

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 16 th March 2022
Report Subject	Governance Update
Report Author	Head of Clwyd Pension Fund

EXECUTIVE SUMMARY

On each Committee agenda LGPS governance matters and the impact on the Clwyd Pension Fund (CPF) are provided for discussion along with updates on the Clwyd Pension Fund's governance strategy and policies for information. The last update report was provided at the November 2021 Committee meeting and therefore this update report includes developments since that report.

This update includes matters that are mainly for noting, albeit comments are clearly welcome.

The report includes updates on:

- The results of the Pension Fund Committee effectiveness survey
- A number of national LGPS developments
- Monitoring of the Pension Fund's objectives as set out in the governance related policies
- Changes to the governance risks on the Fund's risk register since the last meeting
- The latest changes to our breaches of the law register
- Forthcoming training and events, some of which is essential for Members.

The report also includes some updates on national investment matters given there is no investment or funding update at this meeting.

RECOMMENDATIONS

1	That the Committee consider the update and provide any comments.
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REPORT DETAILS

1.00	GOVERNANCE RELATED MATTERS
1.01	<p>Business Plan Update</p> <p>Appendix 1 shows progress with the work to date for the governance tasks in the 2021/22 Business Plan. Good progress is being made in many areas although some actions have been deferred due to delays at a national level. The Committee should note the following and are asked to approve the changes to the business plan timing for G1 and G5:</p> <ul style="list-style-type: none">• G1: Review against new TPR Single Modular Code – The business plan timings have previously been updated to recognise that this work cannot yet commence. This item is included in the 2022/23 business plan.• G2: Develop business continuity arrangements – Work is continuing with the Fund's business impact analysis. Following this, the business continuity plan and testing schedule will be developed.• G3: Ensure appropriate cyber-security is in place – The data and asset mapping work has now been completed. The ongoing approach for managing cyber risk as part of business as usual is outlined in the proposed CPF Cyber Security Strategy included in a separate agenda item.• G4: Review of governance related policies – The Procedure for Recording and Reporting Breaches of the Law has been reviewed and is included as part of a separate agenda item for approval. Therefore all items under this point are complete for 2022/23.• G5: Outcome of Scheme Advisory Board good governance review – The business plan timings have previously been updated to recognise that this work cannot yet commence. This item is included in the 2022/23 business plan.• G6: Effectiveness survey – Members were asked to complete a survey and the initial analysis of the results is considered later in this report.
1.02	<p>Current Developments and News</p> <p><i>Pension Board update</i></p> <p>The Clwyd Pension Board met on 17 February. Full minutes are not yet available but the main items of discussion were as follows:</p> <ul style="list-style-type: none">• officers provided a verbal update about the ongoing workforce resource issues within the Fund. This focused on the difficulties surrounding the finance section and the plans being made to manage the risk this presents over the summer period when the accounts will be prepared. The discussion recognised the difficulty in retaining and recruiting due to pay levels.• the results of the internal audit of the pensions administration section.

- the latest update on administration where the Board noted the excellent level of information and progress, particularly around cases levels, employer monitoring and member self-service take up, and were provided with a presentation on the work that has been completed on cyber and business continuity; officers highlighted how useful it has been in identifying any gaps in written processes that could impact business continuity arrangements.
- asset pooling, where the focus was on the WPP operator and the changes to their business. It was discussed that there are some uncertainties from the ongoing situation with the operator. The Chair also agreed to ask about ongoing reporting relating to stock lending at the next WPP Pension Board Chairs' meeting.
- potential changes to the Board Protocol as a result of Mr Everett leaving, where the Board agreed the principles of their preferred approach to the changes being made.
- The Committee effectiveness survey, where the Board received a presentation on the results of the survey and considered how they might review the Board's effectiveness.
- consideration of the proposed budget for 2022/23, for recommending to the Committee.

The next meeting is on 28 June 2022.

1.03

Pension Fund Committee Effectiveness Survey

It is good practice to regularly consider how effective governance arrangements are, and this is also an expectation within CIPFA's Principles for Investment Decision Making and Disclosure in the LGPS (based on the "Myners principles") where it states that "Administering Authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body".

As part of this, it is important to understand the views of the individuals involved in those governance arrangements. Committee Members will recall that they were recently asked to complete a survey to establish the Members' views on the effectiveness of the Fund's governance including the Committee arrangements.

The survey was completed by six of the nine Members of the Committee. The anonymised results are included in Appendix 2. The key findings of the survey included:

- in the main, the survey results are extremely positive about how the Members find the Pension Fund Committee operates.
- The principal area for further consideration relates to virtual meetings, where all but one member do not feel are as effective as face to face meetings. Most Members also preferred face to face training.
- Some or all Members find their role on the Committee to be difficult, time-consuming and stressful some or all of the time (albeit all found it to be interesting and enjoyable).

	<ul style="list-style-type: none"> Nearly all elements of diversity were highlighted by most Members as being important for the Committee. <p>The results will be considered in more detail by the Advisory Panel with a view to agreeing any changes to ensure the needs of Members are best met.</p>
1.04	<p><i>LGPS Scheme Advisory Board (SAB) meetings</i></p> <p>The LGPS SAB met on 13 December and considered the following points:</p> <ul style="list-style-type: none"> Concerns relating to the Prudential’s ongoing AVC service Cost Transparency New Compliance and Reporting Committee Letter from Michael Lynk SAB/Committee Membership SAB Annual Report Investment Committee report. <p>The summary of these meeting is attached as Appendix 3.</p> <p>The next meeting was on 7 March 2022 and the meeting papers can be viewed here - https://lgpsboard.org/index.php/about-the-board/prev-meetings. The key agenda items are as follows, some of which are explained further in the next sections of this report:</p> <ul style="list-style-type: none"> Levelling Up White Paper Sharia Compliant Investments New Clause 1 – PSPJO Bill SAB/Committee Membership SAB Budget, Workplan and Forward Look Update Cost Management Committee report Investment Committee report.
1.05	<p><i>Levelling up White Paper</i></p> <p>As mentioned at the last meeting, a whitepaper on Levelling Up was issued by the government on 2 February. It included the following references relevant to LGPS funds:</p> <p><i>“There is huge potential for institutional investment to support levelling up, across infrastructure, housing, regeneration and SME finance. Institutional investors currently hold UK pension assets of over £3.5tn. Within that, the Local Government Pension Scheme (LGPS) has total investments of over £330bn, making it the largest pension scheme in the UK. Only a tiny fraction of these funds are currently allocated to Local Government Pension Scheme local projects. If all LGPS funds were to allocate 5% to local investing, this would unlock £16bn new investment”</i></p>

“Infrastructure investment by the LGPS has grown from under £1bn in 2016 to £21bn in 2021. To build on this established capacity and expertise, and ensure that all LGPS funds play their full part, the UK Government is asking LGPS funds, working with the LGPS asset pools, to publish plans for increasing local investment, including setting an ambition of up to 5% of assets invested in projects which support local areas having plans for up to 5% of assets to be allocated to projects which support local areas.”

As is outlined in the SAB paper for the March meeting, SAB secretariat have sought clarification on expectations from DLUHC officials and the following clarifications were received:

- The “up to 5%” quoted is an ambition and is neither mandatory in scale nor a ceiling not to be breached. It will however be mandatory to have a levelling up plan to achieve that ambition.
- “Local” in this context is not restricted to the backyard of the fund. Therefore, investments anywhere in the UK could be included in a levelling up plan.
- The White Paper makes references to ‘increasing investment’. It would appear that government is not looking for LGPS funds to include existing investments in this area. The plan should rather set out how new investments will seek to achieve the ambition in this area
- In the matter of fiduciary duty there does not appear to be any expectation that LGPS funds should put intervention outcomes above return considerations. Instead, the intention would seem to be for funds to actively seek opportunities in this space which contribute to the levelling up agenda while at the same time providing expected levels of return.

Further details are expected to emerge over the next few months. The SAB are currently expecting this to be included in the wider DLUHC summer consultation on LGPS investment matters.

1.06 *Amendments to Public Service Pensions and Judicial Offices Bill – UK Foreign and Defence Policy*

Members may recall that previous LGPS investment guidance was overturned by the Supreme Court following challenge by the Palestine Solidarity campaign. It was considered government were acting beyond their powers in providing guidance to LGPS administering authorities stating that it was inappropriate for LGPS administering authorities to pursue boycotts, divestment and sanctions “against foreign nations and UK defence industries”, other than where formal government sanctions and the like were in place.

The latest development is that an amendment to the Public Service Pensions and Judicial Offices Bill was passed in February to include a power for the Secretary of State to make guidance in this area. The Bill must now receive royal assent to become an Act (expected in March), albeit it could be amended further as the amendments are considered further between the Lords and Commons (“ping pong”).

	<p>If the amendment is retained, this opens the door for the Secretary of State to issue investment guidance which may include matters such as what administering authorities can or cannot consider in relation to foreign policy and divestment beyond those where specific government sanctions are in place. Any such guidance should be subject to consultation and given it would be statutory guidance, it could still be subject to challenge. There is a lot of uncertainty in relation to the impact of this amendment and the LGPS Scheme Advisory Board are working with DLUHC and HMT to obtain clarity.</p>
1.07	<p><i>Letter from Michael Lynk</i></p> <p>On 22nd November Mr Michael Lynk (United Nations Special Rapporteur on the Palestinian Territories) sent a letter to all LGPS pension committee chairs, which was copied to LAPFF and the Board. The letter asks a number of questions of LGPS funds regarding their investments.</p> <p>The Chair of the LAPFF and SAB Secretary met with Michael Lynk on 11th January to discuss this letter. The discussion was productive and it was agreed to follow up with another call in a month or so. It was made clear that LGPS funds' primary objective in investment is to ensure pensions are paid but they do take human rights issues seriously in their decisions and through LAPFF are actively engaging with many of the companies listed on the database. In that respect Mr Lynk will provide further information on the database in particular the process for removing companies from it.</p>
1.08	<p>Policy and Strategy Implementation and Monitoring</p> <p><i>Knowledge and Skills Policy and Training Plan</i> <u>Policy requirements</u></p> <p>The Clwyd Pension Fund Knowledge and Skills Policy requires all Pension Fund Committee, Pension Board members and Senior Officers to:</p> <ul style="list-style-type: none"> • have training on the key elements identified in the CIPFA Knowledge and Skills Framework • attend training sessions relevant to forthcoming business (“hot topic” training) and • attend at least one day each year of general awareness training or events. <p><u>Training undertaken</u> - Appendix 4 sets out the Training Plan for the Fund. Recent events included:</p> <ul style="list-style-type: none"> • WPP Progress of Pools / Collaboration Opportunities on 19 January 2022 • Essential CPF training on cyber (15 December 2021) and tax considerations for scheme members (19 January 2022) • LGA Annual Conference on 20-21 January 2022. <p>A summary of the attendance at the Fund's hot topic training sessions this year is included below:</p>

	Date	Number of Committee attending (Proportion of total)	Number of Board attending (Proportion of total)
Hot Topic Sessions – Target attendance is 75%			
Funding / Flightpath 1	Apr-21	7 (78%)	1 (25%)
Fossil Fuel and Divestment	May-21	8 (89%)	3 (75%)
RI Roadmap	May-21	8 (89%)	2 (50%)
Funding / Flightpath 2	Jul-21	3 (33%)	2 (50%)
Conflicts of Interest	Nov-21	7 (78%)	4 (100%)
Cyber	Dec-21	8 (89%)	4 (100%)
Tax / Annual Allowance	Jan-22	7 (78%)	4 (100%)

As can be seen, attendance at the most recent hot topic sessions has been good and has met the target attendance levels.

Future training and events

Officers will continue to be in touch with information as further training sessions and events become available. In the meantime, if any Committee or Board members wish to attend any of the following optional events please contact the Deputy Head of Clwyd Pension Fund:

- 22 March 2022 - WPP Good Governance/ Cost Transparency
- 24 to 25 March 2022 - LGC Investment Summit (Carden Park).
- 13 to 15 June 2022 - PLSA Annual Conference.

Committee members should however note the following training sessions which are classed as essential for all Committee and Board members and senior officers:

- 8 June 2022 at 10am - Communications strategy
- 24 August 2022 at 2.30pm - Funding strategy
- 5 October 2022 at 10am – Investment strategy and asset classes.

1.09 *Recording and Reporting Breaches Procedure*

The Fund's procedure requires that the Head of Clwyd Pension Fund maintains a record of all breaches of the law identified in relation to the management of the Fund. Appendix 5 details the current breaches that have been identified.

The new breaches that have been added since the last Committee (F35 onwards) all relate to late pension contributions or remittance advices. All but one are now resolved due to the outstanding contributions and remittance advices having been received. Unfortunately these include ongoing late contributions and remittances from Hafan Deg, and these relate to one Fund member. Given these problems have gone on for a

	number of months now, Fund officers are looking at ways to ensure the ongoing problems are resolved.
1.10	<p>Delegated Responsibilities</p> <p>The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. There have been no uses of delegated powers for governance matters since the last update report.</p>
1.11	<p>Calendar of Future Events</p> <p>Appendix 6 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. Key dates to note are:</p> <ul style="list-style-type: none"> • The next Committee meeting is on 15 June 2022. • The Fund's Annual Joint Consultative Meeting will take place on 13 December 2022.

2.00	RESOURCE IMPLICATIONS
2.01	Although there are no resource implications directly as a result of this report, Members should note governance risk 6 in appendix 7, and considered in paragraph 4.01, which highlights concerns following the resignation of the Pension Fund's Accountant.

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	None.

4.00	RISK MANAGEMENT
4.01	<p>Appendix 7 provides the dashboard showing current risks relating to the Fund as a whole, as well as the extract of governance risks. The risk register has been updated since it was last presented to the Committee in November.</p> <p>The main change this month relate to:</p> <ul style="list-style-type: none"> • Governance Risk 2 - Governance is poor including due to short appointments or poor knowledge at PFC, resulting in inappropriate or no decisions being made – the likelihood of this has been changed from Very Low to Low, recognising there could be change in the Committee as a result of the Welsh local authority elections. It is hoped that this will not be the case but continuity of membership would be extremely beneficial in managing this risk.

	<ul style="list-style-type: none"> • Governance Risk 6 – Insufficient staff numbers (e.g. resignations), resulting in services are not being delivered to meet legal and policy objectives – the impact of this has been increased from Marginal to Critical to recognise that a key member of the Finance Team (the Fund Accountant) has resigned. An additional action has been added to identify how services in the team can be supported until recruitment is possible, noting that there is already another long-term vacancy in that team.
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5.00	APPENDICES
5.01	<p>Appendix 1 – Business plan progress 2021/22</p> <p>Appendix 2 – Effectiveness survey results</p> <p>Appendix 3 – SAB meeting summary for 13 December 2021</p> <p>Appendix 4 – Training plan</p> <p>Appendix 5 – Breaches log</p> <p>Appendix 6 – Calendar of future events</p> <p>Appendix 7 – Risk Register</p>

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<p>Report to March 2021 Pension Fund Committee - 2021/22 Business Plan</p> <p>Report to March 2022 Pension Fund Committee – 2022/23 Business Plan</p> <p>Contact Officer: Philip Latham, Head of Clwyd Pension Fund</p> <p>Telephone: 01352 702264</p> <p>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) Committee or PFC – Clwyd Pension Fund Committee - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund.</p>

- (d) **Board, LPB or PB – Local Pension Board or Pension Board** – each LGPS Fund has an LPB. Their purpose is to assist the administering authority in ensuring compliance with the scheme regulations, TPR requirements and efficient and effective governance and administration of the Fund.
- (e) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of.
- (f) **SAB – The national Scheme Advisory Board** – the national body responsible for providing direction and advice to LGPS administering authorities and to DLUHC.
- (g) **DLUHC – Department of Levelling Up, Housing and Communities** – the government department responsible for the LGPS legislation.
- (h) **JGC – Joint Governance Committee** – the joint committee established for the Wales Pension Partnership asset pooling arrangement.
- (i) **CIPFA – Chartered Institute of Public Finance and Accountancy** - a UK-based international accountancy membership and standard-setting body. They set the local government accounting standard and also provide a range of technical guidance and support, as well as advisory and consultancy services. They also provide education and learning in accountancy and financial management.
- (j) **TPR – The Pensions Regulator** – TPR has responsibilities to protect UK's workplace pensions and make sure employers, scheme managers and pension specialists can fulfil their duties to scheme members. This includes oversight of public service pension schemes, including the LGPS. Specific areas of oversight are set out in legislation and also expanded on within TPR's Guidance and Codes of Practice.
- (k) **PLSA - Pensions and Lifetime Savings Association** – PLSA aims to bring together the industry and other parties to raise standards, share best practice and support its members. It works collaboratively with members, government, parliament, regulators and other stakeholders to help build sustainable policies and regulation which deliver a better income in retirement.
- (l) **HMT – Her Majesty's Treasury** – HMT has a responsibility to approve all LGPS legislation before it is made.