

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 13 June 2018
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 requesting an increase in budget due to the review of the Finance Team
- (b) The results of the latest Pensions Administration and Contributions Internal Audit review
- (c) An update from the last Local Pension Board meeting
- (d) Various items being considered by the National Scheme Advisory Board
- (e) Training implementation and monitoring, including noting a further training day and other forthcoming conferences
- (f) The latest additions to our breaches of the law register
- (g) The latest risk register which reduces the risk relating to the risk of inappropriate decisions due to poor knowledge and advice now that the Committee has undertaken a number of training days.

RECOMMENDATIONS

1	That the Committee consider the update and provide any comments
2	That the Committee are asked to agree the two changes relating to the business plan i.e. <ul style="list-style-type: none"> • Item G3 - The deferral of the approval of changes to the Conflicts of Interest Policy until September 2018 (as part of the annual report and accounts) • Item G5 -- The increase in staffing budget for the Finance Team of a maximum of £60.6k per annum, which may be subject to further change as the review of the structure is progressed. The Committee

	are also asked to agree that any decisions relating to further change as part of this review are delegated to the Chairman of the Pension Committee and either the Chief Executive or Corporate Finance 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 quarter one of this year is generally on track. This quarter's work includes the following items:</p> <ul style="list-style-type: none"> • G1 – Data protection changes – the Pensions Administration Manager has been managing this significant project relating to the implementation of the General Data Protection Regulation (GDPR) which includes collating a register of all items of personal data and where those are held, updating all contracts where suppliers receive personal data from the Fund, creating a privacy notice explaining what data is held and for what purposes and advising all scheme members of where to view the privacy notice and their rights. Appendix 1 provides a detailed breakdown of the various stages and progress achieved, which shows many items have been completed and those remaining items will shortly be completed. • G2 – Review appointment of Local Board Members – the existing scheme member representative (non-trade union) of the Pension Board, Mrs Gaynor Brooks, sadly decided to resign from her post at the end of the initial term. Her final meeting will be on 28th June 2018. A process to recruit a replacement for Mrs Brooks, which is in line with the Pension Board Protocol, has been underway and Mr Paul Friday, a deferred member of the Fund and a former employee of Denbighshire Council has been appointed. • G3 – Review of governance related policies – the Conflicts of Interest Policy is due to be reviewed this quarter. It is proposed that this and all the other main policies that require updating should be reviewed as part of the Annual Report and Accounts which will be brought to the 5th September Pension Fund Committee. • G5 – Structure Review of Finance Team – The retirement of a Pension Finance Manager was a catalyst for a fundamental review of the resources required for the governance, investments, accounting and funding service (known as the Finance Team). The Clwyd Pension Fund Manager, with assistance from Human Resources, is currently reviewing how to resource these services. A set of design principles have been agreed (as attached in Appendix 2) and three position are to be created: <ul style="list-style-type: none"> ○ Pension Fund Accountant – to allow for a qualified accountant to be part of the team with ownership of accounting matters ○ Investment officer – to provide greater self-sufficiency of the management and oversight of investments, including in-house investments and pooling investments ○ Governance & Business Support Officer - an additional post as a result of the increase in governance related responsibilities and also to provide business support given the

	<p>overall growth in the team.</p> <p>This would also result in the role relating to the retired Finance Manager being removed. The expected increase in the Pension Fund staffing budget will not be known until the three vacant positions are filled as some may be not be full-time posts; the maximum additional costs relating to these three positions would be £60.6k (including on-costs). The Committee is asked to agree to these additional costs, with the final change in budget (if there is any further change) being reported to a later Committee. It is, however, proposed that any final changes to the structure is delegated to the Chairman of the Pension Committee and either the Chief Executive or Corporate Finance Manager. Updates in relation to the progress in appointing to these positions will be provided at future meetings.</p>
1.02	<p>The Committee is asked to note the contents of the business plan update and agree the recommendations relating to items G3 and G5.</p>
1.03	<p>Current Developments and News</p> <p><i>Internal Audit Report - Pensions Administration and Contributions</i></p> <p>Internal audit recently completed a review of Pensions Administration and Contribution collection as part of their 2017/18. A copy of the report with the findings of the review is included in Appendix 3. This year the level of assurance given was amber/red. The report notes the increase in the volume of work, with a significant number of projects being undertaken and ongoing staff training impacting on service delivery. The areas highlighted for further improvement are:</p> <ul style="list-style-type: none"> • Performance is below the standards set by the Key Performance Indicators under the Administration Strategy. • The number of outstanding tasks yet to be completed, with particular regard to pensioner deaths and retirements, has increased impacting on task management and workloads. • Lack of a formalised operational management action plan to facilitate timely interventions to ensure service objectives keep on track. • The Pensions administration team consists of many relatively inexperienced members who require a significant amount of training and support increasing the time taken to process and reduce workloads. <p>The report highlights the following areas as being managed well:</p> <ul style="list-style-type: none"> • Life cycle events are being processed accurately. • Communications with stakeholders are delivered in line with the Communications Strategy. • Disaster recovery testing is carried out annually. • The member Self-Serve facility on the Clwyd Pension Fund website has been successfully implemented. • Control accounts and reconciliations are regularly performed for cancelled pay and lump sums and these are closely monitored. • Monthly contributions from all contributing bodies are regularly reconciled and monitored. <p>Mrs Burnham, the Pensions Administration Manager, will be able to answer</p>

	<p>specific questions relating to the report. The Committee should also note the update relating to the review of staffing levels in the separate Administration and Communications Update report which will be fundamental in responding to some of the concerns in the Audit report.</p>
1.04	<p><i>Pension board update</i></p> <p>The last meeting of the Clwyd Pension Fund Board was held on 27th February 2018. Due to resource constraints, the formal minutes are not yet available. The key items of discussion were as follows:</p> <ul style="list-style-type: none"> • Administration Update – discussion around the increases in day to day workloads, the benefits of the Member Self-Service facility, the challenges of implementing the new I-Connect system and progress with an employer who uses the Employer Liaison Team service • Disaster Recovery, GDPR and Cybercrime – the Board heard how ongoing plans for disaster recovery testing and how a new system had been implemented reducing reliance on other parts of FCC for making lump sum payments to scheme members. The Board received assurances about the encryption of data and the changes being made to prepare for GDPR. • Asset pooling – The Board had noted how useful the presentations on asset pooling had been at the November meeting and encouraged the Clwyd Pension Fund Manager to ensure the PFC and PB members received ongoing training on what was a complex area. In particular all noted the complicated subject matter in the risk/reward presentation by CEM.
1.05	<p><i>National Scheme Advisory Board (SAB) Update</i></p> <p>The following are items to note relating to the work of the national Scheme Advisory Board:</p> <ul style="list-style-type: none"> • Updated Board Statement on Pool Governance - At its meeting on the 16th February 2018, the Board agreed to review the wording of the existing policy statement on pool governance published 23rd March 2017. The following statement was subsequently agreed (revised text shown in bold/underlined) – <i>“The Board recognises that it is for scheme managers within each pool to develop appropriate governance to assure all stakeholders of the transparent and effective implementation of strategy. In this respect the Board notes the comments made by the then Local Government minister Marcus Jones MP on this matter in the Westminster Hall debate on 24th October 2016. The board recognises that strategic decisions on asset allocations and responsible investment will remain at the local level and therefore the involvement via local pension boards of those employers beyond the scheme manager along with member representatives in those areas would continue. However the Board would expect that scheme managers involve those same employers and member representatives in assisting with the assurance of transparent reporting from pools and ensuring the effective implementation of strategies by pools. Such involvement should include the consideration of provision of direct representation on oversight structures. <u>In line with the UK Corporate Governance Code principle of ‘comply or explain’, any pool making a</u></i>

	<p><u>decision to exclude member representatives from their formal oversight structures should publish this decision and formally report the reasons to the local pension boards which the pool serves.”</u></p> <ul style="list-style-type: none"> • New MiFIDII Q&A - A Questions and Answer document has been developed to assist LGPS funds and managers to effectively deal with new relationships post January 2018 when local authorities are default retail clients including conversations at conferences. The document can be found on MiFIDII SAB website page (http://www.lgpsboard.org/index.php/schemedata/mifidii). • LGPS third tier employers – SAB are looking to identify the potential funding, legal and administrative issues and liabilities relating to admitted and scheduled bodies that do not benefit from local or national tax payer backing (Tier 3 employers). At the meeting of the SAB on 26th February 2018, Aon updated members on progress of their work commissioned by the Board to review current issues faced by the LGPS and associated stakeholders in relation to Tier 3 employers participating in LGPS funds in England and Wales. Aon outlined their extensive engagement with the main third tier employers’ sectors including higher education, housing associations and charities as well as other key stakeholders, and confirmed that they are now ready to analyse the survey and interview data. A draft report will be prepared for consideration at the next Board meeting on the 27th June 2018. Details of the third tier employers’ project can be found here - http://lgpsboard.org/index.php/structure-reform/tier-3-employers. • Pension Committee and Board Chair’s Pooling Event - On the 27th March 2018, the Chairs of LGPS pension committees and local pension boards (including Councillor Dave Hughes and Karen McWilliam, representing Clwyd Pension Fund) attended an open session where representatives from the eight asset pools reported on their progress in establishing their organisational structures and governance arrangements. A copy of the presentations used on the day can be found here – http://www.lgpsboard.org/images/PDF/Publications/Cross_Pool_Open_Forum_main_slide_pack.pdf. Steps will soon be taken to establish the Cross Pool Open Forum approved by the Scheme Advisory Board in February 2018, comprising three representatives from each of the eight pools and three trade union representatives.
1.06	<p><i>PLSA</i></p> <p>Phil Latham, the Clwyd Pension Fund Manager, is a member of the LGPS Committee of PLSA (Pensions & Life Savings Association). In this role he presented at the LGPS PLSA conference on 22nd and 23rd May 2018 on the ongoing challenges of adequately resourcing LGPS Pension Fund Management Teams. Steve Hibbert, the member representative, was also in attendance. The Pension Fund Manager will provide a further update on the conference.</p>
1.07	<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 • attend training sessions relevant to forthcoming business and • attend at least one day each year of general awareness training or events. <p>Appendix 4 details progress made to date in relation to the CIPFA Knowledge and Skills Framework training. Appendix 4 also includes training and various external events attended by Committee Members and Pension Board members during 2018/19. Appendix 5 includes details of planned training events including forthcoming events considered suitable for general awareness training. Members should note the following:</p> <ul style="list-style-type: none"> • a further training day will take place on Thursday 13th September at which all PFC and Board members should attend. The agenda will be confirmed nearer the time. • the LGC Investment Summit takes place on 6th and 7th September 2018 at Celtic Manor, Newport. Members wishing to attend this event should let the Finance Manager know at their earliest opportunity to secure places. The current programme is attached at Appendix 6.
1.08	<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 7 details a number of current breaches that have been discussed by the Clwyd Pension Fund Manager and the Fund's Independent Advisor. At this point none will be reported to the Pension Regulator although this is still being considered in relation to the Assumed Pensionable Pay error by one of the Fund's employers.</p>
1.09	<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>
1.10	<p>Calendar of Future Events</p> <p>Appendix 8 includes a summary of all future events for Committee and Pension Board members, including Pension Fund Committee meetings, Pension Board meetings, Training and Conference dates.</p>

2.00	RESOURCE IMPLICATIONS
2.01	The report touches on the ongoing challenges as a result of the current workloads and the recent retirement of a Finance Manager. The Pension Fund Manager is 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.

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

4.00	RISK MANAGEMENT
4.01	<p>Appendix 9 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. <p>Note that the likelihood and impact ratings relating to risk number two have been updated from significant to low and marginal to negligible respectively to reflect the training that has been undertaken with the Committee in the last year.</p>

5.00	APPENDICES
5.01	<p>Appendix 1 – GDPR progress plan Appendix 2 – Design principles for Finance Team Appendix 3 – Internal Audit Report – Pensions Administration & Contributions 2017/18 Appendix 4 – Training undertaken Appendix 5 – Training plan Appendix 6 – LGC Investment Summit agenda Appendix 7 – Breaches Appendix 8 – Calendar of future events Appendix 9 – 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 DCLG.</p> <p>(g) MHCLG – Ministry of Housing, Communities and Local Government – the government department responsible for the LGPS legislation.</p>