

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Tuesday, 8 November 2016
Report Subject	National Guidance
Report Author	Clwyd Pension Fund Manager

EXECUTIVE SUMMARY

Two sets of national guidance have recently been issued :

- DCLG Guidance on Preparing and Maintaining an Investment Strategy Statement, and
- CIPFA Investment Pooling Governance Principles for LGPS Administering Authorities.

Both documents contain key information that Flintshire County Council will need to have regard to when managing the Clwyd Pension Fund. The DCLG guidance on preparing an Investment Strategy Statement is statutory guidance and is referred to as such in the recently laid LGPS Investment Regulations 2016.

Presentations on the key elements will be given to the Committee by the Investment Consultant and the Independent Adviser.

This report outlines the Fund's plans to meet the requirements of the guidance, which will result in additional information being brought back to Committee for approval.

RECOMMENDATIONS

1	That the Committee note and discuss the content of the presentations provided by the Independent Adviser and the Investment Consultant.
2	That the Committee agree the plans for action to meet the requirements of the two sets of guidance.

REPORT DETAILS

1.00	NEW NATIONAL GUIDANCE
1.01	<p>Recently there have been two sets of national guidance issued which apply to LGPS administering authorities in England and Wales:</p> <ul style="list-style-type: none">• DCLG Guidance on Preparing and Maintaining an Investment Strategy Statement, and• CIPFA Investment Pooling Governance Principles for LGPS Administering Authorities. <p>Both documents contain key information that Flintshire County Council will need to have regard to when managing the Clwyd Pension Fund. The DCLG guidance on preparing an Investment Strategy Statement is statutory guidance and is referred to as such in the recently laid LGPS Investment Regulations 2016.</p> <p>Given the length of the guidance, only a brief overview is included within this report as presentations on the key elements will be given to the Committee by the Investment Consultant and the Independent Adviser, respectively.</p>
1.02	<p>DCLG Guidance on Preparing and Maintaining an Investment Strategy Statement</p> <p>This guidance was issued in September 2016 and relates to the requirements under the LGPS (Management and Investment of Funds) Regulations 2016 for administering authorities to prepare an Investment Strategy Statement (ISS). The guidance is statutory and is referred to in the Investment Regulations as such and lists the key points that administering authorities, like Flintshire County Council, will have to consider when preparing their first ISS.</p> <p>The ISS will need to be prepared by 31 March 2017 and will need to include the Fund's approach in the following areas:</p> <ul style="list-style-type: none">• Requirement to invest in a wide variety of investments• An assessment of the suitability of investment types• Risk management• Pooling of investments• Environmental, Social and Governance considerations• Exercising voting rights. <p>The ISS must also set out the maximum percentage of the total value of all investments of Fund money that is to be invested in particular investments or classes of investment. Funds will also need to demonstrate that they have taken "proper advice" in assessing each of these areas.</p>
1.03	<p>As a result of the publication of this guidance, Flintshire County Council will need to produce an ISS for the Clwyd Pension Fund within the required time frame. Whilst the ISS is prescriptive in a number of areas, it also allows LGPS funds flexibility around the setting of limits for specific investments</p>

	<p>and asset classes. The ISS will replace the existing Statement of Investment Principles (SIP). It is likely that most Funds will use the SIP as a starting point for the preparation of the ISS, as it covers a number of the required areas.</p> <p>The ISS must be kept under review, revised from “time to time” and at least every three years.</p> <p>As mentioned above, the guidance on the production of an ISS is statutory and the LGPS Investment Regulations 2016 refer to it as such. When the Government initially consulted on the Investment Regulations a petition was organised by the trade unions which, after receiving more than 100,000 signatures prompted a debate in the House of Commons. The debate was held on 24 October, and the Local Government Minister, Marcus Jones, defended the Regulations, and stated that the Government was “not directing” LGPS investment into UK infrastructure. The debate also focussed on the Secretary of State’s power of intervention, and the Minister also defended the position with regards to Responsible Investing, stating that administering authorities “must act in a way consistent with UK foreign and defence policy”.</p> <p>The debate was concluded by Ian Blackford MP who asked the Government to re-consider the regulations, in particular its position with regard to the power of intervention, and suggested the Pensions Regulator may have a role to play.</p>
1.04	<p>CIPFA Investment Pooling Governance Principles for LGPS Administering Authorities</p> <p>This guidance was issued in October 2016 and was written by CIPFA in partnership with Aon Hewitt. The guidance has been produced to support Local Government Pension Scheme (LGPS) administering authorities in England and Wales in demonstrating best practice governance during the implementation of, and when participating in, LGPS investment pooling arrangements. It also considers the governance of the Joint Oversight Committees in the management of the pooling arrangements.</p> <p>The guidance highlights how these investment pooling arrangements will have a fundamental impact on how LGPS pension fund investments are managed, including who makes decisions; and how these decisions are actioned and monitored. It notes that, although much of this responsibility will move to the investment pool operator, it is critical that administering authorities continue to operate strong governance arrangements, and a key part of this will be the transformation from their current investment performance monitoring to how they monitor the investment pooling arrangements.</p> <p>The guidance then highlights some key elements that will need to be considered by administering authorities, including but not limited to:</p> <ul style="list-style-type: none"> • Knowledge and skills • Conflicts of interest • Business planning • Mutual policies

	<ul style="list-style-type: none"> • The impact on the Myners Principles • The role of the Chief Finance Officer <p>The guidance also highlights specific elements that should be considered during the implementation period.</p>
1.05	<p>The guidance will assist Flintshire County Council to understand which elements of its existing policies and procedures will need to be updated as a result of the implementation of asset pooling. It is expected that a number of policies will be brought to the Committee for updating in the next 12 months.</p> <p>Officers involved in the Wales Pooling working groups will also request that the guidance is considered as part of the pooling implementation, and will provide ongoing feedback on this aspect throughout the implementation project.</p>

2.00	RESOURCE IMPLICATIONS
2.01	There are no direct resource implications as a result of these sets of guidance.

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	Updates to policies and procedures sometimes require consultation with interested stakeholders, such as employers. Should any policies requiring consultation be updated as a result of the guidance, then appropriate consultation will be carried out.

4.00	RISK MANAGEMENT
4.01	<p>The following risks on the Fund's Risk Register may be affected by this guidance:</p> <ul style="list-style-type: none"> • Investment and/or funding objectives and/or strategies are no longer fit for purpose – legislation changes (funding & investment risk reference 6, current impact: critical/ likelihood: very high) – concern that external factors (e.g. Directions by the Secretary of State) can direct changes to investment strategy or to invest in specific assets. The requirement to take “proper advice” could assist in determining the appropriateness of such investments, however, the risk will continue to be high. • The Fund's objectives/legal responsibilities are not met or are compromised – external factors (governance risk reference 5, currently impact: critical / likelihood: very high) – There continue to be ongoing concerns in relation to external influence, with asset pooling being the key area of concern at the moment. The CIPFA guidance could assist in influencing how good governance is achieved, particularly at the Joint Oversight Committee level. However, it is clearly just a small part of the jigsaw and the risk will continue to be high.

5.00	APPENDICES
5.01	None.

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<p>The DCLG guidance can be found here. Copies of the CIPFA guidance can be provided on request.</p> <p>Contact Officer: Philip Latham, Clwyd Pension Fund Manager Telephone: 01352 702264 E-mail: philip.latham@flintshire.gov.uk</p>

7.00	GLOSSARY OF TERMS
7.01	<p>(a) CPF – Clwyd Pension Fund (The 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>(b) 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>(c) PFC – Clwyd Pension Fund Committee (the Committee) - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund</p> <p>(d) LGPS – Local Government Pension Scheme – the national scheme, which Clwyd Pension Fund is part of</p> <p>(e) SIP – Statement of Investment Principles – the main document that outlines our strategy in relation to the investment of assets in the Clwyd Pension Fund. From 1st April 2017, this will be replaced by the Investment Strategy Statement (ISS)</p> <p>(f) TPR – The Pensions Regulator – a government organisation with legal responsibility for oversight of some matters relating to the delivery of public service pensions including the LGPS and CPF.</p> <p>(g) DCLG – Department of Communities and Local Government – the government department responsible for the LGPS legislation.</p> <p>(h) CIPFA – Chartered Institute of Public Finance and Accountancy – the institute which develops professional guidance on finance and accountancy matters to which CPF should comply.</p>

	(i) Myners Principles – a set of principles designed to enable best practice in the governance of pension schemes
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