CYNGOR SIR *POWYS* COUNTY COUNCIL

Pensions and Investment Committee
22nd March 2024

REPORT BY:	**Head of Finance**
SUBJECT:	**Administration and Governance Update**

REPORT FOR:	**Information**

1. Summary

1.1 This report has been produced to provide Committee with an update on Local Government Pension Scheme (LGPS) governance and administration matters and the potential impact of these on the Powys Pension Fund.

1.2 It is provided in addition to and supplements, where appropriate, the executive summary presented by the Powys Pension Board Chair and will provide updates on:

- Scheme Advisory Board (SAB) and the Local Government Association (LGA)
- The Pension Regulator (TPR)
- Update on the Fund's risk register
- Update on the Fund's breaches register

2. Scheme Advisory Board (SAB) Updates

2.1 This section provides an update on the Scheme Advisory Board (SAB) notifications within the above bulletins.

2.2 DLUHC publishes response on investment reforms

On 22 November 2023, the Department for Levelling Up, Housing and Communities (DLUHC) published its response to the consultation on investment reforms.

Whilst the response largely adopts the proposals within the original consultation, the government will now implement ways to accelerate and expand pooling with a view to increase investment in levelling up and private equity. It will aim to do this by:

• setting out in revised investment strategy statement (ISS) guidance where funds should transfer all assets to their pool by 31 March 2025.

Funds should also set out which assets are pooled, under pool management and not pooled and the rationale, value for money and date for review if not pooled.
• issuing revised pooling guidance to set out a preferred model of pooling including delegation of manager selection and strategy implementation.
• implementing a requirement in guidance for administering authorities to set a training policy for pensions committee members and to report against the policy.
• issuing revised guidance on annual reports to include:

- a standard asset allocation and the proportion of assets pooled
- a comparison between actual and strategic asset allocation
- net savings from pooling
- net returns for each asset class against their chosen benchmark.

• making changes to LGPS official statistics to include a standard asset allocation and the proportion of assets pooled and the net savings of pooling
• amending regulations to require funds to set a plan to invest up to 5 per cent of assets in levelling up the UK and to report annually on progress against the plan
• issuing revised ISS guidance to require funds to consider investments to meet the Government's ambition of a 10 per cent allocation to private equity.

2.3   SAB issues statement on surpluses

On 20 December 2023, the SAB issued a statement on funding surpluses.

Key points:

• Funding levels across the LGPS increased at the 2022 valuation and subsequent market movements have led to some funds experiencing further improvements
• LGPS regulations emphasise the desirability of stability in primary contributions for employers
• Funds should carefully consider their approach to employer-specific investment and funding strategies and take professional advice as needed.
• Clear communication with employers about the impact (or lack of impact) of funding improvements is key – as well as the potential longevity of those improvements
• Funds should have a clear rationale and be able to explain their approach to setting secondary contributions and how employers' covenant positions have been recognised
• Employer flexibilities regulations, statutory guidance and the SAB's guide are clear on the circumstances in which mid-cycle reviews of employer contributions are appropriate

The Fund has an [Employer Policy](#), which addresses much of the above, but we will review to ensure it remains appropriate.

2.4   Website

The SAB [website](#) provides more information on the Board's work and meeting agendas/papers.

3.   LGPS Updates

3.1   New Minister for LGPS

On 13th of November 2023, the LGPS had a new minister appointed (Simon Hoare MP), who takes responsibility for the scheme.

3.2   McCloud

Update on Transfers
Certain cases have been on hold since the LGPS regulations were amended to implement the McCloud remedy from 1 October 2023. The publication of the Individual Incoming & Outgoing Transfers guidance means that administering authorities have the information needed to process certain transfers.

It is understood that conversations with software suppliers about system updates to reflect the new calculations are ongoing. We will need to consider running manual calculations in urgent cases to ensure any statutory deadlines are met.

The LGA are currently investigating the possibility of producing a spreadsheet administering authorities can use to calculate the McCloud element of non-Club transfer values.

There are also some outstanding queries outstanding regarding deferred refunds, so we await further guidance on this.

McCloud technical guide for administrators

On 15 November 2023, the LGA emailed administering authorities letting them know they have published the first instalment of the McCloud technical guide for administrators.

The guide explains how the underpin protection works in the LGPS after the changes made because of the McCloud case.

The LGA are releasing the guide in instalments due to the breadth and complexity of the McCloud remedy project and because there is outstanding guidance needed in some areas. The first instalment includes an overview, which pension accounts qualify for underpin protection, as well as how to perform provisional and final underpin calculations.

4.   The Pensions Regulator (TPR)

4.1   Governance and administration Survey 2022-23 results

TPR published the results of its [survey on governance and administration practices](#) among public service pension schemes on 27 November 2023.

The survey was carried out online from January to March 2023 and received responses from 191 of 204 public service pension schemes, of which the Powys Pension Fund was one.

The survey covered topics such as risk management, annual benefits statements, breaches of the law and dashboards. It also asked LGPS administering authorities about actions in relation to climate related risks and opportunities.

4.2   Cyber security guidance

The Pensions Regulator (TPR) has revised its [cyber security guidance](#).

The guidance helps trustees and pension scheme managers meet their duties to assess the risk, ensure controls are in place, and respond to incidents.

For the first time, the guidance asks pension schemes to report any significant cyber-related incidents to TPR on a voluntary basis as soon as is reasonably practicable. This will help TPR build a better picture of the cyber risk facing the industry and its members.

There is a significant focus on cyber security within the TPR General Code of Practice, which the Fund is in the process of reviewing.

4.3   The Pension Regulator General Code of Practice

On 10 January 2024, the Pensions Regulator (TPR) responded to the 2021 [consultation](#) on the new code of practice. On the consultation webpage you can also find a link to the [final version of the General Code of Practice](#) ('the Code') which has been laid in Parliament. It is expected to come into force on 27 March 2024. It replaces Code of Practice 14 for public service pension schemes and brings together ten previous TPR Codes into one code.

The code contains new governance requirements and sets out TPR's expectations of how occupational pension schemes should be managed and the policies, practices and procedures that should be in place.

It sets out what schemes need to do in order to comply with the new legal requirement to establish and operate an effective system of governance (ESOG), including internal controls, proportionate to the size, nature, scale and complexity of the activities of the scheme.

TPR's research on governance and administration shows that the LGPS already has high standards of governance in place. The Code provides an opportunity for funds to review current practices, but also presents challenges during what is already a challenging and busy time for the LGPS.

There remain some areas where clarity is required on which parts of the Code apply to the LGPS, what these mean for administering authorities and how they should be applied in practice. The SAB and LGA will produce new or update existing guidance to help authorities with their responsibilities.

The Fund is in a good position with regards to the existing code, which is reviewed at every Board meeting, but we are currently undertaking a gap analysis to establish any areas that may need further development because of the new expectations.

The Regulator understands that schemes are likely to not be fully compliant by the 27th of March 2024, however it will expect all trustees to be taking action to understand where they are not compliant and to be putting a plan in place to address this. Work is ongoing with this.

5. **Pensions Dashboards Programme (PDP)**

On 1 November 2023, PDP published its [November](#) newsletter.

The newsletter also includes links to:

- PDP's eighth progress update report
- common questions on dashboards
- the Pensions Regulator's blog on preparing for dashboards

Blog on recent queries

On 30 November 2023, the PDP published a [blog](#) covering the following recent queries they have received:

- When do PDP expect to publish dashboard standards?
- What are the different types of testing?
- When will the dashboards available point be?

PASA dashboard guidance

The Pensions Administrations Standards Association (PASA) has published Pensions Dashboards Connection Ready [Guidance](#) and a '[Call to Action](#)'.

The guidance explains what being 'connection ready' means and what a typical scheme plan could look like. It covers five main areas: governance, matching, value data, technology and administration. For each area, it describes the key activities, how to do them, why they matter and how to show that they have been done.

The Call to Action lists the top five actions that schemes need to take now to prepare for dashboards.

PASA will release further supporting materials in the next few months, such as practical tips for certain connection ready activities, checklist of key actions and outlines of connection ready decisions.

6. Risk Register

6.1 Committee will recall that the risk register has been consolidated into three separate categories, with the appropriate risks listed in each of those categories:

- Administration
- Governance
- Investment

Since the last Committee meeting, the Pension Board considered the Governance Pillar in depth at their meeting on the 9th of February 2024.

The majority of the work involved strengthening the wording of the risks and controls with one recommendation on increasing the risk associated with GOVERN0003, which is related to single person risk.

It is felt that the Fund carries some significant risk at the top of the Pension Fund Structure, so work is ongoing to review this and consider what measures can be put in place to help reduce this risk.

7. Pensions Section Update

7.1 Committee will be aware that the Administration team have been experiencing significant pressures over the recent years as a result of increasing complexity of the regulations, increasing membership, resource drain due to training requirements and most recently, the impact of the McCloud legislation from 1st October 2023.

7.2 This legislation has had a significant impact on the administration team which required prompt action to enable the team manage the increase in complexity.

The Pension Fund Manager, in agreement with the Section 151 Officer, The Chair and Vice-Chair of the committee agreed to implement a slight tweak to the Pensions Section structure which has helped redistribute the existing administration resource within the Section.

This adjustment has helped for administration purposes but does not address the single person risk identified above. This work will continue and Committee will be updated accordingly on any proposals related to that.

8.   Breaches Register

8.1   Section 70 of the Pension Act 2004 sets out the legal duty to report breaches of the law. In the Pensions Regulator Code of Practice no 14, published in April 2015, paragraphs 241 to 275 provides guidance on reporting these breaches.

Under the policy, breaches of the law are required to reported to the Pensions Regulator where there is a reasonable cause to believe that:

- a legal duty which is relevant to the administration of the scheme has not been, or is not being, complied with
- the failure to comply is likely to be of material significance to the regulator in the exercise of any of its functions.

8.2   The latest version of the breaches register is attached, for information.

Work has taken place on measuring employer performance against the timeliness of submission of contributions and supporting paperwork to the Fund. There is a requirement within the LGPS regulations for employers to submit contributions over to the pension fund within a statutory time frame. Where this does not happen, it is recorded as breach of the regulations. This has now been added and will be regularly monitored.

9   Recommendation

9.1   To note the contents of this report and approve the updated Governance risk register.

Recommendation:			Reason for Recommendation:	
To note the content of the report and approve the amendments to the Governance Risk Register			As per report	
Person(s) To Action Decision:	Pension Fund Manager			
Date By When Decision To Be Actioned:			Immediately	
Relevant Policy (ies):	N/A			
Within Policy:	N/A		**Within Budget:**	N/A
Contact Officer Name:	Tel:		Fax:	Email:
Chris Hurst	01597 827640		01597 826290	churst@powys.gov.uk

Relevant Portfolio Member(s):	Cllr David Thomas
Relevant Local Member(s):	**N/A**