

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

Report to:	Lincolnshire Pension Board
Date:	22 July 2016
Subject:	LGPS Asset Pooling

Summary:

This paper updates the Board 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. In particular, it introduces a presentation on how the Governance will work around the asset pool and the underlying Funds.

Recommendation(s):

That the Board consider the report.

Background

1 Asset Pooling

1.1 The Board have been kept updated since the summer budget speech in July on the Governments desire to pool LGPS fund assets. In his speech on the Comprehensive Spending Review on 25th 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 the Pensions Committee, it was agreed to pool the Lincolnshire assets with Border to Coast Pension Partnership (BCPP).
- 1.4 The consultation required an initial “suitably ambitious” but well-structured proposal for submission to Government by 19th 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 19th February 2016.
- 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 Pool (£35bn)
 - Brunel (£23bn)
 - Wales (£12bn)
- 1.6 The Government responded to all pools before their Easter recess, and BCPP received a very favourable response.
- 1.7 The final submission that was sent on 15th July, had to 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's submission was required to cover the proposed governance, structure and implementation plan for bringing the partner Funds assets together. The requirement for each individual authority to submit a return setting 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 was removed. This was a result of the work done with the Cross Pools Collaboration Group, which agreed a common template with Government, and removed the need for all 89 Funds to submit responses.

2 Progress with BCPP

- 2.1 BCPP, in collaboration with the Central and Access pools, commissioned legal work from two firms to offer an options appraisal to cover 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. Both firms presented their findings at a meeting of officers in April.
- 2.2 Following this meeting, BCPP commissioned work from Squire, Patton Boggs and Deloitte to work together to recommend the most appropriate structure for BCPP and at the cost/benefit analysis of the options.
- 2.3 This work was presented to officers and Chairs of the Funds in June, and the recommendation to follow a fully FCA authorised route was agreed. In addition, a Memorandum of Understanding was approved by all Funds.
- 2.4 All 13 funds participated in the CEM Benchmarking study to ensure consistent data was 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.
- 2.5 As mentioned in paragraph 1.7, a cross pool collaboration 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 meets monthly. BCPP are represented by Fiona Miller, from Cumbria Pension Fund, and Jo Ray from Lincolnshire Pension Fund. Two sub-groups have been formed from this to look at Infrastructure and Responsible Investment.
- 2.6 BCPP has used the services of a project manager to get to the 15th July submission date. In order to meet the April 2018 deadline to be up and running and transitioning assets, it is expected that full time resources in project management and of other officers will be required in the next few

months.

- 2.7 A formal response from Government is expected in September, to enable BCPP to continue with progress towards the creation of BCPP.

3 Governance Structures Post Pooling

- 3.1 The Pension Fund Manager will provide an overview of how the governance structure for the Fund and BCPP will work once the asset pooling is in place.

Conclusion

- 4 The final response to the Governments asset pooling consultation was submitted by the deadline of 15th July 2016.

Consultation

a) Policy Proofing Actions Required

n/a

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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