

CYNGOR SIR POWYS COUNTY COUNCIL.

**Council
7th March 2017**

**REPORT AUTHOR: STRATEGIC DIRECTOR OF RESOURCES
SOLICITOR TO THE COUNCIL**

**SUBJECT: WALES INVESTMENT POOL
INTER AUTHORITY AGREEMENT AND JOINT
GOVERNANCE COMMITTEE**

REPORT FOR: Decision

1. Purpose:

1.1 This report sets out the background to the proposed investment pooling arrangements across the eight Welsh Local Authority Pension Funds and the requirement to formally enter into an agreement between the funds to establish administrative and governance arrangements to manage the pooling arrangements in accordance with the Council's Financial Governance and Pension Fund Administering Authority responsibilities.

2 Background

2.1 Powys County Council is the administering authority for the Powys 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 Pensions and Investment Committee and Full Council. The Fund currently comprises 23 contributing employing bodies and provides services to 16,000 employees, pensioners and deferred beneficiaries. The fund manages assets of approximately £580m. 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.

2.2 There are currently 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.

- 2.3 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.
- 2.4 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.
- 2.5 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. This was considered by the Pensions and Investment Committee at its meeting on 11th February 2016.
- 2.6 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 Pensions and Investment Committee Chair attended meetings of the joint chairs of the 8 pension funds to agree the submission and the Pensions and Investment Committee received a formal presentation of the final submission on the 11th July 2016. The Final submission was submitted to HM Government on 15th July 2016 and is attached at Appendix A.

3 Submission in respect of the 8 Welsh Pension Funds

- 3.1 The submission in respect of the 8 Welsh funds although not satisfying minimum criteria in size (£25bn) 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.

- 3.2 The Welsh joint submission proposes the engagement of a Financial Conduct Authority (FCA) regulated Third Party Pool Operator (“ Pool Operator”) to provide the Regulatory framework and mechanism with which to manage and reduce investment management expenses for the funds.

4 The Inter Authority Agreement & Governance

- 4.1 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.
- 4.2 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.
- 4.3 As the project moves into the next stage of engagement with an appointed Pool 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.
- 4.4 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.
- 4.5 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.
- 4.6 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.
- 4.7 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.

- 4.8 The IAA (once approved by all eight authorities) can only be amended or terminated with the agreement of all eight constituent authorities.

5 Host Authority (Accountable Body)

- 5.1 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.
- 5.2 It is proposed that Carmarthenshire County Council (administering authority of the Dyfed Pension Fund) act as Host Authority and Accountable Body for the Wales Investment Pool.

6 Project Timetable

- 6.1 The tender documentation for the procurement of an Pool 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.
- 6.2. In order to achieve the above timetable, it will be necessary for all eight Local Authorities to approve and sign off the IAA before the Pre-Election Period commences on 17th March 2017. As such a report in similar terms to the this report will be presented to all eight Authorities prior to 17th March 2017. The City and County Of Swansea were the first to approve the IAA at its meeting on 23rd February 2017.

7 Legal Implications

- 7.1 Legal implications are outlined in the IAA.

8 Financial Implications

- 8.1 Financial implications are outlined in the IAA.

9 Equality Impact Assessment Implications

- 9.1 None.

10. Comment from Chair of Pensions and Investment Committee

- 10.1 I fully support the recommendations contained in the report.

11. Support Services (Legal, Finance, Corporate Property, HR, ICT, Business Services)

- 10.1 Legal – The recommendations can be supported from a legal point of view.
- 10.2 Finance - costs associated with the establishment of the Pool will be shared equally between the 8 Welsh LGPS Funds. All fees, charges and costs associated with the Pool will be chargeable to the Pension Fund therefore, there will be no revenue cost to the County Council.
- 10.3 Business Services – The Pension Fund Manager will be the point of contact for the Powys Pension Fund with the Pool and will be a member of the Officer Working Group

11.1 Statutory Officers

- 11.1 The Solicitor to the Council (Monitoring Officer) has commented as follows: “ I note the legal comment and have nothing to add to the report
- 11.2 The Strategic Director Resources (S151 Officer) notes the comments made by Finance and confirms any cost associated with the establishment and management of the Pool will have to be met by the Pension Fund.

12. Members’ Interests

- 12.1 The Monitoring Officer is not aware of any specific interests that may arise in relation to this report. If Members have an interest they should declare it at the start of the meeting and complete the relevant notification form.

Recommendation:	Reason for Recommendation:
<p>1. To note the content of the draft Inter Authority Agreement attached at Appendix B and delegates authority to the Section 151 Officer and/or Solicitor to the Council (in consultation with the Chair of the Pensions Committee) to approve and sign the final version of the IAA.</p> <p>2. To 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</p>	<p>(a) To ensure compliance with the Submission</p>

<p>and on the basis of the terms of reference attached.</p> <p>3. To delegate the exercise of certain functions to the Joint Governance Committee as set out in the terms of reference of the IAA and to note those functions that are reserved to Council.</p> <p>4. To approve the appointment of the Chair of the Pensions and Investment Committee or his/her nominated Deputy to the Joint Governance Committee as the Powys County Council representative on the JGC.</p> <p>5. To delegate to the nominated representative of the Powys County Council authority to act within the terms of reference of the Joint Governance Committee to enable the exercise of any delegated function.</p> <p>6. To approve that Carmarthenshire County Council (Dyfed Pension Fund) acts as Host Council with the responsibilities set out in the Inter Authority Agreement.</p> <p>7. To delegate authority to the Section 151 Officer in consultation with the Solicitor to the Council to agree any further minor amendments to the IAA.</p>	<p>by the Wales Pool to the Department for Communities and Local Government (DCLG) in response to the publication in November 2015: LGPS: Investment Reform Criteria and Guidance.</p> <p>(b) To establish administrative and governance arrangements to manage the pooling arrangements in accordance with the Council's Financial Governance and Pension Fund Administering Authority responsibilities</p>
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Relevant Policy (ies):			
Within Policy:	Y	Within Budget:	Y

Relevant Local Member(s):	N/A
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Person(s) To Implement Decision:	Section 151 Officer
Date By When Decision To Be Implemented:	Immediately

Contact Officer Name:	Tel:	Fax:	Email:
Clive Pinney	01597 826746		clive.pinney@powys.gov.uk

Background Papers:

Local Government Pension Scheme: Investment Reform Criteria and Guidance.

APPENDICES

Appendix A - Submission by the Wales Pool to the Department for Communities and Local Government (DCLG) in response to the publication in November 2015: LGPS: Investment Reform Criteria and Guidance.

Appendix B- Draft Inter Authority Agreement