

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 10 th November 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 September 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 change in name at the Department of Levelling Up, Housing and Communities and change in Minister responsible for the LGPS
- Recent developments on the 2016 cost management process
- Monitoring of the Pension Fund's objectives as set out in the governance related policies
- 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.
2	That the Committee agree the changes to the business plan timings for items G1 and G5 as outlined in paragraph 1.01, both of which relate to delays at a national level.
3	That the Committee agree to the change to the Finance Section including a trainee fund accountant at an annual cost of £38k to £46k.

REPORT DETAILS

1.00	GOVERNANCE RELATED MATTERS
1.01	<p data-bbox="320 383 1382 562">Business Plan Update</p> <p data-bbox="320 383 1382 562">Appendix 1 shows progress with the work to date for the governance tasks in the 2021/22 Business Plan. Good progress is being made in many areas although some actions have been deferred due to delays at a national level. The Committee should note the following and are asked to approve the changes to the business plan timing for G1 and G5:</p> <ul data-bbox="368 607 1382 2083" style="list-style-type: none"><li data-bbox="368 607 1382 965">• 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. TPR issued their interim response on 24 August 2021 and expect to issue their full response in early 2022. TPR confirmed it is now unlikely that the new Code will come into force before Summer 2022. Once the new Code has been issued the Fund’s processes and policies will be assessed against its requirements. It is recommended that the business plan is updated to reflect the new timescales, moving the review against the new Code from quarters 3 and 4 in 2021/22 to 2022/23.<li data-bbox="368 987 1382 1099">• 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.<li data-bbox="368 1122 1382 1413">• G3: Ensure appropriate cyber-security is in place – The work around developing the Fund's data and asset map is now mainly complete. 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. The main elements of the assessment of Heywood’s cyber resilience are also complete and covered in a separate report.<li data-bbox="368 1435 1382 1682">• G4: Review of governance related policies – The Conflicts of Interest policy and Training Policy (now called Knowledge and Skills Policy) have both been reviewed and updated ahead of schedule. The review of the Procedure for Recording and Reporting Breaches of the Law which was due for review this month will be conducted over the next quarter and brought to February Committee for approval.<li data-bbox="368 1704 1382 1995">• 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 Department of Levelling up, Housing and Communities (DLUHC). We understand that this review is unlikely to be an immediate priority of the Department and so we are not expecting any further updates on this until 2022. The business plan timings have been updated to recognise that this work cannot yet commence.<li data-bbox="368 2018 1382 2083">• G6: Effectiveness survey – As part of the 2021/22 business plan, it was agreed that an effectiveness survey of Committee, Board

	<p>members and key officers would be undertaken in quarter 3. Accordingly members will be asked to complete this survey shortly and the results will be brought to the February Committee for further consideration.</p>
1.02	<p>Proposed Increase in Team Structure</p> <p>Although work on business continuity and succession planning is on-going there are some risks identified within the Finance Section that need more immediate action, especially given the statutory nature of accounting function performed within the section.</p> <p>The Fund Accountant will retire in the next few years and recruiting a qualified accountant to this position will be very difficult, as past experience has proved. Hence appointing a trainee accountant now to shadow the Fund Accountant whilst studying for their professional accountancy qualification is the recommended lower risk approach.</p> <p>In addition, the workload for the Deputy Head of the Fund has also proven greater than anticipated when the structure was reviewed in the last few years. As well as the general increase in LGPS complexity there has been a greater impact on the role from pooling, private markets and responsible investment than anticipated along with some difficulties in recruitment of one post. Hence, it is recommended to adjust the role of the current Fund Accountant to also include team leader duties so the officers in the section report to the Fund Accountant rather than the Deputy Head as currently structured. It is anticipated that the Finance Section structure will need to be reviewed further in a few years' time due to the ever changing environment including anticipated retirement(s).</p> <p>The proposed change to the Finance Section structure is illustrated below:</p> <p>The additional annual budget required to fund this additional trainee accountant post is estimated at £38k to £46k. Recruitment may take some months and it is estimated that there will be no more than 2 months costs in 2020/21 resulting in an increase in staffing costs of no more than £4k, albeit it should be noted that the Governance Officer post (annual staffing cost of £27k) remains vacant. If approved, this additional trainee accountant post would be included in the 2022/23 and future budgets, as would any additional costs relating to the regrading of the Pension Fund Accountant post to incorporate team leader duties.</p>

	<p style="text-align: center;">EXISTING STRUCTURE</p> <p style="text-align: center;">PENSIONS FINANCE Investments, Accounting and Governance</p> <p style="text-align: center;">Debbie Fielder Deputy Head of Clwyd Pension Fund</p> <p style="text-align: center;">1 Investment Officer (Trainee) 1 Pension Fund Accountant 2 Finance Officers 1 Governance & Business Support Officer</p>	<p style="text-align: center;">PROPOSED STRUCTURE</p> <p style="text-align: center;">PENSIONS FINANCE Investments, Accounting and Governance</p> <p style="text-align: center;">Debbie Fielder Deputy Head of Clwyd Pension Fund</p> <p style="text-align: center;">Pension Fund Accountant and Team Leader</p> <p style="text-align: center;">1 Investment Officer (Trainee) 1 Pension Fund Accountant (Trainee) - NEW 2 Finance Officers 1 Governance & Business Support Officer</p>
<p>1.03</p>	<p>Current Developments and News</p> <p><i>Pension Board update</i></p> <p>The Clwyd Pension Board met on 28 September and the draft minutes are included in Appendix 2. The main items of discussion were updated Fund policies, the impact of COVID-19, AVC provider service levels and cyber-crime. The Board also received updates on areas such as asset pooling, administration service delivery, and compliments and complaints. The next meeting is on 17 February 2022.</p>	
<p>1.04</p>	<p><i>Department of Levelling Up, Housing and Communities (DLUHC)</i></p> <p>On 19 September 2021 the Ministry of Housing, Communities and Local Government became the Department for Levelling Up, Housing and Communities (DLUHC).</p> <p>Luke Hall is no longer the Minister for the LGPS and Kemi Badenoch MP is the new Minister with LGPS responsibilities. The change in Minister is resulting in some delays or changes to priorities at a national level.</p>	
<p>1.05</p>	<p><i>LGPS Scheme Advisory Board (SAB)</i></p> <p>The LGPS SAB met on 1 July and 27 September. The 1 July meeting was a special meeting to agree the outcome of the SAB cost management process and any resultant recommendations for benefit changes to DLUHC. At the point of writing the 27 September summary was not published but papers and an agenda for the meeting are available here which cover:</p> <ul style="list-style-type: none"> • LGPS Investment Code of Cost Transparency – The LGPS Investment Code of Transparency (Code) was first published in May 2017 requiring signatories to provide certain cost information relating to investment manager costs and charges to their LGPS clients. The Code has been reviewed and consulted on, and proposed changes to the Code were considered by SAB at the meeting. SAB were also asked to consider extending the use of the Byhiras system (which is used centrally for gathering the Transparency Data) for the purposes of cost benchmarking. 	

- New Compliance & Reporting Committee – The CIPFA Pensions Panel has been disbanded and this report to SAB recommends creating a new Compliance and Reporting Committee within SAB which will jointly report to SAB and the CIPFA Pension Finance Management Board. If agreed this Committee could become responsible for producing LGPS guidance on areas such as risk management, knowledge and skills, and accounting.

1.06

2016 Cost Management Results

Members may recall that the LGPS is subject to two cost management processes which are designed to manage some of the LGPS costs and risks to scheme employers.

These processes can result in changes to the scheme benefit structure and/or scheme member contributions where the costs are found to be lower or higher than the target cost set at the time of implementing the 2014 Scheme. This change in cost is measured by national valuations carried out by the Government Actuary's Department every four years; one relating to a process managed by HMT and an additional LGPS specific one managed by the Scheme Advisory Board. The original result of the 2016 SAB cost management process was a reduction in cost of 0.9% of pay and agreement to a package of measures corresponding to 0.9% increase in employer costs (principally contribution reductions for lower paid members). It was expected that once these changes were fed into the HMT process, no further changes would be needed under that process.

The 2016 cost management processes were subsequently paused due to the McCloud judgement. However, they were "unpaused" in July 2021 following agreement on how the remedy will be delivered in the unfunded schemes. Following publication of amendments to the HMT Directions on 7 October 2021, confirming that costs resulting from the McCloud remedy will be treated as member costs within the cost management process, the Scheme Advisory Board has now concluded its 2016 process. Despite reporting a slight reduction in LGPS costs, SAB has recommended no benefit/contribution changes to the LGPS minister. The SAB noted that any change would have "the unwelcome impact of having to backdate any changes to April 2019 would have on already hard pressed administration teams".

However, the Board has set out its determination to revisit third tier ill health and contributions for the lowest paid members with the view to making recommendations in these areas separately to the cost management process.

We understand that the Government Actuary's Department will now finalise the 2016 valuation for HMT cost management purposes. This is not expected to lead to any changes being required to the LGPS since the change in cost is expected to be within the +/-2% of pay corridor which currently applies to the HMT process. It should be noted, however, that we understand the Trades Unions plan to bring a Judicial Review challenging the legality of the Government's decision to allocate McCloud costs as member costs.

	<p>Further information including background reading regarding the cost management processes can be found here.</p>
1.07	<p><i>Consultations – HMT Cost Management Mechanism</i></p> <p>At the last meeting, Committee members were provided with the Fund’s response to the HM Treasury consultation on proposed reforms to the public service pension schemes’ cost control mechanism. On 4 October 2021, the government responded to this consultation. It received 61 responses, including those from trade unions, Scheme Advisory Boards, government agencies, actuarial and pensions specialists, and administrators.</p> <p>Having reviewed the consultation responses, HMT is intending to implement the proposals in the original consultation by:</p> <ul style="list-style-type: none"> • Moving to a “reformed scheme only” design. This means that only the post 2014 Scheme cost will be used for the cost cap process. • Widening the corridor to +/-3% of pensionable pay. • For the unfunded schemes, introducing an economic check, which will be linked to expected increases in GDP growth. This may also apply to the LGPS. <p>In general, these measures are designed to ensure a more stable cost control mechanism, with changes to the schemes being triggered less often. The intention is for these changes to be implemented in time to be taken into account in the 2020 cost control mechanism process.</p> <p>The Government response shows that respondents’ views were mixed. Whilst many were supportive of the “reformed scheme only” design, some responses favoured a future service only approach instead. Some responses also pointed out that getting the right balance of risk between members and tax payers, and stability, are not the same aim. The government considered the reformed scheme only approach to strike the best balance, and to achieve consistency between the benefits being assessed and benefits potentially being adjusted.</p> <p>For the economic check, views were even more mixed. LGPS respondents (including Clwyd Pension Fund) were of the view that long-term GDP increases were not an appropriate measure to apply an economic check for LGPS funds. The Government also acknowledged that the LGPS, as a funded scheme, will potentially need a different approach from the unfunded schemes, and that further consideration and work with LGPS stakeholders is needed. The Government propose to work with the Scheme Advisory Board in England & Wales to see if its own separate cost management process can be adapted to become the economic check. It therefore remains to be seen how the economic check will be implemented for the LGPS.</p> <p>As indicated above, there a number of questions relating specifically to the LGPS that have not been answered in this response and are subject to further consideration.</p>

1.08 *Annual Review of Objective Measures for Governance Related Policies/Strategies*

With the Fund’s strategies and policies, there are a number of measures to illustrate whether the Fund’s objectives in those areas are being achieved. Many of these measures are included in the Committee’s quarterly updates (such as training attendance and key performance indicators) and also in the Annual Report and Accounts. However there are some within the Fund’s governance related policies which are not regularly reported. It is proposed that these will now be provided on an annual basis as part of this Governance Update report to provide transparency that all measures are being considered.

Appendix 3 includes a list of the measures in the governance related policies and the outcomes relating to them.

Policy and Strategy Implementation and Monitoring

1.09 *Knowledge and Skills Policy and Training Plan*
Policy requirements - The Clwyd Pension Fund Knowledge and Skills Policy requires all Pension Fund Committee, Pension Board members and Senior Officers to:

- have training on the key elements identified in the CIPFA Knowledge and Skills Framework
- attend training sessions relevant to forthcoming business (“hot topic” training) and
- attend at least one day each year of general awareness training or events.

Training undertaken - Appendix 4 sets out the Training Plan for the Fund.

Recent events included:

- LGC Investment Summit (Leeds) on 9 to 10 September
- a WPP training session relating to Performance Reporting / ACS Roles and Responsibilities on 18 October.

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%)
Conflicts of Interest	Nov-21	To be confirmed	To be confirmed

As can be seen, no further essential training has been provided since the last meeting other than the Conflicts of Interest Training which will be updated in the next report and a verbal update can be provided at Committee if required.

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:

- Various dates October to December – LGA Fundamentals (for new or nearly new Committee and Board members)
- 20 to 21 January 2022 – LGA LGPS Governance Conference (Bournemouth or virtual)
- 24 to 25 March 2022 - LGC Investment Summit (Carden Park).

1.10 *Recording and Reporting Breaches Procedure*

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 5 details the current breaches that have been identified.

There have been no new administration breaches. We previously reported on an Employer who enrolled their employees an alternative pension scheme (A22) where good progress is being made but the final steps of the action plan is to be completed. Another existing breach relating to an employer who has deducted incorrect member contributions (A23) has also largely been rectified but there are ongoing discussions required with the employees who have left employment.

In relation to finance related breaches, there were two employers who were either late in paying contributions or submitting their contribution remittances. The late payment has now been resolved but contribution remittance are still outstanding for one employer.

The Breaches Procedure will be reviewed and if appropriate updated over the next quarter. This will be reported on at the next Committee.

1.11 **Delegated Responsibilities**

The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. The Schedule of Delegation has been updated to note that the Head of Clwyd Pension Fund has delegated responsibility for all areas of the Knowledge and Skills Policy (as outlined in the Knowledge and Skills Policy approved in September). There have been no uses of

	delegated powers for governance matters since the last Committee meeting.
1.12	<p>Calendar of Future Events</p> <p>Appendix 6 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. 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	None.

4.00	RISK MANAGEMENT
4.01	<p>Appendix 7 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 September.</p> <p>The main change this month relate to:</p> <ul style="list-style-type: none"> • Risk number 4: Appropriate objectives are not agreed or monitored - internal factors – This likelihood for this risk has been reduced from “very low” to “unlikely”. This is driven by the review of measures being monitored in respect of the objectives set out in the Governance Policies (as included in Appendix 7 to this report). This has brought the risk back in line with the target. • Risk number 6: Services are not being delivered to meet legal and policy objectives due to insufficient staff numbers – the likelihood for this risk has been increased from “low” to “significant”. This is due the recruitment issues within the administration team. This risk is now the governance risk that is further from target.

5.00	APPENDICES
5.01	<p>Appendix 1 – Business plan progress 2021/22</p> <p>Appendix 2 – Board minutes</p> <p>Appendix 3 – Objective measures for governance related policies</p>

	<p>Appendix 4 – Training plan</p> <p>Appendix 5 – Breaches log</p> <p>Appendix 6 – Calendar of future events</p> <p>Appendix 7 – Risk Register</p>
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6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<p>Report to March Pension Fund Committee - 2021/22 Business Plan (March 2021)</p> <p>27th September 2021 SAB meeting papers – https://lgpsboard.org/index.php/about-the-board/prev-meetings</p> <p>Background reading regarding the cost management processes - https://lgpsboard.org/index.php/projects/cost-management</p> <p>HMT Cost Management Mechanism Government response to consultation response - https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1022938/CCM_RESPONSE.pdf</p> <p>Contact Officer: Philip Latham, Head of Clwyd Pension Fund</p> <p>Telephone: 01352 702264</p> <p>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>

- (e) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of.
- (f) **SAB – The national Scheme Advisory Board** – the national body responsible for providing direction and advice to LGPS administering authorities and to MHCLG.
- (g) **DLUHC – Department of Levelling Up, Housing and Communities** – 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.