

LGPS pension funds in Wales / Investment Pool Governance

The purpose of this note is to provide background information to constitutional officers representing each of the eight LGPS administering authorities in Wales.

Background

You will be aware that the administering authorities for the eight LGPS funds in Wales are working together to establish a pension investment “pool” in line with government requirements set out in guidance issued by DCLG, who administer the LGPS, in November 2016. The government’s aim is that the 89 administering authorities in England and Wales should form 6-8 investment pools. It has set a target date of April 2018 for those investment pools to be operational and for money to start transitioning into the pools.

This is a large and complex project for the LGPS funds in Wales.

The investment pools will consist of an FCA regulated “**Operator**” (technically called an Alternative Investment Fund Manager) and regulated “**collective investment vehicles**” (CIVs) which will hold the assets of the participating local authority funds - these could be Authorised Contractual Schemes (ACS) and/or unit trusts (UTs) for example. Different investment vehicles might be used for different assets types (listed equities, bonds, property, etc).

After considering different options for implementation, the LGPS funds in Wales have decided to procure a third party supplier that will provide the regulated “Operator” service and the investment vehicles that will house the assets of the pool. In the terminology of the project, this is labelled a “**rent**” model. In the longer term, the Welsh LGPS funds may decide to move to an “owned” Operator model.

To meet DCLG requirements, one of the key initial tasks is to establish the necessary **governance arrangements** for the procurement phase (to secure a third party operator) and the implementation phase that will follow once the third party Operator is appointed.

For this purpose we need input and support from the constitutional officers working in the eight administering authorities to help finalise the governance arrangements and work through the appropriate local approval steps which may differ between the authorities involved.

Proposed Governance arrangements for the LGPS investment pool

Very briefly, the proposed key components of the governance model for the Welsh LGPS investment pool (and the other pools being established in England) are as follows:

Component	New or existing	Summary of remit	Membership
Pension Committees (or equivalent) for individual funds	Existing S101 governance arrangements for individual local authority funds.	Governance of scheme member administration, investment and funding strategy (including strategic asset allocation and setting employer contribution rates). These committees will effectively be “clients” of the pool Operator.	Elected members. Some funds also have independent professional advisers and/ or other observers or stakeholder representatives in attendance.

Joint Chairs Group (“JCG”) for the pool	New joint chairs group for the all Wales investment pool.	Oversees the appointment the pool’s Operator, holds the Operator to account, ensures that the pool delivers what is needed by individual funds (eg sub-fund building blocks required to enable each individual fund to execute its investment strategy), provides “client” input on matters such as the investment managers used by the Operator.	One elected member from each administering authority pensions committee (expected to be the Chair or his/her nominated representative).
Officer Working Group (“OWG”)	New but builds on existing working relationships between Pension Fund Treasurers and will now have a more formalised role.	Advises the JCG and, as representatives of the Operator’s “clients” (the individual authorities) liaises with the Operator and monitors the Operator’s performance against SLAs and agreed KPIs.	Treasurers (and their investment officers) from each of the eight administering authorities.

Consideration will also be given to potential roles for other parties in pool governance including any role for professional advisers; any observer role for employee representatives; and whether there should be an independent Chair for the JCG. We will also need to decide what entity or organisation will host the JCG and provide a secretarial function.

High level plan for implementing pool governance arrangements

Key steps in the short term include the following:

	Target timescale	Deliverables	Comments
1	Mid-October 2016	Agree Memorandum of Understanding (“MoU”) between the participating administering authorities	<ul style="list-style-type: none"> • Not legally binding. • Precursor to legally binding Inter-Authority Agreement. • Individual authorities to review and sign agreed version. • Draft prepared by Eversheds attached.
2	Mid/Late - October 2016	Terms of Reference (“TOR”) for “Shadow” JCG	<ul style="list-style-type: none"> • Not legally binding. • Chairmen of individual funds who will be the members of the Shadow JCG to approve (after individual authorities review). • Draft prepared by Hymans and reviewed by Eversheds and officers attached.
3	November 2016	Form Shadow JCG and hold first meeting	<ul style="list-style-type: none"> • Precursor to formal JCG. • Need in place for the Operator procurement phase.

4	February 2016	Inter-Authority Agreement (“IAA”)	<ul style="list-style-type: none"> • Successor agreement to MoU • Legally binding agreement between participating authorities • Preliminary legal advice suggests advisable to have this agreed and signed before conclude procurement and appoint Operator • Likely to require formal Council approval (within Terms of each Councils constitution) • In order to have this signed in January we would expect to share early drafts in October / November 2016
5	January 2016	Review TOR for JCG	<ul style="list-style-type: none"> • Make any appropriate amends before formalising JCG • Members of shadow JCG to approve (after individual authority review) <p><i>*May be incorporated within the IAA</i></p>
6	February 2016	Shadow JCG becomes formal JCG	<ul style="list-style-type: none"> • Preliminary legal advice suggests advisable to have shadow JCG converted to “formal” JCG before conclude procurement and appoint Operator • Hold first meeting of “formal” JCG in January 2016

The timelines above are stretching but provisional. They are highly dependent on local timescales processes for reviewing and agreeing some of the key documents (including the MoU and IAA between authorities and TOR for the shadow JCG). We will need your input to determine whether these timescales are realistic

Hymans Robertson, September 2016