

FLINTSHIRE COUNTY COUNCIL

Date of Meeting	Wednesday, 1 March 2017
Report Subject	Pooling of Pensions Investments in Wales
Report Author	Chief Executive and Pensions Fund Manager

EXECUTIVE SUMMARY

The Local Government Pensions Funds in Wales are in the process of combined or 'pooling' their investments. Flintshire County Council is the administering authority to the Clwyd Pension Fund as one of the funds involved in this major exercise. The Council's decision-making functions for pensions are, in the main, delegated to the Clwyd Pension Fund Committee.

To satisfy the requirements of new Investment Regulations for the Local Government Pension Scheme (LGPS) in England and Wales, the Clwyd Pension Fund has agreement from the UK Government to 'pool' investments with the other seven Wales LGPS Funds. To enable this there needs to be a legally binding Inter Authority Agreement (IAA) between the eight funds.

The Council's Constitution will need to make provision for the IAA which delegates certain investment implementation decisions to a (Wales) Joint Governance Committee, on which the Clwyd Pension Fund will be represented along with an elected member from the other seven Welsh funds.

Within the IAA, there are a number of functions that remain the responsibility of the Council. The Council also needs to make revisions to its Constitution to delegate some of these responsibilities to the Clwyd Pension Fund Committee.

RECOMMENDATIONS

1	<p>Notes the content of the draft Inter Authority Agreement attached at Appendix B and delegates authority to the Chief Executive in consultation with the Chair of the Clwyd Pensions Committee and the Monitoring Officer to:</p> <ul style="list-style-type: none"> • agree any further minor amendments to the IAA; and • approve and sign the final version of the IAA.
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2	Establishes a joint committee (hereinafter referred to as the Joint Governance Committee) on the basis of the terms of reference attached within the proposed Constitution amendments.
3	Delegates the exercise of certain functions to the Joint Governance Committee as detailed within the proposed Constitution amendments.
4	Notes the functions reserved to Council, and delegates all matters to the Clwyd Pension Fund Committee apart from the termination or significant amendment of the Inter Authority Agreement.
5	Approves the appointment of the Chair of the Clwyd Pension Fund Committee to the Joint Governance Committee as the Flintshire County Council Representative and the Vice-Chair of the Clwyd Pension Fund Committee as his/her nominated Deputy.
6	Provides delegation to the nominated representative and his/her Deputy to act within the terms of reference of the Joint Governance Committee to enable the exercise of any delegated function.
7	Approves that Carmarthenshire County Council (Dyfed Pension Fund) acts as the host authority with the responsibilities set out in the Inter Authority Agreement.
8	Approves the amendments to the Constitution as set out in Appendix A.

REPORT DETAILS

1.00	Pension Investment Pooling
	Background
1.01	Flintshire County Council is the administering authority for the Clwyd Pension Fund ('the Fund') which is part of the Local Government Pension Scheme (LGPS) for England and Wales. The Clwyd Pension Fund provides pensions for employees of Wrexham County Borough Council, Denbighshire County Council, Flintshire County Council and a number of other smaller employers within those areas. The Council's decision making functions for pensions are, in the main, delegated to the Clwyd Pension Fund Committee. The Fund currently provides pension services to over 40,000 employees, pensioners, dependants and deferred beneficiaries. The Fund manages assets of approximately £1.6bn. The main responsibility of the Fund is to meet current and future pension liabilities of its members i.e. to pay members accrued pension benefits when they fall due in accordance with LGPS Regulations.
1.02	There are eight LGPS funds in Wales: <ul style="list-style-type: none"> • Cardiff & the Vale

	<ul style="list-style-type: none"> • City & County of Swansea • Clwyd • Dyfed • Greater Gwent • Gwynedd • Powys • Rhondda Cynon Taff <p>In total, the value of the assets of the above funds is approximately £15bn. The eight LGPS funds in Wales have a long tradition of working in a collaborative manner overseen by the Pensions Sub Group of The Society of Welsh Treasurers (SWT).</p>
1.03	In the mid-year budget of 2015, the Chancellor announced the Government's intention to work with LGPS administering authorities to ensure that they pool investments to significantly reduce costs while maintaining overall investment performance. The requirement to pool investments has since been incorporated into LGPS Investment Regulations. The proposal to pool all eight LGPS Funds in Wales has received agreement from the UK Government.
1.04	Currently, each administering authority determines its own investment strategy and then appoints fund managers with whom to invest its assets. In simple terms, pooling of investments will mean that the fund manager appointments will be delegated to a joint working arrangement (the "Pool"), An advantage of this is that it will result in consolidation - with a smaller number of fund managers being required to meet the total requirements of all the individual strategies, therefore reducing investment management costs.
	The Inter Authority Agreement and Governance
1.05	It should be emphasised that the proposals to pool investments do not remove the statutory responsibility of each administering authority to set its own asset allocation, funding and investment strategy. A key part of the arrangement will be the appointment of an Authorised Contractual Scheme (ACS) Operator (the Operator) to invest the assets of the LGPS Pension Funds in Wales in accordance with each of their agreed asset allocations, funding and investment strategies.
1.06	In developing the proposals and taking the work forward to date, the eight LGPS Pension funds in Wales have operated under a Memorandum of Understanding which is not legally binding. As part of this, there has been a Joint Chairs Group. As the project moves into the next stage of engagement with an appointed Operator, there is a necessity to formalise the joint governance and decision-making framework. To enable this there will be a legally binding Inter Authority Agreement (IAA) between the eight Funds.
1.07	The IAA sets out the governance arrangements for the Pool, the rights and obligations of the eight participating authorities and the powers and responsibilities delegated to the Joint Governance Committee (JGC) which the Council is being asked to endorse. The responsibilities of the JGC are listed in Schedule 4 of the IAA and include:

	<ul style="list-style-type: none"> • Monitoring the performance of the Operator • Making decisions on asset class sub-funds to be made available by the Operator to implement the individual investment strategies of the eight Funds • Providing accountability to the participating Funds on the management of the Pool • Having responsibility for reporting on the Pool to the UK Government and other stakeholders • Having oversight of an Officer Working Group
1.08	The JGC will operate on a 'One Fund, One Vote' basis and accordingly each administering authority will nominate a representative member and a deputy. These roles have some importance given they will be involved in national LGPS matters. The Council is being asked to agree that these should be the Clwyd Pension Fund Committee Chair and Vice-Chair respectively.
1.09	The IAA also has a number of matters which are reserved to the Welsh administering authorities. Given the pensions related nature of the majority of these, the Council is being asked to delegate these functions to the Clwyd Pension Fund Committee, other than the termination of the IAA or any significant changes to the IAA, which will remain the responsibility of Council.
1.10	The IAA provides for one of the eight authorities to act as host authority for the JGC. The host authority will provide administrative and secretarial support to the JGC and will implement decisions made by the JGC. The host authority will also liaise with the Operator on behalf of the administering authorities and will also be responsible for arranging training for members of the JGC. It is proposed that Carmarthenshire County Council (administering authority of the Dyfed Pension Fund) act as host authority for the Wales Investment Pool.
1.11	<p>The proposed amendments to the Constitution shown in Appendix A include:</p> <ul style="list-style-type: none"> • The terms of reference for the Joint Governance Committee • How elected member and officer representatives for the Clwyd Pension Fund will be appointed • The delegation of responsibilities to the elected member representatives • Matters to be delegated to the Clwyd Pensions Fund Committee, including delegating officer and host authority responsibilities • Some further minor changes to the existing Pension Fund delegations not associated with Investment Pooling.
	Timetable
1.12	It is planned to appoint the Operator in the Summer of 2017 with initial assets being held within the ACS from April 2018.

2.00	RESOURCE IMPLICATIONS
2.01	The establishing of the investment pooling arrangements will result in some additional costs which will be agreed on an annual basis by the Clwyd Pension Fund Committee and the other seven administering authorities in Wales. All associated costs in relation to the Clwyd Pension Fund will be met from the Fund. The pooling arrangements may have some staffing implications but they are not known at this point. One of the objectives of pooling is to create longer-term efficiencies.

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	The Clwyd Pension Fund Committee has received a number of previous reports in relation to the investment pooling arrangements. The Clwyd Pension Fund Board, which consists of scheme member and employer representatives, has also been party to those reports and meetings, and has had opportunities to discuss these matters at the Board meetings.
3.02	<p>The councils of all eight administering authorities in Wales are being asked to approve the IAA.</p> <p>Clwyd Pension Fund Committee considered it at their meeting on 16th February. The scheme member representative raised concerns on the following matters:</p> <ul style="list-style-type: none"> • the absence of a scheme member representative on the JGC • the rotation of the Chair and location at each meeting of the JGC • the full delegation of matters to the representative member and his/her deputy without a mechanism for formal consultation with the Clwyd Pension Fund Committee. <p>These matters have been previously considered by the Joint Chairs Group which resulted in the Clwyd Pension Fund Committee resolving that these matters remain as in the draft IAA.</p> <p>The Committee supported:</p> <ul style="list-style-type: none"> • the recommendations of the IAA to Council • the proposed delegations and • that the representative member and his/her deputy be the Chair and Vice-Chair of the Clwyd Pension Fund Committee.

4.00	RISK MANAGEMENT
4.01	How the Wales Investment Pool operates will be key in enabling the Clwyd Pension Fund to implement its investment strategy in the future, and hence may contribute to the cost of the LGPS to employers in future Actuarial Valuations. This risk has been identified as significant in the Clwyd Pension Fund's risk register.

5.00	APPENDICES
5.01	Appendix A – Recommended changes to Constitution Appendix B – Inter Authority Agreement

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<p>Contact Officer: Colin Everett, Chief Executive Telephone: (01352) 702201 E-mail: Chief.Executive@flintshire.gov.uk</p> <p>Contact Officer: Phillip Latham, Clwyd Pension Fund Manager Telephone: (01352) 702264 E-mail: philip.latham@flintshire.gov.uk</p>

7.00	GLOSSARY OF TERMS
7.01	<p>CPF – Clwyd Pension Fund – 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>Administering authority or scheme manager – 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>PFC – Clwyd Pension Fund Committee - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund</p> <p>LPB or PB – Local Pension Board or Pension Board – each LGPS Fund has an LPB. Their purpose is to assist the administering authority in ensuring compliance with the scheme regulations, TPR requirements and efficient and effective governance and administration of the Fund.</p> <p>LGPS – Local Government Pension Scheme – the national scheme, which Clwyd Pension Fund is part of.</p> <p>Actuarial Valuation - The formal valuation assessment of the Fund detailing the solvency position and determine the contribution rates payable by the employers to fund the cost of benefits and make good any existing shortfalls as set out in the separate Funding Strategy Statement.</p> <p>The Inter- Authority Agreement Section 1 provides a list of agreed terms.</p>