

**AMENDMENTS ARISING FROM CHANGES TO LOCAL GOVERNMENT
PENSION SCHEME GOVERNANCE ARRANGEMENTS**

To: **Constitution and Ethics Committee**

Meeting Date: **26th January 2017**

From: **LGSS Director of Law & Governance
and Monitoring Officer**

Purpose: **To consider amendments arising from changes to Local
Government Pension Scheme governance arrangements.**

Recommendation: **The Committee is recommended to consider the proposed
amendments set out below and determine whether to
recommend to full Council that the Council's constitution
be amended accordingly.**

<i>Officer contact:</i>	
Name:	Quentin Baker
Post:	Director of Law & Governance and Monitoring Officer
Email:	quentin.baker@cambridgeshire.gov.uk
Tel:	01223 727961

1. BACKGROUND

- 1.1 This report proposes amendments to the Council's constitution. These amendments are recommended in order to ensure that the constitution is consistent with Council policies, supports efficient and effective working and reflects the latest legislative developments and best practice.

2. NEW LOCAL GOVERNMENT PENSION SCHEME GOVERNANCE ARRANGEMENTS (ASSET POOLING)

- 2.1 Following recent amendments to the Local Government Pension Scheme (LGPS) Investment Regulations, changes are required to the operational and governance arrangements of the Cambridgeshire Pension Fund. The revised regulations require all administering authorities in England and Wales to enter into joint (pooled) arrangements for the management of their investment assets, with effect from 1 April 2018. The intended outcome is an improvement in economies of scale and investment capacity.

- 2.2 In preparation for this new way of working, the Council has decided to collaborate with ten other fund managers, all of whom have a strong record of investment performance, to create a joint pension fund investment pool. The authorities/funds in question are:

- Cambridgeshire County Council
- East Sussex County Council
- Essex County Council
- Hampshire County Council
- Hertfordshire County Council
- Isle of Wight Council
- Kent County Council
- Norfolk County Council
- Northamptonshire County Council
- Suffolk County Council
- West Sussex County Council

- 2.3 The funds have taken the name ACCESS for the new pooled arrangement. Together, the funds have collected assets of £33bn, 75% of which are invested across 12 managers. Collectively the funds represent 3,000 employees and 900,000 members.

3. THE NEW JOINT COMMITTEE

- 3.1 In order to ensure there is robust oversight of the joint pension fund investment pool, an Inter Authority Agreement has been created, with formal decision making responsibility exercised via a joint committee established under s.102 of the Local Government Act 1972.
- 3.2 The new joint committee will comprise one councillor from each of the eleven participating authorities. Each council's nominee must be an elected councillor and must be a serving member of the authority's pensions committee throughout the time of their appointment. They need not, however, be a member of the nominating council (i.e. they could be a member of another employing authority co-opted onto the pensions committee). Named


substitutes shall be permitted. The Chairman/woman and Vice-Chairman/woman of the committee shall be elected annually by the committee.

- 3.3 The operational management of the arrangement will be commissioned from an external operator, procured through competitive tender process. That operator will act as an alternative investment fund manager to run and operate one or more collective investment vehicles to allow the administering authorities to pool their respective investments.

4. CHANGES TO THE CONSTITUTION

- 4.1 It is recommended that Part 2 – Articles, Article 8 – Committees be amended to include the LGPS ACCESS Joint Committee in the list of Joint Committees at 8.04.
- 4.2 It is recommended that Part 3C – Responsibility for Functions Joint Committees be amended to include reference to the new joint committee (see **Appendix A**).
- 4.3 It is recommended that Part 3B – Responsibility for Functions Committees of Council Pension Fund Committee be amended (additions in bold and deletions in strikethrough) to reflect the creation of the new Joint Committee (see **Appendix B**).

Source Documents	Location
Agenda and Minutes of Pension Fund Committee	https://cmis.cambridgeshire.gov.uk/ccclive/Committees/tabid/62/ctl/ViewCMIS_CommitteeDetails/mid/381/id/16/Default.aspx

 Cambridgeshire County Council	The Constitution Part 3C - Responsibility for Functions Joint Committees Local Government Pension Scheme (LGPS) ACCESS Joint Committee
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A. LGPS ACCESS JOINT COMMITTEE

1. Parties

- Cambridgeshire County Council
- East Sussex County Council
- Essex County Council
- Hampshire County Council
- Hertfordshire County Council
- Isle of Wight Council
- Kent County Council
- Norfolk County Council
- Northamptonshire County Council
- Suffolk County Council
- West Sussex County Council

2. Status

In order to ensure there is robust oversight of the joint pension fund investment pool, an Inter Authority Agreement has been created, with formal decision making responsibility exercised via a joint committee established under s.102 of the Local Government Act 1972.

3. Membership

One Councillor from each of the eleven participating authorities. Each council's nominee must be an elected councillor and must be a serving member of the authority's Pensions Committee throughout the time of their appointment. They need not, however, be a member of the nominating council (i.e. they could be a member of another employing authority co-opted onto the pensions committee). Named substitutes shall be permitted.

4. Terms of Reference

Part 1 Functions in relation to the Operator

1. **Specifying Operator services:** Deciding, the specification of services and functions that the ACCESS Operator will be required to deliver including the sub-funds and classes of investments required to enable each Council to execute its investment strategy.
2. **Procuring the Operator:** The appointment and management of the operator for assets pooled under the joint arrangement.
3. **Reviewing the Performance of the Operator:** Reviewing the performance of the Operator and making arrangements to ensure that the Joint Committee is provided with regular and

sufficient reports from the Officer Working Group to enable it to do so including but not limited to:

- 3.1 the performance of the Operator against its contractual requirements and any other performance measures such as any Service Level Agreement (SLA) and key performance indicators (KPIs) and Officer Working Group recommendations on any remedial action;
- 3.2 sub-fund investment performance;
- 3.3 investment and operational costs;
- 3.4 performance against the strategic business plan agreed by the Councils
- 4. **Managing the Operator:** The Joint Committee shall:
 - 4.1 Manage the termination or extension of the Operator Contract; and
 - 4.2 Determine any other action to be taken to manage the Operator Contract including the giving of any instruction or the making of any recommendation to the Operator including but not restricted to recommendations on investment managers (within any regulatory constraints that may apply).
- 5. **Appointment of Advisers**
 - 5.1 The Joint Committee may appoint such professional advisers on such terms as it thinks fit. Any procurement of advisers must comply with the Constitution of the Host Authority.

Part 1 Functions in relation to management of Pool Assets

- 6. The Joint Committee shall make recommendations to the Council on the strategic plan for transition of assets that are to become Pool Assets.

Part 2 Functions Concerning Pool Aligned Assets

- 7. Making recommendations to the Councils about Pool Aligned Assets (including proposals concerning the migration of investments-such as passive investments via life fund policies-to become Pool Aligned Assets) in accordance with this Agreement or any other delegation to the Joint Committee by the Councils.

Part 3 Functions concerning Business Planning and Budget

- 8. Make recommendations to the Council (through the Pensions Committee) about the annual strategic business plan for the Pool
- 9. Determine the budget necessary to implement that plan and meet the expenses of undertaking the Specified Functions (insofar as they will not be met by individual transaction costs paid by Councils to the Operator) in accordance with Schedule 5 hereof.
- 10. Keep the structures created by this Agreement under review from time to time and make recommendations to the Council about:
 - 10.1 the future of the Pool;
 - 10.2 any changes to this Agreement; and

- 10.3 as to the respective merits of continuing to procure operator services by means of a third party or by creation of an operator owned by the Councils.
11. The Joint Committee is required to commence the first review of this Agreement by the second anniversary of its first meeting.
12. The Joint Committee is required to undertake a review of the Pool and this Agreement to be completed 18 months before the expiry of each Operator Contract.

5. Standing Orders

- 5.1 The Committee will be governed by the Standing Orders set out in Appendix ? **(currently Schedule 3)**, as amended from time to time.

6. Functions of the LGPS ACCESS Joint Committee

The LGPS ACCESS Joint Committee shall exercise functions delegated by the Council as set below:

- The procurement, appointment and management of the operator for assets pooled under the joint arrangement;
- The appointment of professional advisors as required for the effective management of assets pooled under the joint arrangement;
- Functions related to the management of pooled assets;
- Functions concerning pool aligned assets; and
- Functions relating to the development of an annual business plan and budget relating to the management of assets pooled under the joint arrangement



9. PENSION FUND COMMITTEE

Membership

Representatives of	Number of seats	Term of Appointment	Method of Appointment
Cambridgeshire County Council Members	6	4 years from County Council elections	Determined by Cambridgeshire County Council Full Council.
All other local authorities, police and fire	2	4 years	Nominations determined by a leaders/chief executives' group. Selection would be linked to the respective employers' election cycle. Details of process to be agreed by the Chairman/woman.
All other employers	1	4 years from 2014	Nominations to be determined by eligible employers. Details of process to be agreed by the Chairman/woman.
Active scheme members	1	4 years from 2014	Determined by Unison. Where Unison fails to nominate a Committee Member for any period of 6 months or more, nominations will be requested from all eligible active scheme members and a representative will be picked following interviews. Details of process to be agreed by the Chairman/woman.
Deferred and pensioner scheme members	1	4 years from 2014	Determined by Unison. Where Unison fails to nominate a Committee Member for any period of 6 months or more, nominations will be requested from all eligible deferred and pensioner scheme members and a representative will be picked following interviews. Details of process to be agreed by the Chairman/woman.
Total Committee Members	11		

Substitutes: Full Council may appoint substitute members to the Pension Fund Committee in accordance with the scheme of substitution.

The Chairman/woman and Vice-Chairman/woman of the Committee shall be elected by the Pension Fund Committee.

Delegated Authority	Statutory Reference/ Condition
<p>Authority to set the pension fund's objectives and determine and maintain appropriate strategies, policies and procedures with ongoing monitoring in relation to the following areas:</p> <ul style="list-style-type: none"> • Funding Strategy – ongoing monitoring and management of the liabilities including ensuring appropriate funding plans are in place for all employers in the Fund, overseeing the triennial valuation and interim valuations, and working with the actuary in determining the appropriate level of employer contributions for each employer. • Investment strategy – to determine the Fund's investment objectives and to set and review the long-term high level investment strategy to ensure these are aligned with the Fund's specific liability profile and risk appetite and to oversee the delivery of the investment strategy by the LGPS ACCESS Joint Committee. • Administration Strategy – the administration of the fund including collecting payments due, calculating and paying benefits, gathering from and providing information to scheme members and employers. • Communications Strategy – determining the methods of communications with the various stakeholders including scheme members and employers. • Discretions – determining how the various administering authority discretions are operated for the Fund. • Governance - the key governance arrangements for the Fund, including representation. • Risk Management Strategy – to include regular monitoring of the Fund's key risks and agreeing how they are managed and/or mitigated. 	<p>Regulations under the Superannuation Act 1972</p>
<p>Authority to approve and apply the policy on, and to take decisions relating to, employers joining and leaving the Fund. This includes which employers are entitled to join the Fund, any requirements relating to their entry, ongoing monitoring and the basis for leaving the Fund.</p>	<p>As above</p>
<p>Authority to agree the terms and payment of bulk transfers into and out of the Fund in consultation with the S.151 Officer.</p>	<p>As above</p>
<p>Authority to consider and approve business plans at least annually and monitor progress against them and to monitor compliance with the Myners Principles on an annual basis.</p>	<p>As above</p>

Delegated Authority	Statutory Reference/ Condition
Authority to develop and maintain a training policy for all Pension Fund Committee and sub-committee members and for all officers of the Fund, including determining the Fund's knowledge and skills framework, identifying training requirements, developing training plans and monitoring attendance at training events.	Regulations under the Superannuation Act 1972
Authority to select, appoint, monitor and where necessary terminate advisors to the Fund not solely relating to investment matters.	As above
Authority to approve and issue Administering Authority responses to consultations on LGPS matters and other matters where they may impact on the Fund or its stakeholders.	As above
Authority to consider and determine where necessary, alternative investment strategies for participating employers.	As above
Authority to oversee the work of the Investment Sub-Committee and consider any matters put to them by the Investment Sub-Committee.	As above
Authority to set up Sub-Committees and Task and Finish Groups including jointly with other LGPS Administering Authorities.	As above
Authority to review and amend the Statement of Investment Principles Strategic Investment policies on an annual appropriate regular basis, in consultation with the S.151 Officer.	As above
Authority to manage any other strategic or key matters pertaining to the Fund not specifically listed above.	As above
Production of an annual report for consideration by the Council.	
In relation to pooled asset arrangements under the LGPS ACCESS Joint Committee: <ul style="list-style-type: none"> • Determining the requirements of the Administering Authority in relation to the provision of services by LGPS ACCESS to enable it to execute its investment strategy effectively; • Receiving and considering reports from the LGPS ACCESS Joint Committee in order to ensure that the Fund's investor rights and views are represented appropriately; and • Ensuring arrangements are in place to identify and manage the risks and costs associated with investment pooling. 	

9.1 PENSION FUND COMMITTEE INVESTMENT SUB-COMMITTEE

The Pension Fund Committee shall establish an Investment Sub-Committee with the following membership and powers:-

Membership

All Investment Sub-Committee Members shall be drawn from Committee membership. The Chairman/woman and Vice-Chairman/woman of the Investment Sub-Committee shall be the Chairman/woman and Vice-Chairman/woman of the Committee respectively.

Representatives of	Number of seats	Term of Appointment	Method of Appointment
Cambridgeshire County Council Members	4	As above	Determined by Cambridgeshire County Council representatives on the Committee. Details of process to be agreed by the Chairman/woman.
All other employers	2	Up to term of office ceasing in accordance with Committee membership or six years whichever is later	Determined by non-Cambridgeshire County Council employer representatives at the Committee. Details of process to be agreed by the Chairman/woman.
Scheme member representative	1	Up to term of office ceasing in accordance with Committee membership or six years whichever is later	By agreement between Active and Deferred/Pensioner Representatives on Committee. Details of process to be agreed by the Chairman/woman.
Total	7		

Substitutes: the Pension Fund Committee may appoint substitute members to the Investment Sub-Committee in accordance with the scheme of substitution. Similarly, substitutes for the representatives of All other employers and of Scheme members may be appointed by eligible employers and by Unison respectively.

Delegated Authority	Statutory Reference/ Condition
Authority to implement the Fund's investment strategy including setting benchmarks and targets for the investment pool operator and reviewing performance against those benchmarks.	Regulations under the Superannuation Act 1972
Authority to review and maintain the detailed asset allocation of the Fund within parameters agreed with the Pensions Committee.	As above

Delegated Authority	Statutory Reference/ Condition
Authority to appoint and terminate investment managers to the Fund and to monitor the performance of investment managers leading to review and decisions on termination where necessary where this is not undertaken by the LGPS ACCESS Joint Committee.	As above
Authority to appoint and monitor and where necessary terminate external advisors and service providers solely relating to investment matters, for example, the Fund Custodian, independent investment advisers, investment consultants and investment managers where this is not undertaken by the LGPS ACCESS Joint Committee.	Regulations under the Superannuation Act 1972
Authority to set benchmarks and targets for the Fund's investment managers where this is not undertaken by the LGPS ACCESS Joint Committee.	As above
Authority to monitor the risks inherent in the Fund's investment strategy in relation to the Fund's funding level.	As above
Authority to determine operational matters such as rebalancing and the most appropriate methodology for asset transitions within parameters agreed by the Pension Fund Committee.	As above
Authority to monitor and review: <ul style="list-style-type: none"> • Legislative, financial and economic changes relating to investments and their potential impact on the Fund; • The investment management fees paid by the Fund and to implement any actions deemed necessary; • The transactions costs incurred by the Fund across its investment mandates and raise relevant issues and concerns with the investment providers managers as necessary; • The investment managers' providers adoption of socially responsible investment considerations, on an annual basis, including corporate governance matters and a review of compliance with the UK Stewardship Code. 	As above
Authority to receive reports on Interim Manager meetings and other operational meetings. from investment providers.	As above
Authority to undertake any task as delegated by the Pension Fund Committee.	As above
Authority to provide minutes and such other information to the Pension Fund Committee as they may request from time to time.	As above