

**REPORT OF CORPORATE DIRECTOR RESOURCES**

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**WALES INVESTMENT POOL JOINT GOVERNANCE  
COMMITTEE**

**Reason for this report**

1. To seek Council's approval to establish a Joint Governance Committee for the Wales Investment Pool, which will oversee the pooling of the investments of the eight Local Government Pension Scheme funds in Wales.
2. To ask Council to note the draft Inter Authority Agreement and to delegate the signing of the final version of the Agreement to the Corporate Director Resources.
3. To ask Council to approve the appointment of Carmarthenshire County Council as the Host Council for the Joint Governance Committee.
4. To ask Council to delegate authority to approve any minor amendments to the Inter Authority Agreement to the Corporate Director Resources.

**Background**

5. 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. Following a report to Full Council on 30 June 2016, the Council established a Pensions Committee and strategic functions relating to Pensions were delegated to the Committee. Operational and administrative functions are delegated to the Corporate Director Resources. The Fund currently comprises 36 contributing employing bodies and provides services to 38,000 employees, pensioners and deferred beneficiaries.
6. The Fund holds assets of around £1.9 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.
7. 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.

8. 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.
9. Although the total assets of the eight LGPS funds in Wales are circa £15 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 report to Full Council on 30 June 2016 provided the Council with a summary of the proposed collaboration arrangements including the establishment of a Joint Governance Committee. The funds submitted their detailed proposals on 15 July 2016 and received approval from the Minister on 23 November.
10. A Financial conduct Authority (FCA) regulated Third Party Operator is being procured 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 i.e. publicly listed equities and bonds into the pooled vehicle is April 2018 while illiquid investments such as property, infrastructure and private equity are likely to transition over a much longer 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.

### **Inter Authority Agreement**

11. In developing the proposals and taking the work forward to date, the eight Welsh Pension funds have operated under a Memorandum of Understanding which is not legally binding. Before entering into a contract with the Operator it is necessary to formalise the joint governance and decision making framework.
12. The Inter Authority Agreement (IAA), which is attached to this report as Appendix 1, has been developed as the legal framework for establishing

a Joint Governance Committee for the Wales Investment Pool. The IAA sets out the governance arrangements for the Pool, the rights and obligations of the eight participating authorities and the powers and responsibilities delegated to the JGC.

13. The responsibilities of the JGC are listed in Schedule 4 of the IAA and include:
  - Monitoring of the performance 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 and other stakeholders
  - Having oversight of the Officer Working Group
14. The JGC will operate on a 'One Fund, One Vote' basis.
15. The IAA sets out the terms of reference for the Officer Working Group which will act as advisors to the JGC.
16. 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 investment strategy to be set in conjunction with each pension fund's overall funding strategy. Funds will then invest in asset sub-funds which will be made available by the Operator of the Welsh Pool.
17. The IAA can only be amended or terminated with the agreement of all eight constituent authorities.

### **Host Authority**

18. The IAA provides for one of the eight authorities to act as Host Authority for the JGC. The Host Authority will provide administrative and secretarial support to the JGC and will implement decisions made by the JGC. The Host Authority will liaise with the Operator on behalf of the participating authorities and will also be responsible for arranging training for members of the JGC.
19. It is proposed that Carmarthenshire County Council (administering authority of the Dyfed Pension Fund) act as Host Authority for the Wales Investment Pool.

### **Equalities Impact Assessment**

20. No Equalities Impact Assessment has been undertaken. No equalities impact issues are anticipated to arise directly from the establishment of the Wales Investment Pool.

## **Financial Implications**

21. All costs associated with the management and administration of an LGPS pension fund are chargeable to the fund's accounts. Under the Inter Authority Agreement, the running costs of the Joint Governance Committee will be divided equally between the eight participating authorities. Expenditure incurred in the management of specific pooled investments will be charged to the relevant Pension Funds in proportion to the pooled amounts.

## **Legal Implications**

22. The body of the report notes that the IAA is in draft, however Legal Services are instructed that the principles of collaboration set out in the IAA are not anticipated to change. It is for this reason that the first and seventh recommendations seek a delegation to the Corporate Director Resources to approve and sign the final version upon consultation with the Chair of the Pensions Committee and the Director of Governance and Legal Services.
23. It is noted that Council have previously received a report setting out the detailed background of the Wales Investment Pool and have noted the proposed collaborative model of a Joint Committee. The second recommendation seeks approval of the establishment of the Joint Committee upon conclusion of the IAA by all parties. Local Authorities have broad powers to collaborate and delegate their functions to joint committees under section 101 and 102 of the Local Government Act 1972, section 9 of the Local Government Wales Measure 2009 and all other enabling powers. The Joint Committee model provides that Council would delegate certain functions relating to the Pension Fund to the Joint Committee. The Joint Committee has no separate legal identity and so cannot own property or enter into contracts in its own right. It is proposed that one authority shall act as Host Authority and the body of the report identifies Carmarthenshire as the Host Authority. The Host Authority shall take responsibility for employment of any staff required for the running of the Joint Committee, enter third party contracts for services (with the exception of the Operator contract as noted in the body of the report) and provide support services required.
24. If approved, the content and form of the IAA is intended to create a legally binding agreement between the authorities. It sets out, amongst other things (1) the extent of matters delegated to the Joint Committee and those reserved for each Local Authority, (2) the constitutional set up of the Joint Committee and its terms of reference, (3) the remit of the supporting officer working group (4) termination and exit provisions (5) the structure of the pooling collaboration (6) which Authority shall Host the collaboration and the responsibilities of the Host Authority and ancillary matters such as any cost apportionments, indemnities required to carry out the role of Host (7) financial management arrangements and (8) provisions to address such matters as disputes, variations, freedom of information.

### Equalities Duties.

25. In considering this matter the decision maker must have regard to the Council's duties under the Equality Act 2010. Pursuant to these legal duties Councils must, in making decisions, have due regard to the need to (1) eliminate unlawful discrimination, (2) advance equality of opportunity and (3) foster good relations on the basis of protected characteristics. Protected characteristics are: (a) Age, (b) Gender reassignment, (c) Sex, (d) Race – including ethnic or national origin, colour or nationality, (e) Disability, (f) Pregnancy and maternity, (g) Marriage and civil partnership, (h) Sexual orientation, (i) Religion or belief – including lack of belief.
26. The report identifies that an Equality Impact Assessment is not required. The purpose of the Equality Impact Assessment is to ensure that the Council has understood the potential impacts of the proposal in terms of equality so that it can ensure that it is making proportionate and rational decisions having due regard to its public sector equality duty. The decision maker must have due regard to the Equality Impact Assessment in making its decision.
27. The decision maker should also have regard when making its decision to the Council's wider obligations under the Wellbeing of Future Generations (Wales) Act 2015. In brief the act makes provision with regards promoting/improving wellbeing.

### **RECOMMENDATIONS**

It is recommended that Council:

28. Notes the content of the draft Inter Authority Agreement attached at Appendix 1 and delegates authority to the Corporate Director Resources in consultation with the Chair of the Pensions Committee and the Director of Governance and Legal Services to approve and sign the final version of the IAA.
29. Approves the establishment of a joint committee (hereinafter referred to as the Joint Governance Committee) on conclusion of the IAA referred to in recommendation 1 above and on the basis of the terms of reference attached.
30. Delegates the exercise of certain functions to the Joint Governance Committee as set out in the terms of reference and notes those functions that are reserved to Council.
31. Approves the appointment of the Chair of the Pensions Committee or his/her nominated Deputy to the Joint Governance Committee as The City of Cardiff representative.

32. Delegates to the nominated representative of the City of Cardiff authority to act within the terms of reference of the Joint Governance Committee to enable the exercise of any delegated function.
33. Approves that Carmarthenshire County Council (Dyfed Pension Fund) acts as Host Council with the responsibilities set out in the Inter Authority Agreement.
34. Delegates authority to the Corporate Director Resources in consultation with the Director of Governance and Legal Services to agree any further minor amendments to the IAA.

**CHRISTINE SALTER  
CORPORATE DIRECTOR RESOURCES**

Appendix 1 – Draft Inter Authority Agreement

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 – July 2016 – Submission to DCLG from the Wales Pool  
Letter from DCLG dated 23 November 2016