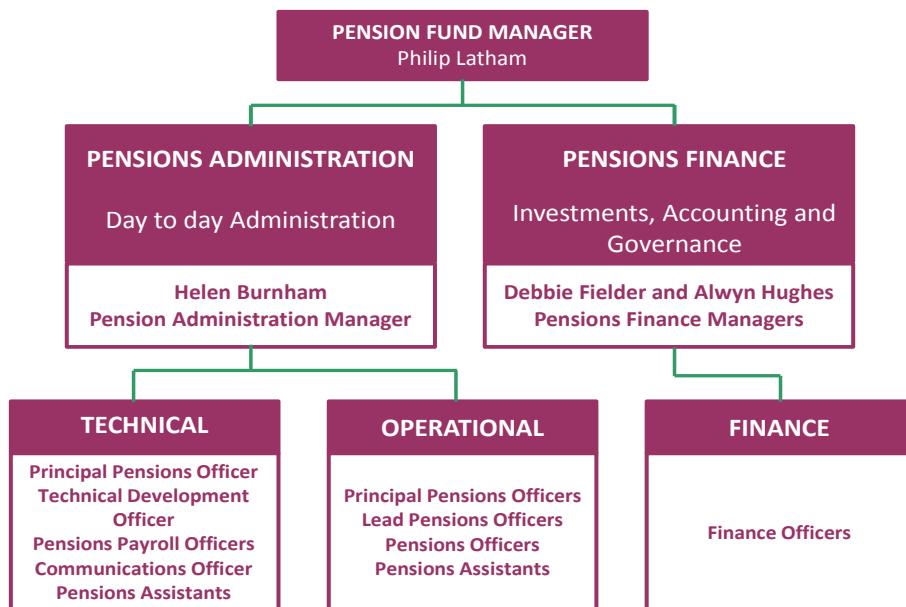
This Communications Strategy has a number of specific objectives relating to how we communicate with our stakeholders, as follows;

- 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.

## Delivery of Communications

Flintshire County Council has delegated responsibility for the management of the Pension Fund to the Clwyd Pension Fund Committee, taking into consideration advice from the Pensions Advisory Panel and the Pensions Board. The Committee will monitor the implementation of this Strategy on a regular basis as outlined later in this statement.

The communication aspect of the Fund is undertaken 'in-house' by a dedicated Communications Officer. The operational structure of the Clwyd Pension Fund is illustrated in the schematic diagram below:



The Clwyd Pension Fund may consider using external means to provide some of their communication services. In particular, the Pension Administration Section will look for opportunities to work collaboratively with other funds so as to reduce development costs and enhance the quality of information. This might include:

- Working with other funds through the Pensions Officer Group networks or the All Wales network to produce communications, which can then be customised further where necessary to the needs of the Clwyd Pension Fund
- Participating in joint training sessions with other funds.

## How we Communicate

Ensuring that key stakeholders are well informed about the LGPS is of paramount importance. The Fund recognises that communicating in a clear informative style is vital in achieving this aim.

### *Diversity and Effectiveness of Communication*

The Clwyd Pension Fund always aims to use the most appropriate communication medium for the audience receiving the information. This may involve using more than one method of communication based on the intended audience.

The frequency of each communication is not restricted and may vary depending on the urgency of the information being conveyed.

All of the Clwyd Pension Fund's generic scheme member communication material is bi-lingual. Scheme members are also able to receive all personal correspondence in Welsh should that be their preferred language. The Fund's information is also available in alternative formats for example, Braille, large print, BSL Video/DVD, audio tape and other languages on request.

## Methods of Communication

### **a) With Scheme Members and Prospective Scheme Members**

Effective communication promotes the LGPS as a benefit, therefore reducing the impact of misleading media information.

<i>Website</i>	The Fund's website ( <a href="http://mss.clwydpensionfund.org.uk">mss.clwydpensionfund.org.uk</a> ) is available to everyone. It contains information about the Fund and the LGPS. Members are able to download scheme literature and forms. More detailed information on the scheme can also be obtained at <a href="http://www.lgps2014.org/">http://www.lgps2014.org/</a> .
<i>Annual Benefit Statements</i>	These statements are currently distributed annually to all active and deferred scheme members at their home addresses in order to comply with the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013. The format of the statement has recently been reviewed in order to accommodate the new scheme information requirements and is presented as a single sheet with brief notes and an extended set of notes available online and on request.

<i>Newsletters</i>	<p>The Fund issues a periodic newsletter called Penpal to contributing members, bringing to their attention information such as changes to scheme rules, and including important Facts &amp; Figures from the Annual Report. The Fund also sends an annual newsletter to its pensioners entitled Clwyd Catch Up. This is sent with the annual pensions increase notification and explains how their new annual rate of pension has been calculated. It also includes topical information such as relating to the budget and State benefits. Both newsletters are currently distributed to home addresses or via employers where appropriate in order to comply with the disclosure regulations. In the future the Fund hopes to be able to email members direct with generic information.</p> <p>In addition, Pensions Extra is a newsletter that is used to notify members of urgent issues concerning the LGPS.</p> <p>All newsletters are available to view on the website.</p>
<i>Pension Presentations/Road-shows/Drop-in Sessions</i>	<p>The Fund offers LGPS presentations, Road-shows, and drop-in sessions throughout the year on pension related matters as part of pre-retirement planning. Employers can also request for an Officer from the Fund to visit and speak with their staff about the LGPS. The information given out at these events is constantly reviewed to ensure that it is up-to-date and takes into account any changes in the pension regulations. LGPS literature, ranging from scheme booklets to death grant expression of wish forms, is always available at these events.</p>
<i>Telephone and email</i>	<p>All members and prospective members have the opportunity to telephone the pension helpdesk, fax or email the Fund for information. This is in addition to the other lines of communication open to them.</p>
<i>Pre-Retirement Courses</i>	<p>The Communication Officer attends regularly organised pre-retirement courses to inform members who are approaching retirement age about Local Government retirement procedures. The courses are run in partnership with Gwynedd County Council and are offered to all North Wales LGPS employers.</p>
<i>Literature</i>	<p>The Fund ensures pension-related literature is available to scheme members, including:</p> <ul style="list-style-type: none"> <li>• A Short Scheme Guide to the Local Government Pension Scheme, which is sent to all members upon joining the Clwyd Pension Fund.</li> <li>• A retirement pack sent to all members about to retire.</li> <li>• Your Pension at Retirement, which is distributed to all new employees alongside their contract of employment.</li> <li>• Fact-sheets on numerous areas including ill-health retirement, maternity leave, flexible retirement and commutation. They are produced on an All Wales basis.</li> </ul> <p>All Fund literature is available on the website enabling 24 hour access.</p>

<i>Pensions Taxation Correspondence</i>	Where appropriate, letters are distributed to all higher earning members, explaining changes to taxation rules and how this may affect their pension savings. This allows members to plan any action required to ensure they do not have pension savings in excess of the Annual and Lifetime Allowances. The Fund facilitates services offered by Prudential to offer presentations at Senior Management Team level.
<i>Annual Report</i>	The Annual Report is published to highlight how the Fund has performed during the previous financial year. It also includes statements with regards to investment principles, funding strategy, risk, governance, audit and administration. It is available on the Fund's website.

### **b) With Employers**

Effective communication between the Fund and its employers reduces errors, improves efficiency and leads to good working relationships. The main means of communication with employers are outlined below.

<i>Employer key contact officers and meetings</i>	We expect each employer in the Fund to designate a named individual to act as their key contact officer; this individual will be the main contact with regard to any aspect of administering the LGPS and the employer must keep the Fund aware of the contact details for that person.  The Operations Section consists of teams led by Principal Pensions Officers. Each team is responsible for the day to day operations for specific employers. The designated Principal Pensions Officer, will contact, and where relevant, meet with the employer's key contact officer to discuss any issues relating to the LGPS and/or raise any issues around the performance of the employer or services provided by the Fund. Further meetings will be arranged if necessary, and may be escalated to include the Pensions Administration Manager.
<i>Annual Employer Meeting</i>	Employers have the opportunity to meet with members of staff from the Clwyd Pension Fund and receive updates and presentations from selected speakers who address the current issues and changes to the LGPS. This meeting takes place on the morning of the Annual Joint Consultative Meeting.
<i>Annual Joint Consultative Meeting (AJCM)</i>	The AJCM invites employers and Trade Union representatives to discuss the latest pension issues and to keep up-to-date with Local Government Pension Scheme regulations. The AJCM is attended by the Fund Actuary and Investment Managers and includes presentations summarising the main aspects of the Fund's annual report and accounts.
<i>Training Sessions</i>	Training sessions are offered to each employer. The sessions include training on the LGPS regulations and administration procedures and are offered to all relevant staff.

	performance standards. The performance standards are set in order to comply with the Local Government Pension Scheme Regulations 2013 and the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013. This is available on the Fund's website.
<i>Service Level Agreements (SLAs)</i>	SLAs ensure best practice and also comply with audit requirements. The SLA sets out, in detail, the obligations and responsibilities of the Employer, concerning all aspects of LGPS administration. These Agreements are reviewed and updated annually taking into account changes made to the regulations and feedback from the Fund's employers.
<i>Website</i>	All Employers have access to the Fund's website <a href="http://mss.clwydpensionfund.org.uk">mss.clwydpensionfund.org.uk</a> which includes a range of information relating to the scheme benefits and also management of the Clwyd Pension Fund. The employers also have their own website that they can visit to find out how to implement LGPS regulations. They are able to download password protected pensions forms which must be completed by the employer in order for pension benefits to be calculated.
<i>Email Updates</i>	The Fund communicates with employers using an email distribution list including key staff from all employers. This distribution list is used to highlight general updates about the LGPS and to remind employers of facilities available to them and their staff, i.e. pension presentations and drop-in sessions. The Fund emails employers to inform them when a news alert is added to the website.
<i>Employer Bulletins</i>	The Clwyd Pension Fund Employer Bulletin is emailed to employers annually to inform them of important LGPS issues. It is also used to summarise all of the LGPS changes for the past 12 months and also includes updates on any major changes expected. Additional Employer Bulletins are issued throughout the year if urgent information needs to be sent to our employers.
<i>i-Connect</i>	i-Connect is the software that the larger employers in the Fund will be required to use to submit information to the Pension Administration Section. The system provides for efficient and timely data submission due to the automated validation it provides. Any employer (once i-Connect has been made available to them) not providing data using i-Connect will be charged additional administration costs due to the fact that other methods can result in great time spent validating data and hence significant delays in processing, which in turn impact the quality and timeliness of information provided to scheme members. On request, training will be provided by the Technical Team to ensure all employer key contact officers understand how to use the system. i-Connect will be rolled out to the larger Fund employers during the years 2016 and 2017, after which we will roll it out to other Fund employers.
<i>Employer specific events</i>	A Fund Officer is available to attend any employer specific events to assist employers understand their responsibilities

**c) With Pension Fund Committee and Pension Board members:**

Effective communication ensures that Pension Fund Committee and Pension Board members are appropriately knowledgeable and able to act in the best interests of the Fund and its members.

Members are provided with regular reporting on all areas relevant to pensions, including investment, funding, audit, governance, administration and risk. This is communicated in a variety of formats including via the external website, the infonet, the annual report and accounts, through committee meetings and through regular training in line with the Fund's training policy. The majority of reports provided to Pension Fund Committee members, together with the meeting minutes, are available on the Council's website - <http://cyfarfodyddpwylgor.siryfflnt.gov.uk/ieListMeetings.aspx?CId=445&Year=0&LLL=undefined>.

**d) Information for Fund Staff:**

Effective communication ensures that Fund staff are confident and prepared to undertake their role, as follows:

<i>Clwyd Pension Fund Manager</i>	The Clwyd Pension Fund Manager maintains an open-door policy and is available to all Fund staff. In addition, staff have unrestricted access to their supervisors and senior colleagues to discuss and resolve work related issues.
<i>Pensions Administration /Finance Manager</i>	The Pensions Administration/Finance Managers maintain an open-door policy and are available to all Fund staff. In addition, staff have unrestricted access to their supervisors and senior colleagues to discuss and resolve work related issues.
<i>Administration Section Meetings</i>	Held on a monthly basis to discuss operational and technical issues, ensuring there is a shared understanding of any issues and developing a consistent approach towards addressing them. In addition, the Pensions Administration Management team meet fortnightly.
<i>Appraisal and Training</i>	All new members of staff undergo an induction procedure to acquaint them with the operational running of the Fund. Subsequently, all pension staff also receive both in-house and external training. Staff at all levels in the Fund have annual assessments, with a mid-year review, during which there are open discussions of work issues and areas for development. This dialogue is supplemented by regular one-to-one meetings within team structures.

**e) Communicating with other bodies:**

There are a number of other interested parties with whom we communicate as required, including:

<i>The Department for Communities and Local Government (DCLG)</i>	The Fund has regular contact with DCLG as a responsible LGPS Fund, participating and responding to consultations, as required.
<i>Scheme Advisory Board (SAB)</i>	The national SAB was established following the Public Services Pensions Act 2013. It provides advice to the Fund and Local Pension Boards in relation to the effective and efficient administration and management of the Scheme and their funds. We therefore liaise with the SAB as appropriate.

<i>The Pensions Regulator</i>	The Pensions Regulator's remit has been extended to the Public Sector as a result of the Public Services Pensions Act 2013. The Fund liaises with the Regulator as required to ensure that it is compliant with the Pensions Regulator's Code of Practice.
<i>Trade Unions</i>	The Fund works with relevant trade unions to ensure the Scheme is understood by all interested parties. Efforts are made to ensure all pension related issues are communicated effectively with the trade unions. The trade unions are represented on the Pension Fund Committee and Pension Board.
<i>Employer Representatives</i>	The Fund communicates with relevant employer representative bodies to ensure that the Fund's views are represented to employer groups. Employers are represented on the Pension Fund Committee and Pension Board.
<i>AVC Provider</i>	Additional Voluntary Contributions (AVC) are held and invested separately from the LGPS. The Fund's current AVC providers are Prudential and Equitable Life (closed). The Communication Officer and other Pensions Officers meet with the Prudential for a quarterly update.
<i>Pension Fund Investment Managers, Advisers and Actuaries</i>	<p>The Clwyd Pension Fund Manager and Finance Managers have regular meetings with:</p> <ul style="list-style-type: none"> <li>– the Fund Managers who invest funds on behalf of the Fund</li> <li>– Investment Advisers who provide help and advice on the asset allocation and investments of the Fund</li> <li>– the Fund Actuary to discuss funding levels, employer contributions and valuation of the assets and liabilities of the Fund</li> </ul> <p>The Independent Advisers, the Fund Actuary and the Investment Adviser are all members of the Pension Fund Advisory Panel, and attend all Pension Fund Committee meetings.</p>
<i>Welsh Government</i>	The Fund sometimes needs to liaise with Welsh Government on matters that might impact the delivery of the LGPS, such as local government reorganisation.
<i>Asset pooling partners</i>	Going forward there will be greater focus on the pooling of assets between LGPS Funds. As part of this the Fund will likely have ongoing relationships with a number of LGPS Funds and organisations managing those asset pools.
<i>Pension Fund Custodian</i>	The Fund's Custodian ensures the safekeeping of the Funds investment transactions and all related share certificates.
<i>Pensions and Lifetime Savings Association (PALSA)</i>	The Fund is a member of PALSA, which provides an opportunity for administering authorities to discuss issues of common interest and share best practice.

<i>Class User Group</i>	The Pension Administration Manager and other Pensions Officers attend the Class User Group meetings twice a year to discuss software issues and required upgrades.
<i>Local Authority Pension Fund Forum (LAPFF)</i>	The Fund is a member of LAPFF which was established to help local authority funds share information and ideas about socially responsible investing.
<i>Regional Forums</i>	The Shrewsbury Pension Officers Group takes place quarterly. It is an opportunity for the Pensions Administration Managers and other Pension Officers from LGPS Funds in the region, to share information and ensure uniform interpretation of the LGPS, and other prevailing regulations.
<i>Partnership Meetings with the 8 Pension Funds in Wales</i>	The Pensions Administration Manager and other Pension Officers regularly meet representatives from the other LGPS Pension Funds in Wales to discuss best practice, to ensure that all Welsh Funds have a consistent approach to their administration procedures. In addition, all of the Communication Officers from the Welsh Pension Funds meet annually to share ideas about forms of communication.
<i>Shared Services Communications Group</i>	The Communication Officer and other Pension Officers also attend a Communication Group in the Midlands, on a quarterly basis, to ensure continuity and share ideas about forms of communication.
<i>Requests for information</i>	Requests for information either under the Freedom of Information Act or otherwise, will be dealt with as openly and swiftly as allowed providing that such information does not breach confidentiality, by the Flintshire County Council Freedom of Information Officer.
<i>Consultations</i>	There are occasions when the Fund will consult with interested parties either as a result of potential changes to the regulations governing the LGPS or specific policy changes relating to the Fund. In these instances, the most effective way of communicating with interested parties is to hold a period of consultation, during which, they are given the opportunity to respond to specific changes. Interested parties and representative groups will be approached to provide feedback to the policy changes before amendments are enacted.
<i>Press releases and comments</i>	Press releases or comments regarding the Clwyd Pension Fund are made either via the Corporate Communications team within Flintshire County Council or in collaboration with them.

## Measuring whether we meet our Communication Objectives

The Fund will monitor success against our communication objectives in the following ways:

Objectives	Measurement
Promote the Scheme as a valuable benefit and provide sufficient information so members can make informed decisions about their benefits.	Annual satisfaction surveys with scheme members achieving 90% of scores in positive responses in these areas.
Communicate in a clear, concise manner.	Annual satisfaction surveys with employers and scheme members achieving 90% of scores in positive responses in these areas.
Ensure we use the most appropriate means of communication, taking into account the different needs of different stakeholders.	Annual satisfaction surveys with employers and scheme members achieving 90% of scores in positive responses in these areas.
Look for efficiencies in delivering communications including greater use of technology and partnership working.	Evidence of consideration given towards available technology solutions.  Proof of utilising partnership opportunities relating to communications with other LGPS Funds with similar values and approaches.
Regularly evaluate the effectiveness of communications and shape future communications appropriately.	Satisfaction survey is undertaken annually (as a minimum).  Results from satisfaction survey are thoroughly analysed and investigated, and trends monitored from previous years.  Detailed analysis of survey results is used to identify areas to improve communications in future.

An overview of our performance against these objectives will be reported within the Fund's annual report and accounts and also reported on an ongoing basis to the Pension Fund Committee and Pension Board.

If performance is substantially below standard (whether by a large margin for a short period of time or a small margin for a longer period of time) the Fund will formulate an improvement plan. This will be reported to the Funds' Pension Fund Committee and Pension Board together with an ongoing update on achievement against the improvement plan.

## Key Risks

The key risks to the delivery of this Strategy are outlined below. The Clwyd Pension Fund Manager, the Pensions Administration Manager and other officers will work with the Pensions Advisory Panel, Pension Fund Committee and Pension Board in monitoring these and other key risks and considering how to respond to them.

- Lack or reduction of skilled resources due to difficulty retaining and recruiting staff members and also staff absence due to sickness
- Significant increase in the number of employing bodies causes strain on day to day delivery
- Significant external factors, such as national change, impacting on workload
- Issues in production of annual benefits statements, e.g. wrong address and printing errors due to external supplier

- Issuing incorrect or inaccurate communications
- Failure to maintain employer database leading to information not being sent to correct person
- Lack of clear communication to employers, scheme members and pensioners

### **Approval, Review & Consultation**

This Strategy Statement was approved in March 2016 by the Clwyd Pension Fund Committee. It is effective from 1 April 2016.

It will be formally reviewed and updated at least every three years or sooner if the communication management arrangements or other matters included within it merit reconsideration, including if there are any changes to the LGPS or other relevant Regulations or Guidance which need to be taken into account.

In preparing this Strategy we have consulted with the relevant employers, the scheme member and employer representatives on the Clwyd Pension Board and other persons considered appropriate.

This Strategy Statement will be included within the Fund's Annual Report and Accounts and available on our website.

### **Costs**

All additional costs relating to this Strategy Statement are met directly by the Fund unless mentioned otherwise.

### **Further Information**

Any enquiries in relation to the Fund's communications or the principles or content of this Strategy Statement should be sent to:

Helen Burnham, Pensions Administration Manager  
Flintshire County Council  
County Hall,  
Mold,  
Flintshire  
CH7 6NA

Email - [helen.burnham@flintshire.gov.uk](mailto:helen.burnham@flintshire.gov.uk)

Telephone - 01352 702872

# Appendix 2 – Auditor's report on local government pension fund annual report

## **Auditor General for Wales' statement to the Members of Clwyd Pension Fund**

I have examined the pension fund accounts and related notes contained in the 2016-17 Annual Report of Clwyd Pension Fund to establish whether they are consistent with the pension fund accounts and related notes included in the Statement of Accounts produced by Flintshire County Council for the year ended 31 March 2017 which were authorised for issue on 29 September 2017. The pension fund accounts comprise the Fund Account and the Net Assets Statement.

## **Respective responsibilities of the Administering Authority and the Auditor General for Wales**

The Administering Authority, Flintshire County Council, is responsible for preparing the Annual Report. My responsibility is to report my opinion on the consistency of the pension fund accounts and related notes contained in the Annual Report with the pension fund accounts and related notes included in the Statement of Accounts of the Administering Authority. I also read the other information contained in the Annual Report and consider the implications for my report if I become aware of any misstatements or material inconsistencies with the pension fund accounts. This other information comprises Governance Structure & Overview of the Clwyd Pension Fund, Independent Advisor Report, Pension Board Annual Report, Cash Flow, Investment Policy and Performance, Actuarial Funding and Flightpath, Administration Update and other information, including regulatory and best practice information.

## **Opinion**

In my opinion the pension fund accounts and related notes included in the Annual Report of Clwyd Pension Fund are consistent with the pension fund accounts and related notes included in the Statement of Accounts produced by Flintshire County Council for the year ended 31 March 2017 which were authorised for issue on 29 September 2017 on which I issued an unqualified opinion.

I have not considered the effects of any events between the date on which I issued my opinion on the pension fund accounts included in the authority's Statement of Accounts, 29 September 2017 and the date of this statement.

For and on behalf of  
Huw Vaughan Thomas  
Auditor General for Wales  
7 November 2017

24 Cathedral Road  
Cardiff  
CF11 9LJ

Cronfa Bensiynau Clwyd  
Clwyd Pension Fund



**FLINTSHIRE COUNTY COUNCIL**

**Administering Authority for  
Clwyd Pension Fund**

**BUSINESS PLAN 2017/18 TO 2019/20**

**March 2017**

## 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 2017/18, 2018/19 and 2019/20. This business plan was approved at the Clwyd Pension Fund Committee meeting on 21<sup>st</sup> March 2017. 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 2017/18 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](mailto:Philip.latham@flintshire.gov.uk)  
Telephone - 01352 702264

## Background to the Clwyd Pension Fund

The Clwyd Pension Fund ("CPF") is a £1.6bn<sup>1</sup> 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 45,000 with about 16,000 active contributors from 39 contributing employers and about 29,000 retired, survivor, deferred and other members.

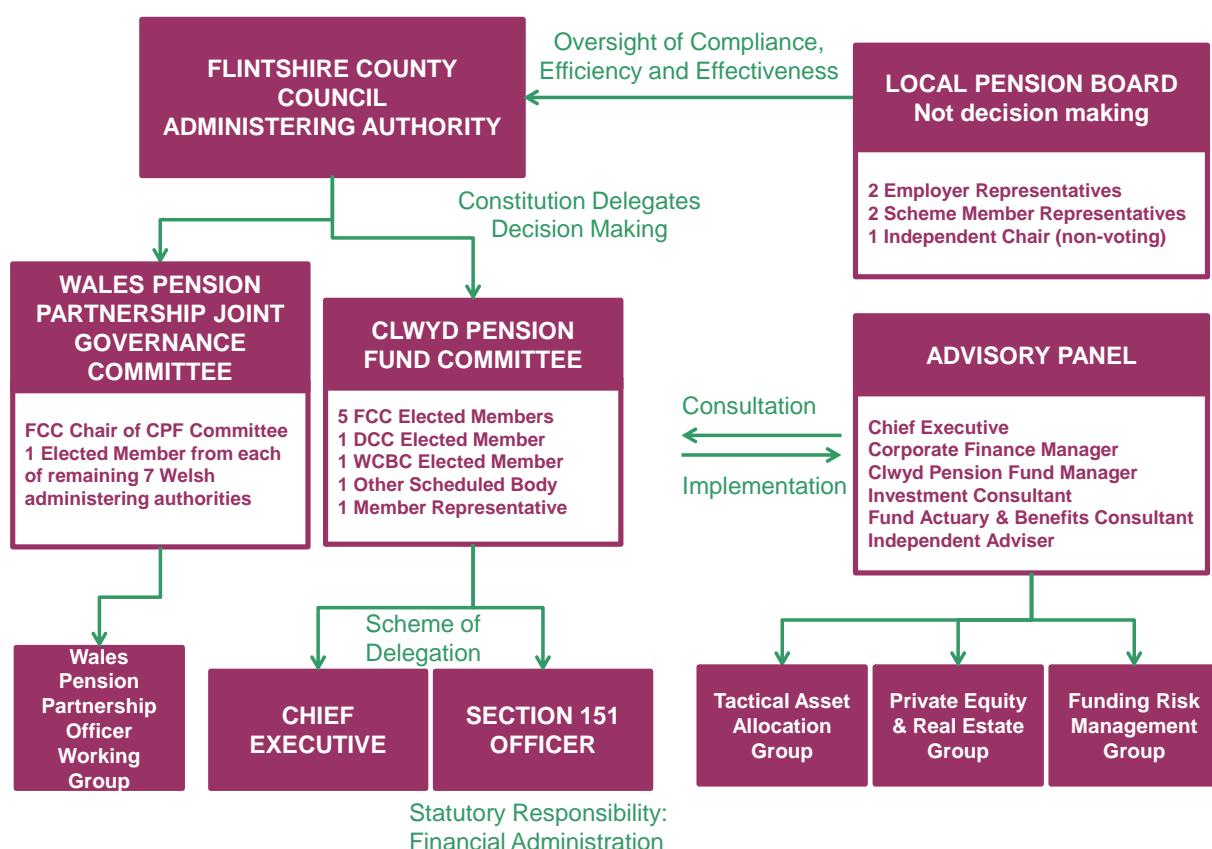
### Governance and Management of the Fund

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.



<sup>1</sup> Information correct as at December 2016.

The Joint Governance Committee (JGC) for 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**

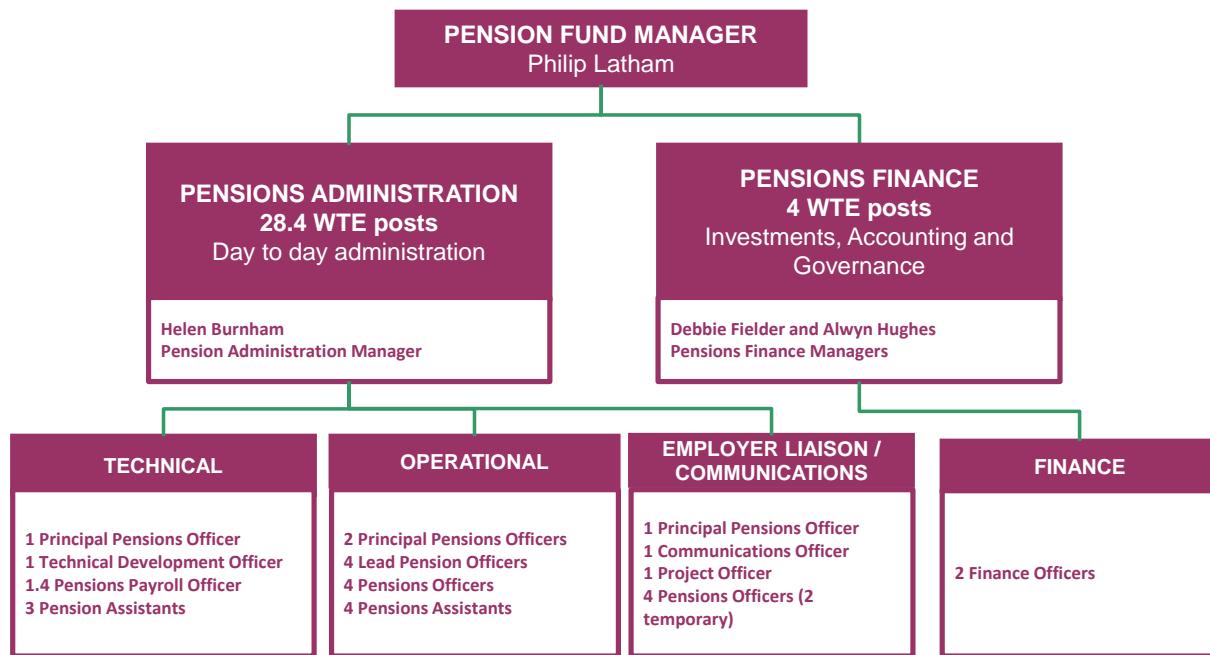
The day to day operations of the Fund are managed by the Clwyd Pension Fund Manager. He is supported by two sections:

- 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 and a Technical Team. The Operational Team delivers a pensions service for approximately 45,000 scheme members and 39 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 13,700 pensioners, survivors and dependents.
- Additionally within the Pensions Administration Section there is an Employer Liaison Team that will be undertaking employer responsibilities which will be recharged to the employer through their employer contribution rate. This team was created in late 2016/17 and will be developed depending on the number of employers which take up the option of using the service. Two of the unitary authorities have currently agreed to use this service. The communication service is also included as part of this team but is provided to all employers and members as it is a Pension Fund responsibility.
- The Pensions Finance Section which is responsible for accounting, investment and governance matters, is headed by two Pension Finance Managers. The section is responsible for the day to day accounting and closure of the accounts. Additionally, the section is responsible for the monitoring of 6 core external fund managers as well as 47 non-core external fund managers responsible for around 110 separate funds<sup>2</sup>. The Pension Finance Managers are involved with the appointment of new fund managers and are also responsible for sourcing and recommending new in-house investments.

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<sup>2</sup> Information correct as at March 2017

The structure as at March 2017 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 [mss.clwydpensionfund.org.uk](http://mss.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.

## **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 including 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 our beneficiaries, as prescribed by 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 this 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 pension fund is large, 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 Pool.

## **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 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
- 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
- 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
- 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 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 Pool during 2016/17.

This puts us in a strong position to meet the challenges ahead. The following are just some of the areas which will need to be managed or responded to, some of which may even necessitate a review of the aims, objectives and governance of the Fund:

- Implementing the Government's requirements on the pooling of pension fund assets with the other LGPS pension funds in Wales.
- Responding to the requirements of the second Markets in Financial Instruments Directive (MiFID II).
- Implementing any required changes as a result of the national LGPS cost control mechanism.
- Achieving the objectives of the Fund's aspirational administration and communications strategy including how we work with employers.

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 2017/18

	Estimated	Budget	Budget	Budget
	2016/17	2017/18	2018/19	2019/20
	£000s	£000s	£000s	£000s
<b>Opening Cash</b>	(13,640)	(9,684)	(26,114)	(16,660)
<b>Payments</b>				
Pensions	55,500	55,860	57,720	60,040
Lump Sums & Death Grants	17,000	15,000	15,000	15,000
Transfers Out	4,100	3,200	3,200	3,200
Expenses (excluding investments)	3,650	3,400	3,400	3,400
Support Services	250	120	120	120
<b>Total Payments</b>	80,500	77,580	79,440	81,760
<b>Income</b>				
Employer Contributions	(34,300)	(34,100)	(35,200)	(36,000)
Employee Contributions	(11,800)	(14,000)	(14,000)	(14,000)
Employer Deficit Payments	(28,500)	(51,784)	(18,123)	(18,247)
Transfers In	(2,000)	(2,000)	(2,000)	(2,000)
Pension Strain	(1,200)	(1,200)	(1,200)	(1,200)
Income	(170)	(100)	(100)	(100)
<b>Total Income</b>	(77,970)	(103,184)	(70,623)	(71,547)
<b>Cash-flow Net of Investment Income</b>	2,530	(25,604)	8,817	10,213
Investment Income	(3,300)	(3,000)	(3,000)	(3,000)
Investment expenses	3,200	3,000	3,000	3,000
<b>Total Net of In House Investments</b>	2,430	(25,604)	8,817	10,213
<b>In House Investments</b>				
Draw downs	49,112	47,008	39,607	38,100
Distributions	(61,170)	(77,834)	(68,970)	(59,699)
<b>Net Expenditure /(Income)</b>	(12,058)	(30,826)	(29,363)	(21,599)
<b>Total Net Cash-Flow</b>	(9,628)	(56,430)	(20,546)	(11,386)
Rebalancing Portfolio	13,584	40,000	30,000	15,000
<b>Total Cash Flow</b>	3,956	(16,430)	9,454	3,614
<b>Closing Cash</b>	(9,684)	(26,114)	(16,660)	(13,046)

## Operating Cost Budget 2017/18

	Budget	Estimate	Budget
	2016/17	2016/17	2017/18
	£000s	£000s	£000s
<b>Governance Expenses</b>			
Employee Costs (Direct)	229	236	238
Support & Services Costs (Internal Recharges)	19	8	8
Premises	17	7	7
IT (Support & Services)	10	9	9
Other Supplies & Services	56	48	50
Audit Fees	40	40	40
Actuarial Fees	304	350	202
Consultant Fees	389	404	399
Advisor Fees	188	150	187
Legal Fees	30	50	40
Pooling (Additional Costs) <sup>*2</sup>	n/k	138	n/k
Total Governance Expenses	1,282	1,440	1,180
<b>Investment Management Expenses</b>			
Fund Manager Fees <sup>*1</sup>	11,028	11,028	11,878
Custody Fees	34	28	34
Performance Monitoring Fees	25	54	58
Pooling (Additional Costs) <sup>*2</sup>	n/k	n/k	n/k
Total Investment Management Expenses	11,087	11,110	11,970
<b>Administration Expenses</b>			
Employee Costs (Direct)	711	632	762
Support & Services Costs (Internal Recharges)	90	42	42
Outsourcing	1,240	165	900
Premises	75	39	33
IT (Support & Services)	250	210	250
Member Self Service	107	32	75
Other Supplies & Services)	70	60	70
Total Administration Expenses	2,543	1,180	2,132
<b>Employer Liaison Team</b>			
Employee Costs (Direct)	N/A	N/A	144
Total Employer Liaison Team	0	0	144
<b>Total Costs</b>	<b>14,912</b>	<b>13,730</b>	<b>15,426</b>

\*1 following changes by CIPFA for 2016/17 underlying management fees are not disclosed in the accounts.

\*2 additional costs resulting from Pooling, including governance and operator costs, are not yet known.

\*3 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 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.

The purpose of this statement is to summarise the main risks managed by the Fund and illustrate the level of risk expected, compared with the current position. Where the risk is both higher than expected, and is controllable, the Fund's Business Plan will include an action on how to mitigate that risk. The target and current risk bars are a summary of the detailed risks which are included in the Risk Register and Policy Statement of the Fund and reported to each Committee.

On the whole 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 be updated at each Committee next year as circumstances change. The Fund's Business Plan has been completed to ensure that all our known risks are being managed and resourced.

Key:

This is where there could be catastrophic consequences that are considered almost certain to happen
This is where there could be major consequences that are considered likely to happen
This is where there could be moderate consequences that are considered a possible occurrence
This is where there could be minor consequences that are considered unlikely to happen
This is where there could be insignificant consequences that are considered very unlikely to happen

## ***Governance***

- **Main Risks**

The Fund could make decisions or take actions which do not result in us achieving our aims and objectives; or are not transparent; or not legal; or do not follow best practice.

- **What Could Increase Risk?**

The risk of these outcomes would be increased by an inappropriate governance structure; poor training; poor attendance or engagement; insufficient resources; conflicts of interest; absence of governance policies; absence of performance measurement, scrutiny and challenge; absence of risk management; poor advice (all of which could be at PFC, PB or officer level) or the impact of externally led changes outside of our control.

- **Our Target Risk**

Managing governance risks are, in the main, within the control of the Fund, hence risks should be low. Albeit there will always be some external events outside the Fund's direct control.



- **The Current Risk**

The current governance structure of the Fund is working well as explained in the Fund's Independent Advisors Annual report for during 2017. There are some new risks that will need attention next year:

- The local elections which may result in a change of Committee membership and a loss of knowledge and experience.
- The delegation of some investment decisions relating to pooling, as outlined in the Inter-Authority Agreement, to the new Joint Governance Committee.

There are also some key risks around succession planning for officers which require consideration.



## ***Funding & Investment***

- **Main Risks**

Pension costs for employers could significantly increase and possibly become unaffordable; in the longer term there could be insufficient assets to pay for accrued pension liabilities.

- **What Could Increase Risk?**

A sustained fall in global markets; low interest rates; high inflation; inappropriate investment and funding strategy; failure of fund managers to meet investment targets; on-going austerity reducing employers budgets; employers changing their delivery models; the impact of externally led changes outside of our control.

- **Target Risk**

There will always be economic, funding and investment risks that cannot be controlled by the Fund. However the aim is to mitigate these risks, as much as possible, through a diversified investment strategy and a prudent funding strategy.



- Current Risk

The Actuarial Valuation has been completed and employers agreed contribution payments. There was a light touch review of the investment strategy and a review of the Fund's flight-path with changes currently being implemented. The new Funding Risk Management Group, Tactical Asset Allocation Group and Private Equity and Real Asset Group are actively managing investment and funding risks. At the time of writing the funding level, albeit still in deficit, is at its highest point since Flintshire County Council has been administering the Fund, with some equity markets reaching record levels and currently riding political and economic uncertainty. It is likely that lower interest rates will persist into the next economic cycle albeit with increased inflation rates. Overall these risks seem to have marginally reduced since last year but there are some new risks as well as the on-going market risks:

- MIFID II has the potential to have a significant impact on the Funds ability to achieve its funding and investment objectives.
- Despite all the investment risk mitigation the Fund has in place, a major and fundamental market event with longer term implications will impact the funding position but this risk will only materialise on employer affordability at the 2019 Valuation.
- The investment risks from pooling are relatively small next year but may increase in future years if the pool does not deliver asset classes required by the Fund or the Operator does not deliver the services to the quality and/or timescales required.
- The impact on small finance team of additional work relating to pooling and representation on the new Officer Working Group and potentially implementing changes resulting from MIFID II.

## ***Administration & Communication***

- Main Risks

The service delivery might not meet legal requirements; or agreed local performance standards; or is seen by stakeholders as not being cost effective.

- What Could Increase Risk?

A lack of a trained workforce; an inappropriate organizational size, structure and culture; poor IT systems and reporting; poor communications; inefficient or inadequate procedures; poor engagement with employers or employees with insufficient resources to carry out their responsibilities; unexpected changes in scheme membership or numbers of employers; increasingly complex pension and taxation laws and regulations.

- Target Risk

The majority of these risks can be managed locally by the Fund, hence the risks should be well managed and low. However, there will always be some external factors, such as the complexity and number of regulatory changes, which are less controllable.

- Current Risk

The Fund has reviewed both its Administration and Communication Strategies which have ambitious targets. Currently, performance targets are not being achieved but

there is a clear plan for on-going improvements, albeit there is a high reliance on appropriate engagement from employers. The establishment of an Employer Liaison team, better use of technology and talent management should provide an environment for improved outcomes for employers and members over the next few years. However, in the short term risks of not achieving objectives are higher than ideal despite best efforts. Further external pressures and complexities, which would increase risks, workloads and costs, are not welcome but unfortunately are likely. The new risks are:

- Additional tasks to be undertaken for GMP equalisation and employee exit payment changes which will increase workload and potentially delay payments.
- Additional communication burden of a national 'pension dashboard'.
- In the longer term, potential scheme changes due to cost management which may add to the communication and operational burden.



## 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 2017/18 to assist in meeting that aim.

Title of session	Training Content	Timescale	Audience
PLSA Local Authority Conference, Gloucestershire	tbc	15-17/05/2017	Committee, Pensions Board and Officers
Induction/ Refresher training	DAY 1: Governance including Freedom of Information, and Administration	08/06/2017	Committee, Pensions Board and Officers
Induction/ Refresher training	DAY 2: Actuarial and Funding Matters	June/July 2017 (TBC)	Committee, Pensions Board and Officers
Induction/ Refresher training	DAY 3: Investments, Asset Pooling and Accounting Principles	June/July 2017 (TBC)	Committee, Pensions Board and Officers
CIPFA and Barnett Waddingham: Local Pension Boards - Two Years On...	Update by key players together with a focus on the Scheme's financial viability and the problem of managing data.	28/06/2017	Pensions Board
LGPS Trustees Conference, Bournemouth	Various topical presentations including pooling, cost control and the potential impact of European legislation.	29-30/6/2017	Committee, Pensions Board and Officers
LGC Investment Summit, Newport	Various topical presentations. Agenda not yet available.	6-8/09/2017	Committee, Pensions Board and Officers
Employer Risk Management	Employer Risk Management including the monitoring framework (employer covenant, funding and protections)	20/09/2017 (TBC)	Committee, Pensions Board and Officers
LAPFF, Bournemouth	Various topical presentations around the work of the LAPFF	6-8/12/2017	Committee, Officer
Alternative Delivery Models	Overview of Alternative Delivery Models including impact on the Clwyd pension Fund	14/12/2017 (TBC)	Committee, Pensions Board and Officers
LGC Investment Seminar, Carden Park	tbc	1-2/3/2018	Committee, Pensions Board and Officers

## Appendix - BUSINESS PLAN 2017/18 - 2019/20 – Key Tasks

### Governance

Ref	Key Action –Task	2017/18 Period				Later Years	
		Q1	Q2	Q3	Q4	18/19	19/20
G1	Induction and refresher training for PFC	x	x				
G2	Review of governance related policies, including for asset pooling requirements			x			
G3	Consider key person risk			x	x		
G4	Review/ tender actuarial contract			x	x		
G5	Understanding implications of and actions required as a result of forthcoming legislation including Wales Act and Wellbeing Act					x	x
G6	Review/Tender Investment Consultancy and Independent Adviser Contracts					x	
G7	Review/Tender Custodian Contract (if required)					x	
G8	Review appointment of Pension Fund Committee Representatives and Local Board Members					x	x
G9	Commence preparation for tender of administration system contract						x

### G1 – Induction Training for PC

#### What is it?

The Fund's Training Policy details how the Fund will ensure that training is delivered, and how the required training is identified for each member of both the Clwyd Pension Committee and the Pension Board. Ongoing training to meet the requirements of this policy will take place. Although there is expected change at a minimal level with the PFC, Pension Board and officers, the Council elections in May 2017 could result in significant changes to membership, in which case intensive induction training will be required.

#### Timescales and Stages

Source and ensure delivery of induction training

2017/18 Q1/2

### **Resource and Budget Implications**

Training requirements to be determined by Pension Fund Manager with assistance from the Independent Adviser. Other advisers and external sources may be used for delivering training. There will be external adviser costs associated with this exercise which are incorporated into the 2017/18 budget.

## **G2 – Review of Governance Related Policies, including as a result of asset pooling requirements**

### **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 - Nov 2015
- Training Policy – Nov 2015 (but original Nov 2014)
- Risk Policy – May 2015
- Governance Policy and Compliance Statement – March 2017

All of these policies are subject to a fundamental review at least every three years. However, due to the Wales Pool it is necessary to undertake an early review of all policies to ensure that the changes to governance of the Fund are reflected.

### **Timescales and Stages**

Review of governance related policies	2017/18 Q3
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### **Resource and Budget Implications**

It is expected this will mainly involve the Pension Fund Manager taking advice from the Independent Adviser.

## **G3 – Consider Key Person Risk**

### **What is it?**

The Council needs to review any key person risk within the Pensions Finance team due to its small size and age profile, as well as the potential changes in responsibilities due to asset pooling.

### **Timescales and Stages**

Review risk and staffing levels	2017/18 Q3/4
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### **Resource and Budget Implications**

To be led by Pension Fund Manager. All internal costs are being met from the existing budget albeit any necessary changes to staffing levels or numbers may impact on the budget.

## **G4 – 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 this has been deferred to 2017/18.

#### **Timescales and Stages**

Review current actuarial contract and identify tender process	2017/18 Q2
Conduct tender for actuarial services	2017/18 Q3/4

#### **Resource and Budget Implications**

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

### **G5 – Implications of legislation in Wales**

#### **What is it?**

The Wales Act 2017 received Royal Assent on the 31<sup>st</sup> January 2017 and moved Wales from a conferred matters model to a reserved matters model as used in Scotland. The Well-being of Future Generations (Wales) Act 2015 is about improving the social, economic, environmental and cultural well-being of Wales. The implications of these, if any, on the Fund need to be considered.

#### **Timescales and Stages**

Review of potential implications	2017/18 Q3/4 2018/19
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#### **Resource and Budget Implications**

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

### **G6 – 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 provide stability and consistency of approach. For these reasons the contracts will be retendered during 2018/19.

#### **Timescales and Stages**

Review and tender the contracts	2018/19
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#### **Resource and Budget Implications**

To be led by Pension Fund Manager within existing budget.

### **G7 – Review/Tender Custodian Contract**

#### **What is it?**

The Council needs to review its current custodian 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. The introduction of asset pooling could also impact on the type and scope of service

to be provided by the Fund's custodian. Following this review, and discussions with procurement, the Council will need to put the custodian contract out to tender.

#### **Timescales and Stages**

Review current custodian contract and identify tender process	2018/19
Conduct tender for custodian services	2018/19

#### **Resource and Budget Implications**

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

### **G8 - Review appointment of Pension Fund Committee Representatives and Local Board Members**

#### **What is it?**

The employer and scheme member representatives on the Local Board were appointed in July 2015 for a period of three years. This period may be extended to up to five years. The existing appointments will therefore need to be reviewed by July 2018 but they may be extended at that 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 current Pension Board membership (potential extension)	2018/19
Commence process for appointment of Pension Board representatives	2019/20

#### **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.

### **G9 - Review administration system contract**

#### **What is it?**

The CPF 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 I-Connect and scheme/GMP reconciliation) and to tie in with end dates of existing add-on modules within Altair, it is better to defer this until 2019/20.

#### **Timescales and Stages**

Conduct tender for administration system	2019/20
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#### **Resource and Budget Implications**

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

## Funding and Investments (including accounting and audit)

Ref	Key Action –Task	2017/18 Period				Later Years	
		Q1	Q2	Q3	Q4	18/19	19/20
F1	Asset Pooling	x	x	x	x	x	x
F2	Implications of MiFIDII		x	x	x		
F3	Flight-path “Health Check” Review				x	x	x
F4	Review of Investment Strategy						x
F5	Triennial Actuarial Valuation and associated tasks						x

### F1 –Asset Pooling

#### What is it?

To enable the Wales funds to pool assets an operator will be appointed to provide the investment infrastructure and advice. Once the Operator has been appointed and registers the appropriate vehicles with the Financial Conduct Authority then asset transfers can begin.

#### Timescales and Stages

Appointment of Operator and registration	2017/18
Asset transition	2018/19 & 2019/20

#### Resource and Budget Implications

The Clwyd Pension Fund Manager and Pension Finance Manager will be involved in the procurement of the operator and agreeing asset transitions. Initially this will be within existing budget although the implications on internal resources will be kept under review.

### F2 – MiFID II

#### What is it?

MiFID II is a proposal by the European Commission to amend and expand on the original MiFID directive which came into force on 1<sup>st</sup> November 2007. The directive has two core aims; to improve transparency in financial markets, and to further strengthen investor protection. The most significant impact for LGPS Funds will be that they are classified by default as “retail clients”, which has potential implications for ongoing dealings in matters of institutional investment, though there will be an option to “opt up” from retail status and retain existing professional classification. However, while the current focus is on investment management, there could be wider implications as it is understood that this will also impact on whether certain investment consultants can advise retail investors.

## Timescales and Stages

From an initial deadline of January 2017, the European Commission has extended the deadline for the new rules to come into force until 3 January 2018.

## Resource and Budget Implications

The majority of work will be carried out by the Pension Fund Manager and Finance Manager(s) (working in response to what is likely to be national LGPS policy direction guidance) and JLT as Investment Adviser.

# F3 – Flight-path Health-check Review

## What is it?

The Administering Authority implemented a “Flightpath” risk management investment strategy with effect from 1 April 2014, with the aim of more effectively controlling and limiting interest and inflation risks (as these factors can lead to significant changes to liability values and therefore the deficit). The overall funding Flightpath strategy is to consider and structure the investment strategy to determine a balance between return-seeking and risk-hedging assets. Further details are in the Fund’s Investment Strategy Statement (ISS) and Funding Strategy Statement (FSS).

Ongoing monitoring includes a “traffic light” analysis of whether the Flightpath and hedging mandate are operating in line with expectations or if any actions are required. However annually the strategy will require a “health-check” to ensure its aims remain appropriate and it is still fit for purpose.

## Timescales and Stages

An annual health-check is undertaken

2017/18 Q4, 2018/19, 2019/20

## Resource and Budget Implications

To be resourced through the Funding Risk Management Group.

# 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

## Resource and Budget Implications

The majority of work will be carried out by JLT as Investment Adviser together with the CPF Manager and Finance Manager(s) prior to final submission of proposals to Advisory Panel and Pension Fund Committee.

## F5 – Triennial Actuarial Valuation

### 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.

### Timescales and Stages

Effective date	31 March 2019
Initial whole Fund results (expected)	Q1 2019/20
Individual Employer results (expected)	Q2&3 2019/20
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.

## Administration (including Communications)

Ref	Key Action -Task	2017/18 Period				Later Years	
		Q1	Q2	Q3	Q4	2018/19	2019/20
A1	Development of Workflow Management including Data improvements	x					
A2	Website Launch	x					
A3	Member Self Service	x	x				
A4	Workforce Planning	x					
A5	Backlog to 31 March 2013(Mercers)	x					
A6	Electronic and Centralised internal procedures	x	x	x	x		
A7	Move to Electronic Annual Benefit Statements	x		x		x	
A8	GMP Reconciliation	x	x	x	x	x	x
A9	iConnect		x	x	x	x	x
A10	Data Protection Changes			x	x	x	
A11	National Pensions Dashboard			x	x	x	x
A12	Review Administration & Communications Strategy Statements					x	
A13	Trivial Commutation					x	x
A14	Other Expected National Changes					x	x

### A1 – Development of Workflow Management including Data Improvements

#### What is it?

Following the requirement to provide Key Performance Indicators, to improve the quality of data and to identify/record Breaches, a full review is being undertaken of our workflow systems and data quality to enable identification of issues and plans to resolve these issues.

#### Timescales and Stages

Develop workflow management	2017/18 Q1
Identify data improvement requirements	2017/18 Q1

## **Resource and Budget Implications**

To be completed by the Pensions Administration Team. Internal costs are being met from the existing budget.

## **A2 – Website Launch**

### **What is it?**

Following a review of the Pension Fund Website in 2016/17, a new look website on the Member Self Service platform is to be launched.

### **Timescales and Stages**

Launch alongside Member Self Service

2017/18 Q1

### **Resource and Budget Implications**

All internal costs to be met from the existing budget.

## **A3 – Member Self Service**

### **What is it?**

Member Self-Service (MSS) will provide members with an easy-to-use interface which will enable them to access information, undertake data amendments, view their documents and carry out benefit projections online without taking up valuable administration staff time.

### **Timescales and Stages**

Implement System

2017/18 Q1

Advise all scheme members of MSS availability

2017/18 Q1

Presentations and on-going promotions

2017/18 Q1/Q2

### **Resource and Budget Implications**

To be led by the Pensions Administration Manager and implemented by the Technical Team with assistance from the Operational Team. The cost of the MSS system is included within the budget figures.

## **A4 Workforce Planning**

### **What is it?**

To ensure that a plan is in place to review the Pensions Administration workforce due to the age profile of staff, to have appropriate succession planning, and to provide all training requirements.

### **Timescales and Stages**

Develop workforce plan

2017/18 Q1

### **Resource and Budget Implications**

All internal costs to be met from the existing budget.

## A5 – Backlog to 31 March 2013 (Mercers)

### What is it?

A backlog of tasks prior to 31 March 2013 amounting to approximately 2,500 member cases was identified. This has now been reduced to approximately 200 but further interpretation of data relating to those cases is taking longer to resolve than expected.

### Timescales and Stages

Clear cases externally and eliminate backlog 2017/18 Q1

### Resource and Budget Implications

A proportion of the budget has been transferred into 2017/18 from 2016/17.

## A6 – Electronic and Centralised internal procedures

### What is it?

Developing an on-line procedures manual for use by the Pensions Administration staff. This will amalgamate, expand and update current procedure documents ensure consistency, easy access and efficient working as well as providing a useful training tool.

### Timescales and Stages

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

Develop, collate, update and maintain 2017/18

### Resource and Budget Implications

To be carried out by the full Pensions Administration team. All internal costs to be met from the existing budget.

## A7 Move to Electronic Annual Benefit Statements

### What is it?

Following the implementation of Member Self Service, the move from paper based Annual Benefit Statements to Electronic is being planned for the 2018 statements. In order to comply with disclosure requirements the Clwyd Pension Fund will be writing out to the home address of all categories of membership within the Clwyd Pension Fund on at least two occasions to notify them on this change.

### Timescales and Stages

First communication to all members 2017/18 Q1

Second communication to all members 2017/18 Q3

### Resource and Budget Implications

All internal costs to be met from the existing budget.

## A8– GMP Reconciliation

### What is it?

The government's announcement that contracting out will cease and that HMRC will no longer be responsible for maintaining GMP and other contracting out member records. This means that the onus will be on individual funds to ensure that the contracting out and GMP data they hold on their systems matches up to the data held by HMRC before they cease holding these records. Unfortunately this has shown 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. The timescales below are subject to change depending on the magnitude of the work.

### Timescales and Stages

GMP data reconciliation and investigation	2017/18 & 2018/19
Reconciliation of national insurance information (Active Members)	2017/18 & 2018/19
Benefit correction and system updates:	2018/19 & 2019/20

### Resource and Budget Implications

Due to the magnitude of this project it is being outsourced. A tender process has resulted in this work being awarded to Equiniti and the estimated cost has been included in the budget for 2017/18.

## A9 – iConnect

### What is it?

On-line computer module that will allow information to be submitted by employers more directly and efficiently into the pension administration system. It involves employers uploading data directly into iConnect from their payroll systems. iConnect will be available to all employers of the Fund. The first stage will be ensuring that the correct member records are held on the administration system before entering into testing and live roll out of the system. This will be done on a phased basis by employer. Denbighshire County Council, Bodelwyddan Castle Trust and Prestatyn Town Council have been successfully implemented.

### Timescales and Stages

Coleg Cambria/North Wales Fire/Glyndwr	2017/18
FCC, WCBC and all other relevant Employers	2018/19 & 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.

## A10 – Data Protection Changes

### What is it?

The General Data Protection Regulation is an EU regulation which will come into force from 25th May 2018, building on the existing Data Protection Act. This new regulation introduces stricter compliance requirements and much higher fines for non-compliance.

The main areas affecting the LGPS include the need to keep records of processing activities; enhanced privacy notices for members; privacy impact assessments where there is a high risk to the rights and freedoms of individuals; and the need to redraft any service level agreements to take account of new mandatory provisions. Funds must also put in place a data breach handling procedure as the new rules will require reporting of a breach within 72 hours.

Further information is available from the [website](#) of the Information Commissioner's Office.

### Timescales and Stages

Understand implications and update processes	2017/18 Q3 to 2018/19 Q1
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### Resource and Budget Implications

Cannot be determined until more detail is available.

## 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 all of their pension pots through one central platform. The plan is to have a basic prototype available in March 2017 but the full launch is planned for 2019. Further points to be aware of are as follows:

- As well as the dashboard including details of occupational pensions held by individuals, it is planned for it to also include details of the state pension entitlement individuals have built up.
- No decisions have yet been made on the level of detail that individuals will be able to access about their pensions on the dashboard.
- Public service pensions are out of scope for the development of the prototype, but it is intended that public service pensions data will be included in the dashboard when it launches in 2019.
- It is planned that post-retirement data will be out of scope for the dashboard (i.e. the dashboard will only include data for pensions which are not yet in payment).
- The Government's preference is that the pensions industry participates in the dashboard on a voluntary basis, but they will reserve the right to legislate if needed.
- No decisions have yet been made on whether the Government will provide funding to public service pension schemes to cover the dashboard's implementation costs.

### Timescales and Stages

Development expected	2017/18 Q3/4 & 2018/19
Launch	2019/20

### Resource and Budget Implications

Cannot be determined until more detail is available.

## A12 Review Administration and Communication Strategies

### What is it?

The CPF Administration Strategy and Communications Strategy was approved at the March 2016 PFC. They must be reviewed at least once every three years to ensure they remain relevant and up to date.

### Timescales and Stages

Review of Strategies	2018/19
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### Resource and Budget Implications

This will be led out by the Pensions Administration Team.

## A13 – 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, to reduce the administrative burden on Funds 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) and total benefits (£30,000).

### Timescales and Stages

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

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

Led by the Technical Team with some assistance from the Operational Team. All internal costs to be met by existing budget.

## A14 Other Expected National Changes

### What is it?

As a minimum we expect announcements in relation to

- Scheme Changes as a result of the Cost Management Process
- Changes in Exit Payments
- Indexation of GMP's for members reaching SPA December 2018

### Timescales and Stages

To be determined

## Resource and Budget Implications

To be determined

## Employer Liaison Team

Ref	Key Action –Task	2017/8 Period				Later Years	
		Q1	Q2	Q3	Q4	2018 /19	2019 /20
E1	Review processes	x			x		
E2	Ongoing development of workflow reporting	x			x		
E3	Design reporting information and procedures	x	x				
E4	Staff training for WCBC data extraction	x	x				
E5	Establish plan for outstanding requests		x				
E6	Liaise with new employers for potential agreements	x	x	x	x	x	
E7	Review of Agreements				x	x	x
E8	Data preparation for i-Connect				x	x	x

Understanding the continuing pressure on resources and budgets for employers and the administering authority the Clwyd Pension Fund have made provision to step in and provide 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) will mainly assist in providing notifications regarding new starters, personal/employment changes and leavers/retirements in the LGPS. It will also undertake 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. As a new team, depending on the employer uptake, resources will need to match demand.

### 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

Compile query results and missing information from payroll reports.

Finalise feedback to FCC and agree improvement plan: 2017/18 Q1

Review improved procedures for further efficiencies with FCC: 2017/18 Q4

Begin feedback to WCBC and agree improvement plan: 2017/18 Q1

Review improved procedures for further efficiencies with WCBC: 2017/18 Q4

## **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:	2017/18 Q1
Review updated procedures:	2017/18 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.

### **Timescales and Stages**

Formulate reporting and recharge procedures:	2017/18 Q1/2
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## **E4 – Staff training for WCBC payroll systems**

### **What is it?**

Arrange for staff training at Wrexham to be carried out for all ELT staff in order to navigate, run reports and collate data from each of the systems used.

### **Timescales and Stages**

Complete training and update procedures:	2017/18 Q1/2
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## **E5 – Establish a plan for outstanding cases**

### **What is it?**

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.

### **Timescales and Stages**

Review cases completed and project according to staffing levels:	2017/18 Q2
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## **E6 – Liaise with other employers for potential agreements**

### **What is it?**

Consider capacity of the Employer Liaison Team 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:	2017/18
Review service standards and open contact with employers:	2017/18-18/19

## **E7 – Review of Agreements**

### **What is it?**

Periodic review of the scope of the agreements for each employer.

### **Timescales and Stages**

Whistle-stop review to address any issues/new requirements FCC	2017/18 Q4
Fundamental review of agreement FCC	2019/20 Q4
Whistle-stop review to address any issues/new requirements WCBC.	2018/19 Q1
Fundamental review of agreement WCBC	2019/20 Q4

## **E8 – Data preparation for i-Connect**

### **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 i-Connect software in preparation for automatic monthly uploads going forward.

### **Timescales and Stages**

Begin reviewing inconsistencies (FCC):	2017/18 Q4
Continuous refining of mismatches going forward (FCC):	2018/19Q1/2
Begin reviewing inconsistencies (WCBC):	2018/19 Q3/4
Continuous refining of mismatches going forward (WCBC):	2019/20 Q1/2

Cronfa Bensiynau Clwyd  
Clwyd Pension Fund



**FLINTSHIRE COUNTY COUNCIL**

**Administering Authority for  
Clwyd Pension Fund**

**ADMINISTRATION STRATEGY**

**March 2017**

# ADMINISTRATION STRATEGY

## Introduction and Background

This is the Statement outlining our Pension Administration Strategy for the Clwyd Pension Fund ("the Fund") and has been developed following consultation with employers in the Fund, Pension Board members and other interested stakeholders.

The aim of the administration strategy is to ensure both the Administering Authority ("AA") and the employers are fully aware of their responsibilities under the Scheme, and to outline the performance standards they are expected to meet to ensure the delivery of a high-quality, timely and professional administration service. These performance standards are explained further in the employer service level agreement.

Flintshire County Council (the "administering authority") is responsible for the local administration of the Fund, which is part of the Local Government Pension Scheme ("the LGPS"). The Fund comprises around 39 employers with active members, and approximately 45,000 scheme members (including active members, deferred and pensioner members).

Delivery of a high standard of administration service is not the responsibility of one person or organisation, but rather of a number of different parties, who between them are responsible for delivering the pensions administration service to meet the diverse needs of the membership.

This Strategy applies to all employers in the Fund. The Statement sets out the expected levels of administration performance of both the administering authority and the employers within the Fund, as well as details on how performance levels will be monitored and the action that might be taken where persistent failure occurs.

## Implementation

This Strategy was first agreed in April 2016, and it outlines the level of service the administering authority would like to provide to scheme members and employers, as well as the role employers will need to play in providing that quality of service. It is recognised that the aims and objectives in this Strategy are ambitious in some cases and meeting these is dependent on the implementation of some quite radical changes in the existing ways of working, not least introducing some major new on-line functionality. This Strategy is being implemented during a time which continues to present a number of challenges, not least:

- ongoing work to clear administrative backlogs accumulated during recent years
- the need to carry out a major scheme reconciliation exercise as a result of the introduction of the new State Pension
- continuing pressure on resources and budgets for employers and the administering authority

As part of the 2016/17 business plan, progress has already been made in implementing improvements in the Clwyd Pension Fund Administration Section including:

- implementing i-Connect with one major employer (i-Connect is new software that will allow employer data to be loaded directly, and therefore more efficiently, into the pension administration software)
- reviewing the pension administration system work flow functionality
- developing more advanced work flow and management reporting functionality within the administration system
- initial work on a major review of the Fund's website

The 2017/18 business plan includes further improvements to help deliver this Strategy including:

- implementing i-Connect with all other major employers
- implementing self-service web functionality to scheme members
- finalising the review of the Fund's website

This updated Strategy will be effective from 1 April 2017 and the performance indicators mentioned herein will demonstrate ongoing progress towards the Strategy's aims and objectives.

## **Regulatory Basis**

The LGPS is a statutory scheme, established by an Act of Parliament. The Local Government Pension Scheme Regulations 2013 provide the conditions and regulatory guidance surrounding the production and implementation of Administration Strategies.

In carrying out their roles and responsibilities in relation to the administration of the Local Government Pension Scheme the administering authority and employers will, as a minimum, comply with overriding legislation, including:

- Local Government Pension Scheme Regulations
- Pensions Acts 2004 and 2011 and associated disclosure legislation
- Public Service Pensions Act 2013 and associated record keeping legislation
- Freedom of Information Act 2000
- Equality Act 2010
- Data Protection Act 2003
- Finance Act 2013 and
- Relevant Health and Safety legislation.

As a result of the Public Service Pensions Act 2013, the Pensions Regulator now has responsibility for oversight of a number of elements of the governance and administration of Public Sector pension schemes including the LGPS. The Regulator has the power to issue sanctions and fines in respect of failings caused by the administering authority and also where employers in the Fund fail to provide correct or timely information to the administering authority. Should this happen, the administering authority would recharge any costs back to employers as set out later in this strategy.

More information relating to requirements of the Local Government Pension Scheme Regulations is included in Appendix A. This statement has been developed to include the information required by those provisions and to describe our approach in relation to meeting these requirements in the delivery of administration.

## **Our Aims and Objectives**

### ***Mission Statement***

The Clwyd Pension Fund 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

In addition, we have specific aims and objectives in relation to our administration responsibilities as set out below.

### ***Administration Aims and Objectives***

The purpose of this strategy statement is to set out the quality and performance standards expected of Flintshire County Council in its role of administering authority and employer, as well as all other employers within the Fund.

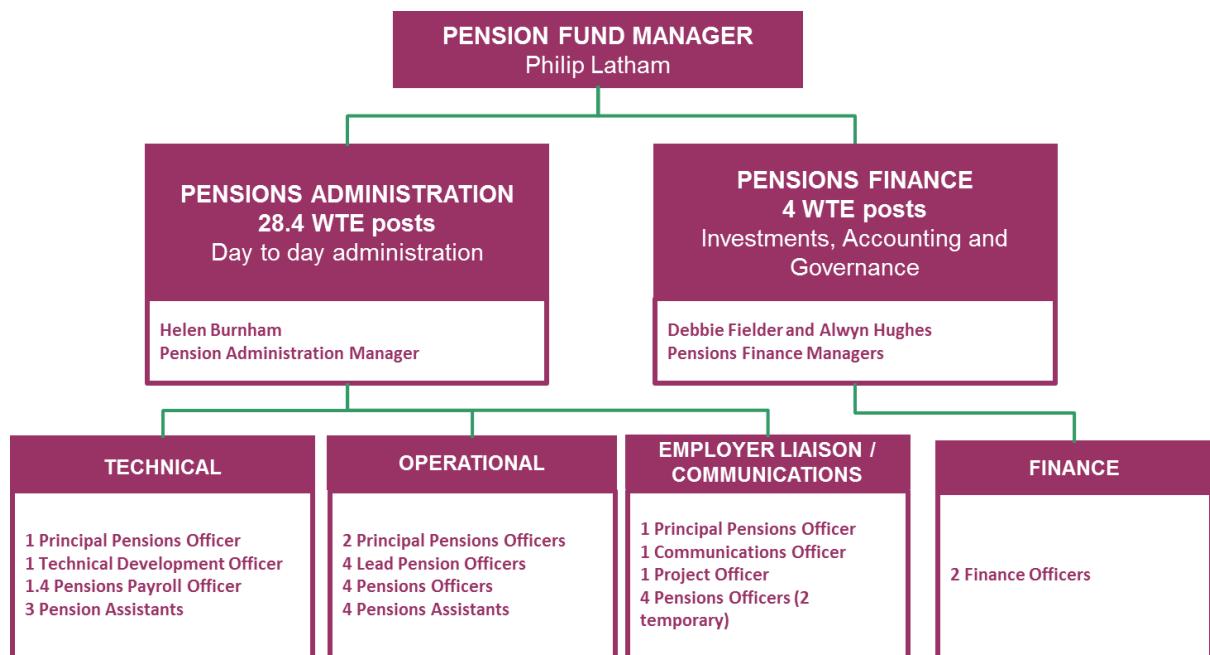
The Administration Strategy has a number of specific objectives, as follows;

- 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.

## Delivery of Administration

Flintshire County Council has delegated responsibility for the management of the Pension Fund to the Clwyd Pension Fund Committee, taking into consideration advice from the Pensions Advisory Panel and the Pensions Board. The Committee will monitor the implementation of this Strategy on a regular basis as outlined later in this statement.

Operationally, the administration of the Fund is undertaken 'in-house' within the Fund. The operational structure of the Pension Fund is illustrated in the schematic diagram below:



Most LGPS administering authorities provide the administration service from internal teams, although some have outsourced (or partially outsourced) their administration, and some utilise shared service administration arrangements across more than one Fund. The Administering Authority may, in exceptional circumstances, consider outsourcing some of those services.

In addition, the Administration Section will look for opportunities to work collaboratively with other administering authorities so as to reduce development costs and enhance the quality of information. This might include:

- working with other administering authorities through the Pensions Officer Group networks or the All Wales network to produce communications, which can then be customised further where necessary to the needs of the Fund
- participating in joint training sessions with other administering authorities.

## Performance Standards – Quality

### *Local Standards*

The legislative and regulatory requirements are set out previously and in Appendix A. On top of these, the Fund and employers ensure that all administration functions and tasks are carried out to agreed local quality standards. In this respect the standards to be met are:

- compliance with all requirements set out in the employer service level agreement and this Administration Strategy Statement
- information to be provided in the required format and/or on the appropriate forms contained within the employer service level agreement
- information to be legible and accurate
- communications to be in a plain language style
- information provided or actions carried out to be checked for accuracy\* by an appropriately trained member of staff
- information provided or actions carried out to be authorised by an agreed signatory, and
- actions carried out, or information provided, within the timescales set out in this strategy statement

\* accuracy is defined as when we have received information, for example, from an employer, with **all** required areas completed **and** with no contradictory information which needs to be queried.

### *Secure Data Transfer*

The Fund and its employers follow Flintshire County Council's data security guidelines when sending any personal data. Flintshire County Council uses Egress Switch to securely send data when required, which offers a combination of policy based gateway and desktop email encryption software to secure and control information sent to third parties. Egress Switch also uses;

- an authentication process
- password protection, and
- confirmation of receipt

to prevent any sensitive information from being accidentally sent to unauthorised recipients.

A key method of data transfer relating to the Fund's administration, is the receipt of information from employers in relation to scheme members. In order to meet the requirements set out in this document in a secure and efficient way (for both employers and the administering authority), Clwyd Pension Fund is launching a secure data system known as i-Connect for its larger employers (and acknowledges that it would not be cost effective to require smaller employers to use this). Any larger employers not submitting data using this data system, once it is made available to them, may risk compromising data security.

### *Oversight of Compliance and Quality*

Ensuring compliance is the responsibility of the administering authority and the employers in the Fund. The administering authority has a range of internal controls in place to assist with ensuring compliance and which are articulated in the Fund's risk register. However there are ways in which they are subject to elements of scrutiny or oversight:

#### Audit

The Fund is subject to a regular annual audit of its processes and internal controls. The administering authority, the Fund and the employers are expected to fully comply with any reasonable requests for information from both internal and approved external auditors. Any subsequent recommendations made will be considered by the Pension Fund Committee, and where appropriate duly implemented (following discussions with employers where necessary).

#### Local Pension Board (LPB), the national Scheme Advisory Board (SAB) or the Pensions Regulator

The Public Service Pensions Act 2013 introduced greater oversight through these entities. As a result the LPB of the Clwyd Pension Fund was established from 1 April 2015. In addition, the Pensions Regulator's remit was extended to include the public sector, and a national Scheme Advisory Board was created. The administering authority and the employers are expected to fully comply with any guidance produced by the SAB and the Pensions Regulator. Any recommendations made from these entities will be considered by Flintshire County Council, in its role as administering authority, and where appropriate, duly implemented following discussions with employers where necessary.

### **Performance Standards – Timeliness and Accuracy**

Overriding legislation, including The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (as amended), dictates minimum standards that pension schemes should meet in providing certain pieces of information to the various parties associated with the scheme. Further, the LGPS itself sets out a number of requirements for the administering authority or employers to provide information to each other, to scheme members and to prospective scheme members, dependants, other pension arrangements or other regulatory bodies. In addition to these legal requirements, local performance standards have been agreed which cover all aspects of the administration of the Clwyd Pension Fund. In many cases these go beyond the overriding legislative requirements.

The locally agreed performance standards for the Fund are set out in Appendix B. These standards are not an exhaustive list of the administering authority's and employers' responsibilities. Employers' responsibilities are provided in more detail in the employers' service level agreement.

The locally agreed performance standards will be monitored on an ongoing basis by the administrating authority, the key standards which will be publicly reported on are extracted and shown in the table below.

These elements are measured against:

1. any legal timescale that should be met ("Legal requirement")
2. the overall locally agreed target time ("Overall case target")
3. the locally agreed target time for the administering authority to complete that task ("CPF Administration element target")

Generally the CPF Administration element target will be a shorter procedure within the overall case which is being measured by the Legal requirement and Overall case targets. This is because the Legal requirements and Overall case targets will generally include periods of time when the Fund is waiting for information to be provided by an employer or scheme member. The CPF Administration element target then measures the period of time it takes the Fund to carry out their element of work once the accurate\* information has been received.

\* accurate is defined as when we have received information, for example, from an employer, with **all** required areas completed **and** with no contradictory information which needs to be queried.

### Key Performance Indicators (KPIs)

Process	Legal requirement	Overall case target	CPF Administration element target
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 <sup>1</sup>	46 working days from date of joining (i.e. 2 months)	15 working days from receipt of all information
To inform members who leave the scheme before retirement age of their rights and options	As soon as practicable and no more than 2 months from date of initial notification (from employer or from scheme member) <sup>2</sup>	46 working days from date of leaving	15 working days from receipt of all information
Obtain transfer details for transfer in, and calculate and provide quotation to member	2 months from the date of request <sup>1</sup>	46 working days from date of request	20 working days from receipt of all information
Provide details of transfer value for transfer out, on request	3 months from date of request (CETV estimate) <sup>3</sup> or within a reasonable period (cash transfer sum) <sup>4</sup>	46 working days from date of request	20 working days from receipt of all information
Notification of amount of retirement benefits	1 month from date of retirement if on or after Normal Pension Age <sup>1</sup> 2 months from date of retirement if before Normal Pension Age <sup>1</sup>	23 working days from date of retirement	10 working days from receipt of all information
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 <sup>1</sup>	46 working days from date of request	15 working days from receipt of all information
Calculate and notify dependant(s) of amount of death benefits	As soon as possible but in any event no more than 2 months to beneficiary from date of becoming aware of death, or from a date of request by a third party (e.g. personal representative) <sup>1</sup>	25 working days from date of death	10 working days from receipt of all information

1 - The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013, as amended

2 - The Occupational Pension Schemes (Preservation of Benefit) Regulations 1991

3 - Occupational Pension Schemes (Transfer Value) Regulations 1996

4 - Pension Schemes Act 1993

## Improving Employer Performance (where necessary)

This Strategy is focussed on good partnership working between the administering authority and the Fund's employers. However, it is recognised there may be circumstances where employers are unable to meet the required standards. The Principal Pensions Officer (either in the Technical or the Operations Team as appropriate) will seek, at the earliest opportunity, to work closely with employers in identifying any areas of poor performance or misunderstanding, provide opportunities for necessary training and development and put in place appropriate processes to improve the level of service delivery in the future.

It is expected that it will be extremely rare for there to be ongoing problems but, where persistent and ongoing failure occurs and no improvement is demonstrated by an employer, and/or unwillingness is shown by the employer to resolve the identified issue, we set out below the steps we will take in dealing with the situation in the first instance:

- The designated Principal Pensions Officer will issue a formal written notice to the person nominated by the employer as their key point of contact, setting out the area(s) of poor performance.
- The Principal Pensions Officer will meet with the employer to discuss the area(s) of poor performance, how they can be addressed, the timescales in which they will be addressed and how this improvement plan will be monitored.
- The designated Principal Pensions Officer will issue a formal written notice to the person nominated by the employer, setting out what was agreed at that meeting in relation to how the area(s) of poor performance will be addressed the timescales in which they will be addressed.
- A copy of this communication will be sent to:
  - The Pension Administration Manager
  - The Director of Finance or other senior officer at that employer.
- The Principal Pensions Officer will monitor whether the improvement plan is being adhered to and provide written updates at agreed periods to the person nominated by the employer, with copies being provided to the Pension Administration Manager and the Director of Finance (or alternative senior officer) at that employer.

- Where the improvement plan is not being delivered to the standards and/or timescales agreed, the Principal Pensions Officer will escalate the matter to the Pension Administration Manager who will determine the next steps that should be taken. This may include (but is not limited to):
  - Meetings with more senior officers at the employer
  - Escalating to the Clwyd Pension Fund Advisory Board, Pension Fund Committee and/or Pension Board, including as part of the Fund's Procedure for Recording and Reporting Breaches of the Law
  - Reporting to The Pensions Regulator or Scheme Advisory Board, as part of the Fund's Procedure for Recording and Reporting Breaches of the Law.

*Circumstances where the Administering Authority may levy costs associated with the Employers poor performance*

The Fund will work closely with all employers to assist them in understanding all statutory requirements, whether they are specifically referenced in the LGPS Regulations, in overriding legislation, or in this Administration Strategy Statement. The Fund will work with each employer to ensure that overall quality and timeliness is continually improved.

The 2013 LGPS Regulations provide that an administering authority may recover from an employer, any additional costs associated with the administration of the scheme, incurred as a result of the unsatisfactory level of performance of that employer.

Where an administering authority wishes to recover any such additional costs they must give written notice stating:

- The reasons in their opinion that the employer's level of performance contributed to the additional cost.
- The amount the administering authority has determined the employer should pay.
- The basis on which this amount was calculated.
- The provisions of the Administration Strategy Statement relevant to the decision to give notice.

The administering authority will generally not recharge to an employer any additional costs incurred by the Fund in the administration of the LGPS as a direct result of such unsatisfactory performance. However, in instances where the performance of the employer results in:

- fines being levied against the administering authority by the Pensions Regulator, Pensions Ombudsman or other regulatory body, an amount no greater than the amount of that fine will be recharged to that employer.
- the improvement plan as outlined in the last section of this statement is not being adhered to, the Pension Fund Committee may determine that any other additional costs will be recharged. In these circumstances, the Pension Fund

Committee will determine the amount to be recharged and how this is to be calculated. The employer in question will be provided with a copy of that report and will be entitled to attend the Pension Fund Committee when this matter is being considered.

Whether or not interest will be charged on late contributions will be stated within the administering authority's separate policy on discretionary provisions.

### **Employer Liaison Team**

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. The Employer Liaison Agreement has a number of specific objectives which are aligned with this Clwyd Pension Fund Administration Strategy and which are as follows;

- 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.

Subject to having access to the necessary systems and information, the Employer Liaison Team can carry out a number of responsibilities on behalf of an employer including:

- notification of new starters, changes in circumstances and leavers
- carrying out estimates of benefits (for example, for redundancy exercises)
- responding on behalf of the employer to queries from the Clwyd Pension Fund Operations and Technical teams, for example relating to year end submissions.

Any employer wishing to make use of this service will be expected to enter into a signed agreement which will include information relating to how the service is paid for by the employer. There may be opportunities to spread these costs, recognising the budgetary pressures that employers are currently subject to.

## Measuring the Fund against the Administration Objectives

The Administrating Authority will monitor the performance of the Fund in carrying out its responsibilities in relation to the scheme, and will regularly monitor performance by benchmarking against other Funds, using benchmarking clubs and other comparators available. How well the Fund performs will be reported in the Fund's Annual Report based on the statistics available at that time.

In addition, the Fund will monitor success against the administration objectives in the following ways:

Objectives	Measurement
Provide a high quality, professional, proactive, timely and customer focussed administration service to the Fund's stakeholders.	<p>Key Performance Indicators achieved in 90% of cases* (100% for legal requirements).</p> <p>Annual satisfaction surveys with employers and scheme members achieving 90% of scores in positive responses in these areas.</p>
Administer the Fund in a cost effective and efficient manner utilising technology appropriately to obtain value for money.	<p>Cost per member is not in upper or lower quartiles when benchmarked against all LGPS Funds using national data (either SF3 or SAB)</p>
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.	<p>Annual data checks (including ongoing reconciliations) resulting in few issues that are resolved within 2 months.</p> <p>Key Performance Indicators achieved in 90% of cases* (100% for legal requirements).</p> <p>Issues included in formal improvement notices issued to employers resolved in accordance with plan.</p> <p>Annual satisfaction surveys with employers achieving 90% of scores in positive responses in these areas.</p> <p>All employers have signed up to their Service Level Agreements</p>
Ensure benefits are paid to, and income collected from, the right people at the right time in the right amount.	<p>Positive results in audit and other means of oversight/scrutiny.</p> <p>Key Performance Indicators achieved in 90% of cases* (100% for legal requirements).</p> <p>Minimal issues against the Fund identified by Internal Dispute Resolution Procedures and complaints.</p>

Objectives	Measurement
<p>Maintain accurate records and ensure data is protected and has authorised use only.</p>	<p>Annual data checks (including ongoing reconciliations) resulting in few issues that are all resolved within 2 months</p> <p>No breaches of data security protocols</p> <p>Positive results in audit and other means of oversight/scrutiny</p>

An overview of the Fund's performance against these objectives, in particular, the target standards for turnaround times, will be reported within the Fund's annual report and accounts. It will be reported, on an ongoing basis, to the Pension Fund Committee and Pension Board. In addition, these will be reported to The Pensions Regulator (if deemed appropriate) under the Procedure for Recording and Reporting Breaches of the Law (Breaches Procedure Policy).

If performance is substantially below standard (whether by a large margin for a short period of time or a small margin for a longer period of time) the administering authority will formulate an improvement plan. This will be reported to the Pension Fund Committee and Pension Board together with an ongoing update on achievement against the improvement plan.

### Key Risks

The key risks to the delivery of this Strategy are outlined below. The Pensions Administration Manager and other officers will work with the Pensions Advisory Panel, Pension Fund Committee and Pension Board in monitoring these and other key risks and consider how to respond to them.

- Lack or reduction of skilled resources due to difficulty retaining and recruiting staff members and also staff absence due to sickness
- Significant increase in the number of employing bodies causes strain on day to day delivery
- Significant external factors, such as national change, impacting on workload
- Incorrect calculation of members' benefits, resulting in inaccurate costs
- Employer's failure to provide accurate and timely information resulting in incomplete and inaccurate records. This leads to incorrect valuation results and incorrect benefit payment.
- Failure to administer the scheme in line with regulations as listed under 'Regulatory Basis' in this Statement. This may relate to delays in enhancement to software or regulation guidance.
- Failure to maintain records adequately resulting in inaccurate data.
- Use of external printers/distributors resulting in possible data mismatch errors
- Unable to deliver an efficient service to pension members due to system unavailability or failure
- Failure to maintain employer contact database leading to information being sent to incorrect person

## **Approval, Review and Consultation**

This Strategy Statement was originally approved in March 2016 and updated in March 2017 by the Clwyd Pension Fund Committee. It is effective from 1 April 2017.

It will be formally reviewed and updated at least every three years or sooner if the administration management arrangements or other matters included within it merit reconsideration, including if there are any changes to the LGPS or other relevant Regulations or Guidance which need to be taken into account.

In preparing the original Strategy we consulted with the relevant employers, the scheme member and employer representatives on the Clwyd Pension Board and other persons considered appropriate. No formal consultation was carried out in March 2017 due to the nature of the changes. However scheme member and employer representatives were able to comment when it was approved at the Pension Fund Committee meeting in March 2017.

This Strategy Statement will be included within the Fund's Annual Report and Accounts and available on our website at: [mss.clwydpensionfund.org.uk](http://mss.clwydpensionfund.org.uk)

## **Costs**

All additional costs relating to this Strategy Statement are met directly by the Fund unless mentioned otherwise.

## **Further Information**

Any enquiries in relation to the day to day administration of the Fund or the principles or content of this Strategy should be sent to:

Helen Burnham, Pensions Administration Manager  
Flintshire County Council  
County Hall,  
Mold,  
Flintshire  
CH7 6NA  
E-mail - [helen.burnham@flintshire.gov.uk](mailto:helen.burnham@flintshire.gov.uk)  
Telephone - 01352 702872

Any enquiries in relation to the services provided by the Employer Liaison Team should be sent to:

Kerry Robinson, Principal Pensions Officer – Employer Liaison Team  
Flintshire County Council  
County Hall,  
Mold,  
Flintshire  
CH7 6NA  
E-mail – [kerry.robinson@flintshire.gov.uk](mailto:kerry.robinson@flintshire.gov.uk)  
Telephone - 01352 702761

### **Administration Legal Requirements within the LGPS**

Regulations 72, 74 and 80 of Local Government Pension Scheme Regulations 2013 require the following:

#### Employer Responsibilities:

- To decide any rights or liabilities of any person under the LGPS (for example, what rate of contributions a person pays and whether or not a person is **entitled** to any benefit under the scheme) as soon as is reasonably practicable\*
- To formally notify that person of the decision in relation to their rights or liabilities in writing as soon as is reasonably practicable (including a decision where a person is not entitled to a benefit and why not), including information about their internal dispute resolution procedure
- To inform the administering authority of all such decisions made
- To provide the administering authority with such information it requires so it can carry out its functions including, within three months of the end of each Scheme year\*\*, the following information in relation to any person who has been an active member of the scheme in the previous year:
  - name and gender
  - date of birth and national insurance number
  - a unique reference number relating to each employment in which the employee has been an active member
  - in respect of each individual employment during that year:
    - the dates during which they were a member of the scheme
    - the normal pensionable pay received and employee contributions paid
    - the pensionable pay received and employee contributions paid whilst there was any temporary reduction in contributions
    - the normal employer contributions paid
    - any additional employee or employer contributions paid
    - any Additional Voluntary Contributions paid by the employee or employer
- To appoint a person to consider complaints under stage 1 of the internal dispute resolution procedure relating to employer decisions (or a lack of a decision)\*\*\*

\*And at the latest within 1 month of the need for a decision

\*\*Note that, in practice, the Administering Authority will require this information by a specific date as outlined in the Service Level Agreement in order to meet statutory deadlines on benefit statements

\*\*\*Note that, in practice, employers in the Clwyd Pension Fund may use the same person to consider stage 1 IDRPs as used by the Administering Authority

### Administering Authority Responsibilities:

- To decide the **amount** of benefits that should be paid, including whether the person is entitled to have any previous service counting towards this for LGPS purposes, as soon as is reasonably practicable
- To formally notify that person of the decision in relation to the amount of their benefits in writing as soon as is reasonably practicable, including a statement showing how they are calculated and information about their internal dispute resolution procedure
- To appoint a person to consider complaints under stage 1 of the internal dispute resolution procedure relating to administering authority decisions (or a lack of a decision)
- To appoint a person to consider complaints under stage 2 of the internal dispute resolution procedure (which covers both employer and administering authority decisions or lack of decisions)
- To provide on request any information to an employer about a complaint under the internal dispute resolution procedure that may be required by an employer

Regulation 59(1) enables an LGPS administering authority to prepare a written statement ("the pension administration strategy") to assist in delivering a high-quality administration service to its scheme members and other interested parties. It sets out local standards which often go beyond the minimum requirements in overriding legislation as outlined above, and which the administering authority and employers should comply with.

The statement may contain matters mentioned below, as considered appropriate:

- Procedures for liaison and communication with the relevant employers in their Fund.
- The establishment of levels of performance which the administering authority and the employers are expected to achieve in carrying out their functions under the LGPS by:
  - i. the setting of performance targets;
  - ii. the making of agreements about levels of performance and associated matters; or
  - iii. such other means as the administering authority consider appropriate;
- Procedures which aim to secure that the administering authority and the employers comply with statutory requirements in respect of those functions and with any agreement about levels of performance.
- Procedures for improving the communication of information, relating to those functions, between the administering authority and the employers.
- The circumstances in which the administering authority may consider giving written notice to an employer on account of poor performance in carrying out its functions under the LGPS Regulations when measured against the agreed performance levels.
- The publication of annual reports, by the administering authority, dealing with:

- i. the measurement of the administering authority and the employers achievements against the agreed performance levels, and
- ii. such other matters arising from its pension administration strategy as it considers appropriate
- Such other matters as appear to the administering authority to be suitable for inclusion in that strategy.

Regulation 59(2)e allows an administering authority to recover additional costs from an employer, where the costs are directly related to the poor performance of that employer. Where this situation arises, the administering authority is required to give written notice to the scheme employer, setting out the reasons for believing that additional costs should be recovered, the amount of the additional costs, together with the basis on which the additional amount has been calculated.

In addition, regulation 59(6) also requires that, where a pension administration strategy is produced, a copy is issued to each of their relevant employers as well as to the Secretary of State. The Administering Authority must review this statement and make such revisions as are appropriate. It is a requirement that, in preparing or revising any pension administration strategy, that the administering authority must consult its relevant employers and such other persons as it considers appropriate.

Both the administering authority and employers must have regard to the current version of the pension administration strategy when carrying out their functions under the LGPS Regulations.

**Performance Standards**

<b>New Appointments</b>	
<b>Employer's responsibility</b>	<b>Target Service Standard</b>
To ensure that pensions information is included as part of any induction process	
To provide each new employee with basic scheme information	Within one month of joining

<b>New Scheme Members</b>	
<b>Employer's responsibility</b>	<b>Target Service Standard</b>
Provide new members with starter forms and scheme guides, where not delegated to the Administering Authority	10 working days
Decide and ensure the correct employee contribution rate is applied	Immediately on joining in line with employer's policy, and each April thereafter (as a minimum)
Provide new starter information to the administering authority for each new employee joining the LGPS	10 working days
Forward completed starter forms completed by scheme members to the administering authority	3 working days from date of first deduction of contributions
<b>Administering Authority's Responsibility</b>	
To accurately record and update member records on the pension administration system	5 working day from receipt of all relevant information (or within 1 week for bulk uploads)
To apply for any transfer value details from a previous fund or scheme	5 working days from receiving all information
To send a Notification of Joining the LGPS to a scheme member	15 working days

<b>Changes in circumstances</b>	
<b>Employer's responsibility</b>	<b>Target Service Standard</b>
Arrange for reassessment of employee contribution rate in line with employer's policy	If applicable, as per employer's policy
Notify the administering authority of any eligible employees who opt out of the scheme within three months of appointment.	10 working days from date of receiving opt out
Send a Notification of Change (or equivalent) if legally required to a scheme member	15 working days from date of change
Notify the administering authority of all other relevant changes in the circumstances of employees	15 working days from date of change
Refund any employee contributions deducted in error, or where the member opts out in writing within 3 months with no previous LGPS membership.	Month following the month of election
<b>Administering Authority's Responsibility</b>	
To accurately record and update member records on the pension administration system	5 working days
To send a Notification of Change (or equivalent) if legally required	15 working days from receiving information

<b>Retirement Estimates (including ill-health)</b>	
<b>Employer's responsibility</b>	<b>Target Service Standard</b>
Provide pay (and other membership) details when a member requests an early retirement estimate	8 working days
<b>Administering Authority's Responsibility</b>	
Providing quotations on request for retirements	15 working days from receipt of all relevant information
Providing provisional statement of retirement benefits for deferred members	1 month before retirement

<b>Actual Retirements (including ill-health)</b>	
<b>Employer's responsibility</b>	<b>Target Service Standard</b>
Notify the Fund when members are due to retire and reason for retirement (and authorisation where appropriate)	As early as possible and no later than 15 working days before date of retirement
Notify the Fund when a member leaves employment, including an accurate assessment of final pay	8 working days from members final pay date
Send a Notification of Entitlement to Benefit if legally required to a scheme member (including determining tier of ill-health retirement if applicable)	No later than 5 working days before date of retirement

<b>Administering Authority's Responsibility</b>	
To accurately record and update member records on the pension administration system	5 working days from receipt of all relevant information
Notification of amount of retirement benefits and payment of tax free cash sum	10 working days from receipt of all relevant information
Notification of amount of recalculated retirement benefits and payment of any balance tax free cash sum following updated information	10 working days from receipt of all relevant information

<b>III-Health Retirements (additional responsibilities)</b>	
<b>Employer's responsibility</b>	<b>Target Service Standard</b>
Appoint a qualified independent medical practitioner (from the approved list provided by the Administering Authority) in order to consider all ill health retirement applications, and agree this appointment with the Fund.	Within one month of becoming an employer within the Fund
To keep a record of all Tier 3 ill-health cases and to review these cases after 18 months	
Notify the Fund of the results of any review of Tier 3 ill-health cases with appropriate information to allow the Fund to recalculate benefits if necessary	5 working days of results of review
Send a Notification of Entitlement to Benefit (or change in benefit) to a scheme member following the review of his/her Tier 3 ill-health benefits	5 working days of results of review
<b>Administering Authority's Responsibility</b>	
To notify employers prior to scheduled discontinuation of benefit payments, and before updating the member records to "pensioner with deferred benefits".	3 months prior to scheduled discontinuation date

<b>Members leaving before retirement</b>	
<b>Employer's responsibility</b>	<b>Target Service Standard</b>
Notify the Fund of the member's date of (and reason for) cessation of membership, and all other relevant information.	8 working days from member's most recent pay date
<b>Administering Authority's Responsibility</b>	
To accurately record and update member records on the pension administration system	5 working days from receipt of all relevant information
To inform members who leave the scheme of their deferred benefit entitlement	15 working days from receipt of all relevant information
Provide a refund of contributions where requested	10 working days from receipt of all relevant information
Provide a statement of current value of deferred benefits on request	15 working days

<b>Death Benefits</b>	
<b>Employer's responsibility</b>	<b>Target Service Standard</b>
Notify the Fund of the death of a member and provide details of next of kin where available	8 working days of being notified
<b>Administering Authority's Responsibility</b>	
Write to next of kin or other contact requesting information following the death of a scheme member	5 working days from notification
Calculate and notify dependant(s) of amount of death benefits	10 working days from receipt of all relevant information
Decide who should be recipient(s) of death grant and pay death benefits appropriately as directed	7 working days from receipt of all relevant information

<b>Transfers</b>	
<b>Administering Authority's Responsibility</b>	
Obtain transfer details for transfer in, and calculate and provide quotation to member	20 working days from receipt of all relevant information
Request transfer value upon acceptance of transfer in	5 working days
Notify scheme member of benefits purchased by transfer in on receipt of payment	15 working days
Provide details of transfer value for transfer out, on request	20 working days from receipt of all relevant information
Provide payment of transfer value to appropriate recipient.	10 working days

<b>Additional Benefits (APCs and AVCs)</b>	
<b>Employer's responsibility</b>	<b>Target Service Standard</b>
Commence, cease or amend (as appropriate) deduction of APCs and AVCs	In month following election
<b>Administering Authority's Responsibility</b>	
To provide information on APCs / AVCs on request to members and employers.	10 working days from request

<b>Various Financial Obligations</b>	
<b>Employer's responsibility</b>	<b>Target Service Standard</b>
Pay the Fund all employee contributions deducted from payroll and all employer contributions.	Immediately when deducted from pay but at the latest by the 19 <sup>th</sup> day of the following month.
Pay all rechargeable items to the Fund, including additional fund payments in relation to early payment of benefits.	20 working days from receiving invoice (within standard invoicing terms of 28 calendar days)
Pay all additional costs to the Fund associated with the unsatisfactory performance of the employer	20 working days from receiving invoice (within standard invoicing terms of 28 calendar days)

<b>Administering Authority's Responsibility</b>	
To allocate the received contributions to each employer's cost centre	Prior to closing month end
Issue invoice in relation to additional fund payments in relation to early payment of benefits	10 working days of employer costs being confirmed
Inform the employers of any new contribution banding	At least 1 month prior to the new contribution bands being introduced
Notify calculation and new value of pension following annual pensions increase	At least 2 working days before payment of revised pension

<b>Annual Return, Valuation and Annual Benefit Statements</b>	
<b>Employer's responsibility</b>	<b>Target Service Standard</b>
Provide the Fund with yearend information to 31 March each year, and any other information that may be required for the production of Annual Benefit Statements.	By 30 April annually
<b>Administering Authority's Responsibility</b>	
Process employer year end contribution returns	Within 1 month of receipt
Produce annual benefit statements for all active and deferred members.	In line with LGPS regulations timescales
Provide information to the Actuary (or GAD as appropriate) for both the triennial valuation and for accounting purposes.	As agreed between the Fund and the Actuary.
Provide an electronic copy of the valuation report and associated certificate to each employer, and to answer any questions arising.	10 working days from publication of report

<b>General</b>	
<b>Employer's responsibility</b>	<b>Target Service Standard</b>
Confirm a nominated representative to receive information from the Fund, and to take responsibility for disseminating it within the organisation.	By effective date of admission or within 5 working days of previous representative leaving
Formulate and publish policies regarding all discretions that the employer may exercise, and provide a copy to the Fund.	Within 2 months of joining and also provided to administering authority every 3 years or whenever amended
Respond to enquiries from the Fund.	10 working days
Notify the Fund if the employer intends to outsource services that will involve TUPE transfers of staff, and work with the Fund to ensure an admission agreement is put in place and complied with or a bulk transfer arranged.	Initial notification immediately upon becoming aware of potential outsourcing, and at least 3 months prior to the start of the contract

Distribute any information provided by the Fund to members / potential members	5 working days
Put in place a Stage 1 Internal Dispute Resolution Procedure	Within 1 month of joining and before the effective date of any change to the existing procedure (e.g. an appointed person leaving)
<b>Administering Authority's Responsibility</b>	
Arrange for the setting up of an admission agreement where required	Within 3 months of all information being provided
Publish and keep up to date the Short Scheme Guide and Employers' Procedural Guide.	Updates made within 10 working days of any legislation changes but preferably before effective date
Publish and keep up to date all forms that members, prospective members and employers are required to complete.	Updates made within 10 working days of any legislation changes but preferably before effective date
Publish the Fund's annual report and accounts and any report from the auditor	In line with CIPFA Guidance
Provision of other responses to general enquiries from scheme members and employers	10 working days to provide initial response
Put in place a Stage 1 Internal Dispute Resolution Procedure	Before the effective date of any change to the existing procedure (e.g. an appointed person leaving)
Put in place a Stage 2 Internal Dispute Resolution Procedure	Before the effective date of any change to the existing procedure (e.g. an appointed person leaving)

<b>Pension Payments</b>	
<b>Administering Authority's Responsibility</b>	<b>Target Service Standard</b>
Issue pension payments to designated bank accounts	To arrive on due date
Issue payslips to home addresses for those pensions where net pay has changed by £5 or more	Posted so as to arrive on the due date
Investigate returned payments and action appropriately	10 working days from receipt of return
Respond to pensioner queries in writing	10 working days from receipt of query
Implement a change to pension in payment	By next payroll period where change occurs more than 5 days prior to the payment date

Cronfa Bensiynau Clwyd  
Clwyd Pension Fund



**FLINTSHIRE COUNTY COUNCIL**

**Administering Authority for  
Clwyd Pension Fund**

**Procedure for Recording and Reporting Breaches of  
the Law**

**December 2015**

## Introduction

This document sets out the procedures to be followed by certain persons involved with the Clwyd Pension Fund, which is managed and administered by Flintshire County Council, in relation to identifying, recording and potentially reporting breaches of the law to The Pensions Regulator.

Breaches can occur in relation to a wide variety of the tasks normally associated with the administrative function of a scheme such as keeping records, internal controls, calculating benefits and making investment or investment-related decisions

This procedure has been developed to assist those individuals who have a legal responsibility to report certain breaches to The Pensions Regulator in determining whether a breach they have identified should be reported. It has also been developed to assist Flintshire County Council, in its role as Administering Authority, in ensuring it is aware of all breaches of the law in relation to the Clwyd Pension Fund and that these are appropriately recorded and then dealt with.

Flintshire County Council, as Administering Authority, has delegated responsibility for the implementation of these procedures to the Clwyd Pension Fund Manager.

The following persons, or any other person who has responsibility to report breaches of the law in relation to the Clwyd Pension Fund, are strongly encouraged to follow this procedure should they identify such a breach:

- all members of the Pension Fund Committee and the Pension Board
- all officers involved in the management or administration of the Pension Fund including staff members in the Flintshire County Council Pension Fund Team, the Chief Finance Office (Section 151 Officer), and the Chief Officer, People and Resources
- any professional advisers including external auditors, actuaries, legal advisers and fund managers<sup>3</sup>
- officers of employers participating in the Clwyd Pension Fund who are responsible for pension matters.
- any other person otherwise involved in advising the managers of the Fund, including Flintshire County Council's Monitoring Officer and staff members of the Internal Audit function.

Throughout this procedure, any person to whom this procedure applies, as a result of them identifying a breach or potential breach, will be referred to as the "individual".

The next section clarifies the full extent of the legal requirements and to whom they apply.

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<sup>3</sup> However, these advisors should note that the application of this Procedure relates to the reporting of legal breaches relating to the administration of the Pension Fund, rather than any breaches relating to their role and responsibilities that do not affect the administration of the Fund. For example, if a fund manager has breached the investment association guidelines, then this would not be reportable under this Clwyd Pension Fund Procedure for Reporting Breaches (albeit the Administering Authority would still expect this information to be recorded separately and notified to Flintshire County Council).

## Requirements

### *Pensions Act 2004*

Section 70 of the Pensions Act 2004 (the Act) imposes a requirement on the following persons:

- a trustee or manager of an occupational or personal pension scheme
- a member of the pension board of a public service pension scheme
- a person who is otherwise involved in the administration of an occupational or personal pension scheme
- the employer in relation to an occupational pension scheme
- a professional adviser in relation to such a scheme
- a person who is otherwise involved in advising the trustees or managers of an occupational or personal pension scheme in relation to the scheme,

to report a matter to The Pensions Regulator as soon as is reasonably practicable where that person has reasonable cause to believe that:

- (a) a legal duty relating to the administration of the scheme has not been or is not being complied with, and
- (b) the failure to comply is likely to be of material significance to The Pensions Regulator.

The Act states that a person can be subject to a civil penalty if he or she fails to comply with this requirement without a reasonable excuse.

The duty to report breaches under the Act overrides any other duties the individuals listed above may have. However the duty to report does not override 'legal privilege'. This means that, generally, communications between a professional legal adviser and their client, or a person representing their client, in connection with legal advice being given to the client, do not have to be disclosed.

### *The Pension Regulator's Code of Practice*

Practical guidance in relation to this legal requirement is provided in The Pension Regulator's Code of Practice including in the following areas:

- implementing adequate procedures to consider and record breaches
- judging whether a breach must be reported
- submitting a report to The Pensions Regulator
- whistleblowing protection and confidentiality.

### *Application to the Clwyd Pension Fund*

Flintshire County Council has developed this procedure in relation to Clwyd Pension Fund. This document sets out how the Council will strive to achieve best practice through use of a formal reporting breaches procedure. It reflects the guidance contained in The Pension Regulator's Code of Practice.

Training on reporting breaches and related statutory duties, and the use of this procedure is provided to Pension Fund Committee members, Pension Board members and key officers involved with the management of the Clwyd Pension Fund on a regular basis. Further training can be provided on request to the Clwyd Pension Fund Manager.

## Other Administering Authority or Organisational Requirements

In addition to the requirements of this Procedure, there may be other policies and procedures which may be in place relating to areas such as fraud or whistleblowing that apply to the individuals covered by this Procedure for reporting and recording breaches in relation to Clwyd Pension Fund matters. For example, Flintshire County Council has in place the following:

- Corporate Anti-fraud and Corruption Strategy – applies to all employees and members of Flintshire County Council, partner organisations, Council suppliers, contractors and consultants, and the general public
- Fraud and Irregularity Response Plan – guidance for employees and management of Flintshire County Council
- Whistleblowing Policy – setting out how someone working with or within Flintshire County Council can raise an issue in confidence.

This Procedure should be followed in addition to any existing procedures or policies that may be in place, such as those listed above. In particular, individuals are reminded that there is a legal requirement to report breaches of the law in relation to the Clwyd Pension Fund that could be considered significant to The Pensions Regulator. The Council's Monitoring Officer (contact details at the end of this procedure document) can assist if an individual is uncertain how to deal with the interaction between this Procedure and any other organisation's policy or procedure that may be in place.

## The Clwyd Pension Fund Breaches Procedure

The following procedure details how individuals responsible for reporting and whistleblowing can identify, assess, record and report (if appropriate) a breach of law relating to the Clwyd Pension Fund.

It aims to ensure individuals responsible are able to meet their legal obligations and avoid placing any reliance on others to report. The procedure will also assist in providing an early warning of possible malpractice and reduce risk. There are four key steps to this procedure:

1. Understanding the law and what is a breach
2. Determining whether a suspected breach is an actual breach
3. Determining whether the breach is likely to be of material significance and so should be reported to The Pensions Regulator
4. Recording the breach, even if it is not reported

These steps are explained below:

### 1. *Understanding the law and what is a breach*

Individuals may need to refer to regulations and guidance when considering whether or not there has been a breach of the law. Some of the key provisions are shown below:

- Section 70(1) and 70(2) of the Pensions Act 2004:  
[www.legislation.gov.uk/ukpga/2004/35/contents](http://www.legislation.gov.uk/ukpga/2004/35/contents)
- Employment Rights Act 1996:

[www.legislation.gov.uk/ukpga/1996/18/contents](http://www.legislation.gov.uk/ukpga/1996/18/contents)

- Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (Disclosure Regulations):  
[www.legislation.gov.uk/uksi/2013/2734/contents/made](http://www.legislation.gov.uk/uksi/2013/2734/contents/made)
- Public Service Pension Schemes Act 2013:  
[www.legislation.gov.uk/ukpga/2013/25/contents](http://www.legislation.gov.uk/ukpga/2013/25/contents)
- Local Government Pension Scheme Regulations (various):  
[http://www.lgpsregs.org/timelineregs/Default.html \(pre 2014 schemes\)](http://www.lgpsregs.org/timelineregs/Default.html)  
[http://www.lgpsregs.org/index.php/regs-legislation \(2014 scheme\)](http://www.lgpsregs.org/index.php/regs-legislation)
- The Pensions Regulator's Code of Practice:  
<http://www.thepensionsregulator.gov.uk/codes/code-governance-administration-public-service-pension-schemes.aspx>

In particular, individuals should refer to the section on 'Reporting breaches of the law', and for information about reporting late payments of employee or employer contributions, the section of the Code on 'Maintaining contributions'.

Further guidance and assistance can be provided by the Clwyd Pension Fund Manager, provided that requesting this assistance will not result in alerting those responsible for any serious offence (where the breach is in relation to such an offence). Some examples of potential breaches are also included in Appendix A.

## *2. Determining whether a suspected breach is an actual breach*

Individuals then need to have reasonable cause to believe that a breach of the relevant legal provision has occurred, not just a suspicion. Where a breach is suspected the individual should carry out further checks to confirm the breach has occurred.

Where the individual does not know the facts or events, it will usually be appropriate to check with the Clwyd Pension Fund Manager at Flintshire County Council, a member of the Pension Fund Committee or Pension Board or others who are able to explain what has happened. However there are some instances where it would not be appropriate to make further checks, for example, if the individual has become aware of theft, suspected fraud or another serious offence and they are also aware that by making further checks there is a risk of either alerting those involved or hampering the actions of the police or a regulatory authority. In these cases The Pensions Regulator should be contacted without delay.

## *3. Determining whether the breach is likely to be of material significance*

Should an individual have reasonable cause to believe that breach of the law has occurred, they must decide whether that breach is likely to be of material significance to The Pensions Regulator, and therefore should be reported to The Pensions Regulator. To do this, an individual should consider the following, both separately and collectively:

- cause of the breach (what made it happen)
- effect of the breach (the consequence(s) of the breach)
- reaction to the breach
- wider implications of the breach.

Individuals may also request the most recent breaches report from the Clwyd Pension Fund Manager, as there may be details on other breaches which may provide a useful precedent on the appropriate action to take.

Further details on the above four considerations are provided in Appendix B to this procedure.

The individual should use the traffic light framework described in Appendix C to help assess the material significance of each breach and to formally support and document their decision.

The Clwyd Pension Fund Manager can assist with determining whether the breach should be reported and can also assist in completing the document to report the breach. However the individual is ultimately responsible for determining what should be included in the report and for submitting the report to The Pensions Regulator.

## *4. Recording the breach, even if it is not reported*

The record of past breaches may be relevant in deciding whether to report a breach (for example it may reveal a systemic issue). The Clwyd Pension Fund Manager will maintain a record of all breaches identified. Therefore individuals should provide the following information to the Clwyd Pension Fund Manager so that all identified breaches can be recorded:

- copies of reports submitted to The Pensions Regulator
- copies of information relating to any other breach the individual has identified.

The information should be provided to the Clwyd Pension Fund Manager as soon as reasonably practicable and certainly no later than within 20 working days of the decision made to report or not. The record of all breaches (reported or otherwise) will be included in the Governance Update Report at each Pension Fund Committee meeting, and this will also be shared with the Pension Board.

## **Assistance for individuals in following this procedure**

The following information is provided to assist individuals in following this procedure.

### *Referral to a level of seniority for assistance*

Flintshire County Council has designated an officer (the Clwyd Pension Fund Manager) to assist any individual with following this procedure. The Clwyd Pension Fund Manager is considered to have appropriate experience to help investigate whether there is reasonable cause to believe a breach has occurred, to check the law and facts of the case, to maintain records of all breaches and to assist in any reporting to The Pensions Regulator, where appropriate.

Individuals must bear in mind, however, that the involvement of the Clwyd Pension Fund Manager is to help clarify the individual's thought process and to ensure this procedure is followed. The individual remains responsible for the final decision as to whether a matter should be reported to The Pensions Regulator and for completing the reporting procedure.

The matter should **not** be referred to the Clwyd Pension Fund Manager if doing so would alert any person responsible for a possible serious offence to the investigation (as highlighted in step 2 above). If that is the case, the individual may instead refer the matter to the Council's Monitoring Officer. Otherwise, the individual should report the matter to The Pensions Regulator setting out the reasons for reporting, including any uncertainty – a telephone call to The Pensions Regulator before the submission may be appropriate, particularly in the case of a more serious breach.

### *Dealing with complex cases*

The Clwyd Pension Fund Manager may be able to provide guidance on particularly complex cases. Guidance may also be obtained by reference to previous cases, information on which will be retained by Flintshire County Council, or via discussions with those responsible for maintaining the records. Information may also be available from national resources such as the Scheme Advisory Board or the LGPC Secretariat (part of the LG Group - <http://www.lgpsregs.org/>).

If timescales allow, legal advice or other professional advice can be sought and the case can be discussed at the next Committee or Board meeting.

## Timescales for reporting

The Pensions Act and The Pension Regulator's Code require that, if an individual decides to report a breach, the report must be made in writing as soon as reasonably practicable. Individuals should not wait for others to report and nor is it necessary for an individual to gather all the evidence which The Pensions Regulator may require before taking action. A delay in reporting may exacerbate or increase the risk of the breach. The time taken to reach the judgements on "reasonable cause to believe" and on "material significance" should be consistent with the speed implied by "as soon as reasonably practicable". In particular, the time taken should reflect the seriousness of the suspected breach.

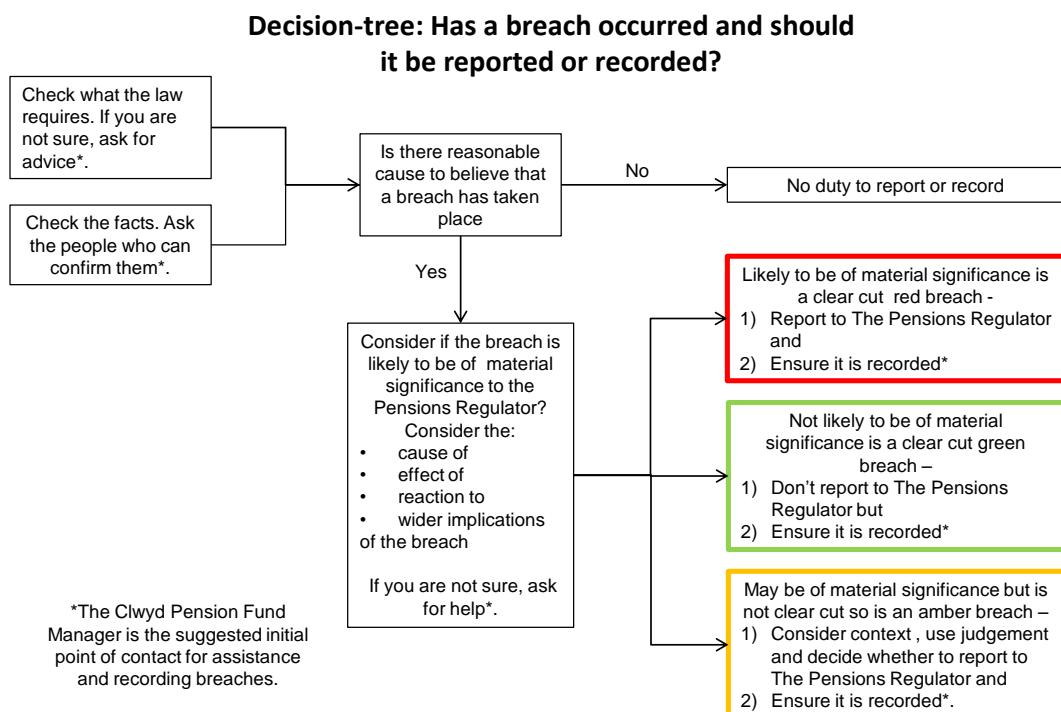
## Early identification of very serious breaches

In cases of immediate risk to the scheme, for instance, where there is any indication of dishonesty, The Pensions Regulator does not expect individuals to seek an explanation or to assess the effectiveness of proposed remedies. They should only make such immediate checks as are necessary.

The more serious the potential breach and its consequences, the more urgently individuals should make these necessary checks. In cases of potential dishonesty the individual should avoid, where possible, checks which might alert those implicated. In serious cases, individuals should use the quickest means possible to alert The Pensions Regulator to the breach.

## Decision tree

A decision tree is provided below which summarises the process for deciding whether or not a breach has taken place, whether it is materially significant to The Pensions Regulator and therefore needs to be reported, and then ensuring it is recorded.



## Reporting a breach to The Pensions Regulator

Reports must be submitted in writing via The Pensions Regulator's online system at <https://login.thepensionsregulator.gov.uk/whatsavailable>, or by post, email or fax, and should be marked urgent if appropriate. If necessary a written report can be preceded by a telephone call.

The individual should ensure they receive an acknowledgement for any report they send to The Pensions Regulator. The Pensions Regulator will acknowledge receipt of all reports within five working days and may contact the individual to request further information. The individual will not usually be informed of any actions taken by The Pensions Regulator due to restrictions on the disclosure of information.

As a minimum, individuals reporting should provide:

- full scheme name (Clwyd Pension Fund)
- description of breach(es)
- any relevant dates
- name, position and contact details
- role in connection to the scheme
- employer name or name of scheme manager (the latter is Flintshire County Council).

If possible, individuals should also indicate:

- the reason why the breach is thought to be of material significance to The Pensions Regulator
- scheme address (provided at the end of this procedures document)
- scheme manager contact details (provided at the end of this procedures document)
- pension scheme registry number (PSR – 00329655RN)
- whether the breach has been reported before.

The individual should provide further information or reports of further breaches if this may help The Pensions Regulator in the exercise of its functions. The Pensions Regulator may make contact to request further information.

## Confidentiality

If requested, The Pensions Regulator will do its best to protect the identity of an individual who has reported a breach and will not disclose information except where it is lawfully required to do so.

An employee may also have protection under the Employment Rights Act 1996 if they make a report in good faith in relation to their employer.

## **Reporting to Pension Fund Committee**

A report will be presented to the Pension Fund Committee on a quarterly basis setting out:

- all breaches, including those reported to The Pensions Regulator and those not reported, with the associated dates.
- in relation to each breach, details of what action was taken and the result of any action (where not confidential)
- any future actions for the prevention of the breach in question being repeated
- new breaches which have arisen since the previous meeting.

This information will also be provided upon request by any other individual or organisation (excluding sensitive/confidential cases or ongoing cases where discussion may influence the proceedings).

An example of the information to be included in the quarterly reports is provided in Appendix D to this procedure.

## **Approval and Review**

This Reporting Breaches Procedure was approved at the Clwyd Pension Fund Committee on 26 November 2015 and is effective from 1 December 2015. It will be kept under review and updated as considered appropriate. After any update it will be sent to all individuals who, or key contacts at organisations which, are considered to be subject to the procedure.

## **Further Information**

If you require further information about reporting breaches or this procedure or wish to discuss reporting a breach, please contact:

Philip Latham,  
Clwyd Pension Fund Manager, Flintshire County Council  
E-mail - [Philip.latham@flintshire.gov.uk](mailto:Philip.latham@flintshire.gov.uk)  
Telephone - 01352 702264

Alternative designated officer contact details:

Gareth Owens,  
Monitoring Officer, Flintshire County Council  
E-mail - [gareth.legal@flintshire.gov.uk](mailto:gareth.legal@flintshire.gov.uk)  
Telephone - 01352 702344

## **Appendix A – Example breaches of the law**

In this appendix we provide just some examples of breaches of the law. This is not a exhaustive list given there are many sets of legislation that must be followed and some of these are extremely lengthy and complex. It should, however, provide a useful indication of the range of potential breaches that may arise.

### *Investments outside statutory limits*

Regulations 14, 15 and Schedule 1 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, as amended, details limits and requirements in relation to the proportion of fund money which may be invested in particular categories of investments, for example, a limit of 15% relating to unlisted securities of companies subject to requirements such as taking proper advice. A breach of the law by the Administering Authority would arise if a fund invested more than is permitted in that table or didn't follow the requirements.

### *Funding strategy not having regard to CIPFA guidance*

Regulation 58 of the Local Government Pension Scheme Regulations 2013, as amended, requires the administering authority to prepare, maintain and publish a statement setting out its funding strategy and, in doing so, to consult with such persons as it considers appropriate. In doing this, the Administering Authority must also have regard to CIPFA guidance on preparing and maintaining a Funding Strategy Statement which clearly states employers should be consulted. The Funding Strategy impacts on the employers of the Fund and therefore a breach of the law by the Administering Authority is likely to have arisen if a statement was prepared which impacts on employers without first consulting with those employers.

### *Late notification of benefits*

Various regulations dictate timescales for notifying scheme benefits, some of which are summarised below. Most of these requirements are included in more general pensions legislation i.e. not the Local Government Pension Scheme Regulations. A breach would arise every time one of these timescales was not met. All of the breaches would relate to the Administering Authority apart from the last one which would be a breach by an employer in the Fund. However, the first five listed could have been a result of delayed or incorrect information from an employer, which could be a separate and additional breach of the law by that employer.

<b>● Process</b>	<b>● Legal Requirement</b>
<ul style="list-style-type: none"> <li><b>To provide new starters with information about the scheme</b></li> </ul>	<ul style="list-style-type: none"> <li>2 months from date of joining (provide information about the scheme in this timeframe, or within 1 month of receiving jobholder information where the individual is being automatically enrolled / re-enrolled)</li> </ul>
<ul style="list-style-type: none"> <li><b>To inform members who leave the scheme of their deferred benefit entitlement</b></li> </ul>	<ul style="list-style-type: none"> <li>As soon as is practicable, and no more than 2 months from date of initial notification (from employer or scheme member)</li> </ul>
<ul style="list-style-type: none"> <li><b>To notify the amount of retirement benefits</b></li> </ul>	<ul style="list-style-type: none"> <li>1 month from date of retirement if on or after Normal Pension Age</li> <li>2 months from date of retirement if before Normal Pension Age</li> </ul>
<ul style="list-style-type: none"> <li><b>To notify dependant(s) the amount of death benefits</b></li> </ul>	<ul style="list-style-type: none"> <li>As soon as possible but in any event no more than 2 months from date of becoming aware of the death, or from date of request</li> </ul>
<ul style="list-style-type: none"> <li><b>Provide annual benefit statements to active members</b></li> </ul>	<ul style="list-style-type: none"> <li>31st August in the same calendar year</li> </ul>
<ul style="list-style-type: none"> <li><b>Receipt of employee contributions from employers</b></li> </ul>	<ul style="list-style-type: none"> <li>19th of the month following their deduction or 22<sup>nd</sup> if paid electronically.</li> </ul>

### *Errors in benefit calculations*

The Local Government Pension Scheme Regulations 2013, as amended, and previous LGPS legislation relating to historical service or leaves, dictate how benefits should be calculated. This includes elements such as what fraction of pay is used to calculate a pension and what counts as pay for LGPS purposes. A breach of the law by the Administering Authority would arise in the situation that any calculation was carried out that was not in accordance with those provisions.

### *Errors in deducting contributions*

Regulation 20 of the Local Government Pension Scheme Regulations 2013, as amended, states which elements of pay should be treated as pensionable and therefore should have pension contributions deducted from them and should be used for calculating benefits from 1 April 2014. Regulation 4 of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007, as amended, is the equivalent provision for pre 1 April 2014 scheme membership and therefore it details how pensionable pay should be calculated by an employer for benefits accruing prior to 1 April 2014. Under these provisions, non-contractual overtime is pensionable from 1 April 2014 but not classed as pensionable for benefits accruing before 1 April 2014. A breach of the law by an employer would arise if any of the following happened:

- an employer **did not** deduct pension contributions from non-contractual overtime since 1 April 2014
- an employer **did not** include non-contractual overtime in the amount of any pensionable pay notified to the Administering Authority for membership from 1 April 2014
- an employer **did** include non-contractual overtime in the amount of final pay notified to the Administering Authority to be used to calculate benefits accrued prior to 1 April 2014.

*Late notifications from year-end information by an employer*

Regulation 80 of the Local Government Pension Scheme Regulations 2013 require each employer to provide to the Administering Authority a list of specific information for each scheme member, such as pensionable pay, by 30 June each year. A breach of the law by an employer would arise if they failed to provide this year end list to the administering authority by 30 June or if the information was incomplete or inaccurate.

*Inadequate knowledge of a Pension Board member*

Section 248A of the Pensions Act 2004 requires every Pension Board member to be conversant with the LGPS rules and Pension Fund policies as well having knowledge and understanding of pension matters at a degree appropriate for the purpose of them exercising their Pension Board functions. Where a Pension Board member has failed to attend training or demonstrate that they already have the required level of knowledge, it is possible that a breach of the law will have occurred by that Pension Board member.

## Appendix B – Determining whether a breach is likely to be of material significance

To decide whether a breach is likely to be of material significance individuals should consider the following elements, both separately and collectively:

- cause of the breach (what made it happen)
- effect of the breach (the consequence(s) of the breach)
- reaction to the breach
- wider implications of the breach

### *The cause of the breach*

Examples of causes which are likely to be of concern to The Pensions Regulator are provided below:

- Acting, or failing to act, in deliberate contravention of the law.
- Dishonesty.
- Incomplete or inaccurate advice.
- Poor administration, i.e. failure to implement adequate administration procedures.
- Poor governance.
- Slow or inappropriate decision-making practices.

When deciding whether a cause is likely to be of material significance individuals should also consider:

- whether the breach has been caused by an isolated incident such as a power outage, fire, flood or a genuine one-off mistake
- whether there have been any other breaches (reported to The Pensions Regulator or not) which when taken together may become materially significant

### *The effect of the breach*

Examples of the possible effects (with possible causes) of breaches which are considered likely to be of material significance to The Pensions Regulator in the context of the LGPS are given below:

- Committee/Board members not having enough knowledge and understanding, resulting in pension boards not fulfilling their roles, the scheme not being properly governed and administered and/or scheme managers breaching other legal requirements
- Conflicts of interest of Committee or Board members, resulting in them being prejudiced in the way in which they carry out their role and/or the ineffective governance and administration of the scheme and/or scheme managers breaching legal requirements
- Poor internal controls, leading to schemes not being run in accordance with their scheme regulations and other legal requirements, risks not being properly identified and managed and/or the right money not being paid to or by the scheme at the right time

- Inaccurate or incomplete information about benefits and scheme information provided to members, resulting in members not being able to effectively plan or make decisions about their retirement
- Poor member records held, resulting in member benefits being calculated incorrectly and/or not being paid to the right person at the right time
- Misappropriation of assets, resulting in scheme assets not being safeguarded
- Other breaches which result in the scheme being poorly governed, managed or administered

*The reaction to the breach*

A breach is likely to be of concern and material significance to The Pensions Regulator where a breach has been identified and those involved:

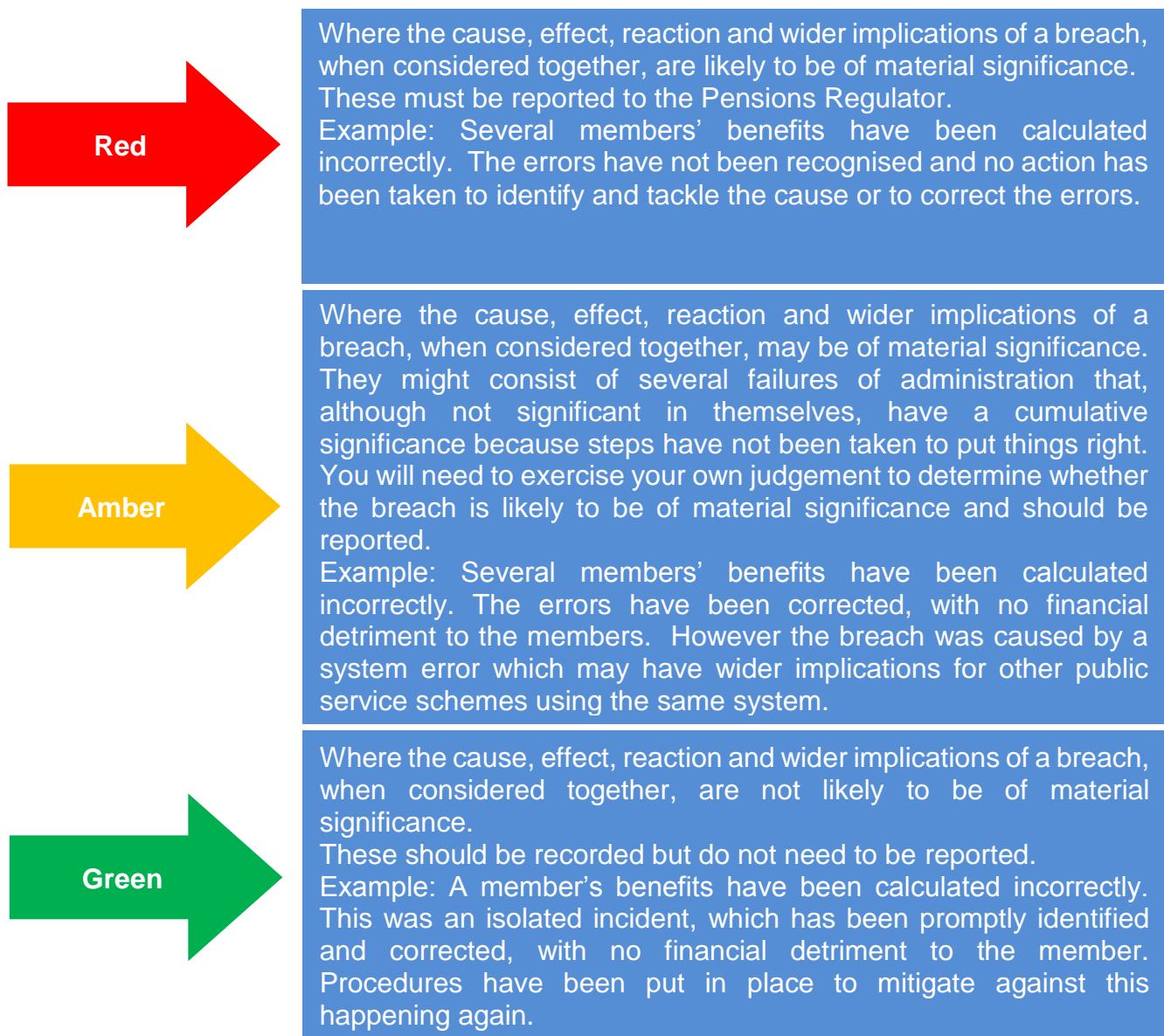
- do not take prompt and effective action to remedy the breach and identify and tackle its cause in order to minimise risk of recurrence
- are not pursuing corrective action to a proper conclusion, or
- fail to notify affected scheme members where it would have been appropriate to do so.

*The wider implications of the breach*

Reporters should also consider the wider implications when deciding whether a breach must be reported. The breach is likely to be of material significance to The Pensions Regulator where the fact that a breach has occurred makes it more likely that further breaches will occur within the Fund or, if due to maladministration by a third party, further breaches will occur in other pension schemes.

## Appendix C - Traffic light framework for deciding whether or not to report

Flintshire County Council recommends those responsible for reporting to use the traffic light framework when deciding whether to report to The Pensions Regulator. This is illustrated below:



All breaches should be recorded even if the decision is not to report.

When using the traffic light framework individuals should consider the content of the red, amber and green sections for each of the cause, effect, reaction and wider implications of the breach, before you consider the four together. Some useful examples of this is framework is provided by The Pensions Regulator at the following link

<http://www.thepensionsregulator.gov.uk/codes/code-related-report-breaches.aspx>

## Appendix D – Example Record of Breaches

\*New breaches since the previous meeting should be highlighted

Cronfa Bensiynau Clwyd  
Clwyd Pension Fund



**FLINTSHIRE COUNTY COUNCIL**

**Administering Authority for  
Clwyd Pension Fund**

**RISK POLICY**

**September 2017**

# RISK POLICY

## Introduction

This is the Risk Policy of the Clwyd Pension Fund, which is managed and administered by Flintshire County Council. The Policy details the risk management strategy for the Clwyd Pension Fund, including

- the risk philosophy for the management of the Fund, and in particular attitudes to, and appetite for, risk
- how risk management is implemented
- risk management responsibilities
- the procedures that are adopted in the risk management process.

Flintshire County Council (“we”) recognise that effective risk management is an essential element of good governance in the LGPS. By identifying and managing risks through an effective policy and risk management strategy, we can:

- demonstrate best practice in governance
- improve financial management
- minimise the risk and effect of adverse conditions
- identify and maximise opportunities that might arise
- minimise threats.

We adopt best practice risk management, which will support a structured and focused approach to managing risks, and ensuring risk management is an integral part in the governance of the Clwyd Pension Fund at a strategic and operational level.

## To whom this Policy Applies

This Risk Policy applies to all members of the Pension Fund Committee and the local Pension Board, including scheme member and employer representatives. It also applies to all managers in the Flintshire County Council Pension Fund Management Team, the Chief Finance Officer (Section 151 Officer) and the Chief Executive (from here on in collectively referred to as the senior officers of the Fund).

Less senior officers involved in the daily management of the Pension Fund are also integral to managing risk for the Clwyd Pension Fund and will be required to have appropriate understanding of risk management relating to their roles, which will be determined and managed by the Pension Fund Manager and his/her team.

Advisers to the Clwyd Pension Fund are also expected to be aware of this Policy, and assist senior officers, Committee members and Board members as required, in meeting the objectives of this Policy.

## Aims and Objectives

We recognise the significance of our role as Administering Authority to the Clwyd Pension Fund on behalf of its stakeholders which include:

- around 40,000 current and former members of the Fund, and their dependants
- around 28 employers within the Flintshire, Denbighshire and Wrexham Council areas
- the local taxpayers within those areas.

Our Fund's Mission Statement is:

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

One of our key governance objectives is to understand and monitor risk. In doing so, we will aim to:

- integrate risk management into the culture and day-to-day activities of the Fund
- raise awareness of the need for risk management by all those connected with the management of the Fund (including advisers, employers and other partners)
- anticipate and respond positively to change
- minimise the probability of negative outcomes for the Fund and its stakeholders
- establish and maintain a robust framework and procedures for identification, analysis, assessment and management of risk, and the reporting and recording of events, based on best practice
- ensure consistent application of the risk management methodology across all Pension Fund activities, including projects and partnerships.

To assist in achieving these objectives in the management of the Clwyd Pension Fund we will aim to comply with:

- the CIPFA Managing Risk publication and
- the managing risk elements of the Pensions Act 2004 and the Pensions Regulator's Code of Practice for Public Service Pension Schemes.

### **Our Philosophy about Risk Management**

We recognise that it is not possible or even desirable, to eliminate all risks. Accepting and actively managing risk is therefore a key part of our risk management strategy for Clwyd Pension Fund. A key determinant in selecting the action to be taken in relation to any risk will be its potential impact on the Fund's objectives in the light of our risk appetite, particularly in relation to investment matters. Equally important is striking a balance between the cost of risk control actions against the possible effect of the risk occurring.

In managing risk, we will:

- ensure that there is a proper balance between risk taking and the opportunities to be gained
- adopt a system that will enable us to anticipate and respond positively to change
- minimise loss and damage to the Clwyd Pension Fund and us, and to other stakeholders who are dependent on the benefits and services provided
- make sure that when we embark upon new areas of activity (new investment strategies, joint-working, framework agreements etc), the risks they present are fully understood and taken into account in making decisions.

We also recognise that risk management is not an end in itself; nor will it remove risk from the Fund or us as the Administering Authority. However it is a sound management technique that is an essential part of how we manage the Fund. The benefits of a sound

risk management approach include better decision-making, improved performance and delivery of services, more effective use of resources and the protection of reputation.

## **CIPFA and The Pensions Regulator Requirements**

### *CIPFA Managing Risk Publication*

CIPFA has published technical guidance on managing risk in the LGPS. The publication explores how risk manifests itself across the broad spectrum of activity that constitutes LGPS financial management and administration, and how, by using established risk management techniques, those risks can be identified, analysed and managed effectively.

The publication also considers how to approach risk in the LGPS in the context of the role of the administering authority as part of a wider local authority and how the approach to risk might be communicated to other stakeholders.

### *The Pension Regulator's Code of Practice*

The Public Service Pensions Act 2013 added the following provision to the Pensions Act 2004 related to the requirement to have internal controls in public service pension schemes.

#### ***“249B Requirement for internal controls: public service pension schemes***

- (1) The scheme manager of a public service pension scheme must establish and operate internal controls which are adequate for the purpose of securing that the scheme is administered and managed—*
  - (a) in accordance with the scheme rules, and*
  - (b) in accordance with the requirements of the law.*
- (2) Nothing in this section affects any other obligations of the scheme manager to establish or operate internal controls, whether imposed by or by virtue of any enactment, the scheme rules or otherwise.*
- (3) In this section, “enactment” and “internal controls” have the same meanings as in section 249A.”*

Section 90A of the Pensions Act 2004 requires the Pensions Regulator to issue a code of practice relating to internal controls. The Pensions Regulator has issued such a code in which he encourages scheme managers to employ a risk based approach to assess the adequacy of their internal controls and to ensure that sufficient time and attention is spent on identifying, evaluating and managing risks and developing and monitoring appropriate controls.

The Pensions Regulator's code of practice guidance on internal controls require scheme managers to carry out a risk assessment and produce a risk register which should be reviewed regularly. The risk assessment should begin by:

- setting the objectives of the scheme
- determining the various functions and activities carried out in the running of the scheme, and
- identifying the main risks associated with those objectives, functions and activities.

Schemes should then consider the likelihood of risks arising and the effect if they do arise as well as what internal controls are appropriate to mitigate the main risks they have identified and how best to monitor them

The code states risk assessment is a continual process and should take account of a changing environment and new and emerging risks. It further states that an effective risk assessment process will provide a mechanism to detect weaknesses at an early stage and that schemes should periodically review the adequacy of internal controls in:

- mitigating risks
- supporting longer-term strategic aims, for example relating to investments
- identifying success (or otherwise) in achieving agreed objectives, and
- providing a framework against which compliance with the scheme regulations and legislation can be monitored.

Under section 13 of the Pensions Act 2004, the Pensions Regulator can issue an improvement notice (i.e. a notice requiring steps to be taken to rectify a situation) where it is considered that the requirements relating to internal controls are not being adhered to.

#### *Application to the Clwyd Pension Fund*

We adopt the principles contained in CIPFA's Managing Risk in the LGPS document and the Pension Regulator's code of practice in relation to Clwyd Pension Fund, and this Risk Policy highlights how we will strive to achieve those principles through use of risk management processes incorporating regular monitoring and reporting.

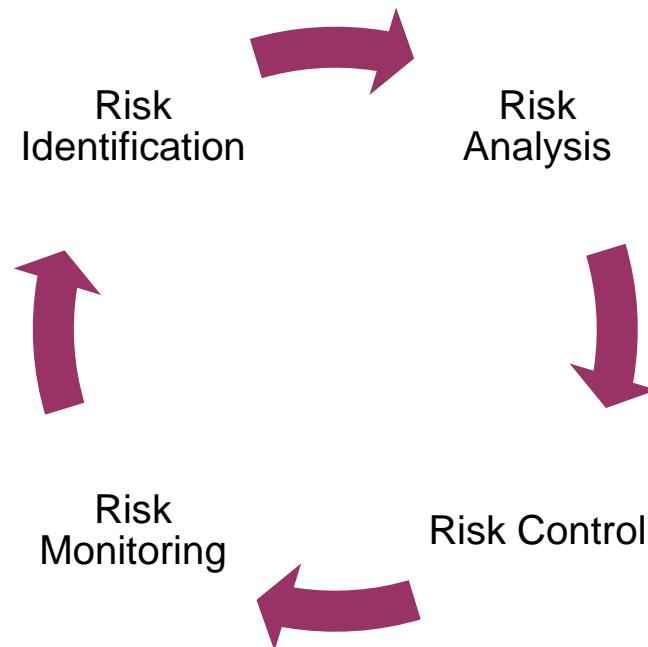
#### **Responsibility**

As the Administering Authority for the Clwyd Pension Fund, we must be satisfied that risks are appropriately managed. For this purpose, the Pension Fund Manager is the designated individual for ensuring the process outlined below is carried out subject to the oversight of the Pension Fund Committee.

However, it is the responsibility of each individual covered by this Policy to identify any potential risks for the Fund and ensure that they are fed into the risk management process.

#### **The Clwyd Pension Fund Risk Management Process**

Our risk management process is in line with that recommended by CIPFA and is a continuous approach which systematically looks at risks surrounding the Fund's past, present and future activities. The main processes involved in risk management are identified in the figure below and detailed in the following sections.



### *Risk identification*

Our risk identification process is both a proactive and reactive one, looking forward i.e. horizon scanning for potential risks and looking back, by learning lessons from reviewing how existing controls have manifested in risks to the organisation.

Risks are identified by a number of means including, but not limited to:

- formal risk assessment exercises managed by the Clwyd Pension Fund Advisory Panel
- performance measurement against agreed objectives
- monitoring against the Fund's business plan
- findings of internal and external audit and other adviser reports
- feedback from the local Pension Board, employers and other stakeholders
- informal meetings of senior officers or other staff involved in the management of the Pension Fund
- liaison with other organisations, regional and national associations, professional groups, etc.

Once identified, risks will be documented on the Fund's risk register, which is the primary control document for the subsequent analysis, control and monitoring of those risks.

### *Risk analysis*

Once potential risks have been identified, the next stage of the process is to analyse and profile each risk. Risks will be assessed against the following where the score for likelihood will be multiplied by the score for impact to determine the current risk rating.

Impact Severity	Catastrophic	Yellow	Amber	Red	Red	Black	Black
	Critical	Yellow	Amber	Amber	Red	Red	Red
	Marginal	Green	Yellow	Amber	Amber	Amber	Red
	Negligible	Green	Green	Yellow	Yellow	Amber	Amber
	Unlikely (5%)	Very Low (15%)	Low (30%)	Significant (50%)	Very High (65%)	Extremely High (80%)	
Likelihood & Percentage of risk happening							

Criteria for assessing likelihood and impact are included at Appendix A to help promote consistent risk evaluation across Fund matters.

When considering the risk rating, we will have regard to the existing controls in place and these will be summarised on the risk register.

The resulting scores are interpreted as follows:

Risk Exposure	Impact/Likelihood	Risk Appetite/Control
Black	Catastrophic consequences, almost certain to happen	Unacceptable level of risk exposure which requires immediate corrective action to be taken. Regular monitoring required; at least monthly
Red	Major consequences, likely to happen	Unacceptable level of risk exposure which requires regular active monitoring (at least quarterly) and measures to be put in place to reduce exposure.
Amber	Moderate consequences, possible occurrence.	Acceptable level of risk exposure subject to regular active monitoring measures, at least quarterly.
Yellow	Minor consequences, unlikely to happen.	Acceptable level of risk subject to regular passive monitoring measures, at least half yearly.
Green	Insignificant consequences, almost very unlikely to happen.	Acceptable level of risk subject to periodic passive monitoring measures, at least annually.

### *Risk control*

The risk register will also show what we consider to be the target risk score for each of the risks shown. This will help us determine whether any further action is required to control the risk which in turn may reduce the likelihood of a risk event occurring or reducing the severity of the consequences should it occur. Before any such action can proceed, it may require Pension Fund Committee approval where appropriate officer delegations are not in place. The result of any change to the internal controls could result in any of the following:

- Risk elimination – for example, ceasing an activity or course of action that would give rise to the risk.
- Risk reduction – for example, choosing a course of action that has a lower probability of risk or putting in place procedures to manage risk when it arises.
- Risk transfer – for example, transferring the risk to another party either by insurance or through a contractual arrangement.

The Fund's risk register details all further action in relation to a risk and the owner for that action. Where necessary we will update the Fund's business plan in relation to any agreed action as a result of an identified risk.

### *Risk monitoring*

Risk monitoring is the final part of the risk management cycle and will be the responsibility of the Clwyd Pension Fund Advisory Panel. In monitoring risk management activity, we will consider whether:

- the risk controls taken achieved the desired outcomes
- the procedures adopted and information gathered for undertaking the risk assessment were appropriate
- greater knowledge of the risk and potential outcomes would have improved the decision-making process in relation to that risk
- there are any lessons to learn for the future assessment and management of risks.

### **Reporting**

Progress in managing risks will be monitored and recorded on the risk register and key information will be provided on a quarterly basis to the Clwyd Pension Fund Committee and the Pension Board as part of the regular update reports on governance, investments and funding, and administration and communications. This reporting information will include as a minimum:

- a summary of the Fund's key risks (red and black)
- a summary of any new risks, risks that have moved into a new risk exposure category or risks that have been removed since the previous report
- the Fund's risk dashboard showing the score of all existing risks and any changes in a pictorial fashion
- a summary of any changes to the previously agreed actions.

### **Monitoring of this Policy**

In order to identify whether we are meeting the objectives of this policy the Independent Governance Adviser will be commissioned to provide an annual report on the governance of the Fund each year, a key part of which will focus on the delivery of the requirements of this Policy

## **Key risks to the effective delivery of this Policy**

The key risks to the delivery of this Policy are outlined below. The Pension Fund Committee members, with the assistance of the Clwyd Pension Fund Advisory Panel, will monitor these and other key risks and consider how to respond to them.

- Risk management becomes mechanistic, is not embodied into the day to day management of the Fund and consequently the objectives of the Policy are not delivered
- Changes in Pension Fund Committee and/or Pension Fund Advisory Panel and/or Pension Board membership and/or senior officers mean key risks are not identified due to lack of knowledge
- Insufficient resources being available to satisfactorily assess or take appropriate action in relation to identified risks
- Risks are incorrectly assessed due to a lack of knowledge or understanding, leading to inappropriate levels of risk being taken without proper controls
- Lack of engagement or awareness of external factors means key risks are not identified.
- Conflicts of interest or other factors leading to a failure to identify or assess risks appropriately

## **Costs**

All training costs related to this Risk Policy are met directly by Clwyd Pension Fund

## **Approval, Review and Consultation**

This Risk Policy was approved at the Clwyd Pension Fund Committee meeting on 24 May 2016. It will be formally reviewed and updated at least every three years or sooner if the risk management arrangements or other matters included within it merit reconsideration.

## **Further Information**

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

Philip Latham, Clwyd Pension Fund Manager, Flintshire County Council  
E-mail - [Philip.latham@flintshire.gov.uk](mailto:Philip.latham@flintshire.gov.uk)  
Telephone - 01352 702264

## Appendix A – Criteria for assessing impact and likelihood

### Criteria for assessing likelihood

Description	% of risk happening	OR	potential timescale
Unlikely	5%		Once in 20 or more years
Very Low	15%		Once in 10 to less than 20 years
Low	30%		Once in 5 to less than 10 years
Significant	50%		Once in 3 to less than 5 years
Very High	65%		Once in 1 to less than 3 years
Extremely High	80%		At least once in a year

## Criteria for assessing impact

Description	FCC Examples (apply to CPF where relevant)	Additional CPF examples
Catastrophic	No confidence in Senior Management / Leadership Formal WG intervention/exercise of their powers Multiple fatalities Complete/critical service failure Exceedingly negative <i>national</i> publicity Serious impact on workforce across more than one Portfolio Legal action almost certain, unable to defend Serious financial impact to budget, not manageable within existing funds and may impact on reserves Non-compliance with law resulting in imprisonment	Incorrect actual benefit calculations affecting more than 500 members Incorrect general/estimate information being communicated that could impact 80% A, D or P members Delay in paying pensioners by more than 3 working days Consistently missing both legal and Fund's agreed delivery timescales Impact on assets or liabilities changing funding level by more than 20% over a 1 month period Formal DCLG/TPR/SAB or other regulatory intervention/exercise of their powers Serious impact on workforce impacting more than one area of CPF team
Critical	Limited confidence in Senior Management/Leadership Significant service failure Negative <i>national</i> publicity Impact on workforce across more than one Portfolio Legal action almost certain and difficult to defend Serious financial impact to budget, manageable across the authority Negative external regulatory reports impacting on Corporate Governance Single fatality	Extracted from FCC Incorrect actual benefit calculations affecting 100-500 members Incorrect general/estimate information being communicated that could impact 25-80% A, D or P members Delay in paying pensioners by 2 working days Missing some legal and regularly missing Fund's agreed delivery timescales Impact on assets or liabilities changing funding level by 10-20% over a 1 month period Informal DCLG/TPR/SAB or other intervention Negative national level information (e.g. outlier on league tables) Serious impact on workforce impacting one area of CPF team
Marginal	Significant service under performance Negative <i>local</i> publicity Expected impact on workforce, but manageable within Portfolio contingency arrangements Legal action expected Expected financial impact to budget, manageable within Portfolio Non-compliance with law resulting in fines Negative external regulatory reports Extensive, permanent/long term injury or long term sickness	Incorrect actual benefit calculations affecting 50-100 members Incorrect general/estimate information being communicated that could impact 10-25% A, D or P members Delay in paying pensioners by 1 working day Meeting the majority of legal but missing some Fund's agreed delivery timescales Impact on assets or liabilities changing funding level by 5-10% over a 1 month period Negative regional level information (e.g. outlier on Welsh or County league tables) Expected, but manageable, impact on workforce impacting one area or more areas of CPF team
Negligible	Some risk to normal service delivery but manageable within contingency arrangements Legal action possible but unlikely and defendable Possible financial impact to budget, manageable within service Non-compliance with regulations / standards or local procedures resulting in disciplinary action First Aid or medical treatment required Previous risk mitigated by completed action plan	Incorrect actual benefit calculations affecting up to 50 members Incorrect general/estimate information being communicated that could impact up to 10% A, D or P members Delay in paying pensioners by less than 1 working day Meeting the majority of legal and Fund's agreed delivery timescales Impact on assets or liabilities changing funding level by up to 5% over a 1 month period

## 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?	Further Action?	Risk Manager	Next review date	Last Updated	Previous Impact	Previous Likelihood	Previous Risk Status	Risk removed (date)	
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	Marginal	Significant	Orange	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 - Recent restructuring of team 6 - Data protection training, policies and processes in place 7 - System security and independent review/sign off requirements 8 - ELT established	Negligible	Low	Yellow		Current impact 1 too high Current likelihood 1 too high	1 - Consider risk from senior staff/similar age 2 - Ongoing recruitment and training	Pensions Administration Manager	30/06/2017	21/03/2017	Marginal	Significant	Orange	
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	Red	1 - Administration strategy updated 2 - Employer steering group established 3 - Greater engagement through Pension Board 4 - Backlog project in place 5 - Establishment of ELT	Negligible	Very Low	Green		Current impact 2 too high Current likelihood 4 too high	1 - Roll out I-connect 2 - Continued expansion of ELT	Pensions Administration Manager	30/06/2017	21/03/2017	Critical	Extremely High	Red	
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	Marginal	Low	Orange	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	Orange			Pensions Administration Manager	30/09/2017	21/03/2017	Critical	Low	Orange		
4	Scheme members do not understand or appreciate their benefits	Communications are inaccurate, poorly drafted or insufficient	C1/ C2 / C3	Marginal	Low	Orange	1 - Communications Strategy in place 2 - Annual communications survey for employees and employers 3 - Specialist communication officer employed	Negligible	Very Low	Green		Current impact 1 too high Current likelihood 1 too high	1 - Continue with website development 2 - Ongoing roll out member self service	Pensions Administration Manager	30/06/2017	21/03/2017	Marginal	Low	Orange	
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	Marginal	Significant	Orange	1- Business plan has number of improvements (I-connect/MSS etc) 2 - Pension Admin Manager on management group for admin software	Negligible	Very Low	Green		Current impact 1 too high Current likelihood 2 too high	1 - Various improvements in 2017/18 business plan (e.g. I-connect and MSS)	Pensions Administration Manager	30/09/2016	21/03/2017	Critical	Significant	Red	
6	Service provision is interrupted	System failure or unavailability	A1 / A4 / C2	Negligible	Unlikely	Green	1 - Disaster recovery plan in place and regularly checked 2 - Hosting implemented	Negligible	Unlikely	Green		1 - Testing to take place (spring/summer 2017)	Pensions Administration Manager	30/09/2017	21/03/2017	Negligible	Unlikely	Green		

## 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 reasonable 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 reporting procedures 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?	Further Action?	Risk Manager	Next review date	Last Updated	Previous Impact	Previous Likelihood	Previous Risk Status	Risk removed (date)	
1	Employer contributions are unaffordable and/or unstable	An appropriate funding strategy can not be set	F1 / F2 / F3 / F4 / F5	Critical	Low	Orange	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	Orange		Current likelihood 1 too high	1 - Finalise employer covenant monitoring and ill health captive	CPFM	30/09/2017	21/03/2017	Critical	Significant	Red	
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	Low	Orange	See points within points 3,4 and 5	Marginal	Low	Orange		Current impact 1 too high	See points within points 3,4 and 5	CPFM	30/06/2017	21/03/2017	Critical	Significant	Red	
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	Low	Orange	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.	Critical	Low	Orange		1 - The impact on performance relative to assumptions will be monitored regularly (FRMG & TAAG)	Pension Finance Managers	30/06/2017	21/03/2017	Critical	Significant	Red		
4	Value of liabilities increase due to market yields/inflation moving out of line with actuarial assumptions	Market factors impact on inflation and interest rates	F1 / F2 / F4 / F5 / F7	Critical	Low	Orange	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.	Marginal	Very Low	Yellow		Current impact 1 too high Current likelihood 1 too high	1 - The level of hedging will be monitored and reported regularly via FRMG	Pension Finance Managers	30/06/2017	21/03/2017	Critical	Low	Orange	
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	Yellow	1 - Regular monitoring of actual membership experience carried out by the Fund. 2 - Actuarial valuation assumptions tested 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	Yellow		1 - Assumptions and experience will be reviewed at the 2019 valuation.	Pension Finance Managers	31/03/2019	21/03/2017	Marginal	Low	Orange		
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, MiFIDII and other funding and investment related requirements - ultimately this could increase employer costs	F1 / F2 / F3 / F4 / F5 / F6 / F7	Catastrophic	Significant	Red	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 - Participation in National consultations and lobbying	Marginal	Low	Orange		Current impact 2 too high Current likelihood 1 too high	1 - Fund has no control over this except through responses to consultations etc.	CPFM	30/06/2017	21/03/2017	Critical	Very High	Red	
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	F1 / F6	Negligible	Very Low	Green	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	Green		1 - Inform major employers of the requirement to notify Fund of any significant restructuring exercises. (Need to consider controls currently in place).	Pension Finance Managers	30/06/2017	21/03/2017	Negligible	Very Low	Green		
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	Yellow	1 - Consider profile of Fund employers and assess the strength of 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	Green		Current likelihood 1 too high	1 - Employer risk management framework to be finalised	Pension Finance Managers	30/09/2017	21/03/2017	Marginal	Very Low	Yellow	

## Clwyd Pension Fund - Control Risk Register

### 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	Further Action?	Risk Manager	Next review date	Last Updated	Previous Impact	Previous Likelihood	Previous Risk Status	Risk removed (date)
1	Losses or other determinantal 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	High	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	High	Smile	None	CPFM	30/09/2017	13/04/2017	Marginal	Low		
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	Marginal	Significant	High	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 - 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 and they can be re-appointed.	Negligible	Low	Very High	:(	Current impact 1 too high Current likelihood 1 too high	1 - Complete Training Needs Analysis/consider engagement 2 - Speak to Democratic Services before FCC elections to assist with continuity/retaining knowledge 3 - Induction training for PC/PB post FCC elections	CPFM	31/07/2017	13/04/2017	Marginal	Significant	
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	Medium	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	Medium	Smile	1 - Further Conflicts of Interest training to be included in June induction training for PC/PB	CPFM	30/09/2017	13/04/2017	Negligible	Very Low		
4	Appropriate objectives are not agreed or monitored - internal factors	Policies not in place or not being monitored	G2 / G7	Negligible	Very Low	Medium	1- Range of policies in place and all reviewed at least every three years 2 - Review of policy includes 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	Medium	:(	Current likelihood 1 too high	1 - Ensure work relating to annual monitoring is completed	Pension Finance Managers	30/06/2017	13/04/2017	Negligible	Very Low	
5	The Fund's objectives/legal responsibilities are not met or are compromised - external factors	Externally led influence and change such scheme change and asset pooling	G1 / G4 / G6 / G7	Critical	Very High	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 identified as part of business plan (ensuring ongoing monitoring) 5 - Asset pooling IAA in place 6 - Officers on Wales Pool OGW	Marginal	Low	High	:(	Current impact 1 too high Current likelihood 2 too high	1 - Regular ongoing monitoring by AP to consider if any action is necessary	CPFM	31/07/2017	13/04/2017	Critical	Very High	
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	Significant	Very High	1 - 2017/18 business plan identifies key officer risk 2 - Review of admin structure in 2015/16 3 - Quarterly update reports consider resourcing matters 4 - Advisory Panel provide back up when required 5 - Additional resources, such as outsourcing, considered as part of business plan	Negligible	Very Low	Medium	:(	Current impact 2 too high Current likelihood 2 too high	1 - Review key officer risk (on Business Plan) 2 - Further review of admin team structure/resource/success planning etc (on Business Plan)	CPFM	30/09/2017	13/04/2017	Critical	Significant	
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	High	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	Medium	:(	Current impact 1 too high	1 - Ongoing work to ensure breaches are identified and the procedure used appropriately 2 - Further documented processes (as part of TPR compliance) e.g. contribution payment failure	CPFM	30/09/2017	13/04/2017	Marginal	Very Low	

Cronfa Bensiynau Clwyd  
Clwyd Pension Fund



**FLINTSHIRE COUNTY COUNCIL**

**Administering Authority for  
Clwyd Pension Fund**

**CONFLICTS OF INTEREST POLICY**

**March 2015**

# CONFLICTS OF INTEREST POLICY

## Introduction

Conflicts of interest have always existed for those with LGPS administering authority responsibilities as well as for advisers to LGPS funds. This simply reflects the fact that many of those managing or advising LGPS funds will have a variety of other roles and responsibilities, for example as a member of the scheme, as an elected member of an employer participating in the LGPS or as an adviser to more than one LGPS administering authority. Further any of those persons may have an individual personal, business or other interest which might conflict, or be perceived to conflict, with their role managing or advising LGPS funds.

It is generally accepted that LGPS administering authorities have both fiduciary and public law duties to act in the best interest of both the scheme beneficiaries and participating employers. This, however, does not preclude those involved in the management of the fund from having other roles or responsibilities which may result in an actual or potential conflict of interest. Accordingly, it is good practice to document within a policy, such as this, how any such conflicts or potential conflicts are to be managed.

This is the Conflicts of Interest Policy of the Clwyd Pension Fund, which is managed by Flintshire County Council. The Policy details how actual and potential conflicts of interest are identified and managed by those involved in the management and governance of the Clwyd Pension Fund whether directly or in an advisory capacity.

This Conflicts of Interest Policy is established to guide the Pension Fund Committee members, Pension Board members, officers and advisers. Along with other constitutional documents, including the various Codes of Conduct, it aims to ensure that those individuals do not act improperly or create a perception that they may have acted improperly. It is an aid to good governance, encouraging transparency and minimising the risk of any matter prejudicing decision making or management of the Fund otherwise.

## Aims and Objectives

The Fund's Mission Statement is as follows:

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

In relation to the governance of the Fund, the Administering Authority's objectives are to:

- 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 stakeholders for all 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 its objectives and how it intends to achieve those objectives through business planning, and continually measure and monitor success

The identification and management of potential and actual conflicts of interest is integral to the Administering Authority achieving its governance objectives.

### **To whom this Policy Applies**

This Conflicts of Interest Policy applies to all members of the Pension Fund Committee and the Pension Board, including scheme member and employer representatives, whether voting members or not. It applies to all managers in the Flintshire County Council Pension Fund Management Team, the Chief Executive and the Chief Finance Officer (Section 151 Officer) (from here on in collectively referred to as the senior officers of the Fund).

The Pension Fund Manager will monitor potential conflicts for less senior officers involved in the daily management of the Pension Fund and highlight this Policy to them as he considers appropriate.

This Policy and the issue of conflicts of interest in general must be considered in light of each individual's role, whether this is a management, advisory or assisting role.

The Policy also applies to all advisers and suppliers to the Fund, whether advising the Pension Board, Pensions Fund Committee or Fund officers.

In this Policy, reference to advisers includes all advisers, suppliers and other parties providing advice and services to the Administering Authority in relation to pension fund matters. This includes but is not limited to actuaries, investment consultants, independent advisers, benefits consultants, third party administrators, fund managers, lawyers, custodians and AVC providers. Where an advisory appointment is with a firm rather than an individual, reference to "advisers" is to the lead adviser(s) responsible for the delivery of advice and services to the Administering Authority rather than the firm as a whole.

In accepting any role covered by this Policy, those individuals agree that they must:

- acknowledge any potential conflict of interest they may have;
- be open with the Administering Authority on any conflicts of interest they may have;
- adopt practical solutions to managing those conflicts; and
- plan ahead and agree with the Administering Authority how they will manage any conflicts of interest which arise in future.

The procedures outlined later in this Policy provide a framework for each individual to meet these requirements.

## **Legislative and related context**

The overriding requirements in relation to the management of potential or actual conflicts of interest for those involved in LGPS funds are contained in various elements of legislation and guidance. These are considered further below.

### *The Public Service Pensions Act 2013*

Section 5 of this Act requires that the scheme manager (in the case of the LGPS, this is the administering authority) must be satisfied that a Pension Board member does not have a conflict of interest at the point of appointment and from time to time thereafter. It also requires Pension Board members (or nominated members) to provide reasonable information to the scheme manager for this purpose.

The Act defines a conflict of interest as “a financial or other interest which is likely to prejudice the person’s exercise of functions as a member of the board (but does not include a financial or other interest arising merely by virtue of membership of the scheme or any connected scheme).”

Further, the Act requires that scheme managers must have regard to any such guidance that the national scheme advisory board issue (see below).

### *The Local Government Pension Scheme Regulations 2013*

Regulation 108 of these Regulations applies the requirements of the Public Service Pensions Act (as outlined above) to the LGPS, placing a duty on each Administering Authority to satisfy itself that Pension Board members do not have conflicts of interest on appointment or whilst they are members of the board. It also requires those pension board members to provide reasonable information to the administering authority in this regard.

Regulation 109 states that each Administering Authority must have regard to guidance issued by the Secretary of State in relation to Pension Boards. Further, regulation 110 provides that the national scheme advisory board has a function of providing advice to Administering Authorities and Pension Boards. At the point of writing this Policy, the shadow LGPS national scheme advisory board has issued guidance relating to the creation of Pension Boards including a section on conflicts of interest. It is expected that this guidance will be adopted by the scheme advisory board when it is created by statute and possibly also by the Secretary of State. This Conflicts of Interest Policy has been developed having regard to that guidance.

### *The Pensions Act 2004*

The Public Service Pensions Act 2013 also added a number of provisions to the Pensions Act 2004 related to the governance of public service pension schemes and, in particular, conflicts of interest.

Section 90A requires the Pensions Regulator to issue a code of practice relating to conflicts of interest for pension board members. The Pensions Regulator has issued such a code and this Conflicts of Interest Policy has been developed having regard to that code.

Further, under section 13, the Pensions Regulator can issue an improvement notice (i.e. a notice requiring steps to be taken to rectify a situation) where it is considered that the requirements relating to conflicts of interest for Pension Board members are not being adhered to.

### *Local Government Act 2000*

All members and co-opted members of the Clwyd Pension Fund Committee are required by the Local Government Act 2000 to abide by Flintshire's Members' Code of Conduct. Part 3 of that Code contains provisions relating to personal interests, personal and prejudicial interests, their disclosure and limitations on members' participation where they have any such interest.

### *The Public Services Ombudsman for Wales' Ten Guiding Principles*

The Local Government Act 2000 empowered the National Assembly to issue principles to which local authority elected members must have regard in undertaking their role as a member. These principles draw on the 7 Principles of Public Life which were set out in the Nolan Report "Standards of Conduct in Local Government in England, Scotland and Wales". Three more were added to these; a duty to uphold the law, proper stewardship of the Council's resources and equality and respect for others.

The individual sections of the Flintshire County Council Members' Code of Conduct (which applies to Pension Fund Committee and Pension Board members) are designed to support the implementation of the Principles. For example, the Selflessness principle is covered by Section 7 of the Code – Selflessness and Stewardship.

The current principles were set out in a statutory instrument and are detailed below. Many of the principles are integral to the successful implementation of this Policy.

1. Selflessness
2. Honesty
3. Integrity and Propriety
4. Duty to Uphold the Law
5. Stewardship
6. Objectivity in Decision-making
7. Equality and Respect
8. Openness
9. Accountability
10. Leadership

### *Advisers' Professional Standards*

Many advisers will be required to meet professional standards relating to the management of conflicts of interest, for example, the Fund Actuary will be bound by the requirements of the Institute and Faculty of Actuaries. Any Protocol or other document entered into between an adviser and the Administering Authority in relation to conflicts of interest, whether as a requirement of a professional body or otherwise, should be read in conjunction with this Policy.

### **Other Administering Authority Requirements**

#### *Pension Fund Committee Members*

In addition to the requirements of this Policy, Pension Fund Committee members and co-opted members are required to adhere to the Flintshire County Council Members' Code of Conduct which, in Part 3, includes requirements in relation to the disclosure and management of personal and prejudicial interests.

#### *Pension Board Members*

In addition to the requirements of this Policy, Pension Board members are required to adhere to Part 8 of the Pension Board Protocol which includes declaring any interests that may lead to a conflict situation.

#### *Employees*

In addition to the requirements of this Policy, officers of Flintshire County Council are required to adhere to the Flintshire County Council Officers' Code of Conduct which includes requirements in relation to the disclosure and management of personal and pecuniary interests.

#### *Advisers*

The Administering Authority appoints its own advisers. There may be circumstances where these advisers are asked to give advice to Flintshire County Council or other scheme employers, or even to scheme members or member representatives such as the Trades Unions, in relation to pension matters. Similarly, an adviser may also be appointed to another administering authority which is involved in a transaction involving the Clwyd Pension Fund and on which advice is required. An adviser can only continue to advise the Administering Authority and another party where there is no conflict of interest in doing so.

Where the Pension Board decides to appoint an adviser, this can be the same person as is appointed to advise the Pensions Fund Committee or Fund officers as long as there is no conflict of interest between the two roles.

#### *Conduct at Meetings*

There may be circumstances where a representative of employers or members wishes to provide a specific point of view on behalf of an employer (or group of employers) or member (or group of members). The Administering Authority requires that any individual wishing to speak from an employer's or member's viewpoint must state this clearly, e.g. at a Pension Board or Pensions Fund Committee meeting, and that this will be recorded in the minutes.

## What is a Conflict or Potential Conflict and how will they be managed?

The Public Service Pensions Act 2013 defines a conflict of interest as a financial or other interest which is likely to prejudice a person's exercise of functions.

Therefore, a conflict of interest may arise when an individual:

- has a responsibility or duty in relation to the management of, or provision of advice to, the LGPS fund administered by Flintshire County Council, and
- at the same time has:
  - a separate personal interest (financial or otherwise) or
  - another responsibility in relation to that matter,

giving rise to a possible conflict with their first responsibility. An interest could also arise due to a family member or close colleague having a specific responsibility or interest in a matter.

Some examples of potential conflicts are included in Appendix 1. The appendix also illustrates where disclosure of a personal or prejudicial interest may separately be required for Pension Fund Committee members (including co-opted members) under the Flintshire County Council Members' Code of Conduct.

Flintshire County Council will encourage a culture of openness and transparency and will encourage individuals to be vigilant, have a clear understanding of their role and the circumstances in which they may have a conflict of interest, and of how potential conflicts should be managed.

Flintshire County Council will evaluate the nature of any dual interests or responsibilities that are highlighted and assess the impact on pension fund operations and good governance were an actual conflict of interest to materialise.

Ways in which conflicts of interest may be managed include:

- the individual concerned abstaining from discussion, decision-making or providing advice relating to the relevant issue
- the individual being excluded from the meeting(s) and any related correspondence or material in connection with the relevant issue (for example, a report for a Pension Fund Committee meeting)
- a working group or sub-committee being established, excluding the individual concerned, to consider the matter outside of the formal meeting (where the terms of reference permit this to happen)

Provided that the Administering Authority, (having taken any professional advice deemed to be required) is satisfied that the method of management is satisfactory, Flintshire County Council shall endeavour to avoid the need for an individual to have to resign due to a conflict of interest. However, where the conflict is considered to be so fundamental that it cannot be effectively managed, or where a Pension Board member has an actual conflict of interest as defined in the Public Service Pensions Act 2013, the individual will be required to resign from the Committee, Board or appointment.

### *Minor Gifts*

For the purposes of this Policy, gifts such as t-shirts, pens, trade show bags and other promotional items (subject to a notional maximum value of £50 per item and an overall maximum value of £100 from an individual company per event) obtained at events such as conferences, training events, seminars, and trade shows, that are offered equally to all members of the public attending the event do not need to be declared. Pension Fund Committee members should, however, be aware that they may be subject to lower limits and a separate notification procedure in the Flintshire County Council Members' Code of Conduct.

### **Responsibility**

Flintshire County Council as the scheme manager for the Clwyd Pension Fund must be satisfied that conflicts of interest are appropriately managed. For this purpose, the Pension Fund Manager is the designated individual for ensuring the procedure outlined below is carried out.

However, it is the responsibility of each individual covered by this Policy to identify any potential instances where their personal, financial, business or other interests might come into conflict with their pension fund duties.

### **Operational procedure for officers, Pension Fund Committee members and Pension Board members**

The following procedures must be followed by all individuals to whom this policy applies.

**However, it should be noted all members of the Pension Fund Committee (including co-opted members) have a pre-eminent requirement to follow and abide by the requirements of Part 3 of the Flintshire County Council Members' Code of Conduct** relating to the treatment and disclosure of certain personal and prejudicial interests. Accordingly, for those members, disclosures under this policy may be in addition to disclosures under the Council's Code of Conduct.

<b>What is required</b>	<b>How this will be done</b>
<i>Step 1 - Initial identification of interests which do or could give rise to a conflict</i>	<p>On appointment to their role or on the commencement of this Policy if later, all individuals will be provided with a copy of this Policy and be required to complete a Declaration of Interest the same or similar to that included in Appendix 2.</p> <p>The information contained in these declarations will be collated into the Pension Fund Register of conflicts of interest in a format the same or similar to that included in Appendix 3.</p>

<b>What is required</b>	<b>How this will be done</b>
<p><i><b>Step 2 - Ongoing notification and management of potential or actual conflicts of interest</b></i></p>	<p>At the commencement of any Pension Fund Committee, Pension Board or other formal meeting where pension fund matters are to be discussed, the Chairman will ask all those present who are covered by this Policy to declare any new potential conflicts. These will be recorded in the Fund's Register of conflicts of interest. In addition, the latest version of the Register will be made available by the Pension Fund Manager to the Chairman of every meeting prior to that meeting.</p> <p>At Clwyd Pension Fund Committee meetings there will also, at the start of the meeting, be an agenda item for Members to declare any interests under the Members' Code in relation to any items on that agenda.</p> <p>Any individual who considers that they or another individual has a potential or actual conflict of interest, as defined by this Policy, which relates to an item of business at a meeting, must advise the Chairman and the Pension Fund Manager prior to the meeting, where possible, or state this clearly at the meeting at the earliest possible opportunity. The Chairman, in consultation with the Pension Fund Manager, should then decide whether the conflicted or potentially conflicted individual needs to leave the meeting during the discussion on the relevant matter or to withdraw from voting on the matter.</p> <p>If such a conflict is identified outside of a meeting the notification must be made to the Pension Fund Manager and where it relates to the business of any meeting, also to the Chairman of that meeting. The Pension Fund Manager, in consultation with the Chairman where relevant, will consider any necessary action to manage the potential or actual conflict.</p> <p>Where information relating to any potential or actual conflict has been provided, the Pension Fund Manager may seek such professional advice as he or she thinks fit (such as legal advice from the Monitoring Officer) on to how to address any identified conflicts.</p> <p>Any such potential or actual conflicts of interest and the action taken must be recorded on the Fund's Register of conflicts of interest.</p>
<p><i><b>Step 3 - Periodic review of potential and actual conflicts</b></i></p>	<p>At least once every 12 months, the Pension Fund Manager will provide to all individuals to whom this Policy applies a copy of the Fund's Register of conflicts of interest. All individuals will complete a new Declaration of Interest (see Appendix 2) confirming that their information contained in the Register is correct or highlighting any changes that need to be made to the declaration. Following this exercise, the updated Register will then be circulated by the Pension Fund Manager to all individuals to whom it relates.</p>

## **Operational procedure for advisers**

All of the key advisers are expected to have their own policies on how conflicts of interest will be managed in their relationships with their clients, and these should have been shared with Flintshire County Council.

Although this Policy applies to all advisers, the operational procedures outlined in steps 1 and 3 above relating to completing ongoing declarations are not expected to apply to advisers. Instead all advisers must:

- be provided with a copy of this Policy on appointment and whenever it is updated
- adhere to the principles of this Policy
- provide, on request, information to the Pension Fund Manager in relation to how they will manage and monitor actual or potential conflicts of interests relating to the provision of advice or services to Flintshire County Council
- notify the Pension Fund Manager immediately should a potential or actual conflict of interest arise.

All potential or actual conflicts notified by advisers will be recorded in the Fund's Register of conflicts of interest.

## **Monitoring and Reporting**

The Fund's Register of conflicts of interest may be viewed by any interested party at any point in time. It will be made available on request by the Pension Fund Manager. In addition, it will be published in the annual report and accounts

In order to identify whether the objectives of this Policy are being met the Administering Authority will:

- Review the Register of conflicts of interest on an annual basis and consider whether there have been any potential or actual conflicts of interest that were not declared at the earliest opportunity
- Provide its findings to the Administering Authority's Independent Adviser and ask him or her to include comment on the management of conflicts of interest in his or her annual report on the governance of the Fund each year.

## **Key Risks**

The key risks to the delivery of this Policy are outlined below. All of these could result in an actual conflict of interest arising and not being properly managed. The Pension Fund Manager will monitor these and other key risks and consider how to respond to them.

- Insufficient training or poor understanding in relation to individuals' roles on pension fund matters
- Insufficient training or failure to communicate the requirements of this Policy
- Absence of the individual nominated to manage the operational aspects of this Policy and no one deputising, or failure of that individual to carry out the operational aspects in accordance with this Policy
- Failure by a chairperson to take appropriate action when a conflict is highlighted at a meeting.

## **Costs**

All costs related to the operation and implementation of this Policy will be met directly by Clwyd Pension Fund. However, no payments will be made to any individuals in relation to any time spent or expenses incurred in the disclosure or management of any potential or actual conflicts of interest under this Policy.

## **Approval, Review and Consultation**

This Conflicts of Interest Policy was approved using delegated responsibilities on 24 March 2015. It will be formally reviewed and updated at least every three years or sooner if the conflict management arrangements or other matters included within it merit reconsideration, including if there are any changes to the LGPS or other relevant Regulations or Guidance which need to be taken into account.

## **Further Information**

If you require further information about anything in or related to this Conflicts of Interest Policy, please contact:

Philip Latham,  
Clwyd Pension Fund Manager, Flintshire County Council  
E-mail - [Philip.latham@flintshire.gov.uk](mailto:Philip.latham@flintshire.gov.uk)  
Telephone - 01352 702264

## Appendix 1

### Examples of Potential Conflicts of Interest

<b>Examples of Pension Related Potential Conflict of Interest</b>	<b>Also a Personal or Prejudicial Interest*</b>
a) An elected member on the Pension Fund Committee may be required to provide views on a funding strategy which could result in an increase in employer contributions payable by the employer he or she represents.	No
b) A member of the Pension Fund Committee member is on the board of an Investment Manager that the Committee is considering appointing.	Yes
c) An employer representative on the Pension Board is employed by a company to which the administering authority has outsourced its pension administration services and the Pension Board is reviewing the standards of service provided by that company.	No
d) The person appointed to consider internal disputes is asked to review a case relating to a close friend or relative.	Yes
e) The administering authority is considering buying its own payroll system for paying pensioners, rather than using the payroll system used for all employees of the Council. The Finance Director, who has responsibility for the Council budget, is expected to approve the report to go to the Pension Committee which, if agreed would result in a material reduction in the recharges to the Council from the Fund.	No
f) Officers of the Fund are asked to provide a report to the Pension Board or Pension Fund Committee on whether the administration services should be outsourced which, if it were to happen could result in a change of employer or job insecurity for the officers.	No
g) An employer representative employed by the administering authority and appointed to the Pension Board to represent employers generally could be conflicted if he or she only serves to act in the interests of the administering authority, rather than those of all participating employers. Equally, a member representative, who is also a trade union representative, appointed to the Pension Board to represent the entire scheme membership could be conflicted if he or she only acts in the interests of their union and union membership, rather than all scheme members.	No
h) A Fund adviser is party to the development of a strategy which could result in additional work for his or her firm, for example, providing delegated or fiduciary management of Fund	No

investments or providing assistance with monitoring the covenant of employers.	
i) An employer representative has access to information by virtue of his or her employment, which could influence or inform the considerations or decisions of the Pension Fund Committee or Pension Board. He or she has to consider whether to share this information in light of their duty of confidentiality to their employer. Their knowledge of this information will put them in a position of conflict if it is likely to prejudice their ability to carry out their functions as a member of the Pension Fund Committee or Pension Board.	No
j) An officer of the Fund or member of the Pension Committee accepts a dinner invitation from a Fund Manager who has submitted a bid as part of a tender process	No
k) An officer of the Fund is asked to provide guidance to the Local Pension Board on the background to an item considered at the Pension Committee. This could be a potential conflict as the officer could consciously or sub-consciously avoid providing full details, resulting in the Board not having full information and not being able to provide a complete view on the appropriateness or otherwise of that Pension Committee item.	No

\* This indicates those interests that must also be declared by Pension Fund Committee members in accordance with the Flintshire County Council Members' Code of Conduct.

## Appendix 2

### Declaration of Interests relating to the management of Clwyd Pension Fund administered by Flintshire County Council

*Tick as appropriate*

I, [insert full name], am:

- an officer involved in the management
- Pension Fund Committee Member
- Pension Board Member

of Clwyd Pension Fund and I set out below under the appropriate headings my interests, which I am required to declare under Clwyd Pension Fund Conflicts of Interest Policy. I have put "none" where I have no such interests under any heading.

#### **Responsibilities or other interests that could result in a conflict of interest** (please list and continue overleaf if necessary):

*A) Relating to me*

*B) Relating to family members or close colleagues*

#### **Undertaking:**

I declare that I understand my responsibilities under the Clwyd Pension Fund Conflicts of Interest Policy. I undertake to notify the Pension Fund Manager of any changes in the information set out above.

Signed \_\_\_\_\_ Date \_\_\_\_\_

Name (CAPITAL LETTERS)

## Appendix 3

### Clwyd Pension Fund - Register of Potential and Actual Conflicts of Interest

All reported conflicts of interest will be recorded in the minutes and a register of conflicts will be maintained and reviewed annually by Flintshire County Council, the Administering Authority.

Date identified	Name of Person	Role of Person	Details of conflict	Actual or potential conflict	How notified (1)	Action taken (2)	Follow up required	Date resolved

(1) E.g. verbal declaration at meeting, written conflicts declaration, etc

(2) E.g. withdrawing from a decision making process, left meeting

<b>Clwyd Pension Fund - Register of Potential and Actual Conflicts of Interest</b>									
All reported conflicts of interest will be recorded in the minutes and a register of conflicts will be maintained and reviewed annually by Flintshire County Council, the Administering Authority.									
					Key	( <sup>1</sup> ) E.g. verbal declaration at meeting, written conflicts declaration, etc			
Last Updated		28/09/2017				( <sup>2</sup> ) E.g. withdrawing from a decision making process, left meeting			
Date identified	Name of Person	Role of Person	Details of conflict	Actual or potential conflict	How notified (1)	Action taken(2)	Follow up required	Date resolved	
23/03/2015	Colin Everett	Chief Executive	Chief Executive of Flintshire County Council and member of the Pension Fund	P	Written	N/A		27/07/2015	
23/03/2015	Gary Ferguson	Corporate Finance Manager	Section 151 Officer Flintshire CC, Member of CPF	P	Written	N/A		27/07/2015	
23/03/2015	Philip Latham	Clwyd Pension Fund Manager	Employee Flintshire County Council, Member of Clwyd Pension Fund, Brother CPF Pensioner	P	Written	N/A		27/07/2015	
23/03/2015	Debbie Fielder	Pensions Finance Manager	Employee Flintshire County Council, Member of Clwyd Pension Fund	P	Written	N/A		28/07/2015	
23/03/2015	Alwyn Hughes	Pensions Finance Manager	Employee Flintshire County Council, Member of Clwyd Pension Fund, Unison Branch Treasurer FCC	P	Written	N/A		27/07/2015	
23/03/2015	Helen Burnham	Pensions Administration Manager	Employee Flintshire County Council, Member of Clwyd Pension Fund	P	Written	N/A		26/11/2015	

23/03/2015	Stephen Hibbert	PF Committee Member	Branch secretary of Unison, member of CPF, Employee of WCBC, Member of Unison NJC Committee, Member of Joint Council for Wales, wife is pensioner of CPF	P	Written	N/A		25/07/2017
23/03/2015	Andrew Rutherford	PF Committee Member	Town Councillor Rhyl Town Council, FT Trade Union Official, Unison	P	Written	N/A		21/05/2015
23/03/2015	Huw Jones	PF Committee Member	Denbighshire County Council Councillor, Corwen Town Council Councillor, Member of CPF	P	Written	N/A		23/06/2017
23/03/2015	Haydn Bateman	PF Committee Member	Flintshire CC Councillor, Mold Town Councillor, Wife, Marion Bateman is FCC Councillor and Northop Community Councillor.	P	Written	N/A		23/07/2017
23/06/2017	David Leslie Hughes	PF Committee Member	Flintshire CC Councillor, Llanfynydd Community Council Councillor, School Governor Chair - Rhosnesni Wrexham	P	Written	N/A		23/06/2017
25/07/2017	Darren Nigel Williams	PF Committee Member	Wrexham CBC Councillor, Community Councillor, Broughton Community Council. Wife employed by Flintshire CC and member of CPF	P	Written	N/A		25/07/2017
23/06/2017	Ralph Small	PF Committee Member	Flintshire CC Councillor, Hawarden Community Council Councillor, Son works for FCC	P	Written	N/A		23/06/2017

23/06/2017	Trevor Raymond Bates	PF Committee Member - Substitute	Wrexham CBC Councillor, Community Councillor, Glyn Ceriog	P	Written	N/A		23/06/2017
23/06/2017	William Mullin	PF Committee Member	Cabinet Member FCC, Member of Broughton and Bretton Community Council, Employed by Airbus Operations, Broughton and a member of the Airbus Pensions Consultative Committee	P	Written	N/A		23/06/2017
23/03/2015	Mark Owen	Pension Board Member	Member CPF, Employer S151 WCBC	P	Written	N/A		27/07/2017
23/03/2015	Steve Jackson	Pension Board Member	Coleg Cambria Finance and employer link to CPF, Member of CPF	P	Written	N/A		27/07/2015
23/03/2015	Gaynor Brooks	Pension Board Member	Retired member CPF, Retired member Unison. Husband is Scheme Member. Vice Chair Denbighshire Citizens Advice	P	Written	N/A		27/07/2017
26/11/2015	Karen McWilliam	Independent Advisor - AON Hewitt	Potential that company may bid for national Wales work including provision of Pooling operator	P	Verbal	Minuted at initial and subsequent Committee meetings including assurance of appropriate controls in place which have been accepted by the Monitoring Officer		26/11/2015

09/07/2016	Karen McWilliam	Independent Advisor - AON Hewitt	Aon have a subsidiary that provide risk management services, including being a broker for a Pension Board insurance policy, for which Aon would receive commission	A	Written	Declared to PB. Will not be involved in final decision as to how to proceed		09/07/2016
26/11/2015	Paul Middleman	Actuary - Mercer	Potential that company may bid for national Wales work including provision of Pooling operator	P	Verbal	Minuted at initial and subsequent Committee meetings including assurance of appropriate controls in place which have been accepted by the Monitoring Officer		26/11/2015
26/11/2015	Kieran Harkin	Consultant - JLT	Potential that company may bid for national Wales work	P	Verbal	Minuted at Committee meeting		26/11/2015
18/01/2017	Elizabeth Thomas	Deputy S151	Member CPF, Deputy S151 FCC	A	Written	N/A		18/01/2017
15/02/2017	Sara Dulson	Deputy S151	Member CPF, Deputy S151 FCC	A	Written	N/A		15/02/2017

Cronfa Bensiynau Clwyd  
Clwyd Pension Fund



## **FLINTSHIRE COUNTY COUNCIL**

**Administering Authority for  
Clwyd Pension Fund**

## **TRAINING POLICY**

**November 2014  
Updated November 2015**

# TRAINING POLICY

## Introduction

This is the Training Policy of the Clwyd Pension Fund, which is managed and administered by Flintshire County Council. The Policy details the training strategy for members of the Pension Fund Committee and Pension Board, and senior officers responsible for the management of the Fund.

The Training Policy is established to aid Pension Fund Committee and 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.

## Aims and Objectives

Flintshire County Council recognises the significance of its role as Administering Authority to the Clwyd Pension Fund on behalf of its stakeholders which include:

- over 40,000 current and former members of the Fund, and their dependants
- over 25 employers within the Flintshire, Denbighshire and Wrexham Council areas
- the local taxpayers within those areas.

Our Fund's Mission Statement is:

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

In relation to knowledge and skills of those managing the Fund, our objectives are to:

- 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.
- 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.

All Pension Fund Committee members, Pension Board members and senior officers to whom this Policy applies are expected to continually demonstrate their own personal commitment to training and to ensuring that these objectives are met.

To assist in achieving these objectives, the Clwyd Pension Fund will aim to comply with:

- the CIPFA Knowledge and Skills Frameworks and
- the knowledge and skills elements of the Public Service Pensions Act 2013 and The Pensions Regulator's (TPR) Code of Practice for Public Service Schemes .

### **To whom this Policy Applies**

This Training Policy applies to all members of the Pension Fund Committee and the local Pension Board, including scheme member and employer representatives. It also applies to all managers in the Flintshire County Council Pension Fund Management Team, the Chief Executive and the Chief Finance Officer (Section 151 Officer), (from here on in collectively referred to as the senior officers of the Fund).

Less senior officers involved in the daily management of the Pension Fund will also be required to have appropriate knowledge and skills relating to their roles, which will be determined and managed by the Pension Fund Manager and his/her team.

Advisers to the Clwyd Pension Fund are also expected to be able to meet the objectives of this Policy.

Officers of employers participating in the Clwyd Pension Fund who are responsible for pension matters are also encouraged to maintain a high level of knowledge and understanding in relation to LGPS matters, and Flintshire County Council will provide appropriate training for them. This will be covered further in the Clwyd Pension Fund Administration Strategy.

### **CIPFA and TPR Knowledge and Skills Requirements**

#### *CIPFA Knowledge and Skills Framework and Code of Practice*

In January 2010 CIPFA launched technical guidance for Representatives on Pension Fund Committees and non-executives in the public sector within a knowledge and skills framework. The Framework details the knowledge and skills required by those responsible for pension scheme financial management and decision making.

In July 2015 CIPFA launched technical guidance for Local Pension Board members by extending the existing knowledge and skills frameworks in place. This Framework details the knowledge and skills required by Pension Board members to enable them to properly exercise their functions under Section 248a of the Pensions Act 2004, as amended by the Public Service Pensions Act 2013.

The Framework covers eight areas of knowledge and skills identified as the core requirements (which includes all those covered in the existing Committee and non-executives framework)-

- Pensions legislation
- Public sector pensions governance
- Pensions administration
- Pension accounting and auditing standards
- Financial services procurement and relationship management
- Investment performance and risk management
- Financial markets and products knowledge
- Actuarial methods, standards and practice

CIPFA's Code of Practice recommends (amongst other things) that Local Government Pension Scheme administering authorities -

- formally adopt the CIPFA Knowledge and Skills Frameworks (or an alternative training programme)
- ensure that the appropriate policies and procedures are put in place to meet the requirements of the Frameworks (or an alternative training programme);
- publicly report how these arrangements have been put into practice each year.

#### *The Pensions Act 2004 and The Pension Regulator's Code of Practice*

Section 248a of the Pensions Act 2004, as amended by The Public Service Pensions Act 2013 (PSPA13), requires Pension Board members to:

- be conversant with the rules of the scheme and any document recording policy about the administration of the scheme, and
- have knowledge and understanding of the law relating to pensions and any other matters which are prescribed in regulations.

The degree of knowledge and understanding required is that appropriate for the purposes of enabling the individual to properly exercise the functions of a member of the Pension Board.

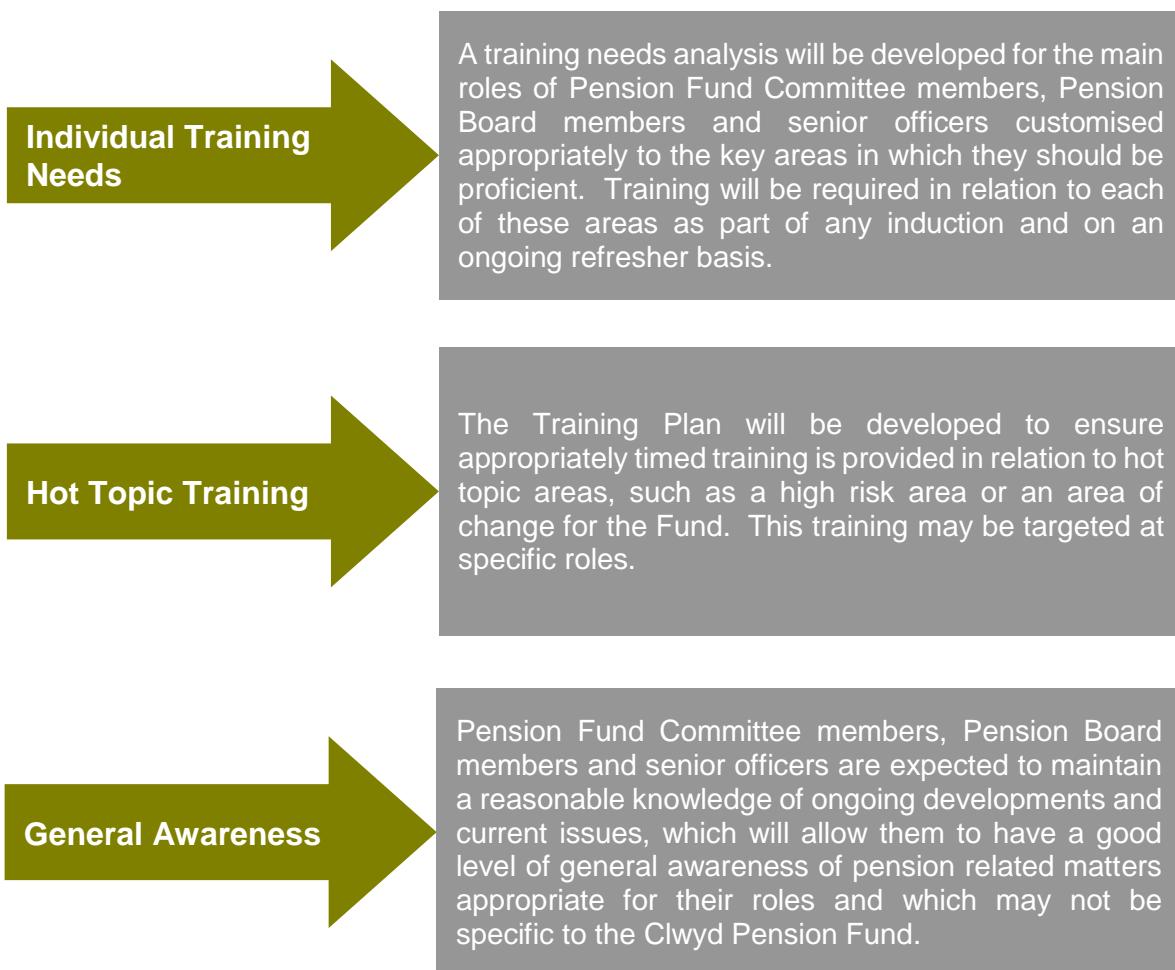
These requirements are incorporated and expanded on within the TPR Code of Practice which came into force on 1 April 2015. It is expected that guidance will also be issued by the Local Government Pension Scheme Advisory Board which will explain further how these requirements will relate to LGPS administering authorities.

#### *Application to the Clwyd Pension Fund*

Flintshire County Council fully supports the use of the CIPFA Knowledge and Skills Frameworks, and TPR's Code of Practice. Flintshire County Council adopts the principles contained in these publications in relation to Clwyd Pension Fund, and this Training Policy highlights how the Council will strive to achieve those principles through use of a rolling Training Plan together with regular monitoring and reporting.

## The Clwyd Pension Fund Training Plan

Flintshire County Council recognises that attaining, and then maintaining, relevant knowledge and skills is a continual process for Pension Fund Committee members, Pension Board members and senior officers, and that training is a key element of this process. Flintshire County Council will develop a rolling Training Plan based on the following key elements:



Each of these training requirements will be focussed on the role of the individual i.e. a Pension Fund Committee member, a Pension Board member or the specific role of the officer.

Training will be delivered through a variety of methods including:

- In-house training days provided by officers and/or external providers
- Training as part of meetings (e.g. Pension Fund Committee) provided by officers and/or external advisers
- External training events
- Circulation of reading material
- Attendance at seminars and conferences offered by industry-wide bodies
- Attendance at meetings and events with the Clwyd Pension Fund's investment managers and advisors
- Links to on-line training

- Access to the Clwyd Pension Fund website where useful Clwyd Pension Fund specific material is available

In addition Clwyd Pension Fund officers and advisers are available to answer any queries on an ongoing basis including providing access to materials from previous training events.

### **Initial Information and Induction Process**

On joining the Pension Fund Committee, the Pension Board or the Clwyd Pension Fund Management Team, a new member, officer or adviser will be provided with the following documentation to assist in providing a basic understanding of Clwyd Pension Fund:

- The members' guide to the Local Government Pension Scheme (LGPS)
- The latest Actuarial Valuation report
- The Annual Report and Accounts, which incorporate:
  - The Funding Strategy Statement
  - The Governance Policy and Compliance Statement
  - The Investment Strategy Statement including Clwyd Pension Fund's statement of compliance with the LGPS Myners Principles
  - The Communications Policy
  - The Administration Strategy
- The administering authority's Discretionary Policies
- This Training Policy

In addition, an individual training plan will be developed to assist each Pension Fund Committee member, Pension Board member or officer in achieving, within six months, their identified individual training requirements.

### **Monitoring Knowledge and Skills**

In order to identify whether we are meeting the objectives of this policy we will:

- 1) Compare and report on attendance at training based on the following:
  - Individual Training Needs – ensuring refresher training on the key elements takes place for each individual at least once every three years.
  - Hot Topic Training – attendance by at least 80% of the required Pension Fund Committee members and senior officers at planned hot topic training sessions. This target may be focussed at a particular group of Pension Fund Committee members, Pension Board members or senior officers depending on the subject matter.
  - General Awareness – each Pension Fund Committee member, Pension Board member or officer attending at least one day each year of general awareness training or events.
  - Induction training – ensuring areas of identified individual training are completed within six months.
- 2) Ask our Independent Adviser to provide an annual report on the governance of the Fund each year, a key part of which will focus on the delivery of the requirements of this Policy.

## **Key Risks**

The key risks to the delivery of this Policy are outlined below. The Pension Fund Committee members, with the assistance of the Clwyd Pension Fund Advisory Panel, will monitor these and other key risks and consider how to respond to them.

- Changes in Pension Fund Committee and/or Pension Board membership and/or senior officers potentially diminishing knowledge and understanding.
- Poor attendance and/or a lack of engagement at training and/or formal meetings by Committee Members, Pension Board Members and/or other senior officers resulting in a poor standard of decision making and/or monitoring.
- Insufficient resources being available to deliver or arrange the required training.
- The quality of advice or training provided is not an acceptable standard.

## **Reporting**

A report will be presented to the Pension Fund Committee on an annual basis setting out:

- The training provided / attended in the previous year at an individual level
- The results of the measurements identified above.

This information will also be included in the Clwyd Pension Fund's Annual Report and Accounts.

At each Pension Fund Committee meeting, members will be provided with details of forthcoming seminars, conferences and other relevant training events as well as a summary of the events attended since the previous meeting.

## **Costs**

All training costs related to this Training Policy are met directly by Clwyd Pension Fund

## **Approval, Review and Consultation**

This Training Policy was originally approved at the Clwyd Pension Fund Committee meeting on 5 November 2014 and amendments to incorporate the requirements of the CIPFA Local Pension Boards Framework were approved on 26 November 2015. It will be formally reviewed and updated at least every three years or sooner if the training arrangements or other matters included within it merit reconsideration.

## **Further Information**

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

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