

## **PENSIONS COMMITTEE**

### **28 June 2016**

### **LGPS Central pool business case**

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#### **Recommendation**

**1. The Chief Financial Officer recommends that the LGPS Central Business Case submission to government be endorsed by the Committee subject to the following qualification:**

- **Allocation of the authorised Collective Investment Vehicle's Operator running costs to be further explored with other Pension Fund representatives to ensure fair sharing of costs across the Funds in the pool.**

#### **Background**

2. In the July Budget 2015, the Chancellor announced the Government's intention to work with Local Government Pension Scheme administering authorities to ensure that they pool investments to significantly reduce costs while maintaining overall investment performance.

3. On 25 November 2015, DCLG published its response to the May 2014 consultation (Opportunities for collaboration, cost savings and efficiencies). It said responsibility for asset allocation would stay with the 90 administering authorities and that savings could be delivered through the use of asset pooling and, in particular, collective investment vehicles. Following discussions with local government and the fund management industry over the summer, the Government prepared criteria against which the authorities' proposals for pooling would be assessed. Authorities were asked to develop proposals for pooling assets in line with the timeline detailed below.

The 4 main criteria are:

- Criteria 1: Asset pool(s) that achieve the benefits of scale c. £25bn
- Criteria 2: Strong governance and decision making
- Criteria 3: Reduced costs and excellent value for money
- Criteria 4: An improved capacity and capability to invest in infrastructure

4. Strategic asset allocation will remain a local decision for the administering authority and local pension committee. The pool will decide on investment manager appointments and the type and number of sub-funds. Elected members of each Fund will influence how each pool operates.

5. Worcestershire County Council Pension Fund in collaboration with eight other Local Authorities under the brand 'LGPS Central' submitted their initial proposals to the Government by 19 February 2016.

6. The government responded to the LGPS Central February submission on 24<sup>th</sup> March 2016 welcoming the initial proposal and encouraging the pool to continue with the planned work to develop a detailed submission that fully addresses the criteria by 15 July 2016.

7. By **15 July** Funds must make a final submission which fully addresses the criteria set out above, with enough information for the proposal to be evaluated by government. Each pool must make a submission which covers the joint proposals and describes the proposed governance, structure and implementation plan.

8. All costs incurred to date by the Fund in relation to LGPS Central and those predicted to be incurred through to the July submission are within the limit delegated to the Chief Financial officer by the Pensions Committee.

## **LGPS Central Pool Business Case**

9. The pool business case and associated papers is set out in the appendix to this report. The business case details; the £35bn scale of the pool, which exceeds the government's requirements, the proposed authorised collective investment vehicle governance arrangements, an estimated base case cost saving over the period 2017/18 to 2032/33 of £183m for the total pool and also the pool's commitment to developing an improved capacity to invest in infrastructure.

10. Scenario cost savings analysis is provided to demonstrate the potential savings benefits of increased internal management, as the pool establishes its internal investment management sub funds.

11. The WCC pool business case included on the committee's agenda details the estimated impact on Worcestershire County Council Pension Fund of continued membership of LGPS Central together with key considerations of the Committee.

## **Contact Points**

### County Council Contact Points

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## **Supporting Information**

- LGPS Central pool business case- Appendix

## **Background Papers**

In the opinion of the proper officer (in this case the Chief Financial Officer) the following are the background papers relating to the subject matter of this report: DCLG Local Government Pension Scheme Investment Reform Criteria and Guidance