Swyddog Cyswllt:
Janet Kelly 01352 702301
janet_kelly@flintshire.gov.uk

At: Cyng Ted Palmer (Cadeirydd)

Y Cynghorwyr: Haydn Bateman, Billy Mullin, Tim Roberts a Ralph Small

Aelodau Cyfetholedig:

Steve Hibbert, Cllr. Andrew Rutherford a Cllr Nigel Williams

Dydd Iau, 1 Hydref 2020

Annwyl Gynghorydd

HYSBYSIAD O GYFARFOD ANGHYSBELL
PWYLLGOR CRONFA BENSIWN CLWYD
DYDD MERCHER, 7FED HYDREF, 2020 AM 9.30 AM

Yn gywir

Robert Robins
Rheolwr Gwasanaethau Democrataidd

Sylwch: Oherwydd y cyfyngiadau presennol ar deithio a'r gofyniad am gadw pellter corfforol, ni chynhelir y cyfarfod hwn yn y lleoliad arferol. Bydd hwn yn gyfarfod rhithiol a bydd 'presenoldeb' yn gyfyngedig i Aelodau'r Pwyllgor yn unig. Bydd y cyfarfod yn cael ei recordio.

Os oes gennych unrhyw ymholiadau, cysylltwch ag aelod o'r Tîm Gwasanaethau Democrataidd ar 01352 702345.

R H A G L E N

FFURFIOL

1 **YMDDIHEURIADAU**

Pwrpas: I derbyn unrhyw ymddiheuriadau.

2 **DATGAN CYSYLLTIAD (GAN GYNNWYS GWRTHDARO O RAN CYSYLLTIAD)**

Pwrpas: I dderbyn unrhyw Datganiadau a chynghori'r Aeolodau yn unol a hynny

3 **PENODI IS-GADEIRYDD**

Pwrpas: Penodi Is-gadeirydd a nodi bod y Cadeirydd a'r Is-gadeirydd, felly, wedi'u penodi fel Aelod a Dirprwy, yn y drefn honno, o'r Pwyllgor Cydlywodraethu ar gyfer Partneriaeth Bensiwn Cymru

4 **COFNODION** (Tudalennau 5 - 14)

Pwrpas: I gadarnhau, fel cofnod cywir gofnodion y cyfarfod ar 11 Chwefror 2020

ADRODDIADAU POLISI A STRATEGAETH I'W CYMERADWYO NEU EU TRAFOD

5 **ADRODDIAD BLYNYDDOL A CHYFRIFON CRONFA BENSIYNAU CLWYD 2019/20** (Tudalennau 15 - 196)

Pwrpas: Darparu Aelodau'r Pwyllgor ag Adroddiad Blynyddol a Chyfrifon Cronfa Bensiynau Clwyd ar gyfer eu cymeradwyo

6 **DIWEDDARIAD MCCLOUD AC YMATEB I'R YMGYNGHORIAD** (Tudalennau 197 - 298)

Pwrpas: Rhoi'r wybodaeth ddiweddaraf i Aelodau'r Pwyllgor ar McCloud ac ymateb i'r ymgynghoriad drafft Cronfa Bensiynau Clwyd ar gyfer ei gymeradwyo.

7 **DIWEDDARIAD AR YR ECONOMI A'R FARCHNAD A'R STRATEGAETH FUDDSODDI A CHRYNODEB RHEOLWYR** (Tudalennau 299 - 326)

Pwrpas: Rhoi diweddariad i Aelodau'r Pwyllgor ar yr economi a'r farchnad a pherfformiad buddsoddi'r gronfa a rheolwyr y gronfa ar gyfer trafodaeth.

8 **CYFUNO BUDDSODDIADAU YNG NGHYMRU** (Tudalennau 327 - 348)

Pwrpas: Rhoi diweddariad i Aelodau'r Pwyllgor ar gyfuno buddsoddiadau yng Nghymru ar gyfer trafodaeth.

EITEMAU I'W NODI YN UNIG

9 **DIWEDDARIAD LLYWODRAETHU** (Tudalennau 349 - 402)

Pwrpas: Rhoi diweddariad i Aelodau'r Pwyllgor ar faterion perthnasol i lywodraethu.

10 **DIWEDDARIAD GWEINYDDU/ CYFATHREBU PENSIYNAU** (Tudalennau 403 - 442)

Pwrpas: Rhoi diweddariad i Aelodau'r Pwyllgor ar faterion yn ymwneud â gweinyddu a chyfathrebu ar gyfer Cronfa Bensiynau Clwyd.

11 **DIWEDDARIAD AR FUDDSODDI AC ARIANNU** (Tudalennau 443 - 464)

Pwrpas: Darparu diweddariad i Aelodau'r Pwyllgor ar faterion buddsoddi ac ariannol Cronfa Bensiynau Clwyd.

12 **DIWEDDARIAD CYLLID A LLWYBRAU CYRRAEDD TARGED** (Tudalennau 465 - 480)

Pwrpas: Darparu diweddariad i Aelodau'r Pwyllgor ar gynnydd y sefyllfa ariannu a gwarchod rhag atebolrwydd fel rhan o'r strategaeth llwybr cyrraedd targed ar gyfer rheoli risgiau atebolrwydd.

Mae'r dudalen hon yn wag yn bwrpasol

CLWYD PENSION FUND COMMITTEE
11 February 2020

Minutes of the meeting of the Clwyd Pension Fund Committee of Flintshire County Council, held at County Hall, Mold at 9.30am on Tuesday, 11 February 2020.

PRESENT: Councillor Haydn Bateman (Vice Chair in the Chair)
Councillors: Ralph Small, Billy Mullin, Kevin Hughes, Adele Davies-Cooke – joined at item 99.

CO-OPTED MEMBERS: Councillor Nigel Williams (Wrexham County Borough Council), Councillor Andrew Rutherford (Other Scheme Employer Representative), and Mr Steve Hibbert (Scheme Member Representative) – up to item 103.

ALSO PRESENT (AS OBSERVERS): Mr Phil Pumford (PFB Scheme Member Representative), Elaine Williams (PFB Scheme Member Representative).

APOLOGIES: Councillor Huw Llewellyn Jones.

IN ATTENDANCE:

Advisory Panel comprising: Colin Everett (Chief Executive) – up to item 101, Philip Latham (Head of Clwyd Pension Fund), Gary Ferguson (Corporate Finance Manager), Karen McWilliam (Independent Adviser – Aon), Kieran Harkin (Fund Investment Consultant – Mercer), Paul Middleman (Fund Actuary – Mercer).

Officers/Advisers comprising: Debbie Fielder (Deputy Head of the Clwyd Pension Fund), Karen Williams (Pensions Administration Manager), Nick Buckland (Fund Investment Consultant – Mercer), Nick Page (Risk Advisor – Mercer), Megan Fellowes (Actuarial Analyst – Mercer - taking minutes), Ieuan Hughes (Graduate Investment Trainee).

It was confirmed that Cllr Bateman would be fulfilling the role of Chairman for the next three months ahead of the Council's AGM.

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

Mrs McWilliam referred to the reference to the upcoming tenders for the Investment Consultant and Independent Governance advisor roles in the Governance Update (agenda item 8) and noted Aon will obviously be submitting a tender for one of those contracts and that if there are any discussions on this she will leave the meeting for that part of the meeting. Mercer also noted the equivalent interest.

There were no other declarations of interest.

98. **MINUTES 28 NOVEMBER 2019**

On page 10, Mr Hibbert queried whether the issue of Scheme Member Representation had been considered at the WPP JGC meeting in January. Mrs Fielder said that there was a JGC meeting in December but no one from the Fund was represented and there was no meeting in January. The next JGC meeting is in March where it is expected that JGC Scheme Member Representation will be on the agenda.

Mrs McWilliam noted the reference to the GMP rectification exercise on page 11 and stated that this exercise will now continue through to at least June 2020.

The minutes of the meeting of the Committee held on 28 November 2019 were then agreed.

RESOLVED:

The minutes of 28 November 2019 were received, approved and signed by the Chairman.

99. **INVESTMENT STRATEGY STATEMENT AND RESPONSIBLE INVESTMENT POLICY**

Mr Buckland and Mr Latham took the Committee through the latest Investment Strategy Statement (ISS) and noted the following key points;

- The regulations requiring funds to produce an ISS were made in 2016.
- The first ISS was required to be published by 31 March 2017.
- These regulations are still in place; however new regulations are due later in 2020. As a result, the ISS may need to be further amended.
- Statutory guidance states that Fund policies on investment cannot go against Government policy.
- There are a number of key requirements for inclusion in an ISS and Mr Buckland highlighted these, including diversification of investments and consideration of risk.

Mr Latham highlighted the changes that had been made to the ISS.

The first change was to include a new Funding and investment's objective at bottom of page 4 of the ISS in relation to the pooling of assets through WPP. The Committee agreed the proposed wording.

Cllr Williams asked whether the Supreme Court case involving the Palestine Solidarity Campaign and Government policy would inhibit the Fund's Responsible Investment policy. Mr Buckland responded that the way in which the Responsible Investment policy has been written, his view is there is no conflict. He said that the bigger issue is that some Funds have disinvested due to certain ethical beliefs. Mr Buckland said that we await the results of the court case and will return to this issue, which should be known over the next few months.

Mr Everett asked why the two asset classes, agriculture and timber, were included within the ISS, and not categories such as renewable energy. Mr Harkin explained that infrastructure as an asset class covers a range of investments including renewable energy. He agreed to revisit the categories.

The Chairman queried how the Fund's benchmark is determined. Mr Buckland said that the benchmark is a composite of all of the benchmarks of the Fund's underlying asset classes. For example, equities and private markets will both have a benchmark, adding these all together determines the Fund's overall benchmark.

Mr Latham added that there are strategic ranges set out on page 12 of the ISS. He noted that a conditional range is used when there are major risks to the Fund, in which case the officers, taking account of advice from the Fund's Investment Consultants, can make decisions that move the asset allocations beyond the strategic range, into the conditional range. Mrs McWilliam asked whether the conditional range had been used before. Mr Latham confirmed that he couldn't recall an extreme situation, but it has been used when the Fund was going through a transition.

Mrs McWilliam suggested to soften the wording on page 21 of the ISS. The wording stated;

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 WPP.

Mrs McWilliam proposed that the wording should be closer aligned to the pooling objective on page 4 of the ISS. Mr Everett backed this suggestion and the Committee agreed this wording should be modified in the final ISS.

The ISS states that the Fund will achieve the target weight in three years. Mrs McWilliam asked from when i.e. what year this will be invested. Mr Buckland referred Mrs McWilliam to the document which stated that it is between 2020 – 2023.

Mrs McWilliam highlighted to the Committee that she had some minor changes to feed into the ISS. The Committee approved the revised Investment Strategy Statement subject to minor changes being made by officers, including the points discussed.

RESOLVED:

The Committee noted, commented on and approved the revised Investment Strategy Statement subject to the agreed changes being made.

100. **ACTUARIAL VALUATION UPDATE AND FUNDING STRATEGY STATEMENT**

Mr Middleman noted that at the September meeting the draft Funding Strategy Statement (FSS) had been discussed and the consultation with employers went ahead in November (including the AJCM and meetings with individual employers) with comments being invited. There had been no material changes to that draft but there had been some minor changes as a result of the discussions with employers and also due to lack of progress on certain national issues and structural changes.

Mr Middleman updated the Committee on the state of play on the consultations on the 4-year valuation cycle and Fair Deal which were due to introduce protected status for members and a Deemed Employer route. There has not been any response to the 4-year valuation consultation and the Fair Deal consultation has not been progressed. It is not envisaged that either of these will be progressed before the FSS needs to be signed off so the related wording has been removed from the FSS. These will be reinserted as required and brought back to Committee once there is an update from those consultations.

Mr Middleman made the following key points;

- When Mercer set assumptions, in particular around inflation, Mercer look at the best estimate of RPI from market yields on Government Bonds. Mercer then estimate CPI inflation (the increases applied to liabilities) by deducting 1% p.a. from RPI (i.e. an RPI-CPI gap of 1% p.a.).

- Following the proposed change in RPI to be more like CPIH, in the September 2019 announcement, the market implied RPI inflation had shifted. Whilst this does not affect the assumptions at the valuation date (31 March 2019) it is important that the Fund recognise this update in the FSS. If this wasn't recognised it would result in using an assumption for CPI (based on the current RPI / CPI gap) which is too low and hence undervaluing liabilities in future calculations. It was noted this will be discussed in more detail in the next item but the proposal is to reduce the RPI to CPI gap to 0.7% p.a. to compensate for this. The consultation on the change is expected as part of the Budget on 11 March 2020 and the position will be kept under review.
- The overall funding level was 91% at the valuation date, with a deficit of £175m.
- The ongoing cost of benefits as a result of the valuation was 17.3% of pensionable pay.
- Contribution rates for employers will be implemented on this basis from 1 April 2020.

On page 25, the Chairman asked why the average deficit recovery period increased from 12 years in the draft FSS to 13 years. Mr Middleman noted this was an average and that different employers (including the Councils) had different periods appropriate to their circumstances and most had reduced by 3 years but 2 Unitary Councils had reduced by 2 years. It was also noted that it is the overall set of parameters that matter i.e. other assumptions like the discount rate are perhaps more important. Furthermore, there have been in-depth discussions regarding this, the affordability of contributions overall and including allowance for McCloud costs. There needs to be a balance agreed when setting a funding plan because it has to be fair to all tax payers (current and future generations) and given that the recovery period for the Fund was relatively short, Mr Middleman was comfortable overall that this is a fair position. Mr Everett added that it was decided to extend Flintshire County Council's recovery period by a year in order to help balance the budgets, which he believes is a reasonable step that was agreed with the Actuary after a well-informed period of discussion.

In respect of the McCloud judgment, Mr Middleman noted that a key part of the setting the strategy is whether to allow or not allow for the potential costs of the McCloud ruling in the contributions paid to the Fund. As the employers had decided to include it directly (as opposed to considering it a budget risk in the future) this gave more credence to concluding the deficit recovery period was fair.

Mrs McWilliam queried why the link between RPI and CPI was not listed as one of the risks in the ISS. Mr Middleman said that it is a structural change but no real difference from any other change to inflation (which was covered). Mercer do not know how it will manifest yet, but whilst there is no harm in including it explicitly in the ISS they do not believe it is required at this point.

RESOLVED:

(a) The Committee noted the report and activity since the September 2019 meeting and consultation.
(b) The Committee approved the final Funding Strategy Statement.

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

Mr Page introduced himself to the Board and presented the flightpath introductory training session. Further detailed sessions will be scheduled to deliver more detail on the various elements. The presentation covered the main objectives of the flightpath and the following key points were made;

- The aim of the investment strategy is to deliver a return above inflation, CPI inflation in particular, given that the Fund's liabilities rise with inflation.
- Higher returns above inflation means that lower employer contributions are required to make good on the benefits for members. Conversely lower returns above inflation would mean higher contribution requirements for employers.
- In order to generate return, risk must be taken. However, there is a need to find a balance between taking enough risk to ensure contributions are affordable, but not too much risk that may result in losses on the investments leading to higher contributions in the future. The overarching objective is to be fair to current and future taxpayers by getting this reasonable balance.
- The aim of the flightpath strategy is to manage investment risks to improve the affordability and stability of employer contributions.
- The flightpath is a risk management approach rather than a de-risking mechanism, and works in tandem with the Fund's well diversified investment strategy.
- The flightpath seeks to manage (i.e. hedge) risks associated with both the assets and the liabilities. However, it does not manage all investment or liability risks; rather there is an assessment of whether the benefit of managing a particular risk outweighs the cost of doing so. Cost considerations relate to manager and consulting fees, transaction costs, initial and ongoing governance requirements and the overall impact and likelihood of a risk manifesting negatively so the overall objective is not met.
- The Fund's biggest risk is rising inflation, given that members' benefits i.e. the Fund liabilities, are linked to inflation. This is managed through a Liability Driven Investment (LDI) strategy which aims to maximise the certainty of returns above inflation when market opportunities arise thought a yield-based trigger mechanism. The hedge level was previously at 20% for interest rates and 40% for inflation. The Fund has decided to reduce inflation exposure by 20% temporarily in light of RPI reform risk which was discussed in more detail after the training.
- The flightpath also manages equity downside risk through an equity protection strategy, and the risk that sterling appreciates, reducing the value of overseas assets in GBP terms, through a currency hedging strategy.
- The flightpath seeks to implement the risk management strategies in an efficient manner. This is evidenced by the collateral "waterfall" approach, which ensures the strategies are supported by enough collateral (essentially a cash like pool of assets backing the hedging framework) but not too much that it acts as a drag on Fund returns. Excess collateral is invested in higher yielding but daily dealing funds in order to generate higher returns but is available for collateral to maintain the hedging position if required at short notice in a low governance manner.
- The flightpath operates through a series of quarterly Funding and Risk Management Group (FRMG) meetings with advisors and officers, monthly and quarterly reporting, and daily monitoring of funding level and market triggers. This

allows for opportunities to be identified and the Committee has delegated powers to the Head of the Clwyd Pension Fund to action those opportunities in a timely manner.

- As a direct result of implementing the flightpath, the deficit is £250m better off (all other things equal) since its inception in 2014, which equates to c£15m-£20m p.a. in contribution savings for employers. This is clearly a significant positive impact for the Fund and its employers.

Mrs McWilliam asked how the LDI is managing both liability risks on slide 6. Mr Page confirmed that it looks at both inflation and interest rates, which together provide a yield/return over inflation with a high degree of certainty. This links to the primary objective for the Fund which is to achieve returns above inflation with increasing certainty to provide affordability and stability of employer contributions. Mr Page clarified it is important that this takes place at the right time as otherwise it would be too expensive to achieve certainty. This is why there are triggers in place for when the opportunity arises.

Mrs McWilliam asked whether the Fund should be concerned about being unique in the WPP by having a flightpath strategy. Mr Page confirmed that other LGPS Funds do have similar risk management strategies in place and risk management is an increasing area of focus within the LGPS. Whilst it is not yet on the agenda for WPP to offer a portfolio that can incorporate such a strategy, Brunel have appointed a risk management provider similar to what the Clwyd Pension Fund has in place.

Mr Middleman noted that not every risk management idea that is considered is implemented. Rather, a risk is assessed and if deemed to be material, a range of options are considered on how it should be managed. Mr Everett welcomed further detail on the range of options in relation to decision making to help provide some further context for the Committee in future.

Due to the proposed reform by the government to abolish RPI, Mr Page confirmed that the plan was to align what is currently RPI to CPIH in the future, which is similar to CPI but includes housing costs such as changes to council tax rates. From a liability perspective, there will be no impact as the liabilities are CPI linked which is not changing. Mr Page noted that RPI is currently around 1% p.a. higher than CPIH, and the Fund's inflation hedging assets which are all linked to RPI would fall in value under reforms. Mr Page estimated that the worst-case scenario is that the impact could be a c£100m increase in deficit.

At the FRMG it was discussed at length whether, due to this potential change, the inflation hedging assets should be restructured. It was concluded that on balance there should be a reduction in the inflation hedge ratio from 40% to 20% as a result to mitigate this risk ahead of the consultation starting on 11 March. The Fund is still exposed to inflation rising and there is also a risk that the reform does not proceed, which is the reasoning behind only reducing half the exposure and not all. Therefore, the £100m increase in deficit stated above would now be £50m in the worst-case scenarios modelled. Mr Page confirmed that longer term, the Fund should seek to return back to the 40% inflation hedge ratio once the outcome of the consultation was clearer. The consultation will run from 11 March 2020 for 6 weeks and the Chancellor has committed to a response on this by July 2020.

The Chairman asked whether there is any allowance for housing costs in CPI. Mr Page confirmed that it is not included in CPI but is included in CPIH. CPIH is the UK's national statistic for inflation even though it is not well used or known.

The Chairman queried whether the consultation on government tax relief is due to come in. Mr Middleman said that he would be surprised if it did at this Budget but there could be a consultation announced on the issue given the sources of finance needed by the Government. The Committee will be updated in due course on any issues arising.

Mr Page added that at 31 December 2019, the approximate funding level was 94%, the equity protection had made a £38m gain since inception, and the currency hedging had made a gain of £9m since inception.

The report was noted and no further questions were asked.

RESOLVED:

(a) The Committee noted this report on the various elements of the Risk Management Framework, equity protection and currency hedging strategy.
(b) The Committee were made aware of the risk from potential RPI reform and the balanced action taken to reduce this risk as well as the costs.

102. **POOLING INVESTMENTS IN WALES**

Mr Latham gave an overview of the report which demonstrated the progress of the WPP. Paragraph 1.08 illustrates the provision of an emerging market equity sub fund through the WPP and the asset allocation for the Clwyd Pension Fund increasing from 6% to 10% (or £200m). Mr Latham and Mrs Fielder are due to represent the Committee and this matter at the next OWG.

Mr Latham asked for the views of the Committee as to whether the proposed private markets sub-group should have a separate portfolio for impact investing given there is a specific allocation with the Clwyd Pension Fund's investment strategy. Mr Latham explained that the two proposed priority areas for the WPP private markets impact sub-fund are affordable housing and climate change. One of the areas the Fund could ask to be included are the economic areas, looking at SME's to invest in to hopefully create jobs in the local area.

Mr Hibbert stated that he was not content with the phrase "affordable housing". He strongly believed that there needed to be a specific reference to the need for a social element within that. Cllr Williams agreed strongly that a different and clearer definition is required.

Cllr Mullin asked whether the areas for inclusion could be extended if these materialise as time goes on. Mr Latham confirmed that they can be added to and extended.

The Committee concluded that they were supportive of climate change elements, supportive of affordable housing subject to the definition being expanded to ensure this included a social requirement, and that they would ideally like the portfolio to include a local element focussed on the Welsh economic generation. Mr Latham agreed that he would feed the Committee's wishes back to the WPP.

RESOLVED:

(a) The Committee noted the report.
(b) The Committee discussed the creation of an impact fund and priority investments.

103. **GOVERNANCE UPDATE**

Mr Latham said that there was a Scheme Advisory Board meeting on 3 February but there are no formal meeting notes published yet.

Mr Latham highlighted the key change to the Governance Policy which is the inclusion of an objective focussed on data security and cybercrime; this was shown on page 141 - *Ensuring confidentiality, integrity and accessibility of the Fund's data, systems and services is protected and preserved.*

Mr Latham reminded the Committee about completing their self-assessment forms, and added that Mrs Fielder had hard copies available to complete if that was the preferred option.

Cllr Hughes attended the two day LGA Governance Conference on 23 and 24 January. He highlighted it was a very useful event with lots of discussion about McCloud but there had been no explanation of the background which would have been helpful.

Mrs Williams gave a brief overview explaining that McCloud is an age discrimination case and there was a ruling relating to the firefighters and judicial pension schemes which said younger people put in the new schemes, would now be worse off. People complained that this was ageist and it was upheld so the case needed to be remedied. The Government agreed this needed to be considered for all public sector schemes including the LGPS.

For the LGPS it is likely that the Fund will need to implement a remedy which involving checking which is the better of the old and new schemes for certain members, given that this was the approach provided to all members who were active on 1 April 2012 and within 10 years of retirement. This may be extended to all members who were active at 1 April 2012 irrespective of age. Whilst this has a potential to increase funding costs (as discussed in an earlier item) it is likely to have a much more material impact on the administration, due to the need to recalculate benefits for many members who have left or retired since 2012.

It also affects employers as the Fund will need to gather part time hour changes from employers from April 2014, which will then have to be updated on the Fund's administration system. Mrs Williams explained that, even though the remedy is not likely to be implemented until 2022 at the earliest, the administration team will go ahead with updating the systems so that it will be up to date and the team are prepared. They are expected to them have to and recalculate historical benefits and make payments accordingly (to existing pensioners).

Cllr Rutherford suggested that the two-day conference could have been completed in one day and he also agreed with Cllr Hughes regarding the clarity on McCloud. Mrs McWilliam suggested that further training on McCloud could be provided on the 18 March training day that has been scheduled for the Committee and Board. The Committee welcomed that opportunity for further training.

Mrs McWilliam highlighted to the Committee that there is a Local Authority Responsible Investment Seminar on 8 July in Hertfordshire.

RESOLVED:

(a) The Committee considered the update and provided comments. The Committee agreed to return their self-assessment training needs analysis forms by 19 February as referred to in paragraph in 1.07 of the report.
(b) The Committee approved the Governance Policy and Compliance Statement, including the new objective relating to cybercrime, referred to in paragraph 1.06 of the report and attached in Appendix 2.

104. **ADMINISTRATION AND COMMUNICATIONS UPDATE**

Mrs Williams presented the report. She highlighted that each month the team report on legal requirements for the Key Performance Indicators (KPIs) and each KPI will have a timescale which the team have to legally adhere to. Currently, the Fund provide KPI requirements for 7 processes in the Fund including retirements and death etc. The team monitor how long it takes to report from reciting member information to implementing it, however, sometimes it is the member who is in control of this i.e. it takes them weeks to respond. Mrs Williams highlighted the importance of gathering the Committee's ideas and views for other KPIs to assess and this is something that will be developed over time.

The Chairman asked about resourcing and whether extra staffing is required. Mrs Williams said that if things remained the same then the staff would be fine but because there have been recent updates in regulations and court case announcements that has led to the team being required to complete additional work to support this. This means the resourcing and workflow management will need to be closely monitored.

RESOLVED:

The Committee considered the update and provided comments.

105. **INVESTMENT AND FUNDING UPDATE**

Mrs Fielder gave a brief investment and funding update and made the following key points;

- She understood that the business plan priorities for 2019/20 were near completion with most of the tasks on target to be completed before the end of the year.
- Following the results of the valuation, many of the funding and investment risks on the risk register had been reduced in overall relative value and in some cases at target levels.

The report was noted and no further questions were asked.

RESOLVED:

The Committee considered and noted this report for delegated responsibilities.

106. **ECONOMIC UPDATE, INVESTMENT STRATEGY AND MANAGER SUMMARY**

Mr Harkin gave an update on the recent outbreak in the coronavirus and what it means in context of a pension fund. He said that markets had seen significant falls in China and emerging markets initially, however markets had since recovered. The impact in immediate terms on the bond and equity markets were subject to sentiment. He stated that if there are real severe falls in markets, the Fund has protection through the cash and risk management framework. Mr Harkin then emphasised that the biggest question is whether there is a big economic lag effect i.e. how many countries rely on China to build and buy things for them around manufacturing, for example Apple, and therefore there could be a wider impact such as on the US stock market.

He added that the Fund value tipped over £2 billion at the end of December. The Fund is going through some changes in the investment strategy and implementing them and are in a healthy position despite market volatility.

The report was noted and no further questions were asked.

RESOLVED:

(a) The Committee discussed and commented on the Market and Economic update for the quarter ended 31 December 2019, which effectively sets the scene for the Investment Strategy and Manager Performance summary.
(b) The Committee discussed and commented on the Investment Strategy and Manager Performance summary for the quarter ended 31 December 2019.

The Chairman thanked everyone for their attendance and updates at the Committee meeting. The next formal Committee meeting is on 18th March along with the training sessions following that meeting. The meeting finished at 1pm.

……………………………………

Chairman

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday 7th October 2020
Report Subject	Clwyd Pension Fund Annual Report 2019/20
Report Author	Deputy Head Clwyd Pension Fund

EXECUTIVE SUMMARY

LGPS Regulations require the Clwyd Pension Fund (the Fund) to publish an Annual Report before 1st December 2020. The regulations and CIPFA best practice guidance advise on the content.

The draft Annual Report for 2019/20 is attached for member consideration at Appendix 1. The Annual Report includes the Fund's Statement of Accounts, which has been audited by Audit Wales (AW). The draft AW Audit Report is attached as Appendix 2, the letter of representation as Appendix 3, and a letter in respect of Audit Enquiries and the responses to that letter are included as Appendix 4 for information.

The Annual Report includes statutory and best practice policies and statements. These are not attached to the report as they have previously been approved by the Committee, but are available on the Fund's website. Those which are of a statutory nature will be included in the report when it is published. Other non statutory information relating to the report, which is all available on the Fund's website, will be signposted in the published version of the report.

RECOMMENDATIONS	
1	That members approve the Fund's Annual Report for 2019/20, including the Statement of Accounts.
2	That members consider the Audit Report
3	That members approve the Letter of Representation
4	That members note the Audit Enquiries letter and responses.

REPORT DETAILS

1.00	**Annual Report**
1.01	As in previous years, the main structure of the report consists of a series of reports from senior officers and advisors to the Fund. These are: - A report on the Governance of the Fund, the training of Committee and Board members, and Risk Management - A report from the Fund's Independent Advisor - A report from the Pension Board - A report on the Administration of the Fund - A report from the Fund's actuary - A report from the Fund's investment consultants - A report on the Fund's financial activity In addition, the Fund's Statement of Accounts and Annual Governance Statement are included. The Annual Report is required to include certain statutory information and this will be included in the report when it is published, along with signposting to non-statutory information which is felt relevant to the Report.
1.02	CIPFA updated the guidance they provide to Local Government Pension Schemes to ensure that their annual reports are completed in accordance with best practice for 2018/19. They did not further update the guidance for 2019/20. The guidance has been followed wherever possible in the preparation of this report. Further updated guidance is expected in time for the 2020/21 report.
1.03	Any further minor drafting errors or minor revisions identified will be corrected when the report is loaded onto the website.

2.00	**Statement of Accounts**
2.01	The Fund's Statement of Accounts is now included as part of the Annual Report. Members will recall that a draft Statement of Accounts was signed off by the Corporate Finance Manager and Section 151 Officer on 15th June 2020. The draft Annual Report including the Statement of Accounts was subsequently circulated to all members of the Committee for them to review on 5th August 2020. A summary of the queries received and responses to them was circulated to members on 3rd September 2020.
2.02	The audit of the 2019/20 Statement of Accounts is now substantially complete, although the audit continues up until the point at which the accounts are formally signed off by the auditors
2.03	A copy of the Statement of Accounts for 2019/20 is included as Section 10 in the Annual Report in Appendix 1 and it incorporates all changes agreed with AW during the course of the audit.

2.04	AW are required to provide an opinion and communicate relevant matters arising from the audit to the Committee charged with the governance of the Fund. Attached as Appendix 2 is the Audit of Accounts Report from AW and they will be in attendance at the Pension Fund Committee to present this report.
2.05	The report highlights details of any significant issues arising from the audit together with recommendations from AW, and also a summary of the corrections made to the Statements of Accounts from the draft stage.
2.06	This year's report includes an Emphasis of Matter relating specifically to uncertainties in the valuation of Pooled Property investments as a result of the impact of COVID-19, shown on Page19 of Appendix 2.
2.07	It is pleasing to note that AW have confirmed that the Fund was able to provide good quality draft accounts in the agreed timescale.
2.08	The Letter of Representation shown at Appendix 3 requires the Committee to confirm to the AW that all the information contained in the financial statements is true and accurate and that all information has been disclosed.
2.09	Appendix 4 shows an Audit Queries letter from AW to the Fund and the responses to it for members' information.

3.00	**RESOURCE IMPLICATIONS**
3.01	None directly as a result of this report.

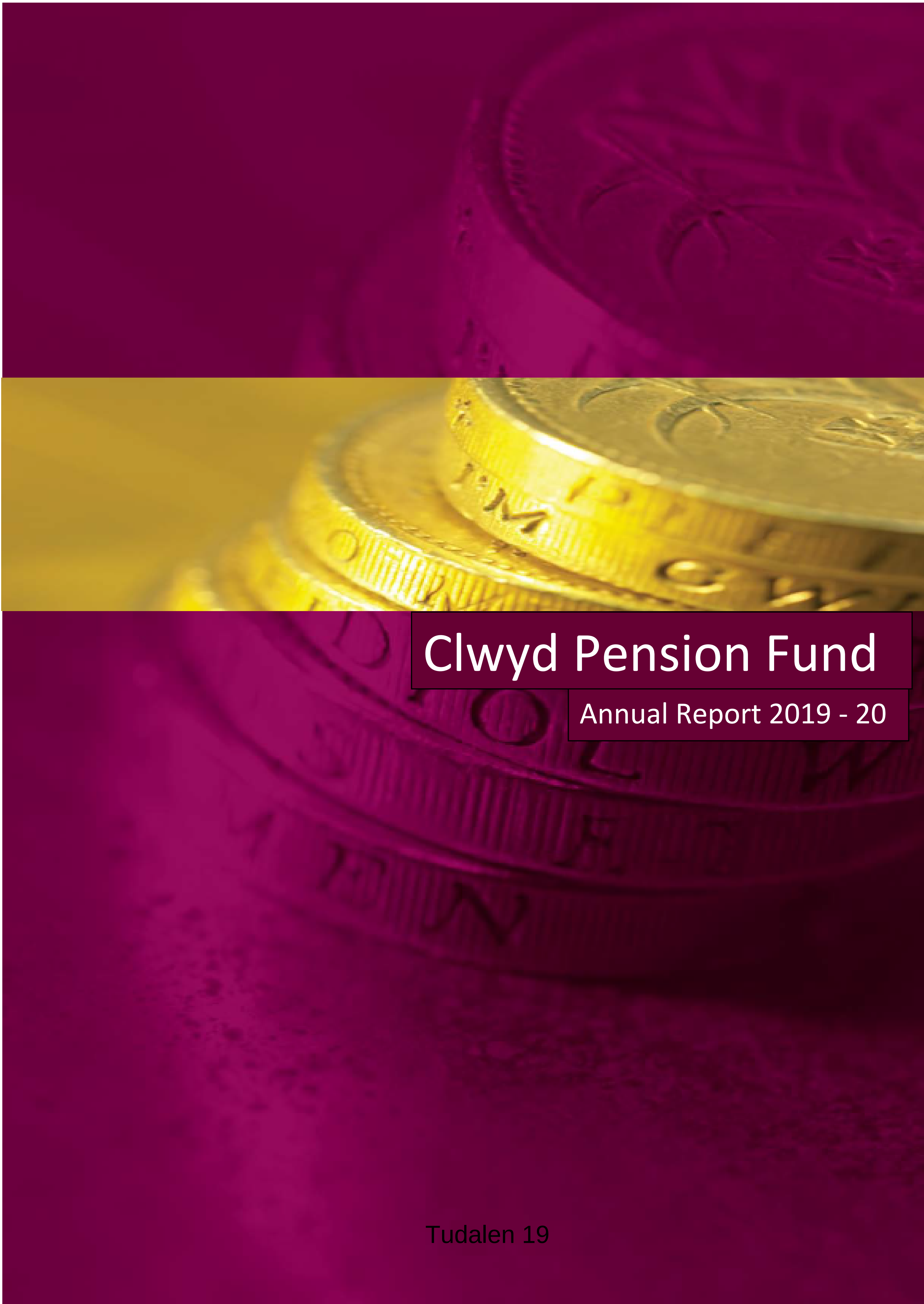
4.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
4.01	None directly as a result of this report

5.00	**RISK MANAGEMENT**
5.01 5.02	The Annual Report and external audit both review and identify whether there are any risks that are not being managed by the Fund. These include, strategic, operational and financial risks. The external audit report of the accounts did not report any risks that the Fund is not already aware of and taking action to reduce.

6.00	APPENDICES
6.01	Appendix 1 – Draft Annual Report 2019/20 Appendix 2 – WAO Audit Report 2019/20 Appendix 3 – Letter of Representation Appendix 4 – Audit queries letter

7.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
7.01	None **Contact Officer:** Debbie Fielder, Deputy Head Clwyd Pension Fund **Telephone:** 01352 702259 **E-mail:** debbie.a.fielder@flintshire.gov.uk

8.00	GLOSSARY OF TERMS
8.01	(a) **CPF – Clwyd Pension Fund** – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region (b) **Administering authority or scheme manager** – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund. (c) **PFC – Clwyd Pension Fund Committee** - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund (d) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of



Clwyd Pension Fund

Annual Report 2019 - 20

CLWYD PENSION FUND ANNUAL REPORT 2019/20

CONTENTS PAGE

Section 1- Structure of the report

CLWYD PENSION FUND ANNUAL REPORT 2019/20

REPORT STRUCTURE

Background and context

Regulation 57 of the Local Government Pension Scheme Regulations 2013 requires the administering authorities of pension funds to produce an annual report. In Wales this includes the year-end financial statements as there is no longer a requirement for these statements to be included as part of the administering authorities' own statements.

The regulation specifies the annual report contents, and this is enhanced by the 2019 CIPFA guidance "Preparing the Annual Report". The Clwyd Pension Fund Annual Report (the report) has been written in accordance with the regulations and guidance.

Structure

The report is structured into a number of individual reports, each dealing with a significant element of the Clwyd Pension Fund's (the Fund) activity and performance. In this way the report ensures that it contains the information necessary to inform the reader of the way in which the Fund was managed and performed during 2019/20.

Section 2 is an introduction by the Chief Executive of Flintshire County Council and the Chair of the Clwyd Pension Fund Committee which summarises the main themes of the report.

Section 3 is the Fund's Annual Governance Statement, a formal document which gives assurance in relation to the Fund's governance arrangements.

Section 4 is a report from the Pension Fund Manager which expands on the governance arrangements of the Fund, the way in which the training needs of those charged with governance are met and the way in which the Fund manages risk.

Section 5 is a report from the Fund's Independent Advisor, which identifies the key achievements of the Fund and key challenges going forward.

Section 6 is the annual report from the Fund's Pension Board, highlighting its role in monitoring the Fund's activities during 2019/20.

Section 7 is a report from the Administration Manager, covering the performance of the administration of the Fund, and identifies key administrative challenges that the Fund faces going forward.

Section 8 is a report from the Fund's Actuary, which covers the actuarial position of the Fund and also explains the position with regard to the flightpath, a long term strategy to ensure stability of funding and employer contribution rates.

Section 9 is a report from the Fund's Investment Consultants focusing on the Fund's policy on investments and the way in which the Fund's investments performed during 2019/20.

Section 10 is the Fund's accounts, a formal document which shows the Fund's financial activity in 2019/20 and its position at 31st March 2020.

Section 11 is a report from the Deputy Head of the Fund which explains the financial activity of the Fund during 2019/20 in more detail.

The governance, management and activities of the Fund are framed by a number of Regulatory and Best Practice Documents. Four of these, the Governance Policy and Compliance Statement, the Funding Strategy Statement, the Investment Strategy Statement and the Communication Strategy Statement are included in the report in Section 12. They and other key policies and strategies referenced on the contents page of the report are available on the Fund's website at the address shown on the Contents Page. In addition, the Fund is subject to a triennial actuarial valuation, and the most recent of these, as at March 2019, may also be found on the website.

Section 2- Introduction

2019/20 Overview

Welcome to the Clwyd Pension Fund (the Fund) Annual Report for 2019/20. Last year's Annual Report identified the main challenges for the Fund for 2019/20:

- A review of the Funding Strategy as part of the 2019 Actuarial Valuation;
- A review of the Investment Strategy Statement, including responsible investment and climate change;
- Managing the ongoing transition of assets into the Wales Pension Partnership (WPP) ;
- Making further progress in achieving the objectives of the Fund's Administration and Communication Strategies

The Fund was expecting changes to the benefit structure as a result of the national Local Government Pension Scheme (LGPS) cost control mechanism or changes to legislation and changes to the Fund's governance resulting from the LGPS governance consultation. Both of these have been deferred until 2020/21.

The results of the 2019 Actuarial Valuation showed major improvement with the funding position moving from 76% in the 2016 valuation to 91%, leading to a reduction in the level of employer contributions. The Funding Strategy has been reviewed alongside the valuation. The Flightpath Strategy has been integral to the improvement in the funding position. The valuation was finalised as the first effects of COVID-19 were appearing, and the impact will be monitored and managed as appropriate in 2020/21.

The impact of the COVID-19 pandemic is evident throughout this year's report. In particular it has affected investment performance leading to a negative return for the year. Whilst the performance in the first three quarters of the year was positive, this was outweighed by the effects of the downturn resulting from the pandemic in the latter part of the fourth quarter. However, set in a longer term context the return remains positive over the five years to March 2020, and remains ahead of the actuarial target. The Fund invests for the long term with a diversified portfolio balancing risk and return.

The review of the Investment Strategy Statement was undertaken during the year, leading to revised investment objectives. Each of the objectives is underscored by the Fund's desire to incorporate sustainability and demonstrate that it is effective as a responsible investor. The Fund's Investment Strategy Statement has been updated to reflect the level of returns required by the Fund's Actuary as included in the 2019 Fund Valuation, and the revised Responsible Investment Policy which now includes a statement on the management of climate risk.

Flintshire County Council as the Administering Authority for the scheme has signed an agreement to formally enter into the WPP with the seven other Welsh LGPS funds. The aim of the WPP is to reduce costs, increase efficiencies and further improve governance over the Welsh LGPS pension funds' investments. The Fund will continue to decide the type of asset it wants to invest in, whilst a professional organisation appointed by the WPP decides which asset manager will be used for each type of investment. In late 2018/19, the Fund's global equity assets were transitioned to the WPP's asset managers but no further asset transfers were undertaken during 2019/20. Further asset transfers will be made during 2020/21. The Fund is represented on the WPP Officer Working Group and Joint Governance Committee. The WPP has a dedicated website, which includes the WPP annual report and policy documents and can be accessed here: https://www.walespensionpartnership.org/

The Fund's Administration and Communications Strategies were updated during the year. The Fund has introduced further improvements to ensure that data passing between the Fund and employers is robust, in particular by continuing to develop the i-Connect system which allows employers to directly enter information improving accuracy, timeliness and efficiency. The Fund also encourages members of the Fund to use the on-line facility Member Self Service (MSS) to view and update personal information.

The number of completed cases has increased reflecting additional resources within the team and improvements in technology during the year. This has contributed to improved performance which has generally had a positive impact on our Key Performance Indicators.

2019/20 has seen steady progress continue in a challenging environment and towards the end of the year the Fund managed the first impacts of the COVID-19 pandemic successfully, ensuring staff remained safe whilst maintaining service levels. Once again the Fund has been supported in its work by the Pension Committee and the Pension Board.

2020/21 and beyond

Looking to the future, in addition to business as usual, our business plan for the next three years has several key themes and tasks:

- Implementing the remedy for the McCloud court case, and any further "cost cap" changes
- Further transition of assets to the Wales Pension Partnership (WPP), and feeding into the ongoing development of WPP policies
- Carrying out compliance checks against The Pension Regulator's new Single Modular Code
- Implementing the Fund's Responsible Investment Policy including climate risk
- Implementing any governance changes as a result of the Scheme Advisory Board (SAB) Good Governance Review
- Understanding any risk and developing controls relating to cybercrime and business continuity
- Finalising and implementing the Fund's cash flow and liquidity policy
- Finalising implementation of digital systems including i-Connect for greater efficiencies in administration.

Clearly, monitoring and managing the impact of COVID-19 will also be a key task for the Fund.

This Annual Report

In this annual report you will find much more detail relating to the points raised above, as well as where to find all of our main strategy and policy statements. More information about the Fund can be found on our pension fund website http://mss.clwydpensionfund.org.uk/. We welcome any comments or questions on the content of this report or on any aspect on the management of the Fund. The Fund's Mission Statement is shown below.

The Fund would like to thank all those involved with the management and administration of the Fund, especially during the unprecedented circumstances resulting from COVID-19, for their continuing hard work and dedication. The Fund would also like to thank the previous Committee Chair, Cllr Dave Hughes, who was in post until June 2019. In addition, the Fund would like to pay tribute to the late Councillor Huw Llewelyn Jones for his dedicated work over 12 years as a member of the Pension Committee.

Ted Palmer
Chair of Pension Fund Committee

Colin Everett
Chief Executive

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.**

Section 3- Annual Governance Statement

Roles and Responsibilities

Flintshire County Council (the Council) is responsible for administering the Clwyd Pension Fund (the Fund), on its own behalf and on behalf of 2 other local authorities (Wrexham and Denbighshire) and 45 other large and small employers in North East Wales.

The main activities involved in managing the Fund are to make and manage investments and to administer the payment of scheme benefits. This is carried out in accordance with the requirements of the Local Government Pension Scheme (LGPS) Regulations and the Public Service Pensions Act 2013.

The Council is responsible for ensuring that all its business, including that of the Fund, is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for and that there are proper arrangements to use money economically, effectively and efficiently. The Council is also required to ensure that the Fund is managed to deliver best value.

Delegation

The Council discharges its duty as administering authority by delegation to the Clwyd Pension Fund Committee (the Committee). The Committee is made up of 5 of the Council's own councillors and 4 coopted members, representing the other 2 local authorities, other employers and the scheme members. There is further delegation for day to day management to the Council's Chief Executive and for proper financial administration to the Council's Section 151 Officer.

In addition, under an inter-authority agreement, there is delegation to the Wales Pension Partnership Joint Governance Committee to reflect the move to the pooling of pension fund assets across the 8 Welsh LGPS pension funds.

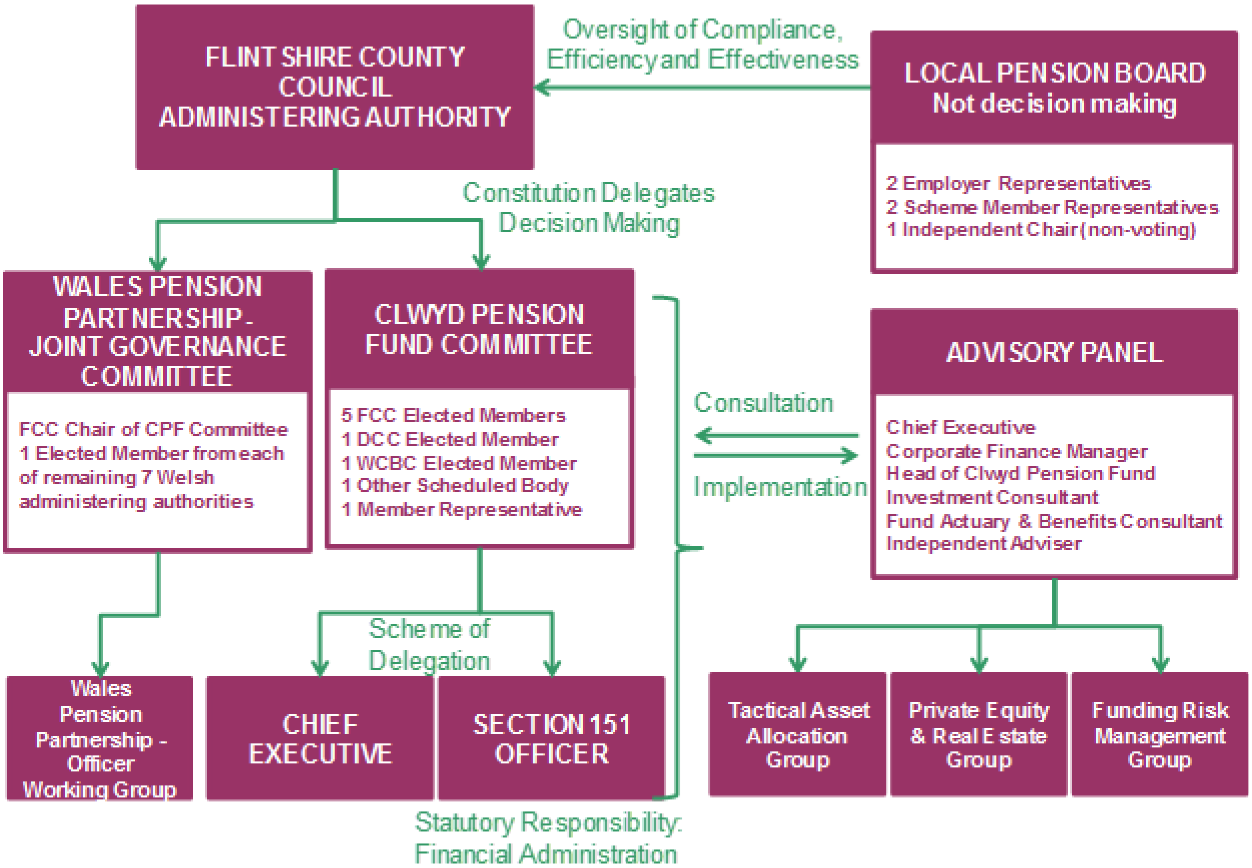
Governance arrangements

The governance framework of the Council comprises an underlying set of legislative requirements, good practice principles and management processes, which supports the philosophy of the Council's operations, the standards it sets itself, the behaviours it expects of itself and the principles it follows.

To help ensure that the governance framework is robust, the Council has developed a Local Code of Corporate Governance (the Code) which defines the principles that underpin the governance of the organisation and is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) Framework: Delivering Good Governance in Local Government. The Code forms part of the Council's constitution and is available on the Council's website. The operation of the Fund is governed by this code. The Council produces its own Annual Governance Statement which reviews the effectiveness of its control environment. The Fund has its own Governance Policy in place. This policy ensures that the Fund complies with its responsibilities under the LGPS Regulations. In accordance with the requirements of the Public Services

Pensions Act 2013, the Fund has established a Local Pension Board (the Board) to act as a partner in assisting the Fund to meet its statutory and regulatory requirements and in administering the Fund effectively.

The Governance Structure for the Fund is shown below. The bodies to which responsibility is formally delegated are supported by the Board, and also an advisory panel and a number of working groups.



The Council's Chief Executive is responsible for the day to day management of the Fund. This includes ensuring that the arrangements for the investment of assets, the receipt of contributions and the payment of benefits are properly managed. In addition, the Chief Executive is responsible for establishing and chairing the Clwyd Pension Fund Advisory Panel (the Panel), which includes officers of the Council and advisors to the Fund. The Panel advises the Committee and carries out matters delegated to it by the Committee from time to time.

The Council's Corporate Finance Manager as Section 151 Officer is responsible for arranging the proper administration of the financial affairs of the Fund. He is CIPFA qualified and is suitably experienced to lead the finance function.

The LGPS regulations require the Fund to maintain a number of strategy and policy documents which are available on its website. Key amongst these are the Governance Policy Statement, Funding Strategy Statement, Investment Strategy Statement, Communication Strategy Statement, and Administration Strategy. These documents describe the Fund's objectives together with the main risks facing the Fund and the key controls which mitigate them. In addition, the Fund has a Business Plan, Breaches Policy, Risk Policy, Conflicts of Interest Policy and Training Policy which support the governance framework.

Financial data is used and managed by the Fund in a number of different ways:

- There is a triennial actuarial valuation which determines long term cash flows, fund liabilities and contributions. In addition, monthly funding projections are also produced by the actuary to help the Fund keep abreast of its funding position.
- Detailed investment records are held and maintained by external partner investment managers and the Fund's global custodian. There is quarterly performance reporting to the Fund of the position on investments.
- The Fund uses the Altair management system to manage the payment of benefits to beneficiaries. Payments to beneficiaries are made through the Council's bank account and are transferred immediately from the Pension Fund's bank account. Financial monitoring reports are prepared using the Council's Masterpiece financial ledger system.

Annual audit reports and Statements of Internal Control are obtained from the investment managers by the Fund and are reviewed by officers to provide assurance that the investments are managed in an adequate control environment. Any significant issues that these reports disclose are reported to the Committee on an exception basis.

Risk Management

The Fund recognises that effective risk management is an essential element of good governance. The Fund has an effective policy and risk management strategy which:

- Demonstrates best practice,
- Improves financial management
- Minimises the effect of adverse conditions
- Identifies and maximises opportunities that might arise
- Minimises threats

Risks relating to pension funds are often outside the Fund's control. The Fund's risk management focusses on measuring the current risk against the Fund's agreed target risk and identifying further controls and actions that can be put in place. These actions are then included in the Fund's Business Plan.

The risks currently identified as key risks are shown in Section 4 of the Fund's Annual Report.

Review of effectiveness

The Committee is responsible for ensuring the continued effectiveness of the governance framework and system of internal control within which the Fund operates. In discharging this responsibility it relies on the assurances of officers, financial monitoring and other reports, the work of internal audit and the work of the external auditors.

The Board assists the Council in securing compliance with the LGPS Regulations and any other legislation relating to the governance and administration of the scheme, and with ensuring the effective and efficient governance of the Fund.

The Fund has in place an Independent Advisor, part of whose role is to carry out an annual review which is included in the Fund's Annual Report.

The Fund completes a governance policy and compliance statement as part of its annual report. This measures the extent to which the Fund's governance arrangements comply with best practice.

As part of his duties, the Corporate Finance Manager ensures that the Council receives an internal audit of the control environment of the Council and the Fund. The audit coverage reviews the control environment within which the Fund operates and helps to ensure that robust arrangements are in place to:

- Safeguard the contributions made by employees and employers used to fund the pension liabilities
- Ensure control is maintained over partner investment managers who are responsible for ensuring that funds are maximised in order to meet liabilities
- Ensure that accurate and timely payment is made to retired members of the fund.

Update on significant governance issues previously reported.

There were no significant governance issues in 2018/19 specific to the Fund.

Significant governance issues

The Head of Internal Audit has confirmed that there are no significant governance issues which need to be reported as a result of the work undertaken by Internal Audit on the control systems of either the Council or the Fund.

The impact of COVID-19 on governance

The last quarter of 2019/20 has seen the growing impact of the COVID-19 pandemic. A 'lock down' period commenced on 23rd March 2020 for Flintshire County Council, and includes Fund officers who are all employees of the Council. Arrangements are in place to enable officers to continue to undertake their duties. Meetings with the Fund's advisors continue, enabled by appropriate technology. Discussions included advice received from the Scheme Advisory Board (SAB) and The Pension Regulator (TPR) on the administration of the scheme during the pandemic. The impact of the pandemic arose at the end of the financial year and the effect in 2020/21 will be much more significant.

Following the Flintshire County Council Cabinet meeting on 17th March 2020, a decision was made to cancel all the Council's formal meetings and events. This included the Clwyd Pension Fund Committee, and subsequently the March and June 2020 meetings of the Committee were cancelled. Where appropriate existing delegated powers are used to make decisions. Members are kept informed through informal virtual meetings and by other electronic means. This will be kept under review and formal Committee meetings will be resumed when appropriate.

Internal Audit Opinion.

Based on the audit work undertaken for the Council and the assurances provided by the Chief Executive, the Corporate Finance Manager and the Head of the Clwyd Pension Fund, it is the Head of Audit's opinion that reasonable assurance can be placed on the adequacy and effectiveness of the governance and control environment which operated during 2019/20.

Certification

It is our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the systems of governance which operate on the Clwyd Pension Fund. Work undertaken by Internal Audit has shown that the arrangements in place are operating as planned. We consider the governance and internal control environment operating during 2019/20 to provide reasonable and objective assurance that any significant risks impacting the Fund's ability to achieve its objectives will be identified and actions taken to avoid or mitigate their impact.

Colin Everett	Ted Palmer
Chief Executive	Chair Clwyd Pension Fund Committee
October 2020	October 2020

Section 4 - Governance, Training and Risk Management

Introduction

This report covers the way in which Clwyd Pension Fund (the Fund) is governed, which includes how the training needs of those charged with governance and senior officers' training needs have been met. It also details the key partners of the Fund and how the Fund deals with Risk Management.

Governance Structure

Background

In May 2014 the Fund's governance arrangements were reviewed and Flintshire County Council as Administering Authority established a formal Pension Fund Committee (the Committee), supported by a Pensions Advisory Panel (the Panel). Additionally, the representation of stakeholders on the Committee with full voting rights was widened. In performing its role the Committee takes advice from the Panel (a group of officers and professional advisors). The Committee has a scheme of delegation to officers to ensure efficient management and receives monitoring reports at each quarterly Committee against the Governance, Funding, Investment, Administration and Communication Strategies and progress against the 3 year Business Plan. The minutes of each Committee are available on the Flintshire County Council website. The membership of both the Committee and the Panel are shown below.

The Public Service Pensions Act 2013, which has been incorporated into the Local Government Pension Scheme (LGPS) regulations, include the establishment of Local Pension Boards. The role of these Boards as defined in regulation is to secure compliance with regulation and legislation and ensure effective and efficient governance. The minutes of Clwyd Pension Board (the 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 Board can be found on the Fund's website, mss.clwydpensionfund.org.uk.

Clwyd Pension Fund Committee

Committee Members		
Flintshire County Council	Cllr Ted Palmer	Appointed Sept 2020
	Cllr Aaron Shotton (Chair)	To Sept 2020
	Cllr Haydn Bateman (Vice Chair)	
	Cllr Billy Mullins	Appointed Sept 2020
	Cllr Kevin Hughes	To Sept 2020
	Cllr Ralph Small	
	Cllr Adele Davies-Cooke	To Feb 2020
	Cllr Tim Roberts	Appointed Feb 2020
Denbighshire County Council	Cllr Huw Llewelyn Jones	To March 2020 (Deceased)
Wrexham County Borough Council	Cllr Nigel Williams	
Scheduled Body Representative	Cllr Andrew Rutherford	
Member Representative	Mr Steve Hibbert	

Advisory Panel

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

Clwyd Pension Fund Local Board

Local Board Members			Voting Rights
Independent Chair	Karen McWilliam		X
Employer Representatives	Mark Owen		✓
	Steve Jackson		✓
Scheme Member Representatives	Paul Friday	To July 2019	✓
	Elaine Williams	Appointed October 2019	✓
	Phil Pumford		✓

Investment Managers

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

Investment Managers	Address
BlackRock	12 Throgmorton Avenue, London
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
Russell Investments	Rex House, 10 Regent Street, London.

Other key partners

Service	Address
Custodian: **Bank of New York Mellon**	160 Queen Victoria Street, London
Actuary: **Mercer Ltd**	Old Hall Street, Liverpool
Consultant: **Mercer Ltd**	7 Charlotte Street, Manchester
Independent Advisor: **Aon Solutions UK Ltd**	122 Leadenhall Street, London
External Auditors: **Audit Wales**	24 Cathedral Road, Cardiff
Bank: **National Westminster Bank plc**	48 High St., Mold
AVC Providers: **Prudential** **Utmost Life & Pensions**	 121 King's Road, Reading Utmost House. 6 Vale Avenue, Tunbridge Wells
Legal Advisors: **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.**	

Clwyd Pension Fund Contact Details

Name	Post	Contact details
Philip Latham	Head of Clwyd Pension Fund	(01352) 702264
Debbie Fielder	Deputy Head Clwyd Pension Fund	(01352) 702259
Karen Williams	Pensions Administration Manager	(01352) 702963
Pensions Administration	pensions@flintshire.gov.uk	(01352) 702761
Pensions Finance	pensionsinvestments@flintshire.gov.uk	(01352) 702812

Training

Clwyd Pension Fund Training Policy 2019/20

There is a growing need for LGPS Pension Committee members, Pension Board members and officers to have an appropriate level of knowledge and skills. This need is being driven by the Chartered Institute of Public Finance and Accountancy (CIPFA), the Pensions Regulator (TPR) and legislation

The Fund has a well-developed Training Policy which details the proposed training strategy for members of the Committee, the 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 Committee members, Board members and senior officers in their personal development and performance in their individual roles, providing a structure which will ensure that the Fund is managed by individuals who have the appropriate levels of knowledge and skills. Details of how to access the Training Policy are included in Section 12 of this Annual Report.

During 2019/20, we conducted a training needs analysis for Committee and Board members. The results of this analysis informed the training plan.

Training Performance 2019/20

In order to monitor the knowledge and skills and identify whether we are meeting the objectives of this policy, we monitor and report on attendance at training events 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 – targeting attendance of at least 80% of the required Committee members and senior officers at planned hot topic training sessions. This target may be focussed at a particular group of Committee members, Board members or senior officers depending on the subject matter.
c) General Awareness – each Committee member, 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.

	Cllr A Shotton / Cllr B Mullin	Cllr H Bateman	Cllr Kevin Hughes	Cllr R Small	Cllr N Williams / Cllr T Bates	A Rutherford	Cllr A Davies-Cooke / Cllr T Roberts	S Hibbert
Committees (3hrs)								

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. 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 Board Members and details all the training to be covered during the year.

Actual performance in 2019/20 was as follows:

a) Individual Training Needs – all have completed at least 2 of the required training key elements in the last three years.

b) Hot Topic Training - Of the 3 additional training sessions offered, the attendance of the 9 Committee Members was as follows:

- Responsible Investment 7
- Investment strategy 7
- Cash and Risk Management 8

c) General Awareness – Out of the total of 9 Committee members 6 of them completed at least one general awareness day in accordance with the policy.

The table below identifies the attendance at Committees and specific training undertaken during 2019/20 by the Committee during that year.

	Cllr A Shotton Cllr B Mullin	Cllr H Bateman	Cllr Kevin Hughes	Cllr R Small	Cllr N Williams/ Cllr T Bates	A Rutherford	Cllr A Davies – Cooke Cllr T Roberts	S Hibbert
Investment Strategy (November 2019 Committee)	✓	✓	✓		✓	✓	✓	✓
WPP Fund Wrappers and illiquids (day)		✓	✓	✓				
(Postponed)								
CIPFA Framework Requirements 2017/18 – 2019/20 Refreshers								
Governance (0.5 day)	✓		✓				✓	
Administration(0.5day)			✓				✓	
Funding & Actuarial								
Investments (0.5 day)	✓	✓	✓		✓	✓	✓	✓
Accounting								
Additional Training & Hot Topics								
CPF Annual Employer Admin Meeting (am)		✓	✓				✓	
CPF AJCM (pm)	✓		✓					
Responsible Investing (Sept 2019 Committee)	✓	✓	✓		✓	✓	✓	✓

Cash Management and Funding strategy (Feb 2020 Committee)	✓	✓	✓	✓	✓	✓	✓	✓
Conferences (Restricted spaces)								
PLSA May 2019								
LGC Investment Summit (1.5 days) Sept 2019								✓
LGC Fundamentals Day 1 (Oct 2019)			✓					✓
LGC Fundamentals Day 2 (Nov 2019)			✓					✓
LGC Fundamentals Day 3 (Dec 2019)			✓					✓
LAPFF Annual Conference (2 days) Dec 2019								✓
LGA Annual Conference 1.5 days (Jan 2020)			✓			✓		
LGC Seminar (1.5 days) Feb 2020		✓	✓	✓			✓	✓

Risk Management

Background

Risk management is embedded in 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.

Given that many pension fund risks are outside the Fund's control, risk management focusses on measuring the current risk against the Fund's agreed target risk (which may still be relatively high) and identifying the further controls and actions that can be put in place. This risk management process is integral in identifying actions that are then included in the Fund's Business Plan.

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 continue to be updated at each Committee meeting as circumstances change.

In particular the Fund recognises that there is a potential impact from the effects of the COVID-19 pandemic which was becoming apparent during March 2020. The immediate risks in relation to understanding and reporting on asset values as at 31st March 2020 were managed in conjunction with the Fund's advisors.

Significant Risks

The table below shows those risks identified in the current risk register as key risks.

Key:

Risk Exposure	Impact/Likelihood
Black	Catastrophic consequences, almost certain to happen
Red	Major consequences, likely to happen
Amber	Moderate consequences, possible occurrence.
Yellow	Minor consequences, unlikely to happen.
Green	Insignificant consequences, almost very unlikely to happen.

Governance

Risk Overview	Risk Description	Current Risk Status	Internal Controls in Place	Target Risk Status
The Fund's objectives/legal responsibilities are not met or are compromised - external factors	**Externally led influence and change such scheme change (e.g. McCloud), national reorganisation, cybercrime, Covid-19 and asset pooling**		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 and expected tasks identified as part of business plan (ensuring ongoing monitoring) 5 - Asset pooling IAA in place 6 - Officers on Wales Pool OWG 7 - Ongoing monitoring of cybercrime risk by AP 8 - McCloud planning being undertaken 9 - Weekly Covid catch ups taking place with senior managers and advisers to consider/manage impact on Fund	
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.**		1 - 2018/19 business plan includes workforce matters 2 - Review of admin structure in 2015/16 3 - Finance team restructure commenced (2017/18) 4 - Quarterly update reports consider resourcing matters 5 - Advisory Panel provide back up when required 6 - Additional resources, such as outsourcing, considered as part of business plan	

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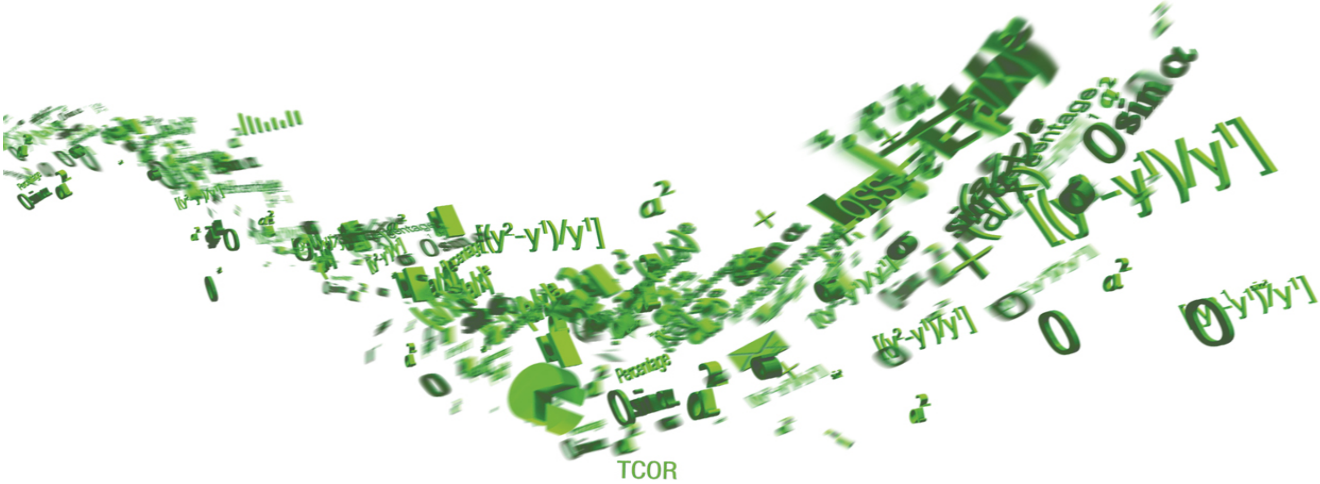
Funding & Investment

Risk Overview	Risk Description	Current Risk Status	Internal Controls in Place	Target Risk Status
Value of liabilities increase due to market yields/inflation moving out of line from actuarial assumptions	**Market factors impact on inflation and interest rates**		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. 5 - Consideration and understanding of potential Brexit implications. 6 – Consideration and understanding of potential Covid–19 implications. 7 -The level of hedging is being monitored and reported	

Administration & Communication

Risk Overview	Risk Description	Current Risk Status	Internal Controls in Place	Target Risk Status
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 (including due to Covid-19)**		1 - Administration strategy updated 2 - Employer steering group established 3 - Greater engagement through Pension Board 4 - Backlog project in place 5 - Establishment of ELT 6 - Increased data checks/analysis (actuary and TPR) 7 - Implemented further APP data checks to identify issues 8 - Updated Admin Strategy to include a compliance declaration 9 - Increased engagement with employers as to how they are managing due to Covid, and ongoing CPF requirements, and also increased monitoring of employer data coming into CPF	
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 including McCloud)**		1 - Ongoing task and SLA reporting to management/AP/PC/LPB to quickly identify issues 2 - Benefit consultants available to assist if required 3 - Recruitment to new posts 4 - McCloud planning being undertaken	
Service provision is interrupted	**System failure or unavailability, including as a result of cybercrime and Covid-19**		1 - 1 - Disaster recover plan in place and regularly checked 2 - Hosting implemented 3 - Implement lump sum payments via pensioner payroll facility 4 - Regular communications with Heywood re how dealing with Covid & early communications with FCC re how to ensure payments are made as a back up	

Section 5 - Independent Advisor Annual Report



Prepared for	Philip Latham, Head of Clwyd Pension Fund, Flintshire County Council
Prepared by	Karen McWilliam, Independent Adviser to Clwyd Pension Fund
Date	10 July 2020

Introduction

This is my sixth annual report in my role as Independent Adviser to the Clwyd Pension Fund (the Fund), focussing on the year 2019/20.

My role

I was originally appointed in early 2014 as Independent Adviser to the Fund and I am delighted to confirm that I was reappointed from April 2020 to continue in this role following a procurement process carried out by the Fund.

My remit is to provide independent advice to the Fund, predominantly on governance and administration matters. This includes reporting annually to stakeholders on whether the Administering Authority (Flintshire County Council (the Council)) is managing all risks associated with governance, investments, funding, administration and communication. It should be noted that I am not required to be, nor indeed am I, 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. I therefore use my working knowledge in these areas (and close working relationship with those appointed advisers) to specifically advise on the governance of these areas rather than on these areas themselves.

This is my sixth 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 2019/20 (April to March), but also touches on some developments that have taken place since March 2020 particularly given the impact of the COVID-19 pandemic. I also highlight some of the ongoing challenges the Council will face, in its role as Administering Authority to the Fund, both in the short term and in the longer term.

Overview

2019/20 has been a year where there have been significant development of the management and operations of the Fund. For the first time in a number of years, there have been no significant changes driven by regulatory changes and the focus has been on the evolution of the Fund's strategies and operations particularly focussing on areas such as digital solutions and responsible investing. As you might expect the impact of the COVID-19 pandemic shadows most of what has happened during the year and I am pleased to report the Fund's excellent response to this. As in previous years, 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, and the overall management and governance of the Fund appears to be in a very good position.

Effective Governance

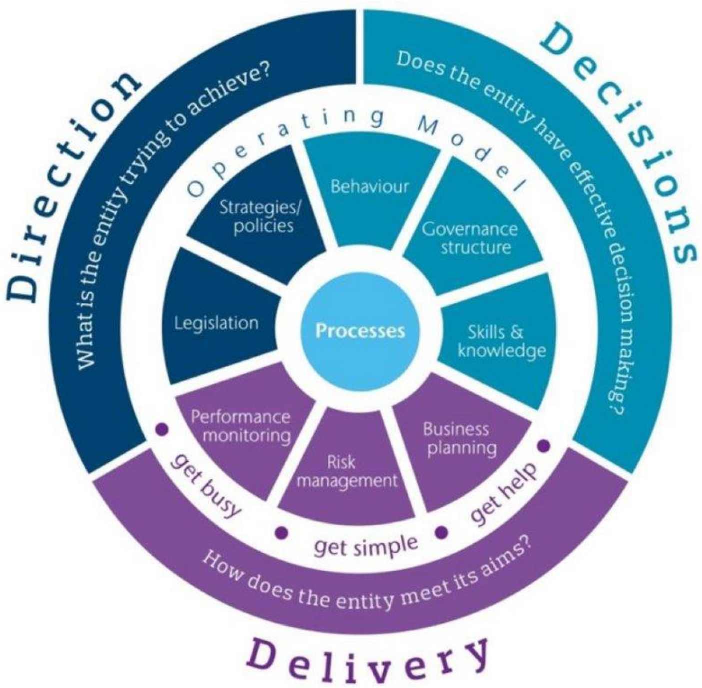
There are some key benefits from having effective governance in place, including:

- 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 Clwyd Pension Fund Committee (the Committee) (or equivalent).

The approach I take in advising the Council in its role as Administering Authority to the Fund is to consider its approach to governance against the Aon governance framework. The Aon 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 management of the Fund, in particular:

- the overall **governance** (i.e. 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:

- Business continuity planning and testing, providing strong foundations for a robust response to COVID-19; implementing major change in ways of working with very little impact on business as usual.
- Fully resourced Administration Team with ongoing intensive training, and good progress in recruiting to Finance Team.
- Excellent standard of general governance, including business planning, monitoring and risk management.

The Fund went into 2019/20 in a strong position with governance arrangements that were well established and operating well including a Pension Board (the Board) providing invaluable assistance and a proactive Advisory Panel (the Panel). Unfortunately, through the year there were a number of changes in membership of the main decision-making body for the Fund – the Pension Fund Committee. Many of these changes are driven at Council level and therefore out of the hands of those involved in the management of the Fund. We were also very sad to hear of the death of Councillor Huw Jones who had been on the Panel/Committee since 2008 and had been a key contributor to the management of the Fund. I was also pleased at the training provided to the new members over a relatively short period to assist them in getting up to speed. Whilst new representatives have joined the Committee during the year we continue to have a good mix of representatives, including scheme member representation, and some with a strong level of knowledge and understanding due to a number of years of service on the Committee. I highlighted my concerns about resource levels, both within the Fund's Finance Team and Administration Team, as well as the need for workforce planning given the age profile of some senior members of staff. This has been an area that has taken a long time to turnaround given the need for a major review of the structure of the teams, a large recruitment drive and then intensive training of newly recruited and promoted staff. It is pleasing to note that activity has created a number of local jobs and well deserved internal promotions. During the year the Administration Team reached full capacity, and the Finance Team recruited to all but one of their vacant positions. The benefits of the increased resource and expertise can be seen in the improvement of the Fund's performance standards (which I comment on further below) and in the smooth delivery of major projects.

I don't think anyone could have pre-empted how we would finish 2019/20 given the speed and severity of the COVID-19 pandemic. However, regardless of the specific circumstances, it is fair to say that the Fund were in an excellent position to deal with it given the hard work they had done in developing their business continuity arrangements over the past two to three years. This included a further test of remote working as recent as December 2019. All members of staff moved to home working on 19 March 2020 in line with the Government's lock-down requirements. At the time of writing (July 2020) this continues to be the case with infrequent office visits by a small number of the team to deal with post and scanning. The team were immediately able to ensure normal business operations were maintained including accessibility by scheme members and employers via phone lines, email and the Member Self

Service (MSS) facility. All systems remained fully accessible for the officers of the Fund, ensuring ongoing payment of all pensions and benefits. Workarounds were put in place for some processes such as providing information relating to deaths and retirements. Decision making continued using existing urgency delegations that are in place, and engagement continued with the Committee and Board using video conferencing facilities. This was the smoothest, quickest and most effective transition to remote working that I have experienced for Local Government Pension Scheme (LGPS) teams, and this is clearly as a result of the business continuity testing that had been carried out.

More generally:

- I feel that the current governance structure is well established and is working as intended. The structure has been proven to allow decisions to be made urgently where required and minimises the risk of inadequate governance during changes in Committee members.
- Attendance at Committee, Board and Panel meetings and training events has been excellent throughout the year.
- The Board continues to play an integral part in the governance of the Fund (recognising my role as Chair of the Board). During 2019/20, the Board had a change in membership, with Elaine Williams taking over from Paul Friday who resigned. The Board have produced a separate report (which can be found elsewhere in this annual report) which outlines the work they have undertaken, 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 overall management of the Fund. I was extremely pleased at the increased number of applications to join the Board during the recruitment process which I believe was in part driven by the clear digital approach the Administering Authority took to the recruitment process.
- I was pleased to see all those involved in the governance of the Fund demonstrating a strong understanding of the potential conflicts of interest that can arise and following the requirements of the Fund's Conflicts of Interest Policy. A number of potential conflicts were properly highlighted during meetings and they were managed appropriately. I am not aware of any potential conflict situations that were not notified in accordance with the Fund's Policy.
- The risk management framework is embedded including in the day to day management of the Fund. Risk management across all areas of Fund responsibilities is considered regularly and forms a standard part of all Committee reports. I believe those involved with the governance of the Fund have a good appreciation of the key risks and are working hard to continuously develop robust internal controls where feasible.
- A wide range of performance measures are in place across the Fund including the areas of administration, investments and funding, and further measures are being developed as the Fund's strategies evolve. These are integral to the day to day management of the Fund and provide assurance that issues can and will be identified in a timely manner, as well as enabling the Fund to evidence strong or improving performance in many areas.
- Business planning continues to be integral to the day to day running of the Fund. The 2019/20 to 2021/22 business plan was agreed by the Committee in February 2019 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 opinion is that the governance of the Fund continues to compare well to the Aon Governance Framework. The Council 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 Council's governance structure for Fund matters works well, as mentioned above, and the individuals charged with managing the Fund are well engaged, committed to their roles and well trained (or in the process of being trained).

Looking to the future:

There are several matters relating to governance that I will be particularly interested in during 2020/21, most of which have been included in the Fund's ongoing business plan which was approved in March 2020:

- It is sad to have to admit that the impact of the COVID-19 pandemic is likely to have a long-term impact on the governance and management of all Pension Schemes. Not least this is likely to result in remote working for many Fund officers during most, if not all, of 2020/21. However, given how quickly officers have adapted to the new ways of working - including the development of new more efficient processes, quick reviews of the appropriateness of ongoing policies and strategies, and making use of robust flexible governance arrangements - it would be good to see what improvements can be adopted or further developed to help the Fund continue to meet its objectives in a more efficient or effective way.
- Resources – the Finance Team continue to have one vacant post which is critical to the overall governance and management of the Fund. There have been several unsuccessful attempts at recruiting to this post and this was also an issue for other Finance Team posts which had to be restructured in order to find successful candidates. Unfortunately this is a regular issue within Local Government Pension Scheme (LGPS) teams throughout the UK, with lack of experienced recruits and public sector pay rates often being contributing factors. It is critical that a solution is found and that this post is filled early in the first half of 2020/21.
- The McCloud remedy programme of work will mainly be carried out by the Administration Team (and mentioned in more detail later in this report) but the impact on resources and focus will be felt throughout the whole Fund governance structure. This will likely extend from 2020/21 through to 2022/23 and so I will be keen to:
  - monitor the impact of this programme on the overall governance of the Fund with a view to evidencing little or no detriment to delivering business as usual and other areas within the Fund's business plan and
  - see clear and regular reporting throughout the programme on the delivery of the McCloud remedy to the Committee, Board and Panel.
- We expect to see two governance related national initiatives launched during the year; the Ministry for Housing, Communities and Local Government (MHCLG) consultation and statutory guidance relating to the LGPS Good Governance project facilitated by the Scheme Advisory Board (SAB), and The Pension Regulator's (TPR) Single Modular Code, which will replace TPR's Public Service Code of Practice. These are expected to encompass some overlapping themes, such as increased clarity on the need for high standards of knowledge and skills, and the proper management of potential conflicts. The MHCLG Good Governance response is expected to highlight the need for LGPS

administering authorities to be able to manage their pension funds with unnecessary restriction due to other local authority policies such as pay freezes. On the face of it, I expect the Fund to already be able to evidence most of the expected requirements from these two initiatives.

- I am becoming concerned at the changes to Committee membership outside of the Welsh local authority election cycle. This clearly has an impact on the governance of the Fund, not least the additional resource required to train new members, and the fact there is generally a long period before members begin to feel comfortable in their understanding of pension fund matters. The Fund is able to manage this and many of these changes are unavoidable, but I would encourage dialogue with the Council to ensure the need for continuity is understood and unnecessary change is avoided. It is also critical that they appreciate the need for a strong Chair given their role as a member of the Wales Pension Partnership (WPP) Joint Governance Committee.
- Cybercrime is a major risk to all organisations and pension funds can be particularly vulnerable given the assets that are being managed, the payment of benefits to scheme members and the personal data held. Work has already commenced by the Fund to consider this risk including the controls that are in place. I look forward to seeing how this evolves so the appropriate assurances can be provided on an ongoing basis.

Funding and Investments (including accounting and financial management)

Key achievements:

- Successful completion of the 31st March 2019 Actuarial Valuation including improved engagement with employers
- Investment Strategy Statement review including an enhanced Responsible Investment Policy with clear priorities
- Seamless production of the Annual Report and Accounts
- Improvements in the governance of WPP.

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:

- 31st March 2019 triennial Actuarial Valuation - the process seems to have gone extremely smoothly. A key objective was to introduce increased engagement with employers of the Fund at this valuation, which I understand has been well received by employers. The Actuary also noted an improvement in the quality of data since the 2016 valuation which I am pleased to see. Finally it is positive that nearly all the employers in the Fund have chosen to include an additional premium to cover expected costs from the McCloud remedy.
- The Fund's Investment Strategy Statement was revised in the second half of 2019 with a particular focus on enhancing the Responsible Investment Policy within this. This involved a large amount of engagement with the Committee including training and then

developing Fund beliefs on responsible investments upon which the revised policy was then based. I was pleased to see that this included some clear priorities such as:

  – Measuring carbon exposure within the Fund's investment portfolio and then setting a target for carbon reduction
  – Having a dedicated Social/Impact allocation of 4% by 2023
  – Improved public disclosure and reporting of Environmental Social and Governance (ESG) matters relating to the Fund's investments
  – Aiming to remain a Tier One signatory of the Stewardship Code.

- For the past two years, the production of the Fund's annual report and accounts has been difficult due to vacancies within the Finance Team. Even though some of the work can be outsourced to external consultants, this is not a long-term solution due to the lack of Fund specific knowledge. A new Pension Fund Accountant has now been recruited and the development of the Annual Report and Accounts was seamless for 2019/20.
- The establishment of the WPP to allow asset pooling in Wales has been ongoing for several years now, and the Fund continues to transfer some of its assets over to WPP's investment sub-funds. It is clearly critical that the Fund has confidence in the ongoing management of WPP to ensure its assets are appropriately safeguarded as well as meeting the investment return targets within the Fund's Investment Strategy Statement. I have had some concern in previous years that some of the governance arrangements have been given lower priority due to the focus being on determining and establishing the investment sub-funds. It is my understanding that the investment sub-funds that are being established are continuing to meet the requirements of the Fund, in that they are suitable alternatives to existing assets being held and they are aligned to the Fund's Investment Strategy Statement. I am also pleased to see good progress around some of the governance aspects of the WPP, including development of the business plan for 2020/21, development of a WPP Responsible Investment Policy and regular meetings with the Chairs of the Wales Local Pension Boards. I am aware that the dedication and commitment of Fund officers has contributed to the success of WPP and ensured that the Fund has been on the front foot in the ongoing development of the Partnership. It would be extremely risky for the Council to take a back seat in the work of WPP given the impact asset pooling could have on the ongoing performance of the Fund.

My general opinion is again that governance of the Fund compares well to the Aon Governance Framework in the area of funding and investments. The Council identifies and sets out clear objectives and has a good attitude to business planning and to risk management. The Council's governance structure works well, with appropriate delegations allowing the Committee to spend their time focusing on strategy. The Council makes good use of external consultants as appropriate, but the knowledge and understanding of individuals within the Pension Fund Team continues to be excellent including relating to recent new recruits, allowing the Fund to benefit from the best ideas from all sources.

Looking to the future:

- One of the key projects for 2020/21 will be implementation of the Fund's updated Investment Strategy Statement, and particularly the agreed Responsible Investment priorities. I look forward to seeing how this develops given the much greater focus on responsible investment, and particularly climate change, whilst ensuring the Fund continues to meet its fiduciary responsibility to its scheme members. There may also be new national guidance issued from the SAB which will need to be considered and which may drive further changes to the Fund's Responsible Investment Policy.
- As mentioned above, there has been significant progress in the transition of assets to the WPP and development of some of the governance policies and processes. The 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 the Fund's requirements and that the governance arrangements, as outlined in the Inter-Authority Agreement, are put into practice. I hope to continue seeing improvements by WPP, provision of sub-funds that meet the Fund's requirements and particularly no or little impact on the delivery of this as a result of the COVID-19 pandemic. It will be important that robust reporting and monitoring information in relation to the sub-funds set up by WPP is available and there is sufficient ongoing involvement of the Fund at both the Joint Governance Committee and Officer Working Groups.

Administration and Communications

Key achievements:

- Data improvements including for the 2019 Actuarial Valuation
- Good progress on the mandatory Guaranteed Minimum Pension (GMP) reconciliation project
- Further successful i-Connect rollout to employers of the Fund
- Continuing increase in scheme member registration for the MSS facility
- General improvement in business as usual service standards.

The first part of 2019/20 was a particularly busy period for the Pensions Administration Team as they prepared the data for the 2019 triennial Actuarial Valuation. As mentioned previously a lot of work had been carried out by the team in identifying and resolving data issues. This also included checks in relation to TPR standards for common and scheme specific data. The scheme specific data checks evidenced an increase in quality of data from 68% to 82% compared to the previous year, with the common data checks being maintained at 92% despite an increase of more than 4,000 scheme members in the data checks. I am delighted to see such an improvement, which will assist with making the calculation of benefits more efficient and annual benefit statements more accurate.

The team also made good progress on the GMP reconciliation project, which must be carried out by all pension schemes that have been contracted out. Much of this work was outsourced which I am extremely supportive of given the amount of work involved and the efficiencies that could be introduced by the external provider. The Pension Administration Team were diligent in overseeing the work and ensuring appropriate quality checks throughout. Outsourcing this work meant the team were able to continue implementing systems and efficiencies which will not only vastly improve accessibility to pension fund information for scheme members and employers, but will also introduce efficiencies that will ultimately help manage these increases in workloads. This includes:

- The ongoing marketing of the on-line MSS facility. Currently approximately 43% of active scheme members are registered to use the facility (and approximately 34% of all scheme members) – both of these have increased by approximately 8% since my report last year. The Fund's Communications Strategy aims to continually move to digital communications (apart from where members specifically opt for paper communications), so it is important that the proportion of members enrolled on MSS continues to increase.
- 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, commenced in 2017/18. Since then the Pensions Administration Team has been launching it to more employers and this is resulting in much more timely and accurate information, including a significant reduction in the number of queries at year-end. Currently 35 out of 48 employers are live on the system, meaning electronic data is being submitted monthly for 94% of active members. TPR actively encourages this form of data submission so I am delighted to see this system nearly fully rolled out across all employers.

I am also delighted at the ongoing improvements in the turnaround times for processing benefits and communications within the Pensions Administration Team. Key performance indicators are monitored for the main processes including dealing with retirements, quotations of benefits, deaths and providing information to new scheme members. In all areas monitored, the percentage of cases completed within the service standard for the Pensions Administration Team has increased, with 83% of nearly 9,000 individual member processes completed within the agreed service standard (an increase of approximately 23% compared to 2018/19). There has also been an increase of about 18% in relation to the total process time i.e. including any time waiting for information from employers or scheme members.

My general opinion is that the Fund compares well to the Aon Governance Framework in the areas of administration and communication. The Council identifies and sets out clear objectives, has an excellent level of performance measurements in place and demonstrates robust business planning and risk management. The knowledge and understanding of the existing individuals within the Fund is excellent, and the Committee's engagement on administration is also excellent (as is the Board's).

Looking to the future:

- As mentioned previously, the McCloud remedy is going to be a major programme of work and the greater part of this work will be carried out within the Pensions Administration Team. Given the magnitude of this and the potential impact on individual scheme members' benefits, it will need to be well controlled and resourced, with robust quality checks and efficiencies gained through bulk processing where at all possible. It will also put a strain on employers in providing data which will need to be well managed, recognising the differences in how employers hold and can collate their own data. Further the communications will need to be clear and focussed on individual circumstances.

- The McCloud remedy is going to have to be the main focus for the Pensions Administration Team in 2020/21 but I would still hope to see i-Connect implemented for the final employers in the Fund.
- Finally I would expect resourcing levels to be adapted appropriately and training to be carried out so that the McCloud remedy has no or little impact on other day to day processes and I would hope to see evidence of this through the ongoing monitoring of key performance indicators.

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. I am delighted to have been reappointed as the Independent Adviser to the Fund and I look forward to continuing to work with everyone involved in the management of the Fund. 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 Fund business.

Contact Information

Karen McWilliam
Partner / Head of Public Sector Benefits and Governance Consultancy
Aon
+44 (0)7711 016707
karen.mcwilliam@aon.co.uk

About Aon

Aon plc (NYSE:AON) is a leading global provider of risk management, insurance and reinsurance brokerage, and human resources solutions and outsourcing services. Through its more than 66,000 colleagues worldwide, Aon unites to empower results for clients in over 120 countries via innovative and effective risk and people solutions and through industry-leading global resources and technical expertise. Aon has been named repeatedly as the world's best broker, best insurance intermediary, best reinsurance intermediary, best captives manager, and best employee benefits consulting firm by multiple industry sources. Visit aon.com for more information on Aon and aon.com/manchesterunited to learn about Aon's global partnership with Manchester United.

Section 6 - Pension Board Annual Report

Introduction

This is the fifth annual report of the Clwyd Pension Fund Board based on the financial year from 1 April 2019 to 31 March 2020.

Role and Membership of the Clwyd Pension Fund Board

The Public Service Pensions Act (PSPA) 2013 requires each Administering Authority in the Local Government Pension Scheme (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 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 (TPR), 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 (the Fund), we have very much embraced this role as being about partnership. We work closely with the Pension Fund Committee (the 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.

Membership, meetings, training and attendance

Our Board membership during 2019/20 is as shown in the table below. Paul Friday, one of our Member Representatives resigned from his role in July 2019 and we thank Paul for his contribution to the Board. Following an application and interview process Elaine Williams was appointed to replace Paul from October 2019 and we welcome Elaine to the Board. We were extremely pleased at the increased number of applications to join the Board and we thank all the applicants for their interest.

During 2019/20 we held three Board meetings (in July 2019, October 2019 and February 2020). At the October 2019 meeting, as part of our regular review of the Board's effectiveness, we agreed to extend the duration of meetings to ensure we cover all topics in sufficient detail and meetings are now scheduled for 4½ hours. It was the Board's preference to have longer meetings, rather than more frequent meetings. All meetings during 2019/20 were quorate. Attendance at the Board meetings during 2019/20 was as follows:

		July 2019	October 2019	February 2020
Mr Phil Pumford	Member Representative	✓	✓	✓
Mr Paul Friday (to August 2019)	Member Representative	✓	N/A	N/A
Mrs Elaine Williams (from October 2019)	Member Representative	N/A	N/A	x
Mr Steve Jackson	Employer Representative	✓	✓	✓
Mr Mark Owen	Employer Representative	✓	x	✓
Mrs Karen McWilliam	Independent Chair	✓	✓	✓

The meetings were also attended by the Board Secretary (The Head of the Clwyd Pension Fund) and Fund Officers who support the Board.
As members of the Board, we have all committed to following the requirements of the Fund's Training Policy which also ensures we meet the legal requirement to have the proper level of knowledge and skills to carry out our Board duties. We attended a range of events and training in 2019/20 to complement the induction training we undertake on appointment. In addition, we are invited to attend the Fund's Committee meetings and their training events.
Our full record of attendance at those meetings, training and events is shown below:

Event	Mark Owen	Steve Jackson	Phil Pumford	Elaine Williams
Committees				
June 2019			✓	
September 2019	✓			
October 2019	✓			
November 2019	✓		✓	✓
February 2020			✓	✓
WPP Pension Board Meeting			✓	
CIPFA Framework				
Governance				✓
Investments & Accounting	✓			
Administration				✓
Additional & Hot Topics				
Annual Joint Consultative Meeting	✓	✓		
Investment Strategy	✓		✓	✓
Responsible Investing	✓			
Cash Management & Funding			✓	✓
LGA Fundamentals Day 1				✓
LGA Fundamentals Day 2				✓
LGA Fundamentals Day 3				✓
Conferences				
LGC Investment Seminar		✓		

What has the Pension Board done during 2019/20?

Our meetings include several standing items, including:

- latest Committee papers,
- reviewing the administration of the Fund including performance against Key Performance Indicators (KPIs) and data improvement activity
- reviewing the Fund's risk register,
- receiving updates on all compliments and complaints, and
- monitoring of our allocated budget.

We continue to focus on the administration of the Fund and have been delighted with progress in this area. Despite the difficulties in recruiting staff with pensions experience, the resourcing of the Administration Team has improved, and we were informed in July that the team were fully staffed. This was particularly pleasing for the Board given our focus on the issue of resources over recent years. Progress towards improved accessibility to pensions information by scheme members through greater digital engagement and communication through the Member Self-Service (MSS) facility has been positive. We have monitored closely the activity with employers on data improvement and we were pleased to see excellent progress including with the ongoing roll-out of the i-Connect system which has been integral to improvements in data quality.

Other key areas of discussion for us during the year included:

- We engaged with Fund Officers on the development of the Fund's Business Continuity Plan. We monitored the practical activities being undertaken by the Fund to assist in the development of that Plan. We heard the success of a disaster recovery test day in February 2020 informing staff they could not have access to the office and were required to work from another location the following day. We were pleased to learn that only minor issues arose during the test day which was also a day when the pensioner payroll was being run. We also learned from the outcome of a bomb scare in the Council Offices which highlighted issues when staff were mid-way through processing a payment run. This is helping to inform the development of the Fund's Business Continuity Plan but, perhaps more importantly, this has assisted the Fund in responding quickly and extremely positively to the impact of the COVID-19 pandemic on providing a normal service to members and employers with all staff working from home.

- We continue to look for assurance on the management of cybercrime risk for the Fund's stakeholders given the continual changing environment in this area. In July 2019, Pension Fund Officers contacted Fund employers and third-party providers to ascertain if they have cybercrime insurance. Building on this engagement in October 2019 we requested that Fund Officers carry out further engagement with the Fund's main IT suppliers on this subject, given the risk to the Fund. At our February 2020 meeting we then considered a draft questionnaire for key suppliers including the pensions administration software supplier and the host authority, Flintshire County Council (the Council). The Fund Officers will be issuing this questionnaire to obtain information on both organisations' cyber security approach. The answers are to be used to assist the Fund in obtaining further assurances as to how both organisations manage cyber risk on their behalf.

- We received regular updates on the progress of asset pooling through the Wales Pensions Partnership (WPP) given the direct impact this can have on the Fund. Our focus remains on the governance of WPP and during the year we have closely monitored their activity in this area including the development of key policies and the WPP's Business Plan. By February's Board meeting we heard of a more positive position with good progress being made on the development of the WPP Business Plan and the expectation that it would be approved at the next Committee meeting. We welcomed greater positive engagement with WPP through the introduction of bi-annual meetings with Welsh Pension Board Chairs and the Host Authority. A report provided at our July 2020 meeting from the Chair of the Board from the first of those meetings (April 2019) and then from Mr Pumford in our October 2019 meeting (from the joint October 2019 meeting) included updates on governance related aspects of pooling. The area of Responsible Investment was reported to the Board during the year including the development of a WPP Responsible Investment Policy. High-profile developments that we received updates on from Pension Fund Officers included the impact of the Woodford case on Link Fund Solutions (as administrator to Woodford) and we have asked that regular updates on developments in these areas are provided.

- We added a standard item to our agenda during the year on the topic of the Guaranteed Minimum Pension (GMP) Reconciliation Project which could impact the amount of some pensions in payment. We were pleased with the progress made and the diligent approach taken through the reconciliation and rectification stages of the project. The Board recognised that the project, being supported by Equiniti, is particularly sensitive given the pensioner overpayment cases that are to be addressed. At our February meeting the Board agreed that they would support historical pension overpayments not being reclaimed.

- The Board asked to be kept updated on the potential impact of Brexit on the Fund and how any potential risk to the Fund was being managed. We received regular updates from the Pension Fund Officers and will continue to do so as the proposals for the future relationship with the EU (which needs to be agreed by 31 December 2020) evolve.

- The impact of the McCloud Supreme Court judgement on the Fund has been monitored closely by the Board with updates provided at each meeting. We have been keen to understand developments nationally and what impact that has on the Fund, including monitoring risks in this area on the Fund's Risk Register. We received an update about the impact of McCloud on the recent 2019 valuation as well as asking about queries from members on this topic. We have been pleased with the Fund's engagement on this issue and expect it to be a major project for the Fund throughout 2020/21 and 2021/22 as a minimum.

- A key area for the Board is assessing compliance with The Pensions Regulator's (TPR's) Public Service Code of Practice and during the year the Board reviewed the annual assessment of the Fund against the Code. We noted the positive improvement in that five areas moved from partially compliant to compliant in the latest assessment, and no areas had moved from being compliant to partially or non-compliant. The Board worked through the amber (partially compliant) and red (non-compliant) in detail with Fund Officers during the February 2020 meeting. We also acknowledge the expected changes in this area with a new TPR Single Modular Code expected later in 2020 to replace the existing Public Service Code of Practice.

- The Board continued to monitor topical developments and have taken a close interest in a number of areas during the year including the progress of the Scheme Advisory Board's (SAB) Good Governance Project, reviewing the findings of Phase 1 and Phase 2. In addition, the legal requirement for investment consultants to set objectives through the Investment Consultancy and Fiduciary Management Market Investigation Order 2019 has been monitored by the Board.

The Board's budget and final spend for 2019/20 are summarised below:

Item	Budget 2019/20	Actual 2019/20	Variance
	£	£	£
Allowances and Expenses	2,136	321	(1,815)
Training	18,432	6,880	(11,552)
Advisor Fees	44,420	43,885	(535)
Other Costs	4,200	3,800	(400)
Total	**69,188**	**54,886**	**(14,302)**

What will the Pension Board do in the future (in particular in 2020/21)?

We have a number of items on our forward plan for 2020/21, 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:

- The implementation of the resources and plans to implement the remedy required from the McCloud Supreme Court Judgement on the Fund – this will be our main focus and the Board has agreed to be part of the Programme Steering Group for the Fund providing ongoing guidance and assistance for what will be a major programme of work. This has a number of risks inherent with it, not least the potential resourcing impact on the day to day Fund services for scheme members and employers.

- The impact of the COVID-19 pandemic on the Fund – this relates to the day to day operations of the Fund including communications with scheme members and employers, the financial impact on the Fund's assets and liabilities, and the potential that some employers may have financial problems impacting on the payment of pension contributions or even cease to exist. Given this is likely to go into 2021/22, the Board will be monitoring this both in relation to short-term adjustments but also longer-term plans.

- Membership of the Committee – including the potential impact of changes in membership, and ensuring quick and effective training is provided for new members.

- Ongoing further consideration of several of the areas noted above, including:
    - Business Continuity assessment and documentation through the Fund's Business Continuity Plan.
    - GMP Reconciliation Project progress and completion.
    - Cybercrime and the resilience of the Fund's systems.
    - Continuous monitoring of both the Administration Team and Finance and Governance Team resources, and monitoring how current resources are improving performance against service standards and Key Performance Indicators.

A budget for 2020/21 has been agreed as follows:

Item	£
Allowances and Expenses	2,058
Training	21,284
Advisor Fees	45,570
Other Costs	4,280
Total	**73,192**

Conclusion and final comments

In our view 2019/20 has been a successful and productive year for the Board, and we are pleased with the work we have completed, which has covered a wide range of fund management areas. We continue to have an excellent working relationship with the Committee and the Fund's officers and are grateful for the way they have all embraced our involvement and for their openness in their interaction with us. 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.

Phil Pumford, Member Representative

Elaine Williams, Member Representative

Steve Jackson, Employer Representative

Mark Owen, Employer Representative

Clwyd Pension Fund Board

E-mail address – PensionBoard@flintshire.gov.uk

Section 7- Administration Report

Introduction

This report describes the way in which the Clwyd Pension Fund (the Fund) delivers its services to members and employers. It identifies current and potential future challenges, and explains the way in which the Administration Team is meeting them. The report also includes Key Performance Indicator (KPI) information and some information on the members of the scheme.

How our service is delivered

The Fund's day to day administration service is provided by the Pension Administration Team which consists of a total of 33.5 Full Time Equivalent (FTEs) members of staff including a Pension Administration Manager.

It is split between:

- an Operational Team
- a Technical and Payroll Team
- a Regulations and Communications Team and
- an Employer Liaison Team (ELT)

It is separate from the Finance Team which manages the Fund's investment portfolio and maintains the Fund's accounts.

The Operational Team delivers a pensions service for over 49,000 scheme members. 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 provides a pensioner payroll service for over 14,500 pensioners and dependents paying more than £6 million per month. The ELT provides assistance to fund employers in providing accurate and complete notifications to the Fund and the Regulations & Communications Team provides regulatory support to all stakeholders and a communication service for members and employers.

The Fund measures Value for Money by achieving its objectives set out in both the Administration Strategy and the Communication Strategy. This incorporates our Mission Statement, which is to be known as forward thinking, responsive, proactive and professional, providing excellent customer focused, reputable and credible service to all customers. Value for money is also measured by utilising technology appropriately, and guaranteeing the administration of the Fund is achieved within budget in a cost effective and efficient manner. To successfully measure these objectives there is a robust Business Plan and Data Improvement Plan in place, incorporating a Risk Register and a Breaches Register. Progress updates on each of these are regularly reported to the Pension Board (the Board) and the Clwyd Pension Fund Committee (the Committee). The objectives within these strategies, such as methods of communication with our stakeholders, and quality of service, are detailed within this report.

Flintshire County Council (the Council) is required by law to administer the Local Government Pension Scheme (LGPS) in Flintshire. It is accountable to the Committee, the Board, participating employers, and scheme members. The responsibilities for scheme administration are met in-house by the Pension Administration Team based within the Chief Executive's Department within the Council. The Pension Administration Team functions include the collection of employee and employer contributions and member data from all Fund employers, the calculation of member benefits and payment of pension benefits to retired members, as well as looking after the benefits for deferred members who have not yet taken payment. The scheme not only provides pensions for members but also survivor benefits to spouses, civil and cohabiting partners and children.

Summary of Activity

In addition to this day to day work during 2019/20 the Pension Administration Team has been addressing a number of significant challenges as described below.

Guaranteed Minimum Pension (GMP) Reconciliation

The Government removed the status of contracted-out from pension schemes in April 2016. Prior to this, contracted-out pension schemes had to ensure the benefits they paid met a minimum level and one element of this was a GMP figure that accrued individually for each scheme member up to April 1997. Historically pension schemes would go to HMRC to get confirmation of the GMP amount on retirement. However, as a result of the demise of contracted-out status, HMRC will no longer be maintaining GMP and other contracting out member records. This means that the onus will be on individual pension schemes to ensure that the contracting out and GMP data they hold on their systems matches up to the data held by HMRC. HMRC ceased to provide this service in April 2019.

Initial work identified that there were significant discrepancies between the sets of data held by HMRC and the Fund, and a significant amount of work has been undertaken to determine the correct benefits, ensuring all systems are updated and processing a number of over/underpayment calculations. As part of the reconciliation 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 dates determined by HMRC.

This exercise was outsourced to a company called Equiniti and a close working relationship with the Administration Team has been developed. The reconciliation part of the exercise is now complete and extract files to update affected active and deferred member records are being uploaded to the administration system. Due to the complexity of the scheme and the impact of COVID-19, timescales were reviewed and the exercise is now due to be completed by the end of 2020. Monthly update meetings continue to be held in order to monitor progress of this project and any decisions needed in order to complete the exercise are reported during these meetings.

Local Government Association (LGA) Communications Working Group (CWG)

The Fund is a member of the CWG and meets other communication professionals from LGPS funds as a collaborative forum, on a quarterly basis, to develop items of communication primarily for scheme members in the LGPS. The group was created and is run by the Local Government Pensions Committee Secretariat (LGPC) (as part of the Local Government Association).

The CWG share knowledge and experience to then assist the LGPC secretariat in the development and provision of centrally devised communications resources. It is considered a strong example of collaboration in action across the LGPS.

The CWG priorities include the identification of best practice within pension communications generally and the LGPS specifically, exploring the areas where centrally produced communications would save individual LGPS funds financial resources and staff time.

Framework

The Fund, along with a number of other founder members have participated in a LGPS Framework working party. This has resulted in the successful launch of a procurement framework for Pensions Administration Software. This framework provides easy and efficient access to specialist providers who are best placed to deliver pensions administration software to support the LGPS (and wider public sector schemes). Using the National LGPS Framework complies with procurement regulations and will save the Fund significant time and money by allowing quicker and more efficient procurement of high-quality and value for money services when required.

General Data Protection Regulation (GDPR)

Since GDPR was introduced on 25th May 2018, stricter data compliance requirements and much higher fines for non-compliance have been in place nationally. To maintain compliance, the Council has implemented data breach handling procedures to comply with GDPR rules requiring the reporting of any serious data breach within 72 hours to the Information Commissioner's Office.

The Fund has a specified Data Protection Representative who is a member of the Council's Information Compliance Officers Group (ICOG). The representative attends quarterly meetings with these group members to discuss data protection issues. This includes issues such as: learning from previous breaches, pro-actively working towards preventing future breaches, and officially documenting privacy notices across all the Council Departments.

All staff members of the Pensions Administration Team have completed data protection online training and this training is renewed every 12 months as part of maintaining compliance.

COVID-19 Update

The coronavirus pandemic forced staff members to work from home and to make changes to processes ensuring service delivery was maintained. In December 2019 the Fund undertook a series of important steps including a full disaster recovery test, imitating a real life scenario and advising staff that County Hall was inaccessible. This included testing pension payments could still be processed, staff members had adequate equipment to work from home and procedural guidance notes were accessible on-line. All of this meant we were in a good position to deal with the impact of the pandemic at short notice.

All staff meetings and training sessions have continued via virtual methods. Adaptations to procedures such as accepting electronic documentation via Member Self Service (MSS) have contributed to ensuring a business as usual approach and avoiding any unnecessary delays in processing benefits.

New KPI Monitoring

The Fund is required to measure and report monthly performance on a regular basis in order to ensure timescales are being met, as set out in the Fund's Administration Strategy. The Fund currently measures 7 categories of workflow, incorporating the legal requirement, overall member experience and the Fund's internal target. However, increasing external scrutiny on all Funds to report additional information has prompted the Fund to undertake a review of its current measures. Utilising Chartered Institute of Public Finance and Accountancy (CIPFA) guidance, the Fund has integrated a further 6 categories of workflow to report on as part of the monthly KPI monitoring.

The review also highlighted the impact that timely provision of data from employers can have on the Fund's capability to meet timescales. An additional measure has been developed to identify when employers have or have not met their Service Level Agreement (SLA) timescales and this is being rolled out in 2020/21. This measure will help the Fund and employers understand what is being achieved and also where improvements are required.

i-Connect

i-Connect is the facility used by employers which enables them to upload their member data to the Fund on a monthly basis. This includes the notification of new starters, leavers, name changes, address changes and job changes. i-Connect ensures timely and accurate data is provided to the Fund and replaces the requirement for employers to submit a year end return. The Fund successfully on-boarded the first employer to i-Connect in 2016 and has since been on-boarding employers in accordance with timescales set out in the administration business plan. Currently the Fund has 35 out of 48 employers live on I-Connect which covers 94% of the active membership. The target is to have all employers using I-Connect by the end of 2020.

Website regulations

Regulations have come into force that require public sector websites to meet national accessibility standards and to publish an accessibility statement on their websites. To meet the government's requirements, websites must achieve level A of the Web Content Accessibility Guidelines (WCAG 2.1). This means that websites should be accessible to people with impairments to their vision, hearing, mobility and thinking and understanding.

To ensure that the Fund's website is compliant with these accessibility regulations, our website should be compliant (or working towards being compliant) by 23/09/2020. At the very least, the Fund must have a website accessibility statement in place by this target date. The Fund is currently researching companies who perform website 'audits' and who are qualified to confirm our compliance with these regulations. Once a suitable company has been chosen and a contract is in place, we will work closely with the company to ensure we are compliant. It is anticipated that our website will still be a work in progress towards compliance by this deadline date but our accessibility statement will be in place by then.

National Pensions Dashboard

The Pensions Administration Manager is participating in a Pensions and Lifetime Savings Association (PLSA) working group on the development of a new Dashboard. The Dashboard is being designed to allow all pension savers in the UK access to view the values of all of their pension pots, including state pension, through one central platform. A consultation was undertaken by Government in early 2019 which sought views on the potential phasing of the introduction of the pensions dashboards as well as how the architecture, funding and governance arrangements would work.

Member 1-2-1 Sessions

The 1-2-1 member sessions completed this year increased significantly compared to previous years' uptake. The sessions ran from September 2019 through to February 2020. The communications team met with 490 members across 16 employers, covering a mixture of active and deferred member records. The 1-2-1 sessions will continue to be an annual occurrence moving forward.

Other Expected National Changes

Cost Management Process

Public Sector Pension Schemes (including LGPS) have been designed to ensure sustainability for 25 years. LGPS has a 2% buffer either side of 19.5% for employer future service pension rates (calculated at a national level). On 6 September 2018 it was announced that the buffer had been breached which means that LGPS is currently under review in order to bring it back to within tolerance. Possible scheme change recommendations to address this issue include a reduction in employee contribution rates. In turn, employer contribution rates could increase. Any scheme changes were originally to be effective from 1 April 2019.

McCloud Case

When the LGPS changed from a final salary to a career average pension scheme in 2014, protections for older scheme members were introduced. Similar protections were provided in other public sector pension schemes. The Court of Appeal ruled that younger members of the Judges' and Firefighters' Pension schemes have been discriminated against because the protections do not apply to them. The Government has confirmed that there will be changes to all main public sector schemes, including the LGPS, to remove this age discrimination. This ruling is often called the 'McCloud judgment'.

The Government is consulting on exactly what changes need to be made to remove the discrimination from the LGPS. If scheme members qualify for protection it will automatically be applied and they do not need to claim.

From an administrative perspective the impact of the court case is likely to result in a change to how benefits are calculated going forward and may also impact a small number of members who have left. This is likely to significantly impact on administration processes and systems as well as requiring a robust communication exercise with employers and scheme members. The additional resource and administration budget requirements to implement the remedy will be substantial.

£95k Exit Cap

This proposal has now been consulted on with the intention of limiting the amount of lump sum payments paid to public sector workers on termination of employment to £95k. It is not yet known if this will definitely impact all local authorites and other public bodies in Wales. However, if implemented within the LGPS it is expected to include the value of the "strain on the Fund" where a scheme member is paid a pension with any reduction for early retirement effectively being waived. This would primarily impact on members where a termination of contract has occurred with the ability to receive a full unreduced pension, often alongside a redundancy payment.

This would be likely to result in a major communication exercise for the Pensions Administration Team advising scheme members and employers of the changes. It will also be likely that changes to current processes and the administration system would be required.

GMP Equalisation

A recent high court judgement has been made on GMP equalisation. The impact on the LGPS remains uncertain but it is likely to result in additional costs to the Fund due to increases in the indexation of pensions to remove the inequality between males and females. If recalculation of pensions already in pay is required, there is a risk that this could result in significant work for the Pension Administration Team.

Looking ahead

Communications and Administration Strategies

Our Communication Strategy follows Regulation 61 of the LGPS Regulations 2013 and has been updated this year following consultation with employers in the Fund, scheme member representatives, Board members and other interested stakeholders. The policy outlines the type of communications the Administering Authority would like to provide to scheme members, scheme employers and prospective scheme employers, the Committee, Board and Advisory Panel (the Panel), Fund staff and other interested organisations.

The chosen methods of communication are monitored and reviewed to ensure they are effective. The main means of communication with the above stakeholders are outlined in the Communications Strategy and include using more technology to provide quicker and more effective communication.

The Communications Team attend a regional communication group on a quarterly basis, to ensure continuity and share ideas about the development of communication for the scheme members. The All Wales Communications Group has also seen meetings resume in March of 2020. The LGA also hosts a national communications group (CWG) of which the Fund is a member.

The Administration Strategy ensures that both the Administering Authority and the employers are fully aware of their responsibilities under the scheme and outlines the performance standards they are expected to adhere to, to ensure the delivery of a high-quality, timely and professional administration service.

The Communication Strategy and Administration Strategy are available on the Fund's website. The strategies were reviewed in 2019 and will not be revisited again until September 2022 (as they are reviewed triennially) unless any fundamental elements change in the meantime that warrant an amendment to the current versions.

As part of these Strategies, Employer Compliance Statements (ECS) were introduced in February 2019. The ECS is an additional checklist for employers to complete when supplying year-end data to the Fund. This is to ensure employers have clarification on their responsibility for supplying correct and verified member data. Since the introduction of the ECS, they have now been adopted as part of the normal year-end process and all employers are responsible for completing and supplying a completed statement to the Fund each year.

Employer Liaison Team (ELT)

Recognising the continuing pressure on resources and budgets for employers and the Administering Authority, the Fund offers assistance to employers in providing accurate and complete notifications to the Fund (and other employer duties) in a timely manner. The ELT mainly assists in providing notifications regarding new starters, personal/employment changes and leavers/retirements in the LGPS by extracting the data from the employers' payroll systems. It undertakes outstanding requests for information in order to cleanse pension records and, through individual agreements, can assist with project work such as retrospective changes to the regulations. The ELT is monitored and progress reported on a regular basis. All costs are met by the employers through their employer contribution rate, based on a case reporting process.

Cyber Security

The Fund has strong internal controls in place to ensure the security of the personal data it holds. Systems, processes, and people are all used to build cyber resilience.

With large volumes of personal and financial data processed within a relatively less sophisticated security environment by comparison to other financial institutions, pension schemes are an increasingly attractive target for cybercriminals. LGPS funds predominantly rely on the processes and security of their parent local authorities due to the IT systems sitting on the local authority infrastructure. The Council currently has a programme of work considering the risk of cybercrime. It is planned that the Pension Administration Team will be part of this work and expand it as required, to give appropriate assurances on the security of the pension systems and a better understanding of any ongoing work required to ensure the appropriate level of security is in place.

Data Quality

Data quality requirements are embedded in the Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations in 2014 and The Pensions Regulator (TPR) now has oversight of the LGPS. The Fund measures two types of data; common and scheme-specific data. When the Fund takes measurements of both types of data, it checks that the data is present and accurate. An annual data score is required by TPR from the Fund in respect of common and scheme specific data, and a calculation is carried out to determine the data score, based on the percentage of members that have fully present and accurate common and scheme specific data. The Fund's data quality was measured in 2019/20 and the scores are 97.4% for common data and 97.2 % for scheme specific data.

A data improvement plan has been put in place and sets out the steps that the Fund will be taking to ensure that the data is present and correct. Reviewing the plan regularly will ensure that objectives are met and will help towards the improvement of the Fund's data scores.

Member and Employer Feedback 2019/20

Every year the Fund carries out a satisfaction survey with members and employers to supply feedback on whether it is achieving its aims and objectives as set out within the Fund's Administration and Communication Strategies. The results for surveys completed in 2020 and 2019 are shown in the table below.

The Fund…..		2019	2020	Target
Administration	… offers documentation, guidance and information in a professional manner?	81.4%	94.0%	90%
	… is proactive in its approach to provide a service to members?	70.1%	87.6%	
	… gives an appropriately timed service with regular updates?	65.9%	83.9%	
	… is customer focused and meets the needs of its members?	70.1%	87.2%	
	… has provided a high quality service throughout to its members?	69.0%	86.0%	
Communications	… promotes the scheme as a valuable benefit and provides sufficient information so you can make informed decisions about benefits?	65.9%	82.2%	
	… communicates in a clear and concise manner?	64.9%	84.9%	
	… uses the most appropriate means of communication?	72.1%	86.2%	
Employer Survey	...offers documentation, guidance and information in a professional manner?	100%	100%	90%
	...is proactive in their approach to provide a service to employers?	87.5%	93.3%	
	...gives an appropriately timed service with regular updates?	87.5%	100%	
	...is customer focused and meets the needs of its employers?	87.5%	100%	
	…has provided a high quality service to you in your role as employer?	87.5%	93.8%	
	... ensures you are aware of your LGPS employer related roles and responsibilities for the administration of the Clwyd Pension Fund?	75%	93.8%	
	… communicates in a clear and concise manner?	100%	93.8%	
	… uses the most appropriate means of communication?	100%	100%	

As a result of the feedback from the survey which was carried out in April, the Fund is sending out more communications to members which will keep them up to date with scheme changes, along with reviewing the language being used.

Some Member Survey comments:

"Having retired abroad I have found the MSS very helpful."

"A good professional service is offered which is always very informative"

"I have always found the service to be approachable, informative and thoroughly professional."

"The website is easily accessible and user-friendly. Queries are dealt with in an efficient and timely manner. The process for re-setting passwords / dealing with access issues is straightforward and easily achieved."

Use of Technology

Clwyd Pension Fund Website

The website contains information about the Fund and LGPS for both current and prospective members along with information for Fund Employers. The website address is www.mss.clwydpensionfund.org.uk

During 2020/21, the review of the Fund's website will continue. This will ensure that the website is continuing to adhere to national standards regarding accessibility.

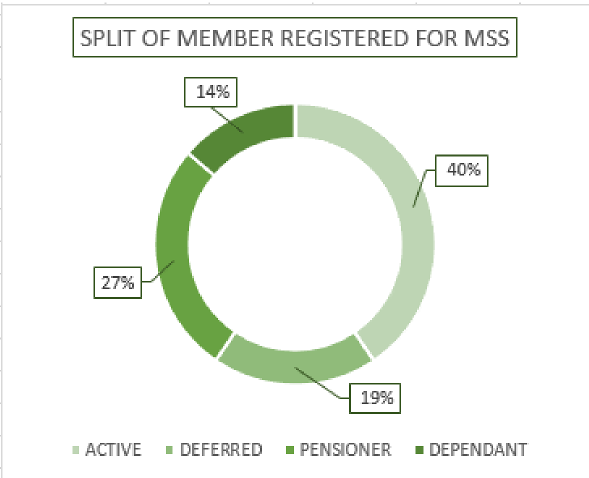
Within the website there are multiple sections to help users navigate their way around and to find the information which they are looking for. Users are able to download scheme literature and forms from the website. All policies, strategies and information on the investments of the Fund are also available.

Member Self Service (MSS)

MSS has been available to scheme members since 2017. It allows members to log into a secure web area to view the information which is held on their account.

The facilities available to our members include:

- updating personal details
- running estimates for retirement using their chosen retirement dates
- updating their death grant expression(s) of wish, and
- viewing all member specific documents

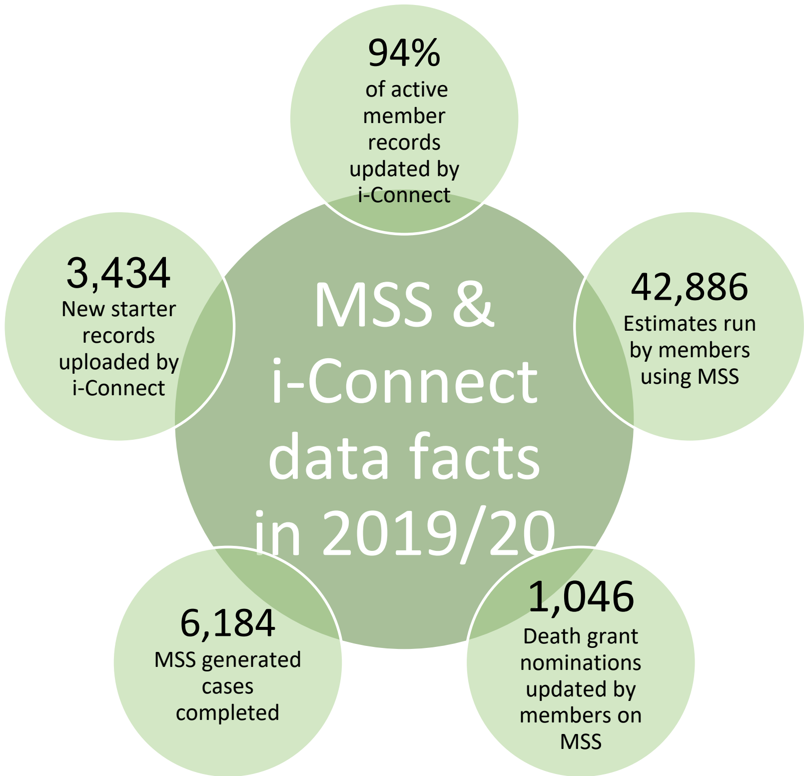


Members who use MSS receive their correspondence electronically, automatically uploaded to their account. They are notified by email each time information is uploaded.

i-Connect

The Fund continues to use the electronic data system i-Connect for working with employers, with the first employer going live in 2017. The system transfers member details from their employer's payroll system directly to the Fund's pension administration system on a monthly basis.

The Technical and Payroll and Regulations and Communications teams liaise with employers to ensure their data is of good quality, accurate and completed in a timely manner. The Fund provides training to any new employers who wish to supply their data through the i-Connect system.



Complaints Procedure

The complaints procedure is officially known as the Internal Dispute Resolution Procedure (IDRP) and the procedure is outlined in regulation 72 of the Local Government Pension Scheme (LGPS) Regulations 2013.

Usually, before IDRP is instigated, an 'informal' complaint is raised by a member and the Pensions Administration Manager or Principal Pensions Officers will attempt to resolve the complaint and confirm this in writing where possible. If the complaint is against an employer decision, it is the employer's responsibility to attempt to resolve this complaint. If the member is dissatisfied with the response, they may appeal. IDRP has a two stage process under LGPS regulations.

Written appeal applications must be made using the Fund's official IDRP forms and must be returned to the Fund within six months of the date of the decision that the member is appealing against.

Stage One of the appeals process requires the Fund's 'nominated person' to investigate the complaint. For Stage One, this nominated person is Mr Yunus Gajra, who works for West Yorkshire Pension Fund. He reviews the dispute and makes a determination as to whether the decision reached was made in line with the scheme regulations. Should the member remain dissatisfied with the outcome they can make an application under Stage Two which can be forwarded to the Fund. Stage Two appeals are heard by Mr Robert Robins (FCC).

If still dissatisfied, members may take their dispute to the Pension Advisory Service and then onto the Pension Ombudsman. The table below summarises the IDRP requests the Fund received in 2019/20 and their outcomes:

2019/2020	Received	Upheld	Rejected	Ongoing
Stage 1 - Against Employers	**9**	**1**	**4**	**4**
Stage 1 - Against Administering Authority	**2**	**0**	**2**	**0**
Stage 2 - Against Employers	**1**	**0**	**1**	**0**
Stage 2 - Against Administering Authority	**0**	**0**	**0**	**0**

Appeal Contact details:	Mrs Karen Williams 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

Scheme Membership details

Details of the number and type of employers and of new pensioners during 2019/2020 and member trends may be seen below.

Summary of Employers as at 31st March 2020

Employers	Active	Ceased	Total
Scheduled bodies	31	20	51
Admitted bodies	17	15	32
Total	**48**	**35**	**83**

51 Scheduled Bodies

32 Admitted bodies

83 Total

2019/2020 New Pensioners

Retirement Type	Number of Cases
Ill Health	31
Early	621
Normal Retirement Age (NRA)	8
Late	87
Redundancy/Efficiency	55
Flexible	31
Triv Comm	69
Total	**902**

Member Trends:

Year	Contributors	Deferred Members	Pensioners	Dependent Pensioners	No. of Enhanced Benefits (Other)	No. of Ill Health Enhanced Benefits
2015/16	15,989	10,271	9,862	1,616	111 Members	18 Members (tier 1 only)
2016/17	15,748	15,679	10,314	1,671	62 Members	27 Members (tier 1 only)
2017/18	16,543	17,822	10,596	1,700	63 Members	34 Members (tier 1 only)
2018/19	16,528	18,583	11,249	1,732	64 Members	15 Members (tier 1 only)
2019/20	17,211	17,745	12,751	1,988	54 Members	18 Members (tier 1 only)

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.

	2019/20	2018/19	2017/18	2016/17	2015/16
Amounts under £100	4,435	6,270	6,164	4,694	6,062
Number of cases	129	154	150	109	146
Overpayments Recovered	29,277	39,685	51,265	30,095	28,126
Number of cases	76	90	102	81	77
Overpayments Written Off	0	2,742	990	1,741	1,284
Number of cases	0	4	3	5	5

Key Performance Indicators (KPI)

Reviewing the task management system and work processes is a continuous exercise undertaken to achieve and report accurate KPI data. The seven processes below are currently reported on, however, the Fund is developing further measurements of service provision in order to increase the transparency of performance. All seven areas have seen a noticeable improvement in completion within target dates this year. The KPI requirements can be found in the Fund's Administration Strategy.

Process	Legal Requirement	No. 2019/20	% 2019/20	CPF Administration element target	No. 2019/20	% 2019/20
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	3363	50%	15 working days from receipt of all information	3363	97%
To inform members who leave the scheme of their leaver rights and options	As soon as practicable and no more than 2 months from date of initial notification (from employer or from scheme member)	1779	94%	15 working days from receipt of all information	1779	60%
Obtain transfer details for transfer in, and calculate and provide quotation to member	2 months from the date of request	224	68%	20 working days from receipt of all information	224	82%
Provide details of transfer value for transfer out, on request	3 months from date of request (CETV estimate)	369	99%	20 working days from receipt of all information	369	92%
Notification of amount of retirement benefits	1 month from date of retirement if on or after Normal Pension Age or 2 months from date of retirement if before Normal Pension Age [4]	1330	75%	10 working days from receipt of all information	1330	95%
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	1005	99%	15 working days from receipt of all information	1005	88%
Calculate and notify dependant(s) of amount of death benefits	As soon as possible but in any event no more than 2 months from date of becoming aware of death, or from date of request by a third party (e.g. personal representative)	165	75%	15 working days from receipt of all information	165	52%

Other performance information

Full time equivalent staff in the Pension Administration Team	Total Fund members	Ratio of staff to members of Fund	Average cases completed per total members of staff
33.5	49,695	1:1483	824

The total number of cases completed annually continues to increase. This has had a positive effect on the performance levels achieved across all areas. Additional resource and developments in technology have contributed towards this success and will continue to be monitored to ensure levels do not drop. In order to satisfy legal requirements the KPI's noted above are measured at a specific point within the case. These numbers will therefore, not match the completed cases shown below which also include other areas of work.

Completed Cases 2019/20

Case Type	Cases
New Starters	3,010
Address changes. Inc. MSS	1,679
Defers	1,400
Refunds	919
Retirements (all types)	1,408
Estimates (all types)	995
Deaths (deferred, active and pensioners)	462
Transfers In	196
Transfers Out	311
Divorce Quote	84
Divorce Share	5
Aggregation	896

2018/19

Total cases completed

25,100

2019/20

Total cases completed

27,589

Contact Details

For further information on this section of the Annual Report please contact:

Mrs Karen Williams, Pensions Administration Manager
Clwyd Pension Fund, County Hall, Mold, CH7 6NA.
Email: Karen.williams@flintshire.gov.uk

Tel: 01352 702963

Section 8 - Actuarial Funding and Flightpath Report

An update from the Actuary

I am delighted to provide my update from an actuarial perspective on the activities of the Clwyd Pension Fund (the Fund) during 2019/20. 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 Advisory Panel (the Panel) and the Funding and Risk Management Group (FRMG). The Panel provides an opportunity for all of the Fund's professional advisors to collaborate, in conjunction with the Fund Officers, to help the Fund achieve its long term objectives. The FRMG is established to specifically manage the Flightpath Strategy and the group has continued to provide strong oversight of the framework to support the long term objectives of the Fund. In particular the response to the COVID-19 pandemic has been excellent, meaning that there has been no impact on the Fund’s operation despite the major challenges of working remotely. This is testament to the governance and oversight of the Fund and in particular the work of the Officers.

2019 Actuarial Valuation

The Fund's triennial Actuarial Valuation took place with an effective date of 31 March 2019. 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 2020 to 31 March 2023 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). I also utilised the employer risk management framework set up by the Fund, which considers an employer’s ability to support their obligations to the Fund by reviewing their covenant. The results of the valuation showed a major improvement in the funding position from 76% to 91%, which is testament to the work carried out by the Fund and is a reflection of the work of the Flightpath Strategy framework that has provided greater certainty of funding outcomes. This improvement allowed us to reduce the overall average employer contributions required based on a reduced average period over which deficit contributions are paid into the Fund from 15 years to 13 years.

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. My valuation report was signed off as at 31 March 2020 which coincided with the early stages of the COVID-19 pandemic and the associated uncertainty in market and economic outlook. I discuss this further below.

Following the completion of the valuation process, the Government Actuary’s Department (‘GAD’) will carry out a review of the actuarial valuations of LGPS funds as at 31 March 2019 pursuant to Section 13 of the Public Service Pensions Act 2013. The GAD will compare a number of key factors, including the assumptions and recovery periods adopted, and funding levels and contribution rates reported. The results will be published once the review is complete.

The Impact of COVID-19

The uncertainty surrounding COVID-19 triggered the most significant fall in domestic and overseas equities since the global financial crisis of 2008, although we have seen some recovery at the time of writing my statement. Whilst the Fund has equity protection in place, the funding level has still been impacted by the volatility that COVID-19 has produced.

The potential impact of COVID-19 is creating a lot of uncertainty and the long term economic impact will have a number of consequences which need to be managed effectively. As well as the potential impact on the financial health of the Fund, it has the potential to affect the Fund's operational arrangements (especially given the need to work remotely) and the affordability of contributions for employers.

While LGPS Funds are long term investors, the COVID-19 impact needs careful management and collaboration between the employers and the Fund.

The response to the crisis by the Fund officers has been excellent and there has been no impact on the running of the Fund. This is testament to the governance structure in place and I am confident that the strong oversight this provided means we are well placed to navigate the uncertainty and challenges that come from COVID-19.

Risk Management Framework

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 has been in operation for 6 years now and there have been big strides forward in achieving the objectives of reaching full funding by 2026.

Over most of the 2019/20 accounting year, the level of risk hedging (the "hedge ratio") within the framework did not change as the market yields and the funding level remained below the relevant trigger points. This is a reflection of the low interest rate environment meaning the cost of increasing the hedge ratio is too expensive at the current time. The various triggers built into the Flightpath Strategy were reviewed alongside the Actuarial Valuation and will continue to be reviewed in light of the impact of COVID-19.

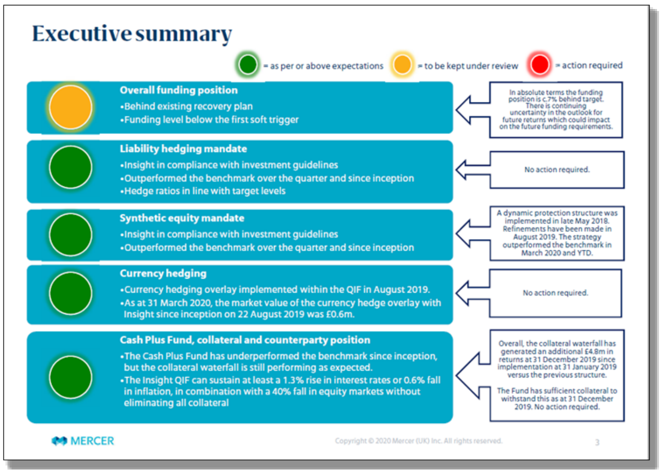
However, in September 2019, the Government announced that the Retail Prices Index (RPI) should be reformed to the lower CPIH inflation measure (Consumer Price Index with owner occupiers' housing costs included) and a consultation was announced on 11 March 2020 as part of the Budget. The consultation is expected to close in August 2020 with an announcement due in autumn 2020. This potential RPI reform poses a risk to the value of the Fund's holdings of inflation-linked assets as part of the

Flightpath Strategy framework. The Fund therefore decided during early 2020 to reduce the inflation exposure by 50% on a temporary basis to partly mitigate this risk. Retaining some inflation exposure protects an unanticipated increase in inflation up to the finalisation of the RPI reform, which could have a detrimental effect on the funding position.

Primarily as a consequence of the impact of COVID-19 and the substantial market falls, the funding plan was behind the target set as part of the 2019 valuation as at 31 March 2020. Overall, using consistent actuarial assumptions, the funding position was estimated to be 85% as at 31 March 2020 which was 7% behind the expected funding level under the new deficit recovery plan. The funding position has improved since 31 March 2020 due to markets improving. As at 31 May 2020, the funding position had improved from 85% to 89%.

The Fund is also in a relatively unique position compared to some other pension funds as the Flightpath Strategy has provided protection due to the level of risk hedging in place. This will help provide more certainty in funding and contributions in the long term. In particular, the equity protection element of the Flightpath Strategy, remained in place throughout the year and beyond in order to protect the Fund and employers and this offset some of the market impact of the pandemic.

Whilst monitoring the funding position is central to my role, it is also important that we ensure other operational aspects of the Flightpath run by Insight Investment Management (Insight) are working correctly, as this is vital to the success of the strategy. Therefore, we monitor on a monthly basis using a red/amber/green ("RAG") rating system and the summary at March 2020 is shown. It can be seen that all aspects were in line with expectations apart from the funding level.



Changes in the Equity Protection Strategy and Currency Hedging Framework

In order to protect the Fund's current strong position, the Fund protects against material ongoing falls in the equity markets via the use of an Equity Protection Strategy. Whilst it does not protect against all falls and all equity assets, as this would be too expensive, the aim is to provide further certainty in employer contributions (all other things equal) in the event of a significant equity market fall.

From 1 August 2019, the Fund increased the equity protection levels of Flightpath assets by 5% in order to further reduce the likelihood of contribution increases in the future. The strategy now protects against falls of 10% or more of the average market position over the previous 12 months. The equity protection structure and cost will continue to be monitored in light of COVID-19.

Currency risk is a risk to the Fund and a strengthening pound would have a detrimental impact on the Fund's deficit, as overseas assets would be worth less in sterling terms. The Fund therefore implemented a currency hedge on part of the equity portfolio with effect from 8 March 2019. This provided the Fund with broadly a 50% strategic hedge ratio.

During August 2019, it was decided to further increase the overall currency hedge to 75% until the outcome of Brexit is clearer.

What are going to be the biggest challenges during 2020/21?

As well as the challenge of dealing with the ongoing implications of the COVID-19 pandemic there are a number of other challenges that the Fund will need to navigate. We mustn't forget that Brexit is on the horizon which will no doubt throw up further challenges depending on the outcome.

McCloud judgment remedy

The McCloud judgment in the LGPS refers to the legal decisions in the Sargeant/McCloud cases for the Fire and Judiciary pension arrangements. The Court ruled that transitional protections afforded to older members when these schemes were amended constituted unlawful age discrimination. Remedial action, in the form of benefit changes for these schemes will therefore be required. Given that the LGPS also put in place protections for older members as part of the 2014 reforms, a remedy will also be required for the LGPS. Once implemented, the McCloud impact is likely to put significant strain upon the administration teams across all funds.

Although the remedy is not known yet, the vast majority of the Fund's employers included a provision for the potential McCloud cost within their certified contributions from 1 April 2020. The timescale for implementation of the remedy is currently unknown for the LGPS. A consultation will take place over the summer of 2020 and an assessment of the financial and operational impact will be needed with consideration as to whether the allowance made in the valuation is adequate.
Whilst we would not expect to change contributions until the next valuation for those employers who made an allowance at the valuation, we will notify employers of the impact (if any) of the final remedy. For those employers who did not make an allowance, consideration will be given to the cost being allowed for in the required contributions.

Regulation changes

We are also expecting a number of regulation changes to take place over 2020, including:

- The ability to review employer contribution rates in-between valuations is expected to be introduced in certain circumstances which will be important for managing the current uncertainty
- The introduction of a ‘deferred employer’ status that would allow employers to defer the triggering of an exit payment by remaining in the Fund with no employees earning further benefits.

The Fund will update the Funding Strategy Statement to reflect these changes when they are implemented.

Despite the big challenges outlined in my statement, I remain confident we are well placed to navigate them in the best way possible by reacting to the ever changing circumstances over the year.

Paul Middleman FIA
Fund Actuary

Section 9 – Investment Policy and Performance Report

I am pleased to provide an update from an investment perspective on the activities of the Clwyd Pension Fund (the Fund) during 2019/20. 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 Fund Advisory Panel and the Funding and Risk Management Group (FRMG).

Investment Strategy Statement (ISS)

When considering the Fund's investments it is appropriate to start with the overall investment objectives, which are set out in the ISS, which has been updated as part of of the Investment Strategy Statement review that has been undertaken and concluded in the year. The revised ISS is appended to this report and sets out the funding and investment objectives for the Fund. The specific investment objectives are:

- Achieve and maintain assets equal to 100% of liabilities within the 13-year average timeframe, whilst remaining within reasonable risk parameters
- Strike the appropriate balance between long-term consistent investment performance and the funding objectives
- 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
- Aim to use the Wales Pensions Partnership (WPP) as the first choice for investing the Fund's assets subject to it being able to meet the requirements of the Fund's Investment Strategy and objectives (including sustainability requirements), within acceptable long-term costs to deliver the expected benefits and subject to ongoing confidence in the governance of the Partnership.

Each of these specific objectives have embedded within them the Fund's desire to incorporate sustainability in its long-term approach and to demonstrate that it is acting effectively as a Responsible Investor. To ensure that the Fund is addressing the issues of being a Responsible Investor, the policies in this area were reviewed at the same time as the Investment Strategy. There is a separate section later in this report that addresses the revisions to the Responsible Investment Policy.

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

The year was dominated by the impact of the COVID-19 crisis on the final three months. Market volatility reached levels never before seen, surpassing those witnessed in the 2008/09 Global Financial Crisis. Significant falls in global markets resulted and uncertainty around the long-term economic outlook resulting from lockdowns seen across the world have affected the Fund in a number of ways. Whilst the Fund has a Risk Management Framework in place, which has protected to an extent, there is no avoiding the longer-term impact of COVID-19. This report and the report of the Fund's Actuary and Risk Management adviser addresses the issues in some detail.

Market Commentary

Following a strong 2019, investment markets started 2020 with the worst quarter since the end of 2008, as the global economy went through an unprecedented synchronised shutdown in light of the COVID-19 crisis.

Over 2019, the global economy continued its expansion, led by the US, which saw a tightening labour market, rising wages and consumer confidence, fuelled by the business-friendly stance of the Trump administration even though trade tensions took some toll on business confidence. Japan, the UK and continental Europe saw more measured growth even though economic data from continental Europe over the year has been hinting at a continued slowdown. In the UK, the outcome of the 2019 election was well received by markets, though uncertainty over how Brexit proceedings will unfold still remains. Headwinds for emerging markets began to soften in early 2019, with improvement on the trade front. In Quarter 1 2020, however, the global economy entered what is expected to be the most severe downturn since the Great Depression while oil prices collapsed simultaneously as a price war between Russia and Saudi Arabia escalated while global demand collapsed simultaneously. Unprecedented monetary easing and fiscal programmes not seen since World War II cushioned the blow somewhat.

Quarter 2 2019 was volatile but global equity markets ended the quarter on a positive note in both US Dollar and sterling terms. Quarter 3 2019 saw a sell-off during August 2019 amid global slowdown fears as well as continued trade tensions. The correction was not as severe as in late 2018 and global equity markets recovered in the end, finishing the third quarter pretty much flat in US Dollar terms but positive in sterling terms. Equity markets then rallied in the fourth quarter as progress on the trade front, as well as the prospect of prolonged easy monetary conditions on a global level, lifted sentiment. Unhedged UK investors saw most of these gains offset by the strong sterling appreciation, which accompanied the outcome of the December 2019 General Election, which was generally well received by markets. The COVID-19 pandemic which originated in China in December 2019 and started to spread globally from the second half of the first quarter of 2020 prompted governments to shut down entire countries including the US, UK and most of Europe. The abrupt halt in business activities and collapse in corporate earnings prompted investors to flee equity markets and shift into safe haven assets with the result being the worst equity sell-off since 2008 even though sterling weakening against US Dollar offset losses somewhat for unhedged UK investors.

Bond markets performed well in 2019 in both US Dollar and sterling terms amidst more dovish central bank rhetoric and a cutting cycle initiated by the Fed that continued up to the end of the third quarter of 2019. Unprecedented monetary easing measures across the globe with the Bank of England cutting the benchmark rate to 0.1% on 19 March 2020 and reinitiating quantitative easing led to a government bond rally in the first quarter of 2020 as yields fell to the lowest level in history across the globe. Amidst the general market volatility the uncertainty about the future of RPI has been weighing on the index linked gilt market. It is difficult to isolate the impact of the uncertainty around RPI from general market uncertainty, such as the potential deflationary impact of COVID-19 or the potentially inflationary impact of monetary easing. Inflation linked government bonds globally have fallen in value relative to nominal assets. A consultation on the future of RPI was launched in March 2020 and whilst some market participants took heart in that it recognised that converting RPI to CPIH would have an impact on index linked gilt holders, the general consensus appears to remain that RPI will converge to CPIH from 2025 or 2030 without any spread adjustment being applied to compensate index linked gilt holders (and other recipients of RPI linked payments). The findings of the consultation and a decision from the government are expected later this year.

UK Property saw moderate returns relative to other risk assets over 2019 but the market was severely impacted by the COVID-19 crisis in March 2020, with heightened market volatility leading to material uncertainty clauses being added to valuations at the date this report is written. In-line with other risk assets, property values experienced significant falls over the first quarter, with buildings let to non-food retail, hotels and leisure tenants worst affected, while those with long-term secure income proving more resilient thus far.

At a global level, developed markets as measured by the FTSE World index, returned -6.0%. Meanwhile, a return of -13.0% was recorded by the FTSE All World Emerging Markets index.

At a regional level, European markets returned -8.0% as indicated by the FTSE World Europe ex UK index. At a country level, UK stocks as measured by the FTSE All Share index returned -18.5%. The FTSE USA index returned -2.3% while the FTSE Japan index returned -2.1%. The considerable underperformance of UK equities is attributed to the index's large exposure to oil, gas and basic materials.

Equity market total return figures are in Sterling terms over the 12-month period to 31 March 2020.

UK Government Bonds as measured by the FTSE Gilts All Stocks Index returned 9.9%, while long dated issues as measured by the corresponding Over 15 Year Index had a return of 17.6% over the year as the longer end of the nominal yield curve fell by more than the shorter end. The yield for the FTSE Gilts All Stocks index fell over the year from 1.36% to 0.66% while the Over 15 Year index yield fell from 1.48% to 0.75%.

The FTSE All Stocks Index -Linked Gilts index returned 2.2% with the corresponding over 15-year index exhibiting a return of 2.0%. Falling inflation expectations offset falling nominal yields to an extent, cushioning the fall of real yields somewhat which explains the underperformance of index-linked gilts relative to nominal gilts.

Corporate debt as measured by the Bank of America Merrill Lynch Sterling Non-Gilts index returned 1.7%.

Bond market total return figures are in Sterling terms over the 12-month period to 31 March 2020.

UK property investors continued to benefit from the improving property market. Over the 12-month period to 31 December 2019, the IPD UK All Property Index returned 2.11% in Sterling terms. Of the three main sectors of the UK Property market, 2 sectors record positive returns and one shows negative over the period (retail: -6.42%; office: 5.02%; and; industrial 7.24%).

The price of Brent Crude Oil fell 67.0% from $ 68.55 to $ 22.60 per barrel over the one-year period. Over the same period, the price of Gold increased 24.4% from $ 1295.72 per troy ounce to $ 1612.10.

The S&P GSCI Commodity Spot Index returned -38.1% over the one-year period to 31 March 2020 in Sterling terms.

Over the 12-month period to 31 March 2020, Sterling depreciated by 4.8% against the US Dollar from $1.30 to $1.24. Sterling depreciated by 7.2% against the Yen from ¥144.23 to ¥133.86. Sterling depreciated against the Euro by 2.6% from €1.16 to €1.13 over the same period.

Clwyd Pension Fund Investment Performance 2019/20

Due to the market falls as a result of COVID-19, the Fund's return was negative in the year, with an overall return of -5.1% for the twelve months, behind the Actuary's long-term return assumption of CPI +2.75%, as quoted in the Investment Strategy Statement (ISS) and Funding Strategy Statement (FSS).

The return of -5.1% compared with a composite benchmark (of the underlying manager benchmarks) of -1.0% and a composite target of -0.7%. Whilst the returns for the year were below the required rate, with the impact of the first quarter of 2020 being significant, it remains appropriate to see this in context of the longer-term performance. Over five years to the 31 March 2020 the Fund achieved a return of +4.8 per annum compared with a composite benchmark of +4.6% per annum. This performance is also well ahead of the Actuarial target of CPI +2.0%.

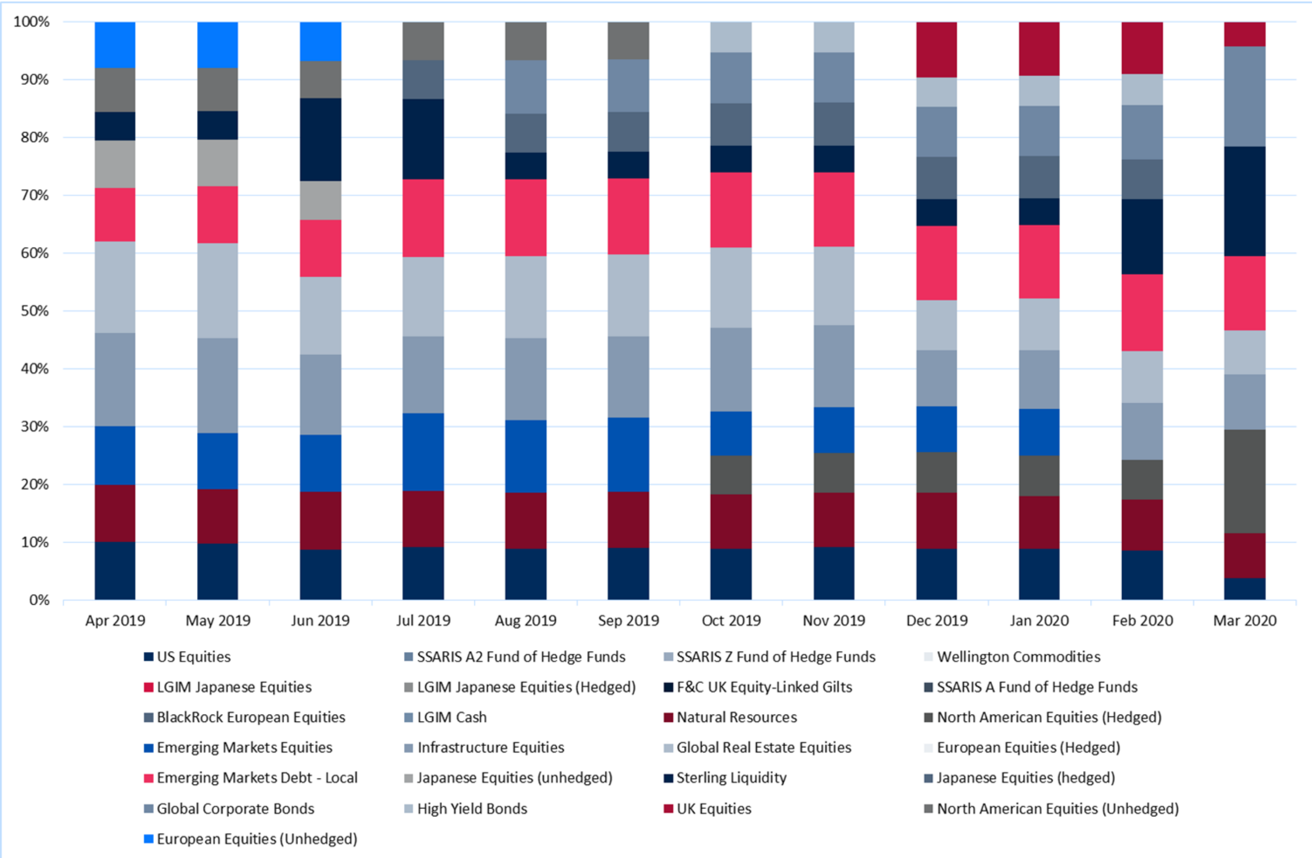
The Equity portfolio that includes Global and Emerging Market Equity exposures returned -10.4% with the market volatility and falls in market values in the last quarter of the financial year resulting in poor performance in both areas. Both Wellington Emerging Markets Core and Local portfolios underperformed their targets over the 12 months. Both of the Fund's Global Equity managers outperformed their targets during the year, however given the market conditions this both meant negative absolute returns. The Russell WPP Global Opportunities Fund returned -4.7%, and the BlackRock World Multi-factor Equity Fund returned -8.2%, compared to their targets of -4.8% and -8.5% respectively.

The Multi-Asset Credit (MAC) portfolio produced a negative return of -10.5% underperforming its target. This portfolio was due to transition to the WPP MAC portfolio in January 2020, however due to the COVID-19 related volatility in markets it has been postponed. At the time of writing, it is due to transition at the end of July 2020.

The Private Credit managers; BlackRock and Permira manage North American and European portfolios respectively, and have continued to commit during the year. Whilst it will take some time to drawdown the full commitment, and the COVID-19 pandemic is likely to see a pause in investments being made, the performance of the portfolios during 2019/20 was affected by the pandemic with values being written down in the final quarter. However, due to positive returns in the previous three quarters the total return for the year was positive at +0.2%.

In a year which saw significant volatility in the first quarter of 2020, the two elements of the Tactical Allocation Portfolio both suffered; at a headline level there was performance of -5.1% which was under the benchmark. However, the portfolio (before the strategic review) comprises two elements; a Diversified Growth Portfolio, which returned -6.1% and a Best Ideas Portfolio that produced a return of -4.2%. Within the Diversified Growth Portfolio, both of the managers underperformed their benchmarks; Investec had a negative return of -9.9% and Pyrford returned -2.3%.

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 Mercer monitor and review the portfolio and make recommendations to the 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 has included regional Equities, Commodities, Corporate Bonds and High Yield US Debt as well as liquid alternatives in the form of listed Infrastructure and Global REITS. It also shows how the underlying holdings have changed following decisions that have been taken by the Tactical Asset Allocation Group over the year. One key holding during the year has been the Sterling Liquidity (cash) fund. This has been particularly helpful in February and March 2020 as market volatility and falling valuations hit all investors.

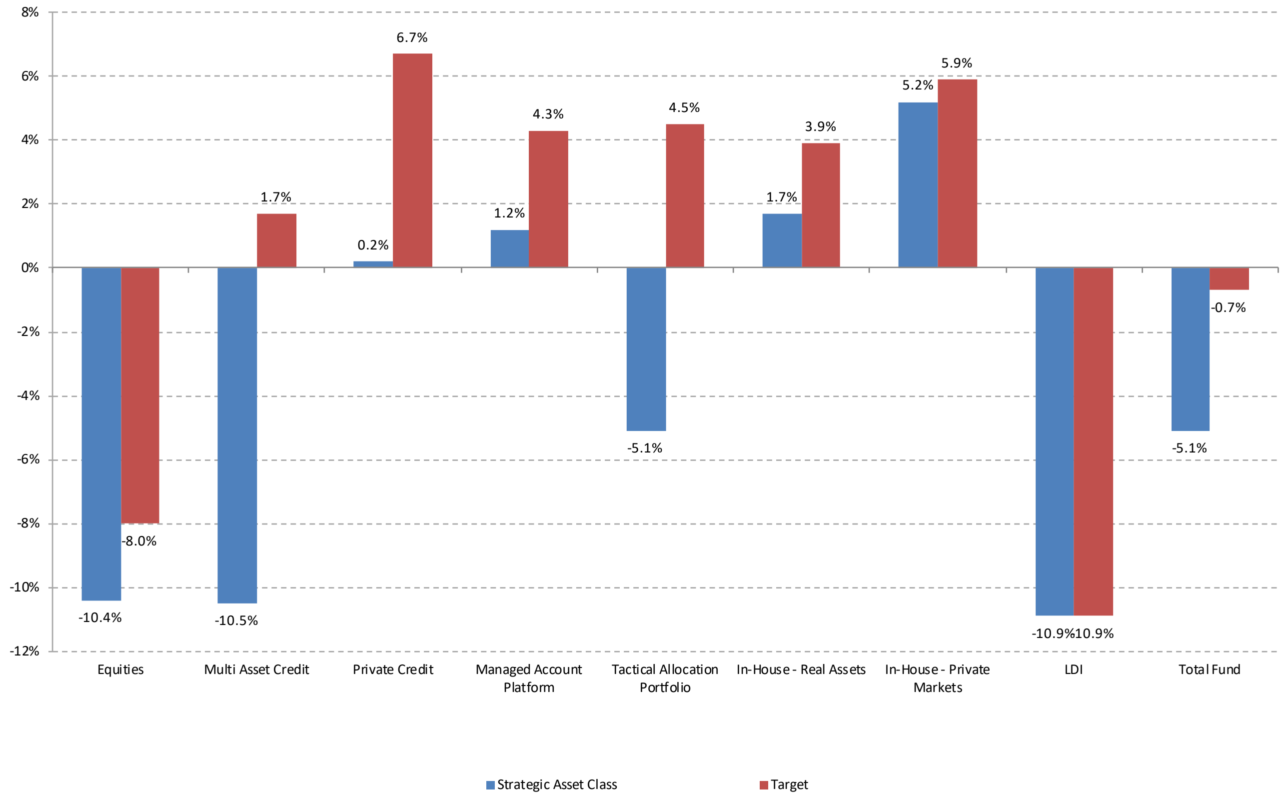
The Managed Account Platform with MANFRM contains a Managed Futures & Hedge Funds portfolio, which produced a positive absolute return of +1.2% during the year. The portfolio was restructured as part of the strategic review and the new structure was in place with effect from April 2020.

In the 12 months under review the internally managed private markets assets achieved a strong positive return of +5.2% and the Real Assets portfolio +1.7%. Valuations of these “Alternative assets” were affected by the impact of COVID-19, however at this stage the impact seen is less dramatic due to the illiquid nature of the assets. . Within the Private Markets portfolio Private Equity performed best returning +6.7%.

The Liability Driven Investment portfolio (a key component of the Flightpath/De-Risking Framework) which consists of regional synthetic Global Equities, Gilt and inflation exposures (as well as equity protection and currency hedging strategies) returned -10.9% in 2019/20. However, the performance of this portfolio over the short term is less relevant due to its risk management characteristics. The performance of this portfolio (renamed Cash and Risk Management Framework in the strategic review) in the period was also skewed by the exposure to Global Equity. Whilst the risk management elements of the portfolio performed as expected and managed the fund’s risks, the dramatic fall in equity markets in February and March 2020 resulted in the overall fall in values.

The following charts below summarise the 12-month performance against the target 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 performance of the key components of the Fund’s Investment Strategy versus their target.



Source: Mercer

Summary of Investment Performance 2019/20

The market conditions for the first nine months of the year were beneficial for investors, and the Fund benefited from these strong investment markets. The Fund saw positive returns across most asset classes, and the market value of the Fund was just over £2.0 Billion at 31 December 2019. However, in February and March 2020 markets suffered significant falls as a result of COVID-19 concerns and global lockdowns. Volatility in markets was recorded at even higher levels than the Global Financial Crisis in 2008/09, and as a result, the total Fund return was -11.2% for the quarter ending 31 March 2020.

As a result the performance of the Fund for the twelve months under review was -5.1%. Since late March 2020, financial markets have moved into positive territory and the Fund's returns have moved in a similar way.

The Fund's focus on risk management has been beneficial during the year when comparing to other LGPS Funds with 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 previous years the Fund's Best Ideas Portfolio (within the Tactical Allocation Portfolio) is evidence of this.

Investment Strategy

The Fund's Investment Strategy was reviewed in conjunction with the Actuarial Valuation in the year, with the final strategy being approved for consultation by the Committee in November 2019. In reviewing the Fund's Investment Strategy, a number of factors were considered:

- The global economic and market background
- Review of asset classes under consideration
- Assessment of the results of the 2019 Actuarial Valuation
- Proposed revised strategy

The new strategy is shown in the table below, and shows the change from the existing strategy:

Asset Class	Current Strategic Allocation	Proposed Strategy	Change
Developed Global Equity	8.0%	10.0%	+2.0%
Emerging Market Equity	6.0%	10.0%	+4.0%
Diversified Growth	10.0%	-	-10.0%
Hedge Funds	9.0%	7.0%	-2.0%
TAA/Best Ideas	11.0%	11.0%	-
MAC	12.0%	12.0%	-
Property	4.0%	4.0%	-
Private Equity	10.0%	8.0%	-2.0%
Local/Impact	-	4.0%	+4.0%
Infrastructure	8.0%	8.0%	-
Private Credit	3.0%	3.0%	-
Cash & Risk Management Framework	19.0%	23.0%	+4.0%
Total	100.0%	100.0%	

The first key consideration in reviewing the Investment Strategy is the key assumptions contained within the Actuary's valuation. These assumptions include a required rate of investment return. For the 2019, Valuation the Actuary has assumed a rate of return of Inflation (measured by the Consumer Prices Index (CPI)) +1.75% for past service and Inflation or CPI +2.25% for future service. It is therefore crucial that the Investment Strategy achieves a return in excess of this future service rate of CPI +2.25%.

The key desired outcomes from the review were to set a long-term Strategic Asset Allocation for the Fund that would:

- deliver the level of returns required by the Fund's Actuary, and;
- do this at an acceptable level or risk, and;
- where possible seek to reduce the overall level of investment management fees paid by the Fund.

The other key consideration when considering implementation of the Investment Strategy was the role of the WPP.

The revised strategy (shown in the table above) was assessed against Mercer's long term market forecasts, and we have estimated that the new strategy will deliver a long term (10 year) return of 5.6% per annum, compared to the existing strategy which delivers an estimated 5.4% per annum. This forecast return of 5.6% (or CPI +3.4%) is comfortably ahead of the Actuary's required rate of return of CPI +2.25%.

We have also assessed the risks of the revised strategy and estimate that the overall risk levels increase by around 1.5% when compared to the existing strategy. We assess that this level of risk is acceptable to the Fund and, that due to the strategic overall approach to risk management, is appropriate.

The key changes to the strategy are:

Removal of allocation to Diversified Growth Funds (DGF)

- Performance across the DGF universe has been poor.
- The Fund has other ways to invest tactically, such as the Best Ideas portfolio.
- Overall diversification within the total Fund leads to a less compelling case to invest in DGFs.

Increase allocation to Global and Emerging Market Equities

- Linked to removal of DGF allocation, both DGFs had an underlying allocation to equity. The increased allocation is therefore, at least in part designed to replace this.
- In the longer term, Emerging Market equities will offer the potential for higher returns than Developed Global Equity.
- The Fund is allocating to a Low Carbon ESG portfolio to support the Fund's proposed Responsible Investment objectives.

Reduce Strategic weight, and restructure Hedge Fund allocation

- Allocation to Hedge Funds was 7% of the total Fund; existing strategic target weight was 9%.
- Performance had been weak, plus the wider investment allocations that the Fund has; the new strategy has a reduced strategic weight of 7%.
- Since the mandate was originally designed, the Fund's Risk Management Framework has evolved to cover a number of areas.
- Hedge Fund mandate restructured to offer wider opportunity set.

Creation of an explicit Local/Impact portfolio

- The Fund's In-House Private Markets portfolio has a number of investments that are seeking to make a positive contribution to the Environment or Society more widely whilst still making an appropriate level of investment return.
- This change to the strategy explicitly creates an allocation to this area, and enables the Fund to continue to make these specific investments.

- Funded in part by a reduction in the strategic weight for Private Equity; however, this includes a number of existing investments that have been identified to form the basis for the new portfolio.

Increase allocation to Cash and Risk Management Framework

- Framework has been in place for a number of years and has evolved in a number of ways to help the Fund effectively manage its investment risks.
- Valuation of the portfolio has increased over time and has moved to an overweight position versus the strategic weight.
- It is not appropriate to look to reduce this.
- This allocation will also be used to manage the Fund's cash-flow requirements. This change effectively brought the strategic weight in line with the actual position.

The Fund's Investment Strategy continues to be more diversified than most Local Government Pension Scheme (LGPS) Funds and incorporates a Flight-path/De-Risking Framework, which differentiates the Fund from many other LGPS Funds. The aim of the Fund's strategy remains 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. It does appear that other LGPS funds are continuing the move to more diversified strategies as the average LGPS fund has 51% allocated to equity, compared to 55% as at 31 March 2019, and 62% as at 31 March 2017. However, this is still significantly higher than the Fund is.

The Cash and Risk Management Framework is a key feature of the Fund's Investment Strategy and looks to manage a number of the key risks. As described above the strategic target weight has been increased as part of the recent review, demonstrating that it remains strategically important. This portfolio is explained in more detail in the Risk Management section of the Actuary's report.

Since 2015, the Fund has invested via the Tactical Allocation Portfolio which included a Diversified Growth Portfolio comprising two DGF managers (Investec and Pyrford) and a Best Ideas Portfolio. The new strategy has removed the allocation to DGF, with the Best Ideas portfolio remaining.

The Best Ideas Portfolio is a short-term (12-month horizon) tactical allocation based upon Mercer'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 material size of this allocation (11% of total Fund assets), further detail is provided in the Performance section of this report.

The Fund’s existing strategic asset allocation, strategic and conditional ranges (established following the 2016 review), is 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
Multi Asset Credit	12.0	10.0 – 15.0	5 – 20
Private Credit	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
Diversified Growth	10.0	8.0 – 12.0	5 – 15
Best Ideas Portfolio	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
Property	4.0	2.0 – 6.0	0 – 10
Infrastructure*	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

Manager	Mandate	Strategy 18/19	Actual 31/03/19	Strategy 19/20	Actual 31/03/20
Equities					
WPP Global	Global Equity	4.0%	4.2%	4.0%	4.2%

The table below shows the revised strategic asset allocation, which will take effect from April 2020.

Strategic Asset Class	Strategic Allocation (%)	Strategic Range (%)	Conditional Range (%)
Developed Global Equity	10.0	5.0 – 15.0	0 – 30
Emerging Market Equity	10.0	5.0 – 15.0	0 – 30
Hedge Funds	7.0	5.0 – 9.0	0 – 15
TAA/Best Ideas	11.0	9.0 – 13.0	0 – 20
Multi-Asset Credit	12.0	10.0 – 14.0	0 – 20
Cash and Risk Management Framework	23.0	10.0 – 35.0	0 – 40
Private Markets			
Property	4.0	2.0 – 6.0	0 – 8
Private Equity	8.0	6.0 – 10.0	0 – 15
Local/Impact	4.0	0.0 – 6.0	0 – 8
Infrastructure	8.0	6.0 – 10.0	0 – 15
Private Credit	3.0	1.0 – 5.0	0 – 6

The following table shows the strategic allocation compared to the actual asset allocations as at 31 March 2019 and 31 March 2020. The table reflects the previous strategic weights as the new strategy takes effect from April 2020.

Opportunities					
Wellington Management International Ltd	Emerging Markets Equity	6.0%	6.4%	6.0%	5.7%
BlackRock	Global Equity	4.0%	3.8%	4.0%	3.7%
Credit					
Stone Harbor Investment Partners	Multi-Asset Credit	12.0%	10.9%	12.0%	10.3%
Permira [1]	Private Credit	1.8%	1.4%	1.8%	1.5%
BlackRock [1]	Private Credit	1.2%	0.3%	1.2%	0.8%
Managed Account Platform					
ManFRM	Managed Futures & Hedge Funds	9.0%	7.4%	9.0%	7.9%
ManFRM	Hedge Funds (Legacy)		0.1%		
Tactical Allocation Portfolio					
Pyrford International		5.0%	4.5%	5.0%	4.6%
Investec Asset Management[2]	Diversified Growth	5.0%	4.5%	5.0%	4.2%
In-house	Best Ideas Portfolio	11.0%	10.7%	11.0%	10.8%
In-House - Real Assets					
Various	Property	4.0%	6.6%	4.0%	7.1%
Various	Infrastructure	6.0%	3.6%	6.0%	6.3%
Various	Timber/Agriculture	2.0%	1.3%	2.0%	1.1%
In-House – Private Markets					
Various	Private Equity	8.0%	8.9%	8.0%	9.8%
Various	Opportunistic	2.0%	2.6%	2.0%	3.0%
Insight	Liability Driven Investments	19.0%	22.7%	19.0%	17.9%
Cash			0.3%		1.1%

1) The Credit Portfolio has a 3.0% allocation to Private Credit, which was established in 2017. Draw down will take some time. As part of the strategic review, Private Credit now forms part of the overall Private Markets portfolio.
2) Investec Asset Management were renamed Ninety One in March 2020.

Responsible Investment

In 2019, the Fund undertook a review of its Responsible Investment Policy in conjunction with the overall review of the Strategic Asset Allocation. The target for this review was to re-affirm the Fund's existing beliefs, supplement these with additional views if appropriate and consider ways in which these views could be implemented.

As a result of this review, the Fund's long standing Responsible Investment Policy was updated to reflect current attitudes and thinking. In addition, to help formally frame the policies the Fund has set a number of high-level beliefs that will sit over the more detailed policies, and will convey the Fund's overarching attitude to being a Responsible Investor.
The Fund's ISS includes the full Responsible Investment Policy and includes the approach to Investment Pooling, Stewardship and Engagement and Reporting and disclosure. The Policy includes the Fund's Responsible Investment beliefs, and a set of Principles. It also sets five key Strategic Responsible Investment Priorities for the work in this area over the next three years.

Engagement and Voting

The Fund requires that its managers report how they voted the shares held within their portfolios. A summary of the voting activities of the managers for 2019/20 is shown in the following table.

Manager	Annual/ Special Meetings	Proposals	Votes For	Votes Against	Votes Abstained	Not Voted/ Refer/ Withheld
BlackRock	186	2,514	2,342	156	10	6
Ninety One	117	1,425	1,353	46	9	12
Pyrford	60	890	859	31	0	0
WPP-Russell	93	817	696	84	2	35
Wellington	161	1,498	1,244	196	30	28

United Nations Principles for Responsible Investment

The Fund engages with all of its asset managers to ensure that they are fully aware of their responsibilities with regard to sustainability, and one of the ways in which the fund management industry can demonstrate that it takes its responsibilities seriously is to become a signatory to the UN Principles for Responsible Investment (UN PRI). Firms that are signatories to the UN PRI are required to commit to a set of six principles promoting and incorporating Environmental Social and Governance (ESG) principles into all aspects of its work. The Fund's major asset managers Wellington, BlackRock, Insight, Pyrford, Ninety One, MAN Group and Stone Harbor are all UN PRI signatories. For sake of completeness, Russell are not considered a direct manager of assets as they manage a portfolio of underlying investment managers. These underlying investment managers are being encouraged to become signatories to the UN PRI.

Summary of the Longer Term

The market value of the Fund has increased from approximately £943m in 2010 to £1,777m in 2020.

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

Period (Years)	Clwyd Pension Fund (%) pa	Clwyd Benchmark (%) pa	Average Local Authority (%) pa
1	-5.1	-1.0	-4.8
3	+1.3	+2.9	+1.9
5	+4.8	+4.6	+5.2
10	+5.9	+6.0	+6.9
20	+4.8	+4.9	+5.5

Source: Mercer, PIRC

The following table documents the changes in the Fund's 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 in 2019, and the new strategy will take effect from April 2020, therefore the existing strategy is shown as this was in place at 31 March 2020.

Investment	2001 (%)	2004 (%)	2007 (%)	2011 (%)	2015 (%)	2017 (%)	2020 (%)	LGPS Average
Equities								
Global Unconstrained	-	-	5.0	5.0	8.0	4.0	4.0	
Global Developed (Smart Beta)	-	-	-	-	-	4.0	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	6.0	
Frontier Markets Active	-	-	-	-	2.5	-	-	
Developed Passive	-	-	-	19.0	-	-	-	
	72.0	**66.0**	**55.0**	**43.0**	**17.0**	**14.0**	**14.0**	**51.0**
Fixed Interest								
Traditional Bonds	10.0	9.5	-	-	-	-	-	
High Yield/ Emerging	1.5	2.0	-	-	-	-	-	
Unconstrained	-	-	13.0	15.0	15.0	12.0	12.0	
Private Credit (illiquid)	-	-	-	-	-	3.0	3.0	
Cash/ Other	2.5	0.5	-	-	-	-	-	
	14.0	**12.0**	**13.0**	**15.0**	**15.0**	**15.0**	**15.0**	**21.0**
Liability Driven Investment	-	-	-	-	**19.0**	**19.0**	**19.0**	-
Alternative Investments and Cash								
Property	5.0	7.0	6.5	7.0	7.0	4.0	4.0	
Infrastructure	0.5	5.0	1.5	2.0	2.0	6.0	6.0	
Timber/ Alternatives	-	-	1.5	2.0	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	10.0	
Hedge Fund of Funds	4.0	4.0	5.0	5.0	-	-	-	
Hedge Fund Managed Account Platform	-	-	-	-	9.0	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	10.0	
Tactical Allocation (Best Ideas)	-	-	-	-	9.0	11.0	11.0	
	14.0	**22.0**	**32.0**	**42.0**	**49.0**	**52.0**	**52.0**	**28.0**

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		
Property Closed Ended Holdings			
Aberdeen Property Asia Select	2	Bridges Property	2
BlackRock US Residential	1	Igloo Regeneration	1
Darwin Leisure Property	2	Threadneedle Low Carbon	1
Franklin Templeton	2		
InfraRed Active Property	3		
North Haven Global Real Estate	3		
Paloma Real Estate	2		
Partners Group Global Real Estate	2		

Timber			
		BGT Pactual Timberland	2
		Stafford Timberland	3
Agriculture			
		Insight Global Farmland	1
		GMO	1
Infrastructure			
Access Capital Infrastructure	1	InfraRed Environmental	1
Arcus European Infrastructure	2	Impax Infrastructure	2
Base Camp	1		
Carlyle Global Infrastructure	1		
GSAM West Street Infrastructure	1		
HarbourVest Real Assets	1		
Hermes Infrastructure	1		
InfraRed	2		
Innisfree	1		
JP Morgan Infrastructure	1		
Newcore Strategic	1		
North Haven Global Infrastructure	3		
Pantheon	1		
Partners Group Direct Infrastructure	1		
Total Funds	**40**		**14**

PRIVATE MARKETS

Private Equity Direct Funds	Number of Funds	Environmental/Social Impact	Number of Funds
Access Capital	1	Bridges Ventures	2
Apax	4	Environmental Technologies	3
August Equity	3	Ludgate Environmental	1
Capital Dynamics	3		
Carlyle	2		
Charterhouse	3		
ECI	3		
Granville Baird	2		
Partners Group Direct	2		
Unigestion	1		
Private Equity Fund of Funds			
Access Capital	4	HarbourVest Cleantech	1
Capital Dynamics	7	Hermes Environmental	1
HarbourVest	5	Partners Group Life Fund	1
Partners Group	10		
Standard Life	2		
Unigestion	2		
Opportunistic			
BlackRock European Property	2	Foresight Regional Investment	1
Carlyle	2	Development Bank of Wales	1
Dyal	1		
JP Morgan Secondary's	1		
Marine Capital	1		
Marquee Brands	1		
NB Credit Opportunities	1		
North Haven Asia	1		
Pinebridge Structured Capital	1		
Total Funds	**65**		**11**

Private Debt	
Permira	1
BlackRock	1
Total Funds	2

Kieran Harkin

Head of LGPS Investments

Section 10 - Clwyd Pension Fund Accounts 2019/20

FUND ACCOUNT

2018/19 £000		Note	2019/20 £000
	Dealings with members, employers and others directly involved in the Fund		
(74,327)	Contributions	**7**	(77,108)
(4,379)	Transfers in		(6,108)
(78,706)			**(83,216)**
	Benefits payable :		
59,825	Pensions	**8**	63,070
11,910	Lump sums (retirement)		13,531
1,891	Lump sums (death grants)		2,360
73,626			**78,961**
6,625	Payments to and on account of leavers	**9**	4,446
80,251			**83,407**
1,545	**Net (additions)/withdrawals from dealings with members**		**191**
26,770	Management expenses	**10**	24,377
28,315	**Net (additions)/withdrawals including fund management expenses**		**24,568**

	Returns on Investments		
(14,413)	Investment income	**11**	(11,741)
(95,178)	Change in market value of investments	**12**	76,509
(109,591)	**Net return on investments**		**64,768**
(81,276)	**Net (increase)/decrease in the net assets available for benefits during the year**		**89,336**
(1,785,499)	**Opening net assets of the scheme**		(1,866,775)
(1,866,775)	**Closing net assets of the scheme**		**(1,777,439)**

NET ASSETS STATEMENT

2018/19 £000s		Note	2019/20 £000s
1,862,743	**Investment Assets**	**13**	1,774,622
1,862,743	**Net Investment Assets**		**1,774,622**
29	**Long-term debtors**	**18**	204
5,817	**Debtors due within 12 months**	**18**	4,725
(1,814)	**Creditors**	**19**	(2,112)
1,866,775	**Net assets of the fund available to fund benefits at the end of the reporting period**		**1,777,439**

Note: The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed in the actuary's report at page 118.

NOTE 1 - THE MANAGEMENT AND MEMBERSHIP OF THE CLWYD PENSION FUND

General

Clwyd Pension Fund is part of the Local Government Pension Scheme (LGPS) and is administered by Flintshire County Council. The County Council is the reporting entity for the pension fund.

The LGPS is a contributory defined scheme established by statute, which provides pensions and other benefits to employees and former employees of Flintshire County Council and the scheduled and admitted bodies in North East Wales. Teachers, police officers and firefighters are not included as they come within other national pension schemes. The fund is overseen by a Pension Committee which is a committee of Flintshire County Council.

The LGPS is governed by the Public Service Pensions Act 2013 and the following secondary legislation:

- The LGPS Regulations 2013, as amended;
- The LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014, as amended; and
- The LGPS (Management and Investment of Funds) Regulations 2016.

The Fund is financed by contributions and investment earnings from the Fund's investments. 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 31st March 2020. Employers also pay contributions to the Fund based on triennial funding valuations. The last valuation was at 31st March 2019, the findings of which became effective on 1st April 2020. The valuation showed that the funding level increased from the previous valuation (31st March 2016) from 76% to 91%. The employers' contribution rates are structured to achieve a gradual return to 100% funding level over a 13 year period from April 2020. Currently employer contribution rates range from 11.5% to 29.4% of pensionable pay.

The Accounts have been prepared during the national emergency situation arising from the global COVID-19 pandemic and reference will be made to any known impacts of this as required within the document. As required, the Accounts have been prepared in accordance with the 2019/20 Code of Practice on Local Authority Accounting which is based on International Financial Reporting Standards (IFRS).

Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of service, summarised below.

	Service pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth 1/80 x final pensionable pay	Each year worked is worth 1/60 x final pensionable pay
Lump sum	Automatic lump sum of 3 x pension. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

From 1 April 2014, the LGPS became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Price Index.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits.

In addition Clwyd Pension Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from the pension fund. The Fund uses Prudential and Utmost (previously Equitable Life) as its AVC providers. Equitable Life closed its operation following a vote amongst its policyholders and subsequent approval by the High Court. As a result, investments held with Equitable Life were transferred to Utmost Life and Pensions ("Utmost") on 1 January 2020. AVCs are paid to the AVC providers by employers and provide additional benefits for individual contributors.

Governance

Flintshire County Council, as the pension fund administering authority, has delegated management of the Fund to the Clwyd Pension Fund Committee (the "Committee"). The Committee comprises five elected Members from Flintshire County Council and four co-opted members comprising two elected Members from unitary authorities, one other scheme employer representative and one scheme member representative, each with equal voting rights, access to training and to information. The Committee is responsible for both the administration and investment policy of the Fund.

In accordance with the Public Service Pensions Act 2013, the Council has set up a Local Pension Board to oversee the governance of the Pension Fund. The Board met three times in 2019/20 and has its own Terms of Reference. Board members are independent of the Pension Fund Committee.

Investment Strategy

In accordance with the LGPS (Management and Investment of Funds) Regulations 2016, the Fund has an approved Investment Strategy Statement which details compliance with the Myners principles of investment management.

The Committee has delegated the management of Fund's investments to nine core investment managers appointed in accordance with the 2016 Regulations, and whose activities are specified in detailed investment management agreements and are monitored on a quarterly basis.

Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangement outside the scheme. Organisations participating in the Clwyd Pension Fund include:

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

There are 49 employer bodies within the Fund with active members (including Flintshire County Council) and over 49,000 members as detailed below.

2018/19 No.		2019/20 No.
42	Number of employers with active members	49
16,528	Active members	17,211
12,981	Pensioners receiving benefits	14,739
18,583	Deferred Pensioners	17,745
48,092		**49,695**

The scheduled bodies which contributed to the Fund during 2019/20 are:

Unitary Authorities:	Flintshire, Denbighshire, Wrexham.
Educational Organisations:	Coleg Cambria, Glyndwr University.
Town and Community Councils:	Acton, Argoed, Bagillt, Buckley, Caia Park, Cefn Mawr, Coedpoeth, Connah's Quay, Denbigh, Flint, Gresford, Gwernymynydd, Hawarden, Holywell, Hope, Marchwiel, Mold, Northop, Offa, Penyffordd, Prestatyn, Rhosllanerchrugog, Rhyl, Shotton
Other:	North Wales Fire Service, North Wales Valuation Tribunal,

The admitted bodies contributing to the Fund are:

Aramark Ltd	Chartwells	Hafan Deg
Aura Leisure & Libraries Ltd	Churchill	Holywell Leisure Ltd
Bodelwyddan Castle Trust	Civica UK	Home Farm Trust Ltd
Careers Wales	Denbighshire Leisure	Newydd Catering & Cleaning Ltd
Cartref y Dyffryn Ceiriog	Denbigh Youth Group	Wrexham Commercial Services
Cartref NI	Freedom Leisure	
	Glyndwr Students' Union	

NOTE 2 - BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2019/20 financial year and its position at year end as at 31st March 2020. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 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) 26 basis, is disclosed in the actuary's report at page 30 of these accounts.

The accounts have been prepared on a going concern basis.

At the balance sheet date, the following new standards and amendments to existing standards have been published but not yet adopted by the Code of Practice on Local

Authority Accounting in the United Kingdom:

- IFRS 16 Leases - will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases). These changes are unlikely to have any material impact on the Fund's financial statements. CIPFA/LASAAC have deferred implementation of IFRS16 for local government to 1 April 2021.

- Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures

- Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment of Settlement

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In summary, accounting policies adopted are detailed as follows:

Fund Account – Revenue recognition

Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate. Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date. Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations 2013. Individual transfer values received and paid out have been accounted for on a cash basis.

Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

Investment income

Interest income is recognised in the Fund Account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Fund Account – expense items

Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Lump sums are accounted for in the period in which the member becomes a pensioner. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

Taxation

The Fund is a registered public service scheme under Section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold.

As Flintshire County Council is the administering authority for the Fund, VAT input tax is recoverable from all Fund activities including expenditure on investment expenses.

Where tax can be reclaimed, investment income in the accounts is shown gross of UK tax. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

Management expenses

The Fund discloses its administration, governance and investment management expenses in accordance with the CIPFA Guidance *Accounting for Local Government Pension Scheme Management Expenses* (2016).

Administration, oversight and governance expenses are also 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.

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. Where fees are netted off quarterly valuations by investment managers, these expenses are included in note 10A and grossed up to increase the change in the value of investments.

Where the Fund has invested in Fund of Funds arrangements and underlying fees are incurred these are not recognised in the Funds accounts, in accordance with guidance from CIPFA. Details of underlying fees may be found in the Fund's Annual Report.

Net Assets Statement

Financial instruments

Financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised in the Fund Account.

Financial liabilities are recognised at fair value on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund as part of the Change in Value Investments.

The values of investments as shown in the Net Assets Statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see Note 15). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in *Practical Guidance on Investment Disclosures* (PRAG/Investment Association, 2016). Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

Cash and cash equivalents

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. Cash held in current accounts is kept to a minimum, all other cash deposits are included as part of investment balances in the net assets statement.

Actuarial present value of promised future retirement benefits

The actuarial value of promised future retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of the Code and

IAS 26. As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a report from the actuary (see page 30).

Additional Voluntary Contributions (AVCs)

The Clwyd Pension Fund provides an AVC scheme for its members, the assets of which are invested separately from those of the pension fund. AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds Regulations 2016), but are disclosed as a Note only (see Note 20).

NOTE 4 - CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Pension fund liability

The net pension fund liability is re-calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines. This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and set out in the actuary's report shown at the end of these accounts. These actuarial re-valuations are used to set future contribution rates and underpin the fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.

NOTE 5 - ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the year-end date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates. The items in the Net Assets Statement at 31 March 2020 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows.

Item	Uncertainties	Effect if actual results differ from assumptions
Potential Impact of Covid-19	The potential impact of the Covid-19 pandemic has and will continue to affect the valuation of assets and liabilities. As far as possible the effects have been estimated and reflected in the accounts but such estimates must be viewed in the context of the extent and seriousness of the pandemic and the volatility and uncertainty it has caused. The Fund has a risk management framework in place and, in particular, equity protection which will help mitigate some of the impact of significant falls in equity markets if they persist.	The effects on the net pension liability of changes in asset values and individual assumptions can be measured. For instance, a 10% decrease in asset values would have reduced the 2019 valuation funding level of 91% to 82%. A 0.25% p.a. reduction in the discount rate would in isolation have reduced the funding level to 88% (a 0.25% p.a. increase in assumed inflation would have a similar impact). A combination of the asset and discount rate changes would reduce the funding level to 79%.
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries and pensions are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide expert advice about the assumptions to be applied.	The effect is as stated above.
Value of investments at level 3	The Pension Fund contains investments in private equity, hedge funds and pooled funds including property, infrastructure, timber and agriculture, that are classified within the financial statements as level 3 investments in note	Note 15 summarises the techniques used, the key sensitivities underpinning the valuations and the sensitivity or tolerance around the values reported.

	15 to these accounts. The fair value of these investments is estimated using a variety of techniques which involve some degree of tolerance around the values reported in the Net Assets Statement. This may be affected in 2019/20 as a result of the potential impact of COVID 19 discussed above.	
Britain leaving the European Union	There is a high level of uncertainty about the implications of Britain leaving the European Union. Because it is not presently possible to predict any impact, it has been assumed that there will be no significant impairment of the Fund's assets or changes to the discount rate. This assumption will be regularly reviewed.	The effect is as stated above in relation to the potential impact of COVID-19.

NOTE 6 - POST BALANCE SHEET EVENTS

The accounts outlined within the statement represent the financial position of the Clwyd Pension Fund as at 31st March 2020. Performance of global financial markets since this date may have affected the financial value of pension fund investments as reported in the Net Asset Statement, but do not affect the ability of the Fund to pay its pensioners.

NOTE 7 - ANALYSIS OF CONTRIBUTIONS RECEIVABLE

By employer

2018/19 £000s		2019/20 £000s
(27,244)	Administering Authority - Flintshire County Council	(28,575)
(43,575)	Scheduled bodies	(45,132)
(3,508)	Admitted bodies	(3,401)

(74,327)	**Total**	**(77,108)**

By type

2018/19 £000s		2019/20 £000s
(15,519)	**Employees contributions**	(16,337)
	Employers contributions:	
(38,370)	Normal contributions	(40,791)
(18,885)	Deficit contributions	(19,208)
(1,553)	Augmentation contributions	(772)
(58,808)	**Total employers' contributions**	**(60,771)**
(74,327)	**Total contributions**	**(77,108)**

NOTE 8 – BENEFITS PAYABLE

By employer

2018/19 £000s		2019/20 £000s
26,877	Administering Authority - Flintshire County Council	27,376
45,611	Scheduled bodies	50,183
1,138	Admitted bodies	1,402
73,626		**78,961**

By type

2018/19 £000s		2019/20 £000s
59,825	Pensions	63,070
11,910	Lump sums (retirement)	13,531
1,891	Lump sums (death grants)	2,360
73,626		**78,961**

NOTE 9 – PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2018/19 £000s		2019/20 £000s
6,257	Transfer values paid (individual)	4,025
149	Refunds of contributions	226
219	Other	195
6,625	Total	**4,446**

NOTE 10 – MANAGEMENT EXPENSES

2018/19 £000s		2019/20 £000s
2,020	Oversight and Governance	1,999
22,811	Investment Management Expenses (see Note 10A)	20,353
1,939	Administration costs	2,025
26,770	**Total**	**24,377**

The Oversight and Governance costs include the fees payable to Audit Wales for the external audit of the Fund of £39k for 2019/20 (£39k in 2018/19).

Note 10A – INVESTMENT MANAGEMENT EXPENSES

2018/19 £000s		2019/20 £000s
2,264	Transaction costs	1,829
14,181	Fund Management Fees	15,300
31	Custody Fees	43
6,335	Performance related fees	3,181
22,811	**Total**	**20,353**

The main contributor to the reduction in Investment Management Expenses was a lower level of performance fees in private markets.

Note 10B – WALES PENSION PARTNERSHIP MANAGEMENT EXPENSES

2018/19 £000s		2019/20 £000s
64	Oversight and Governance	70
364	Transaction Costs	200
17	Fund Management Fees	79
0	Custody Fees	13
445	**Total**	**362**

Fees for 2018/19 include costs of transition

Included in Management Expenses in Table 10 is the cost of the Fund's involvement in the Wales Pension Partnership (WPP) collective investment pooling arrangement. These are further analysed in the table above. The Oversight and Governance costs are the annual running costs of the pool which includes the host authority costs and other external advisor costs. These costs are funded equally by all eight of the local authority pension funds in Wales. Fund Management Fees are payable to Link Fund Solutions (the WPP operator) and include the operator fee and other associated costs. These costs are based on each Fund's percentage share of WPP pooled assets and are deducted from the Net Asset Value (NAV). The underlying manager fees for the Global Opportunities sub fund are not included in this table, but are disclosed elsewhere in the Annual Report. Further details on the WPP can also be found elsewhere in the Annual Report.

NOTE 11 - INVESTMENT INCOME

2018/19 Restated £000s		2019/20 £000s
(5,802)	Private equity income	(1,827)
(5,008)	Pooled Investments	(5,859)
(3,064)	Pooled property investments	(3,817)
(38)	Interest on cash deposits	(60)
(501)	Other income	(178)
(14,413)	**Total**	**(11,741)**

Private equity income varies year on year depending on the point in the maturity cycle of the debt.

NOTE 12 – RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	Market value 2018/19 £000s	Purchases £000s	Sales £000s	Change in market value £000s	Market value 2019/20 £000s
Bonds	203,790	0	(428)	(21,099)	182,263
Pooled investment vehicles	1,089,905	10,341	(78,621)	(75,736)	945,889
Pooled Property Funds	122,836	10,179	(9,322)	2,958	126,651
Infrastructure	66,604	53,424	(6,301)	(1,571)	112,156
Timber and agriculture	23,274	0	(3,526)	165	19,913
Private equity	211,584	41,948	(43,268)	16,585	226,849
Hedge Fund	138,985	0	(511)	2,189	140,663
	1,856,978	**115,892**	**(141,977)**	**(76,509)**	**1,754,384**
Other investment balances:					
Cash	5,765			0	20,238
Net investment assets	**1,862,743**			**(76,509)**	**1,774,662**

	Market value 2017/18 £000s	Purchases £000s	Sales £000s	Change in market value £000s	Market value 2018/19 £000s
Bonds	204,372	0	0	(582)	203,790
Pooled investment vehicles	1,033,560	92,730	(100,274)	63,889	1,089,905
Pooled Property Funds	115,522	11,469	(12,957)	8,801	122,836
Infrastructure	42,125	23,630	(6,648)	7,497	66,604
Timber and agriculture	25,772	0	(3,874)	1,376	23,274
Private equity	188,399	39,137	(41,105)	25,153	211,584
Hedge Fund	150,885	0	(943)	(10,957)	138,985
	1,760,635	**166,967**	**(165,802)**	**95,178**	**1,856,978**
Other investment balances:					
Cash	21,191			0	5,765
Net investment assets	**1,781,826**			**95,178**	**1,862,743**

NOTE 13A – ANALYSIS OF INVESTMENTS

2018/19 £000		2019/20 £000
	Bonds	
203,790	Corporate - unquoted	182,263
	Pooled investment vehicles	
118,828	Managed equity funds - quoted overseas	100,300
149,723	Managed equity funds - unquoted	140,136
422,855	Liability driven investments - unquoted	317,546
83,524	Multi strategy investments - quoted	81,563
282,233	Multi strategy investments - unquoted	265,433
32,744	Fixed income funds - unquoted	40,911

	Pooled property funds	
43,748	Open-ended - unquoted	42,958
79,088	Closed-ended - unquoted	83,693
	Infrastructure	
15,133	Limited Liability Partnerships - quoted	8,403
51,471	Limited Liability Partnerships - unquoted	103,752
	Timber & Agriculture	
23,274	Limited Liability Partnerships - unquoted	19,913
	Private equity	
	Limited Liability Partnerships:	
46,840	Opportunistic funds - unquoted	52,660
164,744	Private equity funds - unquoted	174,189
138,985	**Hedge funds unquoted**	140,663
1,856,978		**1,754,384**
5,765	**Cash**	20,238
1,862,743	**Total investment assets**	**1,774,622**
0	**Total investment liabilities**	**0**
1,862,743	**Net investment assets**	**1,794,008**

Included in Pooled investment vehicles is £74,931k (2018/19 £78,673k) invested with the Wales Pensions Partnership.

The COVID-19 pandemic has impacted global and property markets. As the result of the volatility in market conditions, year-end valuation reports provided to the Fund include statements that there are material valuation uncertainties related to the Pooled Property Investments held.

The total value of these funds as at 31st March 2020 is £126.7m.

NOTE 13B – ANALYSIS BY FUND MANAGER

2018/19			2019/20	
£000	%		£000	%
422,854	22.8	Insight	317,546	18.1
203,790	11.0	Stone Harbor	182,263	10.4
198,871	10.7	Mobius	190,404	10.9
83,362	4.5	Investec	75,029	4.3
78,672	4.2	Russell Investments	74,931	4.3
138,985	7.5	MAN Group	140,663	8.0
118,828	6.4	Wellington	100,300	5.7
83,524	4.5	Pyrford	81,563	4.7
77,034	4.1	Blackrock	65,205	3.7
26,760	1.4	Private Debt	40,911	2.3
164,744	8.9	Private Equity	174,189	9.9
122,836	6.6	Property	126,651	7.2
66,604	3.6	Infrastructure	112,156	6.4
46,840	2.5	Opportunistic	52,660	3.0
23,274	1.3	Timber/Agriculture	19,913	1.1
1,856,978	**100**	**Total**	**1,754,384**	**100**

The UK holdings as at 31st March 2020 account for 30% of total investments at market value.

2018/19			2019/20	
£000	%		£000	%
616,724	31	UK	534,326	30
1,240,254	69	Overseas	1,220,058	70
1,856,978	**100**	**Total**	**1,754,348**	**100**

The following investments represent more than 5% of the net assets of the scheme. All of these companies are registered in the UK.

2018/19		Manager	Holding	2019/20	
£000	%			£000	%
422,854	23	Insight	LDI Active 22 Fund	317,546	18
138,935	8	MAN Group	Hedge Fund and Managed Account Platform	140,663	8
131,656	7	Stone Harbour	SHI LIBOR Multi Strategy No2 Portfolio	117,835	7

NOTE 14 – DERIVATIVES

No derivative instruments were held by Clwyd Pension Fund at 31 March 2020 or 31 March 2019.

NOTE 15 - FAIR VALUE OF INVESTMENTS

Fair Value – Basis of valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Quoted Pooled Investment Vehicles	Level 1	Quoted market bid price on the relevant exchange	Not required	Not required
Infrastructure	Level 1	Published bid price ruling on the final day of the accounting period	Not required	Not required
Unquoted bond funds	Level 2	Closing bid-market price for the underlying assets in each sub-fund subject to any premiums or discounts	Net Asset value (NAV)-based pricing set on a forward pricing basis	Not required
Quoted Pooled Investment Vehicles	Level 2	Closing bid price where bid and offer prices are published. Closing bid price where single price published	NAV-based pricing set on a forward pricing basis	Not required
Unquoted pooled investment vehicles	Level 3	Valued quarterly at NAV in accordance with *International Private Equity and Venture Capital Association Guidelines*	Valued net of unrealised gains/losses on hedging	Internal rate of return
Pooled property funds	Level 2	Bid market price	Existing lease terms and rentals, tenant's covenant strength, lease length, transactional activity in the sector	Not required
Hedge Fund	Level 2	Valued monthly using closing bid price where bid and offer prices are published or closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Pooled Property Funds	Level 3	Valued quarterly at NAV in accordance with *International Private Equity and Venture Capital Association Guidelines*	EBITDA multiples, revenue multiples, discount for lack of market evidence, control premium possible material uncertainty clauses.	EBITDA achieved compared with forecast
Infrastructure	Level 3	Valued using discounted cashflow techniques to generate a net present value	Discount rate and cashflows used in the models	Rates of inflation, interest, tax and currency exchange
Timber and agriculture	Level 3	NAV of underlying funds using a mixture of cost, income and sales comparison approaches depending on the maturity of the investment. Valued annually, subject to quarterly adjustments based on harvest	Productive area, current and forecast prices and costs, marketing and harvest constraints, growth rates and discount rates	Market price for timber and agricultural product, land values and discount rates
Private equity and hedge fund	Level 3	Valued quarterly at NAV using the market approach using quarterly financial statements in accordance with *International Private Equity and Venture Capital Association Guidelines*	EBITDA multiples, revenue multiples, discount for lack of market evidence, control premium	Valuations could be affected by material events between the date of the financial statements provided and the pension fund’s reporting date, changes to cashflows and differences between audited and unaudited accounts

Investments have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

Level 1 - where fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 - where quoted market prices are not available, valuation techniques are used to determine fair value.

Level 3 – where at least one input that could have a significant effect on the investment's valuation is not based on observable market data. Sensitivity analysis of Level 3 assets is shown below.

	Assessed Valuation Range (+/-)	Market value at 31 March 2020	Value on Increase	Value on Decrease
	%	£000	£000	£000
Pooled investment vehicles (incl LDI)	10%	40,911	45,004	36,820
Pooled Property Funds	10%	115,468	127,015	103,921
Infrastructure	10%	97,293	107,022	87,563
Timber and agriculture	7%	19,913	21,306	18,519
Private equity (incl Opportunistic Funds)	10%	226,849	249,534	204,164
Hedge Fund	10%	0	0	0
Total		**500,434**	**549,881**	**450,987**

	Assessed Valuation Range (+/-)	Market at 31 March 2019	Value on Increase	Value on Decrease
	%	£000	£000	£000
Pooled investment vehicles (incl LDI)	10%	32,744	36,018	29,470
Pooled Property Funds	10%	56,165	61,781	50,548
Infrastructure	10%	51,471	56,618	46,324
Timber and agriculture	7%	23,274	24,904	21,645
Private equity (incl Opportunistic Funds)	10%	211,584	232,743	190,426
Hedge Fund	10%	5,656	6,222	5,090
Total		**380,894**	**418,286**	**343,503**

The following tables show the position of the Fund's assets at 31st March 2020 based on the Fair Value hierarchy:

2019/20	Quoted Market Price	Using observable inputs	With significant unobservable inputs	Total
	Level 1	Level 2	Level 3	
	£000	£000	£000	£000
Bonds	0	182,263	0	182,263
Pooled Investment Vehicles	181,863	723,115	40,911	945,889
Pooled Property Funds	0	11,183	115,468	126,651
Infrastructure	8,403	6,460	97,293	112,156
Timber and agriculture	0	0	19,913	19,913
Private equity	0	0	226,849	226,849
Hedge Fund	0	140,663	0	140,663
Total	**190,266**	**1,063,684**	**500,434**	**1,754,384**

2018/19	Quoted Market Price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Bonds	0	203,790	0	203,790
Pooled Investment Vehicles	202,352	854,809	32,744	1,089,905
Pooled Property Funds	0	66,671	56,165	122,836
Infrastructure	15,133	0	51,471	66,604
Timber and agriculture	0	0	23,274	23,274
Private equity	0	0	211,584	211,584
Hedge Fund	0	133,329	5,656	139,985
Total	**217,485**	**1,258,599**	**380,894**	**1,856,978**

NOTE 15A: RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

The Fund holds no other assets or liabilities at fair value.

	Market Value 2018/19	Purchases	Sales	Transfers into Level 3	Transfers out of Level 3	Realised gains/ (losses)	Unrealised gains/ (losses)	Market Value 2019/20
	£000	£000	£000	£000	£000	£000	£000	£000
Financial assets at fair value through profit and loss								
Pooled investment vehicles (incl LDI)	32,744	9,561	(480)			0	(914)	40,911
Pooled Property Funds	56,165	10,179	(9,322)	56,057		2,149	241	115,468
Infrastructure	51,471	53,213	(6,301)			1,853	(2,944)	97,293
Timber and agriculture	23,274	0	(3,526)			462	(297)	19,913
Private equity (incl Opportunistic Funds)	211,584	41,948	(43,268)			14,067	2,517	226,849
Hedge Fund	5,656						(5,656)	0
Net investment assets	**380,894**	**114,902**	**(62,897)**	**56,057**	**0**	**18,531**	**(7,053)**	**500,434**

	Market Value 2017/18	Purchases	Sales	Transfers into Level 3	Transfers out of Level 3	Realised gains/ (losses)	Unrealised gains/ (losses)	Market Value 2018/19
	£000	£000	£000	£000	£000	£000	£000	£000
Financial assets at fair value through profit and loss								
Pooled investment vehicles (incl LDI)	15,378	17,643	0			0	(277)	32,744
Pooled Property Funds	51,529	11,469	(11,662)			2,877	1,951	56,165
Infrastructure	30,361	23,341	(5,815)			3,456	128	51,471
Timber and agriculture	25,772	0	(3,291)			2,418	(1,624)	23,274
Private equity (incl Opportunistic Funds)	188,399	39,137	(37,577)			8,095	13,530	211,584
Hedge Fund	6,645						(989)	5,656
Net investment assets	**318,084**	**91,590**	**(58,345)**	**0**	**0**	**16,846**	**12,719**	**380,894**

NOTE 16 - FINANCIAL INSTRUMENTS

NOTE 16A - CLASSIFICATION OF FINANCIAL INSTRUMENTS

The following table analyses the carrying amounts of financial instruments by category and net assets statement heading. No financial instruments were reclassified during the accounting period.

2018/19 Fair Value through profit and loss £000	2018/19 Loans and receivables £000	2018/19 Financial liabilities at amortised cost £000		2019/20 Fair Value through profit and loss £000	2019/20 Loans and receivables £000	2019/20 Financial liabilities at amortised cost £000
			Financial assets:			
203,790			Bonds	182,263		
1,089,905			Pooled investment vehicles	945,889		
122,836			Property	126,651		
66,604			Infrastructure	112,156		
23,274			Timber and agriculture	19,913		
211,584			Private equity	226,849		
138,985			Hedge Fund	140,663		
	5,765		Other investment assets - cash		20,238	
	373		Debtors			
1,856,978	**6,138**	**0**		**1,754,384**	**20,238**	**0**
			Financial liabilities:			
		(513)	Creditors			(2,112)
0	**0**	**(513)**		**0**	**0**	**(2,112)**
1,856,978	**6,138**	**(513)**	**Total**	**1,754,384**	**20,238**	**(2,112)**

NOTE 16B: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

2018/19 £000		2019/20 £000
	Financial assets:	
95,178	Designated at fair value through profit and loss	(76,509)
0	Loans and receivables	0
	Financial liabilities:	
0	Designated at fair value through profit and loss	0
0	Financial liabilities at amortised cost	0
95,178	**Total**	**(76,509)**

NOTE 17 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Procedures for Managing Risk

The Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole portfolio. The fund achieves this through asset diversification to reduce exposure to market and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cashflows.

Responsibility for the Fund's risk management strategy rests with the Clwyd Pension Fund Committee (the Committee) and is set out in the Investment Strategy Statement (ISS), which is available on the Fund's website (www.clwydpensionfund.org.uk).

The ISS is subject to annual review and has been prepared taking into account advice from the fund's consultants. The Committee manages investment risks, including credit risk and market risk, within agreed risk limits, which are set after taking into account the fund's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the fund's investment managers and monitored by the Committee by regular review of the investment portfolio throughout the year.

The investment objective of the Committee is to achieve and maintain a portfolio of suitable assets of appropriate liquidity equal to 100% of liabilities within the 1 year average timeframe, whilst remaining within reasonable risk parameters.

The strategy at March 31st was to hold:

- 81% in return-seeking investments comprising UK and overseas equities pooled funds, investment property funds, hedge funds, private equity, venture capital and infrastructure;

- 19% in investments that move in line with the long-term liabilities of the fund. This is referred to as Liability Driven Investment (LDI) and comprises UK and overseas government and corporate bonds, and repurchase agreements which allow the fund to gain unfunded exposure to gilts.

Market Risk

Market risk is the risk of loss from general market fluctuations in equity and commodity prices, interest and foreign exchange rate and credit spreads. The fund is exposed to market risk in all its investment activities. The Committee seeks to manage this risk through diversifying investments across a range of asset classes and markets with low correlations with each other and across a selection of managers. In addition, the Committee sets a strategic benchmark in the ISS for each asset class subject to fixed tolerances which also seeks to diversify and minimise risk through a broad spread of investments across both the main and alternative asset classes and geographic regions within each asset class. Market risk is also managed through manager diversification with no single manager managing more than 23% of the fund's assets. Currently the maximum holding within any one fund manager is 23% with Insight managing the LDI mandate, which is within this limit.

When reviewing the Investment Strategy in 2019/20, as well as addressing the potential for investment return, the Fund also considered the risk of the proposed strategy when compared to the previous one. Risk is assessed by using a Value at Risk (VaR) approach. This approach measures the risk of loss for investments and estimates how much an investment strategy might lose (with a given possibility) given normal market conditions, in a set time period such as a day or a year.

The Fund needs to take risk within its Investment Strategy in order to achieve an adequate level of return above the Actuary's future service discount rate of Inflation (CPI) +2.25% per annum.

At a total Fund level, the total expected return of the previous strategy was 5.4% per annum with a VaR of £437.9m. The revised strategy as described earlier in the document increases the potential return to 5.6% per annum, with a VaR of £444.6m. The potential for increased return is reflected in the marginal increase in risk.

The revised Investment Strategy, effective from 1st April 2020 will be to hold:

- 77% in return-seeking investments comprising UK and overseas equities pooled funds, investment property funds, hedge funds, private equity, venture capital and infrastructure;

- 23% in investments that move in line with the long-term liabilities of the fund. This is referred to as Liability Driven Investment (LDI) and comprises UK and overseas government and corporate bonds, and repurchase agreements which allow the fund to gain unfunded exposure to gilts.

Price risk

Price risk represents the risk that the value of a financial instrument will fluctuate because 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. The following table demonstrates the change in the net assets available to pay benefits if the market price had increased or decreased by an average 7.44%, which is the three-year price volatility as advised by the Fund's consultants for the fund's Investment Strategy.

Assets exposed to price risk	Value	3 year volatility range	Value on increase	Value on decrease
	£000s	%	£000s	£000s
As at 31 March 2019	1,862,743	6.66%	1,986,728	1,738,758
As at 31 March 2020	1,774,622	7.44%	1,906,676	1,642,570

Interest Rate Risk

The fund invests in cash-based financial instruments for the primary purpose of obtaining a return on investments. Bonds and cash 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 table below demonstrates the change in value of these assets had interest rates varied by 1%. It should be noted that the value of bonds varies inversely to interest rates.

Assets exposed to interest rate risk		Value	Value on 1% increase	Value on 1% decrease
		£000s	£000s	£000s
As at 31 March 2019		209,554	207,574	211,535
As at 31 March 2020		202,501	200,881	204,121

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 because some of the fund's investments are held in overseas markets through pooled vehicles. The following table sets out the fund's potential currency exposure as at 31st March 2020:

Assets exposed to currency risk	Value	%ge change	Value on increase	Value on decrease
	£000s	%	£000s	£000s
As at 31 March 2019	1,240,254	8.20	1,341,923	1,138,585
As at 31 March 2020	1,220,058	6.84	1,303,521	1,136,597

Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss.

The fund is exposed to credit risk because it invests in pooled investment vehicles and is therefore directly exposed to the credit risk in the pooled investment vehicle and indirectly exposed to the credit risks arising on financial instruments held by the pooled investment vehicles.

The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities. The selection of high quality fund managers, counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Cash is held in financial institutions which are at least investment grade credit rated.

There is a risk that some admitted bodies may not honour their pension obligations with the result that any ensuing deficit might fall upon the fund. To mitigate this risk, the fund regularly monitors the financial position of its admitted bodies.

Liquidity Risk

Liquidity risk is the risk that the fund will not be able to meet its financial obligations as they fall due. The Committee monitors cashflows regularly during the year and as part of the triennial funding review and takes steps to ensure that there are adequate cash resources to meet its commitments.

The Fund has immediate access to its cash holdings. The Fund defines liquid assets as assets that can be converted to cash within three months, subject to normal market conditions. As at 31 March 2020, liquid assets were £1,253m representing 71% of total fund assets (£1,476m at 31 March 2019 representing 80% of the Fund at that date). The majority of these investments can in fact be liquidated within a matter of days.

NOTE 18 – DEBTORS

2018/19 £000s		2019/20 £000s
29	**Long-term debtors**	204
	Short-term debtors	
1,264	Contributions due - Employees	1,285
4,140	Contributions due - Employers	3,379
339	Prepayments	0
74	Sundry debtors	61
5,817	**Total Short-term debtors**	**4,725**
5,846	**Total**	**4,929**

NOTE 19 – CREDITORS

2018/19 £000		2019/20 £000
(130)	Contributions received in advance	(20)
(1,082)	Benefits payable	(1,489)
(98)	Administering authority	(104)
0	HMRC	(66)
(504)	Sundry creditors	(433)
(1,814)	**Total**	**(2,112)**

NOTE 20 - ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

Clwyd Pension Fund has engaged two additional voluntary contribution (AVC) providers: Prudential Assurance Company Ltd and Utmost Life and Pensions Limited (formerly Equitable Life Assurance Society). The value of the funds invested with both AVC providers are shown below. AVCs paid directly to the Prudential are shown below.

In accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, the contributions paid and the assets of these investments are not included in the Fund's Accounts.

2018/19 £000		2019/20 £000
1,270	Contributions in the year	**1,031**
	Value of AVC funds at 31 March:	
5,395	Prudential	5,434
408	Utmost (formerly Equitable Life)	408
5,803	**Total**	**5,842**

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NOTE 21 – AGENCY SERVICES

Clwyd Pension Fund pays discretionary awards to former employees of the current unitary authorities and Coleg Cambria. These are shown below together with former local authorities, current town and community councils and other bodies which are listed below under Other employers

2018/19 £000s		2019/20 £000s
519	Conwy County Borough Council	499
1,733	Denbighshire County Council	1,699
3,088	Flintshire County Council	3,056
20	Powys County Council	20
2,150	Wrexham County Borough Council	2,104
55	Coleg Cambria	56
49	Other employers	54
7,614	**Total**	**7,488**

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NOTE 22 - RELATED PARTY TRANSACTIONS

Governance

Under legislation, introduced in 2004, Councillors are entitled to join the Pension Scheme. As at 31st March 2020, five Members of the Clwyd Pension Fund Committee had taken this option.

Two of the four Co-opted Members of the Pension Fund Committee are eligible to 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.

Flintshire County Council

During the year Flintshire County Council incurred costs of £1.9m (£1.8m in 2018/19) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The costs have been included within Oversight & Governance costs and administration expenses at Note 10.

Key Management Personnel

The key management personnel of the Fund are the Chair of the Pension Fund Committee, the Flintshire Chief Executive and the Flintshire s.151 officer. Total benefits attributable to key management personnel are set out below:

2018/19 £000s		2019/20 £000s
26	Short-term benefits	17
23	Post-employment benefits	(5)
49		**12**

NOTE 23 - MATERIAL ITEMS OF INCOME AND EXPENSE

For the purpose of this Note, the Council considers material items of income and expense to be those exceeding £19m. During the year the Fund incurred the following material transactions:

- Sales of £32m and £30m Insight Investment
- Purchase of £31m JP Morgan Infrastructure Fund

NOTE 24 - CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

As at 31 March 2020, the Fund has contractual commitments of £1,013m (£1,009m in 2018/19) in private equity, infrastructure, timber and agriculture, and property funds, of which £802m (£685m in 2018/19) has been deployed, leaving an outstanding commitment of £211m (£324m at 31 March 2019).

NOTE 25 – ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the triennial funding valuation, the fund's actuary undertakes a valuation of the pension fund liabilities, on an IAS basis, every year using the same base data as the funding valuation rolled forward to the current financial year, but taking account of changes in membership numbers and updating assumptions to the current year. The valuation is not carried out on the same basis as that used for setting fund contributions and the fund accounts do not take account of liabilities to pay pensions and other benefits in the future. In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes.

2018/19 Restated £m		2019/20 £m
2,893	Present value of promised retirement benefits	2,835
1,867	Fair value of scheme assets	1,777

As noted above, the liabilities above are calculated on an IAS 19 basis and therefore will differ from the results of the 2019 triennial funding valuation) because IAS 19 stipulates a discount rate rather than a rate which reflects market rates. Other key assumptions used are:

	2018/19 %	2019/20 %
Inflation/pension increase rate assumption	2.20	2.10
Salary increase rate	3.45	3.35
Discount rate	2.40	2.40

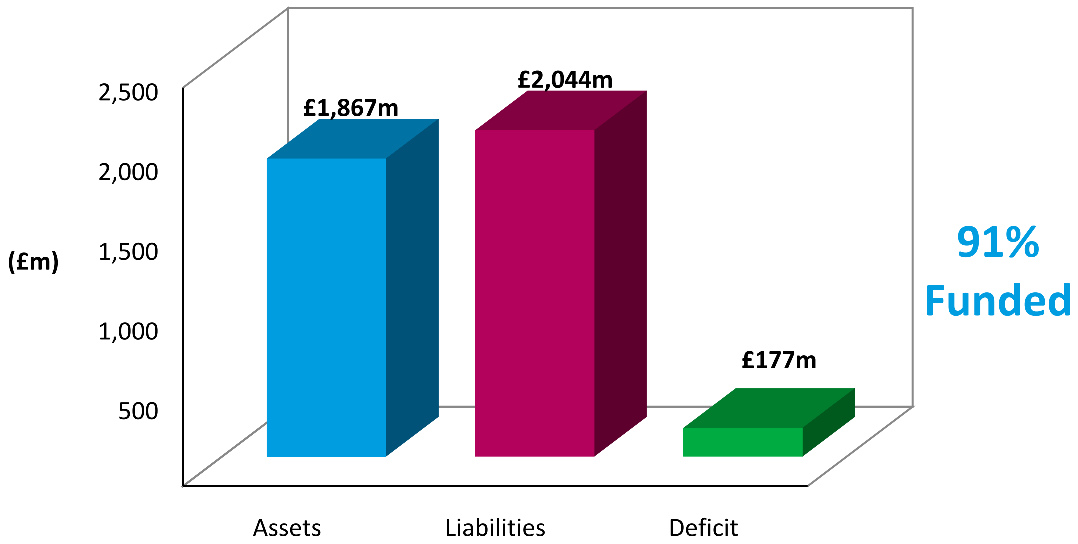
CLWYD PENSION FUND

ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2020 - STATEMENT BY THE CONSULTING ACTUARY

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 March 2019 to determine the contribution rates with effect from 1 April 2020 to 31 March 2023.

On the basis of the assumptions adopted, the Fund's assets of £1,867 million represented 91% of the Fund's past service liabilities of £2,044 million (the "Solvency Funding Target") at the valuation date. The deficit at the valuation was therefore £177 million.



The valuation also showed that a Primary contribution rate of 17.3% 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 FSS is to achieve and 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.

The FSS sets out the process for determining the recovery plan in respect of each employer. At this Actuarial Valuation the average recovery period adopted is 13 years, and the total initial recovery payment (the "Secondary rate" for 2020-2023) is an addition of approximately £16m per annum on average in £ terms (which allows for the contribution plans which have been set for individual employers under the provisions of the FSS and includes the estimated costs in relation to McCloud judgement where appropriate), although this varies year on year.

Further details regarding the results of the valuation are contained in the formal report on the Actuarial Valuation dated 31 March 2020.

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.

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

	For past service liabilities (Solvency Funding Target)	**For future service liabilities (Primary rate of contribution)**
Rate of return on investments (discount rate)	4.15% per annum	4.65% per annum
Rate of pay increases (long term)*	3.65% per annum	3.65% per annum
Rate of increases in pensions in payment (in excess of GMP)	2.4% per annum	2.4% 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 March 2022. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2023.

The McCloud Judgment

The "McCloud judgment" refers to a legal challenge in relation to historic benefit changes for all public sector schemes being age discriminatory. The Government announced in 2019 that this needs to be remedied for all public sector schemes including the LGPS. This is likely to result in increased costs for some employers. This remedy is not yet agreed but guidance issued requires that each Fund sets out its policy on addressing the implications.

In line with guidance issued by the LGPS Scheme Advisory Board, the above funding level and Primary contribution rate do not include an allowance for the estimated cost of the McCloud judgment. However, at the overall Fund level we estimate that the cost of the judgment could be an increase in past service liabilities of broadly £9 million and an increase in the Primary Contribution rate of 0.5% of Pensionable Pay per annum. Where the employer has elected to include a provision for the cost of the judgment, this is included within the secondary rate for that employer (and also within the whole Fund average secondary rate shown above).

Impact of COVID-19

The valuation results and employer contributions above were assessed as at 31 March 2019. In 2020 we have so far seen significant volatility and uncertainty in markets around the world in relation to the COVID-19 pandemic. This potentially has far-reaching consequences in terms of funding and risk, which will need to be kept under review. We believe that it is important to take stock of the situation as opposed to make immediate decisions in what is an unprecedented set of events. Our view is that employer contributions should not be revisited but the position should be kept under review by the Administering Authority who will monitor the development of the situation and keep all stakeholders informed of any potential implications so that the outcome can be managed effectively.

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 March 2020 (the 31 March 2019 assumptions are included for comparison):

	31 March 2019	31 March 2020
Rate of return on investments (discount rate)	2.4% per annum	2.4% per annum
Rate of CPI Inflation / CARE benefit revaluation	2.2% per annum	2.1% per annum
Rate of pay increases*	3.45% per annum	3.35% per annum
Rate of increases in pensions in payment (in excess of GMP) / Deferred revaluation	2.3% per annum	2.2% per annum

* This is the long-term assumption. An allowance corresponding to that made at the latest formal Actuarial Valuation for short-term public sector pay restraint was also included.

The demographic assumptions are the same as those used for funding purposes, with the 31 March 2020 assumptions being updated to reflect the assumptions adopted for the 2019 Actuarial Valuation. Full details of these assumptions are set out in the formal report on the Actuarial Valuation dated March 2020.

Corporate bond yields were similar at the start and end of year resulting in the same discount rate of 2.4% p.a. being used for IAS 26 purposes at the year-end as for last year. The expected long-term rate of CPI inflation decreased during the year, from 2.2% p.a. to 2.1%, which served to decrease the liabilities slightly over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2019 was estimated as £2,893 million including the potential impact of the McCloud Judgment.

Interest over the year increased the liabilities by c£70 million, and allowing for net benefits accrued/paid over the period also increased the liabilities by c£39 million (this includes any increase in liabilities arising as a result of early retirements/augmentations and the potential impact of GMP Indexation– see comments below). There was also a decrease in liabilities of £167 million due to "actuarial gains" (i.e the effects of the changes in the actuarial assumptions used, referred to above, and the incorporation of the 31 March 2019 Actuarial Valuation results into the IAS26 figures).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2020 is therefore £2,835 million.

GMP Indexation

At present, the public service schemes are required to provide full CPI pension increases on GMP benefits for members who reach State Pension Age between 6 April 2016 and 5 April 2021. The UK Government may well extend this at some point in the future to include members reaching State Pension Age from 6 April 2021 onwards, which would give rise to a further cost to the LGPS and its employers. If the Fund were required to index-link GMP benefits in respect of those members who reach their State Pension Age after April 2021, then this would increase the Fund liabilities by about £9 million on IAS26 assumptions, and we have included this amount within the final IAS26 liability figure above.

Paul Middleman **Fellow of the Institute and Faculty of Actuaries**

Mark Wilson **Fellow of the Institute and Faculty of Actuaries**

Mercer Limited

June 2020

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

THE COUNCIL'S RESPONSIBILITIES

The Council is required to :-

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, this is the Corporate Finance Manager as Chief Finance Officer;
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the statement of accounts.

Signed :

Cllr Ted Palmer

Chair of the Pension Committee

Date : **07/10/2020**

THE CHIEF FINANCE OFFICER'S RESPONSIBILITIES

The Chief Finance Officer is responsible for the preparation of the Council's statement of accounts in accordance with the proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code").

In preparing this statement of accounts, the Chief Finance Officer has :-

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code.

The Chief Finance Officer has also :-

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

The statement of accounts presents a true and fair view of the financial position of the Council at 31st March 2020, and its income and expenditure for the year then ended.

Signed :

Gary Ferguson CPFA

Corporate Finance Manager (Chief Finance Officer)

Date : **07/10/2020**

Proposed independent auditor's report of the Auditor General for Wales to the members of Flintshire County Council as administering authority for Clwyd Pension Fund

Report on the audit of the financial statements

Opinion

I have audited the financial statements of Clwyd Pension Fund for the year ended 31 March 2020 under the Public Audit (Wales) Act 2004.

Clwyd Pension Fund's financial statements comprise the fund account, the net assets statement and the related notes, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2019-20 based on International Financial Reporting Standards (IFRSs).

In my opinion the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2020, and of the amount and disposition at that date of its assets and liabilities; and
- have been properly prepared in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2019-20.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the pension fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of Matter – effects of COVID-19 on the Fund's Pooled Property investment valuations

I draw attention to Note 13A to the financial statements, which describes material valuation uncertainty clauses in the valuation report's on Pooled Property investments held by the Clwyd Pension Fund arising from circumstances caused by the COVID-19 pandemic. My opinion is not modified in respect of this matter.

Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

- the responsible financial officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about Clwyd Pension Fund's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

Other information

The responsible financial officer is responsible for the other information in the annual report. The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my report, I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

Report on other requirements

Opinion on other matters

In my opinion, based on the work undertaken in the course of my audit:

the information contained in the annual report for the financial year for which the financial statements are prepared is consistent with the financial statements and the annual report has been prepared in accordance with the Local Government Pension Scheme Regulations 2013.

Matters on which I report by exception

In the light of the knowledge and understanding of the pension fund and its environment obtained in the course of the audit, I have not identified material misstatements in the annual report.

I have nothing to report in respect of the following matters, which I report to you, if, in my opinion:

adequate accounting records have not been kept;

the financial statements are not in agreement with the accounting records and returns; or

I have not received all the information and explanations I require for my audit.

Certificate of completion of audit

I certify that I have completed the audit of the accounts of Clwyd Pension Fund in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Auditor General for Wales' Code of Audit Practice.

Responsibilities

Responsibilities of the responsible financial officer for the financial statements

As explained more fully in the Statement of Responsibilities for the financial statements, the responsible financial officer is responsible for the preparation of the financial statements, which give a true and fair view, and for such internal control as the responsible financial officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the responsible financial officer is responsible for assessing the pension fund's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Adrian Crompton
Auditor General for Wales
Date: 13 October 2020

24 Cathedral Road
Cardiff
CF11 9LJ

Section 11 - Financial Report

Introduction

This report includes financial monitoring reports for the year 2019/20 showing both cash flow and income and expenditure compared to budget. It also details the contributions from employers and employees, and shows further information on contributions, assets, investment income and management fees.

Cash Flow

Cash Flow 2019/20

2019/20	Estimate £000	Actual £000	Variance £000
Opening In House Cash	(3,599)	(5,764)	
Payments			
Pensions	61,600	63,182	1,582
Lump Sums & Death Grants	15,000	15,486	486
Transfers Out	6,000	4,447	(1,553)
Expenses (Admin & Finance)	4,600	3,863	(737)
Tax	0	107	107
Support Services	140	161	21
Total Payments	87,340	87,246	(94)
Income			
Employer Contributions	(40,000)	(41,665)	(1,665)
Employee Contributions	(14,400)	(15,363)	(963)
Employer Deficit Payments	(19,800)	(19,244)	556
Transfers In	(4,000)	(5,976)	(1,976)
Pension Strain	(1,200)	(1,558)	(358)
Income	(48)	(92)	(44)
Total Income	(79,448)	(83,898)	(4,450)
Total net of Investment Income	7,892	3,348	(4,544)
Investment Income	(6,000)	(9,464)	(3,464)
Investment Expenses	3,000	3,800	800
Total net of In House Investments	4,892	(2,316)	(7,208)
In House Drawdowns	85,163	115,114	29,951
In House Distributions	(76,729)	(55,270)	21,459
Net Drawdown/Distributions	8,434	59,844	51,410
Rebalancing Portfolio	(10,000)	(72,001)	(62,001)
Total Cash Flow	3,326	(14,473)	(17,799)
Closing Cash	(273)	(20,237)	

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 Private Market portfolio for which the current allocation was 25% of the Fund (this has been increased to 27% at the recent strategy review). 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 previous table shows a summarised final cash flow for 2019/20. 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.

3 Year Cash Flow Forecast

		2020/21 £000	2021/22 £000	2022/23 £000
Opening Cash		(20,237)	(18,476)	(31,337)
Payments				
Pensions		67,800	69,000	70,400
Lump Sums & Death Grants		16,000	16,000	16,000
Transfers Out		6,000	6,000	6,000
Expenses (including In House)		5,200	5,400	5,400
Tax Paid		100	100	100
Support Services		170	170	170
Total Payments		95,270	96,670	98,070
Income				
Employer Contributions		(44,000)	(44,800)	(46,000)
Employee Contributions		(16,000)	(17,000)	(17,200)
Employer Deficit Payments		(14,000)	(14,000)	(14,000)
Transfers In		(6,000)	(6,000)	(6,000)
Pension Strain		(1,200)	(1,200)	(1,200)
Income		(40)	(40)	(40)
Total Income		(81,240)	(83,040)	(84,440)
Cash Flow net of Investment Income		14,030	13,630	13,630
Investment Income		(8,000)	(8,000)	(8,000)
Investment Expenses		4,000	4,000	4,000
Total net of In House Investments		10,030	9,630	9,630
In House Drawdowns		70,403	46,947	24,800
In House Distributions		(78,672)	(69,438)	(46,033)
Net Drawdowns/Distributions		(8,269)	(22,491)	(21,233)
Total Cash Flow		1,761	(12,861)	(11,603)
Closing Cash		(18,476)	(31,337)	(42,940)
Estimated Asset Valuation		2,075	2,191	2,314

The previous table shows the cash flow forecasts for the next three years to March 2023. 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 5.6% per annum.

Analysis of Operating Expenses

The following table shows the actual operating expenses for the Fund for 2019/20 compared to 2018/19. Management fees overall have reduced due to lower performance fees in Private Markets.

	2018/19 Actual £000	2019/20 Actual £000	Net change £000
Governance & Oversight Expenses			
Employee Costs (Direct)	193	283	90
Support & Service Costs (Internal Recharges)	23	20	(3)
IT (Support & Services)	0	2	2
Other Supplies & Services	66	102	36
Audit Fees	39	38	(1)
Actuarial Fees	407	465	58
Consultant Fees	598	641	43
Pooling(Consultant & Host Authority)	85	79	(6)
Advisor Fees	434	220	(214)
Legal Fees	57	20	(37)
Performance Monitoring Fees	60	76	16
Pension Board	58	53	(5)
Total Governance Expenses	**2,020**	**1,999**	**(21)**
Investment Management Expenses			
Fund Manager Fees	14,181	15,300	1,119
Performance Related Fees	6,335	3,181	(3,154)
Transaction Costs	2,264	1,829	(435)
Custody Fees	31	43	12
Total Investment Management Fees	**22,811**	**20,353**	**(2,458)**
Administration Expenses			
Employee Costs (Direct)	982	1,157	175
Support & Service Costs (Internal Recharges)	113	151	38
Outsourcing	394	197	(197)
IT (Support & Services)	364	408	44
Other supplies & services	86	112	26
Total Administrative Expenses	**1,939**	**2,025**	**86**
Total Costs	**26,770**	**24,377**	**(2,393)**

The following table shows actual costs for 2019/20 compared to the budgeted costs along with the budget for 2020/21. There will generally be a difference in manager fees compared to budget as these are based on market valuations which are difficult to estimate. Outsourcing costs were also lower than anticipated during the financial year.

	2019/20 £000 Actual	2019/20 £000 Budget	2019/20 £000 Variance	2020/21 £000 Budget
Governance & Oversight Expenses				
Employee Costs (Direct)	283	299	(16)	323
Support & Service Costs (Internal Recharges)	20	22	(2)	24
IT (Support & Services)	2	5	(3)	5
Other Supplies & Services	102	70	32	82
Audit Fees	38	40	(2)	41
Actuarial Fees	465	435	30	641
Consultant Fees	641	664	(23)	859
Advisor Fees	220	179	41	337
Legal Fees	20	40	(20)	41
Performance Monitoring Fees	76	66	10	93
Pension Board	53	69	(16)	73
Pooling (Consultants & Host Authority)	79	109	(30)	119
Total Governance Expenses	**1,999**	**1,998**	**1**	**2,638**
Investment Management Expenses				
Fund Manager Fees	20,030	21,000	(970)	24,458
Custody Fees	31	31	0	32
Pooling(Operator/Manager/Custodian)	292	186	106	190
Total Investment Management Fees	**20,353**	**21,217**	**(864)**	**24,680**
Administration Expenses				
Employee Costs (Direct)	935	893	42	1,247
Support & Service Costs (Internal Recharges)	151	66	85	140
Outsourcing	197	900	(703)	300
IT (Support & Services))	408	424	(16)	405
Other supplies & services	112	63	49	108
Total Administrative Expenses	**1,803**	**2,346**	**(545)**	**2.200**
Employer Liaison Team				
Employee costs (Direct)	**222**	**213**	9	**223**
Total Costs	**24,377**	**25,774**	**(1,397)**	**29,741**

Participating Employers of the Fund at 31 March 2020

Contributions

49 bodies contributed to the Fund during 2019/20, 31 scheduled and 18 admitted. Contributions are paid to the Fund by the 19th of the month following the month they relate to. Employer and employee contributions, (including deficit payments) received during 2019/20 are shown below, as is the rate of contribution as a percentage of pensionable pay.

7 new bodies have been admitted to the Fund during 2019/20 (4 scheduled and 3 admitted). No bonds or any other secured funding arrangements have been facilitated.

Admitted Bodies	Employer Contribution £	%	Employee Contribution £	Avg %
Newydd Catering & Cleaning Ltd	616,198	18.40	187,513	5.6
Aura Leisure & Libraries Ltd	600,214	18.10	205,487	6.2
Careers Wales	374,107	15.20	89,652	6.3
Civica UK	215,658	19.00	67,667	6.4
Wrexham Commercial Services	168,890	17.40	55,467	5.8
Home Farm Trust Ltd	146,964	20.70	41,381	5.8
Chartwells – Compass Group UK	141,526	21.10	40,031	5.6
Freedom Leisure	125,503	18.60	41,521	6.2
Holywell Leisure Ltd	42,857	16.20	15,936	6.0
Churchills	35,293	21.50	9,175	5.5
Cartref y Dyffryn Ceiriog	31,281	23.10	3,986	6.0
Aramark Ltd	29,923	21.80	7,862	6.2
Denbighshire Leisure	28,509	13.80	16,000	7.8
Glyndwr Students Union	15,054	8.00	11,951	6.4
Cartref NI	13,903	19.90	4,230	6.0
Denbigh Youth Group	5,604	23.00	6,310	6.5
Hafan Deg (KL Care)	3,222	23.90	769	5.7
Bodelwyddan Castle Trust	3,164	19.40	1,632	5.6

Scheduled Bodies	Employer Contribution £	%	Employee Contribution £	Avg %
Flintshire County Council	23,096,647	15.20	5,213,994	6.2
Denbighshire County Council	18,061,199	15.20	4,136,000	6.3
Wrexham County Borough Council	11,171,220	15.40	4,449,465	6.2
Glyndwr University	2,034,375	15.00	479,926	6.8
Coleg Cambria	1,944,400	14.80	826,845	6.3
North Wales Fire Service	761,751	14.70	338,400	6.7
North Wales Valuation Tribunal	57,554	16.80	10,439	8.0
Rhyl Town Council	42,879	15.50	8,607	7.4
Hawarden Community Council	39,812	20.20	9,370	6.4
Coedpoeth Community Council	30,364	24.40	5,437	5.9
Prestatyn Town Council	30,100	19.00	9,183	6.4
Caia Park Community Council	20,619	25.60	5,618	6.0
Mold Town Council	19,046	17.40	6,361	6.5
Buckley Town Council	18,536	23.60	4,968	6.3
Rhos Community Council	18,083	17.10	4,539	6.1
Shotton Town Council	7,429	27.70	1,790	6.5
Cefn Mawr Community Council	6,840	17.00	2,103	5.0
Holywell Town Council	6,108	18.00	1,879	5.5
Denbigh Town Council	6,047	16.60	2,276	6.3
Acton Community Council	5,457	19.60	1,742	6.3
Offa Community Council	4,459	23.00	2,104	6.2
Gresford Town Council	3,161	21.90	837	5.8
Argoed Community Council	3,061	29.30	598	5.5
Penyffordd Community Council	2,649	21.10	691	5.5
Connah's Quay Town Council	2,125	16.20	5,157	5.7
Gwernymynydd Community Council	1,745	30.50	317	5.5
Bagillt Community Council	1,200	13.30	496	5.5
Hope Community Council	1,167	12.40	518	5.5
Marchwiel Community Council	1,105	19.20	317	5.7
Northop Town Council	1,045	19.90	289	5.5
Flint Town Council	640	17.50	212	5.8

We are able to charge interest on overdue contributions during the financial year. During the year the Fund encountered some issues with some of the new employers within 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.

These all related to new employers. The Fund did not exercise its option to charge interest to 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. The total of all late payments was £3,425 (0.008% of the total employer contributions).

Employer	Late Occasions	Contributions (£)
A	4	2,164
B	1	500
C	2	413
D	3	348

Fund Assets

The table below provides an analysis of the Fund's assets as at 31 March 2020.

	UK £000	Non –UK £000	Global £000	Total £000
Equities	0	100,300	140,135	240,435
Alternatives	216,781	309,700	487,659	1,014,140
Bonds & LDI	317,546	0	182,263	499,809
Property (Direct)	0	0	0	0
Cash	20,238	0	0	20,238
Total	554,565	410,000	810,057	1,774,622

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

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

Investment Income

The table below provides an analysis of the Fund's investment income received as at 31 March 2020. The majority of the Fund assets are in pooled investments and any income is incorporated in the net asset value.

	UK £000	Non –UK £000	Global £000	Total £000
Equities	0	0	0	0
Alternatives	5,968	5,713	0	11,681
Bonds & LDI	0	0	0	0
Property (Direct)	0	0	0	0
Cash	60	0	0	60
Total	6,028	5,713	0	11,741

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 10 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 Markets.

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	19/20 £000	Avg bps	18/19 £000
CORE (70% of Fund)	**105**	**12,932**	**84**	**11,764**
Total expenses including AMC	45	5,574	37	5,141
Underlying Fees (includes performance and transaction fees)	51	6,243	35	4,917
Performance Fees	0	0	0	0
Transaction Fees	9	1,115	12	1,706
NON CORE (30% of Fund)	**296**	**16,142**	**438**	**20,022**
Total expenses including AMC	185	9,726	198	9,040
Underlying Fees (includes performance and transaction fees)	48	2,521	90	4,089
Performance Fees	60	3,181	132	6,335
Transaction Fees	14	714	12	558
TOTAL	**166**	**29,074**	**171**	**31,786**
Total Fees Excluding Underlying	116	20,310	123	22,780
Net Assets (Core)		1,227,904		1,399,935
Net Assets (Non-Core)		526,481		457,043
Total Net Assets (excluding cash)		1,754,384		1,856,978

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 70% (75% in 2018/19) of the Fund assets but only 44% (37% in 2018/19) of the total fees. Assets within the “Non-Core” disclosure include: Private Debt, Private Equity (Direct and Fund of Funds), Property (Open and Closed ended), Infrastructure, Timber and Agriculture. Whilst these account for 30% (25% in 2018/19) of the Fund assets the proportion of fees amounts to 56% (63% in 2018/19). These figures include the underlying fees. In comparison, excluding underlying fees, the proportion of fees for core assets is 33% (30% in 2018/19) and non-core, 67% (70% in 2018/19). Many of the Fund’s managers are now signed up to the Cost Transparency Initiative (CTI) and are providing fees through the CTI template.

Wales Pension Partnership (WPP)

The WPP was established in 2017 and is a collaboration of the eight Welsh Local Government Pension Scheme (LGPS) funds of which the Clwyd Pension Fund is a Constituent Authority. The eight funds have a long, successful history of collaboration including a collaborative tender for a single passive equity provider for the Welsh funds which pre dated the Government's pooling initiative.

The WPP operating model is designed to be flexible and deliver value for money. WPP appointed an external fund Operator and makes use of external advisers to bring best of breed expertise to support the running of the Pool, including Hymans Robertson who have been appointed as the WPP's Oversight Advisor. The Operator is Link Fund Solutions and they have partnered with Russell Investments to deliver effective investment management solutions and provide strong net of fee performance for all the Constituent Authorities. The eight Constituent Authorities of the WPP are:

- Cardiff and Vale of Glamorgan
- Clwyd
- Dyfed
- Greater Gwent (Torfaen)
- Gwynedd
- Powys
- Rhondda Cynon Taf
- Swansea

Link Fund Solution Ltd (The Operator)

The WPP has designed an operating model which is flexible and able to deliver value for money. The nature of the contract means the WPP is charged a certain level of basis points dependant on the level of Assets under Management (AUM) and therefore have not incurred any set up costs.

There is an Operator Agreement in place with Link Fund Solutions which sets out the contractual duties of the Operator and governs the relationship between the Operator and the WPP. The WPP, with the support of its Oversight Advisor, oversee the work that Link Fund Solutions carry out on behalf of the WPP. The WPP's Operator Engagement Protocols have also been put in place to ensure that there are sufficient levels of direct engagement between the Operator and the individual Constituent Authorities.

Link Fund Solutions carry out a broad range of services for the WPP, these include:

- Facilitating investment vehicles & sub-funds
- Performance reporting
- Transitions implementation
- Manager monitoring and fee negotiations
- Risk reporting

Russell Investments (Management Solutions Advisor)

In collaboration with Link Fund Solutions, Russell Investments provide investment management solutions advice to the WPP. Alongside Link Fund Solutions, they work in consultation with WPP's eight Constituent Authorities to establish investment vehicles. Russell's remit includes advising Link Asset Services and WPP on efficiencies around portfolio construction which includes manager selection. Link Fund Solutions continues to work with Russell Investments, where applicable, to further reduce WPP's costs through multi-manager structures, currency management solutions, portfolio overlays, transition management and other execution services.

Hymans Robertson (The Oversight Advisor)

Hymans Robertson have been appointed the Oversight Advisors for the WPP. Hymans Robertson's role spans oversight and advice on governance arrangements, operator services, strategic investment aspects and project management support.

WPP Progress

The WPP aims to deliver investment solutions that allow the Constituent Authorities to implement their own investment strategies with material cost savings while continuing to deliver investment performance to their stakeholders. There has been, across Wales in total, significant progress towards delivering on this objective. The launching of the WPP's three active equity sub-funds, alongside the Constituent Authorities existing passive investments, has meant that that the WPP has now pooled 45% of assets.

The current AUM across the eight Constituent Authorities as at 31 March 2020 is circa £17.5bn. The AUM of the assets invested in WPP, including the passive equities effectively within the Pool but held by the respective WPP Authorities in the form of insurance policies is:

Asset Class	Managed by	AUM	Clwyd AUM
Passive Equity	BlackRock	£3.57bn	£0.065bn
Global-Growth Active Equities	Link Fund Solutions	£1.96bn	N/A
Global Opportunities Active Equities	Russell Investments	£1.88bn	£0.075bn
UK-Opportunities Active Equities	Russell Investments	£0.48bn	N/A
Total		£7.89bn	£0.14bn

During 2020/21, WPP will be transitioning a further £2.94bn to 5 Fixed Income Sub Funds:

Asset Class	Managed by	AUM	Clwyd AUM
Global Credit	Russell Investments	£0.79bn	N/A
Multi Asset Credit	Russell Investments	£0.63bn	£0.20bn
UK Credit	Fidelity International	£0.56bn	N/A
Global Government	Russell Investments	£0.53bn	N/A
Absolute Return Bonds	Russell Investments	£0.43bn	N/A
Total		£2.94bn	£0.20bn

Ongoing Investment Management Costs

The table below discloses the investment management costs split between those held by the WPP (including the passive equities) and those held outside of the WPP. These can be further split by direct costs which are disclosed in the Fund accounts on page 94 of this Annual Report as directed by CIPFA and those indirect costs for underlying managers.

	Fees	Charged	£000's		
	Total Expenses including AMC	Performance Fees	Transaction Costs	Custody	Total
Asset Pool					
Direct	152	0	200	13	365
Indirect	201	0	0	0	201
Total	353	0	200	13	566
bps	25	0	14	1	40
Non Asset Pool					
Direct	15,148	3,181	1,629	31	19,989
Indirect	3,291	3,608	1,664	0	8,563
Total	18,439	6,789	3,293	31	28,552
bps	114	42	20	1	177
Fund Total	18,792	6,789	3,493	44	29,118
bps	107	39	20	1	167

Host Authority

Carmarthenshire County Council has been appointed as the Host Authority for the Wales Pension Partnership. The Host Authority is responsible for providing administrative and secretarial support and liaising day to day with the Operator on behalf of all of the LGPS funds in Wales. The WPP agree a budget which is included in their business plan which includes the costs of the Host Authority and charges relating to the Oversight Advisor, any legal services provided and charges in relation to the WPP Engagement and Voting Provider, Robeco. All these running costs are recharged equally (unless specific projects have been agreed for individual Funds) between the eight Constituent Authorities. For the financial year to March 2020, the amount recharged to the Clwyd Fund was £70k.

1 Year Asset Allocation and Performance (2019/20)

Assets						
	Opening Value £000	%	Closing Value £000	%	Net Performance %	Local Target %
Pool Assets						
Equities Passive	71,050	3.8	65,205	3.7	-8.2	-8.5
Equities Active	78,672	4.2	74,931	4.2	-4.7	-4.8
Total Pool Assets	149,722	8.0	140,136	7.9		
Non- Pool Assets						
Bonds Active	203,790	10.9	182,263	10.3	-10.5	+1.7
Equities Active	118,828	6.4	100,300	5.7	-15.4	-11.8
Diversified Growth	365,757	19.6	346,996	19.6	-5.1	+4.5
Liability Driven Investment	422,854	22.7	317,546	17.9	-10.9	-10.9
Hedge Funds	138,985	7.5	140,663	7.9	+1.2	+4.3
Private Equity	211,584	11.4	226,849	12.8	+5.2	+5.9
Private Debt	32,744	1.8	40,911	2.3	+0.2	+6.7
Infrastructure	66,604	3.6	112,156	6.3	+0.1	+5.9

Property	**122,836**	**6.6**	**126,651**	**7.1**	**+3.5**	**+0.1**
Timber & Agriculture	**23,274**	**1.2**	**19,913**	**1.1**	**-1.3**	**+5.9**
Cash	**5,765**	**0.3**	**20,238**	**1.1**		
Total Non-Pool Assets	**1,713,021**	**92.0**	**1,634,486**	**92.1**		
Total Assets	**1,862,743**	**100**	**1,774,622**	**100**	**-5.1**	**-0.7**

Archwilio Cymru
Audit Wales

Audit of Accounts Report – **Clwyd Pension Fund**

Audit year: 2019-20

Date issued: October 2020

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This document has been prepared as part of work performed in accordance with statutory functions.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000. The section 45 code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor General for Wales and the Wales Audit Office are relevant third parties. Any enquiries regarding disclosure or re-use of this document should be sent to Audit Wales at infoofficer@audit.wales.

We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

Contents

We intend to issue an unqualified audit report on your Accounts. There are some issues to report to you prior to their approval.

Audit of Accounts Report

Introduction

1 We summarise the main findings from our audit of your 2019-20 annual report and accounts in this report.

2 We have already discussed these issues with the Deputy Head of the Pension Fund and the Pension Fund Accountant.

3 Auditors can never give complete assurance that accounts are correctly stated. Instead, we work to a level of 'materiality'. This level of materiality is set to try to identify and correct misstatements that might otherwise cause a user of the accounts into being misled.

4 We set this level at £17.795 million for this year's audit.

5 We have now substantially completed this year's audit, but at the time of drafting this report, the following areas of work were outstanding:

- a small number of third-party verifications for investment valuations;
- our final stage review of our audit work coupled with our final review of the revised accounts; and
- final review of the Annual Report.

6 In our professional view, we have complied with the ethical standards that apply to our work; remain independent of yourselves; and, our objectivity has not been compromised in any way. There are no relationships between ourselves and yourselves that we believe could undermine our objectivity and independence.

Impact of COVID-19 on this year's audit

7 The COVID-19 pandemic has had a significant impact on all aspects of our society and continues to do so. You are required by law to prepare accounts and it is of considerable testament to the commitment of your accounts team that you have succeeded in doing so this year in the face of the challenges posed by this pandemic. To help overcome these challenges we adopted new ways of working such as establishing a secure remote file transfer portal. We are extremely grateful to the professionalism of the team in supporting us to complete our audit in such difficult circumstances, although we have identified some opportunities where the process needs to improve for future years. We will be reviewing what we have learned from the impact of the pandemic on our audit and whether there are innovative practices that we might adopt in the future to enhance our work for our experiences both locally and nationally.

8 The pandemic has unsurprisingly affected our audit and we summarise in **Exhibit 1** the main impacts. Other than where we specifically make recommendations, the detail in **Exhibit 1** is provided for information purposes only to help you understand the impact of the COVID-19 pandemic on this year's audit process.

Exhibit 1 – impact of COVID-19 on this year's audit

Timetable	• Officers provided us with good quality draft accounts on 16 June 2020 as planned. • The Annual Report was provided to us on 3 September 2020. • We expect your audit report to be signed by 13 October 2020.
Electronic signatures	Given current social distancing requirements, it may be difficult for signing and certification of the accounts in hard copy this year. We may need to use electronic signatures for this purpose and will accept electronic signatures from the Pension Fund. We will liaise with management to ensure relevant arrangements are in place.
Conducting the audit approach and obtaining audit evidence	Due to social distancing measures, Audit Wales staff are currently working remotely from home. As a result, we adopted new ways of working: • weekly meetings held with the Deputy Head of the Pension Fund and the Pension Fund Accountant throughout the audit to discuss progress and emerging issues; and • established a secure remote file transfer portal to safely share information.

9 We will be reviewing what we have learned for our audit process from the COVID-19 pandemic and whether there are innovative practices that we might adopt in the future to enhance that process.

Proposed audit opinion

10 We intend to issue an unqualified audit opinion on this year's accounts once you have provided us with a Letter of Representation based on that set out in **Appendix 1**.

11 We issue a 'qualified' audit opinion where we have material concerns about some aspects of your accounts; otherwise we issue an unqualified opinion.

12 The Letter of Representation contains certain confirmations we are required to obtain from you under auditing standards.

13 Our proposed audit report is set out in **Appendix 2**. The audit report includes an Emphasis of Matter which draws readers' attention to uncertainties arising from circumstances caused by the COVID-19 pandemic:

- Note 13A 'Analysis of Investments' which describes material valuation uncertainty clauses in the valuation reports for Pooled Property Investments held by the Fund.

14 My opinion is not modified in respect of this matter.

15 The Letter of Representation contains certain confirmations we are required to obtain from you under auditing standards, along with confirmation of other specific information you have provided to us during our audit.

Significant issues arising from the audit

Uncorrected misstatements

16 Notwithstanding the areas of audit work outstanding highlighted in paragraph 5, there are no misstatements identified in the financial statements, which remain uncorrected. We will update our report as the audit work is completed and will report back to you any misstatements the Pension Fund has not corrected.

Corrected misstatements

17 There were initially misstatements in the accounts that have now been corrected by management. However, we believe that these should be drawn to your attention and they are set out with explanations in **Appendix 3**.

Other significant issues arising from the audit

18 In the course of the audit, we consider a number of matters relating to the accounts and report any significant issues arising to you. There were no issues arising in these areas this year.

Recommendations

19 We intend to make a small number of recommendations in a separate report to the Pension Fund. The recommendations do not have any impact on our opinion over the financial statements.

Appendix 1

Final Letter of Representation

Auditor General for Wales

Audit Wales

24 Cathedral Road

Cardiff

CF11 9LJ

7 October 2020

Representations regarding the 2019-20 financial statements

This letter is provided in connection with your audit of the financial statements of the Clwyd Pension Fund for the year ended 31 March 2020 for the purpose of expressing an opinion on their truth and fairness and their proper preparation.

We confirm that to the best of our knowledge and belief, having made enquiries as we consider sufficient, we can make the following representations to you.

Management representations

Responsibilities

We have fulfilled our responsibilities for:

- the preparation of the financial statements in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2019-20; in particular the financial statements give a true and fair view in accordance therewith; and
- the design, implementation, maintenance and review of internal control to prevent and detect fraud and error.

Information provided

We have provided you with:

- Full access to:
  - all information of which we are aware that is relevant to the preparation of the financial statements such as books of account and supporting documentation, minutes of meetings and other matters;
  - additional information that you have requested from us for the purpose of the audit; and
  - unrestricted access to staff from whom you determined it necessary to obtain audit evidence.

- The results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- Our knowledge of fraud or suspected fraud that we are aware of and that affects Clwyd Pension Fund and involves:
  - management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the financial statements.
- Our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others.
- Our knowledge of all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
- The identity of all related parties and all the related party relationships and transactions of which we are aware.

Financial statement representations

All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the financial statements.

Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

Related party relationships and transactions have been appropriately accounted for and disclosed.

All events occurring subsequent to the reporting date which require adjustment or disclosure have been adjusted for or disclosed.

All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

The financial statements are free of material misstatements, including omissions. The effects of uncorrected misstatements identified during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Representations by the Clwyd Pension Fund Committee

We acknowledge that the representations made by management, above, have been discussed with us.

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were approved by the Pensions Committee on 7 October 2020.

We confirm that we have taken all the steps that we ought to have taken in order to make ourselves aware of any relevant audit information and to establish that it has been communicated to you. We confirm that, as far as we are aware, there is no relevant audit information of which you are unaware.

Signed by:	Signed by:
Gary Ferguson	Cllr Ted Palmer
Corporate Finance manager	Chair of Clwyd Pension Fund Committee
Date: 7 October 2020	Date: 7 October 2020

Appendix 2

Proposed independent auditor's report of the Auditor General for Wales to the members of Flintshire County Council as administering authority for Clwyd Pension Fund

Report on the audit of the financial statements

Opinion

I have audited the financial statements of Clwyd Pension Fund for the year ended 31 March 2020 under the Public Audit (Wales) Act 2004.

Clwyd Pension Fund's financial statements comprise the fund account, the net assets statement and the related notes, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2019-20 based on International Financial Reporting Standards (IFRSs).

In my opinion the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2020, and of the amount and disposition at that date of its assets and liabilities; and
- have been properly prepared in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2019-20.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the pension fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of Matter – effects of COVID-19 on the Fund's Pooled Property investment valuations

I draw attention to Note 13A to the financial statements, which describes material valuation uncertainty clauses in the valuation report's on Pooled Property investments held by the Clwyd Pension Fund arising from circumstances caused by the COVID-19 pandemic. My opinion is not modified in respect of this matter.

Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the responsible financial officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about Clwyd Pension Fund's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

Other information

The responsible financial officer is responsible for the other information in the annual report. The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my report, I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

Report on other requirements

Opinion on other matters

In my opinion, based on the work undertaken in the course of my audit:

- the information contained in the annual report for the financial year for which the financial statements are prepared is consistent with the financial statements and the annual report has been prepared in accordance with the Local Government Pension Scheme Regulations 2013.

Matters on which I report by exception

In the light of the knowledge and understanding of the pension fund and its environment obtained in the course of the audit, I have not identified material misstatements in the annual report.

I have nothing to report in respect of the following matters, which I report to you, if, in my opinion:

- adequate accounting records have not been kept;
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all the information and explanations I require for my audit.

Certificate of completion of audit

I certify that I have completed the audit of the accounts of Clwyd Pension Fund in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Auditor General for Wales' Code of Audit Practice.

Responsibilities

Responsibilities of the responsible financial officer for the financial statements

As explained more fully in the Statement of Responsibilities for the financial statements, the responsible financial officer is responsible for the preparation of the financial statements, which give a true and fair view, and for such internal control as the responsible financial officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the responsible financial officer is responsible for assessing the pension fund's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Adrian Crompton
Auditor General for Wales
Date: 13 October 2020

24 Cathedral Road
Cardiff
CF11 9LJ

Appendix 3

Summary of corrections made

During our audit we identified the following misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process.

Exhibit 2: summary of corrections made

Value of correction	Nature of correction	Reason for correction
£19.386 million reduction to the Closing Net Assets of the Fund	**Value of Investment Assets** The Value of 'Investment Assets' on the face of the Net Assets Statement were overstated by £19.386 million and the 'Change in market value of investments' on the face of the Fund Account is overstated by the same amount.	To include the investments held by the Pension Fund at their actual value as at 31 March 2020. Due to their nature, there is a delay in receiving year-end valuations for 'Private Equity' investments. These investments are held at an estimated value within the balance sheet. The difference between the estimates and the actuals, once all valuations were received, was a material amount.
£1.2 million, self-contained to Note 11	**Note 11 Investment Income** The current year figures within note 11 contained a classification error. The 'Pooled Investments' income was overstated by £1.2 million, with the 'Private equity' income being understated by the same amount. The prior-year comparative was also amended to correct this classification with £1.4 million moved from 'Pooled Investments to 'Private Equity'.	To correctly disclose the Investment Income received during the year ended 31 March 2020.

Value of correction	Nature of correction	Reason for correction
Narrative disclosure only, self-contained to note 13A.	**Note 13A Analysis of Investment** Additional disclosure has been inserted into note 13A regarding material valuation uncertainties of Pooled Property investments.	The disclosure highlights the impact of the COVID-19 pandemic on the valuation of properties which underly Pooled Property Investments held by the Fund.
£6.5 million, self-contained to note 13A	**Note 13A Analysis of Investment** The table showing the analysis of investments contains a classification error within the 'Infrastructure' balances. The 'Limited Liability Partnerships – quoted' figure is overstated by £6.5 million with the 'Limited Liability Partnerships – unquoted' being understated by the same amount.	To correctly disclose the nature of the Fund investments
£29.7 million, self-contained to note 13B	**Note 13B Analysis by Fund manager** The table showing the analysis of the Fund investments between 'UK' and 'Overseas' contained a classification error. The 'UK' balance was overstated by £29.7 million, with the 'Overseas' balance being understated by the same amount.	To correctly disclose the geographic analysis of the Fund investments.

Value of correction	Nature of correction	Reason for correction
£88.6 million, self-contained to note 15	**Note 15 Fair Value of Investments** The fair value hierarchy for 'Infrastructure' and 'Hedge Fund' contained classification errors. For 'Infrastructure', the 'Level 2' had been understated by £6.5 million with the 'Level 1' being overstated by the same amount. For 'Hedge Fund', the 'Level 2' had been understated by £82.1 million, with the 'Level 1' overstated by £81.7 million and 'Level 3' overstated by £0.4 million.	To correctly disclose the fair value levels in line with IFRS13.
Narrative disclosure only, Annual Report	**Annual Report Section 9 – Investment Policy and Performance Report; Section 11 – Financial Report** The investment performance of the Fund had been misstated within the annual report. The overall return had been stated as -3.2% and has been amended to -5.1%. The underlying portfolio returns have been amended where applicable.	To update the investment return to reflect the final valuation of Fund investments included within the Financial Statements.

There have also been a number of minor amendments and disclosure updates as a result of our work.

Audit Wales
24 Cathedral Road
Cardiff CF11 9LJ

Tel: 029 2032 0500
Fax: 029 2032 0600
Textphone: 029 2032 0660

E-mail: info@audit.wales
Website: www.audit.wales

We welcome correspondence and telephone calls in Welsh and English.
Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg.

APPENDIX 3

Colin Everett
Chief Executive
Prif Weithredwr
Administrator to the Fund / Gweinyddwr y Gronfa

Gary Ferguson, CPFA
Corporate Finance Manager (Section 151 Officer)
Rheolwr Cyllid Corfforaethol (Swyddog adran 151)
Treasurer to the Fund / Trysorydd y Gronfa

Cronfa Bensiynau Clwyd
Clwyd Pension Fund

Your Ref/Eich Cyf

Our Ref/Ein Cyf
CPF AR/LoR

7TH October 2020

Ask for/Gofynner am

Direct Dial/Rhif Union

Email/ Ebost

Auditor General for Wales
Audit Wales
24 Cathedral Road
Cardiff
CF11 9LJ

Final Letter of Representation

Representations regarding the 2019-20 financial statements

This letter is provided in connection with your audit of the financial statements of the Clwyd Pension Fund for the year ended 31 March 2020 for the purpose of expressing an opinion on their truth and fairness and their proper preparation.

We confirm that to the best of our knowledge and belief, having made enquiries as we consider sufficient, we can make the following representations to you.

Management representations

Responsibilities

We have fulfilled our responsibilities for:

the preparation of the financial statements in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2019-20; in particular the financial statements give a true and fair view in accordance therewith; and

the design, implementation, maintenance and review of internal control to prevent and detect fraud and error.

Information provided

We have provided you with:

Full access to:

- all information of which we are aware that is relevant to the preparation of the financial statements such as books of account and supporting documentation, minutes of meetings and other matters;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to staff from whom you determined it necessary to obtain audit evidence.

The results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Our knowledge of fraud or suspected fraud that we are aware of and that affects Clwyd Pension Fund and involves:

- management;
- employees who have significant roles in internal control; or
- others where the fraud could have a material effect on the financial statements.

Our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others.

Our knowledge of all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

The identity of all related parties and all the related party relationships and transactions of which we are aware.

Financial statement representations

All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the financial statements.

Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

Related party relationships and transactions have been appropriately accounted for and disclosed.

All events occurring subsequent to the reporting date which require adjustment or disclosure have been adjusted for or disclosed.

All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

The financial statements are free of material misstatements, including omissions. The effects of uncorrected misstatements identified during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Representations by the Clwyd Pension Fund Committee

We acknowledge that the representations made by management, above, have been discussed with us.

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were approved by the Pensions Committee on 7 October 2020.

We confirm that we have taken all the steps that we ought to have taken in order to make ourselves aware of any relevant audit information and to establish that it has been communicated to you. We confirm that, as far as we are aware, there is no relevant audit information of which you are unaware.

Signed by:

Gary Ferguson

Corporate Finance manager

Date: 7 October 2020

Signed by:

Cllr Ted Palmer

Chair of Clwyd Pension Fund Committee

Date: 7 October 2020

Mae'r dudalen hon yn wag yn bwrpasol

24 Cathedral Road / 24 Heol y Gadeirlan
Cardiff / Caerdydd
CF11 9LJ
Tel / Ffôn: 029 2032 0500
Fax / Ffacs: 029 2032 0600
Textphone / Ffôn testun: 029 2032 0660
info@audit.wales / post@archwilio.cymru
www.audit.wales / www.archwilio.cymru

APPENDIX 4

Mr Gary Ferguson
Corporate Finance Manager
Flintshire County Council
County Hall
Mold
Flintshire
CH7 6NB

Reference: AW/CPF/MJP
Date issued: 25 June 2020

Dear Gary,

Clwyd Pension Fund 2019-20 - Audit enquiries to those charged with governance and management

In our 2020 Audit Plan, we note that the Auditor General for Wales is responsible for obtaining reasonable assurance that the financial statements taken as a whole; are free from material misstatement, whether caused by fraud or error. We also set out the respective responsibilities of auditors, management and those charged with governance.

This letter formally seeks documented consideration and understanding on a number of governance areas, that impacts on our audit of the Clwyd Pension Fund's financial statements. These considerations are relevant to both the management of Clwyd Pension Fund and 'those charged with governance' (the Pension Fund Committee).

I have set out below the areas of governance on which I am seeking views.

1. Processes in relation to:
    - undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud;

- identifying and responding to risks of fraud in the organisation;
- communication to those charged with governance the processes for identifying and responding to fraud; and
- communication to employees of views on business practice and ethical behaviour.

2. Awareness of any actual or alleged instances of fraud.

3. How assurances are gained that all relevant laws and regulations have been complied with.

4. Whether there is any potential litigation or claims that would affect the financial statements.

5. Processes to identify, authorise, approve, account for and disclose related party transactions and relationships.

The information you provide will inform our understanding of the Pension Fund and its business processes and support our work in providing an audit opinion on your 2019-20 financial statements.

I would be grateful if you could liaise with Councillor Ted Palmer as the Chair of the Pension Fund Committee to complete the attached tables in Appendices 1-3.

Your responses should be formally considered and communicated to us on behalf of both management and those charged with governance by 31 August 2020. In the meantime, if you have queries, please contact me on 02920320660 or by e-mail Michelle.Phoenix@audit.wales.

Yours sincerely

Michelle Phoenix
Audit Manager

Appendix 1

Matters in relation to fraud

International Standard for Auditing (UK and Ireland) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both management and 'those charged with governance', which for the Pension Fund is the Pension Fund Committee. Management, with the oversight of the Pension Fund Committee, should ensure there is a strong emphasis on fraud prevention and deterrence and create a culture of honest and ethical behaviour, reinforced by active oversight by those charged with governance.

As external auditors, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

What are we required to do?

As part of our risk assessment procedures we are required to consider the risks of material misstatement due to fraud. This includes understanding the arrangements management has put in place in respect of fraud risks. The ISA views fraud as either:

- the intentional misappropriation of assets (cash, property, etc); or
- the intentional manipulation or misstatement of the financial statements.

We also need to understand how the Pension Fund Committee exercises oversight of management's processes. We are also required to make enquiries of both management and the Pension Fund Committee as to their knowledge of any actual, suspected or alleged fraud and to understand the processes for identifying and responding to the risks of fraud and the internal controls established to mitigate them.

Enquiries of management - in relation to fraud	
Question	**2019-20 Response**
1. What is management's assessment of the risk that the financial statements may be materially misstated due to fraud and what are the principal reasons?	The risk is considered to be low, because: - The Clwyd Pension Fund (CPF) processes and systems are audited by the Flintshire County Council (FCC) internal audit team, and their reports have not identified any serious weakness in relation to potential fraud. - CPF uses many of FCCs processes and systems, including staff payroll, payments of benefits, and the financial ledger system, which are subject to robust controls and are regularly audited. - The accounts are subject to internal review by members of the CPF team which would highlight distortion resulting from potential fraud. Regular budget monitoring reports are produced which would highlight areas of potential fraud.

2.	What processes are employed to identify and respond to the risks of fraud more generally and specific risks of misstatement in the financial statements?	CPF has a Risk Policy approved by CPF Committee. Under this policy a risk register is maintained and reports on the register are considered quarterly by CPF Committee. The CPF Pension Board acts as a partner in assisting the Fund to meet its statutory and regulatory requirements and in administering the Fund effectively. CPF has in place an Independent Advisor, who chairs the Pension Board and offers advice and guidance on governance matters. CPF has a Breaches Policy approved by CPF Committee. Under this policy, CPF maintains a breaches register and reports on the register are considered quarterly by CPF Committee and at each CPF Pension Board meeting. This includes how breaches of legislation have arisen and how they have been managed. CPF uses a number of FCC systems and processes which are governed by FCC's Financial Procedure Rules (FPR's). All officers are FCC employees and so are governed by FCC's Code of Conduct, Anti-Fraud and Corruption Strategy, Contract Procedure Rules, Whistle Blowing Policy and Constitution. CPF participates in the NFI, which through its matching exercises would highlight potential fraud. The Funds Actuary has completed an actuarial review during 2019/20 which includes a review of membership trends and activity. In addition, they complete IAS 19 reviews annually for large employers which require similar reviews of membership. The CPF's Investment Advisor reviews asset valuations and performance regularly which would identify significant misstatements, and report regularly to CPF's Advisory Panel and CPF's Committee. CPF receive the annual accounts and internal control statements from fund managers in relation to investments.

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Enquiries of management - in relation to fraud	
Question	**2019-20 Response**
3. What arrangements are in place to report fraud issues and risks to the Audit Committee?	FCC's FCRSs specify that whenever a matter arises in relation to actual or potential fraud it is the responsibility of whichever Chief Officer's area of control it arises in to report it to Internal Audit, who will take whatever action necessary including appropriate reporting. The Annual Internal Audit Report reports on performance against the Anti-Fraud and Corruption Strategy.
4. How has management communicated expectations of ethical governance and standards of conduct and behaviour to all relevant parties, and when?	The FCC intranet contains all the relevant policies as above which can be accessed by all officers and members of FCC at any time.
5. Are you aware of any instances of actual, suspected or alleged fraud within the audited body since 1 April 2019?	No.

Enquiries of those charged with governance – in relation to fraud		
Question		**2019-20 Response**
1.	How does the Pension Fund Committee, exercise oversight of management's processes for identifying and responding to the risks of fraud within the audited body and the internal control that management has established to mitigate those risks?	CPF Committee regularly receive updated risk registers. They also receive internal audit reports and minutes of the meetings of the Pension Board. The Independent Advisor monitors activity and produces an annual report. CPF Committee also receive regular financial monitoring reports. The CPF accounts are subject to external audit by Audit Wales.
2.	Are you aware of any instances of actual, suspected or alleged fraud with the audited body since 1 April 2019?	No

Appendix 2

Matters in relation to laws and regulations

International Standard for Auditing (UK and Ireland) 250 covers auditors responsibilities to consider the impact of laws and regulations in an audit of financial statements.

Management, with the oversight of those charged with governance, which for the Pension Fund is the Pension Fund Committee, is responsible for ensuring that the Pension Fund's operations are conducted in accordance with laws and regulations, including compliance with those that determine the reported amounts and disclosures in the financial statements.

As external auditors, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. The ISA distinguishes two different categories of laws and regulations:

- laws and regulations that have a direct effect on determining material amounts and disclosures in the financial statements;
- other laws and regulations where compliance may be fundamental to the continuance of operations, or to avoid material penalties.

What are we required to do?

As part of our risk assessment procedures we are required to make inquiries of management and the Pension Fund Committee as to whether the Pension Fund is in compliance with relevant laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Enquiries of management - in relation to laws and regulations	
Question	**2019-20 Response**
1. How have you gained assurance that all relevant laws and regulations have been complied with?	All CPF activity is designed to conform to statutory requirements and the requirements of The Pensions Regulator. The Independent Advisor monitors CPF activity and reports annually. CPF makes use of external advisors, including an Actuary and an Investment Advisor, who also report annually. There is an Advisory Panel in place, chaired by the FCC Chief Executive, who work with CPF to ensure positive outcomes in all areas of CPF activity.
2. Have there been any instances of non-compliance or suspected non- compliance with relevant laws and regulations since 1 April 2019, or earlier with an ongoing impact on the 2019-20 financial statements?	The Breaches Register includes all cases of non-compliance and is reported regularly to the CPF Committee and the Pensions Board. No Breach has required reporting to The Pensions Regulator during 2019/20, and no Breach has had an impact on the preparation of the accounts.
3. Are there any potential litigations or claims that would affect the financial statements?	None that CPF is aware of.

Enquiries of management - in relation to laws and regulations	
Question	**2019-20 Response**
4. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No.

Enquiries of those charged with governance – in relation to laws and regulations		
Question		**2019-20 Response**
1.	How does the Pension Fund Committee, in its role as those charged with governance, obtain assurance that all relevant laws and regulations have been complied with?	As part of the regular reporting cycle to each CPF Committee, the Committee receives updates on Governance matters, which includes reports on the activities of the Pension Board. Breaches are reported to CPF Committee and the Pension Board.
2.	Are you aware of any instances of non-compliance with relevant laws and regulations?	No.

Appendix 3

Matters in relation to related parties

International Standard for Auditing (UK and Ireland) 550 covers auditors responsibilities relating to related party relationships and transactions.

The nature of related party relationships and transactions may, in some circumstances, give rise to higher risks of material misstatement of the financial statements than transactions with unrelated parties.

Because related parties are not independent of each other, many financial reporting frameworks establish specific accounting and disclosure requirements for related party relationships, transactions and balances to enable users of the financial statements to understand their nature and actual or potential effects on the financial statements. An understanding of the entity's related party relationships and transactions is relevant to the auditor's evaluation of whether one or more fraud risk factors are present as required by ISA (UK and Ireland) 240, because fraud may be more easily committed through related parties.

What are we required to do?

As part of our risk assessment procedures, we are required to perform audit procedures to identify, assess and respond to the risks of material misstatement arising from the entity's failure to appropriately account for or disclose related party relationships, transactions or balances in accordance with the requirements of the framework.

Enquiries of management - in relation to related parties	
Question	**2019-20 Response**
1. Confirm that you have disclosed to the auditor: • the identity of any related parties, including changes from the prior period; • the nature of the relationships with these related parties; • details of any transactions with these related parties entered into during the • period, including the type and purpose of the transactions.	Note 22 of the CPF accounts for 2019/20 makes all necessary disclosures.
2. What controls are in place to identify, authorise, approve, account for and disclose related party transactions and relationships?	CPF has a Conflict of Interest Policy approved by CPF Committee. CPF Committee members regularly complete disclosures which are maintained on file. Members make any appropriate disclosure at the beginning of each CPF Committee meeting.

Enquiries of those charged with governance - in relation to related parties		
Question		**2019-20 Response**
1.	How does the Audit Committee, on behalf of 'those charged with governance' (full Council), in its role as those charged with governance, exercise oversight of management's processes to identify, authorise, approve, account for and disclose related party transactions and relationships?	Members make appropriate declaration before each CPF Committee meeting. The Audit Committee receive reports on the processes involved in the preparation of the CPF accounts which includes a Related Parties disclosure note.

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CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 7 October 2020
Report Subject	McCloud Update and Consultation Response
Report Author	Pensions Administration Manager

EXECUTIVE SUMMARY

MHCLG are currently consulting on changes to the LGPS due to a recent court case which found an element of age discrimination when the new LGPS career average pension scheme was introduced from 1 April 2014. The changes to resolve this age discrimination are often referred to as the McCloud remedy or reform and the MHCLG consultation is often referred to as the McCloud consultation.

A programme of works has commenced in Clwyd Pension Fund to implement the McCloud remedy. This is a significant amount of work expected to continue for at least two years into 2022. An update on the progress will be provided for each Committee meeting and the first of these updates is included with this report. The Committee is asked to consider the update and are invited to ask questions on the progress and plans.

It is proposed that a response will be submitted from Clwyd Pension Fund to MHCLG's consultation on the changes to the LGPS to introduce the McCloud remedy. The deadline for consultation responses is 8 October 2020. The draft consultation response is included with this report for the Committee's consideration and approval.

RECOMMENDATIONS	
1	That the Committee consider the update and provide any comments.
2	That the Committee approve the proposed Clwyd Pension Fund response to the McCloud consultation.

REPORT DETAILS

1.00	**Explaining the McCloud remedy and plans for delivery**
1.01	*Background* When the LGPS changed from a final salary to a career average pension scheme (known as the CARE scheme) in 2014, protections for older scheme members were introduced. Similar protections were provided in other public sector pension schemes. The Court of Appeal ruled that younger members of the Judges' and Firefighters' Pension schemes have been discriminated against because the protections do not apply to them. The Government has confirmed that there will be changes to all main public sector schemes, including the LGPS, to remove this age discrimination. This ruling is often called the 'McCloud judgment' after one of the court cases (McCloud and Sargeant).
1.02	The Government will be making changes to remove the discrimination from the LGPS which will apply protection to a wider group of scheme members. A consultation was issued by MHCLG in July outlining the proposed changes including draft regulations. If scheme members qualify for this new protection it is proposed that it will automatically be applied and they do not need to claim.
1.03	The proposed protection takes the form of an 'underpin'; instead of having benefits based simply on CARE from 1 April 2014, affected members will have their benefits calculated as the higher of CARE and Final Salary until the cut-off date, 31 March 2022. The effect will be implemented retrospectively, meaning that benefits dating back to April 2014 will need to be recalculated for leavers. Older members (i.e. who were already given protection) may also be affected as changes are proposed to apply to the existing underpin protection that was originally introduced in the LGPS in April 2014.
1.04	From an administrative perspective the impact of the court case is expected to result in: • a change to how benefits are calculated going forward and • the need to recalculate benefits for a large proportion of members who have left the scheme since 2014 (even though the new underpin is not actually expected to increase the benefits for the majority of those members). Whilst the impact on members is not expected to be material, this is likely to significantly impact administration processes and systems as well as requiring a robust communication exercise with employers and scheme members. Initial analysis carried out in April 2020 indicates that approximately 12,000 members may fall in-scope of the CPF McCloud programme. The additional resource and administration budget requirements to implement the remedy are expected to be substantial.
1.05	Due to the significance of this work, CPF have established a formal programme to ensure it is delivered in line with the agreed success criteria. The structure of the programme to implement the McCloud remedy is laid out in a Roles and Responsibilities document and separately, the key principles of how the programme will be delivered (including the success

	criteria) are included in a Principles document. Both of these documents were approved under delegated powers and have previously been circulated to the Committee. Training on the McCloud remedy and the impact on the CPF was provided to Committee and Board members on 5 August 2020.
1.06	*McCloud Programme Progress Update* Throughout the programme, which is expected to last at least two years into 2022, the Committee and Board will be provided with updates on the progress being made. The first of these updates is included as Appendix 1. This shows that the programme has now moved beyond the initial set-up phase and good progress is being made in communicating with employers and scheme members. The Committee are asked to note the information in the update, ask any questions relating to it and provide comments including those on the format of the update.
1.07	*MHCLG McCloud Reform Consultation* MHCLG issued their consultation and draft regulations seeking views on the proposed changes to the LGPS statutory underpin protection to remove the unlawful discrimination found in the McCloud and Sargeant court cases. The consultation period ran from 16 July and closes on 8 October 2020. The consultation document is enclosed as Appendix 2. The following link provides additional information in relation to 'Equality analysis and impact' that the McCloud ruling could have on the LGPS and its members: https://www.gov.uk/government/consultations/local-government-pension-scheme-amendments-to-the-statutory-underpin
1.08	The draft consultation response for Clwyd Pension Fund is attached as Appendix 3 for consideration and approval by the Committee. The initial draft was developed by pensions officers, discussed with advisors, and agreed by the Programme Management Group. Further comments from the McCloud Steering Group were then discussed and incorporated. The Steering Group consists of: • The Scheme Member Representative from the Pension Fund Committee • Clwyd Pension Board members, including the Chair • The Head of Clwyd Pension Fund • The Pensions Administration Manager.
1.09	After incorporating changes from the Steering Group, the updated draft was circulated to Pension Fund Committee members on 14 September and comments were invited. This was done to assist in finalising the consultation given the deadline for submission is 8 October. No further comments were received and therefore the proposed consultation response at Appendix 3 is unchanged from that circulated to members on 14 September. Members are asked to consider, provide any final feedback and approve the consultation response.

2.00	**RESOURCE IMPLICATIONS**
2.01	The resource implications on delivering McCloud reform are substantial, both in relation to the additional staffing required and the cost of consultancy support. A budget was previously approved under urgency delegations and the resourcing and budget will be kept under review throughout the programme.

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	The draft consultation response was considered by the McCloud Steering Group as outlined in paragraph 1.09 before being shared with Committee members to provide them with advanced sight of the proposed response.

4.00	**RISK MANAGEMENT**
4.01	The Fund's risk register has a number of risks that are currently higher than target due to the McCloud programme including: • the impact of externally led influence and scheme change which could restrict our ability to meet our objectives and/or legal responsibilities • insufficient staff numbers meaning services are not delivered to meet legal and policy objectives • unexpected or big work increases due to external factors which could mean we are unable to meet legal and performance administration expectations • administration systems not being kept up to date/the need for inefficient processes which results in high administration costs or errors.
4.02	Furthermore the McCloud programme has a dedicated detailed risk log and the risks that are currently furthest from target are included in the update in Appendix 1.

5.00	**APPENDICES**
5.01	Appendix 1 – McCloud programme update Appendix 2 – MHCLG consultation document Appendix 3 – Draft Clwyd Pension Fund McCloud consultation response.

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	No relevant background documents other than those referred to in the report. **Contact Officer:** Karen Williams, Pensions Administration Manager **Telephone:** 01352 702963 **E-mail:** karen.williams@flintshire.gov.uk

7.00	**GLOSSARY OF TERMS**
7.01	(a) **CPF – Clwyd Pension Fund** – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region. (b) **Administering authority or scheme manager** – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund. (c) **Committee or PFC – Clwyd Pension Fund Committee -** the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund. (d) **Board, LPB or PB – Local Pension Board or Pension Board** – each LGPS Fund has an LPB. Their purpose is to assist the administering authority in ensuring compliance with the scheme regulations, TPR requirements and efficient and effective governance and administration of the Fund. (e) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of. (f) **SAB – The national Scheme Advisory Board** – the national body responsible for providing direction and advice to LGPS administering authorities and to MHCLG. (g) **MHCLG – Ministry of Housing, Communities and Local Government** – the government department responsible for the LGPS legislation. (h) **JGC – Joint Governance Committee** – the joint committee established for the Wales Pension Partnership asset pooling arrangement.

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Clwyd Pension Fund
McCloud Programme Update

Prepared for: Pension Fund Committee (PFC)

Prepared by: Aon

September 2020

McCloud Programme Dashboard

Programme Health:

Key	Description
	Completed
	On track
	Overdue
	At risk
	Not started

Programme background: The Court of Appeal has ruled that changes to public service pension schemes, including the LGPS, for future service made in 2014 and 2015 were discriminatory against younger members. The Government eventually gave a commitment to make changes to all public service pension schemes to remove discrimination.

Programme purpose: To implement the regulations the Government will make to remedy the discrimination against younger members of the LGPS for the Clwyd Pension Fund

Key deliverables 1 April 2020 to 31 October 2020

Project workstream / Description	Responsibility	Sign off	Deadline	Notes	Status
1. Pension team educational workshops / idea sessions	Karen Williams	n/a	n/a		Complete
2. Initial analysis of impact on CPF members (in-scope members)	Aon	n/a			Complete
3. Programme set up i. Formal programme set-up documentation developed ii. Set-up documentation approved (urgency delegation) iii. Establishment of Steering Group (SG) and Programme Management Group (PMG) iv. Workstream groups established (9)	Aon	PFC via urgency delegations	n/a		Complete
4. Employer engagement sessions	Communications workstream	PMG / SG	10 August 2020	Employer sessions held 11 August	Complete
5. Consultation response (Fund)	Governance workstream	Draft - PMG / SG Final - PFC	8 October 2020	With PFC for final approval	In progress
6. Data collection i. Data collection template ii. Employer questionnaires iii. Data decision process and collection protocol iv. Commence data collection with pilot employers	Data & communications workstreams	PMG	16 October 2020	Data collection documents currently in draft	In progress
7. Communications i. McCloud wording for 2019/20 annual report ii. Benefit statement / newsletter iii. Pensions saving statements iv. Pensions Extra (pensioners newsletter)	Communications workstream	PMG (all) / SG (some)	various	Pensions saving statements and Pensions Extra to be issued	In progress

Programme success criteria (SC)	
SC1	Identify in-scope members with 100% accuracy
SC2	Obtain and load to the administration system all data required to calculate final salary underpin, adopting agreed assumptions where data cannot be reasonably obtained
SC3	Administration processes and systems are all amended and operate in line with the regulations from the effective date
SC4	Benefit rectification is completed accurately for all affected members by the required/agreed date
SC5	Member communications are effective, evidenced by few queries and complaints
SC6	Member communications are effective, evidenced by few queries and complaints
SC7	Automation minimizes the impact on resources and SLAs/KPIs during implementation, rectification and ongoing administration
SC8	The programme is completed without unplanned disruption to business as usual and other Clwyd Pension Fund projects
SC9	The programme is completed within budget and timescale (subject to reasonable tolerances), noting that these will be agreed and reassessed from time to time throughout the programme.
SC10	The additional costs falling to employers transpire to have been reasonably estimated at the 2019 actuarial valuation

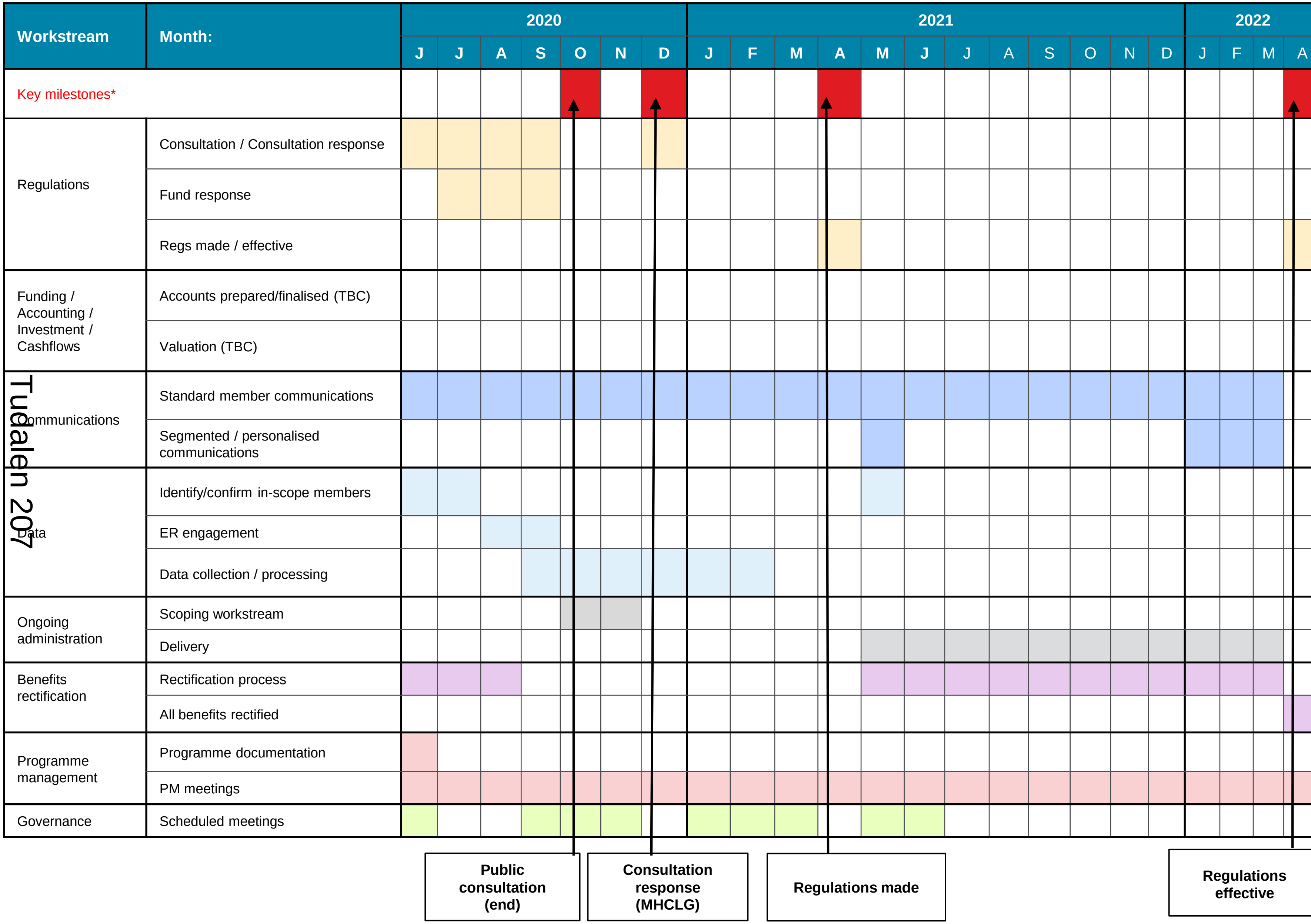
Project Risks

There are a number of risks that the programme's success criteria will not be achieved – these have been identified by CPF's programme management and are captured in a formal risk log.

The current risks that are furthest from target are shown below

Risk no	Risk overview (this will happen)	Risk description (if this happens)	Programme Group	Success criteria at risk	Current risk impact	Current risk likelihood	Current risk status	Proposed controls in place	Target risk impact	Target risk likelihood	Target risk status
1	Unable to identify members in scope	In-scope members cannot be identified with 100% accuracy, leading to some members being excluded from scope, and others included who shouldn't be.	Data Workstream	SC1	Critical	Significant (50%)		1. Review member selection criteria and methodology. 2. Sample check members in scope and out of scope. 3.Engage with Heywood to check plans for identifying members	Negligible	Unlikely (5%)	
2	Poor engagement from Employers / lack of understanding	Employers do not engage in a timely manner leading to data issues and delays	Data Workstream	SC1, SC2, SC8	Critical	Significant (50%)		1. Early engagement with employers to obtain buy-in. 2. Consider scheduling initial virtual meeting to improve engagement. 3. One to one engagement, with potential ELT engagement. 4. Consider seeking verification of understanding through a signed compliance statement.	Negligible	Unlikely (5%)	
3	Unable to load data efficiently and accurately, and in a timely manner	Data cannot be loaded onto the system in an efficient, accurate and timely manner, leading to project delays or issues with the underpin calculation.	Data Workstream	SC1, SC2, SC8	Critical	Very High (65%)		1. Early engagement with Heywood on a one to one basis. 2. Consider scheduling initial virtual meeting to improve engagement. 3. Consider seeking verification of understanding through a signed compliance statement.	Negligible	Unlikely (5%)	
4	Detrimental impact on BAU	Due to delivery of the programme, there is a resulting detrimental impact on BAU resource	Programme Management Group	SC7	Critical	Significant (50%)		1. Thorough programme planning, scoping of work and recruitment programme (recruitment is currently underway as at June 2020). 2. Forward planning and ongoing monitoring of resource requirements. 3. Concern raised and action taken as matter of urgency. 4. Flexibility to utilise resource (including training or physical resource) from consultants if required. 5. Reference of all stakeholders to roles and responsibilities document. 6. Strong engagement with software supplier looking for alternative efficiencies.	Negligible	Very Low (15%)	
5	Insufficient or inappropriate resources	Inability to source appropriate resources required to deliver the programme deliverables (including data uploading) in the required timescales	Programme Management Group	SC8	Catastrophic	Significant (50%)		1. Thorough programme planning, scoping of work and recruitment programme (recruitment is currently underway as at June 2020). 2. Forward planning and ongoing monitoring of resource requirements. 3. Concern raised and action taken as matter of urgency. 4. Flexibility to utilise resource (including training or physical resource) from consultants if required. 5. Reference of all stakeholders to roles and responsibilities document. 6. Strong engagement with software supplier looking for alternative efficiencies.	Negligible	Very Low (15%)	
6	Other external interference	Work on other projects including GMP Equalisation / cost cap / Goodwin case leading to resource constraints on McCloud programme unable to be delivered.	Programme Management Group	SC7	Catastrophic	Significant (50%)		1. Thorough programme planning linking in with BAU planning. 2. Attendance of VB and KM on working groups allowing stakeholders to keep abreast of developments. 3. Data cleansing can still be done and staff can be side-tracked temporarily to assist with work on the other projects.	Critical	Very Low (15%)	
7	McCloud Data collection	Unable to collect required data in full from employers in a timely manner	Programme Management Group	SC2, SC4, SC7	Critical	Significant (50%)		1. Early engagement with employers to obtain buy-in. 2. Consider scheduling initial virtual meeting to improve engagement. 3. One to one engagement, with potential ELT engagement. 4. Consider seeking verification of understanding through a signed compliance statement. 5. Training through employer webinars.	Negligible	Unlikely (5%)	

High level timetable & milestones (indicative dates)



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Ministry of Housing,
Communities &
Local Government

Local Government Pension Scheme (England and Wales)

Amendments to the statutory underpin

July 2020
Ministry of Housing, Communities and Local Government

This document/publication is also available on our website at www.gov.uk/mhclg

If you have any enquiries regarding this document/publication, complete the form at http://forms.communities.gov.uk/ or write to us at:

Ministry of Housing, Communities and Local Government
Fry Building
2 Marsham Street
London
SW1P 4DF
Telephone: 030 3444 0000

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July 2020

Contents

Scope of the consultation

Topic of this consultation:	This consultation seeks views on changes to the Local Government Pension Scheme in England and Wales (LGPS). It outlines proposed changes to the LGPS statutory underpin protection to remove unlawful discrimination found by the Courts in relation to public service pension scheme 'transitional protection' arrangements. Specifically, we propose to remove the condition that required a member to have been within ten years of their normal pension age on 1st April 2012 to be eligible for underpin protection. In removing the discrimination, we are proposing a number of supplementary changes to ensure the revised underpin works effectively and consistently for all members.
Scope of this consultation:	MHCLG is consulting on changes to the regulations governing the Local Government Pension Scheme (LGPS).
Geographical scope:	These proposals relate to the LGPS in England and Wales only. Separate consultation exercises will be undertaken by the relevant devolved authorities relating to the issues addressed in this consultation as they affect the local government pension schemes in Scotland and in Northern Ireland.
Impact Assessment:	<u>Public Sector Equality Duty</u> The Ministry of Housing, Communities and Local Government has analysed the proposals set out in this consultation document (MHCLG) to fulfil the requirements of the Public Sector Equality Duty (PSED) as set out in section 149 of the Equality Act 2010. This requires the Department to pay due regard to the need to: 1) eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act 2) advance equality of opportunity between people who share a protected characteristic and those who do not 3) foster good relations between people who share a protected characteristic and those who do not. The proposals outlined here are intended to remove age discrimination, which had been found to be unlawful in the

	firefighters' and judicial pension schemes, from the LGPS rules governing the underpin. We consider that the changes proposed will significantly reduce differential impacts in how the underpin applies based on a member's age, by removing the age-related qualifying criteria found to be unlawful by the Courts in the context of the firefighters' and judicial pension schemes. Based on analysis undertaken by GAD on active membership data for the LGPS as at 31st March 2019, we anticipate that some differences in how the underpin would apply to members of different age groups would remain. These are set out separately below, along with our assessment of these differences. 1) **Qualification for the underpin -** GAD's analysis shows that older active members on 31st March 2019 would be more likely to qualify for the revised underpin than younger active members. This is principally because of our proposal that the 31st March 2012 qualifying date for underpin protection is retained. The proportion of members active in the scheme as at 31st March 2019 who had been members of the scheme on 31st March 2012 is lower for younger members, where experience shows they have a higher withdrawal rate from scheme membership. We consider that members joining the LGPS after 31st March 2012 do not need to be provided with underpin protection. Members who joined after this date will have joined the LGPS when either it had already transitioned to the career average structure (for post-1st April 2014 joiners), or when it was well publicised that the LGPS benefits were reforming. 2) **Members who benefit from the underpin** - GAD's analysis also shows that active members between the ages of 41 and 55 as at 31st March 2019 would be more likely to benefit from the revised underpin (i.e. where the calculated final salary benefit is higher than the calculated career average benefit) than their younger and older colleagues. This reflects previous experience and future expectation that: • this group are more likely than their older colleagues to experience the pay progression that would make the final salary benefit higher over the underpin period and • this group are more likely than their younger colleagues to remain in active membership until such time as they would receive the pay progression necessary for the underpin to result in an addition to their pension (e.g. through promotions and other pay increases). These differential impacts reflect the workings of a final salary scheme, and demonstrate some of the effects that can arise under that design. The Government proposes to move all local

	government pensions accrual to a career average basis, without underpin protection, from April 2022 to apply a fairer system to all future service. In relation to sex, we anticipate that, broadly, the proportion of men and women who would qualify for the revised underpin and benefit from that protection matches the profile of the scheme. This assessment is also based on analysis undertaken by GAD on active membership data for the LGPS as at 31st March 2019. Proportionally, GAD's assessment is that men would be marginally more likely to qualify for the revised underpin and to benefit to a greater extent from underpin protection than women. This reflects the fact that, in line with previous scheme experience, the average male LGPS member would be expected to have higher salary progression than the average woman and that women are generally expected to have higher voluntary withdrawal rates than men. Members with longer scheme membership and with higher salary progression would be more likely to receive an addition to their pension through the underpin (i.e. where the final salary benefit is higher). These small differential impacts also demonstrate some of the effects that can arise under a final salary design. The Government proposes to move all local government pensions accrual to a career average basis, without underpin protection, from April 2022 to apply a fairer system to all future service. Limited data specific to the LGPS in England and Wales is available in relation to other protected characteristics. However, we have considered wider data from the Labour Force Survey (Q1 2020) and the Annual Population Survey (2019) in considering these characteristics. We do not consider that the changes to underpin protection proposed in the consultation will result in any differential impact to individuals with the following protected characteristics: disability, ethnicity, religion or belief, gender reassignment, pregnancy and maternity, sexual orientation and marriage/civil partnership. Further information regarding the equalities impacts of our proposals is contained in paragraphs 111 to 127. In this consultation, we are seeking views from stakeholders on the equalities impacts of the changes proposed. These views will be considered in determining how to proceed following the consultation exercise. The potential equalities impacts of our proposals will be kept under review. A further equalities impact assessment will be

	undertaken following the consultation at the appropriate juncture. <u>Other impacts</u> The proposals in this paper are estimated to cost LGPS employers £2.5bn in the coming decades, as protected members retire and begin to receive their benefits. This estimate is based on a number of assumptions regarding the demographics of the LGPS in the years to come. Predicting whether the underpin becomes valuable in the future depends heavily on assumptions on long-term future pay growth trends. The £2.5bn estimate is based on an annual future long-term pay growth assumption of CPI+2.2%, which is the assumption used by GAD for the 2016 valuations of public service pension schemes. If annual future pay growth is less than this, the ultimate costs will be lower (and vice versa). As the LGPS is a funded scheme, employer contribution rates are set through local fund valuations and take into account a number of factors. As a result of this, it is not possible to say precisely how the proposals may impact on any individual employer's contribution rate. None of the changes contained in this consultation require a Regulatory Impact Assessment under the Small Business, Enterprise and Employment Act 2015.

Basic Information

To:	This consultation outlines details of proposed changes to the benefits of the LGPS and is particularly aimed at LGPS administering authorities, scheme members, scheme employers and their representatives. Any change to the LGPS is likely to be of interest to other stakeholders as well, such as professional advisers and local taxpayers. We welcome views on the proposals from all interested parties.
Body/bodies responsible for the consultation:	Local Government Finance Stewardship, Ministry of Housing, Communities and Local Government
Duration:	This consultation will last for 12 weeks from 16/07/2020 to 08/10/2020
Enquiries:	For any enquiries about the consultation please contact: LGPensions@communities.gov.uk
How to respond:	Please respond by email to: LGPensions@communities.gov.uk

	Alternatively, please send postal responses to: Local Government Finance Stewardship Ministry of Housing, Communities and Local Government 2nd floor, Fry Building 2 Marsham Street London SW1P 4DF When you are responding, please make it clear which questions you are responding to. Additionally, it would be very useful if you could confirm whether you are replying as an individual or submitting an official response on behalf of an organisation and include: - your name, - your position (if applicable), - the name of your organisation (if applicable), - an address (including post-code), - an email address, and - a contact telephone number.

Introduction

1. This consultation contains proposals to amend the rules governing ‘transitional protection’ in the LGPS, following a successful legal challenge to transitional protection arrangements in the firefighters’ and judicial pension schemes.

2. In April 2014, a series of changes were made to the Local Government Pension Scheme in England & Wales (LGPS) to reform the scheme’s benefits structure. These changes were implemented as part of a wider project across Government to reform public service pensions and put them on a more sustainable, affordable and fairer footing for the longer term. In the LGPS, these changes included:

- moving benefit accrual from a final salary to a career average basis, and
- linking members’ normal pension age with their State Pension age (but at a minimum of 65).

3. Following negotiations with trade unions, transitional protection for members nearing retirement was implemented by the Government as part of the overall reform package and was designed to ensure that older workers had certainty and would not be any worse off as a result of the reforms made to the scheme. Transitional protection arrangements applied across public service pension schemes and in the LGPS were implemented through a statutory ‘underpin’.

4. Whilst all LGPS members joined the career average scheme in April 2014, members who met certain qualifying criteria (including that they had been within ten years of their final salary scheme normal pension age on 1st April 2012) gained statutory underpin protection. Underpin protection means additional checks are undertaken for protected members with the intent of ensuring that the career average pension payable under the reformed LGPS is at least at high as the member would have been due under the final salary scheme. Where it is not as high, scheme regulations provide that an addition must be applied to the member’s career average pension to make up the shortfall.

5. In the ‘McCloud’ and ‘Sargeant’ court cases (which related to the judicial and firefighters’ pension schemes respectively), the Court of Appeal found that the transitional protection arrangements in those schemes directly discriminated against younger members in those schemes and this could not be objectively justified. In July 2019, the Government confirmed its view that the ruling had implications for all the main public service pension schemes, including the LGPS, and that the discrimination would be addressed in all the relevant schemes, regardless of whether members had lodged a legal claim.

6. This consultation sets out how MHCLG propose to amend the statutory underpin to reflect the Courts’ findings in these cases. Primarily, we propose to remove the age requirements from the underpin qualification criteria. However, we are also proposing additional changes to ensure that the underpin works effectively and consistently for all qualifying members following the extension of the underpin to younger members. From April 2022, it is proposed that the period of underpin protection will cease and all active LGPS members will accrue benefits in the career average scheme, without a continuing final salary underpin.

7. Views from respondents are sought on questions 1 to 29 as well as on the draft regulations attached as annex B.

Background

Public service pension reform and transitional protection

8. In April 2014 and April 2015 the Government introduced reformed public service pension schemes. The changes followed a fundamental structural review by the Independent Public Service Pension Commission (IPSPC), chaired by Lord Hutton of Furness.

9. The Government commissioned the review because the cost of providing the schemes had increased significantly over the previous decades, with most of this increase falling to the taxpayer. At the same time, occupational pension provision in the private sector had changed significantly; employers were increasingly moving away from offering defined benefit pension schemes[1].

10. In their final report[2], the IPSPC set out a framework for comprehensive reform of public service pensions that sought to balance concerns about the cost of the schemes to taxpayers and the need to ensure decent levels of retirement income for those who have devoted their working lives in the service of the public.

11. The Government accepted Lord Hutton's recommendations as the basis for consultation with scheme employers, trade unions and other interested parties. During negotiations the Government agreed to protect those public service workers who, as of 1 April 2012, had ten years or less to their normal pension age (NPA)[3], as they had least time to prepare.

12. The reforms were implemented in the LGPS in England and Wales from 1st April 2014, and in the other main public service pension schemes from 1st April 2015. The main features of the reformed schemes include later retirement ages to reflect the fact people have been living longer, higher employee contributions to rebalance the costs of the schemes between the members and taxpayers, and pensions based on average earnings rather than on pay at the point members retire or otherwise leave the schemes.

13. The schemes were designed to ensure that members would have good pensions, which at least met the target levels identified by Lord Turner's Pension Commission on the levels of income needed in retirement. The reformed schemes should provide many low and middle earners working a full career with pension benefits at least as good as, if not better than, the benefits they would have received under the previous arrangements.

14. The reformed schemes remain among the most generous available in the UK, and an important part of the remuneration of public service workers. Public service pension

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[1] Chart Ex. 1, p8 of IPSPC interim report, October 2010, https://www.ucu.org.uk/media/4328/Independent-Public-Service-Pensions-Commission---interim-report-7-Oct-10/pdf/hutton_pensionsinterim_071010.pdf
[2] https://www.gov.uk/government/publications/independent-public-service-pensions-commission-final-report-by-lord-hutton
[3] In the 2008 Scheme, a member's normal pension age was known as their normal retirement age. However, for consistency, in this consultation document we refer to it as their normal pension age or their NPA.

provision compares favourably with pension provision in the private sector. In 2019 34% of all employees with workplace pensions in the public sector received contributions of at least 20% from their employer. This compares with just 3% of all employees with workplace pensions in the private sector who received at least 20% from their employer[4].

Reform in the LGPS

15. In the LGPS, the final salary scheme that existed prior to these reforms was known as **'the 2008 Scheme'**. The reform package implemented from April 2014 (**'the 2014 Scheme'**) through the Local Government Pension Scheme Regulations 2013[5] (**'the 2013 Regulations'**) consisted of the following main elements:

- fundamentally, and consistent with the approach taken across the public sector, a move to future benefit accrual based on a member's pay over their career (a 'career average' structure), from a structure where member's benefits were based on a member's pay at leaving the scheme (a 'final salary' structure). Importantly, where active members had membership of the LGPS prior to April 2014 and did not have a disqualifying break in service[6], but had aggregated their membership, they retained a 'final salary link' that meant their pay at point of leaving the scheme would still be used in calculating their 2008 Scheme benefits, even where this is after April 2014.

- a move from a NPA of 65 to a NPA linked to a member's State Pension age, subject to a minimum of 65 (currently ranging from 65 to 68), but with members still able to retire as early as 55 or as late as 75, with actuarial reductions or increases applied, respectively.

- a move from a 1/60th accrual rate to a 1/49th accrual rate. A pension scheme's accrual rate is the proportion of a member's pay that they receive for each year of membership. The change in the LGPS accrual rate in the 2014 Scheme was a 22% improvement from that which applied in the 2008 Scheme.

- revisions to employee contribution bandings. From April 2014, employees' contributions to the LGPS were banded from 5.5% of earnings (for members earning less than £13,500 per year) up to 12.5% of earnings (for members earning over £150,000 per year). Contribution rates had also been banded in the 2008 Scheme, but the range had been narrower, from 5.5% to 7.5% of earnings.

- the introduction of a 50/50 section, giving scheme members the flexibility to pay half the contributions for half the pension accrual for a period of time, whilst still retaining full life cover and ill-health cover.

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4 https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/workplacepensions/bulletins/annualsurveyofhoursandearningspensiontables/2019provisionaland2018finalresults#contributions-to-workplace-pensions

5 http://www.legislation.gov.uk/uksi/2013/2356/contents, as amended

6 Where referred to in this document, a 'disqualifying break in service' is a continuous break of more than five years in active membership of a public service pension scheme.

16. As a whole, the package was designed to achieve the Government's aims in making the LGPS more sustainable, affordable and fairer in the longer term. In particular, the combination of the move to a career average basis and the improvement to the LGPS's accrual rate should mean that many low and medium paid members will receive a pension from the 2014 Scheme at least as good as the pension they would have received from the 2008 Scheme. In addition, whilst LGPS employer contributions vary, members will benefit from significantly higher employer contributions than the average applicable in the private sector.

The statutory underpin

17. The LGPS provided transitional protection to its older workers via a statutory underpin (hereafter referred to as 'the underpin'). All members moved into the 2014 Scheme on the reform date of 1st April 2014, but 'protected members' (being the older group of members who met certain qualifying criteria and originally had underpin protection) were given an underpin that provides their retirement pension cannot be less than it would have been in the 2008 Scheme. In some public service pension schemes, tapered protections were provided to members who were between 10 and 14 years from their NPA on 1st April 2012, and so were not eligible for full protection (which was reserved for those within ten years of their NPA on 1st April 2012) However, in the LGPS, there were no tapered protections.

18. Underpin protection differs from the approach used in other main public service pension schemes[7] where older workers who met the criteria for transitional protection stayed in their final salary schemes after separate, new career average schemes were introduced in April 2015. In those schemes, different rules may therefore apply to protected and unprotected members in relation to areas of scheme design including contribution rates, survivor benefits and ill health retirement.

19. By contrast, the existing underpin only has application in relation to the value of a protected member's pension at their 'underpin date' (see paragraph 20 for further details). All members have participated in the reformed career average scheme from April 2014 and the same rules in relation to contributions and benefits apply to all members in the same way.

20. Underpin protection in the LGPS was implemented through regulation 4 of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendments) Regulations 2014[8] (**'the 2014 Regulations'**). At a high level, underpin protection under regulation 4 works in the following way:

- Underpin protection is granted to those who were active members in the LGPS on 31st March 2012 and who on 1st April 2012 were 10 years or less from the NPA

[7] With the exception of the local government pension schemes in Scotland and Northern Ireland who took a similar approach to the LGPS in England and Wales.
[8] http://www.legislation.gov.uk/uksi/2014/525/contents/made, as amended

applicable to the member under the 2008 Scheme (usually 65[9])[10] (regulation 4(1)(a)).

- Those who meet the basic criteria for underpin protection retain this so long as they are:
    - in active membership in the 2014 Scheme the day before their 'underpin date' (see below),
    - do not have a disqualifying break in service after 31st March 2012, and
    - have not drawn benefits from the 2014 Scheme before their underpin date (regulation 4(1)(b) to (d) and (3)).
- The underpin test is carried out on an individual's 'underpin date' which is the earlier of:
    - the date the protected member reaches their NPA under the 2008 Scheme (usually 65), or
    - the date the protected member ceased to be an active member of the scheme with an immediate entitlement to a benefit (regulation 4(2)).
- The underpin test is carried out by comparing the 'assumed benefits' (i.e. the career average benefits the protected member has accrued) against the 'underpin amount' (i.e. the final salary benefits the protected member would have accrued if the scheme had not been reformed) (regulations 4(5) and (6)). These paragraphs contain detailed provisions which enable administrators to take into account a variety of factors in the comparison of benefits. For example, where the protected member is due to receive an enhancement to their 2014 Scheme benefits as a result of retiring on ill-health grounds, the difference between that enhancement and the enhancement they would have received under the 2008 Scheme would be considered.
- If the underpin amount is calculated to be higher than the assumed benefits on the underpin date, the protected member's pension account is to be increased by the difference (regulation 4(4)).

The McCloud and Sargeant cases

21. Soon after the reformed scheme benefit structures were introduced in other public service pension schemes in April 2015, legal challenges were brought against the transitional protection arrangements in the judicial and firefighters' pension schemes ('McCloud' and 'Sargeant', respectively) on various grounds including that the transitional protections offered to older members constituted unjustified direct age discrimination. In those cases, younger firefighters and judges argued that younger members were treated less favourably than older members who were given transitional protection. The Court of

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[9] By virtue of regulation 24(4) of the 2014 Regulations, some groups had a protected 2008 Scheme NPA of 60 in relation to their 2008 Scheme benefits.
[10] By virtue of regulation 9(1) of the 2014 Regulations, members who were not active in the LGPS on 31st March 2012, but who were active in another public service pension scheme on that date and who meet certain qualifying criteria may also have underpin protection

Appeal ruled in December 2018[11] that transitional protection in the judicial and firefighters' pension schemes gave rise to unlawful age discrimination.

22. The Government sought permission to appeal to the Supreme Court. This application was refused on 27 June 2019. In a written ministerial statement on 15 July 2019[12], the Government explained that it accepted that the Court of Appeal's judgment had implications for all schemes established under the Public Service Pensions Act 2013, as all schemes had provided transitional protection arrangements for older members. The Government confirmed that it would take steps to address the difference in treatment across all schemes and for all members with relevant service, regardless of whether they had lodged a claim. The matter has been remitted to the Employment Tribunals to determine a remedy for claimants[13]. Since summer 2019, MHCLG have been considering the changes necessary to remove the unlawful discrimination from LGPS regulations, and in February 2020 held technical discussions with the Scheme Advisory Board on these proposals.

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[11] https://www.judiciary.uk/wp-content/uploads/2018/12/lord-chancellor-v-mcloud-and-ors-judgment.pdf
[12] https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2019-07-15/HCWS1725/
[13] The LGPS in England and Wales does not have any ongoing court cases relating to its underpin protection.

Addressing the discrimination

Our approach

23. In the McCloud and Sargeant cases, the Courts identified unjustified age discrimination in transitional protection arrangements in the Judicial and Firefighters' Pension Schemes. In relation to the LGPS, this difference in treatment exists between two groups of LGPS members:

- those who were in service on 31st March 2012 and were within ten years of NPA on 1st April 2012, therefore benefiting from underpin protection and 'better off' than the second group; and,

- those who were in service on 31st March 2012 and were more than ten years from NPA, were not eligible for underpin protection and therefore 'worse off' than the protected members (as they were not guaranteed a pension of at least the level they would have received in the final salary scheme).

24. At a high-level, our proposal for removing the difference in treatment from the LGPS is to extend underpin protection to the second group of members listed above – i.e. those who were not old enough to receive underpin protection when it was originally introduced. This should ensure that the two groups listed are treated equally for benefits accrued from April 2014 onwards. This proposal is described in more detail in the next section ('Detailed proposals'). The updated underpin is referred to here as 'the revised underpin'. The members who would be in scope of the revised underpin, both the group originally protected and those who would newly gain underpin protection under our proposals, are collectively referred to as 'qualifying members' in this document.

25. Consultees may be aware that Government has separately recently launched a consultation[14] seeking views on this matter as it applies to most of the other main public service pension schemes[15]. As noted already, transitional protection arrangements were different in other public service pension schemes and therefore different issues arise in considering an appropriate remedy for the discrimination found in McCloud and Sargeant. That other Government consultation seeks views on two options for removing the discrimination in those schemes, both involving an element of member choice between the reformed career average schemes and the legacy final salary schemes.

26. Member choice is being considered in relation to other public service pension schemes because, in those schemes, the two groups of members have participated in different pension schemes since April 2015 with different benefits between reformed and legacy schemes and, potentially, different employee contribution rates. This is not the case in the LGPS because underpin protection is designed to ensure that a qualifying member is better off without needing to make a choice.

[14] https://www.gov.uk/government/consultations/public-service-pension-schemes-consultation-changes-to-the-transitional-arrangements-to-the-2015-schemes
[15] The LGPS is out of scope for the other Government consultation.

27. As set out in paragraphs 17 to 20, the underpin is principally an administrative test undertaken at the earlier of the date a qualifying member leaves active service and the date they reach their 2008 Scheme normal pension age. It is designed to guarantee that a qualifying member's pension calculation gives them the better of a) the pension they have built up in the career average 2014 Scheme and b) the pension they would have built up in the final salary 2008 Scheme, over the same time period.

Question 1 – Do you agree with our proposal to remove the discrimination found in the McCloud and Sargeant cases by extending the underpin to younger scheme members?

28. To achieve the full benefits of the career average reforms made in April 2014, it is the Government's view that the underpin period should end for all qualifying members at a specified point in time.

29. Under the rules governing the existing underpin, no further underpin dates will arise beyond 31st March 2022, as this is the last date a protected member can reach their 2008 Scheme NPA. In considering how to equalise treatment between the unprotected and protected groups, we propose that both groups will be given underpin protection from 1st April 2014 to 31st March 2022 (or to the members' underpin date, where this is earlier). We consider that this approach will mean there is a consistent period of protection for all qualifying members – i.e. those who were members of the scheme on 31st March 2012 and who went to on to have 2014 Scheme membership without a disqualifying break in service (and who aggregated their membership), regardless of their age.

30. From 1st April 2022 it is our intention that all service in the LGPS will be on a career average basis, with no underpin. As set out in the Background section, we believe that the move from a final salary to a career average pension scheme design in April 2014 created a fairer structure for LGPS members. Under the 2014 Scheme, those public servants who see considerable increases in earnings over their career – and particularly towards the end of their career – are no longer likely to be relatively favoured compared with their colleagues who did not. Phasing out underpin protection is an important step to achieving the full benefits of a career average scheme design.

Question 2 – Do you agree that the underpin period should end in March 2022?

31. We are keen to ensure that the group of younger members who, under our proposals, would gain underpin protection have an equivalent level of protection to their older colleagues. It is therefore proposed that the underpin comparison would not, for most qualifying members, take place upon the underpin period ending in March 2022. Instead, the comparison of 2008 Scheme and 2014 Scheme benefits would take place at a qualifying member's underpin date (generally, the earlier of the member's date of leaving and age 65), even if this is after March 2022 – i.e. qualifying members will retain an ongoing 'final salary link', consistent with their pre-2014 pension accrual. For those who are currently at an earlier stage of their career, and who may have promotions and other salary increases later in their career, this ensures a fairer comparison of the two schemes' benefits. The final pay calculation would be based on a member's pay over their last 365

days of active membership, and would take into account the existing 'lookback' provisions where members have had a reduction in pay[16].

32. As part of this project we have considered how the existing underpin regulations work and the following section contains details of changes we are proposing. Collectively, the changes mean that the revised underpin regulations will differ in a number of respects from the existing underpin provisions contained in regulation 4 of the 2014 Regulations. We consider that these amendments are essential to ensure that the underpin regulations are clear and consistent and provide a framework of protection that works more effectively for all stakeholders and which, at the same time, provides in essence the same level of protection to scheme members.

33. Nonetheless, to avoid creating new differences in treatment in the LGPS, we propose that the amended regulations will apply retrospectively from 1st April 2014, ensuring that all qualifying members are subject to the same detailed provisions. We believe this is the best approach and one which will allow us to be confident we are addressing the findings of the Courts, and removing differences in treatment between older and younger workers. We do not plan that members' accrued rights would be detrimentally affected as a result of this approach, but we welcome comments from stakeholders if there are specific concerns about potential accrued rights issues.

34. In proposing these changes, we have considered the legal principle of 'minimum interference'. The courts have found this principle generally applies to pensions changes following an equal pay issue. Whilst it has not been recognised outside the context of equal pay, it could be considered in other contexts too. 'Minimum interference' means that the scheme is obliged to make the minimum necessary interference to ensure the scheme operates lawfully. Whilst some of the changes outlined in this consultation paper are not a direct consequence of the Courts' findings in the McCloud and Sargeant cases, we believe that they are necessary for the effective and consistent application of underpin protection to members of the LGPS.

35. Retrospective application of the proposed regulations means that certain cases will need to be revisited by scheme administrators. Below are examples of such cases:

- Cases where a member had underpin protection originally and the revised underpin may have applied differently to them. In practice, this may be all cases where a member already has underpin protection and has since had their underpin date.
- Cases where a member does not currently have underpin protection, but would have under the revised underpin, and has since retired or left the LGPS with a deferred benefit.
- Cases where a member does not currently have underpin protection, but would have under the revised underpin, and has since transferred out of the LGPS or trivially commuted their benefits.

36. There will also be more difficult cases, for example, where members who may have benefitted from the proposals outlined in this consultation have died. In such cases, it is

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[16] Under the 2008 Scheme, members with pay reductions or restrictions in their last ten years of continuous employment may have the option to have their final pay calculated as the average of any 3 consecutive years' pay in their last 13 years.

our view that administrators should take all steps to ensure that any retrospective increase in a member's pension arising from the underpin is taken into account in respect of relevant survivor benefits that became payable at the time of the member's death.

37. We are aware that retrospective application of the proposed draft regulations will lead to significant administrative complexity. We do not anticipate any recalculations would result in members' benefits being detrimentally affected. Further consideration of the complexities arising from retrospection are considered in the Implementation and Impacts section.

Question 3 – Do you agree that the revised regulations should apply retrospectively to 1st April 2014?

38. This consultation sets out proposals which are principally about removing unlawful discrimination from the LGPS. Achieving this key aim, and minimising the risk of further issues arising, has therefore been our primary concern in coming forward with these proposals. However, in doing so, we have been conscious of the additional administrative burden these changes would create and have sought to minimise the impacts wherever possible. We consider that the proposed approach is the simplest way we can effectively ensure that the revised underpin works effectively and fairly for all. Further consideration of the potential administrative impacts of the proposals is outlined in paragraphs 134 to 136.

Detailed proposals

39. This section contains our detailed proposals on the proposed amendments to the underpin. Draft regulations have been prepared (**annex B**) and we would welcome general comments on those draft regulations, as well as specific comments on the below questions.

Question 4 – Do the draft regulations implement the revised underpin which we describe in this paper?

Question 5 – Do the draft regulations provide for a framework of protection which would work effectively for members, employers and administrators?

Question 6 – Do you have other comments on technical matters related to the draft regulations?

The revised underpin – basic elements

40. The approach we have taken to the revised underpin consists of a number of basic elements, as described here.

Qualification criteria

41. Fundamentally, under the revised underpin, members would no longer need to have been within ten years of their 2008 Scheme NPA to qualify for underpin protection. Members who were active in the 2008 Scheme on 31st March 2012 and who have accrued benefits under the 2014 Scheme without a disqualifying break in service (five or more years) would have underpin protection, subject to aggregation requirements.

42. An aspect of the existing underpin regulations that we are seeking to change is the requirement that a member must leave active service with an immediate entitlement to a pension for underpin protection to apply to them (regulation 4(1)(b) of the 2014 Regulations). We anticipate that when underpin protection is extended to younger workers, it is much more likely that members will leave the scheme before having an immediate entitlement to benefits, meaning they would not, as things stand, benefit from underpin protection. Under the revised underpin, we propose that underpin protection would apply where a member leaves with either a deferred or an immediate entitlement to a pension. This approach is also more likely to ensure that LGPS regulations are compliant with preservation requirements under the Pension Schemes Act 1993, which broadly require[17] that schemes do not contain rules which mean that leavers prior to normal pension age are treated less favourably than leavers at normal pension age. The retrospective application of this change would also aim to ensure that any members protected under the

[17] Section 72 of the Pension Schemes Act 1993

existing underpin who have suffered detriment due to the current wording would regain their underpin protection[18].

43. As per existing requirements, members who leave the LGPS without an immediate or deferred entitled to a pension[19] would not have underpin protection, as they would only be eligible for a refund of their contributions, aggregation with another LGPS record or a transfer to another scheme

Question 7 – Do you agree that members should not need to have an immediate entitlement to a pension at the date they leave the scheme for underpin protection to apply?

Question 8 – Are there any other comments regarding the proposed underpin qualifiying criteria you would like to make?

Aggregation

44. In reviewing the operation of the existing underpin, it has become clear that the current regulations do not implement our policy intent as clearly as we would like in one important respect, and the existing regulations could cause substantial new issues to arise. Whilst the LGPS is one pension scheme, with rules defined at the national level through scheme regulations, it is a locally administered scheme, with 87 administering authorities throughout England and Wales. It is an important principle for the effective and efficient administration of the scheme that administrators are generally able to calculate pension benefits independently and do not need to obtain data from other LGPS administrators to be able to undertake basic pension calculations. Such an approach also ensures that the scheme is run in accordance with the principle of 'data minimisation', where personal data is not shared between data controllers any more than is necessary for the effective administration of a member's pension.

45. To prevent such complications, the LGPS has aggregation provisions which mean that separate pension records can be joined together[20]. This means that, in most cases, members can choose whether to have LGPS records aggregated (or 'joined up') or kept separate from one another. Since 1st April 2014, aggregation is usually automatic[21] - where a member leaves an employment with a deferred benefit and then rejoins the LGPS

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[18] For example, members who, under regulation 24(1) of the 2014 Regulations, had a protected NPA of 60 in the 2008 Scheme. Some of these protected members would have been younger than 55 in April 2014 and may not have had an immediate entitlement to benefits at their underpin date.

[19] This applies where members do not have a qualifying service for a period of two years (regulation 3(7) of the 2013 Regulations). Special provisions apply where members joined before 1st April 2014.

[20] This does also require data sharing between administering authorities. However, the transfer of a record from one authority to another following a structured aggregation process is likely to be simpler and less prone to error than ad hoc sharing necessary to undertake pension calculations from time-to-time over a member's career.

[21] Where a member only has a deferred refund entitlement (i.e. has left with a refund entitlement which has not yet been paid) from a ceased period of LGPS membership, this must be aggregated with their subsequent LGPS membership and there is no choice (regulation 22(5) and (6) of the 2013 Regulations.

in another employment (potentially in another pension fund), they have 12 months to elect to their administrator for aggregation not to apply[22].

46. Where a member takes a decision which means their LGPS benefits are unaggregated, these are generally administered as separate entitlements. Where a member takes a decision which means their LGPS benefits are aggregated, their combined record is generally administered as one period of membership. For example, where a member with 2008 Scheme membership has not had a disqualifying break in service and aggregates that record with another LGPS membership, they would retain their final salary link on the combined record. By contrast, if the same member decides not to aggregate their membership they would lose their final salary link[23] on the unaggregated record. These rules preserve the approach described above, through which local administrators are generally able to calculate separate benefits independently.

47. However, regulation 4 of the 2014 Regulation does not appear to include an aggregation requirement for underpin protection to apply. A strict interpretation of regulation 4(1)(a) therefore appears to suggest that where, for example, a member was:

a) active in the LGPS on 31st March 2012,

b) subsequently active in the 2014 Scheme in a separate employment without a disqualifying break in service, and

c) the two records were not aggregated,

underpin protection would still apply. In our view, this would be extremely difficult for scheme administrators to effectively administer in the coming decades. It is also inconsistent with the general approach MHCLG has adopted in relation to the administration of the LGPS, as described in paragraph 45, and as has been applied in relation to the final salary link.

48. Where there is no requirement to aggregate benefits, administrative difficulties would not only arise in determining who has underpin protection (as a previous record may be held in another fund), but also in actually undertaking the underpin comparison. One scenario that may be likely to occur more frequently, as a result of the significant expansion of the underpin proposed in this document, would be situations like the following:

- A member has two, unaggregated LGPS records in separate funds:
    - Membership one – active from 2011 to 2016, and
    - Membership two – active from 2017 to 2022.
- As the member was in active service on 31st March 2012 and had 2014 Scheme membership, without a disqualifying break in service, they have underpin protection.
- Upon leaving membership one, the member would have an underpin date (calculated in the normal way).

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[22] By virtue of regulation 22(8) of the 2013 Regulations.
[23] By virtue of regulation 3(8) of the 2014 Regulations.

- The member would also have an underpin date upon leaving membership two for their active membership in the scheme over the underpin period (for this member, 2014 to 2016 and 2017 to 2022). This would require the second fund to undertake an underpin comparison for the whole period using data they hold and data they need to obtain from the other fund (in relation to membership one).
- In this situation, it may also need to be considered whether any underpin addition arising should be split between the two funds and the two employers, so as to ensure liabilities are appropriately held.

49. This would clearly be extremely administratively complex and potentially lead to an increased likelihood of errors being made. It is likely that other similar scenarios would also arise, and that the administrative complexities would continue for many years (as some members' underpin date may not take place for 30 or 40 years).

50. In light of this, we are proposing that regulation 4 of the 2014 Regulations is amended to make clear that members must meet the qualifying criteria in a single membership (a 'relevant Scheme membership' as defined in the proposed regulations) for underpin protection to apply. So, where a member has had a break in service, or a period of concurrent employment, their benefits must be aggregated for underpin protection to apply. The introduction of the concept of 'relevant scheme membership' has allowed us to define more clearly in the regulations the benefits administrators should be assessing when undertaking underpin calculations.

51. As our intention is for the revised underpin regulations to apply retrospectively, it is possible these changes will mean that some members of the LGPS who have underpin protection at the moment (across separate LGPS memberships) would lose this. To ensure that no member is worse off as a result of our proposed amendments, we are proposing that active and deferred members are given an additional 12 months to elect to aggregate previous periods of LGPS membership, where such a decision would mean they have 'relevant Scheme membership' and therefore would have underpin protection. It is not proposed that this decision would be required for pensioner members, whose existing pensions would be unaffected by the aggregation changes outlined here. Circumstances where current pensioner members have underpin protection which is based on unaggregated membership and they have received an addition to their pension as a result of their underpin protection are expected to be rare[24].

52. The additional 12 months would apply from the date the regulations come into force. This additional election period would not apply in respect of other periods of membership members may wish to aggregate, only to periods where a failure to aggregate would mean the member would not obtain underpin protection[25]. Good communications with members

[24] Such situations are expected to be rare due to a combination of factors. Generally, we expect that most protected LGPS members currently retiring are better off under the career average scheme, due in part to its substantially better accrual rate. Moreover, LGPS administrators are unlikely to be aware that a member has underpin protection if a member has not aggregated their previous LGPS membership. We expect that situations where a member has been awarded an underpin on unaggregated membership by their administrator and that subsequent underpin calculation has shown the final salary pension to be better than the member's career average pension would be rare.
[25] However, it should be noted that LGPS employers generally have the ability to allow aggregation beyond the statutory limits set out in scheme regulations.

in this situation will be crucial so that they understand whether this election period applies to them and the implications of the decision they are being asked to consider. As set out in paragraphs 131 and 133, we would plan to work closely with the Scheme Advisory Board on member communications to support the changes proposed in this paper.

53. The Public Service Pensions Act 2013 applies certain requirements where a responsible authority[26] proposes to make scheme regulations containing retrospective provisions which appear to the authority to have 'significant adverse effects in relation to the pension payable to or in respect of members of the scheme' (section 23(1))[27]. Specifically, where this is the case, the following applies:

- The authority must obtain the consent of persons (or representatives of the persons) who appear to the responsible authority to be likely to be affected by the provisions (sections 23(1) and (3)).
- The authority must lay a report before Parliament (section 23(4)).
- The regulations become subject to the affirmative procedure, meaning they have to be approved by a resolution of each House of Parliament (sections 24(1)(b) and 38).

54. We welome stakeholders' views on whether the changes we describe in paragraphs 50 to 52 would have 'significant adverse effects' in relation to the pension payable to or in respect affected members. Whilst the changes would have retrospective application, the additional 12 month election period we are proposing would ensure that members have the opportunity to aggregate their pension records and obtain underpin protection if they wish. Members who wish to keep their records separate (perhaps as they have re-joined the LGPS in a lower paid post and do not want a final salary link) would also be able to retain this position by doing nothing.

Question 9 – Do you agree that members should meet the underpin qualifying criteria in a single scheme membership for underpin protection to apply?

Question 10 – Do you agree with our proposal that certain active and deferred members should have an additional 12 month period to decide to aggregate previous LGPS benefits as a consequence of the proposed changes?

Question 11 – Do you consider that the proposals outlined in paragraphs 50 to 52 would have 'significant adverse effects' in relation to the pension payable to or in respect of affected members, as described in section 23 of the Public Service Pensions Act 2013?

[26] Under section 2 and schedule 2 of the Public Service Pensions Act 2013, the Secretary of State is the responsible authority for the LGPS in England and Wales.
[27] Certain requirements also apply under section 23(2) of the Public Service Pensions Act 2013 where the responsible authority proposes to make scheme regulations that are retrospective in nature, but which have significant adverse effects in other ways (for example, in relation to injury or compensation benefits). We are content that these provisions would not apply in respect of these proposed changes.

Achieving a fair and consistent underpin

55. Alongside the changes necessary to remedy the discrimination found by the Courts, and the aggregation proposal above, we are also proposing some changes to underpin provisions to ensure that the underpin works effectively and consistently for all members.

56. **Breaks in service of less than five years** – the 2014 Regulations do not currently make clear whether it is permitted for the underpin to be re-calculated if a protected member leaves active service and returns without a disqualifying break in service (i.e. within five years). We propose that where a qualifying member leaves active service, rejoins within five years and aggregates their benefits, a further underpin comparison would be undertaken when they next reach their underpin date (i.e. leave active service or reach their 2008 Scheme NPA), using their final salary at the most recent date of leaving (and the results of the previous comparison disregarded). Taking this approach means that promotional pay increases that may apply where a qualifying member progresses in their career are taken into account in their underpin calculations. It also ensures younger members of the scheme have equivalent protection to their older colleagues (whose final salary benefit is based on their pay at the end of their career, after relevant promotions and pay rises). It may also benefit those qualifying members who are more likely to have a break in employment, such as women[28] or those who have a disability. However, it is proposed that qualifying members who re-join the LGPS after their 2008 Scheme NPA would not have a further underpin date, even if they aggregate their previous pension rights. This is consistent with our general approach that underpin protection only provides protection until a member's 2008 Scheme NPA.

57. **Early/late retirement factors** - When a protected member leaves the scheme, the current underpin calculation does not take into account the impact of early/late retirement factors, which may mean the calculation does not correctly identify the scheme in which the member would receive the higher benefits. This situation arises because of differences in NPAs in the 2008 and 2014 Schemes, which may mean early and late retirement factors apply at different rates. We therefore propose that the revised underpin should include a 'check' to ensure that, at the point a qualifying member takes their benefits from the scheme, they are still due to receive at least the pension they would have received under the 2008 Scheme, after the application of any early/late retirement factors. Further detail on how this will work is outlined in the next section regarding the two-stage process we intend to adopt.

58. **Death in service** – the existing definition of the underpin date set out in regulation 4(2) of the 2014 Regulation do not make clear what should happen where a member who has underpin protection dies in active service. On a strict interpretation, the 2014 Regulations would therefore appear to mean that there is no underpin comparison for such a member (which could reduce any survivor benefit that may be payable). We do not believe that was or should be the policy intent. In relation to the revised underpin, we therefore propose that there would be a clear requirement for an underpin comparison to be undertaken where a qualifying member dies in service.

59. **Survivor benefits** – it is not always clear how the survivor benefits provisions in the 2013 Regulations apply in relation to the underpin, and whether increases in benefits

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[28] http://www.parliament.uk/briefing-papers/sn06838.pdf

arising from the underpin should be included in the calculation of survivor benefits following the death of a protected member (from any status). We intend that the amended regulations will make clearer how the underpin applies in relation to survivor benefits. In general terms, it is our policy that where a qualifying member has an addition to their pension arising from the underpin, this should be taken into account in determining the value of relevant survivor benefits, where such benefits are based on the value of the qualifying member's pension. The next section of this paper outlines our policy on the underpin and survivor benefits in more detail.

60. Together and individually, the changes we describe in paragraphs 56 to 59 are intended to be beneficial for scheme members, and are intended to ensure that the revised underpin works for all members with underpin protection in a consistent and effective way. As outlined in paragraph 34, we have considered the principle of minimum interference but believe that these changes are both appropriate and necessary.

Question 12 – Do you have any comments on the proposed amendments described in paragraphs 56 to 59?

A two-stage process

61. Under current provisions, the underpin calculation takes place at a single point in time – a member's underpin date, being the earlier of the date a member leaves active service with an immediate entitlement to a pension, and the date they reach their 2008 Scheme NPA. This has its advantages, such as in respect of administration. However, in the round, we now consider a two-stage underpin process would provide a more robust form of protection and the draft regulations attached propose such an approach. Under this, all qualifying members would have an 'underpin date' and an 'underpin crystallisation date':

- the purpose of the underpin date would be to provide for a provisional assessment of the underpin, broadly comparing the qualifying member's 2014 Scheme benefits in a relevant scheme membership against the 2008 Scheme benefits they would have accrued over the same period, in respect of the same membership. The underpin date would take place at the earliest of the date the qualifying member:

    - leaves active service in a relevant scheme membership,
    - reaches their 2008 Scheme NPA, or
    - dies.

  Regardless of the outcome of this provisional comparison, there would be no adjustment to a member's pension at their underpin date. The purpose of the comparison at a member's underpin date would primarily be so that the member has early information on how the underpin may apply to them. This recognises that there may be many years between a qualifying member's underpin date and their underpin crystallisation date, when the final comparison is due to take place.

- The purpose of the underpin crystallisation date would be to provide for a final check at the point the qualifying member's benefits from the scheme are 'crystallised' (where the member takes their pension from the scheme). The check would be designed to ensure that qualifying members always receive at least the higher of the pension they would have been due from the 2014 Scheme and the 2008 Scheme, taking into account the impact of factors like early/ late retirement adjustments.

62. We consider that the use of a two-stage process will achieve the following:

- Fundamentally, it should give qualifying members greater confidence that the underpin process has given them the benefit that is better for their own personal situation, even if they take their benefits many years after they leave the scheme.

- By undertaking an initial comparison at a member's underpin date, it would give qualifying members information about how the underpin may apply to them at the earliest possible date, even if such calculations would only be provisional.

- It is more compatible with the revised underpin where members can re-join, aggregate their membership and have a further underpin date at a subsequent point in time. Until the final underpin check at a member's underpin crystallisation date, there will be no change to a member's active or deferred pension arising from the underpin.

- It reflects the fact that for most members retiring on age grounds, early and/or late retirement factors will apply in calculating their 2008 and/or 2014 Scheme benefits. As these will not apply in the same way to a member's 2008 and 2014 Scheme entitlements (unless their 2008 Scheme NPA is the same as their State Pension age), a final check at the point benefits are paid is necessary to ensure the member is getting the higher benefit.

63. Further detail on the proposed two-stage process is contained in **annex C** and illustrative examples of a variety of scenarios are included in **annex D**.

Question 13 – Do you agree with the two-stage underpin process proposed?

Underpin period and final salary link

64. As discussed earlier in the consultation (paragraphs 28 to 31), we propose that:

- the revised underpin be extended to provide underpin protection to all qualifying members for service from 1st April 2014 up to and including 31st March 2022, except where a member's underpin date is sooner.

- from 1st April 2022, all LGPS membership accrues on a career average basis, with no underpin,

- but to ensure that there is an equivalent level of protection between older and younger members, the comparison of 2008 Scheme and 2014 Scheme benefits would take place at a qualifying member's underpin date, even if the underpin period ends sooner.

The revised underpin – application

65. This section describes how the revised underpin is intended to apply to qualifying members at different stages of their membership of the scheme, and at different life events.

Whilst in active membership

66. Whilst a qualifying member is in active service below their 2008 Scheme NPA, they will remain a member of the 2014 Scheme. For the period up to 31st March 2022, active qualifying members will accrue underpin protection. From 1st April 2022, accrual will be on a career average basis alone, but active qualifying members will retain a final salary link in relation to their underpin protection. Each year, a qualifying member's annual benefit statement will include an estimate of how the underpin would have applied to them if they had left the scheme at the end of the scheme year (i.e. as if their underpin date had been 31st March in that year). In these estimates, no account would be taken of actuarial adjustments relating to a member's age.

67. If a qualifying member remains in active service at their 2008 Scheme NPA (normally 65), their underpin date will be triggered in relation to their relevant scheme membership, meaning a comparison of their 2008 Scheme and 2014 Scheme pension (relating to the period from 1st April 2014 up to 31st March 2022, or their 2008 Scheme NPA if earlier) would be undertaken. This calculation would be based on the member's final pay as at their 2008 Scheme NPA (taking into account appropriate lookback provisions where appropriate). The member would be informed of the results of this comparison, but also informed that a check at their underpin crystallisation date would be undertaken at the point they take their benefits to ensure they are getting the higher benefit. Final salary increases or reductions beyond the member's 2008 Scheme NPA would not impact on the member's underpin protection.

Concurrent employments

68. Underpin protection may apply to qualifying members who hold two or more active memberships of the scheme at the same time ('concurrent employments'). Under our proposals, underpin protection would be linked to specific scheme memberships, with members who have 'relevant scheme membership' having underpin protection on that membership. Relevant scheme membership applies where:

- a member was an active member on 31st March 2012,
- a member has been an active member of the 2014 Scheme, and
- they did not have a disqualifying break in service.

69. Relevant scheme membership would apply in the normal way where a qualifying member has concurrent employments – for example, if a member has two posts and meets the criteria in one but not the other, they would have underpin protection in the former post, but not the latter. Where a qualifying member leaves a concurrent post in which they had relevant scheme membership before reaching their 2008 Scheme NPA their underpin date would apply in relation to that employment. If they were to then aggregate that membership with their ongoing post, the member would have a further

underpin date at the earlier of the date they leave that post or the date they reach their 2008 Scheme NPA.[29]

At date of leaving (without taking scheme benefits)

70. Where an active qualifting member leaves the LGPS before their 2008 Scheme NPA with a deferred entitlement to benefits, their underpin date would apply at their date of leaving. A provisional underpin comparison would be undertaken for the period up to 31st March 2022, or to the member's date of leaving if earlier. The member would be informed of the results of this comparison, but also informed that a check at their underpin crystallisation date would be undertaken at the point they take their benefits to ensure they are getting the higher benefit.

Whilst a deferred member

71. For qualifying members who have had an underpin date after leaving active membership of the scheme with a deferred benefit, annual benefit statements sent to the member would include details of the provisional calculations undertaken at their underpin date. The results of these calculations would be adjusted to reflect cost of living changes between the member's underpin date and the date of their annual benefit statement.

Re-joiners

72. Where a qualifying member who has had an underpin date in respect of a relevant scheme membership re-joins the scheme without a disqualifying break in service and aggregates their previous scheme membership with their active pension account[30], they will retain continuing underpin protection for any service up to 31st March 2022. For service from April 2022 onwards, the member will retain a continuing final salary link in relation to their underpin protection (as well as in respect of their pre-2014 final salary membership). A further underpin date will occur at the date the member leaves active service or the date they reach their 2008 Scheme NPA.

Age retirement

73. When a qualifying member takes voluntary payment[31] of their benefits in a relevant scheme membership at any age between 55 and 75, their underpin crystallisation date will apply. This means that the final comparison of their benefits will be undertaken to determine whether the 2014 Scheme or 2008 Scheme benefits would be better. For qualifying members who retire from active status and do so before their 2008 Scheme NPA, the member's underpin date will take place as at their date of leaving[32]. The underpin crystallisation date will take place upon their pension coming into payment.

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[29] Under regulations 22(6) or (7) of the 2013 Regulations
[30] Under regulation 22 of the 2013 Regulations, all scheme members must have a pension account. Unless aggregated, members have multiple pension accounts for multiple periods of scheme membership.
[31] Non-voluntary payment of benefits following redundancy and business efficiency are covered in paragraph 100.
[32] As described in paragraph 67, where a qualifying member is in active service at their 2008 Scheme NPA, this would be their underpin date.

74. In the underpin crystallisation date calculation, the scheme administrator will take the provisional calculations from a qualifying member's underpin date and update these to take into account the effects of cost of living changes since the member's underpin date, as well as the impact of early/ late retirement factors. Where the final values show that the member would have been better off under the 2008 Scheme, an addition will be made to the member's 2014 pension account. The member's total pension in that relevant scheme membership for the period from 1st April 2014 to 31st March 2022 would also be payable without any further actuarial adjustment relating to the member's age.

Ill-health retirement

75. For most qualifying members retiring on ill-health grounds, their date of leaving will be their underpin date[33]. As applies under the existing underpin provisions, the underpin calculation at a qualifying member's underpin date will take into account any enhancements that they may be due where they are receiving 'tier 1'[34] or 'tier 2'[35] benefits under regulation 39 of the 2013 Regulations, and compare these against the relevant enhancements that would have applied under the 2008 Scheme. This comparison of enhancements would apply up to the earlier of a qualifying member's 2008 Scheme NPA and 31st March 2022.

76. A qualifying member's ill-health retirement date will be their underpin crystallisation date, in all cases. This calculation will take into account cost of living adjustments between the member's underpin date and their underpin crystallisation date for members retiring from deferred or deferred pensioner status. No account will be taken of actuarial reductions relating to their age as these do not apply in relation to ill-health retirements, but where the qualifying member is over their 2008 Scheme or 2014 Scheme NPA, the impact of actuarial increases will be considered.

77. Whilst in most cases a member can only have one underpin crystallisation date, an exception applies in relation to members who have retired with 'tier 3'[36] benefits. As tier 3 pensions are temporary, a qualifying member would typically have an underpin crystallisation date at the point they begin receipt of their temporary pension and a subsequent one at the point they receive payment of their suspended pension from the scheme or the underpin otherwise crystallises (from deferred pensioner status). Whilst the

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[33] With the exception of deferred or deferred pensioner members taking ill-health retirement under regulation 38 of the 2013 Regulations, and members who have previously reached their 2008 Scheme normal retirement age. Deferred pensioner members are members who were previously in receipt of a temporary tier 3 ill-health pension which has since ceased, and the member has not yet taken their main scheme benefits.

[34] Subject to other criteria that apply, tier 1 benefits apply to members retiring on ill-health grounds who are unlikely to be able to undertake gainful employment before their NPA (regulation 35(5)). Members receiving tier 1 benefits receive an adjustment to their pension equalling the full benefits they would have accrued between date of leaving and their 2014 Scheme NPA.

[35] Subject to other criteria that apply, tier 2 benefits apply to members retiring on ill-health grounds who are unlikely to be able to undertake gainful employment within three years of leaving the employment, but who are likely to be able to undertake gainful employment before reaching their NPA (regulation 35(6)). Members receiving tier 2 benefits receive an adjustment to their pension equalling 25% of the benefits they would have accrued between date of leaving and their 2014 Scheme NPA.

[36] Subject to other criteria that apply, tier 3 benefits apply to members who are likely to be capable of undertaking gainful employment within three years of their date of leaving (regulation 35(7)). Members receiving tier 3 benefits receive an unadjusted pension for a maximum of three years.

former calculation would not take into account actuarial reductions that may apply, the latter calculation would.

Death benefits

78. As noted earlier, under existing scheme regulations, it is sometimes unclear how scheme death benefits interact with the underpin. Our policy intent is set out in this section, and we have aimed to make these points clearer in the draft regulations. These clarifications are essential to ensuring that the underpin works effectively and consistently.

79. **Deaths in service** - For a qualifying member in active service, their date of death will be both their underpin date and their underpin crystallisation date. It is proposed that the underpin comparison would take into account the enhancements that apply under the 2008 and 2014 Scheme regulations in relation to deaths in service. This comparison of enhancements would apply up to the earlier of the qualifying member's 2008 Scheme NPA and 31st March 2022. This would be a new addition to the underpin regulations, and would be consistent with the approach taken in relation to ill-health retirements (outlined above in paragraph 75).

80. No adjustment relating to the underpin would apply to a qualifying member's death grant, as death grants for active members are based on a member's pay, not their pension.

81. Where survivor benefits are payable following a death in service of a qualifying member, the underpin comparison would be based on the provisional calculations and would not take into account the impact of early or late retirement factors which do not apply in relation to survivor benefits. Where there is an addition (i.e. the 2008 Scheme benefit is higher based on the unadjusted values), this addition would apply in the calculation of the survivor's benefit, at the appropriate accrual rate for each type of survivor.

82. **Deaths from deferred status** - Where a qualifying member dies from deferred status, their underpin date will have already taken place (on the date the member left active service, or on their 2008 Scheme NPA, if earlier). The day of the member's death would be their underpin crystallisation date.

83. Where survivor benefits are payable following a death from deferred status, the underpin comparison would be based on the provisional calculations and would not take into account the impact of early or late retirement factors which do not apply in relation to survivor benefits. Where there is an addition (i.e. the 2008 Scheme benefit is higher based on the unadjusted values), this addition would apply in the calculation of the survivor's benefit, at the appropriate accrual rate for each type of survivor.

84. Any addition arising from the provisional calculations undertaken at a member's underpin date will also apply in the calculation of the death grant. For deferred members, a death grant applies at 5 times the annual rate of pension, without actuarial adjustment relating to the age of the member.

85. **Deaths from pensioner status** – Where a qualifying member dies from pensioner status, the underpin date and the underpin crystallisation date will already have taken place.

86. Where survivor benefits are payable following the death of a pensioner, the underpin comparison will be based on the provisional calculations undertaken at a qualifying member's underpin date and will not take into account the impact of early or late retirement factors which do not apply in relation to survivor benefits. Where there is an addition (i.e. the 2008 Scheme benefit is higher based on the unadjusted values), this addition will apply in the calculation of the survivor's benefit, at the appropriate accrual rate for each type of survivor.

87. Any addition arising from the provisional underpin calculation will also apply in the calculation of the death grant, where applicable. For pensioner members, a death grant applies at 10 times the annual rate of pension, reduced by the actual amount of pension the member received prior to their death and by any lump sum commutation.

Public Sector Transfer Club transfers

88. The LGPS is a member of the Public Sector Transfer Club[37]. The Club is an arrangement that facilitates the mobility of employment within the public sector by, for example, enabling employees to avoid the reduction in the value of their accrued pension that could otherwise occur as a result of changing employment. Final salary pension transferees are awarded a service credit that maintains the member's final salary link for the pension accrued in their previous scheme. CARE transferees are awarded a pension credit that continues the rate of in-service revaluation that was provided in the member's previous scheme. The intention of the Club is that a member should not lose out as a result of changing employment within the public sector. Equally, the member should not receive benefits that are higher in value than if they had not changed employment.

89. Separately, the Government is consulting[38] on proposals to remove the unlawful discrimination from the other main public service pension schemes. That consultation includes a section seeking views on how transfers under the Public Sector Transfer Club may work in relation to the remedy proposals outlined in that consultation. It sets out that one option would be for a member to make a choice between career average and final salary benefits at the date of transfer, so that only one set of scheme benefits for the remedy period needs to be considered for the transferred service.

90. The consultation also notes that considerations in the LGPS may be different, given the different nature of transitional protection in the LGPS and that we would consult on more detailed proposals in relation to Club transfers between the LGPS and the other public service pension schemes.

91. One approach, which would be consistent with the option outlined in the wider consultation, would be for the same principle to apply. This would mean the following:

- **For Club transfers of protected service (accrued between April 2015 and March 2022) into the LGPS** - the receiving LGPS fund would give the member the option of deciding whether they wanted to use the transfer to buy final salary

[37] https://www.civilservicepensionscheme.org.uk/members/public-sector-transfer-club/
[38] https://www.gov.uk/government/consultations/public-service-pension-schemes-consultation-changes-to-the-transitional-arrangements-to-the-2015-schemes

membership or career average pension in relation to the transferred service. Quotations would be provided to help members make an informed choice.

- **For Club transfers of protected service (accrued between April 2014 and March 2022) out of the LGPS** – the receiving scheme administrator would give the member the option of deciding whether they wanted to use the transfer to buy final salary membership or career average pension in relation to the transferred service (which in the LGPS would have provided them with underpin protection). Quotations would be provided to help members make an informed choice.

92. It should be noted that, in certain situations, a transferring member might be at an advantage if the transitional protection could continue in their new scheme (for example, if members transferring into the LGPS were to obtain underpin protection for protected service they transfer in, or LGPS members transferring out were to obtain a choice in their new schemes). However, such an approach would likely lead to significant administrative complexity across the public sector.

93. We propose that, consistent with existing LGPS regulations[39] that, where a member with final salary membership in another public service pension scheme transfers that membership into the LGPS, and they would have met the qualifying criteria for underpin protection in the LGPS had they been a member of the scheme, they would be granted underpin protection for their LGPS membership up to 31st March 2022. This would apply even if the initial transfer into the LGPS was not a Club transfer.

94. We welcome views from respondents on the options set out here. The final approach in relation to transfers within the Public Sector Transfer Club will be considered across Government, taking into account the responses to this consultation along with those to the wider consultation.

Non-Club transfers

95. Where a qualifying member transfers relevant scheme membership and the transfer is not a 'Club' transfer[40], a different approach is proposed. The date of transfer would be their underpin crystallisation date. In the draft regulations we propose the detailed requirements in relation to such cases will be contained in actuarial guidance issued by the Secretary of State. We propose that the actuarial guidance we issue will require the following approach:

1) Calculate Cash Equivalent Transfer Values (CETVs) of the following:

    a) the member's accrued rights,

    b) the member's 'provisional assumed benefits' (see **annex C**), and

    c) the member's 'provisional underpin amount' (see **annex C**).

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[39] Regulation 9(1) and (2) of the 2014 Regulations
[40] Either because it is not a transfer to a pension scheme in the Public Sector Transfer Club, or because it does not qualify as a Club transfer.

2) Where c) is greater than b), add the difference between the two amounts to a) and that is the total CETV.

3) Where c) is not greater than b), just pay the CETV based on the member's accrued rights (i.e. the CETV calculated at a)).

96. This approach would be consistent with the general approach taken to calculating pension benefits under the underpin, and should achieve a similar outcome.

97. Where a member with underpin protection has transferred in pension rights from another scheme that is not a public service pension scheme, the value of the transfer would not be taken into account for the purposes of the member's underpin calculations. This is the same as applies in relation to transfers under the existing underpin regulations.

Other ways of taking benefits

98. **Flexible retirement** – Where a qualifying member makes an election to reduce their working hours or grade in an employment, with their employer's consent, that would be their underpin date, even though they remain in active employment after this date. As applies under the existing underpin provisions, no further underpin protection would apply after a qualifying member's date of flexible retirement. The underpin crystallisation date calculation, also undertaken at the point of a member's flexible retirement, would take into account the impacts of early and late retirement factors to determine which scheme benefit is better for the individual.

99. Where a qualifying member takes 'partial' flexible retirement, i.e. they do not take all the benefits they accrued prior to their flexible retirement date straight away, there is a question about the appropriate treatment of the underpin. We propose that, in partial flexible retirement situations, where there is an addition to the member's pension arising from the underpin (i.e. because the 2008 Scheme benefit is higher), the amount of the addition given to the member at that point in time should be proportionate to the amount of the 2014 Scheme pension they are choosing to receive. For example, if a member is only receiving 20% of their 2014 Scheme pension upon flexibly retiring, they would only receive 20% of the underpin addition. The remainder would be payable at the point the member takes the rest of their benefits.

100. **Redundancy**[41] – Redundancy below a qualifying member's 2008 Scheme NPA would trigger their underpin date. For members aged 55 or over, who have an immediate entitlement to their pension at point of redundancy, the date their redundancy pension commences would also be their underpin crystallisation date. As actuarial reductions do not apply in this situation, no account should be taken of these in the final underpin comparison. However, actuarial increases, where the member is made redundant after their 2008 Scheme or 2014 Scheme NPA, should be considered in the usual way.

101. **Trivial commutation**[42] – Under regulation 34 of the 2013 Regulations, members with small total pension rights can extinguish their future right to a pension from the scheme

[41] This paragraph also covers members leaving active membership of the LGPS on grounds of business efficiency.
[42] This paragraph also covers members taking benefits via any of the other means referred to in regulation 34 of the 2013 Regulations. These payments are made at the discretion of administering authorities.

and receive a lump sum instead ('trivial commutation'). Under our proposals, qualifying members trivially commuting their pension will already have had their underpin date, as at their date of leaving the LGPS or reaching their 2008 Scheme NPA. If a qualifying member has not yet taken their pension, the date they trivially commute their benefits would be their underpin crystallisation date and the draft regulations propose the detailed requirements in relation to such cases will be contained in actuarial guidance issued by the Secretary of State. This is consistent with the general approach set out in the 2013 Regulations[43]. We propose that the actuarial guidance we issue will require the following approach:

1) Calculate the trivial commutation sum due of the following:

a) the member's total accrued rights,

b) the member's 'provisional assumed benefits' (see **annex C**), and

c) the member's 'provisional underpin amount' (see **annex C**).

2) Where c) is greater than b), add the difference between the two amounts to a) and that is the total sum due.

3) Where c) is not greater than b), just pay the trivial commutation sum based on the member's accrued rights (i.e. the sum calculated at a)).

102. This approach would be consistent with the general approach taken to calculating pension benefits under the underpin, and should achieve a similar outcome. Where a qualifying member who trivially commutes their benefits has already taken their pension from the LGPS (and had an underpin crystallisation date in doing so), there would be no further underpin calculations due at the point of the trivial commutation.

Question 14 – Do you have any comments regarding the proposed approaches outlined above?

Question 15 – Do you consider there to be any notable omissions in our proposals on the changes to the underpin?

Supplementary matters

Annual benefit statements

103. Pension schemes are vitally important workplace benefits. For many people contributing to a pension scheme, the annual benefit statement (ABS) is the main way that they receive updates on the value of their pension and when they will be able to receive it. Whilst it is true that information presented on an ABS about the underpin cannot provide certainty to a qualifying member on their underpin protection (in most cases, there will not be certainty until a member's underpin crystallisation date), we believe it is important that estimates are provided on member ABSs if scheme regulations are amended in the

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[43] Regulation 34(2) of the 2013 Regulations requires that payments of the description contained in regulation 34(1) are to be calculated in accordance with actuarial guidance issued by the Secretary of State.

manner outlined in this paper. Appropriate wording would need to be considered so that members have the information needed to understand how the underpin works and that the figures included in their statement are provisional, and may change. We would plan to ask the Scheme Advisory Board to lead on agreeing standardised wording that LGPS funds thoughout England and Wales can include in ABSs regarding underpin protection.

104. Our draft regulations propose the following approach for members who meet the underpin qualifying criteria and have relevant scheme membership:

- That where a member is in active service below their 2008 Scheme NPA, their ABS should estimate the value of the underpin to the individual as if the end of the Scheme year[44] was their underpin date – including the provisional assumed benefits, the provisional underpin amount and any provisional guarantee amount.

- That where a member remains in active service beyond their 2008 Scheme NPA, their ABS should include the provisional estimates from the member's underpin date, as updated to reflect cost of living changes to the end of the Scheme year.

- For deferred and deferred pensioner members[45], their ABS should include the provisional estimates from the member's underpin date, as updated to reflect cost of living changes to the end of the Scheme year.

Question 16 – Do you agree that annual benefit statements should include information about a qualifying member's underpin protection?

Question 17 – Do you have any comments regarding how the underpin should be presented on annual benefit statements?

Annual allowance

105. The annual allowance is the maximum amount of tax-relieved pension savings that can be accrued by an individual in a year. The standard annual allowance is currently £40,000, but for those on the highest incomes, it tapers down to a minimum level of £10,000 (from April 2016 to March 2020) and to £4,000 (from April 2020). For defined benefit pension schemes like the LGPS, liability for tax charges above the annual allowance is calculated using the value of pension accrued in a particular year. Where an individual's pension accrual in a single year exceeds the annual allowance, then a tax charge may be due on the amount accrued above the member's annual allowance[46] to claw back the excess tax relief.

106. Whilst we would not expect a significant number of qualifying members to experience any change to their tax liability as a result of the proposals in this consultation document, it

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[44] Under Schedule 1 of the 2013 Regulations, a period of one year beginning with 1st April and ending with 31st March.
[45] Deferred pensioner members are members who were previously in receipt of a temporary tier 3 ill-health pension which has since ceased, and the member has not yet taken their main scheme benefits.
[46] However, 'carry forward' provisions allow members to carry forward unused annual allowance for the previous three years.

is important that underpin protection is considered for the purposes of determining a qualifying member's annual allowance.

107. LGPS regulations do not contain detailed provisions regarding the application of pensions tax to scheme benefits. Scheme administrators must follow the pensions tax framework as set out in the Finance Act 2004 and secondary legislation, and as explained in HMRC's Pensions Tax Manual[47]. Consistent with our approach generally, we do not plan to include in scheme regulations specific details regarding the tax treatment of the revised underpin.

108. We understand that, in accordance with guidance provided by the Local Government Association (LGA)[48], LGPS administrators have generally been taking the following approach in relation to the current underpin and the annual allowance:

- Whilst a protected member is in active service and their underpin date has not yet occurred, no account has been taken of a member's underpin protection for the purposes of determining a member's pension input amount in a given pension input period. This reflects that, under existing scheme regulations, a member may only receive an addition to their pension at the point of their underpin date.

- In the year of a protected member's underpin date, any addition in the member's pension arising from the comparison undertaken at the member's underpin date would be considered for the purposes of determining a member's pension input amount in that pension input period.

109. Whilst interpretation and application of the requirements of the Finance Act 2004 is a matter for individual administrators to consider, we believe that this approach is correct and would remain so if our proposals were to be implemented in scheme regulations. However, a change will be needed to reflect that, under our proposals, the point where an addition may arise from the underpin would be different. As described in paragraphs 61 and 62, our proposal is that the underpin moves to a 'two stage process'. Under this, a member's underpin protection can only result in a change to their pension entitlement at their 'underpin crystallisation date' and under our proposals it would be in this pension input period that the underpin should first be given consideration for the purposes of the annual allowance. As there would be no change to a member's pension entitlement at the point of a member's underpin date, the underpin should not be given consideration for annual allowance purposes in that pension input period[49].

110. However, we recognise that there may be circumstances where this approach means that a qualifying member has a higher pension input amount in the year of their underpin crystallisation date than an approach where the potential value of the underpin is considered on a year-by-year basis whilst a qualifying member remains in active membership. This may particularly be the case for qualifying members who have a relatively low career average pension for the years from 1st April 2014 to 31st March 2022, but a relatively high final salary pension over the same period. This may occur where a

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[47] https://www.gov.uk/hmrc-internal-manuals/pensions-tax-manual
[48] 'The Underpin' technical guide, latest version v1.8 (dated 18/07/2018), http://lgpsregs.org/resources/guidesetc.php
[49] Except where the member's underpin crystallisation date occurs in the same pension input period.

qualifying member is at an early stage of their career now, but goes on to be a high-earner in the future. We would appreciate views from stakeholders on the potential likelihood of this issue arising, the scale of the issue and how any impacts might be mitigated, if appropriate.

Question 18 – Do you have any comments on the potential issue identified in paragraph 110?

Public sector equality duty

111. The Ministry of Housing, Communities and Local Government has analysed the proposals set out in this consultation document (MHCLG) to fulfil the requirements of the Public Sector Equality Duty (PSED) as set out in section 149 of the Equality Act 2010. This requires the department to pay due regard to the need to:

1) eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act
2) advance equality of opportunity between people who share a protected characteristic and those who do not
3) foster good relations between people who share a protected characteristic and those who do not.

Data

112. In undertaking our assessment of the equalities impacts of our proposals, we have drawn upon analysis provided to us by GAD. The analysis particularly looks at the protected characteristics of age and sex and is based on membership data supplied to GAD by LGPS administrators as at 31st March 2019. The following points should be borne in mind when considering the analysis:

- GAD's analysis has principally considered those who would benefit from the proposals outlined in this consultation. Members who already have underpin protection under existing provisions (being those aged 62 and older on 31st March 2019, who were aged at least 55 on 1st April 2012) have not been considered directly.

- GAD's analysis is based on active membership records totalling 1.68mn. The analysis has been conducted on a per-member basis, meaning additional records where members have more than one active employment have been removed.

- The proportion of the qualifying membership which is eventually likely to be better off as a result of underpin protection is heavily influenced by the rate of future pay growth in the LGPS. Consistent with the assumption used for the 2016 valuations of public service pension schemes, the long-term annual future pay growth assumption used is CPI + 2.2%.

- The analysis is based on the LGPS's active membership as at 31st March 2019. Under our proposals, the proposed changes to the underpin would be backdated to 1st April 2014. We would therefore expect that a number of additional members not included in the analysis would benefit from our proposals. However, we do not anticipate this limitation would significantly change the results of the analysis.

- The analysis is based on an "average" member at each particular age. Allowing for variations in individual members' future service or salary progression could produce different figures.

113. Limited data specific to the LGPS in England and Wales is available in relation to other protected characteristics. However, we have considered wider data from the Labour Force Survey (LFS) (Q1 2020)[50] and the Annual Population Survey (APS) (2019)[51] in looking at the potential impacts of the following characteristics.

Age

114. The proposals outlined here are intended to remove age discrimination, which had been found to be unlawful in the firefighters' and judicial pension schemes, from the LGPS rules governing the underpin. We consider that the changes proposed will significantly reduce differential impacts in how the underpin applies based on a member's age, by removing the age-related qualifying criteria found to be unlawful by the Courts.

115. Based on analysis undertaken by GAD on active membership data for the LGPS as at 31st March 2019, we anticipate that some differences in how the revised underpin would apply to members of different age groups would remain. These are described below, along with our assessment of these differences.

116. **Qualification for the underpin –** GAD's analysis shows that older active members on 31st March 2019 would be more likely to qualify for the revised underpin than younger active members. This is principally because of our proposal that the 31st March 2012 qualifying date for underpin protection is retained. The proportion of members active in the scheme as at 31st March 2019 who had been members of the scheme on 31st March 2012 is lower for younger members, as experience shows they have a higher withdrawal rate from active scheme membership. We consider that members joining the LGPS after 31st March 2012 do not need to be provided with underpin protection. Members joining the LGPS after 31st March 2012 fall into two groups:

a) members who joined after 1st April 2014 when the LGPS had already reformed to a career average structure, and

b) members who joined between 1st April 2012 and 31st March 2014, who joined the LGPS when it was still a final salary scheme, but when a well-publicised reform process was already underway.

117. In relation to both groups, it is the Government's view that providing them underpin protection would not be appropriate. Transitional protection, as applied across public

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50 https://www.ons.gov.uk/surveys/informationforhouseholdsandindividuals/householdandindividualsurveys/labourforcesurvey

51 https://www.nomisweb.co.uk/articles/1167.aspx#:~:text=The%20Annual%20Population%20Survey%20(APS,regional%20(local%20authority)%20areas.

service pension schemes, was always designed to help members with the transition from the old scheme designs to the new (in the LGPS, mainly in relation to the move from a final salary to a career average structure). Members who joined after 31st March 2012 will have joined the LGPS when either it had already transitioned to the career average structure, or when it was well publicised that the LGPS benefits were reforming.

118. **Members who benefit from the underpin** – GAD's analysis shows that active members between the ages of 41 and 55 would be more likely to benefit from the revised underpin (i.e. where the calculated final salary benefit is higher than the calculated career average benefit) than both their younger and older colleagues. This reflects previous experience and future expectation that:

- this group are more likely than older colleagues to experience the pay progression that would make the final salary benefit higher over the underpin period (bearing in mind that the career average accrual rate (1/49ths) is better than the final salary accrual rate (1/60ths) so above inflation pay increases are needed for the underpin to lead to an increase in pension), and

- this group are more likely than younger colleagues to remain in active membership until they receive the pay progression necessary for the underpin to result in an addition to their pension. Younger members are estimated to have a higher voluntary withdrawal rate than older members, and so would be less likely to remain in the LGPS until such time as they have the pay increases for the final salary benefit to be higher.

119. These differential impacts reflect the fact that final salary schemes typically benefit members with particular career paths (for example, they usually favour high-earners with long service). The Government proposes to move all local government pensions accrual to a career average basis, without underpin protection, from April 2022 to apply a fairer system to all future service.

Sex

120. In relation to sex, GAD's analysis shows that broadly the proportion of men and women who would qualify for the revised underpin protection and benefit from that protection matches the profile of the scheme. As at 31st March 2019:

- 74% of scheme members were female, and 26% male

- 73% of the scheme members who were estimated to qualify for the revised underpin protection were female, and 27% male

- 73% of the scheme members who were estimated to benefit from the revised underpin were female, and 27% male

121. Proportionally, GAD's assessment is that men would be marginally more likely to qualify for the revised underpin and to benefit to a greater extent from underpin protection than women. This reflects the fact that, in line with previous scheme experience, the average male LGPS member would be expected to have higher salary progression than the average woman and that women are generally expected to have higher voluntary withdrawal rates than men. Members with longer scheme membership and with higher

salary progression would be more likely to receive an addition to their pension through the underpin (i.e. where the final salary benefit is higher).

122. These small differential impacts also demonstrate some of the effects that can arise under a final salary design. The Government proposes to move all local government pensions accrual to a career average basis, without underpin protection, from April 2022 to apply a fairer system to all future service.

Other protected characteristics

123. As noted in paragraph 113, limited data specific to the LGPS in England and Wales is available in relation to other protected characteristics. However, we have considered wider data from the LFS (Q1 2020) and the APS (2019) in looking at these characteristics. The LFS breaks down results to public sector level, which we have used as a proxy for LGPS membership for ethnicity, disability and marital status. For religion, the APS has been used as a proxy for the public service pension schemes as it also incudes a public sector breakdown.

124. Whilst these data sets show some differences in the demographic make-up of the UK population generally and the public sector workforfce, we do not consider that the changes to underpin protection proposed in the consultation will result in any differential impact to LGPS members with the following protected characteristics: disability, ethnicity, religion or belief, pregnancy and maternity, sexual orientation and marriage/civil partnership.

125. Data on sexual orientation, gender reassignment, pregnancy and maternity is not available. However, we expect there to be no differential impacts in relation to these groups as they won't be explicitly affected by any changes to transitional arrangements.

Next steps

126. Whilst we have detailed data on the protected characteristics of age and sex in relation to the LGPS membership, we are aware that our analysis of the impacts on other protected characteristics may be limited as it has not been based on local government specific data. We welcome suggestions from stakeholders of other data sets that may be available that may help us better understand the impacts on the LGPS membership more specifically.

127. We welcome views from stakeholders on our analysis, which is set out in more detail in the equalities impact assessment published alongside this consultation. These views will be considered in determining how to proceed following the consultation exercise. The potential equalities impacts of our proposals will be kept under review. A further equalities impact assessment will be undertaken following the consultation at the appropriate juncture.

Question 19 – Do the proposals contained in this consultation adequately address the discrimination found in the 'McCloud' and 'Sargeant' cases?

Question 20 – Do you agree with our equalities impact assessment?

Question 21 - Are you aware of additional data sets that would help assess the potential impacts of the proposed changes on the LGPS membership, in particular for the protected characteristics not covered by the GAD analysis (age and sex)?

Question 22 – Are there other comments or observations on equalities impacts you would wish to make?

Implementation and impacts

128. Following the closure of the consultation, we will consider the consultation responses received in detail to determine the best approach for removing the unlawful age discrimination from LGPS regulations.

129. The draft regulations at **annex B** have been prepared based on existing powers under the Public Service Pensions Act 2013. However, as noted in the wider Government consultation[52] on removing the unlawful age discrimination from public service pension schemes, the Government intends to bring forward new primary legislation regarding public service pensions. When proposals for removing the unlawful discrimination are finalised, further consideration will be given to the appropriate powers for the changes, based on the legislation in force at the time.

130. We recognise that in the period between now and scheme regulations being amended, some members of the scheme who would be due to benefit from the changes outlined in this paper will crystallise scheme benefits. This will include voluntary age retirements, as well as ill-health retirements, redundancies and transfers. There will also be dependants of those qualifying members who sadly die before changes are implemented. In respect of all such cases, we would expect the retrospective application of our proposed amending regulations to ensure that, overall, members and their dependents would get the full benefit of the revised underpin.

Communications

131. As noted in paragraphs 103 and 104, member communications in relation to the proposals outlined here will be vitally important to ensure members understand what underpin protection is and how it may or may not apply to them. This is particularly important due to the complexities of the underpin. The two-stage process we describe in paragraphs 61 and 62 is designed to protect members and to provide clarity, but it is important its purpose is well explained, so that qualifying members understand that they may have an addition to their pension arising from the underpin, even if there was not an addition at their underpin date. Equally, qualifying members should be aware that the benefits payable from the 2014 Scheme are very good, and, for many, underpin protection will not result in an increase to their pension entitlement.

132. Communications aimed at scheme employers will also be important so that they understand the proposed changes, particularly bearing in mind the number and variety of LGPS employers (just over 18,000 in 2018/19). The changes outlined in this paper would lead to an upward pressure on scheme liabilities and, potentially, to future increases in employer contributions. It is vital that employers understand the potential changes and

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[52] https://www.gov.uk/government/consultations/public-service-pension-schemes-consultation-changes-to-the-transitional-arrangements-to-the-2015-schemes

how they may impact their funding position. More generally, employers would have a practical role in providing the data necessary for scheme administrators to deliver the changes outlined in this document, and should understand how these changes may impact upon them.

133. Achieving good communications, and deciding on the appropriate medium for those communications, will require input from stakeholders across the LGPS, including administering authorities, employers and trade unions. We are aware that the Scheme Advisory Board has already commenced discussions with the sector on communications and we are strongly supportive of this continuing. We will continue working with the Scheme Advisory Board on this in the coming months.

Question 23 – What principles should be adopted to help members and employers understand the implications of the proposals outlined in this paper?

Administration impacts

134. We are conscious that the proposals outlined in this consultation paper would require significant changes to administration practices and systems. Amongst other matters, local administrators would need to consider the appropriate prioritisation of cases after amendments to regulations are made. Recognising that the LGPS is a single scheme, albeit locally administered, we are supportive of there being consistency across the scheme in respect of prioritisation and hope to work with the sector and the Scheme Advisory Board to agree a standard approach.

135. Priorisation decisions will be influenced by the fact that the revised underpin would have retrospective effect to April 2014, meaning that some members would already be in receipt of pensions that would need to be re-calculated, and retrospectively applied, in line with the new regulations.

136. A major challenge of implementing the changes proposed would apply in respect of obtaining additional data from employers for members who are newly benefitting from underpin protection – estimated to be around 1.2 million individuals. Under the 2014 Scheme, certain member data which was required for administering the 2008 Scheme (such as details of members' working hours and breaks in service) are not required for calculating member benefits. To administer the revised underpin, administrators would need to obtain this data for qualifying members for the period back to April 2014. This would be a highly significant exercise for the scheme's 87 administering authorities and its 18,000 employers. Particular challenges are likely to arise where employers have changed their payroll provider, and the data isn't stored in current systems.

Question 24 – Do you have any comments to make on the administrative impacts of the proposals outlined in this paper?

Question 25 – What principles should be adopted in determining how to prioritise cases?

Question 26 – Are there material ways in which the proposals could be simplified to ease the impacts on employers, software systems and scheme administrators?

137. We are grateful to the Scheme Advisory Board for their work on this project so far, in particular for their input on the remedy proposals outlined in this paper and for their establishment of working groups to consider some of the complex issues associated with this project.

138. We will continue working closely with the Scheme Advisory Board after the closure of the consultation as the sector prepares for the potential changes to scheme regulations. In particular, we intend to ask that the Scheme Advisory Board consider what guidance may be necessary to help administrators implement the proposed changes, and we are grateful for respondents' views on this.

139. Guidance would help support a consistent approach across the LGPS which would be desirable, in particular on matters like prioritisation. It would also potentially help on the complex issues connected with the fact that scheme employers would need to provide administrators with membership data going back to April 2014.

Question 27 – What issues should be covered in administrative guidance issued by the Scheme Advisory Board, in particular regarding the potential additional data requirements that would apply to employers?

Question 28 – On what matters should there be a consistent approach to implementation of the changes proposed?

Costs

140. The LGPS is a locally administered, funded scheme with three-yearly funding valuations to determine employer contribution rates. The next funding valuation is due on 31st March 2022[53]. Employer contribution rates are, in most cases, determined on an individual employer basis, and take into account a number of factors, some related to the individual employer (such as membership demographics) and some related to the fund more broadly (such as the peformance of fund investments since the previous valuation).

141. As a result of this backdrop, it is not possible to say how these changes would impact employer contribution rates at future valuations. However, the proposals in this paper can only lead to improvements in scheme benefits for qualifying members and, by necessity, there will be an upward pressureon liabilities. Because a variety of factors influence LGPS employer contribution rates, this upward pressure does not necessarily mean any particular employer's contributions will go up as a result of these changes, and administering authorities are required to smooth employer contributions as far as possible over the long term. Where any fund or employer would like to understand how these proposals may affect their own position, they should speak to their fund actuary. As scheme liabilities predominantly sit with local authorities and other public bodies, which are

[53] Under regulation 64 of the 2013 Regulations. In 2019, we consulted on potential changes to the funding valuation cycle - https://www.gov.uk/government/consultations/local-government-pension-scheme-changes-to-the-local-valuation-cycle-and-management-of-employer-risk. The Government has not yet responded to the proposal on the LGPS valuation cycle.

largely taxpayer funded, any employer contribution increases that do arise would need to be met, for the most part, by the taxpayer.

142. At a scheme level, costing estimates have been provided by the scheme actuary[54], the Government Actuary's Department, based on data provided by LGPS funds for the 2016 valuation. Assuming future member experience replicates the 2016 scheme valuation assumptions[55] the future cost to LGPS employers could be around £2.5bn in the coming decades. This is between 4% and 5% of the expected cost of benefits earned over the proposed underpin period, April 2014 to March 2022. However, if, for example, long-term real earnings growth were around a third lower than assumed for the 2016 valuation, we estimate the cost would roughly halve.

143. The costs are sensitive to both individual member experience and future pay. Predicting whether the underpin becomes valuable in the future depends heavily on assumptions on long-term future pay growth trends. In this estimate, we have used the 2016 valuation assumption that annual long-term pay growth is CPI + 2.2%. However, if long-term pay growth in the LGPS is lower than this, the costs may be lower (and vice versa).

144. The Government cost control mechanism was paused in February 2019 given the uncertainty arising from the McCloud judgment. The Government has made a separate announcement on the cost control mechanism[56]. In addition to the main Government cost control mechanism for the LGPS, the LGPS has a separate cost control process run by the Scheme Advisory Board[57] which was also paused as a result of the uncertainty arising. We expect the Scheme Advisory Board will also take the decision to unpause their process following the Government's announcement.

Question 29 – Do you have any comments regarding the potential costs of McCloud remedy, and steps that should be taken to prevent increased costs being passed to local taxpayers?

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[54] As appointed under regulation 114 of the 2013 Regulations
[55] Based on directions issued by HM Treasury and LGPS experience
[56] https://www.gov.uk/government/consultations/public-service-pension-schemes-consultation-changes-to-the-transitional-arrangements-to-the-2015-schemes
[57] Regulation 116 of the 2013 Regulations

About this consultation

This consultation document and consultation process have been planned to adhere to the Consultation Principles issued by the Cabinet Office.

Representative groups are asked to give a summary of the people and organisations they represent, and where relevant who else they have consulted in reaching their conclusions when they respond.

Information provided in response to this consultation, including personal data, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 2018 (DPA), the General Data Protection Regulation, and the Environmental Information Regulations 2004.

If you want the information that you provide to be treated as confidential, please be aware that, as a public authority, the Department is bound by the Freedom of Information Act and may therefore be obliged to disclose all or some of the information you provide. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

The Ministry of Housing, Communities and Local Government will process your personal data in accordance with the law and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties. A full privacy notice is included at annex A.

Individual responses will not be acknowledged unless specifically requested.

Your opinions are valuable to us. Thank you for taking the time to read this document and respond.

Are you satisfied that this consultation has followed the Consultation Principles? If not or you have any other observations about how we can improve the process please contact us via the complaints procedure.

Annex A

Personal data

The following is to explain your rights and give you the information you are be entitled to under the Data Protection Act 2018.

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

1. **The identity of the data controller and contact details of our Data Protection Officer**
The Ministry of Housing, Communities and Local Government (MHCLG) is the data controller. The Data Protection Officer can be contacted at dataprotection@communities.gov.uk

2. Why we are collecting your personal data
Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data
Section 21(1) of the Public Service Pension Act 2013 states:

'Before making scheme regulations the responsible authority must consult such persons (or representatives of such persons) as appear to the authority likely to be affected by them'.

MHCLG will process personal data only as necessary for the effective performance of this duty. In this case, the Secretary of State is the responsible authority for the LGPS in England and Wales.

The Data Protection Act 2018 states that, as a government department, MHCLG may process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

3. With whom we will be sharing your personal data
We do not anticipate sharing personal data with any third party.

4. For how long we will keep your personal data, or criteria used to determine the retention period.
Your personal data will be held for two years from the closure of the consultation.

5. Your rights, e.g. access, rectification, erasure
The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right:
a. to see what data we have about you

b. to ask us to stop using your data, but keep it on record
c. to ask to have all or some of your data deleted or corrected
d. to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at https://ico.org.uk/, or telephone 0303 123 1113.

6. Your personal data will not be sent overseas

7. Your personal data will not be used for any automated decision making.

8. Your personal data will be stored in a secure government IT system.

Annex B – Draft regulations

STATUTORY INSTRUMENTS

2020 No.

PUBLIC SERVICE PENSIONS, ENGLAND AND WALES

The Local Government Pension Scheme (Amendment) Regulations 2020

Made - - - -	***
Laid before Parliament	***
Coming into force - -	***

The Secretary of State makes the following Regulations:

Citation, commencement and extent

1.—(1) These Regulations may be cited as the Local Government Pension Scheme (Amendment) Regulations 2020.

(2) These Regulations come into force on [XXXXXX] but regulations 2, 4, 5 and 6 have effect from 1st April 2014.

(3) These Regulations extend to England and Wales.

Amendment of the Local Government Pension Scheme Regulations 2013

2. The Local Government Pension Scheme Regulations 2013([58]) are amended in accordance with regulations 3 and 4.

3. In regulation 89 (annual benefit statement) after paragraph (4) insert—

"(5) Where regulation 4 of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 applies the statement in respect of a relevant scheme membership must include the following additional information for active members who had not reached their 2008 Scheme normal retirement age at the end of the scheme year to which it relates—

(a) the provisional guarantee amount;

(b) the provisional assumed benefits; and

(c) the provisional underpin amount

which would apply if the member's underpin date was the closing date of the Scheme year to which the statement relates.

([58]) S.I. 2013/2356; those Regulations have been amended by S.I. 2014/44, S.I. 2014/525, S.I. 2014/1146, S.I. 2015/57, S.I. 2015/755, S.I. 2018/493,S.I.2019/1449.

(6) Where regulation 4 of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 applies the statement in respect of a relevant scheme membership must include the following additional information for deferred and deferred pensioner members—

(a) the provisional guarantee amount;

(b) the provisional assumed benefits; and

(c) the provisional underpin amount

calculated as at their underpin date and adjusted by the appropriate index rate adjustment to the end of the Scheme year to which the statement relates.

(7) Where regulation 4 of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 applies the statement in respect of a relevant scheme membership must include the following additional information for active members who had reached their 2008 Scheme normal retirement age at the end of the relevant Scheme year—

(a) the provisional guarantee amount;

(b) the provisional assumed benefits; and

(c) the provisional underpin amount

calculated as at their underpin date revalued to the end of the Scheme year to which the statement relates.

(8) The provisional guarantee amount is calculated in accordance with regulation 4(4) of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014.

(9) The provisional assumed benefits are calculated in accordance with regulation 4(5) of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014.

(10) The provisional underpin amount is calculated in accordance with regulation 4(6) of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014.

4.—(1) In Schedule 1 (interpretation) after the definition of "registered pension scheme" insert—

"relevant scheme membership" has the meaning given by regulation 4(1A) of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014;"

Amendment of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014

5. The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014([59]) are amended in accordance with regulation 6.

6. In regulation 4 (statutory underpin)—

(a) in paragraph (1)(a) omit the words from "and who on 1st April 2012" to the end;

(b) for paragraph (1)(b) substitute—

"(b) is or has been an active member of the 2014 Scheme; and"

(c) in paragraph (1)(c) substitute "; and" with ".";

(d) omit paragraph (1)(d);

(e) at the end insert—

"(1A) For the purpose of this regulation a member's relevant scheme membership is a single Scheme membership which meets the requirements of paragraph (1)(a), (1)(b) and (1)(c).

(1B) Where a member has had periods of concurrent employment, or a break in service that is not a disqualifying break in service, a member only has a relevant scheme membership if the member's scheme membership including the period referred to in paragraph (1)(a) has been aggregated with their 2014 Scheme pension account, following a decision taken under—

([59]) S.I. 2014/525.

(a) regulations 16 or 17 of the Administration Regulations, where the member has subsequently joined the 2014 Scheme by virtue of regulation 5(1),

(b) regulations 10(5) or (6) of these Regulations, or

(c) regulations 22(5), 22(6), 22(7) or (8) of the 2013 Regulations.

(1C) Paragraph (1D) applies where;

(a) an active or deferred member would otherwise have relevant Scheme membership;

(b) but prior to [XXXXXXXX] previous Scheme membership including the period referred to in paragraph (1)(a) had not been aggregated with the member's 2014 Scheme pension account under paragraphs (1B)(a), (1B)(b) or (1B)(c).

(1D) Where this paragraph applies, an active or deferred member has a twelve month period commencing from [XXXXXXXXX] to elect to aggregate the previous Scheme membership that would give the member relevant Scheme membership.

(f) in paragraph (2) for "The underpin date" substitute "Subject to paragraphs (2A) and (2B) a member's underpin date in a relevant Scheme membership";

(g) for paragraph (2)(b) substitute—

"(b) the date the member ceased to be an active member of the 2014 Scheme in an employment with a deferred or immediate entitlement to a pension; or";

(h) after paragraph 2(b) insert—

"(c) the date a member elects with their Scheme employer's consent to receive immediate payment under regulation 30(6) of the 2013 Regulations."

(i) after paragraph 2 insert—

"(2A) A member's date of death shall be their underpin date in a relevant Scheme membership where that date is earlier than the date provided for by paragraphs (2)(a) or (2)(b).

(2B) A member to whom paragraph (2)(b) has applied may have further underpin dates under paragraphs (2) or (2A) where they have either—

(a) become an active member of the 2014 Scheme again before reaching their 2008 Scheme normal retirement age without a disqualifying break in service and aggregated their previous relevant scheme membership with their active member's pension account under regulation 22(8) of the 2013 Regulations, or

(b) continued in active membership of the 2014 Scheme in an employment which had been concurrent with the employment through which they had an underpin date under paragraph (2)(b) and aggregated their previous relevant scheme membership with their active member's pension account under regulation 22(7) of the 2013 Regulations."

(j) for paragraph (3) substitute—

"(3) For the purpose of this regulation a disqualifying break in service is a continuous break after 31st March 2012 of more than 5 years in active membership of a public service pension scheme."

(k) for paragraph (4) substitute—

"(4) A member's provisional guarantee amount in a relevant scheme membership is the amount by which a member's provisional underpin amount exceeds the provisional assumed benefits on their underpin date."

(l) after paragraph (4) insert—

"(4A) Where paragraph (2B) applies, the value of the member's provisional assumed benefits, provisional underpin amount and provisional guarantee amount as calculated at their latest underpin date must be used for the purpose of this regulation."

(m) for paragraph (5) substitute—

"(5) The provisional assumed benefits are calculated by assessing the benefits the member would have been entitled to under the 2014 Scheme in a relevant Scheme membership if—";

(n) in paragraph (5)(a) substitute "the underpin date" with "31st March 2022 or the member's underpin date, whichever date is the earlier";

(o) in paragraph (5)(b) substitute "the underpin date" with "31st March 2022 or the member's underpin date, whichever date is the earlier";

(p) after paragraph (5) insert—

"(5A) Where the member's pension has come into payment under regulation 35 of the 2013 Regulations, the provisional assumed benefits calculated in accordance with paragraph (5) must include any adjustment under regulation 39 of the 2013 Regulations for the period up to the earlier of the member's 2008 Scheme normal retirement age and 31st March 2022.

(5B) Where a member's underpin date has arisen under paragraph (2A), the provisional assumed benefits calculated in accordance with paragraph (5) must include the amount calculated under regulation 41(4)(b) of the 2013 Regulations for the period up to the earlier of the member's 2008 Scheme normal retirement age and 31st March 2022."

(q) for paragraph (6) substitute—

"(6) The provisional underpin amount is calculated by assessing the benefits the member would have had an immediate entitlement to payment of under the 2008 Scheme in a relevant Scheme membership if–"

(r) in paragraph (6)(a) substitute "the underpin date" with "31st March 2022 or the member's underpin date, whichever date is the earlier";

(s) in paragraph (6)(b)(iii)—

(i) substitute "the member's assumed benefits" with "the member's provisional assumed benefits";

(ii) at the end add "but limited to the earlier of the member's 2008 Scheme normal retirement age and 31st March 2022"

(t) after paragraph (6) insert—

"(6A) Where a member's underpin date has arisen under paragraph (2A), the provisional underpin amount calculated in accordance with paragraph (6) must include an amount equivalent to the enhancement that would apply under regulation 24(2) of the Benefits Regulations, for the period up to the earlier of the member's 2008 Scheme normal retirement age and 31st March 2022."

"(7) Subject to paragraph (8) a member's underpin crystallisation date in a relevant Scheme membership is the earliest of the following dates—

(a) the date from which the member elects to receive payment of a retirement pension under regulations 30(1), 30(5) or 30(6) of the 2013 Regulations;

(b) the date from which the member becomes entitled to receive payment of a retirement pension under regulation 30(7) of the 2013 Regulations;

(c) the date from which the member becomes entitled to an ill-health retirement pension under regulation 35(1) or regulation 38(1) of the 2013 Regulations;

(d) the date the member receives payment under regulation 34 of the 2013 Regulations;

(e) the date the member transfers their benefits out of the 2013 Regulations following;

(i) an application made under regulation 96 of the 2013 Regulations; or

(ii) by virtue of regulation 98 of the 2013 Regulations.

(f) the date a member dies.

(8) A deferred pensioner member who has had an underpin crystallisation date in a relevant Scheme membership pursuant to paragraph (7) following receipt of Tier 3 benefits has an additional underpin crystallisation date which is the earliest of the subsequent events referred to in paragraphs (7)(a) to (f).

(9) Where paragraphs 7(a), (b) or (c) apply to a member, the member's pension account must be increased by the final guarantee amount at the underpin crystallisation date.

(10) The final guarantee amount is the amount by which the final underpin amount exceeds the final assumed benefits on the underpin crystallisation date.

(11) Where a member who elects to receive payment of a retirement pension under regulation 30(6) of the 2013 Regulations has a final guarantee amount at their underpin crystallisation date, a proportion of that final guarantee amount equal to the proportion of the member's 2014 Scheme benefits that the member has elected to take under regulation 30(6) must be transferred to the member's flexible retirement pension account.

(12) A final guarantee amount payable to a member pursuant to paragraph (7)(a) and the remainder of the member's final underpin amount are payable to the member without further actuarial adjustment relating to the age at which the benefits are taken.

(13) When paragraph (7)(a) applies to a member the final assumed benefits for the member are the value of provisional assumed benefits calculated in accordance with paragraph (5) with the following adjustment—

(a) any revaluation adjustment or index rate adjustment that would have applied to the member's pension under the 2013 Regulations between the member's underpin date and their underpin crystallisation date; and

(b) any actuarial adjustment which would have applied under the 2013 Regulations, relating to the age at which the pension was taken.

(14) When paragraph (7)(a) applies to a member the final underpin amount is the value of the provisional underpin amount calculated in accordance with paragraph (6) but—

(a) updated to the underpin crystallisation date to include increases which would have applied under the Benefits Regulations by virtue of the Pension (Increase) Act 1971([60]) between a member's underpin date and their underpin crystallisation date; and

(b) including any actuarial adjustment which would have applied under the Benefits Regulations relating to the age at which the pension was taken.

(15) When paragraph (7)(b) or (c) applies to a member the final assumed benefits for the member are the value of provisional assumed benefits calculated in accordance with paragraph (5) with the following adjustment—

(a) any revaluation adjustment or index rate adjustment that would have applied to the member's pension under the 2013 Regulations between the member's underpin date and their underpin crystallisation date; and

(b) any actuarial increase which would have applied under the 2013 Regulations, relating to the age at which the pension was taken.

(16) When paragraph (7)(b) or (c) applies to a member the final underpin amount is the value of the provisional underpin amount calculated in accordance with paragraph (6) but—

(a) updated to the underpin crystallisation date to include increases which would have applied under the Benefits Regulations by virtue of the Pension (Increase) Act 1971 between a member's underpin date and their underpin crystallisation date; or

(b) including any actuarial increase which would have applied under the Benefits Regulations relating to the age at which the pension was taken.

(17) When paragraphs (7) (d), (e) (i) or (e)(ii) apply to a member the value of the payment due at a member's underpin crystallisation date must be calculated in accordance with actuarial guidance issued by the Secretary of State.

([60]) 1971 c. 56.

(18) A request for a cash equivalent value of a member's pension rights under Regulation 4 of the Pension Sharing (Valuation) Regulation 2000([61]) is not to be treated as a member's underpin date or underpin crystallisation date.

(19) A request made pursuant to paragraph (18) is to be calculated in accordance with actuarial guidance issued by the Secretary of State.

(20) Following the death of a person to whom this regulation applies, any provisional guarantee amount applicable at the member's underpin date must be updated to include any revaluation adjustment or index rate adjustment that would have applied to the member's pension under the 2013 Regulations between the member's underpin date and their date of death, and shall be known as the member's adjusted provisional guarantee amount.

(21) Where, pursuant to paragraph (20), a provisional guarantee amount applied at a deceased member's underpin date, the rate listed in column two of the below table must be applied to the adjusted provisional guarantee amount, to determine the addition to the relevant survivor benefit.

2013 Regulation	*Rate*
41(4)	49/160
42(4)	49/320
42(5)	49/160
42(9)	49/240
42(10)	49/120
44(4)	49/160
45(4)	49/320
45(5)	49/160
45(9)	49/240
45(10)	49/120
47(4)	49/160
48(4)	49/320
48(5)	49/160
48(9)	49/240
48(10)	49/120

(22) Where, pursuant to paragraph (20), a provisional guarantee amount applied at a deceased member's underpin date, the adjusted provisional guarantee amount must be used in determining the annual amount of pension the member would have been entitled to under regulations 43(3) and 46(3) of the 2013 Regulations.

We consent to the making of these Regulations

Names
Two of the Lords Commissioners of Her Majesty's Treasury

Signed by authority of the Secretary of State for Housing, Communities and Local Government

Name
Parliamentary Under Secretary of State
Date
Ministry of Housing, Communities and Local Government

([61]) S.I. 2000/1052.

EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations amend the Local Government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the Transitional Regulations"). Both sets of regulations came substantively into effect on 1st April 2014 and certain provisions listed in regulation 1 take effect from that date.

Regulations 2 to 4 amend the Local Government Pension Scheme Regulations 2013.

Regulations 5 and 6 amend the Transitional Regulations in regards to the operation of the underpin.

An impact assessment has not been produced for this instrument as no impact is anticipated on the private or voluntary sectors.

Annex C – The two-stage process

As outlined in paragraphs 61 and 62, we are proposing the introduction of a two-stage process for calculating a qualifying member's entitlement from the underpin. Under this, calculations would take place at a qualifying member's underpin date and their underpin crystallisation date. This annex contains further details on the proposals we set out in our draft regulations.

The underpin date – proposed approach

- A qualifying member's underpin date would be the earlier of:
    - the date they leave active service with an immediate or deferred entitlement to a pension,
    - the date they reach their 2008 Scheme NPA, or
    - the date they die.
- The underpin date would relate to a specific 'relevant scheme membership' – i.e. a single, aggregated (where appropriate), scheme membership in which the member:
    - was active in the LGPS on 31st March 2012,
    - had membership of the 2014 Scheme, and
    - did not have a disqualifying break in service.
- It is possible a qualifying member may have two (or more) relevant scheme memberships. Where this applies, they may have different underpin dates in respect of each one.
- At a qualifying member's underpin date, an initial comparison of the member's 2014 Scheme and 2008 Scheme benefits would be undertaken based on:
    - the member's 'provisional assumed benefits' in a relevant scheme membership – broadly[62], the career average benefits they have accrued in the 2014 Scheme over the underpin period[63], and
    - the member's 'provisional underpin amount' in a relevant scheme membership – broadly, the final salary benefits the member would have built up in the 2008 Scheme over the same period[64].

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[62] For members who have had a period in the 50/50 section of the 2014 Scheme, the underpin calculation assumes the member remained in the full section of the 2014 Scheme.
[63] The underpin period runs from 1st April 2014 to 31st March 2022, or to the member's underpin date where that is earlier than 31st March 2022.
[64] If the underpin date is after 31st March 2022, the member's final salary for the year up to their underpin date would be used for the purposes of calculating their provisional underpin amount.

- If the provisional underpin amount is higher than the provisional assumed benefits at a qualifying member's underpin date, the member would be awarded a 'provisional guarantee amount' in respect of that relevant scheme membership.

- A provisional guarantee amount is a provisional assessment that the 2008 Scheme benefits would have been better for the member. At a qualifying member's underpin date, there would be no change to their pension entitlement arising from the provisional guarantee amount[65]. However, annual benefit statements sent to the member after their underpin date would confirm if a provisional guarantee amount has applied.

- Qualifying members may have multiple underpin dates in respect of a relevant scheme membership. This may occur where:

    - The member has concurrent employments and ceases to be an active member in one before their 2008 Scheme NPA (in which they have relevant scheme membership). An underpin date would apply at the point the member leaves the LGPS in that post. If the member then aggregates their relevant scheme membership with their ongoing post, a further underpin date would apply at the earlier of the following:

        - the date they leave active service,
        - the date they reach their 2008 Scheme NPA, or
        - the date they die.

    - The member leaves an employment in which they have relevant scheme membership with an immediate or deferred entitlement to a pension. An underpin date would apply at their date of leaving. If the member then re-joins the LGPS and aggregates their membership (without a disqualifying break in service), a further underpin date would apply at the earlier of the following:

        - the date they leave active service,
        - the date they reach their 2008 Scheme NPA, or
        - the date they die.

- Where a qualifying member has multiple underpin dates, it would be their provisional amounts from their latest underpin date that would be used for the purposes of the calculations at their underpin crystallisation date.

[65] Unless their underpin crystallisation date immediately follows their underpin date – for example, if a member takes immediate payment of their benefits upon leaving the scheme.

The underpin crystallisation date – proposed approach

- As the period between a qualifying member's underpin date and the date they take their benefits from the LGPS could be as much as 30 or 40 years, we propose that all qualifying members have an underpin crystallisation date in respect of a relevant scheme membership. This would ensure the comparison can be made when there is certainty on the final actuarial adjustments that might be applied, and in respect of the member's State Pension age.

- A variety of circumstances would give rise to a qualifying member's underpin crystallisation date and, in general[66], a qualifying member can only have one underpin crystallisation date in respect of a relevant scheme membership. A qualifying member's underpin crystallisation date would be the earliest of the following in respect of a relevant scheme membership:

    - the date a member takes voluntary payment of their pension, at any age between 55 and 75,

    - the date a member takes flexible retirement,

    - the date a member aged 55 or over leaves active membership as a result of redundancy, or due to business efficiency,

    - the date a member retires on ill-health grounds,

    - the date a member transfers out or trivially commutes their benefits, or

    - the date a member dies.

- What happens at a qualifying member's underpin crystallisation date would vary, and is described in more detail for each circumstance in 'the revised underpin – application' section in the body of this document. In most cases, however, it would involve a member's provisional underpin amount and their provisional assumed benefits being updated to give a member's 'final underpin amount' and their 'final assumed benefits'. How the provisional figures are updated to become final figures would vary depending on the circumstance. The below table summarises what is proposed to apply under the draft regulations.

Circumstance giving rise to a member's underpin crystallisation date	**How provisional underpin amount and provisional assumed benefits calculated at a qualifying member's underpin date are updated at a member's underpin crystallisation date**

[66] An exception applies in relation to members who receive a temporary (tier 3) ill-health pension. For such members, they will have an underpin crystallisation date upon receiving their temporary ill-health pension and then a subsequent one when their underpin crystallises from 'deferred pensioner' status.

Voluntary age retirement or flexible retirement	• To include any cost of living increases that would have applied to the member's pension under the 2008 or 2014 Schemes between the member's underpin date and their underpin crystallisation date, and • To include any actuarial adjustments relating to the member's age, that would have applied under the 2008 or the 2014 Schemes.
Redundancy[67] and ill-health pension being paid (from active or deferred status)	• To include any cost of living increases that would have applied to the member's pension under the 2008 or 2014 Schemes between the member's underpin date and their underpin crystallisation date, and • To include any actuarial increases relating to the member's age, that would have applied under the 2008 Scheme and 2014 Scheme.

- Where a qualifying member's final underpin amount is higher than their final assumed benefits at their underpin crystallisation date, the member would be awarded a 'final guarantee amount' in respect of that relevant scheme membership. An addition would be made to their pension account in respect of that final guarantee amount.

- For certain types of underpin crystallisation, the draft regulations do not prescribe that members' provisional underpin amount and provisional assumed benefits are updated to give 'final' amounts. This applies in the following cases:

    - Transfers out – instead, administrators would need to comply with actuarial guidance issued by the Secretary of State, and the Public Sector Transfer Club memorandum, where appropriate
    - Trivial commutations – instead, administrators would need to comply with actuarial guidance issued by the Secretary of State
    - Deaths – instead, the regulations prescribe what should apply in relation to any survivor benefits that may be payable.

[67] Including termination on grounds of business efficiency

Annex D – Illustrative examples

This annex provides examples to illustrate how the proposed underpin would operate in different situations. These examples illustrate some (but not all) of the factors which may impact whether or not an underpin addition may apply in different situations.

The examples shown are:

1. Retirement from active service at age 65
2. Retirement from active service at State Pension age (‘SPa’)
3. Early retirement from active service at age 60
4. Deferred retirement with no underpin at underpin date
5. Deferred retirement with an underpin at underpin date

All the examples are based on a member aged 47 in 2012, who did not receive underpin protection originally. This member has a 2014 Scheme normal pension age equivalent to their SPa under the current timetable, 67.

The examples rely on the following assumptions:

- The pension calculated is the pension accrued over the underpin period (1st April 2014 to 31st March 2022), as payable at retirement. In practice, such members will also have pension relating to pre-2014 and post-2022 periods which is not considered here.
- Inflation reflects actual experience up to 2020, with 2% pa assumed thereafter; increases are applied on 1 April.
- Salary increases, promotions and retirements occur on 31st March in the relevant year.
- The current State Pension age timetable is followed.
- The pension amounts are in nominal terms at retirement.
- The amounts are shown rounded to the nearest £10.

Please note that these examples are for illustrative purposes only. Generally, they only consider one of the key variables which may impact how the proposed underpin would apply to a member, in practice other variables may also be significant. The comparisons are based on the pension payable at retirement.

Example 1 (retirement at age 65)

In **2012 the member was aged 47**, and so **did not receive underpin protection originally**. However, under our proposals, an underpin check would be undertaken to ensure that their benefits in the eight year underpin period are the greater of either:

2014 Scheme	2008 Scheme
1/49h of revalued salary each year Payable unreduced from State Pension age	1/60th of final salary each year Payable unreduced from age 65

In this example the member's underpin date will be the same as the underpin crystallisation date and, practically, only one check will be required.

As the member is taking their benefits immediately upon leaving, we can adjust the 2014 Scheme pension to allow for this being paid two years earlier than their 2014 Scheme normal pension age (age 67). No adjustment would be required in this example for the calculation of the 2008 Scheme benefit (as this would be paid without adjustment from age 65).

If the member had a **salary of £30,000 in 2014**, experiences future annual **salary increases of 1% above inflation** and **retires at age 65**, their pensions over the underpin period would be as follows:

2014 Scheme (age 65):	2008 Scheme (age 65):
£6,100 pa	£6,060 pa

In this example the member's 2014 Scheme benefits are higher and there would be **no underpin addition required.**

Alternatively

If the member was promoted twice, receiving **an additional 5% salary increase** at the end of the underpin period **and an additional 5% salary increase** five years later, the underpin is now more than the age-adjusted 2014 Scheme pension at age 65:

2014 Scheme (age 65):	2008 Scheme (age 65):
£6,100 pa	£6,670 pa

The **final guarantee amount** is the difference between these two amounts which equals £570. Following high salary increases the 2008 Scheme benefit structure becomes relatively more valuable and hence an **underpin addition** would be required**.** The 2014 Scheme benefit would be increased by the underpin addition of £570 per year.

Example 2 (retirement at SPa)

In **2012 the member was aged 47**, and so **did not receive underpin protection originally.** However, under our proposals, an underpin check would be undertaken to ensure that their benefits in the eight year underpin period are the greater of either:

2014 Scheme	2008 Scheme
1/49th of revalued salary each year Payable unreduced from State Pension age	1/60th of final salary each year Payable unreduced from age 65

In this example the member's underpin date will be when the member reaches age 65. At the underpin date the 2014 Scheme and 2008 Scheme benefits will be compared (with no allowance for actuarial adjustment).

If the member has the same **salary of £30,000 in 2014**, experiences future annual **salary increases of 1% above inflation** and **retires at Spa** (67, in this case), the comparison at the underpin date is as follows:

2014 Scheme (age 65):	2008 Scheme (age 65):
£6,770 pa	£6,060 pa

The check at the underpin date shows the 2014 Scheme benefits are greater than the 2008 Scheme benefits and therefore **no 'provisional guarantee amount'** is required.

A subsequent test will be carried out at the member's underpin crystallisation date, their retirement age, SPa (age 67), when the revalued pension amounts and correct actuarial adjustment factors are known. In both cases the provisional assumed benefits and provisional underpin amount will be revalued in line with cost of living between age 65 and retirement. No actuarial adjustment will be required for the 2014 Scheme benefit, however the 2008 Scheme benefit is increased by two years late retirement factors:

2014 Scheme (SPa):	2008 Scheme (SPa):
£7,040 pa	£6,770 pa

For this member **no underpin addition** would be required**.**

Alternatively

However, if the member was promoted twice, receiving **an additional 5% salary increase** at the end of the underpin period **and an additional 5% salary increase** five years later, the comparison at the underpin date (age 65) is now:

2014 Scheme (age 65):	2008 Scheme (age 65):
£6,770 pa	£6,670 pa

The check at the underpin date shows **no 'provisional guarantee amount'** is required.

A further check would be untaken when the member takes their pension at their underpin crystalisation date, SPa (age 67). This check shows that once revaluation and different actuarial adjustments are allowed for the 2008 Scheme benefits are higher and the difference or **final guarantee amount** would be £400. The member's 2014 Scheme benefit would be increased by an **underpin addition** of £400 per year.

2014 Scheme (SPa): £7,040 pa	2008 Scheme (SPa): £7,440 pa

Example 3 (early retirement)

In **2012 the member was aged 47**, and so **did not receive underpin protection originally**. However, under our proposals, an underpin check would be undertaken to ensure that their benefits in the eight year underpin period are the greater of either:

2014 Scheme	2008 Scheme
1/49th of revalued salary each year Payable unreduced from State Pension age	1/60th of final salary each year Payable unreduced from age 65

In this example the member's underpin date will be the same as the underpin crystallisation date and, practically, only one check will be required.

As the member is taking their benefits immediately upon leaving, we can adjust the 2014 Scheme pension to allow for this being paid seven years earlier than the 2014 Scheme normal pension age (SPa, age 67); and the 2008 Scheme benefits are also reduced to reflect that this is being paid five years earlier.

If the member had a **salary of £30,000 in 2014**, experiences future annual **salary increases of 1% above inflation** and **retires at age 60**, their pensions over the underpin period would be as follows:

2014 Scheme (age 60): £4,350 pa	2008 Scheme (age 60): £4,070 pa

In this example the member's 2014 Scheme benefits are higher and there would be **no underpin addition** required.

Alternatively

If the member was promoted twice, receiving **an additional 10% salary increase** at the end of the underpin period **and an additional 5% salary increase** five years later, the 2008 Scheme benefit is now more than the 2014 Scheme pension at age 60:

2014 Scheme (age 60): £4,350 pa	2008 Scheme (age 60): £4,460 pa

Following high salary increases the 2008 Scheme benefit structure becomes relatively higher and hence an **underpin addition** would now be required**.** The 2014 Scheme benefit would be increased by £110 pa.

Example 4 (retirement from deferment #1)

In **2012 the member was aged 47**, and so **did not receive underpin protection originally**. However, under our proposals, an underpin check would be undertaken to ensure that their benefits in the eight year underpin period are the greater of either:

2014 Scheme	2008 Scheme
1/49th of revalued salary each year Payable unreduced from State Pension age	1/60th of final salary each year Payable unreduced from age 65

The example shows how the underpin check would work where the member leaves service at age 58 (with a deferred pension) which they subsequently draw at age 67. Under our proposals, an initial underpin check would be undertaken at the date of leaving active service (their underpin date) which would compare the 2014 Scheme benefits with the 2008 Scheme benefits over the underpin period. This comparison would not consider the effect of actuarial adjustments for age, as these would not be known at the member's underpin date.

If they had a **salary of £30,000 in 2014**, experience future annual **salary increases of 1% above inflation** until **leaving the scheme at age 58,** the pensions over the underpin period would be as follows:

2014 Scheme:	2008 Scheme:
£5,890 pa	£4,930 pa

The check at the underpin date shows the 2014 Scheme benefits are greater than the 2008 Scheme benefits and **no 'provisional guarantee amount'** is required.

A subsequent underpin crystallisation test will be carried out when the member takes their pension at SPa (age 67), when the final revalued amounts and correct actuarial adjustment factors are known. In both cases the pension amounts will be revalued in line with cost of living between age 58 and retirement. No further actuarial adjustment will be required for the 2014 Scheme benefit, however the 2008 Scheme benefit is increased by two years' late retirement factors:

2014 Scheme (SPa):	2008 Scheme (SPa):
£7,040 pa	£6,320 pa

In this example the member's 2014 Scheme benefits are higher and there would be **no underpin addition** required**.**

Alternatively

If the member was promoted twice, receiving **an additional 5% salary increase** halfway through the underpin period and **an additional 10% salary increase** at the end of the underpin period, the calculations at the underpin date would show the 2014 Scheme benefits are higher:

2014 Scheme: £6,040 pa	2008 Scheme: £5,670 pa

A further test would be undertaken at the underpin crystallisation date; when the member retires (SPa, age 67). This check shows that once revaluation and different actuarial adjustments are allowed for the 2008 Scheme benefits are higher and the difference or **'final guarantee amount'** would be £50.

2014 Scheme (SPa): £7,220 pa	2008 Scheme (SPa): £7,270 pa

Following high salary increases the 2008 Scheme benefit structure becomes relatively more valuable and hence an underpin addition would now be required. The 2014 Scheme benefit would be increased by £50 pa.

Example 5 (retirement from deferment #2)

In **2012 the member was aged 47**, and so **did not receive underpin protection originally**. However, under our proposals, an underpin check would be undertaken to ensure that their benefits in the eight year underpin period are the greater of either:

2014 Scheme	**2008 Scheme**
1/49h of revalued salary each year Payable unreduced from State Pension age	1/60th of final salary each year Payable unreduced from age 65

This example shows how the underpin check would work where the member leaves service at age 63 (with a deferred pension) which they subsequently draw at age 67. Under our proposals, an initial underpin check would be undertaken at the date of leaving active service (their underpin date) which would compare the 2014 Scheme benefits with the 2008 Scheme benefits over the underpin period. This comparison would not consider the effect of actuarial adjustments for age, as these would not be known at the member's underpin date.

If the member has a **salary of £30,000 in 2014**, experiences future annual **salary increases of 1% above inflation**, **an additional 10% salary increase** halfway through the underpin period and **an additional 10% salary increase** at the end of the underpin period until **leaving the scheme at age 63,** the relative pensions over the underpin period would be as follows:

2014 Scheme:	2008 Scheme:
£6,830 pa	£6,870 pa

In this example there is a **'provisional guarantee amount'** of £40 pa**.**

A subsequent test will be carried out at the member's underpin crystallisation date, their retirement age, SPa (age 67), when the final revalued amounts and correct actuarial adjustment factors are known. In both cases the pension amounts will be revalued in line with cost of living between age 63 and retirement. No further actuarial adjustment will be required for the 2014 Scheme benefit, however the 2008 Scheme benefit is increased by two years' late retirement factors:

2014 Scheme (SPa):	2008 Scheme (SPa):
£7,390 pa	£7,980 pa

This check shows that once revaluation and different actuarial adjustments are allowed for, the 2008 Scheme benefits are higher and the difference or **final guarantee amount** would be £490. The member's 2014 Scheme benefit would be increased by an **underpin addition** of £490pa.

This again illustrates that following high salary increases the 2008 Scheme benefit structure can become relatively more valuable than the 2014 Scheme benefit, and also how the required underpin addition can change between a member's underpin date and their underpin crystallisation date.

Mae'r dudalen hon yn wag yn bwrpasol

Clwyd Pension Fund Response to Consultation

Please find set out below the Flintshire County Council response to the MHCLG Consultation entitled “Amendments to the statutory underpin” issued on 16 July 2020. Flintshire County Council is the Administering Authority of the Clwyd Pension Fund (“the Fund”), and this response is submitted from this perspective.

The Fund has completed preliminary investigations on the membership (albeit prior to the release of the consultation). At that stage, we concluded that approximately 12,200 members were likely to be in scope for this exercise requiring data to be updated to meet the new provisions, and this represents around 25% of the entire Clwyd Pension Fund membership. Of these, an estimated 5,800 are retirements or leavers who will need to be recalculated. Some of the technical proposals put forward in the consultation will only serve to increase the breadth of the project. We are providing these numbers in order to give a sense of the scale of the project and the resources needed to address them (see our response to Q24).

In finalising this response, Fund Officers have consulted with various parties connected with the Clwyd Pension Fund, including employee and employer representatives via the Local Pension Board and the Clwyd Pension Fund Committee. This response has been approved by the Clwyd Pension Fund Committee on 7th October 2020. We have also consulted with the Fund’s professional advisors (i.e. Actuary and Benefits Consultant, and its Independent Governance Consultant).

There are some questions posed within the Consultation on which the Fund does not believe it is qualified to comment. However, the Clwyd Pension Fund does recognise and welcome the significant amount of work performed by MHCLG and its advisors in forming the detailed proposals contained within the Consultation document.

In summary, the key points in this consultation response are:

- concerns around the 12-month window that is being proposed for aggregation cases; we have suggested an alternative shorter window at the underpin crystallisation date
- concerns that members who joined the scheme after 1 April 2012 and before 31 March 2014 will not be covered by the proposals
- suggestions around how to more fairly deal with partial flexible retirement
- the significant funding and administrative costs these proposals are putting on both fund and employers, and the significant period of time it will take to implement these proposals
- the need for clear and regularly updated national guidance, template communications and working groups.

Question	Clwyd Pension Fund Response
1 - Do you agree with our proposal to remove the discrimination found in the McCloud and Sargeant cases by extending the underpin to younger scheme members?	Yes In order to address the discrimination found within the McCloud and Sargeant cases, the age criteria within the LGPS Regulations for the Statutory Underpin needs to be removed, and so the provisions will then extend its application to younger scheme members (where they meet all other membership criteria).
2 - Do you agree that the underpin period should end in March 2022?	Yes, we agree that period of protection should end in March 2022. We understand the reasons for the proposal to limit the underpin protection period (as regards members' benefit accruals). By limiting this period, it will also ensure that future costs of the scheme are managed in accordance with the original policy intention from when the CARE scheme was introduced.
3 - Do you agree that the revised regulations should apply retrospectively to 1st April 2014?	Yes, in order to be fair to all members of the scheme, the revised regulations do need to be applied retrospectively to 1 April 2014.
4 - Do the draft regulations implement the revised underpin which we describe in this paper?	The Fund is not qualified to give legal comment on the accuracy or completeness of the draft Regulations.

Question	Clwyd Pension Fund Response
5 - Do the draft regulations provide for a framework of protection which would work effectively for members, employers and administrators?	**<u>Members</u>** Please can clarity be provided as to what extent is the "no worse off" policy intention. Paragraph 51 refers to the policy intention of no member being worse off under the new proposals, but this appears to be in the context of aggregations. Therefore, we do have some concerns about the impact of the retrospective actions needed for some pensioner groups i.e. who have retired with an underpin enhancement under the existing provisions. For example, how would the application of ERFs/LRFs work when performing retrospective actions? We have a concern that if an original underpin member (who is now a current pensioner in receipt of benefits) retired late, the new underpin (including LRFs) may be smaller or nil, compared to the original underpin awarded. The follow up is: would these pensioner members be protected – i.e. consistent with the policy intent in paragraph 51 of not being any worse off under the proposals, or would a reduction to the benefits in payment apply? Should such protection apply for any benefits that have already crystallised (e.g. transfers outs, death, trivial commutation, deferred pensioners)? In which case, please can clear guidance be provided here to ensure consistent interpretation and treatment including details such as: – which factors to use for retrospective cases (e.g. those in force at the original underpin date or current), and – on how any recovery of overpayments already made should be processed (if it is decided that the updated provisions could result in a reduction to benefits)? If the intention is that the no worse off policy intent applies across the board, the Regulations need to explicitly say that if the underpin is revisited then no member will be made worse off under the new proposals. **<u>Administrators</u>** We would highlight that introducing these changes will be a significant exercise for administrators, and the impact and cost of this should not be undervalued by Government and administering authorities. Although some bulk processing may be possible, updating approximately 12,200 Clwyd Pension Fund pension records (for example with part-time hours and service breaks back to 2014), and separately reviewing approximately 5,800 of our benefit calculations in relation to leavers since 2014, will be a massive exercise given the number of members impacted. We expect all funds will have

Question	Clwyd Pension Fund Response
	similar proportions of records to review. Given that, it is difficult to say that this framework works effectively for administrators. **<u>Employers</u>** We suspect that a similar view may be held by employers, given their need to provide retrospective part-time hours and services breaks back to 2014.
6 - Do you have other comments on technical matters related to the draft regulations?	We would request that it be made clear that the final underpin benefit granted (final guarantee amount) could be accessed in the same way as “normal” scheme benefits. For example, we assume that it is intended that the underpin pension benefit can be commuted to tax-free cash should the member elect to do so. Assuming this is the case, under “Schedule 1 – Interpretation” of the Local Government Pension Scheme Regulations 2013, can the “retirement pension” definition be amended such that it “*includes earned pension, additional pension and any final guarantee amount awarded*”. This should also clarify the treatment for members who have already retired and are in receipt of pension, and where, due to the retrospective calculation of the revised underpin, there is a balance of benefits due. There should be clarification on how or if this should impact on lump sum commutation.
7 - Do you agree that members should not need to have an immediate entitlement to a pension at the date they leave the scheme for underpin protection to apply?	Yes, we agree this in order to allow for consistent and equitable treatment to all membership groups.

Question	Clwyd Pension Fund Response
8 - Are there any other comments regarding the proposed underpin qualifying criteria you would like to make?	The Fund does have some concerns about the criteria being put forward and ultimately believes the scheme could be subject to further challenge. We suggest Government considers whether they should extend the underpin criteria to include those members who joined the scheme on or after 1 April 2012, even though they may not have been in the scheme on 31 March 2012 in order to avoid any challenges. Clearly extending this would result in additional administration and funding costs. We recognise that the argument included in the consultation is that it was well publicised that the LGPS benefits were reforming, but it is our concern that this could be open to further challenge.
9 - Do you agree that members should meet the underpin qualifying criteria in a single scheme membership for underpin protection to apply?	Yes, the Fund is supportive that ultimately, members should meet the criteria in a single scheme membership for the underpin to apply. However, the Fund does have some concerns about the detail of the proposals. See our response to Q10.

Question	Clwyd Pension Fund Response
10 - Do you agree with our proposal that certain active and deferred members should have an additional 12 month period to decide to aggregate previous LGPS benefits as a consequence of the proposed changes?	The Fund does have **some concerns** about the “one-time-only” aggregation decision within a 12-month period including the point at which it is being undertaken. These concerns include but are not limited to: – difficult for member understanding insofar as to why they are being asked to make the decision now (so clear, scheme-wide & consistent communications are needed) – difficult for members to make decisions on aggregation as the full position of the new underpin will not be properly known for all members within the 12 month decision period (as it would vary at a future date after the 12 month period) – this will lead to a material administrative burden as **all potentially eligible members** will need to be communicated with, in a meaningful way, in the same 12 month period. This is likely to lead to substantial queries from members, with no clear answers being able to be provided (see previous point), and hence a risk of complaints – difficulty in identifying the members that are covered by this 12 month window. Many records will be held as deferred records, with no easily identifiable flag to show they have since been re-employed, and so there is a danger they are dealt with in bulk as part of the review of all deferred cases (and therefore potentially given a provisional underpin when they should not be permitted one) – there are additional risks where members may have benefits spread across a number of LGPS funds and so the full extent of an underpin driven aggregation decision might be unknown or incomplete. Asking members to make a financial decision in respect of a situation that is likely to be unknown at the time of the decision may be open to further challenge/appeals from members, especially as this decision is not needed under the current provisions. The Fund, therefore, would be supportive of allowing all eligible members a **final chance to decide at the underpin crystallisation date, within a one month window** (for the purpose of the underpin calculation only). This would coincide with the point at which members access their benefits (i.e. at either their early, normal or late retirement, or at an earlier transfer date). This final aggregation option should be instead of the 12 month window that the consultation is proposing. We are mindful that employments might be held separate for people who are already retired and who have previously opted not to aggregate (without understanding the full underpin impact of not doing so). Some of these will relate to pension benefits that are paid from different pension funds. There will need to be provision and clear guidance on how

Question	Clwyd Pension Fund Response
	LGPS fund administrators should address the retrospective actions needed where pensions are already in payment in one or more employments (and in one or multiple LGPS funds), allowing for a small window where they can choose to aggregate. Adopting this approach of a one month aggregation window at the underpin crystallisation date would: • make it easier for members to understand as decisions would be made on actual calculations • reducing the risk of the regulatory intention not being delivered correctly (for example, due to not being able to identify all potential aggregation records) • providing a more administratively efficient solution by not having a major aggregation exercise as part of implementing all the other proposals.
11 - Do you consider that the proposals outlined in paragraphs 50 to 52 would have ‘significant adverse effects’ in relation to the pension payable to or in respect of affected members, as described in section 23 of the Public Service Pensions Act 2013?	We do have some concerns about the proposals for the reasons described in our response to Q10. Our concerns centre around the need for member decisions at a point when the full impact is unknown, especially when compared to the current provisions, where there is no risk of being worse off due to a non-decision. A detrimental position could therefore emerge as a result. Our proposal, put forward in our response to Q10, allowing a chance to decide at the underpin crystallisation date would remove these concerns as there would then be no risk of being worse off. Member choice would continue to apply, but members would have the ability to truly replicate the position as would have applied using the existing provisions.

Question	Clwyd Pension Fund Response
12 - Do you have any comments on the proposed amendments described in paragraphs 56 to 59 (breaks in service, early/late retirement factors, DIS, survivor benefits)?	The proposals put forward for breaks in service, early/late retirement factors, DIS, survivor benefits are consistent with the general protections being sought going forward. **Clear and consistent guidance of application is needed for all LGPS funds to adopt.** As referred to in our response to Q5, clarity is required on the retrospective actions regarding the application of ERFs/LRFs and how that may impact on underpins already in payment. Regulations and/or guidance will also need to be provided on how to deal with the following situations: – retrospective changes where a transfer out has already been paid and the new scheme is not willing to accept a balancing payment – any trivial commutation cases, where any balance might result in a tax charge.
13 - Do you agree with the two-stage underpin process proposed?	Yes, we are supportive of the two-stage process on the grounds of fairness and ensures the delivery of the policy intention.

Question	Clwyd Pension Fund Response
14 - Do you have any comments regarding the proposed approaches outlined above?	In addition to the points raised in our response to Q10, paragraph 99 describes the proposed treatment for "partial" flexible retirement. Our interpretation of the proposals is that the underpin check takes place at the initial partial retirement date, and is then prorated to reflect the proportion of benefits received. By not performing a further check on eventual retirement, there is a risk that a member would not gain the full underpin benefits on subsequent tranches that they would have otherwise received had they not partially retired. Alternative options that could be considered are as follows (albeit we have a slight preference for the second option): OPTION1 – multiple underpin checks: There could be a **further** and separate **underpin check** (i.e. a further underpin crystallisation date) on the next tranche of benefits to ensure that the policy intention is consistent and delivered in these scenarios, rather than simply the balance of the original underpin amount coming into payment. OPTION2 – one check at the last retirement date: There could be a single underpin check for all partial flexible retirements performed **at the final retirement date** when all benefits are being brought into payment. It is only at this point will the full extent of an underpin be known and so ensures that no underpin amounts are "lost" during a members' continued active service. This would mean that the policy intention is consistent and delivered in these scenarios, rather than simply a payment of the balance of earlier (and potentially understated) underpin amounts.
15 - Do you consider there to be any notable omissions in our proposals on the changes to the underpin?	Additional complications arise where a scheme member is using a previous year's final pay, either best of last 3 years or from a period in the last 13 years. In the first scenario, the higher pay must be used and in the second scenario, there is open choice which means that the impact of pensions increase can be taken into consideration. Clear guidance will be needed on what the correct order should be on whether pensions increases should be added before the underpin test is applied or, for the purposes of the test, if it should be excluded. The guidance should also cover explicitly where, within the test, the early/late retirement reduction factors should be applied.

Question	Clwyd Pension Fund Response
16 - Do you agree that annual benefit statements should include information about a qualifying member's underpin protection?	We do agree that the underpin protection should be referred to on the annual benefit statement, but we are **not in favour** of quoting the underpin guarantee amount **for all members**. It is reasonable for deferred members to have an indicative amount quoted, which should be the provisional guarantee amount that will have been calculated previously at their underpin date (i.e. date of leaving active service etc). However, for ***active*** members we are **not in favour** of quoting a provisional underpin amount at all. This would inevitably vary from one year to the next and will be confusing for the members. For active members, we would be in favour of a scheme-wide standard statement along the lines of: *"In addition to the benefits quoted, you may also get an uplift, under the protections within the scheme. This will not be fully known until you access your retirement benefits*." It should be noted that there are a number of other elements that are not included on the active annual benefit statement (for example, use of a higher previous year's final pay) which could have a much bigger impact than the underpin uplift on the amount of benefits being quoted on the statement. Taking an approach to include the underpin on active member benefit statements could also have an impact on the effective implementation of the National Pensions Dashboard.
17 - Do you have any comments regarding how the underpin should be presented on annual benefit statements?	See our response to Q16 including suggested wording. If any wording is used, it should be standard wording that is nationally adopted minimum standard/best practice, and it should be consistent across all LGPS funds. As many people are members of multiple LGPS funds, consistent communications will reduce the risk of confusion for members.
18 - Do you have any comments on the potential issue identified in paragraph 110?	We recognise the potential issues identified, but are supportive that the final guarantee amount gets credited to a member's benefits at the underpin crystallisation date and so contributes to the Annual Allowance check for that year only, and the member's overall LTA value.
19 - Do the proposals contained in this consultation adequately address the discrimination found in the 'McCloud' and 'Sargeant' cases?	Whilst the mechanics of the proposals do appear to address the McCloud and Sargeant cases, we do have some concerns about the criteria being open to further challenge. As per our response to Q8, Government should consider whether there could be potential challenge by excluding application of these proposals to members who joined the scheme on or after 1 April 2012 (i.e. they were not in the scheme on 31 March 2012).
20 - Do you agree with our equalities impact assessment?	We appreciate that MHCLG and its advisors have carried out a lot of work on the equalities impact, likelihoods of outcomes and other related aspects. The Fund is not in a position to comment any further in this area.

Question	Clwyd Pension Fund Response
21 - Are you aware of additional data sets that would help assess the potential impacts of the proposed changes on the LGPS membership, in particular for the protected characteristics not covered by the GAD analysis (age and sex)?	The Fund is not in a position to comment on this.
22 - Are there other comments or observations on equalities impacts you would wish to make?	As noted in our responses to earlier questions, we do have some concerns about the criteria being put forward and ultimately believe the scheme could be subject to further challenge. We suggest that Government reconsider whether they could be challenged by those members who joined the scheme on or after 1 April 2012 i.e. they were not in the scheme on 31 March 2012. We are concerned that some members could challenge this remedy insofar as those members who joined the scheme a few days later will not benefit from the protection.

Question	Clwyd Pension Fund Response
23 - What principles should be adopted to help members and employers understand the implications of the proposals outlined in this paper?	We think that standardised and consistent treatment/communications across all LGPS funds will help employers and members understand the proposals (recognising some minor fund specific changes may be necessary as well as branding/personalisation). Our suggestion would be for consistent communications to be led by the Scheme Advisory Board that should be used by LGPS funds. These should be kept up to date across various media and can be personalised and adapted at Fund level. It would be very helpful if an ongoing communications development plan was issued so it is known what is being worked on and when so funds focus their resources in the areas not being looked at centrally. Our view is that the following approaches are most appropriate for the two groups: **Members** – we suggest that central example communications, as a minimum has all the scenarios that LGPS funds should be communicating with members. These should be straightforward and understandable. **Employers** – the proposals will have a major impact on employers so it would be helpful if greater focus is placed on how to make employers' lives easier. We recognise that there are limited resources, so the most valuable impact will be to help LGPS funds support and work with employers through this exercise/project. In providing support to funds, this should include up to date FAQs, sample responses to employers, a means where LGPS funds can continually ask questions and benefit from updated information, guidance and examples. It is critical that this information is kept up to date and evolves as new issues arise. The obvious solution is for a continuation of one of the SAB's McCloud implementation groups in order to deal with challenges/issues as they emerge to ensure all LGPS Fund's then benefit, whilst ensuring that group has strong and wide representation from various funds as well as other stakeholders. Our strong view is that many questions and areas of practice points will arise as implementation is progressed.

Question	Clwyd Pension Fund Response
24 - Do you have any comments to make on the administrative impacts of the proposals outlined in this paper?	See our response to our earlier questions regarding the administrative impacts. In that context, we strongly urge that MHCLG / SAB formally encourage all LGPS pension funds to be properly resourced for this major Scheme-wide project. The full breadth of this project is arguably larger than the scheme changes witnessed in 2014, and more recently GMP rectification. The tasks arising in terms of forward looking changes and retrospective changes make this far reaching and with shortened timescales. Pension funds must be equipped with the resources necessary. This extends to employers and their systems and pension fund liaison teams. In that respect, it would be helpful for MHCLG to provide direction in relation to reasonable timescales for the various stages of the project including: – encouraging employers to provide data as soon as is reasonably practical and no later be a defined date. It should be noted that a deadline of or around 31st March is not helpful due to year end pressures for both employers and pension funds – provision of updated software from the software suppliers – expected final dates for all funds to have reviewed and rectified benefits back to 2014 (deferred, pensioners, transfers out, deaths etc). By having clear direction, this will ensure funds, employers and software providers can ensure appropriate resource.

Question	Clwyd Pension Fund Response
25 - What principles should be adopted in determining how to prioritise cases?	Whilst the Fund welcomes general guidance on priorities, individual LGPS funds must be able to determine their own priorities based on the expertise, skills and capacity of each LGPS fund administration team, as progress is made throughout the project. Our initial view of priority groups for the rectification of benefits are as below, but this should be kept under review by all administration teams, whilst business as usual is maintained. 1. Pensioners in payment 2. Deaths and survivor cases 3. Transfers, in age order (from highest) 4. Age 55s and over Clearly a key initial part of the project will be the collation of data from 2014 for all in scope members (including active members).
26 - Are there material ways in which the proposals could be simplified to ease the impacts on employers, software systems and scheme administrators?	Please refer to our responses to 9 & 10 where permitting members to make their final aggregation decision at their underpin crystallisation date will alleviate short term administration burdens. Clear guidance (perhaps statutory) clarifying how cases should be dealt with where data is not available from employers and how this can be reasonably ascertained, would provide simplification. Furthermore nationally agreed tolerances that identify minimum thresholds before retrospective changes/updates are made (again balancing cost and benefit of updates) could simplify the proposals, introducing efficiencies for funds and employers.

Question	Clwyd Pension Fund Response
27 - What issues should be covered in administrative guidance issued by the Scheme Advisory Board, in particular regarding the potential additional data requirements that would apply to employers?	We recommend that clear guidance is provided to identify at what point the administrative costs outweigh the benefits of having perfect data records. The Clwyd Pension Fund is supportive of a nationally agreed approach with clear guidance on what steps **must be taken** and exhausted **before** an agreed simplified approach can be adopted. In our view, the guidance should contain: – what steps must be taken by Fund administrators to ascertain that the data required is not available (i.e. mandatory criteria/investigations). This should include approaches where employers are unwilling to fulfil their obligations and/or respond to queries, or indeed if the employer no longer exists. This should be clear as to whether there are requirements to contact scheme members for information where it is not or cannot be provided by an employer (and for the avoidance of doubt, we would not support this as being something that should be done). – details of what a nationally agreed simplified approach should be for cases where all the relevant steps have been taken (as referred to in point above). This simplified approach should be adopted by all Funds in order to balance the costs of the remedy with the benefit of having complete data. – nationally agreed tolerances that identifies minimum thresholds before retrospective changes/updates are made (again balancing cost and benefit of updates). – how any backpayments should be made to various groups of members e.g. in situations where a member and their surviving partner having both previously died, including clarification over interest payments/calculations.

Question	Clwyd Pension Fund Response
28 - On what matters should there be a consistent approach to implementation of the changes proposed?	**Administrative guidance** Please see our responses to earlier questions where we are strongly of the view that consistent approaches and guidance should be provided, including via the continuation of the SAB working groups. This guidance and support would include communication templates, actions to take in certain circumstances (e.g. no replies, data absences, retrospective actions for pensioners, aggregation decisions), an ability to raise questions and have regular dialogue with other practitioners. We recognise that there should be the ability for Funds to personalise the communications. **Auditor guidance** It would be helpful for clear guidance to be available for auditors insofar as relates to pension fund accounting. This would be in order to pre-empt many queries and dialogue with auditors across the many thousands of employers within the scheme. This guidance should be created in partnership with CIPFA/SAB and any other interested parties and may need to be ongoing at the various stages of this process (e.g. response to consultation, potential further draft regulations, final regulations).

Question	Clwyd Pension Fund Response
29 - Do you have any comments regarding the potential costs of McCloud remedy, and steps that should be taken to prevent increased costs being passed to local taxpayers?	**Funding the remedy** For the Clwyd Pension Fund, the estimated impact of the remedy was calculated for all employers and has been explicitly included in the 2019 actuarial valuation results for the vast majority of the employers. For those employers who did not make an allowance they will now be requested to do so. The allowance closely replicated the proposed remedy in the consultation (other than for some historical cases) so the intention is this will be reviewed at the next valuation only. The impact did vary by employer from small to large (£9m past service costs across the whole fund, and whilst a small number of employers have not been impacted at all, (due to their membership profile), the average additional future service cost is 0.5% of pay, with the greatest increase being at 2.4% of pay). Taking the remedy up to 2022 means the overall cost is expected to be c£12m. Equally, our FSS termination policy ensures that an estimate of any costs associated with the remedy are included in the exit assessment for an outgoing employer. This means that most funding costs have been incorporated into the Funding Strategy of the Fund, but this extends beyond local taxpayers as applies to all employers including universities who receive funding from other places. Our view is the regulations and policies for all LGPS funds must be updated to ensure that full estimated McCloud costs are recovered through contribution requirements on both an ongoing basis for any employers who are not currently meeting the funding cost, but also in an employer exit scenario. Guidance should be clear and explicit to require fund policies and practices to be updated to ensure the final agreed remedy costs are attributed to the relevant employer and those costs are not borne by local taxpayers or any other groups in the Fund. This may mean some Funds need to revisit contribution requirements before the next valuation for certain employers. A facility to revise costs in these circumstances should be included in the Regulations and guidance issued in relation to the separate contribution flexibilities. **Administering the remedy** The administrative burden is a significant one and therefore the costs relating to administration could be significant. These are split into two main areas; implementation and retrospective actions, and business as usual. **A) Implementation** Short-term costs for the Fund will be material (we estimate £0.5m pa for 2 years until all data is collected/verified up to 2022) and this includes system upgrades and functionality, additional resources, external advisor support and communication activities. The costs for employers may also be significant in terms of their own resources and changes to and extracting data from payroll systems but we do not have an estimate at this point. **B) Business as usual**

Question	Clwyd Pension Fund Response

In the longer term, there is likely to be an additional cost although we would expect this to be de-minimis (largely arising out of additional system functionality) given the new processes will be fully embedded. We would not expect this to have a material effect on the employer rates in that case.

Mitigating the costs (for all groups, not only taxpayers)

The costs referred to above are unavoidable if the remedy is implemented based on the consultation. Attributing those costs to the appropriate employer would be one way to be fair on how they are met (i.e. any employers with the largest holes in data, or unable/unwilling to assist are allocated a greater proportion of cost). This should be linked to a Funds separate administration strategy and policy therein. However the practicalities of implementing this approach need further consideration.

Whilst we are aware that there are central templates for data collection and there will be template communication materials, as mentioned in our response to Q23, we do believe that the SAB/LGA should provide templates and guidance in as many areas as possible for areas which are common to all Funds. For example, as well as providing communication templates, guidance in the form of the following would be valuable in mitigating costs
+

- Q&A type website (similar to the recent COVID-19 initiative)
- Liaison with the key software and payroll providers
- Focus groups developing guidance including practitioners.

As also noted in our response to Q27, we recommend that clear guidance be provided to identify at what point the administrative costs outweigh the benefits of having complete data records for all years and historic cases. This should cover both scenarios where data is not available e.g. the employer does not exist and where the employer does not respond to data requests. The Clwyd Pension Fund is supportive of a nationally agreed approach on what steps **must be taken** and exhausted **before** an agreed compromise is adopted which may mean making assumptions which favours the member in the final underpin test. This would only be pursued if mandatory steps have been taken/criteria have been met, but this would then put some cost control back into the implementation process and mitigate costs to taxpayers.

Scheme member representative view

Question	Clwyd Pension Fund Response
	The scheme member representative on the Clwyd Pension Fund Committee has provided the following answer for consideration in response to this question: The vast majority of the fund's contributions are from Local Government employers. The additional cost to those employers (and some others) will be an extra burden during the ongoing corona virus crisis and post coronavirus public finance recovery period. Although in and of itself, it is unlikely to be the trigger of any Section 114 Notices, this extra burden is likely to impact the provision of Local Government services that the current crisis has shown to be underfunded. The additional costs of the proposed remedy for other Public Sector schemes will be paid by the general taxpayer. Central Government should consider providing additional, hypothecated funding to Councils in order to provide the required protection for the local tax payers. Government may consider that any additional costs of this remedy will count to the Cost Cap exercise that was paused although this would impact on benefits for members and as a Scheme Member Rep would not be my preferred route.

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CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday 7 October 2020
Report Subject	Economic Update, Investment Strategy and Manager Summary
Report Author	Head of Clwyd Pension Fund

EXECUTIVE SUMMARY

The purpose of the Economic Update, Investment Strategy and Manager Summary is to give Committee Members an economic and market update for the quarter, and to summarise the performance of the Fund's investment strategy and its investment managers.

Due to the timing of the meeting, the information to the end of September 2020 is not yet available, so this report covers the quarter ending 30 June 2020. The Fund's Consultants, Mercer, will give a verbal update at the meeting.

Key points to note for the quarter ended 30 June 2020:

Economy and Markets

- February and March saw significant volatility in markets, however this quarter saw positive returns as markets rebounded
- Unprecedented global monetary and fiscal stimuli drive market recovery
- Significant COVID-19 related uncertainty remains, and will continue to affect markets in coming months.
- The US election, ongoing tensions between US and China and Brexit will continue to impact markets in addition to COVID-19

Clwyd Fund Strategy and Performance

- Over the three months to 30 June 2020, the Fund's total market value increased by £155.1m to £1,963.7m. This followed on from falls in the previous quarter of £191.7m
- Fund Performance over 3 months, 12 months and 3 years; +8.2%, +0.3% and +4.3% respectively.
- Equities and the Multi-Asset Credit portfolio were best performers over the quarter.

RECOMMENDATIONS	
1.	To discuss and comment on the Market and Economic update for the quarter ended 30 June 2020, which effectively sets the scene for the Investment Strategy and Manager Performance summary.
2.	To discuss and comment on the Investment Strategy and Manager Performance summary for the quarter ended 30 June 2020.

REPORT DETAILS

1.00	INVESTMENT AND FUNDING RELATED MATTERS
1.01	**Economic and Market Update** The economic and market update for the quarter from the Fund's Investment Consultant is attached at Appendix 1. The report contains the following sections: • **Market Background** – contains key financial markets data for the period under review, including performance of selected markets including equities, bonds inflation and currencies. • **Economic Statistics** – contains key economic statistics during the period under review, including Gross Domestic Product (GDP) Growth, Inflation Employment and Manufacturing. • **Market Commentary** – provides detailed commentary on the economic and market performance of major global regions and financial markets.
1.02	The quarter saw a strong rebound in markets after the falls of the previous quarter. Monetary and Fiscal stimulus packages put in place globally drove confidence and toward the end of the quarter the easing of lockdown restrictions were seen as positive signs for the economy. In recent weeks, markets have seen some return to volatility over the potential for a "Second Wave" of virus cases, and the outcome remains very uncertain. In addition to the overriding COVID-19 concerns there are other factors including the US Election, the ongoing friction between the US and China and Brexit which have the potential to have significant impact on the future direction of the economy.

1.03	The outlook for markets remains very uncertain, and fast moving. The Fund's Consultant will update the Committee on the latest views at the meeting.
1.04	**Investment Strategy and Manager Summary 30 June 2020** Over the 3 months to 30 June 2020, the Fund's total market value increased by £155.1m to £1,963.7m; recovering a significant proportion of the value lost in the first quarter of 2020. In total, the Fund's value has fallen by £36.6m in the six months to the end of June. Despite the recovery seen in the quarter, the falls seen in the previous quarter have affected the Fund's longer term performance: • Total Fund assets returned 8.2% over the quarter, ahead of the composite target, which returned 6.8%. • Over the one-year period, Total Fund assets returned 0.3%, underperforming the composite target of 2.9%. • Over the last three years, Total Fund assets returned 4.3% p.a., ahead of the composite target of 5.2% p.a. The strongest absolute returns over the quarter came from the Fund's Equity investments and the Multi-Asset Credit (MAC) portfolio. Equities returned 20.4%, and the MAC portfolio 9.2%. Within the Equity Portfolio Emerging Markets (Core) were the strongest performer returning 25.2% in the quarter. The Tactical Allocation portfolio also performed strongly, driven by the Best Ideas portfolio, which returned 9.3% in the quarter. The Fund's asset portfolio is broadly within the strategic ranges set for the asset classes. These strategic ranges were revised as a result of the recent review of the Fund's Investment Strategy. Due to market volatility seen in the early months of the year the Fund's transition to the new Investment Strategy was delayed, and took place over the summer. As such, the Fund will begin reporting against the new benchmark with effect from 1 October.
1.05	As the Committee will be aware Officers and the Fund's consultant reviewed the Fund's Investment Strategy in light of the impact of COVID-19 and concluded that it remained appropriate for the longer term, and the risk management tools that the Fund has in place should prove beneficial in any periods of volatility. The global outlook remains uncertain and the potential for a "Second Wave" of COVID-19 infections and the resultant lockdowns remain a significant risk for Global economies. The Officers and Advisers are regularly monitoring the portfolio and remain content with its current positioning.

2.00	RESOURCE IMPLICATIONS
2.01	None directly as a result of this report.
3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	None directly as a result of this report.

4.00	RISK MANAGEMENT
4.01	The Fund's investment strategy has been designed to provide an appropriate trade off between risk and return. The Fund faces three key investment risks: Equity risk, Interest Rate Risk and Inflation Risk. Diversification of the Fund's growth assets away from equities seeks to reduce the amount of the equity risk (though it should be recognised that Equities remain an important long term source of expected growth). The implementation of the Fund's De-Risking Framework (Flightpath) has been designed to mitigate the Fund's Interest Rate and Inflation Risks.

5.00	APPENDICES
5.01	Appendix 1 - Economic and Market Update – 30 June 2020 Appendix 2 - Investment Strategy and Manager Summary – 30 June 2020

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	Economic and Market Update and Investment Strategy and Manager Summary 31 March 2020. **Contact Officer:** Philip Latham, Head of Clwyd Pension Fund **Telephone:** 01352 702264 **E-mail:** philip.latham@flintshire.gov.uk

7.00	GLOSSARY OF TERMS
7.01	A list of commonly used terms are as follows: (a) **Absolute Return –** The actual return, as opposed to the return relative to a benchmark. (b) **Annualised –** Figures expressed as applying to 1 year. (c) **Duration –** The weighted average time to payment of cashflows (in years), calculated by reference to the time and amount of each payment. It is a measure of the sensitivity of price/value to movements in yields.

	(d) **Market Volatility –** The impact of the assets producing returns different to those assumed within the actuarial valuation basis, excluding the yield change and inflation impact. (e) **Money-Weighted Rate of Return –** The rate of return on an investment including the amount and timing of cashflows. (f) **Relative Return –** The return on a fund compared to the return on index or benchmark. This is defined as: Return on Fund minus Return on Index or Benchmark. (g) **Three-Year Return –** The total return on the fund over a three year period expressed in percent per annum. (h) **Time-Weighted Rate of Return –** The rate of return on an investment removing the effect of the amount and timing of cashflows. (i) **Yield (Gross Redemption Yield) –** The return expected from a bond if held to maturity. It is calculated by finding the rate of return that equates the current market price to the value of future cashflows. **A comprehensive list of investment terms can be found via the following link:** https://www.schroders.com/en/uk/adviser/tools/glossary/

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CLWYD PENSION FUND

ECONOMIC AND MARKET UPDATE

PERIOD ENDING 30 JUNE 2020

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1 MARKET BACKGROUND
PERIOD ENDING 30 JUNE 2020

MARKET STATISTICS

Market Returns Growth Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	10.2	-13.0	-1.6
Overseas Developed	19.9	6.5	8.8
North America	21.9	10.9	12.5
Europe (ex UK)	18.9	0.7	3.8
Japan	12.2	6.8	4.9
Asia Pacific (ex Japan)	21.6	-5.4	2.2
Emerging Markets	18.9	-0.4	4.6
Frontier Markets	17.5	-25.1	-8.2
Property	-2.3	-2.7	3.9
Hedge Funds[1]	6.2	-0.7	2.1
Commodities[2]	11.0	-35.6	-10.8
High Yield[2]	11.0	-1.5	1.8
Emerging Market Debt	10.2	0.1	2.8
Senior Secured Loans[2]	10.8	-2.0	0.8
Cash	0.2	0.8	0.7

Market Returns Bond Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Gilts (Over 15 yrs)	3.9	19.8	10.2
Index-Linked Gilts (Over 5 yrs)	11.5	11.9	7.6
Corporate Bonds (Over 15 yrs AA)	16.3	17.0	8.9
Non-Gilts (Over 15 yrs)	13.3	13.9	7.7

Exchange Rates: Change in Sterling	3 Mths %	1 Year %	3 Years % p.a.
Against US Dollar	-0.35	-2.92	-1.65
Against Euro	-2.65	-1.57	-1.15
Against Yen	-0.42	-2.78	-2.98

Inflation Indices	3 Mths %	1 Year %	3 Years % p.a.
Price Inflation – RPI	0.0	1.1	2.4
Price Inflation – CPI	0.0	0.6	1.7
Earnings Inflation[3]	-0.9	-0.1	2.1

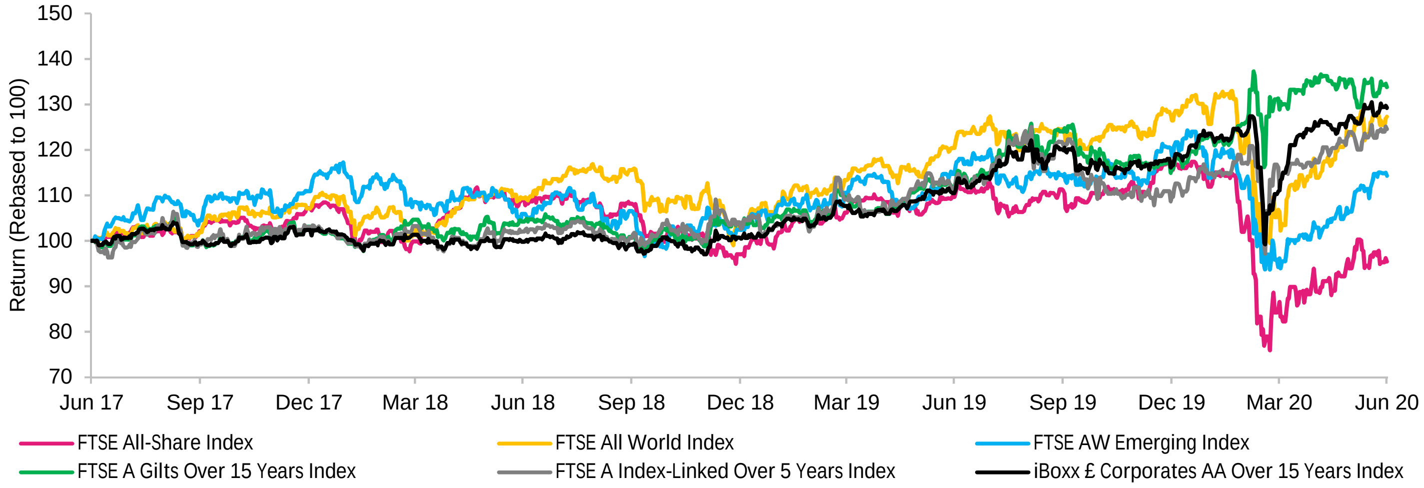
Yields	% p.a.
UK Equities	4.66
UK Gilts (Over 15 yrs)	0.58
Real Yield (Over 5 yrs ILG)	-2.38
Corporate Bonds (Over 15 yrs AA)	1.45
Non-Gilts (Over 15 yrs)	2.07

Absolute Change in Yields	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	-0.87	0.53	1.05
UK Gilts (Over 15 yrs)	-0.17	-0.82	-1.22
Real Yield (Over 5 yrs ILG)	-0.46	-0.49	-0.81
Corporate Bonds (Over 15 yrs AA)	-0.86	-0.80	-1.11
Non-Gilts (Over 15 yrs)	-0.74	-0.71	-0.87

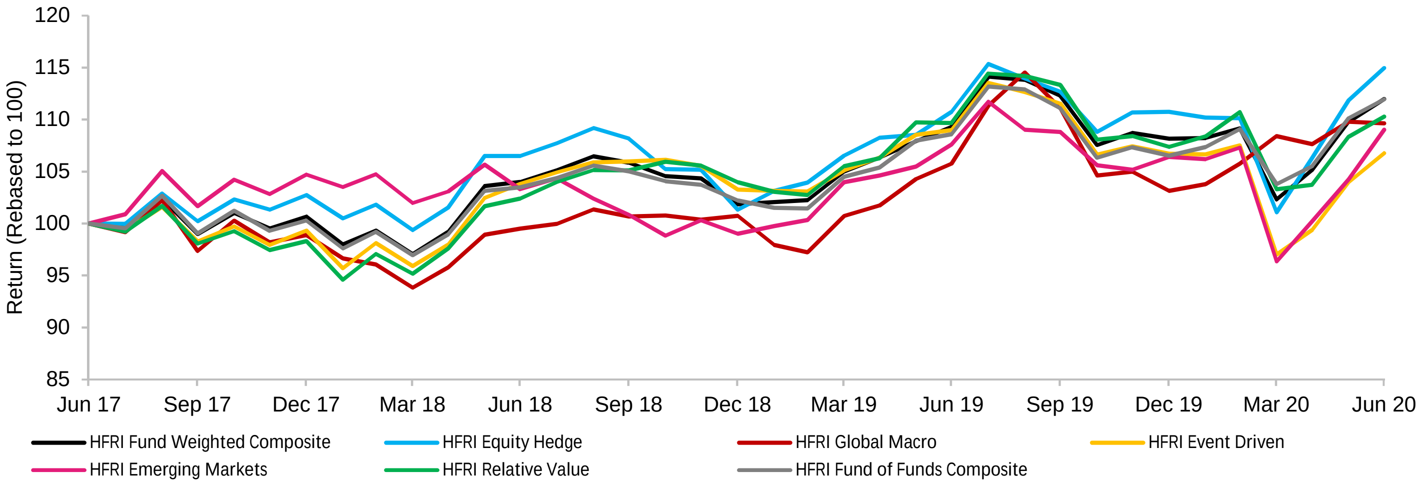
Source: Refinitiv Datastream.
Notes: [1] Local Currency. [2] GBP Hedged. [3] Subject to 1-month lag.

MARKET SUMMARY CHARTS

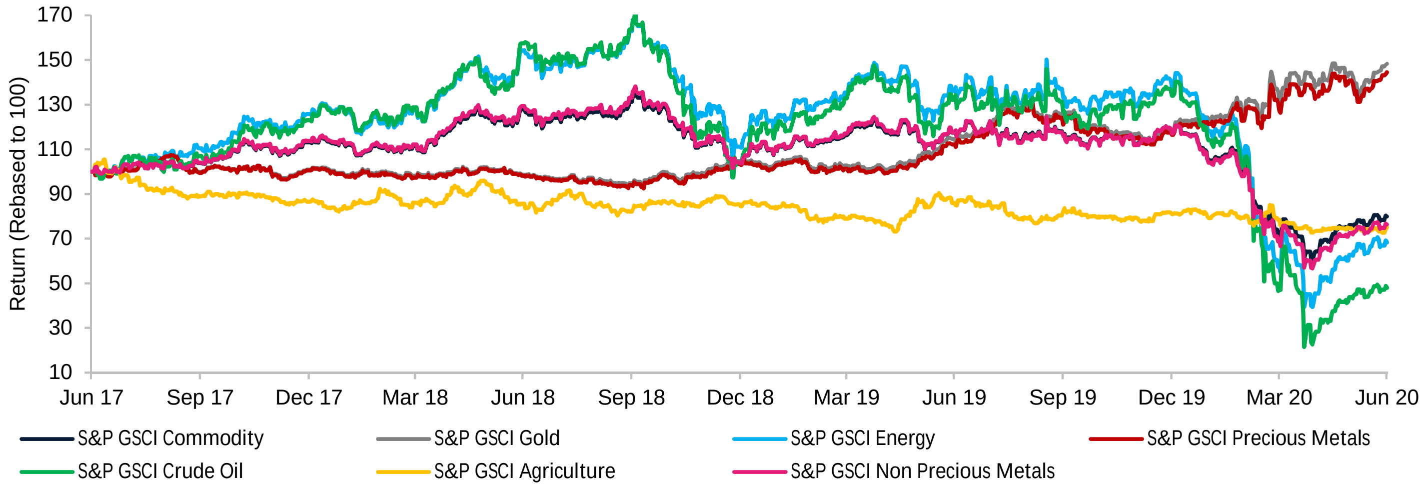
Market performance – 3 years to 30 June 2020



Hedge Funds: Sub-strategies performance – 3 years to 30 June 2020

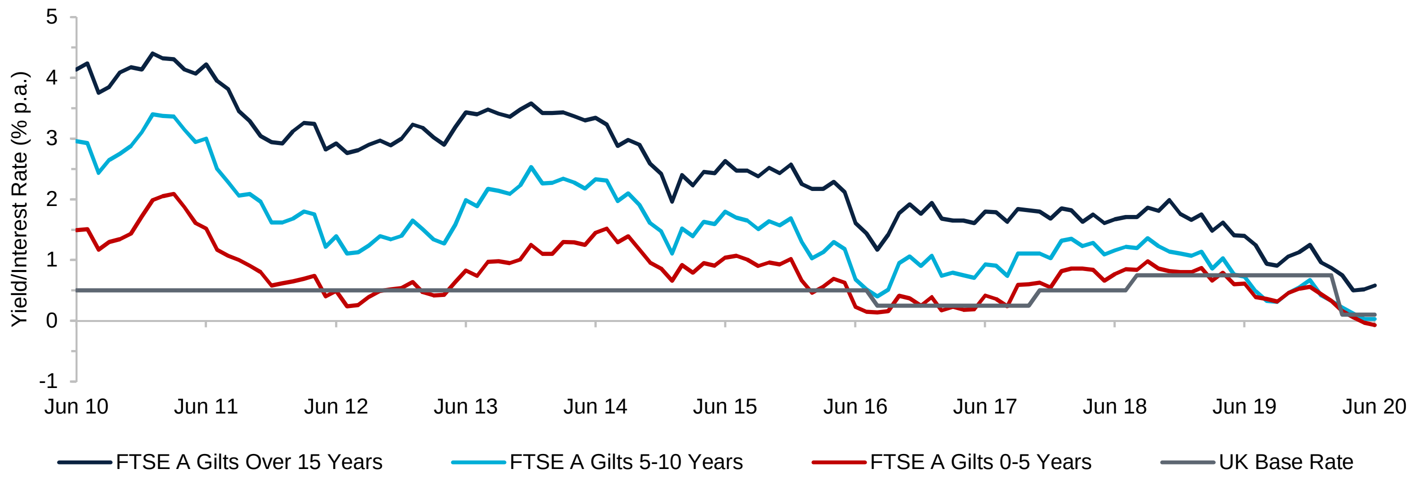


Commodities: Sector performance – 3 years to 30 June 2020

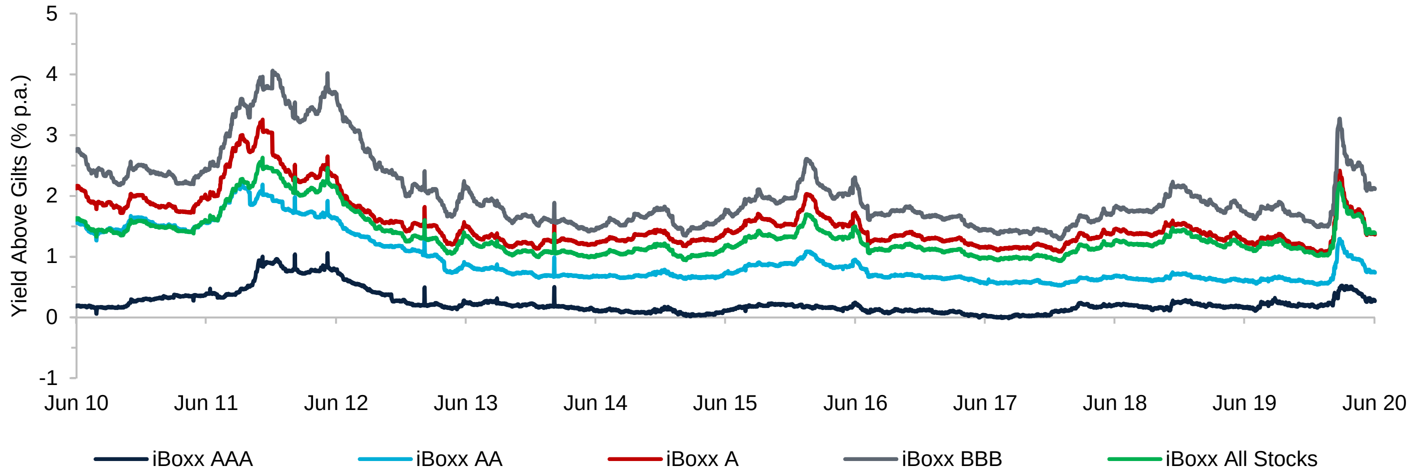


Source: Refinitiv DataStream

UK government bond yields – 10 years to 30 June 2020



Corporate bond spreads above government bonds – 10 years to 30 June 2020



Source: Refinitiv DataStream

2 ECONOMIC STATISTICS

Economic Statistics:	30 June 2020			31 March 2020			30 June 2019		
	UK	Euro[1]	US	UK	Euro[1]	US	UK	Euro[1]	US
Annual Real GDP Growth[2]	-1.7%	-1.3%	0.3%	1.1%	2.8%	2.3%	2.0%	3.1%	2.7%
Annual Inflation Rate[3]	0.6%	0.3%	0.6%	1.5%	0.7%	1.5%	2.0%	1.3%	1.6%
Unemployment Rate[4]	3.9%	7.7%	13.0%	4.0%	7.3%	3.8%	3.8%	7.6%	3.6%
Manufacturing PMI[5]	50.1	46.9	49.6	50.0	47.9	51.9	48.0	47.6	50.6

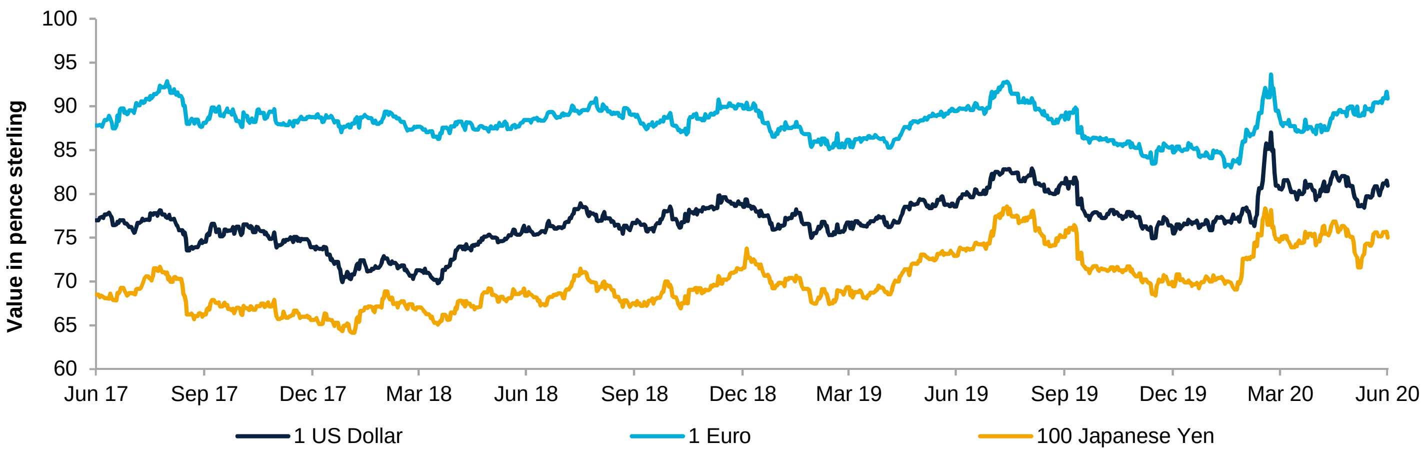
Change over periods ending:	3 months			12 months		
30 June 2020	UK	Euro[1]	US	UK	Euro[1]	US
Annual Real GDP Growth[2]	-2.8%	-4.1%	-2.0%	-3.7%	-4.4%	-2.4%
Annual Inflation Rate[3]	-0.9%	-0.4%	-0.9%	-1.4%	-1.0%	-1.0%
Unemployment Rate[4]	-0.1%	0.4%	9.2%	0.1%	0.1%	9.4%
Manufacturing PMI[5]	0.1	-1.0	-2.3	2.1	-0.7	-1.0

Notes: 1. Euro Area 19 Countries. 2. GDP is lagged by 3 months. 3. CPI inflation measure. 4. UK unemployment is lagged by 1 month. 5. Headline Purchasing Managers Index.

EXCHANGE RATES

Exchange Rates:	Value in Sterling (Pence)			Change in Sterling	
	30 Jun 20	31 Mar 20	30 Jun 19	3 months	12 months
1 US Dollar is worth	80.93	80.65	78.57	-0.4%	-2.9%
1 Euro is worth	90.90	88.49	89.48	-2.7%	-1.6%
100 Japanese Yen is worth	75.02	74.71	72.93	-0.4%	-2.8%

Exchange rate movements – 3 years to 30 June 2020



Source: Refinitiv DataStream, Bloomberg.

3 MARKET COMMENTARY

INTRODUCTION

Q1 2020 saw an unprecedented collapse in economic activity that caused an extraordinary sell-off in risk assets. Over Q2 2020, there was a strong rebound in markets; risk assets, with the exception of property, performed strongly as a whole and defensive assets delivered low single digit returns.

Global equities rallied as early stage trials of potential COVID-19 vaccines fuelled optimism in investors, along with ongoing monetary and fiscal stimulus packages and signs of improvement in economic activity across the globe.

UNITED KINGDOM

In the UK, quarterly annualised GDP was down -7.8% for Q1 2020. Meanwhile, the Bank of England (BoE) has estimated a 25% contraction in GDP over Q2 2020.

At the meeting in June, the BoE's monetary policy committee voted unanimously to maintain the base rate at 0.1%. The committee also voted to continue with the existing £200bn of bond purchases, as well as increase the target stock of purchased UK gilts by £100bn, which will take the total stock of asset purchases to £745bn.

Additionally, the UK's Chancellor of Exchequer, Rishi Sunak, announced a three-month extension of the COVID-19 job retention scheme; the scheme, which was originally set to finish at the end of July, and will now, continue until the end of October.

Headline CPI inflation fell to 0.5% at the end of May from 1.5% at the end of March. Re-openings also led to a sharp rebound in economic activity indicators towards the end of the quarter.

NORTH AMERICA

The US economy shrunk by an annualised 5.1% quarter-on-quarter to the end of March 2020 whilst early estimates for the second quarter of 2020 indicate an even worse contraction.

The US Federal Reserve's Open Market Committee (FOMC) held interest rates at the current target range of 0% - 0.25% and officials have predicted that interest rates will remain close to zero until at least the end of 2022. It is also predicted that it will take years to bring unemployment back down to pre-COVID-19 levels.

The downgrade of corporate earnings expectations continues with Factset reporting the largest cuts to S&P500 earnings estimate since records began in 1996. However, signs of a strong rebound emerged with non-farm payrolls showing record levels of job creation in May and June, as many states started to reopen, while retail sales also recovered strongly. This was overshadowed by concerns over rising infection rates in a number of southern US states towards the end of the second quarter.

EUROPE (EX UK)

European equity markets rose, with unprecedented stimulus and hopes of a COVID-19 vaccine along with fewer virus cases across the European region.

The European Central Bank (ECB) announced a further €600bn increase to the ongoing Pandemic Emergency Purchase Programme (PEPP). This now takes the PEPP to a total of €1.35tn, with the ECB on track to buy €1.4tn of assets this year. The ECB have extended the scheme until at least June 2021

For the Eurozone, quarter-on-quarter GDP collapsed by an annualised 13.6% in Q1 2020. The ECB has predicted an 8.7% overall contraction in the Eurozone for 2020, rising to a 12.6% decline if a new wave of COVID-19 infections takes hold.

JAPAN

Quarter-on-quarter GDP also collapsed for Japan in Q1 2020 by an annualised 3.6%.

The Bank of Japan confirmed that the monetary policy would remain unchanged for the foreseeable future.

EMERGING MARKETS

Emerging Market equities rebounded significantly from the downturn experienced in Q1, largely driven by optimism on China's advanced recovery.

FIXED INCOME

The UK yield curve shifted down somewhat over the quarter. In May, the UK issued £5bn in short-dated bonds at a negative yield for the first time in history. UK monetary policy is as expansive as in other developed countries with the continued quantitative easing providing steady demand for UK bonds. With the exception of the longest dated US Treasury bonds, developed market yields remained below 1% and in negative territory in some cases.

UK real yields shifted down over the quarter, as nominal yields fell slightly while inflation expectations rose.

Credit spreads narrowed over the quarter as risk-on sentiment returned and investors took advantage of attractive spreads earlier in the quarter while central bank purchases added to the demand.

ALTERNATIVES

Hedge Funds returned 9.5% in Sterling terms and 9.1% in US dollar terms, over the quarter. Equity Hedge strategies were the best performing strategies, returning 13.7% (Sterling) and 13.3% (US dollar). Global Macro strategies were the worst performing strategies over the quarter, returning 1.1% (Sterling) and 0.8% (US dollar).

Commodities rebounded over the quarter driven by the anticipation of rising demand as economies opened. The returns were 10.9% and 10.5% in Sterling terms and US dollar terms, respectively. Energy led returns, rising 19.0% in Sterling terms and 18.6% in US dollar terms. All other commodities were positive with the exception of Agriculture, which declined -4.0% in Sterling terms and -4.3% in US dollar terms.

UK Commercial Property declined by 2.3% in the 3 months to 30 June 2020. Rental income returned 1.4%, whilst capital values fell by 3.6%.

CURRENCY

Sterling weakened marginally over the quarter against the US Dollar, Euro and Japanese Yen, which enhanced returns slightly for unhedged sterling investors. Even though the UK economy has also started to rebound, there are concerns over another hard Brexit deadline looming after the transition period was not extended in June. By the end of the year, a trade agreement with the EU needs to be in place.

4 MARKET STATISTICS AND INDICES USED

Asset Class	Index
Growth Assets	
UK Equities	FTSE All-Share Index
Overseas Developed Equities	FTSE AW Developed Index
North America Equities	FTSE AW North America Index
Europe (ex UK) Equities	FTSE AW Developed Europe (ex UK) Index
Japan Equities	FTSE Japan Index
Asia Pacific (ex Japan) Equities	FTSE AW Developed Asia Pacific (ex Japan) Index
Emerging Markets Equities	FTSE All Emerging Index
Frontier Markets Equities	FTSE Frontier 50 Index
Property	IPD UK Monthly Property Index
Hedge Funds	Credit Suisse Hedge Fund Index (Local Currency)
Commodities	S&P GSCI TR Index (GBP Hedged)
High Yield	ICE BoAML Global High Yield Index (GBP Hedged)
Emerging Markets Debt	JPM GBI-EM Global Diversified Composite Index
Senior Secured Loans	S&P Leveraged Loan Index (GBP Hedged)
Cash	ICE BofA 3 Month LIBOR Index
Bond Assets	
UK Gilts (Over 15 yrs)	FTSE A Gilts Over 15 Years Index
Index-Linked Gilts (Over 5 yrs)	FTSE A Index-Linked Over 5 Years Index
Corporate Bonds (Over 15 yrs AA)	iBoxx £ Corporate Over 15 Years AA Index
Non-Gilts (Over 15 yrs)	iBoxx £ Non-Gilts Over 15 Years Index
Yields	
UK Equities	FTSE All-Share Index (Dividend Yield)
UK Gilts (Over 15 yrs)	FTSE A Gilts Over 15 Years Index (Gross Redemption Yield)
Real Yield (Over 5 yrs ILG)	FTSE A Index-Linked Over 5 Year Index 5% Inflation (Gross Redemption Yield)
Corporate Bonds (Over 15 yrs AA)	iBoxx £ Corporate Over 15 Years AA Index (Gross Redemption Yield)
Non-Gilts (Over 15 yrs)	iBoxx £ Non-Gilts Over 15 Years Index (Gross Redemption Yield)
Inflation	
Price Inflation – RPI	UK Retail Price Index (All Items NADJ)
Price Inflation – CPI	UK Consumer Price Index (All Items NADJ)
Earnings Inflation	UK Average Weekly Earnings Index (Whole Economy excluding Bonuses NADJ)
Exchange Rates	
USD / EUR / JPY vs GBP	WM/Reuters 4:00 pm Closing Spot Rates

CONTACT

KIERAN HARKIN
Director
+44 (0)161 957 8016
Kieran.Harkin@mercer.com

NICK BUCKLAND
Senior Consultant
+44 (0)207 528 4188
Nick.Buckland@mercer.com

ANTHONY WRAY
Consultant
+44 (0)161 253 1121
Anthony.Wray@mercer.com

NATALIE ZANI
Associate Consultant
+44 (0)161 253 1124
Natalie.Zani@mercer.com

ANDREW MUNRO
Associate Consultant
+44 (0)161 931 4497
Andrew.Munro@mercer.com

DANIEL WILSON
Associate
+44 (0)161 200 6806
Daniel.Wilson@mercer.com

CLWYD PENSION FUND
INVESTMENT STRATEGY AND MANAGER SUMMARY
PERIOD ENDING 30 JUNE 2020

TABLE OF CONTENTS

1 IMPACT ON CLWYD PENSION FUND INVESTMENT STRATEGY

This report is produced by Mercer to assess the performance and risks of the investment managers of the Clwyd Pension Fund (the "Fund"), and of the Fund as a whole. The report does not comment on the Fund's Cash and Risk Management Framework (CRMF) portfolio, as information in respect of this is produced separately by another team in Mercer.

OVERALL

Over the 3 months to 30 June 2020, the Fund's total market value increased by £155.1m to £1,963,707,640.

Over the quarter, total Fund assets returned 8.2%, against a target of 6.8%. Total Fund (ex CRMF) returned 5.4%, above its target of 3.7%.

The performance of the underlying strategies was mixed; Total Equity (+20.4%), Tactical Allocation Portfolio (+8.5%) and Total Credit (+7.2%) posted positive returns, whilst Managed Account Platform (-0.2%) and In-House Assets (-3.0%) declined.

In relative terms, Total Fund assets were ahead of their target by 1.4%, mainly attributable to the Tactical Allocation portfolio, which outperformed its target by 7.8%, adding 2.0% to total relative performance.

Total Equities returned 20.4% outperforming its target by 1.7%. Overall, this added 0.2% towards total relative performance.

Total Credit also outperformed returning 7.2% against a target of 0.5%; in relative terms, this added 1.1% to performance.

Managed Futures and Hedge Funds declined -0.2%, underperforming its target by 1.3%.

In-House assets returned -3.0%, underperforming its target by 3.8%. In relative terms, this detracted 1.3% from performance. All sub-portfolios contributed negatively to total relative performance with the exception of Timber/Agriculture, which made a neutral contribution.

Insight's CRMF increased by 21.2%, due to a combination of a fall in gilt yields and positive performance from the equity overlay.

EQUITIES

Equity markets rallied over the quarter as investors felt optimistic regarding early stage trials of potential COVID-19 vaccines, as well as ongoing monetary and fiscal stimulus packages and signs of improvement in global economic activity.

In the United States, data at the beginning of the quarter confirmed the severe impact of the lockdown measures, however, subsequent easing of the restrictions, loose monetary policy and early indications of a recovery led to widespread gains in the market. Tensions between the US and China reignited in May as China was criticised for its plans to impose a national security law on Hong Kong and was blamed for mishandling the COVID-19 outbreak. In Europe, the European Commission president, Ursula von der Leyen, called for the power to borrow €750bn for a recovery fund to support the worst affected EU regions. This news, along with the easing of lockdown restrictions in Europe supported share prices in the region.

In Developed Markets, all regions posted double-digit positive returns; North American and Asia Pacific (ex Japan) equities led performance returning 21.9% and 21.6%, respectively. Europe (ex UK) rose by 18.9%, whilst Japanese and UK equities rose by 12.2% and 10.2%, respectively.

Over the last 12 months, UK and Asia Pacific (ex Japan) returned -13.0% and -5.4%, respectively, whilst all other Developed Markets generated positive returns. North American equities were the strongest performers returning 10.9%.

Emerging Markets and Frontier Markets both rose by 18.9% and 17.5%, respectively, over the quarter. Over the last 12 months, both Emerging and Frontier Markets were negative, returning -0.4% and -25.1%, respectively.

Total Equity assets generated 20.4% compared to a composite target of 18.7%. Russell WPP Global Opportunities Fund returned 18.6% against a target of 20.2% whilst BlackRock World Multifactor returned 15.8%, marginally outperforming its target of 15.7%. Wellington Emerging Market (Core) and Wellington Emerging Market (Local) both outperformed their targets, returning 25.2% and 24.0% against targets of 18.9% and 19.2%, respectively.

In the Emerging Market portfolio, performance was driven by strong stock selection at both the country and sector level. At the country level, China, Brazil and Taiwan led performance although the performance was partially offset by selection in South Korea, Peru and Poland. Strong selection in the Consumer Discretionary, Materials and Information Technology sectors was partially offset by selection in Industrials.

Wellington Emerging Market (Core) fund was above its 3-year performance objective, whilst Wellington Emerging Market (Local) had not met its objective at the end of the quarter.

CREDIT

Credit markets generated positive returns over the quarter driven by factors such as the protests in the US, the US-China dispute and an increase in Brexit uncertainty. Majority of sovereign yields remained near record lows across most developed markets, supported by central bank actions. In the UK, the 2 year bond dropped below zero for the first time as the Bank of England (BoE) discussed the possibility of negative interest rates.

The Bank of England's monetary policy committee voted unanimously to maintain the base rate at 0.1% at its meeting in June. The committee also voted to continue with the existing £200bn of bond purchases, as well as increase the target stock of purchased UK gilts by £100bn, which will take the total stock of asset purchases to £745bn. The US Federal Reserve's Open Market Committee held interest rates at the current target range of 0% - 0.25% and officials have predicted that interest rates will remain close to zero until at least the end of 2022. The European Central Bank announced a further €600bn increase to the ongoing Pandemic Emergency Purchase Programme (PEPP). This now takes the PEPP to a total of €1.35tn, with the ECB on track to buy €1.4tn of assets this year.

Over the quarter, Long Dated Conventional Gilts, Index-Linked Gilts and UK Corporate Bonds increased by 3.9%, 11.5% and 16.3%, respectively. Emerging Market Local Currency Debt and Emerging Market Hard Currency Debt returned 10.2% and 12.3%, respectively. Global High Yield increased by 11.0%.

Total Credit assets increased by 7.2% over the quarter, outperforming its target of 0.5%. The Multi-Asset Credit sub-portfolio returned 9.2% against a target of 0.3%, whilst the Private Credit sub-portfolio (which remains in its commitment phase) delivered a negative return of -1.6% against a target of 1.7%.

Permira Credit Solutions III (European mandate) and BlackRock Middle Market Senior (North American mandate) were c.87% and c.71% funded respectively at the end of June, as capital deployment continues for both funds.

Within Investment Grade, four of the five best performing sectors were linked to energy, which benefited from higher oil prices whilst Transport and Leisure sectors continued to suffer from the effects of COVID-19. The best performing sectors over the quarter were Energy, Refining and Oil Field Services while the worst sectors were Airlines, Leisure and Consumer Cyclical Services.

Within US High Yield, 9 of 34 sectors outperformed the benchmark; the best performing sectors were E&P, Midstream and Drillers/Services. Airlines, Satellites and Transportation were the worst performing sectors.

In Emerging Market Debt, the top contributors to performance were the issue selections in Mexico as well as overweight to Angola and Ecuador. The main detractors from performance were the issue selection in Angola and Ecuador and overweight in Venezuela.

HEDGE FUNDS

Hedge Funds returned 9.5% in Sterling terms and 9.1% in US dollar terms, over the quarter. Equity Hedge strategies were the best performing strategies, returning 13.7% (Sterling) and 13.3% (US dollar). Global Macro strategies were the worst performing strategies over the quarter, returning 1.1% (Sterling) and 0.8% (US dollar).

ManFRM's Managed Futures & Hedge Funds strategy declined by -0.2%, underperforming its target by 1.3%. ManFRM Hedge Funds (Legacy) assets, which now consists of the Liongate assets, returned 0.5% over the quarter, underperforming its target of 1.1%.

TACTICAL ALLOCATION PORTFOLIO

DIVERSIFIED GROWTH

Total Diversified Growth assets rose by 7.6% over the quarter, outperforming the target of 1.1%.

Pyrford returned 6.2%, above its target by 5.1%. The equity holdings proved to be beneficial, with both UK and overseas equities generating strong returns. Within bonds, UK bonds contributed positively to performance but underperformed the wider market. Overseas bond holdings also generated positive returns, boosted by the depreciation in Sterling.

Ninety One returned 9.1%, above its target by 8.0%. 'Growth' and 'Uncorrelated' strategies contributed positively to performance whilst 'Defensive' strategies detracted from performance. Within 'Growth' strategies, equities were a main contributor to performance, with the active total return equity and emerging market domestic growth strategies performing well. Within 'Uncorrelated' strategies, gold and infrastructure exposure added to performance as markets recovered from the short-term falls in March. The risk-on sentiment in markets negatively impacted the 'Defensive' strategies as the positions designed to provide protection from falling markets detracted from performance.

BEST IDEAS PORTFOLIO

The Best Ideas Portfolio rose 9.3% over the quarter, ahead of target of 0.7%. The portfolio was behind its 12-month and 3-year target by 4.6% and 2.3%, respectively.

All the underling funds within the Best Ideas portfolio generated positive returns over the quarter. Ninety One Global Natural Resources led performance returning 27.1%, followed by BlackRock US Opportunities, which returned 16.7%. LGIM Global Corporate Bonds and LGIM UK Equities rose by 9.4% and 9.1%, respectively. LGIM Infrastructure generated a return of 3.7%.

In April, the entire holdings in the PIMCO Emerging Market Debt Local (c. £24.1m) were disinvested and proceeds invested in LGIM High Yield Bonds (£10m) and LGIM Sterling Liquidity (c. £14.1m). In early May, £17.5m was disinvested from LGIM North American Equities (Hedged) and invested in LGIM Sterling Liquidity. Later in the month, LGIM North American Equities (Hedged) was fully redeemed and proceeds (c. £21.7m) were transferred to the unhedged version of the same fund. Additionally, the entire holding in LGIM Global Real Estate Equity (c. £15.7m) was disinvested and proceeds invested in LGIM Infrastructure.

IN-HOUSE ASSETS

Total In-House assets returned -3.0% behind its target of 0.8%. Overall, this detracted 1.3% to total relative performance. The two sub-sections of the In-House assets; Real Assets Portfolio and Private Markets Portfolio returned -1.6% and -4.6%, respectively.

Within the Real Assets Portfolio, Property outperformed returning -1.2% against a target of -2.3%. Timber/ Agriculture returned 1.4% in line with its target, whilst Infrastructure underperformed returning -2.5% against a target of 1.4%.

Within the Private Markets Portfolio, both Private Equity and Opportunistic assets underperformed their targets. Private Equity returned -6.0% against a target of 1.4%, whereas Opportunistic assets returned 0.7% against a target of 1.4%.

2 STRATEGIC ASSET ALLOCATION
30 JUNE 2020

Allocation by underlying asset class

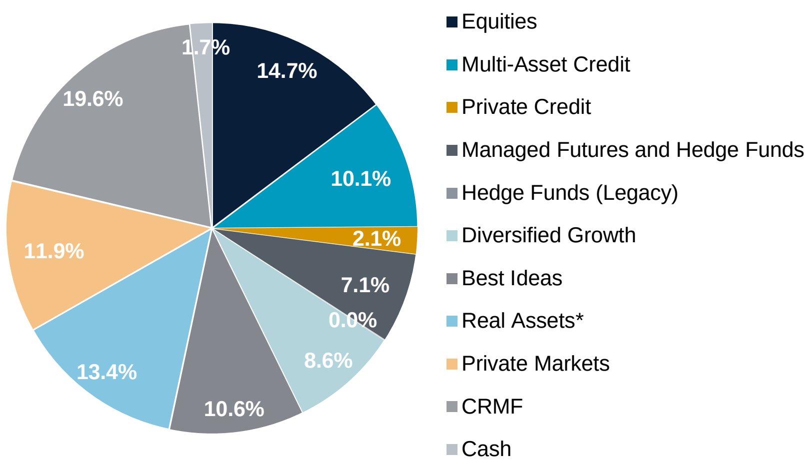
Asset Class	Market Value £	Weight %	Strategic Allocation %	Relative %	Strategic Range %
Global Equities	164,365,891	8.4	8.0	+0.4	5.0 – 10.0
Emerging Market Equities	125,008,532	6.4	6.0	+0.4	5.0 – 7.5
Multi-Asset Credit	199,095,470	10.1	12.0	-1.9	10.0 – 15.0
Private Credit[2]	41,857,625	2.1	3.0	-0.9	2.0 – 5.0
Managed Futures and Hedge Funds	139,831,548	7.1	9.0	-1.9	7.0 – 11.0
Hedge Funds (Legacy)[1]	469,584	0.0	0.0	0.0	–
Diversified Growth	168,451,947	8.6	10.0	-1.4	8.0 – 12.0
Best Ideas	208,098,856	10.6	11.0	-0.4	9.0 – 13.0
Property	125,877,484	6.4	4.0	+2.4	2.0 – 6.0
Infrastructure / Timber / Agriculture	138,130,169	7.0	8.0	-1.0	5.0 – 10.0
Private Equity / Opportunistic	234,419,393	11.9	10.0	+1.9	8.0 – 12.0
CRMF & Synthetic Equities	384,759,494	19.6	19.0	+0.6	10.0 – 30.0
Cash	33,341,647	1.7	0.0	+1.7	0.0 – 5.0
TOTAL CLWYD PENSION FUND	**1,963,707,640**	**100.0**	**100.0**	**0.0**	

Notes: [1] Hedge Funds (Legacy) includes the Liongate portfolio and is provided by ManFRM. [2] The Private Credit allocations are not yet fully funded.
Totals may not sum due to rounding.

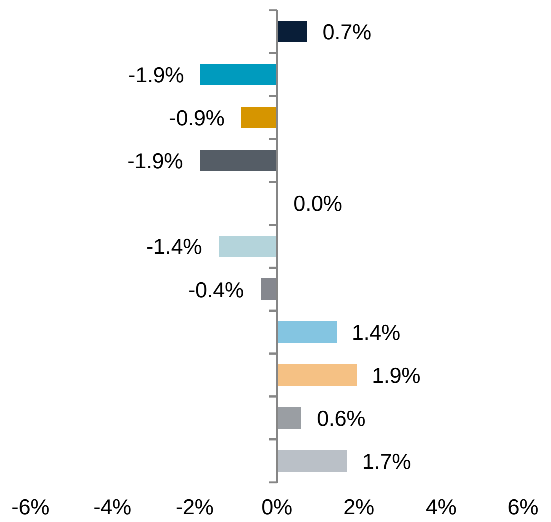
Points to note

- Permira Credit Solutions III (European mandate) and BlackRock Middle Market Senior (North American mandate) were c.87% and c.71% funded at the end of June 2020.
- The total allocation to the CRMF is now overweight by 0.6% relative to its strategic allocation.

Strategic Asset Allocation as at 30 June 2020



Deviation from Strategic Allocation



Notes: Totals may not sum due to rounding. * In-House Property, Infrastructure and Timber/Agriculture portfolios.

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3 VALUATION AND ASSET ALLOCATION
AS AT 30 JUNE 2020

Manager	Fund	Market Value £	Weight %	Strategic Allocation %	Strategic Range %
Russell	WPP Global Opportunities	88,835,891	4.5	4.0	5.0 – 10.0
BlackRock	ACS World Multifactor Equity	75,530,000	3.8	4.0	
Wellington	Emerging Markets (Core)#	62,857,038	3.2	3.0	5.0 – 7.5
Wellington	Emerging Markets (Local)#	62,151,494	3.2	3.0	
Total Equity		**289,374,423**	**14.7**	**14.0**	
Stone Harbor	LIBOR Multi-Strategy	127,637,863	6.5	12.0	10.0 – 15.0
Stone Harbor	Multi-Asset Credit	71,457,607	3.6		
Multi-Asset Credit Portfolio		**199,095,470**	**10.1**	**12.0**	**10.0 – 15.0**
Permira	Credit Solutions III	25,997,444	1.3	1.8	2.0 – 5.0
BlackRock	Middle Market Senior	15,860,181	0.8	1.2	
Private Credit Portfolio		**41,857,625**	**2.1**	**3.0**	**2.0 – 5.0(1)**
Total Credit		**240,953,095**	**12.3**	**15.0**	**10.0 – 20.0**
ManFRM	Managed Futures & Hedge Funds	139,831,548	7.1	9.0	7.0 – 11.0
ManFRM	Hedge Funds (Legacy)*	469,584	0.0	0.0	–
Managed Account Platform		**140,301,133**	**7.1**	**9.0**	**7.0 – 11.0**
Pyrford	Global Total Return	86,594,705	4.4	5.0	8.0 – 12.0
Investec	Diversified Growth	81,857,242	4.2	5.0	
Diversified Growth Portfolio		**168,451,947**	**8.6**	**10.0**	**8.0 – 12.0**
BlackRock	US Opportunities	8,482,606	0.4	11.0	9.0 – 13.0
Investec	Global Natural Resources	18,687,432	1.0		
LGIM	Infrastructure Equities MFG (Hedged)	34,718,348	1.8		
LGIM	Sterling Liquidity	67,814,937	3.5		
LGIM	Global Corporate Bonds	36,076,281	1.8		
LGIM	High Yield Bonds	11,353,554	0.6		
LGIM	UK Equities	8,798,412	0.4		
LGIM	North American Equities (Hedged)	22,167,287	1.1		
Best Ideas Portfolio		**208,098,856**	**10.6**	**11.0**	**9.0 – 13.0**
Tactical Allocation Portfolio		**376,550,803**	**19.2**	**21.0**	**15.0 – 25.0**
In-House	Property	125,877,484	6.4	4.0	2.0 – 6.0
In-House	Infrastructure	118,333,959	6.0	8.0	5.0 – 10.0
In-House	Timber / Agriculture	19,796,210	1.0		
Real Assets Portfolio		**264,007,653**	**13.4**	**12.0**	**10.0 – 15.0**
In-House	Private Equity	182,790,670	9.3	10.0	8.0 – 12.0
In-House	Opportunistic	51,628,723	2.6		
Private Markets Portfolio		**234,419,393**	**11.9**	**10.0**	**8.0 – 12.0**
Total In-House Assets		**498,427,046**	**25.4**	**22.0**	
Insight	Cash & Risk Management Framework (CRMF)	384,759,494	19.6	19.0	10.0 – 30.0
Total Liability Hedging		**384,759,494**	**19.6**	**19.0**	**10.0 – 30.0**
Trustees	Cash	33,341,647	1.7	-	0.0 – 5.0
TOTAL CLWYD PENSION FUND		**1,963,707,640**	**100.0**	**100.0**	

Notes: * ManFRM Hedge Funds (Legacy) valuation includes the Liongate portfolios. # BlackRock Middle Market Senior, Wellington Emerging Markets Core and Local funds are converted from US Dollar to Sterling using WM/Reuters closing price exchange rates.[1] The Private Credit allocation is not yet fully funded.

4 PERFORMANCE SUMMARY

PERIODS ENDING 30 JUNE 2020

	Manager	Fund	3 months %		12 months %		3 years % p.a.		3 Yr Performance vs Objective
			Fund	Target	Fund	Target	Fund	Target	
n/a	**Russell**	WPP Global Opportunities	18.6	20.2	5.4	7.2	n/a	n/a	n/a
n/a	**BlackRock**	World Multifactor Equity Tracker	15.8	15.7	0.5	0.1	n/a	n/a	n/a
	Wellington	Emerging Markets (Core)#	25.2	18.9	6.0	0.9	5.9	5.0	Target met
	Wellington	Emerging Markets (Local)#	24.0	19.2	-2.9	1.9	2.7	6.1	Target not met
Total Equity			**20.4**	**18.7**	**2.3**	**3.9**	**5.8**	**7.3**	
	Stone Harbor	LIBOR Multi-Strategy	8.3	0.3	-3.6	1.6	-0.6	1.6	Target not met
	Stone Harbor	Multi-Asset Credit	10.9	0.3	-2.8	1.6	0.4	1.6	Target not met
Multi-Asset Credit Portfolio			**9.2**	**0.3**	**-3.3**	**1.6**	**-0.3**	**1.6**	
	Permira	Credit Solutions III	-2.8	1.5	1.8	6.0	5.8	6.0	Target not met
n/a	**BlackRock**	Middle Market Senior#	0.4	2.2	4.5	9.0	n/a	n/a	n/a
Private Credit Portfolio			**-1.6**	**1.7**	**2.5**	**6.8**	**5.4**	**6.5**	
Total Credit			**7.2**	**0.5**	**-2.4**	**2.3**	**0.3**	**2.1**	
	ManFRM	Managed Futures & Hedge Funds	-0.2	1.1	-0.7	4.3	0.2	4.2	Target not met
	ManFRM	Hedge Funds (Legacy)*	0.5	1.1	-12.3	4.3	-43.6	4.2	Target not met
Managed Account Platform			**-0.2**	**1.1**	**-0.7**	**4.3**	**-1.0**	**4.2**	
	Pyrford	Global Total Return	6.2	1.1	2.5	5.6	1.5	7.0	Target not met
	Ninety-One	Diversified Growth	9.1	1.1	-4.6	5.2	-1.5	6.4	Target not met
Total Diversified Growth			**7.6**	**1.1**	**-1.1**	**5.4**	**0.0**	**6.7**	
	Best Ideas Portfolio		**9.3**	**0.7**	**-1.0**	**3.6**	**2.4**	**4.7**	Target not met
Tactical Allocation Portfolio			**8.5**	**0.7**	**-1.0**	**3.6**	**2.4**	**4.7**	
	In-House	Property	-1.2	-2.3	1.4	-2.8	5.9	4.0	Target met
	In-House	Infrastructure	-2.5	1.4	3.2	5.9	6.9	5.8	Target met
	In-House	Timber / Agriculture	1.4	1.4	1.4	5.8	0.7	5.7	Target not met
Real Assets			**-1.6**	**0.2**	**2.1**	**2.8**	**5.6**	**4.9**	
	In-House	Private Equity	-6.0	1.4	6.2	5.8	10.9	5.7	Target met
	In-House	Opportunistic	0.7	1.4	6.1	5.8	9.2	5.8	Target met
Private Markets Portfolio			**-4.6**	**1.4**	**6.1**	**5.8**	**10.6**	**5.7**	
Total In-House Assets			**-3.0**	**0.8**	**4.0**	**4.2**	**8.0**	**5.3**	
n/a	**Insight**	Cash & Risk Management Framework (CRMF)	21.2	21.2	-2.0	-2.0	5.5	5.5	n/a
Total (ex CRMF)			**5.4**	**3.7**	**1.0**	**4.1**	**4.0**	**5.1**	
TOTAL CLWYD PENSION FUND			**8.2**	**6.8**	**0.3**	**2.9**	**4.3**	**5.2**	
Strategic Target (CPI +4.1%)			**1.6**		**6.2**		**6.2**		
Actuarial Target (CPI +2.0%)			**1.0**		**4.1**		**4.1**		

Notes: 'n/a' against the objective is for funds that have been in place for less than three years. * ManFRM Hedge Funds (Legacy) valuation includes the Liongate portfolios.
BlackRock Middle Market Senior, Wellington Emerging Markets Core and Local funds are converted from US Dollar to Sterling using WM/Reuters closing price exchange rates.
Strategic and Actuarial targets are derived from Mercer's Market Forecasting Group assumptions (based on conditions at 31 December 2020). Current 10-year CPI assumption: 2.1% p.a.

Fund has met or exceeded its performance target Fund has underperformed its performance target

5 STRATEGIC ASSET CLASSES
PERFORMANCE TO 30 JUNE 2020

Strategy	3 months %	12 months %	3 years % p.a.
Total Equities	**20.4**	**2.3**	**5.8**
Composite Objective	18.7	3.9	7.3
Composite Benchmark	18.4	2.7	5.8
Total Credit	**7.2**	**-2.4**	**0.3**
Objective	0.5	2.3	2.1
Benchmark	0.3	1.5	1.2
Managed Account Platform	**-0.2**	**-0.7**	**-1.0**
Objective	1.1	4.3	4.2
Benchmark	1.1	4.3	4.2
Total Hedge Funds (Legacy)	**0.5**	**-12.3**	**-43.6**
Composite Objective	1.1	4.3	4.2
Composite Benchmark	1.1	4.3	4.2
Total Diversified Growth	**7.6**	**-1.1**	**0.0**
Composite Objective	1.1	5.4	6.7
Composite Benchmark	1.1	5.4	6.7
Best Ideas Portfolio	**9.3**	**-1.0**	**2.4**
Objective	0.7	3.6	4.7
Benchmark	0.7	3.6	4.7
Total In-House Assets	**-3.0**	**4.0**	**8.0**
Composite Objective	0.8	4.2	5.3
Composite Benchmark	0.8	4.2	5.3
Total CRMF Portfolio	**21.2**	**-2.0**	**5.5**
Composite Objective	21.2	-2.0	5.5
Composite Benchmark	21.2	-2.0	5.5
Total (ex CRMF)	**5.4**	**1.0**	**4.0**
Composite Objective	3.7	4.1	5.1
Composite Benchmark	3.3	3.4	4.6
Total Clwyd Pension Fund	**8.2**	**0.3**	**4.3**
Composite Objective	6.8	2.9	5.2
Composite Benchmark	6.5	2.3	4.7

Source: Performance is calculated by Mercer based on data provided by the managers and is only shown for complete periods of investment.

Notes: Objective performance includes the funds' outperformance targets above the relevant underlying benchmarks, as shown in the Appendix. Benchmark performance is based on the underlying benchmarks without the explicit outperformance targets for the relevant funds within the Equity and Multi-Asset Credit portfolios.

6 SUMMARY OF MANDATES

MERCER

Manager	Fund	Strategic Asset Class	Performance Objective (Net of Fees)	Strategic Allocation
Russell	WPP Global Opportunities	Global Developed Equities	MSCI AC World Index NDR +2.0% p.a.	4.0%
BlackRock	World Multifactor Equity Tracker	Global Developed Equities	MSCI World Diversified Multiple-factor Index Midday Net	4.0%
Wellington	Emerging Market (Core)	Emerging Markets Equities	MSCI Emerging Markets Index +1.0% p.a.	3.0%
Wellington	Emerging Market (Local)	Emerging Markets Equities	MSCI Emerging Markets Index +2.0% p.a.	3.0%
Total Equity			**Composite Weighted Index**	**14.0%**
Stone Harbor	LIBOR Multi-Strategy	Multi-Asset Credit	1 Month LIBOR Index +1.0% p.a.(1)	12.0%
Stone Harbor	Multi-Asset Credit	Multi-Asset Credit	1 Month LIBOR Index +1.0% p.a.	
Permira	Credit Solutions III	Private Credit	Absolute Return 6.0% p.a.	1.8%
BlackRock	Middle Market Senior	Private Credit	Absolute Return 9.0% p.a.	1.2%
Total Credit			**Composite Weighted Index**	**15.0%(4)**
ManFRM	Managed Futures & Hedge Funds	Managed Account Platform	3 Month LIBOR Index +3.5% p.a.	9.0%(3)
Managed Account Platform			**3 Month LIBOR Index +3.5% p.a.**	**9.0%**
Pyrford	Global Total Return	Diversified Growth	UK Retail Price Index +4.5% p.a.(2)	5.0%
Investec	Diversified Growth	Diversified Growth	UK Consumer Price Index +4.6% p.a.	5.0%
Best Ideas	Best Ideas	Best Ideas Portfolio	UK Consumer Price Index +3.0% p.a.	11.0%
Tactical Allocation Portfolio			**UK Consumer Price Index +3.0% p.a.**	**21.0%**
In-House	Private Equity	Private Markets	3 Month LIBOR Index +5.0% p.a.	8.0%
In-House	Opportunistic	Private Markets	3 Month LIBOR Index +5.0% p.a.	2.0%
In-House	Property	Property	MSCI UK Monthly Property Index	4.0%
In-House	Infrastructure	Infrastructure	3 Month LIBOR Index +5.0% p.a.	6.0%
In-House	Timber / Agriculture	Infrastructure	3 Month LIBOR Index +5.0% p.a.	2.0%
Total In-House			**Composite Weighted Index**	**22.0%**
Insight	LDI Portfolio	LDI & Synthetic Equities	Composite Liabilities & Synthetic Equity	19.0%
Total Liability Hedging			**Composite Liabilities & Synthetic Equity**	**19.0%**

Notes: [1] FTSE A Gilts All Stocks Index until 31 March 2014. [2] UK Retail Price Index +4.4% p.a. until 31 March 2015. [3] Strategic Allocation represents the composite benchmark for the Managed Account Platform. [4] Committed but uninvested element of the Private Credit strategic allocation is represented by 1 Month LIBOR Index +1.0% p.a.

CONTACT

KIERAN HARKIN
Director
+44 (0)161 957 8016
Kieran.Harkin@mercer.com

NICK BUCKLAND
Senior Consultant
+44 (0)207 528 4188
Nick.Buckland@mercer.com

ANTHONY WRAY
Consultant
+44 (0)161 253 1121
Anthony.Wray@mercer.com

NATALIE ZANI
Associate Consultant
+44 (0)161 253 1124
Natalie.Zani@mercer.com

ANDREW MUNRO
Associate Consultant
+44 (0)161 931 4497
Andrew.Munro@mercer.com

DANIEL WILSON
Associate
+44 (0)161 200 6806
Daniel.Wilson@mercer.com

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 7 October 2020
Report Subject	Pooling Investments in Wales
Report Author	Head of Clwyd Pension Fund

EXECUTIVE SUMMARY

The purpose of this report is to provide an update on the work undertaken on behalf of the Wales Pension Partnership (WPP) with pooling investments in Wales. There are no decisions required by the Clwyd Fund Committee, however comments on progress from this Committee can be raised with the WPP by our Chair or officers as appropriate. This update report follows a series of previous reports on the progress of the WPP, the last being February 2020.

The WPP Officer Working Group (OWG) has continued to work on a remote basis during the pandemic with the Joint Governance Committees (JGC) meeting on three occasions; 12 March 2020, 17 July 2020 and 11 September 2020. During this period all eight constituent authorities have agreed the WPP 2020/21 to 2022/23 Business Plan and good progress has been made with the 2020/21 Work Plan although some pooling of assets has, and will, take longer than originally planned. The Work Plan for 2020/21 includes the following areas:

- Governance
- Ongoing Establishment of pooling assets
- Monitoring Operator Services
- Training, communication and reporting
- Monitoring resources, budget and fees.

The Head of Clwyd Pension Fund and Deputy continue to assist the Host Authority (Carmarthenshire County Council) and the WPP Oversight Adviser (Hymans Robertson) with their respective roles, as well as representing the interests of the Clwyd Pension Fund on the Officer Working Group. The next JGC is planned for 10th December 2020.

RECOMMENDATIONS	
1	That the Committee note the report and discuss and agree any comments or questions for WPP.

REPORT DETAILS

1.00	**Pooling Investment in Wales**
1.01	**Governance** As agreed in the Inter-Authority Agreement (IAA) the role of Chair and Vice Chair is rotated annually and at the 17 July 2020 Joint Governance Committee (JGC) Councillor Glyn Caron was appointed Chair of the JGC (Torfaen) and Councillor Clive Lloyd (Swansea) was appointed Vice Chair. There have been JGC meetings on 12 March, 17 July and 11 September since the last Clwyd Pension Fund Committee on 20 February 2020. The minutes of the most recent meeting in September are attached as Appendix 1. During these committees a number of new documents and policies including the following have been approved, and where necessary under the IAA reserved matters, also approved by Constituent Authorities: • Business Plan 2020-2023 • Conflicts of Interest Policy • Training Plan for 2020/21 • Risk Policy & Risk Register • Climate Risk Policy (as part of Responsible Investment Policy). Given the ongoing work at Clwyd Pension Fund in relation to Responsible Investments, the WPP Responsible Investment and Climate Risk Policies are attached for information. The other policies and business plan can be found on the WPP website - https://www.walespensionpartnership.org/publications/. The public report packs for these JGCs can be found here – http://democracy.carmarthenshire.gov.wales/ieListMeetings.aspx?CommitteeId=234. To enhance governance of the WPP the Host Authority meets with Chairs of the constituent authority Local Pension Boards. The last meeting was held on 15th September (to replace the meeting that was postponed during lockdown). It was attended by Karen McWilliam as Chair of the Clwyd Pension Board. Karen has fed back that it was a productive meeting that was represented by all Welsh Local Pension Boards. The meeting included updates from the Host Authority, Link and Russell. The consideration of scheme member representation at JGC is planned as an agenda item for the next JGC on 10 December 2020.
1.02	As part of the implementation of the WPP Responsible Investment Policy and following a competitive tender, in which the Deputy Head of the Clwyd Fund participated in the evaluation, Robeco have been appointed as Voting and Engagement Advisor for the WPP. This is a key new appointment to the WPP. Given the importance and complexities of Responsible Investment and Climate Risk a new RI sub group has been agreed which will report to the OWG on how to implement, report and measure progress with these policies. The group will include the Deputy Head of Clwyd Pension Fund along with other

	practitioners who will be advised by Hymans Robertson as WPP Oversight Advisor and Robeco.
1.03	**Ongoing Establishment of Pooling Assets** Following approval in June 2019 from this Committee, £200m 10% of the Fund's assets were transferred from Stone Harbor multi asset credit funds to the WPP Multi Asset Credit fund over a period of 3 dates in August and September In addition, as part of the rebalancing of assets as a result of the recent agreed Investment Strategy review, an additional £9.3m was invested with the Russell Global Opportunities Fund. This now means that 15 % of the Fund's assets are now managed through WPP. The Fund also holds assets with BlackRock, the WPP passive equity manager. These amount to another 9% (5% in the Global ESG Fund and 4% in Emerging Market Equities) Work continues on the implementation of the WPP Emerging Market equity sub fund with a revised planned implementation date of May 2021. A recommendation will be made at a future Clwyd Pension Fund Committee on the potential transfer of 10% of the Fund's assets to this new fund. Work also continues on various options for the pooling of private market assets across infrastructure, private equity, private debt and property. As outlined in the WPP Business Plan this will be implemented over the next three years and recommendations will be made to this Committee when appropriate.
1.04	**Monitoring Operator Services** The Operator, alongside the third parties that it appoints on behalf of the WPP, are critical to the ongoing activities of the WPP. In terms of assets under management, the OWG and JGC receive updates from both Link and Russell. There is an engagement protocol between the Host Authority and the Operator although the Work Plan for 2020/21 includes enhancing this framework.
1.05	**Training, Communication and Reporting** The WPP Training Plan for 2020/21 is being implemented and constituent authority Committee and Local Pension Board members are invited to most sessions. Sessions currently offered to the constituent authorities include: • Engagement and Voting provided by Robeco • Climate Risk Performance Metrics and Asset Classes • Pooling Progress and Collaboration Opportunities Details and dates have been circulated to Committee and Board members and included on the Fund training plan. The WPP is finalising its first Annual Report & Accounts which will be included on their website. The Accounting Statements and Annual Governance Statement sections of the Annual Return were prepared by the Host Authority and Carmarthenshire County Council's Internal Audit Department had carried out an Internal Audit Review. The Annual Return has been audited by Audit

	Wales and was approved at the JGC meeting in July. A questionnaire is being prepared for constituent authorities on their views on the WPP and what they would like to see from WPP in the future.
1.06	**Monitoring Resources, Budget & Fees** The current contract for the WPP Legal Advisor, which ended on 30 June 2020, was extended. However the procurement process using the LGPS Framework is now in progress and a recommendation will be made to the next JGC.

2.00	RESOURCE IMPLICATIONS
2.01	The costs of the Host Authority and advisors appointed on behalf of the eight funds to assist with the implementation process are being shared equally between the eight WPP LGPS funds and are included in the 2020/21 budget. The estimated Operator costs are also included within that budget.
2.02	There has been considerable time allocated by the Head and Deputy Head of Clwyd Pension Fund on WPP matters which has impacted on time available for other Fund matters. This is expected to continue for the foreseeable future and may result in greater reliance on external advisers for other matters than would otherwise be the case.

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	None.

4.00	RISK MANAGEMENT
4.01	How the Wales Pension Partnership operates will be key in enabling the Fund to implement its investment strategy in the future. If performance is not in line with the assumptions in our strategy, it will impact on the cost of the scheme to employers at future Actuarial Valuations. In addition, further guidance on pooling is expected from MHCLG in 2020 and the implications of that guidance are not yet known. Given these points, this risk continues to be categorised as significant in the Fund's risk register.
4.02	WPP has now developed its own risk register. The three risks that are currently flagged as concerns are: • **The WPP's suppliers fail to deliver on their contractual commitments.** ○ This could mean work in progress is uncompleted or delayed, stakeholders' requirements are not met and/or inappropriate decisions are made that lead to financial loss, inefficiencies or reputational risk.

	◦ The action that is being taken is to formulate a shortlist of "potential replacement suppliers" that could be appointed if required, which would accelerate the timeframe for the appointment of a replacement supplier if required. • **The WPP's Operator fails to deliver on its contractual obligations or stops providing operator services due to existing market or regulatory restrictions**. ◦ This could mean the WPP assets held by the Operator are put at risk, some of the WPP contracts are broken or the WPP is unable to work efficiently, required work is not completed or sub-funds are unable to be managed or launched. ◦ The action that is being taken is the OWG will develop an 'impact limitation procedure' which could be enacted if the Operator were to exit the market or if an immediate replacement needed to be appointed. The OWG is also continuing to monitor any developments resulting from the FCA's review of the ACD Operator market. • **Key personnel risk at the Host Authority**. ◦ This could mean the Host Authority is unable to provide support to the WPP, no or ineffective action is taken leading to financial loss or efficiencies, or key knowledge and existing relationships are lost. ◦ The OWG will consider what action will be taken if key personnel at the Host Authority leave and consider what additional control could be put in place to reduce the risk probability and the potential impact on business continuity.

5.00	**APPENDICES**
5.01	Appendix 1 – WPP JGC Minutes 11th September 2020 Appendix 2 – WPP Responsible Investment Policy Appendix 3 – WPP Climate Risk Policy.

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	• Earlier Committee reports on the progress of the WPP. • The Wales Pension Partnership Inter-Authority Agreement. **Contact Officer:** Philip Latham, Head of Clwyd Pension Fund **Telephone:** 01352 702264 **E-mail:** philip.latham@flintshire.gov.uk

7.00	**GLOSSARY OF TERMS**
7.01	(a) **The Fund – Clwyd Pension Fund** – The Pension Fund managed by Flintshire County Council for local authority employees in the region

	and employees of other employers with links to local government in the region (b) **Administering authority or scheme manager** – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund. (c) **The Committee – Clwyd Pension Fund Committee** - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund (d) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of **(e) Inter-Authority Agreement (IAA) –** the governance agreement between the eight Wales pension funds for purposes of pooling **(f) Wales Pension Partnership (WPP) –** the name agreed by the eight Wales pension funds for the Wales Pool of investments **(g) The Operator –** an entity regulated by the FCA which provides both the infrastructure to enable the pooling of assets and fund management advice. For the Wales Pension Partnership, the appointed Operator is Link

WALES PENSION PARTNERSHIP JOINT GOVERNANCE COMMITTEE

Friday, 11 September 2020

PRESENT: Councillor G. Caron (Chair)

Councillors:
P. Lewis, C. Lloyd, M. Norris, J.Pughe Roberts, C. Weaver and D.E. Williams.

The following officers were in attendance:
C. Moore, Joint Committee Section 151 Officer (CCC)
L.R. Jones, Joint Committee Monitoring Officer (CCC)
N. Aurelius, Assistant Chief Executive - Resources (TCC)
B. Davies, Director of Financial Services (RCT)
J. Dong, Chief Treasury & Technical Officer (C&CS)
D. Jones-Thomas, Investment Manager (GCC)
P. Latham, Pension Fund Manager (FCC)
C. Lee, Corporate Director of Resources (CoC)
A. Parnell, Treasury & Pension Investments Manager (CCC)
J. Thomas, Head of Financial Services (PCC)
T. Williams, Senior Financial Services Officer (CCC)
J. Laimann, Assistant Democratic Services Officer (CCC)

Also present as observers:
C. Hurst, Pension Fund Manager (PCC)
K. Cobb, Senior Accountant (C&CS)
G. Watkins, Assistant Director of Financial Services (CoC)
D. Fielder, Deputy Head Clwyd Pension Fund (FCC)
B. Owen, Pension Investment Officer (CCC)
A. Bull, Pensions Investment Manager (TCC)

Also present:
A. Tookey, Link Fund Solutions
D. Lowman, Link Fund Solutions
R. Thornton, Link Fund Solutions
K. Midl, Link Fund Solutions
J. Leggate, Russell Investments
S. Mandich, Russell Investments
A. Quinn, Russell Investments
F. Hope, Hymans Robertson
J. Wright, Hymans Robertson
A. Johnstown, Hymans Robertson
D. Armstrong, Northern Trust
N. Round, Northern Trust
R. Smith, Northern Trust

Virtual Meeting - . 10.00 - 11.25 am

1. **APOLOGIES FOR ABSENCE**

The Joint Governance Committee was advised that Cllr. Aaron Shotton had been replaced by Cllr. Ted Palmer. The Chair thanked Cllr. Shotton for his contributions on behalf of the Joint Governance Committee.

Apologies for absence were received from Cllr. Ted Palmer and Mr Dafydd Edwards, with Delyth Jones-Thomas attending as Mr Edward's deputy.

2. **DECLARATIONS OF INTEREST**

G. Caron	Member of the Greater Gwent Pension Fund; Wife is deferred member of the Greater Gwent Pension Fund; Son-in-law is member of the Greater Gwent Pension Fund
P. Lewis	Member of the Powys Pension Fund
C. Lloyd	Member of the City & County of Swansea Pension Fund
M. Norris	Member of the Rhondda Cynon Taf Pension Fund
E. Williams	Member of the Dyfed Pension Fund

[Note: There is an exemption within the Code of Conduct for Members, which allows a member who has been appointed or nominated by their authority to a relevant body to declare that interest but remain and participate in the meeting.]

3. **TO SIGN AS A CORRECT RECORD THE MINUTES OF THE MEETING OF THE JOINT COMMITTEE HELD ON THE 17TH JULY 2020**

RESOLVED that the minutes of the Joint Governance Committee meeting held on 17th July 2020 be signed as a correct record.

4. **HOST AUTHORITY UPDATE**

[Note: Due to technical difficulties, Councillor Clive Lloyd took over the chairing of the proceedings from this item onwards.]

The Joint Committee received a progress update in relation to the following key areas:

- Governance;
- Ongoing establishment;
- Operator services;
- Communications and reporting;
- Training and meetings; and
- Resources, budget and fees.

The JGC was advised that the scheme member representation proposal was still being developed and would be brought to a future meeting of the JGC.

In response to a query, the JGC was advised that a knowledge assessment questionnaire would be considered in line with a Requirements & Ambitions questionnaire that was currently being drafted.

A question was raised regarding the percentage of total pension fund assets that had been transitioned into the WPP. The JGC was advised that the total percentage was around 65% and that the figure varied between the individual Pension Funds.

RESOLVED that the Host Authority update be received.

5. OPERATOR UPDATE

The Joint Committee received an update from Duncan Lowman and Richard Thornton of Link Fund Solutions and Sasha Mandich of Russell Investments on the progress of the Wales Pension Partnership in relation to the following key areas:

- Current Fund Holdings;
- Fund Launch Progress;
- Corporate Update and Engagement.

The JGC was advised that Richard Thornton had been appointed Head of Relationships Management within Link.

RESOLVED that the update be received.

6. PERFORMANCE REPORTS AS AT 30 JUNE 2020

The JGC received a presentation on the performance reports for the Global Growth Fund, the Global Opportunities Fund and the UK Opportunities Fund as at 30 June 2020.

It was noted that the market values of all three sub funds had increased during the last quarter. WPP Global Growth Fund increased from £1,961,972,648 to £2,373,367,154, WPP Global Opportunities Fund increased from £1,881,872,223 to £2,230,646,643 and the UK Opportunities Fund increased from £480,052,962 to £545,585,824. From inception to date, Global Growth and Global Opportunities had outperformed their benchmarks by 0.42% (gross) / (underperformed by 0.01) (net), and 0.93% (gross) / 0.57% (net). UK Opportunities had underperformed their benchmarks by 1.11% (gross) / 1.39% (net).

In response to a query on target weights, the JGC was advised that these were the weights that had been agreed when the funds had been launched and they could be rebalanced subject to further discussions and agreement from the OWG and JGC.

RESOLVED that the performance reports for the WPP Global Growth Fund, the Global Opportunities Fund and the UK Opportunities Fund as at 30 June 2020 be received.

7. EXCLUSION OF THE PUBLIC

RESOLVED, pursuant to the Local Government Act 1972, as amended by the Local Government (Access to Information) (Variation) (Wales) Order 2007, that the public be excluded from the meeting during consideration of the following item as the reports contained exempt information as defined in paragraph 14 of Part 4 of Schedule 12A to the Act.

8. STOCK LENDING REPORT AS AT 30 JUNE 2020

Following the application of the public interest test it was RESOLVED, pursuant to the Act referred to in Minute 7 above, to consider this matter in private, with the public excluded from the meeting, as disclosure would be likely to cause financial harm to the WPP by prejudicing negotiations.

The JGC considered a report on the Stock Lending review as at 30 June 2020.

RESOLVED that the Stock Lending report as at 30 June 2020 be noted.

CHAIR **DATE**

Wales Pension Partnership
Responsible Investment Policy

1 Introduction and oversight

1.1 The Wales Pension Partnership ("WPP") is the pooling arrangement for the assets of the eight Welsh Local Government Pension Scheme funds ("Constituent Authorities").

1.2 The investment arrangements of WPP are overseen by a Joint Governance Committee ("JGC") and supported by an Officer Working Group ("OWG") and implemented through pooled funds managed by its "Investment Managers".

1.3 This document sets out WPP's policy on responsible investment for all assets invested within the WPP. This policy has been developed by WPP in consultation with the Constituent Authorities.

1.4 WPP's objective in preparing and implementing this policy is to be able to:

1.4.1 demonstrate to its stakeholders that the WPP is a Responsible Investor; and

1.4.2 enable the Constituent Authorities to substantially deliver their own Responsible Investment and Social Impact policies through the WPP.

1.5 WPP recognises that responsible investment considerations pose financially material risks to the assets of Constituent Authorities held within WPP. Such considerations are relevant in relation to both the way the assets of Constituent Authorities are invested and in the exercise of stewardship responsibilities.

1.6 This policy will be reviewed by WPP on an annual basis and, if necessary, changes to the policy will be proposed to and agreed by the JGC and OWG. In order to inform the policy review, WPP will consult with or otherwise obtain the views and requirements of all Constituent Authorities.

1.7 In developing and implementing this policy, WPP will have regard to the Well-being of Future Generations (Wales) Act 2015, the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and any relevant guidance provided by the Scheme Advisory Board ("SAB"), the Ministry of Housing Communities and Local Government ("MHCLG") and the Welsh Government.

2 Ambition and beliefs

2.1 WPP's long-term ambition is to demonstrate leadership on RI practices in managing assets for and on behalf of the Constituent Authorities. WPP, in conjunction with the OWG & JGC, will update its annual business plan to ensure that sufficient time and resources are provided to implement the requirements of this policy.

2.2 WPP recognises that the development of beliefs represents best practice for asset owners. In consultation with the Constituent Authorities, the WPP has developed and agreed the following responsible investment beliefs which serve to underpin its decision-making and governance processes.

2.2.1 The RI behaviours we want to see demonstrated by all our stakeholders must be led by WPP;

2.2.2 Integration of ESG factors, including climate change, into investment processes is a prerequisite for any strategy given the potential for financial loss;

2.2.3 WPP is most effective as an investor engaging for change from within, particularly in collaboration with other like-minded investors, as opposed to a campaigner lobbying for change from outside.

2.2.4 Our impact on corporate behaviours will be greatest when we speak with one voice;

2.2.5 Effective oversight of RI practices requires clear disclosure and measurement of comprehensive data.

2.3 WPP will test adherence of the investment arrangements it implements to these beliefs on an annual basis. WPP will also periodically test the continuing appropriateness of its beliefs

3 Investment strategy

3.1 The Constituent Authorities are individually responsible for setting investment strategy (and the underlying structure of those strategies, e.g. geographical exposure) for their own funds which reflect their membership profile and funding position. The investment strategy is the high-level split between asset classes including but not limited to equities, debt, property and infrastructure. The role of WPP is to provide a means for each Constituent Authority to implement its agreed strategy.

3.2 WPP openly encourages the Constituent Authorities to develop their own RI policy as part of their investment strategy. WPP has developed and may periodically amend this RI policy to ensure that it complements those of the Constituent Authorities.

3.3 WPP will consult with Constituent Authorities on at least an annual basis to determine their individual investment requirements and longer-term aspirations. WPP will use this information to prioritise the development and launch of future investment solutions/funds within the WPP.

3.4 In conjunction with its advisers the WPP will also consider opportunities arising from a greater understanding of ESG factors. These opportunities could include impact and/or sustainability themed strategies, as well as social beneficial investments. WPP may propose such opportunities directly for consideration by Constituent Authorities including strategies which either meet the responsible investment requirements of Constituent Authorities or have the potential to deliver benefit within the regions covered by the Constituent Authorities.

4 Climate change

4.1 Climate change presents a systemic risk that has the potential to affect economies, financial returns and demographics. The risks arising from climate change may arise from environmental, social, governance or other factors and are generally characterised as follows:

4.1.1 Physical risks, such as damage to property from flooding or lower precipitation giving rise to crop failure;

4.1.2 Transition risks, being the financial risks arising from changes in policy and technology to adjust to a lower-carbon economy; and

4.1.3 Liability risks, being the potential costs arising from parties who have suffered loss or damage due to climate change seeking compensation from those they hold responsible.

4.2 Climate change is increasingly being recognised by regulatory bodies and legislators as an issue that must be explicitly addressed by asset owners and investment managers. The uncertainty arising from climate change has implications for Constituent Authorities through the investments made within WPP.

4.3 WPP will engage with its providers to ensure that a common mechanism for monitoring climate related risks can be developed in respect of all WPP assets. Through this, WPP aims to provide support to Constituent Authorities in developing and implementing their own climate risk management policies.

4.4 WPP will encourage, through its delegates, all investee companies to disclose in line with the requirements of the Taskforce for Climate Related Financial Disclosures.

4.5 In developing its ongoing approach to responsible investment, WPP will consult further with Constituent Authorities with a view to developing a WPP-specific climate risk policy.

5 Exclusions

5.1 WPP has not adopted a policy of exclusionary practices within its underlying active manager portfolios. However, the WPP recognises that the Constituent Authorities may individually adopt an exclusionary policy.

5.2 WPP recognises that active investment management is by its very nature exclusionary and therefore expects that all the investment managers employed within WPP will properly consider climate-related and other ESG risks in decision making within their respective portfolios.

5.3 Constituent Authorities have the ability to invest in passive or other rules-based strategies through WPP's passive Investment Manager which may follow an exclusionary approach.

6 Implementation of strategy

6.1 WPP expects that the Investment Managers employed to manage WPP assets will take account of ESG-risks as part of their investment analysis and decision-making process. WPP further expects its Investment Managers to be able to demonstrate and evidence high standards with regards to their integration of responsible investment considerations. Where necessary, WPP or its delegates will engage with investment managers who fail to meet WPP's expectations to agree a plan to address any shortcomings.

6.2 WPP expects that, in all relevant circumstances, its Investment Managers will be signatories to the Principles for Responsible Investment ("PRI") and the Financial Reporting Council ("FRC") UK Stewardship Code.

6.3 WPP will engage with its Investment Managers on an ongoing basis to ensure that ESG factors are transparently reflected in decision making processes and that the approach taken to the management of ESG factors can be properly evidenced. WPP expects that such processes extend beyond reliance purely on third party ratings/data.

6.4 Within rules-based or index tracking mandates managed, WPP recognises the influence of benchmarks on the selection of assets. Where appropriate, WPP will work with its Investment Managers and Constituent Authorities to ensure that the potential implications and impact of ESG factors on different approaches are properly understood.

7 Stewardship

7.1 WPP believes that failing to exercise voting or other rights attached to assets could be contrary to the interest of the beneficiaries of the Constituent Authorities. WPP also believes that successful engagement with investee companies can protect and enhance the long-term value of the Constituent Authorities' investments within WPP.

Voting

7.2 WPP has agreed a set of voting principles with its Operator which is responsible for the implementation of these principles. The Operator has instructed the underlying active investment managers within pooled funds to apply these voting principles on a comply or explain basis in respect of their portfolio(s).

7.3 WPP recognises that its passive Investment Manager may adopt a single voting policy across their pooled funds and WPP will review the appropriateness of such a policy on a periodic basis. WPP will engage with its passive Investment Manager to consider how WPP's voting principles can be extended to assets managed by its passive Investment Manager.

7.4 WPP will receive a report on all voting activity, including details of any votes which have not been cast and explanations where votes have not been cast in accordance with the agreed principles on a quarterly basis. WPP will discuss any issues of concern with its Investment Managers or other delegates as necessary.

7.5 WPP will review the voting principles in conjunction with its advisers and Investment Managers on an annual basis. WPP intends to appoint a single proxy voting adviser to ensure that voting on all shares held within WPP is undertaken on a consistent basis.

7.6 All the Constituent Authorities are members of the Local Authority Pension Fund Forum ("LAPFF"). As members, the Constituent Authorities receive LAPFF Alerts when there is a campaign to vote in a certain way. WPP and its Constituent Authorities will give consideration to all such LAPFF Alerts and, where possible, instruct its Investment Managers to vote in line with the LAPPF Alert unless there is sufficient reason not to.

Stock lending

7.7 WPP has agreed that stock lending will be permitted within WPP's actively managed pooled funds, subject to consultation with Constituent Authorities in respect of each underlying sub-fund at the point of set up. However, WPP will not lend 100% of the holding in any single stock so WPP can express its views and make a policy stance on any topic it deems worthy though its right to vote.

7.8 WPP recognises that stock lending may inhibit the full application of its voting policy as votes may not be cast on stock on loan. WPP will continue to monitor the impact of this policy stance over time and revise its policy if required.

Shareholder engagement

7.9 WPP considers that, in many cases, its Investment Managers are best placed to engage with investee company management due to:

- the practical constraints of the investment structure;
- the resources available to these managers which are funded by the fees paid through WPP; and
- the existence of relationships between investment managers and the underlying investee companies.

7.10 The Investment Managers are ultimately accountable to WPP for all engagement activity; they should be able to demonstrate, when challenged, the reason for any engagement activity and the objectives of the engagement. Further to this Investment Managers should be able to justify the approach taken to achieve their objectives and explain the timeframe over which the engagement is expected to take place and the consequences should engagement be unsuccessful.

7.11 WPP adopts an evidence-based approach to assessing engagement activity by managers. WPP will receive a report on engagement activity undertaken by investment managers on a quarterly basis. WPP will discuss any issues of concern with the Investment Managers.

7.12 WPP is exploring the appointment of a single engagement provider and a proxy voting agent.

8 Collaboration

8.1 WPP believes that collaboration has an important role in helping the WPP achieve its RI objectives. WPP will continually assess potential collaboration opportunities and will inform and seek input from the Constituent Authorities on any such opportunity that it deems to be relevant.

8.2 WPP together with all Constituent Authorities are members of LAPFF and engagement takes place with companies on behalf of members of the Forum.

8.3 WPP has an ambition to work collaboratively with other like-minded investors and representative bodies in order to maximise the influence of WPP's assets on investee companies. WPP will seek to identify investor led responsible investment initiatives and collaborations that can be actively supported.

8.4 WPP will encourage underlying investment managers to participate in or support collaborative engagements where it is deemed to be in the best overall financial interests of Constituent Authorities.

8.5 WPP will continue to collaborate with the cross-pool RI collaboration project at any suitable opportunity.

9 Monitoring, Reporting and Measurement

9.1 WPP aims to be aware of, and monitor, financially material ESG-related risks and issues within WPP assets. In consultation with Constituent Authorities, Advisers and the Investment Managers, WPP will develop appropriate monitoring metrics for existing portfolios and agree appropriate metrics in respect of all new portfolios. Such metrics are expected to include climate-related risk exposures. WPP will require managers to include such metrics in their quarterly reporting to Constituent Authorities.

9.2 WPP requires that the responsible investment credentials of all appointed Investment Managers are subject to annual review. In conjunction with the relevant parties, the WPP will develop an appropriate reporting framework for its Investment Managers.

9.3 On an annual basis, the WPP will prepare and publish a stewardship report detailing the actions undertaken in fulfilment of this policy and the results achieved.

10 Other

10.1 WPP recognises the need for ongoing education for Constituent Authorities on a broad range of investment matters, including responsible investment. As part of its annual business planning, WPP will ensure there is at least one formal training session is directly focused on Responsible Investment.

10.2 WPP is investigating, and will seek guidance from the Constituent Authorities, on whether it should become a signatory to the PRI and the updated FRC UK Stewardship Code. WPP will also explore the possibility of incorporating the United Nations' Sustainable Development Goals into its RI beliefs and its monitoring and measurement mechanisms.

10.3 WPP expects that all investment managers employed on behalf of WPP will disclose costs in accordance with the SAB Code of Transparency.

10.4 WPP will review the adherence of all parties to this policy on an annual basis. WPP will publish the results of their assessment as part of their annual stewardship and governance report.

11 Further Information

11.1 If you require any further details on the RI Policy please contact walespensionpartnership@carmarthenshire.gov.uk and refer to the WPP website.

Version 2.0
August 2019

Glossary

Engagement refers to the process of interaction between an investor (or its delegate) and the management of an investee company with the objective of creating change in how the underlying company is managed or governed.

ESG is used to collectively describe a series of different risk factors arising from Environmental (e.g. resource scarcity, waste management, pollution, energy efficiency), Social (e.g. health & safety, workforce diversity, working conditions, data protection) and Governance (e.g. board structure, business ethics, shareholder rights, executive compensation) issues.

Impact is a term generally used to describe the social or environmental outcome arising from a particular investment or investment decision, being distinct from the associated financial outcome.

Investment Managers refers to those investment managers appointed directly or indirectly by WPP for the purposes of managing assets on behalf of WPP.

Operator means Link Fund Solutions as the appointed operator of the Authorised Contractual Scheme through which sub-funds are implemented for WPP.

Principles for Responsible Investment is a global network of asset owners, asset managers and service providers which has the objective of advancing responsible investment practices.

Proxy Voting Agent means an entity which is instructed to advise on and/or cast votes on resolutions on behalf of an asset owner.

Responsible investment refers to investment practices that integrate the consideration of ESG factors into investment management processes and ownership practices, recognising that these factors can have a material impact on financial performance.

Stewardship describes the activities of investors in exercising the rights and responsibilities that come with asset ownership. These practices can include voting on shares and engaging with company management but also includes the oversight of those to whom such responsibilities are delegated.

UK Stewardship Code is a set of principles and provisions produced by the Financial Reporting Council which sets out best practice in stewardship activities by Asset Owners and Asset Managers.

UN Sustainable Development Goals are a set of 17 global goals for 2030 set by the UN General Assembly in 2015.

Mae'r dudalen hon yn wag yn bwrpasol

WPP Climate Risk Policy

Introduction

1 The Wales Pension Partnership ("WPP") is the pooling arrangement for the assets of the eight Welsh Local Government Pension Scheme funds ("Constituent Authorities").

2 The investment arrangements of WPP are overseen by a Joint Governance Committee ("JGC") and supported by an Officer Working Group ("OWG") and implemented through pooled funds managed by its "Investment Managers".

3 The Wales Pension Partnership ('WPP') recognises that climate change represents a material financial risk to its stakeholders, the Constituent Authorities. Climate change has the potential to disrupt economic, financial and social systems.

4 The WPP is aware that climate change may result in mis-priced assets and unique investment opportunities. The WPP believes that its adherence to responsible investment policies and climate risk mitigation strategies will mean that it is well placed to identify and benefit from these potential investment opportunities for the benefit of its Constituent Authorities.

5 The potential impact on the WPP's Constituent Authorities and their internal stakeholders (Scheme Members and Employers) is unknown, given policy uncertainty and the unknown physical impact from environmental systems. Risks to the Constituent Authorities arising from climate change include, but are not limited to:

5.1 Physical risks: such as damage to property from flooding or lower precipitation giving rise to crop failure. Such impact could be felt directly by CA's or through the impact on returns delivered to CA's by WPP funds;

5.2 Transition risks: being the financial risks arising from changes in policy and technology to adjust to a lower-carbon economy and the extent to which these flow through to the returns delivered to CA's by WPP funds;

5.3 Liability risks: being the potential costs arising from parties who have suffered loss or damage due to climate change seeking compensation from those they hold responsible.

6 This policy sets out the WPP's approach to addressing the requirements of the Constituent Authorities in regard to climate related risks and the monitoring of these risks.

7 This policy will be reviewed by WPP on an annual basis and, if necessary, changes to the policy will be proposed to and agreed by the JGC and OWG. As part of the annual review process the WPP will take account of the evolving risk to and requirements of the Constituent Authorities.

8 This policy will have regard to the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and any relevant guidance provided by the Scheme Advisory Board ("SAB"), the Ministry of Housing Communities and Local Government ("MHCLG"), Intergovernmental Panel on Climate Change ("IPCC").The policy will note Welsh Government guidance and the Well-being of Future Generations (Wales) Act 2015.

9 In maintaining and acting on this policy, the WPP will have an ongoing dialogue with its Operator, Investment Managers and Oversight Advisor. The WPP will also seek input from third parties where appropriate.

Beliefs

10 The WPP has established a set of climate-related beliefs, which underpin its approach to dealing with the potential risk arising from climate change, and the mechanism it provides to the Constituent Authorities to facilitate the management of their climate related risks. The WPP's beliefs are as follows:

10.1 Climate-related risks are systemic in nature and have the potential to impact the delivery of return from all asset classes and sectors to varying degrees. Such impact may be positive or negative.

10.2 It is incumbent on WPP to identify potential sources of climate related risks in the development of any sub-fund and/or the procurement of any service from providers and, where necessary, seek to ensure such risks are appropriately managed and communicated to stakeholders.

10.3 Solutions aimed at managing and mitigating climate-related risks can also provide opportunities to long term investors such as the WPP's Constituent Authorities;

10.4 The WPP has appointed a specialist engagement services provider to directly engage with investee companies on a range of issues, including climate risk, to enhance the long-term value of the Constituent Authorities' investments within WPP. As part of its mandate, the WPP's engagement service provider will collaborate with other asset owners to maximise the effectiveness of the WPP's engagement activities. The WPP believes that collaboration with other asset owners and its investment managers can be an effective method for engaging with investee companies and raising awareness of climate-related issues.

Objectives

11 WPP's objective in preparing and implementing this policy is to:

11.1 demonstrate to its stakeholders that the WPP takes account of climate change and the climate-related risk associated with it;

11.2 enable the Constituent Authorities to substantially implement their own climate risk policy and climate related targets and ambitions; and

11.3 formally outline the actions that the WPP will be held accountable for by its stakeholders.

12 With regard to climate change, the WPP's own objective is to progressively reduce the likelihood that climate-related risks impact on the value or performance of the assets held within the WPP.

13 The Constituent Authorities are responsible for their own investment strategy, including their own Climate Risk Policy. The WPP will engage with the Constituent Authorities to fully understand their Climate Risk Policies and what implementation solutions they require to meet their policy commitments. The Constituent Authorities are aware that there may be additional costs associated with the WPP's facilitation of these investment solutions. The WPP and CAs will work together to find practical solutions to ensure that climate risk is being discussed and managed in the most suitable way

14 The WPP recognises that the Constituent Authorities will develop and maintain their own climate change objectives and policies.

Strategy

15 The WPP recognise that all assets have some level of exposure to climate-related risks, particularly transition risks, but that sector, geography, policy uncertainty and investment timeframes are key determinants of climate risk exposure.

16 Recognising its current investment arrangements and offerings, the WPP's immediate focus will be on climate-related risk exposure within its equity holdings. The WPP will however consider climate-related risks in other asset classes, for example fixed income, should circumstances allow or require them to do so. The WPP will endeavour to provide climate risk solutions across all of it sub-funds, including private market assets.

17 The WPP will provide a range of sub-funds and implementation solutions that allow the Constituent Authorities to achieve their own carbon reduction targets.

18 The WPP recognises the importance of monitoring exposure to climate related risks in different ways. One way the WPP will facilitate this is by monitoring the carbon risk exposure of each sub-fund to ensure that the Constituent Authorities have all available information at their disposal. The WPP will explore how best to assess climate risk exposures for each sub-fund. The WPP believes that external suppliers can be a cost-effective means of enhancing its climate risk exposure assessment capabilities, an analysis of current supplier offerings will be carried out on approval of this policy and at least annually thereafter. If a suitable supplier is identified, they will be appointed.

19 The WPP will consider the merits of undertaking scenario analysis around the potential economic impact of climate-related risks and seek means of collaborating with providers to share knowledge on this across all Constituent Authorities. However, the WPP notes that this is an evolving area, and such analysis is in its infancy. The WPP will endeavour to facilitate climate scenario analysis across assets held within WPP as an additional form of climate risk assessment to support the Constituent Authorities in integrating this assessment into their funding and investment strategies.

20 The WPP recognises that training and education is critical to achieving good outcomes for its stakeholders and will allocate resources to ensure that it undertakes regular training and education on climate risk. The WPP has committed to hosting at least one annual climate risk related training session for all its stakeholders. The WPP develops an annual training plan in conjunction with the Constituent Authorities this is the mechanism by which the WPP gauges the climate risk training requirements of its stakeholders.

Implementation

21 The WPP's approach to manager selection is set out in its Responsible Investment Policy. The WPP's sub-fund Investment Managers have delegated responsibility for challenging managers on their approaches to the consideration of climate risk as part of its manager selection process.

22 The WPP expects its Investment Manager to ensure that all underlying active managers integrate the consideration of climate-related risks into their investment process and to regularly challenge underlying managers to evidence their approach.

23 The WPP will work with its Investment Managers to ensure that they account for and integrate climate-related risks into their investment processes. The WPP recognizes that the effective management of climate-related risks within portfolios is important in ensuring alignment with the Paris climate accord goals and that each Investment Manager will have its own approach to account for and integrate climate-related risk into their investment process which will be assessed and appraised on appointment. The WPP, on at least an annual basis, will review that the Investment Manager's approach remains appropriate.

24 The WPP's approach to stewardship is set out in their Responsible Investment Policy. The WPP will emphasise the importance of engagement on climate-related risks through its voting and engagement service provider. In particular, the WPP will encourage its engagement service provider to engage with

investee companies on climate-related issues, including an increase in the disclosure on climate-related risks by companies to investors.

25 The WPP is formulating its own Voting Policy and set of engagement principles which will outline how it will use its voting rights and how it will engage with investee companies. The WPP's proxy voting service provider is responsible for enacting these policies on behalf of the WPP.

Monitoring/Reporting

26 The WPP will monitor exposure to climate related risks within its equity sub-funds on a quarterly basis, considering metrics which may include, but are not limited to, exposure to fossil fuel producers and carbon reserves; overall carbon intensity and alignment with future climate pathways. The WPP will monitor changes in market practice to ensure that the WPP is fully aware of changing best practice and the feasibility of monitoring climate related risk within its non-equity sub-funds on at least an annual basis.

27 The WPP will require its Investment Managers to provide monitoring on climate-related risk exposure in their quarterly reports. The WPP will also require Investment Managers to include such metrics in their quarterly reporting to Constituent Authorities. As noted above, the WPP will initially expect their equity Investment Managers to provide this monitoring, with the expectation that its non-equity Investment Managers will provide this information as soon as sub-fund launches and market developments allow.

28 The WPP's proxy voting and engagement provider will be responsible for producing quarterly and annual reports on the WPP's voting and engagement activities. These reports will evidence how the WPP has used engagement and voting to manage its climate related risk.

29 The WPP has an ambition to report on progress on actions undertaken to address climate risk in line with the framework set out by the Taskforce for Climate-Related Financial Disclosures. The WPP intend that their first report will be in respect of the 2020/21 Financial year.

Transparency

30 The WPP will encourage, through its delegates, all investee companies to disclose in line with the requirements of the Taskforce for Climate Related Financial Disclosures.

31 On an annual basis, the WPP will prepare and publish a report detailing the actions undertaken in fulfilment of this policy and the results achieved.

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 7 October 2020
Report Subject	Governance Update
Report Author	Head of Clwyd Pension Fund

EXECUTIVE SUMMARY

On each Committee agenda LGPS governance matters and the impact on the Clwyd Pension Fund (CPF) are provided for discussion along with updates on the Clwyd Pension Fund's governance strategy and policies for information. The last update report was provided at the February 2020 Committee and therefore this update report includes developments since that date.

This update includes matters that are mainly for noting, albeit comments are clearly welcome. The matters for approval are:

- Changes to some of the timescales relating to business plan items (some of which are due to delays in guidance or regulations at a national level)
- Approval of the updated Fund's Risk Policy.

The report includes updates on:

- The latest LGPS Scheme Advisory Board (SAB) meetings
- The Clwyd Pension Board meeting in May
- Update to the Fund's risk dashboard and changes to the governance risks since the last meeting
- The latest changes to our breaches of the law register
- The updated training plan following the self-assessment training needs analyses that were completed by members in February.

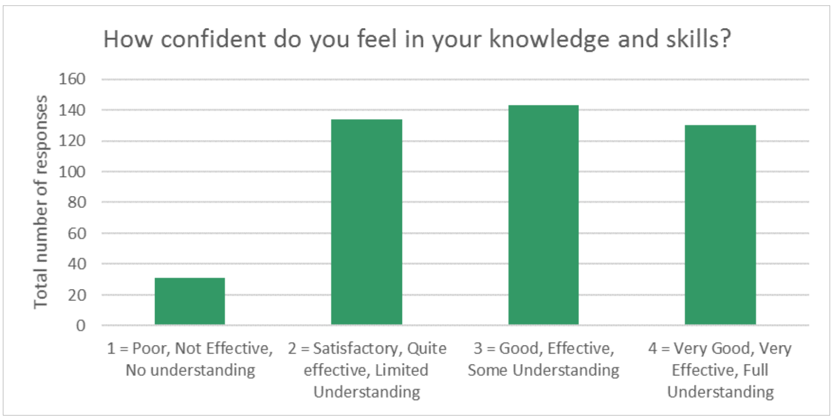
RECOMMENDATIONS	
1	That the Committee consider the update and provide any comments.
2	That the Committee approve the changes to the timelines for governance tasks in the business plan as outlined in paragraph 1.01.
3	That the Committee approve the updates to the Fund's Risk Policy attached in Appendix 2.

REPORT DETAILS

1.00	**GOVERNANCE RELATED MATTERS**
	Business Plan 2020/21 Update
1.01	Appendix 1 shows progress with this quarter's work in the 2020/21 business plan. Given the impact of Covid-19 and other priorities, relatively good progress is being made with the agreed actions. The Committee should note the following: • G1: Review against new Pensions Regulator Single Modular Code – The Pension Regulator has delayed the issue of the Code for consultation and this is not now due until early 2021. As a result, the timescales for this have been updated in Appendix 1. • G2: Review of Governance Related Policies – The Fund's Risk Policy has been reviewed and suggested changes to it are included in Appendix 2. The majority of changes are to reflect recent updates to the CIPFA Managing Risk Guidance. The Committee are asked to approve these changes. • G3: Review appointment of Pension Fund Committee representatives and Local Board Members - A number of Pension Board and Pension Fund Committee representative appointments were due for review during Q1/2 of this year. These relate to the two Pension Board employer representatives, and the Pension Committee trade union scheme member representative and other employer representative. Mark Owen, one of the existing Pension Board employer representatives stood down at the end of his tenure. Following an agreed appointment process, Steve Gadd (Chief Accountant and S151 Officer, Denbighshire County Council) was appointed to this position, and Steve Jackson, Councillor Andrew Rutherford and Steve Hibbert were reappointed to their respective Pension Board and Pension Fund Committee positions. • G4: Develop business continuity plan – Preparation of the business continuity plan has been delayed. However, the period since March has evidenced how the effectiveness of the existing business continuity protocols, ensuring that CPF services and processes continued with little impact during the Covid-19 lock down and since then. Officers will be updating business impact assessments having regard to the current and evolving working arrangements which will then feed into the business continuity plan. This work is now expected to take place during Q3 and Q4 of 2020/21, and potentially into 2021/22. • G5: Ensure appropriate cyber-security is in place – in line with The Pension Regulator's recommended approach to managing cyber risk, a cyber-risk questionnaire is being issued to Heywood (pensions administration system provider) and Flintshire County Council (FCC) (other systems and hardware used by CPF) to assess any cyber risks relating to the Fund's main systems and equipment. The outcome of this exercise will be fed back to future meetings. Officers are also documenting the key relationships and responsibilities for managing cyber-risk within the Fund. • G6: Process and internal control review – the first stage of this work (identifying any gaps in documented processes) was due to take

	place during 2020/21. This work has not yet started due to the need to reprioritise other work, and therefore it may be necessary to review the timescales. This will be considered at a later meeting if it is deemed necessary.
1.02	The Committee is asked to note the contents of the business plan and approve the updated timescales as shown in Appendix 1.
1.03	**Current Developments and News** *Covid-19* As was mentioned at the informal Committee and Board session on 22 May, the delivery of pension fund services has continued with very little impact, despite the changes in how pension fund officers have been working since 19 March. The continuity in service has been helped by a number of factors including: • Business continuity testing that had been carried out over the previous two years with a particular focus on remote working • A scheme of delegation that ensured ongoing approval of matters despite Committee meetings being temporarily cancelled • Strong support from FCC including IT capabilities and support with flexible working • Regular "Covid catch-ups" with the Fund's advisers, including initial assistance with technology for virtual meetings • Strong national support on Covid-19 issues, including from the Local Government Association (LGA); the Head of Clwyd Pension Fund is a member of the National Covid-19 LGPS Group. The Pensions Team continue to work mainly from home and is expected to do so for the foreseeable future. Business as usual continues to be maintained with little impact on existing service standards, and good progress is being made with many of the projects and tasks that were identified for completion this year. Further information on these matters is contained in the Administration Update and the Funding and Investments Update, including the financial impact on the Fund.
1.04	*Pension Board update* The Clwyd Pension Fund Board met on 30 June 2020 via WebEx. The key points from the meeting are as follows: • Chair of the Board – following the recent reappointment of Aon as the Fund's Independent Adviser, the Board agreed to appoint Karen McWilliam and Mary Lambe as Chair and Alternate Chair to the Board. • GMP rectification – the Pensions Administration Manager noted the progress and that those pensioners who were to have a reduction in their pension would likely be told at the beginning of August, with the reduction being applicable from 1 October 2020. • Covid-19 – the Board were provided with an overview of working arrangements. A discussion took place around the potential impact on older scheme members and the Board were assured that phone calls were being redirected and post was still being dealt with.

- McCloud – the Pensions Administration Manager updated the Board on the proposed arrangements for the McCloud programme. The Board agreed to be part of the Programme Steering Group which could feed into the development of key member and employer communications and provide general oversight of the programme. The Board suggested a two-page overview of the programme could be developed, which has since been done. The Board also noted their concern around the amount of work that is involved over a two or three-year period and encouraged the Pension Fund Management Team to ensure appropriate resource was put in place to minimise the impact on business as usual.
- The Pensions Regulator (TPR) Developments – officers presented the latest position on the outstanding actions relating to the current TPR Code of Practice. It was agreed that the full compliance report should be considered at the next meeting.
- Data Quality Scores and Data Improvement Plan – the Board were updated on progress against the CPF Data Improvement Plan which evidenced good progress.
- Pension Administration Update – the Board received an update on the latest performance statistics and particularly noted the excellent progress being made in reducing the overall number of outstanding cases (from approximately 10,000 12 to 18 months ago to 5,800 at June 2020).
- Compliments and complaints – the Board noted an increased number of compliments many of which related to the period since Covid-19 lockdown. It was also noted that there were no IDRP cases upheld against the Fund.
- Asset Pooling – the Head of Clwyd Pension Fund updated the Board on recent developments with the Wales Pensions Partnership (WPP) pool, including the virtual update meeting for Joint Governance Committee members that had taken place. That update included confirmation that investment returns continue to be meeting their targets. The transition of some portfolios had been delayed due to Covid-19. A number of governance policies were being developed including conflicts of interest, risk and climate. The Chair of the Board highlighted that the WPP Board Chairs meeting that was due to take place in April had been cancelled.
- General update – the Board were also provided with a brief update on Brexit, the Supreme Court Judgement on Palestine Case, the SAB Good Governance project, the cost management process, the Goodwin Court Case and the National Pensions Dashboard.
- Training and events – the Board fed back that the 22 May virtual PFC/PB session had been particularly useful. The Chair of the Board provided an update of a recent CIPFA event she had attended.
- Feedback to Advisory Panel and PFC – the Board asked that two areas should be fed back:
    - the Board's support for proper resourcing of the McCloud project
    - the Board's support for ensuring PFC meetings continue during Covid-19 albeit they may be managed differently (and perhaps shorter) due to them being held virtually.

1.05	*National LGPS Scheme Advisory Board (SAB) Update* The LGPS SAB met on 3 February, 5 May and 25 August. Summaries of the February and May meetings are attached in Appendix 3 and 4. No summary is available yet relating to the August meeting. The papers can be found here – http://lgpsboard.org/index.php/about-the-board/prev-meetings. The key items discussed were McCloud, the £95k cap (which is covered in the Administration Update) and proposals for drafting of Responsible Investment Guidance. There are no matters to highlight to the Committee that aren't covered in other Committee update reports, other than noting that the Good Governance project was delayed and is expected to be considered at the next SAB meeting in November.
	Policy and Strategy Implementation and Monitoring
1.06	*Training Policy* The Clwyd Pension Fund Training Policy requires all Pension Fund Committee, Pension Board members and Senior Officers to: • have training on the key elements identified in the CIPFA Knowledge and Skills Framework • attend training sessions relevant to forthcoming business and • attend at least one day each year of general awareness training or events. *Training Plan* Committee members may recall completing a self-assessment training needs analysis in February. Responses were received from the majority of Committee and Board members and the following chart shows that in most areas, members' levels of confidence in their understanding of a subject matter is good or very good. Note that the number of responses is in relation to all individual subject matters.  However all members did highlight the need for training in relation to at least one subject matter with much of this being the need for refresher training, rather than full training. Analysis of the results has been completed which has been used to develop the attached updated Training

	Plan which is shown at Appendix 5. Given recent changes to both Committee and Board membership, this will be supplemented by induction training for the new members. Appendix 5 also includes various external events attended by Committee members and Pension Board members during 2020/21 as well as details of forthcoming external events considered suitable for general awareness training. Officers will continue to be in touch with further information as these training sessions and events become available.
1.07	*Recording and Reporting Breaches Procedure* The Fund's procedure requires that the Head of Clwyd Pension Fund maintains a record of all breaches of the law identified in relation to the management of the Fund. Appendix 6 details the current breaches that have been identified. A number of existing breaches have now been resolved and have therefore been closed. In addition, all the new breaches, since the last update provided to Committee in February, have also been resolved, apart from F35 which relates to a late contribution remittance advice from the employer Hafan Deg. As you will see in breaches F25, F33 and F34, this employer has also been late in paying most of the monthly contributions this year, albeit the August contributions were paid on time. This will continue to be monitored.
  1.08	**Delegated Responsibilities** The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. Due to Covid-19 the March 2020 Committee was cancelled, and so the Fund's 2020/21 business plan and the WPP 2020/21 business plan were approved under delegated powers in April 2020. These papers were already circulated to Committee members in March and can be found on the Committee system or via FCC website's calendar of meetings. The delegation was approved by the Chairman, the Chief Executive and the Head of Clwyd Pension Fund.
  1.09	**Calendar of Future Events** Appendix 7 includes a summary of all future events for Committee and Pension Board members, including Pension Fund Committee meetings, Pension Board meetings, Training and Conference dates. Members should note the events taking place before the 25th November committee meeting: • 23 October - WPP training event on performance metrics and alternative asset classes (open to all committee and board members) • 6 November – Pension Board meeting (board members only) • 10 November – The Fund's Annual Joint Consultative Meeting "AJCM" (open to all committee and board members) • 24 November – WPP training event on progress of pools and collaboration (open to all committee and board members). Members should confirm attendance at these events, if not already done so, with Debbie Fielder, the Deputy Head of Clwyd Pension Fund.

2.00	**RESOURCE IMPLICATIONS**
2.01	None directly as a result of this report.

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	None directly as a result of this report.

4.00	**RISK MANAGEMENT**
4.01	Appendix 8 provides the dashboard showing the current risks relating to the Fund as a whole, as well as the extract of governance risks. The risk register has been updated on a number of occasions since it was last presented to the Committee in February including updating the existing controls and outstanding actions. However the only risks where the current scores have changed compared to February's register are as follows (and these are also the two biggest governance risks): • Risk 5 - the biggest governance risk continues to relate to the impact of externally led influence and scheme change which could also restrict our ability to meet our objectives and/or legal responsibilities. This is mainly due to the ongoing uncertainty around the McCloud judgement and other national changes. The description in this risk has been updated to clarify that this risk also incorporates cybercrime risk. Since February, the likelihood of this risk arising has decreased from "very high" to "significant" due to the excellent progress to date in establishing the McCloud programme of works and also the Fund's positive response to Covid-19. However this risk still remains higher than target. It is hoped that the proper planning that is taking place in relation to McCloud will assist in reducing this risk score further over the coming months but there is still a large amount of uncertainty around matters such as the £95k cap legislation, cybercrime and Covid-19. • Risk 6 - This is the risk of insufficient staff numbers meaning services are not delivered to meet legal and policy objectives. The likelihood score of this risk has been increased since the last Committee meeting from "low" to "significant". This has been increased due to the uncertainty around Covid-19 related absences amongst staff members. This risk may be difficult to manage until a vaccine is introduced.

5.00	APPENDICES
5.01	Appendix 1 – Business plan progress 2020/21 Appendix 2 – Clwyd Pension Fund Risk Policy Appendix 3 and 4 – SAB updates Appendix 5 - Training plan Appendix 6 – Breaches Appendix 7 – Calendar of future events Appendix 8 – Risk register.

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	No relevant background documents. **Contact Officer:** Philip Latham, Head of Clwyd Pension Fund **Telephone:** 01352 702264 **E-mail:** philip.latham@flintshire.gov.uk

7.00	GLOSSARY OF TERMS
7.01	(a) **CPF – Clwyd Pension Fund** – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region. (b) **Administering authority or scheme manager** – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund. (c) **Committee or PFC – Clwyd Pension Fund Committee -** the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund. (d) **Board, LPB or PB – Local Pension Board or Pension Board** – each LGPS Fund has an LPB. Their purpose is to assist the administering authority in ensuring compliance with the scheme regulations, TPR requirements and efficient and effective governance and administration of the Fund. (e) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of. (f) **SAB – The national Scheme Advisory Board** – the national body responsible for providing direction and advice to LGPS administering authorities and to MHCLG. (g) **MHCLG – Ministry of Housing, Communities and Local Government** – the government department responsible for the LGPS legislation.

	(h) **JGC – Joint Governance Committee** – the joint committee established for the Wales Pension Partnership asset pooling arrangement.

Mae'r dudalen hon yn wag yn bwrpasol

Business Plan 2020/21 to 2022/23 – Q1/2 Update
Governance

Cashflow projections

	2018/19 £000s	2019/20 £000s	2020/21 £000s			
	Actual	**Actual**	**Budget**	**Actual**	**Projected for full year**	**Final under/ over**
Opening Cash	(21,188)	(5,764)	(23,800)	(20,237)		
Payments						
Pensions	59,447	63,182	67,800	16,152	67,800	0
Lump Sums & Death Grants	14,708	15,486	16,000	2,764	16,000	0
Transfers Out	6,791	4,447	6,000	517	6,000	0
Expenses	4,263	3,863	5,200	1,312	5,200	0
Tax Paid	0	107	100	66	100	0
Support Services	265	161	170	0	170	0
Total Payments	85,474	87,246	95,270	20,811	95,270	0
Income						
Employer Contributions	(39,554)	(41,665)	(44,000)	(12,183)	(44,000)	0
Employee Contributions	(14,794)	(15,363)	(16,000)	(3,116)	(16,000)	0
Employer Deficit Payments	(18,811)	(19,244)	(14,000)	(14,384)	(14,000)	0
Transfers In	(4,220)	(5,976)	(6,000)	(521)	(6,000)	0
Pension Strain	(1,644)	(1,558)	(1,200)	0	(1,200)	0
Income	(45)	(92)	(40)	(25)	(40)	0
Total Income	(79,068)	(83,898)	(81,240)	(30,229)	(81,240)	0
Cashflow Net of Investment Income	6,406	3,348	14,030	(9,418)	14,030	0
Investment Income	(7,990)	(9,464)	(8,000)	(2,333)	(8,000)	0
Investment Expenses	3,593	3,800	4,000	431	4,000	0
Total Net of In House Investments	2,009	(2,316)	10,030	(11,320)	10,030	0
In House Investments						
Draw downs	91,883	115,114	70,403	7,257	29,028	(41,375)
Distributions	(58,348)	(55,270)	(78,672)	(8,927)	(35,708)	42,964
Net Expenditure /(Income)	33,535	59,844	(8,269)	(1,670)	(6,680)	1,589
Total Net Cash Flow	35,544	57,528	1,761	(12,990)	3,350	1,589
Rebalancing Portfolio	(20,120)	(72,001)		(115)	0	0
Total Cash Flow	15,424	(14,473)	1,761	(13,105)	3,350	
Closing Cash	(5,764)	(20,237)	(22,039)	(33,342)	(16,887)	

Operating Costs

	2017/18	2018/19	2019/20				
	Actual	Actual	Budget	Revised Budget	Actual	Projected for full year	Projected under/ over
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Governance Expenses							
Employee Costs (Direct)	229	193	323	323	**64**	**256**	(67)
Support & Services Costs (Internal Recharges)	23	23	24	24	**0**	**24**	0
IT (Support & Services)	5	0	5	5	**1**	**5**	0
Other Supplies & Services)	69	64	82	82	**14**	**82**	0
Audit Fees	39	39	41	41	**(10)**	**41**	0
Actuarial Fees	217	407	641	641	**124**	**496**	(145)
Consultant Fees	511	598	859	859	**249**	**610**	(249)
Advisor Fees	202	436	337	524	**139**	**524**	0
Legal Fees	37	57	41	41	**0**	**41**	0
Pension Board		58	73	88	**23**	**88**	0
Pooling (Consultants & Host Authority)	0	85	119	120	**2**	**120**	0
Total Governance Expenses	1,332	1,960	2,545	2,748	**606**	**2,287**	(461)
Investment Management Expenses							
Fund Manager Fees*	20,539	21,218	24,458	24,458	**806**	**21,000**	(3,458)
Custody Fees	31	31	32	32	**4**	**32**	0
Performance Monitoring Fees	67	60	93	93	**13**	**93**	0
Pooling (Operator / Manager)			190	190	**0**	**400**	210
Total Investment Management Expenses	20,637	21,309	24,773	24,773	**823**	**21,525**	(3,248)
Administration Expenses							
Employee Costs (Direct)	649	777	893	1247	**242**	**1,247**	0
Support & Services Costs (Internal Recharges)	105	113	66	140	**0**	**140**	0
Outsourcing	227	394	900	300	**0**	**300**	0
IT (Support & Services)	286	364	424	405	**412**	**450**	45
Other Supplies & Services)	139	86	63	108	**12**	**108**	0
Miscellaneous Income	0	0	0	0	**0**	**0**	0
Total Administration Expenses	1,406	1,734	2,346	2,200	**666**	**2,245**	45
Employer Liaison Team							
Employee Costs (Direct)	163	205	223	223	**56**	**223**	0
Total Costs	**23,538**	**25,208**	**29,887**	**29,944**	**2,151**	**26,280**	**(3,664)**

Key Tasks

Key:

	Complete
	On target or ahead of schedule
	Commenced but behind schedule
	Not commenced
xN	Item added since original business plan
xM	Period moved since original business plan due to change of plan /circumstances
~~x~~	Original item where the period has been moved or task deleted since original business plan

Governance Tasks

Ref	Key Action – Task	2020/21 Period				Later Years	
		Q1	Q2	Q3	Q4	2021/ 22	2022/ 23
G1	Review against new TPR Singular Modular Code	x		x	x	xM	
G2	Review of governance related policies	x		x	x	x	x
G3	Review appointment of Pension Fund Committee representatives and Local Board members	x	x				x
G4	Develop business continuity plan	x	x	x			
G5	Ensure appropriate cyber-security is in place	x	x	x	x		
G6	Process and internal control review	x	x	x	x	x	

Governance Task Descriptions

G1 – Review against new TPR Single Modular Code

What is it?

The Pensions Regulator (TPR) is expected to introduce a new Single Modular Code in Summer or Autumn 2020 (subject to consultation). This new Code will merge the existing 15 codes the Regulator has in place. The first iteration of the new Code will include Code of Practice No.14 (the relevant Code for Public Service Pension Schemes) as part of the merger of 10 of the 15 codes currently in place. This could result in changes to the requirements placed on Public Service Pension Schemes, including the LGPS. Work will be undertaken to review whether the Fund complies with the requirements within the new Code. After the initial review, ongoing compliance checks will be carried out on a regular basis.

Timescales and Stages

Respond to Singular Modular Code consultation	2020/21 Q1
Review and report the CPF's activity against the new Single Modular Code from the Pensions Regulator	2020/21 Q3 & 4

Resource and Budget Implications

This review will be performed by the Deputy Head of Clwyd Pension Fund and Pensions Administration Manager working with the Independent Adviser. Estimated costs of the review are included within the budgets shown.

G2– Review of Governance Related Policies

What is it?

The Fund has several policies focussing on the good governance of the Fund, all of which are subject to a fundamental review, usually at least every three years. The policies and the due dates for their reviews are as follows:

Policy	Last reviewed	Next review due
Governance Policy and Compliance Statement*	February 2020	February 2023
Risk Policy	May 2016	June 2020
Conflicts of Interest Policy	September 2018	September 2021
Procedure for Recording and Reporting Breaches of the Law	November 2015	As and when deemed appropriate
Training Policy	November 2015	June 2020

CIPFA are shortly to be issuing an updated Code of Practice relating to LGPS Knowledge and Skills. It seems appropriate to defer the review of the Training Policy until that has been issued, so that any changes can incorporated into the Policy.

Timescales and Stages

Risk Policy	2020/21 Q1
Training Policy	2020/21 Q3 & Q4
Conflicts of Interest Policy	2021/22
Governance Policy and Compliance Statement*	2022/23

*The requirements relating to this are currently under national review, so it is possible this may need to be reviewed at an earlier stage due to national changes.

Resource and Budget Implications

It is expected this will mainly involve the Head of Clwyd Pension Fund taking advice from the Independent Adviser. Estimated costs are included in the budget.

G3 - Review appointment of Pension Fund Committee Representatives and Local Board Members

What is it?

The employer and scheme member representatives on the Local Board are appointed for a period of three years. This period may be extended to up to five years. The currently appointments will be subject to review as follows:

- Two scheme employer representatives – July 2020 (five-year point)
- Scheme member representative (trade union) – October 2020 (three-year point)
- Scheme member representative (non-trade union) – February 2023 (three-year 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 to be reviewed by July 2020.

Timescales and Stages

Review and recruit current Pension Board representatives (2 x employer plus trade union scheme representative)	2020/21 Q1 & 2
Review existing Pension Fund Committee representatives (other scheme employers and scheme members)	2020/21 Q1 & 2
Review Pension Board scheme member representative (non-trade union)	2022/23

Resource and Budget Implications

It is expected this will mainly involve the Head of Clwyd Pension Fund taking advice from the Independent Adviser. All costs are being met from the existing budget.

G4 – Develop business continuity plan

What is it?

The Fund has carried out a number of tests in recent years to ensure services can continue to be maintained in various scenarios, such as an office fire. It is now necessary to capture the Fund's business continuity plans and processes into one central document, based on the current methods of working, within a central document that will be maintained and subject to further testing.

Timescales and Stages

Develop business continuity plan	2020/21 Q1 to Q3

Resource and Budget Implications

To be led by the Deputy Head of Clwyd Pension Fund and the Pensions Administration Manager with guidance from the Independent Adviser. All expected costs are included within the existing budgets.

G5 – Ensure appropriate cyber-security is in place

What is it?

Cyber risk is considered a key risk to the Fund, as it is to most organisations nowadays. In line with The Pensions Regulator's requirements, work will be carried out to better understand how that risk is being managed in relation to the Fund's member data, assets and other procedures. This will include asking our system providers and suppliers to provider further information in relation to how they are managing cyber risk. After this initial work has been carried out, a process will be put in place to ensure that ongoing checks are carried out.

Timescales and Stages

Investigate areas of potential risk and put in place appropriate processes and checks	2020/21 Q1 to 4

Resource and Budget Implications

To be led by the Head of Clwyd Pension Fund with assistance from the Deputy Head of Clwyd Pension Fund, the Pensions Administration Manager and the Independent Adviser. There may be additional costs if specialist cyber guidance is required.

G6 – Process and internal control review

What is it?

One of the key requirements of The Pensions Regulator is to ensure that appropriate processes and internal controls are in place, and that they are clearly documented. This is also critical for the purposes of business continuity and succession planning.

This project will consist of a number of stages with the ultimate aim of ensuring all key processes are identified and appropriately documented. A key part of this will also be identifying any areas where greater efficiencies can be built in. This will cover all functions carried out by the Fund.

Timescales and Stages

Identify and document all existing processes, identify any gaps or processes that require review and agree priority for developing new or reviewing existing processes	2020/21 Q1 to Q4
Continue with developing new or reviewing existing processes	2021/22

Resource and Budget Implications

This review will be carried out by all teams across the Fund, led by the Pension Fund Accountant. There are not expected to be any additional costs.

Cronfa Bensiynau Clwyd
Clwyd Pension Fund

Sir y Fflint
Flintshire

FLINTSHIRE COUNTY COUNCIL

Administering Authority for Clwyd Pension Fund

RISK POLICY

October 2020

RISK POLICY

Introduction

This is the Risk Policy of the Clwyd Pension Fund ("the 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"), as Administering Authority for the Fund recognise that effective risk management is an essential element of good governance in the Local Government Pension Scheme ("the LGPS). By identifying and managing risks through an effective policy and risk management strategy, we can:

- demonstrate best practice in governance
- ensure high quality administration
- 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 (Head of Clwyd Pension Fund, Deputy Head of Clwyd Pension Fund, Pensions Administration Manager), 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~~ Other 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 Head of Clwyd 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 49,700~~46,700~~ current and former members of the Fund, and their dependants
- around 49~~43~~ 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
- the managing risk elements in the CIPFA Investment Pooling Governance Principles guidance and
- the managing risk elements of the Pensions Act 2004 and the Pensions Regulator's Code of Practice for Public Service Pension Schemes (or the expected Single Modular Code when it is in place).

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.

CIPFA Investment Pooling Governance Principles for LGPS Administering Authorities

CIPFA has published guidance on investment pooling and the number of different risks this introduces for LGPS administering authorities. It also highlights how investment pooling potentially changes the magnitude of existing risks and how administering authorities might respond to them through appropriate internal controls.

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 (i.e. administering authorities) 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 including significant changes in or affecting the scheme and employers who participate in the scheme. 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.

The Pension Regulators Code of Practice for Public Service Pension Schemes is expected to be replaced by a new Single Modular Code in 2021 (where the Pensions Regulator is merging their codes into one interactive code). It is expected to include updated guidance on risk management and internal controls. It is envisaged that we will follow that updated guidance and this Policy will be updated in due course to reflect the updated guidance.

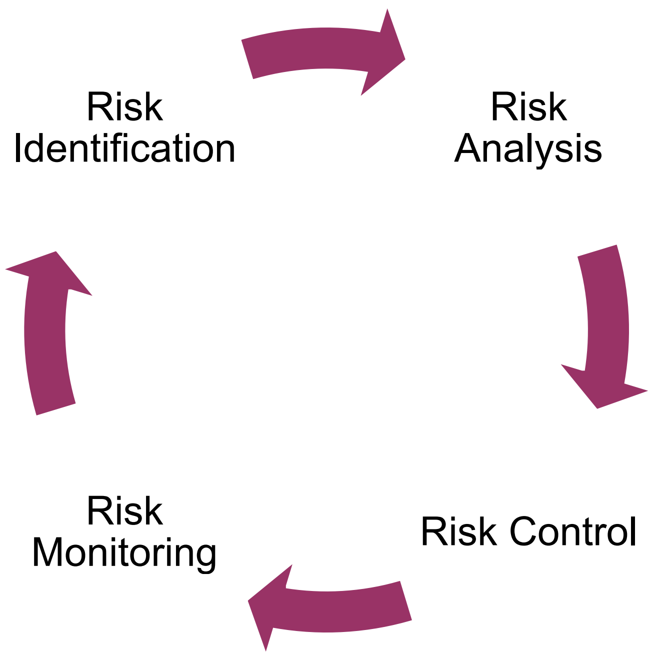
Responsibility

As the Administering Authority for the Clwyd Pension Fund, we must be satisfied that risks are appropriately managed. For this purpose, the Head of Clwyd 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 with and without the Fund's advisers
- liaison with other organisations, regional and national associations, professional groups, etc
- legal determinations including those of the Pensions Ombudsman, the Pensions Regulator and court cases
- business planning or strategic workshops
- business or service continuity plans developed by us.

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.

New risks can emerge at any time and risk identification should include allocation of sufficient time and resource identifying these, and should therefore be integral to the day to day management of the Fund.

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. Risk control actions, often referred to as internal controls, could comprise taking steps to avoid, transfer and/or mitigate risk. 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.

A key determinant in selecting the action to be taken will be its potential impact on the Fund's objectives in the light of our risk appetite. Equally important is striking a balance between the cost of risk control actions against the possible result of the risk occurring. We recognise that it is not possible to eliminate all risks; accepting and actively managing risk is therefore be a key part of our risk management strategy.

The Fund's risk register details:

- all further action in relation to a risk
- the owner for that action
- the date from which the risk did not meet the target score

- the expected date for being back to the target score ~~and~~
- the next review date and
- the overall owner for the risk.

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

The Clwyd Pension Fund Committee have a responsibility for ensuring robust risk management arrangements are in place. In addition, Scheme Advisory Board (England and Wales) guidance on the creation and operation of local pension boards in the LGPS suggests that the Pension Board could review the risk register as it relates to the scheme manger function of the authority.

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 summarised version of the risk register
- a summary of the main changes since the previous report
- the Fund's risk dashboard showing the score of all existing risks and any changes in a pictorial fashion.

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 costs related to the operation and implementation this Risk Policy are met directly by Clwyd Pension Fund.

Approval, Review and Consultation

This Risk Policy was initially approved at the Clwyd Pension Fund Committee meeting on 24 May 2016, ~~and~~ amendments approved using officer delegations in September 2017 and September 2018 and further amendments approved by Clwyd Pension Fund Committee on 7 October 2020. 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, Head of Clwyd Pension Fund ~~Manager~~, Flintshire County Council
E-mail - 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 *national* 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 *national* 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 Extracted from FCC Single fatality	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 *local* 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

Scheme Advisory Board

This note summarises the meeting of the Scheme Advisory Board on the 3rd February 2020. Full details of the meeting and agenda papers can be found at www.lgpsboard.org.

The Chair opened the meeting with reference to an earlier meeting with the Chairs of the asset pool joint-committees to discuss progress, roles, responsibilities and governance structures in respect of both their pool company and participating fund authorities. Councillor Phillips explained that the feedback from the meeting will be taken forward when he meets the local government Minister, Luke Hall MP, on the 4th February.

Reference was also made to the Responsible Investment Workshop held in conjunction with DG Publishing on the15th January. The event was over subscribed though the number of administering authorities attending was disappointing.

Actions and Agreements

1. A question was raised as to why the tPR was not in attendance as agreed when the Board met on the 6th November. It explained that the tPR is not yet in a position to discuss the outcome of the 2018/19 scheme returns. This will be carried forward to the 4th May meeting.

2. The Board was updated on nominations for the replacement Practitioner representative following Nicola Mark's departure. Two candidates had put their names forward and administering authorities have been invited to vote their preference by the 14th February 2020. **(Footnote – since the meeting, Rachel Brothwood (WMPF) has been declared successful in her nomination for the practitioner representaive on the Board).**

Good Governance

3. The Board was reminded of the decision it took on the 6th November to publish the Phase II report setting out recommendations from the two working groups.

4. Agreeing the recommendation from both Cost Management and Investment committees, the Board agreed that an implementation group, comprising the two former working groups, should be established immediately to prepare a detailed implementation plan for consideration when it next meets on the 4th May 2020.

2020/21 SAB Budget, workplan

5. The draft workplan and budget had been prepared and was presented to the Board. In particular, the Board discussed options for dealing with the expected, but as yet unknown, costs associated with work on McCloud and the LGPS remedy. It was agreed that the matter would be reviewed following the meeting with the Minister on the 4th February.

Cost Management committee report

6. The Committee Chair, updated Board members on the committee meeting held on the 6th January 2020.

7. **McCloud –** the Board was updated on the current position, including the progress being made by the other public service pension schemes. The Board was further advised that although draft legislation was expected in the Spring, there might also be a need for changes in primary legislation that would need to compete for Parliamentary time.

8. The Board agreed to establish two working groups. Firstly, a small policy group to assist MHCLG in considering any areas of policy which will not be centrally determined. This group to consist of the Chair, Vice-Chair and the chairs of each of the two Board committees. Secondly, a larger implementation group including practitioners, member representatives, actuaries, software providers and employers which will consider the challenge of implementing and communicating the changes to the scheme.

9. The Board also agreed that a communication to fund authorities should be circulated setting out the risks to members in pursuing employment tribunals via ambulance chasers.

Investment committee report

10. The Committee Chair updated Board members on the committee meeting held on the 13th January 2020.

11. **Responsible Investment –** on the recommendation of the committee, the deadline for responses to the consultation on Part 1 of the Responsible Investment guidance had been extended to the end of January. **(Footnote – On the 24th February 2020, the Chair of the Board announced that SAB would take stock of the consultation exercise in view of the a number of concerns surrounding the fiduciary duty test and how it applies in the LGPS. A copy of the statement can be found at www.lgpsboard.org.**

12. **Cost Transparency –** an update on the programme of meetings with stakeholders and the second test phase of the compliance system was provided. Engagement with stakeholders will continue.

Chair and Vice Chair terms of office

13. Having both served their first term of office of five years, a proposal that both the Chair and Vice Chair serve a second term was put, seconded and agreed by Board members. Their names will now be put to MHCLG Ministers for approval subject to formal nomination from the LGA and Unison.

14. The Board was advised that the term of office of certain other members of the Board was also due to end in April 2020. Steps will be taken before the next meeting

on the 4th May 2020 to determine whether any members wish to be nominated for a second term of office.

Any Other Business

15. The Board was referred to an earlier exchange of letters from the three asset pools who have not extended their governance arrangements to include scheme member representation. The Board agreed that their continuing refusal to comply with SAB guidance is disappointing and agreed that consideration should be given to strengthening the policy objective as part of MHCLG's expected consultation on new pooling statutory guidance.

16. The Board was advised that all but 14 levy invoices for 2018/19 have been paid. London borough fund authorities were responsible for 9 non-payments.The Board agreed that those fund authorities should be chased and any who have not settled payment by the end of February will be named on the SAB web site.

Date of next meeting

17. The date of the next meeting is scheduled for the 4th May 2020.

Bob Holloway
Pensions Secretary
20th February 2020

Mae'r dudalen hon yn wag yn bwrpasol

Summary note of (virtual) meeting held on 5th May 2020

Full details of the meeting and agenda papers can be found on this website.

The Chair opened the meeting by welcoming Rachel Brothwood (WMPF) to her first meeting as the Board's practitioner representative. Members were also advised that steps are well under way to fill the vacant Labour employer seat from the Met District administering authorities.

Main points arising from the meeting include :-

McCloud – Discussions with MHCLG continue on remedy. A consultation is still expected in late June with separate proposals for the LGPS. Members were also advised that a judicial review has been launched by the FBU, and four other public sector trade unions against the government's decision to pause the cost cap arrangement.

Covid-19 issues – Members were advised of the following work being undertaken by SAB to assist the scheme :-

- UK wide FAQ's including guidance on furloughed staff and emergency voluntary leavers
- New covid-19 section of the SAB website at www.lgpsboard.org
- Establishment of a Covid-19 Practitioners Group
- Weekly meetings with MHCLG, SPPA (Scotland) and DfC (Northern Ireland)
- Three surveys launched on scheme resilience; cash flow and governance.
- Employer webinars
- Scheme member FAQs

DHSC Life Assurance arrangement – Members were advised that full details of the DGSC life assurance scheme were still awaited but that questions are already being asked about whether similar arrangements are being considered for local government employees not covered by the DHSC scheme. Members were advised that no formal discussions have taken place but that representations have been made to MHCLG about the possibility of extending the scheme to other frontline local government staff.

Impact of covid-19 on SAB projects and workload :-

- Good Governance project – To allow local government officers to concentrate on priority matters during the emergency, the Board agreed that the Phase III Implementation Working Group should be stood down until further notice. In the meantime, the project team at Hymans Robertson will continue to work on draft outcomes for consideration by the working group and the Board in due course.
- Responsible Investment Guidance – Work on preparing an A-Z guide to Responsible Investment) will continue over the summer. As agreed in February the guide will not at this stage include any reference to fiduciary duty. The aim is to have a final draft for wider consultation ready to be considered by the Board by mid-August.
- Academies project – Members were advised that the various recommendations from the project's working groups on administration are to be included in ongoing work on monthly data submission and Pension Administration Strategies when possible , Third tier employers project – The working group set up to take this work forward has not been able to meet but discussions with MHCLG on whether and how the

proposals on exit payments, deferred employers, etc, consulted on in May last year are being progressed.

Supreme Court judgement – Members were advised that the judgement of the Supreme Court in the Palestine Solidarity Campaign case was handed down on the 29th April 2020 and were asked to approve a short statement that has earlier been agreed by the Chair and Vice-Chair. The Board agreed publication of the statement that is now on the SAB website at www.lgpsboard.org. The Board also agreed that the Secretariat should work in conjunction with the Board's legal adviser to prepare a draft summary of the judgement for publication covering the following areas :-

- Direct effect of the decision
- Possible indirect impact of the decision, and
- Other items of interest outside of the decision.

Date of next meeting – 10th August 2020 but members were advised that beforehand virtual meetings with the Chairs of both the Board and investment and cost management committees will meet on a regular basis to deal with any urgent business.

Clwyd Pension Fund

Training Plan 2020/ 21 - as at 30 September 2020

External /CPF event	Title of session	Training Content	Timescale	Training Length	Audience	Complete
External	CIPFA Local Pension Board Seminars	Autumn Session	28/29/30 Sept 2020 1 Oct 2020 (Webex)	11.00 -15.15	Pensions Board	
External	Engagement and Proxy Voting	WPP and Robeco	22/29 Sept 2020 6 Oct 2020 (Teams)	14.00 - 15.30	Committee, Pensions Board and Officers	
CPF	Day 1 - Induction / Refresher Training Governance	New Member Induction and additional identified from individual TNA.	Oct 2020 - Jan 2021	TBC	Committee, Pensions Board and Officers	
CPF	Day 2 - Induction / Refresher Training Funding and Actuarial	New Member Induction and additional identified from individual TNA.	Oct 2020 - Jan 2021	TBC	Committee, Pensions Board and Officers	
CPF	Day 3 - Induction / Refresher Training Investments	New Member Induction and additional identified from individual TNA.	Oct 2020 - Jan 2021	TBC	Committee, Pensions Board and Officers	
CPF	Day 4 - Induction / Refresher Training Accounting , Audit and Procurement	New Member Induction and additional identified from individual TNA.	Oct 2020 - Jan 2021	TBC	Committee, Pensions Board and Officers	
CPF	Day 5 - Induction / Refresher Training Administration	New Member Induction and additional identified from individual TNA.	Oct 2020 - Jan 2021	TBC	Committee, Pensions Board and Officers	
CPF	Day 6 - Induction / Refresher Training Communications	New Member Induction and additional identified from individual TNA.	Oct 2020 - Jan 2021	TBC	Committee, Pensions Board and Officers	
External	Performance and Alternative Asset Classes	WPP and Russell Investments	23 Oct 2020 (Teams)	10.00 - 12.30	Committee, Pensions Board and Officers	
External	Progress of Pools and Collaboration	WPP and Hymans	24 Nov 2020 (Teams)	14.00 - 16.30	Committee, Pensions Board and Officers	
External	Pensions Regulator	The role and powers of the Pensions Regulator and Codes of Practice	Dec PFC	Estimated at 1 hour	Committee, Pensions Board and Officers	
External	LAPFF, Bournmouth	Various topical presentations around the work of the LAPFF	2-4/12/2020	2 days	Committee, Officer	
CPF	MIFID 2 Requirements	MIFID2 knowledge and skills requirements and the impact on the Fund around investment restrictions	Early 2021 PFC (with K&S Policy review)	Estimated at 30 mins	Committee, Pensions Board and Officers	
CPF	Pension Scheme Taxation	Including tife time allowance and annual allowance	Early 2021 webex	30 mins - 1 hour est.	Committee, Pensions Board and Officers	
CPF	£95k Cap	If applies to Wales, the new £95k cap and the impact on scheme members being given early retirement	Early 2021 webex	Estimated at 30 mins	Committee, Pensions Board and Officers	
CPF	Goodwin Case	Overview of Goodwin court case affecting widowers' pension entitlements retrospectively to 2005	Early 2021 webex	Estimated at 30 mins	Committee, Pensions Board and Officers	
External	LGA LGPS Annual Governance Conference	Various	Jan-21	2 day	Committee, Pensions Board and Officers	
External	LGC Investment Summit, Leeds	Various topical presentations.	3-5/03/2021	2 days	Committee, Pensions Board and Officers	
CPF	Private Markets	All aspects of investing in Private Markets	TBC	2 hours Webex	Committee, Pensions Board and Officers	
CPF	Investment Strategy	Delivery of Investment objectives	TBC	TBC	Committee, Pensions Board and Officers	
CPF	Asset Classes	Risk and return characteristics	TBC	TBC	Committee, Pensions Board and Officers	
CPF	Cyber Security	Cyber risk to the fund and how this is being assessed and controlled	TBC	30 mins - 1 hour est.	Committee, Pensions Board and Officers	
CPF	Good Governance Project	Changes to be introduced as a result of the national SAB good governance project	TBC	Estimated at 1 hour	Committee, Pensions Board and Officers	
CPF	Myners Principles	To include reviewing the effectiveness of the PF Committee	TBC	Estimated at 1 hour	Committee, Pensions Board and Officers	
Previous events						
External	CIPFA Local Pension Board Seminars	Spring Session	02/04/2020	1 day	Pensions Board	N
External	PLSA Local Authority Conference, Gloucestershire	Various - Held vertually over 5 days	18-20/05/2020	5 days	Committee, Pensions Board and Officers	N
External	SAB Webinar	Streamlining Data, Manging investment risks	01/06/2020	1 hour Webinar	Committee, Pensions Board and Officers	Y
External	CIPFA Local Pension Board Seminars	Annual Event	24/06/2020 - Webex	9.30 - 16.00	Pension Board	Y
External	Responsible Investing & Climate Risk	To frame the Funds response to Climate Risk and Responsible Investing and low carbon investments	25/06/2020	2 hours Webex	Committee, Pensions Board and Officers	Y
External	Room 151	Cost transparency/Stewardship/Green Energy	22/07/2020	2 hour Webinar	Committee, Pensions Board and Officers	Y
CPF	McCloud Reform	Background to the McCloud Reform and the programme of work to be undertaken	05/08/2020	2 hours Webex	Committee, Pensions Board and Officers	Y
CPF	McCloud -Impact for Employers	Specific training for Employers with regard to the impact of McCloud	11/08/2020	2 hours Webex	Officers, McCloud Steering Group (Pension Board and Scheme Member Rep - Committee)	Y
External	CIPFA McCloud Implementation Workshop	Impact on Administration and Members	19/08/2020 Webex	10 -13.00	Committee & Pensions Board	N

Mae'r dudalen hon yn wag yn bwrpasol

Ref	A1	**Date entered in register**	19/09/2017
Status	Open	**Date breached closed (if relevant)**	
Title of Breach	Late notification of joining	**Owner**	SB/JT
Party which caused the breach	CPF + various employers		
Description and cause of breach	Requirement to send a Notification of Joining the LGPS to a scheme member within 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. Due to a combination of late notification from employers and untimely action by CPF the legal requirement was not met. 20/11/18 - (Q2) Staff turnover in August/September reduced number actioned. 29/1/19 The introduction of I-connect is also producing large backlogs at the point of implementation for each employer. I-connect submission timescales can also leave only a few days for CPF to meet the legal timescale. 14/8/19 General data cleansing including year-end is affecting whether legal timescale is met. Individual on long-term sick impacting this.		
Category affected	Active members		
Numbers affected	2017/18: 2676 cases completed / 76% (2046) were in breach. 2018/19: 3855 cases completed / 66% (2551) were in breach. 2019/20: - Q1 - 822 cases completed / 62% (507) were in breach - Q2 - 750 cases completed / 46% (380) were in breach - Q3 - 1086 cases completed / 55% (603) were in breach - Q4 - 705 cases completed / 29% (207) were in breach 2020/21 -Q1 - 442 cases completed / 55% (245) were in breach		
Possible effect and wider implications	- Late scheme information sent to member which may result in lack of understanding. - Potential complaints from members. - Potential for impact on CPF reputation.		
Actions taken to rectify breach	- Roll out of iConnect where possible to scheme employers including new admitted bodies to ensure monthly notification of new joiners (ongoing). - Set up of Employer Liaison Team (ELT) to monitor and provide joiner details more timelessly. - Training of new team members to raise awareness of importance of time restraint. - Prioritising of task allocation. KPIs shared with team members to further raise awareness of importance of timely completion of task. - 6/6/18 - Updating KPI monitoring to understand employers not sending information in time. 3/6/19 - Review of staff resources now complete and new posts filled. 14/8/19 -Streamlining of aggregation cases with major employers. - Consider feasibility and implications of removing reminders for joining pack (agreed not to change). - Consider feasibility of whether tasks can be prioritised by date of joining (agreed not to change). 14/11/19 - Utilising FCC trainees to assist with this procedure. Joined early September. 30/01/2020 - backlog completed and addressed older case work. 25/09/2020 - Appointed and training new members of staff		

Outstanding actions (if any)	- Ongoing roll out of i-Connect. - Bedding in of new staff/ training. - Carrying out backlogs of previous joiners (most of which are due to i-Connect roll out). - Contacting employers who are causing delays. 28/1/19: - Introduce process to analyse specific employers causing problems. 22/06/2020 - Identified the need for permanent positions within this area. Will take this into consideration when reviewing recruitment for McCloud. 25/09/2020 - Recruitment complete, training on-going.
Assessment of breach and brief summary of rationale	25/09/2020 - Due to movement in resource, it has proved difficult to keep on top of current caseloads. New appointments have been made and training is underway, this should improve in the coming months.
Reported to tPR	No

Ref	A2	**Date entered in register**	19/09/2017
Status	Open	**Date breached closed (if relevant)**	
Title of Breach	Late transfer in estimate	**Owner**	JT

Party which caused the breach	CPF + various previous schemes
Description and cause of breach	Requirement to obtain transfer details for transfer in, and calculate and provide quotation to member 2 months from the date of request. Breach due to late receipt of transfer information from previous scheme and late completion of calculation and notification by CPF. Only 2 members of team fully trained to carry out transfer cases due to new team structure and additional training requirements. 29/1/19 National changes to transfer factors meant cases were put on hold/stockpiled end of 2018/early 2019.
Category affected	Active members
Numbers affected	2017/18: 235 cases completed / 36% (85) were in breach. 2018/19:213 cases completed / 45% (95) were in breach. 2019/20: - Q1 - 51 cases completed / 59% (30) were in breach - Q2 - 56 cases completed / 29% (16) were in breach - Q3 - 53 cases completed / 21% (11) were in breach - Q4 - 64 cases completed / 21% (14) were in breach 2020/21 -Q1- 59 cases completed / 19% (11) were in breach.
Possible effect and wider implications	- Potential financial implications on some scheme members. - Potential complaints from members/previous schemes. - Potential for impact on CPF reputation.
Actions taken to rectify breach	- Continued training of team members to increase knowledge and expertise to ensure that transfers are dealt with in a more timely manner.
Outstanding actions (if any)	- Completion of training of team members in transfer and aggregation processes. 29/1/19: - If KPIs don't improve, investigate how much of the delay is due to external schemes and look for ways to improve this.
Assessment of breach and brief summary of rationale	25/09/20 - Training on-going to ensure adequate sharing of knowledge.
Reported to tPR	No

Ref	A4	Date entered in register	19/09/2017
Status	Open	Date breached closed (if relevant)	
Title of Breach	Late notification of retirement benefits	Owner	SB

Party which caused the breach	CPF + various employers + AVC providers
Description and cause of breach	Requirement to provide notification of amount of retirement benefits within 1 month from date of retirement if on or after Normal Pension Age or 2 months from date of retirement if before Normal Pension Age. Due to a combination of: - late notification by employer of leaver information - late completion of calculation by CPF - for members who have AVC funds, delays in receipt of AVC fund values from AVC provider.
Category affected	Active members mainly but potentially some deferred members
Numbers affected	2017/18: 960 cases completed / 39% (375) were in breach. 2018/19: 1343 cases completed / 30% (400) were in breach 2019/20: - Q1 - 315 cases completed / 28% (87) were in breach - Q2 - 411 cases completed / 24% (99) were in breach - Q3 - 348 cases completed / 26% (93) were in breach - Q4 - 256 cases completed / 18% (47) were in breach 2020/21 -Q1 - 214 cases completed in total / 37% (79) were in breach
Possible effect and wider implications	- Late payment of benefits which may miss payroll deadlines and result in interest due on lump sums/pensions (additional cost to CPF). - Potential complaints from members/employers. - Potential for impact on CPF reputation.
Actions taken to rectify breach	- Roll out of iConnect where possible to scheme employers including new admitted bodies to ensure monthly notification of retirees (ongoing). - Set up of ELT to monitor and provide leaver details in a more timely manner. - Prioritising of task allocation. - Set up of new process with one AVC provider to access AVC fund information. - Increased staff resources. 3/6/19 - Review of staff resources now complete and new posts filled. 14/8/19 - Improvements have been made and more should be made as staff are settled in and trained. Business case approved. 25/09/20 - Increased engagement with employers to assist with challenges faced due to working from home in relation to Covid-19 requirements. Employers faced challenges in getting information to us in relevant timescales.
Outstanding actions (if any)	- Further training of newly promoted team member to deal with volume of work. - Identifying which employers are causing delays. 14/11/19 Continuation of training. 30/1/2020 Ongoing liaison with employers
Assessment of breach and brief summary of rationale	25/09/20 - Retain as amber as employer challenges impacted performance this quarter so unable to identify if CPF improvement is required.

Reported to tPR	No

Ref	A5	**Date entered in register**	20/09/2017
Status	Closed	**Date breached closed (if relevant)**	24/06/2020
Title of Breach	Late estimate of benefits	**Owner**	SB
Party which caused the breach	CPF		
Description and cause of breach	Requirement to provide quotations on request for potential retirements as soon as is practicable, but no more than 2 months from date of request unless there is a previous request in the last year. Delays are due to: - late completion of calculation by CPF. - Increasing numbers of estimate requests being made by members.		
Category affected	Active members mainly but potentially some deferred members		
Numbers affected	2017/18: 487 cases completed / 37% (182) were in breach. 2018/19: - Q1 - 79 cases completed / 32% (25) were in breach - Q2 - 60 case completed / 22% (13) were in breach - Q3 - 123 case completed / 15% (18) were in breach - Q4 - 151 cases completed / 6% (4) were in breach 2019/20: - Q1 - 165 cases completed / 4% (6) were in breach - Q2 - 244 cases completed / 2% (4) were in breach - Q3 - 244 cases completed / 0.5% (1) was in breach - Q4 - 352 cases completed / 0% were in breach		
Possible effect and wider implications	- Late notification of benefits/costs to member/employer. - Potential complaints from members/employers. - Potential for missed opportunities by members/employers. - Potential for impact on CPF reputation.		
Actions taken to rectify breach	- Introduction of MSS should alleviate the volume of requests received as member will be able to calculate own estimate through database. - Further training of team members also required. - Task allocation reviewed by team leader to ensure estimates are given a higher priority. 3/6/19 - Review of staff resources now complete and new posts filled. 14/8/19 - Additional staff training.		
Outstanding actions (if any)	-None		
Assessment of breach and brief	24/06/2020 - No further breaches so will now close		
Reported to tPR	No		

Ref	A6	**Date entered in register**	20/09/2017
Status	Open	**Date breached closed (if relevant)**	
Title of Breach	Late notification of death benefits	**Owner**	SB
Party which caused the breach	CPF		
Description and cause of breach	Requirement to calculate and notify dependant(s) of amount of death benefits as soon as possible but in any event no more than 2 months from date of becoming aware of death, or from date of request by a third party (e.g. personal representative). Due to late completion by CPF the legal requirements are not being met. Due to complexity of calculations, only 2 members of team are fully trained and experienced to complete the task.		

Category affected	Dependant members + other contacts of deceased (which could be active, deferred, pensioner or dependant).
Numbers affected	2017/18: 153 cases completed / 58% (88) were in breach. 2018/19:184 cases completed / 30% (56) were in breach 2019/20: - Q1 - 33 cases completed / 24% (8) were in breach - Q2 - 41 cases completed / 34% (14) were in breach - Q3 - 49 cases completed / 26% (13) were in breach - Q4 - 42 cases completed / 28% (12) were in breach 2020/21 -Q1- 39 cases completed / 23% (9) were in breach
Possible effect and wider implications	- Late payment of benefits which may miss payroll deadlines and result in interest due on lump sums/pensions (additional cost to CPF). - Potential complaints from beneficiaries, particular given sensitivity of cases. - Potential for impact on CPF reputation.
Actions taken to rectify breach	- Further training of team - Review of process to improve outcome - Recruitment of additional, more experienced staff. 3/6/19 - Review of staff resources now complete and new posts filled.
Outstanding actions (if any)	24/06/2020 - Ongoing training of death calculations on the team
Assessment of breach and brief summary of rationale	25/09/20 - Improvement in number breached, continued training is hoped to reduce number further.
Reported to tPR	No

Ref	A9	**Date entered in register**		29/08/2018
Status	Open	**Date breached closed (if relevant)**		
Title of Breach	Late notification of leaver rights and options		**Owner**	SB/JT
Party which caused the breach	CPF + various employers			
Description and cause of breach	Requirement to inform members who leave the scheme of their leaver rights and options, as soon as practicable and no more than 2 months from date of initial notification (from employer or from scheme member). Due to a combination of late notification from employers and untimely action by CPF the legal requirement was not met. 20/11/18 - (Q2) Staff turnover in August/September reduced number actioned. 29/1/19 The introduction of I-connect is also producing large backlogs at the point of implementation for each employer. I-connect submission timescales can also leave only a few days for CPF to meet the legal timescale.			
Category affected	Active members			
Numbers affected	2018/19: 3596 cases completed / 45% (1634) were in breach 2019/20: - Q1 - 541 cases completed / 6% (34) were in breach - Q2 - 391 cases completed / 6% (23) were in breach - Q3 - 541 cases completed / 6% (36) were in breach - Q4 - 306 cases completed / 3% (8) were in breach 2020/21 -Q1- 418 cases completed in total / 9% (37) were in breach			
Possible effect and wider implications	- Late notification of benefits/costs to member/employer. - Potential complaints from members/employers. - Potential for missed opportunities by members/employers. - Potential for impact on CPF reputation.			

Actions taken to rectify breach	- Roll out of iConnect where possible to scheme employers including new admitted bodies to ensure monthly notification of leavers (ongoing). - Set up of Employer Liaison Team (ELT) to monitor and provide leaver details in a more timely manner. - Training of new team members to raise awareness of importance of time restraint. - Prioritising of task allocation. KPIs shared with team members to further raise awareness of importance of timely completion of task. - 6/6/18 - Updating KPI monitoring to understand employers not sending information in time. 3/6/19 - Review of staff resources now complete and new posts filled. 14/8/19 - Ongoing streamlining of aggregation cases with major employers. - Consider feasibility of whether tasks can be prioritised by date of leaving (no action taken). - Carrying out backlogs of previous leavers (most of which are due to i-Connect roll out).
Outstanding actions (if any)	- Ongoing roll out of i-Connect. - Bedding in of new staff/ training. - Contacting employers which are causing delays. 28/1/19: - Introduce process to analyse specific employers causing problems.
Assessment of breach and brief summary of rationale	25/09/2020 - Maintaining completion rate below 10%, remain as green.
Reported to tPR	No

Ref	A11	**Date entered in register**	29/05/2019
Status	Closed	**Date breached closed (if relevant)**	22/06/2020
Title of Breach	Scheme Changes Disclosure	**Owner**	KAM
Party which caused the breach	CPF		
Description and cause of breach	Amendment Regulations disclosure communication to members. This was sent in error to members who were categorised as "gone away" from last known address. This will have resulted in a data breach as names and addresses would have been visible to people now living at those addresses.		
Category affected	Active members, status 2 (undecided) members and deferred members who are shown as "gone away"		
Numbers affected	921 members impacted		
Possible effect and wider implications	- Personal Details available to view by incorrect recipients - May result in complaints - Potential that same issue could occur in other communications if "gone away" status is not checked.		
Actions taken to rectify breach	- Followed Data Breach procedure 14/8/19 - Increased staff awareness / training for future distribution - Process put in place to ensure future mail shots to all members exclude this Category or are automatically redirected back to CPF 22/06/2020 - FCC confirmed no further action required		
Outstanding actions (if any)			
Assessment of breach and brief	22/06/2020 - Breach closed		
Reported to tPR	No		

Ref	A12	**Date entered in register**	29/05/2019
Status	Closed	**Date breached closed (if relevant)**	24/06/2020
Title of Breach	APC calculation due to revised factors	**Owner**	SB/JT
Party which caused the breach	CPF		
Description and cause of breach	Recalculation of APC contracts due to GAD factor change not communicated within required timescales		
Category affected	Active members with APC contracts		
Numbers affected	<10 members 14/11/19 Now confirmed as only 1 member affected.		
Possible effect and wider implications	- Late notification to members of change to APC contracts / recalculation of benefits - May result in complaints		
Actions taken to rectify breach	- Re-calculation of APC contracts underway with explanation to those affected by the change. 14/11/19 Initial work completed and determined only 1 member requires a recalculation.		
Outstanding actions (if any)	None		
Assessment of breach and brief	24/06/2020 - All actions complete so breach can now be closed.		
Reported to tPR	No		

Ref	A13	**Date entered in register**	14/11/2019
Status	Closed	**Date breached closed (if relevant)**	24/06/2020
Title of Breach	Late transfer out estimate	**Owner**	SB
Party which caused the breach	CPF		
Description and cause of breach	Requirement to provide details of transfer value for transfer out on request within 3 months from date of request (CETV estimate). Note this is the same as breach A3 which was closed previously. Late completion of calculation and notification by CPF due to higher number of cases, plus additional pressure to complete aggregation project by end of Q3 and incorporation of tasks from data improvement plan.		
Category affected	Active and deferred members		
Numbers affected	2019/20 - Q2 - 3 members in breach Q3 - 86 cases completed / 0% were in breach Q4 - 97 cases completed / 0% were in breach		
Possible effect and wider implications	- Potential financial implications on some scheme members. - Potential complaints from members/new schemes. - Potential for impact on CPF reputation.		
Actions taken to rectify breach	14/11/19 - Better prioritisation of workload and any additional tasks that are not KPI driven		
Outstanding actions (if any)	None		
Assessment of breach and brief	24/06/2020 - No further breaches so will now close		
Reported to tPR	No		

Ref	A15	**Date entered in register**	14/02/2020
Status	Closed	**Date breached closed (if relevant)**	22/06/2020
Title of Breach	Duplicate lump sum payments	**Owner**	AH
Party which caused the breach	CPF		

Description and cause of breach	Duplicate lump sum amounts paid to the same beneficiary in error. This error happened in three separate instances. These errors were due to insufficient reconciliation processes and time pressures due to strict deadlines.
Category affected	Pensioner member and death grant beneficiary.
Numbers affected	
Possible effect and wider implications	Direct cost to the fund, reputational risk and member upset. Potential for further errors to occur.
Actions taken to rectify breach	28/02/2020 - Additional steps added to the reconciliation process. Increased engagement with finance team to balance payments. - Affected members contacted and error explained. All monies recovered.
Outstanding actions (if any)	None
Assessment of breach and brief summary of rationale	22/06/2020 Minimal amount of members affected and additional reconciliation steps now in place and monies recovered - breach closed.
Reported to tPR	No

Ref	A16		**Date entered in register**		29/05/2020
Status	Closed		**Date breached closed (if relevant)**		22/06/2020
Title of Breach		P60 not sealed correctly		**Owner**	AH
Party which caused the breach			CPF		
Description and cause of breach			One individual P60 was not sealed correctly when passing through the pressure seal machine. Member contacted the fund to complain that data protection had been breached as her details were visible.		
Category affected			Pensioner members.		
Numbers affected					
Possible effect and wider implications			Confidential member information visible to postal services etc. Reputational risk and member upset. Potential of further instances but none reported.		
Actions taken to rectify breach			22/06/2020 - Internal data breach procedures followed. Pressure seal machine serviced and additional spot checks now performed.		
Outstanding actions (if any)			None		
Assessment of breach and brief summary of rationale			22/06/2020 Minimal amount of members affected and sufficient steps put in place to rectify - breach closed.		
Reported to tPR			No		

Ref	A17		**Date entered in register**		28/02/2020
Status	Closed		**Date breached closed (if relevant)**		24/06/2020
Title of Breach		Member data sent in error		**Owner**	KW
Party which caused the breach			CPF		
Description and cause of breach			Member data had been included within an attachment sent to the Pension Board. It is normal practice for just a summary to be provided but an incorrect document had been attached.		
Category affected			All member statuses		
Numbers affected			A significant number of the scheme membership		
Possible effect and wider implications			Confidential member information shared, breaching GDPR regulations. Reputational risk and member upset.		
Actions taken to rectify breach			02/03/2020 - Internal data breach procedures followed, Pension Board members contacted and asked to delete and confirm deletion of attachment.		
Outstanding actions (if any)			None		

Assessment of breach and brief summary of rationale	24/06/2020 Although a significant number of member data was shared, the data was minimal and only shared with Pension Board members whom once aware deleted the attachment immediately. A separate summary sheet is now produced. Breach now closed.
Reported to tPR	No

Ref	F25		**Date entered in register**	10 Jan 2020
Status	Closed		**Date breached closed (if relevant)**	10 Jun 2020
Title of Breach	Late payment of contributions		**Owner**	DF
Party which caused the breach	Hafan Deg (K L Care Ltd)			
Description and cause of breach	Contributions must be paid by the 22nd (if BACs) or 19th (if cheque) of the month following the deductions. Contributions in relation to Nov 2019 were not received within the deadline. Subsequently, payments also delayed for Dec 2019, Jan 2020 and March 2020.			
Category affected	Active members and employer			
Numbers affected	2 active members			
Possible effect and wider implications	- Could expose employers to late payment interest charge. - Assumptions regarding funding assume regular monthly payment; not adhering to this regulatory requirement could result in changed actuarial assumptions for the employer.			
Actions taken to rectify breach	- 31/01/20 employer contacted when 1st payment received, no advice to show month it related to. Details provided to identify payments. Emailed on Feb 22nd when Jan payment not received. Payment made 18th March. Emailed 22nd April when March payment not received and escalated to Deputy Head of Pension Fund. March payment received June 10th.			
Outstanding actions (if any)				
Assessment of breach and brief	10/06/2020 Payments received			
Reported to tPR	No			

Ref	F26		**Date entered in register**	10 Feb 2020
Status	Closed		**Date breached closed (if relevant)**	15 Jun 2020
Title of Breach	No submission of contribution remittance advice		**Owner**	DF
Party which caused the breach	Marchwiel Community Council			
Description and cause of breach	A remittance advice detailing information in relation to contribution payments should be submitted to CPF at the same point as the payment is made. Contributions relating to Jan 2020 were received within the legal timescales but no remittance advice was received. Subsequently no remittance for Feb or March received			
Category affected	Active members and employer			
Numbers affected	1 active member			
Possible effect and wider implications	Unable to verify information being paid or reconcile with member year end information.			
Actions taken to rectify breach	- 22/02/20 emailed Employer each month to request remittances. This was escalated to Deputy Head of Clwyd Pension Fund and resolved 15th June.			
Outstanding actions (if any)				
Assessment of breach and brief	15/06/20 Reassessed - remittance received.			
Reported to tPR	No			

Ref	F27		**Date entered in register**		26 Feb 2020
Status	Closed		**Date breached closed (if relevant)**		26 Feb 2020
Title of Breach		Late payment of contributions		**Owner**	DF
Party which caused the breach			Argoed Community Council		
Description and cause of breach			Contributions must be paid by the 22nd (if BACs) or 19th (if cheque) of the month following the deductions. Contributions in relation to Dec 2019 and Jan 2020 were not received within the deadline.		
Category affected			Active members and employer		
Numbers affected			1 active member		
Possible effect and wider implications			- Could expose employers to late payment interest charge. - Assumptions regarding funding assume regular monthly payment; not adhering to this regulatory requirement could result in changed actuarial assumptions for the employer.		
Actions taken to rectify breach			- 26/02/20 -Previous Town Clerk retired during 19/20 and a delay in appointing replacement. Payment was received 26th Feb and employer was emailed to provide a remittance identifying payments delayed. Fund clarified situation to Town Clerk		
Outstanding actions (if any)					
Assessment of breach and brief			26/02/20. Resolved payment and remittance received.		
Reported to tPR			No		

Ref	F28		**Date entered in register**		22 May 2020
Status	Closed		**Date breached closed (if relevant)**		09 Jul 2020
Title of Breach		No submission of contribution remittance advice		**Owner**	DF
Party which caused the breach			Flintshire County Council		
Description and cause of breach			A remittance advice detailing information in relation to contribution payments should be submitted to CPF at the same point as the payment is made. Contributions relating to April 2020 were received within the legal timescales but no remittance advice was received.		
Category affected			Active members and employer		
Numbers affected			5171 active members		
Possible effect and wider implications			Unable to verify information being paid or reconcile with member year end information.		
Actions taken to rectify breach			-22/05/20 emailed Employer to request remittance.		
Outstanding actions (if any)					
Assessment of breach and brief			09/07/20 Remittance received		
Reported to tPR			No		

Ref	F29		**Date entered in register**		22 May 2020
Status	Closed		**Date breached closed (if relevant)**		09 Jul 2020
Title of Breach		No submission of contribution remittance advice		**Owner**	DF
Party which caused the breach			Aura (Leisure and Libraries)		

Description and cause of breach	A remittance advice detailing information in relation to contribution payments should be submitted to CPF at the same point as the payment is made. Contributions relating to April 2020 were received within the legal timescales but no remittance advice was received.
Category affected	Active members and employer
Numbers affected	187 active employers
Possible effect and wider implications	Unable to verify information being paid or reconcile with member year end information.
Actions taken to rectify breach	-22/05/20 emailed Employer to request remittance.(note payroll provider is FCC)
Outstanding actions (if any)	
Assessment of breach and brief	09/07/20 Remittance received
Reported to tPR	No

Ref	F30		**Date entered in register**		22 May 2020
Status	Closed		**Date breached closed (if relevant)**		09 Jul 2020
Title of Breach		No submission of contribution remittance advice		**Owner**	DF
Party which caused the breach			Newydd Catering and Cleaning		
Description and cause of breach			A remittance advice detailing information in relation to contribution payments should be submitted to CPF at the same point as the payment is made. Contributions relating to April 2020 were received within the legal timescales but no remittance advice was received.		
Category affected			Active members and employer		
Numbers affected			418 active members		
Possible effect and wider implications			Unable to verify information being paid or reconcile with member year end information.		
Actions taken to rectify breach			- 22/05/20 emailed Employer to request remittance.(note payroll provider is FCC)		
Outstanding actions (if any)					
Assessment of breach and brief			09/07/20 Remittance received		
Reported to tPR			No		

Ref	F31		**Date entered in register**		22 May 2020
Status	Closed		**Date breached closed (if relevant)**		02 Jul 2020
Title of Breach		No submission of contribution remittance advice		**Owner**	DF
Party which caused the breach			Argoed Community Council		
Description and cause of breach			A remittance advice detailing information in relation to contribution payments should be submitted to CPF at the same point as the payment is made. Contributions relating to April 2020 were received within the legal timescales but no remittance advice was received. Contributions relating to Mayl 2020 were also received within the legal timescales but no remittance advice was received		
Category affected			Active members and employer		
Numbers affected			1 active member		
Possible effect and wider implications			Unable to verify information being paid or reconcile with member year end information.		
Actions taken to rectify breach			- 22/05/20 emailed Employer to request remittance. -22/06/20 emailed again for May remittance		

Outstanding actions (if any)	
Assessment of breach and brief	02/07/20 Both April and May remittances received
Reported to tPR	No

Ref	F32	**Date entered in register**	22 May 2020
Status	Closed	**Date breached closed (if relevant)**	08 Jul 2020
Title of Breach	No submission of contribution remittance advice	**Owner**	DF
Party which caused the breach	Marchwiel Community Council		
Description and cause of breach	A remittance advice detailing information in relation to contribution payments should be submitted to CPF at the same point as the payment is made. Contributions relating to Apr 2020 were received within the legal timescales but no remittance advice was received. Previous Breach F26		
Category affected	Active members and employer		
Numbers affected	1 active member		
Possible effect and wider implications	Unable to verify information being paid or reconcile with member year end information.		
Actions taken to rectify breach	- 22/05/20 emailed Employer to request remittance.		
Outstanding actions (if any)			
Assessment of breach and brief	08/07/2020 Details received		
Reported to tPR	No		

Ref	F33	**Date entered in register**	23 May 2020
Status	Closed	**Date breached closed (if relevant)**	10 Jun 2020
Title of Breach	Late payment of contributions	**Owner**	DF
Party which caused the breach	Hafan Deg (K L Care Ltd)		
Description and cause of breach	Contributions must be paid by the 22nd (if BACs) or 19th (if cheque) of the month following the deductions. Contributions in relation to Apr 2020 were not received within the deadline. Previous Breach F25		
Category affected	Active members and employer		
Numbers affected	2 active members		
Possible effect and wider implications	- Could expose employers to late payment interest charge. - Assumptions regarding funding assume regular monthly payment; not adhering to this regulatory requirement could result in changed actuarial assumptions for the employer.		
Actions taken to rectify breach	- 22/05/20 emailed Employer to request payment		
Outstanding actions (if any)			
Assessment of breach and brief	10/06/20 reassessed as payment received		
Reported to tPR	No		

Ref	F34	**Date entered in register**	23 Jul 2020
Status	Closed	**Date breached closed (if relevant)**	02 Sep 2020
Title of Breach	Late payment of contributions	**Owner**	DF
Party which caused the breach	Hafan Deg (K L Care Ltd)		

Description and cause of breach	Contributions must be paid by the 22nd (if BACs) or 19th (if cheque) of the month following the deductions. Contributions in relation to June 2020 and subsequently July were not received within the deadline. Previous Breach F33
Category affected	Active members and employer
Numbers affected	2 active members
Possible effect and wider implications	- Could expose employers to late payment interest charge. - Assumptions regarding funding assume regular monthly payment; not adhering to this regulatory requirement could result in changed actuarial assumptions for the employer.
Actions taken to rectify breach	- 23/07/20 and 23/08/20 - Emailed Employer to request payment
Outstanding actions (if any)	
Assessment of breach and brief summary of rationale	31/07/20 and 02/09/20 reassessed as payment received and also August payment received on 2 September. If future payments are late, will treat as amber or red breach as clearly processes have not been resolved.
Reported to tPR	No

Ref	F35	**Date entered in register**	31 Jul 2020
Status	Open	**Date breached closed (if relevant)**	
Title of Breach	No submission of contribution remittance advice	**Owner**	DF

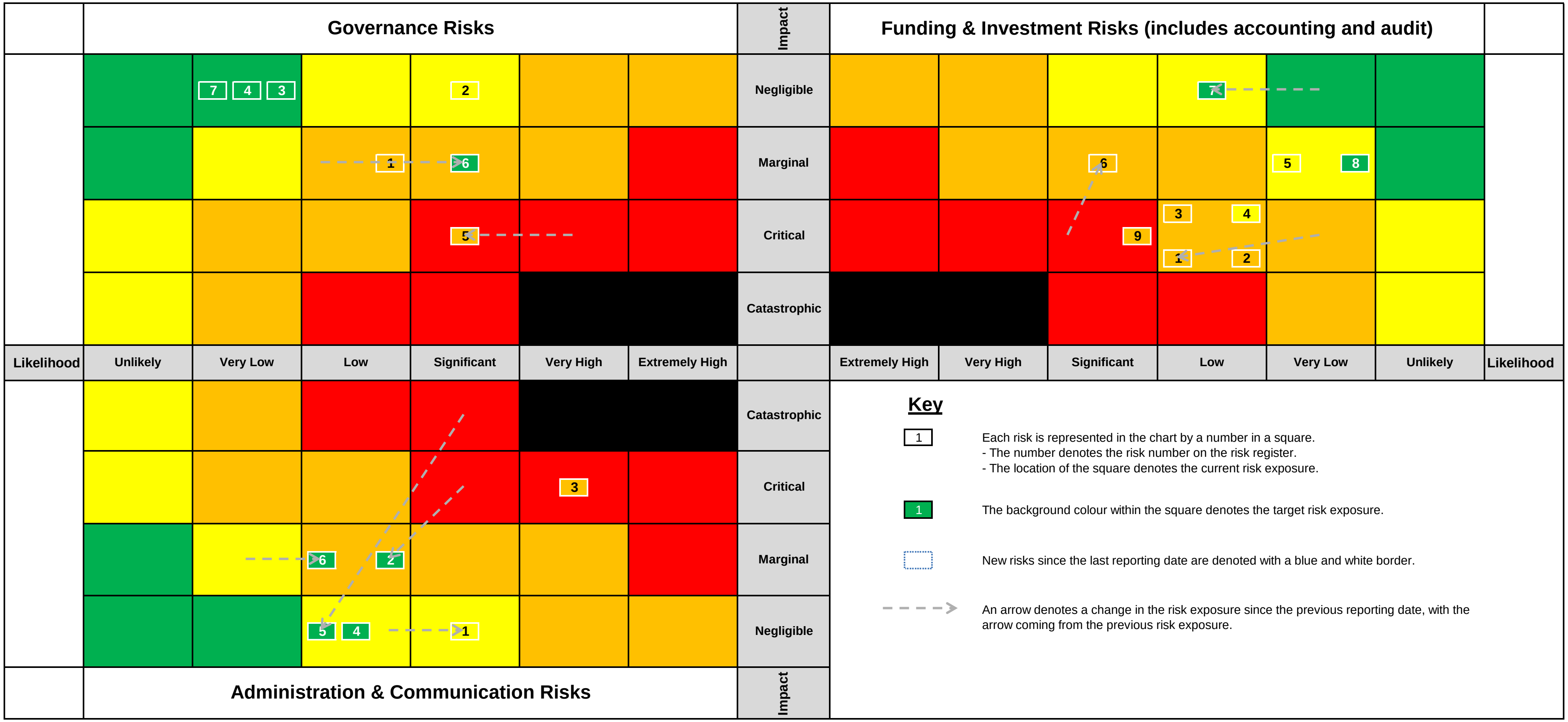
Party which caused the breach	Hafan Deg (K L Care Ltd)
Description and cause of breach	A remittance advice detailing information in relation to contribution payments should be submitted to CPF at the same point as the payment is made. Contributions relating to June and July Apr 2020 were received late but no remittance advices were received. August remittance is still outstanding.
Category affected	Active members and employer
Numbers affected	2 active members
Possible effect and wider implications	Unable to verify information being paid or reconcile with member year end information.
Actions taken to rectify breach	31/07/2020 - Emailed employer to request remittance
Outstanding actions (if any)	
Assessment of breach and brief	29/09/2020 - emailed for outstanding remittances
Reported to tPR	No

Mae'r dudalen hon yn wag yn bwrpasol

	CLWYD PENSION FUND - CALENDAR OF EVENTS APRIL 2020 ONWARDS						
	Month	**Date**	**Day**	**Committee**	**Training**	**Pension Board**	**Location**
	2020						
	April						
		02-Apr	Thu		**CIPFA Pension Board Event CANCELLED**		Cardiff
	May						
		18 - 20 May	Mon - Wed		**PLSA Local Authority Conference CANCELLED**		Gloucestershire
		22-May	Fri	Informal Update Virtual Meeting 10.30am - 12.30pm			Webex
	June						
		10-Jun	Wed	**CANCELLED**			County Hall
		24-Jun	Wed		CIPFA Pension Board Event		Webinar
		25-Jun	Thu		Climate Risk 1pm - 2.30pm		Webex
		30-Jun	Tue			9.30am - 2.30pm	Webex
	July						
	August						
		05-Aug	Wed		McCloud 1pm - 2.30pm		Webex
	September						
		08-Sep	Tue	**Postponed**	Private Markets 1pm - 2.30pm		Webex
		22 & 29 Sept	Tues		WPP Engagement & Proxy Voting 2pm - 3.30pm		Teams
	October						
		06-Oct	Tues		WPP Engagement & Proxy Voting 2pm - 3.30pm		Teams
		07-Oct	Wed	9.30am - 12.30pm			Webex
		23-Oct	Friday	10.00am - 12.30pm	WPP Performance Metrics and Asset Classes		Teams

Month	Date	Day	Committee	Training	Pension Board	Location
November						
	06-Nov	Fri			9.30am - 3pm	Webex
	10-Nov	Tue		Annual Employer Meeting (AM)		Webex
	10-Nov	Tue		AJCM (PM)		Webex
	24-Nov	Tue	2.00pm - 4.30pm	WPP Progress of Pools and Collaboration		Teams
	25-Nov	Wed	9.30am - 12.30pm			Webex
December						
	2- 4 Dec	Wed - Fri		LAPFF		Bournemouth
2021						
January						
February						
	10-Feb	Wed	9.30am - 1pm			County Hall
	23-Feb	Tue			9.30am - 3pm	County Hall
March						
	3 - 5 Mar	Wed - Fri		LGC Investment Seminar		Leeds
	23-Mar	Tue	All Day (to include training)			County Hall
April						
May						
June						
	09-Jun	Wed	9.30am - 1pm			County Hall
	24-Jun	Thu			9.30am - 3pm	County Hall

All Fund Risk Heat Map and Summary of Governance Risks



24 September 2020

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?	Date Not Met Target From	Expected Back on Target	Further Action and Owner	Risk Manager	Next review date	Last Updated
1	Losses or other determintal impact on the Fund or its stakeholders	Risk is not identified and/or appropriately considered (recognishing that many risks can be identified but not managed to any degree of certainty)	All	Marginal	Low		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		☺			None	Head of CPF	31/12/2020	02/09/2020
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	Negligible	Significant		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 - Training Needs self assessment carried out (January 2018) and training programme reviewed based on results 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 but they can be re-appointed. 8 - Regular Covid catch ups taking place with senior managers and advisers to consider/manage impact on Fund. 9 - Virtual PFC, PB and update sessions to ensure ongoing engagement whilst formal PFC not taking place.	Negligible	Low		😐 Current likelihood 1 too high	03/06/2019	Dec 2020	1 - Training plan for new committee members to be delivered (in progress) (PL) 2 - Further self assessment of training needs to be carried out in 2021/22 (PL)	Head of CPF	31/12/2020	02/09/2020
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		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 7 - PFC and PB members trained on fiduciary responsibility and the CPF Conflicts Policy	Negligible	Very Low		☺				Head of CPF	31/12/2020	02/09/2020
4	Appropriate objectives are not agreed or monitored - internal factors	Policies not in place or not being monitored	G2 / G7	Negligible	Very Low		1- Range of policies in place and all reviewed at least every three years 2 - Review of policy dates included 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		😐 Current likelihood 1 too high	01/07/2016	Oct 2020	1- Ensure work relating to annual monitoring is completed and included in PFC papers (DF)	Dep. Head of CPF	01/12/2020	24/09/2020
5	The Fund's objectives/legal responsibilities are not met or are compromised - external factors	Externally led influence and change such scheme change (e.g. McCloud), national reorganisation, cybercrime, Covid-19 and asset pooling	G1 / G4 / G6 / G7	Critical	Significant		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 and expected tasks identified as part of business plan (ensuring ongoing monitoring) 5 - Asset pooling IAA in place 6 - Officers on Wales Pool OWG 7 - Ongoing monitoring of cybercrime risk by AP 8 - McCloud planning undertaken and full programme management in place 9 - Regular Covid catch ups taking place with senior managers and advisers to consider/manage impact on Fund. 10 - Virtual PFC, PB and update sessions to ensure ongoing engagement whilst formal PFC not taking place.	Marginal	Low		😐 Current impact 1 too high Current likelihood 1 too high	28/02/2017	Mar 2021	1 - Regular ongoing monitoring by AP to consider if any action is necessary around asset pooling, cost cap, £95k cap and McCloud judgement (PL) 2 - Ensure Board requests to JGC/OWG are responded to (PL) 3 - Identify further actions to manage Cybercrime risk (PL) 4 - Refresh and document business continuity assessments/ procedures (KW)	Head of CPF	01/12/2020	24/09/2020
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	Marginal	Significant		1 - 2018/19 business plan includes workforce matters 2 - Review of admin structure in 2015/16 3 - Finance team restructure commenced (2017/18) 4 - Quarterly update reports consider resourcing matters 5 - Advisory Panel provide back up when required 6 - Additional resources, such as outsourcing, considered as part of business plan 7 - Staff reviews implemented and most vacant positions now recruited to (admin and finance) 8 - Impact of potential Covid absences being discussed at weekly Covid catch ups and plans in place for ensuring priority work continues unaffected.	Negligible	Very Low		😐 Current impact 1 too high Current likelihood 2 too high	01/07/2016	Oct 2020	1 - Recruit to vacant governance and business role (PL) 2 - Ongoing consideration of succession planning (PL) 3 - Continue training of new and newly promoted staff (PL) 4 - Review of technical/payroll team resource (KW)	Head of CPF	01/12/2020	24/09/2020
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	Negligible	Very Low		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 10 - Outstanding actions relating to TPR Code reviewed regularly	Negligible	Very Low		☺			1 - Further documented processes (as part of TPR compliance) e.g. contribution payment failure (DF)	Head of CPF	01/12/2020	24/09/2020

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 7 October 2020
Report Subject	Administration and Communications Update
Report Author	Pensions Administration Manager

EXECUTIVE SUMMARY

An administration and communications update is on each quarterly Committee agenda and includes a number of administration and communications related items for information or discussion. The last update report was provided at the February 2020 and therefore this update report includes matters since that date.

This update includes matters that are mainly for noting, albeit comments are clearly welcome. The only matter for approval is changes to some of the timescales relating to business plan items (some of which are due to delays or changes in guidance or regulations at a national level).

The report includes updates on:

- Current Developments and News – this includes updates relating to the annual pensions increase and annual benefit statement exercises, and also the latest data quality scores for the Fund
- Day to day tasks and key performance indicators – showing the position to end of August 2020
- Communications – Engagement sessions held with employers and scheme members, and statistics showing the continuing increase in scheme members using the Fund's Member Self-Service (MSS) facility
- Update to the Fund's risk dashboard and changes to the administration and communications risks since the last meeting.

RECOMMENDATIONS	
1	That the Committee consider the update and provide any comments.
2	That the Committee approve the extension of the timescales in relation to a number of actions within the Business Plan as outlined in paragraph 1.01.

REPORT DETAILS

1.00	**ADMINISTRATION AND COMMUNICATIONS RELATED MATTERS**
	Business Plan 2020/21 Update
1.01	Progress against the business plan items for quarter two of this year is slightly behind in some areas as illustrated in Appendix 1. Key items to note relating to this quarter's work are as follows: • A1 Implement Survivor Benefit Changes – This is as a result of the changes to the regulations in respect of the calculation of and entitlement to surviving partner pensions in respect of Civil Partners or same sex marriages and the outcome of Elmes versus Essex High Court Ruling. Deceased members who may have a surviving partner entitled to a benefit under the new rulings have been identified. Processes and letters have been drafted and we are currently awaiting further guidance from the LGA on how to proceed with these cases. A further case, Goodwin versus the Department for Education, has highlighted that previous changes to regulation may now lead to further discrimination within the Teachers' Pension Scheme and other public service pension schemes (including the LGPS). It is expected that a consultation on the potential Regulatory changes will take place shortly. This work is therefore greater than originally envisaged and is now expected to continue from now through to 2021/22whilst awaiting further information in relation to the existing cases and the new Goodwin case. • A2 GMP Reconciliation – This exercise was outsourced to Equiniti and has continued to progress well despite the recent challenges. The rectification part of the exercise is now nearing completion with the bulk of the letters having been sent to the affected members informing them of the amendments to their pension benefits later this month. The administration system is also being updated to reflect the correct member information following the reconciliation exercise. Any remaining amendments will be actioned in November bringing the exercise to a successful end. As yet one member has requested an IDRP pack. • A3 i-Connect – Good progress is being made towards having all employers on-board and submitting active member data electronically every month. The on-boarding exercise for both Wrexham CBC and Coleg Cambria took longer than expected as an extensive data cleansing exercise was required. Both employers are now using i-Connect bringing the total number of active scheme membership updated monthly to 96% (approximately 16,200 members). An extension into Q4 is required to allow sufficient time to data cleanse and on-board the remaining employers. • A7 Efficiency improvements for existing processes – This exercise was intended to identify any efficiencies that could be made to our existing processes focusing on a number of key areas. This exercise is progressing well with enhancements to Member Self Service (MSS) to improve experience and processes for both the member and staff due to the recent challenges that Covid-19 has brought. This exercise will continue through the year in-line with current timescales.

	• A8 McCloud and Cost Cap – The McCloud programme is now taking place and this is covered in a separate report. • A17a Other Expected National Changes – £95k cap – As highlighted in the business plan, there were a number of other expected national changes but the timescales were unknown. One of these, the introduction of a £95k cap, is now progressing. This is a fundamental change in legislation which could impact the pension and redundancy benefits paid to scheme members who are made redundant or retired on business efficiency grounds, by capping the total value of their early leavers payments (including any strain on the fund payment) to £95k. It is hoped that some or all of these changes won't apply to Wales but this is still being clarified. Some of the legislative changes are expected to be introduced later in October. The business plan will be updated with a separate item in relation to this and it is expected that this will need action during Q3 and Q4 of 2020/21.
1.02	The Committee is asked to approve the inclusion of the £95k cap explicitly within the business plan and an extension for the completion of the following 1. calculation of survivor benefits 2. on-boarding of remaining employers onto i-Connect.
	Current Developments and News
1.03	The following details additional developments and news that are not covered in the Business Plan section: • The Technical and Payroll team have successfully completed both the Pension Increase exercise (April) and Year End exercise (May-August) incorporating the provision of Pension Increase letters and Annual Benefit Statements to all relevant members via their preferred communication method within regulatory timeframes. • The administration team have collectively completed the data improvement plan for 2019/20 in readiness for the annual review of common and scheme specific data for all pension schemes by the Pension Regulator (tPR). In addition to measuring and capturing the above data, the Fund also developed a data improvement plan to capture any other elements of data that was considered to be inaccurate. The time and effort that has been dedicated to the successful completion of the improvement plan has led to improved tPR scores in both areas. The Fund's common data score has increased from 96.8% to 97.4% and the scheme specific score has increased from 92.7% to 97.2%. Work will now commence on the data improvement plan for 2020/21, which will consider any gaps in these data scores, in preparation for the next annual review. The Committee should note that some of the data gaps do not have an impact on benefits or processes and so they will not be resolved for efficiency reasons. Therefore a score of 100% will not be possible. • The Pension Administration Manager has continued to attend meetings with fellow Pension Administration Mangers and Industry Specialists. The main agenda items for these meetings include the well-being and productivity of staff members during the current working from home conditions and the impact that the McCloud ruling will have upon administration.

	• The pension administration software framework was launched in April for LGPS Funds to use. The Pension Administration Manager attended three engagement sessions in August with software providers in preparation for the procurement process that the Fund will undertake later in the year in line with the business plan. • The Pension Administration Manager continues to attend regular steering group meetings to assist with the development of the National Pensions Dashboard. The Pensions Dashboard is a Government initiative first announced in the 2016 Budget. The idea behind the Dashboard is to allow all pension savers in the UK access to view the values of all of their pension pots, including state pension, through one central platform. It is anticipated that the progress of the Dashboard may be impacted due to the impact the McCloud ruling will have on pension schemes.

1.04	**Policy and Strategy Implementation and Monitoring**
	
	Administration Strategy
	The latest monitoring information in relation to administration is outlined below:
	• Day to day tasks – Appendix 2 provides the analysis of the numbers of cases received and completed on a monthly basis to August 2020 since April 2016 as well as how this is split in relation to our three unitary authorities and all other employers. The number of tasks being completed by the team had dropped in March but recovered well April through to July. Most staff members took some annual leave in August which resulted in a slight drop in completed cases. That in conjunction with the staffing challenges (detailed below) has resulted in the number of remaining cases increasing slightly. The focus now will be the training of new staff, this will improve the time taken to complete cases thus having a positive impact on the overall number of cases being completed. This is not an area for concern but one that continues to be monitored by the Pension Administration Manager and Principal Pension Officers.
	• Key performance indicators – Appendix 3 shows our performance against the key performance indicators that are measured on a monthly basis up to August 2020. The charts illustrate that there has been fluctuation in performance recently. This is as a result of a number of factors:
	  o the transition of four key staff members in June to the McCloud team and the subsequent recruitment to backfill the vacant posts
	  o training requirements of new staff members in a virtual environment
	  o the transition to home working at the end of March
	  o the increased volume of work that traditionally happens during those months (pension increase, year end and ABS production)
	  o delays in receiving information from members and employers during the lock down period
	  o staff utilising their annual leave entitlement during the summer months.
	• As training of the new staff members continue, the performance against KPI targets may continue to fluctuate. Focus continues on improving the legal requirements timescales with particular focus on informing the

	employer if they have achieved/not achieved the agreed timescales as stipulated in their SLA.
1.05	*Internal dispute resolution procedures* In relation to the cases outstanding for 2019/2020: • There are five Stage One appeals against the employer for non-award of ill health benefits, three Stage One appeals against the employer for the tier of ill health retirement that was awarded, and one Stage One appeal against the employer regarding their process for determining non-award of flexible retirement. Of these nine appeals, one has been upheld, five have been rejected, and three are ongoing. • There are two Stage One appeals against Clwyd Pension Fund. One is regarding the process we used to determine who should be the beneficiary of a death grant for one of our deceased members, and the other is regarding the process we used to transfer out a member's LGPS benefits to another pension provider. Both appeals have been rejected. • There is one Stage Two appeal against the employer. This appeal is based on the fact that the member was not awarded ill health retirement. The appeal has been rejected. • There are no Stage Two appeals against Clwyd Pension Fund for 2019/2020. In relation to the cases outstanding for 2020/2021: • There have been no Stage One appeals submitted against either the employer or the Clwyd Pension Fund during 2020/2021. • There is one Stage Two appeal against the employer regarding the tier of ill health retirement that was awarded by the employer. This appeal is currently ongoing.

	2019/20			
	Received	Upheld	Rejected	Ongoing
Stage 1 - Against Employers	9	1	5	3
Stage 1 - Against Administering Authority	2		2	
Stage 2 - Against Employers	1		1	
Stage 2 - Against Administering Authority	0			
	2020/21			
	Received	Upheld	Rejected	Ongoing
Stage 1 - Against Employers	0			
Stage 1 - Against Administering Authority	0			
Stage 2 - Against Employers	1			1
Stage 2 - Against Administering Authority	0			

There are no CPF cases that are currently with the Pensions Ombudsman.

1.06	*Communications Strategy* The Communications Team has increased engagement with employers during recent months and has provided the following communications since the last update:

	• Twenty-three emails have been sent to all employers providing information in relation to McCloud, contribution bandings, Covid-19 FAQs and LGA employer training webinars. • The Clwyd Catch Up was issued to all Pensioner and Dependant members in April. • Letters to affected members were issued in relation to the Equitable Life to Utmost Life transition regarding investment options. • Discussions with employers to discuss TUPE transfer process have taken place along with some individual on-line employer training sessions.
1.07	Other key points in relation to communications include: • CPF and FCC are working together to complete a website audit using the company Siteimprove. The audit will be to ensure compliance with new legislative accessibility requirements. Siteimprove was appointed using normal procurement procedures. • The 1-2-1 sessions that are offered to members as part of the Annual Benefit Statement communication are currently being coordinated with employers. All sessions will be held remotely this year. • A Good Governance webinar and a Contracts Course have also been attended by the Communications team.
1.08	Appendix 4 provides an updated summary of Member Self Service (MSS) registered users, which illustrates that enrolment to Member Self Service continues to grow. It has increased by over 780 members since February with 35% of members now registered to use this on-line facility. A recent upgrade to functionality means that deferred members can request an estimate by the click of a button eliminating the need for a written/email request. This is a more efficient and user-friendly process. The benefit projector continues to be a very popular function with 21,541 benefit projections having been calculated by members in this last period. There have also been 613 changes to member's Expression of Wish details. It is pleasing to see the increased engagement and interest in pensions that members are having.
1.09	**Delegated Responsibilities** The following have been agreed using delegated responsibilities since the last committee meeting and further details are contained in Appendices 5 and 6. • Approval of the Principles Document in respect of the rectification and treatment of Fund member benefits in relation to the GMP reconciliation project. • Approval of the Principles Document, CPF Roles and Responsibilities and an increase of budget all in relation to the McCloud Programme.

2.00	**RESOURCE IMPLICATIONS**
2.01	Following a full analysis of the additional resource required for the successful completion of the McCloud Programme, it was decided that a distinct McCloud team was needed to enable allocation of work and not dilute business as usual workload. To facilitate this, four staff members from the Operations Team transitioned across in June and July and their positions have been back-filled by either internal secondment opportunities or external appointment. Staffing levels will be continuously reviewed within the McCloud and Administration teams, and consideration given in relation to potential peaks in workload as the McCloud Programme progresses. Recruitment is underway for two additional posts within the Technical and Payroll Team to ensure adequate resource for the additional workload in relation to Pensioner Payroll, i-Connect, MSS and CPF website.

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	None directly as a result of this report.

4.00	**RISK MANAGEMENT**
4.01	Appendix 7 provides the dashboard and the extract of administration and communications risks. The key risks continue to relate to: • Employers not understanding or meeting their responsibilities which could lead to us being unable to meet our legal or performance expectations. Increased engagement with employers has kept the risk likelihood low, but external factors such as working from home and McCloud means the impact is still a marginal risk, • The Fund not meeting legal and performance expectations due to external factors such as unexpected work increases due to regulation changes. The impact of McCloud and other potential remedial regulation changes, such as Goodwin versus the Department of Education case, current risk levels remain very high. • High administration costs and/or errors. Service provision is interrupted: systems are not kept up to date or not utilised appropriately. This risk relates in particular to the performance of the software. Although Heywood (software supplier) have recently been appointed to a national framework providing long term contracts which has given confidence in their commitment going forward and reduced risk in some areas, it is their ability to respond to regulation changes such as McCloud that now causes a potential risk as the system may not be utilised as expected for a period of time.
4.02	Since the last update, the following risks have been updated, showing where outstanding actions have now been completed and new actions to be completed:

	• Risk number 1 - Unable to meet legal and performance expectations (including inaccuracies and delays) due to staff issues: there are poorly trained staff and/or we can't recruit/retain sufficient quality of staff, including potentially due to pay grades (including due to Covid-19). The current likelihood of this happening has been increased from low to significant. This is because of the uncertainty around Covid-19 related absences amongst staff members. • Risk number 2 – unable to meet legal and performance expectations (including inaccuracies and delays) due to employer issues: employers don't understand or meet their responsibilities and also don't allocate sufficient resources to pension matters. The current likelihood of this happening has been reduced from significant to low and the impact has been changed from critical to marginal. This is as a result of 96% of membership now being updated via i-Connect. The majority of employers are now therefore supplying their member data in a more accurate and timely manner reducing the risk of poor data. • Risk number 4 – scheme members do not understand or appreciate their benefits, including as a result of inaccurate, poor or insufficient communications. The controls have been amended to correctly reflect the new Business Plan. A separate review and update of the website during 2020/21 and a further review of all communication methods (website, MSS and i-Connect) will allow better monitoring and a thorough risk assessment going forward. • Risk number 5 - high administration costs and/or errors, including utilisation and efficiency of processes and systems. The current impact has reduced from Catastrophic to Negligible, and the impact from Significant to Low. This is to reflect the increased number of employers utilising i-Connect and Heywood now being part of the national framework, giving confidence about future availability and security. The internal controls have been amended to incorporate the changes to risk number 4 and increased engagement with Heywood about their McCloud solutions. Furthermore additional actions have been added to review the structure of the Technical Team ensuring adequate resource to fulfil its support role and to identify the need for alternative ways of working if Altair is not updated in a timely manner for regulatory changes. • Risk number 6 – Service provision is interrupted due to system failure or unavailability, including as a result of cybercrime or Covid-19. The likelihood has moved from Very Low to Low, to reflect the additional risk and uncertainty around Covid-19 which could result in increased staff absences with our system providers.

5.00	**APPENDICES**
5.01	Appendix 1 – Business Plan update 2020/21 Appendix 2 – Analysis of cases received and completed Appendix 3 – Key Performance Indicators Appendix 4 – Member Self Service update Appendix 5 – Delegated Responsibilities – GMP rectification Appendix 6 – Delegated Responsibilities – McCloud programme Appendix 7 – Risk register update

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	Report to Pension Fund Committee – Business Plan 2019/20 to 2021/22 **Contact Officer:** Karen Williams, Pensions Administration Manager **Telephone:** 01352 702963 **E-mail:** karen.williams@flintshire.gov.uk

7.00	GLOSSARY OF TERMS
7.01	(a) **CPF – Clwyd Pension Fund** – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region (b) **Administering authority or scheme manager** – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund. (c) **PFC – Clwyd Pension Fund Committee -** the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund (d) **LPB or PB – Local Pension Board or Pension Board** – each LGPS Fund has an LPB. Their purpose is to assist the administering authority in ensuring compliance with the scheme regulations, TPR requirements and efficient and effective governance and administration of the Fund. (e) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of. (f) **TPR – The Pensions Regulator** – a government organisation with legal responsibility for oversight of some matters relating to the delivery of public service pensions including the LGPS and CPF. (g) **SAB – The national Scheme Advisory Board** – the national body responsible for providing direction and advice to LGPS administering authorities and to DCLG. (h) **MHCLG – Ministry of Housing, Communities and Local Government** – the government department responsible for the LGPS legislation.

Mae'r dudalen hon yn wag yn bwrpasol

Business Plan 2020/21 to 2022/23 – Q1/2 Update
Administration and Communications

Key Tasks

Key:

	Complete
	On target or ahead of schedule
	Commenced but behind schedule
	Not commenced
xN	Item added since original business plan
xM	Period moved since original business plan due to change of plan /circumstances
~~x~~	Original item where the period has been moved or task deleted since original business plan

Administration (including Communications) Tasks

Ref	Key Action -Task	2020/21 Period				Later Years		
		Q1	Q2	Q3	Q4	2021/22		2022/23
A1	Implement Survivor Benefits Changes	x	x	xM	xM	xM		
A2	GMP Reconciliation	x	x					
A3	i-Connect	x	x	xM	xM			
A4	Improve employer monitoring and engagement	x	x	x				
A5	Fundamental review of all Fund communications	x	x	x	x			
A6	Review administration system contract	x	x	x	x	x		
A7	Efficiency improvements for existing processes	x	x	x	x	x		
A8	McCloud and Cost Cap	x	x	x	x	x	x	x
A9	National Pensions Dashboard	x	x	x	x	x	x	x
A10	Develop Under/Over Payment Policy		x	x				

Administration and Communication Task Descriptions

A1 – Implement Survivor Benefit Change: Amendment LGPS Regulations & Elmes versus Essex High Court Ruling

What is it?

The LGPS (Miscellaneous Amendment) Regulations 2018 (SI2018/1366) came into force with effect from 10 January 2019. These included changes that impact on the calculation of and entitlement to surviving partner pensions in respect of Civil Partners or same sex marriages. As a result it is necessary for the Fund to carry out a major review to identify any cases who are affected and to ensure the correct benefits are paid.

In addition, LGPS Funds need to action the outcome of the Elmes versus Essex case where it has been ruled in the High Court that in respect of any LGPS members leaving the scheme between 1 April 2008 and 31 March 2014, and who subsequently died leaving a Cohabiting Partner, that partner could have a survivors pension paid to them even without a completed nomination form in place so long as they still meet the eligibility criteria. Any potential cohabiting partners need to be contacted and surviving partner pensions put into payment if applicable.

The work in relation to these changes commenced during 2019/20 and is expected to be completed during the first part of 2020/21.

Timescales and Stages

Tracing, contacting, verifying entitlement and recalculating affected surviving partners	2020/21 Q1 & Q2

Resource and Budget Implications

This project will be absorbed by the Operations Team within Pensions Administration to ensure all surviving partners prior to the regulation change have been reviewed and amended where applicable. Any new cases from the date of the amendment regulations are already being dealt with as per the amended legislation and will be treated as business as usual.

A2– GMP Reconciliation

What is it?

The government removed the status of "contracted-out" from pension schemes in April 2016. Prior to then, contracted-out pension schemes had to ensure the benefits they paid met a minimum level and one element of this was a Guaranteed Minimum Pension (GMP) figure that accrued individually for each scheme member up to April 1997. Historically pension schemes would go to HMRC to get confirmation of the GMP amount on retirement. However, as a result of the demise of contracted-out status, HMRC will no longer be maintaining GMP and other contracting out member records. This means that the onus will be on individual pension schemes to ensure that the contracting out and GMP data they hold on their systems matches up to the data held by HMRC. HMRC are ceasing to provide their services.

Initial work identified that there were significant discrepancies between the two sets of data (HMRC v CPF), and a significant amount of work is ongoing to determine the correct benefits, ensure all systems are updated and to process a potentially significant number of over/underpayment calculations. As well as reconciling the records for former pensionable employees, the Fund also had to ensure the accuracy of national insurance information held for active members. Clwyd Pension Fund decided to outsource this exercise in 2017/18 to Equiniti and the project commenced during that year. It is now near completion with the focus now being on updating the Fund's records with the reconciled information, and correcting any pension amounts that are being recalculated.

Timescales and Stages

GMP data reconciliation and investigation	Complete
Reconciliation of national insurance information (Active Members)	Complete
Benefit correction and system updates	2020/21 Q1 & 2

Resource and Budget Implications

All costs to be met from the existing budget which includes expected costs for Equiniti who are carrying out the work and who were appointed as part of a procurement exercise. This will have some impact on internal resources in relation to the adjustments to be made to current pension amounts (i.e. under or overpayments).

A3 – i-Connect

What is it?

i-Connect is the on-line computer module that allows information to be submitted by employers more directly and efficiently into the pension administration system (Altair). This is being implemented on a phased basis by employer. We have currently on-boarded 97% of scheme members (60% of our employers) including Wrexham County Borough Council, Denbighshire County Council, Flintshire County Council and Coleg Cambria. The remaining employers to be on-boarded include:

- Glyndwr University and North Wales Fire, who will use the i-Connect file upload facility,
- The remaining Fund employers (approximately 17 smaller employers) who will use the i-Connect manual entry facility.

It was originally intended that all employers would be live on i-Connect by the end of 2020/21 but given the good progress made to date, it is hoped it will be finished earlier in the year.

Timescales and Stages

Onboard Glyndwr University and North Wales Fire	2020/21 Q1 & 2
Onboard other smaller employers	2020/21 Q1 & 2

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 has increased slightly from previous year's budget due to the greater number of employers using i-Connect and this has been incorporated into the budget. The ongoing roll out of i-Connect will continue to involve significant internal resources which may impact on other day to day work.

A4 – Improve employer monitoring and engagement

What is it?

The Fund's Administration Strategy and Employer Service Level Agreement include a number of responsibilities that must be carried out by employers. They also include service standards that employers must meet in delivering information to the Fund, to ensure the Fund then meets the overall service standards and legal deadlines. It is important to identify where employers are consistently not meeting these requirements so that the Fund can work with them to ensure that this improves. In situations where improvements are not forthcoming, then the matter will be escalated in accordance with the Administration Strategy, which in extreme cases could result in recharge of costs to the employer.

This project will involve developing a clear process for identifying where issues exist, providing information to the employers on their performance, and introducing more formal escalation where required. Key to all of this will be improved communications between the Fund and employers, with much more focus on one to one engagement by the Fund to ensure issues are resolved quickly. The existing Administration Strategy and Employer Service Level Agreement (SLA) may need to be updated to reflect the new way of working.

Timescales and Stages

Develop methodology and systems to provide information	2020/21 Q1 & 2
Launch new process at Employer Meeting/AJCM and review Strategy/SLA as required	2020/21 Q3

Resource and Budget Implications

To be led by the Pensions Administration Manager with input from all administration teams. Internal costs are being met from the existing budget but there may be additional costs if external development work is needed.

A5 – Fundamental review of all Fund communications

What is it?

The Fund has a wide range of standard forms, booklets, and leaflets as well as information on websites and other media. Given the range of material that has been created over a period of years, there are likely to be some inconsistencies in the look, feel and language used. A fundamental review of all communications will be done to ensure they are presented in a manner that meets the Fund's Communication Strategy. This has already commenced in relation to the website to ensure it meets the national standards for website compliance. This project will include developing the Fund's brand for consistent use in all Fund communications which will ensure it is recognisable for scheme members, employers and other stakeholders. As part of this, the Fund needs to appoint a new braille supplier.

Timescales and Stages

Appoint braille supplier	2020/21 Q1
Document and agree Fund's branding guidelines	2020/21 Q1 & 2
Finalise review and update of website	2020/21 Q2 to Q4
Review and update of literature (not website)	2020/21 Q2 to Q4

Resource and Budget Implications

To be led by the Regulations and Communications Team with input from the Technical/Payroll Team. Internal costs are being met from the existing budget, but the proposed budget includes estimated external costs of £5k for ensuring the website is compliant with national standards.

A6 - Review administration system contract

What is it?

The Fund 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 was agreed as part of the 2017/18 business plan to defer this until 2019/20. Over the last year a national framework has been developed for LGPS administration systems. CPF has been participating in this exercise which is due to finish by around April 2020. Once the framework is in place, it is hoped that this can be used for the Fund to carry out their own tender for an administration system. It is hoped that this will allow a new contract to be put in place before the end of 2020/21.

Should a new software supplier be appointed, there will be a significant amount of work required to migrate to the new system.

Timescales and Stages

Finalise national framework for pensions administration system	2020/21 Q1
Conduct tender for CPF administration system	2020/21 Q2 to Q4
Transition to new administration system if required	2021/22

Resource and Budget Implications

To be led by Pension Administration Manager and Principal Pensions Officer - Technical. If transition to a new system is required, there are likely to be significant transition costs and the ongoing cost of systems included in the budget will probably change.

A7 – Efficiency improvements for existing processes

What is it?

There are a number of existing processes that will be reviewed to introduce greater efficiencies including as a result of greater digitalisation:

- Review of aggregation communications and process - When a former scheme member re-joins the scheme, or ceases a concurrent role, that member is provided with options as to whether to aggregate their accrued benefits into one record or keep them separate. This is a complex procedure that is very time consuming to administer and can also be very confusing for scheme members. Scheme members often don't respond to the letters. This project will focus on reviewing the process and communications to make the process more efficient and improve scheme member communications.
- Auto-generation of new scheme members – On entry to the scheme, each new member must be sent information about the scheme. This is currently generated individually for each new member. Reminders are also sent where members do not respond. Given the magnitude of scheme members, this is

very time consuming. This project will investigate whether any or all of these processes can be carried out on a bulk basis.

- On-line retirement processing and other on-line processing - Currently scheme members who are retiring have a number of forms and declarations that they need to complete that are done via post. It would be more efficient and quicker for members if this could be done via an on-line process. This may include the need to seek legal advice to ensure that it is possible to implement a process without a written signature. Once this has been developed, it is hoped that the functionality can be developed for on-line processing for other areas, such as transfer value elections, refund elections and notifying deferred benefits.

Timescales and Stages

Aggregation - review process and communications and implement changes	2020/21 Q1 & 2
Auto-generation of new scheme members	2020/21 Q2 & 3
On-line retirement processing and other on-line processing	2020/21 Q3 & 4 and 2021/22

Resource and Budget Implications

These projects involve a mix of the various teams within the Administration Team. It is expected that most costs will be internal and will be met from the existing budget. There may be additional administration software system or other development costs

A8 – McCloud and Cost Cap

What is it?

Public Sector Pension Schemes (including LGPS) have been designed to ensure sustainability for 25 years. LGPS has a 2% buffer either side of 19.5% for employer future service pension rates (calculated at a national level). On 6 September 2018 it was announced that the buffer had been breached which means that LGPS is currently under review in order to bring it back to within tolerance. Possible scheme change recommendations to address this issue include a reduction in employee contribution rates. In turn, employer contribution rates could increase. Any scheme changes were originally to be effective from 1 April 2019.

However, as at 30 January 2019 the Government published a written statement which announced a pause in the cost cap exercise pending the outcome of a Supreme Court appeal regarding the McCloud case. The McCloud case has highlighted that the introduction of the new CARE schemes for Firefighters and Judges in April 2015 were unlawful. This will impact on other public service pension schemes including the LGPS (where the new CARE scheme from April 2014 included a statutory underpin for older members). Remedies are being worked through by Government to remove the inequality in the schemes, which will result in changes to scheme benefits some of which will be retrospective.

From an administrative perspective the impact of the court case is likely to result in a change to how benefits are calculated for a large number of scheme members including members who have left. Then in addition there may be a further need for benefit and/or contribution changes as a result of the cost cap, and potentially again if and when the cost cap is reconsidered (potentially in 2021/22). This is likely to significantly impact on administration process and systems as well as requiring a robust communication exercise with employers and scheme members. The additional resource requirements are likely to be significant and until the detail of the changes are known the focus is on:

- ensuring any existing backlogs or data cleansing are cleared
- fast-tracking training within the team to ensure wider and more senior work knowledge across the existing team members.

Timescales and Stages

Initial McCloud planning/impact analysis	2020/21 Q1
Ensure all data cleansing/backlogs are cleared and fast-track internal training	2020/21 Q1 to Q3
Estimated timescale of McCloud delivery including data collection*	From 2020/21 Q2
Cost cap benefit review work*	Unknown

* Timescales will be updated as more information becomes available.

Resource and Budget Implications

Although the work will be led by the Regulations and Communications Team, it will impact across all of the Administration Team. An estimated allowance for additional resource has been included in the 2020/21 budget, which includes £150k of additional resource (which is likely to be a combination of overtime and additional roles) as well as extending the two existing temporary staff members for the remainder of the year. Additional budget is also likely to be needed in future years as this project continues.

A9 – 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 view the values of all of their pension pots, including state pension, through one central platform. A consultation was undertaken by Government in early 2019 which sought views on the potential phasing of the introduction of the pensions dashboards as well as how the architecture, funding and governance arrangements would work. The legislative requirements to participate in the Pension Dashboard for schemes (including public sector schemes) are expected to be forthcoming and the consultation proposed that all schemes should be onboarded to the Pensions Dashboard over a period of three to four years. The actual timescales that will apply to public sector pension schemes are not yet known so the timescales below are estimated. In the meantime, the Pensions Administration Manager is participating in a PLSA working group on the development of the Dashboard.

Timescales and Stages

PLSA Dashboard Working Group attendance/engagement	2020/21 Q1 to Q4
Development and testing of software	2021/22 & 2022/23
Potential target launch	2022/23 & 2023/24

Resource and Budget Implications

Resource and budget implications cannot be determined until more detail is available.

A10 – Develop Under/Over Payment Policy

What is it?

It is good practice for a pension fund to have clearly agreed policies and procedures relating to how to deal with benefits that have been under or over calculated and, where relevant, under or over paid. This could be for several reasons, including incorrect information being provided by an employer or a scheme member, late notification of a change of circumstances (such as a death of a pensioner) or CPF carrying out a benefit calculation incorrectly. CPF is currently undertaking the GMP reconciliation exercise which is resulting in benefits being recalculated. It therefore is timely to produce a CPF policy which will build on decisions made because of the GMP reconciliation exercise, as well as other situations.

Timescales and Stages

Drafting, approval of and implementation of policy	2020/21 Q2 & 3

Resource and Budget Implications

The initial drafting work was carried out during 2018/19 by Aon. The majority of the final work will be completed internally and within the budgets shown.

Employer Liaison Team Tasks

Ref	Key Action -Task	2020/21 Period				Later Years	
		Q1	Q2	Q3	Q4	2021/22	2022/23
E1	Expand ELT to more employers	x	x	x	x		

Employer Liaison Team Task Descriptions

Understanding the continuing pressure on resources and budgets for employers and the administering authority, the Clwyd Pension Fund offers 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) mainly assists in providing notifications regarding new starters, personal/employment changes and leavers/retirements in the LGPS. It undertakes 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. Resources may need to be adapted to match demand depending on ongoing employer uptake. The total budget allocated for 2020/21 is £223k which will cover all of the following unless indicated otherwise.

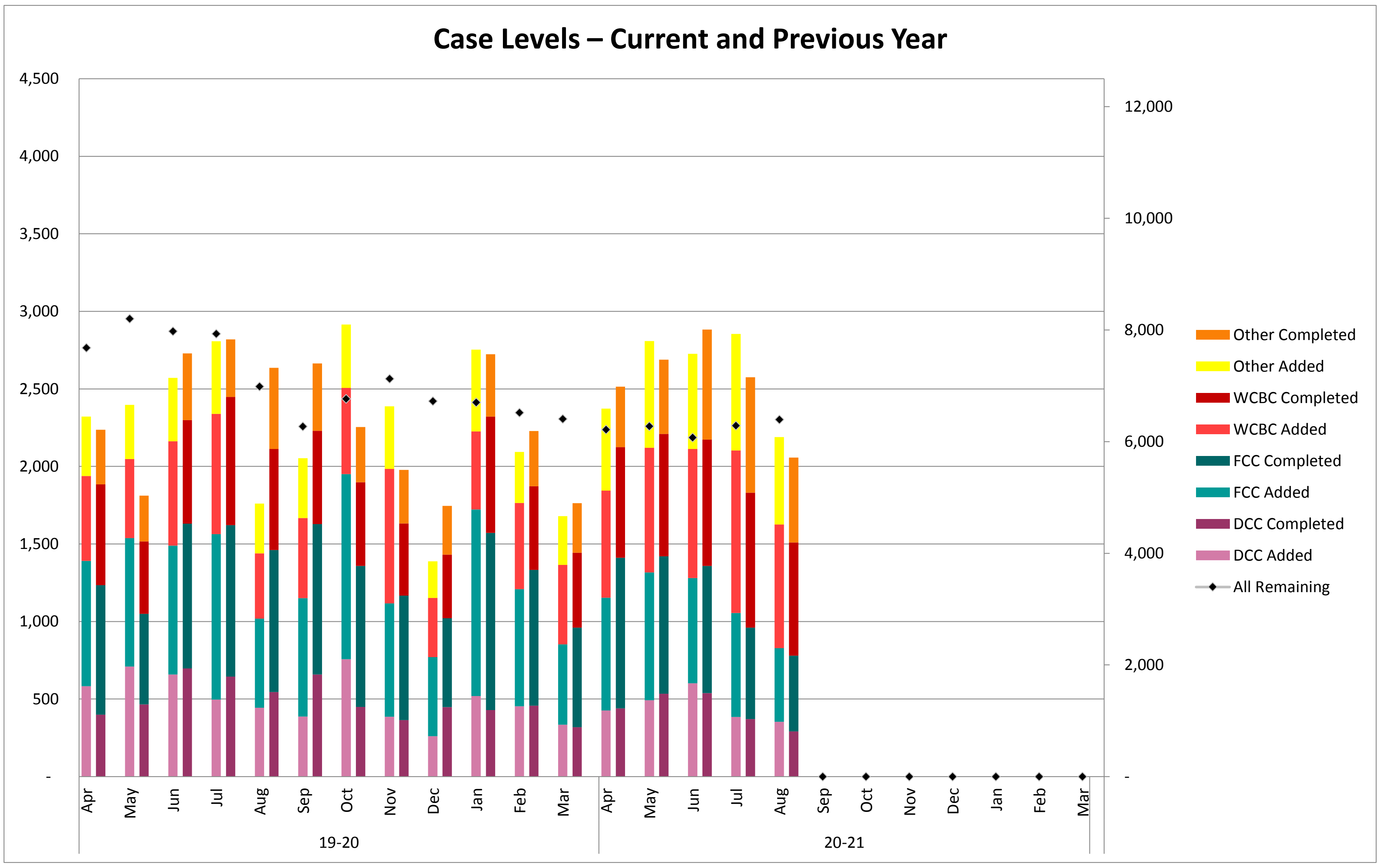
E1 – Expand ELT to more employers

What is it?

Consider expanding the ELT service to a wider range of employers and generally making employers more aware of the facility that is available. Discussions are already underway with another medium sized employer who may be interested in using the ELT service.

Timescales and Stages

Ongoing discussions with other employers	2020/21 Q1 to 4


Case Levels – Current and Previous Year
4,500
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
-
12,000
10,000
8,000
6,000
4,000
2,000
-
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
Jan
Feb
Mar
19-20
20-21
Other Completed
Other Added
WCBC Completed
WCBC Added
FCC Completed
FCC Added
DCC Completed
DCC Added
All Remaining


Case Levels – Historical
4,500
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
-
12,000
10,000
8,000
6,000
4,000
2,000
-
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
Jan
Feb
Mar
17-18
18-19
Other Completed
Other Added
WCBC Completed
WCBC Added
FCC Completed
FCC Added
DCC Completed
DCC Added
All Remaining

Mae'r dudalen hon yn wag yn bwrpasol

Key Performance Indicators

The following pages show the performance against the key performance indicators (KPIs) which have been agreed within Clwyd Pension Fund's Administration Strategy. They cover seven areas of work, and for each there is a KPI for each of the following:

- The legal timescale that must be met
- The overall timescale for the process (including any time taken by employers and/or scheme members)
- The timescale relating to the Clwyd Pension Fund administration team only

The KPIs are specific to each process (as set out in the Administration Strategy) and illustrated by the graphs are as follows:

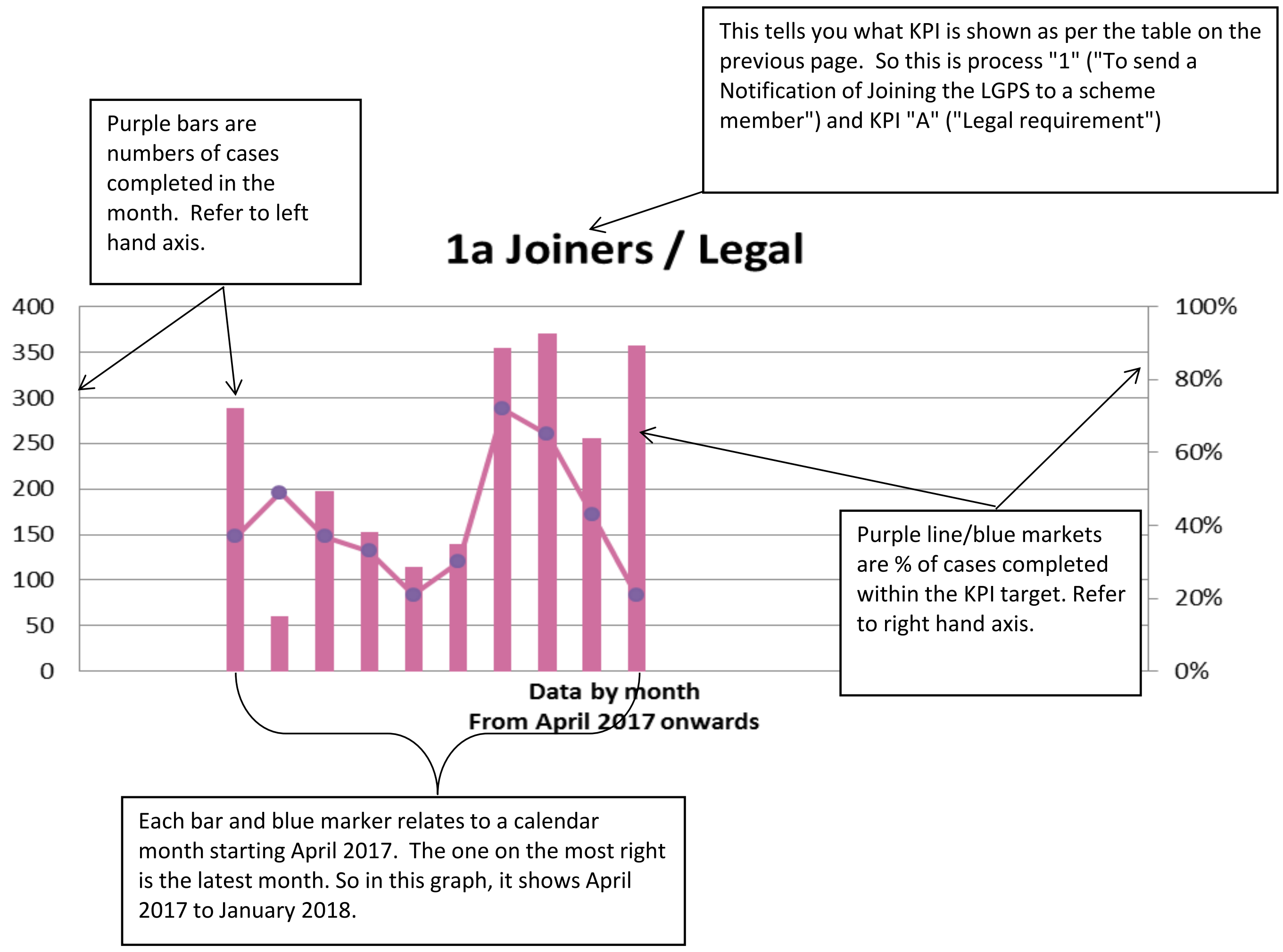
		A	B	C
	Process	**Legal Requirement**	**Overall**	**CPF Administration element target**
1	To send a Notification of Joining the LGPS to a scheme member	2 months from date of joining (assuming notification received from the employer), or within 1 month of receiving jobholder information where the individual is being automatically enrolled / re-enrolled	46 working days from date of joining (ie 2 months)	15 working days from receipt of all information
2	To inform members who leave the scheme of their leaver rights and options	As soon as practicable and no more than 2 months from date of initial notification (from employer or from scheme member)	46 working days from date of leaving	15 working days from receipt of all information
3	Obtain transfer details for transfer in, and calculate and provide quotation to member	2 months from the date of request	46 working days from date of request	20 working days from receipt of all information
4	Provide details of transfer value for transfer out, on request	3 months from date of request (CETV estimate)	46 working days from date of request	20 working days from receipt of all information
5	Notification of amount of retirement benefits	1 month from date of retirement if on or after Normal Pension Age or 2 months from date of retirement if before Normal Pension Age [4]	23 working days from date of retirement	10 working days from receipt of all information
6	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	46 working days from date of request	15 working days from receipt of all information
7	Calculate and notify dependant(s) of amount of death benefits	As soon as possible but in any event no more than 2 months from date of becoming aware of death, or from date of request by a third party (e.g. personal representative)	25 working days from date of death	10 working days from receipt of all information

Interpretation of graphs

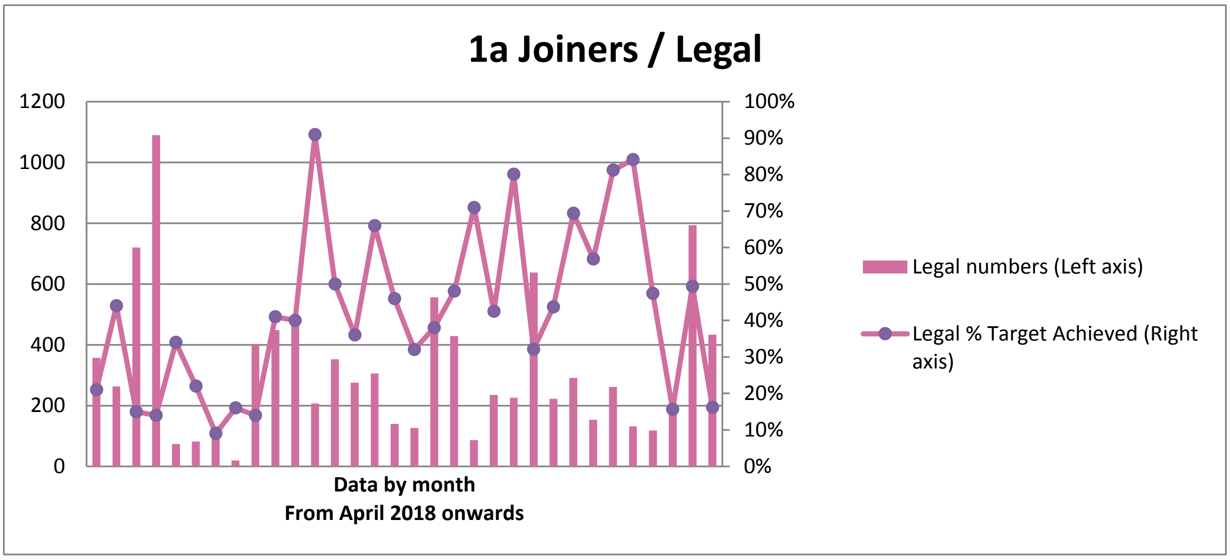
One graph has been provided for each KPI in the table above. Each graph shows month by month:

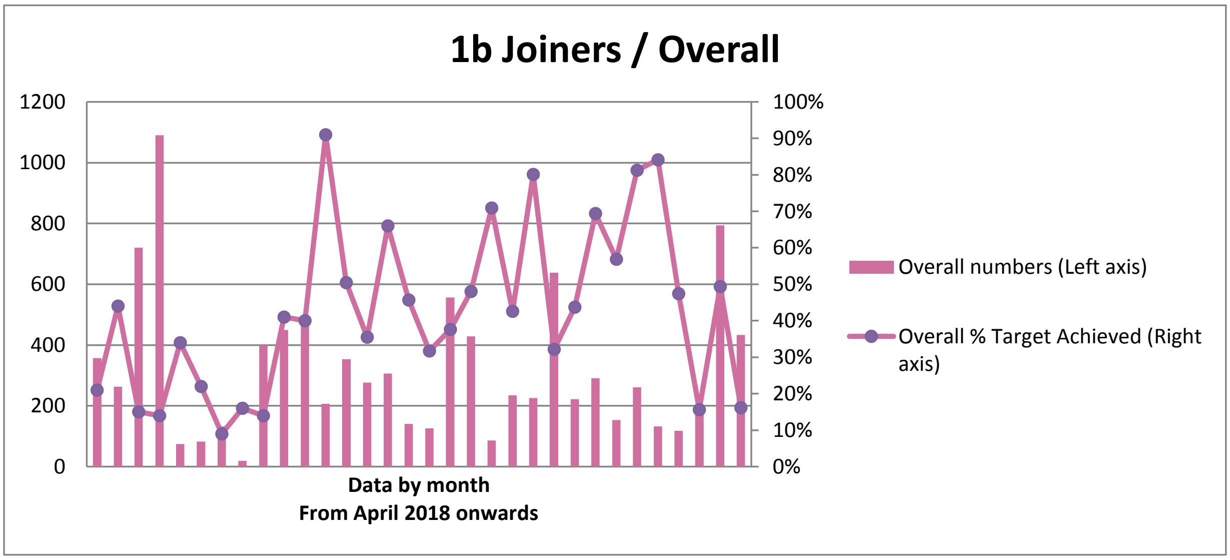
- The number of cases which have been completed each month
- The percentage of those cases completed that were completed within the KPI target

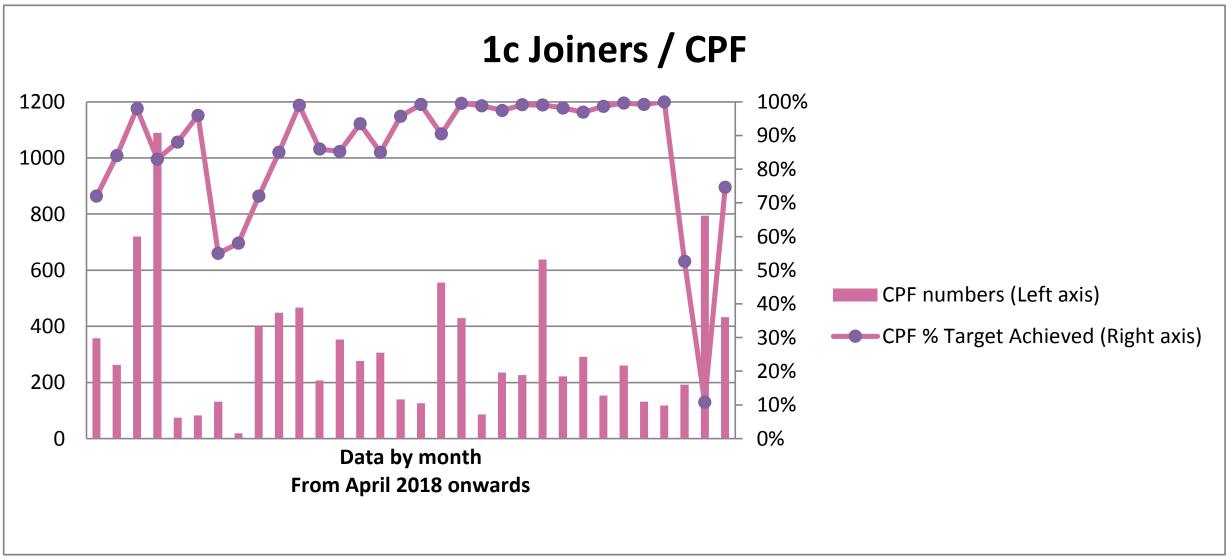
This is illustrated further below.



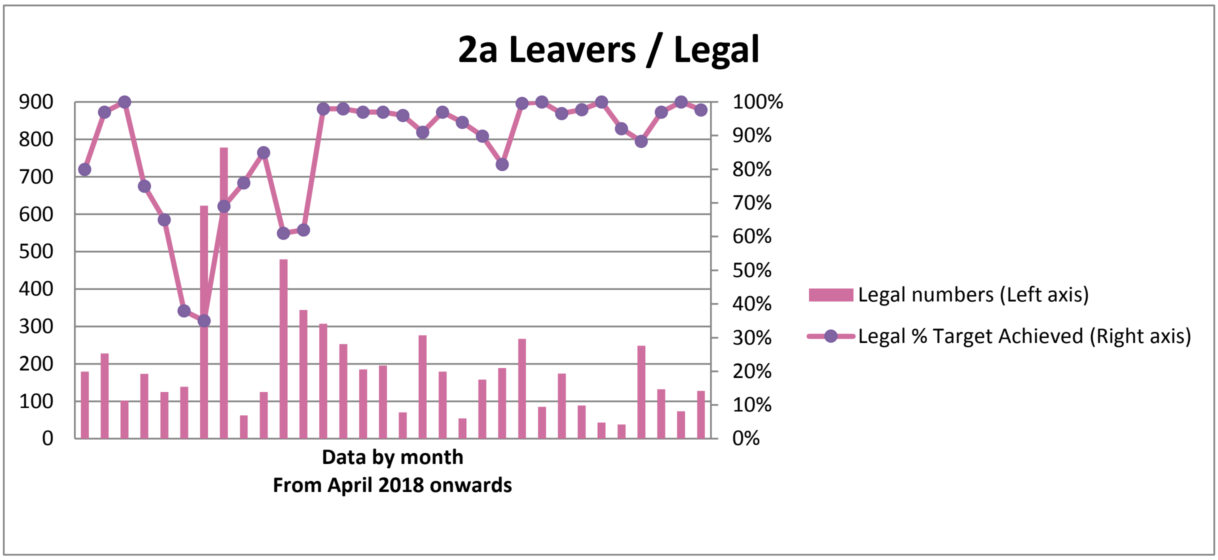
Key Performance Indicators - relating to 31 August 2020

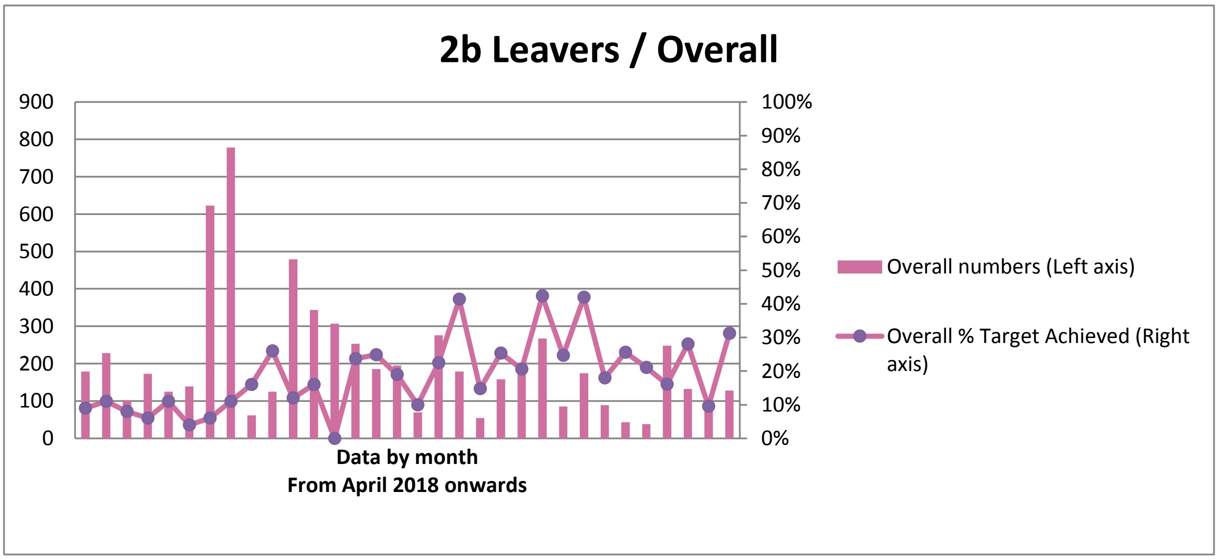


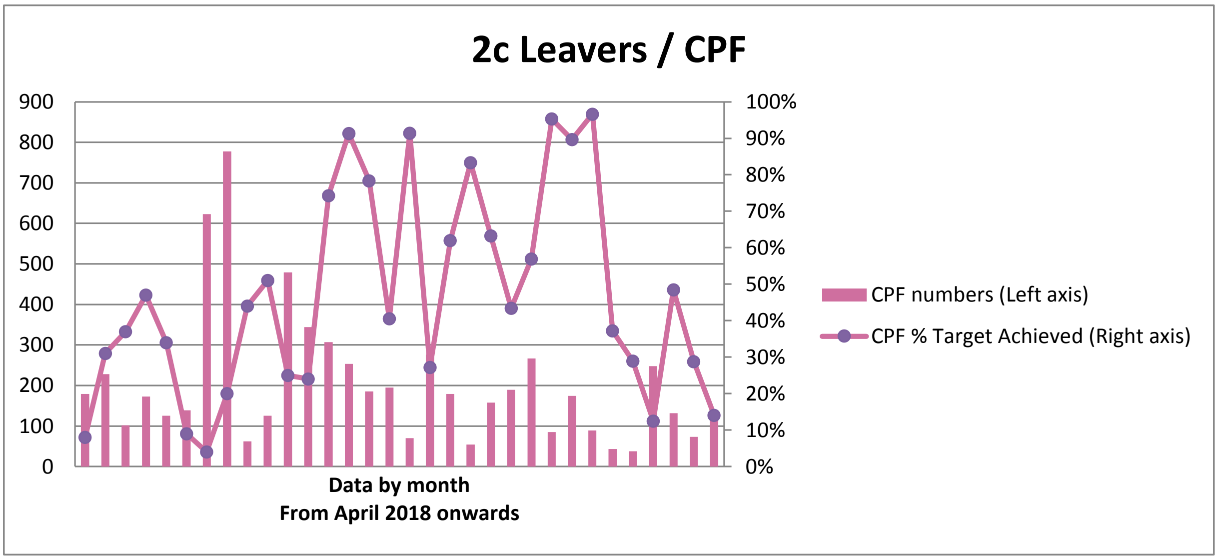




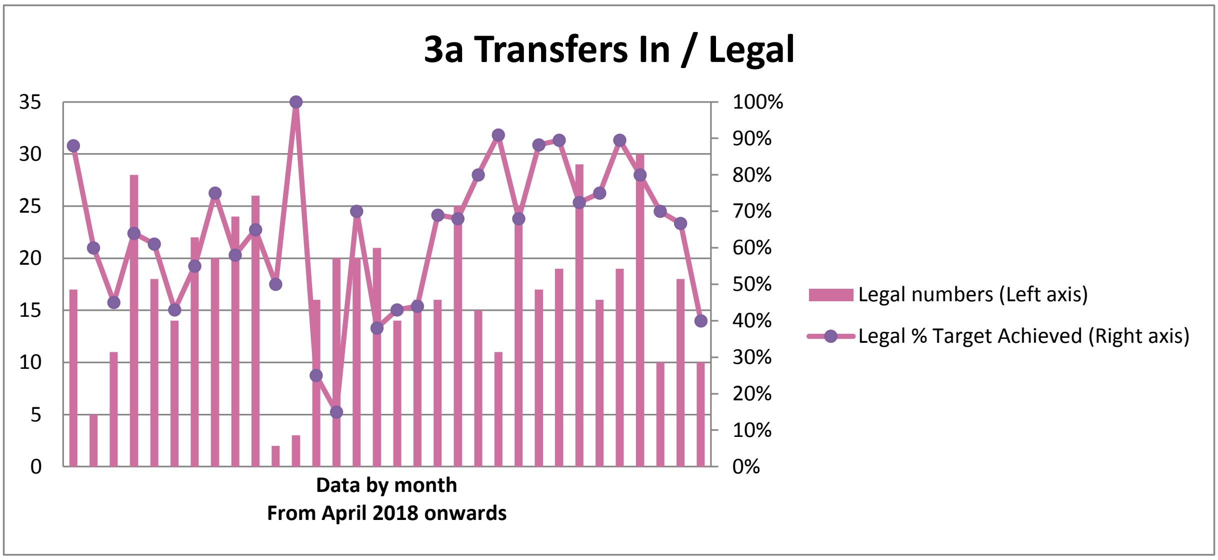
Key Performance Indicators - relating to 31 August 2020

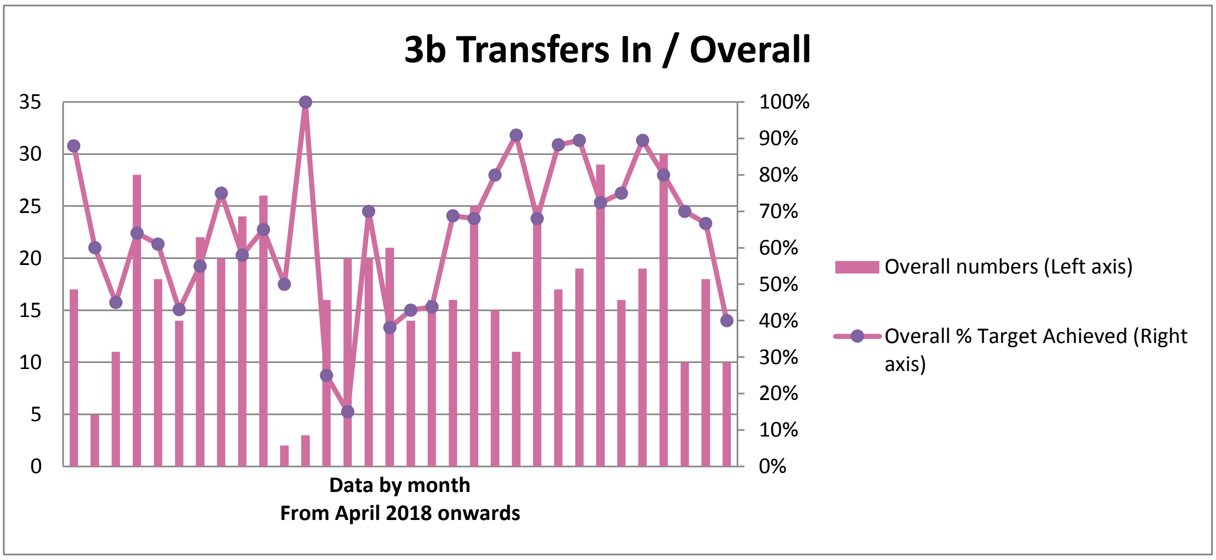


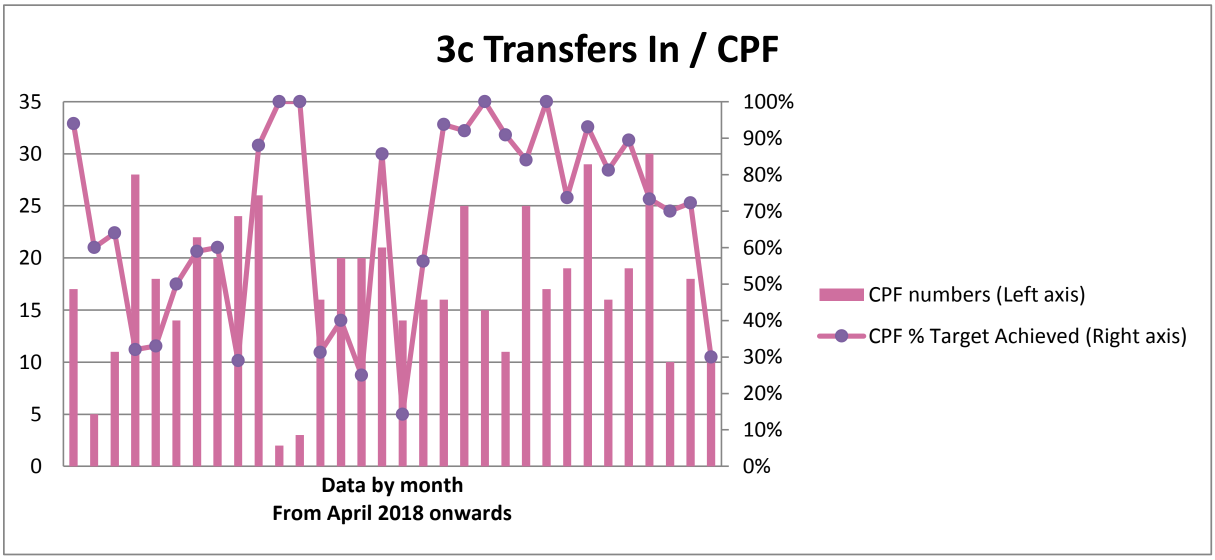




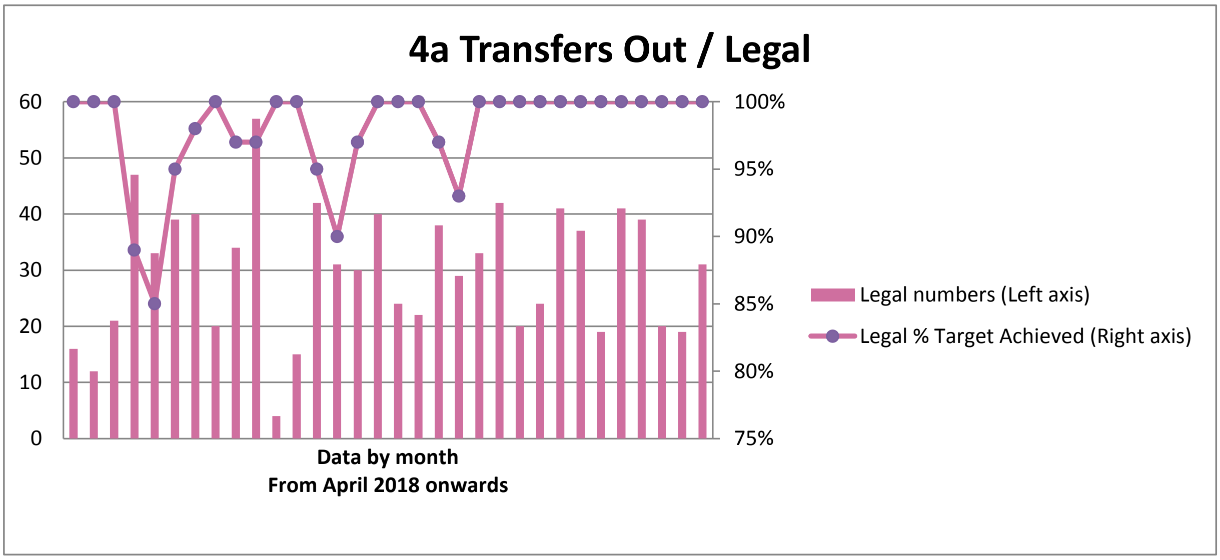
Key Performance Indicators - relating to 31 August 2020

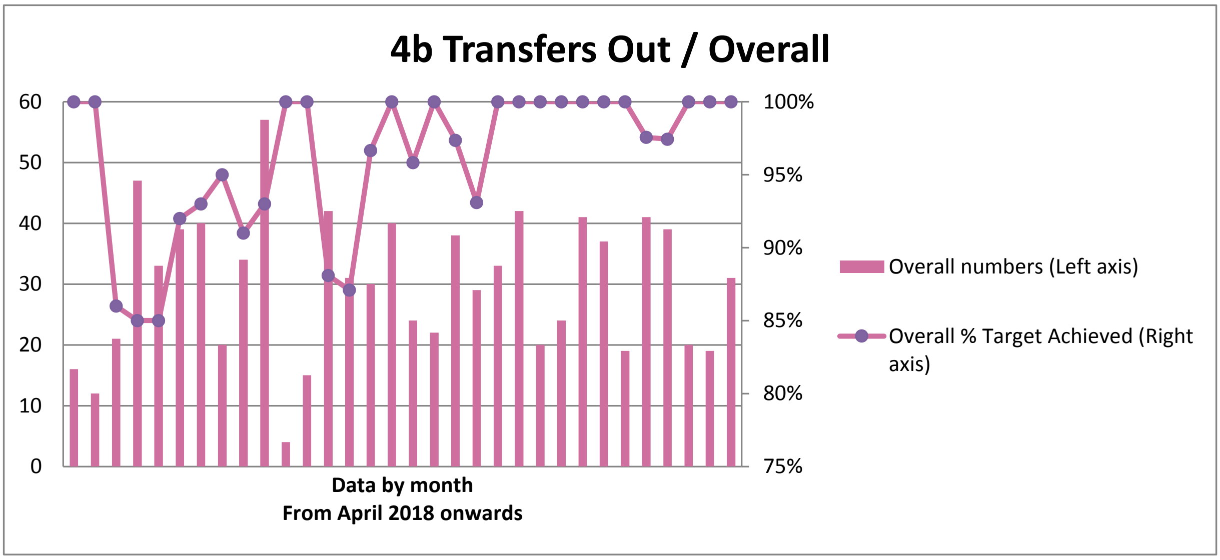


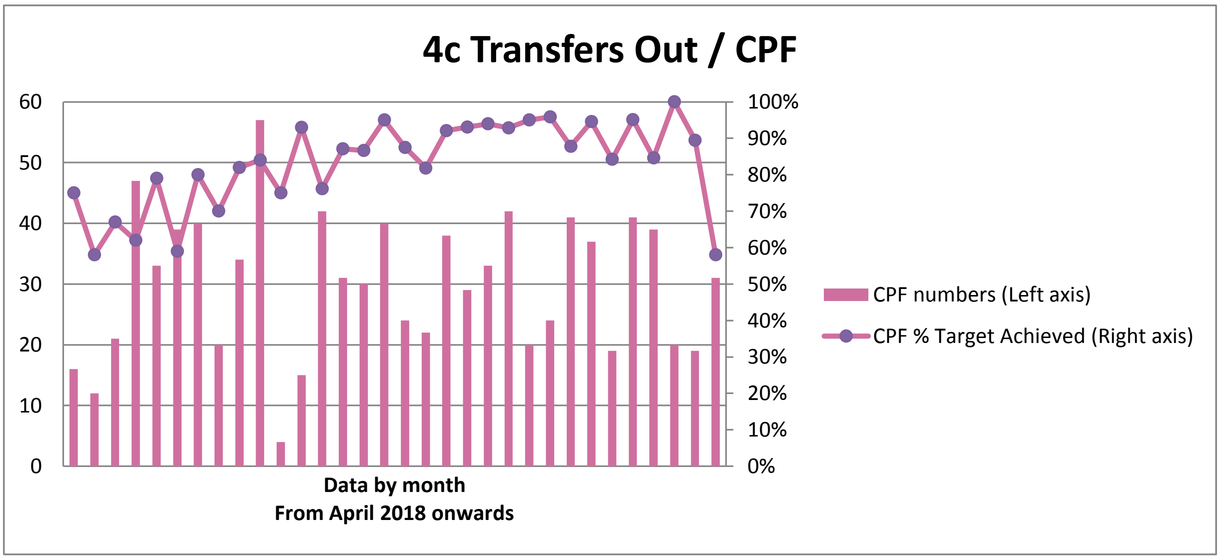




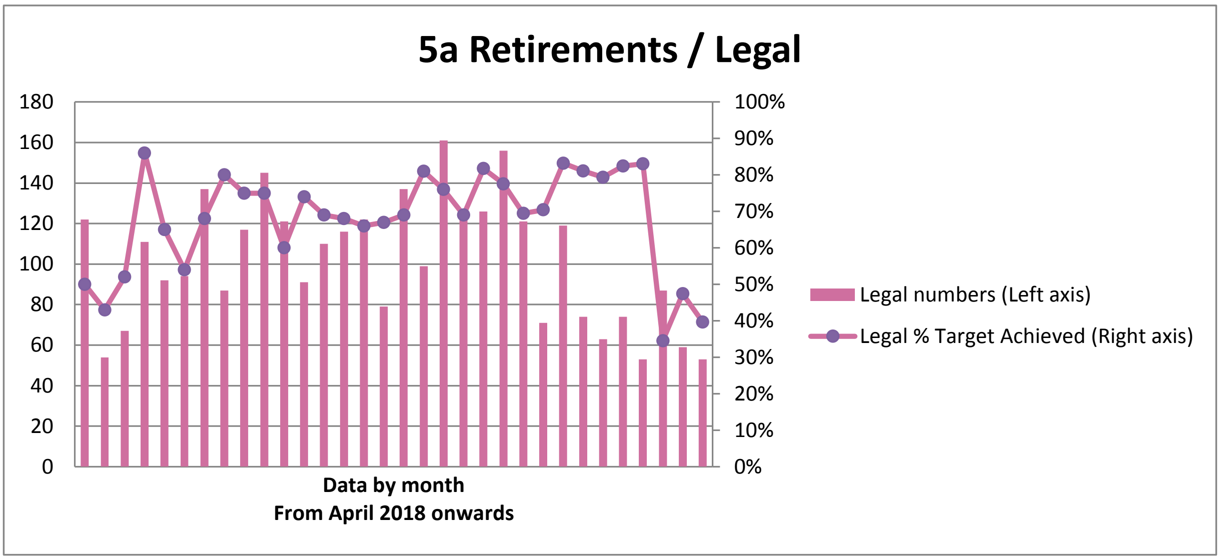
Key Performance Indicators - relating to 31 August 2020

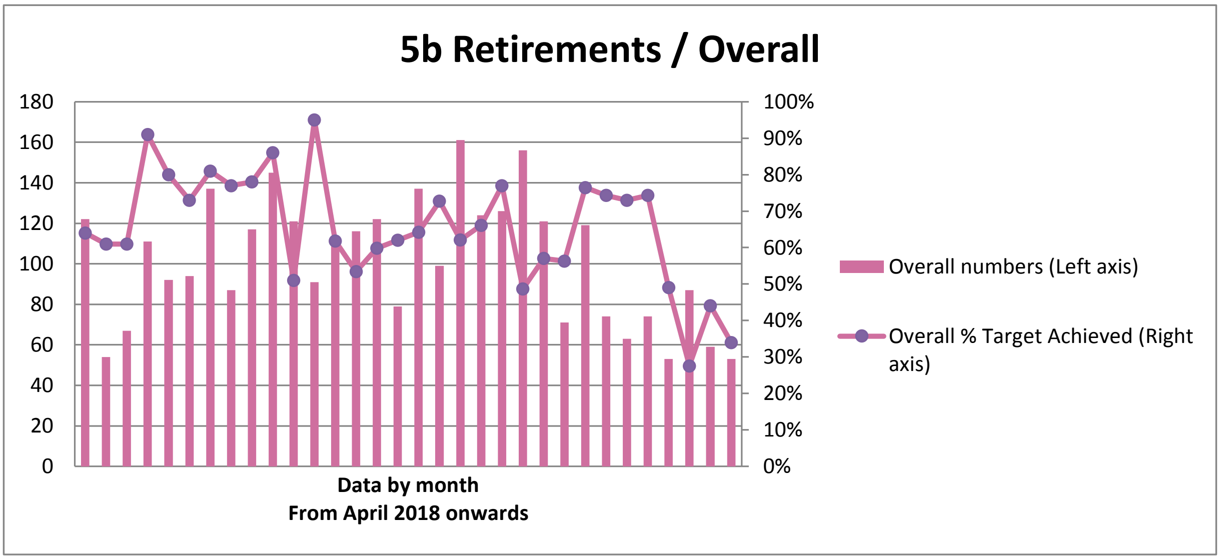


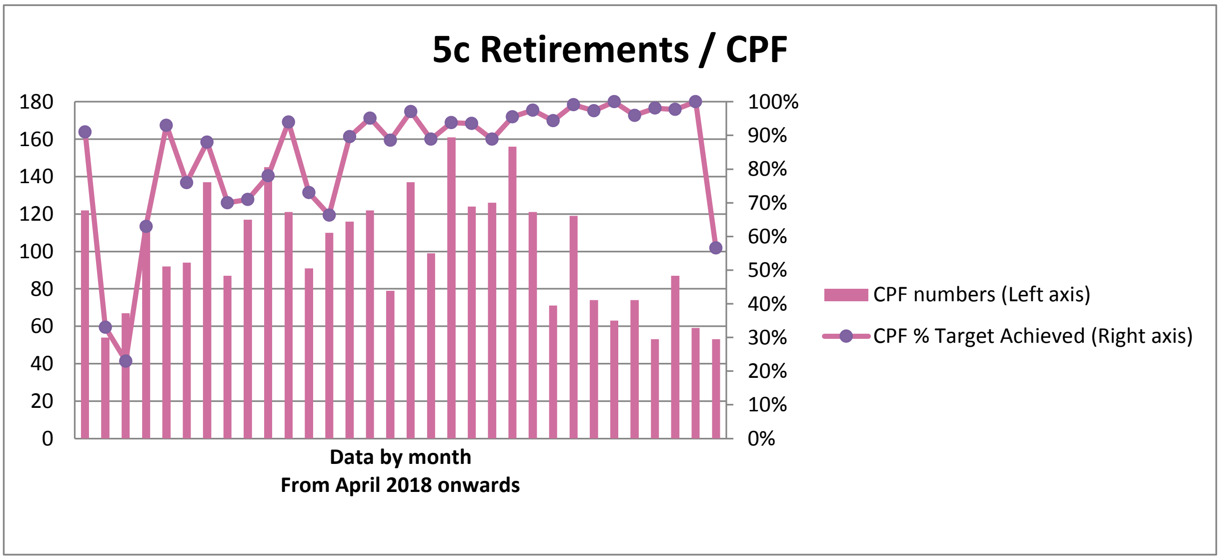




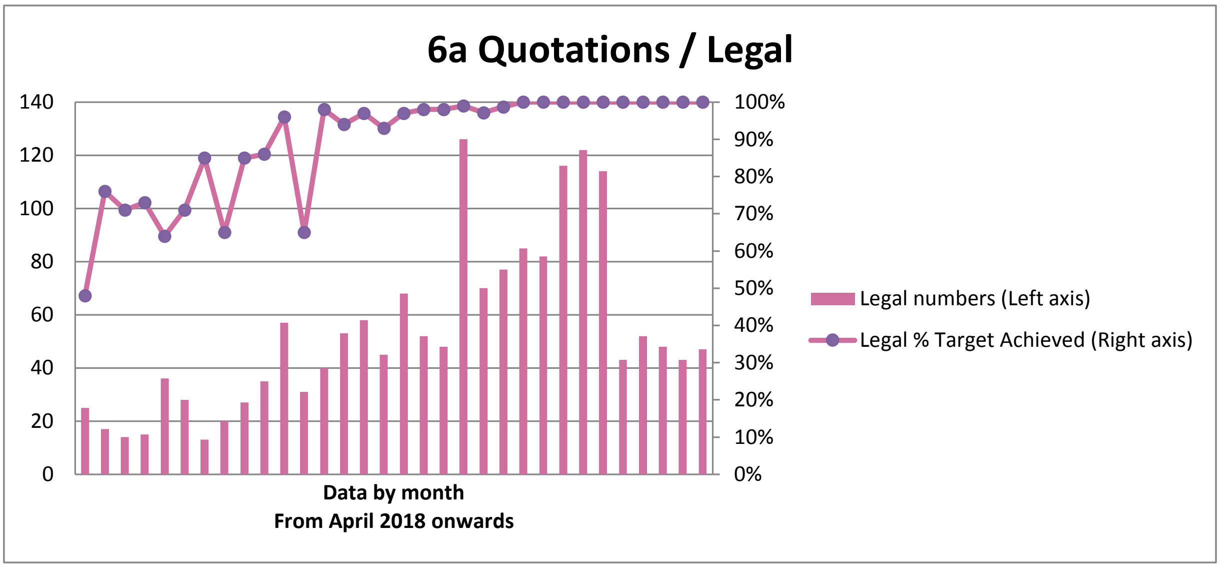
Key Performance Indicators - relating to 31 August 2020

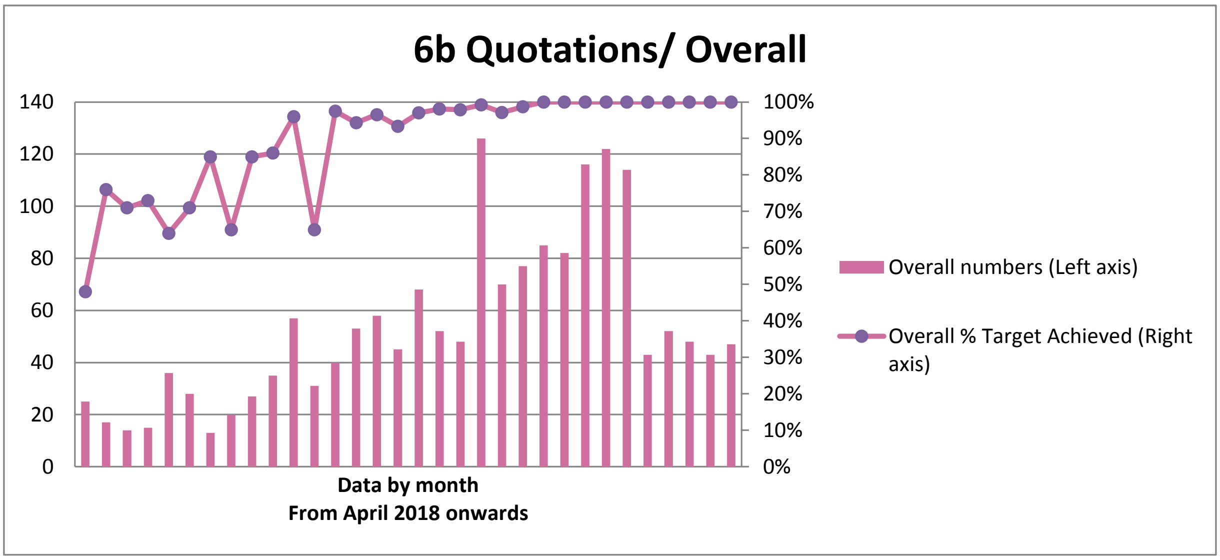


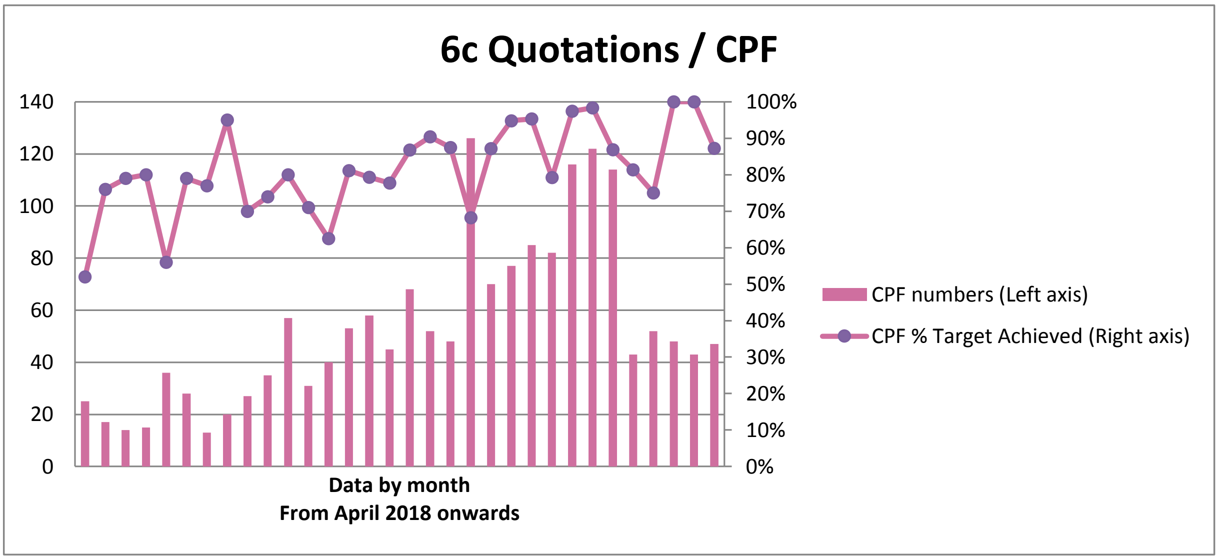




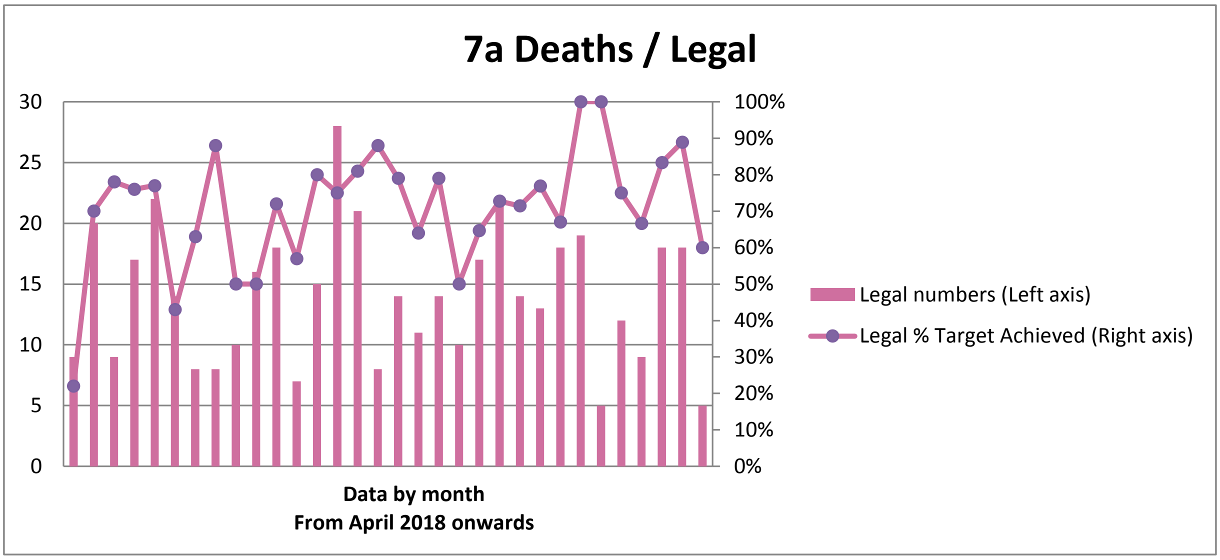
Key Performance Indicators - relating to 31 August 2020

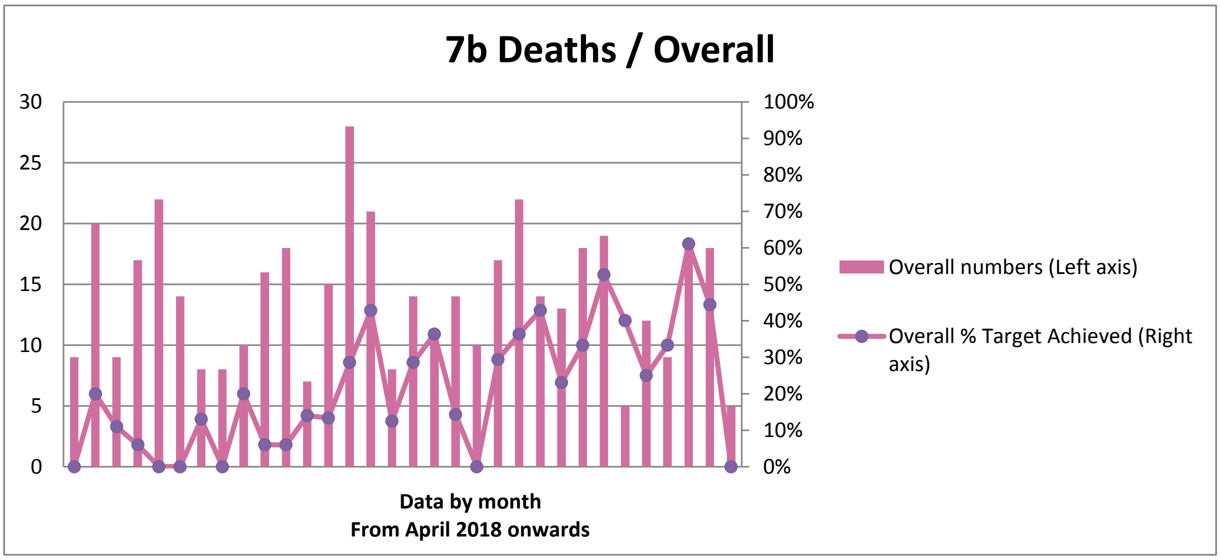


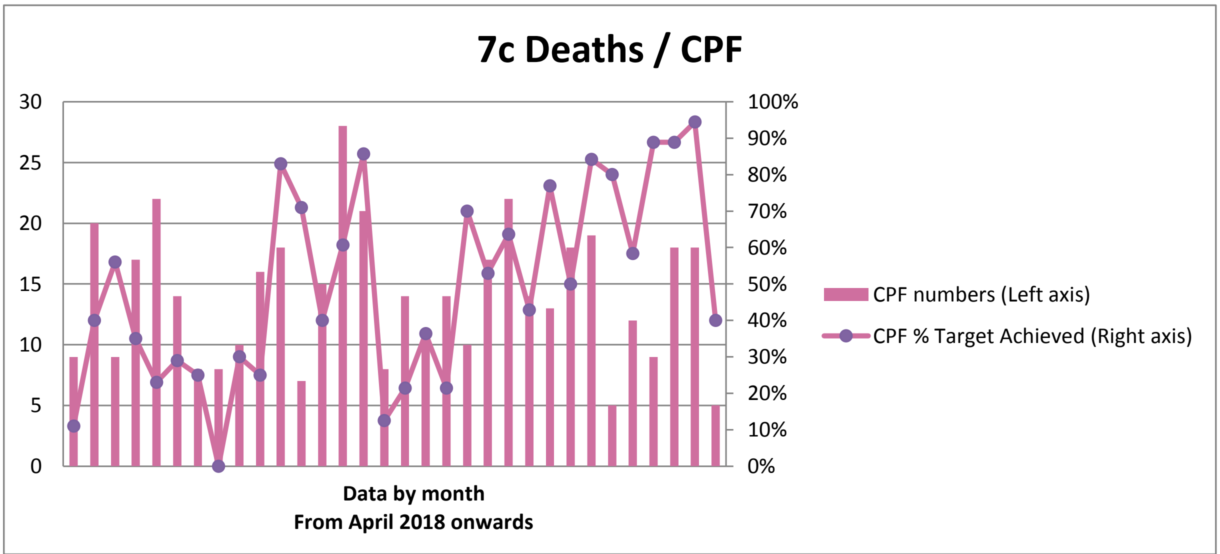




Key Performance Indicators - relating to 31 August 2020





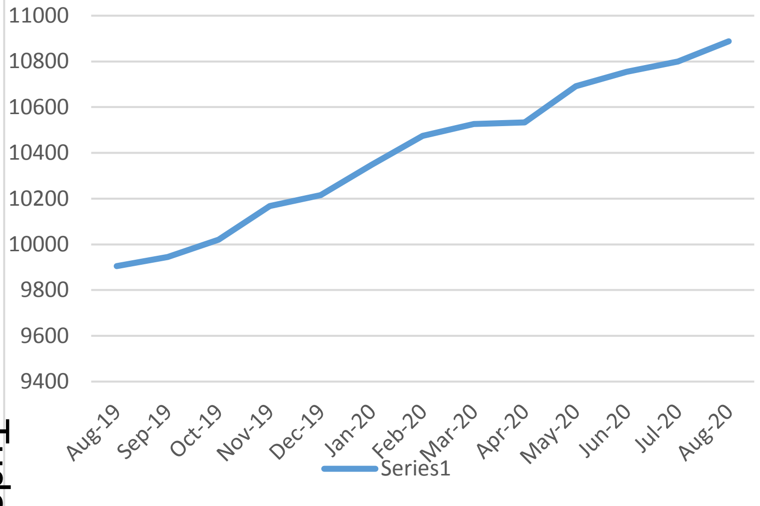


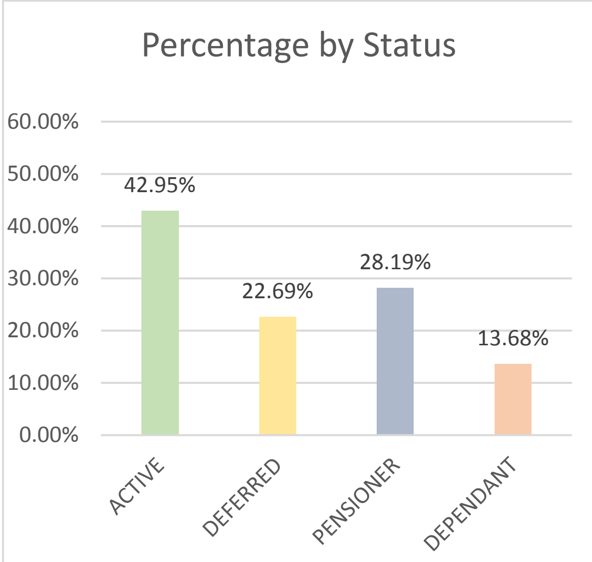
Mae'r dudalen hon yn wag yn bwrpasol

Cronfa Bensiynau Clwyd
Clwyd Pension Fund

MEMBER SELF SERVICE: 01/06/2020 - 31/08/2020

Registered Members - 11,563 (34.31%)





Statistics between
01/06/2020 to 31/08/2020 (92 days)

CONTACT US TASKS

529	MSSKEY	Key requests
51	MSSENQ	Enquiry tasks
10	MSSEST	Estimate tasks
60	MSSRET	Retirement tasks
15	MSSTVT	Transfer tasks
136	**Contact Us (1.48 p/day)**	
136	**MSSADD Address update (new)**	
13	**Bank details updated**	

BENEFIT PROJECTIONS

10,144 BENEFIT PROJECTIONS CALCULATED

Avg 110.26 per day

EXPRESSION OF WISH

266 CHANGES OF EXPRESSION OF WISH

2.89 per day

ELECTED FOR POSTAL CORRESPONDANCE

2,008 – 5.96% of overall members
Members now have to choose between paper post or MSS

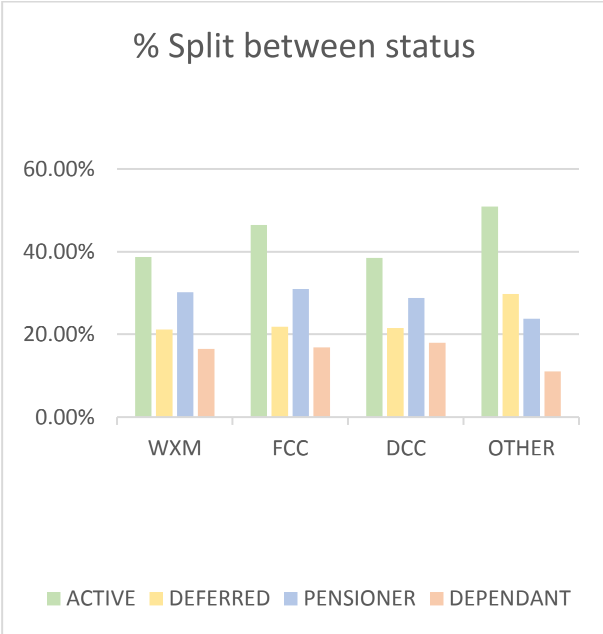
358	ACTIVE
90	DEFERRED
1,372	PENSIONER
188	DEPENDANTS

Update from 01/06/2020 to 31/08/2020

As at 31/08/2020, 34.31% of Clwyd Pension Fund's membership has now registered for MSS since we went live.

Clwyd Pension Fund continues to upload member documents to MSS accounts where possible. This is to ensure that members receive their documents as quickly as possible from us whilst we continue to work from home during the pandemic. Members also upload completed forms to MSS so we can access them and process retirements etc more quickly (although the member uptake on this facility has been quite slow so far).

An upgrade to the MSS system in September 2020 means that deferred members can now request an estimate from us by clicking a 'Begin Payment Request' button. This facility means that the member does not need to write / email us requesting the estimate. It makes the process more efficient and user friendly for the members.



Mae'r dudalen hon yn wag yn bwrpasol

DELEGATED RESPONSIBILITIES

Delegation:	Delegated Officer(s):	Communication and monitoring of Use of Delegation
Other urgent matters as they arise.	CPFM and either CFM or CE, subject to agreement with Chairman and Deputy Chairman (or either, if only one is available in timescale)	PFC advised of need for delegation via e-mail as soon as the delegation is necessary. Result of delegation to be reported for noting to following PFC.

Subject matter - GMP reconciliation and the impact on pensions in payment

Action taken

Approved the GMP Principles Document and appendix.

Background (extracted from delegation form)

As a result of a change in the way of working by HMRC, driven by the Government changing how future State pensions would be calculated, it was necessary for all contracted out pension schemes to carry out a data review. This involved comparing Guaranteed Minimum Pension ("GMP") held by Clwyd Pension Fund ("CPF") with that held by HMRC.

This was a major exercise involving comparison of over 40,000 records, and investigations where differences were found. As a result the work was outsourced, in the main, to Equiniti.

The work is now coming to an end and the attached Principles document has been developed to summarise and capture the key elements involved in the work, including how cases are being treated. The Principles document includes:

- The background to the project, explaining why it was necessary
- An overview of the various stages of the project
- A summary of the number of scheme members where records have been investigated, updated and where pension payments have been found to be incorrect
- The key principles around how cases have been dealt with, including tolerances that have been used (included an appendix which outlines the approach to a number of detailed matters)
- How under and overpayments will be dealt with
- What communications will be carried out with scheme members
- How any complaints will be dealt with
- The different categories of costs associated with the project which are being charged to the CPF, and the impact on the CPF assets
- Decision making powers – which will allow the Head of Clwyd Pension Fund to make any further decisions in relation to the final stages of this project

It is appropriate for the Pension Fund Committee to formally approve this Principles document. However due to the lack of meetings in the short term, approval is being requested under urgency delegations. For information, this project has been discussed at a number of Pension Fund Advisory Panels ("AP") and support has been received by the Panel on how the cases are being dealt with. In particular, the appendix to the Principles document (outlining the approach to a number of detailed matters) was considered in detail and supported by senior officers and advisers at the AP.

It is worth highlighting that one of the outcomes of this project is that it has been found that some pensioners and dependants paid by CPF have been receiving the incorrect amount of pension, often for a number of years. Some have received too little pension and so will receive the backdated payments including interest. Some have unfortunately received too much pension and one of the key decisions for CPF is how to deal with those cases – both in relation to reducing their pension going forward and dealing with the overpayment that has taken place. This involves approximately 200 pensioners/dependants. It is proposed that the accumulated overpayments are written off, but it is considered that the pensions must be reduced going forward as there is a legal obligation to do so.

DELEGATED RESPONSIBILITIES

Delegation:	Delegated Officer(s):	Communication and monitoring of Use of Delegation
Other urgent matters as they arise.	CPFM and either CFM or CE, subject to agreement with Chairman and Deputy Chairman (or either, if only one is available in timescale)	PFC advised of need for delegation via e-mail as soon as the delegation is necessary. Result of delegation to be reported for noting to following PFC.

Subject matter - McCloud ruling and the impact on administration

Action taken

Approved:

- the CPF McCloud Principles Document
- the CPF Roles and Responsibilities Document
- the updated CPF budget which has increased due to the McCloud programme.

Background (extracted from delegation form)

When the LGPS changed from a final salary to a career average pension scheme in 2014, protections for older scheme members were introduced. Similar protections were provided in other public sector pension schemes. The Court of Appeal ruled that younger members of the Judges' and Firefighters' Pension schemes have been discriminated against because the protections do not apply to them. The Government has confirmed that there will be changes to all main public sector schemes, including the LGPS, to remove this age discrimination, some of which will be retrospective. This ruling is often called the 'McCloud judgment'.

Whilst the impact on members is not expected to be material, the implementation of the McCloud remedy in the LGPS is likely to significantly impact on administration processes and systems as well as requiring a robust communication exercise with employers and scheme members. The additional resource and administration budget requirements to implement the remedy by the CPF will be substantial.
Due to the significance of this work, CPF have established a formal programme to ensure it is delivered successfully. The attached draft Principles document summarises and captures the key elements of the work including how the programme will be managed. This will be updated throughout the document as decisions are made on how the work will be carried out and cases treated. The structure of the programme to implement the "McCloud" remedy is laid out in the attached draft Roles and Responsibilities document. Approval of these two documents is requested.

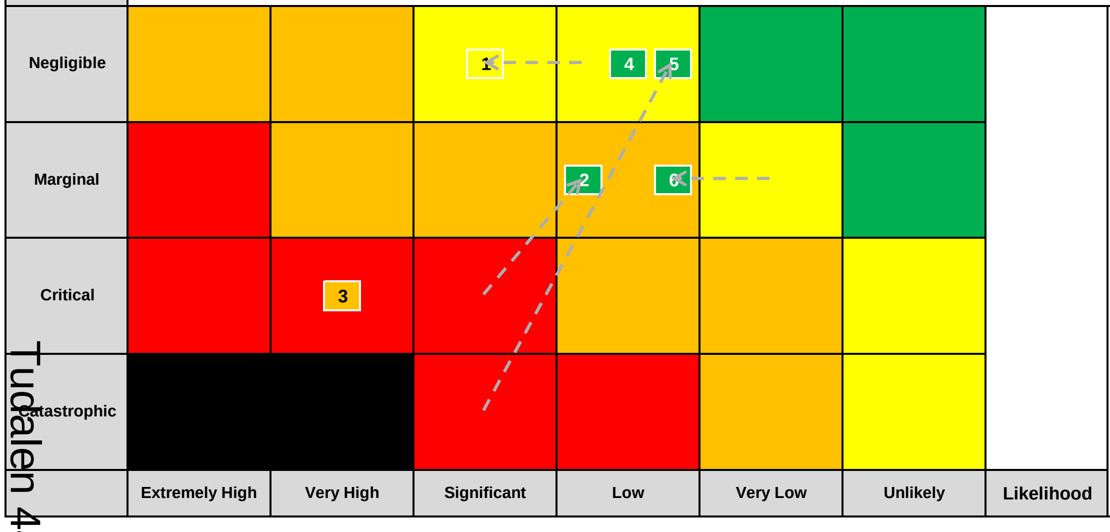
It is the intention that as much of the work as possible relating to this programme will be carried out internally within the CPF team, however this will be kept under review throughout the programme. It is also proposed that Mercer will provide ongoing actuarial and benefit advice throughout the programme and programme management will be provided by Aon.

The Pension Board members will also provide assistance as part of the McCloud Steering Group, which will increase the Pension Board budget. It is anticipated that total costs in 2020/21 for McCloud will be approximately £530k some of which was already anticipated when the CPF budget was originally approved in March. An updated CPF budget is attached for approval which incorporates the additional unpredicted costs. The overall increase in budget being requested is £202k which includes some savings in other areas.

A three page summary of the McCloud judgement and CPF programme is also attached for information.

Administration and Communication Risks Heat Map and Summary **Appendix 2**

Administration & Communication Risks



Key

1 Each risk is represented in the chart by a number in a square.
- The number denotes the risk number on the risk register.
- The location of the square denotes the current risk exposure.

1 The background colour within the square denotes the target risk exposure.

New risks since the last reporting date are denoted with a blue and white border.

An arrow denotes a change in the risk exposure since the previous reporting date, with the arrow coming from the previous risk exposure.

25 September 2020

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?	Date Not Met Target From	Expected Back On Target	Further Action and Owner	Risk Manager	Next review date	Last Updated
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 (including due to Covid-19)	All	Negligible	Significant		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 - Data protection training, policies and processes in place 6 - System security and independent review/sign off requirements 7 - ELT established 8 - Temporary staff changed to permanent, and further resource increase/recruitment to new posts 9 - Ongoing monitoring of ELT and Ops resource/workload for backlogs 10 - Estabishment of aggregation team 11 - Ongoing training within the team 12 - Impact of potential Covid absences being discussed at weekly Covid catch ups and plans in place for ensuring priority work continues unaffected/training of new Lead PO has been undertaken.	Negligible	Low		😐 Current likelihood 1 too high	12/05/2020	Dec 2020	1 - Ongoing consideration of resource levels post recruitment of new posts (KW) 2 - Review structure of Technical team (AH)	Pensions Administration Manager	31/12/2020	24/09/2020
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 (including due to Covid-19)	A1 / A4 / A5 / C2 / C3 / C4 / C5	Marginal	Low		1 - Administration strategy updated 2 - Employer steering group established 3 - Greater engagement through Pension Board 4 - Backlog project in place 5 - Establishment of ELT 6 - Increased data checks/analsyis (actuary and TPR) 7 - Implemented further APP data checks to identify issues 8 - Updated Admin Strategy to include a compliance declaration 9 - Increased engagement with employers as to how they are managing due to Covid, and ongoing CPF requirements, and also increased monitoring of employer data coming into CPF	Negligible	Very Low		😐 Current impact 1 too high Current likelihood 1 too high	01/07/2016	Mar 2021	1 - Ongoing roll out I-connect (AH) 2 - Develop and roll out APP training - in house and employers (KM) 3 - Identify other employer data issues and engage directly with employers on these (KM/AH) 4 - Developing monthly SLA reporting for employers (KW/AH)	Pensions Administration Manager	01/12/2020	24/09/2020
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 including McCloud)	A1 / A4 / A5 / C2 / C3 / C4 / C5	Critical	Very High		1 - Ongoing task and SLA reporting to management/AP/PC/LPB to quickly identify issues 2 - Benefit consultants available to assist if required 3 - Recruitment to new posts 4 - McCloud planning being undertaken	Marginal	Low		😐 Current impact 1 too high Current likelihood 2 too high	27/08/2018	Dec 2020	1 - Ongoing consideration of resource levels post recruitment of new posts (KW) 2 - Ongoing consideration of likely national changes and impact on resource (KW) 3 - McCloud ongoing planning session (KW)	Pensions Administration Manager	01/12/2020	24/09/2020
4	Scheme members do not understand or appreciate their benefits	Communications are inaccurate, poorly drafted or insufficient	C1/ C2 / C3	Negligible	Low		1 - Communications Strategy in place 2 - Annual communications survey for employees and employers 3 - Specialist communication officer employed 4 - Website reviewed and relaunched (2017) 5 - Member self service launched (2017) 6 - Comms Officer recruited	Negligible	Very Low		😐 Current likelihood 1 too high	01/07/2016	Mar 2021	1 -Ongoing promotion of member self service (KM) 2 - Ongoing identification of data issues and data improvement plan (All) 3 - Review of and update website during 2020/21 (KM) 4 - Review of success of new website/iConnect/member self-service planned for 2021/22 (KM)	Pensions Administration Manager	31/12/2020	24/09/2020
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	Negligible	Low		1- Business plan has number of improvements (I-connect/MSS etc) 2 - Review of ad-hoc processes (e.g. deaths and aggregation) 3 - Participated as a founding authority on national framework for admin systems and this is now launched 4 - Procurement of Altair on business plan 5 - Joined latest Heywood Testing Party 6 - Implementation of other Altair modules including in-house lump sum payment facility 7- Increased engagement with Heywood about change in their business model 8 - Increaed engagement with Heywood re McCloud software enhancements	Negligible	Very Low		😐 Current likelihood 1 too high	01/07/2016	Dec 2020	1 - Ongoing roll out of iConnect (AH) 2 - Ongoing identification of data issues and data improvement plan (All) 3 - Review of and update website during 2020/21 (KM) 4 - Review of success of new website/iConnect/member self-service planned for 2021/22 (KM) 5 - Carry out CPF tender for pension admin system (KW) 6 - Review structure of Technical team (AH) 7 - If delays in system upgrades, look for alternative solutions to administer regulatory changes (KW)	Pensions Administration Manager	31/12/2020	24/09/2020
6	Service provision is interupted	System failure or unavailability, including as a result of cybercrime and Covid-19	A1 / A4 / C2	Marginal	Low		1 - Disaster recover plan in place and regularly checked 2 - Hosting implemented 3 - Implement lump sum payments via pensioner payroll facility 4 - Regular communications with Heywood re how dealing with Covid & early communications with FCC re how to ensure payments are made as a back up	Negligible	Unlikely		😐 Current impact 1 too high Current likelihood 2 too high	08/11/2019	Dec 2020	1 - Ongoing checks relating to interface of recovery plan with non-pensions functions (KW) 2 - Develop business continuity policy for CPF (KW) 3 - Review of cybercrime risk controls (KW/PL)	Pensions Administration Manager	31/12/2020	24/09/2020

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 7 October 2020
Report Subject	Investment and Funding Update
Report Author	Deputy Head, Clwyd Pension Fund

EXECUTIVE SUMMARY

An investment and funding update is on each quarterly Committee agenda and includes a number of investment and funding items for information or discussion. The items for this report are:

(a) The Business Plan 2020/21 update on progress. 3 of the tasks are complete or on target. 1 has commenced but is behind schedule and 1 has been moved into Q2 and 3 due to change of plan. Appendix 1.

(b) Current Developments and News – News and development continues to be dominated by the Pooling across the LGPS which is covered in agenda item 8. In addition, there are several other areas which will impact on the section, including, the consultation on reforming Local Government exit pay, a review of employer contributions and flexibility on exit payments, the effect of the McCloud remedy on employer contributions and the un-pausing of the 2016 Cost Cap Mechanism.

(c) Delegated responsibilities (Appendix 2). This details the responsibilities which have been delegated to officers since the last Committee meeting. These can include, cash management, short term tactical decisions, investments in new opportunities and monitoring of fund managers. There are no items of exception to report.

(d) Within the risk register (Appendix 3) overall, a number of investment and funding risks have moved towards target.

RECOMMENDATIONS	
1	That the Committee consider and note the update for delegated responsibilities and provide any comments.
2	That the Committee approve the extension of the timescales in relation to a number of actions within the Business Plan as outlined in paragraph 1.01.

REPORT DETAILS

1.00	INVESTMENT AND FUNDING RELATED MATTERS
	Business Plan Update
1.01	Appendix 1 provides a summary of progress against the Investment and Funding section of the Business Plans for 2020/21. Cash-flow has been reviewed in light of the impact of COVID-19 and has been assessed as sufficient at this stage. The new cash flow management approach is in place to manage any potential shortfalls or large surpluses in the future and will be subject to on-going monitoring. All that is outstanding is the documentation of the new process which will be completed before the year end. The implementation of the new investment strategy has been completed and outlined in 1.08 below. Work on the implementation of our Responsible Investment Policy continues and it is planned for a more detailed update on the progress with Climate risk to be brought to the next Committee. Although it should be noted in 1.08 below that we have moved to a Passive Equity ESG fund in August and the Wales Pool will soon be implementing carbon reduction to our Global Equity exposure. Also within asset pooling, the timing of the Fixed Income transition slipped into Q2 and the timing of transition for Emerging Market equity and Private Markets will extend into 2021/22. For the RPI reform, the deadline for responding to the consultation was extended to late in August due to COVID-19, and therefore the results are not expected until at least October. This has therefore impacted on the timescales of reviewing the inflation hedging position but further details are included in the Funding & Flightpath agenda item. Members are asked to approve these minor adjustments to the Business Plan.
	Current Development and News **Consultation on Reforming Local Government Exit Pay**
1.02	The new arrangements are currently planned to come into effect on 1 January 2021 so careful thought is needed in terms of any quotes or illustrations for cases on or after this date. The consultation sets out the following as the proposed approach for public sector employers within the LGPS: • A general reform of redundancy payments, to involve a maximum of three weeks' pay per year of service, an overall ceiling of 15 months' pay and a maximum salary of £80,000 p.a., which can be used in the calculation. • An overall cap on the exit pay amount of £95,000, including any

	pension strain cost. • A waiver process to allow for relaxation of the £95,000 cap in exceptional circumstances. For English councils it seems that this will need ratification of the full council and approval of the MHCLG. The arrangements for Welsh Councils are, we understand, being discussed separately but expected to sit with the Welsh Minister which could be applied unilaterally. • Strain costs (and the related pension enhancements) for members over age 55 will be reduced by the value of any statutory redundancy payment which the employee will receive in cash. Redundancy payments over and above the statutory redundancy payment will generally not be allowed in cases where a strain cost is paid when a member accesses their pension benefits. The above will apply to different employers in different ways and some employers will not be affected at all depending on whether they are listed in the HMT exit cap regulations. However, if it proceeds then everybody over the age of 55 who works for a Council will be affected, whether they are subject to the £95k cap or not in Wales. **Review of Employer Contributions and Flexibility on Exit Payments** Amending regulations have been published and come into force with effect from 23 September 2020.
1.03	**Review of Employer Contributions between Valuations** The Government has concluded that the power to review contributions between valuations should be available in respect of all employers. This would enable administering authorities to respond to the full range of circumstances which may occur between valuations, including potential impacts of COVID-19 and some other circumstances for example when local government reorganisation leads to a material change in liabilities. The Government has amended the regulations to grant the following new flexibilities: • Administering authorities may review the contributions of an employer where there has been a significant change to the liabilities of an employer. • Administering authorities may review the contributions of an employer where there has been a significant change in the employer's covenant. • An employer may request a review of contributions from the administering authority. Where the funding position for an employer significantly changes solely due to a change in assets, the new Regulations will not allow employer contributions to be reviewed outside a full valuation. **Flexibility on Exit Payments**

	The Government has amended the regulations so that there will now effectively be three options for an exiting employer: 1. As currently, calculate and recover an exit payment for employers ready and able to leave and make a clean break. 2. Agree a repayment schedule for an exit payment with employers who wish to leave the scheme but need to be able to spread the payment. 3. Agree a Deferred Debt Agreement (DDA) with an employer to enable them to continue paying deficit contributions without any active members where the administering authority is confident that the employer would fully meet its obligations. The introduction of Option 3 and the DDA could have a profound shift in the way exiting employers are treated Under a DDA, the exiting employer's responsibilities will be the same as for employers of active members but excluding the requirement to pay primary contributions (the future service rate). The Fund will need to set its policy for reviewing employer contributions between valuations and also the new flexibility on exit payments. The number of employers potentially affected in the Fund by this change in the flexibility on exit payments is relatively small but it will need to be considered in more detail. This will be included in the Funding Strategy Statement and will be an extension of the Employer Risk Management framework already in place which monitors funding positions and covenant for all employers. Guidance is being developed by both MHLCG and the SAB to ensure as far as possible there is consistency of treatment between employers in different LGPS Funds. Once the guidance is available the policy will be developed and brought back to Committee for agreement.
1.04	**The McCloud Remedy and Employer Contributions** On 16 July MHCLG released the much anticipated consultation on the McCloud remedy for the LGPS in England and Wales and this consultation has been covered in other update reports. The consultation ends on 7th October. From a funding perspective, an allowance for the McCloud remedy was calculated at the 2019 valuation for Funds in England and Wales. The calculations were generally carried out in line with the proposed underpin in the consultation and where employers have made a provision in their contribution rates, we would not expect to revisit this until the next valuation. For other employers, the Funding Strategy Statement allows us to revisit this where appropriate. It was made clear to employers at the meetings over 2019/20, that where they did not make an allowance for McCloud in their contributions, additional contributions would be payable once the remedy was confirmed. The affected employers will

	be notified of the increase in their contributions once consultation has ended and the final remedy is set out in Regulation. The Fund will then discuss with these employers the precise timing of when the increase will be effective (including any backdating to 1 April 2020).
1.05	**2016 Cost Cap Mechanism Un-Paused** Separately the Government has announced that the 2016 Cost Cap HMT assessment for all public sector schemes will be un-paused and critically that the McCloud remedy is to be included in the assessment of the impact on member benefits. The Scheme Advisory Board will need to consider the implications of this in relation to their separate assessment of the LGPS cost cap and its interaction with the HMT assessment but fundamentally this could mean that the overall cost of McCloud will be offset in part or entirely when the outcome of the Cost Cap assessment is known.
1.06	**Policy and Strategy Implementation and Monitoring** The Advisory Panel receive a detailed investment report from the Fund's Investment Consultants, Mercer, which shows compliance with the approved Investment Strategy Statement and reports on fund manager performance. A summary of this performance is shown in the Mercer report included in agenda item 7. The Advisory Panel also receive reports from the following groups: • Tactical Asset Allocation Group (TAAG) • Cash and Risk Management Group (CRMG) • Private Equity and Real Assets Group (PERAG) Any delegations arising from these meetings are detailed in Appendix 2.
1.07	**Implementation of Investment Strategy Review and Transition of Assets** The Committee approved the revised Investment Strategy in 2019/20 which included the following changes: • Increase Global Equity from 8% to 10% • Within Global Equity, switch from Passive to ESG Passive • Increase Emerging Market Equity from 6% to 10% • The additional 4% of Emerging Market Equity to be allocated to the BlackRock Passive Fund until allocate to WPP. • Redeem the 10% total invested with Diversified Growth Managers • Decrease Hedge Funds from 9% - 7% • Increase Cash and Risk Management Framework from 19% - 23% • Restructure the Private Markets Portfolio to include Impact/ Local and increase the overall allocation from 25% - 27%
1.08	**Transition of Assets to WPP** The Committee previously approved the transition of the Stone Harbor Multi Asset Credit (MAC) Fund to the WPP MAC sub fund portfolio managed by Russell Investments. This sub fund was one of five being

	implemented across Wales and BlackRock were appointed by Link Fund Solutions, the WPP operator to transition all the assets between July and September 2020. As such, the Fund made the decision to carry out the transition of assets as a result of the revised strategy during the same period as it involved additional subscriptions to both WPP and BlackRock as the WPP Passive manager. Due to the size of the transition and the complexity, this was completed in several tranches and to facilitate timing differences of transition dates for some of the managers, it was agreed to use some of the Pension Fund cash to alleviate some of the out of market exposure. A summary of the transition is shown below.

Month	Manager	Redemption	Subscription
		£m	£m
July	Clwyd Cash	9.3	
	WPP Global Equity		9.3
	Pyrford DGF	86.4	
	Investec DGF	84.2	
	Stone Harbor MAC	64.8	
	WPP MAC Fund		101.5
	BlackRock Passive	64.0	
	BlackRock ESG Passive		86.7
	BlackRock Emerging Market Passive		71.4
	Insight Cash and Risk Management		39.8
August	BlackRock Passive	11.9	
	BlackRock ESG Passive		11.9
	Stone Harbor MAC	65.0	
	WPP MAC Fund		65.0
September	Stone Harbor MAC	35.0	
	WPP MAC Fund		33.5
	Clwyd Cash		1.5
	Total Transition	420.6	420.6

1.09	As a result of the transition, all asset classes except Private Markets were now in line with their strategic allocation. The revised allocations for Private Markets were agreed as: • Opportunistic — Reduce from 2% to 0% • Impact / Local — Increase from 0% to 4% • Private Equity — No change 8% • Infrastructure — No change 8%

	• Property No change 4% • Private Debt No change 3% Much of this restructure will be achieved by re categorising the investments into the relevant strategies and will be implemented in October 2020.
1.10	**Delegated Responsibilities** The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. Appendix 2 updates the Committee on the areas of delegation used since the last meeting. To summarise: • Cash-flow forecasting continues to be monitored through the Cash and Risk Management Strategy going forward. • Shorter term tactical decisions continue to be made by the Tactical Asset Allocation Group (TAAG)

2.00	**RESOURCE IMPLICATIONS**
2.01	None directly as a result of this report.

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	None directly as a result of this report.

4.00	**RISK MANAGEMENT**
4.01	Appendix 3 provides the dashboard and risk register highlighting the current risks relating to Investments and Funding matters.
4.02	There have been no additional risks added to the register since the last Committee but additional processes have been included in F3, 4 and 7 to include issues associated with the Covid pandemic. Of the 9 risks, 6 have remained the same as reported to the February 2020 Committee. Of the 6, F3 and 5 remain on target and F2, 3, 8 and 9 remain one step away from the target impact or likelihood. The remaining three risks have changed since the last Committee.F1 and F7 have increased their likelihood or impact by 1 which reflects the financial risks to some employers relating to COVID 19, although no issues have materialised to date. F6 has decreased the impact by 1 given some additional work on the covenant of our employers but some work remains outstanding.

5.00	**APPENDICES**
5.01	Appendix 1 - 2020/21 Business plan update Appendix 2 – Delegated Responsibilities Appendix 3 – Risk dashboard and register – Investments and Funding

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	None. **Contact Officer:** Debbie Fielder, Deputy Head, Clwyd Pension Fund **Telephone:** 01352 702259 **E-mail:** Debbie.a.fielder@flintshire.gov.uk

7.00	**GLOSSARY OF TERMS**
7.01	(a) **The Fund - Clwyd Pension Fund** – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region (b) **Administering authority or scheme manager** – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund. (c) **The Committee - Clwyd Pension Fund Committee** - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund (d) **TAAG – Tactical Asset Allocation Group** – a group consisting of The Clwyd Pension Fund Manager, Pensions Finance Manager and consultants from JLT Employee Benefits, the Fund Consultant. (e) **AP – Advisory Panel** – a group consisting of Flintshire County Council Chief Executive and Corporate Finance Manager, the Clwyd Pension Fund Manager, Fund Consultant, Fund Actuary and Fund Independent Advisor. (f) **PERAG – Private Equity and Real Asset Group** – a group chaired by the Clwyd Pension Fund Manager with members being the Pensions Finance Managers, who take specialist advice when required. Recommendations are agreed with the Fund's Investment Consultant and monitored by AP. (g) **In House Investments –** Commitments to Private Equity / Debt, Property, Infrastructure, Timber, Agriculture and other Opportunistic Investments. The due diligence, selection and monitoring of these investments is undertaken by the PERAG.

	(h) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of (i) **ISS – Investment Strategy Statement** – the main document that outlines our strategy in relation to the investment of assets in the Clwyd Pension Fund. (j) **FSS – Funding Strategy Statement** – the main document that outlines how we will manage employers contributions to the Fund (k) **Funding & Risk Management Group (FRMG)** - A subgroup of Pension Fund officers and advisers set up to discuss and implement any changes to the Risk Management framework as delegated by the Committee. It is made up of the Clwyd Pension Fund Manager, Pension Finance Manager, Fund Actuary, Strategic Risk Adviser and Investment Advisor. (l) **Actuarial Valuation** - The formal valuation assessment of the Fund detailing the solvency position and determine 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. (m) **Actuary -** A professional advisor, specialising in financial risk, who is appointed by pension Funds to provide advice on financial related matters. In the LGPS, one of the Actuary's primary responsibilities is the setting of contribution rates payable by all participating employers as part of the actuarial valuation exercise. (n) A full glossary of Investments terms can be accessed via the following link. **https://www.schroders.com/en/uk/adviser/tools/glossary/**

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Business Plan 2020/21 to 2022/23 – Q1/2 Update
Funding and Investments

Key Tasks

Key:

	Complete
	On target or ahead of schedule
	Commenced but behind schedule
	Not commenced
xN	Item added since original business plan
xM	Period moved since original business plan due to change of plan /circumstances
~~x~~	Original item where the period has been moved or task deleted since original business plan

Funding and Investments (including accounting and audit) Tasks

Ref	Key Action –Task	2020/21 Period				Later Years	
		Q1	Q2	Q3	Q4	2021/22	2022/ 23
F1	Cash Flow and Liquidity Policy	x	xM	xM			
F2	Implement Revised Investment Strategy	x	x				x
F3	Implement Responsible Investment Strategic Priorities	x	x	x	x	x	x
F4	Ongoing Asset Pooling Implementation and Transition	x	x	x	x	x	x
F5	RPI reform and FSS Policy Update		x	x	x	x	

Funding and Investments (including accounting and audit) Task Descriptions

F1 – Cash Flow and Liquidity Policy

What is it?

The Fund has a significant number of factors to consider when looking at cash-flow requirements. These include contributions from employees and employers, payments to pensioners and transfer values in and out. On the investment side this includes income/dividends receivable from investments, commitments to Private Markets that require regular draw-downs and repayments of investments, and transition of existing investments.

As a result of all of these moving parts it is key to ensure that the Fund has sufficient cash flow to meet all its commitments, but without maintaining a significant balance in cash which would, potentially, be a drag on investment returns. Following on from the analysis performed in the last year, the CPF intends to implement a cashflow and liquidity policy.

A revised Policy was discussed by Officers and Advisers in January 2020 and is intended to ensure that all of the Fund's different cash flows are managed holistically, and that there is always sufficient cash available to make required payments and investments. This policy will be refined, agreed, and monitored on a regular basis with reports to Committee.

Timescales and Stages

Finalise cashflow and liquidity policy	2020/21 Q1

Resource and Budget Implications

The cost of this work is included within the Fund's budgets for 2020/21 and will include input from the Actuary and the Investment Consultant.

F2 –Implement revised 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. This will need to include considerations of the WPP. Further details are set out within F4 below.

As a result of the Investment Strategy Review in 2019/20 the Committee agreed a number of changes. The new strategy takes effect from 1 April 2020 and so will need to be implemented in an efficient and effective way as close to this date as practical.

The Fund has planned the transition to the new arrangements and the majority of this is due to take place in the first quarter of 2020/21.

In addition, after the next Actuarial Valuation which is due in 2022, the Fund will need to review the strategy to ensure it remains effective.

Timescales and Stages

Implement changes to 2020 Investment Strategy	2020/21 Q1 & 2
Triennial review 2022	2022/23
Implement changes to 2023 Investment Strategy	2022/23 to 2023/24

Resource and Budget Implications

The majority of the work will be carried out by Mercer as the Investment Adviser together with the Head of the Clwyd Pension Fund and Deputy Head of Clwyd Pension Fund prior to final submission of proposals to the Advisory Panel and Pension Fund Committee. Costs of the review are included within the budgets shown.

F3 –Implement Responsible Investment Strategic Priorities

What is it?

The Fund agreed its updated Responsible Investment policy in February 2020 with five key priorities which are as follows:

- Evaluate and manage carbon exposure
- Identify sustainable investment opportunities
- Improve public disclosure and reporting
- Active engagement on ESG risks
- Comply with the FRC Stewardship Code.

Alongside its Investment Strategy Review in 2019/20 the Fund reviewed and revised its Responsible Investment Policy. The Policy was split into a number of key areas setting out the Fund's approach to being a Responsible Investor. The Fund recognises that as a Responsible Investor there are a multitude of potential areas on which to focus, however it is not possible to do it all in one go. It has therefore decided to set the following strategic priorities for its work over the next three years (2020-2023):

- **Evaluate and manage carbon exposure**
  - This will include measuring the Fund's existing exposure to carbon within its investment portfolio, and once this has concluded, set targets to reduce this over the coming five years.
- **Identify sustainable investment opportunities**
  - The Fund's new Investment Strategy has an allocation to Social/Impact investments, or investments that aim to make a positive social or environmental impact. The Fund already has a number of investments in this area and will be looking to add to these.
- **Improve disclosure and reporting**
  - The Fund will be working to improve transparency and reporting. An analysis of the impact of Climate Change on the Fund's Investment Strategy will form part of this work.

- **Active Engagement on ESG risks**
  - To work proactively with WPP and LAPFF[1] to actively engage with the Fund's underlying investments.
- **FRC Stewardship Code**
  - The Fund is currently a signatory to the Code; however a new Code was launched in 2019. The aim is to assess the potential to remain a signatory in 2020.

In addition to these priorities, the Fund is aware that the Scheme Advisory Board and MHCLG will be issuing revised guidance on Responsible Investing in 2020, and it will be important to review the Fund's policy and update if necessary to ensure it is still relevant and compliant.

[1] LAPFF is the Local Authority Pension Fund Forum, which aims to protect the long-term interests of beneficiaries through promoting high standards of corporate governance and responsibility.

Timescales and Stages

Undertake Carbon Foot-printing analysis	2020/21 Q1
Agree approach to active engagement with WPP adviser	2020/21 Q1 & 2
Undertake Strategic Climate Change impact analysis	2020/21 Q2 & 3
Identify improvements to disclosure and reporting and implement	2020/21 Q3 & 4
Identify sustainable investment opportunities relating to social/impact	2020/21 to 2022/23
Review and revise RI Policy when national guidance is issued	Assumed 2020/21 Q2 & 3
Develop and submit application for new Stewardship Code	2020/21 Q3 & 4

Resource and Budget Implications

Estimated costs for the implementation are contained within existing plans/budgets including the costs of external consultants.

F4 – Ongoing Asset Pooling Implementation and Transition

What is it?

The Wales Pension Partnership ("WPP") was created to allow the pooling of assets across the Welsh LGPS Funds. The assets are continuing to be transitioned to WPP's Operator and further policies and procedures developed to ensure the proper management of WPP.

WPP has developed a three-year business plan for 2020 to 2023 which is subject to approval by the constituent authorities and includes the key areas of focus during that period. The timescales and stages below highlight how Clwyd Pension Fund will be involved in the ongoing work and transitions.

Timescales and Stages

Feed into development of key polices as per WPP business plan	2020/21 to 2022/23
Feed into review of governance of WPP	2021/22 and 2022/23
Transition of assets to newly launched funds:	
▪ Fixed Income	2020/21 Q1
▪ Emerging Markets	2020/21 Q3
▪ Private Markets	2020/21 Q4
Review and develop a mechanism to pool any suitable non-pooled asset e.g. Flight Path	2022/23
Provide views to host on WPP operator arrangements and oversight	2020/21 to 2021/22
Provide input to preparation for Operator market review and re-tender	2021/22 to 2022/23
Feed into development of WPP reporting including ESG and climate change	2020/21 Q1 to 2021/22

Consider and implement MHCLG asset pooling guidance	Unknown

Resource and Budget Implications

2020/21 and future budgets will include CPF's share of the governance costs managing the pool, and also its share of fees relating to pooled assets. For 2020/21 the estimated cost of governance for CPF in relation to WPP is £119k, which includes an estimated share of the Host Authority costs (£95k) and the estimated costs CPF expects to bear directly from its own consultants for advice in relation to the WPP (£24k). The estimate for fees in relation to the pooled assets, including the Operator's costs, is £190k and is at this stage a provisional sum. Any other costs relating to the WPP will be met from within existing budgets.

F5– RPI reform

What is it?

For a number of years, concerns have been raised throughout the pensions industry as to whether the Retail Prices Index (RPI) provides a good measure of inflation. It was announced on 4 September 2019 that a reform of RPI will take place to bring it into line with the Consumer Prices Index (CPI), including owner occupiers' housing costs (CPIH). The change cannot be made until at least 2030 except with the consent of the Chancellor of the Exchequer. A consultation is expected to start on 11 March 2020 to consider this in detail and a statement is expected from the Chancellor in July 2020.

Any change may impact detrimentally on the value of the assets held by the CPF where they are linked to the RPI index e.g. Index-linked Government Bonds. As the Fund has a significant exposure to these types of assets, as part of the Flightpath to protect against increases in inflation expectations which in turn increase the liabilities of the Fund, consideration is required to whether changes are needed to mitigate the potential impact on the Fund assets. The Fund therefore performed an initial restructure of assets to limit the exposure to the potential risk of change whilst maintaining some inflation protection overall, albeit lower than the existing protection. This was done in Q4 2019/20.This will need to be monitored during and following the completion of the consultation to consider when and how the inflation protection is increased back to current levels.

In addition, this potential change has implications on the inflation assumption used in actuarial calculations so an initial adjustment has been proposed and this will also be kept under review during and after the consultation has been completed.

Timescales and Stages

Reconsider hedging position post consultation	2020/21 Q2 & 3
Implement new hedging position	2020/21 Q2 & 3
Actuarial implications for assumptions	2020/21 Q3 & 4 and 2021/22

Resource and Budget Implications

This will be performed by the risk advisers as part of the discussions that take place in the CPF Funding and Risk Management Group (FRMG) and estimated adviser costs have been included in the 2020/21 budget.

Mae'r dudalen hon yn wag yn bwrpasol

DELEGATED RESPONSIBILITIES

	Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
1.10.1	Rebalancing and cash management	PFM (having regard to ongoing advice of the IC and PAP)	High level monitoring at PFC with more detailed monitoring by PAP

Rebalancing Asset Allocation

Background

The Investment Strategy Statement (ISS) includes a target allocation against which strategic performance is monitored (Strategic Allocation). There are strategic ranges for each asset category that allow for limited deviation away from the strategic allocation as a result of market movements. In addition there is a conditional medium term asset allocation range (Conditional range) to manage major risks to the long term strategic allocation which may emerge between reviews of the strategic allocation.

The Tactical Asset Allocation Group (Investment Consultant & Officers) which meets each month consider whether it is appropriate to re-balance to the strategic asset allocation. Recommendations are made to the Head of the Clwyd Pension Fund who has delegated authority to make the decision. Re-balances or asset transitions may be required due to market movements, new cash into the Fund or approved changes to the strategic allocation following a strategic review.

Action Taken

In the period to September 2020 the Fund completed a transition of approximately£420.6m each of redemptions and subscriptions. These were to facilitate the transfer of additional assets to the Wales Pension Partnership and BlackRock, the WPP Passive provider as well as rebalancing assets within the Fund to meet the agreed revised investment strategy. More details are disclosed in 1.08 of this investment report.

Cash Management

Background

The Deputy Head of the Clwyd Pension Fund forecasts the Fund's 3 year cash flows in the Business Plan and this is monitored quarterly and revised on an annual basis. The bank account balance is monitored daily. The main payments are pension related, expenses and investment drawdowns. New monies come from employer and employee contributions and investment income or distributions. This cash flow management ensures the availability of funds to meet payments and investment drawdowns. The LGPS investment regulation only allow a very limited ability to borrow. There is no strategic asset allocation for cash, although there is a strategic range of +5% and a conditional range of +30% which could be used during times of major market stress.

Action Taken

The cash balance as at 30th June 2020 was £33.3m (£20.2m at 31st March 2020). This included deficit contributions of £14.3m paid by employers in April and May The balance as at 31st August is £20.9m and included the payment of £9.3m which was used in the transition of assets in July. The cash flow is monitored to ensure there is sufficient monies to pay benefits and capital calls for investments. Work is continuing with the Consultant and Actuary to monitor the cash-flow situation and be aware of any unforeseen issues. As a result of the COVID pandemic, the Fund is reviewing the levels of distributions and drawdowns it originally expected. Whilst, as suspected, distributions are lower than expected, drawdowns are also lower and the effect to end of August has been neutral. As part of the Investment Strategy Review, the new Cash Management and Risk Strategy can be utilised if this situation reverses. Monthly cash flows for the financial year to 2020/21 are shown graphically at the end of the delegations appendix.

	Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
1.10.2	Short term tactical decisions relating to the 'best ideas' portfolio	PFM (having regard to ongoing advice of the IC and PAP)	High level monitoring at PFC with more detailed monitoring by PAP

Background

The Tactical Asset Allocation Group (Investment Consultant and Officers) meet each month to consider how to invest assets within the ‘Best Ideas’ portfolio given the shorter term market outlook (usually 12 months). The strategic asset allocation is 11% of the Fund. The investment performance target is CPI +3 %, although the aim is to also add value to the total pension fund investment performance.

Action Taken

Since the previous Committee in February 2020 the transactions agreed within the portfolio were:

- Redeem total BlackRock Japanese Equities –£ 15.8m (crystallised -3.4%)
- Invest £15.8m in LGIM Global Corporate Bond Fund
- Partial Redemption LGIM UK Equity Fund - £9m (crystallised -8.0%)
- Partial Redemption BlackRock US Opportunities Fund - £9m (crystallised +11.6%)
- Partial Redemption LGIM North American Equities - £7m (crystallised +0.6%)
- Invest £25m in LGIM Liquidity Fund
- Partial Redemption LGIM High Yield Bond Fund -£10.3m (crystallised -5.9%)
- Invest £10.3m in LGIM Liquidity Fund
- Partial redemption £25.75m LGIM Liquidity Fund
- Invest £25.75m in LGIM American Equity Fund (Hedged)
- Redeem total PIMCO EM Local Bond Fund - £24.1m (crystallised
- Invest £10m in LGIM High Yield Bond Fund
- Invest £14.1m in LGIM Liquidity Fund
- Partial Redemption LGIM North American Equity (Hedged) - £17.5m (crystallised -6.1%)
- Invest £17.5m in LGIM Liquidity Fund
- Redeem total LGIM Global REITS -£15M (crystallised+ 0.1%)
- Invest £15m in LGIM Listed Infrastructure (Hedged)
- Switch total LGIM North American Equity Fund from hedged to unhedged
- Invest £14m in LGIM Infrastructure Fund (Hedged)
- Invest £14m in LGIM Global Corporate Bond Fund
- Redeem £28 m LGIM Liquidity Fund

The current allocations within the portfolio following the transactions are:

- US Equities (1.7%)
- Commodities (1.0%)
- Infrastructure (2.6%)
- Global Bonds (2.6%)
- High Yield Bonds (0.6%)
- UK Equity (0.5%)
- Liquidity Fund (2.0%)

Detailed minutes of the Group identifying the rationale behind the recommendations made to the Head of the Clwyd Pension Fund and decisions made under this delegation are circulated to the Advisory Panel.

As at the end of July 2020, the Best Ideas portfolio 1 year performance was -3.4% against a target of +4.1% and the 3 year performance was +3.8% against a target of +4.9%.

	Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
1.10.3	Investment into new mandates / emerging opportunities	PFM and either the CFM or CEO (having regard to ongoing advice of the IC)	High level monitoring at PFC with more detailed monitoring by PAP

Background

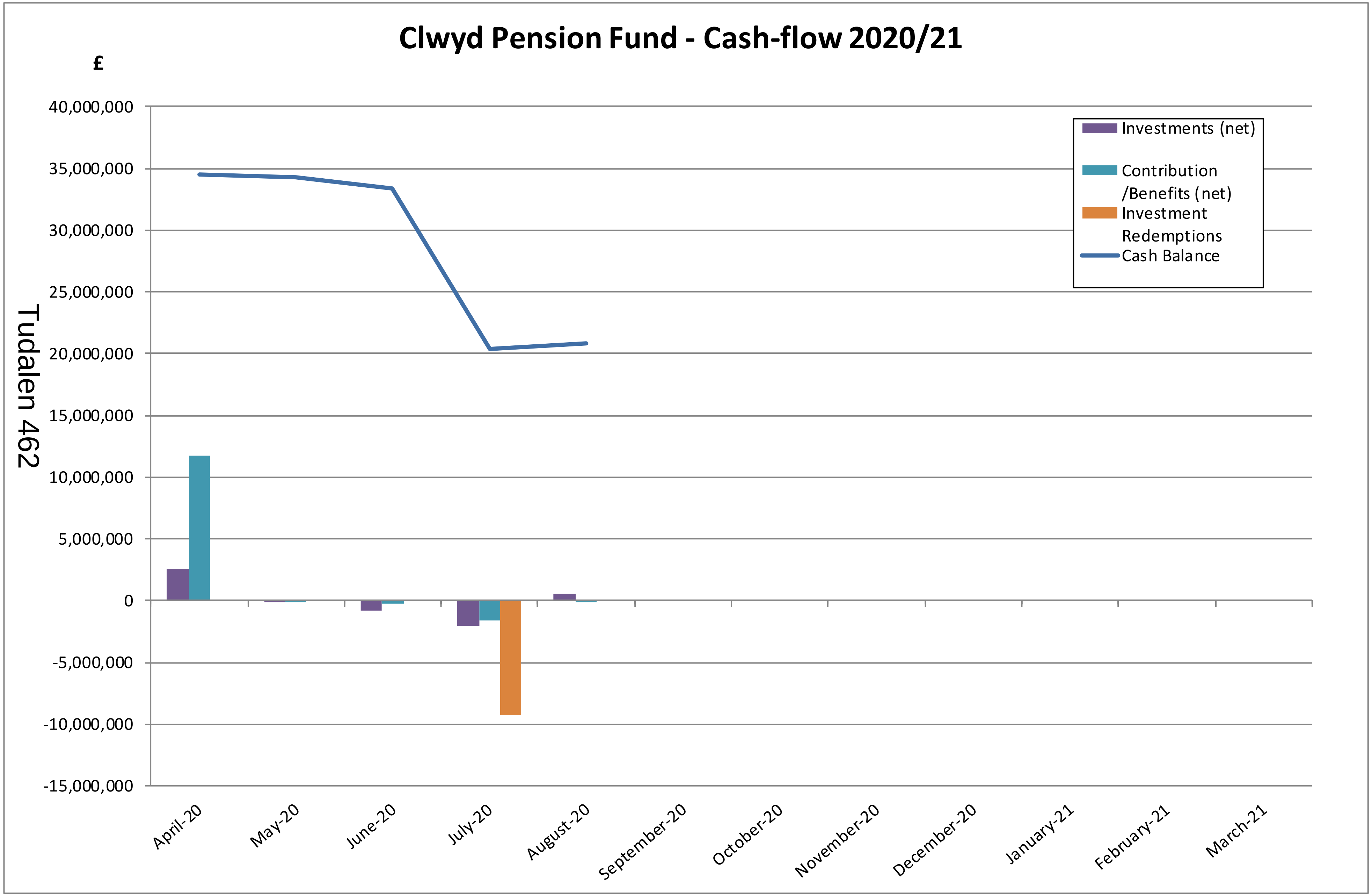
The Fund's current investment strategy includes a 27% asset allocation to private equity (8%), property (4%), infrastructure (including legacy timber and agriculture assets) (8%), private debt (3%) and impact / local investing (4%) These are higher risk investments, usually in limited partnerships, and as such, previously, these are smaller commitments of about £8m in each. Across these asset categories there are currently in excess of 60 investment managers, investing in 115+ limited partnerships or other vehicles.

The Private Equity & Real Estate Group (PERAG) of officers and Consultant meet at least quarterly and are responsible for implementing and monitoring the investment strategy and limited partnerships across these asset classes. The investments in total are referred to as the 'In-House portfolio'. There is particular focus on Environmental, Social and Governance (ESG) aspects on the investments made.

A review is currently being undertaken of the existing portfolio and future cash flows by the Consultants and the results will determine the forward work plan. It is anticipated that when the Wales Pension Partnership (WPP) are able to accommodate commitments in these alternative areas, the Fund will commit any available monies through the WPP. The Fund Consultants and WPP will work closely to ensure the available sub funds are suitable for the Funds existing Private Market strategy. Until these asset classes are available through the WPP, the Fund will continue to deploy capital and look for any opportunities which fulfil the current agreed strategy.

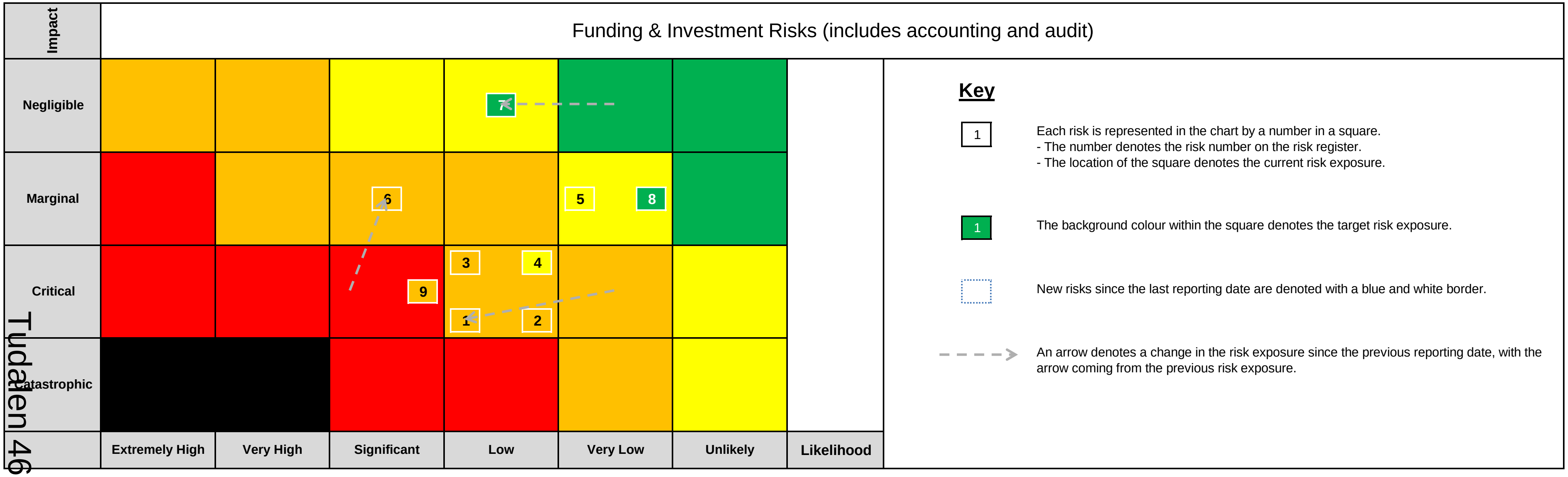
Action Taken

There have been no suitable opportunities to consider since the February 2020 Committee



Clwyd Pension Fund - Cash-flow 2020/21
£
40,000,000
35,000,000
30,000,000
25,000,000
20,000,000
15,000,000
10,000,000
5,000,000
0
-5,000,000
-10,000,000
-15,000,000
April-20
May-20
June-20
July-20
August-20
September-20
October-20
November-20
December-20
January-21
February-21
March-21
Investments (net)
Contribution /Benefits (net)
Investment Redemptions
Cash Balance

Funding and Investment Risks (Including Accounting & Audit) Heat Map and Summary **Appendix 2**



25 September 2020

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 resonable 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 reportin gprocedures 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?		Date Not Met Target From	Expected Back on Target	Further Action and Owner	Risk Manager	Next review date	Last Updated
1	Employer contributions are unaffordable and/or unstable	An appropriate funding strategy can not be set	F1 / F2 / F3 / F4 / F5	Critical	Low		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 and as part of the ongoing risk management framework.	Critical	Very Low		😐	Current likelihood 1 too high	07/05/2020	Dec 2020	1. Employers to highlight where unaffordable and provide covenant information (DF)	Head of CPF	31/12/2020	01/09/2020
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		See points within points 3,4 and 5	Marginal	Low		😐	Current impact 1 too high	31/03/2016	Mar 2033	1 - Equity Protection Strategy to be reviewed in light of market outlook (DF) 2 – In conjunction with Risks 3, 4 and 5 – overall return outlook will be considered in light of COVID-19 (PL) - See points within points 3, 4 and 5	Head of CPF	31/12/2020	01/09/2020
3	Investment targets are not achieved therefore materially 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. - Black swan event e.g. global pandemic such as Covid-19	F1 / F2 / F3 / F4 / F7	Critical	Low		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 7 - Consideration and understanding of potential Brexit implications. 8 - Equity Protection and Currency Hedging Strategy in place to protect equity gains and potentially reduce volatility of contributions. 9 – Assess impact of Covid-19 on markets and likelihood of achieving required outcomes	Critical	Low		☺				1 - The impact on performance relative to assumptions will be monitored at next investment day, including specifically FRMG & TAAG (DF)	Dep. Head of CPF	31/12/2020	01/09/2020
4	Value of liabilities increase due to market yields/inflation moving out of line from actuarial assumptions	Market factors impact on inflation and interest rates	F1 / F2 / F4 / F5 / F7	Critical	Low		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. 5 - Consideration and understanding of potential Brexit implications. 6 – Consideration and understanding of potential Covid–19 implications. 7 -The level of hedging is being monitored and reported.	Marginal	Very Low		😐	Current impact 1 too high Current likelihood 1 too high	31/03/2016	Mar 2033	1 - Consider and understand of potential impact of RPI consultation (DF)	Dep. Head of CPF	31/12/2020	01/09/2020
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		1 - Regular monitoring of actual membership experience carried out by the Fund. 2 - Actuarial valuation assumptions based 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		☺				1 - Longevity assumption being considered in light of Covid-19 (DF)	Dep. Head of CPF	31/12/2020	01/09/2020
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 and other funding and investment related requirements - ultimately this could increase employer costs	F1 / F2 / F3 / F4 / F5 / F6 / F7	Marginal	Significant		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 5 – Costings performed in relation to the potential impact of McCloud on employers. Employers informed as part of the valuation regarding the potential contribution provision over 2020-23. Major employers agreed to include McCloud.	Marginal	Low		😐	Current likelihood 1 too high	31/03/2016	Mar 2021	1 - After end of consultation, request funding for McCloud from employers who did not make a provision (DF) 2 - Consider policies on amendment of rates and deferred debt arrangement, once final regulations and guidance are agreed (DF)	Dep. Head of CPF	31/12/2020	01/09/2020
7	Insufficient cash or liquid 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. - Further risk presented with the introduction of exit credits for exiting employers in the 2018 Regulations update. - Covid-19 could also impact on cash-flow as employers may suffer cash-flow problems. - Private Markets distributions could dry up due to liquidity in markets.	F1 / F6	Negligible	Low		1 - Cashflow monitoring (including private markets) to ensure sufficient funds 2 - Ensuring all payments due are received on time including employer contributions (to avoid breaching Regulations) 3 - Holding sufficient liquid assets as part of agreed cashflow management policy 4 - Monitor cashflow requirements 5 - Treasury management policy is documented 6 – Assessment of risk of Covid-19 on employers 7 - Employers have been informed to notify Fund of any significant restructuring exercises. 8 - Employers have been informed to notify Fund of potential contract end dates (incl. changes) in sufficient time to reduce risk of large payments (i.e. through a contribution rate review in advance of the contract end date)	Negligible	Very Low		😐	Current likelihood 1 too high	07/05/2020	Jun 2021	1 – Continue with ongoing communications with employers to ensure they can continue to pay contributions in light of Covid-19 (DF)	Dep. Head of CPF	31/12/2020	01/09/2020
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		1 - Consider profile of Fund employers and assess the strength 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		😐	Current likelihood 1 too high	31/03/2016	Dec 2020	1 - Analyse responses to covenant request in light of COVID-19 as and when received (DF)	Dep. Head of CPF	31/12/2020	01/09/2020
9	The Fund's long-term Investment Strategy could fail to deliver appropriate returns	Responsible Investment (including Climate Change) is not properly considered within the Fund's long-term Investment Strategy meaning it is not sustainable and does not address all areas of being a Responsible Investor	F1, F4, F8, F9	Critical	Significant		1. Fund has in place Responsible Investment (RI) Strategy 2. RI Policy has 5 Strategic RI Priorities 3. WPP has RI policy in place	Critical	Low		😐	Current likelihood 1 too high	03/02/2020	Mar 2023	1 - Implement Strategic RI Priorities, including analysing the Fund's carbon Footprint, Analyse impact of Climate Change at a Strategic level. Identify sustainable investment opportunities and improve disclosure and reporting (DF)	Dep. Head of CPF	31/12/2020	01/09/2020

CLWYD PENSION FUND COMMITTEE

Date of Meeting	7 October 2020
Report Subject	Funding, Flightpath and Risk Management Framework Update
Report Author	Head of Clwyd Pension Fund

EXECUTIVE SUMMARY

- The estimated funding position at the end of August is 92%, which slightly behind the expected position from the 2019 actuarial valuation.
- The level of interest rate hedging remains at 20%. The inflation hedge was reduced in March 2020 from 40% to 20% due to concerns that the value of inflation-linked assets could fall as a result of the government's proposal to reform RPI to the lower CPIH measure. In September, the inflation hedge was rebalanced back to 40% to reduce this risk. It is estimated that the changes made to the inflation hedge ratio over the year has led to a £4m gain for the Fund.
- As at 31 August 2020, the synthetic equity strategy had made a gain of c. £36m since inception of the strategy in May 2018. This gain incorporates the impact of the synthetic equity currency hedge, described in further detail below.
- The currency risk associated with the market value of the synthetic equity strategy is hedged and has made a loss of £5.0m since inception on 8 March 2019 to 31 August 2020 due to the weakening of sterling over that period. Further, the Fund's overseas developed market physical equity holdings are currency hedged and has made a gain of c. £7.5m since inception of the strategy in August 2019 to 31 August 2020 due to the strengthening of sterling over that period. The level of currency hedging of the Fund's total equity portfolio remains at 75%.

RECOMMENDATIONS	
1	That the updated funding and hedging position for the Fund, and the progress being made on the various elements of the Risk Management Framework is noted.
2	That the impact of the equity protection strategy is noted.
3	That the impact of the currency hedging strategy is noted.

REPORT DETAILS

1.00	**FUNDING, FLIGHTPATH AND RISK MANAGEMENT STRUCTURE UPDATE**
1.01	***Update on funding and the flightpath framework*** The monthly summary report as at 31 August 2020 from Mercer on the funding position and an overview of the liability hedging mandate is attached in Appendix 1. It includes a "traffic light" of the key components of the Flightpath and hedging mandate with Insight. The report includes a reminder of the principle objectives of the framework. Some of the areas are being kept under review given current market volatility.
1.02	The estimated funding level is 92% with a deficit of £178m at 31 August 2020, which is slightly behind the expected position when measured relative to the 2019 valuation expected funding plan. Uncertainty continues to be prevalent in the investment environment due to ongoing external political and fiscal factors. To illustrate the impact, a reduction of 0.25% p.a. in the assumed future investment return/real discount rate would reduce the funding level by c. 4% to c. 88% with a corresponding increase in deficit of £95m to £273m. For the purposes of this report the funding position has been measured on consistent actuarial assumptions with the 2019 valuation.
1.03	None of the interest rate triggers have been breached since they were re-structured in September 2017.
1.04	The level of hedging was approximately 20% for interest rates and 40% for inflation at 31 August 2020. The hedging implemented to date provides access to a lower risk investment strategy but maintaining a sufficiently high real yield expectation to achieve the funding targets.
1.05	Based on data from Insight, our analysis shows that the management of the Insight mandate is rated as "green" meaning it is operating in line within the tolerances set by our strategic risk advisors. The Cash Plus Fund is rated "amber" following underperformance over the first half of the year as a result of increased credit spreads driven by the economic impact of the Covid-19 pandemic. Collateral is within the agreed constraints and the efficiency of the collateral position has been improved following the implementation of a collateral waterfall framework with Insight last year. Overall, the collateral waterfall has generated an additional £1.5m return since implementation at 31 January 2019 to 31 August 2020 versus the previous structure. No action required.
1.06	***Changes to the inflation hedge ratio*** The Fund chose to reduce the inflation hedge from 40% to 20% in early March 2020 given the risk that RPI reform could cause the valuation of RPI linked assets to fall.

	Due to the impact of the Covid-19 pandemic on consumer demand, inflation expectations fell materially and a number of market triggers to increase the inflation hedge ratio where hit in April and May taking the inflation hedge to c. 30%. There has been an unprecedented amount of central bank and government intervention to manage the crisis. At risk of being seen to be doing too little, policymakers are more likely to overshoot and do too much. As consumer demand starts to increase, this could lead to an increase in inflation expectations. Further, the prospect of a no-deal Brexit on the price of imported goods further adds to the risk of inflation rising. However, the RPI reform consultation announcement which was due in April 2020 has been delayed to Autumn 2020 with no fixed date provided as yet by the government. This still has the potential to reduce the value of RPI-linked assets if RPI is reformed to the lower CPIH measure. However, given what the current workload of the government, there is a chance that the consultation outcome is delayed further and this increases the chance of an inflation spike in the interim. On balance, it was determined that there was greater probability of inflation rising materially, offsetting the potential reduction due to RPI reform. To mitigate that risk, at the end of August, the inflation hedge was rebalanced back to the strategic 40% target outside of the automated trigger mechanism. It is estimated that the changes made to the inflation hedge ratio over the year has led to a £4m gain for the Fund
1.07	***Update on Risk Management framework*** (i) Synthetic equity protection strategy The Fund gains exposure to equity markets via derivatives and protects this exposure against potential falls in the equity markets via the use of an equity protection strategy. This provides further stability (or even a reduction) in employer deficit contributions (all other things equal) in the event of a significant equity market fall although it is recognised it will not protect the Fund in totality. It should be noted that, having an equity protection policy in place will protect from any large changes in equity markets. Importantly over the longer-term the increased security allows the Actuary to include less prudence in the Actuarial Valuation assumptions; this translated into lower deficit contributions at the 2019 valuation, whilst maintaining the equity exposure supports a lower cost of accrual than under traditional de-risking methods. The level of protection for the Fund was increased by 5% from 12 month average market levels of 15% to 10% last year, the cost of which will be offset by the Fund's participation in losses beyond 30%. Protecting for such extreme unlikely scenarios is proportionately expensive and not necessarily required by the Fund as it has the governance and implementation framework in place in order to act quickly and bank the returns from the protection in the event of an equity market drawdown.

	The strategy was tested during the midst of the Covid-19 pandemic, which saw equity markets fall substantially. Over March, markets fell by 15% whereas the protection strategy offset this impact to only 10%. Since then, markets have recovered materially. As at 31 August 2020, the synthetic equity strategy had increased by c. £36m since inception of the strategy in May 2018. Relative to simply investing in passive equities (and assuming no costs to do so), the strategy has underperformed by c. £41m since inception. The underperformance is largely driven by the sharp rally in equity markets causing the value of the protection to fall. However, this downside protection is still critical to the overall strategy of protecting against large falls in markets due to the ongoing economic uncertainty.
1.08	(ii) Implementation of currency hedging A strategic currency hedging policy was implemented in March 2019. By currency hedging the market value of the synthetic equity portfolio, and leaving the physical equity portfolio unhedged from a currency perspective, this policy achieved a c.50% currency hedged position of the overall equity portfolio. The strategic hedge ratio was based on analysis that indicated such a level minimised risk over the long term. The uncertainty surrounding Brexit has resulted in a significant depreciation of the pound. Whilst this has resulted in gains for the Fund due to the overseas equity exposure, currency risk remains a major risk to the Fund and a strengthening pound would have a detrimental impact on the Fund's deficit as overseas assets would be worth less in sterling terms. Whilst Brexit uncertainty continues, sterling has remained weak resulting in a loss on the strategy's currency hedge of c. £5.0m relative to an unhedged position as at 31 August 2020. In addition, the Fund implemented a currency hedge of 100% of the physical developed overseas equities in order to lock-in gains from the recent sterling weakness and reduce the risk of a materially strengthening pound. This was implemented in August 2019, and relative to currency rates at this point, sterling has strengthened. Since inception to 31 August 2020, the strategy has increased in value by £7.5m. The currency hedge ratio on the overall equity portfolio is approximately 75%.

2.00	**RESOURCE IMPLICATIONS**
2.01	None directly as a result of this report

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	None required

4.00	RISK MANAGEMENT
4.01	This report addresses some of the risks identified in the Fund's Risk Register. Specifically, this covers the following (either in whole or in part): • Governance risk: G2 • Funding and Investment risks: F1 - F6
4.02	The Flightpath Strategy manages/controls the interest rate and inflation rate impact on the liabilities of the Fund to give more stability of funding outcomes and employer contribution rates. The Equity option strategy will provide protection against market falls for the synthetic equity exposure via the Insight mandate only. The collateral waterfall framework is intended to increase the efficiency of the Fund's collateral, and generating additional yield in a low governance manner. Hedging the currency risk of the market value of the synthetic equity portfolio will protect the Fund against a strengthening pound which would be detrimental to the Fund's deficit. Hedging the currency risk of the developed market physical equity exposure will mitigate the risk of a strengthening pound as a result of Brexit uncertainty.

5.00	APPENDICES
5.01	Appendix 1 - Monthly monitoring report – August 2020

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	Report to Pension Fund Committee – Flightpath Strategy Proposals – 8 November 2016, Report to Pension Fund Committee – 2016 Actuarial Valuation and Funding/Flightpath Update – 27 September 2016 and Report to Pension Fund Committee – Funding and Flightpath Update – 22 March 2016.
6.02	Report to Pension Fund Committee – Overview of risk management framework – Previous monthly reports and more detailed quarterly overview. **Contact Officer:** Philip Latham, Head of Clwyd Pension **Telephone:** 01352 702264 **E-mail:** philip.latham@flintshire.gov.uk

7.00	GLOSSARY OF TERMS
7.01	(a) **The Fund – Clwyd Pension Fund** – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region. (b) **Administering Authority or Scheme Manager** – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund.

	(c) **The Committee – Clwyd Pension Fund Committee -** the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund. (d) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of (e) **FSS – Funding Strategy Statement** – the main document that outlines how we will manage employers contributions to the Fund (f) **Actuary -** A professional advisor, specialising in financial risk, who is appointed by Pension Funds to provide advice on financial related matters. In the LGPS, one of the Actuary's primary responsibilities is the setting of contribution rates payable by all participating employers as part of the actuarial valuation exercise. (g) **ISS – Investment Strategy Statement** The main document that outlines our strategy in relation to the investment of assets in the Clwyd Pension Fund Further terms are defined in the Glossary in the report in Appendix 1

MERCER

Risk management framework

Monthly monitoring report

31 August 2020

Clwyd Pension Fund

September 2020

Nick Page FIA CERA

welcome to brighter

Overriding Objectives

Stable and affordable contribution rate

Versus

Achieve returns in excess of CPI required under funding arrangements

Objectives are two-fold but conflicting

- Risk needs to be taken in order to achieve returns, but risk does not guarantee returns

Need to ensure a reasonable balance between the two objectives

- Do you need to take the same level of risk when 70% funded (say) as when 110% funded?

Executive summary – to quarter end 30 June 2020

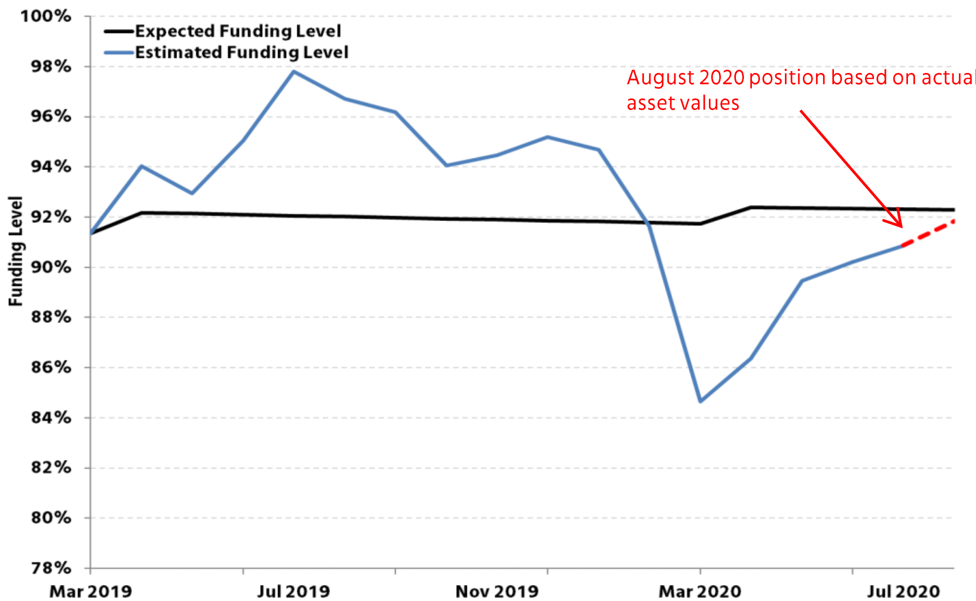
= as per or above expectations = to be kept under review = action required

To be kept under review	**Overall funding position** •Behind existing recovery plan following COVID-19 market volatility •Funding level below the first soft trigger	In absolute terms the funding position is slightly behind target. There is continuing uncertainty in the outlook for future returns which could impact on the future funding requirements.
As per or above expectations	**Liability hedging mandate** •Insight in compliance with investment guidelines •Outperformed the benchmark over the quarter and since inception •Hedge ratios in line with target levels following restructure	Reversed inflation trade in September ahead of fears of rising inflation. Not triggers breached in August.
To be kept under review	**Synthetic equity mandate** •Insight in compliance with investment guidelines •Underperformed the benchmark over the quarter	A dynamic protection structure was implemented in late May 2018. Refinements have been made in August 2019. No action required.
As per or above expectations	**Currency hedging** •Currency hedging overlay implemented in the QIF in August 2019. •As at 30 June 2020, the market value of the currency hedge since inception on 22 August 2019 was £-0.6m	No action required.
To be kept under review	**Cash Plus Funds, collateral and counterparty position** •The Cash Plus Fund has underperformed the benchmark since inception, but the collateral waterfall outperformed over the quarter. We will continue to monitor performance. •The Insight QIF can sustain at least a 0.6% rise in interest rates or 0.4% fall in inflation without eliminating all headroom.	Overall, the collateral waterfall has decreased by £1.2m at 30 June 2020 since implementation at 31 January 2019 versus the previous structure. The Fund has sufficient collateral to withstand this as at 30 June 2020. No action required.

Tudalen 473

Funding level monitoring to 31 August 2020

Estimated funding position since 31 March 2019



The positions allow for the results of the 2019 actuarial valuation.

Funding Level Triggers

It was concluded at the FRMG on 20 June 2017 that the funding level is not currently sufficiently high to warrant de-risking in a traditional sense via a change in long term strategy.

It was agreed that a "soft" trigger will be put in place to prompt FRMG discussions regarding potential actions as the funding level approaches 100% on the current funding basis. This funding level will be monitored approximately by Mercer on a daily basis.

Comments

The **black line** shows a projection of the *expected* funding level from the 31 March 2019 valuation based on the assumptions (and contributions) outlined as part of the 2019 actuarial valuation. The *expected* funding level at 31 August 2020 was just above 92%.

The **blue line** shows an estimate of the progression of the funding level from 31 March 2019 to 31 July 2020. The **red dashed line** shows the progression of the estimated funding level over August 2020. At 31 August 2020, we estimate the funding level and deficit to be:

92% (£178m*)

This shows that the Fund's position was the same as the expected funding level at 31 August 2020 on the current funding basis.

Uncertainty continues to be prevalent in the investment environment due to the potential economic impact of the COVID-19 pandemic. This could mean that the likelihood of achieving the assumed real returns going forward has fallen. To illustrate the impact, a reduction of 0.25% p.a. in the assumed future investment return/real discount rate would reduce the funding level by c.4% to c.88% with a corresponding increase in deficit of £95m to £273m.

This will be kept under review in light of changing market conditions and the economic outlook.

**Asset values based on assets provided by Mercer investment consultants as at 31 August 2020.*

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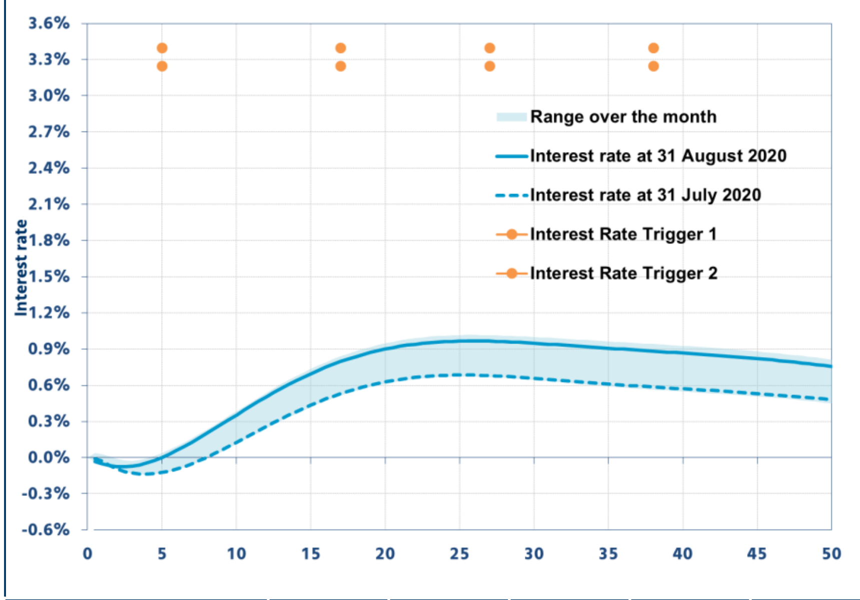
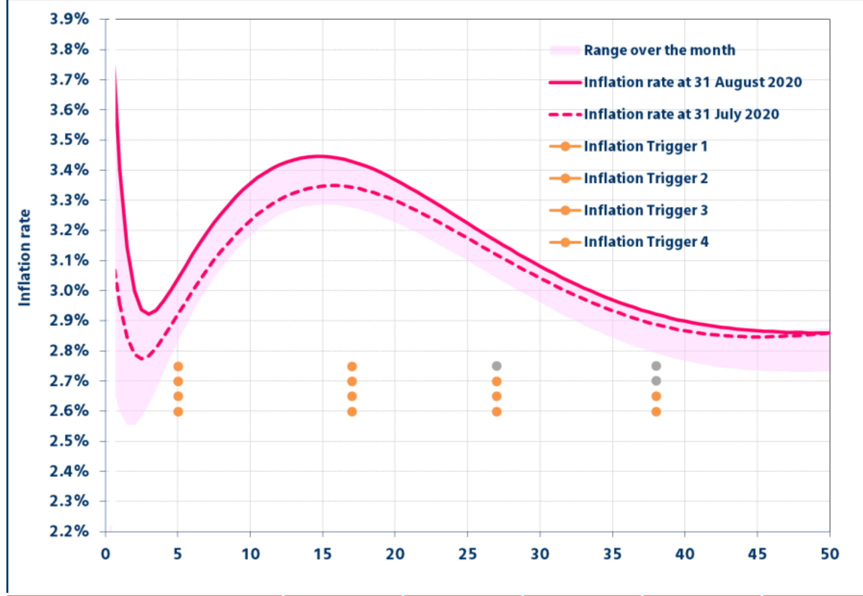
Update on market conditions and triggers

Change in interest rates



Date	Band 1	Band 2	Band 3	Band 4	Actual
30 June 2020	18.4%	18.1%	18.2%	15.9%	17.5%

Change in inflation rates (note: different scale)



Date	Band 1	Band 2	Band 3	Band 4	Actual
30 June 2020	36.3%	23.2%	27.5%	40.4%	32.5%

Comments

Over August, interest rates rose across the curve.

Based on market conditions as at 31 August 2020, yields would need to rise by c.2.3% p.a. before the Fund would hit any of the revised interest rate triggers implemented by Insight in Q3 2017.

Comments

Over August, inflation expectations rose across the curve, with larger increases at the shorter end. Grey triggers indicate those previously breached.

Trading took place over August and September to move to the new benchmark, which brings the portfolio back to a c.20% interest rate hedge ratio and c.40% inflation hedge ratio overall. This will be reflected in future reports.

**Hedge ratios calculated with reference to 2016 valuation cash flow analysis and relying on a discount rate of gilts + 2.0% p.a..*

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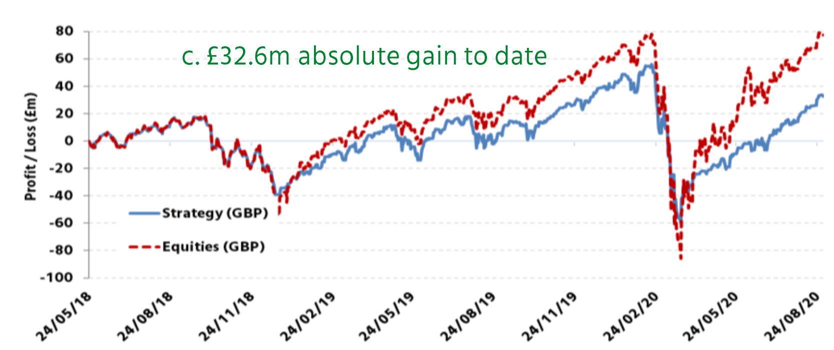
Tudalen 476

Update on equity protection mandate

Strategy versus equity index

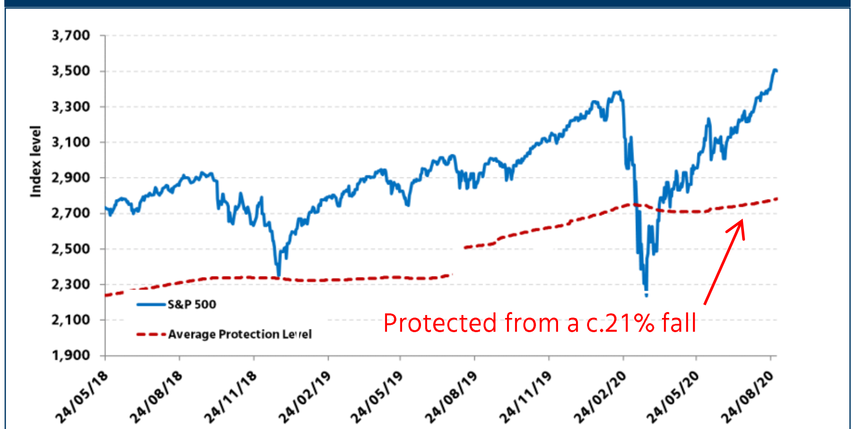


GBP returns	Equity return	Hedging return	Financing return	Costs	Overall return	Relative return
MTD	7.2%	(0.9%)	(1.3%)	0.1%	5.0%	(2.2%)
YTD	5.0%	(0.6%)	(5.3%)	0.4%	(1.3%)	(6.3%)
Since Inception	22.3%	(5.3%)	(6.8%)	1.1%	9.1%	(13.2%)

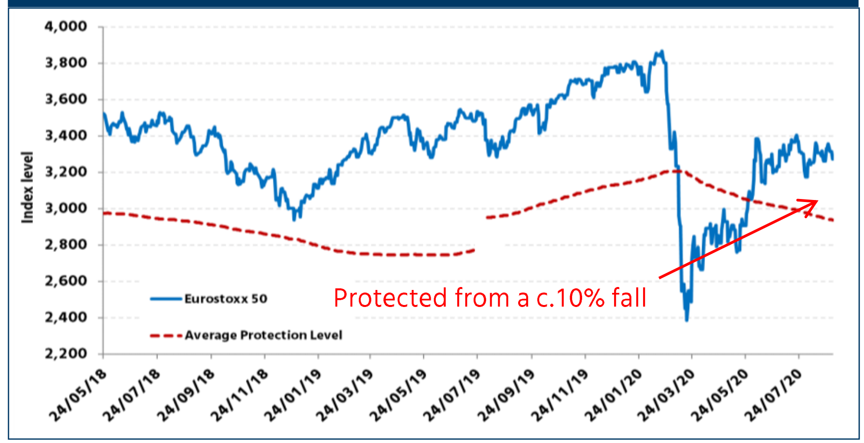
Comments

- The Fund implemented a dynamic equity protection strategy on 24 May 2018 with exposure of £362m. The equity protection strategy was revised at the beginning of August 2019, increasing the protection level by 5%. This increase is to ensure that the Fund is better protected in the event of a downside as the protection will kick in sooner. This has been funded by selling protection at extreme falls.
- Positive equity returns meant that the strategy exhibited a negative hedging return over all periods shown.
- As at 31 August 2020, there was a gain of c. £32.6m on the strategy since inception, relative to a c. £77.3m gain had the Fund invested in passive equities (with no frictional costs).
- From inception on 8 March 2019 to 31 August 2020 the currency hedge of the market value of the synthetic equity mandate has contributed a c. £5.0m loss relative to an unhedged position given the weakness in Sterling.

US equity exposure



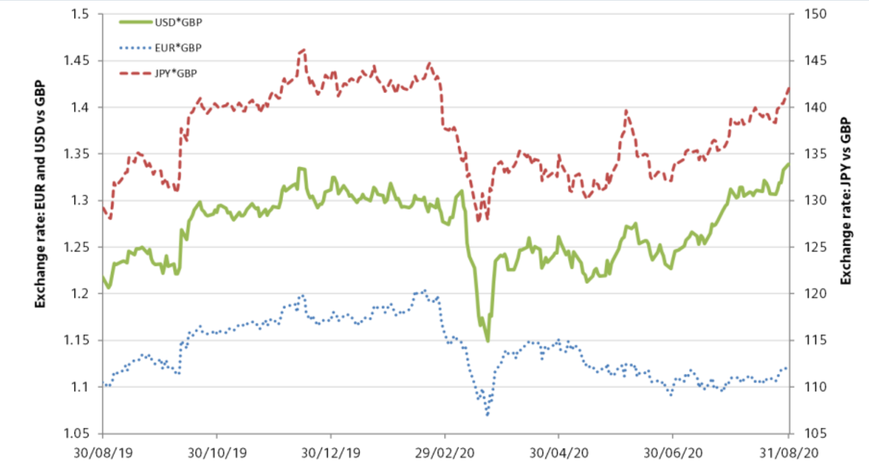
European equity exposure



Developed market physical equity currency hedge

Tudalen 477

Sterling denominated FX rate



Comments

- A currency hedge was placed on the physical, developed equity portfolio to lock-in gains from Sterling weakness and reduce currency risk.
- The hedge has been implemented via a currency overlay, using 3 month forward contracts, within the Insight QIAIF. The hedge is updated quarterly to allow for changes in the underlying equity exposure.
- As at 31 August 2020, the market value of the currency hedge since inception on 22 August 2019 was £7.5m.
- The market value has risen materially over the month as Sterling strengthened against the other major currencies, in particular the US dollar and Yen.

	Currency basket weight	FX performance (since inception*)	FX change in performance since 31 July 2020
EUR	12%	£0.4m	£0.2m
JPY	9%	£1.4m	£0.2m
USD	79%	£5.7m	£2.0m
	100%	**£7.5m**	**£2.4m**

*Insight transacted on the currency hedge on 22 August 2019.

Figures may not sum due to rounding.

Glossary

- Actuarial Valuation - The formal valuation assessment of the Fund detailing the solvency position and determining 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.
- Collateral – Liquid assets held by the Fund as security which may be used to offset the potential loss to a counterparty.
- Counterparty – Commonly an investment bank on the opposite side of a financial transaction (e.g. swaps).
- Deficit - The extent to which the value of the Fund's liabilities exceeds the value of the Fund's assets.
- Dynamic protection strategy – Strategy to provide downside protection from falls in equity markets where the protection levels vary depending on evolution of the market.
- Equity option – A financial contract in which the Fund can define the return it receives for movements in equity values.
- 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 level - The difference between the value of the Fund's assets and the value of the Fund's liabilities expressed as a percentage.
- Funding & Risk Management Group (FRMG) - A subgroup of Pension Fund officers and advisers set up to discuss and implement any changes to the Risk Management framework as delegated by the Committee. It is made up of the Clwyd Pension Fund Manager, Pension Finance Manager, Fund Actuary, Strategic Risk Adviser and Investment Advisor.
- Hedging - A strategy aiming to invest in low risk assets when asset yields are deemed attractive. Achieved by investing in government backed assets (or equivalent) with similar characteristics to the Fund future CPI linked benefit payments.
- Hedge ratio – The level of hedging in place in the range from 0% to 100%.
- Insight QIAIF (Insight Qualifying Investor Alternative Investment Fund) – An investment fund specifically designed for the Fund to allow Insight to manage the liability hedging and synthetic equity assets.

Important notices

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