

**Cronfa Bensiynau Clwyd**  
**Clwyd Pension Fund**

Gweinyddwyd gan  
Administered by



# CLWYD PENSION FUND

## ANNUAL REPORT 2020/2021

# Clwyd Pension Fund Annual Report 2020/21

## Contents Page

		PAGE
<b>Section 1</b>	Introduction To The Clwyd Pension Fund Annual Report 2020/21	3
<b>Section 2</b>	Summary by the Head of Clwyd Pension Fund	4
Appendix 1	Governance, Training and Risk Management	9
Appendix 2	Independent Advisor Annual Report	20
Appendix 3	Pension Board Annual Report	31
Appendix 4	Administration Report	38
Appendix 5	Funding and Flightpath Review	59
Appendix 6	Investment Policy and Performance Report	63
Appendix 7	Clwyd Pension Fund Statement of Accounts 2020/21	79
Appendix 8	Financial Report	122
<b>Section 3</b>	Annual Governance Statement	138
<b>Section 4</b>	Regulatory documents	143
Appendix 9	Governance Policy and Compliance Statement	144
Appendix 10	Funding Strategy Statement	170
Appendix 11	Investment Strategy Statement	219
Appendix 12	Communication Strategy Statement	246
<b>For best practice documents, please go to:</b>		
<a href="https://mss.clwydpensionfund.org.uk/home/investments-and-governance/">https://mss.clwydpensionfund.org.uk/home/investments-and-governance/</a>		
- Business Plan		
- Administration Strategy		
- Breaches Policy		
- Risk Policy		
- Conflicts of Interest Policy		
- Training Policy		

## **Section 1**

### **Introduction to the Clwyd Pension Fund Annual Report 2020/21**

Welcome to the Clwyd Pension Fund (the Fund) Annual Report for 2020/21.

The report covers in detail the activities of the Fund during 2020/21. This was no ordinary year and despite the challenges of business disruption, accelerated remote working for the team, and international financial market instability the Fund has continued to operate in a secure and efficient way. Our business continuity planning has come into its own and we have continued to meet the needs and expectations of our members and employers.

I am pleased to confirm that during the year the Fund achieved a full funding position ahead of timetable. This is an outstanding achievement. We will seek to consolidate and build on this position.

I would like to thank all those involved in the governance and management of the Fund for their continuing hard work and dedication, including the previous Chair of the Pension Committee, Aaron Shotton, who was in post until mid-year.

I do hope that you find the report interesting and informative.



Cllr Ted Palmer

Chair of the Clwyd Pension Fund Committee

## Section 2

### Summary by the Head of Clwyd Pension Fund

This section of the report highlights some of the main elements of this year's Annual Report, and explains how to use the report to find more information about the activities and performance of the Fund during the year, along with some of the challenges and risks which the Fund faces moving forward.

#### Governance, Training and Risk Management

Flintshire County Council is the Administering Authority for the Fund, and delegates responsibility for running the Fund to a Pension Fund Committee. The work of the Committee is supported by a Pensions Advisory Panel. In addition, a Pension Board, chaired by the Fund's Independent Advisor, assists the Committee in ensuring compliance with legislation and The Pension Regulator's requirements and ensuring efficient governance and administration of the Fund. Despite the impact of the COVID-19 pandemic, the Committee, Advisory Panel and Pension Board have continued to function effectively during 2020/21.

The Fund is required to produce an Annual Governance Statement which is Section 3 of this report.

The Fund's Knowledge and Skills Policy ensures that those charged with Governance including senior officers of the Fund have the appropriate knowledge and skills to ensure the Fund is appropriately managed. Attendance at training is recorded and monitored to ensure that the training is fully effective.

The risk landscape within which the Fund operates is complex and the risks which the Fund faces are often as a result of events outside the Fund's control. This was evident in the risks arising from the potential impact of the COVID-19 pandemic. The Fund has a well-established and effective approach to risk management, including maintaining a risk register which is regularly monitored and reported to those charged with governance.

Further details may be found in the Governance, Training and Risk Management Report which is Appendix 1 to this report. The Independent Advisor Report may be found at Appendix 2 and the Pension Board Annual Report at Appendix 3.

#### Funding

The position of the Fund has continued to improve during the year, and by the end of the financial year it was estimated to be fully funded, which is five years before the target date.

A key part of the Funding Strategy Statement is the Fund's Flightpath Strategy, which is designed to provide stability of funding and stability to employer contribution rates in the long term. This has been monitored and revised during the year to ensure its continuing effectiveness.

Future challenges in respect of funding include:

- maintaining the funding level
- monitoring the provisions already made in the funding position to accommodate the McCloud remedy
- the impact of the cost management review
- the impact of Guaranteed Minimum Pension (GMP) equalisation and indexation
- the impact of any revised exit cap proposals
- working with employers to manage risk and liabilities more effectively using the new flexibilities available in relation to the review of contributions and exiting the Fund

Further details of the funding position may be found in the Funding and Flightpath Review which is Appendix 5 to this report.

## Investment

Investment activity operates within the objectives defined by the Investment Strategy Statement. Each of these objectives reflects the Fund's desire to incorporate sustainability and act as a Responsible Investor in its investment approach.

During 2020/21 the Fund's investments returned 23.3% but this has to be seen in the context of the starting point which was affected by the negative impact of the onset of the COVID-19 pandemic in early 2020. However, the investments returned 7.1% per annum over the three years to March 31<sup>st</sup> 2021, compared to a benchmark of 7.7% per annum. The performance is well ahead of the assumption of growth in the Funding Strategy Statement which is Consumer Price Index plus 2.25%.

Key investment performers during the year were the Fund's allocation to equities (42.2%) and the Tactical Asset Allocation (21.6%), along with the cash and risk management allocation (52.4%), whilst the Fund's Private Market allocations returned 4.6%.

During the year the Fund continued to transfer funds to the Wales Pension Partnership in line with the direction of travel which will see more funds invested in the WPP investment structure over the coming years, which is seen as being more cost effective for the LGPS sector in Wales. In addition, the Fund has made a number of other movements of assets between fund managers and asset classes, in line with requirements of the Investment Strategy.

The Fund has progressed significantly on work relating to the Responsible Investment Priorities in the Investment Strategy Statement. The Fund has analysed its carbon footprint, undertaken detailed climate change scenario analysis and trained its Committee members to aid their understanding of Responsible Investment. In addition, it has deployed allocations into sustainable investments, some with direct local benefit, and engaged with asset managers in relation to Responsible Investment principles.

Further details of the investment activity may be found in the Investment Policy and Performance Report which is Appendix 6 to this report.

## Administration

The Administration and Communication Strategies frame the work of the Fund's Administration Team. The Administration Strategy was updated in March 2021, consolidating information previously held in employer Service Level Agreements. The Communications Strategy will be updated in 2021/22 and will reflect advances in technology to aid communications with stakeholders.

On a day to day basis, the Administration Team provides a service covering the calculation and payment of benefits, transfers in and out of the Fund, the maintenance of individual members' records and communications and advice to members and employers. During the year, nearly 30,000 cases involving all activities across the team were completed. During 2020/21 the Team has continued to deliver a high quality service despite the challenges posed by the impact of the COVID-19 pandemic.

In addition to this work, the Team has been working on a number of projects designed to improve the quality of the service provided to members and employers:

- developing and implementing a data improvement plan. Data Quality is improving and progress against the plan will continue to be monitored
- developing further Key Performance Indicators (KPIs) to help improve performance monitoring
- continuing the roll out of the i-Connect system, allowing employers to directly enter and update information to the Fund's database
- finalising work on the ongoing GMP rectification and reconciliation project
- improving accessibility to the Fund's website, and the quality of the website generally
- working closely with employers on compliance statements and through the Employer Liaison Team
- responding to the impact of the McCloud court case

The most recent member and employer surveys show levels of satisfaction with the delivery of the Administration service of around 90%. Registration by members for use of Member Self-Service increased during the year, and the system has been upgraded. By 31<sup>st</sup> March 2021 98% of member information was being updated by employers using the i-Connect system. The Fund continues to monitor performance using KPIs.

In addition to those mentioned above, the Administration Team faces a number of challenges going forward. Key amongst these are:

- involvement in the development of a new National Pensions Dashboard
- responding to possible changes resulting from the Cost Management Process
- the impact of indexation and equalisation of GMPs

Further details of the administration of the Fund may be found in the Administration Report which is Appendix 4 to this report.

## Finance

The total net assets of the Fund (excluding cash) at 31st March 2021 was £2,152m. Total contributions for the year from members and employees were around £85m, with benefits and other payments to members about £83m. Total management expenses paid by the Fund was about £22m, with an increase in the Funds market value and income of about £469m. The Fund continues to transition assets to WPP with the intention of saving costs and improving returns on investments, and this will continue in 2021/22.

The Fund continues to operate within its budget. Key variances against budget during the year were underspends on manager fees, actuarial fees, administration employee costs and outsourcing costs. Pooling fees were overspent as a result of spend on transition fees and transaction costs which were uncertain and therefore not included specifically in the budget.

Further details of the Fund's finances may be found in the Fund's Statement of Accounts which is Appendix 7 to this report, and the Financial Report which is Appendix 8.

## Other information

Four key strategy statements also form part of this report. They are the Governance and Compliance Statement (Appendix 9), the Funding Strategy Statement (Appendix 10), the Investment Strategy Statement (Appendix 11) and the Communication Strategy Statement (Appendix 12).

The following documents may also be found on the Fund's website at <https://mss.clwydpensionfund.org.uk/home/investments-and-governance/> :

- Business Plan
- Administration Strategy
- Breaches Policy
- Conflicts of Interest Policy
- Knowledge and Skills Policy

Overall, despite a challenging year, the Fund has improved both financially and with the service provided to our members and employers. We will seek to both consolidate and improve in 2021/22 in line with the Fund's Mission Statement.



Philip Latham

Head of Clwyd Pension Fund

## **Clwyd Pension Fund 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.



# Appendix 1

## 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.

The Fund has a number of governance related policies and strategies which outline how governance matters are managed. These are:

- Governance Policy and Compliance Statement
- Risk Policy
- Conflicts of Interest Policy
- Knowledge and Skills Policy
- Procedure for Recording and Reporting Breaches of the Law.

These can all be found in the Investments and Governance section of the Fund's website -

<https://mss.clwydpensionfund.org.uk/home/investments-and-governance/>

### Governance Structure

#### Background

To carry out the responsibilities relating to the management of Clwyd Pension Fund, Flintshire County Council as Administering Authority to the Fund, has established a formal Pension Fund Committee (the Committee), supported by a Pensions Advisory Panel (the Panel). The Committee includes both scheme member and employer representatives who have full voting rights. 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 timely decision making on urgent matters between meetings. It 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 agenda, reports and minutes for each Committee are available on the Flintshire County Council website – [www.flintshire.gov.uk](http://www.flintshire.gov.uk). The membership of both the Committee and the Panel are shown below.

Flintshire County Council has also established the Clwyd Pension Board (the Board). The role of the Board as defined in regulation is to assist in:

- securing compliance with legislation and the Pensions Regulator's requirements and
- ensuring effective and efficient governance and administration of the Fund.

The minutes of the Board's 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.

Further information about the Board can be found on the Fund's website - <https://mss.clwydpensionfund.org.uk/home/investments-and-governance/>

### Clwyd Pension Fund Committee

Committee Members		
Flintshire County Council	Cllr Ted Palmer (Chair)	Appointed Sept 2020
	Cllr Aaron Shotton (Chair)	To Sept 2020
	Cllr Haydn Bateman (Vice Chair)	
	Cllr Billy Mullin	Sept 2020 to May 2021
	Cllr Kevin Hughes	To Sept 2020
	Cllr Ralph Small	
	Cllr Tim Roberts	
	Cllr Dave Hughes	Appointed May 2021
Denbighshire County Council	Cllr Julian Thompson - Hill	Appointed Feb 2021
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 )	Karen McWilliam FCIPP

### Clwyd Pension Fund Board

Local Board Members			Voting Rights
Independent Chair	Karen McWilliam		X
Employer Representatives	Mark Owen	To June 2020	✓
	Steve Gadd	From July 2020	✓
	Steve Jackson		✓
Scheme Member	Phil Pumford		✓
Representatives	Elaine Williams		✓

## 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
Man Group	Riverbank House, 2 Swan Lane, 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 and Benefit Consultants: Mercer Ltd	Old Hall Street, Liverpool
Investment 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 Provider: Prudential	121 King's Road, Reading
AVC Provider: Utmost Life & Pensions	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 LGPS National Legal Services Framework .	

## 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

## Knowledge and Skills

### Clwyd Pension Fund Knowledge and Skills Policy

There is a growing need for LGPS Pension Committee members, Pension Board members and officers to have the knowledge and skills to ensure LGPS funds are appropriately managed, and decisions around the management of funds are robust and well based. This need is being emphasised in guidance including by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Pensions Regulator (TPR) as well as various elements of legislation.

The Fund has a well-developed Knowledge and Skills Policy which details the knowledge, skills and 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 how the relevant knowledge and skills are acquired and retained in accordance with the Fund's aspirations and national requirements. It aids 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 Knowledge and Skills Policy are included in the contents page of this Annual Report.

## Training Performance 2020/21

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. Due to restrictions on face to face events, Members were provided training where possible by virtual platforms. Some conferences were held virtually and many providers also hosted bite size training events which some of the Committee and Board chose to attend.

In order to monitor the knowledge and skills and identify whether we are meeting the objectives of the Knowledge and Skills Policy, we monitor and report on attendance at training events based on the following:

- a) Individual Training Needs – ensuring a training needs analysis is carried out at least once every two years which drives the content of the Fund's Training Plan.
- b) Hot Topic Training – attendance by at least 75% of the required Pension Fund Committee members, Pension Board members and senior officers at planned hot topic training sessions. This target may be focussed at a particular group of Pension Fund Committee members, Pension Board members or senior officers depending on the subject matter.
- c) General Awareness – each Pension Fund Committee member, Pension Board member or senior 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 of appointment.

Actual performance in 2020/21 was as follows:

- a) Individual Training Needs – The last training needs analysis was completed out in Spring 2020 which drove the training completed during 2020/21.
- b) Hot Topic Training - Of the 3 additional training sessions offered, the attendance of the 9 Committee Members was as follows:
 

– Low Carbon Equity	6 (67% attendance)
– McCloud	6 (67% attendance)
– Carbon Footprinting	5 (56% attendance)
– AJCM	6 (67% attendance)
- c) General Awareness – Out of the total of 13 Committee and Board members 10 (77%) completed at least one general awareness day in accordance with the policy.
- d) Induction Training – Induction sessions were completed in March, April and May 2021 for 4 new members (3 Committee and 1 Board). The sessions were delivered within six months of joining for all but 1 of the new members. Recordings of the sessions were made available for those not able to attend.

The following table details all the training provided to members of the Committee during 2020/21 to satisfy the requirements of the Knowledge and Skills Policy. This includes Committee meeting's 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.

Date		Cllr T Palmer	Cllr H Bateman	Cllr B Mullin	Cllr R Small	Cllr T Roberts	Cllr N Williams	Cllr J Thompson- Hill	A Rutherford	S Hibbert
	<b>Committees</b>									
May-20	Informal Committee Briefing	na	√		√	√	√	na	√	√
Oct-20		√	√	√	√	√		na	√	√
Nov-20		√	√	√	√					√
Feb-21		√	√	√	√	√	√	√	√	√
Mar-21		√	√	√	√	√	√		√	√
	<b>Key Areas of Competency (as per CIPFA framework)</b>									
Mar-21	Investments & Funding	√								
Mar-21	Governance	√			√			√		
Mar-21	Actuarial	√						√		
	<b>Additional Hot Topics</b>									
Jun-20	Low Carbon Equity	na	√		√		√	na	√	√
Aug-20	McCloud - Virtual	na	√		√	√		na	√	√
Aug-20	McCloud Impact for Employers	na								√
Nov-20	AJCM Governance, Admin, Investments RI	√	√	√	√			na	√	√
Nov-20	Carbon Foot Printing	√	√	√	√			na		√
	<b>Conferences</b>									
Dec-20	LAPFF									√
Jan-21	LGA Annual Conference								√	√
Mar-21	LGC March		√							√
Mar-21	PLSA									√
	<b>Wales Pension Partnership Training</b>									
Sep-20	WPP Engagement & Voting	√			√				√	
Oct-20	WPP RI Perf Metrics/ Alternative Asset Classes			√					√	√
Nov-20	WPP Progress of Pools/ Collaboration Opportunities	√		√					√	√
Feb-21	WPP Operator review and processes	√	√	√	√			√		√
Feb-21	WPP JGC Induction Training	√								
Mar-21	WPP Operator Oversight	√								

In addition, Committee and Board members are encouraged to attend other suitable events. The scheme member representative of the Committee attended a further 23 hours of training including Unison National LGPS Liaison Committee; PIRC (Pensions and Investment Research Consultants) - Stranded Assets and Net Carbon; Pensions and Lifetime Savings Association (PLSA) – ESG (Environmental, Social and Governance) COP26 and TCFD (both relating to climate change), and LGPS Management during COVID-19.

## 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), identifying the existing controls and identifying further controls 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.

### Significant Risks

Overall the next few years will continue to 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. The risks shown are those risks which, as at March 2021, were identified as amber i.e. with moderate consequences that are considered a possible occurrence, or higher, and where we were not meeting the target risk exposure.

Since then, the exposure to some of these risks has reduced, and this is highlighted where that is the case.

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 Description (if this happens)	Risk Overview (this will happen)	Risk Status at March 2021	Target Risk Status	Further Action
Externally led influence and change such scheme change (e.g. McCloud and £95k cap), national reorganisation, cybercrime, Covid-19 and asset pooling	The Fund's objectives/legal responsibilities are not met or are compromised - external factors	Reduced to amber		<ul style="list-style-type: none"> <li>1 - Regular ongoing monitoring by AP to consider if any action is necessary around asset pooling, cost cap and McCloud judgement</li> <li>2 - Ensure Board requests to JGC/OWG are responded to</li> <li>3 - Identify further actions to manage Cybercrime risk</li> <li>4 - Refresh and document business continuity assessments/procedures</li> </ul>
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	Services are not being delivered to meet legal and policy objectives			<ul style="list-style-type: none"> <li>1 - Recruit to vacant governance and business role</li> <li>2 - Ongoing consideration of succession planning</li> <li>3 - Continue training of new and newly promoted staff</li> </ul>



## Funding & Investment

Risk Description (if this happens)	Risk Overview (this will happen)	Current Risk Status	Target Risk Status	Further Action
Market factors impact on inflation and interest rates	Value of liabilities increase due to market yields/inflation moving out of line from actuarial assumptions			1 - Consider as part of Interim Valuation review
<p>1. 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</p> <p>2. WPP does not provide CPF with the tools to enable implementation of RI policies</p>	The Fund's long-term Investment Strategy could fail to deliver appropriate returns			<p>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</p> <p>2 - Work with WPP to ensure the Fund is able to implement effectively via the Pool</p>

## Administration & Communication

Risk Description (if this happens)	Risk Overview (this will happen)	Current Risk Status	Target Risk Status	Further Action
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)	Unable to meet legal and performance expectations (including inaccuracies and delays) due to employer issues			<ul style="list-style-type: none"> <li>1 - Ongoing roll out I-connect</li> <li>2 - Develop and roll out Assumed Pensionable Pay training - in house and employers</li> <li>3 - Identify other employer data issues and engage directly with employers on these</li> <li>4 - Developing monthly Key Performance Indicators (KPI)_reporting for employers</li> <li>5 - Reviewing approach to annual Service Level Agreement (SLA) communications with employers</li> </ul>
Big changes in employer numbers or scheme members or unexpected work increases (e.g. severance schemes or regulation changes including McCloud and £95k cap)	Unable to meet legal and performance expectations due to external factors	Reduced to amber		<ul style="list-style-type: none"> <li>1 - Ongoing consideration of resource levels post recruitment of new posts</li> <li>2 - Ongoing consideration of likely national changes and impact on resource</li> <li>3 - Ongoing consideration of £95k cap on processes etc</li> </ul>
Systems are not kept up to date or not utilised appropriately, or other processes inefficient (including McCloud and £95k)	High administration costs and/or errors			<ul style="list-style-type: none"> <li>1 - Ongoing roll out of iConnect</li> <li>2 - Ongoing identification of data issues and data improvement plan</li> <li>3 - Review of and update website</li> <li>4 - Review of success of new website/iConnect/member self-service</li> <li>5 - Carry out CPF tender for pension administration system</li> <li>6 - If delays in system upgrades, look for alternative solutions to administer regulatory changes</li> </ul>

Risk Description (if this happens)	Risk Overview (this will happen)	Current Risk Status	Target Risk Status	Further Action
System failure or unavailability, including as a result of cybercrime and Covid-19	Service provision is interrupted			1 - Ongoing checks relating to interface of recovery plan with non-pensions functions 2 - Develop business continuity policy for CPF 3 - Review of cybercrime risk controls

## Appendix 2

### Independent Adviser's Report - Annual Report of Karen McWilliam

This is my seventh annual report in my role as Independent Adviser to the Clwyd Pension Fund, focussing on the year 2020/21.

At a glance...

It's probably fair to say that 2020/21 has been unique in so many ways and challenging for most people mainly because of the COVID-19 pandemic. Given that, it is with pride that my annual report evidences how well the Clwyd Pension Fund officers, Committee and Board members have not only managed to maintain a high level of services for the Fund's stakeholders during the year, but also make significant progress in many other areas including:

- data collection required for the McCloud remedy of scheme members' benefits
- initial work on the Fund's new Responsible Investment priorities, not least analysis of the carbon exposure within the Fund's investment portfolio
- gaining a better understanding the Fund's resilience to cybercrime.

A significant amount has been achieved in extremely difficult circumstances, which is of great credit to all involved, and in my view the overall management and governance of the Fund continues to be in an extremely good position.

#### My role

My remit is to provide independent advice to the Clwyd Pension Fund (the Fund), predominantly on governance and administration matters. This includes reporting annually to stakeholders on whether the Administering Authority (Flintshire County 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 seventh annual report, and it sets out my views on the management and administration of the Fund and, in particular, how it has evolved during 2020/21 (April to March), but also touches on some developments that have taken place after March 2021. I also highlight some of

the ongoing challenges the Administering Authority will face both in the short term and in the longer term.

## Effective Governance



### Key Benefits

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

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

The approach I take in advising the Administering Authority 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, ensuring 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.

## 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

Continued to deliver a high quality service and hold effective Committee/Board meetings and training despite the COVID-19 pandemic.

Initial work on understanding Fund's cyber resilience and refreshing business continuity arrangements

The Fund went into 2020/21 in a strong position with governance arrangements that were well established and operating well including a Pension Board providing invaluable assistance and a proactive Advisory Panel.

Last year I commented on how successfully the officers of the Fund had adapted to remote working as a result of the **COVID-19 pandemic**. This had already led to changes within the processes of the Fund. This continued in 2020/21 and it was very pleasing to see how officers further adapted to the new ways of working - including the development of new more efficient processes to minimise any impact on scheme members and employers. At the Fund's annual joint consultative meeting in November, a poll was undertaken with the employers and other stakeholders present in which all who provided a view responded stated that the Clwyd Pension Fund team had performed the same (83%) or better (17%) during the COVID-19 pandemic.

It was already really pleasing to see that the Administering Authority has also continued to hold **effective virtual meetings** of the Committee, Board and Advisory Panel throughout the year allowing for good decision making despite the pandemic's challenges. Both Committee and

Board meetings have continued as planned during the year with good attendance, other than the June Committee meeting which was cancelled and replaced with an informal virtual meeting in May. There has also been a large amount of virtual training provided during this period which has been well attended by the Committee and Board members.

As I discussed in previous reports **stability in both the Committee and the Board** is very important to the effective decision making for the Fund. There were some changes to the Committee and the Board during the year and we were pleased to welcome:

- Councillor Ted Palmer as the new Chairman and Councillor Julian Thompson-Hill (Denbighshire County Council) to the Pension Fund Committee and
- Steve Gadd (Denbighshire County Council) to the Pension Board.

I was particularly pleased that all the new members had some previous involvement in Fund matters, which minimised any impact, and a robust training programme was put in place for the new members to bring them up to speed.

The officers of the Fund have also been carrying out further work on their **business continuity arrangements** and the Fund's **cyber-resilience**. These are both key areas of risk for the Fund, although there is obviously a strong reliance on Flintshire County Council as the Host Authority for the Fund. However as highlighted by The Pensions Regulator in its guidance to pension schemes, "*scheme managers are accountable for the security of scheme information and assets*" so it is important that:

- risks are properly understood and managed, and
- roles and responsibilities are clearly defined, assigned and understood by those responsible for the Clwyd Pension Fund.

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 challenging times such as with the pandemic, and due to changes in Committee members.
- **Attendance at Committee, Board and Advisory Panel** meetings and training events has been excellent throughout the year, despite the challenges presented by virtual meetings.
- The **Pension Board** continues to play an integral part in the governance of the Fund (recognising my role as Chair of the Board). The Board have produced a separate report (Appendix 3) 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 continue to be 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 before or 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 Fund matters including the areas of administration, investments and funding, and further measures are being developed as the Fund's strategies evolve (such as further administration key performance indicators and measures relating to carbon emissions relating to the Fund's assets). 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 Administering Authority 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 2020/21 to 2022/23 business plan was approved in March 2020 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 particularly during the pandemic.

My opinion is that the governance of Clwyd Pension Fund continues to compare extremely 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 Clwyd Pension Fund are engaged, committed to their roles and well trained.

### Looking to the future:

There are several matters relating to governance that I will be particularly interested in during 2021/22, most of which have been included in the Fund's ongoing business plan which was approved in March 2021:



- As mentioned previously, work has already commenced on updating the Fund's **business continuity arrangements** and on managing **cybercrime**. I look forward to seeing how this evolves so the appropriate assurances can be provided on an ongoing basis.
- **The McCloud remedy** programme of work will continue to be mainly 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 Clwyd Pension Fund governance structure. This will likely extend 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 Advisory Panel.
- There were two governance related national initiatives which were delayed last year but are expected 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, and **The Pension Regulator's (TPR's) New Code of Practice**, which will replace TPR's Public Service Code of Practice. Further, CIPFA is expected to issue updated versions of their **LGPS Knowledge and Skills Code and Framework** in early Summer 2021. 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 require wider governance compliance reporting and perhaps also an independent audit. On the face of it, I expect the Administering Authority to already be able to evidence most of the expected requirements for the Fund from these three initiatives.
- In recent years, there have been radical changes to the staffing structure of the Clwyd Pension Fund team, partly to improve reliance and to assist with **succession planning**. It will be useful to reflect on whether the objectives of these restructures are being achieved. I am also mindful that there continues to be a **vacant post within the Finance Team** which is critical to the overall governance and management of the Fund. There have been several unsuccessful attempts at recruiting to this post and I would stress the need to find a solution to this resourcing gap.
- The Chief Executive of Flintshire County Council, Colin Everett, will be leaving his position in 2021/22. As the Administrator of the Fund he has played an integral role in advising the Committee and as part of the Advisory Panel, particularly in relation to national matters and matters involving wider Council responsibilities. I have enjoyed working with Colin, wish him all the best for the future and look forward to working with the new Administrator.

- More generally, the next few years are clearly going to be difficult for LGPS administering authorities given the plethora of changes and initiatives mainly from Government. It will be critical that the Administering Authority proactively consider **resourcing** throughout this period to minimise impact on the services being provided to the Fund's stakeholders, whilst still proactively delivering and meeting expectations on these new initiatives.

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



### Key Achievements

- Good progress against Responsible Investment priorities
- Strong focus on governance of WPP including agreement to co-opted scheme member representative

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:

One of the key projects for 2020/21 was the implementation of the Fund's updated investment strategy, and particularly the **Responsible Investment priorities** that were agreed in February 2020. These priorities include areas 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.

Good progress is being made, particularly around better understanding of carbon exposure within the Fund. The Administering Authority are now considering implementing a net-zero target, and I welcome that there has been a lot of time focussed on this, including taking advice from the Fund's Investment Consultant, to ensure the Administering Authority continues to manage the Fund's assets whilst also striving to achieve appropriate standards in environmental, governance and social matters.

The **asset pooling in Wales** arrangements, through Wales Pensions Partnership (WPP) is now well established and assets from the Clwyd Pension Fund have continued to be transitioned across to WPP. It is clearly critical that Clwyd Pension Fund management and stakeholders have 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. I am pleased there continues to be stronger focus (than in previous years) on the

governance of WPP including a wide range of training. I am particularly delighted that, at last, WPP have agreed to the appointment of a co-opted scheme member representative to the Joint Governance Committee which I hope will provide greater confidence to LGPS scheme members throughout Wales. It is my understanding that the investment sub-funds that are being established are continuing to meet the requirements of the Clwyd Pension Fund, in that they are suitable alternatives to existing assets being held and they are aligned to the Fund's investment strategy including existing responsible investment objectives. I am aware that the dedication and commitment of Clwyd Pension Fund officers continues to be integral to the success of WPP as well as ensuring alignment with the Fund's strategies. I am also particularly pleased to see their involvement at a national level on various working groups and initiatives, bringing greater insight and expertise to the Administering Authority.

#### **Looking to the future:**

- From an investment perspective, implementing the Fund's **Responsible Investment priorities** will probably remain the most critical element of work over the next year. It is a complex area and the options may have a number of risks associated with them, but also opportunities. I am also mindful of the potential for pressure coming from other parties including carbon pressure groups, employers, trade unions and Government to align the Fund's investment strategy with their views or to invest in particular initiatives. It is critical these matters are well thought through with robust due diligence carried out as decisions are being made and thorough monitoring during and after implementation.
- It is also worth noting that the **WPP's Operator contract** with Link Fund Solutions is for an initial period of 5 years to December 2022, albeit with the option to extend for 2 years. As such a critical supplier to all Welsh LGPS Funds, this is a matter that will on my radar for the next few years.
- Another key project for this year will be the **Interim Funding Update and Funding Strategy Statement Policy update** ahead of the valuation as at 31 March 2022. From a governance point of view, I welcome these actions which will allow for discussions with employers about their contribution requirements as well as establishing the framework for the valuation in advance of the work being completed. I am mindful that many employers may be balancing tight budgets on the back of the pandemic and therefore timely discussions around changes to contributions rates will be welcomed by them.

## Administration and Communications



### Key Achievements

- Excellent initial progress made in the McCloud remedy programme
- Member self-service providing increased support for scheme members during the pandemic
- i-Connect employer functionality now covering almost all active scheme membership

Despite the challenges brought on by the pandemic there has been excellent progress made on the **McCloud remedy programme** undertaken by the Fund's Administration Team which is a major part of work for the Team and will continue for a number of years. By establishing a separate programme team the Administering Authority has been able to continue to make progress in this area with minimal disruption to the ongoing governance of the Fund. In my view the communications with employers has been excellent, and employer data to allow recalculations of benefits is now being received. This critical collection of data is expected to be mainly complete by the autumn of 2021. I have also been pleased to see regular reporting of the progress on this programme to the Committee, Board and Advisory Panel.

In relation to **day to day workloads and service standards**, 2020/21 was another busy year for the team with over 29,000 administration cases coming into the Pensions Administration Team, an increase of nearly 1,900 compared to 2019/20. Despite the challenges of the pandemic, they managed to complete over 29,800 cases, an increase of over 2,200 compared to 2019/20. Key performance indicators are monitored for the main processes including dealing with retirements, quotations of benefits, deaths and providing information to new scheme members. The overall percentage of cases completed within the service standard relating to internal timescales for the Administration Team fell just slightly compared to the previous year, with 77% completed within the agreed service standard. However, the two other measures which are arguably of greater importance demonstrated an increase in the number of cases meeting the service standard:

- Service standard relating to legal requirements – 76.2% (increase of over 3.5% on 2019/20)
- Service standard relating to overall process time – 61% (increase of nearly 6% on 2019/20).

The **Member Self-Service (MSS) facility** appears to have been invaluable to scheme members during the pandemic with a number of tasks being carried out on-line by scheme members. The number of users of the system has grown to 12,491 (36% of scheme members) as at 30 April 2020, which is a growth of over 1,700 members since early January 2020. As well as providing instant access to certain information and tasks for scheme members, this provides much greater efficiency for the Fund's Administration Team.

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. I am pleased that there has again been an improvement in the use of i-Connect. Currently 51 out of 54 employers are live on the system, meaning electronic data is being submitted monthly for 98% of active members, which is 4% improvement since last year. TPR actively encourages this form of data submission so I am delighted to see this system nearly fully rolled out across all employers.

Overall, my general opinion is that the Clwyd Pension Fund compares extremely 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 Pension Fund Committee's and Board's engagement on administration is also excellent.

### Looking to the future:

- The **McCloud remedy** is going to remain 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 work, it will need to be well controlled and resourced, with robust quality checks and efficiencies gained through bulk processing where at all possible. It is putting a strain on employers in providing data which will need to continue 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.
- Combined with the above will be work related **to implement survivor benefits changes which are also expected to be retrospectively introduced**. This will again largely be completed by the Administration team and so may put a strain on resources.
- Given these projects, the other area of key focus for the Administration Team is ensuring **day to day business as usual tasks** are not impacted.

## Final Thoughts

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

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## **Appendix 3**

### **Pension Board Annual Report**

#### **Introduction**

This is the sixth annual report of the Clwyd Pension Fund Board covering the financial year from 1 April 2020 to 31 March 2021.

#### **Role and Membership of the Clwyd Pension Fund Board**

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

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

Board members 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 2020/21 is as shown in the table below. Mark Owen, one of our Employer Representatives from Wrexham County Borough Council resigned from his role in June 2020 and we thank Mark for his outstanding contribution to the Board since it was established in 2015. Following a recruitment process Mark was replaced by Steve Gadd, the Head of Finance and Property at Denbighshire County Council, from July 2020 and we welcome Steve to the Board.

During 2020/21 we held three Pension Board meetings (in June 2020, November 2020 and February 2021), all of which were virtual. During the initial months of the pandemic, many Pension Board meetings at other LGPS administering authorities were cancelled but that was not the case for the Clwyd Pension Board. Attendance at the Board meetings during 2020/21 was as follows:

		June 2020	November 2020	February 2021
Mr Phil Pumford	Member Representative	x	√	√
Mrs Elaine Williams	Member Representative	√	√	√
Mr Steve Jackson	Employer Representative	√	√	X
Mr Mark Owen (to June 2020)	Employer Representative	√	N/A	N/A
Mr Steve Gadd (from July 2020)	Employer Representative	N/A	√	√
Mrs Karen McWilliam	Independent Chair	√	√	√

The meetings were also attended by the Board Secretary (the Head of Clwyd Pension Fund) and Pension Fund Officers who support the Pension Board.

As members of the Pension Board, we have all committed to meeting the requirements of the Clwyd Pension Fund's Training Policy which also ensures we meet the legal requirement to have the right level of knowledge and skills to carry out our Pension Board roles. We attended a range of events and training in 2020/21 to complement the induction training we undertake on appointment. In addition, we are invited to attend the Pension Fund Committee meetings and their training events.



Our full record of attendance at those meetings, training and events is shown below:

Event	Mark Owen	Steve Gadd	Steve Jackson	Phil Pumford	Elaine Williams
<b>Committees</b>					
Informal Briefing May 2020	✓			✓	✓
October 2020		✓			✓
November 2020					✓
February 2021				✓	✓
March 2021					
<b>CIPFA Framework</b>					
Governance		✓			
Investments & Funding		✓			
Actuarial		✓			✓
<b>Additional &amp; Hot Topics</b>					
Annual Joint Consultative Meeting		✓	✓		✓
Low Carbon Equity			✓		✓
McCloud		✓			✓
McCloud Impact on Employers			✓	✓	
WPP Engagement & Voting					✓
WPP Operator Review & Processes		✓			✓
<b>Conferences</b>					
Local Board Seminar Summer				✓	✓
LGA Annual Conference					✓

## What has the Pension Board done during 2020/21?

Our meetings include several standing items, including:

- latest Pension Fund 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.

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

- The impact of the **Covid-19 pandemic** on the Fund. At each of our meetings we heard from Pension Fund Officers how the pandemic and the response to it, had affected the day to day operations of the Fund including communications with scheme members and employers. Officers reported that there had been minimal disruption to business as usual from the move to home working due to the success of the Fund's business continuity and disaster recovery exercise (into which the Pension Board had previously input). Training of new recruits proved more challenging and staff absences were experienced, which at one point meant a small backlog in day to day business, but this was quickly addressed. We have been delighted with the resilience and exemplary efforts of the administration team throughout 2020/21 despite the challenges of the pandemic.
- The impact of the **McCloud Supreme Court judgement** on the workload of the Pensions Administration Team. We monitored this closely throughout the year with updates provided at separate McCloud Steering Group meetings since June, where we played an advisory role. We have been extremely pleased with the Fund's proactive and early engagement on this issue and the progress made to date in relation to project planning and data collection. We expect this to be a major project for the Fund throughout 2021/22 and 2022/23.
- Assessing compliance with **The Pensions Regulator's (TPR's) Public Service Code of Practice**. During the year the Board reviewed the annual assessment of the Fund against the Code. We noted the positive improvement in that there are now no non-compliant areas. The Board worked through the amber (partially compliant) items in detail with Pension Fund Officers during the November meeting. We also acknowledge the expected changes in this area with a new combined Code expected later in 2021 which will replace the existing Public Service Code of Practice.
- We engaged with Pension Fund Officers on the **Data Improvement Plan**. We were pleased to note that the common and scheme specific data scores had both improved and that there were five fewer categories on this year's data improvement plan. We discussed the need for bulk address tracing exercises and received assurance that this is being

considered as part of regular exercises. We were however disappointed by the letter received from GAD around the valuation data which we felt was not a fair reflection of the quality of the Fund's data.

- We continue to look for assurance on the management of **cybercrime risk** for the Fund's stakeholders given the continually changing environment and added vulnerabilities posed by increased home working and reliance on electronic communication. At the February meeting we received an update on the progress on the supplier questionnaires, with a report being developed on the findings. We also received an update on the data and asset mapping and discussed how this helps identify areas of focus and the risk to the Fund from external threats. We also agreed to add cybercrime as a routine standard agenda item.
- We received regular updates on the progress of **asset pooling** through the Wales Pensions Partnership (WPP). Our focus remains on the governance of WPP and during the year we have closely monitored activity in this area including the development of key policies and the WPP's Business Plan. It was noted at the November meeting that WPP seemed to be in a better place than in November 2019. We welcomed the ongoing meeting between the Welsh Pension Board Chairs, fund officers, the Pool operators and the Host Authority (albeit one of these was cancelled as result of the pandemic) and we also welcomed the agreement to introduce a scheme member representative to the membership of the Joint Governance Committee of WPP.
- The Board continued to monitor **topical developments** and have taken a close interest in a number of areas during the year including the progress on Phase 3 of the Scheme Advisory Board's Good Governance Project, the introduction and subsequent revocation of the exit cap, GMP equalisation and pension scams.

The Pension Board's budget and final spend for 2020/21 are summarised below:

Item	Budget 2020/21	Actual 2020/21	Variance
	£	£	£
Allowances and Expenses	2,850	1,287	(1,563)
Training	18,584	35,203	16,619
Advisor Fees	62,145	65,470	3,325
Other Costs	4,280	4,080	(200)
<b>Total</b>	<b>87,859</b>	<b>106,040</b>	<b>18,181</b>

## What will the Pension Board do in the future (in particular in 2021/22)?

We have a number of items on our forward plan for 2021/22, 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 Pension Board is 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 Pension Fund services for scheme members and employers.
- Consideration of how the Fund is managing the risk of pension scams when scheme members are transferring their accrued benefits to other pension arrangements.
- Review of audit reports.
- Considering the results of a survey with Committee members to assess the effectiveness of the Fund's governance arrangements.
- Ongoing further consideration of several of the areas noted above, including:
  - Business Continuity assessment and documentation through the Fund's Business Continuity Plan.
  - Cybercrime and the resilience of the Fund's systems (noting cyber has now been added as a standing item for future agendas).
  - Reviewing the Fund's compliance against TPR's new Code (albeit this may go into 2022/23 depending on when the final Code is issued).
  - Continuous monitoring of both the administration team and finance and governance team resources, and monitoring how current resources are continuing to improve performance against service standards and Key Performance Indicators.

A budget for 2021/22 has been agreed as follows:

Item	£
Allowances and Expenses	2,034
Training	19,634
Advisor Fees	64,915
Other Costs	4,700
<b>Total</b>	<b>91,283</b>

## Conclusion and final comments

In our view 2020/21 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 Pension Fund 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

Steve Gadd, Employer Representative

Karen McWilliam, Independent Chair

**Clwyd Pension Fund Board**

**E-mail address – [PensionBoard@flintshire.gov.uk](mailto:PensionBoard@flintshire.gov.uk)**

## **Appendix 4**

### **Administration Report**

#### **Introduction**

This report describes the way in which the Fund delivers its administration related 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 membership of the Scheme.

The work of the Administration Team is driven by the Fund's Administration and Communications Strategies.

Our Pensions Administration Strategy ensures that both the Fund 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. This Strategy was last reviewed and updated in March 2021, and now encompasses all information that was previously found in the employers' Service Level Agreements. This negates the need for separate agreements moving forward. All employers and the Clwyd Pension Fund Administration Team work towards adhering to the Pensions Administration Strategy instead.

Our Communication Strategy was last updated in 2019. The policy outlines the type of communications the Fund would like to provide to scheme members, scheme employers and prospective scheme employers, the Clwyd Pension Fund Committee (the Committee), the Clwyd Pension Fund Board (the 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. This strategy will be reviewed and updated in 2021/22 to take into account the different communication methods that we have had to adopt due to COVID-19.

The Communication Strategy and Pensions Administration Strategy are available to view on the Fund's website.

<https://mss.clwydpensionfund.org.uk/home/investments-and-governance>

## 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 42.1 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
- an Employer Liaison Team (ELT)
- a McCloud Team (temporary project team)

It is separate from the Finance Team which manages the Fund's investment portfolio, collects pension contributions from employers and maintains the Fund's accounts.

The Operational Team delivers a pensions service for over 49,500 scheme members. This includes the calculation of various benefits, transfers in and out with other pension arrangements, refunds of contributions and maintenance of individual scheme member records. The Team not only calculate pensions for members but also survivor benefits to spouses, civil and cohabiting partners and children.

The Technical Team implements and maintains the pension software systems (including the on-line facilities of Member Self-Service, and I-Connect for employer data uploads), collects and reconciles member data from all Fund employers and provides a pensioner payroll service for over 15,000 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 and Communications Team provides guidance on regulatory matters to all stakeholders and a communication service for Scheme members and employers.

## COVID-19 Update

The coronavirus pandemic forced staff members to work from home from March 2020 and to make changes to processes ensuring service delivery was maintained. The impact of Covid-19 from a stakeholder experience has been minimal. The main changes have been in relation to incoming/outgoing post. Processes have been adapted to ensure continuity in this area. Staff members have continued to work from home during the pandemic remaining contactable with interviews, training sessions and meetings taking place via virtual methods. Productivity levels have remained consistent and in some areas improved. Regular meetings have taken place to

give staff members the opportunity to catch up with each other and a continued focus for the management team is ensuring well-being of all staff members.

## Summary of Activity

In addition to this day to day work during 2020/2021 the Pension Administration Team has been managing other major pieces of work and projects as described below.

## 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) has oversight of this area within the LGPS. The Administration Team collectively developed a data improvement plan for 2020/21 in readiness for the annual review of common and scheme specific data which is reported to TPR. The results of the time and effort that is dedicated to ensuring good data quality has led to improved common and scheme specific data scores over recent years (see table below). This includes the successful on-boarding of a number of our employers onto i-Connect. The on-boarding process has been a collective effort with employers ensuring correct data is received on a monthly basis which has positively impacted the TPR scores. The Fund Actuary has also reduced the allowance in the liabilities, for unresolved data issues, by £4m following the work completed during the 2020 data cleansing exercise. The data improvement plan for 2021/22 has been presented to the Pension Board and progress against plan will be monitored through the year.

	Common Data %*	Scheme Specific Data %*
2019 / 2020	97.4	97.2
2018 / 2019	96.8	92.7
2017 / 2018	92.7	68.2

\*The score is the % of data that has met specific targets set by TPR in relation to Common Data (NINO, Name, Address etc) and Scheme Specific Data (Member benefits, Member details, Her Majesty's Revenue and Customs (HMRC) details etc). The score is reported back to TPR and a data improvement plan is put in place to improve scores in addition to any other action determined by the regulator.

## KPI Monitoring

The Fund measures and reports monthly performance in order to ensure timescales are being met, as set out in the Fund's Administration Strategy. The Fund currently measures seven categories of workflow, separately considering timescales in relation to legal requirements, the 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 integrated a further six categories of workflow to monitor against as part of the monthly KPI monitoring and reporting against these will commence in 2021/22.

The review also highlighted the impact that timely provision of data from employers can have on the Fund's capability to meet timescales. New functionality was developed last year to identify when employers have or have not met their Service Level Agreement (SLA) timescales and this is being rolled out to all employers in 2021/22. This measure will help the Fund and employers understand what is being achieved and also where improvements are required.

## **i-Connect**

In 2020/21 the Fund continued to roll-out, to its employers, the electronic data system i-Connect. i-Connect ensures timely and more accurate data is provided to the Fund and replaces the requirement for employers to submit a year end return. The functionality includes the notification of new starters, leavers, name changes, address changes and job changes. The system allows member details extracted from their employer's payroll systems to be directly uploaded to the Funds pension's administration system on a monthly basis. Further employers were subscribed onto i-Connect in 2020/21 and currently, we have 50 out of 52 employers submitting data relating to active members using i-Connect which is 98% of membership. The Fund is aiming to achieve 100% by the end of 2021. The Fund provides training to all new employers to ensure they supply their data through i-Connect, and the use of the functionality is now a requirement as part of the Fund's Administration Strategy.

## **Guaranteed Minimum Pension (GMP) Reconciliation**

A key area of work for the Fund during 2020/21 was finalising the GMP reconciliation project. This relates to the fact that the Government removed the status of contracted-out (of the State Second Pension) 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 received confirmation of the GMP amount on retirement from HMRC. 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 is on individual pension schemes to ensure that the contracting out and GMP data they hold on their systems reconciles with the data held by HMRC. HMRC has not provided this service since April 2019.

Initial work identified that there were significant discrepancies between the sets of data held by HMRC and the Fund. This was not unexpected and was the case with many pension schemes carrying out the GMP reconciliation exercise. A significant amount of work was undertaken to determine the correct GMP and contracting out data, ensure all systems were updated, and calculate and process any benefits in payment that have been impacted.

## Clwyd Pension Fund Website

The Clwyd Pension Fund website contains information about the Fund and the Scheme for both current and prospective members along with information for Fund Employers. The website address is [www.mss.clwydpensionfund.org.uk](http://www.mss.clwydpensionfund.org.uk)

Within the website (which includes access to the Member Self Service portal) 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 the Fund's policies and strategies as well as information on the investments of the Fund are also available.

Due to the introduction of website accessibility regulations, public sector websites are required 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. Accessibility should also be considered for those visiting websites via a tablet, mobile phone or other device. To ensure our compliance with these regulations, the Fund has now started a working relationship with a company who provide reporting software which allows each page on the Fund's website to be automatically trawled on a weekly basis. This weekly report shows our scores in relation to certain areas within website accessibility:

- Digital Certainty Index
- Quality Assurance
- Accessibility
- Search Engine Optimisation

The reports allow us to see where our scores can be improved and where areas of the website need to be amended or fixed in order to be compliant.

The table below shows the initial scores compared to the latest available at year end. This highlights the improvements up to that point.

	28/12/2020	31/03/2021
Digital Certainty Index	71.5%	92.1%
Quality Assurance	69.6%	98.0%
Accessibility	64.2%	97.3%
Search Engine Optimisation	80.8%	81.0%

In addition to this, the Fund has recruited a Lead Website and Technical Development Officer. This staff member has the necessary I.T skills and expertise to ensure that our website follows

the Web Content Accessibility Guidelines (WCAG 2.1). The work to ensure that our website is compliant is ongoing. However, with the addition of the new staff member and the Site-improve reporting tool, we are in a good position to make sure our website is of the best standard possible.

## **Member 1-2-1 Sessions**

Due to COVID-19, 2020/21's member 1-2-1 sessions were held virtually. These were a mixture of video calls and telephone calls. The sessions ran from October 2020 through to January 2021. The Communications Team met with 165 members across 11 employers, covering a mixture of active and deferred member records. The Fund has received positive feedback from members in relation to the alternative virtual sessions. The Communications Team will be continuing to offer this service to our members moving forward. The 1-2-1 sessions will continue to be an annual event.

## **Employer Compliance Statement**

The Employer Compliance Statement (ECS) is an additional checklist for employers to complete when supplying data to the Fund. The statements continue to be used since their introduction in 2019. This is to ensure employers have clarification on their responsibility for supplying correct and verified member data.

## **Employer Liaison Team Services**

In 2020/21 the Employer Liaison Team made significant progress with the on-boarding of two employers onto the i-Connect software provided by Clwyd Pension Fund. It has worked closely with the employers to successfully perform the data cleansing exercise in preparation for the on-boarding and further assisted in the development of the extract to include the elements of information required in each file upload. This was a significant piece of work and involved the expertise of the Clwyd Pension Fund Technical Team and the Employer's payroll software providers. This has achieved monthly data collection through i-Connect for more than 10,000 scheme members. The ELT now uploads the monthly i-Connect files for all ELT employers.

The ELT has assisted its employers in several other areas during 2020/21. This includes ongoing correction projects and additional support during a period of staff changes with the supply of

additional pension information in order to help the employers manage change in their organisation.

The current ELT employers have each enlisted the assistance of the team in order to achieve the obligations required by the McCloud remedy. The team will assist in various areas for each employer in order to achieve the required outcome within the given timescales.

The ELT continues to engage with Fund Employers who may require its assistance in order to meet their employer obligations for both day to day notifications and any project work required as a result of regulatory changes or correction work.

## **McCloud Remedy 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 Ministry of Housing, Communities and Local Government (MHCLG) issued a consultation setting out its proposals for implementing the McCloud judgement in the LGPS in July 2020. This focused on remedies which will result in changes to scheme benefits some of which will be retrospective.

Due to the significance of this work, at the beginning of 2020/21 the Fund established a formal programme to ensure it is delivered successfully. A dedicated McCloud team has been created as it is the intention that as much of the work as possible relating to this programme will be carried out internally within the Fund's Administration Team. It was also agreed that Mercer will provide ongoing actuarial and benefit advice and programme management will be provided by Aon.

The programme focused on data collection from employers during 2020/21 and continues to do so. It is necessary to gather certain elements of data such as part-time hours back to 2014. This is a substantial amount of work for the employers to produce the data. From a Fund perspective this is also significant to ensure the data is validated and then uploaded into the administration system. There are regular meetings to ensure the programme remains within timescales and a separate risk register has been developed and is reviewed regularly.

## **Other Expected National Changes**

### **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. Detailed requirements of what must be provided, when and how, will be set out in regulations. As a part of the working group the Pension Administration Manager can ensure the Fund is up to date with developments and plan testing throughout 2021/22 as schemes are expected to have their data dashboard ready from 2023.

### **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. The cost management process was paused following the McCloud judgement, but has since been "unpaused" by HMT during 2020 (and in due course the separate LGPS cost cap process will also be unpaused).

### **Indexation and Equalisation of GMPs**

A recent court case determined that it is necessary to revisit pension benefits for scheme members who have accrued GMPs to ensure the equal treatment between men and women. This was (in the main) pre-empted by the LGPS and a consultation on indexation and equalisation of GMPs has determined that the current position that has been used to deal with indexation up to 5 December 2018 has been extended to cover those members with a GMP who reach state pension age between 6 December 2018 and 5 April 2021. For all those members full indexation will be applied to their full pension value regardless of whether there is a GMP element to it. Alternative options of conversion, case by case, and continuation of full indexation have been considered and further guidance will be provided to LGPS Funds following the latest consultation in December 2020, which could include extending the temporary solution of full indexation beyond April 2021.

## 2020/21 key performance and other information

### Member and Employer Feedback 2020/2021

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 2021 are shown in the tables below:

#### Member survey results:

2021: 425 posted / 10 responses (2.4%) 2021: 15,606 emails sent / 691 responses (4.4%) Do you agree that the Clwyd Pension Fund...		KPI > Agree	Strongly Agree / Agree	Neither Agree Nor Disagree	Strongly Disagree / Disagree
Administration	...offers documentation, guidance and information in a professional manner?	90%	84%	13%	3%
	...is proactive in their approach to provide a service to members?		73%	22%	5%
	... gives an appropriately timed service with regular updates?		73%	20%	7%
	...is customer focused and meets the needs of its members		70%	23%	7%
	...has provided a high quality service throughout your membership?		77%	15%	8%
Communications	...promotes the scheme as a valuable benefit and provide sufficient information so you can make informed decisions about your benefits?		68%	25%	7%
	...communicate in a clear and concise manner?		76%	16%	8%
	...use the most appropriate means of communication?		77%	15%	8%

## Some Member Survey comments:

*I took early retirement at the start of the pandemic and the service provided was spot on. I am looking forward to the next catch up newsletter, issued hopefully in the spring.*

*Never had an issue with my pension or its contribution since 1966. Kind regards to all*

*Self-service has been a huge improvement and gives peace of mind.*

*I have always found that if I have a question to ask, you have always been helpful and do what you say you will do.*

## Employer Survey Results

2021: 123 surveys emailed (1 reminder sent) 16 responses received (13.0%) Do you agree that the Clwyd Pension Fund...		KPI > Agree	Strongly Agree/ Agree	Neither Agree Nor Disagree	Strongly Disagree/ Disagree
(Non-ELT) Employer Survey	...offers documentation, guidance and information in a professional manner?	90%	100%	0%	0%
	...is proactive in their approach to provide a service to employers?		100%	0%	0%
	...gives an appropriately timed service with regular updates?		100%	0%	0%
	...is customer focused and meets the needs of its employers?		100%	0%	0%
	...has provided a high quality service to you in your role as employer?		100%	0%	0%
	... ensures you are aware of your LGPS employer related roles and responsibilities for the administration of the Clwyd Pension Fund?		100%	0%	0%
	... communicates in a clear and concise manner?		94%	6%	0%
	... uses the most appropriate means of communication?		100%	0%	0%

## Member Self-Service (MSS)

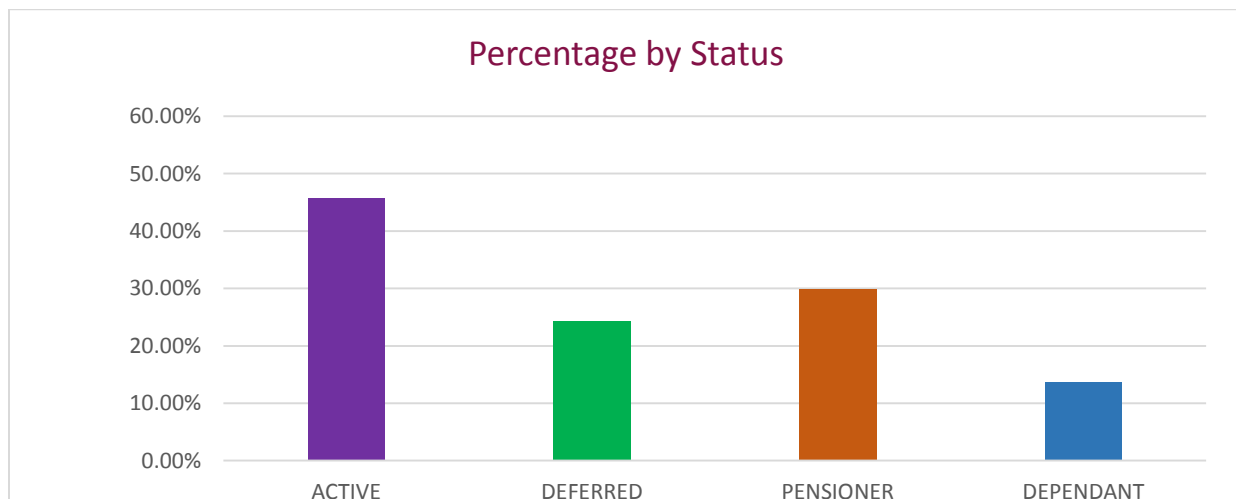
MSS allows scheme members to log into a secure web area to view the information which is held on their pension account.

MSS enables our members to:

- update their personal details
- run estimates for retirement using their chosen retirement dates
- amend their death grant beneficiaries,
- view all member specific documents, and
- upload completed forms for Clwyd Pension Fund to process

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

As at 31<sup>st</sup> March 2021, 36.13% of Clwyd Pension Fund's membership had registered for MSS. This can be broken down into the different membership status types as seen in the graph below:



To compare, as at 31<sup>st</sup> March 2020, 33.18% of Clwyd Pension Fund's membership had registered for MSS. This means that the registration uptake has increased by 2.95% during this period.

MSS has been an effective method of communication during COVID-19 when our Pensions Administration Team were remote working. It allowed the upload of such documents as retirement packs and estimates to members' MSS accounts. It also has meant that members

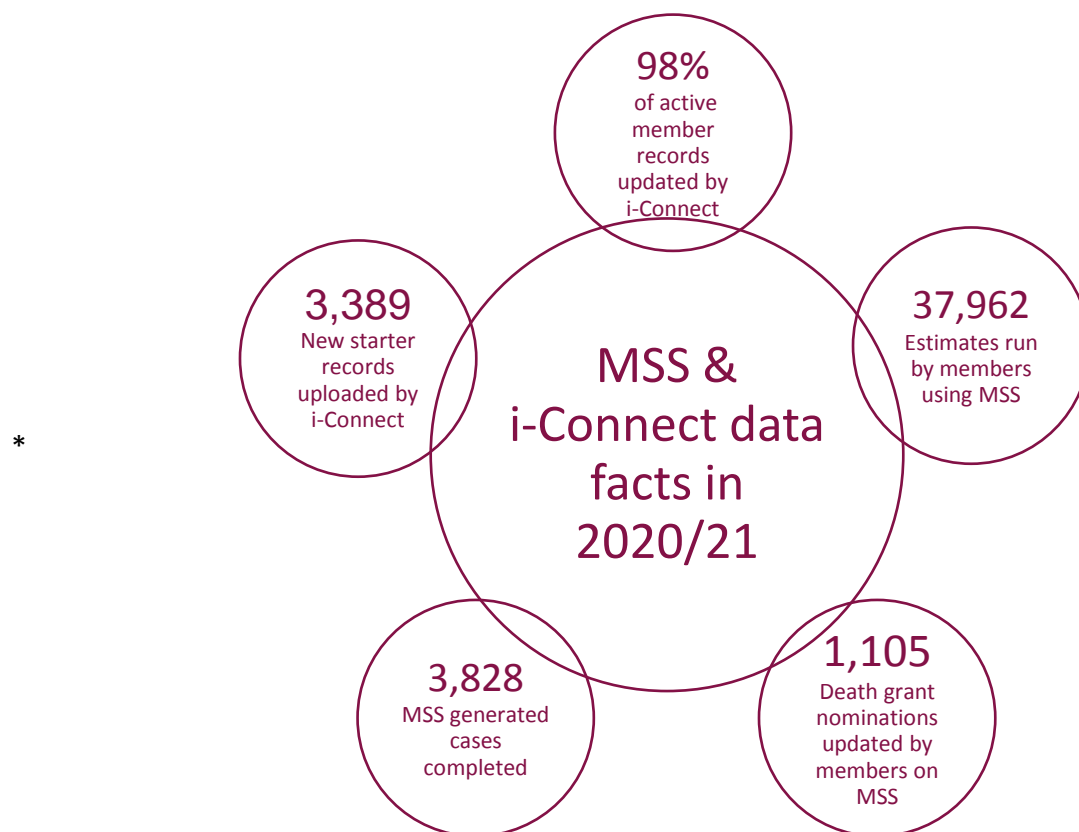


have been able to access their information more quickly rather than waiting to receive documents in the post. Members have also been able to upload completed forms to their MSS accounts for the Fund to then progress payment of their benefits.

An upgrade to the MSS system in September 2020 now means that deferred members can request an estimate from the Fund by clicking a 'Begin Payment Request' button. This facility negates the need for the member to write or email requesting the estimate. It makes the process more efficient and user friendly.

Since the recruitment of our new Lead Website and Technical Development Officer in February 2021, he will be working alongside the Communications Team to amend and upload our website content and continue to make MSS more streamlined.

### MSS and I-Connect Statistics



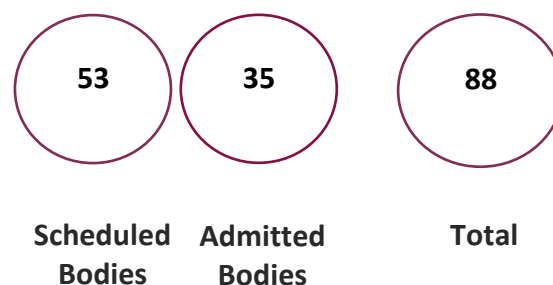
## Scheme Membership details

Details of the number and type of employers and of new pensioners during 2020/2021 and member trends may be seen below.

Full time equivalent staff in the Pension Administration Team 33.1	Total Fund members 49,854	Ratio of staff to members of Fund 1:1506	Average cases completed per member of staff 902
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## Summary of Employers as at 31<sup>st</sup> March 2021

Employers	Active	Ceased	Total
Scheduled bodies	33	20	53
Admitted bodies	19	16	35
<b>Total</b>	52*	36	88



\*excluding Councillors

## 2020/2021 New Pensioners

Retirement Type	Number of Cases
Ill Health	25
Early	418
Normal Retirement Age (NRA)	24
Late	120
Redundancy/Efficiency	27
Flexible	21
Trivial Commutation	62
<b>Total</b>	<b>697</b>

## Member Trends:

Year	Contributors	Deferred Members (Including Undecided & Frozen refunds)	Pensioners	Dependent Pensioners	No. of Redundancy & Efficiency Enhanced Benefits	No. of Ill Health Enhanced Benefits (tier 1 only)
2017/18	16,543	17,822	10,596	1,700	63 Members	34 Members
2018/19	16,528	18,573	11,249	1,732	64 Members	15 Members
2019/20	17,211	17,745	12,751	1,988	54 Members	18 Members
2020/21	17,542	17,275	12,996	2,041	43 Members	21 Members

## Analysis of Pension Overpayments and Write Offs

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

Overpayments relating to the GMP reconciliation exercise are not included in these figures.

	2020/21		2019/20		2018/19		2017/18	
	Amount	Cases	Amount	Cases	Amount	Cases	Amount	Cases
Amounts under £100	£6,348	151	£4,435	129	£6,270	154	£6,164	150
Overpayments Recovered	£26,716	92	£29,277	76	£39,685	90	£51,265	102
Overpayments Written Off	£498	2	£0	0	£2,742	4	£990	3

## **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 has developed further measurements of service provision in order to increase the transparency of performance. The new measurements will be reported on from 2021/22. The KPI requirements can be found in the Fund's Administration Strategy.

Process	Legal Requirement	No. of cases completed	% of cases completed within target	CPF Administration element target	No. of cases completed	% of cases completed within target
		2020/21			2020/21	
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	3940	61%	30 working days from receipt of all information	3940	77%
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)	1634	97%	15 working days from receipt of all information	1634	69%
Obtain transfer details for transfer in, and calculate and provide quotation to member	2 months from the date of request	224	75%	20 working days from receipt of all information	224	53%

Provide details of transfer value for transfer out, on request	3 months from date of request (CETV estimate)	332	99%	20 working days from receipt of all information	332	78%
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 <sup>4</sup>	1202	78%	10 working days from receipt of all information	1202	94%
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	827	99%	15 working days from receipt of all information	827	82%
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)	195	73%	10 working days from receipt of all information	195	74%

## Other performance information

The total number of cases completed annually continues to increase. Despite that, there has still been 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 service standards do not decrease. 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 2020/2021

Case Type	Cases
New Starters	3,389
Address changes. Inc. MSS	1,857
Defers	1,793
Refunds	552
Retirements (all types)	1,149
Estimates (all types)	827
Deaths (deferred, active and pensioners)	473
Transfers In	226
Transfers Out	307
Divorce Quote	100
Divorce Share	5
Aggregation	2,789

**2019/20**  
**Total cases**  
**completed**  
**27,589**

**2020/21**  
**Total cases**  
**completed**  
**29,854**

### Case Movement

	Apr	May	Jun	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar
<b>Start Total</b>	6358	6155	6231	6009	6264	6343	5747	5673	5892	5583	5307	5037
<b>Completed</b>	2514	2688	2883	2575	2057	2670	2840	2144	2001	2677	2324	2481
<b>Added</b>	2373	2808	2726	2854	2189	2112	2777	2363	1720	2417	2063	2610
<b>Remaining</b>	6217	6275	6074	6288	6396	5785	5684	5892	5611	5323	5046	5166

## Value for Money Statement

The Fund measures Value for Money by achieving its objectives set out in both the Administration Strategy and the Communication Strategy and particularly the following objectives:

- Administer the Fund in a cost effective and efficient manner utilising technology appropriately to obtain value for money
- Ensure the correct benefits are paid to, and the correct income collected from, the correct people at the correct time
- Maintain accurate records
- Ensure we use the most appropriate means of communication, taking into account the different needs of different stakeholders, but with a default of using electronic communications where efficient and effective to do so
- Look for efficiencies and environmentally responsible ways in delivering communications through greater use of technology and partnership working

To successfully deliver these objectives there is a robust Business Plan and Data Improvement Plan in place, risk management is integrated into our day to day business and we continually measure success against these objectives in various ways such as through our KPIs, satisfaction surveys and our Breaches Register. Progress updates on each of these are regularly reported to the Committee and the Board.

Some of the key measures to demonstrate Value for Money are as follows:

- The quality of data is fundamental to both the valuation of the fund's liabilities and how this is subsequently reported in the fund's accounts. As mentioned earlier, our common and scheme specific data quality scores are 97.4% and 97.2% respectively and these have significantly improved in recent years evidencing that data is now of a high quality.
- We aim for 5% per year increases in the proportion of scheme members registered on Member Self-Service, which directly results in greater efficiencies. We achieved an increase of 2.95% from March 2020 to March 2021.
- We strive to use digital communications as a default in all situations unless there are valid reasons not to do for efficiency or effectiveness reasons. In 2018 we moved to digital annual benefit statements. Since then, all newsletters, retirement packs and pay-slips are issued digitally too (unless the member has opted to receive a paper copy).
- We regularly review our progress against a wide range of KPIs (including legal timescales, overall process timescales and internal Fund turnaround times), workload case numbers (received, completed and outstanding) and our business plan requirements to ensure our resources are appropriate to meet our objectives.
- We aim for the cost per member to not be in upper or lower quartiles when benchmarked against all LGPS Funds using national data. The latest measure confirms our cost per member (CIPFA measure) to be £35.77 and this represents a position within the middle quartiles of the Funds included in the comparison.

Furthermore, in 2020/21 the administration of the Fund was achieved within the agreed budget.



## Complaints Procedure

The Fund's complaints procedure is officially known as the Internal Dispute Resolution Procedure (IDRP).

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 new Moneyhelper service and then onto the Pension Ombudsman. The table below summarises the IDRP requests the Fund received in 2020/2021 and their outcomes:

2020/2021	Received	Upheld	Rejected	Ongoing
Stage 1 - Against Employers	5	0	2	3
Stage 1 - Against Administering Authority	0	0	0	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

## 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](mailto:Karen.williams@flintshire.gov.uk)

Tel: 01352 702963

## **Appendix 5**

### **Funding and Flightpath Review**

#### **An update from the Actuary**

I am delighted to provide my annual update from an actuarial perspective on the activities of the Clwyd Pension Fund (the Fund) during 2020/21. This was a particularly challenging period given the ongoing pandemic and the Fund has been very resilient both financially and operationally over this period which is testament to the strong governance and oversight in place. It is pleasing to see that the funding position has continued to improve, reaching full funding at the end of March 2021. The Risk Management Framework has been integral to achieving the improved funding position and will help provide much needed overall contribution stability. The challenge now is to consider how we can maximise the chance of remaining fully funded or better through a combination of the investment strategy and employer contributions to provide ongoing stability. This is a delicate balance as providing more certainty through reduced risk may result in lower returns being achieved, which in turn would impact on the funding position, and increase contribution requirements. This will be considered over the coming months as we move closer to the 2022 actuarial valuation.

#### **Risk Management Framework**

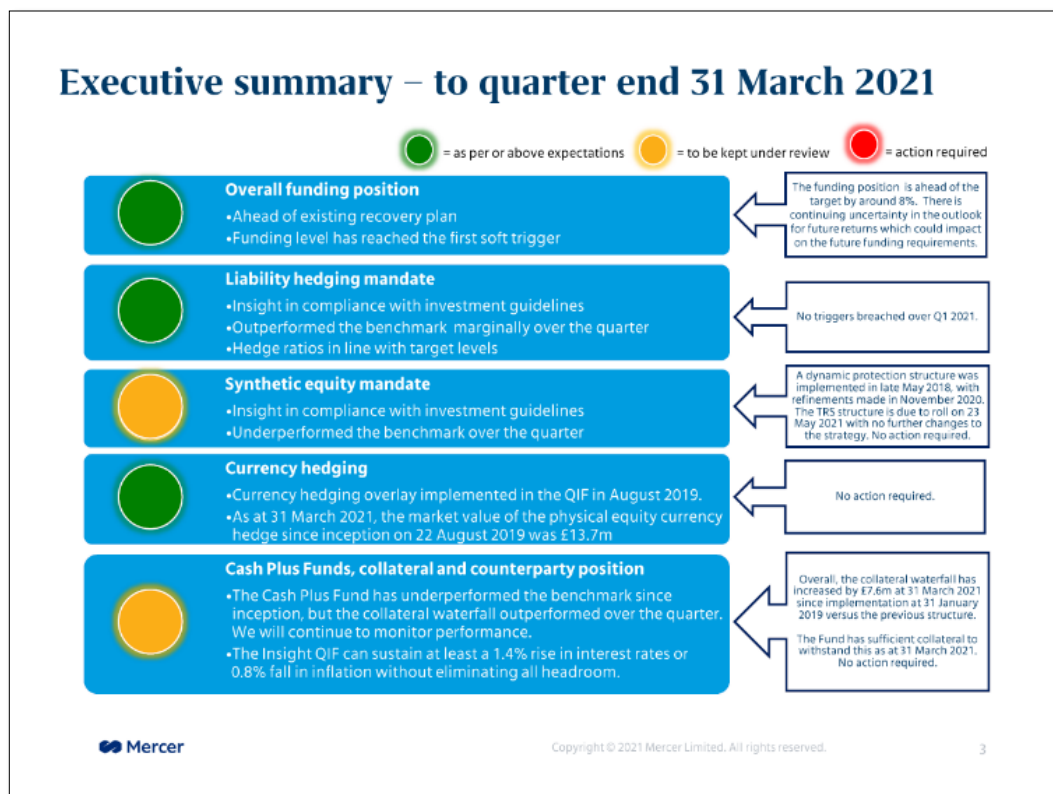
##### **Flightpath Strategy**

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 7 years now and there have been big strides forward in achieving the objective of reaching full funding by 2026.

In light of the Retail Prices Index (RPI) reform consultation announcement, the Fund decided during early 2020 to reduce its inflation exposure by 50% on a temporary basis to partly mitigate the risk of a structural lower repricing of inflation. Following the outcome of the RPI reform consultation, in September 2020, the inflation hedge was rebalanced back to its original exposure level. Over the remainder of the 2020/21 accounting year, the level of risk hedging (the “hedge ratio”) within the framework did not change again as 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 funding plan was well ahead of the target set as part of the 2019 valuation as at 31 March 2021 despite seeing material falls in the early stages of the pandemic due to the impact on investment markets. Overall the funding position was estimated to be 100% as at 31 March 2021, which was 8% ahead of target meaning the flightpath objective has been met 5 years ahead of time.

In addition, I am happy to report that the funding level has continued to improve since 31 March 2021 meaning the Fund continues to do well due to the ongoing economic recovery. There appears to be an increased risk of inflation rising, which represents a significant risk to the Fund, as this would increase the value of the liabilities via an increase in the level of benefits paid to members. Whilst the flightpath provides some protection against this risk, it will be considered whether this protection should be increased along with the cost of doing so.



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 2021 is shown above. It can be seen that all aspects were in line with expectations apart from:

- The synthetic equity mandate, where there has been some underperformance relative to an unhedged equity position. This is driven by the sharp rally in equity markets post March 2020, causing the value of the equity downside protection to be less valuable. Overall, however, the rally in markets has meant that the synthetic equity mandate has been a key contributor to the improved overall funding position. This equity downside protection is still critical to the overall strategy of protecting against large falls in markets, such as those we experienced last year due to the economic impact of the pandemic.
- The “cash plus” funds which provide the collateral to operate the framework experienced some underperformance over the first half of 2020 as a result of increased credit spreads driven by the economic impact of the Covid-19 pandemic. Since then, these funds have performed well as part of the recovery and have added value relative to the previous collateral framework that didn’t make use of these types of funds.

## Changes in the Equity Downside Protection Strategy

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 downside protections 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. It is set up so that the downside protection is financed by limiting the extent to which the Fund benefits from an equity market increase in value on the proportion of equities that it hedges.

In November 2020, the strategy was refined by increasing the level of upside market participation achievable from 5% each month to 5% every two weeks i.e. doubling the level of upside participation in a month. This refined strategy is expected to have broadly the same costs as the previous strategy but with more upside potential and therefore should improve the efficiency of the strategy as well as the longer term return potential.

The existing contract that operated the synthetic equity and equity protection strategy expired on 23 May 2021, resulting in a gain to the fund of c. £130m. The Funding and Risk Management Group (FRMG) concluded that the contract should be extended for three years and that the level of equity market exposure should be retained. As part of extending the contract, significant cost reductions were negotiated amounting to £1m per annum benefit for the Fund.

Following the strong performance of the framework and analysis of the collateral adequacy position, the FRMG agreed to release £100m of collateral from the framework in conjunction with extending the equity protection strategy. This will be invested into the wider portfolio in due course.

The Flightpath framework will continue to be monitored as part of the regular FRMG meetings.

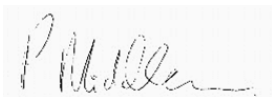
## What will we need to consider during 2021/22?

As well as the challenge of dealing with the ongoing implications of the COVID-19 pandemic there are a number of other areas that the Fund will need to navigate and react to.

- **Maintaining full funding** – In light of the funding level moving over 100%, the challenge is how do we maintain or even improve this position. This cannot be guaranteed and will be a delicate balance between a number of often competing factors. Actions will be considered as part of the regular FRMG meetings.
- **McCloud remedy** – We are still waiting for a formal response from the Government on the final remedy, but this is expected during late 2021. Whilst allowance has been made in the employer contributions this will provide operational challenges in implementing the remedy.

- **Cost management outcome and review** – The 2016 cost management review process is now in full swing following the pause caused by the McCloud judgment. It is not clear at this point whether this will result in the changes to benefits or member contributions proposed back in 2018 for the LGPS will be changed or removed but I would expect that to be the case. In addition, the Government Actuary's Department have started a consultation on the suitability of the cost control mechanism going forward and I will be inputting into this process on behalf of the Fund.
- **GMP Equalisation and Indexation** – HM Treasury previously published a consultation on how the pensions of public service scheme members who have accrued Guaranteed Minimum Pension (GMP) should be indexed in payment once a member retires. It has now been confirmed that the current full indexation provisions will be extended to cover those members of public service pension schemes reaching State Pension age from 6 April 2021. Based on the 2019 valuation data, I have calculated that this is likely to incur additional costs to the Fund of £7m over all employers. This will be taken into account as part of the 2022 valuation.
- **Exit cap** – The Exit Payment Regulations came into force on 4 November 2020 which meant that any severance payments from employers to members leaving public service (including in relation to LGPS early retirement costs) should be limited to £95,000. This had potentially significant implications for the Fund and public sector employers affected. However, on the 2 November 2020, the Welsh Government issued a letter stating that, subject to legal advice they are considering introducing a general waiver applying in Wales which excludes the pension strain cost from the assessment of redundancy against the exit cap where legally possible. Subsequently, in February 2021, the Government revoked these Regulations as after representation from several different groups they accepted that the cap had unintended consequences. We expect that this will come back on the agenda later in the year and we await details of how it will operate, how it will be implemented and the final position that the Welsh Government will take once details are known.
- **Implementation of new Funding Strategy Statement policies** – A number of Regulation changes took place over 2020 (the ability to review contributions between valuations and the introduction of new arrangements for employers exiting the Fund). The Fund has updated its Funding Strategy Statement to reflect these changes and will now work with employers to action the new flexibilities introduced. It is unlikely to impact on many employers in the Fund given most of the employers are public authorities or tax raising bodies. However, in some circumstances we will need to use these new policies to manage employer risks and liabilities more effectively.

I remain extremely confident that we are well placed to navigate these areas and changing circumstances over the next year and beyond.



**Paul Middleman FIA**

**Fund Actuary and FRMG member**

## Appendix 6

### 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 2020/21. 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. The 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.

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.

## Market Commentary

The period started with lockdowns across most large developed countries which led to an unprecedented collapse in quarterly GDP growth in Q2 2020. China, on the other hand saw a strong rebound in GDP growth as it began to reopen its economy following its lockdown earlier in the year. This mitigated the overall negative impact on global GDP growth to some extent. Late in the quarter, the sharp rebound previously seen in China became more global as western countries slowly started to reopen their economies. With economies largely open again, global GDP rebounded at record pace over Q3 2020.

Q4 2020 saw COVID-19 infections rising again sharply across western countries, leading to a gradual return of restrictions. The impact on quarterly GDP growth was less pronounced this time because GDP was at a lower level already than before the COVID-19 shock, whilst at the same time consumers and businesses were better prepared to function somewhat amid these restrictions. At the same time, the start of vaccines being rolled out late in the quarter led to optimism that fuller and more sustainable reopenings could be achieved in 2021.

The first quarter of 2021 began with lockdowns in numerous countries including the UK as much of the world faced another wave of Covid-19. Nevertheless, gradual vaccine rollout in developed countries drove economic recovery optimism. Political risk declined as Joe Biden was sworn in as US President, despite the incident on Capitol Hill on 6 January, and the UK completed its transition out of the EU without major incidents. Economic data continued to point towards a global recovery but with wide regional dispersions.

On a year-on-year basis to 31 March 2021, risk assets had exceptionally high returns as shown in the performance section. This has a lot to do with the base effect as we are currently comparing valuations just after four consecutive quarters of a bull run to valuations in the immediate aftermath of the worst market downturn since the Global Financial Crisis. The strong bull market in risk assets over the last year in anticipation of a strong vaccine-led rebound had a large impact as well.

During Q2 2020, equity markets reversed much but not all of the losses suffered during the Covid-19 shock in March 2020, in spite of record downgrades of earnings forecast for 2020. Over the third quarter of 2020 the equity rebound continued for most markets, led primarily by large cap companies achieving secular growth, as western economies tentatively reopened whilst accommodative fiscal and monetary policy remained in place. Over the fourth quarter, the vaccine announcements revealing better than expected efficacy and faster than expected deployment, alongside a reduction in political uncertainty boosted market sentiment. Markets positioned for a full economic reopening in 2021 with small caps and value stocks leading markets higher. The first quarter of 2021 was marked by higher volatility. Streams of retail investor activity in January led to short squeezes, followed by a sharp rise in bond yields in the back end of the quarter placing pressure on equity markets. In spite of this, equities ended the quarter with strong returns supported by ongoing stimulus as investors looked towards the anticipated economic recovery and rebound in corporate earnings.

The COVID-19 crisis led to swift and unprecedented fiscal and monetary policy responses to support economies and markets across the globe, starting at the end of Q1 2020. This led to a government bond rally over the year as nominal yields fell to the lowest level in history for many countries, including the UK. The UK 10-year gilt yield, reached an all-time low just above 0% in August before partially retracing to just above 0.2% by the end of 2020. In Q1 2021, UK gilt yields rose sharply in line with global yields as investors priced in the strong recovery



and increasing inflation risk. The UK 10-year gilt yield ended the quarter at 0.85%, having recovered all of the lost ground in 2020.

A consultation on the future of Retail Prices Index (RPI), launched in March 2020, led to the decision to converge RPI to Consumer Prices Index (CPIH) from 2030 without any spread adjustment being applied to compensate index-linked gilt holders (and other recipients of RPI-linked payments). In spite of the consultation outcome being deemed unfavourable for holders of index-linked gilts, the decision had been widely anticipated and the reduction in long-dated breakeven inflation rates implied in index-linked gilts was modest over the year. Moreover, inflation expectations rose sharply in 2021 which benefited index-linked gilts only to some degree due to the high duration component of the asset class.

After a sharp increase in credit spreads during the worst of the COVID-19 market shock in March 2020, credit spreads tightened subsequently as market optimism returned, bolstered by government support. Credit spreads ended the year at slightly lower levels than in late 2019 and remained broadly unchanged over Q1 2021. This led to strong returns for UK credit, as demand for spread assets remained strong over the year and outperformance of credit relative to government bonds on a duration-adjusted basis.

The recovery of UK real estate markets from the shock of Covid-19 slowed during Q4 2020 with the emergence of a 'second wave' of the pandemic, a second lockdown, and a potential Brexit cliff-edge at year-end. Despite this, real estate performance was broadly resilient. With the UK remaining in lockdown, sentiment has been subdued in early 2021, but as the vaccination programme gathers pace optimism about the path to recovery is returning.

At a global level, developed markets as measured by the FTSE World index, returned 39.9%. Meanwhile, a return of 40.8% was recorded by the FTSE All World Emerging Markets index.

At a regional level, European markets returned 34.9% 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 26.7%. The FTSE USA index returned 42.7% while the FTSE Japan index returned 26.3%. The considerable underperformance of UK equities relative to global markets is attributed to the index's large exposure to oil, gas and basic materials which only started to benefit from a full recovery being priced in at the end of 2020.

The huge year-on-year returns can to a large degree be attributed to the base effect as the measurement period begins when equity markets had just touched bottom following the 2020 Covid-19 crash.

Equity market total return figures are in Sterling terms over the 12-month period to 31 March 2021.

UK Government Bonds as measured by the FTSE Gilts All Stocks Index, returned -5.5%, while long dated issues as measured by the corresponding Over 15 Year Index had a return of -10.4% over the year as the longer end of the nominal yield curve rose by more than the shorter end. The yield for the FTSE Gilts All Stocks index rose over the year from 0.7% to 1.2% while the Over 15 Year index yield rose from 0.8% to 1.3%.

The FTSE All Stocks Index-Linked Gilts index returned 2.3% with the corresponding over 15-year index exhibiting a return of 3.6%. Rising inflation expectations offset rising nominal yields to an extent, leading index-linked gilts to outperform their nominal counterparts over the year.

Corporate debt as measured by the Bank of America Merrill Lynch Sterling Non-Gilts index returned 7.0%. Bond market total return figures are in Sterling terms over the 12-month period to 31 March 2021. Over 12-month period to 31 March 2021, the MSCI UK All Property Index returned 0.7% in Sterling terms.

The price of Brent Crude Oil rose 181.1% from \$22.60 to \$63.52 per barrel over the one-year period. Over the same period, the price of Gold increased 5.7% from \$1612.10 per troy ounce to \$1704.74.

The S&P GSCI Commodity Spot Index returned 64.4% over the one-year period to 31 March 2021 in Sterling terms.

Over the 12-month period to 31 March 2021, Sterling appreciated by 11.3% against the US Dollar from \$1.24 to \$1.32. Sterling appreciated by 13.9% against the Yen from ¥133.86 to ¥152.46. Sterling appreciated against the Euro by 3.9% from €1.13 to €1.17 over the same period.

## **Clwyd Pension Fund Investment Performance 2020/21**

Due to the strong recovery in markets following the market falls as a result of COVID-19, the Fund posted strong investment returns for the year. Overall the Fund's assets returned 23.3% for the twelve months, well ahead of the Actuary's future service return assumption of CPI +2.25%, as quoted in the Investment Strategy Statement (ISS) and Funding Strategy Statement (FSS).

The Fund returned 23.3% compared with a composite benchmark (of the underlying manager benchmarks) of 19.3%. Whilst the returns for the year were well ahead of the required rate, given the impact COVID – 19 had on the preceding year's returns, it remains appropriate to see this in context of the longer-term performance. Over three years to the 31 March 2021 the Fund achieved a return of +7.1% per annum, compared with a benchmark of +7.7% per annum. This performance is also well ahead of the future service target of CPI +2.25%.

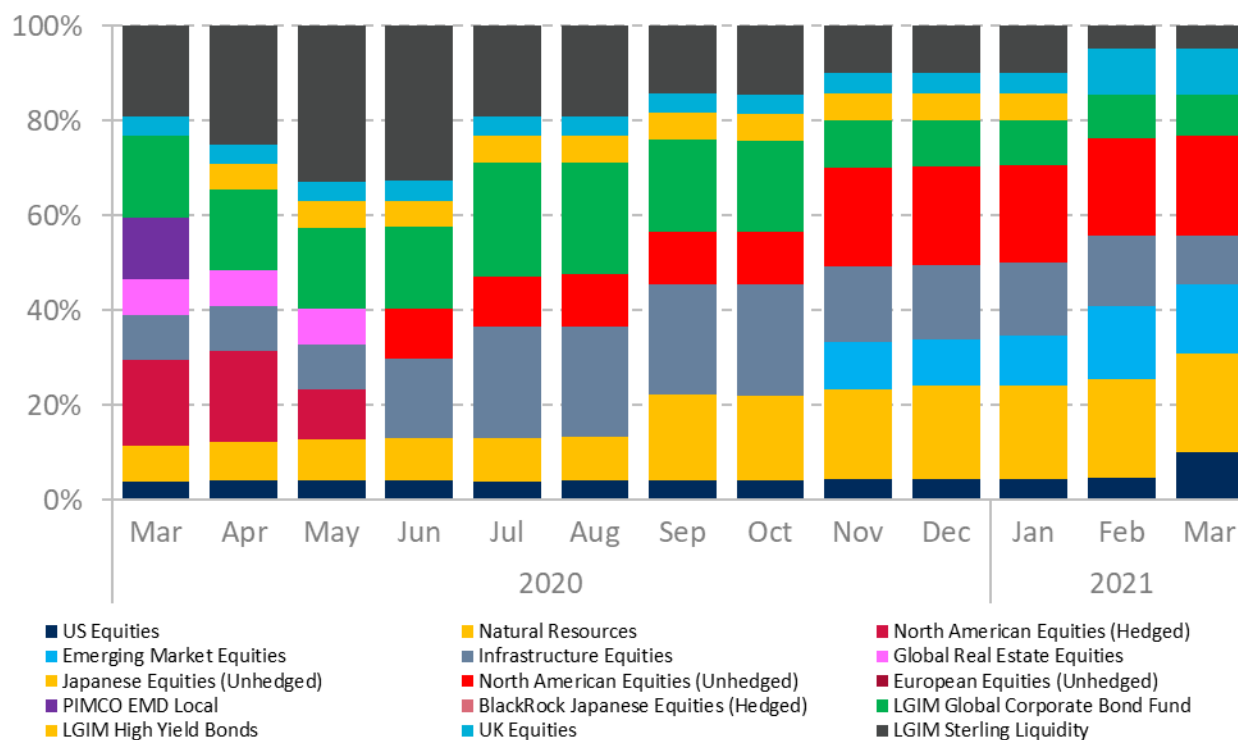
The Equity portfolio that includes Global and Emerging Market Equity exposures returned 42.2% due to the strong market rebound following the falls in March 2020. The Wellington Emerging Markets Core portfolio outperformed its benchmark by 10.8% whilst the Wellington Emerging Markets Local portfolio underperformed its target by 2.8% over the 12 months. The Fund's Global Equity allocation with Russell WPP outperformed its benchmark by 0.6%. The Russell WPP Global Opportunities Fund returned +42.2%.

The Multi-Asset Credit (MAC) portfolio produced a positive return of 17.3% outperforming its target. This portfolio was transitioned to the WPP MAC portfolio over the summer of 2020.

During the year in review the Fund's allocation within the Tactical Allocation portfolio was altered. Investments in the Diversified Growth Funds managed by Pyrford and Ninety-One were terminated. This has resulted in the Best Ideas Portfolio being the sole holding within the Tactical Asset Allocation holdings. The Best Ideas Portfolio produced a return of +22.0% over the one year period to 31 March 2021, well in excess of its long term target of CPI +3.0% p.a.

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.



Source: Mobius Life

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 was particularly helpful in February and March 2020 as market volatility and falling valuations hit all investors.

The Managed Account Platform with MAN contains a Hedge Funds portfolio, which produced a positive absolute return of +3.5% 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 private markets assets achieved a positive return of +4.6%. Valuations of these “Alternative assets” were affected by the impact of COVID-19, however the impact seen was less dramatic than for listed comparators due to the illiquid nature of the assets. Within the Private Markets portfolio Private Equity posted the strongest returns at +11.2%.

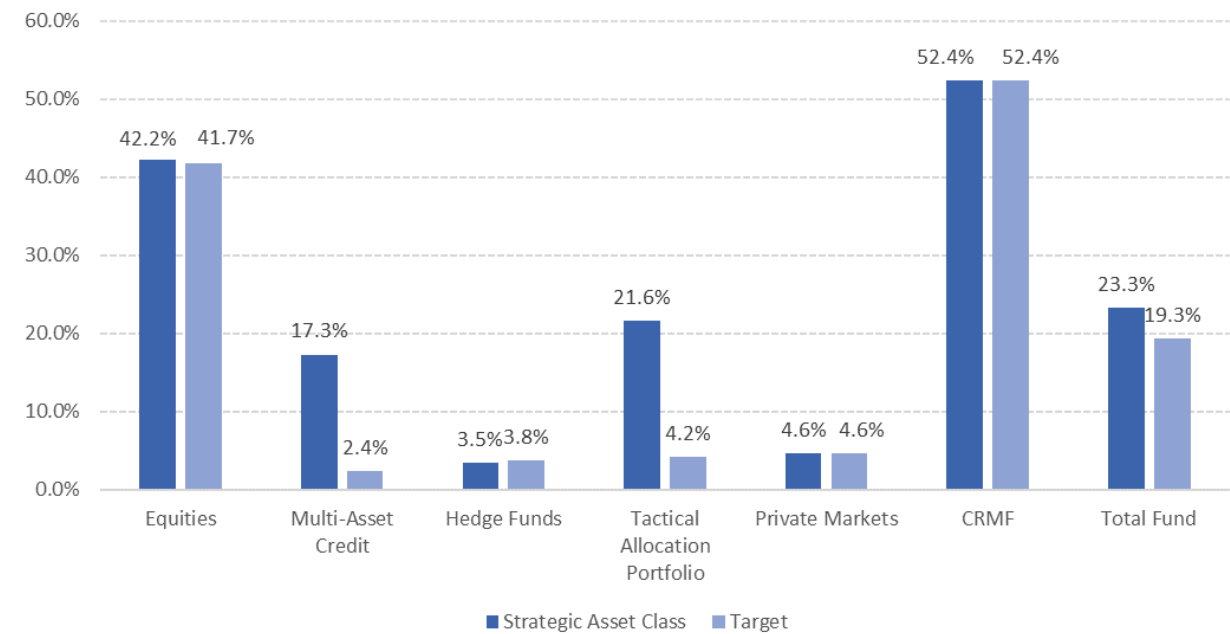
The Cash and Risk Management Framework investment portfolio (a key component of the Risk Management Framework) which consists of regional synthetic Global Equities, Gilt and inflation exposures (as well as equity protection and currency hedging strategies) returned +52.4% in 2020/21. However, the performance of this portfolio over the short term is less relevant due to its risk management characteristics. The risk management

elements of the portfolio performed as expected and managed the fund’s risks effectively over the period as well as during the dramatic falls in equity markets in February and March 2020.

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 2020/21

Market conditions over the year to 31 March 2021 year were beneficial for investors, and the Fund benefited from these strong investment markets. With significant monetary and fiscal stimuluses from central banks and governments around the globe, investor sentiment quickly improved. This saw risk assets increase significantly in value over the 1-year period to 31 March 2021. As a result the performance of the Fund for the twelve months under review was +23.3%.

The Fund's allocations to equities (+42.2%) and the Tactical Asset Allocation (+21.6%) helped propel the Fund over the period. The Fund's cash and risk management allocation also posted significant returns over the year in review, returning +52.4%. However due to the slightly lagged nature of returns the Fund's Private Market allocations posted comparatively mediocre returns of +4.6%.

## Investment Strategy

The Fund's Investment Strategy is shown in the table below:

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 Fund's Investment Strategy continues to be more diversified than most Local Government Pension Scheme (LGPS) Funds and incorporates a Cash and Risk Management 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.

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.

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 following table shows the strategic allocation compared to the actual asset allocations as at 31 March 2020 and 31 March 2021.

### Strategic Allocation vs Actual Allocations

Note: Totals may not sum due to rounding

Manager	Mandate	Actual 31/03/20	Actual 31/03/21	Strategic Allocation 20/21
<b>Developed Global Equity</b>				<b>10.0%</b>
WPP	Global Equity	4.1%	5.4%	5.0%
BlackRock	Global Equity	3.6%	5.2%	5.0%
<b>Emerging Market Equity</b>				<b>10.0%</b>
Wellington	EM (Core)	2.8%	3.6%	3.0%
Wellington	EM (Local)	2.8%	3.3%	3.0%
BlackRock	Emerging Equity	0.0%	3.8%	4.0%
<b>Hedge Funds</b>				<b>7.0%</b>
ManFRM	Hedge Funds	7.8%	6.7%	7.0%
<b>TAA / Best Ideas</b>				<b>11.0%</b>
In-house	Best Ideas Portfolio	10.5%	10.6%	11.0%
Ninety-One	Diversified Growth	4.1%	0.0%	0.0%
Pyrford International	Diversified Growth	4.5%	0.0%	0.0%

<b>Multi-Asset Credit</b>				<b>12.0%</b>
WPP	Multi-Asset Credit	0.0%	11.5%	12.0%
Stone Harbor	LIBOR Multi-Strategy	6.5%	0.0%	0.0%
Stone Harbor	Multi-Asset Credit	3.6%	0.0%	0.0%
<b>Cash and Risk Management Framework</b>				<b>23.0%</b>
Insight	CRMF	17.6%	24.4%	23.0%
<b>Private Markets</b>				<b>27.0%</b>
Various	Property	7.1%	6.0%	4.0%
Various	Private Equity	10.7%	7.7%	8.0%
Various	Local/Impact	0.0%	2.3%	4.0%
Various	Infrastructure	6.6%	4.7%	8.0%
Various	Private Credit	2.4%	2.3%	3.0%
Various	Timber/Agriculture	1.2%	0.8%	0.0%
Various	Opportunistic	3.1%	0.0%	0.0%
<b>Cash</b>		1.1%	1.7%	0.0%

## Responsible Investment

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.

The Fund has continued to progress significantly in the work undertaken over the past year. Progress has been made across all of the strategic Responsible Investment Priorities as detailed in the ISS. In particular, the Fund has analysed the carbon footprint of its equity allocations and has also undertaken detailed climate change scenario analysis in respect of its investment strategy. The Fund has also continued to deploy allocations into sustainable private market investments, many of which have direct impact focus, with some allocations designed to directly benefit the local area.

The Committee have received a series of dedicated training sessions across a range of Responsible Investment areas and the Fund continues to take actions that place it at the forefront of the Responsible Investment landscape.

## 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 2020/21 is shown in the following table.

Manager	Annual/ Special Meetings	Proposals	Votes For	Votes Against	Votes Abstained	Not Voted/ Refer/ Withheld
<b>BlackRock - ESG</b>	266	3,581	3,344	210	26	1
<b>BlackRock - EM</b>	2,472	22,432	19,840	1,919	641	32
<b>Russell - Global Ops</b>	37	458	416	42	0	0
<b>Wellington - Core</b>	147	1,269	1,084	98	87	0
<b>Wellington - Local</b>	118	1,048	843	113	51	41

Source: Investment Managers.

## 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 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 £1,051m in 2011 to £2,226m in 2021.

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.

<b>Period (Years)</b>	<b>Clwyd Pension Fund (%) pa</b>	<b>Clwyd Benchmark (%) pa</b>	<b>Average Local Authority (%) pa</b>
<b>1</b>	+23.3	+19.3	+22.7
<b>3</b>	+7.1	+7.7	+7.6
<b>5</b>	+9.2	+8.9	+9.5
<b>10</b>	+7.4	+7.4	+9.7
<b>20</b>	+6.3	+6.2	+6.9

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, the new strategy was in effect from April 2020.

<b>Core Manager Investments</b>	<b>2001 (%)</b>	<b>2004 (%)</b>	<b>2007 (%)</b>	<b>2011 (%)</b>	<b>2015 (%)</b>	<b>2017 (%)</b>	<b>2021 (%)</b>	<b>LGPS Average</b>
<b>Equities</b>								
Global Unconstrained	-	-	5.0	5.0	8.0	4.0	5.0	
Global Developed (Smart Beta)	-	-	-	-	-	4.0	-	
Global Developed (ESG)	-	-	-	-	-	-	5.0	
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	10.0	
Frontier Markets Active	-	-	-	-	2.5	-	-	
Developed Passive	-	-	-	19.0	-	-	-	
	<b>72.0</b>	<b>66.0</b>	<b>55.0</b>	<b>43.0</b>	<b>17.0</b>	<b>14.0</b>	<b>20.0</b>	<b>54.0</b>
<b>Fixed Interest</b>								
Traditional Bonds	10.0	9.5	-	-	-	-	-	
High Yield/ Emerging	1.5	2.0	-	-	-	-	-	
Unconstrained	-	-	13.0	15.0	15.0	12.0	12.0	
Private Credit (illiquid)	-	-	-	-	-	3.0	3.0	
Cash/ Other	2.5	0.5	-	-	-	-	-	
	<b>14.0</b>	<b>12.0</b>	<b>13.0</b>	<b>15.0</b>	<b>15.0</b>	<b>15.0</b>	<b>15.0</b>	<b>18.0</b>
<b>Liability Driven Investment</b>	-	-	-	-	<b>19.0</b>	<b>19.0</b>	<b>23.0</b>	-

<b>Alternative Investments and Cash</b>								
<b>Property</b>	5.0	7.0	6.5	7.0	7.0	4.0	4.0	
<b>Infrastructure</b>	0.5	5.0	1.5	2.0	2.0	6.0	8.0	
<b>Timber/ Alternatives</b>	-	-	1.5	2.0	2.0	2.0	-	
<b>Commodities</b>	-	-	2.0	4.0	-	-	-	
<b>Private Equity &amp; Opportunistic</b>	4.5	4.5	6.5	10.0	10.0	10.0	8.0	
<b>Local/ Impact</b>	-	-	-	-	-	-	4.0	
<b>Hedge Fund of Funds</b>	4.0	4.0	5.0	5.0	-	-	-	
<b>Hedge Fund Managed Account Platform</b>	-	-	-	-	9.0	9.0	7.0	
<b>Currency Fund</b>	-	4.0	4.0	-	-	-	-	
<b>Tactical Asset Allocation (TAA)</b>	-	2.0	5.0	12.0	-	-	-	
<b>Tactical Allocation (Diversified Growth)</b>	-	-	-	-	10.0	10.0	-	
<b>Tactical Allocation (Best Ideas)</b>	-	-	-	-	9.0	11.0	11.0	
	<b>14.0</b>	<b>26.5</b>	<b>32.0</b>	<b>42.0</b>	<b>49.0</b>	<b>52.0</b>	<b>42.0</b>	<b>28.0</b>

## In House Portfolio

Property Open Ended Holdings	Number of Funds
Schroders	1
Hermes	1
LAMIT	1
Legal & General	1
BlackRock	1
<b>Property Closed Ended Holdings</b>	
Aberdeen Property Asia Select	2
Basecamp	1
BlackRock US Residential	1
BlackRock European Property	2
Darwin Leisure Property	2
Franklin Templeton	2
InfraRed Active Property	3
Newcore Strategic	1
North Haven Global Real Estate	3
Paloma Real Estate	2
Partners Group Global Real Estate	2
Threadneedle Low Carbon	1
<b>Timber</b>	
BGT Pactual Timberland	2
Stafford Timberland	3
<b>Agriculture</b>	
Insight Global Farmland	1
TRG Farmland	1
<b>Infrastructure</b>	
Access Capital Infrastructure	1
Arcus European Infrastructure	2
Carlyle Global Infrastructure	1
GSAM West Street Infrastructure	1
HarbourVest Real Assets	1
Hermes Infrastructure	1
InfraRed	2
Innisfree	1
JP Morgan Infrastructure	1
Marine Capital	1
North Haven Global Infrastructure	3
Pantheon	1
Partners Group Direct Infrastructure	1
<b>Total Funds</b>	<b>51</b>

<b>Private Equity Direct Funds</b>	<b>Number of Funds</b>
Access Capital	1
Apax	5
August Equity	3
Capital Dynamics	3
Carlyle	1
Charterhouse	2
Dyal	1
ECI	3
Granville Baird	2
Marquee Brands	1
North Haven Asia	1
Partners Group Direct	2
Unigestion	1
<b>Private Equity Fund of Funds</b>	
Access Capital	4
Capital Dynamics	7
HarbourVest	5
JP Morgan Secondary's	1
Partners Group	10
Standard Life	2
Unigestion	2
<b>Local / Impact</b>	
Igloo Regeneration	1
Bridges Property	2
Bridges Private Equity	2
Development Bank of Wales	1
ETF	3
Ludgate Environmental	1
Foresight	1
HarbourVest Cleantech	1
Hermes Environmental Innovation	1
Impax Infrastructure	2
InfraRed Environmental Infrastructure	1
Partners Group Life Fund	1
<b>Total Funds</b>	<b>74</b>

<b>Private Debt</b>	
BlackRock	1
Carlyle	3
Neuberger Berman	1
Permira	1
Pinebridge	1
<b>Total Funds</b>	<b>7</b>



**Kieran Harkin**  
**Head of LGPS Investments**

## Appendix 7

### Clwyd Pension Fund Accounts

#### For The Year Ended 31<sup>st</sup> March 2021

#### Fund Account

2019/20 £000		Note	2020/21 £000
	<b>Dealings with members, employers and others directly involved in the Fund</b>		
(77,108)	Contributions	7	(81,805)
(6,108)	Transfers in	8	(3,415)
<b>(83,216)</b>			<b>(85,220)</b>
	Benefits payable :		
63,070	Pensions	9	65,188
13,531	Lump sums (retirement)		9,454
2,360	Lump sums (death grants)		2,654
<b>78,961</b>			<b>77,296</b>
4,446	Payments to and on account of leavers	10	5,924
<b>83,407</b>			<b>83,220</b>
<b>191</b>	<b>Net (additions)/withdrawals from dealings with members</b>		<b>(2,000)</b>
24,377	Management expenses	11	21,924
<b>24,568</b>	<b>Net (additions)/withdrawals including fund management expenses</b>		<b>19,924</b>
	<b>Returns on Investments</b>		
(11,741)	Investment income	12	(17,804)
76,509	Change in market value of investments	13A	(450,889)
<b>64,768</b>	<b>Net return on investments</b>		<b>(468,693)</b>
<b>89,336</b>	<b>Net (increase)/decrease in the net assets available for benefits during the year</b>		<b>(448,769)</b>
(1,866,775)	<b>Opening net assets of the scheme</b>		(1,777,439)
<b>(1,777,439)</b>	<b>Closing net assets of the scheme</b>		<b>(2,226,208)</b>

## Net Assets Statement

2019/20 £000s		Note	2020/21 £000s
1,774,622	Investment Assets	13	2,222,792
<b>1,774,622</b>	<b>Net Investment Assets</b>		<b>2,222,792</b>
204	Long-term debtors	19	254
4,725	Debtors due within 12 months	19	5,059
(2,112)	Creditors	20	(1,897)
<b>1,777,439</b>	<b>Net assets of the fund available to fund benefits at the end of the reporting period</b>		<b>2,226,208</b>

**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 (Note 25).



# Notes to the Clwyd Pension Fund Accounts For The Year Ended 31<sup>st</sup> March 2021

## Note 1 – Description of the Fund

### General

Clwyd Pension Fund (the 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 Fund.

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 LGPS is a contributory defined scheme, which provides pensions and other benefits to employees and former employees of Flintshire County Council and 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 the Clwyd Pension Fund Committee which is a committee of Flintshire County Council.

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. The accounts have been prepared in accordance with the 2020/21 Code of Practice (the Code) on Local Authority Accounting which is based on International Financial Reporting Standards (IFRS).

### 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 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 the terms of 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.

Membership details are set out below in more detail:

<b>2019/20</b>		<b>2020/21</b>
<b>Restated</b>		
<b>No.</b>		<b>No.</b>
<b>49</b>	<b>Number of employers with active members</b>	<b>52</b>
	<b>Number of employees in scheme</b>	
5,196	Flintshire County Council	5,524
12,015	Other employers	12,018
<b>17,211</b>	<b>Total</b>	<b>17,542</b>
	<b>Number of pensioners</b>	
3,849	Flintshire County Council	4,011
9,743	Other employers	9,939
<b>13,592</b>	<b>Total</b>	<b>13,950</b>
	<b>Deferred pensioners</b>	
6141	Flintshire County Council	5,718
11,604	Other employers	11,557
<b>17,745</b>	<b>Total</b>	<b>17,275</b>
<b>48,548 <sup>1</sup></b>	<b>Total employees</b>	<b>48,767</b>

<sup>1</sup> In 2019/20 the total number of employees disclosed was 49,695, which incorrectly included employees who were not member of the LGPS.

## Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members in accordance with the LGPS Regulations 2013, as amended, and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31st March 2021. 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. Currently employer contribution rates range from 11.5% to 29.4% of pensionable pay.

## Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of service. 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 as explained on the LGPS website, see [www.lgpsmember.org](http://www.lgpsmember.org).

In addition the Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from the Fund. The Fund uses Prudential and Utmost (previously Equitable Life) as its AVC providers. AVCs are paid to the AVC providers by employers and provide additional benefits for individual contributors.

## **Note 2 - Basis of Preparation**

The Statement of Accounts summarises the Fund's transactions for the 2020/21 financial year and its financial position at 31st March 2021. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The Code gives administering authorities the option to disclose this information in the net assets statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The Fund has opted to disclose this information in Note 25.

The accounts have been prepared on a going concern basis.

Paragraph 3.3.1.2 of the Code requires disclosure of any accounting standards issued but not yet adopted. The Code has introduced the following changes, amendments and interpretations to existing standards:

- Definition of a Business: Amendments to IFRS 3 Business Combinations
- Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7
- Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16
- IFRS 16 Leases – will require local authorities that are lessees to recognise most leases on their balance sheet as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases). CIPFA/LASAAC have deferred implementation of IFRS 16 for local government to April 2022.

These changes are mandatory for the Fund's accounting periods beginning on or after 1st April 2021 or later periods and may require changes to accounting policies in next year's accounts, but the Fund has chosen not to adopt them early. They are not expected to have a material impact on the Fund's financial statements.

### **Note 3 – Summary of significant accounting policies**

In summary, accounting policies adopted are detailed as follows:

#### **Fund Account – Revenue recognition**

##### **Contribution income**

Normal contributions are accounted for on an accruals basis as follows:

- Employee contribution rates are set in accordance with LGPS regulations, using common percentage rates for all schemes that rise according to pensionable pay.
- Employer contributions are set at the percentage rate recommended by the Fund's actuary for the period to which they relate.

Employer deficit funding contributions are accounted for on the basis advised by the Fund's actuary in the rates and adjustment certificate issued to the relevant employing body. Additional employer's contributions in respect of ill-health and early retirements are accounted for in the year the event arose. 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**

Transfers in and out relate to members who have either joined or left the Fund.

Individual transfers in/out are accounted for when received or paid. Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see below) to purchase scheme benefits are accounted for on a receipts basis and are included in transfers in (Note 8).

Bulk (group) transfers are accounted for in accordance with the terms of the transfer agreement.

##### **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.
- 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.
- Changes in the value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year

## **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.

### **Management expenses**

The Fund discloses its management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Expenses (2016). All items of expenditure are charged to the Fund on an accruals basis.

All staff costs in relation to administration expenses are charged direct to the Fund and management, accommodation and other support service costs are apportioned to the Fund in accordance with Council policy.

All costs associated with governance and oversight are separately identified, apportioned to this activity and charged as expenses to the Fund.

Investment management expenses 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 11A 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.

### **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. 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.

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.

## **Net Assets Statement**

### **Financial assets**

All investment assets are included in the financial statements 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. Any amounts due or payable in respect of trades entered into but not yet complete at 31 March each year are accounted for as financial instruments held at amortised cost and reflected in the reconciliation of movements in investments and derivatives in Note 13A. Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year

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).

### **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.

### **Cash and cash equivalents**

Cash comprises cash in hand and demand deposits and includes amounts held by the fund's external managers. All cash balances are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to minimal risk of changes in value.

### **Financial liabilities**

Financial liabilities are recognised at fair value on the date the Fund becomes legally responsible for 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 of investments

### **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 (note 25).

### **Additional Voluntary Contributions (AVCs)**

The Fund provides an AVC scheme for its members, the assets of which are invested separately from those of the 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 21).

## **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 reported amounts. Estimates and assumptions take into account historical experience, current trends and future expectations. However, actual outcomes could differ from the assumptions and estimates. The items in the Net Assets Statement at 31 March 2021 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows.

<b>Item</b>	<b>Uncertainties</b>	<b>Effect if actual results differ from assumptions</b>
<b>Potential Impact of Covid-19</b>	The impact of the Covid-19 pandemic has and continues to affect the valuation of assets and liabilities. However, the most significant effects of the pandemic were seen during February and March 2020, and affected asset valuation. Since then	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

	markets have been relatively stable. As far as possible any 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. The Fund has a risk management framework in place and, in particular, equity protection which helps to mitigate some of the impact of significant falls in equity markets.	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%.
<b>Actuarial present value of promised retirement benefits</b>	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.
<b>Value of investments at level 3</b>	The 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 15 to these accounts. The fair value of these investments is estimated using a variety of techniques which involve some degree of tolerance	Note 15 summarises the techniques used, the key sensitivities underpinning the valuations and the sensitivity or tolerance around the values reported.



	around the values reported in the Net Assets Statement.	
<b>Britain leaving the European Union</b>	Whilst Britain left the European Union in December 2020, the full impact may not yet have been seen. Because it is not presently possible to predict any specific 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 2021. 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

<b>2019/20</b>		<b>2020/21</b>
<b>£000s</b>		<b>£000s</b>
(28,575)	Administering Authority - Flintshire County Council	(26,713)
(45,132)	Scheduled bodies	(51,495)
(3,401)	Admitted bodies	(3,597)
<b><u>(77,108)</u></b>	<b>Total</b>	<b><u>(81,805)</u></b>

By type

2019/20		2020/21
£000s		£000s
<b>(16,337)</b>	<b>Employees contributions</b>	<b>(17,177)</b>
	<b>Employers' contributions:</b>	
(40,791)	Normal contributions	(48,720)
(19,208)	Deficit recovery contributions	(14,972)
(772)	Augmentation contributions	(936)
<b>(60,771)</b>	<b>Total employers' contributions</b>	<b>(64,628)</b>
<b>(77,108)</b>	<b>Total contributions</b>	<b>(81,805)</b>

## Note 8 – Transfers in from other pension funds

2019/20		2020/21
£000s		£000s
(6,108)	Individual transfers	(3,415)
<b>(6,108)</b>	<b>Total</b>	<b>(3,415)</b>

## Note 9 – Benefits payable

By employer

2019/20		2020/21
£000s		£000s
27,376	Administering Authority - Flintshire County Council	26,978
50,183	Scheduled bodies	48,738
1,402	Admitted bodies	1,580
<b>78,961</b>		<b>77,296</b>

By type

2019/20		2020/21
£000s		£000s
63,070	Pensions	65,188
13,531	Commutation and lump sum retirement benefits	9,454
2,360	Lump sum death benefits	2,654
<b>78,961</b>		<b>77,296</b>

## Note 10 – Payments to and on account of leavers

2019/20		2020/21
£000s		£000s
4,025	Individual transfers	5,670
226	Refunds to members leaving service	174
195	Other	80
<b>4,446</b>	<b>Total</b>	<b>5,924</b>

## Note 11 – Management expenses

2019/20		2020/21
£000s		£000s
2,025	Administration costs	2,032
20,353	Investment management expenses	17,296
1,999	Oversight and governance costs	2,595
<b>24,377</b>	<b>Total</b>	<b>21,924</b>

The Oversight and Governance costs include the fees payable to Audit Wales for the external audit of the Fund of £39k for 2020/21 (£39k in 2019/20).

## Note 11a – Investment management expenses

2020/21	Management Fees £000s	Performance related fees £000s	Transaction Costs £000s	Total £000s
<b>Investment Assets</b>				
<b>Pooled Funds</b>	2,928	0	1,814	4,742
<b>Other investments</b>				
Pooled property investments	1,958	55	102	2,115
Private equity and joint venture funds	3,302	1,782	107	5,191
Infrastructure funds	1,419	450	190	2,059
Timber and Agriculture	149	0	0	149
Private Debt	864	328	1	1,193
Impact	1,680	59	39	1,778
	<b>12,300</b>	<b>2,674</b>	<b>2,253</b>	<b>17,227</b>
Custody Fees				69
<b>Total</b>				<b>17,296</b>

<b>2019/20</b>	<b>Management Fees £000s</b>	<b>Performance related fees £000s</b>	<b>Transaction Costs £000s</b>	<b>Total £000s</b>
<b>Investment Assets</b>				
<b>Pooled Funds</b>	5,586	0	1,115	6,701
<b>Other investments</b>				
Pooled property investments	2,061	1,149	86	3,296
Private equity and joint venture funds	5,345	1,450	468	7,263
Infrastructure funds	1,569	582	160	2,311
Timber and Agriculture	259	0	0	259
Private Debt	480	0	0	480
	<b>15,300</b>	<b>3,181</b>	<b>1,829</b>	<b>20,310</b>
Custody Fees				43
<b>Total</b>				<b>20,353</b>

### **Note 11b – Wales Pension Partnership management expenses**

<b>2019/20 £000s</b>		<b>2020/21 £000s</b>
70	Oversight and Governance	88
200	Transaction Costs	113
79	Fund Management Fees	190
13	Custody Fees	36
<b>362</b>	<b>Total</b>	<b>427</b>

Included in Management Expenses in the first table of this note 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). Underlying manager fees are not included in this table, but are disclosed in the Finance Report elsewhere in the Annual Report. Further details on the WPP can also be found in the Finance Report.

## Note 12 - Investment income

2019/20 Restated £000s		2020/21 £000s
	<b>Pooled Funds</b>	
0	Income from multi asset credit	1,958
0	Income from global equity	2,990
	<b>Other investments</b>	
3,817	Income from pooled property investments	2,794
1,827	Income from private equity and joint venture funds	704
4,038	Income from infrastructure funds	4,330
1,821	Income from private debt	3,625
0	Income from impact funds	952
60	Interest on cash deposits	233
178	Other income	218
<b>11,741</b>		<b>17,804</b>

## Note 13 – Investments

2019/20 Restated £000		2020/21 £000
	<b>Investment Assets</b>	
	<b>Pooled Funds</b>	
182,263	Multi asset credit	250,378
346,996	Diversified growth funds	231,021
317,546	Liability Driven Investment	500,832
140,663	Hedge Fund of Funds	145,594
140,136	Global equity	231,367
100,300	Emerging Market Equity	231,836
	<b>Other investments</b>	
126,651	Pooled property investments	132,870
226,849	Private equity and joint venture funds	193,497
112,156	Infrastructure funds	106,609
19,913	Timber and Agriculture	17,555
40,911	Private Debt	52,967
0	Impact	58,171
1,754,384		2,152,698
20,238	Cash deposits	67,282
	Amounts receivable for sales	2,812
<b>1,774,622</b>	<b>Total investment assets</b>	<b>2,222,792</b>

In 2020/21 the Fund has reclassified its assets to better reflect guidance and its own internal allocation of investments. The reclassification leads to simpler more meaningful categories. As a result in several notes the Fund has restated 2019/20 comparative figures. The impact of this may be seen below.

<b>2019/20</b>	<b>£000s</b>	<b>Reclassified as</b>
Managed Equity Funds quoted overseas	100,300	Emerging Market Equity
Managed Equity Funds unquoted	140,136	Global Equity
Multi strategy investments quoted	81,563	Diversified growth funds
Multi strategy investments unquoted	265,433	Diversified growth funds
Fixed income funds unquoted	40,911	Private Debt
Opportunistic funds unquoted	52,660	Private Equity and joint venture funds
Private Equity funds unquoted	174,189	Private Equity and joint venture funds

During the year the Fund transitioned assets to WPP and also to rebalance its portfolio in line with its Investment Strategy. The table below shows the way in which this was achieved.

<b>Manager / Mandate</b>	<b>Redemptions £000s</b>	<b>Subscriptions £000s</b>
Pyrford DGF	86,358	
Ninety One DGF	84,250	
BlackRock Passive Global Equity	75,935	
Stone Harbor MAC	205,646	
WPP Russell Global Equity		9,300
WPP Russell MAC		239,000
BlackRock Passive ESG Global Equity		98,635
BlackRock Passive EM Equity		71,400
Insight LDI		39,768
	<hr/> 452,189	<hr/> 458,103

## Note 13 A – Reconciliation of movements in investments and derivatives

	Market value 1st April 2020	Purchases during the year	Sales during the year	Take ons during the year	Take offs during the year	Change in market value	Market value 31st March 2021
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
<b>Investment Assets</b>							
<b>Pooled Funds</b>							
Multi asset credit	182,263	242,843	(208,286)	0	0	33,558	250,378
Diversified growth funds	346,996	284	(171,334)	0	0	55,076	231,022
Liability Driven Investment	317,546	39,768	(31,007)	0	0	174,525	500,832
Hedge Fund of Funds	140,663	0	(160)	0	0	5,091	145,594
Global equity	140,136	110,733	(76,187)	0	0	56,685	231,367
Emerging Market Equity	100,300	71,467	(1,789)	0	0	61,858	231,836
<b>Other investments</b>							
Pooled property investments	126,651	6,453	(14,923)	12,059	0	2,630	132,870
Private equity and joint venture funds	226,849	12,952	(29,062)	0	(63,821)	46,579	193,497
Infrastructure funds	112,156	15,352	(5,580)	0	(12,733)	(2,586)	106,609
Timber and Agriculture	19,914	0	(2,675)	0	0	316	17,555
Private Debt	40,911	2,154	(5,492)	17,190	0	(1,796)	52,967
Impact		7,018	(15,105)	47,305	0	18,953	58,171
	1,754,384	509,024	(561,600)	76,554	(76,554)	450,889	2,152,698
Cash deposits	20,238						67,282
Amount receivable for sales	0						2,812
<b>Total investment assets</b>	<u>1,774,622</u>						<u>2,222,792</u>

	Market value 1st April 2019	Purchases during the year	Sales during the year	Take ons during the year	Take offs during the year	Change in market value	Market value 31st March 2020
Restated	£000s	£000s	£000s	£000s	£000s	£000s	£000s
<b>Investment Assets</b>							
<b>Pooled Funds</b>							
Multi asset credit	203,790		(428)	0	0	(21,099)	182,263
Diversified growth funds	365,757	722	(1,830)	0	0	(17,653)	346,996
Liability Driven Investment	422,854		(74,519)	0	0	(30,789)	317,546
Hedge Fund of Funds	138,985		(511)	0	0	2,189	140,663
Global equity	149,723		(335)	0	0	(9,252)	140,136
Emerging Market Equity	118,828	58	(1,457)	0	0	(17,129)	100,300
<b>Other investments</b>							
Pooled property investments	122,836	10,179	(9,322)	0	0	2,958	126,651
Private equity and joint venture funds	211,584	41,948	(43,268)	0	0	16,585	226,849
Directly managed property				0	0		
Infrastructure funds	66,604	53,424	(6,301)	0	0	(1,570)	112,156
Timber and Agriculture	23,274		(3,526)	0	0	165	19,914
Private Debt	32,744	9,561	(480)	0	0	(914)	40,911
	1,856,978	115,892	(141,977)	0	0	(76,509)	1,754,384
Cash deposits	5,765						20,238
<b>Total investment assets</b>	<b>1,862,743</b>						<b>1,774,622</b>



## Note 13b – Analysis by Fund Manager

2019/20			2020/21	
Restated				
£000	%		£000	%
Pooled Investments				
74,931	4.3%	Russell Investments	367,437	17.1%
65,205	3.7%	Blackrock	196,791	9.1%
<b>140,136</b>	<b>8.0%</b>		<b>564,228</b>	<b>26.2%</b>
Investments managed outside Wales Pension Partnership				
317,546	18.1%	Insight	500,832	23.3%
190,404	10.9%	Mobius	231,021	10.7%
100,300	5.7%	Wellington	149,353	6.9%
140,663	8.0%	MAN Group	145,594	6.8%
526,480	30.0%	Private Markets	561,670	26.1%
182,263	10.4%	Stone Harbor	0	0.0%
75,029	4.3%	Ninety One (formerly Investec)	0	0.0%
81,563	4.6%	Pyrford	0	0.0%
<b>1,614,248</b>	<b>92.0%</b>		<b>1,588,470</b>	<b>73.8%</b>
<b>1,754,384</b>	<b>100%</b>		<b>2,152,698</b>	<b>100%</b>

The following investments represent more than 5% of the net assets of the scheme. All of these companies are registered in the UK. Where the table above shows a holding of greater than 5% but the manager does not appear in the list below this is because investments are held in more than one fund.

2019/20		Manager	Holding	2020/21	
£000	%			£000	%
Restated					
317,546	18	Insight	LDI Active 22 Fund	500,832	24
117,835	7	Stone Harbour	SHI LIBOR Multi Strategy No2 Portfolio	0	0

## Note 13c – Stock Lending

The Fund's Investment Strategy sets the parameters for its stock lending programme. The Fund participates in stock lending through its investments with WPP. At 31 March 2021 the total value of all WPP stock on loan was £469,065k.

## Note 14 – Derivatives

No derivative instruments were held by Clwyd Pension Fund at 31 March 2021 or 31 March 2020.

## Note 15 - Fair value of investments

### Fair Value – Basis of valuation

All investment assets are valued using fair value techniques based on the characteristics of each instrument, where possible using market-based information. There has been no change in the valuation techniques used during the year.

Investments and liabilities have been classified into three levels, according to the quality and reliability of information used to determine fair values.

**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 based on observable data.

**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.

The valuation basis for each category of investment asset is set out below.

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
Cash and cash equivalents	Level 1	Carrying value is deemed to be fair value because of the short-term nature of these financial instruments	Not required	Not required

Amounts receivable from investment sales	Level 1	Carrying value is deemed to be fair value because of the short-term nature of these financial instruments	Not required	Not required
Investment debtors and creditors	Level 1	Carrying value is deemed to be fair value because of the short-term nature of these financial instruments	Not required	Not required
Unquoted equity investments	Level 2	Average of broker prices	Evaluated price feeds	Not required
Unquoted fixed income bonds and unit trusts	Level 2	Average of broker prices	Evaluated price fees	Not required
Unquoted pooled fund investments	Level 2	Average of broker prices	Valued net of unrealised gains/losses on hedging	Internal rate of return
Pooled property funds, infrastructure funds and hedge funds where regular trading takes place	Level 2	Closing bid price where bid and offer prices are published; closing single price where single price published	NAV-based pricing set on a forward pricing basis	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

Pooled Property Funds, Infrastructure and Hedge Funds where regular trading does not take place. Other unquoted and private equities	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines 2018 and the IPEV Board's Special Valuation Guidance (March 2020)	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by changes to expected cashflows or by differences between audited and unaudited accounts
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### Sensitivity of assets valued at level 3

The fund has determined that the valuation methods described above for level 3 investments are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2021 and 31 March 2020.

<b>2020/21</b>	<b>Potential variation in fair value <sup>1</sup> %</b>	<b>Value at 31st March £000s</b>	<b>Potential value on increase £000s</b>	<b>Potential value on decrease £000s</b>
<b>Other investments</b>				
Pooled property investments	10	121,401	133,541	109,261
Private equity and joint venture funds	10	193,496	212,846	174,147
Infrastructure funds	10	91,550	100,705	82,395
Timber and Agriculture	7	17,555	18,783	16,326
Private Debt	10	52,968	58,265	47,671
Impact	10	58,171	63,988	52,353
		<u>535,140</u>	<u>588,127</u>	<u>482,153</u>

<sup>1</sup> The percentages used in this note were agreed in 2017/18 and are reviewed annually.

<b>2019/20</b>	<b>Potential variation in fair value %</b>	<b>Value at 31st March £000s</b>	<b>Potential value on increase £000s</b>	<b>Potential value on decrease £000s</b>
<b>Other investments</b>				
Pooled property investments	10	115,468	127,015	103,921
Private equity and joint venture funds	10	226,849	249,534	204,164
Infrastructure funds	10	97,294	107,023	87,564
Timber and Agriculture	7	19,914	21,307	18,520
Private Debt	10	40,911	45,003	36,820
		<u>500,435</u>	<u>549,881</u>	<u>450,989</u>

## Note 15a – Fair Value of hierarchy

The following table shows the position of the Fund's assets at 31st March 2021 based on the Fair Value hierarchy:

Values at 31st March 2021	Quoted market price £000s	Using observable inputs £000s	Significant observable inputs £000s	Total £000s
<b>Investment Assets</b>				
<b>Pooled Funds</b>				
Multi asset credit		250,378		250,378
Diversified growth funds		231,021		231,021
Liability Driven Investment		500,832		500,832
Hedge Fund of Funds		145,594		145,594
Global equity		231,366		231,366
Emerging Market Equity	149,353	82,484		231,837
<b>Other investments</b>				
Pooled property investments	0	11,469	121,401	132,870
Private equity and joint venture funds			193,496	193,496 <sup>1</sup>
Infrastructure funds	9,099	5,962	91,550	106,610
Timber and Agriculture			17,555	17,555
Private Debt			52,968	52,968
Impact			58,171	58,171
	158,451	1,459,107	535,140	2,152,698
Cash deposits	67,282			67,282
Amounts receivable for sales	2,812			2,812
<b>Total investment assets</b>	<b>228,546</b>	<b>1,459,107</b>	<b>535,140</b>	<b>2,222,792</b>

<sup>1</sup> Includes an investment of £2,007k which is valued at cost because there are a wide range of possible Fair Value measurements available and cost represents the best estimate of Fair Value

**Values as at 31st March 2020**  
**Restated**

	<b>Quoted market price £000s</b>	<b>Using observable inputs £000s</b>	<b>Significant observable inputs £000s</b>	<b>Total  £000s</b>
<b>Investment Assets</b>				
<b>Pooled Funds</b>				
Multi asset credit		182,263		182,263
Diversified growth funds	81,563	265,433		346,996
Liability Driven Investment		317,546		317,546
Hedge Fund of Funds		140,663		140,663
Global equity		140,136		140,136
Emerging Market Equity	100,300			100,300
<b>Other investments</b>				
Pooled property investments		11,183	115,468	126,651
Private equity and joint venture funds			226,849	226,849
Infrastructure funds	8,403	6,460	97,294	112,156
Timber and Agriculture			19,914	19,914
Private Debt			40,911	40,911
	190,266	1,063,683	500,435	1,754,384
Cash deposits	20,238			20,238
<b>Total investment assets</b>	<b>210,504</b>	<b>1,063,683</b>	<b>500,435</b>	<b>1,774,622</b>

## Note 15b: Reconciliation of Fair Value measurements within level 3

	Value at 31st March 2020	Transfers in	Transfers out	Purchases	Take ons	Sales	Take offs	Unrealised gains and losses	Realised gains and losses	Value at 31st March 2021
<b>Other Investments</b>										
Pooled property investments	115,468	0	0	6,453	12,059	(14,923)	0	(1,271)	3,615	121,401
Private equity and joint venture funds	226,849	0	0	12,952	0	(29,062)	(63,821)	35,189	11,390	193,496
Infrastructure funds	97,293	0	0	15,352	0	(5,580)	(12,733)	(5,350)	2,567	91,550
Timber and Agriculture	19,913	0	0	0	0	(2,675)	0	305	12	17,555
Private Debt	40,911	0	0	2,154	17,190	(5,492)	0	(1,796)	0	52,968
Impact	0	0	0	7,017	47,305	(15,105)	0	18,520	434	58,171
	500,433	0	0	43,928	76,555	(72,836)	(76,555)	45,596	18,019	535,140

	Value at 31st March 2019	Transfers in	Transfers out	Purchases	Take ons	Sales	Take offs	Unrealised gains and losses	Realised gains and losses	Value at 31st March 2020
<b>Pooled Funds</b>										
Hedge Fund of Funds	5,656	0	0	0	0	0	0	(5,656)	0	0
<b>Other Investments</b>										
Pooled property investments	56,165	56,057	0	10,179	0	(9,322)	0	241	2,149	115,468
Private equity and joint venture funds	211,584	0	0	41,948	0	(43,268)	0	2,517	14,067	226,849
Infrastructure funds	51,471	0	0	53,213	0	(6,301)	0	(2,944)	1,853	97,293
Timber and Agriculture	23,274	0	0	0	0	(3,526)	0	(298)	462	19,913
Private Debt	32,744	0	0	9,561	0	(480)	0	(914)	0	40,911
	380,894	56,057	0	114,902	0	(62,897)	0	(7,054)	18,531	500,433



## Note 16 - Classification of Financial Instruments

Fair Value through profit and loss £000s Restated	2019/20	Financial liabilities at amortised cost £000s		Fair Value through profit and loss £000s	2020/21	Financial liabilities at amortised cost £000s
	Loans and receivables £000s				Loans and receivables £000s	
			<b>Financial Assets</b>			
			<b>Pooled Funds</b>			
182,263			Multi asset credit	250,378		
346,996			Diversified growth funds	231,022		
317,546			Liability Driven Investment	500,832		
140,663			Hedge Fund of Funds	145,594		
140,136			Global equity	231,367		
100,300			Emerging Market Equity	231,836		
			<b>Other investments</b>			
126,651			Pooled property investments	132,870		
226,849			Private equity and joint venture funds	193,497		
112,156			Infrastructure funds	106,609		
19,914			Timber and Agriculture	17,555		
40,911			Private Debt	52,967		
			Impact	58,171		
	20,238		Cash	30,204	37,078	
	0		Other investment balances		2,812	
	0		Debtors		417	
1,754,384	20,238	0		2,182,902	40,307	0
			<b>Financial liabilities</b>			
		(2,112)	Creditors			(451)
1,754,384	20,238	(2,112)		2,182,902	40,307	(451)

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

## **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). 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 risk (price risk, currency risk and interest rate risk) 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. The fund manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the fund's risk management strategy rests with the Clwyd Pension Fund Committee. Risk management policies are established to identify and analyse the risks faced by the pension fund's operations, then reviewed regularly to reflect changes in activity and market conditions.

### **Market Risk**

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The objective of the fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, while optimising investment return.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the pension fund and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis, and manage any identified risk in two ways:

- The exposure of the fund to market risk is monitored through a factor risk analysis, to ensure that risk remains within tolerable levels.
- Specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

Equity futures contracts and exchange traded option contracts on individual securities may also be used to manage market risk on equity investments. It is possible for over-the-counter equity derivative contracts to be used in exceptional circumstances to manage specific aspects of market risk.

## Other price risk

Other 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 in the market.

The fund is exposed to share and derivative price risk. The fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored to ensure it is within limits specified in the fund investment strategy.

## Other price risk – sensitivity analysis

In consultation with its investment advisors, the fund has determined that the following movements in market price risk are reasonably possible for 2021/22, assuming that all other variables, in particular foreign exchange rates and interest rates, remain the same:

Assets exposed to price risk	Value	3 year volatility range	Value on increase	Value on decrease
	£000s	%	£000s	£000s
As at 31 March 2020	1,774,622	7.44%	1,906,676	1,642,570
As at 31 March 2021	2,219,980	8.86%	2,416,656	2,023,304

## Interest rate risk

The fund recognises that interest rates can vary and can affect both income to the fund and the carrying value of fund assets, both of which affect the value of the net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy. The fund's investment advisor has advised that long-term average rates are expected to move less than 100 basis points (1%) from one year to the next and experience suggests that such movements are likely.

## Interest rate risk – sensitivity analysis

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 1% change in interest rates. The analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash and cash equivalent balances but they will affect the interest income received on those balances.

Assets exposed to interest rate risk	Value	Value on 1% increase	Value on 1% decrease
	£000s	£000s	£000s
As at 31 March 2020	202,501	200,881	204,121
As at 31 March 2021	317,660	314,483	320,837

## Currency risk

Currency risk represents the risk that future cash flows will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on any cash balances and investment assets not denominated in UK sterling. Following analysis of historical data in consultation with the fund investment advisors, the fund considers the likely volatility associated with foreign exchange rate movements to be not more than 15%. A 15% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows.

### Currency risk – sensitivity analysis

Assets exposed to currency risk	Value	%	Value on increase	Value on decrease
	£000s	%	£000s	£000s
As at 31 March 2020	1,220,058	6.84%	1,303,521	1,136,597
As at 31 March 2021	1,415,871	6.52%	1,508,167	1,323,575

## Credit risk

Credit risk represents the risk that the counterparty to a financial transaction will fail to discharge an obligation and cause the fund to incur a financial loss. Assets potentially affected by this risk are investment assets, cash deposits and third-party loans. The selection of high-quality counterparties, brokers and financial institutions minimises credit risk and the market values of investments generally reflect an assessment of credit risk.

Credit risk may also occur if an employing body not supported by central government does not pay contributions promptly, or defaults on its obligations. The pension fund has not experienced any actual defaults in recent years. All contributions due at 31 March 2021 were received in the first months of the financial year.

## 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 2021, liquid assets were £1,617m representing 75% of total fund assets (£1,253m at 31 March 2020 representing 71% of the Fund at that date). The majority of these investments can in fact be liquidated within a matter of days.

## Refinancing risk

The key risk is that the pension fund will need to replenish a significant proportion of its financial instruments at a time of unfavourable interest rates. The pension fund does not have any financial instruments that have a refinancing risk as part of its investment strategy.

## Note 18 – 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 19 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.

2019/20		2020/21
£m		£m
2,835	Present value of promised retirement benefits	3,352
(1,777)	Fair value of scheme assets	(2,223)
<b>1,058</b>	<b>Total</b>	<b>1,129</b>

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:

2019/20		2020/21
%		%
2.10	Inflation/pension increase rate assumption	2.70
3.35	Salary increase rate	3.95
2.40	Discount rate	2.10

## Note 19 – Current Assets

2019/20		2020/21
£000s		£000s
204	<b>Long-term debtors</b>	254
	<b>Short-term debtors</b>	
1,285	Contributions due - Employees	942
3,379	Contributions due - Employers	3,624
	Prepayments	397
61	Sundry debtors	96
<b>4,725</b>	<b>Total Short-term debtors</b>	<b>5,059</b>
<b>4,929</b>	<b>Total</b>	<b>5,313</b>

## Note 20 – Current Liabilities

2019/20		2020/21
£000		£000
(20)	Contributions received in advance	(131)
(1,489)	Benefits payable	(1,083)
(104)	Administering authority	(8)
(66)	HMRC	(11)
(433)	Sundry creditors	(664)
<b>(2,112)</b>	<b>Total</b>	<b>(1,897)</b>

## Note 21 - 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. 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

2019/20		2020/21
£000		£000
<b>1,031</b>	Contributions in the year	<b>595</b>
<b>Value of AVC funds at 31 March:</b>		
5,434	Prudential	5,442
408	Utmost (formerly Equitable Life)	346
<b>5,842</b>	<b>Total</b>	<b>5,788</b>

## Note 22 – Agency Services

Clwyd Pension Fund pays discretionary awards to former employees of the current unitary authorities, Coleg Cambria and some other employers. Amounts paid are fully reclaimed from the employer bodies

2019/20		2020/21
£000s		£000s
499	Conwy County Borough Council	475
1,699	Denbighshire County Council	1,653
3,056	Flintshire County Council	3,000
20	Powys County Council	19
2,104	Wrexham County Borough Council	2,040
56	Coleg Cambria	55
54	Other employers	41
<b>7,488</b>	<b>Total</b>	<b>7,283</b>

## Note 23 - Related Party Transactions

### Governance

Under legislation, introduced in 2004, Councillors are entitled to join the Pension Scheme. As at 31st March 2021, four Members of the Clwyd Pension Fund Committee had taken this option, with two being in receipt of a pension.

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 £1.8m (£1.9m in 2019/20) 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 11.

### 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:

2019/20		2020/21
£000s		£000s
17	Short-term benefits	20
(5)	Post-employment benefits	56
<b>11</b>	<b>Total</b>	<b>76</b>

## Note 24 - Contingent liabilities and contractual commitments

Outstanding capital commitments (investments) at 31 March 2021 were £179m (31 March 2020: £211m). These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the impact, private debt, private equity, property and infrastructure parts of the portfolio. The amounts 'called' by these funds are irregular in both size and timing over a period of between four and six years from the date of each original commitment.

## Note 25

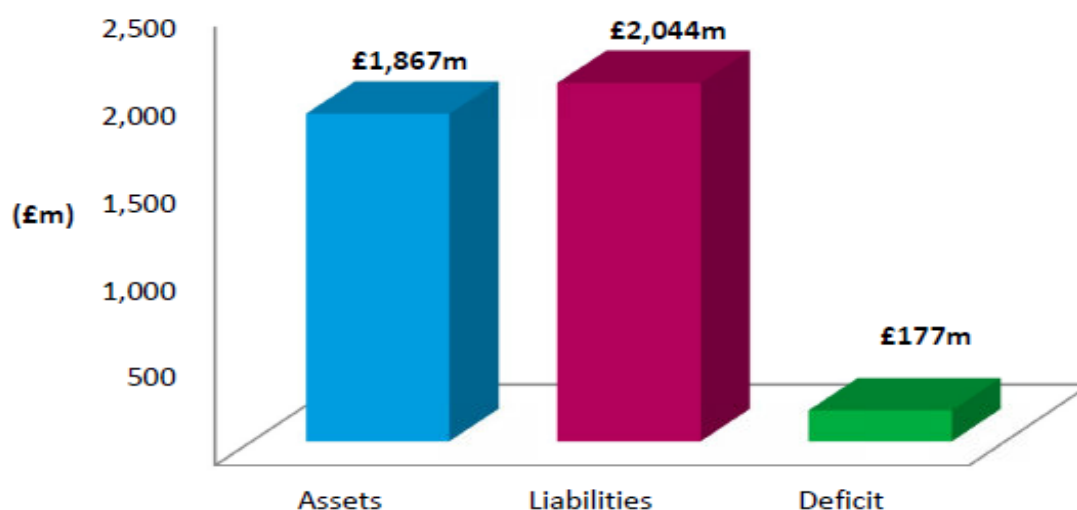
### Clwyd Pension Fund

#### Accounts for the year ended 31 March 2021 - 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 has accepted that remedies are required for all public sector pension schemes and a consultation was issued in July 2020 including a proposed remedy for the LGPS. The key feature of the proposed remedy was to extend the final salary underpin to a wider group of members for service up to 31 March 2022. This applies to all members who were active on or before 31 March 2012 and who either remain active or left service after 1 April 2014.

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 and 2021 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 as a general rule but the Administering Authority has consulted on updates to the Funding Strategy Statement which will allow the Fund to review contributions between valuations where there is a material change in employer covenant or liabilities, in

line with the new regulations on contribution flexibilities introduced in September 2020. The position will 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 2021 (the 31 March 2020 assumptions are included for comparison):

	31 March 2020	31 March 2021
Rate of return on investments (discount rate)	2.4% per annum	2.1% per annum
Rate of CPI Inflation / CARE benefit revaluation	2.1% per annum	2.7% per annum
Rate of pay increases*	3.35% per annum	3.95% per annum
Rate of increases in pensions in payment (in excess of GMP) / Deferred revaluation	2.2% per annum	2.8% 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. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2020.

During the year corporate bond yields decreased, resulting in a lower discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.1% p.a. vs 2.4% p.a.). In addition, the expected long-term rate of CPI inflation increased during the year, from 2.1% p.a. to 2.7% p.a. Both of these factors served to increase the liabilities over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2020 was estimated as £2,835 million including the potential impact of the McCloud Judgment.

Interest over the year increased the liabilities by c£68 million, and allowing for net benefits accrued/paid over the period also increased the liabilities by c£25 million (this includes any increase in liabilities arising as a result of early retirements/augmentations). There was also an increase in liabilities of £424 million due to "actuarial losses" (i.e. the effects of the changes in the actuarial assumptions used, referred to above, offset to a small extent by the fact that the 2021 pension increase award was less than assumed).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2021 is therefore £3,352 million.

## **GMP Indexation**

The public service schemes were previously 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 has recently confirmed that it will extend this to include members reaching State Pension Age from 6 April 2021 onwards. This will give rise to, a further cost to the LGPS and its employers, and an estimation of this cost was included within the IAS26 liabilities calculated last year and is again included in the overall 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**

**August 2021**

## 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 : 25/11/2021

### 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 :-

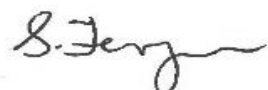
- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code.

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 2021, and its income and expenditure for the year then ended.

Signed :



Gary Ferguson CPFA

Corporate Finance Manager (Chief Finance Officer)

Date : 25/11/2021

## **Audit Report**

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

#### **Opinion on the financial statements**

I have audited the financial statements of Clwyd Pension Fund for the year ended 31 March 2021 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 international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2020-21.

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 2021, and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with legislative requirements and international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2020-21.

#### **Basis of opinion**

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. 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.

#### **Conclusions relating to going concern**

In auditing the financial statements, I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the pension fund's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the responsible financial officer with respect to going concern are described in the relevant sections of this report.

#### **Other information**

The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. The Responsible Financial Officer is responsible for the other information contained within the annual report. 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.

My responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

## **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, or returns adequate for my audit have not been received from branches not visited by my team;
- 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.

## **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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

My procedures included the following:

- Enquiring of management, the Council's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to Clwyd Pension Fund's policies and procedures concerned with:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected, or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.
- Considering as an audit team how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, I identified potential for fraud in the posting of unusual journals.
- Obtaining an understanding of Clwyd Pension Fund's framework of authority as well as other legal and regulatory frameworks that Clwyd Pension Fund operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of Clwyd Pension Fund.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
  - enquiring of management and the Pension Fund Committee;
  - reading minutes of meetings of those charged with governance and the administering authority; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

I also communicated relevant identified laws and regulations and potential fraud risks to all the audit team and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.



The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the Clwyd Pension Fund's controls, and the nature, timing and extent of the audit procedures performed.

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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of my auditor's report.

### **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.

Adrian Crompton  
Auditor General for Wales  
29 November 2021

24 Cathedral Road  
Cardiff  
CF11 9LJ

The maintenance and integrity of the Clwyd Pension Fund / Flintshire County Council's websites are the responsibility of the Accounting Officer; the work carried out by auditors does not involve consideration of these matters and accordingly auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

## Appendix 8

### Financial Report

#### Introduction

This report includes financial monitoring reports for the year 2020/21 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.

The Fund's financial processes and activities are scrutinised by both Internal and External Audit which helps reduce the risk of errors and fraud. The Fund receives reports from Flintshire County Council Internal Audit Team and Audit Wales and acts appropriately in respect of any recommendations.

#### Cash Flow 2020/21

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 27% of the Fund. Cash flow predictions for the drawdowns and distributions are reassessed annually to incorporate the actuals for the year and any further commitments agreed during the period. The following table shows a summarised final cash flow for 2020/21. 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.

<b>2020/21</b>	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
<b>Opening Cash</b>	<b>(23,800)</b>	<b>(20,237)</b>	<b>(3,563)</b>
<b>Payments</b>			
Pensions	67,800	64,908	2,892
Lump Sums & Death Grants	16,000	12,475	3,525
Transfers Out	6,000	5,901	99
Expenses (excluding investments)	5,200	5,073	127
Tax Paid	100	174	(74)
Support Services	170	173	(3)
<b>Total Payments</b>	<b>95,270</b>	<b>88,704</b>	<b>6,566</b>
<b>Income</b>			
Employer Contributions	(44,000)	(49,282)	5,282
Employee Contributions	(16,000)	(17,518)	1,518
Employer Deficit Payments	(14,000)	(14,977)	977
Transfers In	(6,000)	(3,393)	(2,607)
Pension Strain	(1,200)	(107)	(1,093)
Income	(40)	(30)	(10)
<b>Total Income</b>	<b>(81,240)</b>	<b>(85,307)</b>	<b>4,067</b>

<b>Cash-flow Net of Investment Income</b>	<b>14,030</b>	<b>3,397</b>	<b>10,633</b>
Investment Income	(8,000)	(10,270)	2,270
Investment expenses	4,000	3,918	82
<b>Total Net of In House Investments</b>	<b>10,030</b>	<b>(2,955)</b>	<b>12,985</b>
<b>In House Investments</b>			
Draw downs	70,403	43,927	26,476
Distributions	(78,672)	(63,533)	(15,139)
<b>Net Expenditure /(Income)</b>	<b>(8,269)</b>	<b>(19,606)</b>	<b>11,337</b>
<b>Total Net Cash-Flow</b>	<b>1,761</b>	<b>(22,561)</b>	<b>24,322</b>
<b>Movement to/from Managers</b>	<b>0</b>	<b>5,720</b>	<b>(5,720)</b>
<b>Closing Cash</b>	<b>(22,039)</b>	<b>(37,078)</b>	<b>15,039</b>

### 3 Year Cash Flow Forecast

The following table shows the cash flow forecasts for the next three years to March 2024. 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 5.4% per annum.

	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
<b>Opening Cash</b>	<b>(29,760)</b>	<b>(30,668)</b>	<b>(28,080)</b>
<b>Payments</b>			
Pensions	66,600	68,000	68,000
Lump Sums & Death Grants	16,000	16,000	16,000
Transfers Out	6,000	6,000	6,000
Expenses (excluding investments)	5,480	5,480	5,480
Tax Paid	100	100	100
Support Services	180	180	180
<b>Total Payments</b>	<b>94,360</b>	<b>95,760</b>	<b>95,760</b>
<b>Income</b>			
Employer Contributions	(49,000)	(49,000)	(49,000)
Employee Contributions	(17,000)	(17,200)	(17,200)
Employer Deficit Payments	(15,000)	(15,000)	(15,000)
Transfers In	(6,000)	(6,000)	(6,000)
Pension Strain	(1,200)	(1,200)	(1,200)
Income	(40)	(40)	(40)
<b>Total Income</b>	<b>(88,240)</b>	<b>(88,440)</b>	<b>(88,440)</b>
<b>Cash-flow Net of Investment Income</b>	<b>6,120</b>	<b>7,320</b>	<b>7,320</b>
Investment Income	(8,000)	(8,000)	(8,000)
Investment expenses	4,000	4,000	4,000
<b>Total Net of In House Investments</b>	<b>2,120</b>	<b>3,320</b>	<b>3,320</b>
<b>In House Investments</b>			
Draw downs	66,175	72,061	97,061
Distributions	(69,203)	(72,793)	(69,613)
<b>Net Expenditure /(Income)</b>	<b>(3,028)</b>	<b>(732)</b>	<b>27,448</b>
<b>Total Net Cash-Flow</b>	<b>(908)</b>	<b>2,588</b>	<b>30,768</b>
<b>Closing Cash</b>	<b>(30,668)</b>	<b>(28,080)</b>	<b>2,688</b>

## Analysis of Operating Expenses

The following table shows the actual operating expenses for the Fund for 2020/21 compared to 2019/20. Management fees overall have reduced due to lower performance fees in Private Markets, and as a result of the restructure of fee arrangements with two core managers. Other significant changes were due to agreed additional project work in relation to the impact of the McCloud judgement and Private Markets.

	Actual 2019/20 £000s	Actual 2020/21 £000s	Variance 2020/21 £000s
<b>Governance Expenses</b>			
Employee Costs	283	261	(21)
Support & Services Costs (Internal Recharges)	20	22	2
IT	2	1	(1)
Other (Transport, Supplies & Services)	102	54	(48)
Audit Fees	38	39	1
Actuarial Fees	465	504	39
Consultant Fees	641	847	206
Pooling (Consultants and Host)	79	101	22
Advisor Fees	220	576	356
Legal Fees	20	16	(4)
Pension Board	53	106	53
<b>Total Governance Expenses</b>	<b>1,923</b>	<b>2,528</b>	<b>605</b>
<b>Investment Management Expenses</b>			
Fund Manager Fees	20,030	16,924	(3,106)
Custody Fees	44	69	25
Performance Monitoring Fees	75	67	(8)
Pooling (Operator and FM costs)	279	304	25
<b>Total Investment Management Expenses</b>	<b>20,428</b>	<b>17,364</b>	<b>(3,066)</b>
<b>Administration Expenses</b>			
Employee Costs	935	1,091	156
Support Services Costs (FCC Recharges)	151	150	(1)
Premises	0	6	6
IT (Direct or External charged Services)	408	426	18
Other (Supplies & Services etc)	112	119	7
Outsourcing	197	42	(155)
<b>Total Administration Expenses</b>	<b>1,803</b>	<b>1,833</b>	<b>30</b>
<b>Employer Liaison Team</b>			
Direct Costs	222	199	(23)
<b>Total Employer Liaison Team</b>	<b>222</b>	<b>199</b>	<b>(23)</b>
<b>Total Costs</b>	<b>24,376</b>	<b>21,925</b>	<b>(2,454)</b>

The following table shows actual costs for 2020/21 compared to the budgeted costs along with the budget for 2021/22. Actuarial fees were lower than expected. There will generally be a difference in manager fees compared to budget as these are based on market valuations which are difficult to

estimate. Pooling fees included charges for Transition and Transaction fees which were not included in the budget. There was a saving on Administration employee expenses as a result of delays in commencing the additional work on the impact of the McCloud judgement and also as a result of vacant posts. Outsourcing costs were also lower than anticipated.

	<b>Actual</b>	<b>Budget</b>	<b>Variance</b>	<b>Budget</b>
	<b>2020/21</b>	<b>2020/21</b>	<b>2020/21</b>	<b>2021/22</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
<b>Governance Expenses</b>				
Employee Costs	261	323	(62)	326
Support & Services Costs (Internal Recharges)	22	24	(2)	24
IT	1	5	(4)	5
Other (Transport, Supplies & Services)	54	82	(28)	97
Audit Fees	39	41	(2)	41
Actuarial Fees	504	641	(137)	696
Consultant Fees	847	859	(12)	942
Pooling (Consultants and Host)	101	120	(19)	130
Advisor Fees	576	524	52	485
Legal Fees	16	41	(25)	40
Pension Board	106	88	18	91
<b>Total Governance Expenses</b>	<b>2,528</b>	<b>2,748</b>	<b>(220)</b>	<b>2,877</b>
<b>Investment Management Expenses</b>				
Fund Manager Fees	16,924	24,458	(7,534)	19,915
Custody Fees	69	32	37	32
Performance Monitoring Fees	67	93	(26)	53
Pooling (Operator and FM costs)	304	190	114	836
<b>Total Investment Management Expenses</b>	<b>17,364</b>	<b>24,773</b>	<b>(7,409)</b>	<b>20,836</b>
<b>Administration Expenses</b>				
Employee Costs	1,091	1,247	(156)	1,366
Support Services Costs (FCC Recharges)	150	140	10	158
Premises	6	0	6	0
IT (Direct or External charged Services)	426	405	21	515
Other (Supplies & Services etc)	119	108	11	134
Outsourcing	42	300	(258)	30
<b>Total Administration Expenses</b>	<b>1,833</b>	<b>2,200</b>	<b>(367)</b>	<b>2,203</b>
<b>Employer Liaison Team</b>				
Direct Costs	199	223	(24)	286
<b>Total Employer Liaison Team</b>	<b>199</b>	<b>223</b>	<b>(24)</b>	<b>286</b>
<b>Total Costs</b>	<b>21,925</b>	<b>29,944</b>	<b>(8,019)</b>	<b>26,201</b>

## Employers participating in the Fund at 31 March 2021

### Contributions

52 bodies contributed to the Fund during 2020/21, 33 scheduled and 19 admitted. Contributions are paid to the Fund by the 19<sup>th</sup> of the month following the month they relate to. Employer and employee contributions, (including deficit payments) received during 2020/21 are shown in the following table, as is the rate of contribution as a percentage of pensionable pay.

4 new bodies have joined the Fund during 2020/21, 2 admitted and 2 scheduled. No bonds or any other secured funding arrangements have been facilitated.

Scheduled bodies	Employer Contributions £	%	Employee contributions £	Avg %
Flintshire County Council	20,871,694	17.3	5,614,687	6.18
Wrexham County Borough Council	18,328,470	18.2	4,827,073	6.15
Denbighshire County Council	15,327,718	17.3	4,009,475	6.27
Coleg Cambria	2,911,362	16.5	882,954	6.35
North Wales Fire Service	1,817,784	17.0	338,858	6.74
Glyndwr University	1,568,919	17.1	520,805	6.92
North Wales Valuation Tribunal	45,039	18.9	10,984	8.10
Rhyl Town Council	42,687	18.7	8,844	7.42
Hawarden Community Council	38,040	21.8	13,726	7.05
Prestatyn Town Council	26,678	21.5	9,347	6.32
Mold Town Council	20,223	18.5	7,713	6.48
Coedpoeth Community Council	17,059	20.4	5,782	5.94
Rhos Community Council	16,255	21.6	4,593	6.07
Holywell Town Council	14,401	20.1	3,975	6.01
Buckley Town Council	13,183	26.6	5,105	6.29
Caia Park Community Council	12,432	20.8	6,384	5.92
Denbigh Town Council	7,084	18.5	2,393	6.25
Offa Community Council	6,520	26.3	2,656	6.08
Shotton Town Council	6,142	29.4	1,844	6.50
Cefn Mawr Community Council	5,006	12.2	2,179	5.01
Acton Community Council	4,988	22.9	1,213	5.80
Flint Town Council	4,380	17.5	1,452	5.80
Gresford Town Council	3,498	21.9	926	5.80
Ruthin	3,252	16.0	1,157	5.65
Marchwiel Community Council	3,000	23.1	696	5.73
Penyffordd Community Council	2,477	16.4	883	5.61
Hope Community Council	2,106	16.4	673	5.51
Broughton & Bretton	1,971	21.9	495	5.50
Bagillt Community Council	1,970	17.2	597	5.49
Northop Town Council	1,918	21.7	486	5.50
Gwernymynydd Community Council	1,689	28.8	323	5.51
Argoed Community Council	500	17.6	563	5.50
Connah's Quay Town Council	0	17.8	5,189	5.69
Total Scheduled bodies	61,128,445		16,294,029	

<b>Admitted bodies</b>	<b>Employer Contributions £</b>	<b>%</b>	<b>Employee contributions £</b>	<b>Avg %</b>
Newydd Catering & Cleaning Ltd	645,218	21.8	166,482	5.6
Denbighshire Leisure	632,979	16.8	231,258	6.1
Aura Leisure & Libraries Ltd	539,488	18.7	194,033	6.2
Careers Wales	224,248	18.5	91,371	6.4
Civica UK	176,398	20.9	68,895	6.5
Home Farm Trust Ltd	124,091	20.1	39,820	5.9
Freedom Leisure	85,239	21.7	33,555	6.2
Holywell Leisure Ltd	37,368	18.1	13,713	6.0
Glyndwr Students Union	22,903	11.5	12,157	6.3
Aramark Ltd	16,241	18.8	5,644	6.2
Chartwells	15,910	24.9	3,338	5.7
Cartref NI	12,971	20.6	3,955	6.1
Hafan Deg (KL Care)	12,491	23.0	3,019	12.8
Churchills	6,176	19.6	1,733	5.5
Dolce	4,237	21.7	1,074	5.5
Denbigh Youth Group	4,150	24.6	7,810	28.0
Bodelwyddan Castle Trust	2,680	18.3	806	5.5
Morgan LLwyd	966	20.6	198	4.2
Cartref y Dyffryn Ceiriog	0	25.2	4,165	6.0
Total Admitted bodies	2,563,753		883,024	
Total contributions	63,692,197		17,177,054	

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.

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 £1,520,605 (2.39% of the total employer contributions).

<b>Employer</b>	<b>Late Occasions</b>	<b>Contributions (£)</b>
A	1	1,508,395
B	9	12,172
C	1	39

## Fund Assets

The table below provides an analysis of the Fund's assets as at 31 March 2021.

	<b>UK</b>	<b>Non –UK</b>	<b>Global</b>	<b>Total</b>
	<b>£0</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>
Equities	0	231,837	231,366	463,203
Alternatives	235,995	325,675	376,615	938,285
Bonds & LDI	500,832	0	250,378	751,210
Property (Direct)	0	0	0	0
Cash	67,282	0	0	67,282
<b>Total</b>	<b>804,109</b>	<b>557,512</b>	<b>858,359</b>	<b>2,219,980</b>

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 & Impact/Local, Infrastructure, Timber and Agriculture.

## Investment Income

The table below provides an analysis of the Fund's investment income received as at 31 March 2021.

	<b>UK</b>	<b>Non –UK</b>	<b>Global</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Equities	0	0	2,990	2,990
Alternatives	6,328	6,295	0	12,623
Bonds & LDI	0	0	1,958	1,958
Property (Direct)	0	0	0	0
Cash	233	0	0	233
<b>Total</b>	<b>6,561</b>	<b>6,295</b>	<b>4,948</b>	<b>17,804</b>

## 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 11 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 information on all fees relating to our investments.



The Fund has exposures to underlying managers through investments in alternative mandates including Hedge Funds, the 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.

<b>Fund Management Fees</b>	<b>Avg bps</b>	<b>20/21 £000</b>	<b>Avg bps</b>	<b>19/20 £000</b>
<b>CORE (74% of Fund)</b>	<b>58</b>	<b>9,202</b>	<b>105</b>	<b>12,932</b>
Total expenses including AMC	18	2,928	45	5,574
Underlying Fees (includes performance and transaction fees)	28	4,460	51	6,243
Performance Fees	0	0	0	0
Transaction Fees	11	1,814	9	1,115
 <b>NON CORE (26% of Fund)</b>	 <b>260</b>	 <b>14,579</b>	 <b>296</b>	 <b>16,142</b>
Total expenses including AMC	167	9,372	185	9,726
Underlying Fees (includes performance and transaction fees)	37	2,094	48	2,521
Performance Fees	48	2,674	60	3,181
Transaction Fees	8	439	14	714
 Total underlying fees	 30	 6,554	 50	 8,764
Total direct fees	80	17,227	116	20,310
<b>Total fees</b>	<b>110</b>	<b>23,781</b>	<b>166</b>	<b>29,074</b>
Net Assets (Core)		1,591,028		1,227,904
Net Assets (Non-Core)		561,670		526,481
<b>Total Net Assets (excluding cash)</b>		<b>2,152,698</b>		<b>1,754,384</b>

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 74% (70% in 2019/20) of the Fund assets but only 39% (44% in 2019/20) 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 26% (30% in 2019/20) of the Fund assets the proportion of fees amounts to 61% (56% in 2019/20). These figures include the underlying fees. In comparison, excluding underlying fees, the proportion of fees for core assets is 28% (33% in 2019/20) and non-core, 72% (67% in 2019/20). Many of the Fund’s managers are now signed up to the Cost Transparency Initiative (CTI) and are providing fees through the CTI template.

## **Movement in Current Assets and Current Liabilities**

There was an increase in current assets of £384k in 2020/21, which is mainly due to the timing of a payment in relation to the provision of the Altair system. Current liabilities fell by £215k as a result of a reduction of benefits payable due. This figure is volatile as it is affected by the amount of lump sums and death grants due but not paid on 31<sup>st</sup> March.

## **Wales Pension Partnership (WPP)**

The WPP was established in 2017 with the objective to deliver:

- economies of scale
- strong governance and decision making
- reduced costs and excellent value for money, and
- an improved capacity and capability to invest in infrastructure

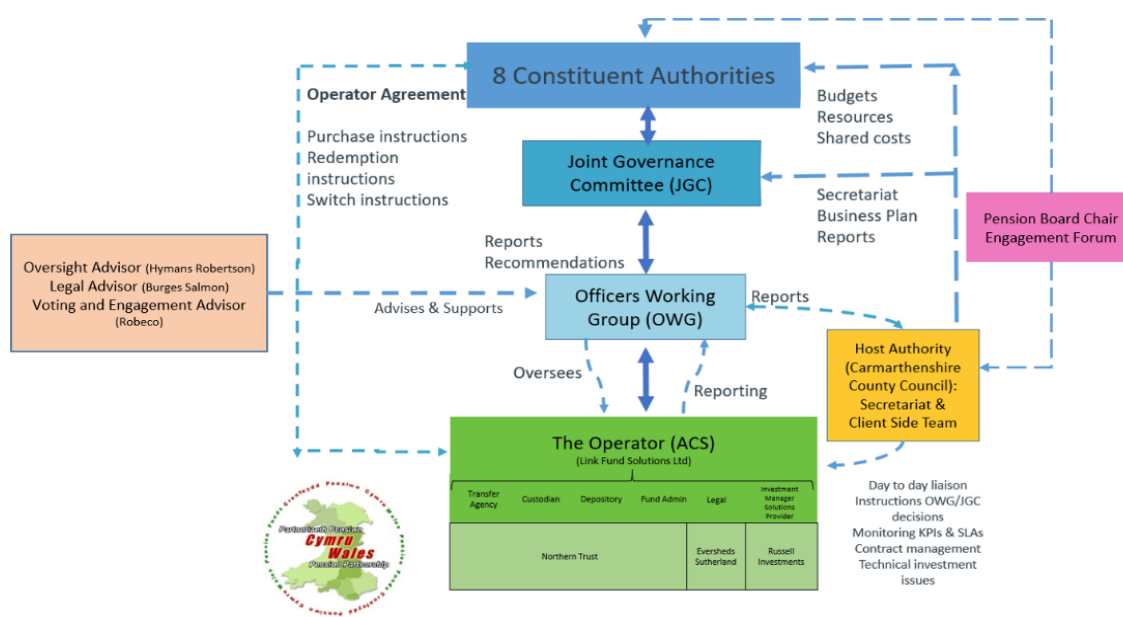
The WPP is one of the eight Local Government Pension pools nationally and is a collaboration of the eight LGPS funds in Wales including Cardiff and the Vale of Glamorgan, Clwyd, Dyfed, Greater Gwent (Torfaen), Gwynedd, Powys, Rhondda Cynon Taff and Swansea. The eight funds have a long, successful history of collaboration including a collaborative tender for a single passive equity provider for the Welsh funds pre-dating the Government's pooling initiative.

Collective investment management offers the potential for investment fee savings, opportunities to broaden investment portfolios, enhanced voting and engagement activity as well as access to shared knowledge and best practice. Whilst the WPP is responsible for providing collaborative investment solutions, each constituent authority remains responsible for setting their own investment strategy.

WPP's 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. 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.

## **Governance**

The WPP details how it deals with all aspects of Governance through its Inter Authority Agreement (IAA) which was approved by all eight Constituent Authorities in March 2017. The IAA defines the standards, roles and responsibilities of the Constituent Authorities, its Members, Committees and Officers and includes a Scheme of Delegation outlining the decision-making process. In line with its belief that good governance should lead to superior outcomes for stakeholders, the WPP has put in place a robust governance structure:



The eight Constituent Authorities of the WPP are:

- Carmarthenshire County Council (Host)
- City and County of Swansea Council
- City of Cardiff Council
- Flintshire County Council
- Gwynedd Council
- Powys County Council
- Rhondda Cynon Taff County Borough Council
- Torfaen County Borough Council

The Constituent Authorities sit at the top of the WPP’s governance structure. They retain control of all activity carried out by the WPP and remain responsible for approving the WPP’s Business Plan, which outlines the WPP’s budget and work plan, as well as its Beliefs and Objectives.

The Joint Governance Committee (JGC) oversees and reports on the WPP and is comprised of one elected member from each of the eight Constituent Authorities.

The OWG provides support and advice to the Joint Governance Committee and is comprised of practitioners and Section 151 officers from all eight Constituent Authorities.

Carmarthenshire County Council is the Host Authority for the WPP and is responsible for providing administrative and secretarial support to the JGC and the OWG, and liaising day to day with the Operator on behalf of all of the Welsh LGPS funds.

Link Fund Solutions (Operator) carries out a broad range of services for the WPP, which includes facilitating investment vehicles & sub-funds, performance reporting, transition implementation and manager monitoring and fee negotiations. There is an Operator Agreement in place which sets out the contractual duties of the Operator and governs the relationship between the Operator and the WPP. The JGC and OWG, with the support of Hymans Robertson, oversee the work that Link Fund Solutions carries out on behalf of the WPP. Link engages with the Constituent Authorities by:

- Direct engagement – attendance at annual committee meetings
- Indirect engagement – with CAs collectively, through the JGC and OWG

In collaboration with Link Fund Solutions, Russell Investments provide investment management solution services to the WPP and they work in consultation with WPP's eight Constituent Authorities to establish investment vehicles.

Northern Trust is the Depository for the WPP ACS vehicle and provides numerous services including securities lending, fund administration, compliance monitoring and reporting.

Hymans Robertson are WPP's Oversight Advisor and their role spans oversight and advice on governance arrangements, operator services, strategic investment aspects and project management support.

Burges Salmon are WPP's legal advisors and they provide legal advice in relation to FCA regulated funds, tax and governance arrangements, including assisting with complex procurement processes.

Robeco UK has been appointed as WPP's Voting and Engagement provider and are responsible for implementing the Voting Policy across WPP's portfolio and undertaking engagement activity on behalf of the WPP.

The WPP's beliefs are the foundation for WPP's governance framework and have been used to guide all of the WPP's activities and decision making, including its objectives and policies. The WPP, in consultation with the Constituent Authorities, has developed a set of governing policies. In all instances the WPP's policies and procedures have been developed to either complement or supplement the existing procedures and policies of the Constituent Authorities. The WPP's key policies, registers and plans are listed below and can be found on the WPP website.



Responsible Investment has been a key priority for the WPP since it was established in 2017. Various activities have been undertaken to work towards WPP's ambition of becoming a leader in Responsible Investment. Initially the focus was on formulating a Responsible Investment Policy and since then the WPP has formulated its own Climate Risk Policy and has worked with its Voting and Engagement Provider, Robeco, to agree a Voting Policy. A WPP RI Sub-Group has been established to take ownership of RI related workstreams and actions that are required to achieve the commitments made in the WPP's RI and Climate Risk Policies.

The WPP's Business Plan, Governance Manual and all other policies detailed in the chart above can be found on the WPP website:

<https://www.walespensionpartnership.org/>

## Risk

Risk management is a critical element of WPP's commitment to good governance. The WPP has developed a structured, extensive and robust risk strategy which seeks to identify and measure key risks and ensure that suitable controls and governance procedures are in place to manage these risks. The WPP's Risk Policy has been developed in such a way that risks can be anticipated and dealt with in a swift, effective manner to minimise potential loss or harm to the WPP and its stakeholders.

WPP maintains a Risk Register which is reviewed regularly by a dedicated Risk Sub-Group which reports back to the OWG and JGC on a quarterly basis.

## Training

The WPP has its own training policy and develops an annual training plan which is designed to supplement existing Constituent Authority training plans. Local level training needs will continue to be addressed by Constituent Authorities while the WPP training plan will offer training that is relevant to the WPP's pooling activities.

## Pooling progress to date

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. The WPP have made significant progress towards delivering on this objective. The launching of the WPP's three active equity sub-funds in 2019/20, five fixed income sub-funds in 2020/21, alongside the Constituent Authorities existing passive investments, has meant that that the WPP has now pooled 68% of assets.

As at 31 March 2021, WPP has total assets worth £21.6bn, £14.7bn of which sits within the pool, see breakdown below:

Asset Class	Managed by	Launch Date	31 March 2021 £000	%
Global Growth Equity Fund	Link Fund Solutions	February 2019	3,061,322	14.2
Global Opportunities Equity Fund	Russell Investments	February 2019	2,624,492	12.2
UK Opportunities Equity Fund	Russell Investments	September 2019	674,460	3.1
Global Credit Fund	Russell Investments	July 2020	791,481	3.7
Global Government Bond Fund	Russell Investments	July 2020	526,763	2.4
UK Credit Fund	Link Fund Solutions	July 2020	550,986	2.6
Multi-Asset Credit Fund	Russell Investments	July 2020	714,418	3.3

Absolute Return Bond Fund	Russell Investments	September 2020	456,255	2.1
Passive Investments	BlackRock	March 2016	5,232,789	24.2
Investments not yet pooled			6,938,068	32.2
<b>Total Investments across all 8 Pension Funds</b>			<b>21,571,038</b>	<b>100</b>

Investment assets split between Clwyd Pension Fund and WPP (see note 13B to the accounts)

	<b>31 March 2021 £000</b>	<b>%</b>
Global Opportunities Equity Fund	117,059	5.5
Global Multi Asset Credit	250,378	11.6
Passive Equities	196,791	9.1
Investments not yet pooled	1,588,470	73.8
Total Investment Assets	2,152,698	100

The above table summarises Clwyd Pension Fund's investment in the WPP, together with the assets that remain under the direct oversight of the Fund. During the year an additional £343.3m transitioned to the WPP and passive portfolios. The table above shows the assets currently managed by the pool as at 31 March 2021.

## Pooling costs

Carmarthenshire County Council, as the Host Authority for the Wales Pension Partnership 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 budget is included in the WPP Business Plan and approved annually by all eight Constituent Authorities.

The Host Authority and External Advisor costs, the running costs are funded equally (unless specific projects have been agreed for individual Funds) by all eight of the Constituent Authorities and recharged on an annual basis. The amount recharged to the Clwyd Pension Fund for the financial year ending 31 March 2021 was £88.3k, see table below.

In addition to the running costs, there are also transition costs associated with the transition of assets into the pool, these costs can be categorised in terms of direct and indirect costs. Direct costs include the costs of appointing a transition manager to undertake the transition, together with any additional oversight of this process undertaken from a research and reflection perspective. Indirect costs include both explicit and implicit costs, such as commissions, spread and impact and opportunity costs known as Implementation Shortfall. Transition costs are directly attributable to the assets undergoing the transition and are therefore deducted from their net asset value as opposed to a direct charge to the Fund.

Details of the costs incurred by the Clwyd Pension Fund in respect of the WPP are detailed below.

<b>2019/20 £000</b>	<b>WPP pooling costs</b>	<b>2020/21 £000</b>
21	Host Authority Costs *	19
49	External Advisor Costs *	70
200	Transition Costs (Direct) **	113
<b>270</b>	<b>Total</b>	<b>202</b>

\* Host Authority and External Advisor costs are recharged directly to the fund

\*\* Transition Costs (Direct) costs are shared as a proportion of total AUM.

## 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.

	<b>Fees charged £000s</b>				
	<b>Total Expenses including AMC</b>	<b>Perform- ance Fees</b>	<b>Transaction Costs</b>	<b>Custody</b>	<b>Total</b>
<b>Asset Pool</b>					
Direct	190	0	113	36	340
Indirect (Underlying)	644	0	0	0	644
<b>Total</b>	<b>834</b>	<b>0</b>	<b>113</b>	<b>36</b>	<b>984</b>
bps	42	0	6	2	50
<b>Non Asset Pool</b>					
Direct	12,110	2,674	2,140	33	16956
Indirect (Underlying)	3,334	1,911	665	0	5910
<b>Total</b>	<b>15,444</b>	<b>4,585</b>	<b>2,805</b>	<b>33</b>	<b>22866</b>
bps	97	29	18	0	144
<b>Fund Total</b>	<b>16,279</b>	<b>4,585</b>	<b>2,918</b>	<b>69</b>	<b>23850</b>
bps	91	26	16	0	134

## Asset Allocation and performance

	Opening Value £000	%	Closing Value £000	%	Net Performance %	Local Target %
<b>Pool Assets</b>						
Global Equities Passive	65,205	3.7	114,307	5.1	na	na
Emerging Market Equities Passive	0	0	82,484	3.7	na	na
Global Equities Active	74,931	4.2	117,059	5.3	42.2	41.6
Bonds Active	0	0	250,378	11.3	na	na
<b>Total Pool Assets</b>	<b>140,136</b>	<b>7.9</b>	<b>564,228</b>	<b>25.4</b>		
<b>Non- Pool Assets</b>						
Bonds Active	182,263	10.3	0	0.0	na	na
Emerging Market Equities (Core) Active	50,196	2.8	77,686	3.5	54.5	43.7
Emerging Market Equities (Local) Active	50,104	2.8	71,667	3.2	42.8	45.6
Diversified Growth	346,996	19.6	231,021	10.4	22.0	4.2
Liability Driven Investment	317,546	17.9	500,832	22.6	52.4	52.4
Hedge Funds	140,663	7.9	145,594	6.6	3.5	3.8
Private Equity	226,849	12.8	251,667	11.3	11.2	5.3
Private Debt	40,911	2.3	52,968	2.4	-4.2	7.5
Infrastructure	112,156	6.3	106,610	4.8	-3.5	5.3
Property	126,651	7.1	132,870	6.0	1.2	2.6
Timber & Agriculture	19,913	1.1	17,555	0.8	-2.0	5.3
Cash	20,238	1.1	67,282	3.0	na	na
<b>Total Non-Pool assets</b>	<b>1,634,486</b>	<b>92.1</b>	<b>1,655,753</b>	<b>74.6</b>		
<b>Total Pool assets</b>	<b>1,774,622</b>	<b>100</b>	<b>2,219,980</b>	<b>100</b>	<b>28.3</b>	<b>19.3</b>

## Objectives 2021/22

Following the launch of a number of sub-funds to date, progress will continue to be made with significant rationalisation of the existing range of mandates. The operator will be developing and launching a further series of sub-funds which will collectively reflect the strategic asset allocation needs of the eight constituent funds and facilitate a significant move of the assets to be pooled.

In establishing the WPP pool, the focus has been on pooling the most liquid assets, namely equities and fixed income. The next step is to formulate an approach to pooling and managing illiquid assets such as Private Equity, Private Debt/Credit and Infrastructure. This will involve reviewing a variety



of structures and platforms available and assessing these to identify the best fit to meet with the Fund's current and future requirements.

A high level transition timetable has been provided below:

<b>Investment Portfolio</b>	<b>Timeline for Launch / Implementation</b>
Tranche 4 – Emerging markets (Active)	Transition planned Q3 2021 (October 2021)
Tranche 5 – Private Market Alternatives	Transition planned 2022-2024
Subsequent Tranches	Asset Class and timing to be determined

In terms of other, non-investment objectives, the WPP hopes to continue to establish its approach as a responsible investor during 2021/22 which will involve oversight and monitoring of its voting policy, the establishment of an engagement framework, Environmental, Social and Governance (ESG) metrics monitoring and reporting output in accordance with the requirements for opt up to UK Stewardship Code and the Taskforce on Climate-Related Financial disclosure (TCFD).

There will also be a focus on the review and development of additional WPP policies, as well as the provision of timely and relevant training facilitated by the pool for the benefit of its wider stakeholder groups.

## **Securities Lending**

Securities lending commenced in March 2020. Revenue is split on an 85:15 basis between WPP and Northern Trust with all costs for running the securities lending programme taken from Northern Trust's share of the fee split. A minimum of 5% of the nominal quantity of each individual equity holding is held back and a maximum of 25% of total AUM is on loan at any one time. Total revenue of LF Wales Revenue during 2020/21 was £742,416 (gross) / £631,084 (net) with £469,064,784 out on loan as at 31 March 2021.

More detailed information can be found in WPP's Annual Return which is published on the WPP website - <https://www.walespensionpartnership.org/>

## 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 52 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 2013, the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 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.

#### Governance & Delegation

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 sets out the Fund's governance arrangements, including its governance structure and operational procedures for the delegation of responsibilities. It also sets out the Fund's aims and objectives relating to its governance. 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.

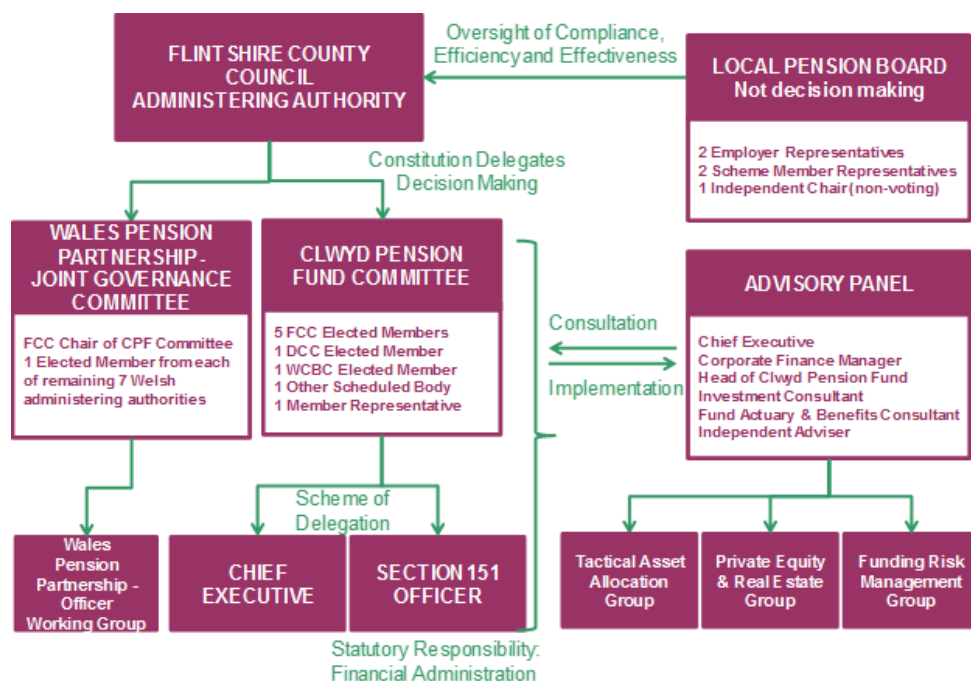
The Council discharges its duty as administering authority by delegation to the Clwyd Pension Fund Committee (the Committee). The Committee is made up of 5 of the Council's own councillors and 4 co-opted members, representing the other 2 local authorities, other employers and the scheme members. The Committee receives advice from the Clwyd Pension Fund Advisory Panel (the Panel) which is made up of officers of the Council and advisors to the Fund.

The Council's Chief Executive has overall responsibility for the activities 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.

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.

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.

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.



## Strategy & Policy

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 Procedure, Risk Policy, Conflicts of Interest Policy and Knowledge and Skills Policy which support the governance framework.

## Use of financial data

- 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 including the Wales Pension Partnership (WPP) and the Fund’s global custodian. There is quarterly performance reporting to the Fund of the position on investments.
- Economic and market forecast data is used to inform the Fund’s investment strategy, which is designed to support the requirements of the Fund’s funding strategy.
- The Fund prepares an annual statement of accounts, a business plan (including a budget and cash flow) and financial monitoring reports. The Fund uses the Council’s Masterpiece financial ledger system to maintain its financial information.
- 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. Annual Benefit Statements are prepared and distributed to members. The Fund has a Member Self Service system, which allows members of the Fund to access their own membership information.

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 implemented as part of the day to day management or through the Fund’s Business Plan.

The risks currently identified as key risks are shown in the section of the Fund’s Annual Report which deals with Governance, Training and Risk Management (Appendix 1).

## **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 Committee 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 (Appendix 2).

The Fund's Annual Report includes a governance compliance statement (Appendix 3). This measures the extent to which the Fund's governance arrangements comply with statutory guidance.

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 and beneficiaries of the Fund.

### **Update on significant governance issues previously reported.**

There were no significant governance issues in 2019/20 specific to the Fund.

### **Significant governance issues**

The Head of Internal Audit has confirmed that there are no significant governance issues relating to the Fund 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 saw the impact of the COVID-19 pandemic growing. A 'lock down' period commenced on 23<sup>rd</sup> March 2020 for the Council, which included Fund officers who are all employees of the Council. Arrangements were made to enable officers to continue to undertake their duties. Meetings with the Fund's advisors continued, enabled by appropriate technology. Discussions included advice received from the Scheme Advisory Board (SAB) and The Pension Regulator (TPR) on the management of the scheme during the pandemic.

Following the Council's Cabinet meeting on 17<sup>th</sup> March 2020 all the Council's formal meetings and events were cancelled. This included the Clwyd Pension Fund Committee, and both the March 2020 and June 2020 meetings of the Committee were cancelled. Where appropriate, existing delegated powers were used to make decisions. Members were kept informed through informal virtual meetings and by other electronic means.

A decision to resume Council meetings was taken at a Democracy Bronze Planning meeting in May 2020, and the first meeting of the Clwyd Pension Fund Committee was held virtually on 7<sup>th</sup> October 2020. Since then meetings of the Committee have been held virtually in line with the normal timetable, and training and workshop activities have resumed.

The Fund's Pension Board continued to meet virtually throughout 2020/21.

## 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 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 2020/21.

## 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 2020/21 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.



Neil Cockerton

Chief Executive

November 2021



Councillor Ted Palmer

Chair Clwyd Pension Fund Committee

November 2021

## **Section 4 - Regulatory Documents**

### **Clwyd Pension Fund Annual Report 2020/21**

The attached regulatory documents form part of the Governance and Performance framework within which the Fund operates. Other best practice documents are also available on Clwyd Pension Fund website. A list of these documents and the website address is available on the contents page of the report.

## Appendix 9

# **Cronfa Bensiynau Clwyd** **Clwyd Pension Fund**

*Gweinyddwyd gan*  
*Administered by*



**Flintshire County Council**

**Administering Authority For**  
**Clwyd Pension Fund**

**Governance Policy And Compliance Statement**

**February 2020**



## **Governance Policy**

### **Introduction and Legal Requirements**

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

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

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

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

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

### **Aims and Objectives**

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

- around 46,900 current and former members of the Fund, and their dependants
- around 47 employers within the Flintshire, Denbighshire and Wrexham Council areas
- the local taxpayers within those areas.

Our Fund's Mission Statement is:

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

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

- Act in the best interests of the Fund's members and employers
- Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies
- Ensure the Pension Fund is managed, and its services delivered, by people who have the appropriate knowledge and expertise
- Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based
- Understand and monitor risk
- Strive to ensure compliance with the appropriate legislation and statutory guidance, and to act in the spirit of other relevant guidelines and best practice guidance
- Clearly articulate our objectives and how we intend to achieve those objectives through business planning, and continually measure and monitor success
- Ensure the confidentiality, integrity and accessibility of the Fund's data, systems and services is protected and preserved.

## **Background to Governance Arrangements**

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

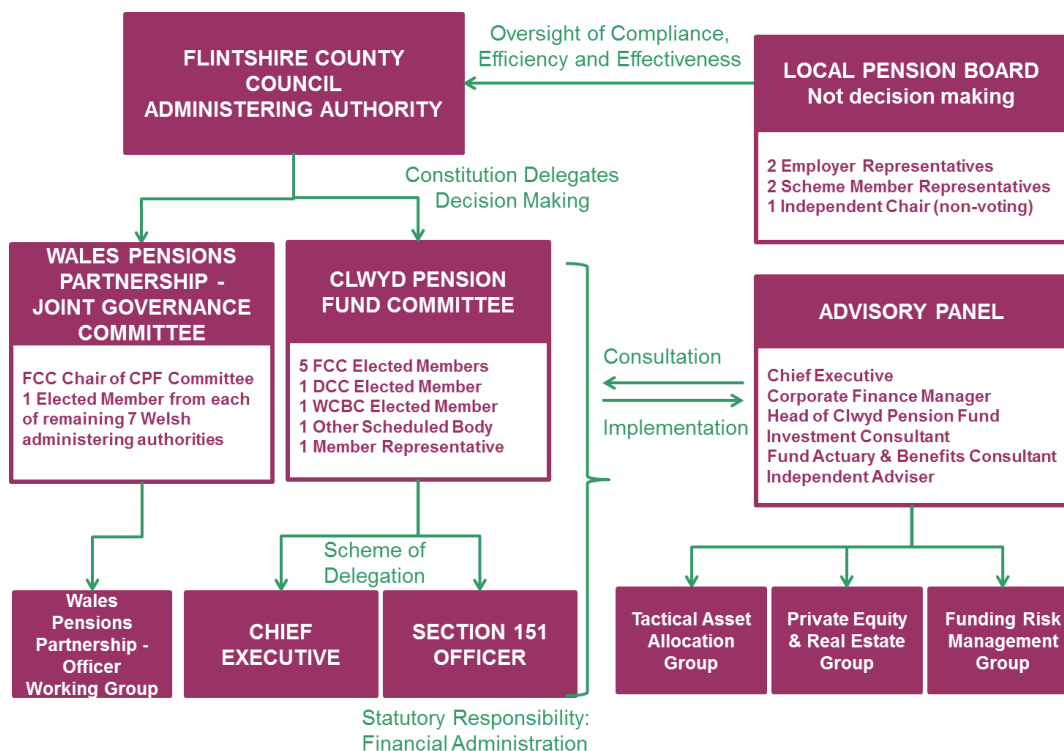
An independent review by CIPFA in 2010 found the governance of the Fund to be very good but recognised that this governance structure did not meet best practice, in particular they recommended:

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

As a result, in May 2014, the Fund's governance arrangements were reviewed and the Council established a formal Pension Fund Committee, supported by a Pensions Advisory Panel. The Corporate Finance Manager is the Section 151 Officer and has a statutory responsibility for the proper financial affairs of Flintshire County Council which include Clwyd Pension Fund matters. In addition, the Council has delegated specific responsibilities to the Chief Executive.

This governance structure was expanded in early 2015 as a result of the requirement by the Public Service Pensions Act 2013 to introduce a local pension board to assist in compliance of pension fund matters. It was then further expanded in March 2017 to establish the Wales Pension Partnership Joint Governance Committee and Officer Working Group and facilitate the move to pooling of pension fund assets across the eight LGPS Pension Funds in Wales.

The Council's governance structure for pension fund matters is as shown below:



## Clwyd Pension Fund Committee

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

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

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

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

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

- Five Councillors of Flintshire County Council, determined by the Council.
- Four co-opted members comprising:
  - One Councillor of Wrexham County Borough Council, determined by that Council.
  - One Councillor of Denbighshire County Council, determined by that Council.
  - One Representative of the other Scheme Employers (not admission bodies) in the Clwyd Pension Fund as defined by Schedule 2 of the Local Government Pension Scheme 2013, as amended from time to time, appointed in accordance with procedures agreed by the Chief Executive in consultation with the members of the Pension Fund Advisory Panel.
  - One Representative of the scheme members of the Clwyd Pension Fund, appointed in accordance with procedures agreed by the Chief Executive.

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

All members have equal voting rights.

### **Chief Executive**

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

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

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

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

## **Clwyd Pension Fund Advisory Panel**

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

Its membership consists of:

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

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

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

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

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

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

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

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

- Carmarthenshire County Council
- City & County of Swansea Council
- City of Cardiff Council
- Flintshire County Council
- Gwynedd Council

- Powys County Council
- Rhondda Cynon Taff County Borough Council
- Torfaen County Borough Council.

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

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

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

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

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

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

The full list of responsibilities and procedures relating to the Joint Governance Committee, Officer Working Group and Host Council are included in the Inter Authority Agreement.

### **Pension Board**

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

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

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

the full Protocol of the Board can be found within the Council's Constitution. The key points are summarised below.

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

The Pension Board consists of five members as follows:

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

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

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

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

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

## Training

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

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

The Clwyd Pension Fund's Training Policy can be found on the Fund's website – <https://mss.clwydpensionfund.org.uk/>

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

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

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

## **Conflicts of Interest**

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

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

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

The Policy can be found on the Fund's website – <https://mss.clwydpensionfund.org.uk/>

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

## **Risk Management**

Flintshire County Council recognises that effective risk management is an essential element of good governance in the LGPS. By identifying and managing risks through an effective policy and risk management strategy, we can:

- demonstrate best practice in governance
- improve financial management



- minimise the risk and effect of adverse conditions
- identify and maximise opportunities that might arise
- minimise threats.

Clwyd Pension Fund's Risk 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.

We recognise that it is not possible or even desirable, to eliminate all risks. Pension Fund risks are often driven by external factors which are totally or partially out of our control. These include national changes to the Scheme and financial market conditions. 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.

We also recognise that risk management is not an end in itself. 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.

The Policy can be found on the Fund's website – <https://mss.clwydpensionfund.org.uk/>

### **Welsh Language Standards**

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

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

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

Objective	Monitoring Arrangements
<p>Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies.</p>	<ul style="list-style-type: none"> <li>• The Independent Adviser undertakes an annual review of the effectiveness of the Clwyd Pension Fund's governance arrangements, the findings of which are reported to the Committee and published.</li> <li>• The Pension Board prepares and publishes an annual report.</li> <li>• In line with the Regulations this document will be filed with the MHCLG.</li> </ul>

Objective	Monitoring Arrangements
<p>Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise</p>	<ul style="list-style-type: none"> <li>• A Training Policy is in place together with monitoring and reporting of all training by Pension Committee members, Pension Board members and key officers in accordance with the Training Policy.</li> <li>• The Joint Governance Committee has a Training Policy in place with monitoring arrangements in accordance with the Inter Authority Agreement.</li> </ul>
<p>Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based</p>	<ul style="list-style-type: none"> <li>• A Conflicts of Interest Policy is in place together with ongoing reporting and monitoring of the register of conflicts in accordance with the Conflicts of Interest Policy.</li> <li>• The employers within the Fund, together with union representatives, are invited to an Annual Joint Consultative Meeting. Attendees receive presentations and have the opportunity to ask questions on the governance of the Fund.</li> <li>• The Pension Fund Committee includes representatives from scheme members and most employers in the Fund.</li> <li>• The Pension Board includes representatives from scheme members and employers in the Fund.</li> <li>• The Pension Board prepares and publishes an annual report which may include comment on decision making.</li> <li>• The Joint Governance Committee prepares an annual business plan which is brought to the Clwyd Pension Fund Committee for agreement.in accordance with the Inter Authority Agreement</li> </ul>
<p>Understand and monitor risk</p>	<ul style="list-style-type: none"> <li>• A Risk Policy and register in place and monitoring and reporting of risks is carried out in accordance with the Risk Policy.</li> <li>• Ongoing consideration of key risks at Pension Fund Committee meetings.</li> </ul>

Objective	Monitoring Arrangements
<p>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</p>	<ul style="list-style-type: none"> <li>• The Governance of the Fund is considered by both the External and Internal Auditors. All External and Internal Audit Reports are reported to Committee.</li> <li>• The Fund has an Independent Adviser and their annual report includes reference to compliance with key requirements.</li> <li>• The Fund carries out a compliance check, at least annually, against the relevant The Pension Regulator's Code of Practice.</li> <li>• The Fund maintains a log of all breaches of the law in accordance with the Fund's breaches procedure which is reported on and monitored as outlined in that procedure.</li> <li>• The Pension Board prepares and publishes an annual report which may include comment on compliance matters.</li> <li>• The Joint Governance Committee has a Breaches and Error Policy in place with monitoring arrangements in accordance with the Inter Authority Agreement.</li> </ul>
<p>Clearly articulate our objectives and how we intend to achieve those objectives through business planning, and continually measure and monitor success</p>	<ul style="list-style-type: none"> <li>• All strategies and policies include reference to how objectives will be monitored.</li> <li>• Ongoing monitoring against key objectives at Pension Fund Committee meetings.</li> <li>• Ongoing monitoring of business plan targets at Pension Fund Committee meetings.</li> <li>• Quarterly and annual updates against the Joint Governance Committee's business plan and objectives are provided in accordance with the Inter Authority Agreement.</li> </ul>
<p>Ensure the confidentiality, integrity and accessibility of the Fund's data, systems and services is protected and preserved.</p>	<ul style="list-style-type: none"> <li>• All information security breaches relating to data being issued insecurely by the Fund are recorded and reviewed.</li> <li>• All other incidents affecting confidentiality, integrity and accessibility of data, systems or services are recorded and reviewed.</li> <li>• The Fund has a cyber incident response plan in place.</li> <li>• The Fund has a business continuity plan and a testing schedule (including cyber incident testing) in place which is adhered to.</li> <li>• All Fund staff undertaken GDPR training in accordance with FCC's training programme.</li> </ul>

## Key Risks

These are the main governance risks that Pension Fund Committee members, with the assistance of the Clwyd Pension Fund Advisory Panel, monitor on an ongoing basis.

- The potential for changes in Pension Fund Committee membership, Pension Board membership, Joint Governance Committee and/or key officers, a poor level of knowledge, poor engagement or poor oversight to impact the quality of decisions that are made.
- If potential or actual conflicts of interest are not appropriately managed, they could influence decision making, meaning decisions are not in the best interests of our fund members and employers, and our fiduciary duties are not met
- If policies are not in place or not regularly monitored, then the Fund's objectives may not be clear or appropriate
- A breakdown in risk management would result in risks not being identified or not appropriately considered, resulting in losses or other detrimental impact to the Fund or its stakeholders
- The potential for externally led influence and changes (such as scheme changes, national reorganisation, cybercrime and asset pooling) to result in the Fund's objectives and legal responsibilities not being met or being compromised
- If, for reasons such as sickness, resignation, retirement or inability to recruit, staff numbers become insufficient, then this could result in services not being delivered to meet legal and policy objectives
- If appropriate training is not provided to those tasked with managing the Fund, or they do not understand their responsibilities, then there is the risk that legal requirements or guidance may not be complied with.

## Best Practice Compliance Statement

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

## Approval, Review and Consultation

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

This version of the Governance Policy and Statement was approved at the Clwyd Pension Fund Committee on 11 February 2020. It will be formally reviewed and updated at least every three years or sooner if the governance arrangements or other matters included within it merit reconsideration.

## Further Information

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

**Philip Latham**, Head of Clwyd Pension Fund, Flintshire County Council

E-mail - [Philip.latham@flintshire.gov.uk](mailto:Philip.latham@flintshire.gov.uk)

Telephone - 01352 702264

Further information about the Fund can be found on its website - <https://mss.clwydpensionfund.org.uk/>

Further information about the Wales Pension Partnership can be found on its website - <https://www.walespensionpartnership.org/>.

## Appendix A - Clwyd Pension Fund Governance Compliance Statement

Best Practice	Compliant or not?	Explanatory Note
<b>A. STRUCTURE</b>		
<i>a.</i> The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	<b>COMPLIANT</b>	<p>The majority of elements of administration of benefits and strategic management of fund assets are delegated by the Council to Pension Fund Committee.</p> <p>The Wales Pension Partnership Joint Governance Committee has responsibility for some elements of management of the Wales Pension Partnership.</p>

Best Practice	Compliant or not?	Explanatory Note
<p><i>b.</i> That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.</p>	<p><b>COMPLIANT</b></p>	<p>Representatives covering most employers and scheme members are Co-opted Members of the Pension Fund Committee.</p> <p>The Pension Board, although not a formal secondary committee, also includes representatives of scheme members and employers.</p> <p>The Wales Pension Partnership Joint Governance Committee is required to liaise with scheme member and employer representatives.</p>
<p><i>c.</i> That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.</p>	<p><b>NOT APPLICABLE</b></p>	<p>There is no formal secondary committee or panel. However it is worth noting that the Pension Board members are entitled to attend all Pension Fund Committee meetings and are invited to participate. All Pension Board minutes are circulated around Pension Fund Committee members are soon as they are available as well as being included in Pension Fund Committee reports.</p>
<p><i>d.</i> That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.</p>	<p><b>NOT APPLICABLE</b></p>	
<p><b>B. REPRESENTATION</b></p>		

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



Best Practice	Compliant or not?	Explanatory Note
<i>b.</i> That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	<b>COMPLIANT</b>	<p>All Pension Fund Committee members, including Co-opted Members, are treated equally with full opportunity to contribute to the decision making process and with unrestricted access to papers and training, and with full voting rights.</p> <p>There is no formal secondary committee or panel. However it is worth noting that the Pension Board members are entitled to attend all Pension Fund Committee meetings and are invited to participate.</p>
<b>C. SELECTION AND ROLE OF LAY MEMBERS</b>		
<i>a.</i> That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	<b>COMPLIANT</b>	This is highlighted via regular training and also when presenting this Governance Policy and Compliance Statement for approval.
<i>b.</i> That at the start of any meeting committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	<b>COMPLIANT</b>	This is no longer a legal requirement but we recognise that potential conflicts of interest can arise between existing roles (e.g. as employer representatives or scheme members) and accordingly we still carry out this practice. The Fund has a Conflicts of Interest Policy outlining the process for identifying and managing actual and potential conflicts of interest.
<b>D. VOTING</b>		

Best Practice	Compliant or not?	Explanatory Note
<p><i>a.</i> The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.</p>	<p><b>COMPLIANT</b></p>	<p>The Council's Constitution and the Fund's Governance Policy and Compliance Statement make it clear that all Pension Fund Committee members have equal voting rights.</p> <p>The Wales Pension Partnership Joint Governance Committee voting arrangements are outlined in the Inter Authority Agreement with one vote per authority.</p>
<p><b>E. TRAINING / FACILITY TIME / EXPENSES</b></p>		

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

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

Best Practice	Compliant or not?	Explanatory Note
<i>a.</i> That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	<b>COMPLIANT</b>	<p>All Members of the Pension Fund Committee have equal access to papers. In addition, all Pension Board members have access to the same papers.</p> <p>The Joint Governance Committee is a public meeting so all papers (except those classified as exempt) are available to Committee and Board members, as well as members of the public.</p>
<b>H. SCOPE</b>		
<i>a.</i> That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements	<b>COMPLIANT</b>	<p>The remit of the Pension Fund Committee covers all Fund matters, including administration, communications, funding, investments and governance. The Pension Board provides further opportunity for these matters to be considered.</p>
<b>I. PUBLICITY</b>		

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

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

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

- a) Ensuring the Clwyd Pension Fund is managed and pension payments are made in compliance with the extant Local Government Pension Scheme Regulations, Her Majesty's Revenue & Customs requirements for UK registered pension schemes and all other relevant statutory provisions.

- b) Ensuring robust risk management arrangements are in place.
- c) Ensuring the Council operates with due regard and in the spirit of all relevant statutory and non statutory best practice guidance in relation to its management of the Clwyd Pension Fund.
- d) Determining the Pension Fund's aims and objectives, strategies, statutory compliance statements, policies and procedures for the overall management of the Fund, including in relation to the following areas:
  - i) Governance – approving the Fund's Governance Policy and Compliance Statement for the Fund within the framework as determined by Flintshire County Council and making recommendations to Flintshire County Council about any changes to that framework.
  - ii) Funding Strategy – approving the Fund's Funding Strategy Statement including ongoing monitoring and management of the liabilities, ensuring appropriate funding plans are in place for all employers in the Fund, overseeing the triennial valuation and interim valuations, and working with the actuary in determining the appropriate level of employer contributions for each employer.
  - iii) Investment strategy - approving the Fund's investment strategy, Statement of Investment Principles and Myners Compliance Statement including setting investment targets and ensuring these are aligned with the Fund's specific liability profile and risk appetite.
  - iv) Administration Strategy – approving the Fund's Administration Strategy determining how the Council will administer the Fund including collecting payments due, calculating and paying benefits, gathering information from and providing information to scheme members and employers.
  - v) Communications Strategy – approving the Fund's Communication Strategy, determining the methods of communications with the various stakeholders including scheme members and employers.
  - vi) Discretions – determining how the various administering authority discretions are operated for the Fund.
- e) Monitoring the implementation of these policies and strategies on an ongoing basis.
- f) In relation to the Wales Pension Partnership Collaboration arrangements:
  - i) Undertaking the following matters reserved to Flintshire County Council as outlined in the Inter-Authority Agreement:
    - Appointment, termination or replacement of the Operator following the making of a recommendation by the Joint Governance Committee.
    - Approval of additional expenditure not included within the Business Plan which exceeds 30 % of the approved budget in the Business Plan in any one Financial Year.
    - Formulation, approval or revisions of each respective Constituent Authority's investment strategy for the purposes of regulation 7 of the Investment Regulations.

- Admitting a new administering authority within the LGPS to the Investment Pool as a Constituent Authority.
- Amendment of the Agreement which is not significant to the operation of the arrangements.
- Material change to the nature of the Operator Contract.
- Approval of the initial strategic objectives to allow preparation of the first Business Plan (which objectives shall reflect the objectives set out in the procurement of the Operator).
- Approval of any evaluation or scoring criteria for any procurement of a replacement Operator.
- Approval of the Business Plan which shall include approval of the ongoing strategic objectives of the Investment Pool.
- Determination of the timing of the transition of the assets held by Clwyd Pension Fund into the Pooling Collaboration and the funds or sub-funds operated by the Operator.

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

ii) Delegating powers to Flintshire County Council's own officers and the Host Council where required.

iii) Nominating Flintshire County Council's officers to the Officer Working Group.

iv) Monitoring of the performance of the Wales Pooling Collaboration and its Operator and recommending actions to the Joint Governance Committee, Officer Working Group or Host Council, as appropriate.

g) Approving the Fund's annual report including the Fund's financial statements.

h) Selection, appointment, dismissal and monitoring of the Fund's advisers, including actuary, benefits consultants, investment consultants, global custodian, fund managers, lawyers, pension funds administrator, and independent professional advisers.

i) Making decisions relating to employers joining and leaving the Fund. This includes which employers are entitled to join the Fund, any requirements relating to their entry, ongoing monitoring and the basis for leaving the Fund.

j) Agreeing the terms and payment of bulk transfers into and out of the Fund.

k) Agreeing Pension Fund business plans and monitoring progress against them.

l) Agreeing the Fund's Knowledge and Skills Policy for all Pension Fund Committee members and for all officers of the Fund, including determining the Fund's knowledge and skills framework, identifying training requirements, developing training plans and monitoring compliance with the policy.



- m) Agreeing the Administering Authority responses to consultations on LGPS matters and other matters where they may impact on the Fund or its stakeholders.
- n) Receiving ongoing reports from the Chief Executive and Pensions Advisory Panel in relation to delegated functions.

## Appendix 10

# **Cronfa Bensiynau Clwyd** **Clwyd Pension Fund**

*Gweinyddwyd gan*  
*Administered by*



## **Funding Strategy Statement**

### **Clwyd Pension Fund**

**March 2020**

**Flintshire County Council**

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

## EXECUTIVE SUMMARY

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

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

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

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

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

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

The Clwyd Pension Fund has a number of key aims and objectives which are set out within the business plan. The key funding objectives are referred to throughout the FSS and are summarised below:

- Achieve and maintain assets equal to 100% of liabilities within the 13-year average timeframe, whilst remaining within reasonable risk parameters.
- Determine employer contribution requirements, whilst recognising the constraints on affordability and strength of employer covenant, with the aim being to maintain as predictable an employer contribution requirement as possible.
- Recognising the constraints on affordability for employers, aim for sufficient excess investment returns relative to the growth of liabilities.
- Strike the appropriate balance between long-term consistent investment performance and the funding objectives.
- Manage employers' liabilities effectively through the adoption of employer specific funding objectives.
- Ensure net cash outgoings can be met as/when required.
- Minimise unrecoverable debt on employer termination.
- Ensure that the future strategy, investment management actions, governance and reporting procedures take full account of longer-term risks and sustainability.

Key elements of the funding strategy are as follows:

- Employer covenant and investment strategy will have a major influence on the valuation results.
- Deficit recovery periods will be determined by the Administering Authority with the aim of recovering deficits as quickly as possible and vary by employer. Existing contribution plans will not be reduced even if the funding position has improved unless the employer covenant is sufficiently strong and if the Administering Authority agrees. The average recovery period for the Fund is 13 years. Deficit recovery contributions will be expressed as £s amounts.
- It will be possible for employers to prepay their deficit contributions for the full 3 years or annually at each April which would result in a cash saving.
- The key financial assumption – the discount rate – has been derived by considering the long term expected return on the Fund’s investment over and above assumed future Consumer Price Inflation (CPI).
- The demographic assumptions for the whole Fund have been determined by carrying out a bespoke analysis of the Fund’s membership along with a review of other LGPS Funds.
- It is strongly recommended that employers consider and understand the Fund policies which primarily relate to employers joining the Fund, ongoing monitoring of the financial strength of employers (covenant) and the approach adopted when employers leave the Fund (termination).

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

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

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



#### THE FUND’S KEY OBJECTIVE

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

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

The funding strategy set out in this document has been developed alongside the Fund’s investment strategy on an integrated basis taking into account the overall financial and demographic risks inherent in the Fund. The funding strategy includes appropriate margins to allow for the possibility of events turning out worse than expected which would normally lead to volatility of contribution rates at future valuations if these margins were not included. The level of prudence has been quantified by the Actuary to show the level of contingency to provide protection against future adverse experience in the long term. This takes into account the risk controls implemented as part

of the Flightpath Strategy. Individual employer results will also have regard to their covenant strength.



### SOLVENCY AND LONG TERM COST EFFICIENCY

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

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

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



### DEFICIT RECOVERY PLAN AND CONTRIBUTIONS

As the solvency level of the Fund is 91% at the valuation date i.e. the assets of the Fund are less than the liabilities, a deficit recovery plan needs to be implemented such that additional contributions are paid into the Fund to meet the shortfall.

Deficit contributions paid to the Fund by each employer will be expressed as £s amounts (flat or increasing year on year) and it is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford given other competing cost pressures. This may result in some flexibility in recovery periods by employer which would be at the sole discretion of the Administering Authority. The recovery periods will be set by the Fund, although employers will be free to select any shorter deficit recovery period if they wish. Employers may also elect to make prepayments of contributions which would result in a cash saving over the valuation certificate period.

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

The average recovery period for the Fund as a whole is 13 years at this valuation which is 2 years shorter than the average recovery period of 15 years from the previous valuation. After taking into account affordability and other considerations, all individual employer recovery periods have reduced at this valuation.

Where there is a material increase in contributions required at this valuation, subject to affordability constraints, the employer may be able to 'phase in' contributions over a period of 3 years. Employers should be aware that if they elect to 'phase in' their contributions, this may have an effect on the

level of contributions required in the future. Equally employers will be able to phase in their contributions changes to tie in with their financial year if this does not end on 31 March.

The Government has confirmed that a remedy is required for the LGPS in relation to the McCloud judgment. Therefore, the Fund has considered its policy in relation to costs that could emerge from the McCloud judgment, in line with the guidance from the Scheme Advisory Board in conjunction with the Actuary. Whilst the remedy is not known and may not be known for some time, for the purpose of this valuation, when considering the appropriate contribution provision, we have assumed that the judgment would have the effect of removing the current age criteria applied to the underpin implemented in 2014 for the LGPS. This underpin therefore would apply to all active members as at 1 April 2012. The relevant estimated costs have been quantified and notified to employers on this basis but also highlighting that the final costs may be significantly different. Employers will be able to choose to include these estimated costs over 2020/23 in their certified contributions. Alternatively, they will need to make allowance within their budgets and note that backdated contributions could be payable if the remedy is known before the next valuation. The vast majority of employers have made provisions directly in their contributions.



### ACTUARIAL ASSUMPTIONS

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

The discount rate in excess of CPI inflation (the “real discount rate”) has been derived based on the expected return on the Fund’s assets based on the long term strategy set out in its Investment Strategy Statement (ISS). When assessing the appropriate prudent discount rate, consideration has been given to the level of expected asset returns in excess of CPI inflation (i.e. the rate at which the benefits in the LGPS generally increase each year). It is proposed at this valuation the real return over CPI inflation for determining the past service liabilities should be 1.75% per annum and 2.25% per annum for determining the future service (“Primary Rate”) contribution rate.

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



### EMPLOYER ASSET SHARES

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

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

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



## FUND POLICIES

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

### 1. Covenant assessment and monitoring

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

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

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

### 2. Admitting employers to the Fund

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

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

Certain employers may be required to provide a guarantee or alternative security before entry will be allowed, in accordance with the Regulations and Fund policies.

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

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

Where there is **no guarantor** who would subsume the liabilities of the exiting employer, the Fund's policy is that a discount rate linked to Government bond yields and a more prudent longevity assumption is used for assessing liabilities on termination. Any exit payments due should be paid immediately, although instalment plans will be considered by the Administering Authority on a case by case basis. Any exit credits (surplus assets over liabilities) will be paid from the Fund to the exiting employer within 6 months of completion of cessation by the Actuary. The Administering Authority also reserves the right to modify this approach on a case by case basis if circumstances

warrant it, and, for example, may adjust any exit payment or exit credit to take into account any risk sharing arrangements which exist between the exiting employer and other Fund employers.

Where there is a **guarantor** who would subsume the assets and liabilities of the outgoing employer the default policy is that any deficit or surplus would be subsumed into the guarantor and taken into account at the following valuation. In some instances an exit debt may be payable by an employer before the assets and liabilities are subsumed by the guarantor, this will be considered on a case-by-case basis. No exit credit would be payable in these circumstances.

In line with the amending Regulations (The Local Government Pension Scheme (Amendment) Regulations 2020) the parties will need to make representations to the Administering Authority if they believe an Exit Credit should be paid outside the policy set out above, or if they dispute the determination of the Administering Authority. The Administering Authority will provide details of the information required to make their determination for each case when the need arises.

The Administering Authority can modify this approach on a case by case basis if circumstances warrant it and the parties make representation. For example if the parties make representation it may be appropriate to adjust any exit payment or exit credit to take into account any risk sharing arrangements which exist between the exiting employer and the outsourcing scheme employer.

#### **4. Insurance arrangements**

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



## CONTENTS

Executive Summary .....
Introduction.....
Purpose of FSS in policy terms .....
Aims and purpose of the Fund .....
Responsibilities of the key parties .....
Solvency funding target .....
Link to investment policy and the Investment strategy statement (ISS).....
Identification of risks and counter-measures .....
Monitoring and review .....

## APPENDICES

- A - ACTUARIAL METHOD AND ASSUMPTIONS
- B - EMPLOYER DEFICIT RECOVERY PLANS
- C - ADMISSION AND TERMINATION POLICY
- D - COVENANT ASSESMENT AND MONITORING POLICY
- E – INSURANCE ARRANGEMENTS
- F - GLOSSARY OF TERMS

# 1

## INTRODUCTION

The Local Government Pension Scheme Regulations 2013 (as amended) (“the 2013 Regulations”), the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (“the 2014 Transitional Regulations”) and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (all as amended) (collectively; “the Regulations”) provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS). The key requirements for preparing the FSS can be summarised as follows:

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

### BENEFITS

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

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

### EMPLOYER CONTRIBUTIONS

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

In line with the Regulations, the Administering Authority has the ability to review employer contributions or request a full interim valuation. If considered appropriate, the Fund will carry out

an interim valuation or a review of contributions for a specific employer or employer(s) under the circumstances set out within Section 9.

### **PRIMARY RATE**

The “Primary rate” for an employer is the contribution rate required to meet the cost of the future accrual of benefits including ancillary, death in service and ill health benefits together with administration costs. It is expressed as a percentage of pensionable pay, ignoring any past service surplus or deficit, but allowing for any employer-specific circumstances, such as its membership profile and whether it admits new employees, the funding strategy adopted for that employer, the actuarial method used and/or the employer’s covenant.

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

### **SECONDARY RATE**

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

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

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

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

# 2

## PURPOSE OF FSS IN POLICY TERMS

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

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

The purpose of this Funding Strategy Statement is therefore:

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

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

# 3

## AIMS AND PURPOSE OF THE FUND

### THE AIMS OF THE FUND ARE TO:

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

### THE PURPOSE OF THE FUND IS TO:

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of scheme benefits, transfer values, exit credits, costs, charges and expenses as defined in the Regulations

# 4

## RESPONSIBILITIES OF THE KEY PARTIES

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

### KEY PARTIES TO THE FSS

The **Administering Authority** should:

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

The **Individual Employer** should:

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

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

The **Fund Actuary** should:

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

# 5

## SOLVENCY FUNDING TARGET

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

### SOLVENCY AND LONG TERM EFFICIENCY

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

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

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

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

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

Underlying these assumptions are the following two tenets:

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

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

In considering this the Administering Authority, based on the advice of the Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful, potentially taking into account any changes in funding after the valuation date up to the finalisation of the valuation by 31 March 2020 at the latest.



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

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2019 actuarial valuation:

- The Fund does not believe it appropriate for contribution reductions to apply compared to the existing funding plan (allowing for indexation where applicable) where deficits remain, unless there is compelling reason to do so and any reduction will need clear justification on affordability grounds. Any employer whose covenant (as assessed by the Administering Authority) is not sufficiently strong in the long term will not normally be allowed to reduce contributions where the position has improved.
- Subject to consideration of affordability, as a general rule the deficit recovery period will reduce by at least 3 years for employers at this valuation when compared to the preceding valuation. This is to target full solvency over a similar (or shorter) time horizon. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. Subject to affordability considerations and other factors a bespoke period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Deficit Recovery Plan in **Appendix B**). This has resulted in an average recovery period of 13 years being adopted across all employers.
- For any employers assessed to be in surplus, their individual contribution requirements will be adjusted to such an extent that any surplus is used (i.e. run-off) subject to a total contribution minimum of zero. If an employer is expected to exit the Fund before this period, contribution requirements will be set to target a nil termination deficit within reasonable expectations (subject to periodic review).
- The employer contributions will be expressed and certified as two separate elements:
  - the **Primary rate**: a percentage of pensionable payroll in respect of the cost of the future accrual of benefits and ancillary death in service and ill health benefits
  - the **Secondary rate**: a schedule of lump sum monetary amounts and/or % of pay amendments over 2020/23 in respect of an employer's surplus or deficit (including phasing adjustments)

Where increases (or decreases) in employer contributions are required from 1 April 2020, following completion of the 2019 actuarial valuation, the increase (or decrease) from the rates of contribution payable in the year 2020/21 may be implemented in steps, over a maximum period of 3 years. Any step up in future service contributions will be implemented in steps of at least 0.5% of pay per annum unless agreed otherwise based on the overall contributions paid over the certificate period. However, where a surplus exists or where there has been a reduction in contributions paid in respect of an employer's deficit at the valuation, the Fund

would not consider it appropriate for any increase in contributions paid in respect of future accrual of benefits to be implemented in steps.

Alternative patterns of contribution, on grounds of affordability, will be considered on an individual employer basis, subject to the total contribution requirement being met over the 2020/23 period covered by the contribution certificate. Employers should be aware that varying their contribution pattern could have an effect on the level of contributions required in the future.

- For employers that do not have a financial year end of 31 March 2020 (e.g. 31 July 2020), the Fund can allow the employer to continue to pay their current contribution plan until their financial year end date. The new contribution plan would then be implemented after this date (i.e. 1 August 2020 if the year-end is 31 July 2020).
- Employers must notify the Fund as soon as they become aware of their planned exit date. Where appropriate, or at the request of the Scheme Employer, the Fund will normally review their certified contribution in order to target a fully funded position at exit. Consideration will be given to any risk sharing arrangements when reviewing contribution rates.
- On the cessation of an employer's participation in the Fund, in accordance with the Regulations, the Fund Actuary will be asked to make a termination assessment. In such circumstances:

The policy for employers who have a **guarantor** participating in the Fund:

The residual assets and liabilities and hence any surplus or deficit will transfer back to the guarantor as a default policy. The interested parties will need to consider any separate agreements that have been put in place between the exiting employer and the guarantor. In some instances an exit credit or debt may be payable by an employer before the assets and liabilities are subsumed by the guarantor, this will be considered on a case-by-case basis.

If there is any dispute, then the following arrangements will apply:

- In the case of a surplus, in line with the amending Regulations (The Local Government Pension Scheme (Amendment) Regulations 2020) the parties will need to make formal representations to the Administering Authority if they believe an Exit Credit should be paid outside the policy set out above, or if they dispute the determination of the Administering Authority. The Fund will notify the parties of the information required to make the determination on request.
- If the Fund determines an Exit Credit is payable then they will pay this directly to the exiting employer within 6 months of completion of the cessation assessment by the Actuary.
- In the case of a deficit, in order to maintain a consistent approach, the Fund will seek to recover this from the exiting employer in the first instance although if this is not possible then the deficit will be recovered from the guarantor either as a further contribution collection or at the next valuation depending on the circumstances.

In some instances, the outgoing employer may only be responsible for part of the residual deficit or surplus as per the separate risk sharing agreement. The default is that any surplus would be retained

by the Fund in favour of the outsourcing employer/guarantor unless representation is made by the relevant parties in line with the Regulations (as noted above). For the avoidance of doubt, where the outgoing employer is not responsible for any costs under a risk sharing agreement then no exit credit will be paid as per the Regulations, provided that the Fund is aware of the provisions of the risk sharing agreement in any representation made.

The policy for employers who do not have a **guarantor** participating in the Fund:

- In the case of a surplus, the Fund pays the exit credit to the exiting employer following completion of the termination process (within 6 months of completion of the cessation assessment by the Actuary).
- In the case of a deficit, the Fund would require the exiting employer to pay the termination deficit to the Fund as a lump sum cash payment (unless agreed otherwise by the Administering Authority at their sole discretion) following completion of the termination process.

Where an employer with no guarantor leaves the Fund and leaves liabilities with the Fund which the Fund must meet without recourse to that employer, the valuation of the termination payment will be calculated using a discount rate linked to Government bond yields and a more prudent life expectancy assumption. Further details are set out in the Termination Policy in Appendix C.

Allowing for the McCloud Judgment in termination valuations

The Government has confirmed that a remedy is required for the LGPS in relation to the McCloud judgment, however the final remedy is not known. Where a surplus or deficit is being subsumed, no allowance will be made for McCloud within the calculations and the impact will be considered at the next contribution rate review. However, if a representation is made to the Administering Authority in relation to an Exit Credit then a reasonable estimate for the potential cost of McCloud will need to be included. Where a surplus or deficit isn't being subsumed, McCloud will be allowed for as a matter of policy.

The allowance will be calculated in line with the treatment set out in this Funding Strategy Statement for all members of the outgoing employer using the termination assessment assumptions. For the avoidance of doubt, there will be no recourse for an employer with regard to McCloud, once the final termination has been settled and payments have been made. Once the remedy is known, any calculations will be performed in line with the prevailing regulations and guidance in force at the time.

The Administering Authority can vary the treatment on a case by case basis at its sole discretion if circumstances warrant it based on the advice of the Actuary and, for example, may adjust any exit payment or exit credit to take into account any risk sharing arrangements which exist between the exiting employer and other Fund employers.

The termination policy is set out in Appendix C. This will be reviewed at least on an annual basis to take into account any emerging trends or changes in financial or demographic factors e.g. longevity trends and RPI reform which will affect the termination assessment for employers.

# 6

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

The results of the 2019 valuation show the liabilities to be 91% covered by the current assets, with the funding deficit of 9% being covered by future deficit contributions.

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

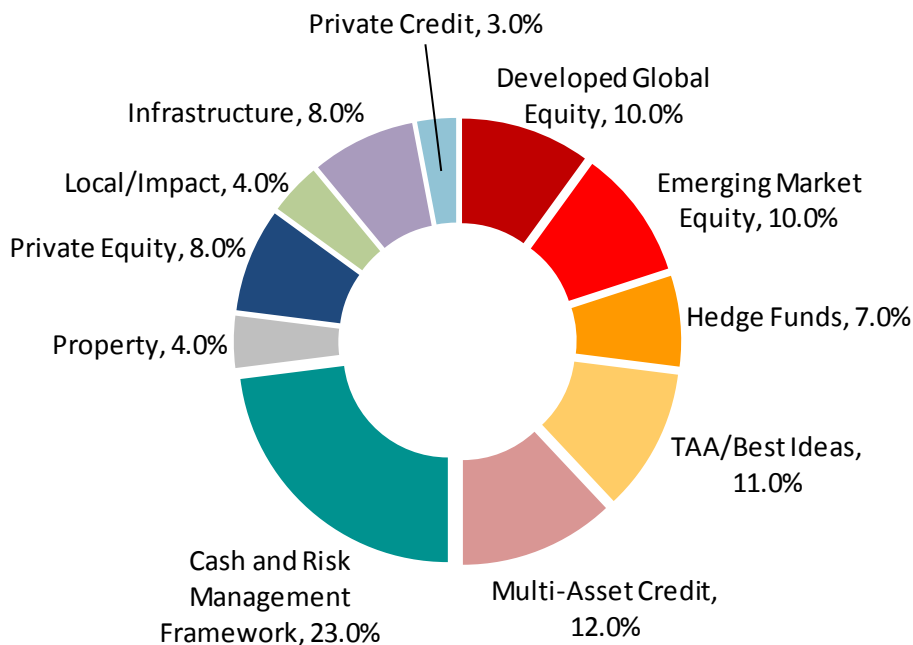
It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which represents the "minimum risk" investment position which would deliver a very high certainty of real returns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

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

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out this valuation it would not be appropriate to make any allowance for growth assets out-performance or any adjustment to market implied inflation assumption due to supply/demand distortions in the bond markets. This would result in real return versus CPI inflation of negative 1% per annum at the valuation date and a more prudent longevity assumption. On this basis of assessment, the assessed value of the Fund's liabilities at the valuation would have been significantly higher, resulting in a funding level of 54%. This is a measure of the level of reliance on future investment returns i.e. level of investment risk being taken

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

The long term strategic allocation is:



Based on the investment strategy above and the assessment of the return expectations for each asset class leads to an overall best estimate average expected return of 2.8% per annum in excess of CPI inflation at the valuation date. For the purposes of setting funding strategy however, the Administering Authority believes that it is appropriate to take a margin for prudence on these return expectations.

A measure of overall prudence to protect against adverse experience in the future is to consider the funding level if it was assessed on a “best estimate” basis for all the principal assumptions (mainly the investment return and life expectancy). The actuary has assessed this funding level as 110%. This level of prudence is built in to allow the Fund to address adverse events whilst maintain stability (within reasonable parameters) in employer contributions where appropriate.

# 7

## IDENTIFICATION OF RISKS AND COUNTER-MEASURES

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

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

### FINANCIAL

The financial risks are as follows:-

- Investment markets fail to perform in line with expectations
- Protection and risk management policies fail to perform in line with expectations
- Market outlook moves at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- Future underperformance arising as a result of participating in the larger asset pooling vehicle
- Employer contributions are unaffordable and/or unstable
- Investment and/or funding objectives and/or strategies are no longer fit for purpose
- Insufficient assets to pay benefits
- Loss of employer income and/or other employers become liable for their deficits
- An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements.

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

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

## DEMOGRAPHIC

The demographic risks are as follows:-

- Future changes in life expectancy (longevity) that cannot be predicted with any certainty
- Potential strains from ill health retirements, over and above what is allowed for in the valuation assumptions for employers
- Deteriorating pattern of early retirements (including those granted on the grounds of ill health)
- Unanticipated acceleration of the maturing of the Fund resulting in materially negative cashflows and shortening of liability durations

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

Apart from the regulatory procedures in place to ensure that ill-health retirements are properly controlled, **employing bodies should be doing everything in their power to minimise the number of ill-health retirements.** Ill health retirements can be costly for employers, particularly small employers where one or two costly ill health retirements can take them well above the “average” implied by the valuation assumptions. Increasingly we are seeing employers mitigate the number of ill health retirements by employing HR / occupational health preventative measures. These in conjunction with ensuring the regulatory procedures in place to ensure that ill-health retirements are properly controlled, can help control exposure to this demographic risk. The Fund’s ill health captive arrangement will also help to ensure that the eligible employers are not exposed to large deficits due to the ill health retirement of one or more of their members (see further information in Appendix E).

Early retirements for reasons of redundancy and efficiency do not affect the solvency of the Fund because they are the subject of a direct charge. The level of this charge (taking into account any other exit payments from the employer) will be capped by the Exit Cap of £95,000 and the member’s benefits will be adjusted accordingly when the new Regulations are brought into effect.

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

## INSURANCE OF CERTAIN BENEFITS

The contributions for any employer may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs being insured with a third party or internally within the Fund. This for example could include

insurance of ill-health costs or death in service benefits for members. Further information on the insurance of ill health costs is set out in **Appendix E**.

## REGULATORY

The key regulatory risks are as follows:-

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

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

## GOVERNANCE

The Fund has done as much as it believes it reasonably can to enable employing bodies and scheme members (via their trades unions) to make their views known to the Fund and to participate in the decision-making process. So far as the revised Funding Strategy Statement is concerned, it circulated copies of the first draft to all employing bodies for their comments and placed a copy on the Fund's website. The first draft was approved at the Committee meeting on 4<sup>th</sup> September 2019 and finalised on 11<sup>th</sup> February 2020 after the Fund received consultation feedback from the employing bodies and the final document was ratified by the Committee.

As part of their governance arrangements, the Fund holds regular Advisory Panel meetings. The Advisory Panel is made up of Fund Officers, Investment Consultants, an Independent Advisor and the Fund Actuary.

Governance risks are as follows:-

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

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

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



# 8

## MONITORING AND REVIEW

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

A full review of this Statement will occur every three years, to coincide with completion of a full statutory actuarial valuation and every review of employer rates or interim valuation. However, a review of part or all of the Statement will take place annually to ensure all the relevant parameters remain fit for purpose and will take account of the current economic conditions, change in demographic trends and will also reflect any legislative changes.

### FLIGHTPATH - DE-RISKING STRATEGY

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

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

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

### FLIGHTPATH – MONITORING/TRIGGER REVIEW

A summary report is provided to the Fund (on a monthly and quarterly basis) which includes a "traffic light" analysis of the key components of the Flightpath and hedging mandate. The "traffic light" indicates whether the Flightpath and hedging mandate are operating in line with expectations or if any actions are required. In particular, a separate fund-wide mechanism has been introduced, such that if the funding level falls more than 5% below the "expected" funding level (based on valuation assumptions), then discussions will follow at the Advisory Panel level as to the continued appropriateness of the funding strategy. There are no formal funding level triggers in place although it has been agreed that when the funding level hits 100% or higher

consideration will be given to whether the allocation to more liability matching assets should be increased.

The funding level has materially improved since the valuation date due in part to strong equity performance in the portfolio including the exposure via the risk management mandate with Insight.

A dynamic Equity Protection strategy was put in place in 2018. This was after rigorous analysis and value for money considerations by the Fund's Funding and Risk Management Group. The strategy protects against falls of 10% or more of the average market position over the previous 12 months on c£350m of equity exposure in the Insight portfolio. The cost of this will be offset by the Fund's participation in losses beyond a fall of 30% from average market levels of the same 12 months. This arrangement will be financed by giving up some potential upside return on a monthly basis. Whilst more complex to set up, the dynamic strategy provides advantages versus the previous static approach as follows:

1. Improved protection levels in upward trending markets
2. Expectation of better long-term risk adjusted returns (after fees and transaction costs) except in some extreme scenarios
3. Improved flexibility and on-going governance as it allows the structure to easily adapt to changing requirements including switching the protection off

Due to the requirements of implementing the strategy on a daily rolling basis, it was agreed that the strategy would be delivered using a counterparty bank rather than an investment manager. Mercer went through a process of determining the best counterparty bank and it was agreed that JP Morgan would deliver the strategy via the existing Insight investment vehicle.

As part of the Flightpath strategy the Fund has implemented a currency hedging policy to lock-in gains from the depreciation in sterling and reduce the risk of a materially strengthening pound. The overall currency hedge is 75% of the overall equity portfolio.

Further details of the updated funding level triggers, equity market protection and currency hedging are shown in the relevant Committee report.

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

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

- if there have been any significant special contributions paid into the CPF
- if there has been a change in Regulations or Guidance which materially impacts on the policies within the funding strategy

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

## COST MANAGEMENT AND THE MCCLOUD JUDGEMENT

The cost management process was set up by HMT, with an additional strand set up by the Scheme Advisory Board (for the LGPS). The aim of this was to control costs for employers and taxpayers via adjustments to benefits and/or employee contributions.

As part of this, it was agreed that employers should bear the costs/risks of external factors such as the discount rate, investment returns and inflation changes, whereas employees should bear the costs/risks of other factors such as wage growth, life expectancy changes, ill health retirement experience and commutation of pension.

The outcomes of the cost management process were expected to be implemented from 1 April 2019, based on data from the 2016 valuations for the LGPS. This has now been put on hold due to age discrimination cases brought in respect of the firefighters and judges schemes, relating to protections provided when the public sector schemes were changed (which was on 1 April 2014 for the LGPS and 1 April 2015 for other Schemes).

The Government have confirmed that this judgment will result in a remedy being required for the LGPS. The Scheme Advisory Board issued guidance [here](http://www.lgpsboard.org/images/Other/Advice_from_the_SAB_on_McCloud_May_2019.pdf):

[http://www.lgpsboard.org/images/Other/Advice\\_from\\_the\\_SAB\\_on\\_McCloud\\_May\\_2019.pdf](http://www.lgpsboard.org/images/Other/Advice_from_the_SAB_on_McCloud_May_2019.pdf)

This sets out how the McCloud case should be allowed for within the 2019 valuation. As a consequence, cost management is expected to remain paused until the remedy is known and therefore no allowance has been made in this valuation. This will be reconsidered once the final outcomes are known. The potential impact of the judgement (based on the information available at the time) has been quantified and communicated to employers as part of the 2019 valuation. In line with the Regulations, employer contributions can be reviewed once the outcome is known, if deemed appropriate for some or all of the employers depending on whether a provision was made directly in their agreed contributions rates from 1 April 2020 at this valuation. Updated employer rates will then be implemented from the following 1 April for practical purposes with backdating as appropriate.

## FURTHER INFORMATION

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

Philip Latham, Head of Clwyd Pension Fund, Flintshire County Council

E-mail - [Philip.latham@flintshire.gov.uk](mailto:Philip.latham@flintshire.gov.uk)

Telephone - 01352 702264

# APPENDIX A - ACTUARIAL METHOD AND ASSUMPTIONS

## METHOD

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

## FINANCIAL ASSUMPTIONS – SOLVENCY FUNDING TARGET

### Investment return (discount rate)

The discount rate has been derived based on the expected return on the Fund assets based on the long term strategy set out in the Investment Strategy Statement (ISS). It includes appropriate margins for prudence as a contingency against future adverse experience. When assessing the appropriate discount rate consideration has been given to the returns in excess of CPI inflation (as derived below). The discount rate at the valuation has been derived based on an assumed return of 1.75% per annum above CPI inflation i.e. a real return of 1.75% per annum and a total discount rate of 4.15% per annum. This real return will be reviewed from time to time based on the investment strategy, market outlook and the Fund's overall risk metrics. The discount rate will be reviewed as a matter of course at the time of a formal valuation.

### Inflation (Consumer Prices Index)

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

The overall reduction to RPI inflation to arrive at the CPI inflation assumption at the valuation date is 1.0% per annum. The CPI inflation assumption at the valuation date is 2.40% per annum. This adjustment to the RPI inflation assumption will be reviewed from time to time to take into account any reform of the RPI index as announced by the Chancellor in the March 2020 budget. For example at February 2020 the reduction had fallen from 1.0% per annum to 0.7% per annum. Any change will then be implemented for all relevant policies in this Funding Strategy Statement.

### Salary increases

In relation to benefits earned prior to 1 April 2014, the assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.25% p.a.

over the inflation assumption as described above. This includes allowance for promotional increases. As a variation to the long term salary increase assumption allowance has been made for expected short term pay restraint for some employers as budgeted in their financial plan. Depending on the circumstances of the employer, the variants on short term pay that have been applied are either no adjustment or an allowance of 2% per annum for each year from the valuation date up to 31 March 2023.

Application of bespoke salary increase assumptions as put forward by individual employers will be at the ultimate discretion of the Administering Authority but as a minimum must be reasonable and practical. To the extent that experience differs from the assumption adopted, the effects will emerge at the next actuarial valuation.

### **Pension increases/Indexation of CARE benefits**

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

## **DEMOGRAPHIC ASSUMPTIONS**

### **Mortality/Life Expectancy**

The mortality in retirement assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity and the experience of the scheme. The mortality tables used are set out below, with a loading reflecting Fund specific experience. The derivation of the mortality assumption is set out in a separate paper as supplied by the Actuary. A specific mortality assumption has also been adopted for current members who retire on the grounds of ill health. For all members, it is assumed that the accelerated trend in longevity seen in recent years (as evidenced in the 2018 CMI analysis) will continue in the longer term and as such, the assumptions build in a level of longevity 'improvement' year on year in the future in line with the CMI projections with a long-term improvement trend of 1.75% per annum.

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

### **Commutation**

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

### **Other Demographics**

Following an analysis of Fund experience carried out by the Actuary, the incidence of ill health retirements, withdrawal rates and the proportions married/civil partnership assumption remain in line with the assumptions adopted for the last valuation. In addition, no allowance will be made for the future take-up of the 50:50 option. Where any member has actually opted for the 50:50 scheme, this will be allowed for in the assessment of the rate for the next 3 years. Other assumptions are as per the last valuation.

## Expenses

Expenses are met out the Fund, in accordance with the Regulations. This is allowed for by adding 0.8% of pensionable pay to the contributions as required from participating employers. This addition is reassessed at each valuation and is calculated by estimating the level of expenses for the Fund over the period from 1 April 2020 to 31 March 2023. Investment expenses have been allowed for implicitly in determining the discount rates. In addition, any expenses that are directly attributable to specific employers via the Employer Liaison team, will be included in the assessment of that employer's expense allowance from the 2019 actuarial valuation. An allowance for reasonable expenses will also be included on the termination of an employer's participation in the Fund and will be taken into account as part of the termination valuation.

## Discretionary Benefits

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

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

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

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

At the valuation date, the financial assumptions in relation to future service (i.e. the normal cost) are based on an overall assumed real discount rate of 2.25% per annum above the long term average assumption for consumer price inflation of 2.40% per annum. This leads to a discount rate of 4.65% per annum.

## EMPLOYER ASSET SHARES

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

In attributing the overall investment performance obtained on the assets of the Fund to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Scheme as a whole

unless agreed otherwise between the employer and the Fund at the sole discretion of the Administering Authority.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation. Cashflows and investment returns are assumed to be paid/earned evenly over each year or relevant period.

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

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

<b>Long-term yields</b>	
Market implied RPI inflation	3.40% p.a.
<b>Solvency Funding Target financial assumptions</b>	
Investment return/Discount Rate	4.15% p.a.
CPI price inflation	2.40% p.a.
Long Term Salary increases*	3.65% p.a.
Pension increases/indexation of CARE benefits	2.40% p.a.
<b>Future service accrual financial assumptions</b>	
Investment return/Discount Rate	4.65% p.a.
CPI price inflation	2.40% p.a.
Long Term Salary increases*	3.65% p.a.
Pension increases/indexation of CARE benefits	2.40% p.a.

\*short term salary increases of a minimum of 2% per annum for each year from the valuation date up to 2023 also apply for most employers.

### Life expectancy assumptions

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

Current Status	Retirement Type	Mortality Table
<b>Annuitant</b>	Normal Health	100% S3PMA_CMI_2018 [1.75%] 92% S3PFA_M_CMI_2018 [1.75%]
	Dependant	132% S3PMA_CMI_2018 [1.75%] 92% S3DFA_CMI_2018 [1.75%]
	Ill Health	122% S3IMA_CMI_2018 [1.75%] 132% S3IFA_CMI_2018 [1.75%]
	Future Dependant	128% S3PMA_CMI_2018 [1.75%] 111% S3DFA_CMI_2018 [1.75%]

<b>Active</b>	Normal Health	106% S3PMA_CMI_2018 [1.75%] 93% S3PFA_M_CMI_2018 [1.75%]
	Ill Health	122% S3IMA_CMI_2018 [1.75%] 142% S3IFA_CMI_2018 [1.75%]
<b>Deferred</b>	All	128% S3PMA_CMI_2018 [1.75%] 110% S3PFA_M_CMI_2018 [1.75%]
<b>Future Dependant</b>	Dependant	135% S3PMA_CMI_2018 [1.75%] 118% S3DFA_CMI_2018 [1.75%]

Life expectancies at age 65:

<b>Membership Category</b>	<b>Male Life Expectancy at 65</b>	<b>Female Life Expectancy at 65</b>
<b>Pensioners</b>	22.4	24.8
<b>Actives aged 45 now</b>	24.0	26.8
<b>Deferreds aged 45 now</b>	22.6	25.6

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



# APPENDIX B – EMPLOYER DEFICIT RECOVERY PLANS

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

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

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

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

Category	Average Deficit Recovery Period (whole years)	Derivation
Unitary Authority Councils	13 years	Determined by reducing the period from the preceding valuation by 3 years (where appropriate).
Other Tax-raising Scheduled and Designating Bodies	8 years	Determined by reducing the period from the preceding valuation on a case by case basis with the intention of reducing by at least 3 years.
Education Bodies (Universities and Colleges)	10 years	Determined by reducing the period from the preceding valuation by at least 3 years.
Admission Bodies (guaranteed by another Scheme Employer within the Fund)	12 years	Subject to agreement with guarantor.

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

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

- The size of the funding shortfall;
- The financial plans of the employer;
- The assessment of the financial covenant of the Employer, and security of future income streams;
- Any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.
- changes in the funding position after the valuation date which is deemed reasonable.

The objective is to recover any deficit over a reasonable timeframe, and this will be periodically reviewed.

## OTHER FACTORS AFFECTING THE EMPLOYER DEFICIT RECOVERY PLANS

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

It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Administering Authority therefore would be willing to use its discretion to accept an evidenced based affordable level of contributions for the organisation for the three years 2020/2023. Any application of this option is at the ultimate discretion of the Fund in order to effectively manage risk across the Fund. It will only be considered after the provision of the appropriate evidence as part of the covenant assessment and also the appropriate professional advice. Typically, this will be managed primarily through an adjustment to the recovery period and/or phasing/stepping of contributions.

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

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

# APPENDIX C - ADMISSION AND TERMINATION POLICY

## INTRODUCTION

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

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

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

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

## ENTRY TO THE FUND

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

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

- Uncertainty over the security of the organisation's funding sources e.g. the body relies on voluntary or charitable sources of income or has no external funding guarantee/reserves;
- If the admitted body has an expected limited lifespan of participation in the Fund;

- The average age of employees to be admitted and whether the admission is closed to new joiners.

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

## ADMITTED BODIES PROVIDING A SERVICE

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

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

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

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

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

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

## PRE-FUNDING FOR TERMINATION

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

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

## EXITING THE FUND

### TERMINATION OF AN EMPLOYER'S PARTICIPATION

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

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

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

### EMPLOYERS WITHOUT A GUARANTOR

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

- In the case of a surplus, the Fund pays the exit credit to the exiting employer following completion of the termination process (within 6 months of completion of the cessation assessment by the Actuary).
- In the case of a deficit, the Fund would require the exiting employer to pay the termination deficit to the Fund as a lump sum cash payment (unless agreed otherwise by the Administering Authority at their sole discretion) following completion of the termination process.

Furthermore, if appropriate, a reasonable allowance for expenses will also be made in relation administration and other expenses. This will be allowed for in the final termination assessment.

The Administering Authority can vary the treatment on a case by case basis at its sole discretion if circumstances warrant it based on the advice of the Actuary and, for example, may adjust any exit payment or exit credit to take into account any risk sharing arrangements which exist between the exiting employer and other Fund employers.

## EMPLOYERS WITH A GUARANTOR

If, instead, the employing body has a guarantor within the Fund or a successor body exists to take over the employing body's liabilities, the CPF's policy is that the valuation funding basis will be used for the termination assessment unless the guarantor informs the CPF otherwise.

The guarantor or successor body will then subsume the assets and liabilities (and any surplus or deficit) of the employing body within the Fund under the default policy. (For Admission Bodies, this process is sometimes known as the "novation" of the admission agreement.) In some instances an exit debt may be payable by an employer before the assets and liabilities are subsumed by the guarantor, this will be considered on a case-by-case basis. No payment of an exit credit will be payable unless representation as set out below.

The interested parties involved (i.e. the Fund, the exiting employer and the guarantor) will need to consider any separate agreements that have been put in place between the exiting employer and the guarantor. If there is a dispute, then the following arrangements will apply:

- In the case of a surplus, in line with the amending Regulations (The Local Government Pension Scheme (Amendment) Regulations 2020) the parties will need to make representations to the Administering Authority if they believe an Exit Credit should be paid outside the policy set out above, or if they dispute the determination of the Administering Authority. The Fund will notify the parties of the information required to make the determination on request.
- If the Fund determines an Exit Credit is payable then they will pay this directly to the exiting employer within 6 months of completion of the cessation assessment by the Actuary.
- In the case of a deficit, in order to maintain a consistent approach, the Fund will seek to recover this from the exiting employer in the first instance although if this is not possible then the deficit will be recovered from the guarantor either as a further contribution collection or at the next valuation depending on the circumstances.

In some instances, the outgoing employer may only be responsible for part of the residual deficit or surplus as per the separate risk sharing agreement. The default is that any surplus would be retained by the Fund in favour of the outsourcing employer/guarantor unless representation is made by the relevant parties in line with the Regulations as noted above. For the avoidance of doubt, where the outgoing employer is not responsible for any costs under a risk sharing agreement then no exit credit will be paid as per the Regulations unless the Fund is aware of the

provisions of the risk sharing agreement in any representation made and determines an exit credit should be paid.

With regard to subsuming the residual assets and liabilities, this may, if agreed by the successor body, constitute a complete amalgamation of assets and liabilities to the successor body, including any funding deficit on closure. In these circumstances no termination payment will be required from the outgoing employing body itself, as the deficit would be recovered via the successor body's own deficit recovery plan.

## ALLOWING FOR THE MCCLOUD JUDGMENT IN TERMINATION VALUATIONS

The Government has confirmed that a remedy is required for the LGPS in relation to the McCloud judgment, however the final remedy is not known. Where a surplus or deficit is being subsumed, no allowance will be made for McCloud within the calculations and the impact will be considered at the next contribution rate review. However, if a representation is made to the Administering Authority in relation to an Exit Credit then a reasonable estimate for the potential cost of McCloud will need to be included. Where a surplus or deficit isn't being subsumed, McCloud will be allowed for as a matter of policy.

The allowance will be calculated in line with the treatment set out in this Funding Strategy Statement for all members of the outgoing employer using the termination assessment assumptions. For the avoidance of doubt, there will be no recourse for an employer with regard to McCloud, once the final termination has been settled and payments have been made. Once the remedy is known, any calculations will be performed in line with the prevailing regulations and guidance in force at the time.

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

The Administering Authority can vary the treatment on a case-by-case basis at its sole discretion if circumstances warrant it based on the advice of the Actuary based on the representations from the interested parties.

## FUTURE TERMINATIONS

In many cases, termination of an employer's participation is an event that can be foreseen, for example, because the organisation's operations may be planned to be discontinued and/or the admission agreement is due to cease. Under the Regulations, in the event of the Administering Authority becoming aware of such circumstances, it can amend an employer's minimum contributions such that the value of the assets of the employing body is neither materially more nor materially less than its anticipated liabilities at the date it appears to the Administering Authority that it will cease to be a participating employer. In this case, employing bodies are

encouraged to open a dialogue with the Fund to commence planning for the termination as early as possible. Where termination is disclosed in advance the Fund will operate procedures to reduce the sizeable volatility risks to the debt amount in the run up to actual termination of participation. The Fund will modify the employing body's approach in any case, where it might materially affect the finances of the Scheme, or depending on any case specific circumstances.

The Fund's standard policy is to recover termination deficits (including interest and expenses) as a one off payment. However, at the discretion of the Administering Authority, the deficit can be recovered over an agreed period as certified by the Actuary. This period will depend on the Administering Authority's view on the covenant of the outgoing employer. In the case of a surplus, the Fund pays the exit credit to the exiting employer following completion of the termination process (within 6 months of completion of the cessation assessment by the Actuary).

## MINIMUM RISK TERMINATION BASIS

The minimum risk financial assumptions that applied at the actuarial valuation date (31 March 2019) are set out below in relation to any liability remaining in the Fund. These will be updated on a case-by-case basis, with reference to prevailing market conditions at the relevant employing body's cessation date.

Minimum risk assumptions	31 March 2019
Discount Rate	1.4% p.a.
CPI price inflation	2.4% p.a.
Pension increases/indexation of CARE benefits	2.4% p.a.

The financial assumptions above are as at 31 March 2019. These assumptions will be reviewed on an ongoing basis to allow for changes in market conditions along with any other structural or legislative changes.

In particular, since the valuation date it has been announced that RPI inflation is likely to be reformed with the reform potentially meaning the index is closer to the CPIH inflation measure. This would need to be reflected when deriving an updated market estimate of CPI inflation.

For example, when assessing a termination position (at February 2020) we will adjust the market RPI inflation to arrive at the CPI inflation assumption by deducting 0.7% per annum as opposed to the 1.0% per annum at the valuation date when assessing an employer's termination position. This adjustment will be kept under review as more details emerge on the reform of RPI.

All demographic assumptions will be the same as those adopted for the 2019 actuarial valuation, except in relation to the life expectancy assumption. Given the minimum risk financial assumptions do not protect against future adverse demographic experience a higher level of prudence will be adopted in the life expectancy assumption. The will be reviewed from time to



time to allow for any material changes in life expectancy trends and will be formally reassessed at the next valuation.

The termination basis for an outgoing employer will include an adjustment to the assumption for longevity improvements over time by increasing the long term trend of improvement in mortality rates to 2.25% p.a. from the 1.75% p.a. used in the 2019 valuation for ongoing funding and contribution purposes.

# APPENDIX D – COVENANT ASSESSMENT AND MONITORING POLICY

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

An assessment of employer covenant focuses on determining the following:

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

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

## RISK CRITERIA

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

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

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

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

## ASSESSING EMPLOYER COVENANT

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

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

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

## FREQUENCY OF MONITORING

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

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

## COVENANT RISK MANAGEMENT

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

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

# APPENDIX E – INSURANCE ARRANGEMENTS

## OVERVIEW OF ARRANGEMENTS

For certain employers in the Fund, following discussions with the Fund Actuary, a captive ill health insurance arrangement was established by the Administering Authority to cover ill health retirement costs by pooling these risks for eligible employers. The aim of the arrangement is that smaller employers, whose funding position could be significantly affected by the retirement of one or more of their members on the grounds of ill health, pay a premium to the Fund within their future service contribution rate. This has applied to all ill health retirements since 1 April 2017.

## INTERNAL CAPTIVE INSURANCE

The internal captive arrangement operates as follows:

- “Premiums” are paid by the eligible employers into the captive arrangement which is tracked separately by the Fund Actuary in the valuation calculations. The premiums are included in the employer’s primary rate. The premium for 2020/23 is 0.9% of pensionable pay per annum.
- The captive arrangement is then used to meet strain costs (over and above the premium paid) emerging from ill-health retirements in respect of both active and deferred members i.e. so there is no initial impact on the deficit position for employers within the captive.
- The premiums are set with the expectation that they will be sufficient to cover the costs in the 3 years following the valuation date. If any excess premiums over costs are built up in the Captive, these will be used to offset future adverse experience and/or lower premiums at the discretion of the Administering Authority based on the advice of the actuary.
- In the event of poor experience over a valuation period any shortfall in the captive fund is effectively underwritten by the other employers within the Fund. However, the future premiums will be adjusted to recover any shortfall over a reasonable period with a view to keeping premiums as stable as possible for employers. Over time the captive arrangement should therefore be self-funding and smooth out fluctuations in the contribution requirements for those employers in the captive arrangement.
- Premiums payable are subject to review from valuation to valuation depending on experience and the expected ill health trends. They will also be adjusted for any changes in the LGPS benefits. They will be included in employer rates at each valuation or on commencement of participation for new employers.

## EMPLOYERS COVERED BY THE ARRANGEMENT

Those employers (both existing and new) that will generally be included in the captive are:

- Community related Admitted Bodies
- Town and Community Councils

These employers have been notified of their participation. New employers entering the Fund who fall into the categories above will also be included. At the discretion of the Administering Authority and where it is felt to be beneficial to the long term covenant and financial health of an employer, specific employers (outside of the categories listed above) may be included within the captive arrangement. In addition, the Administering Authority has the ability to exclude any employer in order to manage employer risk within the Fund.

The Fund and the Actuary will monitor the number of retirements that each captive employer is granting over time. If any employer has an unusually high incidence of ill health retirements, consideration will be given to the governance around the eligibility criteria applied by the employer and it is possible that some or all of the costs would fall on that employer if the governance was not deemed strong enough.

For all other employers who do not form part of the captive arrangement, the current treatment of ill-health retirements will still apply. The Fund therefore continues to monitor ill-health retirement strain costs incurred in line with the allowance made in the actuarial assumptions. Once the allowance is exceeded, any excess costs would be recovered from the employer. This would normally be at the next valuation but could be at an earlier review of the contributions due, including on termination of participation.

# APPENDIX F - GLOSSARY

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

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

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

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

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

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

**CAREER AVERAGE REVALUED EARNINGS SCHEME (CARE):** with effect from 1 April 2014, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.

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

**CPIH:** An alternative measure of CPI which includes owner occupiers’ housing costs and Council Tax (which are excluded from CPI).

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

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

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

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

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

**EMPLOYER'S SECONDARY CONTRIBUTION RATE:** an adjustment to the Primary Rate to reflect any past service deficit or surplus, to arrive at the rate each employer is required to pay. The Secondary Rate may be expressed as a percentage adjustment to the Primary Rate, and/or a cash adjustment in each of the three years beginning 1 April in the year following that in which the valuation date falls. The Secondary Rate is specified in the Rates and Adjustments Certificate. For any employer, the rate they are actually required to pay is the sum of the Primary and Secondary Rates. Secondary Rates for the whole fund in each of the three years shall also be disclosed. These will be calculated as the weighted average based on the whole fund payroll in respect of percentage rates and as a total amount in respect of cash adjustments.

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

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

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

**EXIT CREDIT:** the amount payable from the Fund to an exiting employer in the case where the exiting employer is determined to be in surplus at the point of cessation based on a termination assessment by the Fund Actuary.

**FLIGHTPATH:** a framework that defines a de-risking process whereby exposure to growth assets is reduced as and when it is affordable to do so i.e. when "triggers" are hit, whilst still expecting to achieve the overall funding target.

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

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

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

**GUARANTEE / GUARANTOR:** a formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's covenant to be as strong as its guarantor's.

**HEDGING:** a strategy that aims to reduce funding volatility. This is achieved by investing in assets that capture levels of yields based on agreed trigger levels so the assets mimic the change in liabilities.

**HEDGE RATIO:** The level of hedging in place as a percentage of the liabilities. This can be in relation to interest rates, inflation rates or real rates of return.

**ILL HEALTH CAPTIVE:** this is a notional fund designed to immunise certain employers against excessive ill health costs in return for an agreed insurance premium.

**INVESTMENT STRATEGY:** the long-term distribution of assets among various asset classes that takes into account the Funds objectives and attitude to risk.

**LETTING EMPLOYER:** an employer that outsources part of its services/workforce to another employer, usually a contractor. The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer.

**LIABILITIES:** the actuarially calculated present value of all benefit entitlements i.e. scheme cashflows of all members of the Fund, built up to date or in the future. The liabilities in relation to the benefit entitlements earned up to the valuation date are compared with the present market value of Fund assets to derive the deficit and funding/solvency level. Liabilities can be assessed on different set of actuarial assumptions depending on the purpose of the valuation.

**LGPS:** the Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements.

**MATURITY:** a general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

**MCCLOUD JUDGMENT:** This refers to the linked legal cases of Sargeant and McCloud, and which found that the transitional protections (which were afforded to older members when the



public service pension schemes were reformed in 2014/15) constituted unlawful age discrimination.

**MEMBERS:** The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).

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

**ORPHAN LIABILITIES:** liabilities in the Fund for which there is no sponsoring employer within the Fund. Ultimately orphan liabilities must be underwritten by all other employers in the Fund.

**PERCENTILES:** relative ranking (in hundredths) of a particular range. For example, in terms of expected returns a percentile ranking of 75 indicates that in 25% of cases, the return achieved would be greater than the figure, and in 75% cases the return would be lower.

**PHASING/STEPPING OF CONTRIBUTIONS:** when there is an increase/decrease in an employer's long term contribution requirements, the increase in contributions can be gradually stepped or phased in over an agreed period. The phasing/stepping can be in equal steps or on a bespoke basis for each employer.

**POOLING:** employers may be grouped together for the purpose of calculating contribution rates, (i.e. a single contribution rate applicable to all employers in the pool). A pool may still require each individual employer to ultimately pay for its own share of deficit, or (if formally agreed) it may allow deficits to be passed from one employer to another.

**PREPAYMENT:** the payment by employers of contributions to the Fund earlier than that certified by the Actuary. The amount paid will be reduced in monetary terms compared to the certified amount to reflect the early payment.

**PRESENT VALUE:** the value of projected benefit payments, discounted back to the valuation date.

**PROFILE:** the profile of an employer's membership or liability reflects various measurements of that employer's members, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc.

**PRUDENT ASSUMPTION:** an assumption where the outcome has a greater than 50/50 chance of being achieved i.e. the outcome is more likely to be overstated than understated. Legislation and Guidance requires the assumptions adopted for an actuarial valuation to be prudent.

**RATES AND ADJUSTMENTS CERTIFICATE:** a formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation. This is completed by the actuary and confirms the contributions to be paid by

each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.

**REAL RETURN OR REAL DISCOUNT RATE:** a rate of return or discount rate net of (CPI) inflation.

**RECOVERY PLAN:** a strategy by which an employer will make up a funding deficit over a specified period of time (“the recovery period”), as set out in the Funding Strategy Statement.

**SAB FUNDING BASIS OR SAB BASIS:** a set of actuarial assumptions determined by the LGPS Scheme Advisory Board (SAB). Its purposes are to set out the funding position on a standardised approach so that comparisons can be made with other LGPS Funds, and to assist with the “Section 13 review” as carried out by the Government Actuary’s Department. As an example, the real discount rate over and above CPI used in the SAB Basis as at 31 March 2019 was 2.4% p.a., so it can be substantially different from the actuarial assumptions used to calculate the Fund’s solvency funding position and contribution outcomes for employers.

**SCHEDULED BODIES:** types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

**SCHEME EMPLOYERS:** employers that have the statutory right to participate in the LGPS. These organisations (set out in Part 1 of Schedule 2 of the 2013 Regulations) would not need to designate eligibility, unlike the Part 2 Scheme Employers.

**SECTION 13 VALUATION:** in accordance with Section 13 of the Public Service Pensions Act 2014, the Government Actuary’s Department (GAD) have been commissioned to advise the Department for Communities and Local Government (DCLG) in connection with reviewing the 2019 LGPS actuarial valuations. All LGPS Funds therefore will be assessed on a standardised set of assumptions as part of this process.

**SOLVENCY FUNDING TARGET:** an assessment of the present value of benefits to be paid in the future. The desired funding target is to achieve a solvency level of a 100% i.e. assets equal to the accrued liabilities at the valuation date assessed on the ongoing concern basis.

**VALUATION FUNDING BASIS:** the financial and demographic assumptions used to determine the employer’s contribution requirements. The relevant discount rate used for valuing the present value of liabilities is consistent with an expected rate of return of the Fund’s investments. This includes an expected out-performance over gilts in the long-term from other asset classes, held by the Fund.

**50/50 SCHEME:** in the LGPS, active members are given the option of accruing a lower personal benefit in the 50/50 Scheme, in return for paying a lower level of contribution.

**Cronfa Bensiynau Clwyd**  
**Clwyd Pension Fund**

*Gweinyddwyd gan*  
*Administered by*



**Flintshire County Council**

**Administering Authority For**  
**Clwyd Pension Fund**

**Investment Strategy Statement**

**February 2020**

## Investment Strategy Statement

### Statutory Requirement for an Investment Strategy Statement

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

Regulation 7(1) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the LGPS Investment Regulations), which replace the 2009 Investment Regulations requires administering authorities to formulate an Investment Strategy Statement (ISS) which must be in accordance with guidance issued by the Secretary of State. This replaces the existing requirement to produce and maintain a Statement of Investment Principles.

The ISS must include:

- f) A requirement to invest money in a wide variety of investments
- g) The authority's assessment of the suitability of particular investments and types of investments
- h) The authority's approach to risk, including the ways in which risks are to be measured and managed
- i) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services
- j) The authority's approach on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments and
- k) The authority's policy on the exercise of rights (including voting rights) attaching to investments.

The ISS must also set out the maximum percentage of the total value of all investments that it will invest in particular investments or classes of investments. This, in effect, replaces Schedule 1 of the 2009 Regulations.

The statement must be published by 1 April 2017 and regularly reviewed at least every three years.

The original Clwyd Pension Fund ISS was designed to comply with the guidance given by the Secretary of State and was effective from 1 April 2017. It has been reviewed on a regular basis and was updated in 2018. This updated version was presented to the Committee in February 2020 for approval.

This ISS should be read in conjunction with the following statutory documents:

- Funding Strategy Statement
- Governance Policy and Compliance Statement
- Communications Strategy
- Clwyd Pension Fund Annual Report and Accounts
- Clwyd Pension Fund Actuarial Valuation.

All the above statements and documents can be found on the Fund's web site at <https://mss.clwydpensionfund.org.uk/>.

## **About The Fund**

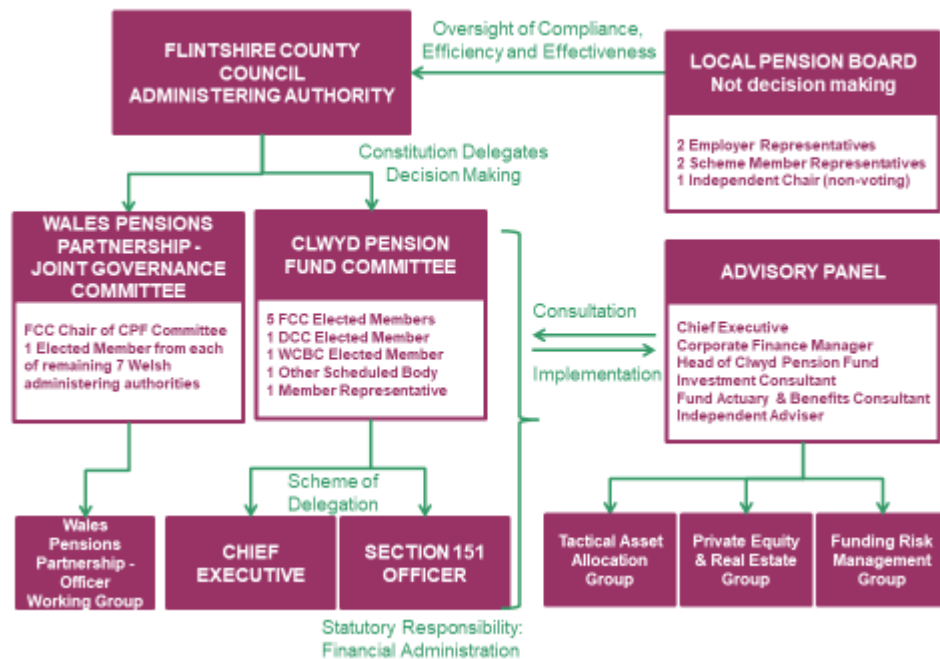
The Clwyd Pension Fund is a £2.0bn Local Government Pension Fund which provides death and retirement benefits for local government employees (other than teachers, police and fire-fighters) in North East Wales and employees of other qualifying bodies which provide similar services.

Total Fund membership is about 46,900 with about 16,800 active contributors from 47 contributing employers and about 30,100 retired members, widows and deferred members.

### **Governance and Management of the Fund**

The key decision making and management of the Fund has been delegated by Flintshire County Council (the Council) to a formal Pension Fund Committee (the Committee), supported by a Pensions Advisory Panel (AP). Before making strategic investment decisions the Fund takes advice from a regulated investment consultant; Mercer, who also provide Risk Management advice. The Council's Section 151 Officer (Corporate Finance Officer) has a statutory responsibility for the proper financial affairs of the Council including Fund matters. In addition, the Council has delegated specific responsibilities to the Chief Executive.

The Fund's governance structure is illustrated in the diagram below.



## Aims and Objectives

Our Fund's Mission Statement is:

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

This applies to the approach to investing the Fund's monies as well as managing the overall Fund. The Mission Statement has been developed to guide the management of all aspects of the Fund.

The specific objectives relating to the funding and investment management of the Fund are summarised below.

- Achieve and maintain assets equal to 100% of liabilities within the 13-year average timeframe, whilst remaining within reasonable risk parameters
- Determine employer contribution requirements, whilst recognising the constraints on affordability and strength of employer covenant, with the aim being to maintain as predictable an employer contribution requirement as possible
- Recognising the constraints on affordability for employers, aim for sufficient excess investment returns relative to the growth of liabilities

- Strike the appropriate balance between long-term consistent investment performance and the funding objectives
- Manage employers' liabilities effectively through the adoption of employer specific funding objectives
- Ensure net cash outgoings can be met as/when required
- Minimise unrecoverable debt on employer termination
- Ensure that its future strategy, investment management actions, governance and reporting procedures take full account of longer-term risks and sustainability
- Promote acceptance of sustainability principles and work together with others to enhance the Fund's effectiveness in implementing these
- Aim to use the Wales Pensions Partnership 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.

The key actions and areas of focus that have been identified to achieve these objectives are included in the Fund's business plan, to align with the key aims and objectives of this strategy.

## **Investment Strategy of the Clwyd Pension Fund**

The following sections detail the Fund's investment strategy, which takes into account LGPS Investment Regulations 7(2)(a) and 7(2)(b) as summarised below:

- Investment of money in a wide variety of investments  
Regulation 7(2)(a) requires that administering authorities invest in a diversified portfolio of assets to ensure that risk is appropriately managed and volatility of overall return is reduced. The guidance does not prescribe the specific asset classes over which Fund monies must be invested.
- Suitability of particular investments and types of investments  
Regulation 7(2)(b) requires that in assessing the strategic allocation for the Fund, an administering authority assesses the suitability of particular investments and types of investments against the need to meet pension obligations as they fall due.

In assessing the suitability and variety of investments, and considering the risks, the starting point should be the Fund's overall objectives. The investment and funding objectives are listed in the previous section "About the Fund".

In order that these primary objectives can be achieved, the following funding and investment principles have been agreed.

## Funding Principles

The Clwyd Pension Fund Funding Strategy implemented for three years from 1st April 2020 includes a number of investment return assumptions:

- An investment return (discount rate) for the funding target of CPI inflation plus 1.75% p.a. (assumed 4.15% p.a.).
- An investment return (discount rate) for the future service contribution rate of CPI inflation plus 2.25% p.a. (assumed 4.65% p.a.).

Over a three-year period, an investment return above these assumptions will contribute to reducing the funding deficit and thus employer contributions, providing that liability assumptions such as longevity and inflation remain on target. The Fund's triennial valuation considers all these factors when determining employer contribution rates. New employer rates will be implemented from 1 April 2020. The next actuarial valuation will be as at 31 March 2022 with implementation of revised contribution rates from 1 April 2023.

A Funding Strategy Statement (FSS) was prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013. The FSS outlines the strategy for recovering the funding deficit over 13 years. A copy of the FSS can be obtained from the Fund's web site at <https://mss.clwydpensionfund.org.uk/>. The funding strategy will be monitored during 2020/23.



In managing the Fund, the key funding objectives are:

- to aim for a funding level of 100% and
- to aim for long term stability in employers' contribution rates, whilst recognising the constraints on affordability for employers.

A full list of the funding aims and objectives of the Fund are set out within the executive summary of the FSS.

The Clwyd Pension Fund was funded at 91% of liabilities (at the 2019 actuarial valuation) and employers' contribution rates are currently structured to achieve a gradual return to 100% funding by 2032.

Whilst stability of costs from the employers' contribution rates has the higher priority, absolute cost to the employer is also important. This implies that:

- the cost of administering the Fund will be constrained by the adoption of best management practice
- employers will adopt appropriate and economic policies in those areas where they have discretion and where the costs of their actions fall on the Fund
- the Fund's overall investment policy will be aimed at achieving superior investment returns relative to the growth of liabilities. This implies that the Fund will continue to take active risk in how it invests its assets relative to its liability profile.

The investment principles of the Fund are stated in full below and are intended to strike the appropriate balance between delivering the strategy most suitable for long-term consistent performance and achieving the funding objectives. A favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

### **Investment Principles**

The key investment objectives for the Fund are to aim for sufficient excess investment returns relative to the growth of liabilities to meet the funding objectives set out above on an on-going basis, whilst maintaining an appropriate balance between long-term consistent investment performance and the funding objectives.

The Fund's overall strategic risk and return profile is currently determined through its strategic asset allocation. In establishing the Fund's long-term strategic asset allocation, or strategic benchmark, the key factors are the overall level of return being sought, the minimum level of risk consistent with this and the impact of diversification in reducing this risk further. At asset class or mandate level, asset class weightings, appropriate benchmarks and out-performance targets are the key building blocks in framing this overall Fund strategy.

It is Fund policy to carry out a fundamental review of the Fund's investment structure and management arrangements at least every four years. The review includes research on market views for the longer-term risk, return and correlation profiles for different asset classes and a more tactical view on the global economic and market environment over the next three to five years. This research is used to determine an optimum future balance between the various assets classes and hence the Fund's fixed strategic benchmark. The latest Fund review was undertaken

in 2019 and changes as a result of this will be implemented in 2020. Details of the investment strategy are included in the following sections.

### **Setting the Strategy**

The Fund's investment strategy has been determined to meet the objectives outlined earlier in this Statement. This includes consideration for the Fund's liability profile and the attitude to risk.

The strategic benchmark highlighted later in this section takes account of the risk and return characteristics of each asset class and provides a reasonable long-term balance appropriate to the liabilities of the Fund. The Fund considers the mix of asset classes in forming an overall portfolio and considers the correlation in volatility and return of each.

The Fund recognises the benefits of diversification across asset classes, as well as within them, in reducing the risk that results from investing in any one particular market. Where they consider it advisable to do so, investment managers have been appointed to select and manage the allocations across asset classes, in particular where it would not be practical (or appropriate) for the Fund's Committee and officers to commit the resources necessary to make these decisions themselves.

In assessing the suitability of investments required to form the overall portfolio a number of characteristics of each asset class, and sub asset class, are considered. These characteristics include potential return, risk/volatility of returns, liquidity, duration and interest rate sensitivity. In setting and reviewing an overall investment strategy for the Fund the starting point is always the Actuary's assessment of the liabilities of the Fund. This assessment will include cash flow requirements and an assessment of the required return to ensure the long-term solvency of the Fund, and it is essential that the investment strategy is compatible with this.

### **2019 Review**

The 2019 review showed, using Mercer market forecasts for Quarter 2 2019, that the expected market returns over the coming ten-year period would mean that the Fund could be expected to generate a return of 5.6% p.a. (CPI inflation plus 3.4% p.a.). Investigations showed that the portfolio was, in the main, well diversified and did not need significant change. However, there were opportunities to reduce risk without sacrificing return.

These opportunities led to six main areas of change:

- Dis-invest from Diversified Growth Funds due to overall diversification of the Fund leading to less compelling case to hold
- Increase physical listed equity allocations in developed and Emerging Markets
- New Sustainable equity allocation to support Responsible Investment Policy
- Restructure existing Hedge Funds allocation
- Create new explicit Local/Impact portfolio in Private Markets portfolio
- Establishment of the Cash and Risk Management Framework.

These changes meant that the expected return could be increased by 0.2%, with minimal change to the projected Deficit Risk.

Further details in relation to the investment strategy are outlined in this section.

## **Investment Decisions**

The Fund distinguish between three types of investment decision: strategic, tactical and stock-level.

### **Strategic Investment Decisions**

These decisions are long-term in nature and are driven by an understanding of the objectives, needs and liabilities of the Fund.

Strategic investment decisions are made by the Committee. They do so after receiving advice from their investment consultant. Examples of such decisions and of tasks relating to the implementation of these decisions include the following:

- Setting investment objectives
- Determining the split between the growth and the stabilising portfolios
- Determining the allocation to asset classes within the growth and stabilising portfolios
- Determining the Fund benchmark
- Reviewing the investment objectives and strategic asset allocation.

### **Tactical Investment Decisions**

These decisions are short-term and based on expectations of near-term market movements. Such decisions may involve deviating temporarily from the strategic asset allocation and may require the timing of entry into, or exit from, an investment market or asset class.

These decisions are ultimately the responsibility of the Committee. However, where such decisions are made within a pooled fund, they are the responsibility of the investment manager of the respective fund. Furthermore, the Committee have delegated certain powers to the Head of the Clwyd Pension Fund taking advice from the Tactical Asset Allocation Group. The purpose of the Tactical Allocation Portfolio, managed by the group is to take advantage of short-term (approximately one year) opportunities that are consistent with the long-term risk and return goals of the Fund. The Tactical Allocation Group is bound by the Tactical Allocation Portfolio Terms of Reference.

### **Stock Selection Decisions**

All such decisions are the responsibility of the investment managers with which the Fund invests.

## Strategic Asset Allocation

In setting the Strategic Asset Allocation for the Fund the LGPS Investment Regulations require the Fund to invest in a wide variety of investments and in doing so assess the suitability of particular types of investments. Subject to satisfying these elements of the Regulations the Fund is not constrained to certain types of investments; the requirement is for the Fund to set its own limits. In reviewing the strategy, the Fund considers the existing and a range of alternative asset classes.

### Balance between different types of investments

The LGPS Investment Regulations require the administering authority to have regard for the diversification of the Fund's investments.

The Fund will, at all times, invest across a diversified portfolio of investments to reduce investment risk. In addition to diversifying by assets, the Fund will invest across a number of managers and via different approaches and styles to investing.

The Fund may invest via pooled and segregated portfolios based on the appropriateness of each portfolio. The Fund can invest across a combination of passive, active and absolute return investment approaches based on return potential, cost and flexibility of implementation.

The investment structure agreed in the 2019/20 investment strategy review is detailed in the table below:

Asset Class	Strategic Weight
Developed Global Equity*	10.0%
Emerging Market Equity	10.0%
Hedge Funds	7.0%
TAA/Best Ideas **	11.0%
Multi-Asset Credit	12.0%
Cash and Risk Management Framework	23.0%
<b>Private Markets***</b>	
Property	4.0%
Private Equity	8.0%
Local/Impact	4.0%
Infrastructure	8.0%
Private Credit	3.0%
<b>Total</b>	<b>100.0%</b>

## Notes:

\*The Global Equity Portfolio includes a 5% Strategic Weight to a specific Low Carbon ESG focused fund.

\*\*The Best Ideas Portfolio is tactically allocated according to shorter-term market views. This can be implemented by increasing the allocation to any of the asset classes listed above or by separate asset classes in any type of investment. This allocation is made through consultation with the Tactical Allocation Group, which is bound by the Tactical Allocation Portfolio Terms of Reference. The objective of the Tactical Allocation Portfolio is to add value to the overall Clwyd Pension Fund return.

\*\*\*The Target allocation of the underlying asset classes in Private Markets will take some time to achieve due to the illiquidity of the asset classes involved.

The Fund's investment managers are remunerated either by way of an ad valorem fee, i.e. the fee is a percentage of the value of assets under management, or a combination of an ad valorem and performance-related fee. The principle of performance-related fees is that the base fee is lower and that the manager is only paid a higher fee if the performance objective is met or exceeded.

## Asset Allocation and Long Term Expected Return on Investment

The strategic asset allocation for the Fund must be consistent with the investment return assumed in the funding strategy. The investment strategy reflects the medium to long term nature of the liabilities but must also provide flexibility to manage short term volatility in markets. In addition, the investment strategy must take account of possible changes to cash flows as the membership profile of the Fund or the benefits structure changes.

The investment strategy reflects the differing return and risk profiles of each asset class. However, long term risk and return expectations are not consistently generated over all time frames and, for all asset classes, there can be periods of under or out-performance compared to the long-term expectations.

The strategic framework includes a target allocation against which strategic performance will be monitored (referred to as the Strategic Allocation). In addition, there are ranges for each asset category that allow limited deviation within the framework (referred to as the Strategic Range). The ranges enable the Fund to reflect changes in the market outlook and provide greater flexibility to implement cash management and rebalancing.

In addition to the Strategic Allocation and Strategic Ranges, a conditional medium-term asset allocation (the Conditional Range) exists, to manage major risks to the long term strategic asset allocation which may emerge between Fund reviews.

The Fund's strategic allocation, as set out below, does not assume any outperformance from the investment managers. The expected returns stated in this table are as at the date of the 2019/20 strategic review.

Asset Class	Strategic Allocation (%)	Strategic Range (%)	Conditional Range* (%)	Expected return above inflation(CPI)* ** p.a.
Developed Global Equity	10.0	5.0 - 15.0	0 – 30	4.5%
Emerging Market Equity	10.0	5.0 – 15.0	0 – 30	6.4%
Hedge Funds***	7.0	5.0 – 9.0	0 – 15	1.3%
TAA/Best Ideas****	11.0	9.0 – 13.0	0 – 20	2.5%
Multi-Asset Credit	12.0	10.0 – 14.0	0 – 20	2.4%
Cash and Risk Management Framework*****	23.0	10.0 – 35.0	0 – 40	2.8%
<b>Private Markets</b>				
Property	4.0	2.0 – 6.0	0 – 8	2.0%
Private Equity	8.0	6.0 – 10.0	0 – 15	6.0%
Local/Impact	4.0	0.0 – 6.0	0 – 8	3.1%
Infrastructure	8.0	6.0 – 10.0	0 – 15	3.1%
Private Credit	3.0	1.0 – 5.0	0 - 6	1.5%
<b>Total</b>	<b>100.0</b>			

#### Notes:

\* The Conditional ranges are at a total Fund level.

\*\* Expected return is expressed as an excess long-term return over CPI Inflation to reflect extra risk being taken, excluding active management. This is based on Mercer Market Forecast as at the date of the 2019/20 strategic review. CPI Inflation is used as the basis for expected returns as it is a proxy for valuing the liabilities.

\*\*\* The Hedge Fund allocation is being restructured as a result of the 2019/20 review

\*\*\*\* The Best Ideas allocation is a short term (12-month horizon) tactical allocation based on the JLT/Mercer's (the Fund's Investment consultant) "best ideas". The portfolio should be liquid and cost efficient.

\*\*\*\*\* The Cash and Risk Management Framework, a combination of Liability Driven Investment (LDI) and synthetic equity instruments, will be managed as part of a risk management approach. Given the nature of this mandate i.e. protection against liability changes, it is not intended to rebalance the allocation, which can lead to a movement away from the initial strategic allocation of 23%.

The inclusion of a diversified range of assets and the scope for tactical allocation in the strategy is expected to reduce the overall volatility of returns without significantly altering the Fund's expected long-term return. This was the case when modelling the revised investment strategy in 2019. This is explained in more detail in the risk section below.

#### Cash and Risk Management Framework

In March 2014, the Fund set up a Risk Management Framework (now referred to as Cash and Risk Management Framework). This has evolved since its initial implementation, and now includes the following hedging strategies that seek to manage a variety of financial risks. These strategies are implemented by Insight Investment Management (Insight).

### **Liability hedging programme, controlling the Fund's interest rate and inflation risk**

In March 2014, the Fund established a liability hedging programme covering both interest rate and inflation risks. A 'flightpath' for increasing the level of protection was agreed based on market yield triggers to ensure that risk was reduced at favourable times. Since the adoption of the flightpath, a number of market triggers have been implemented.

As part of the 31 March 2019 actuarial valuation and investment strategy review cycle, the officers and Fund consultants (Mercer and JLT) have reviewed the flightpath and no change has been made to the interest rate and inflation triggers at this stage.

Further, as part of the flightpath, whilst there are no formal funding level triggers in place, it has been agreed that when the funding level reaches 100% or higher, consideration will be given as to whether to further control the Fund's interest rate and inflation risk. The Funding and Risk Management Group monitors the funding level on a monthly basis.

### **Synthetic equity portfolio, gaining exposure to equities whilst hedging the downside risk**

The Fund implemented a synthetic equity strategy in order to increase its expected return potential in a capital efficient manner. In order to manage the downside risks associated with the synthetic equity strategy, a static equity protection strategy was put in place, protecting against equity market falls on the equity exposure. This was in place from April 2017 until May 2018.

In May 2018, a new dynamic protection strategy was put in place. This provides improved flexibility and on-going governance versus the previous static approach as it allows the structure to more easily adapt to changing market conditions.

### **Currency hedging strategy**

In August 2019, the Fund implemented a currency hedging strategy to reduce the risk of a strengthening pound devaluing the value of the Fund's physical overseas equity holdings. This was in light of the continued weakening of sterling. As holders of overseas assets, the Fund had benefitted significantly from the fall in sterling following the EU referendum and wished to reduce currency risk by locking in a portion of the gains made.

### **Collateral management strategy**

The above strategies make use of derivatives and therefore require collateral to be set aside in order to support the positions and protect the Fund (and counterparties) from the risk of default. There is a balance between holding enough collateral to support the strategies against a material and sudden move in markets, versus holding too much that it becomes a drag on the Fund's returns.

In order to manage this balance, the Fund implemented a collateral management strategy. This ensures that the Fund holds the required amount of collateral to support the strategies, with any excess collateral held in higher yielding funds that can be sold quickly if more collateral is required. This helps generate additional return and reduces the governance burden on the Fund, leading to improved efficiency.

### **Realisation of investments**

The Fund's investment policy is structured so that the majority of its investments (in equities and bonds) can, except in the most extreme market conditions, be readily realised.

However, the availability of alternative investment vehicles enables the Fund to invest in less liquid asset classes and to build well-diversified portfolios. Investments such as property, infrastructure and private equity/debt are long term investments which the Fund is less likely to be able to realise in a short period. "Lock-up" periods are normal practice in hedge funds (to manage the in/out flows to ensure existing clients' capital is protected) which means that these investments are not readily realisable either.

Notwithstanding this, the Fund maintains sufficient investments in liquid assets to meet its liabilities in the short and medium term as they fall due.

### **Cash Strategy**

From 1 April 2011 the 2009 Investment Regulations required the Fund to have a separate bank account from the Local Authority.

The Pension Fund does not have a strategic allocation to cash for investment purposes but holds surplus cash for paying:

- Benefits and transfers as per the Regulations.
- The administration costs of the Fund.
- The Investment management fees.
- Commitments to real assets and private market investments.

However, in extreme market conditions cash could be used as part of the Conditional Asset Allocation. The aim is to avoid requiring to borrow for liquidity purposes, although the LGPS Investment Regulations allow Pension Funds to borrow for a maximum of 90 days.

The cash could be deposited in one of the following, subject to cash flow requirements:

- The Pension Fund bank account with the National Westminster bank for daily liquidity.
- A deposit account with the National Westminster Bank with instant access.
- The Insight Liquidity Fund for unexpected liquidity requirements or higher rates of return.



As part of the 2019/20 review the Fund is developing its Cash Management Strategy and when this has been agreed this document will be updated to reflect this.

The Deputy Head of the Clwyd Pension Fund will arrange for the implementation of the cash strategy.

### **Stock Lending**

The Fund only currently invests in pooled vehicles so cannot undertake any stock lending. The stock lending policy on pooled funds is determined by the individual investment managers. Any income not retained by the fund manager and / or the lending agent is incorporated in the net asset values of each pooled fund. It has been agreed that investments made through the Wales Pension Partnership will be covered by the pool's stock lending policy.

## **Approach to risk, including the ways in which risks are to be measured and managed**

LGPS Investment Regulation 7(2) (c) requires that funds describe their approach to risk within their investment portfolio, including summarising the key risks and detailing the approach to mitigate the risk (where possible or appropriate).

### **Risk Register**

The Clwyd Pension Fund has a Risk Management Policy and Risk Register in place.

The Risk Register has a section dedicated to Funding & Investment Risks (including accounting and audit). Specific asset/investment risks highlighted in the risk register include those around investment markets, the failure of managers to achieve their objectives, missing out on market opportunities, and liquidity. The risk register is continually updated and key risks are considered on a regular basis at the Committee and AP meetings.

The main risk for the Fund is the mismatch between its assets and liabilities. As a consequence, if the investment returns are less than that required in the funding strategy, the funding level will deteriorate (all else being equal). The main risks within the funding strategy are interest rate, inflation and mortality risks, and investment risk arising from the investment portfolio, which is controlled through diversification of asset holdings. The Fund has a bespoke Cash and Risk Management Framework that has established objectives to ensure that the Fund's exposure to interest rate risk and inflation risk is managed and monitored on an on-going basis.

Investment, by its very nature, is a risk-based activity where the returns achieved will reflect differing levels of risk. There are a number of investment risks to consider within an investment fund, namely manager, market, credit, currency and liquidity risks. Consideration of financially material non-financial risks is considered in the Fund's Responsible Investment Policy which is explained later in this document.

In considering the Fund's investment strategy, it is necessary to have regard to the balance between risk and return. In practice, the investment strategy objective will be to achieve the highest possible return whilst minimising the downside risk, within agreed parameters.

### **Solvency Risk and Mismatching Risk**

- These are measured through a qualitative and quantitative assessment of the expected development of the assets relative to the liabilities.  
These are managed by setting a Fund-specific strategic asset allocation with an appropriate level of risk.

### **Manager Risk (including the Wales Pension Partnership)**

- This is assessed as the expected deviation of the prospective risk and return, as set out in the managers' objectives, relative to the investment policy.
- It is measured by monitoring the actual deviation of returns relative to the objective and factors supporting the managers' investment process, and by monitoring and replacing any managers where concerns exist over their continued ability to deliver the investment mandate.
- The aim of the investment strategy and management structure is to manage the appropriate level of risk for the return target which reflects the funding strategy. The Fund's external investment managers are required to invest in line with the investment guidelines set by the Fund. Independent custodians safe keep the assets on behalf of the Fund.

### **Liquidity Risk**

- This is monitored according to the level of cash-flows required by the Fund over a specified period.
- Whilst ensuring that there is the appropriate liquidity within the assets held, the Fund invests in less liquid investments to take advantage of the "illiquidity premium" offered.
- Despite this the Fund holds an appropriate amount of readily realisable investments. The Fund's assets are invested in pooled funds which are readily realisable and there is a significant amount of liquidity based upon the existing strategic asset allocation.

### **Political Risk**

- This is measured by the level of concentration in any one market leading to the risk of adverse influence on investment values arising from political intervention.
- The Fund manages this by regular reviews of the investments and through investing in funds which give a wide degree of diversification.

### **Corporate Governance Risk**

- This is assessed by reviewing the Fund's investment managers' policies regarding corporate governance.
- It is managed by delegating the exercise of voting rights to the managers, who exercise this right in accordance with their published corporate governance policies. In the future the Wales Pension Partnership will engage and exercise voting rights on behalf of the Fund. The Fund's Responsible Investment Policy explains the approach in detail and it is explained later in this document.

### **Legislative Risk**

- This is the risk that legislative changes will require action from the Committee so as to comply with any such changes in legislation.
- The Committee acknowledge that this risk is unavoidable but will seek to address any required changes so as to comply with changes in legislation.

### **Market Risk**

- This is the risk the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices.
- The Fund seeks to manage this risk through the strategic policy which ensures diversification of investments across a range of asset classes and markets that have low correlations with each other and across a selection of managers.
- The Fund has a significant weighting to a Tactical Asset Allocation/ Best Ideas portfolio (TAA) which aims to take advantage of market risk, by making shorter term tactical allocations which suit the specific characteristics of the Fund. As most of the portfolio is exposed to market risk, the main risk to the Fund is a fall in market prices. Although market movements cannot be completely avoided, and indeed there are periods when all assets become more highly correlated, the impact can be mitigated through diversifying across asset classes and approaches to investing.
- Market risk comprises of the following three types of risk:

### **Currency Risk**

- This is the risk that occurs when the price of one currency moves relative to another (reference) currency. In this context, the Fund may be invested in overseas stocks or assets, which are either directly or indirectly linked to a currency other than Sterling. There is a risk that the price of that overseas currency will move in such a way that devalues that currency relative to Sterling, thus negatively impacting the overall investment return.
- The Fund seeks to address this within the TAA and has also addressed this in the Cash and Risk Management Framework from a strategic perspective.

### **Interest rate risk**

- This is the risk that an investment's value will change due to a change in the level of interest rates. This affects debt instruments more directly than growth instruments.

### **Inflation risk**

- This is the risk that the value of the Fund's liabilities which are inextricably linked to Consumer Price Index (CPI) inflation, increase at greater rate than the assets.
- The Committee also acknowledge the interest rate risk and inflation risk related to individual debt instruments. This is managed by the underlying investment managers through a combination of strategies, such as diversification, duration and yield curve management and investing in assets that move in line with inflation such as Infrastructure.
- Since 2014 the Fund has adopted a Risk Management/Flight-path approach to managing the specific inflation and interest rate risk. The Flight-path is regularly reviewed and the appropriate trigger levels set.

### **Risk Budgets**

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.

### **Proper advice**

In assessing the Fund's strategy, including an assessment of the implicit risks, and setting the maximum limits the Fund has taken proper advice from Officers, JLT Benefits Solutions (Investment Consultants) and Mercer (Actuaries and Risk Management Advisers).

As part of the Fund's governance structure, there are regular meetings between the Fund's officers, the Investment Consultants, the Actuaries and Risk Management Advisers and the Fund receives advice from these parties on a continuous basis.

## Approach to pooling

LGPS Investment Regulation 7(2) (d) requires that all authorities commit to a suitable pool to achieve benefits of scale. It also requires that administering authorities confirm the chosen investment pool meets Government's investment reform criteria, or to the extent that it does not, that Government is content for it to continue.

The Clwyd Pension Fund is participating in the development of the Wales Pension Partnership (WPP). The proposed structure and basis on which the WPP will operate was set out in the July 2016 submission to the Government.

The WPP received confirmation from the Minister for Local Government that he was happy that the proposals met the required criteria, with the exception of the size requirement. However, the Minister confirmed in his letter to the Welsh Funds that given the special position of Wales, and the long history of collaboration he was content with the final proposal.

The agreed objectives of the WPP are:

- To provide pooling arrangements which allow individual funds to implement their own investment strategies (where practical).
- To achieve material cost savings for participating funds while improving or maintaining investment performance after fees.
- To put in place robust governance arrangements to oversee the Pool's activities.
- To work closely with other pools in order to explore the benefits that all stakeholders in Wales might obtain from wider pooling solutions or potential direct investments.

The Clwyd Pension Fund will aim to use the 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.

## Structure and governance of the WPP

The Pool has appointed Link Fund Solutions Ltd to establish and run a collective investment vehicle for the sole use of the LGPS funds in Wales. A diagram showing the governance structure is shown on the next page.

A Joint Governance Committee (JGC) was established in 2017 to carry out a number of responsibilities relating to WPP including overseeing the operator. The JGC comprises elected members – one from each of the eight participating funds. It is anticipated that this may be the Chairs of the respective Pensions Committees although administering authorities may choose to nominate alternative members if appropriate. This arrangement provides accountability for management of the WPP and the operator back to individual administering authorities.

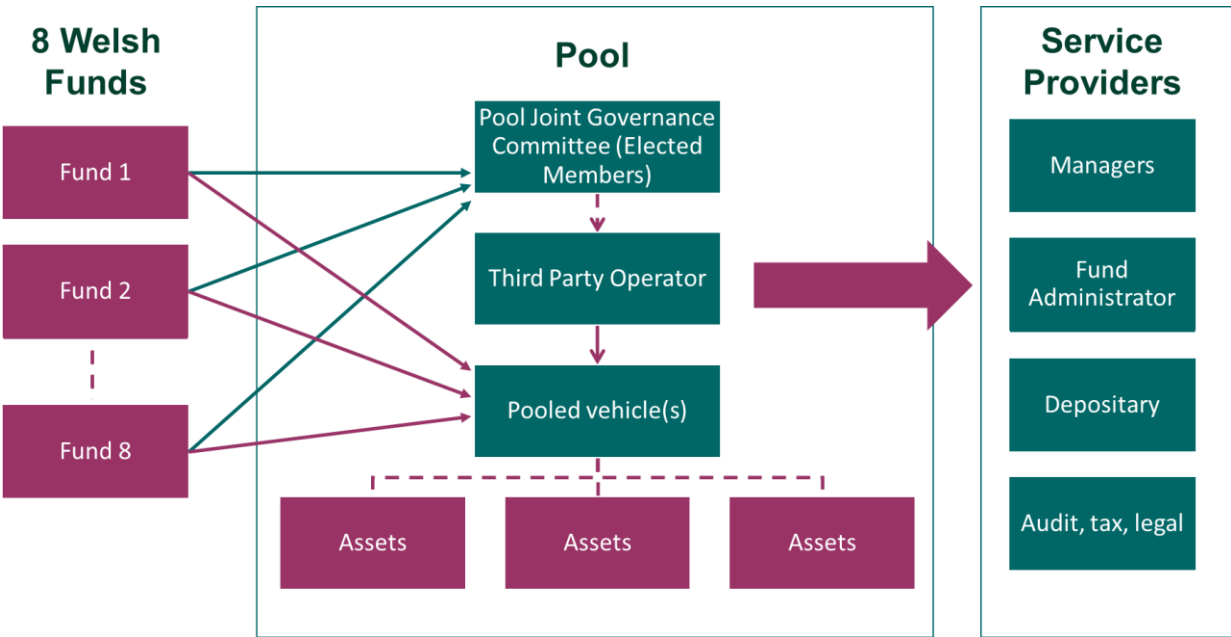
The JGC is setup formally as a Joint Committee between the participating administering authorities. It operates on the basis of "One Fund, One Vote", though in practice any decisions are reached on a consensus wherever possible. A formal Terms of Reference for the Committee has been agreed.

Each authority has committed to the pool by agreeing and signing an Inter Authority agreement. The agreement sets out the principles behind the WPP.

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

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

**Governance Structure of the WPP**



Link Fund Solutions Ltd is responsible for selecting and contracting with investment managers for each of the sub-funds as well as appointing other service providers such as a depository asset servicer, and an external valuer as necessary.

Listed bonds and equities will be invested through a UK based Authorised Contractual Scheme (ACS) in order to benefit from the tax transparent nature of the vehicle. It may be that alternative vehicles are more appropriate for some asset classes. As well as considering the options with Link Fund solutions, advice will be sort of the final proposed approach from a tax efficiency and legal compliance basis.

The process and benefits of doing so will be discussed with the operator. Given the Fund has a significant proportion of its assets in alternative, less liquid investments it may be some time before all of the Fund's assets are able to be pooled.

## **Approach to Environmental, Social and Governance issues and policy on exercising voting rights**

### **Regulatory Background**

In preparing, developing and implementing this Policy, the Fund has paid due regard to the regulatory background. The LGPS Investment Regulations require administering authorities to demonstrate that it considers any factors that are financially material to the performance of the fund's investments, including social, environmental and corporate governance factors, and over the long term, dependent on the time horizon over which their liabilities arise.

The LGPS Investment Regulations also require administering authorities to explain their policy on exercising rights (including voting rights) attaching to investments. The guidance refers to the Financial Reporting Council's UK Stewardship Code and requires that funds explain, where appropriate their policy on stewardship with reference to the Stewardship Code.

In addition to considering the LGPS Investment Regulations in developing the Responsible Investment Policy the Fund has taken professional advice. It has also had regard to the Well-being of Future Generations (Wales) Act 2015, guidance from the Scheme Advisory Board, the Ministry for Housing, Communities and Local Government and the Welsh Government. The Fund commits to keeping the policy reviewed in line with any future changes or updates in regulation or guidance.

The Fund has also considered, researched and reviewed a number of other areas of best practice when preparing this Policy such as the United Nations Principles for Responsible Investment, the Sustainable Development Goals and the Task Force for Climate-related Financial Disclosures (TCFD).

### **Responsible Investment Policy**

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 (RI) 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.



## Background

This revised Policy will support the Fund's specific RI aims with the funding and investments specific 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.

## Investment Pooling

As part of the Government's investment reform, the Fund has participated in the development of the WPP to pool the investments of the 8 Welsh LGPS funds. Whilst all strategic asset allocation and policy decisions remain with the Fund, implementation responsibilities in the future will be the responsibility of WPP.

The Fund is committed to pooling its investments with WPP, and acknowledge that this presents challenges, and also significant opportunities to enhance the Fund's approach to RI. The Fund has proactively engaged with WPP in setting WPP's RI policy and objectives, and is confident that they will enable it to implement its own policies.

The Fund will work with the WPP to develop their policies in the future to ensure they remain relevant and appropriate for the Clwyd Pension Fund.

## Stewardship and Engagement

The Financial Reporting Council (FRC) first published the UK Stewardship Code in 2010, and revised it in 2012. The Code aims to enhance the quality of engagement between asset managers and companies to help improve long-term risk-adjusted returns to shareholders. The Code sets out a number of areas of good practice to which the FRC believes institutional investors should aspire. Since December 2010 all UK-authorised asset managers are required by the Financial Conduct Authority to produce a statement of commitment to the Stewardship Code or explain why it is not appropriate to their business model.

The Stewardship Code has seven principles, and the ISS guidance given by the Secretary of State requires that administering authorities become signatories to the Code, and state how they implement the principles on a "comply or explain" basis.

The Fund applied and was approved as a Tier One signatory in March 2018, and can be seen on the FRC website - <https://www.frc.org.uk/investors/uk-stewardship-code/uk-stewardship-code-statements/asset-owners>.

In practice the Fund has applied the Code both through its arrangements with its asset managers and through membership of the Local Authority Pension Fund Forum (LAPFF). In the future as a member of the WPP, the Committee expects both WPP and the underlying fund managers to comply with the Stewardship Code.

In October 2019 the FRC issued an updated and increasingly demanding version of the Stewardship Code, and the Fund commits to reviewing its compliance against the updated Code with the aim of remaining a signatory.

## Reporting and Disclosure

The Fund is committed to transparency of its actions, in particular with respect to RI. The Annual Report contains copies of a number of documents including policy statements, and the ISS (in full). The annual report is circulated widely and is published on the Fund's website. It is accepted that approaches to RI and sustainability will evolve and develop over time, and it is therefore essential to keep policies and practices under regular review to ensure their effectiveness. In addition, the Fund recognises the importance of transparency and reporting in respect to RI and environmental, social and governance (ESG) issues, and therefore plans to enhance its analysis, disclosure and reporting. This will include manager ESG ratings, voting and engagement and carbon emissions analysis, and impact where relevant.

## Responsible Investment Beliefs

The Fund recognises the importance of its role as stewards of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside. The Fund recognises that ultimately this protects the financial interests of the Fund and its beneficiaries. The Fund has a commitment to actively exercising the ownership rights attached to its investments, reflecting the Fund's conviction that responsible asset owners should maintain oversight of the companies in which it ultimately invests and recognising that the companies' activities impact upon not only their customers and clients, but more widely upon their employees, other stakeholders and also wider society.

The Fund defines a **Responsible Investment** (RI) as:

Incorporating sustainability considerations within the investment process, including environmental, social and governance (ESG) factors for a broader perspective on risk and return opportunities.

In developing its approach to RI, the Fund seeks to understand and manage the ESG and reputational risks to which it is exposed. This policy sets out the Fund's approach to this.

The foundations of the Fund's approach to RI are its Principles which are set out below:

## Responsible Investment Principles

- The Fund's fiduciary duty is to act in the best interests of its members and employers. The Fund recognises that ESG issues create risk and opportunity to its financial performance, and will contribute to the risk and return characteristics. The Fund believes, therefore that these factors should be taken into account in its Funding and Investment Strategies and throughout the decision making process.

- The Fund is a long-term investor, with pension promises for many years, and because of this, it seeks to deliver long-term sustainable returns.
- The Fund integrates ESG issues at all stages of the Fund's investment decision making process.
- The Fund seeks to apply an evidence based approach to the implementation of Responsible Investment.
- The Fund recognises that transparency and accountability are important aspects of being a Responsible Investor and will demonstrate this by publishing its RI policy and activity for the Fund.
- The Fund has a duty to exercise its stewardship responsibilities (voting and engagement) effectively by using its influence as a long-term investor to encourage corporate responsibility.
- The Fund recognises the significant financial risk of **not** being a Responsible Investor and it seeks to ensure that this risk is mitigated through its Investment Policy and implementation.
- The Fund recognises the importance of Social/Impact investments which can make a positive social and environmental impact whilst meeting its financial objectives, and it will make selective investments to support this aim.

## Climate Change

The Fund recognises the importance in addressing the financial risks associated with climate change through its investment strategy, and believes that:

- Climate change presents a systemic risk to the overall stability of every economy and country, with the potential to impact on the members, employers and all of the holdings in the Fund's investment portfolio.
- Considering the impacts of climate change is not only the legal or fiduciary duty of the Fund, but is also consistent with the long term nature of the Fund. The Fund's investments need to be sustainable to be in the best interests of all key stakeholders.
- Engagement is the best approach to enabling the change required to address the Climate Emergency, however selective risk-based disinvestment is appropriate to facilitate the move to a low carbon economy.
- As well creating risk, it also presents opportunities to make selective investments that achieve the required returns, whilst at the same time make a positive social and environmental impact, such as environmental infrastructure and clean energy.

## Strategic RI Priorities

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 concentrate on everything together. Therefore, to enable the approach to be focused, the Fund has considered its strategic priorities for the next 3 years (2020-2023), which will support the overall aim of being a Responsible Investor.

These strategic priorities will be reviewed annually, and may be added to, but to maintain the desired focus the following have been identified from an RI perspective:

- Evaluate and manage carbon exposure
  - The Fund has identified climate change as a financial risk, and intends to measure and understand its carbon exposure within its investment portfolio.
  - Once this initial assessment has been made the Fund will look to set agreed Carbon reduction targets within 12 months to be delivered over the following five years.
- Identify sustainable investments opportunities
  - The Fund has for a number of years looked to make Social/Impact investments; whereby in addition to making the requisite financial return the investment has a positive social or environmental impact. The 2019 Investment Strategy Review has further supported this with the creation of a separately identified Local/Impact portfolio.
  - This portfolio has a strategic target weight of 4% of the Fund's assets and will be seeded from existing investments that meet pre-agreed criteria based on the [United Nations Sustainable Development Goals](#). Additional opportunities will be added with a view to achieving the target weight in three years (i.e. by 2023).
- Improve public disclosure and reporting
  - The Fund recognises the importance of transparency and reporting with respect to ESG issues. The Fund intends to enhance its analysis, disclosure and reporting on its RI activities, including manager ESG ratings, voting and engagement and carbon emissions analysis.
- Active Engagement on ESG risks
  - As a member of the LAPFF, the Fund has active engagement with its underlying investments. In the future, due to the pooling of investments, this engagement will be supplemented by the work of the WPP. The Fund is committed to working proactively with WPP and its providers to improve the levels of engagement.
- FRC Stewardship Code
  - The Fund has been a Tier One signatory to the Stewardship Code since March 2018. The new, more demanding version of the Code was launched in October 2019, and the Fund is committed to reviewing the requirements of the new Code, and aiming to remain a Tier One signatory if practical. If this is not achievable the Fund will encourage the WPP to do so.

## Commitment

The Fund has always sought to act with conscience when it comes to its investments and recognises that its approach to RI will need to evolve continually, given the speed of change with regard to the impact and understanding of ESG issues, and the ever changing world in

which we live. Due to the increased focus on RI within the investment industry there is continuous development of thinking and best practice, and the Fund is committed to ensuring its approach remains relevant and appropriate. This RI Policy will be formally reviewed at least every three years as part of any strategic review of the Fund's asset allocation, or as required due to changing regulatory requirements or to address specific issues that may arise.

## **Approval, review and further information**

### **Approval, Review and Consultation**

This version of the Investment Strategy Statement was approved at the Clwyd Pension Fund Committee on 11 February 2020. It will be formally reviewed and updated at least every three years or sooner based on when it is considered appropriate to review the Fund's approach to investing the Fund's assets, including responsible investing.

### **Further Information**

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

Debbie Fielder, Deputy Head of Clwyd Pension Fund, Flintshire County Council

E-mail – [debbie.a.fielder@flintshire.gov.uk](mailto:debbie.a.fielder@flintshire.gov.uk)

Telephone - 01352 702259

Further information about the Fund can be found on its website - <https://mss.clwydpensionfund.org.uk/>.

Further information about the Wales Pension Partnership can be found on its website - <https://www.walespensionpartnership.org/>.

**Cronfa Bensiynau Clwyd**  
**Clwyd Pension Fund**

*Gweinyddwyd gan*  
*Administered by*



**Flintshire County Council**

**Administering Authority For**  
**Clwyd Pension Fund**

**Communications Strategy**

**September 2019**

# Communications Strategy

## Introduction and Background

This is the Statement outlining our Pension Communication Strategy for the Clwyd Pension Fund ("the Fund") as per Regulation 61 of the LGPS Regulations 2013, and has been developed following consultation with employers in the Fund, scheme member representatives, Pension Board members and other interested stakeholders.

The aim of this Communication Strategy is to ensure that scheme members appreciate the benefits of the scheme and all stakeholders are kept informed of developments within the Pension Fund, and effective communications will also help to maintain the efficient running of the Scheme.

Flintshire County Council (the "administering authority") is responsible for the local administration of the Fund, which is part of the Local Government Pension Scheme ("the LGPS"). The Fund comprises 43 employers with active members, and approximately 47,000 scheme members (including active members, deferred and pensioner members).

The Statement sets out who we will communicate with, how this will be done and how the effectiveness of that communication will be monitored. It outlines the type of communications the administering authority would like to provide to its stakeholders and how we are moving more towards electronic communications rather than paper based.

The Clwyd Pension Fund recognises that there are several distinct stakeholder groups, such as;

- Scheme Members (active, deferred, pensioner and dependant members) and prospective Scheme Members
- Scheme employers and prospective Scheme employers
- Pension Fund Committee and Pension Board members, Advisory Panel
- Pension Fund Staff

- Other interested organisations including Government Departments, Scheme Advisory Board and Advisors to the Pension Fund.

The main means of communication with these key stakeholders are outlined in this statement, which includes making more use of technology to provide quicker and more efficient communications for the Fund's stakeholders.

## Implementation

The Clwyd Pension Fund's business plans for 2019/20 to 2021/22 include a number of projects which will improve communications and help meet the aims and objectives of this Statement.

These include:

- a major review of the Fund's website
- implementing self-service web functionality to scheme members
- implementing new software that will allow employer data to be loaded directly, and therefore more efficiently, into the pension administration software – this in turn will assist in more timely communication with scheme members.

## Regulatory Basis

The LGPS is a statutory scheme, established by an Act of Parliament. Regulation 61 of the Local Government Pension Scheme Regulations 2013, reproduced below, provides the conditions and regulatory guidance surrounding the production and implementation of Communications Strategies:

### Statements of policy concerning communications with members and Scheme employers

61. (1) An administering authority must prepare, maintain and publish a written statement setting out its policy concerning communications with —

- (a) members;
- (b) representatives of members;
- (c) prospective members; and
- (d) Scheme employers.

(2) In particular the statement must set out its policy on —



- (a) the provision of information and publicity about the Scheme to members, representatives of members and Scheme employers;*
- (b) the format, frequency and method of distributing such information or publicity; and*
- (c) the promotion of the Scheme to prospective members and their employers.*

*(3) The statement must be revised and published by the administering authority following a material change in their policy on any of the matters referred to in paragraph (2).*

This statement has been developed to include the information required by those provisions and to describe our approach in relation to meeting these requirements in the delivery of communications.

Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 and other legislation includes various requirements relating to the provision of information relating to pensions (in addition to the requirements in the Local Government Pension Scheme Regulations). The Clwyd Pension Fund aims to adhere with all such legislation and related statutory or best practice guidance. This includes the Pension Regulator's Code of Practice for Public Service Pension Schemes.

There are other regulatory requirements that the Fund adheres to, including the General Data Protection Regulations, the Freedom of Information Act and legislation around the use of Welsh language.

## **Our Aims and Objectives**

### *Mission Statement*

The Clwyd Pension Fund Mission Statement is:

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

In addition, we have specific aims and objectives in relation to our communication responsibilities as set out below.

### *Communication Aims and Objectives*

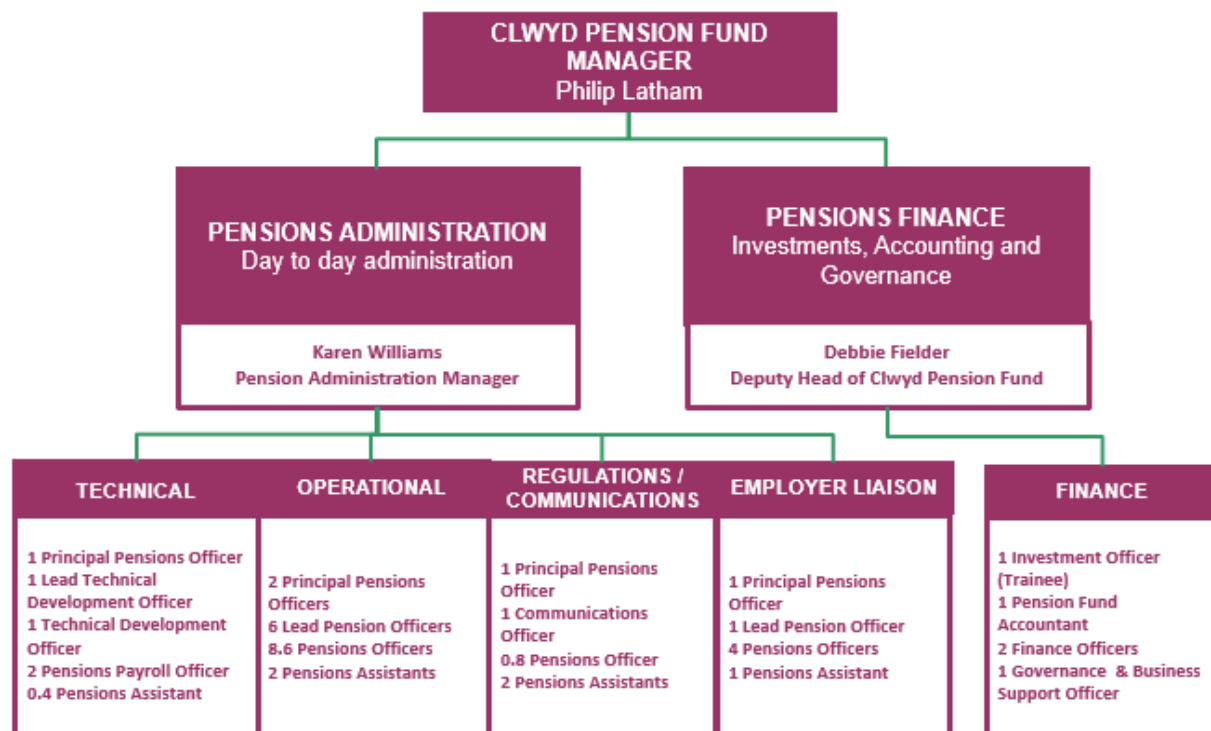
This Communications Strategy has a number of specific objectives relating to how we communicate with our stakeholders, as follows;

- Promote the Scheme as a valuable benefit and provide sufficient information so members can make informed decisions about their benefits
- Communicate in a clear, concise manner
- Ensure we use the most appropriate means of communication, taking into account the different needs of different stakeholders, but with a default of using electronic communications where efficient and effective to do so.
- Look for efficiencies and environmentally responsible ways in delivering communications through greater use of technology and partnership working.
- Regularly evaluate the effectiveness of communications and shape future communications appropriately.

### **Delivery of Communications**

Flintshire County Council has delegated responsibility for the management of the Pension Fund to the Clwyd Pension Fund Committee, taking into consideration advice from the Pensions Advisory Panel and the Pensions Board. The Committee will monitor the implementation of this Strategy on a regular basis as outlined later in this statement.

The communication aspect of the Fund is undertaken 'in-house' by a dedicated Regulations and Communications Team including a designated Communications Officer. The operational structure of the Clwyd Pension Fund is illustrated in the schematic diagram below. This structure has been reviewed during 2018/19 and the outcome of the final review is as follows:



The Clwyd Pension Fund may consider using external means to provide some of their communication services, which is likely to include various software packages to allow high quality electronic communications. In addition, the Pension Administration Section will look for opportunities to work collaboratively with other funds so as to reduce development costs and enhance the quality of information. This might include:

- Working with other funds through the Pensions Officer Group networks or the All Wales network to produce communications, which can then be customised further where necessary to meet the needs of the Clwyd Pension Fund
- Participating in joint training sessions with other funds.

### How we communicate

Ensuring that key stakeholders are well informed about the LGPS is of paramount importance. The Fund recognises that communicating in a clear informative style is vital in achieving this aim.

The Clwyd Pension Fund always aims to use the most appropriate communication medium for the audience receiving the information. This may involve using more than one method of communication based on the intended audience, albeit the Fund will aim to utilise electronic communications where appropriate to do so given the efficiencies and ease of access it provides, as well as it being more environmentally friendly. Scheme members will be able to elect not to receive electronic communications, in which case they will be continued to be sent hard copy communications only where the Fund is required to do so.

There may be circumstances where information is issued electronically, but for practical reasons (including costs), equivalent information will not be issued to those members who have elected not to receive electronic communications. For example, if a member's email address is held, a short email might be issued highlighting a new article placed on the Fund's website which is not a matter that legally requires notification to all scheme members. This will equally apply to members who have not registered for Member Self-Service.

Consequently, for those members who have not registered for Member Self-Service or who have not opted to receive paper copies of our communications, we will continue to send scheme communications in paper format where we are required by law to issue a communication; communications may not be issued where there is no legal requirement. We will continue to promote Member Self-Service for these members as all communications (whether required by law or not) will be notified using Member Self-Service.

Furthermore, the Fund may use facilities such as Twitter to communicate short alerts.

All of the Clwyd Pension Fund's generic scheme member communication material is bi-lingual. Clwyd Pension Fund complies with Welsh language legislation and we ensure all communications are published in both English and Welsh languages at the same time. Scheme members are also able to receive all personal correspondence in Welsh should that be their preferred language.

The Fund's information is also available in alternative formats for example, Braille, large print, BSL Video/DVD, audio tape and other languages on request.

The Fund also adheres to other legislative requirements, including the General Data Protection Regulations, Freedom of Information Act, and pension disclosure legislation. The Fund also aims to adhere to good practice standards such as the National Website Standards.

## Methods of Communication

The following sections summarise the key methods of communication used by the Fund. The frequency of each communication is not restricted and may vary depending on the urgency of the information being conveyed.

### a) With Scheme Members and Prospective Scheme Members

Effective communication promotes the LGPS as a benefit, therefore reducing the impact of misleading media information.

<i>Website</i>	<p>The Fund's website (<a href="http://www.cronfabensiyauclwyd.org.uk">http://www.cronfabensiyauclwyd.org.uk</a> (Welsh) or <a href="http://www.clwydpensionfund.org.uk">http://www.clwydpensionfund.org.uk</a> (English)) is available to everyone. It contains information about the Fund and the LGPS. Members are able to download scheme literature and forms. More detailed information on the scheme can also be obtained on the national LGPS website at <a href="https://www.lgpsmember.org">https://www.lgpsmember.org</a></p> <p>Clwyd Pension Fund's website has to adhere to national standards regarding accessibility to the website and how the content is structured.</p>
<i>Member Self Service (MSS)</i>	<p>Member Self Service is available to the Fund's scheme members. It allows members to log into a secure web area to view information held on their Fund record. Some of the facilities available to members include: ability to update their own personal details, update death grant expressions of wish, calculate retirement estimates and review Annual Benefit Statements online. Electronic communications are issued directly to scheme members via the Member Self Service facility; these are generally via an email alert directing the member to log into their Member Self Service to view the relevant information.</p>
<i>Annual Benefit Statements</i>	<p>These statements are distributed annually to all active and deferred scheme members. These statements are issued to members' via their Member Self Service accounts and are downloadable from there. Paper statements are only issued to home addresses by member request.</p>

<i>Generic Newsletters</i>	<p>The Fund issues a periodic newsletter called Penpal to contributing members, bringing to their attention information such as changes to scheme rules, and including important Facts &amp; Figures from the Annual Report. This is issued once a year.</p> <p>The Fund also sends a newsletter once per year to its pensioners entitled Clwyd Catch Up. This is usually sent with the annual pensions increase notification and explains how their new annual rate of pension has been calculated. It also includes topical information such as relating to the budget and State benefits.</p> <p>Both newsletters are uploaded onto our Member Self Service portal for members to download them. If any members have opted out of using MSS, they receive a hard copy through the post.</p> <p>All newsletters are available to view on the Fund's website.</p>
<i>Regulatory Update Newsletters</i>	<p>Pensions Extra and Deferred Diaries are newsletters that are issued on an ad hoc basis to notify pensioner and deferred members of urgent issues concerning the LGPS.</p> <p>All newsletters are available to view on the Fund's website.</p>
<i>Pension Presentations/ Workshops/Drop-in Sessions</i>	<p>The Fund offers LGPS presentations, workshops, and drop-in sessions throughout the year on any pension related matters. Employers can also request for an officer from the Fund to visit and speak with their staff about the LGPS. The information given out at these events is constantly reviewed to ensure that it is up-to-date and takes into account any changes in the pension regulations. LGPS literature, ranging from scheme booklets to death grant expression of wish forms, are always promoted at these events. Members are informed of where they can be found on our website for download or electronic copies can be emailed directly to the member.</p>
<i>Telephone and email / Open Office Policy</i>	<p>All members and prospective members have the opportunity to telephone, fax or email the Fund for information (pensions@flintshire.gov.uk).</p> <p>Members are also able to visit the Clwyd Pension Fund offices by appointment only so that they can discuss general LGPS matters. However, estimates are not able to be provided on the day of the one-to-one.</p>

<i>Pre-Retirement Courses</i>	The Communications Officer attends regularly organised pre-retirement courses to inform members who are approaching retirement age about Local Government retirement procedures. The courses are run in partnership with Gwynedd Pension Fund and are offered to all North Wales LGPS members via their employers.
<i>Literature</i>	<p>The Fund ensures pension-related literature is available to scheme members, including:</p> <ul style="list-style-type: none"> <li>• A Short Scheme Guide to the Local Government Pension Scheme, which is sent to all members upon joining the Clwyd Pension Fund.</li> <li>• A retirement pack sent to all members about to retire.</li> <li>• Fact-sheets on numerous areas including ill-health retirement, maternity leave, flexible retirement and commutation.</li> </ul> <p>All Fund literature is available on the website enabling 24 hour access.</p>
<i>Pensions Taxation Correspondence</i>	The Fund has a separate policy on how it will communicate with scheme members to help them understand whether they may be impacted by the annual or lifetime allowance. This is because this is a particularly complex area. This policy is focussed on providing basic information to all scheme members and more detailed information where it appears a member may be at risk of exceeding the annual or lifetime allowance, based on their Clwyd Pension Fund membership.
<i>Annual Report</i>	The Annual Report is published to highlight how the Fund has performed during the previous financial year. It also includes statements with regards to investment principles, funding strategy, risk, governance, audit and administration. It is available on the Fund's website.

## **b) With Employers**

Effective communication between the Fund and its employers reduces errors, improves efficiency, ensures more timely communications to scheme members and leads to good working relationships. The main means of communication with employers are outlined below.

<i>Administration Strategy</i>	The Fund's Administration Strategy provides an overview of how the administering authority and employers will work together to achieve a high quality service. It sets out, in detail, the obligations and responsibilities of both the Fund and the employer to achieve set performance standards. This is available on the Fund's website.
<i>Service Level Agreements (SLAs)</i>	SLAs ensure best practice and also comply with audit requirements. The SLA sets out, in detail, the obligations and responsibilities of the employer, concerning all aspects of LGPS administration. These Agreements are reviewed and updated annually taking into account changes made to the regulations and feedback from the Fund's employers. All the Fund's employers are required to sign and return the SLA each year which helps to ensure they acknowledge their responsibilities.
<i>Employer key contact officers and meetings</i>	<p>We expect each employer in the Fund to designate a named individual to act as their key contact officer; this individual will be the main contact with regard to any aspect of administering the LGPS and the employer must keep the Fund aware of the contact details for that person.</p> <p>The Operations Section consists of teams led by Principal Pensions Officers. Each team is responsible for the day to day operations for specific employers. The designated Principal Pensions Officer, will contact, and where relevant, meet with the employer's key contact officer to discuss any issues relating to the LGPS and/or raise any issues around the performance of the employer or services provided by the Fund. Further meetings will be arranged if necessary, and may be escalated to include the Pensions Administration Manager.</p>
<i>Annual Employer Meeting</i>	Employers have the opportunity to meet with members of staff from the Clwyd Pension Fund and receive updates and presentations from selected speakers who address the current issues and changes to the Clwyd Pension Fund and the LGPS.



<i>Annual Joint Consultative Meeting (AJCM)</i>	The AJCM invites employers, Trade Union representatives and other scheme member representatives to discuss the latest pension issues and to keep up-to-date with Local Government Pension Scheme changes and matters affecting the Fund. The AJCM is normally attended by the Fund Actuary, Investment Consultant and Independent Adviser and usually includes presentations summarising the main aspects of the Fund's annual report and accounts.
<i>Training Sessions</i>	Training sessions are offered to each employer. The sessions include training on the LGPS regulations and administration procedures and are offered to all relevant staff.
<i>Website</i>	<p>All employers have access to the Fund's website (<a href="https://mss.clwydpensionfund.org.uk">https://mss.clwydpensionfund.org.uk</a>) which includes a range of information relating to the scheme benefits and also management of the Clwyd Pension Fund.</p> <p>The employers also have their own website section: <a href="https://mss.clwydpensionfund.org.uk/home/employers/index.html">https://mss.clwydpensionfund.org.uk/home/employers/index.html</a> that they can visit to find out how to implement LGPS regulations.</p> <p>Additional guidance can also be found on the LGA website: <a href="https://www.lgpsregs.org/">https://www.lgpsregs.org/</a></p>
<i>Email Updates</i>	The Fund communicates with employers using an email distribution list including key staff from all employers. This distribution list is used to highlight general updates about the LGPS and to remind employers of facilities available to them and their staff, i.e. pension presentations and drop-in sessions. The Fund emails employers to inform them when a news alert is added to the website.
<i>Employer Bulletins</i>	The Clwyd Pension Fund Employer Bulletin will be emailed to employers annually to inform them of important LGPS issues. It will also be used to summarise all of the LGPS changes for the past 12 months and will also include updates on any major changes expected. Additional employer bulletins are issued throughout the year if urgent information needs to be sent to our employers.

<i>i-Connect</i>	i-Connect is the software that all employers in the Fund should work towards using to submit information to the Pension Administration Section. The system provides for efficient and timely data submission due to the automated validation it provides. Once i-Connect has been implemented and training has been provided to an employer, any employer not providing data using i-Connect will be charged additional administration costs due to the fact that other methods can result in great time spent validating data and hence significant delays in processing, which in turn impact the quality and timeliness of information provided to scheme members. On request, training will be provided by the Technical Team to ensure all employer key contact officers understand how to use the system. (Note – at the point of writing, i-Connect is still being implemented with the final employers due to go live by the end of 2020/21).
<i>Employer specific events</i>	A Fund Officer is available to attend any employer specific events to assist employers in understanding their responsibilities.

**c) With Pension Fund Committee and Pension Board members:**

Effective communication ensures that Pension Fund Committee and Pension Board members are appropriately knowledgeable and able to act in the best interests of the Fund and its members.

Members are provided with regular reporting on all areas relevant to pensions, including investment, funding, audit, governance, administration and risk. This is communicated in a variety of formats including via the external website, the infonet, the annual report and accounts, through committee meetings and through regular training in line with the Fund's Training Policy.

The majority of reports provided to Pension Fund Committee members, together with the meeting minutes, are available on the Council's website:-

<http://cyfarfodyddpwyllgor.sirymfflint.gov.uk/ieListMeetings.aspx?CId=445&Year=0&LLL=undefined>.

<http://committeemeetings.flintshire.gov.uk/ieListMeetings.aspx?CommitteeId=445&LLL=0>

The Committee papers also include the minutes from the latest Pension Board meeting.

**d) Information for Fund Staff:**

Effective communication ensures that Fund staff are confident and prepared to undertake their role, as follows:

<i>Clwyd Pension Fund Manager</i>	The Clwyd Pension Fund Manager ensures they are available for any of the Fund staff who may want a one-to-one with them. In addition, staff have unrestricted access to their supervisors and senior colleagues to discuss and resolve work related issues.
<i>Pensions Administration/Finance Manager</i>	The Pensions Administration Manager, Clwyd Pension Fund Manager and Deputy Head of Clwyd Pension Fund ensure they are available for any Fund staff who may want a one-to-one with them. In addition, staff have unrestricted access to their supervisors and senior colleagues to discuss and resolve work related issues.
<i>Administration Section Meetings</i>	Normally held on a monthly basis to discuss operational and technical issues, ensuring there is a shared understanding of any issues and developing a consistent approach towards addressing them. In addition, the Pensions Administration Management team meet fortnightly.
<i>Appraisal and Training</i>	All new members of staff undergo an induction procedure to acquaint them with the operational running of the Fund. Subsequently, all pension staff also receive both in-house and external training. Staff at all levels in the Fund have annual assessments, with a mid-year review, during which there are open discussions of work issues and areas for development. This dialogue is supplemented by regular one-to-one meetings within team structures.
<i>TEC (Training &amp; Education Centre)</i>	Clwyd Pension Fund utilises an e-learning facility. This allows Fund staff to work through these e-learning modules to enhance other learning and on-the-job training that they receive. The modules include a timeline of LGPS regulations and how to process calculations

**e) Communicating with other bodies:**

There are a number of other interested parties with whom we communicate as required, including:

<i>Ministry of Housing, Communities, and Local Government (MHCLG)</i>	The Fund has regular contact with MHCLG as a responsible LGPS Fund, participating and responding to consultations, as required.
<i>Local Government Association (LGA)</i>	The LGA liaises with LGPS Funds and MHCLG to ensure that all LGPS regulations are administered correctly as per MHCLG's instructions.
<i>Scheme Advisory Board (SAB)</i>	The national SAB was established following the Public Services Pensions Act 2013. It provides advice to the Fund and Local Pension Boards in relation to the effective and efficient administration and management of the Scheme and their funds. We therefore liaise with the SAB as appropriate.
<i>The Pensions Regulator</i>	The Pensions Regulator's remit has been extended to the Public Sector as a result of the Public Services Pensions Act 2013. The Fund liaises with the Regulator as required to ensure that it is compliant with the Pensions Regulator's Code of Practice.
<i>Trade Unions</i>	The Fund works with relevant trade unions to ensure the Scheme is understood by all interested parties. Efforts are made to ensure all pension related issues are communicated effectively with the trade unions. The trade unions are represented on the Pension Fund Committee and Pension Board.
<i>Employer Representatives</i>	The Fund communicates with relevant employer representative bodies to ensure that the Fund's views are represented to employer groups. Employers are represented on the Pension Fund Committee and Pension Board.

<i>AVC Provider</i>	Additional Voluntary Contributions (AVC) are held and invested separately from the LGPS. The Fund's current AVC providers are Prudential and Equitable Life (closed). A new AVC provider is expected to take over administration of AVCs previously covered by Equitable Life during 2019/20.
<i>Pension Fund Investment Managers, Advisers and Actuaries</i>	<p>The Clwyd Pension Fund Manager, Deputy Head of Fund and Finance team have regular meetings with;</p> <ul style="list-style-type: none"> <li>– the Fund Managers who invest funds on behalf of the Fund</li> <li>– Investment Advisers who provide help and advice on the asset allocation and investments of the Fund</li> <li>– the Fund Actuary to discuss funding levels, employer contributions and valuation of the assets and liabilities of the Fund</li> </ul> <p>The Independent Adviser, the Fund Actuary and the Investment Adviser are all members of the Pension Fund Advisory Panel, and attend all Pension Fund Committee meetings.</p>
<i>Welsh Government</i>	The Fund sometimes needs to liaise with Welsh Government on matters that might impact the delivery of the LGPS, such as local government reorganisation.
<i>Wales Pension Partnership (WPP)</i>	The Fund is a member of the Wales Pensions Partnership which has appointed an Operator to invest assets for all Wales LGPS Funds. Some of the administration and management of the partnership is carried out by the Host Authority, Carmarthenshire Council. The Fund is represented on the WPP Joint Governance Committee by the Chair of the Pension Fund Committee and on the Officer Working Group by an Officer determined by the Pension Fund Committee. As a result of this the Fund will have ongoing relationships with a number of LGPS Funds and organisations within this and other asset pools. Regular reports on the performance of and decisions made by the pool will be presented at Committee meetings and to members via the Fund's annual report and accounts.

<i>Pension Fund Custodian</i>	The Fund's Custodian ensures the safekeeping of the Funds investment transactions and all related share certificates where not invested with the Wales Pensions Partnership.
<i>Pensions and Lifetime Savings Association (PLSA)</i>	The Fund is a member of PLSA, which provides an opportunity for administering authorities to discuss issues of common interest and share best practice. The Clwyd Pension Fund Manager is a representative on the PLSA Local Authority Committee.
<i>Class User Group</i>	The Pension Administration Manager and other Pensions Officers attend the Class User Group meetings twice a year to discuss software issues and required upgrades to Altair, the Fund's administration system. This also includes additional user groups for i-Connect and Member Self Service.
<i>Local Authority Pension Fund Forum (LAPFF)</i>	The Fund is a member of LAPFF which was established to help local authority Funds share information and ideas about socially responsible investing.
<i>Regional Forums</i>	The Shrewsbury Pension Officers Group takes place quarterly. It is an opportunity for the Pensions Administration Managers and other Pension Officers from LGPS Funds in the region, to share information and ensure uniform interpretation of the LGPS, and other prevailing regulations.
<i>Partnership Manager Meetings with the 8 Pension Funds in Wales</i>	The Pensions Administration Manager and other Pension Officers regularly meet representatives from the other LGPS Pension Funds in Wales to discuss best practice, to ensure that all Welsh Funds have a consistent approach to their administration procedures.
<i>Welsh Communications Group with the 8 Pension Funds in Wales</i>	All of the Communication Officers from the Welsh Pension Funds meet as and when required to share ideas about forms of communication.

<i>Shared Services Communications Group</i>	The Communications Officer and other Pension Officers also attend a regional Communication Group on a quarterly basis, to ensure continuity and share ideas about forms of communication.
<i>Requests for information</i>	Requests for information either under the Freedom of Information Act or otherwise, will be dealt with as openly and swiftly as allowed providing that such information does not breach confidentiality, by the Flintshire County Council Freedom of Information Officer.
<i>Consultations</i>	There are occasions when the Fund will consult with interested parties either as a result of potential changes to the regulations governing the LGPS or specific policy changes relating to the Fund. In these instances, the most effective way of communicating with interested parties is to hold a period of consultation, during which, they are given the opportunity to respond to specific changes. Interested parties and representative groups will be approached to provide feedback to the policy changes before amendments are enacted.
<i>Press releases and comments</i>	Press releases or comments regarding the Clwyd Pension Fund are made either via the Corporate Communications team within Flintshire County Council or in collaboration with them.

### Measuring whether we meet our Communication Objectives

The Fund will monitor success against our communication objectives in the following ways:

Objectives	Measurement
Promote the Scheme as a valuable benefit and provide sufficient information so members can make informed decisions about their benefits.	Annual satisfaction surveys with scheme members achieving 90% of scores in positive responses in these areas.

Objectives	Measurement
Communicate in a clear, concise manner.	Annual satisfaction surveys with employers and scheme members achieving 90% of scores in positive responses in these areas.
Ensure we use the most appropriate means of communication, taking into account the different needs of different stakeholders, but with a default of using electronic communications where efficient and effective to do so.	<p>Annual satisfaction surveys with employers and scheme members achieving 90% of scores in positive responses in these areas.</p> <p>5% per year increases in the proportion of scheme members registered on Member Self-Service with a long-term target of 75% of all active and deferred members being registered users.</p>
Look for efficiencies and environmentally responsible ways in delivering communications including greater use of technology and partnership working.	Evidence of use of digital communications as a default in all situations unless valid reasons not to do so for efficiency or effectiveness.
Regularly evaluate the effectiveness of communications and shape future communications appropriately.	<p>Satisfaction survey is undertaken annually (as a minimum).</p> <p>Results from satisfaction survey are thoroughly analysed and investigated, and trends monitored from previous years.</p> <p>Detailed analysis of survey results is used to identify areas to improve communications in future.</p>



An overview of our performance against these objectives will be reported within the Fund's annual report and accounts and also reported on an ongoing basis to the Pension Fund Committee and Pension Board.

If performance is substantially below standard (whether by a large margin for a short period of time or a small margin for a longer period of time) the Fund will formulate an improvement plan. This will be reported to the Funds' Pension Fund Committee and Pension Board together with an ongoing update on achievement against the improvement plan.

### **Key Risks**

The key risks to the delivery of this Strategy are outlined below. The Clwyd Pension Fund Manager, the Pensions Administration Manager and other officers will work with the Pensions Advisory Panel, Pension Fund Committee and Pension Board in monitoring these and other key risks and considering how to respond to them.

- Lack or reduction of skilled resources due to difficulty retaining and recruiting staff members and also staff absence due to sickness
- Significant increase in the number of employing bodies causes strain on day to day delivery
- Significant external factors, such as national change, impacting on workload
- Issuing incorrect or inaccurate communications
- Failure to maintain employer database leading to information not being sent to correct person
- Lack of clear communication to employers, scheme members and pensioners

### **Approval, Review & Consultation**

This Strategy Statement was approved in March 2016 by the Clwyd Pension Fund Committee and further minor amendments approved using officer delegations in September 2018. Further updates were made and approved by the Clwyd Pension Fund Committee in June 2019.

It will be formally reviewed and updated at least every three years or sooner if the communication management arrangements or other matters included within it merit reconsideration, including if there are any changes to the LGPS or other relevant Regulations or Guidance which need to be taken into account.

In preparing this Strategy we have consulted with the relevant employers, the scheme member and employer representatives on the Clwyd Pension Board and other persons considered appropriate.

This Strategy Statement will be included within the Fund's Annual Report and Accounts and available on our website.

### **Costs**

All additional costs relating to this Strategy Statement are met directly by the Fund unless mentioned otherwise.

### **Further Information**

Any enquiries in relation to the Fund's communications or the principles or content of this Strategy Statement should be sent to:

Karen Williams  
Pensions Administration Manager  
Flintshire County Council  
County Hall,  
Mold,  
Flintshire  
CH7 6NA  
E-mail - [karen.williams@flintshire.gov.uk](mailto:karen.williams@flintshire.gov.uk)  
Telephone – 01352 702963