



Complete Agenda

Democratic Service
Swyddfa'r Cyngor
CAERNARFON
Gwynedd
LL55 1SH

Meeting

EXTRAORDINARY PENSIONS COMMITTEE

Date and Time

2.00 pm, THURSDAY, 20TH OCTOBER, 2016

Location

**Siambr Hywel Dda, Council Offices,
Caernarfon, Gwynedd, LL55 1SH**

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(DISTRIBUTED 13/10/16)

PENSIONS COMMITTEE

MEMBERSHIP (7)

Plaid Cymru (3)

Councillors

Peredur Jenkins

W. Tudor Owen

Simon Glyn

Independent (2)

Councillors

Trevor Edwards

John Pughe Roberts

Labour (1)

Councillor Glyn Thomas

Liberal Democrats (1)

Councillor Stephen W Churchman

Co-opted Members

Hywel Eifion Jones Anglesey County Council
Margaret Lyon Conwy County Borough Council

Aelodau Ex-officio / Ex-officio Members

Chairman and Vice-Chairman of the Council

A G E N D A

1. APOLOGIES

To receive any apologies for absence

2. DECLARATION OF PERSONAL INTEREST

To receive any declaration of personal interest

3. URGENT ITEMS

To note any items which are urgent business in the opinion of the Chairman so that they may be considered

4. WALES INVESTMENT POOL

4 - 12

To consider the Head of Finance Report

Agenda Item 4

COMMITTEE: **Pensions Committee**

DATE: **20 October 2016**

TITLE: **Wales Investment Pool**

PURPOSE: **Report on Progress and Approval of Memorandum of Understanding**

AUTHOR: **Dafydd L Edwards, Head of Finance**

Reasons for the Report

1. This report has been prepared to inform Committee Members of progress with the development of a Wales Investment Pool to manage on a collaborative basis the investment assets of the eight Local Government Pension Scheme (LGPS) funds in Wales and to seek the Committee's approval of the proposed Memorandum of Understanding (MOU) to govern the interim Joint Chairs' Group.

Background

2. The eight LGPS funds in Wales have been working together for several years to identify areas of potential collaboration, under the direction of the Society of Welsh Treasurers (SWT) Pensions Subgroup. In 2013 the Subgroup published a report "Welsh Local Government Pension Funds: Working Together" which identified investments as the area where collaboration might yield the most significant savings. The Subgroup then commissioned Mercers Ltd to identify options for collaborative investing and in May 2015 their report recommending a Common Investment Vehicle (CIV) was issued. In September 2015 the eight funds agreed to proceed with establishing a CIV on a voluntary basis and Hymans Robertson were appointed in December 2015 to advise on the procurement of a CIV from a third party provider.
3. The UK Government has issued a number of consultations on the management of LGPS investments and in 2015 announced that all LGPS funds in England and Wales must join together to form investment pools, rather than the current arrangement whereby individual funds appoint investment managers themselves. The Welsh funds submitted an outline proposal for a Wales Investment Pool in February 2016 and detailed proposals were submitted, as required, on 15 July 2016. The proposals included letters of support from the Chairs of Pension Committees and Panels of the eight funds. A positive response was received from the Minister for Communities and Local Government to the outline proposal, but no formal response has yet been received from the DCLG to the detailed proposals.

4. 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.

Issues

5. 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.
6. 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.
7. 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.
8. It is proposed that the Joint Chairs' Group and the Joint Governance Committee will be made up of one representative from each of the Welsh Pension Funds. Hence, it is necessary to appoint this Committee's representative.

9. A schedule of meetings for the JCG/Joint Committee will be arranged to align with the project plan for the Pool.

Legal Implications

10. 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.
11. 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.

Financial Implications

12. It is proposed that all pre new arrangement costs, including governance costs of the Joint Chairs' Group, be divided equally between the eight Welsh funds.

Recommendations

- i. **That the Committee notes the progress in the development of the Wales Investment Pool.**
- ii. **That the Committee approves the draft Memorandum of Understanding.**
- iii. **That the Committee delegates authority to the Head of Finance to approve any amendments to the MoU, in consultation with the Chair.**
- iv. **That the Committee appoints one of its members to represent the Committee on the Joint Chairs Group.**

Appendix 1 - Draft Memorandum of Understanding

Background Papers - Wales Pool submission to the DCLG 15 July 2016

Memorandum of understanding relating to the procurement of services by the administering authorities of the local government pension scheme in Wales

1. This memorandum of understanding governs the relationship of the administering authorities for the local government pension scheme in Wales under Part 1 of Schedule 3 to the Local Government Pension Scheme Regulations 2013.
2. The administering authorities who are parties to this Memorandum are the City of Cardiff Council, the City & County of Swansea Council, Flintshire County Council, Carmarthenshire County Council, Torfaen County Borough Council, Gwynedd Council, Powys County Council and Rhondda Cynon Taff County Borough Council ("the Constituent Authorities").
3. The Constituent Authorities have made a proposal to HM Government for the pooling of investment activities relating to the management of their several pension funds and that proposal has been accepted in principle by HM Government.
4. The proposal is to create a pooled investment vehicle (the "Pooled Vehicle") and to delegate the operation of the Pooled Vehicle to a third party operator holding the relevant regulatory permissions (the "Host Operator"). The Constituent Authorities may delegate additional investment related services (the "Ancillary Services") to the Host Operator or to another third party provider.
5. To further that proposal the Constituent Authorities have agreed that they will act in concert to procure the Host Operator and Ancillary Services so that the strategic investment requirements of the Constituent Authorities are being met.
6. The Constituent Authorities are committed to the development of formal joint arrangements under the Local Government Act 1972 via an Inter-Authority Agreement ("IAA") and a Joint Committee under the Local Government Act 1972 ("the Joint Committee") to ensure the effective operation of the services procured, such arrangements to take effect before the provision of those services commences and by no later than 31st January 2017. The target date for commencement of the new service arrangements is April 2017 with full development of those arrangements by April 2018.
7. The Constituent Authorities will work together in accordance with this memorandum of understanding until formal joint arrangements (including a Joint Committee and legally binding Inter-Authority Agreement) are in place.

8. This memorandum of understanding does not create any legal relationship nor is it intended by the Constituent Authorities to create such a relationship. The Constituent Authorities will act with good faith, openness, equality, reasonableness, respect and avoid bringing any of the others' reputations into disrepute.
9. Flintshire County Council will act as lead authority for the purpose only of undertaking the joint procurement of a Host Operator. The invitation will be issued by Flintshire CC who will formally respond to any queries and receive the bids. Flintshire will issue the decision notice and the services contract will be entered into either by each Constituent Authority as co-signatories, one authority on behalf of the other Constituent Authorities or such other method as the Constituent Authorities agree in relation to the services described in paragraph 5. The contract will not be awarded until the Inter-Authority Agreement is entered into by the Constituent Authorities.
10. Costs incurred until the Inter-Authority Agreement is completed (including costs of challenge other than any arising from the act or omission of Flintshire) are to be allocated and recovered from each of the Constituent Authorities on an equal basis.
11. In order to act in concert the Constituent Authorities will form a Joint Chairs Group ("JCG") on which each Constituent Authority will be represented by one member who must be a member of that authority's pension committee or equivalent body (normally the Chairman of the Constituent Authority's LGPS pensions committee or his nominated representative). The Joint Chairs Group will make recommendations to the Constituent Authorities.
12. The JCG will not be a formally constituted joint committee under the Local Government Act 1972 and the provisions of that Act relating to access to information will not apply.
13. The JCG will have no powers delegated to it by the Constituent Authorities and will be responsible for:
 - 13.1 Making recommendations to the Constituent Authorities on the services and functions to be delivered by a Host Operator, the Ancillary Services and the method of delivery;
 - 13.2 Making recommendations to the Constituent Authorities on the evaluation methodology to be used in the appointment process;
 - 13.3 Making recommendation to the Constituent Authorities on the appointment of a Host Operator and other service providers;
 - 13.4 Making recommendations on the structure of the Pooled Vehicle (or Pooled Vehicles), the number and make up of sub-funds, and the commercial design of the Pooled Vehicle (or Pooled Vehicles);

- 13.5 Making recommendations to the Constituent Authorities on common minimum standard policies in respect of ethical, social and governance matters and voting rights;
- 13.6 Making recommendations to the Constituent Authorities on the role and procedures of the Joint Committee;
- 13.7 Making recommendations on any other matters which they consider to be necessary for the effective progression of the proposal.
14. In the event of any member of the JCG ceasing to be a member of the Constituent Authority which appointed them, or a member of the relevant Pension Committee the relevant Constituent Authority shall as soon as reasonably practicable appoint another member in their place.
15. At the commencement of each meeting a Chair will be appointed by the members of the JCG from amongst their own number by means of a vote.
16. A meeting shall be quorate when 6 members are present. No business will be transacted at a meeting unless a quorum exists at the beginning of the meeting. Should there be at any point in the meeting less than six members present then the meeting shall stand adjourned until the requisite number is present or a further meeting is called.
17. The JCG will in the first instance seek to reach decisions through consensus. Where it is not possible to reach a consensus position a decision will be reached by majority vote. Each Constituent Authority present will have one vote and voting will be by means of a show of hands. The Chair shall have a further and casting vote in the event of equality of votes.
18. The JCG will be supported by an officer working group comprising the each Constituent Authorities section 151 officer and/or appropriate nominated officer(s) from each Constituent Authority. The JCG may set up other working groups to advise it on matters within its remit. Such working groups may be formed of members or officers of the Constituent Authorities or any other third party as the JCG sees fit. Such working groups are advisory only and the JCG may not delegate its responsibilities to such working groups
19. The clerk to the JCG who will arrange for the provision of secretarial and administrative support will be an officer provided by the Welsh Local Government Association.
20. The JCG shall meet as is necessary for the group to execute its responsibilities.
21. Meetings will be held at such times, dates and places as may be notified to the members of the JCG by the clerk. Meeting papers will be circulated in advance of any meeting. Urgent items may be tabled at meetings with the agreement of the Chair.

22. Additional ad hoc meetings may be called in order to consider urgent matters of business within the remit of the JCG. Such ad hoc meetings may include virtual meetings facilitated by means of videoconferences or similar technology.
23. The JCG may invite any person, whether a member or officer of one of the Constituent Authorities or a third party to attend any meeting of the JCG and speak on any relevant matter.
24. Employees of the Constituent Authorities and advisers must declare whether they have any conflict of interest in respect of any business being conducted by the JCG. A conflict of interest is defined as a financial or other interest which is likely to prejudice a person's exercise of functions as an adviser to the JCG. A conflicted person shall play no part in any portion of the meeting to which that conflict of interest relates.
25. Members of the JCG will be subject to the Member Code of Conduct as operated by their own Constituent Authority.
26. Under paragraph 18 there will be an Officer Working Group (OWG) drawn from the Constituent Authorities which supports and advises the shadow Joint Committee
27. The OWG is not a decision-making body but its members will as necessary individually exercise any powers delegated to them by a Constituent Authority. Its remit will be:
 - 27.1 Proposing and procuring external support requirements (e.g. legal and taxation advice);
 - 27.2 Proposals to JCG on pool governance arrangements including how the Host Operator and, where relevant, any provider of Ancillary Services, should be held to account;
 - 27.3 Proposing the specification of the scope of services required from the Host Operator and the extent of the Ancillary Services required for the purpose of a procurement exercise and proposing an appropriate procurement process;
 - 27.4 Proposals on the appointment of the Host Operator and provider of the Ancillary services;
 - 27.5 Liaising with lawyers (and other advisers) to determine proposals to the JCG on:
 - 27.5.1 finalising a proposed project plan setting out the structure of the proposal, including the services required from the Host Operator and the Ancillary Services, together with a detailed timeline;

- 27.5.2 necessary protections in the Host Operator contract and contracts with any other service providers, including in particular exit triggers, liabilities and indemnities;
 - 27.5.3 the structure of the Pooled Vehicle (or Pooled Vehicles), the number and make up of sub-funds, and the commercial design of the Pooled Vehicle (or Pooled Vehicles);
 - 27.5.4 the actions required under existing investment-related contracts entered into by the Constituent Authorities, subject to agreement with the Constituent Authorities.
- 27.6 Planning the transition from existing mandates to the Pooled Vehicle, including proposals on the procurement of one or more transition managers, the services required, the timing of transitions and the apportionment of transaction costs.

DRAFT

Signed on behalf of City of Cardiff Council

Signed on behalf of City & County of Swansea Council,

Signed on behalf of Flintshire County Council,

Signed on behalf of Carmarthenshire County Council,

Signed on behalf of Torfaen County Borough Council,

Signed on behalf of Gwynedd Council,

Signed on behalf of Powys County Council

Signed on behalf of Rhondda Cynon Taff County Borough Council

Dated