

**STANDARDS AND CONSTITUTIONAL OVERSIGHT COMMITTEE****26 SEPTEMBER 2019**

<b>REPORT TITLE</b>	<b><i>CONSTITUTIONAL ARRANGEMENTS FOR THE OPERATION OF THE NORTHERN LOCAL GOVERNMENT PENSION SCHEME INVESTMENT POOL</i></b>
<b>REPORT OF</b>	<b><i>DIRECTOR: GOVERNANCE AND ASSURANCE</i></b>

**REPORT SUMMARY**

- (a) This report seeks the approval of the Committee to the constitutional arrangements that the Pension Committee at its meeting on 16 July 2019 recommended to the full Council in order to implement the requirements imposed on administering authorities for local government pension schemes by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the Investment Regulations) to establish, in accordance with the guidance of the Secretary of State arrangements with other LGPS Pension Funds to pool investments in order to oversee greater efficiency and economise on the costs of investment management.
- (b) Tameside and Bradford Councils are the administering authorities for the local government pension schemes in Greater Manchester and West Yorkshire respectively.
- (c) The Pensions Committee proposed that the Council, in its capacity as administering authority for the LGPS in Merseyside should enter into pooling arrangements with Tameside and Bradford Councils and to that end set up a Joint Governance Committee composed of elected representatives of all three authorities to oversee the implementation of the pooling of investments by the three LGPS schemes.

**RECOMMENDATIONS**

- 1) That the Standards and Constitutional Oversight Committee approves and recommends to the full Council;
  - (a) the proposed principles of governance contained in the draft Operating Agreement approved by the Pensions Committee at its meeting on 16 July

2019 and in particular the establishment of a Joint Committee with Tameside and Bradford Councils to oversee the required arrangements for the pooling of investments by all three Pension Funds.

- (b) The Chair and Vice Chair of the Pensions Committee (or as otherwise determined by Pensions Committee) be the Council's elected representatives on the Joint Committee.
- (c) The Director of Pensions in consultation with the Director: Governance and Assurance be given delegated authority to negotiate and agree with Tameside and Bradford Councils the details of the final draft of the Operating Agreement within the parameters of the principles of governance approved by the Pensions Committee and the Standards and Constitutional Oversight Committee.

## **SUPPORTING INFORMATION**

### **1.0 REASONS FOR THE RECOMMENDATIONS.**

- 1.1 Pooling of investments by local government pension funds is required by the Investment Regulations as supplemented by statutory guidance from the Secretary of State.
- 1.2 Pooling could lead to a reduction in the costs of investment management through economies of scale.
- 1.3 There should be elected member oversight of the performance of the officers from the three authorities who will be responsible for the management of the investments of the three pension funds.
- 1.4 A joint committee composed of the chairs and vice chairs of the pension committees (or as otherwise determined) and three trade union representatives (representing the membership of the three funds) is considered to be an appropriate mechanism for ensuring informed and efficient oversight of investment decisions made by officers.

### **2.0 OTHER OPTIONS**

- 2.1 No other options were considered since the reasons for the recommendations are adequate, and have the support of the Council's Pensions Committee and Tameside and Bradford Councils.

### **3.0 BACKGROUND INFORMATION**

- 3.1 The report of the Director of Pensions to the Pensions Committee on 16 July 2019 is attached as an appendix.
- 3.2 It explains the reasons for the Secretary of State's insistence on the pooling of investments by local government pension schemes (economies of scales, reduction in costs, and an improved capacity to invest in infrastructure).
- 3.3 The report contains the draft Operating Agreement which sets out the matters reserved to the Pensions Committees of each of the three Councils (e.g. investment strategy, appointment of the Pool Custodian, social and environmental policy on investments), the terms of reference of the Joint Committee (principally oversight of investment performance of the three Pension Funds), Joint Committee procedures, and the terms of reference of the Officer Working Group (principally the selection of external investment managers).
- 3.4 A central principle of the Secretary of State's Guidance is that the appointment of investment managers and the selection of individual investments are decisions that must be made by properly qualified and experienced professional officers. This is reflected in the terms of reference of the Officer Working Group. (Schedule 4 of the draft Operating Agreement).

- 3.5 Investment strategy, asset allocations, social, ethical, and environmental principles are reserved to each authority's Pensions Committee thereby ensuring local member control of these important areas of policy. (Schedule 1 of the draft Operating Agreement).
- 3.6 The Joint Committee's terms of reference focus upon the oversight of the performance of the pooled investments managed by the officers thereby ensuring accountability to elected Members. (Schedule 2 of the draft Operating Agreement).
- 3.7 Membership of the Joint Committee comprises the chair and vice chair of the Pensions Committee of each authority being those members which each authority considers has the necessary knowledge and experience to perform the oversight function. In addition, three trade union representatives should ensure that the voice of the members of each of the three pension schemes is heard.
- 3.8 As explained in paragraphs 2.11 and 2.12 of the report to the Pensions Committee the MHCCG will formally consult on revisions to its current guidance on pooling which may include the establishment of a pool company regulated by the Financial Conduct Authority to manage the pooled investments in place of the Officers Working Group. That is however sometime in the future and in the meantime there needs to be approval by the full Council of the proposed existing arrangements so that pooling of investments can be implemented in accordance with the requirements of the Investment Regulations. The Council's Pensions Committee will respond to any proposals on future structures that MHCLG may include in its formal consultation.
- 3.9 The draft Operating Agreement in the appendix is complete other than a final consideration of the drafting of Schedule 4 (Officers Working Group). A debate is being conducted on whether the Officers Working Group should make decisions on investments unanimously or whether in the absence of unanimity, the officers from the Pension Fund which has the highest value of the assets that will be affected, should make the decision. It is proposed that resolution of this detail be delegated to the Director: Governance and Assurance and the Director of Pensions for them to reach an agreement with Tameside and Bradford Councils. In reality this may not be a problem since the selection of investment managers will be governed by objective criteria that will be scored by officers in accordance with the Council's Contract Procedure Rules who will be aiming for consensus.
- 3.10 The full Council did not consider the report of the Director of Pensions at its meeting on 15 July 2019 as, upon reflection, it was thought more appropriate for the Council to have the benefit of the advice of this Committee and that of the Pensions Committee before reaching a decision.

#### **4.0 FINANCIAL IMPLICATIONS**

- 4.1 The cost of the Joint Governance Committee will be shared equally by all three Councils and met from the budgets for each pension fund.

- 4.2 The cost will mainly comprise the administrative arrangements which will be carried out by Tameside Council on behalf of all the authorities.
- 4.3 The cost of procuring investment managers will be apportioned to each authority in proportion to their share of the assets under management.

## **5.0 LEGAL IMPLICATIONS**

- 5.1 There is a requirement to establish a Joint Committee with Tameside and Bradford Council in order to oversee the implementation of the three Councils' pooling arrangements by officers.
- 5.2 The Committee and the Pensions Committee may need to reconsider the pooling arrangements in the light of future legislation or guidance from MHCLG.

## **6.0 RESOURCE IMPLICATIONS: ICT, STAFFING AND ASSETS**

- 6.1 None.

## **7.0 ENVIRONMENTAL IMPLICATIONS**

- 7.1 None.

## **8.0 RELEVANT RISKS**

- 8.1 MHCLG may intervene if it is not satisfied that the investment pooling arrangements are formally established in each Council's Constitution in accordance with existing legislation and guidance.
- 8.2 The outcome of MHCLG's future consultation may require the Council to reconsider its rejection of the option of forming a pooling company to manage the pooled investments instead of the Officers' Working Group.
- 8.3 In that eventuality the MHCLG's proposed alternative arrangements will be referred to the Council's Pensions Committee for an initial response prior to referral back to this Committee for re-consideration.

## **9.0 ENGAGEMENT/CONSULTATION**

- 9.1 The proposals have the support of the Council's Pensions Committee.

## **10.0 EQUALITY IMPLICATIONS**

- 10.1 There is no relevance to equality.

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## **APPENDICES**

1. Minute Extract Pensions Committee on 16 July 2019.
2. The report of the Director of Pensions to the Pensions Committee on 16 July 2019.
3. Draft Agreement.

## **BACKGROUND PAPERS**

None other than the Investment Regulations and the statutory guidance which are publicly accessible documents.

## **SUBJECT HISTORY (last 3 years)**

<b>Council Meeting</b>	<b>Date</b>
<b>Pensions Committee</b>	29 October 2018 16 July 2019