

Public Agenda

CHIEF EXECUTIVE
Prif Weithredwr
Alison Ward CBE

TORFAEN COUNTY BOROUGH

BWRDEISTREF SIROL TORFAEN

Your re/Eich cyf:
Our ref/Ein cyf:
Date/Dyddiad: 8.11.2017

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Dear Councillor / Gynghorydd

You are invited to attend a special meeting of the **PENSIONS COMMITTEE** which will be held in the Committee Room 2, Civic Centre, Hanbury Road, Pontypool, NP4 6YB on **Thursday, 16 November 2017** at **2.00pm** to consider the business set out in the attached agenda.

You are welcome to use Welsh at the meeting, a minimum notice period of 3 working days is required should you wish to do so. A simultaneous translation will be provided if requested.

Estynnir gwahoddiad i chi fynychu cyfarfod arbennig o'r **PWYLLGOR PENSIYNAU** yn Ystafell Bwyllgor 2, Ganolfan Ddinesig, Heol Hanbury, Pont-y-pŵl, NP4 6YB ar **Dydd Iau, 16 Tachwedd 2017** am **2.00pm** i ystyried y materion a nodwyd yn yr agenda sydd ynghlwm.

Mae croeso i chi siarad yn Gymraeg yn y cyfarfod a bydd angen rhybudd o o leiaf 3 diwrnod gwaith os ydych yn dymuno gwneud hynny. Bydd gwasanaeth cyfieithu ar y pryd yn cael ei ddarparu ar gais.

Yours sincerely
Yn gywir

Alison Ward CBE,
Chief Executive / Prif Weithredwr

CIRCULATION:

AELODAU:

Relevant Councillors
Appropriate Officers

Cynghorwyr Perthnasol
Swyddogion Priodol

TOTAL – 6
QUORUM – 2

CYFANSWM – 6
CWORWM – 2

PENSIONS COMMITTEE

2.00pm

Thursday, 16 November 2017

AGENDA

- 1 **Attendance and Apologies**
- 2 **Declarations of Interest**
- 3 **Wales Pension Partnership; DCLG Autumn Review Submission and Work stream Summary**
- 4 **Exclusion of Press and Public**
To agree the exclusion of the press and public from the meeting as presentations and meeting papers are not for publication because in accordance with paragraphs 12 and 14 of part 4 of Schedule 12a of the Local Government Act 1972 (as amended by the Access to Information Variation Order Wales 2007), it contains information about a particular individual and information relating to the financial and business affairs of particular persons including the Council and in all the circumstances of the case the public interest in maintaining the exemptions outweighs the public interest in disclosing the information.
- 5 **Operator Selection Report**
- 6 **Date of Next Meeting 11/12/17**

PWLLGOR PENSIYNAU

2.00pm

Dydd Iau, 16 Tachwedd 2017

AGENDA

- Presenoldeb ac Ymddiheuriadau**
- Datganiadau o fudd**
- Partneriaeth Pensiynau Cymru; Cyflwyniad i Adolygiad yr Hydref yr AGLIL a Chrynodeb Ffrwd Gwaith** 5 - 18
- Gwahardd y Wasg a'r Cyhoedd**
Cytuno gwahardd y wasg a'r cyhoedd o'r cyfarfod gan nad yw cyflwyniadau a phapurau cyfarfod i'w cyhoeddi oherwydd yn unol â pharagraffau 12 a 14 o Ran 4 o Atodlen 12A Deddf Llywodraeth Leol 1972 (fel y'i diwygiwyd gan Orchymyn Mynediad i Wybodaeth (Amrywiad) Cymru 2007), ei fod yn cynnwys gwybodaeth am unigolyn penodol a gwybodaeth yn ymwneud â materion ariannol a busnes unigolion penodol yn cynnwys y Cyngor a than holl amgylchiadau'r achos, mae lles y cyhoedd o ran sicrhau'r eithriadau yn gorbwyso'r budd i'r cyhoedd yn nhermau datgelu'r wybodaeth.
- Adroddiad Dewis Gweithredwr** 19 - 30
- Dyddiad y Cyfarfod Nesaf 11/12/17**

PENSIONS COMMITTEE

16th November 2017

WALES PENSION PARTNERSHIP; DCLG AUTUMN REVIEW SUBMISSION AND WORK STREAM SUMMARY

Report written and submitted by

Graeme Russell, Head of Pensions

1. **Area Affected**

- 1.1 County Borough wide and all employers participating in the Greater Gwent (Torfaen) Pension Fund.

2. **Purpose of Report**

- 2.1 To update the Pensions Committee in respect of:
- i. the DCLG Autumn Review Submission; and
 - ii. the WPP work streams.

3. **Key Messages**

- 3.1 Members are asked to note the current update within the Appendices to this report and the present position in respect of the creation of the all Wales collective investment arrangements

4. **Introduction and Report**

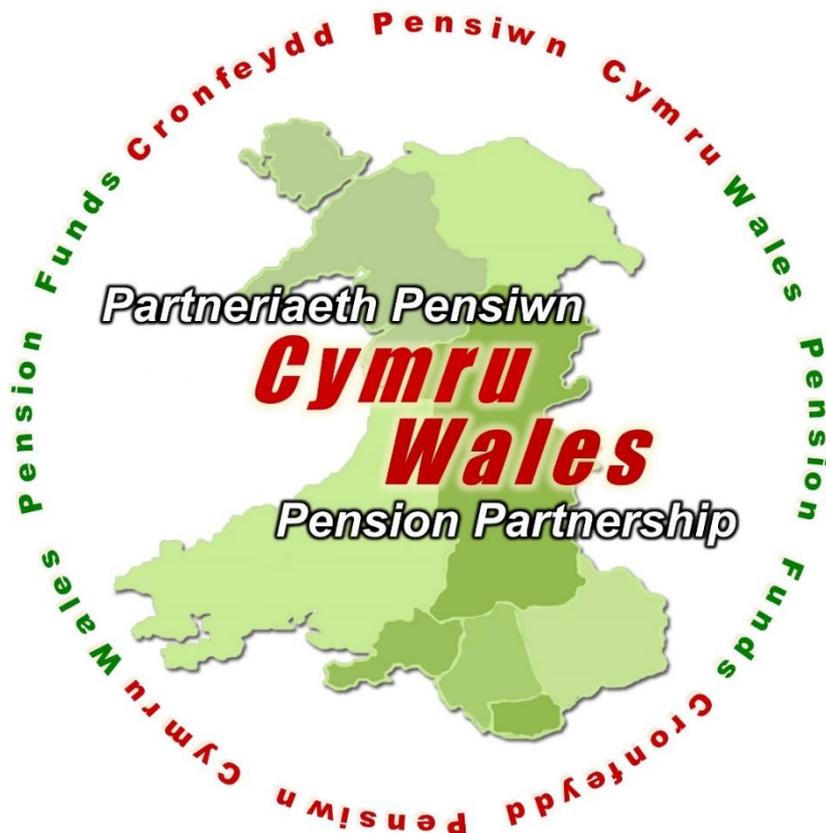
- 4.1 Further to previous reports presented to the Pensions Committee, this report has been prepared to inform Committee Members of progress to manage, on a collaborative basis, the investment assets of the eight Local Government Pension Scheme (LGPS) funds in Wales.
- 4.2 Appendix 1 provides the most recent update on progress submitted to the DCLG as required, together with a work stream summary at Appendix 2. A key element of the on-going work is that of the Selection of an Operator and that report is dealt with as an exempt item elsewhere on this agenda due to commercial sensitivity.

5. **Recommendations**

- 5.1 Pensions Committee are asked to:
- i. Note the work stream summary; and
 - ii. Note the DCLG Autumn Review Submission.

Appendices	Appendix 1 - DCLG Autumn Review Submission Appendix 2 - Work stream Summary
Background papers	None

For a copy of the background papers or for further information about this report, please telephone: Graeme Russell, Head of Pensions (01495) 742625



**Wales Pension
Partnership
Local Government Pension Scheme Pooling:
Progress Report - October 2017**

Pool: Wales

Date: 20 October 2017

Criterion A: Scale

For pools in development

- **Scale – please state the estimated total value of assets included in your transition plan for investment through the pool structure, with date of estimate**
- **Assets outside the pool - please state the estimated total value of assets to be invested outside of the pool structure by participating funds**

In our final submission to DCLG in July 2016, we stated that the ambition for the Wales Pool was to create appropriate vehicles for collective investment for all participating funds across all asset classes in time. We can confirm that remains our intention.

The total value of assets of the participating funds referred to in that proposal, valued as at March 2015, was £12.8bn. The total value of assets as at 30 June 2017 was £16.3bn.

There are a significant number of passively managed investments held by the funds in the form of insurance policies. We regard these assets as forming part of the Pool. The selection exercise for a single manager was carried out on a collective basis in order to derive maximum fee savings from the scale of assets, and the monitoring of the manager and any future retender will be the responsibility of the Joint Governance Committee (JGC). It may not be feasible for these investments to be transferred into the pooled vehicles managed by the third party operator as the individual funds will remain beneficiaries of the relevant policies and changing from a life policy vehicle may create additional tax-payer costs without any benefit to justify the change. However, the JGC will review the position on a regular basis.

The funds also have a number of illiquid investments with fixed term lives. It would be very costly to exit from such investments before the planned realisation of the underlying assets. The intention is that the operator will make available pooled vehicles to allow new commitments to be made on a collective basis to illiquid asset classes such as private equity and infrastructure. As the current illiquid investments mature and capital is returned to investors, they will be replaced by new commitments through the new pooled vehicles. These new investments will all form part of the Pool. The JGC may also explore the potential for the operator to carry out due diligence monitoring on the current illiquid investments until they mature.

In addition, the Clwyd Pension Fund has a Liability Matching mandate and a Managed Account Platform, comprising assets in total of approximately

£500m. Although the Clwyd Fund ISS states that it is committed to investing all assets through the Pool where pooling objectives are met, for these bespoke mandates, it will depend on the capabilities of the appointed operator to accommodate these mandates within the Pool.

Progress towards go live by April 2018

- **please provide an updated high level project plan to achieve delivery by April 2018 including progress with operator procurement/build, design of sub funds, recruitment of core team, appointment of depository and FCA authorization**
- **please identify risks or issues which may delay delivery by April 2018, and any plans to mitigate risks and/or manage issues**

We remain on track to have the Wales Pool operational by April 2018. By end 2017 the operator will be appointed and the host authority / client side function in place to manage the operator contract. The application for FCA authorisation of an ACS for the sole use of the All Wales pool will be in train early in 2018 and in excess of £3bn of passive investments is already under pool governance ahead of the government target date of April 2018. The exact date of authorisation of the ACS will depend on turnaround time by the FCA.

As part of this update we have provided a high level summary of progress (appendices A).

Progress with operator procurement

There was a high level of market interest with eight bidders submitting selection questionnaire responses. From this six bidders were invited to tender, with four actually tendering.

The evaluation process began mid-July with bidder clarification presentations taking place late August. In order to finalise the evaluation, further clarification responses were required resulting in an extension to the original evaluation timetable.

The tender evaluation was completed in September. An Operator selection report explaining the evaluation result has been drafted by the Officer Working Group and its legal advisors. This will be presented to the JGC at its next meeting. The final decision on the operator to be appointed is expected to be made by the JGC in November 2017. Individual Administering Authorities will then need to obtain their own local approval to accept the recommendation on operator appointment and enter into the contract. The formal contract is expected to be concluded mid-end December.

Recruitment of core team

This is not applicable to the All Wales Pool since it will use a third party contractor to provide Operator Services.

However, recognising that this is a complex, high value contract it is important to have a “client side” function in place to manage the operator contract.

Carmarthenshire has assumed its responsibilities acting as the “host authority”. It will provide secretariat services and technical support to the Pool’s JGC and OWG. It will also provide the “client side” team dealing with the third party operator and ensuring the operator meets the performance requirements and service level standards specified in the contractual terms.

Design of sub-funds

A provisional outline of the likely fund range was developed and shared with bidders to inform their tenders and allow for transparent assessment of likely set-up costs.

Under the operator contract, it is the responsibility of the operator to advise the Wales pool on the detail of the sub-funds to be made available in the first phase in 2018, including mandate specification and choice of the starting line up of investment managers. This will be the first task of the Operator upon appointment.

In order to accelerate this process, the officers of the administering authorities will commence work in November on sub-fund design and specification. This will enable the operator to hit the ground running and prepare the initial ACA authorisation application as soon as possible after its appointment. (The initial application for ACS authorisation can be submitted before all of the investment managers are confirmed by the operator.)

Appointment of depositary

The contractor appointed as operator is responsible for appointment of a depositary and other service providers including investment managers.

FCA authorisation

The contractor appointed as operator will be responsible for establishing and obtaining authorisation for an ACS for the sole use of the Wales Pool.

Applications by the operator to establish the ACS and first tranche of sub-funds are expected to be submitted as soon as possible after the appointment of the operator (see above). This is currently expected to be early 2018.

Transition of assets

Detailed planning of the proposed transfers of assets into the pool will also begin once the operator appointment has been finalised in December.

Risks to delivery, risk mitigation and risk management

This is a very complex project and the first procurement of services of this kind. The contract for operator services is a long term commitment with significant costs.

Our over-riding priority is to execute the procurement safely and well. We have therefore taken slightly longer than originally anticipated to define the service required, design and execute the procurement process and draft the supporting legal documentation.

However, our original plan contained contingency that means we are still on track to meet the government target date for implementation (see above).

Some risks to the delivery timescale include:

Description of Risk	Wales Pool Response	Current status
1. Risk of few suitable bidders or incomplete understanding of the required services.	This was dealt with by comprehensive engagement and dialogue with the market prior to commencement of the formal procurement process to: a) raise awareness of the procurement; b) understand capabilities of potential bidders; and c) share information on the requirements of the Funds in Wales.	This risk has been managed successfully and is now closed
2. Risk of delays in implementation due to local elections affecting the membership of the Joint Governance Committee.	This was mitigated by the Chairmen initially delegating authority to the Treasurers and Officer Working Group to proceed with the final stages of the procurement exercise during purdah. The JGC has met and is now well established.	This risk has been managed successfully and is now closed
3. Risk of challenge to the procurement process or outcome.	This is being mitigated by using external legal advisers (Burgess Salmon) with experience in fund management and procurement to design and manage the procurement and evaluation process and technical advice from external investment advisers (Hymans Robertson).	This risk remains open. Bidders not informed of tender outcome until late November at the earliest.
4. Risk of delays in individual authorities signing the contract with the successful bidder.	This is being mitigated by early engagement with monitoring officers. Officers and Treasurers will manage communication of tender outcome and local governance approvals to enter into contract.	This risk remains open.
5. Risks of inadequate	This is being mitigated by	This risk remains open.

Description of Risk	Wales Pool Response	Current status
or poor planning.	professional external project management (Hymans Robertson)	
6. Risk of delays in receiving FCA approval for the vehicle.	This will be mitigated by early work on the detailed specification of the fund and sub- fund requirements to enable applications to be submitted by the appointed operator as early as possible. Any bottlenecks at the FCA are beyond our control and we would welcome any assistance government can provide in this respect.	This risk remains open.
7. Risk of failure to resolve MiFID issues.	Following work by the LGA, the FCA issued revised guidance which should resolve this matter. Individual administering authorities need to opt up to professional status with their current Investment Managers and with the Operator company once appointed.	Risk now largely removed provided individual administering authorities follow the process to opt up.

Criterion B: Governance

For pools in development

- **Progress with governance arrangements - please provide an updated high level project plan for the implementation of governance arrangements.**

Governance: Joint Governance Committee and Inter-Authority Agreement (IAA)

The IAA took effect from June 2017 with the first meeting of the Chairs as a formal Joint Governance Committee taking place on 29 June.

Carmarthenshire took on the role of “host authority” with effect from June 2017, providing secretarial and technical support to the JGC, Treasurers and OWG. The host authority will also be responsible for contract management. Recruitment of staff is underway.

Criterion C: Reduced costs and value for money

- **Update on costs estimates – please state current high level estimates for implementation costs to date, by go live and following go live**
- **Update on annual savings estimates, including reductions in fees/mandates**
- **Plans for delivering savings – please set out your high level plan and timescales for delivering the annual savings above**
- **Plans for reporting including on fees and net performance in each listed asset class against an index**
- **Plans for how the pool will report publicly on a fully transparent basis – please confirm that the pool will adopt the Scheme Advisory Board Code of Transparency for reporting to participating funds**

Our estimates for the level of cost savings from investment manager fees which might be achieved over time remain as set out in our proposal from July 2016.

The estimates were made by considering each of the asset classes in which the participating funds were invested and using data provided by CEM Benchmarking to find the level of costs incurred by investments in those asset classes in the year to March 2015 (specified as the base year for comparison purposes). We then considered the level of savings which might be achievable within each asset class.

We would re-iterate that it is difficult at this stage to estimate fee savings with any degree of certainty as we do not know what fees will be obtained with investment managers nor how some of the alternative asset classes might best be accessed collectively.

The savings figures quoted in our July 2016 proposal were – as requested - based on asset values and asset allocations as at the base date of 31 March 2015. The estimates were as follows:

Three year period ending	Annual savings achieved
March 2021	£8.4m
March 2024	£9.8m
March 2027	£11.3m
March 2030	£12.5m
March 2033	£12.5m

Total assets across the participating funds were £16.3bn at 30 June 2017, so savings may be higher than the figures quoted above. The timescales within which the savings are likely to accrue – in terms of the three year periods defined previously - are unchanged.

As the process of establishing the pooling arrangements continues, there is more clarity on the total set-up costs likely to be incurred. The operator services that we are putting in place are a new form of arrangement in the market place and the procurement process has been complex. However, we firmly believe that robust and detailed specification of the contract and assessment of the different potential providers are essential steps in ensuring benefits flow through as required.

In our July 2016 submission, we estimated that implementation costs in the region of £0.5-1m (over and above fees payable for operator services) would be incurred in the period to March 2018 and £50,000-350,000 in the three year period to March 2021.

It is now our expectation that costs in the set-up period to March 2018 may fall within a range of £1-1.5m, though costs in the subsequent period to March 2021 may be lower as more work is picked up by the operator. Additional costs incurred in setting up the pool are still relatively modest in comparison with the savings that will be delivered in the longer term.

In terms of reporting, we have included as part of the provider assessment a focus on applicants' ability to provide detailed reporting to meet the requirements of all participating funds and of the JGC. We are requiring full transparency on fees of all the underlying investment managers within the proposed vehicles and will expect these to be reported in a manner consistent with DCLG requirements.

CEM Benchmarking have also been formally appointed to provide reporting on costs incurred in the management of assets within the pool.

We can confirm that the pool will follow the SAB Code of Transparency in terms of its reporting to participating funds.

Criterion D: Infrastructure

- **Progress on infrastructure investment – please state your target allocation for infrastructure and committed funds at the pool level and/or across pools. Please also set out your plans for the platform/product/and/or external manager arrangements to achieve that target**
- **Timetable to achieve stated ambition - please provide a high level project plan for the implementation of the platform/product/and/or external manager arrangements described above**

Our position has not changed since July 2016. Our stated ambition in our proposal was – in the short to medium term - to have at least 5% of assets invested in infrastructure investments with a longer term aspiration set at 10% - subject to satisfactory investments being available.

At 30 June 2017, a total of £180m was either invested in infrastructure assets or formally committed to infrastructure funds, equivalent to circa 1.1% of pool assets, so the stated target represents a significant increase from the current position.

However, we also acknowledged in our original submission that allocations to infrastructure represent asset allocation decisions and are therefore the responsibility of individual funds rather than a collective decision for the Pool.

The most efficient way of accessing infrastructure investment suitable for LGPS fund liabilities may be through national vehicles developed for use by all of the pools.

We therefore continue to engage with and support the work of the cross party working group on infrastructure in order to ensure that we may benefit from any national initiatives which may emerge in the future.

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Wales Pension Partnership – Workstream Summary as at 30 September 2017

Governance Workstream

Action	Date (Due/Complete)	Status
Memorandum of Understanding signed-off by Administering Authorities and Officer Working Group formed	November 2016	Complete
Inter-Authority Agreement (IAA) Workshop held between Officer Working Group and Legal Advisors	December 2016	Complete
IAA signed off by Administering Authorities	March 2017	Complete
Host Authority for Wales Pension Partnership appointed	June 2017	Complete
Establishment of Joint Governance Committee (JGC) and first formal JGC meeting held	June 2017	Complete

Procurement Workstream

Action	Date (Due/Complete)	Status
Prior Information Notice (PIN) issued	August 2016	Complete
Engagement days held with the Officer Working Group and PIN respondents	September 2016	Complete
Procurement process agreed	October 2016	Complete
Operator Specification signed-off by Administering Authorities	February 2017	Complete
OJEU Notice and Selection Questionnaire (SQ) issued	March 2017	Complete
Scoring performed on Selection Questionnaire responses	July 2017	Complete
Invitation to Tender (ITT) and Operator Agreement issued	June 2017	Complete
Scoring performed on ITT responses	July-September 2017	Complete
Bidder presentations to verify scoring	August 2017	Complete
Operator evaluation completed	September 2017	Complete
Operator selection report drafted by officers and advisors	October 2017	Complete
Recommendation considered by JGC	November 2017	Not Yet Due
Administering Authorities approve operator selection and award notice issued	December 2017	Not Yet Due
FCA application for the establishment of the ACS drafted by the operator, with input from the Officer Working Group	December 2017	Not Yet Due
Operator Agreement finalised	January 2018	Not Yet Due

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