

WIRRAL COUNCIL

PENSIONS COMMITTEE

16 NOVEMBER 2015

SUBJECT:	LGPS – POOLING OF INVESTMENTS
WARD/S AFFECTED:	NONE
REPORT OF:	STRATEGIC DIRECTOR TRANSFORMATION & RESOURCES
KEY DECISION?	NO

1.0 EXECUTIVE SUMMARY

- 1.1 This report provides Members with an update on the Fund's actions in response to the government's proposals for pooling of LGPS investments.
- 1.2 This report also seeks Members' approval for officers to continue to develop proposals for pooling in consultation with the Chair.

2.0 BACKGROUND AND KEY ISSUES

- 2.1 The Chancellor delivered his Budget on 8 July 2015. The Chancellor's Budget Report (Red Book) contained a section announcing potentially far reaching changes to the degree and flexibility that will be given to Local Government Pension Funds (LGPF) in the future regarding local decision making and control in the management and allocation of LGPS pension fund investment assets. The statement follows:
- 2.2 *"Local Government Pension Scheme pooled investments: the government will work with Local Government Pension Scheme administering authorities to ensure that they pool investments to significantly reduce costs, while maintaining overall investment performance. The government will invite local authorities to come forward with their own proposals to meet common criteria for delivering savings. A consultation to be published later this year will set out those detailed criteria as well as backstop legislation which will ensure that those administering authorities that do not come forward with sufficiently ambitious proposals are required to pool investments.*
- 2.3 There was no mention of the debate concerning active versus passive investment, a mandatory passive approach or any prescriptive legislation involving passive investment which have been mooted in the past.
- 2.4 On 5 October 2015, in his speech at the party conference, the Chancellor referred to the pooling of LGPS assets the intent of which was subsequently confirmed by DCLG in their letter of 7 October "the Chancellor announced that we are going to work with administering authorities to bring together investments into up to six pools spread across the country, creating conditions to save hundreds of millions in costs and invest billions in infrastructure in the regions". The letter continued "The Government remains

keen to see authorities take the lead in identifying the best way to deliver savings and drive infrastructure investment and, as announced at the Budget, we will shortly be inviting administering authorities to bring forward proposals to deliver pooled investments that meet published criteria.

- 2.5 To date, actions have included officer attendance at events, and conference calls with the Local Government Association (LGA), Department of Communities and Local Government (DCLG), Scheme Advisory Board (SAB), and many other LGPS funds. The consultation paper (when it is published in early November) will provide a lot more detail and guidance than is present at the moment.
- 2.6 The November consultation paper will cover:
- Legislative changes circulated in draft to give the Secretary of State increased powers;
 - Proposed changes in the investment regulations;
 - Acceptable criteria for pooling;
 - Back stop measures for recalcitrant schemes.
- 2.7 There are no plans to formally consult on the criteria for pooling. It is expected that the criteria for pooling (all asset classes) are likely to be: Size (£30bn target); Cost Savings; Governance.
- 2.8 In addition, there is likely to be a further statement in the Chancellor's 2016 Budget. The Government acknowledges that pooling will take around three years to implement with illiquid assets taking longer. The consultation paper will outline 'common criteria' that will be used to assess the proposals brought forward by Funds, including the optimal scale and size of pooled investments.
- 2.9 Government has publicly acknowledged the advance already made in this area by some Funds, and indicated that it is its intention is to build on that progress. Following the budget statement, the Lancashire/LPFA, the London CIV and the LGPS National Frameworks have all indicated that Government has individually reaffirmed to them that their initiatives are consistent with the objectives for fee savings through scale economies.
- 2.10 The focus appears to have moved on from the active/passive debate to an issue of scale and better governance. The government is not wedded to one type of pooling or another; they will not be prescriptive, preferring to hear proposals direct from the LGPS. Overall scale has strong political appeal with the ultimate model being one in which strategic asset allocation is set locally by each Administrative Authority, with that allocation being implemented by investing in one or more asset pools. Ultimately, the objective is for there to be only half a dozen or so pool buyers of fund management services, not the current 89 individual funds. Pooling proposals will be judged against the criteria published in November 2015 with the minimum size of acceptable pool expected to be around £25bn to £30bn.
- 2.11 There will be the opportunity to put forward proposals in the consultation response later in the year. Officers are currently exploring opportunities with several other Funds through the several work streams being coordinated by Hymans Robertson which will provide data and information on the various options which will assist in informing decisions. Options are being evaluated against the following criteria:

- Size - are the multi asset pools sufficient to meet the assumed government criteria of £30bn, are the other vehicles optimally sized for their class or method?
- Costs - what are the estimated gross savings for each option?
- Governance - how do each of the models provide political structures and behaviours that encourage best practice outcomes (e.g. long term investment)?
- Local political direction - who is working with whom already; where are the obvious fits?
- Central political direction - are there other policy drivers which the options best fit with (e.g. combined authorities)?
- Impact on competition - both in the manager market and between pools.
- Legislative requirements - what is needed and what would be the time frame needed?

2.12 The Fund is represented on the Steering Committee of this group (as an alternate) and is also contributing to the Listed Equities (Active) work stream and Internal Management work stream.

2.13 The Government has also stated that it is keen to see authorities take the lead in delivering savings, suggesting that it will actively support Funds that come forward with any new initiatives of sufficient ambition and scale. Conversely, its intent to impose sanctions on those Funds who do not voluntarily undertake “sufficiently ambitious” plans for asset pooling has also been confirmed.

2.14 Pooling Options

Whilst the Government has not issued an answer to the responses from its paper, “Opportunities for collaboration, cost saving and efficiencies”, published in May 2014, given the structure of the questions contained in the initial consultation, and the Chancellor’s budget announcement, it is clear that the Government’s preference is for greater scale in investment management through pooling of assets and other efficiencies.

This view would appear to be driven by a belief that savings in investment management, across the LGPS as a whole, can be achieved by moving to pooled vehicles with a proportion of the assets managed passively. Pooling at a regional level appears to be the default option unless sufficiently ambitious plans for asset pooling in an alternative way can be proposed.

2.15 Officers are open to consideration of all options either currently available or requiring development that would ensure the Fund retains strategic management of asset allocation and influence over investment decision-making.

2.16 The key factors that officers have looked to address in any option to be considered are that:

- Asset allocation strategy must be retained at an individual Fund level;
- Any new structure should be capable of enabling the effective management of individual employer risks;

- The Fund should retain a pivotal role in the governance of any pooled structure chosen;
- Any partner should be 'like-minded' and have a complementary investment philosophy;
- Any new structures should offer opportunities for savings, while retaining or improving on the Fund's current performance;
- The possibility to increase internal management capability and the ability to make local investments;
- Any solution provides additional resilience and capacity over and above current governance structures;
- The structure chosen must be flexible so as to ensure assets are only transferred into any vehicle when/if it is efficient and cost effective to do so;
- Any new structure must be scalable to ensure some level of future proofing;
- A solution will seek to provide internal shared resource to progress more proactive management of liabilities and cash flows.

2.17 Timescales

Government to set "common criteria" by informal consultation with the LGPS and advice from industry experts	Aug – Oct 2015
Consultation issued (including investment regulations and backstop legislation)	Nov 2015
Consultation responses from all stakeholders (12 week response period)	Feb 2016
Draft regulations published	Mar 2016
Effective date	April 2016
Creation of pools (phased in over 'life of Parliament')	2019

3.0 RELEVANT RISKS

3.1 The risk contained within the Chancellor's announcement is that unless suitably ambitious proposals are brought forward for delivering savings then mandatory arrangements will be imposed.

4.0 OTHER OPTIONS CONSIDERED

4.1 All appropriate options remain under consideration.

5.0 CONSULTATION

5.1 The Chair of the Pensions Committee has been consulted and has been involved in several meetings including with DCLG and other LGPS funds..

6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

6.1 N/A

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

7.1 There are none arising from this report.

8.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

8.1 The government's proposals are intended to deliver substantial savings from the investment manager fee base within the 89 funds of the LGPS. It is expected that the work being co-ordinated by Hymans Robertson will provide credible data which will inform the costs of the various options and potential savings.

9.0 LEGAL IMPLICATIONS

9.1 There are none arising from this report

10.0 EQUALITIES IMPLICATIONS

10.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

(b) No because there is no relevance to equality.

11.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS

11.1 There are no carbon usage implications, nor any other relevant environmental issues arising from this report.

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

12.1 There are none arising from this report.

13.0 RECOMMENDATION/S

13.1 That Members note the report and authorise officers to continue developing pooling options. Future papers for the Committee will provide further information on likely costs/benefits and any material costs incurred in working up proposals. Any final decision will be subject to Committee approval.

14.0 REASON/S FOR RECOMMENDATION/S

14.1 In view of the tight timescales, it is important that preparatory work is undertaken so that an informed response to the Government's consultation can be prepared.

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APPENDICES

None

BACKGROUND PAPERS/REFERENCE MATERIAL

BRIEFING NOTES HISTORY

Briefing Note	Date

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Pension Committee	September 2015