

Conflicts of Interest Policy

Version 1 – June 2015

<i>Version</i>	<i>Reason for change</i>	<i>Approved</i>
1	This is the first version of the conflicts of interest policy for EAPF following establishment of a Pension Board in line with public Service Pensions Act 2013, reviewed and approved by Environment Agency Director of Legal Services.	16 June 2015 PC 23 June 2015 ARAC

Introduction

Conflicts of interest have always existed for those with LGPS administering authority responsibilities as well as for advisers to LGPS funds. This simply reflects the fact that many of those managing or advising LGPS funds will have a variety of other roles and responsibilities, for example as a member of the scheme, as a Board Member of an employer participating in the LGPS or as an adviser to more than one LGPS administering authority. Further, any of those persons may have an individual personal, business or other interest which might conflict, or be perceived to conflict, with their role managing or advising LGPS funds.

It is generally accepted that LGPS administering authorities have both fiduciary and public law duties to act in the best interests of both the scheme beneficiaries and participating employers. This, however, does not preclude those involved in the management of the fund from having other roles or responsibilities which may result in an actual or potential conflict of interest. Accordingly, it is good practice to document within a policy, how any such conflicts or potential conflicts are to be managed.

Purpose and Objectives

This is the Conflicts of Interest Policy of the Environment Agency Pension Fund (EAPF). The Policy details how actual and potential conflicts of interest are identified and managed by those involved in the management and governance of the Fund, whether directly or in an advisory capacity.

This Conflicts of Interest Policy is established to guide the Pensions Committee members, local Pension Board members, officers and advisers. Along with other constitutional and relevant documents, including the various Codes of Conduct, it aims to ensure that those individuals do not act improperly or create a perception that they may have acted improperly. It is an aid to good governance, encouraging transparency and minimising the risk of any matter prejudicing decision making or management of the Fund otherwise.

In relation to the governance of the Fund, one of the EAPF's objectives is to ensure those persons responsible for governing EAPF manage any potential conflicts of interest. The identifying and management of potential and actual conflicts of interest is therefore integral to the EAPF achieving its governance objectives which are set out in the EAPF Governance Policy.

To whom this Policy Applies

This Policy and the issue of conflicts of interest in general must be considered in light of each individual's role, whether this is a management, advisory or assisting role.

This Conflicts of Interest Policy applies to:

- all members of the Pensions Committee and the local Pension Board, including scheme member and employer representatives. For the avoidance of doubt, all references to the Pensions Committee are to be interpreted as also being references to the Investment Sub-Committee
- all employees in the Environment Agency Pension Fund Management Team

- all advisers and suppliers to the Fund, whether advising the Pension Board, Pensions Committee or Fund officers, in relation to their role in advising or supplying the Fund

In this Policy, reference to advisers includes all advisers, suppliers and other parties providing advice and services to the Administering Authority in relation to pension fund matters. This includes but is not limited to actuaries, investment consultants, independent advisers, benefits consultants, third party administrators, fund managers, lawyers, custodians and AVC providers. Where an advisory appointment is with a firm rather than an individual, reference to "advisers" is to the lead adviser(s) responsible for the delivery of advice and services to the Administering Authority rather than the firm as a whole.

In accepting any role covered by this Policy, those individuals agree that they must:

- acknowledge any potential conflict of interest they may have
- be open with the EAPF on any conflicts of interest they may have
- adopt practical solutions to managing those conflicts
- plan ahead and agree with the EAPF how they will manage any conflicts of interest which arise in future

The procedures outlined later in this Policy provide a framework for each individual to meet these requirements.

Legislative and related context

The overriding requirements in relation to the management of potential or actual conflicts of interest for those involved in LGPS funds are contained in various elements of legislation and guidance. These are considered further below.

The Environment Act 1995

The Environment Act 1995 establishes the Environment Agency and provides rules for its management. There is considerable flexibility in these rules in general but not for conflicts of interest. Section 1 and paragraph 7 of Schedule 1 to the Environment Act 1995 provides how board members must manage conflicts of interests. It provides that any member who is directly or indirectly interested in any matter that is brought up for consideration at a meeting of the Agency must disclose the nature of his interest to the meeting and where a disclosure is made:

- (a) the disclosure is minuted
- (b) the member **must not take part in any deliberation or decision** of the Agency, or of any of its committees or sub-committees with respect to that matter

Examples of direct and indirect interests are given in Section 5 of the Board Handbook which provides advice on what these are and how they must be managed.

Additional rules apply to the management of pension funds and are described below.

The Public Service Pensions Act 2013

Section 5 of this Act requires that the scheme manager (in the case of the LGPS this is the administering authority) must be satisfied that a local pension board member does not have a conflict of interest at the point of appointment and from time to time thereafter. It also

requires local pension board members (or nominated members) to provide reasonable information to the scheme manager for this purpose.

The Act defines a conflict of interest in a different and less restrictive way than the Environment Act 1995 as “a financial or other interest which is likely to prejudice the person’s exercise of functions as a member of the board (but does not include a financial or other interest arising merely by virtue of membership of the scheme or any connected scheme).”

Further, the Act requires that scheme managers must have regard to any such guidance that the national scheme advisory board issue (see below).

The Local Government Pension Scheme Regulations 2013

Regulation 108 of these Regulations applies the requirements of the Public Service Pensions Act (as outlined above) to the LGPS, placing a duty on each administering authority to satisfy itself that local pension board members do not have conflicts of interest on appointment or whilst they are members of the board. It also requires those pension board members to provide reasonable information to the administering authority in this regard.

Regulation 109 states that each administering authority must have regard to guidance issued by the Secretary of State in relation to local pension boards. Further, regulation 110 provides that the national scheme advisory board has a function of providing advice to administering authorities and local pension boards. At the point of writing this Policy, the shadow LGPS national scheme advisory board has issued guidance relating to the creation of local pension boards including a section on conflicts of interest. It is expected that this guidance will be adopted by the scheme advisory board when it is created by statute and possibly also by the Secretary of State. This Conflicts of Interest Policy has been developed having regard to that guidance.

The Pensions Act 2004

The Public Service Pensions Act 2013 also added a number of provisions to the Pensions Act 2004 related to the governance of public service pension schemes and, in particular, conflicts of interest.

Section 90A requires the Pensions Regulator to issue a code of practice relating to conflicts of interest for pension board members. The Pensions Regulator has issued such a code and this Conflicts of Interest Policy has been developed having regard to that code.

Further, under section 13, the Pensions Regulator can issue an improvement notice (i.e. a notice requiring steps to be taken to rectify a situation) where it is considered that the requirements relating to conflicts of interest for Pension Board members are not being adhered to.

The Seven Principles of Public Life

Otherwise known as the ‘Nolan Principles’, the seven principles of public life apply to anyone who works as a public office-holder. This includes people who are elected or appointed to public office, nationally and locally, and all people appointed to work in:

- the civil service
- local government
- the police
- the courts and probation services

- non-departmental public bodies
- health, education, social and care services

The principles also apply to all those in other sectors that deliver public services.

Many of the principles are integral to the successful implementation of this Policy. The principles are as follows:

- selflessness
- integrity;
- objectivity
- accountability
- openness
- honesty
- leadership

Advisers' Professional Standards

Many advisers will be required to meet professional standards relating to the management of conflicts of interest, for example, the Fund Actuary will be bound by the requirements of the Institute and Faculty of Actuaries. Any Protocol or other document entered into between an adviser and the Administering Authority in relation to conflicts of interest, whether as a requirement of a professional body or otherwise, should be read in conjunction with this Policy.

Administering Authority Specific Requirements

Pensions Committee, Pension Board and Investment Sub-Committee Members

In addition to the requirements of this Policy, all Pensions Committee and Pension Board members and officers are required to adhere to section 8 of the standing orders for the Pensions Committee, Pension Board and Investment Sub-Committee with regard to Declarations of Interest.

Employees

In addition to the requirements of this Policy, officers of the EAPF are required to adhere to the Environment Agency Code of Conduct for employees which includes a guidance note on declaration of interests. This requires all employees to complete a declaration of interests form on joining the Environment Agency and whenever personal circumstances change that affect the information on that form. As a matter of routine all employees are required to review their existing declaration of interests annually.

Advisers and Suppliers

The Administering Authority appoints its own advisers and suppliers. How conflicts of interest will be identified and managed should be addressed within its contractual agreements with those advisers and suppliers. In addition, the following requirements will apply:

- where the Administering Authority's advisers are asked to give advice to the Environment Agency or other scheme employer, or to scheme members or member representatives such as the Trades Unions, in relation to pension matters, or

- where, an adviser is also appointed to another administering authority which is involved in a transaction involving the Fund and on which advice is required, that adviser can only continue to advise the Administering Authority and another party where there is no conflict of interest in doing so
- where the Pension Board decides to appoint an adviser, this can be the same person as is appointed to advise the Pensions Committee or Fund officers as long as there is no conflict of interest between the two roles

Conduct at Meetings

There may be circumstances where a representative of employers or members wishes to provide a specific point of view on behalf of an employer (or group of employers) or member (or group of members). The Administering Authority requires that any individual wishing to speak from an employer's or member's viewpoint must state this clearly, e.g. at a Pension Board or Pensions Committee meeting, and that this will be recorded in the minutes.

What is a Conflict or Potential Conflict and how will they be managed?

The Public Service Pensions Act 2013 defines a conflict of interest less strictly than the Environment Act 1995 as a financial or other interest which is likely to prejudice a person's exercise of functions. The stricter test in the Environment Act provided for above must be applied. [Board Members](#) of the Environment Agency, and Members of its Committees including the Pensions Committee, are bound by strict rules on conflict of interest (Section 1, Sch 1 para. 7 of the Environment Act 1995). These provide that any person with a direct or indirect interest in any matter brought up for discussion "shall not take part in any deliberation or decision of the Agency, or of any of its committees or sub-committees with respect to that matter" (EA 1995, para 7(1)(b)). These rules apply alongside, and where they are more strict override, specific conflict of interest provisions under pensions legislation.

In the case of the Pensions Committee specifically a conflict of interest may arise when an individual:

- has a responsibility or duty in relation to the management of or provision of advice to, the LGPS fund administered by EAPF, and
- at the same time has:
 - a separate personal interest (financial or otherwise) or
 - another responsibility in relation to that matter

giving rise to a possible conflict with their first responsibility. An interest could also arise due to a family member or close colleague having a specific responsibility or interest in a matter.

Some examples of potential conflicts are included in Appendix 1.

EAPF will encourage a culture of openness and transparency and will encourage individuals to be vigilant; have a clear understanding of their role and the circumstances in which they may have a conflict of interest, and of how potential conflicts should be managed. EAPF will evaluate the nature of any dual interests or responsibilities that are highlighted and assess the impact on pension fund operations and good governance were an actual conflict of interest to materialise.

Ways in which conflicts of interest must be managed include:

- the individual concerned must not take part in any deliberation or discussion on the matter
- the individual may be excluded from the meeting(s) at the absolute discretion of the Chair of the meeting and any related correspondence or material in connection with the relevant issue (for example, a report for a Pensions Committee meeting)
- a working group or sub-committee may be established, excluding the individual concerned, to consider the matter outside of the formal meeting (where the terms of reference permit this to happen outside of a formal meeting)

Provided that the EAPF (having taken any professional advice deemed to be required) is satisfied that the method of management is satisfactory, the EAPF shall endeavour to avoid the need for an individual to resign due to a conflict of interest. However, where the conflict is considered to be so fundamental it cannot be effectively managed, or where a Pension Board member has an actual conflict of interest as defined in the Public Service Pensions Act 2013, the individual will be required to resign from the Committee, Board or appointment.

Responsibility

The Environment Agency Board as administering authority for the Environment Agency Pension Fund must be satisfied that conflicts of interest are appropriately managed. For this purpose, the Chair of the Pensions Committee supported by the Head of Pension Fund Management, and the Secretariat, is the designated individual for ensuring the procedure outlined below is adhered to.

However, it is still the responsibility of each individual covered by this Policy to identify any potential instances where their personal, financial, business or other interests might come into conflict with their pension fund duties.

Operational procedure for officers, Pensions Committee members and Pension Board members

What is required	How this will be done
<p>Step 1 - Initial identification of interests which do or could give rise to a conflict.</p>	<p>On appointment to their role or on the commencement of this Policy if later, all individuals will be provided with a copy of this Policy and be required to complete the appropriate Declaration of Interest required by the Environment Agency (i.e. for Pensions Committee/Pension Board members or officers as appropriate), unless this information is already available elsewhere (e.g. the annual declarations made by employees under the Agency's Code of Conduct)</p> <p>The information contained in these declarations will be collated by the Secretariat and shared with the Head of Pension Fund Management who will discuss with the relevant Chair and assess the extent to which any declarations are relevant to the individual's role in relation to the Pension Fund, note any action taken and collate these into a Members Interests action log, in a format the same or similar to that included in Appendix 2.</p>
<p>Step 2 - Ongoing notification and management of potential or actual conflicts of interest</p>	<p>At the commencement of any Pensions Committee, Investment Sub-Committee, Pension Board or other formal meeting where pension fund matters are to be discussed, the Chairman will ask all those present who</p>

What is required	How this will be done
	<p>are covered by this Policy to declare any new interests and potential conflicts. These will be added to the declarations of interest and any action taken recorded in the Members Interests action log, as above. In addition, the latest version of the Members Interests action log will be made available by the Head of Pension Fund Management to the Chairman of every meeting prior to that meeting.</p> <p>Any individual who considers that they or another individual has a potential or actual conflict of interest which relates to an item of business at a meeting, must advise the Chairman and the Head of Pension Fund Management prior to the meeting, where possible, or state this clearly at the meeting at the earliest possible opportunity. The Chairman, in consultation with the Head of Pension Fund Management, should then decide whether the conflicted or potentially conflicted individual needs to leave the meeting during the discussion on the relevant matter or to withdraw from voting on the matter.</p> <p>If such a conflict is identified outside of a meeting the notification must be made to the Head of Pension Fund Management and the Secretariat. Where it relates to the business of any meeting, to the Chairman of that meeting. The Head of Pension Fund Management, in consultation with the Chairman where relevant, will consider any necessary action to manage the potential or actual conflict.</p> <p>Where information relating to any potential or actual conflict has been provided, the Head of Pension Fund Management may seek such professional advice as they think fit (such as legal advice) on to how to address any identified conflicts.</p> <p>Any such potential or actual conflicts of interest and the action taken must be recorded on the Pension Fund's Members' Interests action log.</p>
<p>Step 3 - Periodic review of potential and actual conflicts</p>	<p>Twice a year the Secretariat will provide to all individuals to whom this Policy applies a copy of the individual's current Declaration of Interest form, and the Pension Fund's Members' Interests action log. All individuals will confirm in writing to the Secretariat that the information held in relation to them is correct. If that is not the case, they will complete a new Declaration of Interest as per step 1. Following this exercise, the updated Members' Interests action log will then be circulated in line with governance responsibilities. Officers during the year will notify Head of Pension Fund Management of any changes to their</p>

What is required	How this will be done
	<p>declarations of interest and record actions to be taken to manage any potential conflicts of interest. Otherwise officers' review their declarations of interest annually to confirm continued validity.</p>
Step 4	<p>Periodic review by the Audit and Risk Assurance Committee of the conflicts of interest in accordance with the Board Handbook and terms of reference and standing orders of the ARAC.</p>

Operational procedure for Advisers

All of the key advisers are expected to have their own policies or protocols on how conflicts of interest will be managed in their relationships with their clients, and these should have been shared with the EAPF.

Although this Policy applies to all the advisers, the operational procedures outlined in steps 1 and 3 above relating to completing ongoing declarations are not expected to apply to advisers. Instead all advisers must:

- be provided with a copy of this Policy on appointment and whenever it is updated
- adhere to the principles of this Policy
- provide, on request, information to the Head of Pension Fund Management in relation to how they will manage actual or potential conflicts of interests relating to the provision of advice or services to the EAPF
- notify the Head of Pension Fund Management immediately should a potential or actual conflict of interest arise.

All potential or actual conflicts notified by advisers will be recorded in the Pension Fund's Members' Interests action log..

Monitoring and Reporting

The register of interest may be viewed by any interested party at any point in time. It will be made available on request to the Head of Pension Fund Management. In order to identify whether the objectives of this Policy are being met the EAPF will:

- Review the Fund's Register of declarations of interest on an annual basis and consider whether there has been any potential or actual conflicts of interest that were not declared at the earliest opportunity
- Provide its findings to the Independent Governance and Risk Adviser and for comment on the management of conflicts of interest to be included in the annual report on the effectiveness of the governance of the Fund.

Key Risks

The key risks to the delivery of this Policy are outlined below all of which could result in an actual conflict of interest arising and not being properly managed. The Head of Pension Fund Management will monitor these and other key risks and consider how to respond to them.

- insufficient training or poor understanding in relation to individuals' roles on pension fund matters
- insufficient training or failure to communicate the requirements of this Policy
- absence of the individual nominated to manage the operational aspects of this Policy and no one deputizing, or failure of that individual to carry out the operational aspects in accordance with this Policy
- failure by a chairperson to take appropriate action when a conflict is highlighted at a meeting
- failure by a member to make a declaration of interest resulting in invalid decisions and reputational issues for EAPF

Costs

All costs related to the operation and implementation of this Policy will be met directly by the Fund. However, no payments will be made to any individuals in relation to any time spent or expenses incurred in the disclosure or management of any potential or actual conflicts of interest under this Policy.

Approval, Review and Consultation

This Conflicts of Interest Policy was approved at the Environment Agency Pensions Committee meeting on 16 June 2015. It will be formally reviewed and updated at least every three years or sooner if the conflict management arrangements or other matters included within it merit reconsideration, including if there are any changes to the LGPS or other relevant Regulations or Guidance which need to be taken into account.

Further Information

If you require further information about anything in or related to this Conflicts of Interest Policy, please contact:

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Appendix 1

Examples of Potential Conflicts of Interest

- a) An elected member on the Pensions Committee is asked to provide views on a funding strategy which could result in an increase in the employer contributions required from the employer he or she represents.
- b) A member of the Pension Committee is on the board of a Fund Manager that the Pension Committee is considering appointing.
- c) An employer representative on the Local Pension Board is employed by a company to which the administering authority has outsourced its pension administration services and the Local Pension Board is reviewing the standards of service provided by that company.
- d) The person appointed to consider internal disputes is asked to review a case relating to a close friend or relative.
- e) The administering authority is considering buying its own payroll system for paying pensioners, rather than using the payroll system used for all employees of the Administering Authority. The Finance Director, who is responsible for the budget of the administering authority, is expected to approve the report to go to the Pension Committee which, if agreed would result in a material reduction in the recharges to the Administering Authority from the Fund.
- f) Officers of the Fund are asked to provide a report to the Local Pension Board or Pension Committee on whether the administration services should be outsourced which, if it were to happen, could result in a change of employer or job insecurity for them.
- g) An employer representative employed by the Administering Authority and appointed to the pension board to represent employers generally could be conflicted if he or she only serves to act in the interests of the administering authority, rather than those of all participating employers. Equally, a member representative, who is also a trade union representative, appointed to the pension board to represent the entire scheme membership could be conflicted if he or she only acts in the interests of their union and union membership, rather than all scheme members.
- h) A Fund adviser is party to the development of a strategy which could result in additional work for their firm, for example, delegated consulting of fund monies or providing assistance with monitoring the covenant of employers.
- i) An employer representative has access to information by virtue of his or her employment, which could influence or inform the considerations or decisions of the Pension Committee or Local Pension Board. He or she has to consider whether to share this information in light of their duty of confidentiality to their employer. Their knowledge of this information will put them in a position of conflict if it is likely to prejudice their ability to carry out their functions as a member of the Pension Committee or Local Pension Board.

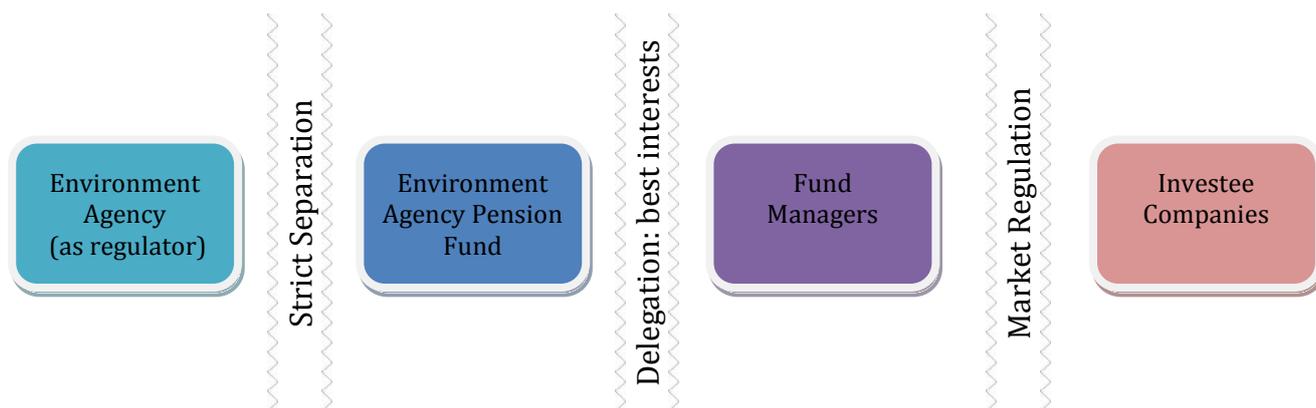
Appendix 2

How we avoid conflicts of interest in our Investments

The Environment Agency Pension Fund invests its assets in a wide range of investments across the world. Inevitably, some of the businesses represented by these investments may be regulated by the Environment Agency, which is the Fund's administering authority and largest employer, and/or Natural Resources Wales, the Fund's second largest employer.

This interaction might give rise to the potential for a conflict of interest. We take this concern very seriously, and therefore have a robust policy and practices to manage this issue to ensure that in practice, no actual conflicts arise. The core of this is that we maintain a **triple** separation between any investments made by the Fund and the Environment Agency in its role as regulator, as detailed below:

1	The Pension Fund team is completely separate from those in the Environment Agency involved in implementing regulation.	No information on any of the Fund's investments are requested by or provided to those involved in regulatory activity. Those responsible for regulation in the Environment Agency take no account of any investment positions in the Pension Fund. To act otherwise would be a clear breach of the Civil Service code and regulatory standards.
2	The selection and management of our investment portfolios is delegated to fund managers who are completely separate from the Pension Fund.	Managers are selected on the basis of their ability to deliver investment performance, offer good value for money and implement the Fund's policies on responsible investment. They are required to act in the best interests of the Fund. The pension fund team does not seek to involve itself in the day to day decisions of these managers but sets their investment objectives and guidelines, and then holds them to account on these and their analysis more generally.
3	Our managers maintain a clear separation from the listed investments they make on our behalf.	Managers invest in their chosen companies at "arms length", and do not seek to involve themselves in operational matters, such as regulatory compliance. To do otherwise would create liabilities and regulatory problems for the manager (for example making them "insiders" in the context of insider trading). As a responsible investor, we do expect our managers, acting in our best interests, to seek improvement in broader governance and strategy at companies, but this is very separate from operational matters.



These separations are reinforced with a specific policy that any fund manager that sought to directly lobby the Environment Agency on a matter of specific regulation (e.g. an operating permit) on behalf of specific investment, whether through the Environment Agency Pension Fund or not, would be subject to immediate termination of their contract.¹

This triple separation is backed up by three further considerations:

- First, as a matter of fundamental principle, the Environment Agency Pension Fund manages its investments on behalf of its employers and beneficiaries and acts in their best interests alone in managing the Fund. In no way does it seek to act on behalf of its investments, as such action would be a clear breach of its fiduciary duty.
- Second, the Fund's fiduciary duty is reinforced by a strong commitment to excellence in internal governance within the pension fund, and to the highest levels of professional standards, risk management and knowledge.
- Third, the Fund is invested in a very diverse way to manage risk, with no individual underlying investment expected to exceed 1% of the fund. This means that the individual performance of any investment is not material in the context of the fund as a whole, and so there is no incentive or financial justification for the Fund to take action on behalf of any investment.

The Environment Agency Pension Fund's commitment to eliminating any conflict of interest in its investments is absolute. We will strongly reject any suggestion that in practice any conflicts actually arise. We consider this policy to be effective and robust in doing this, but welcome any comments or suggestions on improving this policy.

¹ This policy has been inserted in investment management agreements involving segregated mandates, and with pooled funds as far as possible. With some pooled funds this has not been practical and then alternative measures are sought. Requests purely of clarification or information on regulatory matters from managers, while not welcome, would be dealt with on an individual basis. However, discussions regarding general regulatory matters, for example, feedback on improving regulation, are generally accepted as helpful.

EAPF - Members' Interests Action Log

All new declared potential or actual conflicts of interest, additional to those recorded previously, will be recorded in the minutes and a register of the action taken regarding these conflicts will be maintained and reviewed annually by the EAPF as below

Date identified	Name of Person	Role of Person	Details of conflict	Actual or potential conflict	How notified(1)	Action taken(2)	Follow up required	Date resolved

(1) E.g. verbal declaration at meeting, written declaration of interest, etc

(2) E.g. withdrawing from a decision making process, left meeting