

CLWYD PENSION FUND COMMITTEE

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| Date of Meeting | Wednesday, 29 March 2023 |
| Report Subject | Governance Update |
| Report Author | Head of Clwyd Pension Fund |

EXECUTIVE SUMMARY

An update on LGPS governance matters and the impact on the Clwyd Pension Fund (CPF) are provided for discussion at each Committee agenda, including updates on the Clwyd Pension Fund's governance strategy and policies. This update report includes developments since the last update report provided at the November 2022 Committee meeting.

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

The report includes updates on:

- progress against the governance section of the 2022/23 to 2024/25 Business Plan
- the asset pooling reference in the Government's Spring Budget
- 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 are essential for Members.

RECOMMENDATIONS

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

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| 1.00 | GOVERNANCE RELATED MATTERS |
| 1.01 | <p>Business Plan Update</p> <p>Appendix 1 summarises progress with the work for the governance tasks in the 2022/23 Business Plan. Good progress is being made with most actions. The Committee should note the following in relation to the outstanding items:</p> <ul style="list-style-type: none">• <i>G1 – Induction Training</i> The induction training was carried out over the summer / autumn of 2022 but not all new members were able to attend all sessions. However, those unable to attend were provided with the recordings of the missed training sessions. We have now received confirmation that all but one of the members have watched all the recordings and so completing their induction training. The one Councillor unable to complete all training missed three of the sessions.• <i>G2 – Develop business continuity arrangements including managing cyber risk</i> The development of a draft Fund-specific business continuity plan is being undertaken based on the current practices that were identified by the Deputy Head of Clwyd Pension Fund and Pensions Administration Officer. This specific element of the Business Plan is running behind schedule due to other priorities. Progress continues to be made in relation to cyber security, particularly around the next phase of provider reviews and the production of an incident response plan.• <i>G3 – Review against TPR new Single Code</i> The Pension Regulator’s new Single Code has still not been laid before Parliament and it is now expected in April 2023. Accordingly, this work is now planned to take place in 2023/24 and it has been incorporated into the new Business Plan. The Pensions Regulator has confirmed that the name of the new code will be the new General Code (rather than Single Code).• <i>G5 – Outcome of Scheme Advisory Board good governance review</i> DLUHC have still not yet issued their consultation on proposed changes from the good governance review. This work is now planned to take place in 2023/24. The timescales in the new Business Plan have been updated accordingly. |
| 1.02 | <p>Current Developments and News</p> <p><i>15 March 2023 Budget – pension implications</i></p> <p>In addition to the changes to tax allowances which are mentioned in the Administration and Communications Update Report, the Budget announced that there will shortly be a consultation on LGPS funds transferring all listed assets into pools by March 2025, and also to ‘set</p> |

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| | <p>direction for the future' which may include moving to fewer pools with assets in excess of £50 billion. The consultation will also look at LGPS funds investing more in illiquid assets such as venture and growth capital. It is clear that the Government wishes to see LGPS funds making more use of the economies of scale offered by the pools and it will be interesting to see the detail of these proposals in the forthcoming consultation.</p> |
| 1.03 | <p><i>Pension Board meetings</i></p> <p>The Clwyd Pension Board met on the 1 March 2023. Full minutes are not yet available. Key items of discussion included:</p> <ul style="list-style-type: none"> • A significant amount of time was spent discussing the current workforce issues within the Fund. There are ongoing concerns about difficulties filling the Principal Pension Fund Accountant vacant role and succession planning for staff who are approaching retirement age. Increases in work areas are also impacting the ability of the Fund to continue to meet target service standards. It was noted that The Board may need to escalate their concerns about the need to appoint the Principal Pension Fund Accountant to the committee if the next recruitment round isn't successful. • Another key discussion related to an update from the Deputy Head of the Fund on the management of the Fund's cash flows. This focused on how the cash balances needed for pension payments and other expenditure required to be paid from the Fund is maintained, either through contribution income from employers or disinvestment of the Fund's assets, and how this is monitored on a regular basis. <p>These were discussed alongside a number of standing and other items covering information such as administration performance, Committee meetings, asset pooling arrangements, risks to the Fund, breaches of the law, cyber security and the recent consultation on changes to the revaluation date for the CARE element of pensions.</p> <p>The next Pension Board meeting is on 5 September 2023 following an agreement to change the timing of meetings. However an interim meeting will be set up should it be required before then.</p> |
| 1.04 | <p><i>LGPS Scheme Advisory Board (SAB) meetings</i></p> <p>The LGPS SAB met on 10 October and 5 December and we want to highlight the following governance point which was discussed:</p> <ul style="list-style-type: none"> • Good Governance: DLUHC are currently planning to streamline funds' annual report documents. The requirement will likely be for funds to report their performance against their various strategies. There are also plans to formalise the training requirements for pension committee members and produce a standard set of administrative KPIs to allow the performance of funds to be compared. <p>The full summary of these meetings is attached at Appendix 2.</p> <p>The most recent meeting of the LGPS SAB was on 20 February. At the point of writing the summary of this meeting was not published but papers</p> |

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| | <p>and an agenda for the meeting are available here which include:</p> <ul style="list-style-type: none"> • An update on the McCloud remedy and Exit Pay regime • An update on the TPR Single Code and recent consultations • Consideration of reports from the Compliance & Reporting Committee, the Cost Management Committee and the Investment Committee. <p>It has not yet been announced when the next SAB meeting is scheduled to be held.</p> |
| 1.05 | <p><i>Cost management</i></p> <p>On 10 March 2023 the application for judicial review of the Government’s decision to allocate McCloud costs to members as part of the cost cap process for public service pensions schemes in the UK was dismissed on all grounds. It is understood that the unions are seeking permission to appeal.</p> <p>Background - The cost cap process was introduced as part of the reform of public service pension schemes in 2015 (2014 for the LGPS in England and Wales) as a means of controlling costs to employers/taxpayers. The mechanism was designed as a cap and a floor, so employers would be protected where costs had risen but members could benefit where costs had fallen. The 2016 cost cap process initially found that employer costs (under the HMT process) had fallen by more than 2% of pay and therefore would have required an increase to member benefits and/or reductions to member contributions (for the LGPS, a draft package of benefit improvements and changes to member contributions was put together). Following the McCloud/Sargeant judgement in 2018/19, which found that the transitional arrangements put in place as part of the replacement of the final salary schemes with a new career average scheme structure in 2015/2014 constituted illegal age discrimination, the 2016 cost cap process was paused. The process was subsequently “unpaused” and the 2016 valuations were re-run with McCloud costs allocated to scheme members as required by HM Treasury Directions. This led to the change in costs falling within the +/-2% of pay corridor and so no changes to member benefits or contributions were then required. The additional SAB cost cap process for the LGPS in England and Wales also concluded with no changes being recommended by virtue of the 2016 process.</p> <p>The Fire Brigades Union (FBU) and British Medical Association (BMA) applied for a judicial review of the Government’s decision to allocate McCloud costs to members as part of the 2016 Cost Cap process for the public service pension schemes. The March 2023 judgement dismissed that application. As noted above it is understood that the unions are seeking permission to appeal so the position is not yet fully resolved.</p> <p>Separately, the Government has consulted on and subsequently announced changes to the cost cap process which are being implemented for the 2020 process, although there is still uncertainty over how the new “economic check” will operate for the LGPS. The changes made were principally intended to reduce the likelihood of the HMT process triggering</p> |

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| | <p>changes to member benefits and whilst we understand that the Government Actuary's Department (GAD) have been collecting data for the 2020 cost cap valuations, we do not yet know when the results might be available. As mentioned at the February Committee meeting, there is a currently open consultation in relation to potential changes to the SAB cost cap process. It is worth bearing in mind that not all factors affecting employer costs to the LGPS are allowed for within the cost cap process – the quadrennial process largely deals with the effect of demographic changes as they relate to members in respect of post 2014 CARE accrual – and it is the results of the triennial valuations for funding purposes which determine contributions actually payable by employers, with investment returns and change to financial assumptions often being the key drivers of the results of the funding valuations. The intention behind the introduction of an economic check was to try to ensure the cost cap outcome isn't inconsistent with that of the funding valuations (i.e. where actual employer contributions are increasing but the cost cap process suggests costs are falling and hence member benefits should increase, or vice versa).</p> |
| 1.06 | <p>Policy and Strategy Implementation and Monitoring</p> <p><i>Knowledge and Skills Policy and Training Plan</i></p> <p><u>Policy requirements</u></p> <p>The Clwyd Pension Fund Knowledge and Skills Policy requires all Pension Fund Committee members, Pension Board members and Senior Officers to:</p> <ul style="list-style-type: none"> • attend training on the key elements identified in the CIPFA Knowledge and Skills Framework as part of their induction and on an ongoing refresher basis • attend training sessions on "hot topic" areas, such as a high risk area or an area of change for the Fund and • attend at least one day each year of general awareness training or events. <p><u>Training undertaken</u> - Appendix 3 sets out the Training Plan for the Fund. Recent events include:</p> <ul style="list-style-type: none"> • 5 December 2022 – WPP responsible investments, Stewardship Code and TCFD reporting • 20 January 2023 – LGA annual LGPS governance conference (Cardiff) • 18 January 2023 - Private Markets • 1 February 2023 – LGPS Task Force on Climate-Related Financial Disclosures. <p>A summary of attendance at the Fund's essential training sessions (other than induction training) over 2022/23 to date is included below:</p> |

| | Date | Number of Committee attending (Proportion of total) | Number of Board attending (Proportion of total) | Number of Officers attending (Proportion of total) |
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| Hot Topic Sessions – Target attendance is 75% | | | | |
| Communications Strategy Review | Jun-22 | 6 (100%) | 4 (80%) | 4 (80%) |
| Actuarial Valuation and Funding Strategy | Aug-22 | 7 (78%) | 5 (100%) | 5 (100%) |
| Investment Strategy | Oct-22 | 7 (78%) | 4 (80%) | 4 (80%) |
| Private Markets | Jan 23 | 7 (78%) | 5 (100%) | 5 (100%) |
| TCFD Reporting | Feb 23 | 5 (56%) | 2 (40%) | 3 (60%) |
| Total | | 32 (71%) | 20 (80%) | 21 (84%) |

Future training and events

Officers will continue to provide information on further training sessions and events as this becomes available. In the meantime, if any Committee or Board members wish to attend any of the following optional events that count as general awareness training, please contact the Deputy Head of Clwyd Pension Fund:

- 18 May 2023 – CIPFA - Annual Local Pensions Board Conference (Pension Board members only)

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

- 26 April 2023 – TPR new General Code (note due to a delay in the Code, this may be used for an alternative training topic)
- 3 May 2023 – Best Ideas tactical asset allocation and responsible investments.

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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 4 details the current breaches that have been identified.

The new breaches that have been added since the last Committee are included in F99 onwards – These new breaches relate to late submission of remittances and contributions by four separate employers. All the breaches are now resolved other than two relating to remittance advice for January 2023 contributions. Both are expected to be resolved very soon. The ongoing issues with Hafen Deg are also expected to be resolved long term as they are being transferred to Denbighshire County Council with effect from April 2023.

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| 1.08 | <p>Delegated Responsibilities</p> <p>The Pension Fund Committee have 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> |
| 1.09 | <p>Calendar of Future Events</p> <p>Appendix 5 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 21 June 2023 • The next Board meeting is on 5 September 2023. |

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| 2.00 | RESOURCE IMPLICATIONS |
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| 2.01 | <p>As previously referred to there has been some difficulties in recruitment, which are impacting on services. The most critical area relates to the vacant Pension Fund Accountant position. This position is being re-advertised with a slightly higher salary. There are also likely to be a number of retirements over the next few years which could also impact on service delivery. Ongoing discussions are taking place at the Advisory Panel, with further work being undertaken on succession planning and forecasting trends in workloads.</p> |
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| 3.00 | CONSULTATIONS REQUIRED / CARRIED OUT |
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| 3.01 | None. |
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| 4.00 | RISK MANAGEMENT |
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| 4.01 | <p>Appendix 6 provides the risk 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> |
| 4.02 | <p>The key changes relate to:</p> <ul style="list-style-type: none"> • risk number 2 – Governance is poor including due to: short appointments, poor knowledge and advice, poor engagement / preparation / commitment, poor oversight, resulting in inappropriate or no decisions being made. The likelihood has been reduced from Significant to Low. This is due to the fact that almost all members have completed their induction training which helps with understanding their roles and responsibilities. • risk number 3 – decisions are influenced by conflicts of interest and therefore may not be in the best interest of fund members and employers, meaning our legal fiduciary responsibilities are not met. The likelihood has been increased from Very Low to Low, and the impact has been increased from Negligible to Marginal, which |

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| | <p>brings this risk off target. This is due to the ongoing discussions relating to responsible investment and particularly with reference to climate change targets.</p> <ul style="list-style-type: none"> risk number 6 – Insufficient staff numbers (e.g. sickness, resignation, retirement, unable to recruit) - current issues include age profile / FCC pay grades versus other LAs, asset pools, private sector / cost of living), meaning services are not being delivered to meet legal and policy objectives. The likelihood has been reduced from Very High to Significant due to the appointment of a Governance Assistant Officer and almost all vacant administration team positions. <p>Risk number 6 is the risk furthest from target.</p> |
| 4.03 | <p>There has been a fundamental review of the risk register and, as a result, there have been a number of changes to the wording within the risk register to ensure it is fully up to date in relation to the risk descriptions, current controls in place and outstanding actions.</p> |

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| 5.00 | APPENDICES |
| 5.01 | <p>Appendix 1 - Business plan progress 2022/23</p> <p>Appendix 2 – SAB Meetings – Summaries of 10 October and 5 December meeting</p> <p>Appendix 3 - Training plan</p> <p>Appendix 4 - Breaches log</p> <p>Appendix 5 - Calendar of future events</p> <p>Appendix 6 - Risk Register</p> |

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| 6.00 | LIST OF ACCESSIBLE BACKGROUND DOCUMENTS |
| 6.01 | <p>None in this report</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> |

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| 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> |

- (c) **Committee or PFC – Clwyd Pension Fund Committee** – the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund.
- (d) **Board, LPB or PB – Local Pension Board or Pension Board** – each LGPS Fund has an LPB. Their purpose is to assist the administering authority in ensuring compliance with the scheme regulations, TPR requirements and efficient and effective governance and administration of the Fund.
- (e) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of.
- (f) **SAB – The national Scheme Advisory Board** – the national body responsible for providing direction and advice to LGPS administering authorities and to 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 – His Majesty's Treasury** – HMT has a responsibility to approve all LGPS legislation before it is made.