

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Thursday, 28 November 2019
Report Subject	Governance Update
Report Author	Head of Clwyd Pension Fund

EXECUTIVE SUMMARY

On each Committee agenda LGPS governance matters and the impact on the Clwyd Pension Fund (CPF) are provided for discussion along with updates on the Clwyd Pension Fund's governance strategy and policies for information. The LGPS items for discussion this quarter are:

- Setting objectives for investment consultants in line with CMA recommendations
- Scheme Advisory Board's (SAB) Good Governance project – the phase two recommendations
- The Pension Regulator's (TPR) Annual Survey 2019
- TPR published deep dive report
- The SF3 Report published by MHCLG
- Scheme member representation in asset pools.

The report incorporates updates on the implementation of governance strategy and policies for monitoring including:

- An update on progress with the 2019/20 business plan
- Update to the Fund's risk dashboard and in particular governance risks
- A summary of the key points discussed at the Local Pension Board
- The latest changes to our breaches of the law register
- Information to note on training and other events.

RECOMMENDATIONS

1	That the Committee consider the update and provide any comments, particularly noting the SAB Good Governance phase two recommendations (paragraph 1.08). The Committee are also reminded to confirm whether they will be attending two future conferences as outlined in paragraph 1.12.
2	That the Committee approve the use of urgency delegations to carry out the appointment of the Investment Consultant and the Independent Adviser during March 2020 as outlined in paragraph 1.01.

3	That the Committee approve that the setting of objectives for CMA purposes is delegated to the Head of Clwyd Pension Fund and the Deputy Head of Clwyd Pension Fund in accordance with the updated schedule of delegations (as described in paragraph 1.06).
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REPORT DETAILS

1.00	GOVERNANCE RELATED MATTERS
1.01	<p>Business Plan 2019/20 Update</p> <p>Appendix 1 shows progress with this quarter's work in the 2019/20 business plan which covers the following three actions:</p> <ul style="list-style-type: none"> • The business continuity plan (G1) is still behind schedule and is currently expected to be completed in quarter 4 (rather than quarter 3) of 2019/20. • The review of the pension administration system contract (G2) is making good progress as part of the national framework. • Work has also commenced on the review of the Investment Consultant and Independent Adviser contracts (G3). These contracts are currently held by Mercer (the former JLT team led by Kieran Harkin) and Aon (led by Karen McWilliam) respectively and they are both due to terminate on 31 March 2020. A full tender process will be carried out for each contract using the national LGPS framework. The responsibility for appointing providers to the Fund sits with the Pension Fund Committee under the Council's Constitution. However, due to the date of the March PFC being mid-March it is not expected that the full tender process will be complete in time for the Committee to make a decision at that meeting. Given the strict process that must be followed for procurement exercises, which include clear criteria and scoring processes, the Committee is asked to agree that the appointments be decided using the Fund's urgency delegations (i.e. Head of Clwyd Pension Fund and either Corporate Finance Manager or Chief Executive, subject to agreement with Chair and Vice Chair (or either, if only one is available in timescale)). If this is agreed, the results of the procurement process will be emailed to the Committee members in early April.
1.02	The Committee is asked to note the contents of the business plan update and approve the delegation of the appointment of the Investment Consultant and the Independent Adviser during March 2020.
1.03	<p>Current Developments and News</p> <p><i>Team restructure</i></p> <p>The Committee should note that the final elements of the review of the CPF staffing structure have now been completed and the role of Clwyd Pension Fund Manager, held by Philip Latham, has been changed to Head of Clwyd Pension Fund.</p>

1.04	<p><i>Annual Joint Consultative Meeting</i></p> <p>The AJCM took place on 12 November. All CPF employers are invited as well as scheme member representatives. The meeting was well attended with levels much higher than last year, and the feedback received from the event was positive. The attendees received updates from the CPF Management Team, as well as focussing on topics such as Assumed Pensionable Pay, Additional Voluntary Contributions, responsible investing, the initial results of the actuarial valuation and the performance of the Fund's assets.</p>
1.05	<p><i>Pension Board update</i></p> <p>The main update relating to the Pension Board is the confirmation of the new scheme member representative. After a very positive recruitment process involving several excellent candidates, Elaine Williams was appointed. Elaine currently works in the Social Services area at Denbighshire County Council. Elaine's experience of working with a diverse range of CPF members as well as her own personal experience as both an active and pensioner member of the CPF (through flexible retirement) will be invaluable in her work with the Pension Board. The larger number of potential candidates for this vacancy is thought to be because of the ability to now advertise directly via e-mail due to the Member Self Service (MSS) functionality.</p> <p>The Clwyd Pension Fund Board met on 8 October 2019. The minutes from the meeting will be circulated when they are finalised. The key points from the meeting are as follows:</p> <ul style="list-style-type: none"> • SAB Good Governance Project – The Board received an update from the Head of Clwyd Pension Fund on the project, including the likely changes that will result from the review. The Chair of the Board noted that she expected the Fund to be in a positive position, but it was likely that there would be an increase in work to evidence compliance with good governance requirements such as management of conflicts of interest and maintaining appropriate levels of knowledge and skills including at Committee. • SAB Local Pension Board Survey/Pension Board Effectiveness – The Board discussed the key elements of their proposed response to the SAB survey when it is launched. They also carried out a review of the effectiveness of the Board by considering a range of questions posed by the Chair. Overall the Board found that they were satisfied with their effectiveness and concluded that they did add value. One key takeaway was in relation to the number of meetings that the Board have on an annual basis. The Pension Regulator has suggested that Boards should meet at least four times a year, but the CPF Board currently meets three times a year. They particularly highlighted the benefit of the strong relationship they have with the Committee and the officers of the Fund. The Board concluded that their meetings are longer than typical Boards but also recognises that sometimes the meetings still felt rushed. Therefore the Board concluded that they would retain the same number of meetings, but with the option for them to run for a longer time (9.30am to 2pm) where necessary.

- The Pensions Regulator (TPR) Developments – The Head of Clwyd Pension Fund highlighted the key points in TPR's report titled "Governance and administration risks in public service pension schemes: an engagement report", noting that CPF address the majority of the points highlighted already. He noted that further work is to be done to provide greater assurance on cybercrime risk for the Fund. He also highlighted the move to a new Singular Modular Code of Practice by TPR. Officers also presented the latest position on the outstanding actions relating to the current TPR Code of Practice and the Board were pleased to see a number of these had evolved and were now fully compliant.
- Data Quality Scores and Data Improvement Plan – the Board were updated on the latest scores and progress against the CPF Data Improvement Plan. Both showed good improvement.
- Competition and Markets Authority (CMA) - Investment Consultancy and Fiduciary Management Market Investigation Order 2019 – The Board noted the new requirement to set objectives for the Investment Consultant by 12 December 2019.
- Brexit – the Head of Clwyd Pension Fund noted that the uncertainty is around the wider political landscape, and not just the impact of the Brexit discussions. He assured the Board that one of the key controls against the risk was the currency hedge that had been in place for some time.
- GMP Reconciliation Outsourced Project – the Board were pleased to receive the update that this project has now entered its final reconciliation phase.
- Pension Administration Update – The Board received an update on the latest performance statistics and particularly noted the excellent progress being made in reducing the overall number of outstanding cases. The improvement in the key performance indicators was also noted. The Board also noted the high number of compliments that had been received since the last meeting, with the only key complaint being one of the members who had been impacted as part of the Apple project (incorrect CARE pay figures that had to be rectified).
- McCloud/Cost Cap Process – The Board received updates on the latest developments.
- Asset Pooling –
 - Phil Pumford, one of the Board's scheme member representatives, updated the rest of the Board on his meeting in October with the Host Authority and the other Welsh Pension Board Chairs. This was the second of these meetings. A number of suggestions were made by the Board Chairs at the meeting around governance matters including improvements to the website and lack of clarity over progress on WPPs priorities. The matter of scheme member representation on the JGC was also discussed. The next meeting is in April which will also be attended by Phil Pumford.
 - The Head of Clwyd Pension Fund also updated the Board on other matters, including:
 - the matters considered at the last JGC. It was noted that the Chair of the CPF PFC was in attendance. The JGC agreed that the matter of scheme member

	<p>representation on the JGC would be considered further in the new year.</p> <ul style="list-style-type: none"> ▪ the FCA Woodford investigation – the Board requested that the Head of Clwyd Pension Fund ask for this to be considered at the next Officer Working Group, with a view to getting assurance from Link that the same issue could not be repeated in relation to WPP held assets. ○ The Pension Board also raised their concern about the timing of JGCs and other WPP meetings which appeared to often be on Mondays or Fridays, resulting in travel during the weekend or at unreasonable hours. This was a bigger issue for funds such as CPF and was resulting in some meetings not having CPF representation. The Board asked for their concerns to be raised and for future meetings not to include Monday mornings or Friday afternoons ● PFC meetings – The Board noted the excellent engagement of the Committee at the recent meeting where responsible investment matters had been discussed. ● Change in PFC Membership - The Board has asked for an ongoing update in relation to the training of the new Committee members.
1.06	<p><i>CMA Requirements – Objectives for Investment Related Contracts</i></p> <p>On 10 June the Competition and Market’s Authority (CMA) published the Investment Consultancy and Fiduciary Management Market Investigation Order 2019. As well as several other matters, the Order obliges pension schemes to set objectives for their Investment Consultancy providers by 12 December 2019. TPR published guidance on the implementation of the Order including on the setting of these objectives.</p> <p>The Head of Clwyd Pension Fund has been developing these objectives which will initially apply to the existing contract with the Fund's Investment Consultants (Mercer, formerly JLT). In addition, it is expected that objectives will also need to be set in relation to the existing contract with the Fund's Actuary in relation to some elements of the Risk Management Strategy work (the flight path). Objectives will also need to be included in all future tenders for these services. The objectives being developed include both qualitative and quantitative measures, both in relation to the expertise of the investment services as well as how the service is delivered (e.g. timeliness and clarity of communication).</p> <p>The selection, appointment and dismissal of advisers is a delegated power of the Pension Fund Committee. The Committee has further delegated some day to day matters to the officers of the Fund, such as the ongoing monitoring of Fund Managers. Given the setting of objectives for the Investment Consultancy contracts is a relatively detailed matter, it is recommended that this new responsibility is also delegated, and that the delegation is to the Head of Clwyd Pension Fund and the Deputy Head of Clwyd Pension Fund. An updated schedule of Delegation of Functions to Officers of the Clwyd Pension Fund is attached as Appendix 2 and the Committee are asked to approve the updates to this.</p>

1.07	<p><i>National LGPS Scheme Advisory Board (SAB) Update</i></p> <p>The LGPS SAB Board met on 6 November 2019. A summary of that meeting, provided by the Secretary to the SAB, is attached in Appendix 3. Further comment on some of the key areas discussed is included below and in other reports for this Committee.</p>
1.08	<p><i>SAB Good Governance Project – Phase 2 recommendations</i></p> <p>Two working groups were established by SAB for phase 2 of the Good Governance project to take forward the recommendations from the report¹ published in July 2019. One of the working groups (Standards and Outcomes Workstream) focused on defining good governance outcomes and the guidance needed to clearly set them out, and the other working group (Compliance and Improvement Workstream) focused on options for the independent assessment of outcomes and mechanisms to improve the delivery of those outcomes.</p> <p>A phase 2 report was published by the SAB on 15 November and is attached in Appendix 4. It sets out the detailed implementation proposals for both workstreams as summarised below:</p> <ul style="list-style-type: none"> • Need for new statutory governance guidance from the Ministry for Housing Communities and Local Government (MHCLG) to effectively implement the proposals from this project. The current guidance in this area was published in 2008. • Each administering authority to: <ul style="list-style-type: none"> ○ have a single named officer responsible for the delivery of all LGPS related activity for that fund (i.e. an LGPS senior officer) ○ publish an annual governance compliance statement that sets out how they comply with the governance requirements set out in MHCLG's new guidance. This would need to be co-signed by the LGPS senior officer and, where different, the S151 officer ○ publish a conflicts of interest policy (CPF already publish such a policy) which includes details of how actual, potential and perceived conflicts are addressed ○ refer to SAB guidance on statutory and fiduciary duty ○ publish a policy on the representation of scheme members and non-administering authority employers on its committees, explaining its approach to representation and to voting rights for each party. • In the areas of knowledge and skills: <ul style="list-style-type: none"> ○ a requirement for key individuals within the LGPS, including LGPS officers and pensions committee members, to have the appropriate level of knowledge and understanding to carry out their duties effectively (in effect this tries to bring requirements in line with those already in place for Local Pension Boards) ○ a requirement for s151 officers to carry out LGPS relevant training as part of CPD requirements to ensure good levels of knowledge and understanding

¹ Good Governance Report published 31 July 2019:
<http://www.lgpsboard.org/images/PDF/GGreport.pdf>

	<ul style="list-style-type: none"> ○ a requirement to have a policy setting out how training is delivered, assessed and recorded (CPF already has a Training Policy which sets out these areas) ○ CIPFA and other professional bodies be asked to produce guidance and training modules (particularly for S151 officers). ● In terms of the service delivery of the LGPS, each Administering Authority must: <ul style="list-style-type: none"> ○ document key roles and responsibilities relating to the fund and publish a roles and responsibilities matrix setting out how key decisions are reached ○ publish an Administration Strategy (CPF already publishes such a document) and report the Fund's performance against agreed indicators ○ ensure their committee is included in the business planning and budget setting processes (this is already the case at CPF) ○ give proper consideration to pay and recruitment policies in order to meet the needs of the pension fund; not simply applying general council staffing policies such as recruitment freezes. ● From a compliance and improvement perspective the proposal is that each Administering Authority must undergo a biennial independent governance review and produce an improvement plan to address any issues identified, with those reviews and reports to be assessed by a SAB panel of experts. The Local Government Association (LGA) will also consider establishing a peer review process for LGPS funds. <p>The Head of Clwyd Pension Fund and the Fund's Independent Advisor have carried out an assessment of the main findings and the Fund already carries out most of the areas highlighted for improvement. Any comments on the phase two report and its recommendations can be sent to SAB but at this stage it is not considered that there are any concerns to raise. There will be further stages to this project and we envisage providing comments once more detail emerges on the proposals. In the meantime, the Committee are asked to consider and note the proposals.</p> <p>The next phase of the project is to design the independent governance review report and some national key performance indicators. As these recommendations are progressed through the third phase of the project updates will be provided to the Committee.</p>
1.09	<p><i>The Pension Regulator's 2019 Annual Survey Issued</i></p> <p>Earlier this month the Pensions Regulator: Public Service Governance & Administration Survey 2019 was issued to all LGPS funds including the CPF. This annual survey must be returned to TPR by 29 November 2019 and is designed to help TPR build a comprehensive picture of governance and administration standards across the LGPS. The survey should be completed by the Scheme Manager (i.e. the Administering Authority) working with the Pension Board chair. The Head of Clwyd Pension Fund and Karen McWilliam, Clwyd Pension Board Chair, are compiling a response for the Fund.</p>

1.10	<p><i>TPR Governance and administration risks in public service pension schemes: an engagement report</i></p> <p>In September TPR published its findings following engagement with ten LGPS funds between October 2018 and July 2019. TPR indicated that they saw evidence of good practice across the LGPS funds. They also outlined key areas for improvement across the scheme. Those key findings from their executive summary are reproduced here:</p> <ul style="list-style-type: none"> • Key person risk: While most scheme managers demonstrated a good knowledge of what we expect, many funds have a lack of comprehensive documented policies and procedures. We also found an over-reliance on controls put in place by the Local Authority with little interaction between the scheme manager and Local Authority. This was particularly prevalent in relation to cyber security but this theme overlays several of the risk areas we explored. • Pension boards: Engagement levels varied, with concerns being raised about the frequency some pension boards meet and their appetite to build their knowledge and understanding. We saw evidence of some pension boards not wanting to review full documents, instead relying on much reduced summaries and leading us to question how they could fulfil their function. Others were well run and engaged. • Fraud / scams: We saw evidence of scheme managers learning from wider events and taking steps to secure scheme assets. However, not all were as vigilant when it came to protecting members from potential scams. • Employers: We saw considerable variance in the approaches taken to dealing with the risks surrounding employers, such as receiving contributions and employer insolvency. Generally this was connected to fund resourcing but also related to different philosophies related to taking security over assets. <p>The full report can be found on TPR's website². As mentioned in the Pension Board update, CPF already addresses the majority of the points highlighted in the report but more work is planned relating to cybercrime risk.</p>
1.11	<p><i>SF3 Report</i></p> <p>On 16 October, MHCLG published³ its compilation of the data provided by 87 LGPS Administering Authorities in England and Wales on the SF3 (Pensions) form for 2018/19. The SF3 form collects data on income, expenditure, membership, retirements and other activities for each LGPS Fund. This data is interesting as it shows at a national level some of the trends seen in the Fund including a growth in scheme membership numbers.</p>

² <https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/governance-and-administration-risks-in-public-service-pension-schemes-an-engagement-report>

³ <https://www.gov.uk/government/collections/local-government-pension-scheme>

	Policy and Strategy Implementation and Monitoring
1.12	<p data-bbox="320 188 536 226"><i>Training Policy</i></p> <p data-bbox="320 266 1391 338">The Clwyd Pension Fund Training Policy requires all Pension Fund Committee, Pension Board members and Senior Officers to:</p> <ul data-bbox="368 342 1391 528" style="list-style-type: none"> <li data-bbox="368 342 1391 414">• have training on the key elements identified in the CIPFA Knowledge and Skills Framework <li data-bbox="368 418 1391 456">• attend training sessions relevant to forthcoming business and <li data-bbox="368 461 1391 528">• attend at least one day each year of general awareness training or events. <p data-bbox="320 568 1391 745">Appendix 5 includes training and various external events attended by Committee members and Pension Board members during 2019/20 as well as details of planned training events and forthcoming events considered suitable for general awareness training. Committee members are particularly invited to note:</p> <ul data-bbox="368 750 1391 824" style="list-style-type: none"> <li data-bbox="368 750 1391 788">• LGA LGPS Annual Governance Conference at York in January and <li data-bbox="368 792 1391 824">• the LGC Investment Seminar at Carden Park at the end of February. <p data-bbox="320 864 1391 1117">The programme for the LGA event is attached as Appendix 6. The programme for the LGC event is attached at Appendix 7. All Committee and Board members have already been invited to attend these events and should notify the Deputy Head of Clwyd Pension Fund (debbie.a.fielder@flintshire.gov.uk) at the Committee meeting if they wish to attend the LGC event, and by 13th December 2019 if they wish to attend the LGA event.</p> <p data-bbox="320 1158 1391 1520">As always, Committee members are encouraged to highlight any training requirements to the officers of the Fund. However, given most of the planned internal training has now been completed, it is an appropriate time to carry out an exercise to identify if there are any specific gaps in knowledge. As a result, a self-assessment of training requirements will be distributed to all Committee and Board members during the second half of December. Members will be asked to complete and return the assessment by mid-January so that a training plan can be included in the Fund's business plan which will be put to the February Pension Fund Committee meeting.</p>
1.13	<p data-bbox="320 1565 983 1603"><i>Recording and Reporting Breaches Procedure</i></p> <p data-bbox="320 1644 1391 1897">The Fund's procedure requires that the Head of Clwyd Pension Fund maintains a record of all breaches of the law identified in relation to the management of the Fund. Appendix 8 details the current breaches that have been identified. It is positive to note that there are no new breaches relating to contribution payments or late submission of remittance advice. Also, the breaches relating to missing administration legal timescales are reducing overall.</p>
1.14	<p data-bbox="320 1935 730 1973">Delegated Responsibilities</p> <p data-bbox="320 2013 1391 2105">The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. No delegated responsibilities were used in the last quarter in relation to governance matters.</p>

	Calendar of Future Events
1.15	Appendix 9 includes a summary of all future events for Committee and Pension Board members, including Pension Fund Committee meetings, Pension Board meetings, Training and Conference dates.

2.00	RESOURCE IMPLICATIONS
2.01	None directly as a result of this report.

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	None directly as a result of this report.

4.00	RISK MANAGEMENT
4.01	Appendix 10 provides the dashboard showing the current risks relating to the Fund as a whole, as well as the extract of governance risks. The biggest governance risk continues to relate to the impact of externally led influence and scheme change which could also restrict our ability to meet our objectives and/or legal responsibilities. This is mainly due to the ongoing uncertainty around the cost cap process, the McCloud judgement and also some concerns around the governance of asset pooling.
4.02	<p>There have been some changes to the risk register since it was last shared with the Committee as summarised below. This includes two risks which have now moved to being "on target" due to further internal controls having been successfully put in place.</p> <ul style="list-style-type: none"> • Risk 2: Inappropriate or no decisions are made due to poor governance – a new action has been added to carry out a further self-assessment of training needs. The target date has also been moved to March 2020 (from Dec 2019) to allow for the next training day and the self-assessment to be completed. • Risk 3: Our legal fiduciary responsibilities are not met due to decisions being influenced by conflicts of interest – As the new committee members have now been trained on fiduciary responsibility and the CPF Conflicts Policy, this outstanding action has been moved to the internal controls in place column. This has resulted in a change in the current likelihood score for the risk, which has been changed from “low” to “very low” and which means this risk is now meeting its target. • Risk 4: Appropriate objectives are not agreed or monitored due to policies not being monitored – the outstanding action has still not been completed so the target date has been moved to March 2020. • Risk 5: The Fund's objectives/legal responsibilities are not being met or are compromised due to external factors – as mentioned previously this is currently considered the biggest governance risk for

	<p>the Fund. In addition to McCloud, cost cap and asset pooling, it also encompasses the risk of cybercrime on the Fund. Given the complexity of this, an additional action has been added to identify what else can be done to manage cybercrime risk. Going forward it is intended to update the Committee and Board on the progress of this action and the risk to the Fund.</p> <ul style="list-style-type: none"> • Risk 6: Services are not being delivered to meet legal and policy objectives due to insufficient staff numbers and other factors – Although much progress has been made on recruitment and filling vacant post, a new action has been added to note the need to continue training of new and newly promoted staff. As this is ongoing, the target date has also been changed to February 2020. • Risk 7: Legal requirements or guidance are not complied with due to those tasked with managing the Fund not having appropriate training or not understanding their responsibilities - good progress has been made with the ongoing actions relating to the TPR Code of Practice and therefore this has been moved from an outstanding action to an existing internal control. As a result, the risk score for impact has been changed from Marginal to Negligible, which also means this risk is now on target.
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5.00	APPENDICES
5.01	<p>Appendix 1 – Business plan progress 2019/20 Appendix 2 – Delegation of Functions to Officers by Pension Fund Committee Appendix 3 – LGPS SAB update Appendix 4 – SAB Good Governance Project – Phase Two recommendations Appendix 5 – Training plan Appendix 6 – LGA LGPS Annual Governance Conference programme Appendix 7 – LGC Investment Seminar programme Appendix 8 – Breaches Appendix 9 – Calendar of future events Appendix 10 – Risk register</p>

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<p>No relevant background documents.</p> <p>Contact Officer: Philip Latham, Head of Clwyd Pension Fund Telephone: 01352 702264 E-mail: philip.latham@flintshire.gov.uk</p>

7.00	GLOSSARY OF TERMS
7.01	<p>(a) CPF – Clwyd Pension Fund – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region.</p> <p>(b) Administering authority or scheme manager – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund.</p> <p>(c) PFC – Clwyd Pension Fund Committee - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund.</p> <p>(d) LPB or PB – Local Pension Board or Pension Board – each LGPS Fund has an LPB. Their purpose is to assist the administering authority in ensuring compliance with the scheme regulations, TPR requirements and efficient and effective governance and administration of the Fund.</p> <p>(e) LGPS – Local Government Pension Scheme – the national scheme, which Clwyd Pension Fund is part of.</p> <p>(f) SAB – The national Scheme Advisory Board – the national body responsible for providing direction and advice to LGPS administering authorities and to MHCLG.</p> <p>(g) MHCLG – Ministry of Housing, Communities and Local Government – the government department responsible for the LGPS legislation.</p> <p>(h) JGC – Joint Governance Committee – the joint committee established for the Wales Pension Partnership asset pooling arrangement.</p>