

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 20 February 2019
Report Subject	Governance Update
Report Author	Clwyd Pension Fund Manager

EXECUTIVE SUMMARY

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

- (a) Business Plan 2018/19 update, including an update on the recruitment to the three new posts in the Finance Team and a recommendation to extend the existing Custodian contract
- (b) The latest Local Pension Board meeting minutes
- (c) An update on the Pensions Administration Manager
- (d) The update from the latest national LGPS Scheme Advisory Board (SAB) meeting and further information on various national items of significance including the cost management process being paused, the Fair Deal consultation and LGPS SAB's effective governance project
- (e) Training implementation and monitoring
- (f) The latest changes to our breaches of the law register.

RECOMMENDATIONS

1	That the Committee consider the update and provide any comments.
2	That the Committee agree to the extension of the existing Custodian contract until it is no longer required due to asset pooling.
3	The Committee considers the proposed response to the Fair Deal consultation, highlights any changes they would like to make and agrees to the response being submitted to MHCLG, subject to delegating incorporating any further changes agreed to the Clwyd Pension Fund Manager.

REPORT DETAILS

1.00	GOVERNANCE RELATED MATTERS
1.01	<p>Business Plan 2018/19 Update</p> <p>Progress against the business plan items for this year is summarised in Appendix 1. The includes the following items:</p> <ul style="list-style-type: none">• G5 – Structure Review of Finance Team – as previously reported, three new positions have been created in the Finance Team; an Investment Officer, an Accountant and a Governance Support Officer. These posts were advertised earlier in 2018 but no suitable applications were received. As highlighted at the last meeting:<ul style="list-style-type: none">○ the Investment Officer post will be re-advertised as a Graduate Investment Officer, which will start at a lower grade with the focus being on recruiting someone who can be trained to the appropriate level of expertise○ the Accountant post has been reviewed and will now be re-advertised at a higher grade○ the Governance Support Officer will also be re-advertised but with no change to the grade. <p>Unfortunately, the advertising of these posts was delayed for a number of reasons. The Accountant post and Governance Support Officer have been advertised with a closing of 17 February 2019, with interviews to be held on 21 and 22 February 2019. At the time of writing, the revised job description for the Graduate Investment Officer post is currently being reviewed by Human Resources with a view to advertising as soon as possible.</p> <ul style="list-style-type: none">• G6 – Review/Tender Actuarial Contract – Subject to the Committee agreeing to the appointment of the recommended provider (see separate Part II report), and the signing of the contract, this item of work will be finalised just a few weeks behind schedule.• G8 – Review/Tender Custodian Contract – The Fund was due to retender its custodian contract during Q4 of 2018/19. However, because of asset pooling, the need for a custodian will diminish over time. It is therefore recommended that the current contract continues until the point that it is no longer required. The value of this contract is approximately £34k per annum and this will in due course be replaced by services which will be part of the ongoing asset pooling costs.
1.02	<p>The Committee is asked to note the contents of the business plan update and agree to the extension of the existing Custodian Contract.</p>
1.03	<p>Current Developments and News</p> <p><i>Pensions Administration Manager Post</i></p> <p>Following a long period of illness, Mrs Helen Burnham will not be returning to her post as Pensions Administration Manager. Mrs Burnham has worked with the Fund since 2004 and will be sadly missed by the many colleagues she has worked with during her time with the Council.</p> <p>The vacant position of Pensions Administration Manager is now being</p>

	<p>advertised internally, and should this be successful, the appointment will be made by the end of March 2019. The Committee will be notified via email of the outcome of the interviews.</p>
1.04	<p><i>Pension board update</i></p> <p>A summary of the key points from the 11 October 2018 Clwyd Pension Fund Board meeting was included at the last Committee meeting. The approved minutes of the meeting are attached in Appendix 2. The next meeting of the Pension Board is on 27 February 2019.</p>
1.05	<p><i>National LGPS Scheme Advisory Board (SAB) Update</i></p> <p>The LGPS SAB Board met on 10 October 2018. A summary of that meeting, provided by the Secretary to the SAB, is attached in Appendix 3.</p>
1.06	<p><i>Cost management process (also referred to as "cost cap")</i></p> <p>In the last few weeks, there has been a major development in the implementation of the cost management requirements. This is included in the LGPS SAB update, and a further update will be provided at the Committee meeting of the latest developments, but in summary:</p> <ul style="list-style-type: none"> • Valuations are carried out at a national level to ensure that the ongoing future cost of the scheme is maintained within a specified range of costs • If those valuations find that the ongoing scheme cost is below the acceptable cost range, scheme member benefits are increased and/or scheme member contributions are decreased; if it is found to be above the acceptable cost range, then scheme member benefits are reduced and/or scheme member contributions are increased. • For the LGPS, valuations are carried out by both by Her Majesty's Treasury (HMT) and by SAB, albeit using different parameters, with the SAB process being considered first, which then hopefully negates the need for any adjustment as a result of the HMT valuation. • The LGPS SAB results had been confirmed at the end of 2018 and it was found the cost of the scheme was lower than the acceptable cost range, and accordingly improvements to the scheme's benefits, as well as a reduction to scheme member contribution rates, were due to be consulted on with a view to them coming into force from 1 April 2019. • However, on 20 December 2018 the Court of Appeal found that transitional protections that were put in place as part of the reform of both the Judges' and the Firefighters' Pension Schemes were unlawful on the grounds of age discrimination and could not be justified. This is being referred to as the McCloud case, and a summary of the judgement is included in Appendix 4. • Similar protections, which applied to all members within 10 years of retirement, were included in the reforms of all public service schemes, albeit the form of these protections varied from scheme to scheme. Although the McCloud case only relates directly to the Judges and Firefighters Pension Schemes it is anticipated that the principles of the outcome could be accepted as applying to all public service schemes.

	<ul style="list-style-type: none"> As a result, both LGPS SAB and HMT have paused their cost management processes. LGPS SAB has announced "there are currently no changes to benefits planned in respect of the cost cap. This situation will be reviewed once McCloud is resolved which is not expected for some months." The full statement issued by SAB to all administering authorities is included in Appendix 5. <p>This is a major development which could have a fundamental impact on the Fund, its employers and scheme members:</p> <ul style="list-style-type: none"> Perhaps the least impact would occur if the McCloud judgement is ultimately overturned, and the cost management process therefore continues as originally planned; this would result in some employer contribution rate increases and benefit/contribution changes, but any retrospection to 1 April 2019 (if required) would be difficult to implement. A much greater impact would occur if the McCloud judgement was determined to apply to the LGPS too, and the scheme benefits had to be adjusted accordingly to remove the inequality. This would probably result in a major review of scheme benefits, and would be more likely to result in improvements and consequently an increase in employer pension costs. <p>More information is expected to be released by LGPS SAB imminently which is also expected to consider the impact on the 2019 actuarial valuation. A verbal update will be provided at the Committee meeting if this information has been provided by then.</p>
1.07	<p><i>Fair Deal Consultation</i></p> <p>On 10 January the MHCLG published its latest consultation on the "New" Fair Deal, concerning the introduction of greater pensions protection for employees of LGPS employers who are compulsorily transferred to service providers. The consultation closes on Thursday 4 April. As well as covering Fair Deal, it also includes a proposed miscellaneous amendment which will affect some employers who seek to end their participation in the Fund on merger.</p> <p>A copy of the consultation is included in Appendix 6 and the Fund's proposed response to this consultation is enclosed in Appendix 7. A useful summary of the changes, including their implications, is included as an appendix to the separate LGPS Current Issues report. The Committee is asked to consider the proposed response to the consultation, highlight any changes they would like to make and agree to the response being submitted to MHCLG, subject to delegating incorporating any further changes agreed to the Clwyd Pension Fund Manager. Given this has an impact on several of the Fund's participating employers, particularly the Councils and colleges, the consultation has been shared with the employers and they have been encouraged to respond.</p>

<p>1.08</p>	<p><i>LGPS SAB separation (good governance) project</i></p> <p>The following email has recently been issued by the Secretary to the LGPS SAB:</p> <p><i>"The LGPS Scheme Advisory Board (SAB) is established under the Public Service Pensions Act 2013 to advise the Secretary of State for the Ministry of Housing, Communities and Local Government on the development of the Local Government Pension Scheme.</i></p> <p><i>The SAB has commissioned Hymans Robertson to facilitate a consultation on good governance structures for the LGPS. The purpose of the consultation is to consider how best to accommodate LGPS functions within the democratically accountable local authority framework in a way that ensures that conflicts of interest are addressed and managed appropriately and that the LGPS remains appropriately resourced and able to deliver its statutory functions. We have asked Hyman Robertson to help the SAB identify the real issues and potential options for change to the current arrangements which are proportionate, pragmatic and would improve LGPS governance in these areas.</i></p> <p><i>Through the consultation process, SAB will be seeking the views of as many stakeholders, representing all elements of the LGPS, as possible. Scheme stakeholders will be invited to complete a short online questionnaire which asks for examples of actual conflicts that can arise, your views on the effectiveness of current LGPS governance arrangements and your suggestions for improvement. Further stages of the consultation will include interviews and workshops with key stakeholders. This will allow the SAB to consult on a series of options that reflect the reality of LGPS governance as experienced by those who experience it first-hand.</i></p> <p><i>This work will begin immediately, with reports coming to the SAB in April and July. Colleagues from Hymans Robertson will be in touch shortly with further details of the project including information on how to complete the questionnaire and further engagement plans.</i></p> <p><i>Commenting on the appointment of Hymans Robertson, Chair of SAB, Councillor Roger Phillips said "I look forward to working closely with Hymans Robertson and would encourage all those who wish to see the continued success of the LGPS to participate in this important piece of work."</i></p> <p>Officers and advisers will develop the initial response and it is hoped that the timing of the survey will allow discussion with the Committee, so that their views can be incorporated into any response. It is expected that a separate response will be returned on behalf of the Pension Board.</p>
<p>1.09</p>	<p>Policy and Strategy Implementation and Monitoring</p> <p><i>Training Policy</i></p> <p>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"> • have training on the key elements identified in the CIPFA Knowledge and Skills Framework

	<ul style="list-style-type: none"> • attend training sessions relevant to forthcoming business and • attend at least one day each year of general awareness training or events. <p>Appendix 8 details progress made to date in relation to the CIPFA Knowledge and Skills Framework training. Appendix 8 also includes training and various external events attended by Committee members and Pension Board members during 2018/19. Appendix 9 includes details of planned training events including forthcoming events considered suitable for general awareness training. This includes the Committee on 20 March 2019 which will include a significant amount of training and which all Committee and Board members should attend. It is possible there will also be Committee business that will need to be considered on that day and therefore all members are asked to be available for the full day starting from 9.30am. The training will focus on administration and responsible investment, and an agenda will be issued nearer the time.</p> <p>Committee members are reminded to highlight, at any point, topics they feel they need further training on.</p>
1.10	<p><i>Recording and Reporting Breaches Procedure</i></p> <p>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. Appendix 10 details the current breaches that have been identified. As highlighted in the Part 2 report, the breach relating to the employer error has been reported to The Pensions Regulator and there are ongoing discussions with The Pensions Regulator which are considered further in the Part II report.</p>
1.11	<p>Delegated Responsibilities</p> <p>The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. No delegated responsibilities were used in the last quarter in relation to governance matters.</p>
1.12	<p>Calendar of Future Events</p> <p>Appendix 11 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. As mentioned previously, Committee members are asked to note that the 20 March 2019 PFC will include training.</p>

2.00	RESOURCE IMPLICATIONS
2.01	<p>The report touches on the ongoing challenges as a result of the current workloads, the retirement of a Finance Manager at the end of 2017 and now the vacant Pensions Administration Manager post. The Pension Fund Manager and Principal Pensions Officers are continuing to ensure work is prioritised appropriately, but it is likely that some non-essential tasks are not being carried out until the full staffing establishment is achieved.</p>

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

4.00	RISK MANAGEMENT
4.01	<p>Appendix 12 provides the dashboard showing the current risks relating to the Fund as a whole, as well as the extract of governance risks. The key governance risks continue to relate to:</p> <ul style="list-style-type: none"> • potentially insufficient resource, which puts a risk on us being able to deliver our legal and policy objectives • the impact of externally led influence and scheme change (such as asset pooling) which could also restrict our ability to meet our objectives and/or legal responsibilities.
4.02	<p>Although there have been no changes to the scores this quarter, the following changes have been made to the ongoing actions:</p> <ul style="list-style-type: none"> • Risk number 6 (the Fund's services not being delivered due to insufficient staff numbers) has been updated to note the need to recruit to the vacant Pensions Administration Manager role. • Risk number 7 (legal requirements and/or guidance are not complied with due to lack of training or not understanding responsibilities) has had the following outstanding action removed as it is now considered complete – "Ongoing work to ensure breaches are identified and the procedure used appropriately". <p>Note that all actions will be reviewed to incorporate the projects from the 2019/20 to 2021/22 business plan once it has been approved.</p>
4.03	<p>In addition, the target dates have been extended given the recruitment and training of staff is ongoing (including now the Pensions Administration Manager) and the potential impact of the Cost Management exercise/McCloud judgement. The longer than expected periods taken for recruitment have also meant some actions have also been delayed due to the need to prioritise work.</p>

5.00	APPENDICES
5.01	<p>Appendix 1 – Business plan progress Appendix 2 – 11 October 2018 Pension Board minutes Appendix 3 – LGPS SAB update Appendix 4 – McCloud case summary Appendix 5 – SAB communication pausing cost cap Appendix 6 – Fair Deal consultation Appendix 7 – Draft CPF response to Fair Deal consultation Appendix 8 – Training undertaken Appendix 9 – Training plan Appendix 10 – Breaches Appendix 11 – Calendar of future events Appendix 12 – Risk register</p>

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<p>No relevant background documents.</p> <p>Contact Officer: Philip Latham, Clwyd Pension Fund Manager 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) 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) 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 MHCLG.</p> <p>(g) MHCLG – Ministry of Housing, Communities and Local Government – 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>