

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 1 September 2021
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 June 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 Pensions Regulator (TPR) annual public service governance and administration survey
- Recent Government consultations, including the Fund's response to the HMT Cost Management Mechanism consultation
- 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.

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 first two quarter's work for the governance tasks in the 2021/22 Business Plan. Good progress is being made with all actions. The Committee should note the following:</p> <ul style="list-style-type: none">• G1: Review against The Pension's Regulator's (TPR's) New Single Code – The Fund responded to TPR's consultation on the new code in May 2021. An interim response is expected from TPR shortly and we expect the new Code to come into force in early 2022. Once the new Code has been issued the Fund's processes and policies will be assessed against its requirements.• 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 – Work is continuing on developing the Fund's data and asset map. This will help officers to categorise risks and plan out further work required in this area. During the next quarter officers will establish a programme for completing ongoing risk assessments to embed these in business as usual.• G4: Review of governance related policies – The Conflicts of Interest policy and Knowledge and Skills Policy (previously called the Training Policy) have both been reviewed and updated and will be discussed as a separate item as part of this committee meeting. These are ahead of schedule.• G5: Outcome of Scheme Advisory Board good governance review – The Good Governance phase three report issued in February 2021 has yet to be considered by the Ministry of Housing, Communities and Local Government (MHCLG). We understand that the Scheme Advisory Board (SAB) is considering actions it can take whilst awaiting a response from Government. The Fund will take further action once information is received from SAB or MHCLG and in the meantime, the business plan timings have been updated to recognise that this work cannot yet commence.
1.02	<p>Current Developments and News</p> <p><i>Pension Board update</i></p> <p>The Clwyd Pension Board met on 24 June. The main items on the agenda were:</p> <ul style="list-style-type: none">• a presentation and discussion on the management of pensions scams; this provided assurance to the Board albeit they recommended even greater communication with scheme members

and asked for this to be an ongoing Board agenda item given the risks to the Fund and its scheme members

- a presentation and discussion on The Pension Regulator's consultation on its proposed New Code
- the ongoing impact of COVID-19, including whether an element of remote working will continue for the Fund, both in relation to staff working but also for meetings such as the Fund's annual meeting. The Board highlighted the need to embrace opportunities to reduce the Fund's carbon footprint, for example through reduced travel and more virtual meetings, whilst recognising the requirement to balance this with the stakeholders' accessibility needs
- cyber-crime, noting that the Fund had not been subject to any cyber-attacks since the last meeting and there was ongoing work in analysing the risks relating to Heywoods and the Council
- the McCloud remedy project, where the Pensions Administration Manager outlined the key elements of the Written Ministerial Statement as well as progress with the Fund's McCloud programme
- the pensions dashboard programme, noting some concerns about the magnitude and mechanics of putting this in place and
- data improvement plans, where address tracing was discussed and the Pensions Administration Manager explained that more regular data checks could now be carried out due to new system functionality that had been purchased.

The Board also received updates on areas such as asset pooling, business continuity, administration service delivery, and compliments and complaints.

The next meeting is on 28 September.

1.03 *The Pensions Regulator (TPR) annual public service governance and administration survey*

On 1 July 2021 TPR published its annual public service governance and administration survey and it can be found [here](#). The key objective of the survey is to track governance and administration practices among public service pension schemes. Some interesting findings include:

- The McCloud process, scheme complexity and the volume of changes required to comply with legislation were seen as the top barriers to improving scheme governance and administration in the next 12 months. Two-thirds (65%) of schemes identified the McCloud process as one of the top three barriers they faced to improving governance and administration, an increase from 42% in the 2019 survey. However the McCloud remediation process was the most commonly identified barrier for 'Other' (91%), Firefighters' (79%) and Police schemes (81%), but fewer Local Government schemes selected it as one of the major challenges they faced (47%). McCloud is clearly an area which has already received a lot of focus for Clwyd Pension Fund

	<ul style="list-style-type: none"> • Although 87% of the schemes judged their business continuity plan to have been effective during the COVID-19 pandemic, only 60% described it as very effective. Clwyd Pension Fund's view was that the response was very effective. • Overall, 91% of LGPS funds had allocated time or resources to assessing climate change risks/opportunities, but fewer had assessed particular climate-related scenarios (66%), tracked their portfolio's carbon intensity (60%) or assessed their portfolio's potential contribution to global warming (29%). Again this is another area of focus for Clwyd Pension Fund. <p>Officers would be happy to answer any questions relating to how the Clwyd Pension Fund relates to the survey results.</p>
1.04	<p><i>LGPS Scheme Advisory Board (SAB)</i></p> <p>There has been no SAB meetings since May 2021 (as reported in the June 2021 Clwyd Pension Fund Committee update report). However the latest activity is available on their website including:</p> <ul style="list-style-type: none"> • their response to the DWP's Call for Evidence on Consideration of social risks and opportunities by occupational pension schemes – which can be found here under the 25th June entry. • updated COVID-19 mortality impact reports – in September 2020 the SAB commissioned two reports specifically to analyse mortality during the COVID-19 pandemic and these have now been updated in light of experience in the second wave of COVID-19. The information can be found here.
1.05	<p><i>Consultations</i></p> <p>There have been a number of Government consultations since the last meeting which are as summarised as follows:</p> <ul style="list-style-type: none"> • HMT Cost Management Mechanism – In late June, HM Treasury published two consultations. This is the first (which you can view here) which is about proposed reforms to the public service pension schemes' cost control mechanism, following the publication of the Government Actuary's review of the mechanism. There are 3 proposed changes to the existing mechanism, the 1st would change the mechanism to operating only in the reformed schemes; the 2nd would widen the “corridor” from the existing 2% margin to 3%; and the 3rd would introduce an additional “economic check” when there is a breach of the mechanism to ensure that broader economic conditions are considered before any breach is implemented. In the consultation HM Treasury notes that further consideration will need to be given to the detailed implementation of the “reformed scheme only design” in the LGPS, given the effects of the underpin. Delegated powers have been used to approve a response to this consultation and a copy of the response is attached as Appendix 2.

	<ul style="list-style-type: none"> • HMT SCAPE Discount Rate – This is the second consultation by HM Treasury in late June and it can be found here. This consultation is about the discount rate used in valuations of unfunded public service pension schemes and potential changes to the SCAPE methodology used. The primary use of the SCAPE discount rate is to determine the level of employer contribution rates in the unfunded public service pension schemes, but it is also used in the production of actuarial factors in the LGPS. The officers decided not to respond to this given the minimal impact on the LGPS. • Special severance payments (England) – Statutory Guidance and Covering letter – following on from developments in 2020 relating to the unsuccessful introduction of a cap on exit payments (the "£95k cap"), MHCLG has commenced a consultation on new statutory guidance that it intends to introduce in England. The draft guidance sets out the Government's view on when Special Severance Payments (i.e. payments on termination which do not correspond to a contractual, statutory or other right) could be made including reporting requirements. It is unclear whether similar guidance could be introduced in Wales. The officers decided not to respond to this given it does not directly apply to Wales. • Public Service Pensions and Judicial Offices Bill – This Bill includes the retrospective provision to rectify the unlawful discrimination in the way in which existing schemes were restricted under the Public Service Pensions Act 2013 i.e. so that the McCloud remedy regulations can be made. The Bill commenced its passage through Parliament in July.
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> - The Clwyd Pension Fund Knowledge and Skills Policy (previously called the Training 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 and • attend at least one day each year of general awareness training or events. <p>The Knowledge and Skills Policy has been reviewed and updated appropriately in line with the Fund's requirements to review all policies at appropriate intervals. The amendments to this Policy are included as a separate agenda item for this Committee meeting.</p> <p><u>Training undertaken</u> - Appendix 3 sets out the Training Plan for the Fund. Recent events included:</p> <ul style="list-style-type: none"> • the external CIPFA Local Board Annual Event on 23 June

- the second session on the Fund's flightpath taking place on 21 July
- a WPP training session relating to responsible investment indices, solutions and reporting on 20 July.

A summary of the attendance at the Fund's hot topic training sessions this year is included below:

	Date	Number of Committee attending (Proportion of total)	Number of Board attending (Proportion of total)
Hot Topic Sessions			
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%)

As can be seen, the first three sessions were well attended overall with the final one having lower attendance. In line with the updated Knowledge and Skills Policy, information on attendance will be provided in future Governance Update reports.

Future training and events - Officers will continue to be in touch with information as further training sessions and events become available, including a Fund specific session on cyber-security which will take place through the autumn or early winter and which all Committee and Board members should attend. In the meantime, if any Committee or Board members wish to attend any of the following events please contact the Deputy Head of Clwyd Pension Fund:

- 9 to 10 September 2021 - LGC Investment Summit (Leeds)
- Various dates October to December – LGA Fundamentals (for new or nearly new Committee and Board members)
- 18 October 2021 - WPP Performance Reporting / ACS Roles and Responsibilities.

1.07

Conflicts of Interest Policy

The Conflicts of Interest Policy requires all Pension Fund Committee, Pension Board members and Senior Officers to:

- recognise they may have conflicts of interest relating to their management of the Fund
- identify any interests which do or could give rise to a conflict

	<ul style="list-style-type: none"> • notify the officers of the Fund of, and appropriately manage, any potential or actual conflicts of interest • periodically review their potential and actual conflicts of interest. <p>The Conflicts of Interest Policy has been reviewed and updated appropriately in line with the Fund’s requirements to review all policies at appropriate intervals. The amendments to this Policy are included as a separate agenda item for this Committee.</p>
1.08	<p><i>Recording and Reporting Breaches Procedure</i></p> <p>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.</p> <p>There are no new administration breaches. We previously reported on an unfortunate data breach (A21) relating to 265 pensions increase letters that were issued and included information relating to other pensioners. This case has now been closed with the Information Commissioner’s Office, with a few minor recommendations provided. There are no further actions. The late notification of leaver rights and options breach (A9) has also been brought under control and has therefore also been closed.</p> <p>In relation to finance related breaches, there were a number of employers who were late in paying contributions or submitting their contribution remittances. All of these were resolved quickly by the employers and therefore all of these new breaches have already been closed.</p>
1.09	<p>Delegated Responsibilities</p> <p>The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. As mentioned previously, since the last Committee meeting delegated powers have been used to approve a response to HM Treasury’s consultation on the Cost Control Mechanism. The response was prepared by officers after taking advice from the Fund’s Actuary, Mercer. There have been no further use of delegated powers for governance matters since the last Committee meeting.</p>
1.10	<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. Members should note the events taking place before the 10 November Committee meeting:</p> <ul style="list-style-type: none"> • 28 September – Pension Board meeting (Board members only). <p>Committee and Board members are reminded that the Annual Joint Consultative Meeting (AJCM) will take place virtually on 24 November and all members are encouraged to attend.</p>

2.00	RESOURCE IMPLICATIONS
2.01	None directly as a result of this report.

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	Response to HM Treasury's consultation on the Cost Control Mechanism – with Fund Actuary was consulted with in developing the consultation response.

4.00	RISK MANAGEMENT
4.01	<p>Appendix 6 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 June.</p> <p>The main change this month relate to:</p> <ul style="list-style-type: none"> • Risk number 2: No or inappropriate decisions are made due to Governance (particularly at PFC) being poor – Given the forthcoming changes in Chief Executive and new Administrator, the actions have been updated to confirm that training will be arranged during Q3/Q4 for new officers in those roles. • Risk number 3: Our legal fiduciary responsibilities are not met due to decisions, particularly at PFC level, being influenced by conflicts of interest – A new action, as noted for Risk number 2 above, has been made to this risk, albeit specifically in relation to providing training on conflicts of interest.

5.00	APPENDICES
5.01	<p>Appendix 1 – Business plan progress 2021/22</p> <p>Appendix 2 – Consultation response to HMT Consultation on Cost Management Mechanism</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>

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<ul style="list-style-type: none"> • Report to March Pension Fund Committee - 2021/22 Business Plan (March 2021) • The Pensions Regulator (TPR) annual public service governance and administration survey - https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/public-service-research-2021.ashx • HMT Cost Management Mechanism consultation – https://www.gov.uk/government/consultations/public-service-pensions-cost-control-mechanism-consultation • HMT SCAPE Discount Rate consultation – https://www.gov.uk/government/consultations/public-service-pensions-consultation-on-the-discount-rate-methodology • Special Severance Payments Statutory Guidance consultation – https://lgpsboard.org/images/Consultations/SSPSG.pdf • Public Service Pensions and Judicial Offices Bill - https://bills.parliament.uk/bills/3032/publications <p>Contact Officer: Philip Latham, Head of Clwyd Pension Fund Telephone: 01352 702264 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> <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>

- (f) **SAB – The national Scheme Advisory Board** – the national body responsible for providing direction and advice to LGPS administering authorities and to MHCLG.
- (g) **MHCLG – Ministry of Housing, Communities and Local Government** – 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.