

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 20 March 2024
Report Subject	Draft Clwyd Pension Fund Risk Management Policy
Report Author	Head of Clwyd Pension Fund

EXECUTIVE SUMMARY

The purpose of this report is to review and update the Fund's Risk Management Policy following:

- changes to Flintshire County Council's ("FCC") Risk Management Framework and
- The Pensions Regulator's General Code of practice that will come into force in March 2024.

The proposed changes to the Policy include an updated risk scoring matrix for determining the likelihood and impact of risks. This is consistent with the FCC's Risk Management Framework albeit expanded to be more relevant to management of the Clwyd Pension Fund. The proposed Policy also includes new sections relating to:

- roles and responsibilities of those involved in the management of the Fund
- escalations of risk that are considered to be at an unacceptable level.

RECOMMENDATIONS

1	That the Committee approve the changes to the Risk Management Policy.
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REPORT DETAILS

1.00	PROPOSED RISK MANAGEMENT POLICY CHANGES
1.01	<p>Background</p> <p>Effective management of risk is integral to being able to carry out the Fund's functions successfully as well as meeting the objectives and aims of the various Fund policies and strategies. It is therefore important that how risk management is carried out is clearly set out within a Fund specific policy.</p>
1.02	<p>The first Clwyd Pension Fund Risk Policy was approved in May 2016 and it has been subject to regular review with some minor changes approved by the Committee since then. The Policy was due for a review in 2023 and this was delayed in anticipation of The Pension Regulator's General Code of Practice being laid, as well as FCC reviewing their Risk Management Framework. The proposed new Clwyd Pension Fund Risk Management Policy is attached as an appendix for approval, with the key changes highlighted.</p>
1.03	<p>FCC's Risk Management Framework</p> <p>As FCC is the administering authority to the Fund, it is considered appropriate that the measurement and management of risk events and their exposures is comparable and consistent between the Fund and FCC. In January 2024, FCC updated their Risk Management Framework, including how the likelihood and impact of risks are scored. In order to ensure consistency, the Fund's risk scoring system has been adjusted to be in line with the FCC Risk Management Framework. Other elements of the FCC Risk Management Framework have also been incorporated into the proposed Fund Risk Management Policy, albeit adapted to suit how the Fund is managed. This includes new sections on:</p> <ul style="list-style-type: none">• the definitions of risks and risk management, which are derived from the FCC Risk Management Framework.• the roles and responsibilities relating to managing risks for those involved with the Fund, including the Committee, Board, senior officers and advisers. This will provide additional clarity on who is responsible for which parts of the Fund's risk management process and how they will meet the requirements of the policy.• how risks that are scored as being unacceptable (i.e. red) are escalated to the Head of Clwyd Pension Fund and the Advisory Panel, and more serious risks then further escalated to the FCC Chief Executive, Chair of the Committee, the Committee and the Board.• a requirement for risks to be reviewed on a monthly basis, which will be done by the senior officers of the Fund.

1.04	<p>The Pension Regulator’s New General Code</p> <p>Another key development is the new Pensions Regulator’s General Code of Practice which comes into force on 27 March 2024 and which replaces the existing Code of Practice for Public Service Pension Schemes. The new Code includes the following modules relating to risk management that apply or are good practice for public service pension schemes including Clwyd Pension Fund:</p> <ul style="list-style-type: none"> • identifying, evaluating, and recording risks • internal controls • assurance reports on internal controls • scheme continuity planning • conflicts of interest • own risk assessment. <p>Training on the Pension Regulator’s General Code, including these areas, will be provided after the Committee meeting.</p> <p>Many of the expectations outlined in the Code stem from the legal requirement for all public service pension schemes to establish and operate internal controls which are adequate for the purpose of ensuring that the scheme is administered and managed in accordance with the scheme rules and other legal requirements. Internal controls are defined in the Pensions Act 2004 as:</p> <ul style="list-style-type: none"> • arrangements and procedures to be followed in the administration and management of the scheme • systems and arrangements for monitoring that administration and management and • arrangements and procedures to be followed for the safe custody and security of the assets of the scheme.
1.05	<p>The proposed Policy has been updated to incorporate the expectations from the General Code, at a high level and it continues to include the statement that the principles of the Code are being adopted by the Fund. There is a lot of overlap with the previous Code and therefore there is little change to the risk management process outlined in the Policy in order to meet the requirements. However a review against the more detailed requirements of the Code will be carried out by officers in the coming months. One of the key areas that has been incorporated into the new Policy, however, is the expectation that all internal controls should be documented and also reviewed on an annual basis.</p>
1.06	<p>There is also separate CIPFA guidance for Managing Risk in the LGPS. This guidance is unchanged and the existing Fund Risk Policy did state that the principles of that guidance were being adopted. However given the detail within the CIPFA Guidance and the Pension Regulator’s General Code of Practice, a further statement has been added to clarify</p>

	that those responsible for risk management for the Fund must refer to CIPFA's Managing Risk in the LGPS and the Pension Regulator's General Code of Practice for more detailed requirements and guidance.
1.07	<p>Other changes</p> <p>Officers and advisers have also been discussing other improvements to the Fund's risk management and those have been incorporated into this Policy:</p> <ul style="list-style-type: none"> • The introduction of a sub-risk register in relation to funding and investment risks – given the complexity of funding and investment risks, a more detailed operational risk register will be maintained by officers and advisers • Records of all changes to the risk register – following an observation by internal audit in 2023, central records are now being maintained of what changes have been made to the risk register and why those changes were made.

2.00	RESOURCE IMPLICATIONS
2.01	Additional costs are not foreseen to arise as a result of the implementations of this policy, albeit moving to this more robust framework, including monthly monitoring of risks, will result in additional time commitment by officers, and to some degree advisers.

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	None.

4.00	RISK MANAGEMENT
4.01	The Fund's Risk Management Policy is fundamental in driving how risk management is carried out in relation to all Fund services, including meeting the objectives and aims of the Fund's policies and strategies. The proposed Policy also includes the key risks of the effective delivery of the policy requirements.

5.00	APPENDICES
5.01	Appendix 1 – Proposed Risk Management Policy

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	Report to Pension Fund Committee – Risk Policy (October 2020)

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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, scheme manager or Governing Body – Flintshire County Council is the administering authority, scheme manager and Governing Body 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> <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.</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 DLUHC.</p> <p>(g) DLUHC – Department of Levelling Up, Housing and Communities – 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> <p>(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.</p> <p>(j) TPR – The Pensions Regulator – TPR has responsibilities to protect UK's workplace pensions and make sure employers, scheme managers</p>

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