

Pension Fund Committee

10 September 2015



Pooling of LGPS Investments

Don McLure, Corporate Director, Resources

Purpose of the Report

- 1 To provide Members with an update on Government proposals for pooling of investments in the Local Government Pension Scheme.

Background

- 2 The Government, in its Summer 2015 Budget on 8 July 2015 announced that it will “work with Local Government Pension Scheme administering authorities to ensure that they pool investments to significantly reduce costs, while maintaining overall investment performance.”
- 3 This announcement represents the next stage of the work to deliver savings from Local Government Pension Scheme (LGPS) investments and follows a process of calls for evidence and consultations on reducing investment management costs in the LGPS.
- 4 In May 2013, the Government launched a call for evidence on cost saving, which suggested the potential for the merger of all 89 LGPS Funds into a much smaller number of Funds.
- 5 This suggestion was not taken further, and in 2014 a formal consultation on cost saving was launched. The main proposals in this consultation were:
 - greater use of collective investment vehicles;
 - better deficit management; and
 - the use of passive investments.
- 6 Local Authorities did not accept the plan to enforce the use of passive investments and the Government planned to publish its final proposals for reform in Autumn 2014.
- 7 In December 2014, the Government postponed any further announcements until the ‘new year’.

Budget Proposals

- 8 The Chancellor’s announcement in the Budget 2015 is accompanied by documents which state that “The government will invite local authorities to come forward with proposals to meet common criteria for delivering savings.”

- 9 A consultation will be published later this year setting out detailed criteria for the proposals, “criteria that will be used to assess the proposals brought forward, including the scale and size of pooled investments and the role of passive management in an investment strategy”.
- 10 It will also publish “backstop” legislation “which will ensure that those administering authorities that do not come forward with sufficiently ambitious proposals are required to pool investments”.
- 11 The National Association of Pension Funds have said that they will engage constructively with the Government on this initiative, but feel that pooled investments work best where they arise from “natural collaboration between funds” rather than where funds are forced to invest together.
- 12 It is understood that “pooling” is intended to have a wider meaning than setting up collective investment vehicles (CIV). It can include other initiatives, for example, joint procurement.
- 13 It is likely that the Government wishes to consolidate work already done by local authorities, including the London Collective Investment Vehicle, and collaboration such as the Lancashire Fund and London Pension Fund Authority (LPFA).
- 14 Although the criteria for proposals have not yet been communicated, commentators suggest that there will be an emphasis on the size of the pools, expected to be in tens of £billions.
- 15 Although the Government expects high levels of participation in pooled arrangements, there are likely to be some cases where it would not make sense to do this. This may be where a Fund has good performance and industry leading low costs, where moving to pooled arrangements may increase costs.
- 16 The Government have not expressed a preference for regional pools, or pooling by asset type, although there is an expectation the pooling for investment in infrastructure should feature in proposals that local authorities bring forward.
- 17 It is suggested that the government may make infrastructure investing more attractive by reforming the LGPS Investment Regulations or by making it easier for Pension Funds to set up special investment vehicles through which they could invest in infrastructure.
- 18 It is however likely that investment strategy and asset allocation decisions will still remain with LGPS Committees as decision makers, but the hiring and firing of Managers could move to pooled arrangements.

Impact on the Pension Fund Committee

- 19 The Committee will need to formulate a response to the Government consultation when it is launched later in the year.
- 20 It will also need to investigate the possibility of collaboration with other LGPS Administering Authorities to respond to the Government's consultation. This may mean working more closely with neighbouring LGPS Administering Authorities.
- 21 It should be noted that the value of the Pension Funds in the region may not be sufficient to meet the Government's criteria for the size of pools.

Recommendation

- 22 Members note the information contained in the report.

Background papers

- (a) Aon Hewitt – July 2015 – Local Government Newsletter
- (b) Hymans Robertson – Briefing Note – Budget proposes LGPS pooling
- (c) LGC – 8 July 2015 – Government signals move to force council pension investment pooling.
- (d) Room 151 – 8 July 2015 – Budget 2015: LGPS faces mandatory pooling

Contact: Hilary Appleton Tel: 03000 266239
