

COMMITTEE: **Pension Board**

DATE: **13 February 2017**

TITLE: **Wales Investment Pool**

PURPOSE: **Consider an Inter-Authority Agreement**

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Reasons for the Report

1. This report has been prepared to provide an opportunity for Board Members to consider the 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 the Inter-Authority Agreement to be recommended to the full Council, in order to commit to establishing the All Wales Pool and to govern the relevant Joint Committee.

The Pensions Committee approved the report on 18 January 2017 and it will be considered by the full Council on 2 March 2017.

The rest of this report contains the information considered by the Pensions Committee and a copy of the latest draft of the agreement is attached as Appendix A.

Background

2. The eight LGPS funds in Wales have been working together for several years to identify areas of potential collaboration. A report was submitted to the 20 October Pensions Committee on progress to establish a Common Investment Vehicle on a voluntary basis.
3. 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 of the eight funds.
4. Subsequently, a delegation from the Wales LGPS funds met the Minister on 16 November 2016 where the proposal and progress of the pool to date was discussed. The Minister formally approved the All Wales Investment Pool on 23 November 2016. Marcus Jones MP wrote:

"the Welsh funds have a long history of cooperation, and are working together successfully to develop the all Wales pool. I congratulate you on the exceptionally low fee for the passive equities portfolio of all Welsh funds

which you have already secured. I was also glad to note your ambition to increase infrastructure investment. Given your strong partnership, and the special position of Wales I am therefore pleased to confirm that I am content for you to proceed as set out in your final proposal."

Welsh pension fund officers and chairs are continuing to work together in order to establish a Collective Investment Vehicle by 1 April 2018.

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 (distribution of the portfolio between asset categories such as equities, property, etc).
6. 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 research the benefits that all stakeholders in Wales might obtain from wider pooling solutions, or potential direct investments.

Governance 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. Work is ongoing within tight deadlines to establish the governance arrangements for the Pool, including preparation of the enclosed draft 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.

9. The Joint Committee has met in a shadow form (i.e. without decision making powers) as a Joint Chairs' Group during 2016 and on 11 January 2017. The intention is to formally establish the Joint Committee early in 2017. The remit of the Joint Committee is set out in the proposed Inter-Authority Agreement which is included as Appendix 1. The Joint Committee will oversee the procurement process for the Operator, and will make the final recommendation to appoint the bidder who best meets the specification criteria.
10. The proposed Inter-Authority Agreement, and setting up the Governance Joint Committee, will be legally binding upon Authorities, and will have to be approved by full Council.

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 (as amended). The law governing pensions is a complex and specialist area. The National Government's guidance indicates that the pooling of LGPS assets is permissible under current law (and of course the DCLG's guidelines insist that funds pool).

Financial Implications

12. It is proposed that 'administrative' costs under the new arrangements, including governance costs of the Joint Committee, be divided equally between the eight Welsh funds, but that subsequent investment costs are allocated to specific investments, proportional to those investments.

Timetable / Amendments

13. The 8 pension fund administering authorities in Wales will present the final Inter-Authority Agreement to their full Council meetings in February / March 2017 for approval. Between releasing the current draft and the meeting of 2 March, there will be minor amendments to the agreement's details.

Recommendations

- i. **That the Committee notes the progress in the development of the Wales Investment Pool and support committing to the Pool.**
- ii. **That the Committee approves the draft Inter-Authority Agreement and supports its recommendation to the full Council on 2 March 2017.**
- iii. **That the Committee recommends establishing the All-Wales Joint Committee in accordance with the Agreement.**
- iv. **That the Committee delegates authority to the Head of Finance to approve any amendments to the Inter-Authority Agreement, in consultation with the**

Chair and the Head of Legal Services, before submission to the full Council for approval.

Appendix 1 - Draft Inter-Authority Agreement