

**REPORT OF CORPORATE DIRECTOR RESOURCES**

**AGENDA ITEM: 5.6**

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**WALES INVESTMENT POOL GOVERNANCE ASPECTS**

**Reason for this Report**

1. The Audit Committee Terms of Reference set out the Committee's responsibility for Governance, Risk and Control.
2. This report has been prepared to provide Audit Committee Members with an update on 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 the proposed governance arrangements for the Pool.

**Background**

3. 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.
4. 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 on 15 July 2016. The proposals 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 to the outline proposal but no response has yet been received from the DCLG to the detailed proposals.
5. A redacted form of the submission (omitting details of costs of services which are being procured from commercial providers) has been published on administering authority web sites and is attached as an appendix to this report.
6. The Pool will not be a merger of the eight funds. Each fund will retain its distinct identity and the administering authorities 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

7. 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.
8. At the meeting of Full Council on 30 June 2016, Council approved the establishment of a Pensions Committee to exercise strategic oversight of its responsibilities for the administration of the Pension Fund. This will enable an elected member of the Council to participate fully in the Joint Governance Committee. The Terms of Reference of the Pensions Committee include the setting of the Fund's strategic objectives and approving the policy statements required by the LGPS Regulations covering Governance, Communications, Funding Strategy and Investment Strategy.
9. Work is ongoing within tight deadlines to establish the governance arrangements for the Pool including the drafting of an 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. It is anticipated that the Joint Committee will meet in a shadow form (i.e. without decision making powers) during the remainder of 2016 and will be formally established early in 2017. The shadow Committee will oversee the procurement process for the Operator but the full Joint Committee will make the final recommendation to appoint the bidder who best meets the specification criteria.
10. The eight administering authorities will continue to retain control over setting their investment strategy and detailed asset allocation. Cardiff's Investment Advisory Panel will continue in its current form during the period of transition to the new pooled arrangements but its role will be reviewed in the medium term.
11. Cardiff's Local Pension Board was established in July 2015. Its role is defined by the Public Service Pensions Act 2013 and the Terms of Reference approved by Council, which is to assist the Council as Scheme Manager and Administering Authority
  - to secure compliance with the LGPS regulations and any other legislation relating to the governance and administration of the scheme
  - to secure compliance with any requirements imposed by the Pensions Regulator in relation to the LGPS
  - to ensure the effective and efficient governance and administration of the scheme.

Pooling of investments should not have a major impact on this role but the Board is receiving regular updates of pooling developments and will also develop its relationship with the Pensions Committee.

12. There will be implications for the preparation and audit of the Statement of Accounts after the establishment of the Pool. Information will be required from the Joint Governance Committee and the Operator to provide the necessary assurances to the Welsh Audit Office and the Senior Management Assurance Statement will need to be reviewed to reflect the new arrangements.

### **Legal Implications**

13. There are no legal implications directly arising from the recommendations of this report.

### **Financial Implications**

14. There are no direct implications arising from this information report.

### **Recommendations**

15. That the committee note the progress in the development of the Wales Investment Pool.

## **CHRISTINE SALTER CORPORATE DIRECTOR RESOURCES**

The following Appendices are attached:

Welsh LGPS Funds: Working Together Report March 2013

Mercers Report to SWT July 2015

Wales Pool submission to the DCLG 15 July 2016

Background Papers

Report to Council 30 June 2016