

Pension Fund Committee

Title:	Local Government Pension Scheme Pooled Investments
Date:	25 November 2015
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Electoral divisions affected:	N/A

Summary

To update Committee on developments regarding structural reforms of the Local Government Pension Scheme investments as a result of the Budget 2015 announcement.

Recommendation

The Committee is asked to NOTE the report.

Resource implications

- 1 There are none arising directly from this report.

Other implications/issues

- 2 The Chancellor on the 8 July 2015 announced in his budget statement the following:

2.19 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.



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- 3 The consultation is due in November 2015, possibly as part of the Spending Review on 25 November, and is expected to include the following components:
 - Common criteria for pooling investments
 - Revised Investment Regulations
 - Backstop legislation

- 4 The common criteria are expected to include a minimum scale of £25/30 billion, governance arrangements and costs. The Government's intention is to have fewer, large pools of assets, possibly six regional funds; it is still open to non-regional solutions where there is a justifiable business case. Strategic asset allocation will continue to be determined at a local authority level which are the key driver of investment returns and funding levels, the pools will determine which assets are bought and sold and when. The revised investment regulations are expected to move away from the current restrictions on investments where maximum limits are placed on a particular type of investment that a Fund can invest in to a system more closely aligned to private sector pension funds. The backstop legislation, where required, is expected to give the Secretary of State power to direct where investments should be placed.

- 5 Responses to the consultation are due in February 2016, during 2016 more detailed work of the proposals which meet the criteria and are agreed will be undertaken with structures expected to be set up by the end of this Parliament. It is expected that illiquid assets, such as private equity, will be retained by Funds until the end of their distribution stage.

- 6 Mercer have drafted a paper on asset pooling and the LGPS, see Appendix 1, this sets out some background information and considers the merits of a variety of options that could adopted. Officers have met with a number of other Funds to discuss options.

- 7 A group of local authorities, with the help of Hymans Robertson, has formed a Joint Working Group (JWG) to work together on a project to deliver a joined up response to government on options for LGPS investment pooling. The project steering group provided the following update on the objectives of the project and progress made so far:
 - Project Pool – joined up local authority response to government consultation on pooling LGPS investments
 - 25 local authorities in the Joint Working Group own the report and are responsible for conclusions and any proposals to government. Another 10-15 are supporting the work-streams. The work-streams are Listed Equities (Active), Listed Equities (Passive), Fixed Interest, Other Alternatives & Private Equity, Property and Internal Management.

- Hymans' role is to provide technical support, project management and data analysis
- Data provided by LGPS funds and fund managers covers £140-150bn of LGPS assets
- Local authorities and Hymans committed to full transparency – further updates will follow
- Report will be delivered to government in January 2016 and will be made public

Feedback from consultation, Local Area Forums and Local Member views (if relevant)

8 Not applicable

Background Papers

None
