

## **Appendix 2**

### **CLWYD PENSION FUND**

#### **Draft Annual Governance Statement 2018/19**

##### **Roles and Responsibilities**

Flintshire County Council (the Council) is responsible for administering the Clwyd Pension Fund (the Fund), on its own behalf and on behalf of two other local authorities (Wrexham and Denbighshire) and 40 other large and small employers in North East Wales.

The main activities involved in managing the Fund are to make and manage investments and to administer the payment of scheme benefits. This is carried out in accordance with the requirements of the Local Government Pension Scheme (LGPS) Regulations and the Public Service Pensions Act 2013.

The Council is responsible for ensuring that all its business, including that of the Fund, is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for and that there are proper arrangements to use money economically, effectively and efficiently. The Council is also required to ensure that the Fund is managed to deliver best value.

##### **Delegation**

The Council discharges its duty as administering authority by delegation to the Pension Fund Committee. The committee is made up of five of the Council's own councillors and four coopted members, representing the other two local authorities, other employers and the scheme members. There is further delegation for day to day management to the Council's Chief Executive and for proper financial administration to the Council's Section 151 Officer.

In addition under an inter-authority agreement there is delegation to the Wales Pension Partnership Joint Governance Committee to reflect the move to the pooling of pension fund assets across the eight Welsh LGPS pension funds.

##### **Governance arrangements**

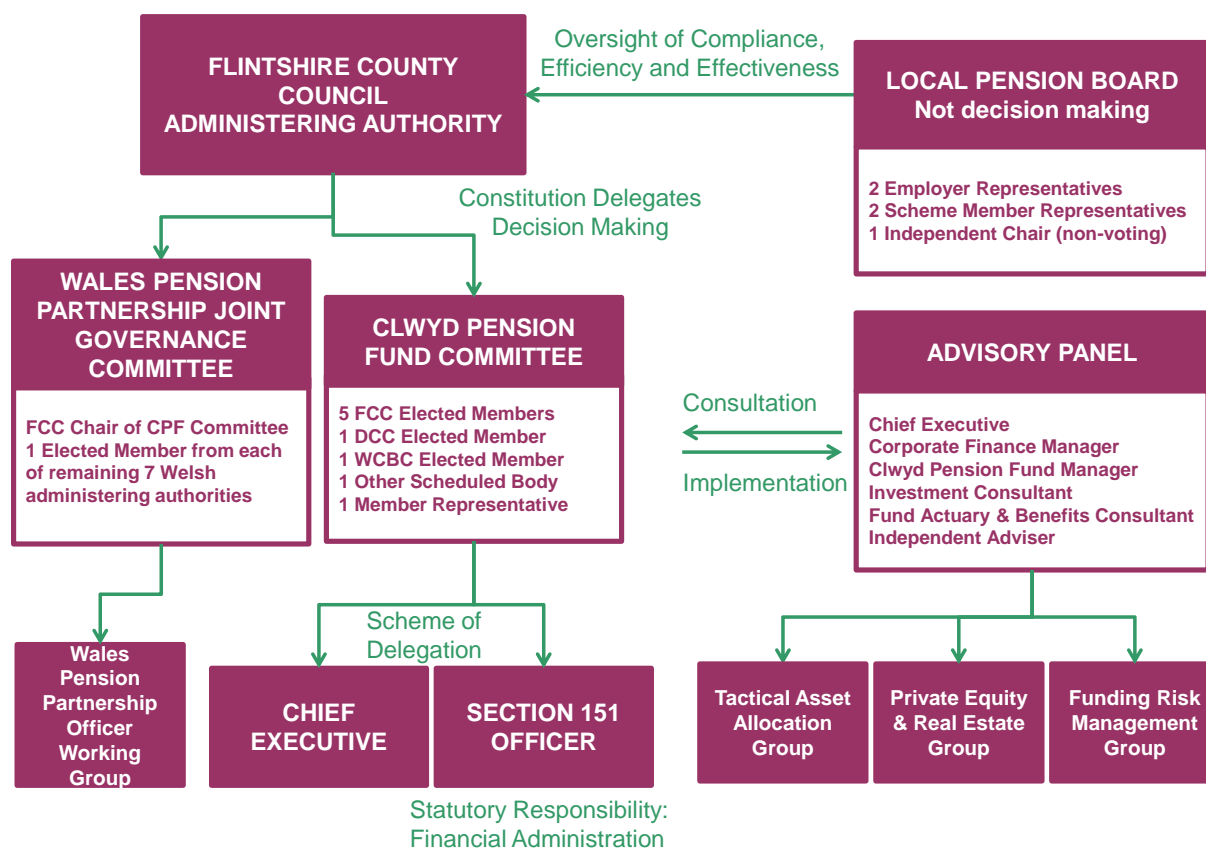
The governance framework of the Council comprises an underlying set of legislative requirements, good practice principles and management processes, which supports the philosophy of the Council's operations, the standards it sets itself, the behaviours it expects of itself and the principles it follows.

To help ensure that the governance framework is robust, the Council has developed a Local Code of Corporate Governance (the Code) which defines the principles that underpin the governance of the organisation and is consistent with the principles of the Chartered Institute of Public Finance and Accountancy and the Society of Local Authority Chief Executives Framework: Delivering Good Governance in Local

Government. The Code forms part of the Council’s constitution and is available on the Council’s website. The operation of the Fund is governed by this code. The Council produces its own Annual Governance Statement which review the effectiveness of its control environment.

In accordance with the requirements of the Public Services Pensions Act 2013, the Fund has established a pension board to act as a partner in assisting the Fund to meet its statutory and regulatory requirements and in administering the fund effectively.

The Governance Structure for the Fund is shown below. The bodies to which responsibility is formally delegated are supported by the Local Pension Board, and also an advisory panel and a number of working groups.



The Council’s Chief Executive is responsible for the day to day management of the Fund. This includes ensuring that the arrangements for the investment of assets, the receipt of contributions and the payment of benefits are properly managed. In addition the Chief Executive is responsible for establishing and chairing the Clwyd Pension Fund Advisory Panel, which includes officers of the Council and advisors to the Fund. The Panel advises the Pensions Committee and carries out matters delegated to it by the Pensions Committee from time to time.

The Council's Corporate Finance Manager as Section 151 Officer is responsible for arranging the proper administration of the financial affairs of the Fund. He is CIPFA qualified and is suitably experienced to lead the finance function.

The LGPS regulations require the Fund to maintain a number of strategy and policy documents which are available on its website. Key amongst these are the Governance Policy Statement, Funding Strategy Statement, Investment Strategy Statement and Communication Strategy Statement. These documents describe the Fund's objectives together with the main risks facing the Fund and the key controls which mitigate them.

Financial data is used and managed by the Fund in a number of different ways:

- There is a triennial actuarial valuation which determines long term cash flows, fund liabilities and contributions. In addition monthly funding projections are also produced by the actuary to help the Fund keep abreast of its funding position.
- Detailed investment records are held and maintained by external partner investment managers and the Fund's global custodian. There is quarterly performance reporting to the Fund of the position on investments.
- The Fund uses the Altair management system to manage the payment of benefits to beneficiaries. Payments to beneficiaries are made through the Council's bank account. Financial monitoring reports are prepared using the Council's Masterpiece financial ledger system.

Annual audit reports and Statements of Internal Control are obtained from the investment managers by the Fund and are reviewed by officers to provide assurance that the investments are managed in an adequate control environment. Any significant issues that these reports disclose are reported to the Pension Committee on an exception basis.

## **Risk Management**

The Fund recognises that effective risk management is an essential element of good governance. By identifying and managing risk through an effective policy and risk management strategy the Fund

- demonstrates best practice,
- improves financial management
- minimise the effect of adverse conditions
- identify and maximize opportunities that might arise
- minimise threats

Risks relating to pension funds are often outside the Fund's control. The Fund's risk management focusses on measuring the current risk against the Fund's agreed target risk and identifying further controls and actions that can be put in place. These actions are then included in the Fund's business plan.

The risks currently identified as amber (defined as moderate consequence considered a possible occurrence) and higher are shown in Appendix 1.

### **Review of effectiveness**

The Pensions Committee is responsible for ensuring the continued effectiveness of the governance framework and system of internal control within which the Fund operates. In discharging this responsibility it relies on the assurances of officers, financial monitoring and other reports, the work of internal audit and the work of the external auditors.

The Fund completes a governance policy and compliance statement as part of its annual report. This measures the extent to which the Fund's governance arrangements comply with best practice.

As part of his duties, the Corporate Finance Manager ensures that the Council receives an internal audit of the control environment of the Council and the Fund. The audit coverage reviews the control environment within which the Fund operates and helps to ensure that robust arrangements are in place to:

- Safeguard the contributions made by employees and employers used to fund the pension liabilities
- Ensure control is maintained over partner investment managers who are responsible for ensuring that funds are maximised in order to meet liabilities
- Ensure that accurate and timely payment is made to retired members of the fund.

### **Update on significant governance issues previously reported.**

There were no significant governance issues in 2017/18 specific to the Fund.

### **Significant governance issues**

The Head of Internal Audit has confirmed that there are no significant governance issues which need to be reported as a result of the work undertaken by Internal Audit on the control systems of either the Council or the Fund.

### **Internal Audit Opinion.**

Based on the audit work undertaken for the Council and the assurances provided by the Chief Executive, the Corporate Finance Manager and the Clwyd Pension Fund Manager, it is the Head of Audit's opinion that reasonable assurance can be placed on the adequacy and effectiveness of the governance and control environment which operated during 2018/19.

## **Certification**

It is our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the systems of governance which operate on the Clwyd Pension Fund. Work undertaken by Internal Audit has shown that the arrangements in place are operating as planned. We consider the governance and internal control environment operating during 2018/19 to provide reasonable and objective assurance that any significant risks impacting the Fund's ability to achieve its objectives will be identified and actions taken to avoid or mitigate their impact.

Colin Everett  
Chief Executive  
XX September 2019

Councillor Aaron Shotton  
Chair Clwyd Pension Fund Committee  
XX September 2019

## Appendix 1

### KEY RISKS

#### Governance

Risk Description (if this happens)	Risk Overview (this will happen)	Current Risk Status	Target Risk Status	Further Action
Externally led influence and change such scheme change, national reorganisation and asset pooling	The Fund's objectives/legal responsibilities are not met or are compromised - external factors	Red	Orange	<ul style="list-style-type: none"> <li>1 - Regular ongoing monitoring by AP to consider if any action is necessary</li> <li>2 - Ensure Board requests to JGC/OWG are responded to</li> <li>3 - Regular consideration of impact national reorganisation at APs</li> </ul>
Insufficient staff numbers (e.g. sickness, resignation, retirement, unable to recruit) - current issues include age profile, implementation of asset pools and local authority pay grades.	Services are not being delivered to meet legal and policy objectives	Red	Green	<ul style="list-style-type: none"> <li>1 - Complete and implement Finance team restructure, including fundamental review of future service requirements</li> <li>2 - Ongoing consideration of succession planning</li> <li>3 - Implement the agreed outcome of the admin staff structure review</li> <li>4 - Recruit to vacant Pensions Administration Manager post</li> </ul>



## Funding & Investment

Risk Description (if this happens)	Risk Overview (this will happen)	Current Risk Status	Target Risk Status	Further Action
An appropriate funding strategy cannot be set	Employer contributions are unaffordable and/or unstable			1 - Finalise employer covenant monitoring and ill health captive
Movements in assets and/or liabilities (as described in 3,4,5) in combination	Funding level reduces, increasing deficit			1 - Revised Equity Protection Strategy to be put in place 2 - See also actions below that will impact this
-Markets perform below actuarial assumptions - Fund managers and/or in-house investments don't meet their targets - Market opportunities are not identified and/or implemented.	Investment targets are not achieved therefore reducing solvency / increasing contributions			1 - The impact on performance relative to assumptions will be monitored regularly (FRMG & TAAG)
Market factors impact on inflation and interest rates	Value of liabilities increase due to market yields/inflation moving out of line from actuarial assumptions			1 -The level of hedging will be monitored and reported regularly via FRMG
Legislation changes such as LGPS regulations (e.g. asset pooling), progression of Brexit and other funding and investment related requirements - ultimately this could increase employer costs	Investment and/or funding objectives and/or strategies are no longer fit for purpose			1 - Ensure proactive responses to consultations etc.

## Administration & Communication

Risk Description (if this happens)	Risk Overview (this will happen)	Current Risk Status	Target Risk Status	Further Action
That there are poorly trained staff and/or we can't recruit/retain sufficient quality of staff, including potentially due to pay grades	Unable to meet legal and performance expectations (including inaccuracies and delays) due to staff issues	Red	Yellow	<ol style="list-style-type: none"> <li>1 - Ongoing training</li> <li>2 - Ongoing bedding in of aggregation team and use of Mercers with backlogs</li> <li>3 - Ongoing monitoring of ELT and Ops resource/workload for backlogs</li> <li>4 - Recruitment to new posts</li> <li>5 - Ongoing consideration of resource levels post recruitment of new posts</li> </ol>
Employers: -don't understand or meet their responsibilities -don't have access to efficient data transmission -don't allocate sufficient resources to pension matters	Unable to meet legal and performance expectations (including inaccuracies and delays) due to employer issues	Red	Green	<ol style="list-style-type: none"> <li>1 - Ongoing roll out I-connect</li> <li>2 - Ongoing monitoring of ELT resource/workload</li> <li>3 - Implement further APP data checks to identify issues</li> <li>4 - Develop and roll out APP training - in house and employers</li> <li>5 - Update Admin Strategy to include a compliance declaration and focus on availability of payroll system/information</li> <li>5 - Identify other employer data issues and engage directly with employers on these</li> </ol>
Big changes in employer numbers or scheme members or unexpected work increases (e.g. severance schemes or regulation changes)	Unable to meet legal and performance expectations due to external factors	Red	Orange	<ol style="list-style-type: none"> <li>1 - Recruitment to new posts</li> <li>2 - Ongoing consideration of resource levels post recruitment of new posts</li> </ol>
Communications are inaccurate, poorly drafted or insufficient	Scheme members do not understand or appreciate their benefits	Orange	Green	<ol style="list-style-type: none"> <li>1 -Ongoing promotion of member self service</li> <li>2 - Ongoing identification of data issues and data improvement plan</li> <li>3 - Review of effectiveness of new website/iConnect planned for 2019/20</li> <li>4 - Recruitment of Comms Officer</li> </ol>



<p>Systems are not kept up to date or not utilised appropriately, or other processes inefficient</p>	<p>High administration costs and/or errors</p>			<p>1 - Ongoing roll out of iConnect 2 - Ongoing identification of data issues and data improvement plan 3- Review of effectiveness of new website/iConnect planned for 2019/20 4 - Implementation of other Altair modules in 2018/19 business plan 5 - Increased engagement with Heywood about change in their business model</p>
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