

REPORT OF THE DIRECTOR OF CORPORATE SERVICES

WALES INVESTMENT POOL
INTER AUTHORITY AGREEMENT AND JOINT GOVERNANCE COMMITTEE

1 Background

1.1 Carmarthenshire County Council is the administering authority for the Dyfed Pension Fund (“the Fund”) which is part of the Local Government Pension Scheme (LGPS) for England and Wales. The Council’s decision making functions relating to Pensions are delegated in the Council’s Constitution to the Pension Fund Panel and Council. The Fund currently comprises 50 contributing employing bodies and provides services to over 40,000 employees, pensioners and deferred beneficiaries. The fund manages assets of approximately £2.2bn. The objective of the fund is to meet current and future pension liabilities of its members i.e. to pay members’ accrued pensions when they fall due in accordance with LGPS Regulations.

1.2 There are 8 LGPS funds in Wales:

- Cardiff & the Vale
- City & County of Swansea
- Clwyd
- Dyfed
- Greater Gwent
- Gwynedd
- Powys
- Rhondda Cynon Taff

In total, the value of the assets of the above funds is approximately £15bn.

1.3 The 8 LGPS funds in Wales have a long tradition of working in a collaborative manner overseen by the Pensions Sub Group of The Society of Welsh Treasurers (SWT). To develop further efficiencies and benefits of collaboration, the Subgroup published a report “Welsh Local Government Pension Funds: Working Together” in 2013 which identified investment management costs 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 published.

1.4 In the July Budget 2015, the Chancellor announced the Government’s intention to work with Local Government Pension Scheme (the Scheme) administering authorities to ensure that they pool investments to significantly reduce costs while maintaining overall investment performance. Authorities were then invited to submit proposals for pooling which the Government would assess against the criteria in this document. The Chancellor announced that the pools should take the form of up to six British Wealth Funds, each with assets of at least £25bn, which were able to invest in infrastructure and drive local growth.

- 1.5 In December 2015, the Government issued its criteria and guidance for what it expected to see addressed in its received proposals from LGPS funds in respect of their pooling proposals.
- 1.6 Following extensive work by the SWT Pensions Sub Group and their appointed advisors, Hymans Robertson, a joint submission was formulated in respect of the 8 Welsh Pension Funds. The Pension Fund Panel Chairman attended the Joint Chairs meetings to agree the submission. The Final submission was submitted to HM Government on 15th July 2016 and is attached at Appendix A

2 Submission in respect of the 8 Welsh Pension Funds

- 2.1 The submission in respect of the 8 Welsh funds although not satisfying minimum criteria in size made a compelling submission in respect of its linguistic, cultural, and regulatory differences which alongside the already fruitful collaborative work undertaken by the SWT Pension Sub Group convinced HM Government to approve the submission in Nov 2016.
- 2.2 The Welsh joint submission proposes the engagement of a Financial Conduct Authority (FCA) regulated Third Party Pool Operator to provide the Regulatory framework and mechanism with which to manage and reduce investment management expenses for the funds.

3 The Inter Authority Agreement & Governance

- 3.1 It should be emphasised that the proposals contained in the joint submission do not amend the statutory responsibility of each Administering Authority in respect of its ability to set its own asset allocation, funding and investment strategy.
- 3.2 In developing the proposals and taking the work forward to date, the 8 Welsh pension funds have operated under a Memorandum of Understanding which is not legally binding.
- 3.3 As the project moves into the next stage of engagement with an appointed ACS operator, there is a necessity to formalise the joint governance and decision making framework in which the 8 pension funds shall work going forward to ensure the long term success and robustness of the work of the Pool.
- 3.4 The Inter Authority Agreement (IAA), which is attached to this report as Appendix B, has been developed as the legal framework for establishing a Joint Governance Committee (JGC) 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.
- 3.5 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

3.6 The JGC will operate on a 'One Fund, One Vote' basis

The IAA sets out the terms of reference for the Officer Working Group which will act as advisors to the JGC

3.7 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.

3.8 The IAA can only be amended or terminated with the agreement of all eight constituent authorities.

4 **Host Authority (Accountable Body)**

4.1 The IAA provides for one of the eight authorities to act as Host Authority and Accountable Body 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.

4.2 It is proposed (and has been agreed by Section 151 Officers) that Carmarthenshire County Council (administering authority for the Dyfed Pension Fund) act as Host Authority and Accountable Body for the Wales Investment Pool.

5 **Project Timetable**

5.1 The tender documentation for the procurement of an ACS Operator is being finalised in readiness for issue with a view to the JCG making an appointment in the Summer of 2017 with planned initial assets being held within the ACS from April 2018.

RECOMMENDATIONS

1. **Note the content of the draft Inter Authority Agreement attached at Appendix B and delegates authority to the Section 151 Officer in consultation with the Chair of the Pension Panel and the Head of Administration and Law to approve and sign the final version of the IAA.**
2. **Approve 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.**

- 3. Delegate 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.**
- 4. Approve the appointment of the Chair of the Pension Fund Panel or his/her nominated Deputy to the Joint Governance Committee as the Carmarthenshire County Council representative.**
- 5. Delegate to the nominated representative of Carmarthenshire County Council authority to act within the terms of reference of the Joint Governance Committee to enable the exercise of any delegated function.**
- 6. Approve that Carmarthenshire County Council (Dyfed Pension Fund) acts as Host Council with the responsibilities set out in the Inter Authority Agreement.**