

## Report of the Section 151 Officer

Special Pension Fund Committee - 18 October 2016

### WALES INVESTMENT POOL – MEMORANDUM OF UNDERSTANDING (MOU) RE INTERIM GOVERNANCE ARRANGEMENTS

<b>Purpose:</b>	To approve the Memorandum of Understanding (MOU) Between the 8 Welsh Pension Fund Local Authorities
<b>Reason for Decision:</b>	To progress an interim governance structure
<b>Consultation:</b>	Legal, and Finance
<b>Recommendation(s):</b>	It is recommended that the Pension Fund Committee:  <ol style="list-style-type: none"><li>1. Note the progress in the development of the Wales Investment Pool.</li><li>2. Approve the draft Memorandum of Understanding.</li><li>3. Delegates authority to the Section 151 Officer / Interim Head of Legal and Democratic Services to approve any amendments to the MOU in consultation with the Chair.</li><li>4. Appoints one of its members to represent the Committee on the Joint Chairs Group and subsequently on the Joint Committee</li></ol>
<b>Report Author:</b>	Jeff Dong - Chief Treasury & Technical Officer
<b>Finance Officer:</b>	Mike Hawes - Section 151 Officer
<b>Legal Officer:</b>	Tracey Meredith – Interim Head of Legal & Democratic Services
<b>Access to Services Officer:</b>	N/A

## 1 Background

- 1.1 In the July Budget 2015, the Chancellor announced the Government's intention to work with Local Government Pension Scheme (the Scheme) administering authorities to ensure that they pool investments to significantly reduce costs while maintaining overall investment performance. Authorities are now invited to submit proposals for pooling which the Government will assess against the criteria in this document. The Chancellor has announced that the pools should take the form of up to six British Wealth Funds, each with

assets of at least £25bn, which are able to invest in infrastructure and drive local growth.

- 1.2 In December 2015, the Government issued its criteria and guidance for what it expected to see addressed in its received proposals from LGPS funds in respect of their pooling proposals. This was considered by pension fund committee at its Dec 2015 meeting.
- 1.3 Following extensive work by the SWT Pensions Sub Group and their appointed advisors, Hymans Robertson, a joint submission has been formulated in respect of the 8 Welsh Pension Funds. The Pension Fund Committee Deputy Chairman has been involved at 2 Chairs meeting to agree the same and the Pension Fund Committee received a formal presentation of the final submission on the 4<sup>th</sup> July 2016.

## **2 Submission in respect of the 8 Welsh Pension Funds**

- 2.1 The submission in respect of the 8 Welsh Pension Funds to create a Wales Investment Pool was approved by Pension Fund Committee on the 4<sup>th</sup> July 2016.
- 2.2 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. 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 explore the benefits that all stakeholders in Wales might obtain from wider pooling solutions or potential direct investments
  -

## **3 Interim Governance**

- 3.1 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.

- 3.2 Work is ongoing within tight deadlines to establish the governance arrangements for the Pool including the drafting 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.
- 3.3 It is anticipated that the Joint Committee will meet in a shadow form (i.e. without decision making powers) as a Joint Chairs' Group (JCG) during the remainder of 2016 and will be formally established early in 2017. The remit of the JCG is set out in the proposed Memorandum of Understanding (MOU) which is included as Appendix 1. The JCG will oversee the procurement process for the Operator but the formal Joint Committee will make the final recommendation to appoint the bidder who best meets the specification criteria.
- 3.4 It is proposed that the Joint Chairs' Group and the Joint Governance Committee will be made up of one representative from each of the 8 Welsh Pension Funds and so it is necessary to appoint this Committee's representative.
- 3.5 A schedule of meetings for this Committee has been arranged to align with the project plan for the Pool, see Appendix 2.

#### **4 Legal Implications**

- 4.1 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. The law governing pensions is a complex and specialist area. National Government guidance indicates that the pooling of LGPS assets is permissible under current law.

The proposed Memorandum of Understanding, and the work of the Joint Chairs' Group, will not be legally binding upon Authorities but will prepare the way for a legally binding commitment to be entered into through an Inter-Authority Agreement. Since the Inter- Authority Agreement will include the setting up of a Joint Committee it will have to be approved by full Council in early 2017.

The Pension Fund Committee Terms of Reference and Scheme of Delegation sets out the Committees responsibility for the strategic governance of the Pension Fund.

#### **5 Financial Implications**

- 5.1 Financial implications are indicated within Appendix 1

**6 Equality Impact Assessment Implications**

6.1 None

**Appendices**

**Appendix 1 - Memorandum of Understanding (MOU)**

**Appendix 2 - LGPS Pension Funds in Wales / Investment Pool Governance**