

## CLWYD PENSION FUND COMMITTEE

<b>Date of Meeting</b>	Wednesday, 23 <sup>rd</sup> March 2021
<b>Report Subject</b>	General Fund Update
<b>Report Author</b>	Head of Clwyd Pension Fund

### EXECUTIVE SUMMARY

At each regular Pension Fund Committee meeting, update reports are provided for consideration covering a range of areas. At this meeting the focus is on considering a number of strategic matters including updates to policies and strategies, and the business plan for 2021/22 to 2023/24.

However, since the last meeting in February, there have been several developments in relation to the Fund and this report provides the Committee with an update on those areas. The matters covered by the report are:

- local developments on climate change matters affecting the Fund
- the outcome of the latest pensions investment management and accounting audit
- the £95k exit cap reform
- the LGPS Scheme Advisory Board (SAB) good governance project.

### RECOMMENDATIONS

1	The Committee consider the update and note its contents.
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## **REPORT DETAILS**

<b>1.00</b>	<b>UPDATE ON VARIOUS FUND MATTERS</b>
1.01	<p><b>Climate Change Developments</b></p> <p><i>Friends of the Earth Publication</i></p> <p>The Friends of the Earth have published a report on the investments in fossil fuel companies by LGPS funds. The report makes a number of recommendations including that LGPS funds should divest from fossil fuel companies and invest in renewable energy. The value of the investments quoted in the report have subsequently been questioned by many LGPS funds including the Clwyd Fund. The reports states that the Clwyd Fund has about 4% of all assets invested in fossil fuel companies when our records show this normally to be less than 1% depending on the exact definition of the stocks in scope. Also the percentage could change daily with market movements and fund manager tactical decisions with stock selection. The organisation who collated the data for Friends of the Earth have been advised of the difference however this is more a matter of policy than value.</p>
1.02	<p><i>Wrexham climate change motion</i></p> <p>On 24<sup>th</sup> February 2021 Wrexham County Borough Council agreed with a motion to support the Clwyd Fund with implementation of its Responsible Investment Policy. This followed a presentation by the Head of the Clwyd Pension Fund which is attached for information. However views were expressed during the debate in support of divestment from fossil fuels and it is expected that this debate will continue both locally and across all LGPS funds.</p> <p>The Fund's Responsible Investment Policy explains the current approach on the management of climate risk. A further training session is planned ahead of the June Committee where the Fund's Roadmap for the implementation of the policy will be recommended.</p>
1.03	<p><b>Pensions Investment Management and Accounting Audit</b></p> <p>The annual audit of Pensions Investment Management and Accounting for 2020/21 has now concluded and the report is attached in Appendix 1. The overall assurance was substantial (the highest category) clarifying that strong controls are in place in relation to investment and accounting matters.</p> <p>There are actions included in the report which both relate to enhancements to the risk registers (the investment/funding register and the McCloud register). The suggestions are now being worked through by officers.</p>

1.04	<p><b>£95k Exit Cap Reform</b></p> <p>As reported at previous meetings, MHCLG consulted on changes to introduce the cap on exit payments (£95k cap) as well as wider reform to the LGPS and some employers participating in the LGPS. However, HMT then introduced overriding legislation to introduce the exit cap from an earlier date. This resulted in conflicting legislation leaving uncertainty around whether scheme members should be paid immediate unreduced pension benefits (under the LGPS regulations) or not (due to the HMT's overriding legislation). The Welsh Government introduced a temporary process to allow individual cases affected by the change to be potentially granted a waiver, however there were many cases particularly in England that were affected by the change.</p> <p>The change was unwelcome to a number of stakeholders and several requests for Judicial review of HMT's regulations were granted permission to be heard and these were scheduled for the latter part of March 2021. There have been a number of recent developments:</p> <ul style="list-style-type: none"> <li>• on 12 February 2021, HMT issued the Exit Payment Cap Directions 2021 disapplying the exit cap in England, due to a number of “unintended consequences”</li> <li>• on 25 February, regulations were made and laid, to be effective from 19 March, confirming the disapplication of the exit cap</li> <li>• on 4 March Welsh Government confirmed that the restrictions had also been relaxed in Wales</li> <li>• on 4 March MHCLG confirmed that previous advice to Councils and LGPS administering authorities on implementing the HMT regulations was disapplied, and further the MHCLG consultation on reforming local government exit pay is now closed.</li> </ul> <p>Unfortunately this is unlikely to be the end of the matter. HMT has confirmed it will bring forward proposals to tackle unjustified exit payments in the near future. MHCLG will also be carrying out a separate consultation on the impact on the LGPS. It is unclear at this stage whether this may also include wider reform on exit payments and conditions around how LGPS benefits are paid.</p> <p>The Fund did not have any scheme members impacted by the introduction of the cap on exit payments so there is no further action to be taken.</p>
1.05	<p><b>SAB Good Governance Project</b></p> <p>The Scheme Advisory Board (SAB) commenced a project in early 2019 to consider the future governance structure of the LGPS. SAB met on the 08 February to consider the final report from the review which is available here:  <a href="https://lgpsboard.org/images/Other/Good_Governance_Final_Report_February_2021.pdf">https://lgpsboard.org/images/Other/Good_Governance_Final_Report_February_2021.pdf</a></p> <p>The SAB Chair has now made formal requests on behalf of the SAB to MHCLG and other bodies to implement the recommendations from the project. MHCLG would need to implement some of the changes identified either by amending regulations or via statutory guidance. In addition SAB will be identifying and promoting best practice in the LGPS to assist in taking forward the recommendations made. The recommendations from</p>

the review are provided at Appendix 2.

On the face of it, the Fund is likely to already be compliant with most of the recommendations. However work is likely to be required in considering who the LGPS senior officer is (recommendation A2) and ensuring that person's responsibilities meet the requirements of any guidance. In addition, it is expected that work will be required:

- documenting aspects such as roles and responsibilities, and representation
- updating our governance compliance statement to meet the new requirements
- providing further evidence as part of independent governance reviews (assuming our existing approach to this does not meet the new requirements).

The next key steps for the Fund in relation to this project, other than taking part in SAB surveys, are likely to be responding to MHCLG's consultation or reviewing guidance from SAB to understand its impact on the Fund. However it may be some months before there are further developments due to other national priorities. At that point, we will update the Committee and hope to be able to provide further information around any changes required for the Fund.

<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
2.01	It is likely work associated with climate change, the exit cap and the good governance review will be resource intensive on officers. These areas are likely to be key areas of focus for some time.
<b>3.00</b>	<b>CONSULTATIONS REQUIRED / CARRIED OUT</b>
3.01	None directly as a result of this report.
<b>4.00</b>	<b>RISK MANAGEMENT</b>
4.01	The updates in this report are mainly driven by external factors and demonstrate why that is one of the highest ranking risks within the Fund's risk register i.e. there is a risk that the Fund's objectives/legal responsibilities are not met or are compromised due to external factors.
<b>5.00</b>	<b>APPENDICES</b>
5.01	Appendix 1 – Audit Report Appendix 2 – SAB Good Governance recommendations

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	<p>Friends of the Earth LGPS report can be accessed here:</p> <p><a href="https://www.divest.org.uk/wp-content/uploads/2021/03/UKDivest_Report.pdf">https://www.divest.org.uk/wp-content/uploads/2021/03/UKDivest_Report.pdf</a></p> <p><b>Contact Officer:</b> Philip Latham, Head of Clwyd Pension Fund  <b>Telephone:</b> 01352 702264  <b>E-mail:</b> philip.latham@flintshire.gov.uk</p>

<b>7.00</b>	<b>GLOSSARY OF TERMS</b>
7.01	<p>(a) <b>CPF – Clwyd Pension Fund</b> – 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) <b>Administering authority or scheme manager</b> – 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) <b>PFC – Clwyd Pension Fund Committee</b> - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund.</p> <p>(d) <b>LPB or PB – Local Pension Board or Pension Board</b> – each LGPS Fund has an LPB. Their purpose is to assist the administering authority in ensuring compliance with the scheme regulations, the Pensions Regulator requirements and efficient and effective governance and administration of the Fund.</p> <p>(e) <b>LGPS – Local Government Pension Scheme</b> – the national scheme, of which Clwyd Pension Fund is part.</p> <p>(f) <b>SAB – Scheme Advisory Board</b> – the national LGPS Scheme Advisory Board is established under primary legislation. Its purpose is to make recommendations for policy and legislative change to the Secretary of State and to provide guidance and advice to LGPS administering authorities.</p> <p>(g) <b>MHCLG – Ministry of Housing, Communities and Local Government</b> – the government department responsible for the LGPS legislation.</p> <p>(h) <b>JGC – Joint Governance Committee</b> – the joint committee established for the Wales Pension Partnership asset pooling arrangement.</p>

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|  | <p>(i) <b>CIPFA – Chartered Institute of Public Finance and Accountability</b> - 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.</p> <p>(j) HMT – Her Majesty's Treasury – from an LGPS perspective, this government department has a role in approving any LGPS secondary legislation being proposed by MHCLG. It may also make other legislation that impacts all pension schemes or sub-sets (such as public sector schemes) e.g. relating to the taxation treatment of pension contributions and benefits.</p> |
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