

FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CLWYD PENSION FUND COMMITTEE**
DATE: **5th NOVEMBER 2014**
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:

- The Government consultation on Governance and Cost Management for note
- Progress with the implementation of the Fund's Local Pension Board for note
- The Fund's Annual Report 2013/14 for approval (Appendix 1)
- The Fund's Annual Meeting (AJCM) for note
- Training policy implementation for note (Appendices 2 and 3)
- Service Plan 2014/15 update and changes for approval (Appendix 4)

3.00 CONSIDERATIONS

Government Consultation on Governance and Cost Management

3.01 On Friday 10th October 2014, the DCLG issued its response to the Governance consultation that closed in August this year. In the main, the consultation considered the creation of Local Pension Boards. The Clwyd Pension Fund Committee on 22nd July 2014 delegated responsibility for responding to the consultation to the Clwyd Pension Fund Manager with the response being approved by the Chair. The Government's response to that earlier consultation is to actually undertake a further consultation on a new set of draft Governance regulations. The document notes that the draft regulations consulted upon previously have been revised somewhat in light of subsequent discussions with the Shadow Scheme Advisory Board and wider comments made by other interested parties.

3.02 In addition to addressing the Governance requirements set down by the Public Service Pensions Act, this new consultation also sets out proposals in relation to how the future service costs of the scheme to employers and taxpayers will be controlled, as agreed in principle as part of the reform of all

major public service pension schemes. The deadline for responses to this latest consultation is 21 November 2014.

- 3.03 As noted above, a number of changes have been made since the previous set of proposals were reported to the Clwyd Pension Fund Committee on 22nd July, and these include the following:

Local Pension Boards (LPBs)

- Establishment and procedures of the LPB to be determined locally (i.e. not within the meaning of the Local Government Act 1972).
- Regulatory references to ensure LPBs are not unduly restricted.
- Elected members are now permitted to become members of the LPB, subject to a restriction that excludes those who are "...responsible for discharging of any function under..." the main Regulations (this exclusion also applies to officers).
- Removal of requirement for representative members (i.e. employer or member representatives) to form the majority of the LPB.

Scheme Advisory Board (SAB)

- Extends the responsibility of the SAB to include "connected schemes".
- Regulatory references to ensure that the SAB activities are not unduly restricted.
- All members of the SAB (at least 2 up to a maximum of 12), and the Chair, are to be appointed by the Secretary of State (having regard to the desirability of equal representation of employers and members).
- The Chair may, with agreement of SAB, appoint a maximum of 3 non-voting advisory members to the SAB.

- 3.04 The Governance and Standards sub-Committee of the Shadow Board are also currently consulting on detailed guidance concerning the establishment and operation of LPBs. Given the timescale for responses to both the draft regulations and the guidance, these will be developed in accordance with agreed delegated responsibilities i.e. The Pension Fund Manager and either the Corporate Finance Manager or Chief Officer (People and Resources), subject to agreement with Chair and Deputy Chair (or either, if only on available in the timescale). A copy of the response will be circulated around Committee Members for information.

Consultation on Cost Management

- 3.05 The proposals in this consultation are one element of the Government's reform agenda. The proposals develop a backstop protection to the taxpayer to ensure that some of the risks associated with public service pension provision are shared more fairly between employers and scheme members.
- 3.06 The draft regulations establish a requirement for the Secretary of State to appoint a Scheme Actuary (anticipated to be the Government Actuary's Department) to carry out actuarial valuations for the LGPS as a whole (i.e. nationally) and apply two different mechanisms. Whilst slightly different, these mechanisms have been designed to ensure some sharing of changes in future service cost between members and employers with a view to assisting

with the sustainability of the scheme and fairness to taxpayers. The two mechanisms are:

Treasury employer cost cap process – monitors the value of benefits in the new Scheme over time, based on “model fund” data and in accordance with Treasury Directions.

Internal cost management process – sets an overall future service target cost of 19.5%, with scheme members meeting a third of this cost.

Implementation of a Local Pension Board for the Clwyd Pension Fund

3.07 In light of the above draft Regulations, the Clwyd Pension Fund Committee on 22nd July 2014 agreed that the Clwyd Pension Fund Manager and Democracy and Governance Manager progress with developing proposals for the establishment of a Local Pension Board. A Protocol for the new Board has been recommended for approval by Flintshire County Council at the Constitution Committee on 15th October 2014. Subject to final regulations being received, it is hoped that Flintshire County Council will approve the Protocol at their meeting on 27th January 2015.

3.08 The new Board must be established by 1st April 2015, hence as soon as the Protocol is approved by Council the appointment and training process can commence, although employers and member representatives will be made aware of our intentions at our Annual Meeting on 6th November 2014. The main elements of the Protocol are listed below. The draft protocol presented to Constitution Committee can be found on Flintshire County Council's website at:

<http://cyfarfodyddpwyllogor.sirymfflint.gov.uk/documents/s26096/Clwyd%20Pension%20Fund%20Governance.pdf?LLL=undefined>

- The Fund's Independent Adviser will Chair the Pension Board
- There will be two each of scheme member and employer representatives with the appointments being made by the Chief Officer (People and Resources)
- The Pension Board will meet twice a year
- Minutes of all meetings will be submitted to the Pension Fund Committee and, therefore, will be public documents
- An annual report will be submitted to the Pension Fund Committee and Audit Committee and, as such will be a public document, which will also be reproduced in the Fund's Annual Report and Accounts
- Pension Board meetings will not be open to the general public although attendees will be permitted to attend and address the Board at the discretion of the Chair.

Clwyd Pension Fund Annual Report

3.09 LGPS regulations require the Fund to publish an Annual Report before 1st December 2014 which must include all the Fund's statutory documents such as the Governance Compliance Statement, Statement of Investment Principles, Funding Strategy Statement, the Fund's accounts and Communication Policy Statement. In addition there is new statutory guidance on the content of the Annual Report which must contain:

- Management and Financial Performance Report
- Investment Policy and Performance Report
- Scheme Administration Report
- Actuarial Report
- Any specific requirements to assist the LGPS Advisory Board.

An extract of the Fund's Draft Annual Report is attached (Appendix 1) which excludes the statutory documents already approved. The Fund's website will show the full report.

Pension Fund Annual Meeting (AJCM)

- 3.10 The Fund's annual meeting with employers and employee representatives is on the 6th November 2014 (AJCM) in the Council Chamber. This is a full day event. The morning agenda is aimed at human resource and payroll officers liaising with the Clwyd Fund Administration Team on a day to day basis. The afternoon session is aimed at senior managers and employee representatives, and includes presentations from members of the Advisory Panel on governance, funding, investment and administration issues at both a national scheme and local fund level.
- 3.11 In particular this year it is an opportunity, in the afternoon, for members of the new committee to be introduced, hence attendance by as many Committee Members as possible is important. An agenda has been sent to all Committee Members.

Training Policy Implementation

- 3.12 Appendix 2 shows training and various external events attended by Committee Members and Senior Officers, along with forthcoming events.
- 3.13 Training modules designed around the full CIPFA Knowledge and Skills Framework have been held. Some Committee Members have outstanding modules to complete and officers will be in touch with those concerned to arrange suitable dates. All Committee Members are invited to the Investment Strategy Workshop on the 30th October 2014.
- 3.14 It is also useful for Committee Members and senior officers to attend various external events and conferences to supplement their knowledge regarding the latest thinking on pension related matters. It is planned for Cllr Huw Llewelyn Jones to attend the forthcoming Local Authority Pension Fund Forum Annual Conference in December, along with a Pension Finance Manager.

Service Plan Update – Quarter 2

- 3.15 Appendix 4 provides a dashboard of progress against the internal and external governance section of the Service Plan. The majority of items are as originally planned but the following changes have been made:

- The documentation of a Conflict of Interest Policy has been moved from quarter 2 to quarter 4 to tie in with preparation for the Local Pension Board.
- Some work on collaboration with other welsh funds relating to a collective investment vehicle is now anticipated in quarter 3.
- Some initial thoughts on the implications on the Fund of Welsh local government re-organisation has been included in quarter 3.
- The Training Plan has been deferred into quarter 3 and the development of a risk register deferred to quarter 4.

4.00 RECOMMENDATIONS

4.01 That Committee Members:

- 1) Approve the Clwyd Pension Fund Annual Report 2013/14
- 2) Approve the changes to the Service Plan 2014/15
- 3) Note the other items in the Report.

5.00 FINANCIAL IMPLICATIONS

5.01 None directly as a result of this report.

6.00 ANTIPOVERTY IMPACT

6.01 None directly as a result of this report.

7.00 ENVIRONMENTAL IMPACT

7.01 None directly as a result of this report.

8.00 EQUALITIES IMPACT

8.01 None directly as a result of this report.

9.00 PERSONNEL IMPLICATIONS

9.01 None directly as a result of this report

10.00 CONSULTATION REQUIRED

10.01 None directly as a result of this report.

11.00 CONSULTATION UNDERTAKEN

11.01 None directly as a result of this report.

12.00 APPENDICES

- 12.01 Clwyd Pension Fund Annual Report 2013/14 (extract)
- 12.02 Conference, Training Events and Meetings 2014/15
- 12.03 Attendance at Training Sessions
- 12.04 2014/15 Service Plan Update

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers:

DCLG LGPS Consultation: Governance and Cost Management.
Clwyd Pension Fund Response to DCLG Consultation On Governance.
Clwyd Pension Fund Local Pension Board Protocol
Clwyd Pension Fund AJCM Agenda
22nd July 2014 Pension Fund Committee – Working Practices
22nd July 2014 Pension Fund Committee – Clwyd Pension Fund Service Plan 2014/15

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