



Department for
Communities and
Local Government

Cllr Stephen Churchman
Chair, Gwynedd Pensions Committee

On behalf of the participating funds:
Cardiff and Vale of Glamorgan Pension Fund
City and County of Swansea Pension Fund
Clwyd Pension Fund
Dyfed Pension Fund
Greater Gwent (Torfaen) Pension Fund
Gwynedd Pension Fund
Powys Pension Fund
Rhondda Cynon Taff Pension Fund

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Dear Councillor Churchman,

ALL WALES INVESTMENT POOL: FINAL PROPOSAL

I would like to thank you and all the authorities involved in the proposed all Wales pool for your final proposal, which we discussed at our meeting on 16 November. I appreciate the hard work and commitment from elected members and officers which the proposal represents, and welcome your determination to deliver on time.

It is now coming up to a year since we set the framework for reform of the investment function of the local government pension scheme, through the guidance and criteria for pooling published in November 2015. I am pleased that authorities across the scheme have responded to the challenge and come together to form partnerships of their own choosing based on a shared view of investment strategy. We do not underestimate the scale of the changes required, but the Government remains committed to pooling in order to deliver reduced costs while maintaining performance as well as to develop capacity and capability for greater investment in infrastructure.

The proposed all Wales pool remains significantly below the threshold of £25bn which we set. However, as you explained at our meeting, 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, including the possibility of eventual devolution, I am therefore pleased to confirm that I am content for you to proceed as set out in your final proposal.

I appreciate that overall costs are likely to rise in the early years, and that salaries are likely to be high for key senior roles within pool operators. But I consider that this is a price worth paying in order to achieve substantial savings, already estimated by the pools at £1-2 billion by 2033 or up to £200 million pa in the medium term. I am confident that as the reform beds in, there are further savings to be achieved.

I therefore expect every administering authority in England and Wales to participate in a pool. I also expect authorities to place all assets in their chosen pool, unless there is a strong value for money case for delay, taking into account the potential benefits across the pool. In addition my officials will be consulting with all pools on the potential to work with the Local Pensions Partnership to help ensure it delivers the full benefits of scale.

I must also underline that all bodies effectively undertaking collective investments will need to be authorised at the appropriate level by the Financial Conduct Authority (FCA). Given the scale and complexity of the pools, and the substantial public funds involved, scheme members and the local taxpayers who underpin the scheme have a right to expect the high level of assurance which is provided by FCA authorisation. Individual funds will continue to be responsible for their investment strategies and asset allocation and will continue to require high standards of governance.

Turning to the future, I appreciate there has been some delay this autumn, but I have no plans to extend the deadline for pools to become operational in April 2018. I will be reviewing progress of all the pools in spring and autumn 2017 and will expect to see a core team in place in spring 2017 and an application for Financial Conduct Authority authorisation, where not already in place, in autumn 2017. I look forward to seeing more detailed plans for delivering savings, and increasing your infrastructure investment in line with your stated ambition. I will also expect detailed plans for reporting, including on fees and net performance in each listed asset class against an index, standardised across the sector.

Yours sincerely,
Marcus Jones

MARCUS JONES MP