

**CYNGOR SIR POWYS COUNTY COUNCIL**

**Pensions and Investment Committee  
6<sup>th</sup> October 2023**

**REPORT BY:**           **Head of Finance**

**SUBJECT:**             **Administration and Governance Update**

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**REPORT FOR:**       **Information**

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**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 Updates**

2.1    This section provides an update on the Scheme Advisory Board (SAB) notifications since the last meeting.

**2.2    2022 Scheme Annual Report**

The Board published its latest Annual Report on the 26<sup>th</sup> of June 2023.

The report combines the information from 86 Pension Fund Annual Reports at the 31<sup>st</sup> of March 2022.

Some highlights from the report include:

- Total membership of the scheme increased by 2.6% to 6.39 million members (from 6.23 million in 2021)
- Total LGPS assets increased to £369 billion (an increase of 7.8%)

- local authority returns on investment over 2021/22 was 8.1 per cent, compared to UK CPI year on year inflation of 8.8 per cent (September to September)
- Scheme remains cashflow positive (including investment return)
- 1.95 million pensioners paid
- total management charges increased by £385 million (22.5 per cent) from £1,711 million. This was primarily driven by a £381 million rise in investment management charges, while administration and oversight and governance costs remained broadly stable.

### **2.3 Review of Annual Report Guidance**

The SAB has identified areas in the CIPFA 2019 guidance on producing the annual report, which they are looking to revise. The aim is to streamline the guidance and reduce duplication with other reporting requirements.

An area identified for improvement is on how funds should report and categorise assets.

The administration KPI's are also under review to help standardise reporting and benchmarking.

The aim is to have the guidance in place for the 2023/24 reporting period.

### **2.4 SAB Responds to Cost Management Consultation**

On 6 March 2023, the SAB responded to the consultation on changes to their cost management process. The response is generally supportive of the Department for Levelling Up, Housing and Communities' (DLUHC) approach.

### **2.5 2022 Scheme Valuation Report**

The SAB published the 2022 Scheme valuation report on the 10<sup>th</sup> of August 2023. The report is drawn from the local fund valuation reports.

Some highlights include:

- the average funding level has improved from 98 per cent in 2019 to 107 percent in 2022 (on local funding bases) – all fund valuation reports show an improvement since 2019
- the average contribution rate to meet future service costs rose from 18.6 percent of payroll in 2019 to 19.8 per cent of payroll in 2022
- overall contribution rates fell from 22.9 percent of payroll in 2019 to 21.1 percent of payroll in 2022 – this reflects lower deficit contributions

- employee contribution rates marginally increased from 6.5 percent of pay to 6.6 percent.

### 3. **LGPS Updates**

#### 3.1 **DLUHC consultation on investment reforms**

The Chancellor recently announced some reforms to pension investments and a consultation was opened.

##### **The consultation seeks views on proposals in five areas:**

- **Pooling:** a deadline of 31 March 2025 for funds to transition all listed assets to their pool and a move to fewer, larger pools, each with assets in excess of £50 billion, to maximise benefits of scale
- **Levelling up:** requiring that funds have a plan to invest up to 5 percent of assets to support levelling up in the UK
- **Private equity:** an ambition to increase investment into high growth companies via unlisted equity
- **Investment consultants:** regulations to implement the requirements set out in an order made by the Competition and Markets Authority in respect of the LGPS
- **Definition of investments:** a technical change to the definition in the LGPS Investment Regulations 2016.

The consultation closed on 2 October 2023 and the Fund has submitted a response, which was circulated to Committee and Board.

#### 3.2 **McCloud**

On 8 September 2023, the Department for Levelling Up Housing and Communities (DLUHC) laid [The Local Government Pension Scheme \(Amendment\) \(No. 3\) Regulations 2023](#) which took effect from 1<sup>st</sup> October 2023. It also published updated versions of the member factsheet. These documents can be seen in the McCloud remedy section of the [GOV.UK website](#).

The regulations implement the McCloud remedy and change the existing underpin to ensure it works effectively and consistently for qualifying members. The regulations take effect from 1 October 2023.

The Pensions Section is working on the McCloud data collection exercise with employers. It also updating internal worksheets to incorporate the appropriate McCloud checks and training staff on the process.

This exercise will be a significant undertaking and will impact on the administration team. Committee will be aware that the Fund increased the administrative resource in 2021 and a review is being undertaken to assess whether that has achieved its objectives.

#### 4. The Pensions Regulator (TPR)

The [Pensions Dashboard Programme](#) (PDP) regularly publishes a newsletter which includes updates on:

- their new connection hub, which provides useful resources and information to prepare for connection to the ecosystem
- their pensions dashboards myth busting video
- understanding the dashboards available

#### **Pensions Dashboards Amendment Regulations 2023**

The Department for Work and Pensions (DWP) has laid the Pensions Dashboards (Amendment) Regulations 2023 [SI2023/858]. A revised staging timetable will be set out in guidance and all schemes in scope will need to connect by 31 October 2026. The staging timetable will indicate when schemes are scheduled to connect, based on their size and type.

#### **Staging dates – TPR expectations**

TPR has updated its 'Failing to comply with dashboards duties' guidance. The purpose of the updates is to outline what schemes will need to do to demonstrate that they have had regard to the staging timetable. The staging timetable will be set out in connection guidance.

TPR expects schemes to do the following to show that they have regard to the connection guidance:

- Connect to dashboards by the connection deadline of 31 October 2026 that is set out in legislation. Failure to do so could result in regulatory action by TPR.
- A revised staging timetable will be set out in guidance which will indicate when schemes are scheduled to connect. All trustees and scheme managers must have regard to this guidance. Failure to do so will be a breach of legislation.

Although the timelines in guidance will not be mandatory, schemes will be expected to demonstrate how they have had regard to the guidance. Amongst other considerations, this means that scheme managers:

- should not make decisions about connection until they have engaged with the guidance
- must be able to demonstrate that they have adequate governance and processes for making such decisions. The reasoning for the decisions should be clearly considered and documented, as should how relevant risks are identified, evaluated and managed
- should make sure that they have access to all the relevant information before making decisions and acting on them. This

includes engaging with those who are supporting them to develop a practical delivery plan. Clear and accurate audit trails need to be kept demonstrating the decisions made, the reasons for them and the actions taken

The administration team are currently working on assessing the quality of the data required for the pension dashboard exercise and the initial results demonstrate that the data is of a very high quality.

Work will continue on data cleansing ahead of the eventual live launch.

## **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

It is felt that this will make the risk register easier to review and monitor as is attached as an appendix to this report for your review.

At the last Committee meeting, it was suggested that the risk register be updated to incorporate Climate Change as an independent risk. Previously, this was included within the Fund's Responsible Investment Policy, so it makes sense to include it within the risk register.

This has been done and is presented as Risk INVEST00012 for Committee's consideration.

## **7 Breaches Register**

7.1 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.

7.2 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.

More supporting information is presented in the Employer performance item, later in the agenda.

## 8 Recommendation

- 8.1 To note the contents of this report and approve the updated Investment risk register.

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