

## **Pension Fund Committee**

**3 March 2016**



### **Local Government Pension Scheme: Pooling update**

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#### **Report of Don McLure, Corporate Director Resources**

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##### **Purpose of the report**

- 1 To update the Committee on progress made towards meeting the Government's requirements on a shared investment approach through pooling Local Government Pension Scheme (LGPS) Fund assets.

##### **Background**

- 2 In the July 2015 Budget, the Chancellor announced the Government's intention to work with LGPS administering authorities to ensure they pool investments to significantly reduce costs whilst maintaining performance.
- 3 Considerable emphasis was also given to the expectation that LGPS funds would begin to invest substantially more in infrastructure. On 25 November 2015 the Government published the Investment Reform Criteria and Guidance, setting out how LGPS investment pooling would work, and reframing the requirement as that the pools should take the form of up to six "British Wealth Funds" each with assets of at least £25 billion which are "able to invest in infrastructure and drive local growth."
- 4 A paper presented to the 15 December 2015 Pension Fund Committee set out details of the Government's proposals, explained progress made so far towards pooling of investments, and advised the Committee that an initial response to Government was required by 19 February 2016, giving a commitment to pooling and advising which other LGPS Funds the Pension Fund was likely to pool with.

##### **Progress towards pooling**

- 5 Chairs and Vice Chairs and officers from the three north-east Funds met (along with officers from the Teesside Pension Fund) on 16 December 2015 and agreed that 'relative asset sizes' meant it was not practical to form a separate north-east pool and it would probably not be feasible to act together as a group, but there would be potential political advantages if the Funds were able to consolidate into the same pooled fund. Nevertheless, the primary objective of pooling should be to obtain the best outcome for the Fund from a long-term investment perspective for the benefit of Fund members.
- 6 Although there was no centrally available record of ongoing pooling activity, through networking with colleagues regionally and more widely it was identified that at the start of 2016 there were potentially eight different groups

considering forming pools – mainly grouped on a regional basis. Of these eight, three met the following criteria:

- Allow the Pension Fund to meet its investment objectives;
- Allow access to internal management – so potentially reducing costs while maintaining returns;
- Allow the Pension Fund an equal say in the setting up and future management of the pool.

These were the 'Border to Coast Pensions Partnership' (Cumbria, East Riding, Surrey and others), the 'Northern Funds' group (Greater Manchester, West Yorkshire and Merseyside) and the 'Midlands Funds' group (West Midlands, Nottinghamshire, Derbyshire plus others).

- 7 Officers attended meetings and engaged in discussions with representatives of both the 'Border to Coast Pensions Partnership' and the 'Northern Funds' group. The 'Midlands Funds' group was not actively considered as there was no obvious connection with any of the Funds in that group and early feedback showed there would be little prospect of the other north-east funds joining that group.
- 8 The relative size of the potential other participants in the two possible pools was a factor in the decision-making process. The 'Northern Funds' group comprised three of the four biggest LGPS funds in England and Wales and any smaller fund joining them could therefore struggle in practice to have an equal say in the governance and operation of the pool. Whereas, the 'Border to Coast Pensions Partnership' comprised a range of different sized funds, and it was easier to envisage the Pension Fund having genuine influence in the operation of that pool.
- 9 Another factor was that 'Border to Coast Pensions Partnership' had declared within its initial principles that it would ensure its internal investment team would operate from a single location. This should ensure better exchange of information within that team and there would be only one location needing to obtain approval from the Financial Conduct Authority. Conversely, the 'Northern Funds' group declared that it would continue to operate internal management from a number of separate locations.

### **Advice from Pension Fund Advisers**

- 10 The Pension Fund's advisers being; Philip Williams and PSolve were consulted over the relative merits of the Border to Coast Pensions Partnership and the Northern Funds Group.
- 11 Philip Williams stated that it would be reasonable for the Pension Fund to join the Border to Coast Pensions Partnership, preferring this to the Northern Funds group, which is dominated by three large funds as although the Northern Funds group's proposed governance structure allows for equal representation by each member fund, in practice the Durham Fund might be seen as a "junior" member.

- 12 PSolve also confirmed that if the Pension Fund joined the Border to Coast Pensions Partnership this should not impact on the Pension Fund's ability to achieve its long-term investment objectives.

### **Decision**

- 13 The Corporate Director Resources met with the Chair and Vice Chair on 2 February 2016 and agreed that based on the research and advice received, the Pension Fund should advise the Government that it is minded to join the Border to Coast Pensions Partnership by signing up to the Partnership's joint submission.
- 14 The Pensions Manager then sent a brief note on behalf of the Corporate Director Resources to advise the Government of the Pension Fund's decision on pooling – the note is enclosed as Appendix A. The more detailed Border to Coast Pensions Partnership's joint submission to Government is enclosed as Appendix B.

### **Next steps**

- 15 Officers will continue to work with colleagues in the Border to Coast Pensions Partnership to further develop pooling proposals. Significant future milestones, taken from the Border to Coast Pensions Partnership submission document, are as follows:
- *19 February 2016 Deadline for initial proposal*
  - 15 July 2016 Deadline for detailed proposal
  - September 2016 Governance structure agreed
  - October 2016 Agreement on audit and risk considerations
  - November 2016 Agreement on legal structure
  - December 2016 Agreement on specifics of vehicle structure
  - June 2017 Formation of internal investment management operation
  - December 2017 Full regulatory approval of internal investment management function
  - December 2017 Asset transition planning complete
  - April 2018 Commencement of asset transition to BCPP pool
  - December 2018 Full implementation of listed assets
  - Within 15 years Completion of transfer of unlisted assets

### **Recommendation**

- 16 Members are asked to note the report and that further progress will be reported at subsequent Committee meetings.

**Appendix A**

Department for Communities and Local Government  
By Email to [LGPSReform@communities.qsi.gov.uk](mailto:LGPSReform@communities.qsi.gov.uk)

15 February 2016

Dear Mr Jones

**Local Government Pension Scheme: Investment Reform Criteria and Guidance**

I am writing to set out Durham County Council's proposal in its role as administering authority to the Durham County Council Pension Fund in connection with the Government's requirements on investment reform to the Local Government Pension Scheme (LGPS).

I can confirm the following:

Durham County Council is committed to the process of pooled investment with other LGPS Funds, and has been actively involved in discussions with other LGPS Funds and groups of Funds. After considering the options available, Durham County Council proposes to form part of the Border to Coast Pensions Partnership which, subject to Government approval, will comprise the following LGPS Funds:

- Bedfordshire Pension Fund
- Cumbria Pension Fund
- Durham Pension Fund
- East Riding Pension Fund
- Lincolnshire Pension Fund
- North Yorkshire Pension Fund
- Northumberland Pension Fund
- South Yorkshire Pension Fund
- South Yorkshire Transport Fund
- Surrey Pension Fund
- Teesside Pension Fund
- Tyne and Wear Pension Fund
- Warwickshire Pension Fund

Durham County Council is a signatory to a more detailed joint submission from the Border to Coast Pensions Partnership which sets out in more detail the guiding principles and proposed structure of the pooling arrangement.

Yours sincerely



Nick Orton  
Pensions Manager  
Durham County Council