

Warwickshire Local Pension Board

25 April 2023

Governance and Policy Update

Recommendation

That the Local Pension Board considers and comments on the items within this Governance Paper that were presented to the Pension Fund Investment Sub-Committee and Staff and Pensions Committee.

1. Executive Summary

- 1.1 This report summarises the main governance issues currently affecting the Warwickshire Pension Fund. These areas include the Forward Plan, Risk Monitoring, updated Policies, Regulations and Training.

2. Financial Implications

- 2.1 There are no financial implications arising directly from this report. Where changes to policies are recommended, any implications arising from those changes are covered in the body of the report.

3. Environmental Implications

- 3.1 As stated in previous Governance Reports, Climate Risk is still a key risk on the Fund's Risk Register and is considered regularly by the Fund.

4. Supporting Information

Forward Plan

- 4.1 The purpose of including the Forward Plan in this report is to provide an updated position for the Local Pension Board rolled forward to cover the year ahead. The Plan is set out in Appendix 1 and the Local Pension Board's comments are welcomed.

Risk Monitoring

- 4.2 This section provides an update on the key risks facing the Fund and the management actions necessary to address them. The full risk register will be provided every June to the Pension Fund Investment Sub-Committee going forward. At our most recent review we considered that additional notes needed to be added to the register and that one risk (that of Cyber Security) needed to be increased. The Fund considered that the 'likelihood' score given to the risk should increase given the changing landscape and an increased global risk in relation to cyber-attacks. There have not been any specific fund attacks or security incidents leading to this change. The Fund is simply being prudent in reflecting the possibility of unlawful cyber activity.
- 4.3 The chart below sets out the RAG rating of risks on a five-by-five scale with commentary following on each risk heading.

Impact	5				9. Climate Change	
	4	3. Liabilities cannot be met		8. Cyber Security	1. Long term asset values do not meet expectations	
	3		7. Business interruption 11. Fraud 12. Governance Failure	5. Pooling objectives not met 6. Inability to meet demand for activity		
	2		10 Data Quality	4. Employer contributions not paid	2. Short term asset values do not meet expectations	
	1					
		1	2	3	4	5
		Likelihood				

Climate Change - Greater progress is now being made in engagement, with further resources within the Fund allocated. However, the risk is a global issue and whilst we continue to discuss this area in greater detail with the managers who implement our Climate Risk Policy, there remains significant work required to deal with the issue. There is also growing activism on this issue and more sources / commentators are suggesting not enough is being done still to stop the 1.5% temperature rise that will trigger major climate issues.

Long Term Market Risk – This area remains as a high risk despite actions taken to mitigate it. It is important to note that the Fund anticipates long-term risk on a relatively prudent basis to reduce the risk of underperforming. Mitigation actions

are considered and remain in place, and the Fund regularly reviews its Strategic Asset Allocation and monitors changes with managers at regular meetings.

Cyber Security – This has become a new red risk, following the most recent review. The Fund does, however, have a dedicated Policy, regular training and reviews this issue at regular management meetings. Our IT Team also ensures that our systems can thwart cyber crime. The risk rating was increased though, not because we anticipate that there will be an issue but to reflect the global cyber risk and how it continues to grow and adapt.

- 4.4 In addition to discussing the 'Red' risks, the quarterly risk meeting also discussed the risk of higher pension payments due to the recent 10.1% CPI rise affecting the Fund's cashflow. It was felt that this risk has been mitigated through additional cashflow analysis and monitoring and that consequently no change needed to be made to the risk register.
- 4.5 Other risks discussed included those arising from the increased costs of living. It is possible that this may increase the prevalence of scams targeting pensioners. This has been tackled through additional warnings on the Fund website as well as providing training to relevant pensions colleagues to ensure precautions are taken.
- 4.6 As discussed in the February 2023 PFISC, interest rates are expected to continue to rise in the near term, with inflation expectations falling. This may lead to real interest rates (those that include inflation) stabilising towards the end of 2023.

Policies

- 4.7 A revised Climate Risk Policy has been created by Hymans Robertson for the Fund following a workshop and discussion with members and officers. This can be seen in Appendix 2.
- 4.8 Our new Risk Management Policy in Appendix 3 explains how the Fund approaches risk and was brought to the Pension Fund Investment Sub-Committee for approval on at the March 2023 meeting.
- 4.9 The Training Policy has been reviewed by Officers and no changes were required to this document.
- 4.10 The final version of the Funding Strategy Statement was prepared by Hymans Robertson following a full consultation with our Stakeholders. This is now available on the Fund's [website](#).
- 4.11 The Fund has reviewed its Bribery and Fraud Policy and considers that no amendments are currently required.
- 4.12 The Fund reviewed its Internal Dispute Resolution Procedure as part of the planned review cycle and no material changes were required.
- 4.13 The Fund has postponed the review of the Governance Process until the Scheme Advisory Board (SAB) has released the findings of their Good Governance Review

which will impact on the approach and guidance.

- 4.14 Officers have also reviewed the Fund Business Plan. This has been covered in an additional Paper being brought to this meeting.

Training

- 4.15 The results of the Hymans Robertson 'Knowledge and Skills Assessment' have now been released and shared with both the Committees and the Local Pension Board.
- 4.16 The results from this Assessment form the basis of our Training Plan for the next twelve months.
- 4.17 The number of completed assessments returned to Hymans Robertson was less than hoped for as some Funds obtained a 100% return from both the Local Pension Board and relevant Committees.
- 4.18 Following the publication of the Scheme Advisory Board Good Governance Review later this year it is expected that completion of such assessments and the attendance at specified training sessions may be made mandatory. Fund Officers in the meantime would ask the Board members to prioritise attending training sessions and completing the Knowledge and Skills Assessment and Hymans Robertson online training.
- 4.19 Any suggestions for future training topics and how best to deliver such training would be welcomed. The current Training Plan can be found in Appendix 4. This illustrates the training currently planned up until June 2023.

Regulatory Updates since January 2023

- 4.20 The Single Code of Practice, which will be renamed as the General Code of Practice was expected to have been laid before Parliament by the end of January 2023. The lead officer at The Pensions Regulator (TPR) has however confirmed that there will be a short delay and that it is intended that the DWP will lay it before Parliament by the end of February 2023. At the time of writing this report we have not received any further information.
- 4.21 The LGA will be publishing a special bulletin about the annual revaluation date change when DLUHC respond to the consultation and will confirm disclosure requirements in that. They are not sure if the change will be classed as a material change under the Disclosure Regulations 2013 – at present the commentary suggests not.
- 4.22 On 9 March 2023, the Department for Levelling Up, Housing and Communities (DLUHC) laid the LGPS (Amendment) Regulations 2023 ('the regulations'). The regulations move the annual revaluation date from 1 April to 6 April and are effective from 31 March 2023. The change in the annual revaluation date removes the impact of inflation on the annual allowance calculation for all members. From the tax year 2023/24 onwards, the inflationary increase used in the AA calculation

and the annual revaluation will both use the same CPI figure. For the tax year 2023/24 this will be 10.1 per cent. The Scheme year is not changing, it remains 1 April to 31 March. The revaluation that applies on 6 April applies on the CARE balance at 31 March in the previous Scheme year.

Vacancy on the Warwickshire Local Pension Board

- 4.23 Following the recent resignation of Alan Kidner from the Local Pension Board, officers are working to recruit a replacement member representative. The County Council, Fund and Local Pension Board would like to take this opportunity to thank Alan greatly for his contribution over the years.

5. Timescales associated with the decision and next steps

- 5.1 None

Appendices

Appendix 1 Forward Plan

Appendix 2 Climate Risk Policy

Appendix 3 Risk Management Policy

Appendix 4 Training Plan

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The report was circulated to the following members prior to publication:

Local Member(s): n/a

Other members: n/a