

## CLWYD PENSION FUND COMMITTEE

<b>Date of Meeting</b>	Tuesday, 27 September 2016
<b>Report Subject</b>	Governance Update
<b>Report Author</b>	Pensions Finance Manager

### EXECUTIVE SUMMARY

A governance update is on each quarterly Committee agenda and includes a number of governance related items for information or discussion. The items for this quarter are:

- (a) Business Plan 2016/17 update (Appendix 1) for governance including recommendations in relation to two areas relating to procurement of advisers.
- (b) Current Developments and News, providing an update on National Scheme Advisory Board matters the draft Pension Board minutes.
- (c) Governance related policy/strategy implementation and monitoring including details of future events that Committee Members should consider (Appendix 3) and the Breaches Register (Appendix 6).
- (d) Delegated responsibilities (Appendix 2) – A response to a DCLG consultation on changes concerning Fair Deal to LGPS regulation is included at Appendix 2.
- (e) Calendar of future events (Appendix 3)

It also provides the governance risk register (Appendix 4), with some of the key areas of concern being associated with asset pooling and staff workloads.

### RECOMMENDATIONS

1	<p>That the Committee approve:</p> <ul style="list-style-type: none"> <li>• that no further Clwyd Pension Fund Framework be established and that the National LGPS Frameworks be used in future where possible (paragraph 1.03).</li> </ul>
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	<ul style="list-style-type: none"> <li>the option to extend the contract period for a further two years to March 2019 for the Independent Advisor and Investment Consultant contracts with ongoing review (paragraph 1.04).</li> </ul>
2	That the Committee consider the remainder of the update and provide any comments.

## **REPORT DETAILS**

<b>1.00</b>	<b>GOVERNANCE RELATED MATTERS</b>
1.01	<p><b>Business Plan 2016/17 Update</b></p> <p>Appendix 1 provides a summary of progress against the governance section of the Business Plan up mid-September, which is the majority of the period to the end of quarter 2 the 30 September 2016. All items are as originally planned, with separate sections below the following items:</p> <ul style="list-style-type: none"> <li>G1 Review of CPF Adviser Procurement Framework</li> <li>G3 Review/Tender Investment Consultancy and Independent Adviser Contracts</li> </ul>
1.02	<p>Appendix 1 also includes progress against the projected cash flows and budgeted operating costs for 2016/17. The Committee is asked to note the following:</p> <ul style="list-style-type: none"> <li>Early indications do not highlight any areas of concern either within the projected cash flows or in operating costs.</li> </ul>
1.03	<p><i>G1 Review of CPF Adviser Procurement Framework</i></p> <p>In 2008, Clwyd Pension Fund put in place a framework which would allow them to quickly appoint consultants to assist the Fund. The services covered by the framework are:</p> <ul style="list-style-type: none"> <li>Law &amp; Contract</li> <li>Taxation</li> <li>General Investment Strategy</li> <li>Alternatives</li> <li>Investment Training</li> <li>Manager Selection</li> <li>Administration Issues</li> <li>Environmental, Social and Governance / Sustainability</li> <li>Asset Liability Modelling Exercise</li> <li>Miscellaneous</li> </ul> <p>The providers available to bid for work through the framework are:</p> <ul style="list-style-type: none"> <li>Squire Sanders</li> <li>Aon Hewitt</li> <li>Sacker</li> <li>Mercer</li> </ul>

- JLT Group
- Allenbridge
- Finance

Since its introduction, the framework has been used to appoint a number of advisers to assist in the running of the Fund including JLT as Investment Consultants and Aon Hewitt (Karen McWilliam) as Independent Adviser.

The term of the framework has now come to an end and the Fund needs to consider whether it wishes to bring the framework to a conclusion or run a further framework. Since the Clwyd Framework was launched, there have been a number of other frameworks relating to LGPS services. The key ones are run by the National LGPS Frameworks (managed by Norfolk County Council) and currently cover the following services:

- Actuarial, Benefits and Governance Consultancy Services
- Investment Consultancy Services
- Global Custody Services
- Legal Services

They are also in the midst of creating frameworks for Stewardship, Administration and Passive Investments.

As we are a founding authority, in relation to the administration services, we are able to use these frameworks with no specific joining fee.

The officers of the Fund have carried out an analysis against the services available by the National LGPS Frameworks compared to the Clwyd Framework and it would appear the majority of the services are covered by the National LGPS Frameworks. The services which may not be explicitly covered appear to be in relation to some elements of taxation (e.g. advice on VAT matters from a tax specialist) and more specialist guidance on ESG matters.

Using the National LGPS Frameworks in the future, rather than a Clwyd specific Framework would result in efficiencies for officers. The Fund could also still run individual procurement exercises for any services not covered by the National LGPS Frameworks.

The Committee is asked to approve that no further Clwyd Pension Fund Framework be established and that the National LGPS Frameworks be used in future where possible.

1.04

*G3 Review/Tender Investment Consultancy and Independent Adviser Contracts*

The Independent Advisor and Investment Consultant were appointed on 3 year contracts from April 2014 with the option to extend for a further 2 years. Following a performance review of both contracts the officer recommendation is to use the option to extend to March 2019. During this period the performance of both will be regularly monitored.

The Committee is asked to approve the option to extend the contract period for a further two years to March 2019.

1.05	The Committee is asked to note the contents of the business plan update and approve the recommendations in relation to G1 and G3 above.
1.06	<p><b>Current Developments and News</b></p> <p><i>National Scheme Advisory Board Update</i> – The latest meeting was held on the 1<sup>st</sup> August; all papers are available on their website. The work plan for 2016/17 includes deficit management (non-local authority employers covenant best practice guide and exit options), cost management 2016, investment cost transparency and continued work on options from separation. The total SAB budget, including support costs is £384,375 which will be recovered by a levy of around 20p per active member. For the Fund this equates to around £3,200.</p> <p>The SAB’s terms of reference have not been reviewed since its inception as a statutory body. The SAB considered a draft revised terms of reference based on those of the shadow board taking into account regulatory changes and revised appointment processes for submission to the Minister.</p> <p>The two sub-committees of the SAB have now also been established; Cost Management, Benefit Design and Administration Committee, and Investment, Governance and Engagement Committee. They include a range of representatives from Treasurers, LGPS administering authorities, CIPFA, scheme members and actuarial consultancies (including Aon Hewitt and Mercers).</p> <p>The SAB is developing a voluntary code of transparency for LGPS asset managers. Investment fee transparency and consistency is a target for a revised CIPFA accounting standard issued for inclusion in the statutory annual report and accounts. Transparency of investment costs is also included in the Government’s criteria for pooling investments. A draft template, for completion by traditional asset managers, and the associated draft code of practice have been circulated for comment. Additionally, a meeting has been arranged for key stakeholder representatives at which the Fund will be represented by a Pension Finance Manager (Debbie Fielder). The Fund has circulated these drafts to four of our fund managers (Insight, Capital Dynamics, Partners Group and InfraRed) for comment.</p> <p>The Chairman of the SAB has written to Marcus Jones MP on 10 August regarding investment pooling, highlighting the need for assurances from Government on the Pools' proposals, and that Government should accept the variety of approaches being considered to meet the criteria. On the same day, the Chairman wrote to the Rt Hon Sajid Javid MP (Secretary of State for Communities and Local Government) requesting a meeting to discuss their concerns over the suitability of available infrastructure projects for investment and the potential risks inherent in the asset class. As at the point of writing this report (8<sup>th</sup> September), no response had been received from Rt Hon Sajid Javid MP and Marcus Jones MP had responded acknowledging the need for a quick turnaround but highlighting April 2018 was still the deadline to be met by the Pools. The SAB Chairman is continuing to pursue these matters.</p>

1.07	<p><i>Local Pension Board Update</i> – As previously agreed the minutes of the Board will be circulated to the Committee once finalised. The minutes of the Board meeting held on July 6 are attached as Appendix 7 for noting and comment.</p> <p>The key discussions during the latest meeting included an update on the CIPFA Local Pension Board Conference, a discussion and update on key performance indicators being developed by the Administration Team, an update on scheme / GMP reconciliation, the Fund risk register and the 2016 Valuation in particular the engagement with employers.</p>
	<p><b>Policy and Strategy Implementation and Monitoring</b></p>
1.08	<p><i>Training Policy</i> – The Clwyd Pension Fund Training Policy requires all Pension Fund Committee, Pension Board members and Senior Officers to</p> <ul style="list-style-type: none"> <li>• have training on the key elements identified in the CIPFA Knowledge and Skills Framework</li> <li>• attend training sessions relevant to forthcoming business</li> <li>• attend at least one day a year of general awareness training or events.</li> </ul>
1.09	<p>Appendix 5 details progress made to date in relation to the CIPFA Knowledge and Skills Framework training. Some Committee Members do have outstanding modules to complete. Catch up training will be arranged during 2016/17.</p>
1.10	<p>Appendix 5 also includes training and various external events attended by Committee Members during 2016/17 as well as The Pension Regulator modules undertaken. Appendix 3 includes details of all future training planned including forthcoming events considered suitable for general awareness training. Attendees for the Local Authority Pension Fund Forum conference (December) have already been confirmed.</p>
1.11	<p><i>Recording and Reporting Breaches Procedure</i> – The Fund’s procedure requires that the Clwyd Pension Fund Manager maintains a record of all breaches of the law identified in relation to the management of the Fund and this information will be reported to the Pension Fund Committee at each meeting. Appendix 6 includes summary information in relation to the breaches identified to date. Information has been anonymised where necessary for data protection or commercial confidentiality.</p>
1.12	<p>One additional Breach (Reference 03) has been recorded since the 24<sup>th</sup> May Committee and is detailed at Appendix 6. In terms of the Breaches recorded and ongoing:</p> <p>Reference 01: work is progressing with system reports to identify those deferred benefits affected</p> <p>Reference 02: some legal advice has been received but further correspondence is required.</p> <p>Reference 03: the first meeting between officers and advisors will be held on the 5<sup>th</sup> October.</p>

1.13	<p><b>Delegated Responsibilities</b></p> <p>The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. Appendix 2 updates the Committee on the area of delegation used since the last meeting. The response to the consultation is attached as Appendix 7.</p>
1.14	<p><b>Calendar of Future Events</b></p> <p>Appendix 3 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.</p>

<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
2.01	<p>Although there are no new areas of resource implications highlighted, the ongoing concern in relation to staff resources is highlighted as part of the risk management section below.</p>

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

<b>4.00</b>	<b>RISK MANAGEMENT</b>
4.01	<p>Appendix 4 provides the dashboard showing the current risks relating to the Fund as a whole as well as the current risk register in relation to governance matters.</p>
4.02	<p>Since the last update, there has been no change in relation to the actions for managing these risks. The risks of most concern remain as follows:</p> <ul style="list-style-type: none"> <li>• The Fund's objectives/legal responsibilities are not met or are compromised – external factors (risk reference 5) – Although the potential impact of Local Government Reorganisation (LGR) has now gone away there remains to be ongoing concerns in relation to external influence, with asset pooling being the key area of concern at the moment. We continue to manage this to the best of our ability particularly through proactive planning and working closely with our advisers. A separate agenda item considers this further but it is acknowledged that working as part of a larger group in the Wales Pool is likely to result in areas of compromise for all parties, including Clwyd Pension Fund. .</li> <li>• Services not being delivered to meet legal and policy objectives (risk reference 6) – This risk focusses on the fact that there may be insufficient staff numbers, whether as a result of recruitment/retention issues, peaks in workload (e.g. due to asset pooling) and the age profile of staff. This is material at this point in time due to the increased work from asset pooling on the finance side, and due to ongoing work in removing</li> </ul>

	<p>backlogs and introducing the new administration strategy on the administration side. The teams are currently managing this to the best of their ability, prioritising work where possible and making use of advisers and outsourcing. However, it is recognised that there is significant pressure on officers.</p> <p>The Committee is invited to discuss these and the other governance risks and provide views on any further actions that could be taken to manage these risks.</p>
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<b>5.00</b>	<b>APPENDICES</b>
5.01	<p>Appendix 1 - 2016/17 Business plan update  Appendix 2 - Delegated responsibilities and response  Appendix 3 - Calendar of events  Appendix 4 - Risk heat map and register update  Appendix 5 - Training undertaken  Appendix 6 - Record of breaches of the law  Appendix 7 - Pension Board minutes</p>

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	<p>Report to Pension Fund Committee – Business Plan 2016/17 to 2018/19 – 22 March 2016. A link to the Committee Agenda follows:</p> <p><a href="http://cyfarfodyddpwyllgor.sirymfflint.gov.uk/ieListDocuments.aspx?CId=445&amp;MId=3586&amp;Ver=4&amp;LLL=undefined">http://cyfarfodyddpwyllgor.sirymfflint.gov.uk/ieListDocuments.aspx?CId=445&amp;MId=3586&amp;Ver=4&amp;LLL=undefined</a></p> <p><b>Contact Officer:</b> Philip Latham, Clwyd Pension Fund Manager  <b>Telephone:</b> 01352 702264  <b>E-mail:</b> <a href="mailto:philip.latham@flintshire.gov.uk">philip.latham@flintshire.gov.uk</a></p>

<b>7.00</b>	<b>GLOSSARY OF TERMS</b>
7.01	<p>(a) <b>CPF – Clwyd Pension Fund</b> – 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) <b>Administering authority or scheme manager</b> – 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) <b>PFC – Clwyd Pension Fund Committee</b> - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund</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.
- (e) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of
- (f) **SIP – Statement of Investment Principles** – the main document that outlines our strategy in relation to the investment of assets in the Clwyd Pension Fund
- (g) **FSS – Funding Strategy Statement** – the main document that outlines how we will manage employers contributions to the Fund
- (h) **TPR – The Pensions Regulator** – a government organisation with legal responsibility for oversight of some matters relating to the delivery of public service pensions including the LGPS and CPF.
- (i) **SAB – The national Scheme Advisory Board** – the national body responsible for providing direction and advice to LGPS administering authorities and to DCLG.
- (j) **DCLG – Department of Communities and Local Government** – the government department responsible for the LGPS legislation.
- (k) **CIPFA – Chartered Institute of Public Finance and Accountancy** – the institute which develops professional guidance on finance and accountancy matters to which CPF should comply.
- (l) **GMP – Guaranteed Minimum Pension** – a minimum element of pension that the CPF must pay in relation to scheme members, which relates to the fact the LGPS was contracted out of the state second pension system.