

FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CLWYD PENSION FUND COMMITTEE**
DATE: **26th NOVEMBER 2015**
REPORT BY: **CHIEF OFFICER (PEOPLE AND RESOURCES)**
SUBJECT: **GOVERNANCE UPDATE**

1.00 PURPOSE OF REPORT

1.01 To provide Committee Members with an update on governance related issues.

2.00 BACKGROUND

2.01 A governance update is on each quarterly Committee agenda and includes a number of governance items for information or discussion. The items for this quarter are:

- Business Plan 2015/16 update (Appendix 1)
- Local Pension Board update (Appendix 2)
- Risk register update (Appendix 3)
- Draft Procedure for Reporting Breaches of the Law (Appendix 4)
- Other miscellaneous governance matters
- Training Policy and Implementation update (Appendices 5 and 6)
- Delegated responsibilities (Appendices 7 and 8)

2.02 Due to the cancellation of the 23rd September Committee meeting a number of the agenda items within this report will, where appropriate, report on both quarters 1 and 2.

3.00 BUSINESS PLAN UPDATE – QUARTER 2

3.01 Appendix 1 provides a summary of progress against the governance section of the Business Plan up to the end of quarter 2 to 30th September 2015. The majority of items are as originally planned but the Committee is asked to note the following:

Changes to Business Plan

3.02 Following a review of the key tasks the following changes are proposed:

- Key action-task reference G4 Review/Tender Actuarial Contract be deferred to 2017/18
- Additional key action-task reference G12 Implement Breaches of Law Procedure and Register is added.

Local Pension Board

- 3.03 In accordance with legislative requirements, Flintshire County Council established the Clwyd Pension Board (the Board) on the 3rd March 2015 with the first meeting being held on the 27th July 2015.
- 3.04 The members of the Board are:
- Member Representatives – Mrs Gaynor Brooks, Mr James Duffy
 - Employer Representatives – Mr Steve Jackson, Mr Mark Owen
- 3.05 The Board also confirmed Mrs Karen McWilliam (Independent Member) as Chair of the Board.
- 3.06 The minutes of Board meetings will, once formally agreed by the Board, be shared with the Committee, as such, the minutes of the meeting held on 27th July 2015 are enclosed at Appendix 2. Since this meeting a further meeting of the Board was held on the 12th October 2015; the minutes of this meeting will be approved at the Pension Board meeting on the 1st March 2016 and reported to the 22nd March 2016 Committee. At the inaugural meeting of the Board the majority of the business was the formal adoption of the Pension Board Protocol, Conflicts of Interest Policy, Training Policy, Interim Breaches Policy and other administrative matters.
- 3.07 The key discussions during the latest meeting was around the early draft of the Administration and Communications Strategies Statement and the future work plan for the Board. The former resulted in a number of action points which are reflected in Agenda item 9.
- 3.08 Whilst the minutes for this meeting are yet to be formally agreed the main areas that the Board will be looking at in future meetings include:
- Changes resulting from the Government policy on the pooling of investments
 - The communication process with employers for the 2016 Actuarial Valuation
 - Input into the 2016/17 Internal Audit Plan
 - Input into the draft 2016/17 Business Plan

External Factors Impacting the Fund

- 3.09 The CPFM attended the Interim Scheme Advisory Board (SAB) event on the 21st August. This was an event on Pooled Investments in the LGPS and also outlined the forward work plans of the SAB, namely:
- Deficit management (21st May 2015 agenda)
 - Separation options (24th March 2015 agenda) – this work has been put aside for now after the announcements by the Government around the pooling of assets that could impact on any outcomes.
 - A review of the implementation of local pension boards.
 - Revised ill health retirement process.
 - More data cleansing, member friendly communications and training.

Cash-flow and Operational Budget

3.10 Appendix 1 also details progress against the projected cash-flows and budgeted operating costs for 2015/16. The Committee is asked to note the following:

- Early indications do not highlight any areas of concern within operating costs although the following are worthy of note. The under-spend for outsourcing within Administration is due to the project being over two years (2015/16 and 2016/17). The increase in the fund manager fees budget reflects changes necessary to ensure that the manager fees disclosed are compliant with best practice as determined by CIPFA.
- Early indications have only highlighted one area of major difference in the projected cash-flow for 2015/16. This relates to a variance of £10 million between the budgeted and estimated rebalancing of the portfolio due to the greater use of in-house cash to fund the investments within the tactical portfolio.

4.0 RISK REGISTER UPDATE

4.01 In accordance with the Clwyd Pension Fund's Risk Policy, progress in managing risks will be monitored and recorded on the risk register and key information will be provided on a quarterly basis to the Clwyd Pension Fund Committee and the Pension Board as part of the regular update reports on governance, investments and funding, and administration and communications.

4.02 Appendix 3 provides the dashboard showing all the Fund's current risks. In addition, in relation to the governance risks, it provides details of:

- the key risks (i.e. ranked 8 or above in the above dashboard)
- any new risks
- risks that have changed by a score of 3 or more and
- risks that have been removed since the previous report.

4.03 In summary, the current high level risks for the Fund which are considered throughout the Committee agenda:

- Potential changes from Government, and within Wales, relating to the governance of investments.
- Maintaining the required level of knowledge, skills and resource both within the Fund and employers to achieve our objectives with increasingly complex regulation, policies and strategies for administration, funding and investments and governance.

4.04 In terms of Governance, since the last update, it has been necessary to review the actions relating to the following risks:

- *Governance structure unable to adapt to change either through national governance change (separation) or Wales working together including a CIV* (risk reference 10) – Impact increased to 4 and likelihood increase to 5. This is to reflect the current Government moves to consult on pooling investments and the certainty that there will be changes forthcoming.
- *Unable to properly (and within timescale) establish, fill posts and train new Pension Board* (risk reference 16) – Following the establishment of the

Pension Board this risk has now been removed.

- *Poor attendance at Board meetings by Pension Board members resulting in a poor standard of monitoring* (risk reference 18) – Following the establishment of the Pension Board this becomes a risk. The impact and likelihood are considered low at 3 and 2 respectively.
- *Failure to record and/or report breaches in accordance to The Pensions Regulator Code of Practice* (risk reference 19) – The procedure will be in place from 1st December 2015 (agenda items 5.01 – 5.04 refers), however, until then, and also allowing for a bedding in period, the impact and likelihood are considered high at 4 and 4 respectively.

5.00 CURRENT DEVELOPMENTS AND NEWS

Draft Procedure for Reporting Breaches of the Law

- 5.01 Section 70 of the Pensions Act 2004 imposes a requirement on specific persons to report a matter to The Pensions Regulator (TPR) as soon as is reasonably practicable where that person has reasonable cause to believe that a legal duty relating to the administration of the scheme has not been or is not being complied with, and, that the failure to comply is likely to be of material significance to TPR. The Act states that a person can be subject to a civil penalty if he or she fails to comply with this requirement without a reasonable excuse.
- 5.02 TPR has developed a Code of Practice to provide guidance in relation to this legal requirement.
- 5.03 Flintshire County Council has developed this procedure in relation to the Clwyd Pension Fund. This document (Appendix 4) sets out how the Council will strive to achieve best practice through use of a formal reporting breaches procedure. It reflects the guidance contained in The Pension Regulator's Code of Practice. This Procedure delegates the responsibility for the implementation of the Procedure to the Clwyd Pension Fund Manager. As part of this Procedure the Committee will be kept informed of all breaches whether reportable or not.

Clwyd Pension Fund Annual Report and Accounts

- 5.04 The Fund Annual Report and Accounts has now been published and is available on the Fund website. I am pleased to report that the Accounts were given an unqualified report by the Wales Audit Office.

Christmas 2015

- 5.05 Flintshire County Council have, as part of the drive to manage budgets and resources as efficiently as possible, decided to completely close County Hall and the campus buildings between Christmas and New Year. The impact of this on the Clwyd Pension Fund is that no Fund staff will be working in the period between Christmas and the New Year.
- 5.06 As part of our policy to keep stakeholders as informed as possible a communication will be sent to all employers and a note will be put on the Fund's website.

Key Performance Indicators (KPI) – Interim Scheme Advisory Board (SAB)

- 5.07 The SAB are developing a number of KPI indicators (4 core and 18 supplementary) in order to provide funds with the ability to assess themselves against best practice benchmarks both across the scheme and across time. The indicators will also enable the SAB to provide support to funds in a targeted manner.
- 5.08 A pilot was run in March/April 2015 during which funds were given the opportunity to help develop the KPIs. The feedback from this pilot helped inform a revised set of KPIs that was sent for completion to all funds during October 2015. Whilst the completion was, at this stage, voluntary it was decided that the Fund would complete and return the KPIs as this would provide a base level against which to measure ourselves in future years.
- 5.09 A training course is being held before the start of Committee that will explain why the KPIs have been introduced, what they are measuring and how the Fund has responded.

The Pensions Regulator and Annual Benefit Statement

- 5.10 There is a statutory requirement that all funds must issue annual benefit statements to scheme members in accordance with the deadline set out in the Public Service Pension Act. The Fund was one of only seven funds in England and Wales that did send out the annual benefit statements in time.
- 5.11 As this is clearly an issue for many schemes The Pensions Regulator (TPR) has acknowledged that all public sector schemes face a significant task in implementing the major public sector reforms due to significant data and IT issues. TPR expects that all schemes will comply with the law and that further investigations may take place if schemes have not issued statements by the 30 November. Additionally, the TPR would consider whether a different response was appropriate if the delays were due to other reasons.
- 5.12 Whilst this clearly does not impact on the Fund it is worth noting the TPR has noted the issue and stated what is expected and indicated that further investigations may take place if appropriate.

Awards

- 5.13 I am pleased to report to Committee that the Fund has been successful at the recent LAPF Investments 2015 Awards winning the 'Risk Management Project of the Year' category. I am also pleased to report that JLT were also successful winning 'Consultant of the Year' category.

6.00 POLICY IMPLEMENTATION AND MONITORING

Training Policy - Revision

- 6.01 The Clwyd Pension Fund Training Policy was originally approved by the Pension Fund Committee in November 2014. Since then, CIPFA has issued a

further Knowledge and Skills Framework which applies to Local Pension Board members, and The Pensions Regulator has issued his final Code of Practice for Public Service Pension Schemes. As a result, it is good practice to update the Training Policy to accurately reflect both of these developments and to clarify that the Fund adopts the principles of both, in addition to the existing CIPFA Framework (that applies to Pension Fund Committee members) and the CIPFA Code of Practice which are mentioned within the existing Training Policy. The draft updated Training Policy, within which the suggested changes are highlighted, is included in Appendix 5.

Training Policy - Implementation and Monitoring

- 6.02 The Clwyd Pension Fund Training Policy requires all Pension Fund Committee and Pension Board members to:
- Have training on the key elements identified in the CIPFA Knowledge and Skills Framework
 - Attend training sessions relevant to forthcoming business
 - Attend at least one day each year of general awareness training or events.
 - Have an individual training plan.
- 6.03 Appendix 6 details progress made to date in relation to the CIPFA Knowledge and Skills Framework training. Some Committee Members have outstanding modules to complete and officers will be in touch with those concerned to arrange suitable dates.
- 6.04 Appendix 6 also shows The Pension Regulator modules undertaken together with any additional training and other external events attended by Committee Members during 2015/16. In terms of future events Members should note the LGC Investments Seminar at Carden Park, Chester on the 3rd and 4th March 2016.
- 6.05 The Training Policy states that an individual training plan will be developed to assist each Pension Fund Committee member, Pension Board member or officer in achieving their identified individual training requirements. This will commence in early 2016.

7.00 DELEGATED RESPONSIBILITIES

- 7.01 The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. Appendix 7 updates the Committee on the area of delegation used since the last meeting. The minutes of the discussion are at Appendix 8.

8.00 RECOMMENDATIONS

- 8.01 That Committee Members discuss and note the report and approve the following:
- The changes to the Business plan detailed in 3.02.
 - The changes to the Risk Register detailed in 4.04.

- The draft Procedure for Reporting Breaches of the Law to include the delegation for its implementation to the Clwyd Pension Fund Manager as detailed in 5.01 to 5.03.

9.00 FINANCIAL IMPLICATIONS

9.01 None directly as a result of this report.

10.00 ANTIPOVERTY IMPACT

10.01 None directly as a result of this report.

11.00 ENVIRONMENTAL IMPACT

11.01 None directly as a result of this report.

12.00 EQUALITIES IMPACT

12.01 None directly as a result of this report.

13.00 PERSONNEL IMPLICATIONS

13.01 None directly as a result of this report

14.00 CONSULTATION REQUIRED

14.01 None directly as a result of this report.

15.00 CONSULTATION UNDERTAKEN

15.01 None directly as a result of this report.

16.00 APPENDICES

16.01 Appendix 1 - 2015/16 Business plan update

16.02 Appendix 2 - Local Pension Board minutes

16.03 Appendix 3 - Risk register update

16.04 Appendix 4 - Draft Procedure for Reporting Breaches of the Law

16.05 Appendix 5 - Training Policy update

16.06 Appendix 6 - Training implementation and monitoring

16.07 Appendix 7 - Delegated responsibilities

16.08 Appendix 8 – Minutes from Delegated Decision Making Meeting 23 September

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: 24th March 2015 Pension Fund Committee
 - Clwyd Pension Fund Business Plan 2015/16 to
 2017/18
 - Clwyd Pension Fund Risk Policy and Register

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