



# Complete Agenda

**Democratic Service**  
Swyddfa'r Cyngor  
CAERNARFON  
Gwynedd  
LL55 1SH

Meeting

**PENSIONS COMMITTEE**

Date and Time

**2.00 pm, THURSDAY, 19TH JANUARY, 2017**

Location

**Ystafell Gwyrfai, Council Offices, Caernarfon, Gwynedd. LL55 1SH**

Contact Point

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## **PENSIONS COMMITTEE**

### **MEMBERSHIP (7)**

#### **Plaid Cymru (3)**

Councillors

Peredur Jenkins

W. Tudor Owen

Simon Glyn

#### **Independent (2)**

Councillors

Trevor Edwards

John Pughe Roberts

#### **Labour (1)**

Councillor Glyn Thomas

#### **Liberal Democrats (1)**

Councillor Stephen W Churchman

#### **Co-opted Members**

Hywel Eifion Jones Anglesey County Council  
Margaret Lyon Conwy County Borough Council

#### **Aelodau Ex-officio / Ex-officio Members**

Chairman and Vice-Chairman of the Council

# **A G E N D A**

## **1. APOLOGIES**

To receive any apologies for absence

## **2. DECLARATION OF PERSONAL INTEREST**

To receive any declaration of personal interest

## **3. URGENT ITEMS**

To note any items which are urgent business in the opinion of the Chairman so that they may be considered

## **4. MINUTES**

4 - 8

The Chairman shall propose that the minutes of the meetings of this committee held on 20.10.16 and 10.11.16 to be signed as a true record

## **5. FUNDING STRATEGY STATEMENT 2017/18 - 2019/20**

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To consider the Investment Managers Report

## **6. INVESTMENT STRATEGY STATEMENT 2017/18 - 2019/20**

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To consider the Investment Managers Report

## **7. WALES INVESTMENT POOL**

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To consider the Head of Finance Report

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## SPECIAL PENSIONS COMMITTEE, 20.10.2016

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**Present:** Councillors: Stephen Churchman (Chairman), Peredur Jenkins, Margaret Lyon (Conwy County Borough Council Representative), W. Tudor Owen, John P. Roberts and Sharon Warnes (Chair of the Pensions Board)

Officers: Dafydd Edwards (Head of Finance Department), Iwan Evans (Head of Legal Services), Nicholas Hopkins (Pensions Manager) and Lowri Haf Evans (Member Support Officer).

### 1. APOLOGIES

Apologies were received from Councillors Trevor Edwards, Seimon Glyn, Glyn Thomas and H. Eifion Jones (Isle of Anglesey County Council Representative),

### 2. DECLARATION OF PERSONAL INTEREST

None to note

### 3. URGENT ITEMS

None to note

### 4. WALES INVESTMENT POOL

- (a) Submitted – the report of the Head of Finance Department updating the Members on the progress made to the development of the Wales Investment Pool for the purpose of managing the investment assets of eight Local Government Pension Schemes in Wales on a collaborative basis. It was noted that the project had moved forward since an agreement had been reached to set up a General Investment Vehicle in September 2015, with additional information about the process being submitted in February 2016 (stating what would be submitted to the DCLG) and later on, in June 2016 (about the presentation to the Treasury and the DCLG).
- (b) Attention was drawn to the need for regular reporting on the proposal to co-invest, and sharing current information to ensure consistency. It was reported that the work of administrating the Gwynedd Fund would remain in Gwynedd with investment taking place partly in Gwynedd and in the Wales Investment Pool. It was confirmed that the Pensions Committee would continue to set out the Investment Strategy and would decide how many assets would need to be categorised. Having agreed on the portfolio, those elements would be transferred to the manager (operator) to be implemented, appointing managers (companies) to invest on behalf of the eight funds in Wales.
- (c) That the eight funds in Wales were constant, was reiterated; and there was agreement on the need to set up a Joint Committee that would set out a governance procedure to ensure accountability and to challenge decisions. In order for this to be implemented, it was suggested that one representative from each of the eight funds would sit on this Joint Committee.

Reference was made to the content of the report along with the memorandum of understanding (draft) in which the procedures for the short term and the future were explained.

- ch) Considering the next steps, the Head of Finance explained that a formal report would be submitted to the Full Council in March 2017 which would recommend that the Council revise the Council's constitution for the future, so that the Joint Committee would retain some of the powers of the Pensions Committee.
- (d) The Head of Legal Services confirmed that, in embarking on a formal procedure of setting up a Joint National Committee, initial steps would need to be in place to begin the procurement process for a new investment procedure. Consequently, as highlighted, it would be appropriate to establish a clear framework of governance. It was noted that the memorandum of understanding would not legally bind the Council into the process, but would rather create a framework to ensure the input of Chair persons and Senior Finance Officers to the process and allow the initial work to commence. In addition, it was noted that the Joint Committee did not have the right to make decisions, only the right to make recommendations and support the process, providing guidance as required.
- (dd) The Chairman highlighted the fact that much additional work had been completed by Gwynedd Council Finance Department and Legal Department; and all officers involved with that work were thanked.

#### **RESOLVED**

- i. **That the Committee notes the progress to the development of the Wales Investment Pool.**
- ii. **That the Committee approves the draft Memorandum of Understanding.**
- iii. **That the Committee delegates the right to agree any changes to the Memorandum of Understanding to the Head of Finance, in consultation with the Chairman.**
- iv. **That the Committee appoints a Chairman, Councillor Stephen Churchman, to represent the Committee on the Joint Chair Persons' Group, or the Vice-chairman, Councillor Peredur Jenkins, in the Chairman's absence.**

The meeting commenced at 1pm and concluded at 1:20pm.

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**PENSIONS COMMITTEE 10.11.2016**

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**Present:** Councillors: Stephen Churchman (Chairman), Trevor Edwards, Peredur Jenkins, H. Eifion Jones (Anglesey Council Representative), Margaret Lyon (Conwy Borough Council Representative), John P. Roberts, Glyn Thomas and Huw Trainor (Member of the Pensions Board)

Officers: Dafydd Edwards (Head of Finance Department), Caroline Roberts (Investment Manager), Nicholas Hopkins (Pensions Manager) and Lowri Haf Evans (Member Support Officer).

**1. APOLOGIES**

Apologies were received from Councillors Seimon Glyn and Tudor Owen

**2. DECLARATION OF PERSONAL INTEREST**

None to note

**3. URGENT ITEMS**

None to note

**4. MINUTES**

The Chairman signed the minutes of the previous meeting of this committee, held on 15 September 2016, as a true record.

**5. 2016/17 TREASURY MANAGEMENT – MID YEAR REVIEW**

For information, the Investment Manager gave a presentation and background to the report, where it was explained that Councils were required, under the CIPFA code of conduct, to report on the performance of the treasury management function at least twice a year. The treasury's activities were highlighted in the report along with the associated risk monitoring and risk management.

It was noted that the Bank's base interest rates had fallen to 0.25% in August and that the impact of this would take time to work its way through the system. It was also suggested that interest rates were likely to fall further and an observation was made on the introduction of negative interest rates. A seminar would be held in January with Arlingclose (the Council's Treasury Consultants) to discuss management of the treasury. This was highlighted, and it was noted that members of the Scrutiny Committee had already proposed that this invitation be extended to members of the Pensions Committee.

Regarding investments made by Heritable Bank, it was noted that the authority had now regained 98% of its investments with further distributions likely.

**RESOLVED TO ACCEPT THE REPORT FOR INFORMATION**

## **6. ACTUARIAL VALUATION 2016 - UPDATE ON THE PROCESS**

Having received the individual rates of employers' general contributions on the morning of 10 November, the situation was reported to be good. Regarding budget levels based on agreed funding, it was noted that the lack of funding had fallen from 85% in 2013 to 91% in 2016. The main reason for the change, it was reported, was that the returns on investment had been better than expected. It was noted that there would be a reduction in the level of employers' pensions contributions to fund the commitments of past services. But, the valuation of future services commitments and the level of employers' pensions contributions required to fund those commitments would increase.

**RESOLVED: TO ACCEPT THE REPORT**

## **7. POOLING OF RESOURCES**

The report of the Investment Manager was submitted, providing an update on the situation of pooling resources in Wales. Members were reminded that the eight LGPS funds in Wales had submitted a proposal to the UK Government that would enable them to pool their investments of £13bn. The main aim of the enterprise is to achieve savings on investment management costs through economies of scale and by providing the funds with access to a range of viable investment opportunities.

It was reported that the enterprise was creating additional work that was detailed and complex e.g. - arrangements for collaborating, seeking of legal advice and setting up contracts. Nevertheless, the success of the enterprise will ensure better returns for the fund.

In response to a question, it was reported that Gwynedd Fund would continue as a stand-alone fund and that the Pensions Committee would continue to decide how the portfolio would be divided among investment categories, but that companies that manage those investments became options within the pool.

**RESOLVED TO ACCEPT THE REPORT FOR INFORMATION**

## **8. UPDATE ON THE GUARANTEED MINIMUM PENSIONS(GMP) RECONCILIATION EXERCISE**

A report was submitted to the Pensions Manager on the practice of reconciling the Guaranteed Minimum Pension (GMP). Members were reminded that the Committee in its meeting on 15 December 2015 had approved the establishment of an internal team to reconcile the GMP in accordance with recommendations by HMRC. In order to complete the task by 31 March 2018, it was explained that team members' original contracts would need to be extended in order to respond to the increased work load (total costs for January 2017 - March 2018 = £81,972). It was highlighted that the cost would be very reasonable compared with other funds in Wales as some are considering outsourcing the work at an estimated cost of £500k.

In addition, it was noted that the Treasury, to simplify the process of reconciling data, had recommended that the weekly GMP sum paid by the Public Sector Pensions Plan and HMRC fall within the tolerance level of £2 a week. It was noted that the Government had suggested that Committee approval be sought for this tolerance level.

In response to a question about the cost of extending contracts, it was reported that the team possessed unique specialisms and that it would be sensible to use this valuable resource.

In response to a question about the £2 weekly tolerance level, it was highlighted that this practice would enable our staff to close a file, rather than spending too much time to minor details.

**RESOLVED: TO ACCEPT THE REPORT**

- i. APPROVE THE CONTINUED FUNDING OF THE RECONCILING PROJECT UNTIL THE END OF MARCH 2018 IN ORDER TO ALLOW THE HEAD OF FINANCE DEPARTMENT TO TEMPORARILY EXTEND STAFF CONTRACTS.**
- ii. APPROVE A TOLERANCE LEVEL OF £2 PER WEEK IN ORDER TO SIMPLIFY THE PROCESS OF RECONCILING INFORMATION.**

The meeting commenced at 1pm and ended at 1:20pm



<b>MEETING</b>	<b>PENSIONS COMMITTEE</b>
<b>DATE</b>	<b>19 JANUARY 2017</b>
<b>TITLE</b>	<b>FUNDING STRATEGY STATEMENT 2017/18 – 2019/20</b>
<b>RECOMMENDATION</b>	<b>TO CONFIRM THE ASSUMPTIONS TO BE MADE IN THE FUNDING STRATEGY STATEMENT</b>
<b>AUTHOR</b>	<b>CAROLINE ROBERTS, INVESTMENT MANAGER</b>

## 1. INTRODUCTION

- 1.1 We are required to review and publish the triennial Funding Strategy Statement (FSS) by 31 March 2017. Gwynedd’s current FSS was approved by the Pensions Committee on 17 March 2014.
- 1.2 As part of the review the administering authority will have to consult with the scheme employers, the fund actuary and adviser, and any other persons we consider appropriate.

## 2. ACTUARIAL VALUATION

- 2.1 The triennial actuarial valuation of the Fund is currently being undertaken. The preliminary results were available in November and have been discussed with the individual employers. Final reports are currently being prepared for each employer.
- 2.2 The actuarial valuation has been prepared using assumptions agreed with the actuary. The deficit recovery periods applied to the different categories of employer are prudent and consistent with the previous valuation.
- 2.3 For the previous actuarial valuation the ‘Compass’ system was adopted to develop a longer term plan for employer contributions for secure long term employers. This spreads the increase or decrease in employer contributions over a longer period and restricts the change in each financial year. This system has been used for the 2013 and 2016 valuations for the relevant employers. For these employers it is appropriate to keep their contribution rate at the same level as for 2016/17.
- 2.4 As part of the 2013 valuation this committee decided to disband the two pools for smaller employers and that ill-health insurance be compulsory for the employers concerned. This will continue following the 2016 valuation.
- 2.5 The preliminary results which were provided for employers in November 2016 showed that a number of employers are now in surplus and therefore do not have any deficit payments to make over there next three years. Some employers are not in this position and therefore will be required to pay deficit contributions each month.
- 2.6 As all employers are likely to be required to continue making savings in the next three years, it is prudent to collect employer contributions in respect of any accumulated deficit as a fixed cash amount spread over 12 months of the year. This continues the policy adopted three years ago and protects the cash flow of the pension fund if there are significant changes in payroll due to reductions in the number of staff employed.

- 2.7 An employers' meeting was held on 10<sup>th</sup> November 2016 when the preliminary actuarial results were presented and discussed.

### **3. DRAFT FUNDING STRATEGY STATEMENT (FSS)**

- 3.1 A draft FSS is attached in Appendix A. This is substantially complete with just the results of one employer outstanding. The draft has been sent to the actuary, Hymans Robertson, for comments and their response will be reported at the meeting.
- 3.2 The Committee now needs to confirm the policies in the draft FSS for consultation with all the Fund's employers. Hence, the Committee is asked to decide on the following issues.

#### **3.3 EQUITY RISK PREMIUM**

This is the anticipated excess return from equities compared to the return from gilts. This refers to the difference between the expected return achieved by equities and the expected return from gilts. As the assumed difference between the expected returns becomes greater, the risk increases and the funding basis becomes less prudent. The anticipated excess return from equities assumption used in the 2013 valuation was 1.4%. Due to the fact that bond rates, which are used to calculate future liabilities, were at a historically low level at 31 March 2013 but have improved since that date and are expected to increase in the future, the anticipated excess return from equities has been set at 1.7%. This will smooth the employer contributions over an exceptional period and will be reviewed at the next valuation with the aim of reducing to 1.4% when the return from gilts improves.

#### **3.4 DEFICIT RECOVERY PERIODS**

In the 2010 valuation the administering authority continued with the following deficit recovery periods:

- Statutory bodies – 20 years
- Grwp Llandrillo Menai – 15 years
- All other employers – future working lifetime.

These periods have also been used for the 2013 and 2016 valuations.

#### **3.5 MAJOR BODIES WITH TAX RAISING POWERS**

Major bodies with tax raising powers will continue to pay the same contribution rate as their 2016/17 rate.

#### **3.5 PHASING IN OF CONTRIBUTION INCREASES**

Apart from Best Value Admission Bodies, regulations permit all other employers to phase in contribution rises. In the 2010 valuation, the Committee decided that employers facing an increase can phase in the increased rate over a number of years subject to certain criteria. For the 2016 valuation increases may be spread over 6 years. Employers who have a reduction in their contribution rate will move immediately to that rate at 1 April 2017.

### **3.6 COLLECTION OF DEFECITS**

Employers who are in deficit pay additional employer contributions in order to recover the deficit. The policy adopted for the 2013 valuation was that deficit payments would be expressed as an annual lump sum to be paid in 12 monthly instalments as part of their employer contributions. This policy will continue following the 2016 valuation.

## **4. SUMMARY**

Prior to consulting with employers on the Funding Strategy Statement the Committee is asked to confirm the assumptions and policies outlined in section 3 of this report.

Following the consultation process the committee will receive the final version of the Funding Strategy Statement for adoption by 31 March 2017.

## **Gwynedd Pension Fund**

### **Funding Strategy Statement**

#### **1 Introduction**

##### **1.1 What is this document?**

This is the Funding Strategy Statement (FSS) of the Gwynedd Pension Fund (“the Fund”), which is administered by Gwynedd Council, (“the Administering Authority”).

It has been prepared by the Administering Authority in collaboration with the Fund’s actuary, Hymans Robertson LLP, and after consultation with the Fund’s employers and investment adviser. It will be effective from 26 March 2017

##### **1.2 What is the Gwynedd Pension Fund?**

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the Gwynedd Pension Fund, in effect the LGPS for the Gwynedd area, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund’s assets grow over time with investment income and capital growth; and
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in [Appendix B](#).

##### **1.3 Why does the Fund need a Funding Strategy Statement?**

Employees’ benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees’ contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers' contributions, and
- prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in Appendix A.

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- the Fund's policies on admissions, cessations and bulk transfers;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles / Investment Strategy Statement (see Section 4)

#### **1.4 How does the Fund and this FSS affect me?**

This depends on who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, and in what circumstances you might need to pay more. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;
- a Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

#### **1.5 What does the FSS aim to do?**

The FSS sets out the objectives of the Fund's funding strategy, such as:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;

- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (**NB** this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

## **1.6 How do I find my way around this document?**

In Section 2 there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In Section 3 we outline how the Fund calculates the contributions payable by different employers in different situations.

In Section 4 we show how the funding strategy is linked with the Fund's investment strategy.

In the Appendices we cover various issues in more detail if you are interested:

- A. the regulatory background, including how and when the FSS is reviewed,
- B. who is responsible for what,
- C. what issues the Fund needs to monitor, and how it manages its risks,
- D. some more details about the actuarial calculations required,
- E. the assumptions which the Fund actuary currently makes about the future,
- F. a glossary explaining the technical terms occasionally used here.

If you have any other queries please contact Caroline Roberts, Investment Manager in the first instance at her e-mail address [carolinelesleyroberts@gwynedd.llyw.cymru](mailto:carolinelesleyroberts@gwynedd.llyw.cymru).

## **2 Basic Funding issues**

(More detailed and extensive descriptions are given in [Appendix D](#)).

### **2.1 How does the actuary measure the required contribution rate?**

In essence this is a three-step process:

1. Calculate the ultimate funding target for that employer, i.e. the ideal amount of assets it should hold in order to be able to pay all its members' benefits. See [Appendix E](#) for more details of what assumptions we make to determine that funding target;
2. Determine the time horizon over which the employer should aim to achieve that funding target. See the table in [3.3](#) and [Note \(c\)](#) for more details;
3. Calculate the employer contribution rate such that it has at least a given probability of achieving that funding target over that time horizon, allowing for different likelihoods of various possible economic outcomes over that time horizon. See [2.3](#) below, and the table in [3.3 Note \(e\)](#) for more details.

### **2.2 What is each employer's contribution rate?**

This is described in more detail in [Appendix D](#). Employer contributions are normally made up of two elements:

- a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including administration expenses. This is referred to as the "*Primary rate*", and is expressed as a percentage of members' pensionable pay; plus
- b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "*Secondary rate*". In broad terms, payment of the Secondary rate will aim to return the employer to full funding over an appropriate period (the "time horizon"). The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of any higher rate will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer's contributions.

### **2.3 What different types of employer participate in the Fund?**

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

**Scheduled bodies** - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

**Designating employers** - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as 'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer – **community admission bodies** ("CAB") or those providing a service on behalf of a scheme employer – **transferee admission bodies** ("TAB"). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met. (NB The terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term 'admission bodies'; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers).

#### **2.4 How does the measured contribution rate vary for different employers?**

All three steps above are considered when setting contributions (more details are given in [Section 3](#) and [Appendix D](#)).

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners' life expectancies). However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation;
2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and
3. The **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

Any costs of non ill-health early retirements must be paid by the employer, see [3.6](#).

Costs of ill-health early retirements are covered in [3.7](#) and [3.8](#).



## **2.5 How is a deficit (or surplus) calculated?**

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets (see [Appendix D](#), section [D5](#), for further details of how this is calculated), to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

It is important to note that the deficit/surplus and funding level are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

In short, deficits and funding levels are short term measures, whereas contribution-setting is a longer term issue.

## **2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?**

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher Pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels;
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services at a reasonable cost.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;

- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see [3.1](#)). In deciding which of these techniques to apply to any given employer, the Administering Authority takes a view on the financial standing of the employer, i.e. its ability to meet its funding commitments and the relevant time horizon.

The Administering Authority will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc.

For instance, where the Administering Authority has reasonable confidence that an employer will be able to meet its funding commitments, then the Fund will permit options such as stabilisation (see [3.3 Note \(b\)](#)), a longer time horizon relative to other employers, and/or a lower probability of achieving their funding target. Such options will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a shorter deficit recovery period relative to other employers, and/or a higher probability of achieving the target may be required.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see [Appendix A](#).

### **3 Calculating contributions for individual Employers**

#### **3.1 General comments**

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, the Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?
2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
3. What probability is required to reach that funding target? This will always be less than 100% as we cannot be certain of future market movements. Higher probability "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority may, at its sole discretion, direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

#### **3.2 The effect of paying lower contributions**

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three step process above. At their absolute discretion the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required probability of meeting the funding target;
- permit an employer to participate in the Fund's stabilisation mechanisms;
- permit extended phasing in of contribution rises or reductions;
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in lieu of a higher contribution rate than would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the pace of paying contributions;
- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution may lead to higher contributions in the long-term; and

- it may take longer to reach their funding target, all other things being equal.

Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

Section 3.4 onwards deals with various other funding issues which apply to all employers.

### 3.3 The different approaches used for different employers

Type of employer	Scheduled Bodies		Community Admission Bodies and Designating Employers		Transferee Admission Bodies
Sub-type	Local Authorities, Police and Parc Cenedlaethol Eryri	All other Scheduled Bodies (Town and Parish Councils)	Open to new entrants	Closed to new entrants	(all)
Funding Target Basis used	Ongoing, assumes long-term Fund participation (see <a href="#">Appendix E</a> )		Ongoing, but may move to “gilts basis” - see <a href="#">Note (a)</a>		Ongoing, assumes fixed contract term in the Fund (see <a href="#">Appendix E</a> )
Primary rate approach	(see <a href="#">Appendix D – D.2</a> )				
Stabilised contribution rate?	Yes - see <a href="#">Note (b)</a>	No	No	No	No
Maximum time horizon – <a href="#">Note (c)</a>	20 years	20 years	Future working lifetime + 33%	Future working lifetime + 33%	Outstanding contract term
Secondary rate – <a href="#">Note (d)</a>	Monetary amount	Monetary amount	Monetary amount	Monetary amount	Monetary amount
Treatment of surplus	Covered by stabilisation arrangement	Reduce contributions through a negative secondary rate	Reduce contributions through a negative secondary rate		Reduce contributions by spreading the surplus over the remaining contract term
Probability of achieving target – <a href="#">Note (e)</a>	66%	70%	70% or 75% depending on employer risk	75%	66%
Phasing of contribution changes	Covered by stabilisation arrangement	Phasing over 3 years may be permitted	Phasing over 3 years may be permitted	Phasing over 3 years may be permitted	None
Review of rates – <a href="#">Note (f)</a>	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations				Particularly reviewed in last 3 years of contract
New employer	n/a	n/a	<a href="#">Note (g)</a>		<a href="#">Notes (g) &amp; (h)</a>
Cessation of participation: cessation debt payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per <a href="#">Note (i)</a> .		Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see <a href="#">Note (i)</a> .		Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising.

### **Note (a) (Basis for CABs and Designating Employers closed to new entrants)**

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may set a higher funding target (e.g. using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

### **Note (b) (Stabilisation)**

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (see below) and;
- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring), or changes in the security of the employer.

On the basis of extensive modelling carried out for the 2016 valuation exercise (see [Section 4](#)), the stabilised details are as follows:

<b>Type of employer</b>	<b>Councils, Police and Parc Cenedlaethol Eryri</b>
<b>Max increase</b>	<b>cont</b> 0% of pay (contributions are fixed for three years), followed by 1% of pay thereafter
<b>Max decrease</b>	<b>cont</b> 0% of pay (contributions are fixed for three years), followed by 1% of pay thereafter

The stabilisation criteria and limits will be reviewed at the 31 March 2019 valuation, to take effect from 1 April 2020. However the Administering Authority reserves the right to review the stabilisation criteria and limits at any time before then, on the basis of membership and/or employer changes as described above.

**Note (c) (Maximum time horizon)**

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2017 for the 2016 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative time horizons, for example where there were no new entrants.

**Note (d) (Secondary rate)**

The secondary rate will be set as a monetary amount for all employers where the secondary rate is positive.

Where the secondary rate is negative, i.e. where an employer is in surplus, the secondary rate will be set as a percentage of salaries.

**Note (e) (Probability of achieving funding target)**

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer’s current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum probability. A higher required probability bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in Appendix D.

Different probabilities are set for different employers depending on their nature and circumstances: in broad terms, a higher probability will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers,
- the employer does not have tax-raising powers;
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or

- the employer is likely to cease participation in the Fund in the short or medium term.

#### **Note (f) (Regular Reviews)**

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

#### **Note (g) (New Admission Bodies)**

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund; and/or
- the current deficit.

Transferee Admission Bodies: For all TABs, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis. See also Note (i) below.

Community Admission Bodies: The Administering Authority will only consider requests from CABs (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk, to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.



## **Note (h) (New Transferee Admission Bodies)**

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a “contractor”). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees’ Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (i).

Employers which “outsource” have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under a stabilisation approach.

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor’s contribution rate could vary from one valuation to the next. It would be liable for any deficit at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate and does not pay any cessation deficit.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. The Admission Agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from:

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above; and
- redundancy and early retirement decisions.

### **Note (i) (Admission Bodies Ceasing)**

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund (NB recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer taking action for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The current Fund policy is that this is left as a discretion and may or may not be applied in any given case);
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus it should be noted that current legislation does not permit a refund payment to the Admission Body.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

- (a) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a “gilts cessation basis”, which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.
- (b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there

been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing basis as described in Appendix E;

- (c) Again, depending on the nature of the guarantee, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee.

Under (a) and (b), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would spread the payment subject to there being some security in place for the employer such as a bond indemnity or guarantee.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit, and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a "gilts cessation basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Body would have no contributing members.

### **3.4 Additional flexibility in return for added security**

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended time horizon, or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan; and
- whether the admission agreement is likely to be open or closed to new entrants.

### **3.5 Non ill health early retirement costs**

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (**NB** the relevant age may be different for different periods of

service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

With the agreement of the Administering Authority the payment can be spread as follows:

Major Employing bodies	- up to 5 years
Community Admission Bodies and Designating Employers	- up to 3 years
Transferee Admission Bodies	- payable immediately.

### **3.6 Ill health early retirement costs**

In the event of a member's early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large. The Fund has an ill-health insurance policy covering smaller employers in the Fund. This will pay a sum to the Fund that is broadly equal to the funding strain in the event of a successful claim. For all other employers that are not covered by the external insurance policy, any funding strain in excess of the allowance made in the funding basis would be met through an increase to ongoing contributions.

### **3.7 Employers with no remaining active members**

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt on an appropriate basis (see [3.3](#), [Note \(i\)](#)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

- a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;
- b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund employers.

In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

### **3.8 Policies on bulk transfers**

The Fund has a separate written policy which covers bulk transfer payments into, out of and within the Fund. Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities; and
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

## **4. Funding strategy and links to investment strategy**

### **4.1 What is the Fund's investment strategy?**

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (being replaced by an Investment Strategy Statement under new LGPS Regulations), which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out as part of each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

### **4.2 What is the link between funding strategy and investment strategy?**

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

### **4.3 How does the funding strategy reflect the Fund's investment strategy?**

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate (see Appendix [E3](#)) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see Appendix [A1](#)).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in [Section 3](#) will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

### **4.4 How does this differ for a large stable employer?**

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;

Affordability – how much can employers afford;

Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position; and

Stability – employers should not see significant moves in their contribution rates from one year to the next, to help provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore, a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach (see 3.3 Note (b)). The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes as described in 3.3 Note (b), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2020, it should be noted that this will need to be reviewed following the 2019 valuation.

## **5. Statutory reporting and comparison to other LGPS Funds**

### **5.1 Purpose**

Under Section 13(4)(c) of the Public Service Pensions Act 2013 (“Section 13”), the Government Actuary’s Department must, following each triennial actuarial valuation, report to the Department of Communities & Local Government (DCLG) on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

This additional DCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

### **5.2 Solvency**

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

- (a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either
- (b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or
- (c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

### **5.3 Long Term Cost Efficiency**

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

- i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,
- ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, DCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

- 1. the implied deficit recovery period; and
- 2. the investment return required to achieve full funding after 20 years.



Absolute considerations include:

1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;
2. how the required investment return under “relative considerations” above compares to the estimated future return being targeted by the Fund’s current investment strategy;
3. the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate; and
4. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

DCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds’ actuarial bases do not make comparisons straightforward.

## **Appendix A – Regulatory framework**

### **A1 Why does the Fund need an FSS?**

The Department for Communities and Local Government (DCLG) has stated that the purpose of the FSS is:

*“to establish a **clear and transparent fund-specific strategy** which will identify how employers’ pension liabilities are best met going forward;*

*to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**; and*

*to take a **prudent longer-term view** of funding those liabilities.”*

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

This is the framework within which the Fund’s actuary carries out triennial valuations to set employers’ contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

### **A2 Does the Administering Authority consult anyone on the FSS?**

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to “consultation with such persons as the authority considers appropriate”, and should include “a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers”.

In practice, for the Fund, the consultation process for this FSS was as follows:

- a) A draft version of the FSS was issued to all participating employers in January 2017 for comment;
- b) Comments were requested within 30 days;
- c) There was an Employers Forum on 10 November 2016 at which questions regarding funding strategies could be raised and answered;
- d) Following the end of the consultation period the FSS was updated where required and then published, in March.

### **A3 How is the FSS published?**

The FSS is made available through the following routes:

Published on the website, at [cronfawww.gwynedd-pensionfund.org](http://cronfawww.gwynedd-pensionfund.org);

A copy sent by e-mail to each participating employer in the Fund;

A copy sent to employee representatives;

A summary issued to all Fund members;

A full copy linked from the annual report and accounts of the Fund;

Copies sent to investment managers and independent advisers;

Copies made available on request.

#### **A4 How often is the FSS reviewed?**

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2019.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pensions Committee and would be included in the relevant Committee Meeting minutes.

#### **A5 How does the FSS fit into other Fund documents?**

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Statement of Investment Principles/Investment Strategy Statement, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at [www.gwynedd-pensionfund.org](http://www.gwynedd-pensionfund.org)

## **Appendix B – Responsibilities of key parties**

The efficient and effective operation of the Fund needs various parties to each play their part.

### **B1 The Administering Authority should:-**

1. operate the Fund as per the LGPS Regulations;
2. effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
3. collect employer and employee contributions, and investment income and other amounts due to the Fund;
4. ensure that cash is available to meet benefit payments as and when they fall due;
5. pay from the Fund the relevant benefits and entitlements that are due;
6. invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles/Investment Strategy Statement (SIP/ISS) and LGPS Regulations;
7. communicate appropriately with employers so that they fully understand their obligations to the Fund;
8. take appropriate measures to safeguard the Fund against the consequences of employer default;
9. manage the valuation process in consultation with the Fund's actuary;
10. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see [Section 5](#));
11. prepare and maintain a FSS and a SIP/ISS, after consultation;
12. notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
13. monitor all aspects of the fund's performance and funding and amend the FSS and SIP/ISS as necessary and appropriate.

### **B2 The Individual Employer should:-**

1. deduct contributions from employees' pay correctly;
2. pay all contributions, including their own as determined by the actuary, promptly by the due date;
3. have a policy and exercise discretions within the regulatory framework;
4. make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
5. notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

### **B3 The Fund Actuary should:-**

1. prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;

2. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see [Section 5](#));
3. provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
4. prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
5. assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
6. advise on the termination of employers' participation in the Fund; and
7. fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

**B4 Other parties:-**

1. investment advisers (either internal or external) should ensure the Fund's SIP/ISS remains appropriate, and consistent with this FSS;
2. investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP/ISS;
3. auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
4. governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
5. legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures;
6. the Department for Communities and Local Government (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

## Appendix C – Key risks and controls

### C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

financial;

demographic;

regulatory; and

governance.

### C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities over the long-term.	<p>Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing.</p> <p>Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc.</p> <p>Analyse progress at three yearly valuations for all employers.</p> <p>Inter-valuation roll-forward of liabilities between valuations at whole Fund level.</p>
Inappropriate long-term investment strategy.	<p>Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes.</p> <p>Chosen option considered to provide the best balance.</p>
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	<p>Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context.</p> <p>Inter-valuation monitoring, as above.</p> <p>Some investment in bonds helps to mitigate this risk.</p>
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.
Pay and price inflation significantly more	The focus of the actuarial valuation process is

<b>Risk</b>	<b>Summary of Control Mechanisms</b>
than anticipated.	<p>on real returns on assets, net of price and pay increases.</p> <p>Inter-valuation monitoring, as above, gives early warning.</p> <p>Some investment in bonds also helps to mitigate this risk.</p> <p>Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.</p>
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund	<p>The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future.</p> <p>If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see <a href="#">3.9</a>).</p>

### **C3 Demographic risks**

<b>Risk</b>	<b>Summary of Control Mechanisms</b>
Pensioners living longer, thus increasing cost to Fund.	<p>Set mortality assumptions with some allowance for future increases in life expectancy.</p> <p>The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.</p>
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	Employers are charged the extra cost of non ill-health retirements following each individual

Risk	Summary of Control Mechanisms
	<p>decision.</p> <p>Employer ill health retirement experience is monitored, and an ill-health insurance policy is in place for smaller employers.</p>
<p>Reductions in payroll causing insufficient deficit recovery payments</p>	<p>In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows:</p> <p>Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see <u>Note (b) to 3.3</u>).</p> <p>For other employers, review of contributions is permitted in general between valuations (see <u>Note (f) to 3.3</u>). The Fund ensures that all deficit contributions are paid as fixed monetary amounts rather than as a percentage of payroll.</p>

#### C4 Regulatory risks

Risk	Summary of Control Mechanisms
<p>Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.</p>	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>The results of the most recent reforms were built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.</p>
<p>Time, cost and/or reputational risks associated with any DCLG intervention triggered by the Section 13 analysis (see <u>Section 5</u>).</p>	<p>Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.</p>



<p>Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.</p>	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.</p>
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**C5 Governance risks**

<b>Risk</b>	<b>Summary of Control Mechanisms</b>
<p>Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.</p>	<p>The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data.</p> <p>The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations</p> <p>Deficit contributions may be expressed as monetary amounts.</p>
<p>Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way</p>	<p>The Administering Authority maintains close contact with its specialist advisers.</p> <p>Advice is delivered via formal meetings involving Elected Members, and recorded appropriately.</p> <p>Actuarial advice is subject to professional requirements such as peer review.</p>
<p>Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.</p>	<p>The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes.</p> <p>Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.</p>
<p>An employer ceasing to exist with insufficient funding or adequacy of a bond.</p>	<p>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.</p> <p>The risk is mitigated by:</p> <p>Seeking a funding guarantee from another scheme employer, or external body, wherever</p>

Risk	Summary of Control Mechanisms
	<p>possible (see <u>Notes (h) and (i) to 3.3</u>).</p> <p>Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</p> <p>Vetting prospective employers before admission.</p> <p>Where permitted under the regulations requiring a bond to protect the Fund from various risks.</p> <p>Requiring new Community Admission Bodies to have a guarantor.</p> <p>Reviewing bond or guarantor arrangements at regular intervals (see <u>Note (f) to 3.3</u>).</p> <p>Reviewing contributions well ahead of cessation if thought appropriate (see <u>Note (a) to 3.3</u>).</p>

## **Appendix D – The calculation of Employer contributions**

In [Section 2](#) there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

All three steps above are considered when setting contributions (more details are given in [Section 3](#) and [Appendix D](#)):

1. The **funding target** is based on a set of assumptions about the future, eg investment returns, inflation, pensioners' life expectancies. However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation of participation;
2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform;
3. The required **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

The calculations involve actuarial assumptions about future experience, and these are described in detail in [Appendix E](#).

### **D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?**

Employer contributions are normally made up of two elements:

- a) the estimated cost of ongoing benefits being accrued, referred to as the "Primary contribution rate" (see [D2](#) below); plus
- b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see [D3](#) below).

The contribution rate for each employer is measured as above, appropriate for each employer's funding position and membership. The whole Fund position, including that used in reporting to DCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. DCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

### **D2 How is the Primary contribution rate calculated?**

The Primary element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' **future** service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years' accrual of benefits\*, excluding any accrued assets,
2. within the determined time horizon (see note 3.3 Note (c) for further details),
3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

\* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller developed by the Fund's actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (by the end of the time horizon) is equal to the required probability.

The approach includes expenses of administration to the extent that they are borne by the Fund, and includes allowances for benefits payable on death in service and on ill health retirement.

### **D3 How is the Secondary contribution rate calculated?**

The combined Primary and Secondary rates aim to achieve the employer's funding target, within the appropriate time horizon, with the relevant degree of probability.

For the funding target, the Fund actuary agrees the assumptions to be used with the Administering Authority – see Appendix E. These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer's current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see Section 3).

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total is projected to:

1. meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see D5 below)
2. within the determined time horizon (see 3.3 Note (c) for further details)
3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

The projections are carried out using an economic modeller developed by the Fund Actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes with at least 100% solvency (by the end of the time horizon) is equal to the required probability.

#### **D4 What affects a given employer's valuation results?**

The results of these calculations for a given individual employer will be affected by:

1. past contributions relative to the cost of accruals of benefits;
2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities;
4. any different time horizons;
5. the difference between actual and assumed rises in pensionable pay;
6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;
8. the difference between actual and assumed amounts of pension ceasing on death;
9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or
10. differences in the required probability of achieving the funding target.

#### **D5 How is each employer's asset share calculated?**

The Administering Authority does not account for each employer's assets separately. Instead, the Fund's actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus".

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

The Fund actuary does not allow for certain relatively minor events, including but not limited to:

1. the actual timing of employer contributions within any financial year;
2. the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The asset apportionment is capable of verification but not to audit standard. The Administering Authority recognises the limitations in the process, but it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

## **Appendix E – Actuarial assumptions**

### **E1 What are the actuarial assumptions?**

These are expectations of future experience used to place a value on future benefit payments (“the liabilities”). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants’ benefits.

Changes in assumptions will affect the measured funding target. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the “basis”. A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower funding targets and lower employer costs. A more prudent basis will give higher funding targets and higher employer costs.

### **E2 What basis is used by the Fund?**

The Fund’s standard funding basis is described as the “ongoing basis”, which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see Note (a) to 3.3.

### **E3 What assumptions are made in the ongoing basis?**

#### **a) Investment return / discount rate**

The key financial assumption is the anticipated return on the Fund’s investments. This “discount rate” assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds (“gilts”). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2016 and setting contribution rates effective from 1 April 2017, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.7% per annum greater than gilt yields at the time of the valuation (this is the same as that used at the 2013 valuation). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

## **b) Salary growth**

Pay for public sector employees is currently subject to restriction by the UK Government until 2020. Although this “pay freeze” does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, and continued austerity measures, the salary increase assumption at the 2016 valuation has been set to be a blended rate combined of:

1. 1% p.a. until 31 March 2020, followed by
2. 0.5% above the Consumer Prices Index (CPI) per annum p.a. thereafter.

This is equivalent to a single salary increase assumption of CPI.

This is a change from the previous valuation, which assumed an assumption of 1% p.a. for three years, and RPI plus 1% p.a. thereafter. The change has led to a reduction in the funding target (all other things being equal).

## **c) Pension increases**

Since 2011 CPI, rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the “formula effect” of the difference between RPI and CPI. At this valuation, we have used a reduction of 1.0% per annum. This is a larger reduction than at 2013, which will serve to reduce the funding target (all other things being equal). (Note that the reduction is applied in a geometric, not arithmetic, basis).

## **d) Life expectancy**

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of “VitaCurves”, produced by the Club Vita’s detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with the 2013 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a similar allowance for future improvements than was made in 2013.

The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members’ benefits.



**e) General**

The same financial assumptions are adopted for most employers, in deriving the funding target underpinning the Primary and Secondary rates: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

## Appendix F – Glossary

<b>Actuarial assumptions/basis</b>	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of <b>the funding target</b> . The main assumptions will relate to the <b>discount rate</b> , salary growth, pension increases and longevity. More prudent assumptions will give a higher target value, whereas more optimistic assumptions will give a lower value.
<b>Administering Authority</b>	The council with statutory responsibility for running the Fund, in effect the Fund’s “trustees”.
<b>Admission Bodies</b>	Employers where there is an Admission Agreement setting out the employer’s obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see <a href="#">2.3</a> ).
<b>Covenant</b>	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
<b>Designating Employer</b>	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
<b>Discount rate</b>	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a <b>funding target</b> which is consistent with the present day value of the assets. A lower discount rate gives a higher target value, and vice versa. It is used in the calculation of the <b>Primary and Secondary rates</b> .
<b>Employer</b>	An individual participating body in the Fund, which employs (or used to employ) <b>members</b> of the Fund. Normally the assets and <b>funding target</b> values for each employer are individually tracked, together with its <b>Primary rate</b> at each <b>valuation</b> .
<b>Funding target</b>	The actuarially calculated present value of all pension entitlements of all <b>members</b> of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the <b>deficit</b> . It is calculated on a chosen set of <b>actuarial assumptions</b> .
<b>Gilt</b>	A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be “fixed interest”, where the interest payments are level throughout the gilt’s term, or “index-linked” where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective

measure of solvency.

**Guarantee / guarantor**

A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's.

**Letting employer**

An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.

**LGPS**

The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.

**Maturity**

A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

**Members**

The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).

**Primary contribution rate**

The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.

**Profile**

The profile of an employer's membership or liability reflects various measurements of that employer's **members**, ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also.

**Rates and Adjustments**

A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal **valuation**. This is completed by the actuary and confirms the

<b>Certificate</b>	contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.
<b>Scheduled Bodies</b>	Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
<b>Secondary contribution rate</b>	The difference between the employer's actual and <b>Primary contribution rates</b> . In broad terms, this relates to the shortfall of its asset share to its <b>funding target</b> . See <a href="#">Appendix D</a> for further details.
<b>Stabilisation</b>	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.
<b>Valuation</b>	An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2016), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

<b>COMMITTEE</b>	<b>PENSIONS COMMITTEE</b>
<b>DATE</b>	<b>19 JANUARY 2017</b>
<b>PURPOSE</b>	<b>Confirm the proposed Investment Strategy Statement prior to consultation with interested parties</b>
<b>TITLE</b>	<b>INVESTMENT STRATEGY STATEMENT 2017/18 – 2019/20</b>
<b>AUTHOR</b>	<b>CAROLINE ROBERTS, INVESTMENT MANAGER</b>

## **1. INTRODUCTION**

- 1.1** The Pension Fund currently has a Statement of Investment Principles (SIP) as required by legislation. From 1<sup>st</sup> April 2017 this will be replaced by an Investment Strategy Statement (ISS) in accordance with the new requirements. The process requires consultation with interested parties and must be completed by 31 March 2017.

## **2. LIMITS ON INVESTMENTS**

- 2.1** Under the requirements for the SIP there were limits on certain types of investment and each fund could opt to increase these amounts if necessary to set an appropriate allocation for its specific requirements. There are no specific limits in the new legislation and therefore no need to formally increase the amounts. However, it is good practice to have some broad limits and these are included in the ISS.

## **3. THE INVESTMENT STRATEGY STATEMENT**

- 3.1** As indicated in paragraph 1 the new ISS must be in place for the 2017/18 financial year.
- 3.2** The process involves consultation with interested parties before the final Statement is adopted.
- 3.3** In order to do this a draft ISS is attached as Appendix A for this Committee to agree for consultation.

- 3.4** Any comments arising from the consultation and the proposed final version of the ISS will be presented to the Pensions Committee in March 2017 for discussion and approval.

**4. RECOMMENDATION**

- 4.1** The Committee is asked to approve the draft statement for consultation with all interested parties.

## **Investment Strategy Statement**

### **1. Introduction and background**

This is the Investment Strategy Statement (“ISS”) of the Gwynedd Pension Fund (“the Fund”), which is administered by Gwynedd Council, (“the Administering Authority”). The ISS is made in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (“the Regulations”).

The ISS has been prepared by the Fund’s Pension Committee (“the Committee”) having taken advice from the Fund’s investment adviser, Hymans Robertson LLP. The Committee acts on the delegated authority of the Administering Authority.

The ISS, which will be approved by the Committee on 16 March 2017, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Fund’s investment strategy with such persons it considers appropriate.

The Committee seeks to invest in accordance with the ISS, any Fund money that is not needed immediately to make payments from the Fund. The ISS should be read in conjunction with the Fund’s Funding Strategy Statement (which is currently being reviewed).

### **2. The suitability of particular investments and types of investments**

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis. This funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

The Committee aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund’s assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary and/or inflation increases.

The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund. This benchmark is consistent with the Committee’s views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund’s liabilities.

It is intended that the Fund’s investment strategy will be reviewed at least every three years following actuarial valuations of the Fund.

The fund carried out an asset liability modelling exercise in conjunction with the 2016 actuarial valuation. A number of different contribution and investment strategies were modelled and the future evolution of the Fund considered under a wide range of

different scenarios. The Committee set a target of having a minimum 67% chance of achieving their long term funding target – returning to a fully funded position within the next 20 years. They also considered the level of downside risk in the various strategies by identifying the low funding levels which might emerge in the event of poor outcomes.

This approach helps to ensure that the investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members), together with the level of disclosed surplus or deficit (relative to the funding bases used).

In addition, the Committee monitors investment strategy on an ongoing basis, focusing on factors including, but not limited to:

- Suitability given the Fund’s level of funding and liability profile
- The level of expected risk
- Outlook for asset returns

The Committee also monitors the Fund’s actual allocation on a regular basis to ensure it does not notably deviate from the target allocation.

The long term asset class returns assumed within the modelling exercise were as follows:

Asset Class	Median expected return 10 years (%pa)	Median expected return 20 years (%pa)
UK equities	5.0	5.9
Overseas equities	4.6	5.6
Private equity	5.9	7.0
UK Property	2.8	3.7
Absolute Return Bonds	2.6	3.6

### **3. Investment of money in a wide variety of investments**

#### **Asset classes**

The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property and commodities either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks.

The Committee reviews the nature of Fund investments on a regular basis, with particular reference to suitability and diversification. The Committee seeks and considers written advice from a suitably qualified person in undertaking such a review. If, at any time, investment in a security or product not previously known to the Committee is proposed, appropriate advice is sought and considered to ensure its suitability and diversification.



The Fund’s target investment strategy is set out below. In line with the Regulations, the authority’s investment strategy does not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007”.

**Table 1: Fund allocation**

<b>Asset class</b>	<b>Target allocation %</b>
UK equities	19.5
Overseas equities	53.0
Total equities	72.5
Property	10.0
Bonds	15.0
Infrastructure	2.5
Total	100.0

### **Managers**

The Committee has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The Committee, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. The Fund’s investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles. The manager of the passive funds in which the Fund invests holds a mix of investments within each pooled fund that reflects that of their respective benchmark indices.

#### **4. The approach to risk, including the ways in which risks are to be measured and managed**

The Committee is aware that the Fund has a need to take risk (e.g. investing in growth assets) to help it achieve its funding objectives. It has an active risk management programme in place that aims to help it identify the risks being taken and put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken. One of the Committee’s overarching beliefs is to only take as much investment risk as is necessary.

The principal risks affecting the Fund are set out below, we also discuss the Fund’s approach to managing these risks and the contingency plans that are in place:

## **Funding risks**

- Financial mismatch – The risk that Fund assets fail to grow in line with the developing cost of meeting the liabilities.
- Changing demographics –The risk that longevity improves and other demographic factors change, increasing the cost of Fund benefits.
- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial ‘contagion’, resulting in an increase in the cost of meeting the Fund’s liabilities.

The Committee measures and manages financial mismatch in two ways. As indicated above, the Committee has set a strategic asset allocation benchmark for the Fund. This benchmark was set taking into account asset liability modelling which focused on probability of success and level of downside risk. The results from the 2016 analysis highlighted that the Fund has a 77% probability of achieving full funding over the period to 2037 and a downside risk measure equivalent to a funding level of 38% at that date in the average of the worst 5% of outcomes. This analysis will be revisited as part of the 2016 valuation process. The Committee assesses risk relative to the strategic benchmark by monitoring the Fund’s asset allocation and investment returns relative to the benchmark. The Committee also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The Committee also seeks to understand the assumptions used in any analysis and modelling so they can be compared to their own views and the level of risks associated with these assumptions to be assessed.

The Committee seeks to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

## **Asset risks**

- Concentration - The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- Currency risk – The risk that the currency of the Fund’s assets underperforms relative to Sterling (i.e. the currency of the liabilities).
- Environmental, social and governance (“ESG”) – The risk that ESG related factors reduce the Fund’s ability to generate the long-term returns.
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

The Committee measures and manages asset risks as follows.

The Fund's strategic asset allocation benchmark invests in a diversified range of asset classes. The Committee has put in place rebalancing arrangements to ensure the Fund's "actual allocation" does not deviate substantially from its target. The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund's asset concentration risk. By investing across a range of assets, including liquid quoted equities and bonds, as well as property, the Committee has recognised the need for access to liquidity in the short term.

The Fund invests in a range of overseas markets which provides a diversified approach to currency markets; the Committee also assess the Fund's currency risk during their risk analysis. Details of the Fund's approach to managing ESG risks are set out later in this document.

The Committee has considered the risk of underperformance by any single investment manager and have attempted to reduce this risk by appointing more than one manager and having a significant proportion of the Scheme's assets managed on a passive basis. The Committee assess the Fund's managers' performance on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists.

#### **Other provider risk**

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee seeks suitable professional advice.
- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.
- Stock-lending – The possibility of default and loss of economic rights to Fund assets.

The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Fund, or has delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). The Committee has the power to replace a provider should serious concerns exist.

A separate schedule of risks that the Fund monitors is set out in the Fund's Funding Strategy Statement.

**5. The approach to pooling investments, including the use of collective investment vehicles and shared services**

The Fund is a participating scheme in the WALES Pool. The proposed structure and basis on which the WALES Pool will operate was set out in the July 2016 submission to Government.

**Assets to be invested in the Pool**

The Fund’s intention is to invest its assets through the WALES Pool as and when suitable Pool investment solutions become available. An indicative timetable for investing through the Pool was set out in the July 2016 submission to Government. The key criteria for assessment of Pool solutions will be as follows:

- 1 That the Pool enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund
- 2 That there is a clear financial benefit to the Fund in investing in the solution offered by the Pool, should a change of provider be necessary.

At the time of preparing this statement the Fund has already invested the following assets via the WALES Pool:

<b>Asset class</b>	<b>Manager</b>	<b>% of Fund assets</b>	<b>Benchmark and performance objective</b>
Passive Equity	BlackRock	22.5	FTSE All-Share and FTSE All-World Indices  Benchmark Return

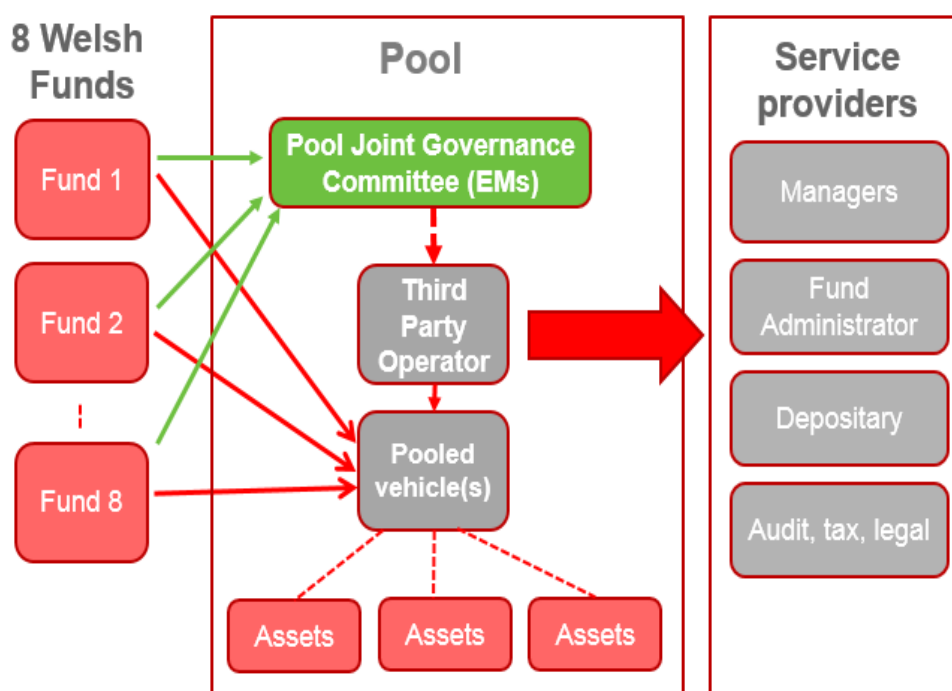
At the time of preparing this statement the Fund has elected not to invest the following assets via the WALES Pool:

<b>Asset class</b>	<b>Manager</b>	<b>% of Fund assets</b>	<b>Benchmark and performance objectives</b>	<b>Reason for not investing via the WALES Pool</b>
Private Equity	Partners	5.0	MSCI World Benchmark + 5% per annum	Existing contractual commitments in funds which have a finite life.
Infrastructure	Partners	2.5	MSCI World Benchmark + 5% per annum	Existing contractual commitments in funds which have a finite life.

Any assets not currently invested in the Pool will be reviewed at least every three years to determine whether the rationale remains appropriate, and whether it continues to demonstrate value for money. The next such review will take place no later than 2020.

### Structure and governance of the WALES Pool

The Pool will appoint a third party operator authorised by the FCA to provide a series of investment sub-funds in which the assets of the participating funds will be invested.



A Joint Governance Committee (JGC) will be established to oversee the operator. The Committee will comprise elected members – one from each of the eight participating funds. It is anticipated that this is likely to be the Chairs of the respective Pensions Committees though administering authorities may choose to nominate alternative members if appropriate. This arrangement will provide accountability for the operator back to individual administering authorities.

The Joint Governance Committee (JGC) will be set up formally as a Joint Committee between the participating administering authorities. Each fund will have one elected member on the Committee. It will operate on the basis of ‘One Fund, One Vote’, though the intention is that any decisions are reached by consensus wherever possible. A formal Terms of Reference for the Committee will be drawn up.

The Committee will be responsible for ensuring where practical that there are an appropriate range of sub-funds available to allow administering authorities to implement their own desired asset allocation. The JGC will be in regular discussions

with the operator as to the specific sub-funds which should be set up within the Pool, both at the outset and on an ongoing basis.

Officers from each administering authority will attend JGC meetings (in a non-voting capacity). The officers already work together as the Pensions Sub Group of the SWT (Society of Welsh Treasurers). The formal terms of reference of this officer group will be revised in light of the new pooling arrangements. The officers will advise the JGC on the establishment and monitoring of the various sub-funds as well as liaise directly with the operator on any day-to-day investment matters.

In the first instance, it is anticipated that the fund representatives on the JGC will report back to their respective individual funds' Pensions committees who will be responsible for satisfying themselves as to the effectiveness of the pooling arrangements overall and the operation of the JGC. However, the local Pensions Boards may also seek reassurance on aspects of the management of the funds' investments.

External scrutiny and formal due diligence of the operator and depositary will also be carried out by the FCA in their role as regulator.

The operator will be responsible for selecting and contracting with investment managers for each of the sub-funds as well as appointing other service providers such as depositary asset servicer, and an external valuer as necessary.

We anticipate at this stage that listed bonds and equities are likely to be invested through a UK based Authorised Contractual Scheme (ACS) in order to benefit from the tax transparent nature of the vehicle, though we will discuss this issue with the appointed operator. It may be that alternative vehicles are more appropriate for some other asset classes. As well as considering the options with the operator, we will also take external advice on the final proposed approach from a tax efficiency and legal compliance basis.

Under the proposed structure, the depositary will hold legal title to the assets of the Pool. The operator will be responsible for managing and operating the Pool, including entering into the legal contracts with the investment managers.

The appointed operator will provide and operate a range of investment vehicles to allow collective investment by the participating funds.

The operator will be responsible for selecting and contracting with investment managers for the management of the underlying assets. They will also be responsible for administration in relation to the vehicles in terms of unit pricing, valuation, handling cash flows in and out of the various sub-funds, trade processing and reporting on performance.

They will be responsible for due diligence from an audit, legal and tax perspective for the respective sub-funds and also for electing a depositary to the Pool.

The Pool will also procure independent external legal and tax advice as necessary to support them in their relationship with the operator.

## 5. How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments

It is recognised that ESG factors can influence long term investment performance and the ability to achieve long term sustainable returns. The Committee consider the Fund's approach to responsible investment in two key areas:

- **Sustainable investment / ESG factors** – considering the financial impact of environmental, social and governance (ESG) factors on its investments.
- **Stewardship and governance** – acting as responsible and active investors/owners, through considered voting of shares, and engaging with investee company management as part of the investment process.

At the present time the Committee does not take into account non-financial factors when selecting, retaining, or realising its investments. The Committee understand the Fund is not able to exclude investments in order to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.

To date, the Fund's approach to Social investments has largely been to delegate this to their underlying investment managers as part of their overall ESG duties. The Fund's managers report on this matter as part of the Fund's annual ESG review.

The Fund does not hold any assets which it deems to be social investments.

### **The exercise of rights (including voting rights) attaching to investments**

#### **Voting rights**

The Committee has delegated the exercise of voting rights to the investment manager(s) on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the Fund's managers have produced written guidelines of their process and practice in this regard. The managers are strongly encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies under Regulation 7(2)(f).

#### **Stewardship**

The Committee has agreed in principle to become signatories to the Stewardship Code as published by the Financial Reporting Council. The Committee expects both the WALES Pool and any directly appointed fund managers to also comply with the Stewardship Code.

The Fund believes in collective engagement and is a member of the Local Authority Pension Fund Forum (LAPFF), through which it collectively exercises a voice across a range of corporate governance issues.

# Agenda Item 7

COMMITTEE: **Pensions Committee**

DATE: **19 January 2017**

TITLE: **Wales Investment Pool**

PURPOSE: **Recommend an Inter-Authority Agreement to the full Council**

AUTHOR: **Dafydd L Edwards, Head of Finance**

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## Reasons for the Report

1. This report has been prepared to inform Committee Members of progress with the development of a Wales Investment Pool to manage on a collaborative basis the investment assets of the eight Local Government Pension Scheme (LGPS) funds in Wales, and to seek the Committee's approval for the Inter-Authority Agreement to be recommended to the full Council to receive, in order to commit to establishing the All Wales Pool and to govern the relevant Joint Committee.

## Background

2. The eight LGPS funds in Wales have been working together for several years to identify areas of potential collaboration. A report was submitted to the 20 October Pensions Committee on progress to establish a Common Investment Vehicle on a voluntary basis.
3. The UK Government has issued a number of consultations on the management of LGPS investments and in 2015 announced that all LGPS funds in England and Wales must join together to form investment pools, rather than the current arrangement whereby individual funds appoint investment managers themselves. The Welsh funds submitted an outline proposal for a Wales Investment Pool in February 2016 and detailed proposals were submitted, as required, on 15 July 2016. The proposals included letters of support from the Chairs of Pension Committees of the eight funds.
4. Subsequently, a delegation from the Wales LGPS funds met the Minister on 16 November 2016 where the proposal and progress of the pool to date was discussed. The Minister formally approved the All Wales Investment Pool on 23 November 2016. Marcus Jones MP wrote:

*"the Welsh funds have a long history of cooperation, and are working together successfully to develop the all Wales pool. I congratulate you on the exceptionally low fee for the passive equities portfolio of all Welsh funds which you have already secured. I was also glad to note your ambition to increase infrastructure investment. Given your strong partnership, and the special position of Wales ..... I am therefore pleased to confirm that I am content for you to proceed as set out in your final proposal."*

Welsh pension fund officers and chairs are continuing to work together in order to establish a Collective Investment Vehicle by 1 April 2018.



5. The Pool will not be a merger of the eight funds. Each fund will retain its distinct identity and the administering authorities will remain responsible for complying with the LGPS regulations and pensions' legislation in respect of their members. Annual statements of accounts and triennial actuarial valuations will still be prepared for each individual pension fund, and each fund will determine its own funding strategy (distribution of the portfolio between asset categories such as equities, property, etc).
6. The pool will have a limited remit and its objectives, as set out in the submission document, will be:
  - To provide pooling arrangements which allow individual funds to implement their own investment strategies (where practical).
  - To achieve material cost savings for participating funds while improving or maintaining investment performance after fees.
  - To put in place robust governance arrangements to oversee the Pool's activities.
  - To work closely with other pools, in order to research the benefits that all stakeholders in Wales might obtain from wider pooling solutions, or potential direct investments.

## **Governance Issues**

7. The Wales Investment Pool proposal includes the establishment of a Joint Governance Committee comprising elected members from each administering authority, supported by an Officer Working Group. It is also proposed to appoint a Financial Conduct Authority (FCA) regulated Operator to supply the necessary infrastructure for establishing a pooling vehicle and to manage the Pool on behalf of the eight funds.
8. Work is ongoing within tight deadlines to establish the governance arrangements for the Pool, including preparation of the enclosed draft of a legally binding Inter-Authority Agreement (incorporating the Terms of Reference for the Joint Committee), the specification of the services to be provided by the Operator, and the role of the Officer Working Group. Consideration is also being given to the needs of the Pool for specialist legal and investment advice.
9. The Joint Committee has met in a shadow form (i.e. without decision making powers) as a Joint Chairs' Group during 2016 and on 11 January 2017. The intention is to formally establish the Joint Committee early in 2017. The remit of the Joint Committee is set out in the proposed Inter-Authority Agreement which is included as Appendix 1. The Joint Committee will oversee the procurement process for the Operator, and will make the final recommendation to appoint the bidder who best meets the specification criteria.

10. The proposed Inter-Authority Agreement, and setting up the Governance Joint Committee, will be legally binding upon Authorities, and will have to be approved by full Council.

### **Legal Implications**

11. The current legislative framework for the pension fund investments carried out by Administering Authorities is set by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended). The law governing pensions is a complex and specialist area. The National Government's guidance indicates that the pooling of LGPS assets is permissible under current law (and of course the DCLG's guidelines insist that funds pool).

### **Financial Implications**

12. It is proposed that 'administrative' costs under the new arrangements, including governance costs of the Joint Committee, be divided equally between the eight Welsh funds, but that subsequent investment costs are allocated to specific investments, proportional to those investments.

### **Timetable / Amendments**

13. The 8 pension fund administering authorities in Wales will present the final Inter-Authority Agreement to their full Council meetings in February / March 2017 for approval. Between releasing the current draft and the meeting of 2 March, there will be minor amendments to the agreement's details.

### **Recommendations**

- i. **That the Committee notes the progress in the development of the Wales Investment Pool and support committing to the Pool.**
- ii. **That the Committee approves the draft Inter-Authority Agreement and supports its recommendation to the full Council on 2 March 2017.**
- iii. **That the Committee recommends establishing the All-Wales Joint Committee in accordance with the Agreement.**
- iv. **That the Committee delegates authority to the Head of Finance to approve any amendments to the Inter-Authority Agreement, in consultation with the Chair and the Head of Legal Services, before submission to the full Council for approval.**

### **Appendix 1 - Draft Inter-Authority Agreement**

Dated \_\_\_\_\_ 2017

# DRAFT

## Inter-Authority Agreement between

Carmarthenshire County Council	(1)
City & County of Swansea Council	(2)
City of Cardiff Council	(3)
Flintshire County Council	(4)
Gwynedd County Council	(5)
Powys County Council	(6)
Rhondda Cynon Taff County Borough Council	(7)
Torfaen County Borough Council	(8)

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**THIS DEED** is made on

2017

**BY**

- (1) **CARMARTHENSHIRE COUNTY COUNCIL** of [ADDRESS] ("**Carmarthenshire Council**")
- (2) **CITY & COUNTY OF SWANSEA COUNCIL** of [ADDRESS] ("**Swansea Council**").
- (3) **CITY OF CARDIFF COUNCIL** of [ADDRESS] ("**Cardiff Council**").
- (4) **FLINTSHIRE COUNTY COUNCIL** of [ADDRESS] ("**Flintshire Council**").
- (5) **GWYNEDD COUNTY COUNCIL** of [ADDRESS] ("**Gwynedd Council**")
- (6) **POWYS COUNTY COUNCIL** of [ADDRESS] ("**Powys Council**")
- (7) **RHONDDA CYNON TAFF COUNTY BOROUGH COUNCIL** of [ADDRESS] ("**Rhondda Council**")
- (8) **TORFAEN COUNTY BOROUGH COUNCIL** of [ADDRESS] ("**Torfaen Council**")

(together referred to as the "**Constituent Authorities**" and individually as a "**Constituent Authority**")

#### **BACKGROUND**

- (A) The Constituent Authorities are committed to the development of a formal joint committee pursuant to section 101 and section 102 of the Local Government Act 1972 to ensure the effective operation of the arrangements for asset pooling within the LGPS under a framework of strong internal governance to achieve economies of scale and improved investment infrastructure.
- (B) The Constituent Authorities are all councils responsible for the administration of local government within their areas as set out in the Local Government Act 1972. The Department for Communities and Local Government in its letter dated 23 November 2016 has confirmed that the Constituent Authorities have been granted permission for each Constituent Authority to continue to collaborate with every other Constituent Authority to form a pool of assets in respect of each of their respective funds under the LGPS.
- (C) The Constituent Authorities shall carry on the Pooling Collaboration (as defined below) under the terms of this Agreement to oversee its governance.

## AGREED TERMS

### 1 INTERPRETATION

1.1 The following definitions and rules of interpretation apply in this Agreement.

**Business Day** a day other than a Saturday, a Sunday or a public holiday in England when banks in London are open for business.

**Business Plan** has the meaning given by clause 6.

**CIPFA Guidance** means the guidance published in October 2016 by the Chartered Institute of Public Finance and Accountancy entitled *investment pooling governance principles for LGPS Administering Authorities*.

**Commencement Date** [17 March 2016] or [date of agreement or the date upon which all Constituent Authorities have signed].

**Constituent Authorities** the parties to this Agreement, and all other administering authorities within the LGPS who are or become parties to this Agreement at any time.

**Financial Year** means in the case of the first Financial Year, the period from the Commencement Date to (and including) the following 31 March. For subsequent Financial Years the period between 1 April and 31 March (inclusive).

**Host Council** means the Constituent Authority appointed in accordance with clause 7 and whose duties are described within that clause.

**Investment Pool** means the pooled investments (whether held in single funds or multiple sub-funds) derived from assets held by the Constituent Authorities in their capacity as administering authorities within the LGPS for the purpose of the Pooling Collaboration described by this Agreement.

**Investment Regulations** means the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (SI 2016/946).

**Joint Governance Committee** means the joint committee formed by this Agreement.

**LGPS** the Local Government Pension Scheme established pursuant to regulations made by the Secretary of State in exercise of powers under section 7 and 12 of the Superannuation Act 1972 as amended from time to time.

**Member** in this agreement means a member of the Joint Governance Committee appointed in accordance with clause 3.3 or their substitute appointed in accordance with clause 3.4.

**Monitoring Officer** means the person designated by each Constituent Authority for the purposes of section 5 of the Local Government and Housing Act 1989.

**Operator** means the operator of the pooled investment vehicle being an Authorised Collective Scheme procured by the Host Council on behalf of the Constituent Authorities.

**Operator Contract** means the agreement between the Host Council and the Operator.

**Pooling Collaboration** means the arrangements for asset pooling under the Investment Pool within a framework of strong internal governance to achieve economies of scale and improved investment infrastructure carried on by the Constituent Authorities as described by this Agreement.

**S151 officer** means the person appointed by each Constituent Authority for the purposes of section 151 of the Local Government Act 1972.

**Secretary of State** means the Department for Communities and Local Government or such replacement department which has responsibility for the LGPS.

**Submission** means the document created by the Constituent Authorities entitled "*Submission by the Wales Pool to the Department for Communities and Local Government (DCLG) In response to the publication in November 2015: LGPS: Investment Reform Criteria and Guidance*" dated 15 July 2016.

**Terms of Reference** means the governing framework document concerning the functions and operations of the Joint Governance Committee.

**TUPE** means the Transfer of Undertakings (Protection of Employment) Regulations 2006 (as amended from time to time).

- 1.2 Clause, schedule and paragraph headings shall not affect the interpretation of this agreement.
- 1.3 A **person** includes a natural person, corporate or unincorporated body (whether or not having a separate legal personality).
- 1.4 The schedules form part of this agreement and shall have effect as if set out in full in the body of this agreement. Any reference to this agreement includes the schedules.
- 1.5 A reference to a **company** shall include any company, corporation or other body corporate, wherever and however incorporated or established.
- 1.6 Unless the context otherwise requires, words in the singular include the plural and in the plural include the singular.



- 1.7 Unless the context otherwise requires, a reference to one gender shall include a reference to the other genders.
- 1.8 A reference to a statute or statutory provision is a reference to it as amended, extended or re-enacted from time to time and includes any subordinate legislation made from time to time under it.
- 1.9 A reference to **writing** or **written** includes faxes and email.
- 1.10 Documents in **agreed form** are documents in the form agreed by the parties and initialled by them or on their behalf for identification.
- 1.11 References to clauses and schedules are to the clauses and schedules of this Agreement; references to paragraphs are to paragraphs of the relevant schedule.
- 1.12 Any words following the terms **include, including, in particular** or **for example** or any similar expression shall be construed as illustrative and shall not limit the sense of the words, description, definition, phrase or term preceding them.
- 1.13 Any obligation in this agreement on a person not to do something includes an obligation not to agree or allow that thing to be done.
- 1.14 Any reference to the title of an officer or any of the Constituent Authorities shall include any person holding such office from time to time by the same or any title substituted thereafter or such other officer of the relevant Constituent Authority as that Constituent Authority may from time to time appoint to carry out the duties of the officer referred to.

## **2 COMMENCEMENT AND CESSATION OF THE MEMORANDUM OF UNDERSTANDING**

- 2.1 The Agreement shall commence on the Commencement Date. For the avoidance of doubt, this Agreement is only effective when each Constituent Authority has executed it and each Constituent Authority shall be of equal status with equal rights except where expressly stated otherwise and shall continue on the terms of this Agreement until the earlier of the following:
- (a) all Constituent Authorities agree in writing to its termination; or
  - (b) there is only one remaining Constituent Authority who has not exited this Agreement in accordance with clauses 21 or 22.
- 2.2 The Constituent Authorities confirm that the memorandum of understanding between them relating to *The procurement of services by the administering authorities of the local government pension scheme in Wales* shall cease to have effect from the Commencement Date.

### **3 FORMATION OF THE JOINT GOVERNANCE COMMITTEE**

- 3.1 The Constituent Authorities by this Agreement hereby form the Joint Governance Committee pursuant to section 101(5) and 102(1) of the Local Government Act 1972 for the purposes of overseeing and reporting on the performance of the Investment Pool. The Joint Governance Committee shall not be responsible for formulating or revising the investment strategy described by regulation 7 of the Investment Regulations in respect of each or any of the Constituent Authorities.
- 3.2 Meetings of the Joint Governance Committee are subject to the provisions of the Local Government Act 1972 including the provisions on access to information and meetings held in public.
- 3.3 The membership of the Joint Governance Committee shall be one elected member nominated by each of the Constituent Authorities provided that the elected member is a member of that Constituent Authority's pensions committee (or equivalent body) for the purposes of the Local Government Pension Scheme Regulations 2013.
- 3.4 For the purposes of clause 3.3, each Constituent Authority may appoint a named substitute who must be an elected member of the same Constituent Authority as the elected member for whom they are acting as substitute provided that the elected member is a member of that Constituent Authority's pensions committee (or equivalent body) for the purposes of the Local Government Pension Scheme Regulations 2013.
- 3.5 The Joint Governance Committee shall undertake its role and act in accordance with the Terms of Reference set out in Schedule 4.
- 3.6 Every meeting shall be governed by the procedure and requirements set out in schedule 6.
- 3.7 A programme of training will be provided to Members and their deputies having regard to CIPFA Guidance. In order to be eligible to participate in the Joint Governance Committee Members must attend and complete this training within [3 months] of being appointed to the Joint Governance Committee and must thereafter attend update and refresher sessions provided at least once [every two years][as is deemed appropriate by the Joint Governance Committee]. If Members do not attend mandatory training sessions, they may be required to undertake such training at the cost of the Constituent Authority the Member represents.

### **4 OFFICERS WORKING GROUP**

- 4.1 The Joint Governance Committee shall appoint the OWG on the following terms:
- (a) **Purpose:** the OWG shall support and advise the Joint Governance Committee on such matters as the Joint Governance Committee may reasonably request

or any matters relating to the Pooling Collaboration which are raised by any Constituent Authority's Section 151 Officer or Monitoring Officer ;

- (b) **Membership:** each Constituent Authority shall nominate up to [two] officers employed by that Constituent Authority as its representatives on the OWG;
- (c) **Remit:** the remit of the OWG shall include:
  - (i) proposing to the Joint Governance Committee and procuring external support requirements (including legal, governance, tax and other financial support) relevant to the Pooling Collaboration;
  - (ii) proposals to the Joint Governance Committee on governance arrangements including how the Operator should be held to account by reference to the Operator Terms;
  - (iii) proposals to the Joint Governance Committee on the structure of the Investment Pool including the number and make-up of sub-funds;
  - (iv) challenging and contributing to the development of the Pooling Collaboration to enable the Pooling Collaboration and the Joint Governance Committee to achieve its objectives;
  - (v) consider and make recommendations to the Joint Governance Committee in relation to the formulation of the Business Plan;
  - (vi) monitor and review the performance of the Operator in meeting its objectives, service levels and key performance indicators;
  - (vii) preparing a draft Business Plan for consideration by the Joint Governance Committee, consulting upon the approved draft and reporting on the outcomes of such consultation including proposing any revisions to the draft to the Joint Governance Committee;
  - (viii) develop and keep under review the programme of training to be delivered to Members ensuring that it complies with all relevant regulations and applicable guidance;
  - (ix) seek advice from professional advisors that are authorised and regulated by competent authorities;
  - (x) such other matters as the Joint Governance Committee shall request or delegate to the OWG.

- 4.2 The OWG shall undertake its role and act in accordance with the terms of reference which shall include the details set out in in Schedule [4][*updated JGC terms of reference to include reference to OWG*].

## 5 DECISION MAKING

- 5.1 The Constituent Authorities have identified the following two categories of decisions together with the means by which they will be taken:

- (a) **"Joint Governance Committee Matter"**: a matter which is to be decided upon at a quorate meeting of the Joint Governance Committee by those present and entitled to vote and any such decision will be binding on all of the Constituent Authorities and such matters are identified in Schedule 3;
- (b) **"Matters Reserved to the Constituent Authorities"**: a matter which will have to be referred to each Constituent Authority for decision and such matter will not be dealt with by the Joint Governance Committee until the matter has been determined by all of the Constituent Authorities. If the Constituent Authorities fail to reach the same decision in respect of such matter then the matter shall be referred under clause 36 (Dispute Resolution) as a dispute for resolution, and such matters are identified in Schedule 2.

## 6 BUSINESS PLAN

- 6.1 The Joint Governance Committee shall, with the support of the OWG, produce a draft Business Plan at intervals of no more than three years for consultation with the Constituent Authorities. The draft Business Plan shall have regard to:

- (a) the strategic objectives of the Pooling Collaboration over the relevant three year period;
- (b) the approved financial budget for the relevant three year period;
- (c) the business plan produced by the Operator in connection with the Investment Pool;
- (d) the requirements on each of the Constituent Authorities in their individual capacity as an administering authority pursuant to the Investment Regulations;
- (e) the advice of appropriately qualified and authorised and regulated professional advisors;
- (f) the guidance issued from time to time by the Department for Communities and Local Government as referred to in regulation 7(1) of the Investment Regulations;

- (g) such other matters that the Constituent Authorities may consider necessary to the furtherance of the Pooling Collaboration.

6.2 Consultation on the draft Business Plan shall be carried out by the OWG who shall report on the outcome of that consultation. The Joint Governance Committee shall hold a meeting to discuss and, having had due regard to the consultation response report and the advice of the appropriately qualified and regulated professional advisor, agree a final Business Plan which may include such revisions to the draft as the Joint Governance Committee considers appropriate.

6.3 Following approval by the Joint Governance Committee the Business Plan shall be sent to all Constituent Authorities for their written approval.

6.4 For the avoidance of doubt, agreement of the Business Plan shall be treated as a Matter Reserved to the Constituent Authorities (as defined in clause 5).

## 7 HOST COUNCIL

7.1 The Constituent Authorities have agreed, with effect from the Commencement Date, that [*insert name of Host Council*] will be the Host Council for the Pooling Collaboration which shall be carried out for and on behalf of itself and the Constituent Authorities and [*insert name of Host Council*] agrees to act in that capacity subject to and in accordance with and to the extent provided for by the terms of this Agreement. For the avoidance of doubt the role of Host Council includes:-

- (a) to act as the employing authority for any staff engaged in the discharge of the Pooling Collaboration's functions (appointing, employing or accepting the secondment of staff) in accordance with this Agreement;
- (b) being the legal point of contact for the purposes of managing the Pooling Collaboration;
- (c) providing such administrative resources and facilities that may be necessary for the purpose of discharging the Pooling Collaboration and hold all [Pooling Contributions];
- (d) providing such governance and administrative services that may be necessary for the purpose of supporting the Pooling Collaboration;
- (e) providing training for Members to support their role on the Joint Governance Committee in line with the training plan agreed by the OWG.
- (f) provide appropriately qualified and experienced officers who will act as the primary legal and financial advisers to the Pooling Collaboration,; [**Note: we**

**would envisage that these functions are retained for management by the Joint Governance Committee, but please provide any views on this]**

- (g) for the purposes of the Pooling Collaboration require their Section 151 Officer and Monitoring Officer (or their deputies) undertake oversight and review of the operation of the Pooling Collaboration and decisions of the Joint Governance Committee on behalf of all of the Constituent Authorities; **[For your consideration]**
- (h) power to enter into contracts for supplies and services as required for the purposes of the Pooling Collaboration.
- 7.2 [For the avoidance of doubt the duties and responsibilities of the Host Council pursuant to this Agreement shall only bind the Host Council to the extent that they have been resourced by the Constituent Authorities through this Agreement.]
- 7.3 Save and except where otherwise required by law all staff employed by the Host Council pursuant to this Agreement shall be employed on the Host Council's relevant terms and conditions of employment and related staff policies including salary structures.
- 7.4 A replacement Host Council may be appointed by a majority decision of the Constituent Authorities provided that the [current Host Council and] the replacement Host Council agrees.
- 7.5 If the Host Council withdraws from the Pooling Collaboration pursuant to clause 21 (Voluntary Exit) or clause 22 (Compulsory Exit) then a replacement Host Council will be appointed by a majority decision of the Constituent Authorities provided that the replacement Host Council agrees. The withdrawing Host Council will not have the right to vote in regard to any such appointment.
- 7.6 Where TUPE applies to the appointment of any replacement Host Council, then the Constituent Authorities shall comply with the provisions of Schedule 7
- 7.7 For the duration of this Agreement, the Host Council shall act diligently and in good faith in all its dealings with the other Constituent Authorities.
- 7.8 For the duration of this Agreement, the Constituent Authorities shall act diligently and in good faith in all their dealings with the Host Council and shall use their reasonable endeavours to assist the Host Council to support the Pooling Collaboration.

## **8 OPERATOR CONTRACT**

- 8.1 [The Constituent Authorities authorise the Host Council to enter into the Operator Contract on their behalf. The Host Council shall as soon as reasonably practicable confirm that the Operator Contract has been duly executed and is in force and effect.]

## **9 LIABILITIES AND INDEMNITIES FOR THE HOST COUNCIL**

- 9.1 Nothing in this Agreement will make the Host Council liable in respect of anything done or omitted to be done by a Constituent Authority up to the Commencement Date.
- 9.2 The Constituent Authorities will jointly indemnify the Host Council in full against any Losses which the Host Council may suffer or incur, directly or indirectly, as a result of the Host Council entering into the Operator Contract.
- 9.3 The Host Council shall be indemnified from and against all liabilities, costs, expenses, damages and losses (including but not limited to any direct, indirect or consequential loss, loss of profit, loss of reputation and all interest, penalties and legal costs (calculated on a full indemnity basis) and all other reasonable costs and expenses) arising from the performance of its functions authorised pursuant to this clause [9] save in the case of its wilful default or fraud.

## **10 COMMITMENT OF THE CONSTITUENT AUTHORITIES AND CONTRIBUTIONS**

- 10.1 The Constituent Authorities agree to pay the contributions which shall be calculated [according to their share] / [equally] of the estimated governance, procurement and administration costs included within the Business Plan (the "**Pooling Contributions**").
- 10.2 The Constituent Authorities agree to pay the Pooling Contributions to the Host Council on such dates, and at such frequency, as is determined by the Business Plan.
- 10.3 The Host Council shall prepare annual accounts in relation to each Financial Year for the Pooling Collaboration in accordance with the Host Council's accounting policies (or such other accounting policy agreed by the Constituent Authorities) by no later than [31 May] in the following Financial Year.
- 10.4 All Pooling Contributions shall be made by way of payment to the bank account notified to the Constituent Authorities by the Host Council for the purposes of the Pooling Collaboration. The Host Council shall maintain a separate account or accounts as appropriate for all monies received or expended in connection with the Pooling Collaboration in a manner which complies with their accounting arrangements.
- 10.5 Following the termination of this Agreement, once the costs of the Host Council have been met, the sum standing to the credit of the account or accounts in which Pooling

Collaboration funds are held shall be returned to the then remaining Constituent Authorities in the proportions in which they were originally contributed.

10.6 Where any further capital contribution is required, or repayments of capital are to be made, the Constituent Authorities shall decide the following:

- (a) the total amount;
- (b) the apportionment of such contribution or repayment between the Constituent Authorities; and
- (c) the form of such contribution or repayment.

In the absence of any agreement to the contrary, such contributions or repayments shall be by or to all of the Constituent Authorities equally.

10.7 For the avoidance of doubt, any costs incurred in respect of investment management of the Investment Pool shall be attributed to each Constituent Authority in proportion to the assets that they have contributed to the Investment Pool.

## **11 ACCOUNTS**

11.1 The Host Council shall keep proper books of account (which expression shall include any computerised accounting system for the time being used by the Pooling Collaboration) and shall be responsible for ensuring that full and proper entries of all receipts and payments are promptly recorded in them. The books of account shall be kept at the premises of the Host Council and be made available for inspection by all of the Constituent Authorities (who may also take copies). The Host Council shall make available on reasonable request such information as is required by any Constituent Authority to prepare their own accounts or respond to any internal or external audit.

11.2 The Host Council shall ensure that the contributions and payments made by each Constituent Authority shall be held in an account in the name of the Host Council which does not breach regulation 6 of the Investment Regulations.

11.3 The Host Authority shall be responsible for ensuring that the accounts relating to the Pooling Collaboration are audited where and when required by law or other competent authority and shall make copies of the audited accounts available to all of the Constituent Authorities.



## **12 INVESTMENT MANAGEMENT COSTS**

- 12.1 Notwithstanding clause 10, each Constituent Authority shall bear its own costs in respect of investment management they incur or expect to incur in the Pooling Collaboration. Details of such costs are to be referenced in the Business Plan.

## **13 INTELLECTUAL PROPERTY**

- 13.1 Any Intellectual Property developed by any Constituent Authority of the Pooling Collaboration shall be retained by the Constituent Authorities and each Constituent Authority will grant all of the other Constituent Authorities a non-exclusive, perpetual, non-transferable and royalty free licence to use, modify amend and develop it for the purpose of the Pooling Collaboration whether or not the Constituent Authority granting the licence remains a party to this Agreement. All costs and expenses relating to such Intellectual Property shall be borne by the Constituent Authorities and the other Constituent Authorities shall indemnify the Constituent Authority or Constituent Authorities in whom such property is vested against all liabilities that may arise directly or indirectly in respect of the use of it.

## **14 REPORTS**

- 14.1 The Joint Governance Committee shall oversee the Pooling Collaboration and ensure that it is provided in accordance with the Business Plan.
- 14.2 To ensure that the Constituent Authorities are kept up-to-date with the performance of the Pooling Collaboration, the Joint Governance Committee shall report quarterly and annually to the Constituent Authorities in accordance with key performance indicators and at times referenced in the Business Plan.

## **15 INSURANCE**

- 15.1 Where the operation of the Pooling Collaboration is not covered by any existing insurance of the Constituent Authorities, the Host Council shall effect and at all times keep in force (for the benefit of the Members of the Joint Governance Committee and the officers appointed to the OWG) such policies of insurance for such amounts as it shall decide. Such policies shall be maintained at the expense of the Constituent Authorities and shall be an administration cost of this Pooling Collaboration in terms of clause 10.1.

## **16 DUTIES AND POWER**

Each Constituent Authority shall at all times:

- (a) use its reasonable skills and endeavours to promote and carry on the Pooling Collaboration for the benefit of the Constituent Authorities, and conduct itself in a proper and responsible manner;
  - (b) devote such time and attention as the Constituent Authorities may decide in writing to be necessary and appropriate to the Pooling Collaboration;
  - (c) comply with all legislation, regulations, professional standards and other provisions as may govern the conduct of the Pooling Collaboration, or be determined by the Constituent Authorities as standards to be voluntarily applied to the Pooling Collaboration;
  - (d) show the utmost good faith to the other Constituent Authorities in all transactions relating to the Pooling Collaboration and give them a true account of, and full information about, all things affecting the Pooling Collaboration;
  - (e) inform the Constituent Authorities without delay on becoming party to any legal proceedings in connection with the Pooling Collaboration;
  - (f) punctually pay and discharge its present and future debts and financial obligations;
  - (g) shall not do or fail to do anything which shall bring any of the other Constituent Authorities, or itself, into disrepute;
  - (h) obtain all necessary consents sufficient to carry on their duties to the Pooling Collaboration.
- 16.2 No action which would otherwise be a breach of this clause shall constitute a breach where the Constituent Authority was required to carry out that action in compliance with a statutory duty or order of any court, tribunal or ombudsman.

## **17 DELEGATION**

- 17.1 Prior to the commencement of the Pooling Collaboration the Constituent Authorities shall put in place such authorisations as are required within their internal governance arrangements to;
- (a) delegate the making of the decisions set out in schedule 6 (Joint Governance Committee Matters) to their Member and that Member's deputy.
  - (b) delegate any other matter which is required to comply with the obligations of this Pooling Collaboration, including delegations to its own officers to the Host Council where required.

17.2 The Constituent Authorities shall review and where necessary amend their delegations throughout the duration of the Pooling Collaboration to ensure that they can comply with the provisions hereof.

17.3 The Joint Governance Committee shall procure that if it is given power to appoint agents to carry out its duties, the Joint Governance Committee shall act in good faith and with reasonable skill and care in the selection, use and monitoring of such agents.

## **18 OBLIGATIONS ON CONSTITUENT AUTHORITIES**

18.1 Without prejudice to the terms of this Agreement, the Constituent Authorities, on an individual basis, commit to the implementation of the Pooling Collaboration consistently with the Submission (subject to any variation agreed by the Constituent Authorities) and to use their reasonable endeavours to ensure the success of the Pooling Collaboration.

18.2 Nothing in this Agreement shall fetter the discretion of each Constituent Authority to be to formulate an investment strategy appropriate for their fund within the LGPS pursuant to regulation 7 of the Investment Regulations.

18.3 ***[Insert any other specific obligations which the Constituent Authorities would like to capture] [We have reference the 'Submission' which relates to the pooling proposals by each Constituent Authority. We can make this minimum commitment more express if necessary?]***

## **19 INDEMNITY**

19.1 Any Constituent Authority who is in material breach of any of the provisions of this Agreement shall indemnify the other Constituent Authorities from and against all liabilities, costs, expenses, damages and losses, (including but not limited to any direct, indirect or consequential loss, loss of profit, loss of reputation and all interest, penalties and legal costs (calculated on a full indemnity basis) and all other reasonable costs and expenses) resulting from that breach, without prejudice to any other right or remedy of the other Constituent Authorities howsoever arising.

## **20 POLICIES AND PROCEDURES**

20.1 The Joint Governance Committee shall prepare, maintain and adhere to policies and procedures in accordance with applicable law and regulation, competent authority, and CIPFA Guidance, which are listed in Schedule 5 and having had regard to applicable guidance specific to local government management of funds or accounting and auditing requirements,. The Joint Governance Committee shall provide them to the Constituent Authorities and OWG and provide them to sub-delegates and other necessary parties with the aim of achieving uniformity and efficiency in operating practices.

## 21 VOLUNTARY EXIT

- 21.1 Any Constituent Authority (the "**VE Authority**") may exit from the Pooling Collaboration by giving not less than 18 (eighteen) months' written notice to the Host Council of its intention to exit the Pooling Collaboration and the date of expiration of that notice is the 31 March which next falls after or is coincident with the end of the 18 (eighteen) month notice period provided that the Constituent Authorities may agree with the VE Authority that a different notice period applies (the "**Exit Date**").
- 21.2 A VE Authority may exit the Pooling Collaboration and be released from its obligations under this Agreement provided that:
- (a) it has satisfied all of its obligations up to the Exit Date;
  - (b) it has satisfied its share of the costs and expenses up to the Exit Date, as well as any necessary costs and expenses to facilitate the exit whether or not incurred after the Exit Date;
  - (c) subject to clause 21.5 below, it redeems all of its investments from the Investment Pool;
  - (d) its representatives on the Joint Governance Committee and the OWG resign on or before the Exit Date.
- 21.3 With effect from the [date of the notice given by the VE Authority pursuant to clause 21.1][Exit Date] the Voting Member (and any nominated substitute) nominated by the VE Authority for the purposes of clause 3.3 shall cease to have any voting rights for the purposes of the Joint Governance Committee and the VE Authority shall cease to be a Constituent Authority.
- 21.4 For the avoidance of doubt, the VE Authority shall remain liable to make the Pooling Contributions which are due prior to the Exit Date.
- 21.5 The Constituent Authorities recognise that there may be circumstances where the VE Authority may not be able to redeem all of its assets from the Investment Pool due to the nature of a particular investment (for example where an investment is illiquid or redeeming the asset would be in breach of contract) (the "**Retained Asset(s)**") provided that the Constituent Authorities and the VE Authority shall work together in good faith to redeem the Retained Asset(s) as soon as reasonably practicable. In such circumstances the VE Authority shall continue to make Pooling Contributions after the Exit Date until all of the Retained Asset(s) are redeemed from the Investment Pool. The Pooling Contributions shall be determined by the Business Plan which shall have regard to the relative value of the Retained Assets when compared to the assets applicable to the Constituent Authorities in the Investment Pool.

## 22 COMPULSORY EXIT

22.1 The Constituent Authorities may, having followed the procedure in Schedule 6; Votes on Compulsory Exit, compulsorily require any Constituent Authority (the "**CE Authority**") to leave the Pooling Collaboration, by the Host Council giving the CE Authority written notice if the CE Authority:

- (a) commits any serious breach or persistent breaches of this Agreement;
- (b) fails to pay any money owing by it to the Host Council within [14 (fourteen)] days of a written request for payment from the [Host Council];
- (c) fails to account for, or pay over or refund any money received and belonging to the Constituent Authorities within [14 (number)] days after being so required by notice from the Host Council;
- (d) wilfully neglects, refuses or omits to perform its duties, obligations and responsibilities under this Agreement; or
- (e) is guilty of conduct which, in the reasonable opinion of the other Constituent Authorities, is likely to have a serious adverse effect on the Pooling Collaboration;

provided that in each case the CE Authority is first given [25 Business Days] following receipt of the written notice to remedy the breach or issue described in paragraphs (a) to (e) and the CE Authority has failed to remedy such breach or issue or to take reasonable steps to do so.

22.2 The effective date of the CE Authority being required to leave the Pooling Collaboration is the 31 March which next falls after or is coincident with the period of 18 (eighteen) month after the notice given in clause 22.1 above provided that the other Constituent Authorities may notify the CE Authority that a different notice period applies (the "**Compulsory Exit Date**").

22.3 The CE Authority shall exit the Pooling Collaboration from the Compulsory Exit Date and must prior to the Compulsory Exit Date:

- (a) have satisfied all of its obligations up to the Compulsory Exit Date;
- (b) have satisfied its share of the costs and expenses up to the Compulsory Exit Date, as well as any necessary costs and expenses to facilitate the exit whether or not incurred after the Compulsory Exit Date.
- (c) subject to the same circumstances in clause 21.5, it redeems all of its investments from the Investment Pool;

- (d) its representatives on the Joint Governance Committee and the OWG resign [on or before the Compulsory Exit Date].
- 22.4 With effect from the date of the notice given by the Host Council to the CE Authority pursuant to clause 22.1 the elected member (and any nominated substitute) nominated by the CE Authority for the purposes of clause 3.3 shall cease to have any voting rights for the purposes of the Joint Governance Committee and shall cease to be a Constituent Authority.
- 22.5 For the avoidance of doubt, the CE Authority shall remain liable to make the Pooling Contributions which are due prior to the Compulsory Exit Date.
- 22.6 The Constituent Authorities recognise that there may be circumstances where the CE Authority may not be able to redeem the Retained Asset(s) provided that the Constituent Authorities and the CE Authority shall work together in good faith to redeem the Retained Asset(s) as soon as reasonably practicable. In such circumstances the CE Authority shall continue to make Pooling Contributions after the Compulsory Exit Date until all of the Retained Asset(s) are redeemed from the Investment Pool. The Pooling Contributions shall be determined by the Business Plan which shall have regard to the relative value of the Retained Asset(s) when compared to the assets applicable to the Constituent Authorities in the Investment Pool.

## **23 FURTHER PROVISIONS RELATING TO A VE AUTHORITY OR A CE AUTHORITY**

- 23.1 When any Constituent Authority ceases to be a Constituent Authority by virtue of being a VE Authority or a CE Authority, the continuing Constituent Authorities shall publish notice of the change in the Pooling Collaboration and shall give notice in writing of the change in the Pooling Collaboration to all third parties who have in the last 12 (twelve) months had any dealings with the Pooling Collaboration (as advised by the Host Council and whether as suppliers to the Host Council or as clients or customers of it).
- 23.2 The VE Authority or CE Authority (as applicable) irrevocably agree and undertake to execute and deliver within 5 working days of request all deeds and documents and to do all acts and things necessary to give effect to the terms of this Agreement and for vesting in the continuing Constituent Authorities the full benefit of the assets, rights and benefits to be transferred to the continuing Constituent Authorities under this Agreement..

## **24 NEW CONSTITUENT AUTHORITY**

- 24.1 The Constituent Authorities shall consider applications from other administering authorities of funds within the LGPS to join the Pooling Collaboration (a "**New Member Application**").

- 24.2 A New Member Application will be considered on the merits of its business case and the conditions which the Constituent Authorities consider appropriate from time to time.
- 24.3 A New Member Application will only be approved by the Constituent Authorities at their absolute discretion and, subject to regulation 8 of the Investment Regulations, there shall be no obligation under the terms of this Agreement for a New Member Application to be accepted.

## 25 CONFIDENTIALITY

For the purposes of this Agreement, **Confidential Information** means, any information which has been certified as exempt information in accordance with Section 100I of the Local Government Act 1972 and all confidential information (however recorded or preserved) disclosed by a Constituent Authority or its representatives or advisers to another Constituent Authority and his representatives or advisers (except where by law the information cannot be retained as confidential) concerning:

- (a) any information relating to the prospective business, technical processes, computer software or intellectual property rights of the Pooling Collaboration;
  - (b) all documents, papers and property that may have been made or prepared by, or at the request of, any Constituent Authority and which are marked as being exempt information or confidential and which come into any Constituent Authority's possession or under its control in the course of the Pooling Collaboration; and
  - (c) compilations of two or more items of such information and all information that has been, or may be, derived or obtained from any such information which, at any time, comes into any Constituent Authority's possession or under its control in the course of the Pooling Collaboration and which the Pooling Collaboration regards or could reasonably be expected to regard as confidential, whether or not such information is, in itself, confidential, marked as "confidential" or reduced to tangible form.
- 25.2 Save as provided otherwise in this agreement either expressly or by implication, each Constituent Authority undertakes that it shall not, at any time, disclose to any person any Confidential Information of the other Constituent Authorities and shall use its reasonable endeavours to keep all Confidential Information of the other Constituent Authorities confidential (whether it is marked as such or not) except as permitted by clause 25.3.
- 25.3 Each Constituent Authority may disclose the other Constituent Authority's Confidential Information:

- (a) to its representatives or advisers who need to know such information for the purposes of carrying out the Constituent Authority's obligations under or in connection with this Agreement. Each Constituent Authority shall ensure that its representatives or advisers to whom it discloses the other Constituent Authority's Confidential Information comply with this clause.
- (b) as may be required by law, a court of competent jurisdiction or any governmental or regulatory authority including an ombudsman.

## **26 PENSIONS**

26.1 The Constituent Authorities are scheduled employers in the LGPS. The employees employed by the Host Council in the Pooling Collaboration will be active members of the LGPS from and including the Commencement Date or later date of commencement of employment subject to the Local Government Pension Scheme Regulations 2013..

## **27 FREEDOM OF INFORMATION**

27.1 Each Constituent Authority acknowledges that the other Constituent Authorities are subject to the requirements of the Freedom of Information Act 2000 ("**FoIA**") and each Constituent Authority shall where reasonable assist and co-operate with the other Constituent Authorities [(at their own expense)] to enable the other Constituent Authorities to comply with these information disclosure obligations.

27.2 Where a Constituent Authority receives a request for information under the FoIA in relation to information which it is holding on behalf of any of the other Constituent Authorities in relation to the Pooling Collaboration, it shall:

- (a) transfer the request for information to the other Constituent Authorities as soon as practicable after receipt and in any event within 2 (two) Business Days of receiving a request for information;
- (b) provide the other Constituent Authorities with a copy of all information in its possession or power in the form that the Constituent Authorities reasonably require within 10 (ten) Business Days (or such longer period as the Constituent Authorities may specify) of the Constituent Authority requesting that information; and
- (c) provide all necessary assistance as reasonably requested by the other Constituent Authorities to enable the Constituent Authority to respond to a request for information within the time for compliance set out in the FoIA.

27.3 Where a Constituent Authority receives a request for information under the FoIA which relates to this Agreement or the Pooling Collaboration, it shall inform the Host Council of the request for information as soon as practicable after receipt and in any event at least



5 (five) Business Days before disclosure and the relevant Constituent Authority shall use all reasonable endeavours to consult with the other Constituent Authorities prior to disclosure and shall consider all representations made by the other Constituent Authorities in relation to the decision whether or not to disclose the information requested.

27.4 The Constituent Authorities shall be responsible for determining in their absolute discretion whether any information requested under the FoIA:

- (a) is exempt from disclosure under the FoIA;
- (b) is to be disclosed in response to a request for information.

27.5 Each Constituent Authority acknowledges that the other Constituent Authorities may be obliged under the FoIA to disclose information:

- (a) without consulting with the other Constituent Authorities where it has not been practicable to achieve such consultation; or
- (b) following consultation with the other Constituent Authorities and having taken their views into account.

## **28 DATA PROTECTION**

28.1 The Constituent Authorities shall comply with the Data Protection Act 1998.

## **29 DISSOLUTION**

29.1 No Constituent Authority shall be capable of dissolving the Pooling Collaboration unilaterally by means of a notice.

29.2 The Pooling Collaboration and this Agreement shall be terminated upon the unanimous agreement of all of the Constituent Authorities.

29.3 Each Constituent Authority shall act in good faith in the wind up of the Pooling Collaboration following the unanimous decision to dissolve as soon as reasonably practicable thereafter, and all costs and expenses shall be borne equally by the Constituent Authorities.

## **30 ENTIRE AGREEMENT**

30.1 This Agreement constitutes the entire agreement between the parties and supersedes and extinguishes all previous agreements, promises, assurances, warranties, representations and understandings between them, whether written or oral, relating to its subject matter.

30.2 Each Constituent Authority acknowledges that, in entering into this Agreement it does not rely on, and shall have no remedies in respect of, any statement, representation, assurance or warranty (whether made innocently or negligently) that is not set out in this agreement.

30.3 Each Constituent Authority agrees that it shall have no claim for innocent or negligent misrepresentation (or negligent misstatement) based on any statement in this agreement.

30.4 Nothing in this clause shall limit or exclude any liability for fraud.

### **31 NOTICES**

31.1 Any notice, demand or communication in connection with this Agreement will be in writing and may be delivered by hand, post or facsimile addressed to the recipient as set out in Schedule 1 or any other address notified to the other party in writing in accordance with this clause as an address to which notices, invoices and other documents may be sent. The notice, demand or communication will be deemed to have been duly served:

- (a) if delivered by hand during business hours, at the time of delivery;
- (b) if delivered by post, 48 hours after being posted (excluding Saturdays, Sundays and public holidays);
- (c) if delivered by facsimile during business hours, at the time of transmission, provided that a confirming copy is sent by first class post to the other party within 24 hours after transmission; or
- (d) if delivered by email or other electronic form of communication during business hours, at the time of transmission provided that a confirming copy is sent by first class post to the other party within 24 hours after transmission.

31.2 Where notice is served by hand, facsimile or email outside business hours, it will be deemed to have been served on the next business day.

### **32 CONTRACTS (THIRD PARTY RIGHTS)**

32.1 The Constituent Authorities as parties to this Agreement do not wish that any of its term will be enforceable by virtue of the Contract (Rights of Third Parties) Act 1999 by any person not a party to this Agreement.

### **33 SEVERANCE**

33.1 If any provision or part-provision of this Agreement is or becomes invalid, illegal or unenforceable, it shall be modified to the minimum extent necessary to make it valid,

legal and enforceable. If such modification is not possible, the relevant provision or part-provision shall be deemed deleted. Any modification to or deletion of a provision of part-provision under this clause shall not affect the validity and enforceability of the rest of this Agreement.

- 33.2 If one Constituent Authority gives notice to the other Constituent Authorities of the possibility that any provision or part-provision of this Agreement is invalid, illegal or unenforceable, the Constituent Authorities shall negotiate in good faith to amend such provision so that, as amended, it is legal, valid and enforceable, and, to the greatest extent possible, achieves the intended result of the original provision.

#### **34 AMENDMENTS**

- 34.1 No amendment to this Agreement shall be binding unless it is in writing and signed by a duly authorised representative of each of the Constituent Authorities and expressed to be for the purpose of such amendment.

#### **35 GOVERNING LAW AND JURISDICTION**

- 35.1 This agreement and any dispute or claim (including non-contractual disputes or claims) arising out of or in connection with it or its subject matter or formation shall be governed by and construed in accordance with the law of England and Wales as it applies in Wales.

- 35.2 Each party irrevocably agrees that the courts of England and Wales have exclusive jurisdiction to settle any dispute or claim (including non-contractual disputes or claims) arising out of or in connection with this agreement, its subject matter or formation.

#### **36 ALTERNATIVE DISPUTE RESOLUTION**

- 36.1 The Constituent Authorities agree:
- (a) to pursue a positive approach towards dispute resolution with an objective of reaching a consensus without formal dispute resolution and/or legal proceedings and maintaining a strong working relationship between the Constituent Authorities;
  - (b) that any dispute between the Constituent Authorities in relation to matters covered by this Agreement will be referred to in the first instance to the Chief Executives of the Constituent Authorities who may, at their sole discretion, delegate the dispute to the appropriate senior officer within 10 Business Days of written notice of the dispute;
  - (c) that if the Chief Executives or their delegates are not able to resolve the dispute within 5 Business Days of meeting or there is disagreement over a

Member matter, then any Member may refer the matter to a mediation facilitated by the [Welsh Local Government Association] or to a suitably qualified and independent person, as recommended by the Chief Executives and the Constituent Authorities agree;

- (d) that where any dispute is agreed to be of a legal or technical nature the parties to the dispute may (but not must) jointly take the opinion of an appropriate expert including opinion of senior legal counsel where appropriate. Such expert opinion must be instructed through the OWG and be instructed within [ ] days of referral to Chief Executives under sub-clause (b) following which the opinion should be delivered within a further [ ] days. that, if after exhausting other methods of dispute resolution, one of the Constituent Authorities commences legal proceedings then this will be subject to the exclusive jurisdiction of the Courts of England and Wales.

All costs are borne equally between the Constituent Authorities which are party to the dispute unless agreed otherwise by the Joint Governance Committee or ordered by the Courts.

***[Please consider what happens where a dispute is not merely contractual but a s151 or monitoring officer considers an action to be ultra vires or maladministration. Do you have a view on this aspect?]***

[This document has been executed as a deed and is delivered and takes effect on the date stated at the beginning of it.]

**Schedule 1**

Contact Details

Carmarthenshire County Council  
[Contact Name and Details]

City & County of Swansea Council  
[Contact Name and Details]

City of Cardiff Council  
[Contact Name and Details]

Flintshire County Council  
[Contact Name and Details]

Gwynedd County Council  
[Contact Name and Details]

Powys County Council  
[Contact Name and Details]

Rhondda Cynon Taff County Borough  
[Contact Name and Details]

Torfaen County Borough Council  
[Contact Name and Details]

## **Schedule 2**

### **Matters Reserved to the Constituent Authorities**

- 1 Approval of additional expenditure not included within the Business Plan which exceeds [£ ] in any one Financial Year.
- 2 Formulation or revisions of each respective Constituent Authority's investment strategy for the purposes of regulation 7 of the Investment Regulations.
- 3 Admitting a new administering authority within the LGPS to the Investment Pool
- 4 Amendment of this Agreement
- 5 Termination of this Agreement
- 6 Material change to the nature of the Operator Contract
7. Approval of Business Plan

### **Schedule 3**

#### **Joint Governance Committee Matters**

Subject to the terms of the Agreement, the Joint Governance Committee shall undertake those matters which are not Matters Reserved to the Constituent Authorities which shall include (without prejudice to the generality of the foregoing):

- 1 Replacing the Operator
- 2 Appointing and replacing service providers, advisers and custodians (other than the Operator)
- 3 Approving the creation of new pooled vehicles for the Operator
- 4 Approving the creation of new sub-funds provided by the Operator
- 5 Approving the termination of sub-funds provided by the Operator
- 6 Approving matters related to the transition of assets
- 7 Approving changes to the Operator Contract which are not material changes to the nature of the Operator Contract
- 8 Dealing with the necessary general ongoing management of the Pooling Collaboration
- 9 Delegation of tasks to the OWG, including the preparation of reports and draft documents and the undertaking of consultations.
- 10 Liaison with the scheme member representatives

## **Schedule 4**

### **Joint Governance Committee (JGC) - Terms of Reference**

In the Operational phase the JGC responsibilities are:

- Making recommendations to the Constituent Authorities on the termination of the Operator Contract before the conclusion of the fixed term contract, where the performance of the Operator is considered unacceptable;
- Ensuring that there are an appropriate range of sub-funds available in order to allow the Constituent Authorities to meet their strategic investment aims. Following representation from any, some or all of the Constituent Authorities, the JGC may direct the Operator to set up a sub-fund in a particular asset class. The JGC must be mindful at all times of the need to balance the requirement to provide a particular sub-fund with the benefits of holding aggregated assets;
- Monitoring the performance of the Operator against the agreed set of key performance indicators;
- Reporting on the performance of the Investment Pool, its costs and other activities, but not limited to, the Constituent Authorities, government, the Scheme Advisory Board and the general public;
- From time to time, to review the appropriateness of the existing structures and to make recommendations to the Constituent Authorities as to the respective merits of procuring Operator services by means of a third party or through ownership by the Constituent Authorities of the Operator;
- Liaising with the Operator, in such areas as the Operator seeks the preferences and views of the JGC, on the appointment of suppliers, for example manager preferences or the appointment of depositories;
- Liaising with the Constituent Authorities on the appropriate range of sub-funds to be provided in the Investment Pool;
- From time to time reviewing policies in respect of ethical, social and governance matters and voting rights and where appropriate make recommendations to the Constituent Authorities as to any changes deemed necessary;
- Applying any processes or policies that are assigned to it within the Inter-Authority Agreement ("IAA") made between the Constituent Authorities. For example, the exit from the Pooling Collaboration of any Constituent Authority and the allocation of costs between Constituent Authorities.



- Recommend a high level plan for initial transition of assets to the pool and further asset transitions in the event, for example, of new sub-funds being created or manager changes within sub-funds.

## **Schedule 5**

### Policies and Procedures

- Training and Competence
- Complaints
- Breaches and Errors
- Conflicts of Interests
- Business Continuity Planning
- DSAR/FOI

## **Schedule 6**

### **Joint Governance Committee Procedure**

#### **1 MEMBERSHIP**

- 1.1 The membership of the Joint Governance Committee shall consist of one elected member or their deputy per Constituent Authority.
- 1.2 No substitutes other than deputies shall be allowed.
- 1.3 The Joint Governance Committee shall not include any non-voting or co-opted members.

#### **2 MEETINGS**

- 2.1 Meeting shall be held a minimum of four times per year. The anticipated schedule of meetings will be agreed in advance of the commencement of the next year no later than the final meeting of the current year.
- 2.2 A meeting of the Joint Governance Committee may be called by [any of the Members][the chairperson of the Joint Governance Committee].
- 2.3 A meeting may be held at such time and place as the Chair of the Joint Governance Committee thinks fit.
- 2.4 Members must declare any conflict of interest in respect of any business being conducted at the meeting which would likely to be regarded to prejudice the exercise of a person's function as a participant in the meeting.
- 2.5 The Chair is responsible for the running of meetings. The Chair shall invite Members expressing a desire to speak in turn. All discussion and debate shall be held through the Chair and the Chair may draw a discussion to a vote at any time where they consider that every Member has been given a fair opportunity to speak.
- 2.6 Minutes will be kept of all meetings. The Chair will sign the minutes of the proceedings at the next suitable meeting.
- 2.7 Notice of meetings
  - (a) A notice of meeting specifying the place, date and time of the meeting and containing a statement of the matters to be discussed at the meeting, shall be served on all of the Members of the Joint Governance Committee by the appropriate governance officer of the Host Council;

- (b) Notice of each meeting, copies of the agenda and any reports to be presented at the meeting, shall be given to all Constituent Authorities by the Host Council no later than [14] clear days before the date of the meeting. The Constituent Authorities shall ensure that a minimum of five clear days' notice of all meetings is given in accordance with their normal procedures for notification of Council meetings and all papers made available at all of the Constituent Authorities head offices for inspection for those five days unless certified as confidential in which case agendas and any non-certified items are made available only.
- (c) If a meeting is required to be held with less than 5 days' notice, the Chair must agree it is required urgently, approve the shortened notice period and allow as much notice as possible to be given. Notice should be given in the same manner, and the documents should be made available to all of the Constituent Authorities for as many days as practicable before the meeting.

#### 2.8 Exclusion of the public and press

- (a) Where any item to be discussed forms exempt information the Chair shall move that the public and press are excluded from the meeting for the duration of the discussion and voting on that item. Motions to exclude the press and public do not require to be seconded and shall be determined by simple majority vote of the Members present.
- (b) Any person may be excluded from a meeting or required to leave a meeting where in the opinion of the Chair they are causing a disturbance to the running of the meeting and have not desisted from doing following a request; or where any person is so disruptive that their conduct if allowed to remain would prevent the meeting from proceeding in a fair and acceptable manner.

2.9 The Joint Governance Committee may, through the Chair, invite any person to speak at a meeting.

2.10 Officers of the OWG presenting reports to the Joint Governance Committee may be asked questions following such presentation.

2.11 Scheme member representatives have the right to attend all meetings. The Chair shall allow scheme member representatives an opportunity to speak at any meeting where they indicate that they wish to do so but may limit the time for which such representatives may speak.

2.12 Officers of the OWG, Section 151 officers and Monitoring Officers of any Constituent Authority and Scheme member representatives are entitled to attend all meetings including any part of any meeting which is closed to the public and press.

### **3 QUORUM**

- 3.1 The quorum shall be [five] Members.
- 3.2 Where a quorum is not present within 15 minutes of the start of the meeting, the meeting shall not be held and the Host Council will be ask to schedule and give notice of a replacement meeting.
- 3.3 Where, during any meeting there is no quorum present, then the meeting will adjourn immediately. If the Chair has been unable to ascertain within 15 minutes that the quorum is restored the remaining business will be considered at another time and date fixed by the Chair.

### **4 CHAIR AND VICE CHAIR.**

- 4.1 The Chair and Vice-Chair shall be Members and shall be appointed by vote.
- 4.2 In the absence of the Chair, the Vice-chair shall be entitled to exercise all of the functions of the Chair.
- 4.3 The decision of the Chair of the meeting on all points of procedure and order and the Chair's interpretation of any rule in this schedule shall be final and no debate may ensue thereon. The Chair shall be entitled to take the advice of a governance officer in interpreting any rule or objection on procedure.
- 4.4 The Chair may be assisted during meetings by governance officer on procedural matters and such administrative officers as the Chair considers appropriate. Such governance and secretarial officers shall be entitled to remain in the meeting where the public and press are excluded.

### **5 AGENDA**

- 5.1 An agenda shall be produced in advance for each meeting by the Host Council following consultation with the Chair.
- 5.2 The agenda for each meeting shall contain as the first substantive item the approval of the minutes of the previous meeting. The Chair will move that the minutes of the previous meeting be signed as a correct record. The only part of the minutes that can be discussed is their accuracy.
- 5.3 The OWG may ask the Chair to include any matter on the agenda which they consider should be discussed by the Joint Governance Committee.
- 5.4 The decision on whether to allow discussion on any other matter not on the agenda of a meeting at that meeting shall be made by the Chair.

## 6 MOTIONS

- 6.1 Any Member may propose a motion. All motions must be seconded. Motions which are opposed shall be put to a vote in accordance with the voting provisions of this schedule.
- 6.2 A Member may raise a point of order at any time. The Chair will hear them immediately. A point of order may only relate to an alleged breach of the provisions of this Schedule, or the law or other competent authority. The Member must indicate the provision or law or regulation and the way in which he/she considers it has been broken. The ruling of the Chair on the matter will be final. The Chair may take advice on the point of order from the appropriate officer.

## 7 VOTING

- 7.1 The Chair shall seek consensus wherever possible however where a vote is required the provisions of this section shall apply.
- 7.2 Each Member present will have one vote and voting will be by means of a show of hands. In the event of a tied vote, the Chair shall have a casting vote.
- 7.3 Certain decisions will be deemed to be Major Decisions.
- (a) [Definition and how it is determined what is a major decision]
- (b) Major Decisions will be [voting method].
- 7.4 Any decision which is not a major decision will be determined by simple majority.
- 7.5 In the event that a vote is taken, the voting positions and any abstentions of members will be recorded in the minutes.
- 7.6 Votes on Compulsory Exit
- (a) [Definition and how it is determined what is a major decision]
- (b) Compulsory Exit will be [voting method]. ***[Please consider whether you need this level of decision making i.e. a distinction between Major and Minor Decisions. If not, we will delete 7.3 and amend 7.4. This current wording has been captured through the Terms of Reference.]***

## 8 SUB-COMMITTEES AND WORKING GROUPS

- 8.1 The Joint Governance Committee shall form such sub-committees and working groups as it considers expedient to performing its function. The Joint Governance Committee shall at the time of forming sub-committees or working groups set out the remit of the sub-committees or working groups, what the sub-committees or working groups are required to deliver and the timescale for that delivery.

- 8.2 Sub-committees and working groups shall be entitled to request the input and support of the OWG in the same manner as the Joint Governance Committee.
- 8.3 A sub-committee shall consist of a minimum of [ ] Members
- 8.4 A working group shall consist of a minimum of [ ] Members
- 8.5 Each sub-committee and working group shall appoint a chair for that sub-committee or working group, who is to be one of the Members of the sub-committee or working group.
- 8.6 Working groups may invite any person who is not a Member to join the group in order to assist in carrying out its function.
- 8.7 The Chairs of sub-committees and working groups shall report to Joint Governance Committee at each meeting of that committee on the process of the matters within their remit.
- 8.8 Sub-committees and working groups may be disbanded at any time on the vote of the Joint Governance Committee.

## **9 RATIFICATION OF DECISIONS**

- 9.1 Process whereby decisions are sent back to councils – any standstill period before taking effect to allow councils to object?

## Schedule 7

### TUPE

#### **1 DEFINITIONS**

1.1 The following definitions shall apply in this Schedule:

**Data Protection Legislation** means the Data Protection Act 1998, the Data Protection Directive (95/46/EC), the Regulation of Investigatory Powers Act 2000, the Telecommunications (Lawful Business Practice) (Interception of Communications) Regulations 2000, the Electronic Communications Data Protection Directive (2002/58/EC), the Privacy and Electronic Communications (EC Directive) Regulations 2003 and all applicable laws and regulations relating to the processing of personal data and privacy, including where applicable the guidance and codes of practice issued by the Information Commissioner.

**Expected Transferring Employees** means those Host Council Personnel who are reasonably expected by the Host Council to be a Transferring Employee.

**Future Host Council** means any relevant Constituent Authority who provides services which are identical or substantially similar to any of the Host Council Services (directly or indirectly) following the termination or expiry of this Agreement or the termination of the provision of any of the Host Council Services by the Host Council.

**Host Council Personnel** means the individuals employed or engaged by the Host Council or any other person in the provision of the Host Council Services under this Agreement from time to time.

**Host Council Services** means the services to be provided by the Host Council under this Agreement as more particularly described at clause 7.

**Redundancy Costs** means any notice pay (including payment in lieu of notice), holiday pay and statutory and/or contractual redundancy payments.

**Sub-Contractor** means any person to whom the provision of any of the Host Council Services may be sub-contracted by the Host Council.

**Subsequent Transfer Date** means the date on which responsibility for the provision of the Host Council Services, or any part of the Host Council Services, transfers from the Host Council to the Future Host Council.

**Transferring Employee** means an individual whose contract of employment has effect from and after the Subsequent Transfer Date, by virtue of the operation of TUPE, as if originally made between such person and the Future Host Council.



## **2 NO TRANSFER ON COMMENCEMENT**

- 2.1 The Constituent Authorities agree that the neither the commencement of this Agreement nor the implementation of any of the arrangements contemplated within it shall give rise to a "relevant transfer" within the meaning of TUPE on or around the Commencement Date.

## **3 EMPLOYEE INFORMATION ON TERMINATION**

- 3.1 Subject to the Data Protection Legislation, during the period of twelve months preceding the expiry of this Agreement, or at any time after the Host Council has given notice to withdraw from the Pooling Collaboration or at any time after the Host Council has actually ceased to provide any of the Host Council Services:

- (a) the Host Council shall within 28 days of the reasonable request by any Future Host Council disclose to that Future Host Council details of the number, age and terms and conditions of employment, in relation to any Host Council Personnel assigned to the provision of the Host Council Services or any relevant part of the Host Council Services;
- (b) the Host Council shall not and, if relevant, shall procure that any Sub-Contractor shall not, save in the ordinary course of business, materially vary the terms and conditions of employment or engagement of any Host Council Personnel or redeploy, replace or dismiss any Host Council Personnel, or employ or engage any additional individual in the provision of the Host Council Services, without the prior written consent of the Future Host Council (such consent not to be unreasonably withheld or delayed).

## **4 EMOLUMENTS**

All wages, salaries, bonus and commission payments, contributions to pension schemes, entitlement to holiday pay and any other emoluments (whether monetary or otherwise), tax and national insurance contributions relating to the Transferring Employees shall be paid or borne by the Host Council (or Sub-Contractor) in relation to the period before the Subsequent Transfer Date (and the Host Council shall procure such payment by any Sub-Contractor) and by the relevant Future Host Council thereafter (and the Constituent Authorities shall procure such payment by any Future Host Council), and all necessary apportionments shall be made.

## **5 COMPLIANCE AND INDEMNITIES**

- 5.1 The Host Council shall and/or, if relevant, shall procure that any Sub-Contractor shall:
- (a) comply with its or their obligations to inform and consult the Expected Transferring Employees pursuant to Regulation 13 of TUPE;

- (b) use reasonable endeavours to agree with the Future Service Provider, and deliver to the Expected Transferring Employees prior to the Subsequent Transfer Date, a suitable joint statement regarding the proposed transfer of their employment to the Future Host Council on the Subsequent Transfer Date; and
  - (c) give employees of the Future Host Council such access to the Expected Transferring Employees prior to the Subsequent Transfer Date as the Future Host Council may reasonably require for the purposes of consultation or of effecting an efficient transfer of the Host Council Services and Transferring Employees with effect from the Subsequent Transfer Date.
- 5.2 The Host Council shall indemnify and keep indemnified the Future Host Council against all and any costs, expenses, liabilities, damages and losses arising out of or in connection with any claim, demand, action or proceeding which is made or brought against the Future Host Council in relation to:
- (a) the employment or termination of employment of any Transferring Employee during the period before the Subsequent Transfer Date; or
  - (b) the Host Council's failure or alleged failure to comply with its obligations under Regulation 13 of TUPE, save to the extent that any such failure or alleged failure is as a result of or in consequence of a failure by the Future Host Council to comply with its obligations under Regulation 13(4) of TUPE.
- 5.3 If a claim or allegation is made by any person who is not a Transferring Employee (a **"Non-Disclosed Transferring Employee"**) that his contract of employment has or should have effect as if originally made between himself and the Future Host Council by virtue of the operation or alleged operation of TUPE:
- (a) the Future Host Council shall notify the Host Council in writing as soon as reasonably practicable of any such claim or allegation and the Future Host Council shall then allow the Host Council (or any relevant Sub-Contractor) a period of 10 working days to consult with any such Non-Disclosed Transferring Employee concerning his claim or allegation;
  - (b) the Future Host Council shall give to the Host Council (or any relevant Sub-Contractor) such co-operation or assistance as the Host Council (or relevant Sub-Contractor) may reasonably require;
  - (c) if, following the period of 10 working days referred to in paragraph 4.3(a) above, any Non-Disclosed Transferring Employee continues to assert that his contract of employment has or should have effect as if originally made between himself and Future Host Council, the Future Host Council may, within a further period of

20 working days (or such other period as may be agreed in writing between the Host Council and Future Host Council), serve notice to terminate the employment or alleged employment of such Non-Disclosed Transferring Employee with immediate effect; and

- (d) subject to the Future Host Council's compliance with this paragraph 5.3, the Host Council shall indemnify and keep indemnified the Future Host Council against all and any costs, expenses, liabilities, damages and losses arising out of or in connection with any claim, demand, action or proceeding which is made or brought by any such Non-Disclosed Transferring Employee in relation to any sums paid or payable to such Non-Disclosed Transferring Employee up to the date of the termination of such Non-Disclosed Transferring Employee's employment or alleged employment, and in relation to such termination.

5.4 The Future Host Council shall indemnify and keep indemnified the Host Council (for itself and any Sub-Contractor) against all and any costs, expenses, liabilities, damages and losses arising out of or in connection with any claim, demand, action or proceeding which is made or brought:

- (a) by any Transferring Employee in relation to any act or omission of the Future Host Council on or after the Subsequent Transfer Date and/or in relation to any events or circumstances relating to the employment or termination of employment of any Transferring Employee occurring or arising on or after the Subsequent Transfer Date;
- (b) in relation to any failure or alleged failure of the Future Host Council to comply with their obligations under Regulation 13 of TUPE; or
- (c) in relation to any substantial change made or proposed by the Future Host Council in the working conditions of any of the Transferring Employees, or any individual who would have been a Transferring Employee but whose employment terminated prior to the Subsequent Transfer Date, where that change is to the detriment of such Transferring Employee(s) or such individual(s).

## **6 REDUNDANCY COSTS**

6.1 The Constituent Authorities shall indemnify and keep indemnified on a joint and several basis the Host Council (for itself and any Sub-Contractor) against all and any Redundancy Costs arising out of or in connection with any claim, demand, action or proceeding which is made or brought against the Host Council (or Sub-Contractor) arising out of or in connection with the termination or alleged termination of employment of any Host Council Personnel by reason of redundancy within 6 months of the

Subsequent Transfer Date, where the employment such Host Council Personnel does not transfer to a Future Host Council (under TUPE or otherwise) on the cessation of the provision of any or all of the Host Council Services, provided that the Host Council shall, or shall procure that any Sub-Contractor shall, use reasonable endeavours to:

- (a) mitigate the amount of any such Redundancy Costs;
- (b) search for and, if available, offer alternative employment within the Host Council's (or, as the case may be, the Sub-Contractor's) organisation to any Host Council Personnel at risk of redundancy and shall give that Host Council Personnel a reasonable opportunity to accept any such offer of alternative employment before terminating that Host Council Personnel's employment; and
- (c) comply with any applicable statutory obligations.

*[Execution clauses to be inserted]*