LOCAL GOVERNMENT PENSION SCHEME

Purpose

1. This report updates members on two issues currently effecting the Local Government Pension Scheme (LGPS). The first is a project promoted by the Ministry of Housing to improve governance. The second is about more responsible investment in the assets of the pension fund.

Background

2. The 8 Local Government Pension Funds in Wales are based on the old county structure and administered by lead authorities in each area. Matters relating to pensions are not devolved. An LGPS Scheme Advisory Board (SAB) is established under the Public Service Pensions Act 2013 to provide advice on the development of the LGPS to the Secretary of State for the Ministry of Housing, Communities and Local Government.

3. The SAB has commissioned pensions experts Hymans Robertson to facilitate a consultation on good governance structures for the LGPS. The purpose of the consultation is to consider how best to accommodate LGPS functions within the democratically accountable local authority framework in a way that ensures that conflicts of interest are addressed and managed appropriately and that the LGPS remains appropriately resourced and able to deliver its statutory functions. It will help the SAB identify any issues and potential options for change to the current arrangements which are “proportionate, pragmatic and would improve LGPS governance” in relation to those functions.

4. A second issue arises around the type of assets that the pension funds invest in which in Wales are worth up around £15bn. Although there is perennial interest in how the assets of the pension fund are invested there is a surge of interest fuelled by recent media coverage of the ‘Extinction Rebellion’. However, this is not a short-term issue and we have obligations under the Welfare of Future Generations Act. The Minister has written to all the Fund Chairs and this is set out in Annex I.

Issues

Good Governance

5. The SAB is undertaking a formal consultation process and will be seeking the views of as many stakeholders, representing all elements of the LGPS, as
possible. Scheme stakeholders will be invited to complete a short online questionnaire which asks for examples of actual conflicts that can arise, views on the effectiveness of current LGPS governance arrangements and suggestions for improvement. Further stages of the consultation will include interviews and workshops with key stakeholders. This will allow the SAB to consult on a series of options that reflect the reality of LGPS governance as experienced by those who experience it first-hand.

6. Hymans Robertson will be in touch shortly with further details of the project including information on how to complete the questionnaire and further engagement plans. The Wales representative on SAB is Cllr Clive Lloyd, Deputy Leader of Swansea and Chair Swansea Pension Fund. He is keen to respond positively and encourages a broader response as possible to the survey, many issues of good governance are already being addressed in Wales.

7. The SAB have been made aware of poor practice elsewhere are seeking to ensure consistency of approach across the LGPS. Operationally, management of the LGPS in Wales has been the responsibility of the respective section 151 Officers who are bound by their professional codes of conduct to ensure that that appropriate resource, potential conflicts and segregation of duty are managed appropriately to deliver the expected service to LGPS members.

8. Recent developments in Wales have included the separation of the pension fund accounts from the accounts of the respective Administering Authority, subject to separate audit and ISA 260 certification from Wales Audit Office, establishment of the Joint Governance Committee of the Wales Pension Partnership.

Responsible investment

9. Members are also asked to support the Minister’s letter. Administering Authorities recognise the inherent risk that climate change poses and authorities are increasingly seeing wholesale divestment in fossil fuel industries as the most effective way to tackle that risk.

10. At the same time, there are opportunities to work alongside and invest in industries willing to work more efficiently and in a cleaner way, helping them to transition and invest in cleaner and less carbon intensive technology.

11. Work is ongoing in the Wales Pensions Partnership in considering its own position on responsible investment, which largely focusses on positive engagement with companies. Some LGPS in Wales have already made definitive policy commitments, (whilst stopping short of wholesale divestment). Swansea Pension Fund has committed to reduce its carbon exposure in its listed equities portfolio by 50% over the next 5 years.
Recommendations

12. Members are asked to:

12.1 Encourage a broad response to the survey.

12.2 Support the letter from the Finance Minister.

Report cleared by: Cllr Anthony Hunt
Spokesperson for Finance

Cllr Clive Lloyd
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Dear Chairs,

I am writing to you in your capacity both as a member of the Wales Pension Partnership and the chair of your respective Pension Authority.

I hope that you will already be aware of the Welsh Government plan ‘Prosperity for All: A Low Carbon Wales’ which the Welsh Government recently published. This plan sets out the measures which the Welsh Government, together with its partners, intend to take so that we can achieve our carbon emission targets over the coming decades.

Included in the plan is an action which states ‘we will commission research to gain a better understanding of Welsh public sector investment profiles to stimulate discussion about future investment strategies’. In your role on pension authorities you oversee very significant, long term investment by people and organisations in Wales. I am writing therefore to ask your help to meet this commitment.

The Welsh Government has no role in the decisions you make and oversee on the investments which underpin the local government pension scheme funds. The guidance provided by the Ministry of Housing Communities and Local Government makes clear the consideration you must give to fiduciary and environmental social and governance (ESG) priorities.

I know that the long term prosperity of many thousand of local government employees and former employees rely on your good stewardship through the decisions you make on investment approaches.

I want to stress, as our Low Carbon Plan set out, the Government’s conviction that climate change is the globally defining challenge of our time. Climate risk is an essential consideration therefore for you under both your fiduciary and ESG responsibilities. In Wales, the Wellbeing of Future Generations (Wales) Act 2015 also requires us to think long term, and globally.

I understand that while some local authorities (such as Monmouthshire County Council and Powys County Council) have asked that their respective funds make orderly moves to

26 April 2019
disinvest from the fossil fuel sector, others have taken a different approach and that the Wales Pensions Partnership is considering its own position on responsible investment. In order to take forward the commitment made in Prosperity for All: A Low Carbon Wales, I am contacting you to ask:

1. Has your pension scheme formally considered climate change risk?

2. If you have considered climate change related risks, what actions have you taken in response to those risks? In particular, have you taken formal advice on the issue and developed a specific investment strategy on climate risk?

3. How is the Wales Pensions Partnership considering climate change related risks in developing its policies for investment?

4. What further steps are you taking in your own Pension Authority and in the Joint Governance Committee for the Welsh Pensions Partnership to apply the Well-being of Future Generations Act to the approach to investment?

5. Whether, and to what extent, disinvestment from the fossil fuel sector is being considered, or active engagement with funds to achieve carbon positive investment.

I would be grateful if Councillor Norris could provide a response by the end of May in respect of the Wales Pension Partnership as well as for the Rhondda Cynon Taf Pension fund.

I am copying this letter to Councillor Debbie Wilcox in her role as Leader of the WLGA, to the Chief Executive, Chris Lewellyn and to Chris Moore, Director of Corporate Services at Carmarthenshire Council which acts as host Authority for the Wales Pensions Partnership. My officials will also share this letter with the relevant senior local government officers.

Yours sincerely,

Rebecca Evans

Rebecca Evans AC/AM
Y Gweinidog Cyllid a'r Trefnydd
Minister for Finance and Trefnydd