

## Report of the Section 151 Officer

Pension Fund Committee – 24 September 2015

### ALL WALES COLLABORATION

<b>Purpose:</b>	To present to the committee, the report by Mercers commissioned by the Society of Welsh Treasurers Sub Group re. Collaboration in the Welsh LGPS and To seek approval to jointly procure a single passive index manager for all 8 Welsh LGPS funds
<b>Policy Framework:</b>	None
<b>Reason for Decision:</b>	To progress the collaborative agenda and to reduce costs
<b>Consultation:</b>	Legal, Finance & Delivery and Access to Services.
<b>Recommendations:</b>	It is recommended that:  1) The report by Mercers in Appendix 1 is received and noted  2) The joint procurement exercise outlined in Appendix 2 to collaboratively procure a single passive index manager on behalf of all 8 Welsh LGPS is approved
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<b>Finance Officer:</b>	Mike Hawes
<b>Legal Officer:</b>	Debbie Smith
<b>Access to Services Officer:</b>	Sherill Hopkins

#### 1 Introduction

1.1 LGPS Reform has been on the government agenda for some time and there has been discussion with CLG via LGA throughout the last parliament with how best to take reform forward with options ranging from do nothing, through establishing procurement frameworks, working collaboratively, pooling investments through to merging funds on a regional basis or on a single national basis all the way through to realising the assets and making it an unfunded scheme like the other public sector schemes.

1.2 The consensus and the feedback from LGA was that the government was leaning towards a pooling of investments approach. As such, the Society of Welsh Treasurers Pension Sub Group ( SWTPSG) commissioned some work by the consultants Mercers with how best to implement this on an All Wales basis. The final report ( May 2015) is attached at Appendix 1.

### 1.3 The key points of the report are:

Spend time to develop a share set of principles for collaboration.

Pursue a more collaborative approach in order to avail the key benefits which include economies of scale and lower costs, increased consistencies, enhanced governance and operational management across the Welsh Funds.

Select a single provider for passive assets to obtain immediate cost savings. A pooling structure would not be required to achieve these gains.

Establish a pooling framework to extend on collaboration beyond passive assets.

Adopt a regulated (pooling) vehicle along with a model that supports leveraging the infrastructure of a third party provider (rather than building such infrastructure internally).

Consider framing the new collaborative framework as optional for each Welsh Fund but target mandates that are common to all to ensure strong uptake and an engaged and simple approach.

Consider active equity as the immediate mandate to commence under the new collaborative framework. The analysis conducted highlights that mandates offer the greatest potential for cost savings and improved net of fees returns.

Agree a set of next steps to take forward the project, including a workshop / training session and development of a project plan, including the potential tender process to assess suitable partners / providers to support the new collaborative framework.

## **2 Chancellor's Announcement July 2015**

### 2.1 The Chancellor's Summer statement in July 2015 included the government's stated intentions for LGPS reform:

*"The government will work with Local Government Pension Schemes administering authorities to ensure that they pool investments to significantly reduce costs, while maintaining overall investment performance. The government will invite local authorities to come forward with their own proposals to meet common criteria for delivering savings. A consultation to be published later this year will set out those detailed criteria as well as backstop legislation which will ensure that those administering authorities that do not come forward with sufficiently ambitious plans are required to pool."*

## **3 Current Position**

### 3.1 As recommended in the Mercer report, it was agreed by the SWTPSG to jointly procure a passive index manager for all 8 Welsh funds which would result in fee savings for all 8 Welsh funds.

3.2 A report outlining the approach to be adopted agreed by all 8 Welsh funds is attached at Appendix 2. This report will be presented at all 8 Welsh pension fund decision making bodies for approval

**4 Financial Implications**

4.1 The cost of the procurement exercise will be shared equally amongst the 8 Welsh Pension Funds

**5 Legal Implications**

5.1 The procurement exercise will be in accordance with Regulation and OJEU requirements where required

**6 Equality Impact Implications**

6.1 An EIA Screening has been undertaken and no E&EIs have been identified

**Appendices:**

**Appendix 1- Mercer- All Wales Collaboration**

**Appendix 2 – All Wales Passive Index Manager Joint Procurement Exercise**