

**COUNCIL:**

**30 JUNE 2016**

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**REPORT OF CORPORATE DIRECTOR RESOURCES**

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**ESTABLISHMENT OF A PENSIONS COMMITTEE AND PARTICIPATION IN  
THE WELSH LGPS INVESTMENT POOL**

**Reason for this report**

1. This report seeks Council's approval to establish a Pensions Committee and for the participation of the Cardiff & Vale of Glamorgan Pension Fund in the proposed Wales Investment Pool for the eight LGPS funds in Wales.

**Background**

2. The City of Cardiff Council is the administering authority for the Cardiff & Vale of Glamorgan Pension Fund ('the Fund') which is part of the Local Government Pension Scheme (LGPS) for England and Wales. The Council's functions relating to Pensions are delegated in the Council's Constitution to the Corporate Director Resources. The Fund currently comprises 36 contributing employing bodies and provides services to 38,000 employees, pensioners and deferred beneficiaries.
3. The Fund holds assets of around £1.65 billion most of which are invested across a range of asset classes (equities, bonds and property) and through a number of investment managers. The Fund's assets are held in order to meet its liabilities to pay pension benefits to Fund members, their dependants and nominated beneficiaries, in compliance with the LGPS Regulations.
4. The eight LGPS funds in Wales have been working together for several years to identify areas of potential collaboration, directed by 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.

5. 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. Criteria for the pools were published in November 2015 including a minimum size of £25 billion. Outline proposals for the pools were required in February 2016 with detailed proposals to be submitted by 15 July 2016. One of the Government's aims is that the appointment of investment managers is no longer carried out at an individual fund level. Decisions on investment managers for each asset class or mandate will be made collectively at a pool level. One of the principles behind the Government's imposition of pooling is that larger asset pools will result in fee savings with investment managers which in the long term should lead to savings for the council tax payer.
6. Although the total assets of the eight LGPS funds in Wales are circa £13 billion, thereby falling short of the minimum size requirement, the funds continued their work towards an All Wales CIV. An initial proposal for a Wales Investment Pool was submitted to DCLG in February 2016, referencing the existing collaborative relationships, the progress already made towards the CIV and the distinct political and cultural environment in Wales. The proposal included letters of support from the Chairs of Committees and Panels of the eight funds. A positive response was received from the Minister for Local Government, asking the funds to develop their proposals for the July submission. This letter is attached as Appendix 1.
7. The work on the detailed proposals for a Wales Investment Pool is now at an advanced stage in order to meet the submission deadline on 15 July. Briefings have been held for Chairs of the eight funds' Committees/Panels including Cllr Graham Hinchey as Chair of the current Investment Advisory Panel. A presentation has also been made to officials from the DCLG and HMT by officers representing the proposed Pool. The SWT Pensions Subgroup will meet on 1 July to finalise the submission subject to governance approval.
8. The submission will provide more detail on:
  - The proposed governance arrangements, including the legal structure of the proposed pooling arrangements and how accountability to participating funds will be maintained.
  - The nature of the asset pools which will be made available to funds and how investment in different asset classes will be implemented.
  - Estimated cost savings for each individual fund and the timescale over which these might be achieved.
  - The pool's approach to investment in infrastructure.
9. 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 Third

Party Operator to supply the necessary infrastructure for establishing a pooling vehicle and to manage the Pool on behalf of the eight funds. The Government target for transfer of liquid assets into the pooled vehicle is April 2018 while illiquid investments such as property, infrastructure and private equity are likely to transition over a much larger period of time. In addition, Government has stressed that investments with significant exit costs should not be wound up early on account of the pooling arrangements.

10. The proposed functions of the Joint Committee are:
  - Appointment and monitoring of the Pool Operator;
  - Making decisions on asset class sub-funds to be made available by the Operator to implement the individual investment strategies of the eight funds;
  - Providing accountability to the participating funds on the management of the Pool;
  - Having responsibility for reporting on the Pool to the UK Government.
11. It is proposed that the Joint Committee operates on a 'One Fund, One Vote' basis.
12. The Operator will be responsible for:
  - Establishing an appropriate range of sub-funds as directed by the Joint Committee;
  - Selecting and contracting with investment managers for the various sub-funds;
  - Administration of underlying investments including dealing, valuation, unit pricing, record keeping etc.;
  - Due diligence for any other third parties providing services to the Pool e.g. custodian, administrator;
  - Reporting to the Joint Committee and to individual funds as required.
13. The Officer Working Group will act as advisors to the Joint Committee and will liaise with the Operator regarding the Committee's requirements.
14. Under the new arrangements administering authorities will continue to retain control over setting their investment strategy and detailed asset allocation. This continues to allow the broad risk and return characteristics of the strategy to be set in conjunction with each fund's overall funding strategy. Funds will then invest in asset pools which will be made available by the Operator of the Welsh Pool. However, the changes will mean that individual Pension Committees will have less control over their underlying investment managers.
15. Following the submission in July it is expected that there will be further engagement with the DCLG leading to the approval of the proposed Pool. Following approval it is intended to establish the Joint Committee and complete the procurement exercise for the Operator by 31 December 2016 and to commence the transition of assets to the Pool by 31 December 2017.

## **Current Governance Arrangements**

16. Across the national LGPS, there are a number of different governance arrangements in place, which include formal committees of Council, Panels with differing levels of representation and decision making powers and, as at Cardiff, delegation to a nominated officer.
17. Council has delegated the responsibility for all pensions functions to the Corporate Director Resources, who is supported in this role by an Investment Advisory Panel to which Council has nominated three members (reviewed annually at the AGM). The panel also includes two independent advisors and an elected member of the Vale of Glamorgan Council attends as an observer. The Panel's role is to assist the Corporate Director Resources in monitoring the Fund's investments and advising on investment strategy.
18. On 29 January 2015, Council approved the establishment of a Local Pension Board in line with the requirements of the Public Service Pensions Act 2013 and the Local Government Pension Scheme (Amendment) (Governance) Regulations 2014. The role of the Local Pension Board is to ensure compliance with the LGPS regulations and related legislation and to ensure the effective and efficient governance and administration of the Fund. The Board comprises three employer representatives, three scheme member representatives and a non-voting independent chair.
19. The current governance structure for the Fund is attached at Appendix 2.

## **Proposed Governance Arrangements**

20. In order for elected members of the Council to be able to participate fully in the developing collaborative arrangements, it is proposed that the Council creates a formal Pensions Committee (subject to the provisions of Section 101 of the Local Government Act 1972) to exercise oversight of its responsibilities for the administration of the Fund. It is proposed that the Pensions Committee be constituted consisting of 5 elected Members noting that there is a requirement for the committee to be politically balanced.
21. It is proposed that the Pensions Committee be responsible for the strategic management of the Fund with all operational and administrative matters continuing to be delegated to the Corporate Director Resources, supported by the Investment Advisory Panel.
22. The proposed terms of reference for the Pensions Committee are attached at Appendix 3, with operational responsibilities being delegated to the Corporate Director Resources as outlined at Appendix 4.

23. The Investment Advisory Panel will continue in its current form, as outlined in the Fund's Statement of Investment Principles although this will be reviewed in the medium term once the proposed CIV arrangements are embedded.
24. The Local Pension Board will also continue in its current role, as defined by the Public Service Pensions Act 2013 and in accordance with its Terms of Reference as approved by Council. There will, however, be a new relationship with the Pensions Committee.
25. The proposed revised governance structure for the Cardiff & Vale of Glamorgan Pension Fund, incorporating the above changes, is attached as Appendix 5.

### **Financial Implications**

26. All costs associated with the management and administration of the Pension Fund are chargeable to the Fund's accounts. This will include the running costs of the Committee e.g. expenses incurred by Committee members, costs of training events and professional advice.

### **Legal Implications**

#### Wales Investment Pool

27. The report recommends approval of the Council's participation in the Wales Investment Pool, and delegation to the Corporate Director Resources of authority to approve the detailed submission to the Department for Communities and Local Government (DCLG) in this respect. Members will note from the body of the report, that the proposals relating to the Wales Investment Pool have been developed in collaboration with the other pension funds across Wales in response to the DCLG investment reform proposals and its published criteria and guidance.
28. 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. The DCLG guidance indicates that the pooling of LGPS assets is permissible under current law, although consideration is being given to relaxation of the current legislative regime in order to facilitate collaboration.
29. Members will note that a further report is to be submitted to Council in due course on the proposals in this regard, including the proposed establishment of a joint governance committee. Further legal advice will be provided at that stage.

## Establishment of a Pensions Committee

30. There are no legal impediments to the establishment of a Pensions Committee to discharge the pensions functions of the authority as Administering Authority of the Cardiff & Vale of Glamorgan Pension Fund. The pensions functions are non-executive functions, which means that full Council must approve arrangements for their discharge. The functions may be discharged by full Council or delegated to a Committee or an officer or a Joint Committee or another authority. The appointment of a Committee and its size and terms of reference are matters which require the approval of full Council. (The relevant legal provisions are set out in section 101 and section 102 of the Local Government Act 1972; the Local Authorities (Executive Arrangements)(Functions and Responsibilities)(Wales) Regulations 2007; and the Local Government Pension Scheme Regulations made under the Superannuation Act 1972 (sections 7,12 or 24) and Section 18(3A) of the Local Government and Housing Act 1989).

## **RECOMMENDATIONS**

That Council:

31. agrees to participate in the Wales Investment Pool and delegates authority to the Corporate Director Resources in consultation with the Chair of the current Investment Advisory Panel to agree the submission of the Wales Investment Pool to the DCLG by 15 July 2016
32. approves the establishment of a Pensions Committee with the terms of reference set out in Appendix 3 and the amendment of the delegated authority of the Corporate Director Resources as set out in Appendix 4.
33. subject to approval of the recommendation in paragraph 32, authorises the Monitoring Officer to make the necessary amendments to the Constitution.
34. notes the proposed establishment of a Joint Governance Committee and receives a further report on this matter in due course.

## **CHRISTINE SALTER CORPORATE DIRECTOR RESOURCES**

- Appendix 1 – Letter from DCLG dated 24 March 2016
- Appendix 2 – Current Governance Structure
- Appendix 3 – Pensions Committee – Terms of Reference
- Appendix 4 – Delegated Functions
- Appendix 5 – Proposed Governance Structure

Background Papers:

DCLG Consultation - 1 May 2014 – Call for evidence on the future structure of the Local Government Pension Scheme

DCLG - 25 November 2015 – Local Government Pension Scheme – Opportunities for collaboration, cost savings and efficiencies

DCLG Consultation 25 November 2015 – Local Government Pension Scheme Investment Regulations

Welsh LGPS Funds – February 2016 – Submission to DCLG from the Wales Pool

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## APPENDIX 1



Department for  
Communities and  
Local Government

Cllr Graham Hinchey  
Cllr Rob Stewart  
Cllr Alan Diskin  
Cllr Wyn Evans  
Cllr Mary Barnett  
Cllr Tudor Owen  
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24 MAR 2016

*Dear Chairs,*

### WALES INVESTMENT POOL PROPOSAL

I would like to thank you and all the authorities involved in the proposed Wales pool for submitting your initial proposal by 19 February. I was pleased to see that all 90 authorities in England and Wales made a commitment to pooling, with the overwhelming majority already involved in developing a pool. The move towards collective investment represents a significant opportunity for administering authorities to deliver substantial savings and efficiencies, and your contribution is much appreciated.

I welcome the initial Welsh proposal and encourage you to continue with your work to develop a detailed submission that fully addresses the criteria by 15 July. The decision to pursue a regulated collective investment vehicle to deliver savings on active fund management represents an excellent starting point that will undoubtedly provide a strong foundation upon which a more detailed proposal can be built. However, there remains a considerable amount of work to do before July.

As you are aware, your initial proposal of a £12.3 billion pool falls considerably below the threshold of £25 billion we set in order to achieve the full benefits of scale. However, I recognise there is a case for a Wales only pool, recognising the unique culture, politics and regulation of Wales, and leaving open the question of devolution of the Local Government Pension Scheme in Wales. I am therefore content for you to develop detailed proposals on this basis, while discussions continue on the Wales Bill, as these are unlikely to conclude before the deadline for pooling proposals in July. I will of course need full assurance that your final proposals in July satisfactorily meet all the other criteria.

A key challenge for the Wales pool, as for most pools, is the development of clear and effective governance which provides the assurance authorities, beneficiaries, and co-investors require. In my view, the structure, standards and systems required for an entity regulated by the Financial Conduct Authority provide substantial assurance. As a minimum, I would expect to see a single entity at the heart of any proposal, with responsibility for selecting and contracting with managers, as well as the employment of staff. There should

also be a clear distinction between the roles of those involved in the governance of the pool, and its operations.

In your July submission I will want to see more detail against the infrastructure criteria, including setting out your constituent fund's ambition for infrastructure investment where the right opportunities exist. Several pools committed to exploring a national vehicle to access infrastructure investment at a larger scale and at lower cost. We will therefore work with administering authorities to establish a new Local Government Pension Scheme (LGPS) infrastructure investment platform that meets the specific needs of LGPS investors.

I will also expect the final proposal to address the reporting requirements in the criteria and guidance in detail. Reporting will need to cover progress in establishing the pool and moving assets into it, implementation costs, fees and other costs incurred, including hidden costs, estimated savings, and net performance in each asset class.

I will also take this opportunity to respond to two questions raised in many pooling submissions:

- Some authorities have indicated that they would prefer to use more than one pool, often to ensure that their investment strategy can be fully implemented. I do not consider that this approach should be necessary as the governance structure should enable authorities to hold the pool to account and ensure that their investment strategy is implemented effectively. However, one pool may of course procure services from another, especially if a particular asset class is not yet available. The use of multiple pools should certainly not be considered as a means to access a preferred manager or very specific asset class not available through your pool.
- My expectation remains that all investments should be made through the pool. However, I recognise that there may be a limited number of existing investments that might be less suitable to pooled arrangements, such as local initiatives or some products tailored to specific liabilities. The rationale for retaining any existing investments outside of the pool will need to be set out in the final proposal, making clear how this offers value for money. Any exemptions should be minimal and kept under review. I also recognise that a similar approach will need to be taken for illiquid assets with high penalty costs for early exit of a contract. Such investments should not be wound up early as a result of pooling but instead transferred across when practicable, taking into account value for money.

I strongly encourage you to continue dialogue with officials as you develop your thinking over the coming months. For the final assessment the panel will include members with specific expertise in investment management, and you may be asked to present at a meeting of the assessment panel well ahead of your July submission. I look forward to receiving your detailed proposals.

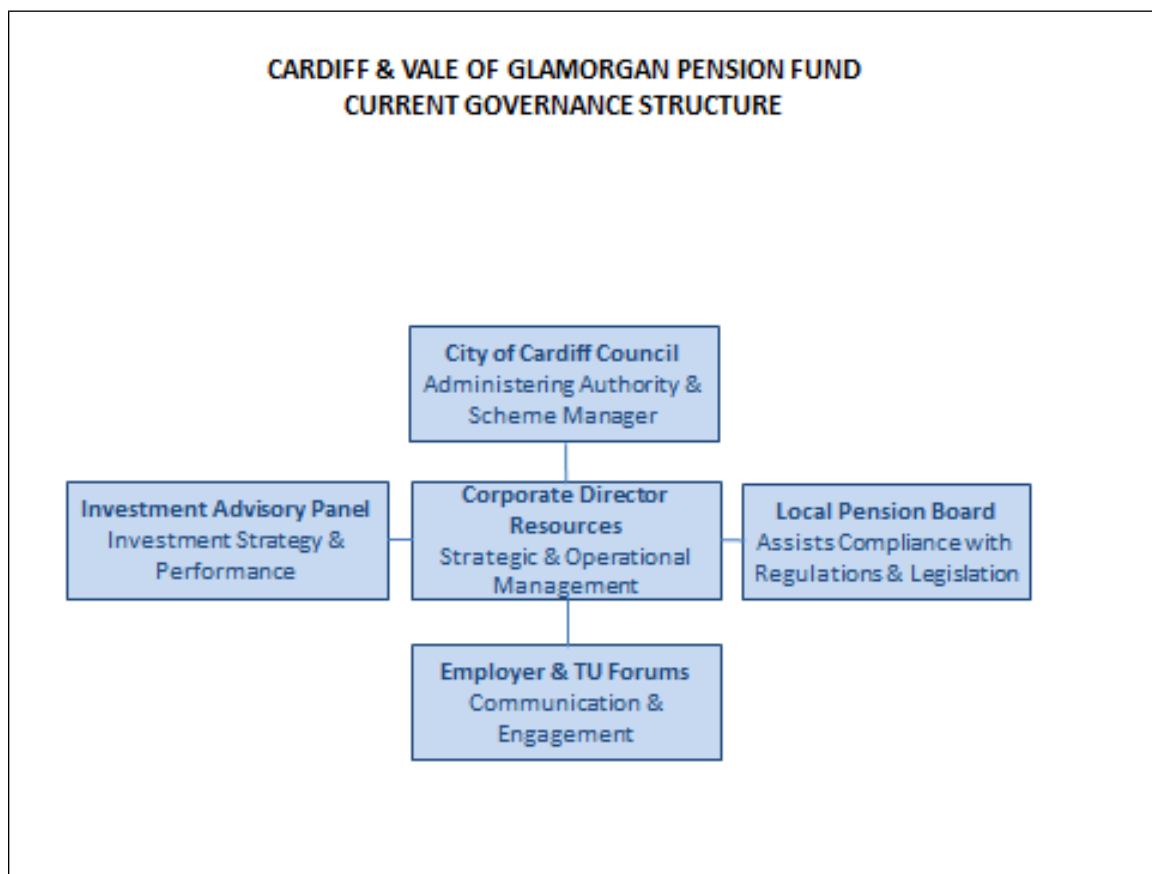
I am copying this letter to the chairs of Pension Committees in all the participating authorities.

*Yours sincerely,*

*Marcus Jones*

MARCUS JONES MP

## APPENDIX 2



## **APPENDIX 3**

### **PENSIONS COMMITTEE – TERMS OF REFERENCE**

To discharge the functions of the authority as Administering Authority of the Cardiff & Vale of Glamorgan Pension Fund ('the Fund') as described in the Local Government Pension Scheme (LGPS) Regulations made under the Superannuation Act 1972 (sections 7,12 or 24) and Section 18(3A) of the Local Government and Housing Act 1989; and

To discharge the following specific strategic functions with regards to the Fund, taking account of advice from the Corporate Director Resources and the Fund's professional advisers:-

- a) Determining the Fund's aims and objectives, strategies, statutory compliance statements, policies and procedures for the overall management of the Fund, including in relation to the following areas:
  - i) Governance – approving the Governance Policy and Compliance Statement for the Fund;
  - ii) Funding Strategy – approving the Fund's Funding Strategy Statement including ongoing monitoring and management of the liabilities, giving due consideration to the results and impact of the triennial actuarial valuation and interim reports;
  - iii) Investment strategy - approving the Fund's investment strategy, Statement of Investment Principles and Myners Compliance Statement including setting investment targets and ensuring these are aligned with the Fund's specific liability profile and risk appetite;
  - iv) Communications Strategy – approving the Fund's Communication Strategy;
  - v) Discretions – determining how the various administering authority discretions are operated for the Fund; and
  - vi) Internal Dispute Resolution Procedure – determining how the Scheme Member disputes are administered.
- b) Monitoring the implementation of these policies and strategies as outlined in a) above on an ongoing basis.
- c) Considering the Fund's financial statements as part of the approval process and agreeing the Fund's Annual Report. Receive internal and external audit reports on the same.
- d) Receiving ongoing reports from the Corporate Director Resources in relation to the delegated operational functions.
- e) To provide independent assurance to members of the Fund of the adequacy of the risk management and associated control environment, responsible for the Fund's financial and non-financial performance.

- f) To adhere to the principles set out in the Pensions Regulator Code of Practice and undertake its duties in compliance with the obligations imposed on it.
- g) To receive regular training to enable Committee Members to make effective decisions and be fully aware of their statutory and fiduciary responsibilities and their stewardship role.
- h) Consider any pension compliance matters raised by the Fund's Local Pension Board.

## APPENDIX 4

### DELEGATED FUNCTIONS

Delegation **FS28** to be amended to:

In accordance with any policy or strategy decided by the Pensions Committee, to approve decisions relating to the operational management of the Cardiff & Vale of Glamorgan Pension Fund ('the Fund') and the administration of pension benefits.

It should be noted that operational and administrative matters include (but are not restricted to):-

- a) Selection, appointment and dismissal of the Fund's advisers, including actuary, investment advisers, global custodian, fund managers, legal advisers and other professional advisers as required.
- b) Making decisions relating to employers joining and leaving the Fund. This includes which employers are entitled to join the Fund, any requirements relating to their entry, ongoing monitoring and the basis for leaving the Fund.
- c) Agreeing the terms and payment of bulk transfers into and out of the Fund.
- d) Agreeing Fund business plans and monitoring progress against them.
- e) Maintaining the Fund's Knowledge and Skills Policy for all Pension Committee Members and for all officers of the Fund, including determining the Fund's knowledge and skills framework, identifying training requirements, developing training plans and monitoring compliance with the policy.
- f) Formulating responses to consultations on LGPS matters and other matters where they may impact on the Fund or its stakeholders.
- g) Ensuring the Fund is managed and pension payments are made in compliance with the extant Local Government Pension Scheme legislation, Her Majesty's Revenue & Customs requirements for UK registered pension schemes and all other relevant statutory provisions.
- h) Ensuring robust risk management arrangements are in place.
- i) Ensuring the Council operates with due regard and in the spirit of all relevant statutory and non-statutory best practice guidance in relation to its management of the Fund.
- j) Monitoring investment performance.
- k) Working with the Fund Actuary to determine the level of employer contributions required from each employer within the Fund, and ensure such contributions are received.

## APPENDIX 5

### CARDIFF & VALE OF GLAMORGAN PENSION FUND PROPOSED GOVERNANCE STRUCTURE JUNE 2016

