

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 21 June 2023
Report Subject	Governance Update
Report Author	Head of Clwyd Pension Fund

EXECUTIVE SUMMARY

An update on LGPS governance matters and the impact on the Clwyd Pension Fund (CPF) are provided for discussion at each Committee, including updates on the Clwyd Pension Fund's governance strategy and policies. This update report includes developments since the last update report provided at the March 2023 Committee meeting.

This update includes matters that are for noting only, albeit comments are clearly welcome.

The report includes:

- progress against the governance section of the 2023/24 to 2025/26 Business Plan
- updates on the membership of the Pension Board
- various national matters including on The Pension Regulator's Equality Diversity and Inclusion guidance
- 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
- forthcoming training and events, some of which are essential for Members
- advanced notice of a training needs analysis which will be issued.

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>Usually the three main update reports at each Committee include the latest progress against the business plan. Given we are only 2 months into 2023/24, there are no update dashboards included for this meeting.</p> <p>In relation to the priorities in the governance section of the business plan, the key points to note are as follows:</p> <ul style="list-style-type: none">• <i>G1 – Committee and Board knowledge and skills:</i> A separate update on the planned training needs analysis is included in Knowledge and Skills Policy sections below.• <i>G2 – Appointment of Local Pension Board and Pension Fund Committee Members:</i> See the update in 1.03 below regarding the two pension board employer representatives' term of office.• <i>G3 – Review against TPR new General Code:</i> Although it was hoped that The Pension Regulator's new General Code was going to be laid before the Spring recess, that was not the case. Hopefully it will now materialise before the Summer recess. A training date for this will be agreed for later in the year (hopefully August or September).• <i>G4 - Ongoing developments in business continuity arrangements including managing cyber risk:</i> Please see the cybercrime update in 1.12 later in this report. The documenting of key processes is also making good progress.• <i>G5: Succession planning and ongoing resource requirements:</i> Work has been carried out that forecasts an ongoing future increase in administration tasks. The Pensions Administration Manager is considering this further, including the impact of succession planning and will bring proposals on the staffing structure to future meetings.
	Current Developments and News
1.02	<p><i>Format of Future Committee meetings</i></p> <p>As advised in an email from the Governance Administration Assistant, it is hoped that future Pension Fund Committees will be hybrid meetings based in the Council Chamber at County Hall, with virtual attendance available, commencing from the meeting on Wednesday 30 August.</p> <p>Flintshire County Council will be making a decision in September regarding whether hybrid meetings should be made available to all Flintshire Committees in future. The August Pension Fund Committee is in place to test the waters for this, but ultimately the format of subsequent meetings will depend on the Council's decision.</p> <p>The Council will require Committee members and officers to receive training for the hybrid meeting, including a 'practice run' in-person in the Council Chamber before the meeting to ensure everyone is familiar with</p>

	<p>the format. This session will be part of our next face-to-face training day. This is on 2 August. The training day will run from 10am to approximately 3pm or 4pm (timing to be confirmed) which will include time for the practice run to take place. The Governance Administration Assistant will contact members unable to attend to discuss the arrangements separately.</p> <p>Even though the hybrid facility does provide the opportunity for virtual attendance, the Chair would encourage in person attendance at County Hall. The Head of Pension Fund will be ensuring that all officers and advisers will be in attendance at County Hall apart from in exceptional circumstances.</p>
1.03	<p><i>Pension Board meetings</i></p> <p><u>Pension Board membership</u> Mr Steve Jackson and Mr Steve Gadd are the existing scheme employer representatives. Their terms of appointment are due to come to an end in July of this year, but are subject to a two year extension if agreed between the representatives and the Board secretary (the Head of Clwyd Pension Fund) as set out in the Board Protocol and FCC Constitution.</p> <p>Mr Steve Jackson has confirmed he would like to continue his role on the Pension Board for the length of two year extension. This has now been formally agreed by the Board Secretary.</p> <p>Mr Steve Gadd has changed his role at Denbighshire County Council which means he will not be continuing on the Pension Board. Work is being done to identify his replacement.</p>
1.04	<p><u>Pension Board minutes</u></p> <p>Following the update at the last Committee meeting, the minutes from the 1 March 2023 meeting are attached in Appendix 1 for information.</p>
1.05	<p><i>LGPS Scheme Advisory Board (SAB) meetings</i></p> <p>The LGPS SAB met on 20 February and the full summary of that meeting is attached at Appendix 2. Matters relating to the Fund covered at that meeting are separately covered within this Committee's agenda papers.</p> <p>The LGPS SAB also met on 22 May. At the point of writing the summary of this meeting was not published but papers and an agenda for the meeting are available here which includes updates from the various SAB committees.</p> <p>It has not yet been publicly announced when the next SAB meeting is scheduled to be held.</p>
1.06	<p><i>The Pensions Regulator - guidance on Equality Diversity Inclusion</i></p> <p>On 28 March 2023 The Pensions Regulator issued guidance to help improve pension schemes' equality, diversity and inclusion (EDI) which can be found here.</p>

The guidance applies to public service pension schemes including the LGPS, of which CPF is part. It specifically refers to it applying to both Scheme Managers (i.e. the administering authority/Pension Fund Committee) and Pension Boards. Therefore it is assumed that references to “Chair” should be interpreted to be both the Chair of Pension Fund Committees and Chair of Pension Boards.

The Regulator’s view is that “harnessing diverse views can help governing bodies [administering authorities] weigh issues in more detail and openly consider aspects important to those impacted by their decisions. This enables all those involved to better understand and mitigate scheme risks, avoid unintended consequences, and learn from what is working and what is not.”

Whilst the guidance provides practical support and examples to help governing bodies and those who appoint individuals to Committees and Boards, it also recognises different types of schemes and sectors “may pose different challenges to achieving EDI”. The Regulator suggests there will be some quick steps schemes can make whilst acknowledging that some other steps to realise EDI ambitions “may need to be a medium to long-term aspiration”.

The guidance is advisory but best practice would suggest the Fund reviews its approach to EDI in light of the guidance (whilst also bearing in mind Flintshire County Council’s legal obligations and policies in this area). Key themes and recommendations from the guidance include:

- The Chair should play a key role in making boards more diverse and inclusive (which we believe applies to both the Local Pension Board and Pension Fund Committee).
- Schemes should have an EDI policy, covering an agreed definition of EDI, the scheme’s EDI aims and an EDI training plan.
- Assessments of the scheme manager’s performance should include how well EDI has been, and continues to be, embedded into processes, according to scheme objectives.
- Agreeing EDI goals and objectives, including ways to achieve a diverse and inclusive scheme manager.
- Regularly reviewing and assessing the board/committee’s diversity of life experiences, expertise and skills.
- Employers should consider widening the pool of candidates beyond senior management positions (which may have implications for employer representatives on the board and potential committee membership too).
- Considering fixed term appointments for member representatives to encourage change and bring new perspectives.
- Considering independent trustees to help address diversity gaps
- Making reasonable adjustments for those with disabilities, including as part of any selection process.
- Ensuring scheme communications consider the diverse range of backgrounds, need and vulnerabilities of members.
- Reminding scheme managers of their legal duties in relation to accessibility.

	<p>There is additional guidance for scheme employers which also needs to be considered although its suggestions are likely to be more practical for single employer pension schemes in the private sector.</p> <p>CPF has already considered EDI in a number of areas, including its new Communication Strategy and within an Effectiveness Review completed by the previous Committee membership (in January 2022). The Head of Clwyd Pension Fund is further considering the Regulator’s expectations in this guidance with the Independent Adviser and Flintshire County Council. As a minimum it is expected that a Fund policy on EDI will be developed for approval by the Committee.</p>
1.07	<p><i>Cost management</i></p> <p>DLUHC has published its response to the consultation on reforming the SAB cost management process which ended on 24 March 2023, together with new draft Regulations. The SAB cost control process takes place in addition to the HMT cost control mechanism (CCM) as set out in Regulation 116 of the Local Government Pension Scheme Regulations 2013.</p> <p>The response confirms that the SAB cost control process will be carried out every 4 years in future, to align with the HMT CCM. It also removes the requirement for the SAB to make recommendations to bring the cost exactly back to target if the cost is more than 2% above or below the target cost, introducing flexibility for the SAB to recommend changes which bring the cost towards the target cost. The response also re-iterates that the SAB process operates prior to the HMT process, i.e. changes implemented following the SAB’s recommendation can be taken into account for the HMT CCM.</p> <p>Details of the new “economic check” in the HMT CCM are not yet available (Treasury Directions are still awaited) so it is not yet clear how the revised SAB process will link to the economic check. DLUHC’s response sets out that they propose to consult the SAB when the draft directions are available.</p>
1.08	<p><i>GAD Gender Pensions Gap Report</i></p> <p>The Gender Pay Gap Information Regulations 2017 now require all employers with more than 250 employees to publish differences in pay between men and women. There has been some recent focus on extending this kind of analysis to cover pension equality as well as pay equality.</p> <p>There is a direct and obvious link between pay equality and pension equality. The LGPS SAB decided to analyse the gender pensions gap within the LGPS as, whilst they did not expect differences in pay at any particular point in time to be a complete explanation of differential pension incomes at retirement, there are a wider range of factors which could impact on pension benefits received by individuals. The SAB highlighted the following items in particular:</p>

	<ul style="list-style-type: none"> • The cumulative effect of lower than expected pay • Career breaks and their effect on career progression • Differences in opt out rates and take up of the 50/50 scheme. <p><u>Research into the extent of the gender pensions gap</u> was completed by the Government Actuary's Department based on data from the 2020 LGPS scheme wide valuation. The initial findings of this report are startling with men having accrued pensions in the post 2014 CARE scheme which are 34.7% higher than women, and 46.4% higher than women in the pre-2014 final salary scheme. However, both GAD and SAB note that these results need to be interpreted with some caution, as there are a number of factors which affect this analysis such as the inclusion of non-teaching staff in schools, academies and local authorities (which is inconsistent with LGA employer gender pay analysis).</p> <p>The SAB will now be doing further work to understand the data and investigate causes, as well as considering possible next steps.</p>
1.09	<p><i>SAB statement on Freedom of Information Act requests on climate advice and data</i></p> <p>A number of funds have raised the number of requests for information about the responsible investment policies of administering authorities with the SAB. SAB note that these may come from interested scheme members or activist groups and can be "round robin" requests that are made to all LGPS funds with a view to collating information across the scheme (and making comparisons between funds' responses).</p> <p>The SAB are keen to remind funds that as public authorities, there are duties on all administering authorities to be open and transparent about their policies and actions. They do note, however, the resources available to deal with requests are not unlimited and so there will be times where cost, commercial sensitivity or other considerations will outweigh the public interest in releasing information. Further guidance on this is available from the Information Commissioner's Office. Support in how to respond to these requests, especially if they become onerous or vexatious, should be sought from the authority's legal and FOI advisers.</p> <p>The SAB also note that they would recommend that all funds consider having a proactive publication scheme in place for climate data, and their stewardship activities, to minimise the volume of ad hoc requests that they have to field. The Fund has already begun this process by publishing their TCFD reporting which was completed last year and further information will be provided on the Fund's new website in due course.</p> <p>For information, the Fund received 13 FOI requests in the last twelve months, mainly requesting private market investments information. There were two requests for the full holdings (not climate specific) and one relating to wider climate matters.</p>
1.10	<p><i>Treasury statement on SCAPE rate reduction and response to 2021 SCAPE consultation</i></p> <p>On 30 March 2023 the Government confirmed that the methodology used to set the Superannuation Contributions Adjusted for Past Experience</p>

	<p>(SCAPE) discount rate would continue to be based on long-term gross domestic product growth figures. It also announced that the SCAPE rate would therefore be reduced to the consumer price index (CPI) plus 1.7% p.a. from CPI plus 2.4% p.a..</p> <p>The SCAPE rate is used to set the actuarial factors across all public sector schemes, including the LGPS. The Government Actuary's Department is currently reviewing the actuarial factors applying in the LGPS. The new rate is effective from 30 March 2023 and some non-club transfers and interfund calculations, and all cash equivalent transfer values for divorce purposes have been suspended until new factors are available (which is referred to in the Administration and Communications Update Report).</p> <p>The government also announced its aim to review the SCAPE discount rate once in every four years (in line with the unfunded schemes' valuation cycle) rather than every five years.</p>
1.11	<p><i>AJCM</i></p> <p>Every year CPF run the Annual Joint Consultative Meeting inviting employers, scheme member representatives, Committee members and Board members to hear presentations from the CPF management team and advisers. Traditionally this has been a nearly full day meeting and more recently (mainly driven by the pandemic) it has been virtual.</p> <p>This year officers are planning changes to the format to make it more engaging and accessible, in line with the new Communication Strategy that was agreed last year. It is proposed that the new format will involve a number of small videos of presentations from officers and advisers that can be watched at any point, in addition to an invitation to an "open morning" at the FCC offices to discuss CPF matters with the management team and advisers. Committee and Board members will of course be invited and any views in relation to this proposal are welcomed at the Committee meeting.</p>
1.12	<p>Policy and Strategy Implementation and Monitoring</p> <p><i>Knowledge and Skills Policy and Training Plan</i></p> <p><u>Policy requirements</u></p> <p>The Clwyd Pension Fund Knowledge and Skills Policy requires all Pension Fund Committee members, Pension Board members and Senior Officers to:</p> <ul style="list-style-type: none"> • attend training on the key elements identified in the CIPFA Knowledge and Skills Framework as part of their induction and on an ongoing refresher basis • attend training sessions on "hot topic" areas, such as a high risk area or an area of change for the Fund and • attend at least one day each year of general awareness training or events.

Training Needs Analysis – As part of the CPF 2023/24 business plan, and in line with the requirements of the Knowledge and Skills Policy, it was agreed to carry out a training needs analysis early this year to identify any gaps in knowledge of Committee and Board members. This will then drive the ongoing training plan. The Head of Clwyd Pension Fund and Aon are currently developing the training needs analysis which will be issued to all Committee and Board members prior to the next meeting.

Training undertaken - Appendix 3 sets out the training plan for CPF showing training undertaken. There were no recent non-essential training events. Details of essential training sessions are set out in the tables below.

A summary of attendance at the Fund's essential training sessions (other than induction training) over 2022/23 is included below:

	Date	Number of Committee attending (Proportion of total)	Number of Board attending (Proportion of total)	Number of Senior officers attending (Proportion of total)
Essential Training Sessions – Target attendance is 75%				
Communications Strategy Review	Jun-22	6 (100%)	4 (80%)	4 (80%)
Actuarial Valuation and Funding Strategy	Aug-22	7 (78%)	5 (100%)	5 (100%)
Investment Strategy	Oct-22	7 (78%)	4 (80%)	4 (80%)
Private Markets	Jan 23	7 (78%)	5 (100%)	5 (100%)
TCFD Reporting	Feb 23	7 (78%)	2 (40%)	3 (60%)
Total		(82%)	(80%)	(84%)

Over the year as a whole, the Fund has met the target attendance levels for Committee members, Pension Board members and Officers. This has been helped by Committee members in particular viewing recordings where they were unable to attend scheduled sessions.

A summary of attendance at the Fund's essential training sessions (other than induction training) over 2023/24 to date is included below:

	Date	Number of Committee attending (Proportion of total)	Number of Board attending (Proportion of total)	Number of Senior officers attending (Proportion of total)
Essential Training Sessions – Target attendance is 75%				
Governance of Pensions	April 23	7 (78%)	3 (60%)	4 (80%)
Tactical Asset Allocation and Responsible Investing	May 23	9 (100%)	3 (60%)	3 (60%)
Total		(89%)	(60%)	(70%)

Future training and events

Officers will continue to provide information on further training sessions and events as this becomes available. In the meantime, if any Committee or Board members wish to attend any of the following optional events that count as general awareness training, please contact the Deputy Head of Clwyd Pension Fund:

- SAB Code of Transparency workshop on 11 July in Manchester or 5 other locations on other dates.
- LGA Fundamentals training – this is particularly useful for new and nearly new members of Committee or Board and is run over three days (agendas attached in Appendix 4) and dates/venues are as follows:

Day 1

5 October	Manchester	Piccadilly Hotel
12 October	Westminster	LGA Offices
19/26 October	Online	

Day 2

2 November	Westminster	LGA Offices
8 November	Manchester	Piccadilly Hotel
16/23 November	Online	

Day 3

5 December	Westminster	LGA Offices
13 December	Manchester	Piccadilly Hotel
11/19 December	Online	

- LGA LGPS Governance conference on 18/19 January 2024 in York

	<p>Committee members should note the following training sessions which are classed as essential for all Committee and Board members and senior officers.</p> <ul style="list-style-type: none"> • Understanding proposed changes to CPF's Responsible Investment Policy – 2 August (10am to 3pm/4pm - tbc) – FCC, Mold (lunch will be provided) • The Pensions Regulator new General Code – August or September (tbc)
1.13	<p><i>Cybercrime Update</i></p> <p>See Appendix 8 for the cybercrime update (exempt appendix).</p>
1.14	<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 5 details the current breaches that have been identified. There were three new breaches relating to late contributions or remittance advice, and these have all been resolved. There are no new administration breaches.</p>
1.15	<p>Delegated Responsibilities</p> <p>The Pension Fund Committee have delegated a number of responsibilities to officers or individuals. There have been no uses of delegated powers for governance matters since the last update report.</p>
1.16	<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. Key dates to note are:</p> <ul style="list-style-type: none"> • The next Committee meeting is on 30th August 2023 • The next Board meeting is on 5th September 2023, albeit there is expected to be shorter meeting prior to the next Committee.

2.00	RESOURCE IMPLICATIONS
2.01	<p>As previously referred to there has been some difficulties in recruitment, which are impacting on services. The most critical area related to the absent Pension Fund Accountant position which has now been filled with the new accountant commencing on 24 June 2023. In addition, a trainee accountant will commence at the end of the summer holidays. The individual joining will be part of the graduate placement scheme for FCC trainees.</p> <p>As mentioned previously, increasing workloads mean there will be a review of resourcing requirements in the Administration Team. There are also likely to be a number of retirements over the next few years which</p>

	could also impact on service delivery, and this is also being considered as part of an ongoing review.
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3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	None.

4.00	RISK MANAGEMENT
4.01	Appendix 7 provides the risk 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 November.
4.02	<p>The key changes relate to:</p> <ul style="list-style-type: none"> • risk number 3 - decisions are influenced by conflicts of interest and therefore may not be in the best interest of fund members and employers, meaning our legal fiduciary responsibilities are not met. This risk is now on target. The changes that have been made are: <ul style="list-style-type: none"> ○ The likelihood has been decreased from Low to Very Low. This is due to the productive and well attended recent training, including agreeing to implement a framework on which decisions relating to climate change/responsible investments will be made and which will include regulated advice. ○ The target impact has been increased from Negligible to Marginal, which reflects that inappropriate decisions could have serious consequences, for example, in relation to asset returns. Officers and advisers consider that this now better reflects the potential impact if this risk occurred. • risk number 6 - Insufficient staff numbers (e.g. sickness, resignation, retirement, unable to recruit) - current issues include age profile / FCC pay grades versus other LAs, asset pools, private sector / cost of living), meaning services are not being delivered to meet legal and policy objectives. The likelihood has been reduced from Significant to Low due to the appointment of a Fund accountant and trainee fund accountant. This risk is however expected to not reach target until next year, when work is likely to be fully completed reviewing the team structure, following investigations into increases in work levels and having regard to succession planning. <p>Risk number 6 is also the risk furthest from target.</p>

5.00	APPENDICES
5.01	<p>Appendix 1 – Minutes of the Pension Board meeting on 1 March 2023</p> <p>Appendix 2 – SAB Meetings – Summaries of 20 February meeting</p> <p>Appendix 3 – Training plan</p> <p>Appendix 4 – LGA Fundamentals Training Day Agendas</p> <p>Appendix 5 – Breaches log</p> <p>Appendix 6 – Calendar of future events</p> <p>Appendix 7 – Risk Register</p> <p>Appendix 8 – Cybercrime update (Part 2 / exempt item)</p>

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<p>Report to Pension Fund Committee - 2023/24 Business Plan (March 2023)</p> <p>Full hyperlinks for referred to information:</p> <ul style="list-style-type: none"> • 1.04 – LGPS Scheme Advisory Board meetings - https://lgpsboard.org/index.php/board-meetings • 1.05 – TPR guidance on equality, diversity and inclusion - https://www.thepensionsregulator.gov.uk/en/document-library/scheme-management-detailed-guidance/governing-body-detailed-guidance/equality-diversity-and-inclusion/governing-body-edi-guidance • 1.06 – Cost management response - https://www.gov.uk/government/consultations/local-government-pension-scheme-changes-to-the-scheme-advisory-board-cost-management-process/outcome/changes-to-the-scheme-advisory-board-cost-management-process-government-response • 1.07 – GAD Gender pensions gap report - https://lgpsboard.org/images/Reports/2023/GADGenderPensionGapReport_Jan2023.pdf <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>

- (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.
- (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.
- (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 DLUHC.
- (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 – His Majesty's Treasury** – HMT has a responsibility to approve all LGPS legislation before it is made.