

### Open Report on behalf of Executive Director of Finance and Public Protection

Report to:	<b>Pensions Committee</b>
Date:	<b>07 April 2016</b>
Subject:	<b>LGPS Asset Pooling</b>

#### Summary:

This paper updates the Committee on Lincolnshire's progress to meet the Government's requirements on pooling LGPS assets, following the publication of the pooling criteria and investment regulations consultation on 25th November 2015.

#### Recommendation(s):

That the Committee

- i) note the report; and
- ii) delegate authority to the Executive Director of Finance and Public Protection, in consultation with the Chair and Vice Chair of the Pensions Committee, to respond to the Government's consultation and pooling requirements, for the July 15th submission.

## Background

### 1 Asset Pooling

- 1.1 The Committee have been kept updated since the summer budget speech in July on the Government's desire to pool LGPS fund assets. In his speech on the Comprehensive Spending Review on 25<sup>th</sup> November 2015, the Chancellor announced the release of the awaited consultation on pooling. Para 1.138 states: *"The government will today publish guidance for pooling Local Government Pension Scheme Fund assets into up to 6 British Wealth Funds, containing at least £25 billion of Scheme assets each. The government is now inviting administering authorities to come forward with their proposals for new pooled structures in line with the guidance to significantly reduce costs while maintaining overall investment performance, with the wider ambition of matching the infrastructure investment levels of the top global pension funds"*.

1.2 The criteria for pooling assets are:

- a) Achieve the benefits of **scale** – up to 6 asset pools of £25bn or more.
- b) Strong **governance** and decision-making – investments should be managed appropriately by the pool with risk adequately assessed and managed. The pool should have appropriate resources and skills. The Local authority will hold the pool to account.
- c) **Reduced costs** and excellent **value for money** – pools need to deliver substantial savings in investment fees, both in the near term and over the next 15 years, while at least maintaining investment performance.
- d) An improved capacity to invest in **infrastructure** – proposals should show how the pooling arrangements will enable the funds to invest more in infrastructure.

1.3 Following discussion at the January 2016 meeting of this Committee, the Pensions Committee agreed to pool its assets with Border to Coast Pensions Partnership (BCPP).

1.4 The consultation required an initial “suitably ambitious” but well-structured proposal for submission to Government by 19<sup>th</sup> February 2016, detailing our commitment to pooling, describing our ‘progress towards formalising arrangements with other authorities’. This joint submission, from all members of BCPP, was sent to Government on 19<sup>th</sup> February and is attached at appendix A.

1.5 A total of 8 pool submissions were received from the LGPS:

- BCPP (£36bn)
- Access (£30bn)
- London CIV (£28bn)
- Lancs/LPFA (£12bn)
- Central (£35bn)
- Northern Powerhouse (£35bn)
- Brunel (£23bn)
- Wales (£12bn)

- 1.6 Indications are that the government has been impressed with how much has been done in such a short space of time, and that generally the submissions have been good. It is expected that Government will respond to all the proposals before the Easter recess, indicating where clarification is needed, and whether they meet expectations at this time. Pools will be invited for follow-up meetings, to assist in finalising the July submissions.
- 1.7 The 15<sup>th</sup> July submission must fully address the criteria set out in paragraph 1.2 in detail, with enough information for the proposal to be fully evaluated by government. Each pool must make a submission which covers the joint proposals and describes the proposed governance, structure and implementation plan. Each authority must also submit an individual return which sets out the profile of costs and savings, for up to 15 years ahead, the transition profile for the assets and the rationale for any assets which it proposes to hold outside the pool.

## **2 Progress with BCPP**

- 2.1 BCPP has, in collaboration with the Central and Access pools, commissioned legal work from two firms to offer an options appraisal to cover the following areas:
- legal, taxation and regulatory advice on collective investment vehicles (a regulated option) and collective asset pools (a non-regulated option);
  - Pros and cons of each option and practical implementation issues; and
  - Other legal structures available to fulfil section B of the criteria.

This had been received and both firms will present their findings at a meeting of officers in April.

- 2.2 Officers from all 13 Funds within BCPP met on 1<sup>st</sup> and 2<sup>nd</sup> March in Leeds to discuss the July submission and how to progress. Presentations were received from Eversheds and PWC, looking at the structure options available to BCPP, the legal requirements of FCA authorisation and the risks of managing the pool in an unauthorised structure. Initial discussions were held on the possible sub-funds needed to meet all asset allocation requirements of the pool members. Further detailed information is being collected to analyse current investments and managers, to identify how they can be captured within the new pool structure, and what potential transitions will be required.
- 2.3 There has been much debate about whether the operating structure for the asset pool needs to be FCA authorised. The understanding of BCPP is that

this is expected by government, and indeed that it should be authorised to provide proper assurance to the Funds that the assets are being managed appropriately. However, there has been no direct statement from government that this is required. The submissions from some of the asset pools are recommending an unauthorised structure, as this is cheaper and easier to implement.

- 2.4 In order to seek clarification before unnecessary cost and time is spent investigating all options, BCPP sent a letter on 17<sup>th</sup> March to Chris Megainey, Deputy Director Workforce Pay and Pensions, requesting a definitive statement on the requirement, or otherwise, for a regulated structure.
- 2.5 All 13 funds are participating in the CEM Benchmarking study, to ensure consistent data is submitted for cost and performance to meet the requirements of the July submission, covering the three years to the end of March 13,14 and 15.
- 2.6 A cross-pool working group has been established, to ensure that across the LGPS we respond to the government in a consistent way, and to identify any collaborative opportunities where costs may be saved or efficiencies made. This group is meeting monthly. BCPP are represented by Fiona Miller, from Cumbria Pension Fund, and Jo Ray from Lincolnshire Pension Fund.
- 2.7 A meeting will be held on 15<sup>th</sup> April, in York, for all of the Chairs and S151's from the 13 Funds. The agenda will cover:
- Current position – including feedback from HMT/DCLG
  - Asset allocation and internal management
  - Members questions to HMT/DCLG
  - Next Steps
- 2.8 BCPP is looking to use the services of a project manager, initially to get to the 15<sup>th</sup> July submission date, then potentially until the asset pooling vehicle is fully established, which it must be by April 2018.
- 2.9 There is still a considerable amount of work to be done to get to the second submission, required by 15th July 2016.

## **2 Impact on the Committee**

- 2.1 How does this change impact the Committee? Actually, very little. The only area that changes for the Pensions Committee is manager selection. The

important aspects of managing the Pension Fund will all stay with the Committee; the asset allocation (e.g. how much in equities or bonds, how much in UK or overseas), the administration of the benefits, and the Fund governance. BCPP will manage the investments of the Fund, and the manager selection, in the asset allocation set by the Committee. BCPP will be responsible for the manager choice, but will be accountable to the Fund for poor investment decisions. BCPP will report to the Fund on the performance of its investments, rather than the manager presentation meetings that are currently held.

### **3 Proposed Changes to the Investment Regulations**

- 3.1 The consultation on replacing and revoking the LGPS (Management and Investment of Funds) Regulations 2009 closed on 19<sup>th</sup> February, and the Fund's response was circulated to Committee members with the monthly letter on 22<sup>nd</sup> February. The aim of the new regulations is to lift existing restrictions on LGPS fund investment powers in order to make it easier for them to pool investments and access benefits of scale. The core principle has been to move to a prudential approach securing a diversified investment strategy that appropriately takes account of risk, as is done in the private sector. In doing this, each Fund will be required to produce an Investment Strategy Statement (ISS), to replace the current Statement of Investment Principles (SIP), within six months of the regulations coming into force, explaining how the Fund's assets will be managed.
- 3.2 It was originally expected that these regulations would come into force on 1<sup>st</sup> April 2016, requiring the ISS to be written and published by 1<sup>st</sup> October. It is now expected that the regulations will not be laid until October, pushing back the deadline for producing the ISS to April, bringing it more into line with the Funding Strategy Statement that is required to be produced by 31<sup>st</sup> March, following a valuation year.

### **4 Recommendation for delegated authority**

- 4.1 Given the timescale in which a response is required (by 15<sup>th</sup> July 2016), and the Committee timetable, it is requested that authority is delegated to the Executive Director of Finance and Public Protection, in consultation with Chair and Vice Chair of the Pensions Committee, to submit the submission for asset pooling, both at a pool and a Fund level.

### **Conclusion**

- 5 The first response to the Government's asset pooling requirements was submitted in February 2016. Much work has been undertaken and much

more is required to meet the final submission date of July 2016, from both BCPP and the Fund.

- 6 Delegation of authority is requested to allow the Executive Director of Finance and Public Protection, in consultation with Chair and Vice Chair of the Pensions Committee, to prepare and submit the submissions required.

## **Consultation**

### **a) Policy Proofing Actions Required**

n/a

## **Appendices**

These are listed below and attached at the back of the report	
Appendix A	Border to Coast Pensions Partnership February 2016 submission

## **Background Papers**

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

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