

REPORT OF CORPORATE DIRECTOR RESOURCES

AGENDA ITEM: 5

WALES INVESTMENT POOL

Reason for this Report

1. The Pension Committee Terms of Reference set out the Committee's responsibility for the strategic governance of the Cardiff & Vale of Glamorgan Pension Fund.
2. 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

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, 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.
5. 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

6. 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.
7. 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.
8. 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.
9. 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 and so it is necessary to appoint this Committee's representative.
10. A schedule of meetings for this Committee has been arranged to align with the project plan for the Pool.

Legal Implications

11. 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.
12. 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 in early 2017.

13. All decisions taken by or on behalf of the Council must (a) be within the legal powers of the Council; (b) comply with any procedural requirement imposed by law; (c) be within the powers of the body or person exercising powers on behalf of the Council; (d) be undertaken in accordance with the procedural requirements imposed by the Council eg. standing orders and financial regulations; (e) be fully and properly informed; (f) be properly motivated; (g) be taken having regard to the Council's fiduciary duty to its taxpayers; and (h) be reasonable and proper in all the circumstances.

Financial Implications

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

Recommendations

That Committee:

15. Note the progress in the development of the Wales Investment Pool.
16. Approve the draft Memorandum of Understanding.
17. Delegates authority to the Corporate Director Resources to approve any amendments to the MOU in consultation with the Chair.
18. Appoints one of its members to represent the Committee on the Joint Chairs Group and subsequently on the Joint Committee.

CHRISTINE SALTER
CORPORATE DIRECTOR RESOURCES

The following Appendices are attached:

Appendix 1 - Draft Memorandum of Understanding

Background Papers

Report to Council 30 June 2016

Wales Pool submission to the DCLG 15 July 2016