

Warwickshire Local Pension Board

18 July 2023

Governance, Regulatory and Policy Update

Recommendation

That the Local Pension Board considers and comments on the items within this report 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 Polices, Regulations and Training.

2. Financial Implications

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

3. Environmental Implications

- 3.1 As stated in previous 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 the Local Pension Board with details of the work the Fund will be undertaking in relation to governance matters for 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. Officers ask members of the Board to pay particular attention to the red risks shown on the chart. They are Climate Change, Long Term Market Risk, and Cyber Security. The high-risk items have not altered since our last report to Committee in March 2023
- 4.3 The chart below sets out the RAG rating of risks on a five-by-five scale.

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				

Policies

- 4.4 The Voting and Stewardship Policy has been reviewed by Officers and it was felt that no changes were required to this document.
- 4.5 Our Investment Strategy Statement (Appendix 2) has been reviewed and updated by Hymans Robertson. The changes that have been made include:
- Funding risk** - section added to highlight the transition to a higher inflation and investment rate environment.
- Asset Risk** – We have added a comment on geopolitical risk
- BCPP** (Border to Coast Pension Partnership) – changed to BTC (Border to Coast)
- 4.6 Fund Officers have also reviewed both the Breaches and Communication Policies and have concluded that no amendments were required at this time.
- 4.7 It is important that members of the Fund are confident that we collect and use their

data safely and compliantly. This includes ensuring that data is disposed of safely when no longer required. Fund Officers have therefore reviewed processes and created a 'Data Retention Policy' (Appendix 3) that distils our current best practice into a single document. Officers asked that this was approved by the Committee. The approach and measures detailed within the Policy have always been followed but were not formally recorded.

Regulatory Updates

General Code of Practice

- 4.8 The Pension Regulator (TPR) first published a draft version of the Single/General Code of Practice as part of its consultation in March 2021. The purpose of the draft was to bring together 10 of the existing separate 15 Codes of Practice. The Regulator has recently confirmed that the new Code is likely to be published in June. Upon publication Officers will ensure that the Fund is compliant with the requirements. ***At the time of writing this report the code had not been published.***

McCloud Project

- 4.9 Following consideration of consultation responses, the government has confirmed the steps it will be taking to resolve the issues raised by the McCloud judgement in respect of the LGPS (England and Wales). As the Board will recall, the Local Government Pension Scheme in England and Wales (LGPS) was reformed in 2014 as part of a wider project by the government to review and reform the pensions terms of public sector workers. In the 20 years prior to the reforms, the cost of public service pension schemes had significantly increased, with most of the increased costs falling on the taxpayer. The reforms were intended to ensure greater fairness between lower and higher earners, and the future sustainability and affordability of the scheme. In 2014, the new LGPS with a career average design, an increased normal pension age linked to a member's state pension age and the introduction of a cost control mechanism was introduced.
- 4.10 As part of the reforms, and following negotiations with member representatives, transitional protections were provided to members closest to retirement to provide those members with greater certainty. Transitional protection was challenged by younger members of the firefighters and judicial pension schemes and, in 2018, the Court of Appeal held, in the case known as 'McCloud', that the arrangements gave rise to unlawful discrimination in those schemes. Following that judgment, the government accepted that the Court's judgment had implications for all public service pension schemes which included similar transitional protections, including the LGPS. The steps now in place will address this discrimination and the Fund will work to address this, although only a relatively small number of members are expected to be affected.

4.11 On 30 May 2023, the Government published a further consultation and draft regulations concerning the McCloud remedy.

The policy matters covered are as follows:

- Aggregation – Determining the rules applicable to decide whether a member with multiple LGPS memberships has underpin protection in some or all of these.
- Club transfers – Determining the rules applicable to decide whether a member with previous membership of another public service pension scheme has underpin protection in respect of their LGPS membership.
- Flexible retirement – How the underpin should work in respect of flexible retirement, particularly for cases of 'partial' flexible retirement, where a member does not take all their accrued career average benefits.
- Divorce – How the scheme's divorce and underpin calculations interact.
- Injury allowances – How a retrospective increase to a member's pension arising from McCloud remedy may impact any injury allowances payable.

4.12 The consultation closes on 30 June 2023. The consultation seeks views on proposals to address discrimination found by the courts in the McCloud case. This follows the Government's response published in April 2023.

Pensions (Extension of Automatic Enrolment) (No2) Bill

4.13 The Pensions (Extension of Automatic Enrolment) (No 2) Bill was introduced as a Private Members' Bill on 27 February 2023. Since then, the Bill has passed through its second reading.

4.14 The Bill seeks to amend the current Pensions Act 2008 to allow the Secretary of State to make regulations that would lower the age for auto enrolment to 18 from the current age of 22. The Bill also seeks to allow the introduction of regulations to lower the earnings limit so that pension contributions can be made from the first pound rather than at the current minimum earnings threshold. This follows concerns that currently 12.5 million people are estimated to be under-saving for retirement. The changes would allow young people and low earners to start contributing to their pension earlier and without threshold limitations. Most staff will find that they are automatically admitted to the LGPS, Employers will need to ensure they are applying the correct auto enrolment rules to employees. Auto-enrolment is the responsibility of Employers not the Pension Fund.

Training

4.15 A summary of our current Training Plan can be found below:

Date	Training	Delivered by
18 th September 2023 (AM)	Role and Responsibility of the Committee and Local Pension Board/ SAB Good Governance Review/ The General Code of Practice	Ian Colvin (Hymans Robertson)
18 th September 2023 (PM)	Update from Border to Coast Pension Partnership	Border to Coast CEO
11 th October 2023 (AM)	Accounting and audit Procurement and contract management	Aon Hewitt
24 th November 2023 (AM)	AGM	Officers and Advisors

4.16 Officers would like the Board to note that they have taken note of the Chair's request for an updated training plan and the need to be reminded just prior to any session that the training is taking place.

4.17 Unfortunately, we are unable to provide any more detail at present than can be seen above, but we are currently in discussions with Aon about running a training session later in the year.

4.18 Officers would, however, like to bring to the attention of the Board the session that has been organised for Monday 18th September with Ian Colvin from Hymans Robertson. This will cover the responsibilities of both the Committee and Local Pension Board, the Good Governance Review, and new Code of Practice. This session will be followed in the afternoon by a presentation by the CEO of Border to Coast. Both sessions will be in person at the Shire Hall.

Vacancy on the Warwickshire Local Pension Board

4.19 Following the recent resignation of Alan Kidner from the Local Pension Board, officers are working to recruit a replacement member representative. A notice was placed on the homepage of the website in early June and will also be included in the Deferred and retired members newsletters, during the summer. The closing date has been set for 21 July. Interviews will then take place and the selected candidate will be approved at Full Council. Fund Officers do not anticipate there being a problem in the selected candidate attending Board meetings prior to the approval of the Council, even if it is just for the open papers. Legal advice will, however, be taken on this.

5. Timescales associated with the decision and next steps

5.1 None

Appendices

Appendix 1 Forward Plan

Appendix 2 Investment Strategy Statement

Appendix 3 Data Retention Policy'

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

Local Member(s): n/a

Other members: n/a