



Department for
Communities and
Local Government

Ms Geik Drever
Programme Director
LGPS Central

On behalf of the participating funds:
Cheshire Pension Fund
Derbyshire Pension Fund
Nottinghamshire County Council Pension Fund
Leicestershire County Council Pension Fund
Staffordshire Pension Fund
Shropshire County Pension Fund
West Midlands Pension Fund
West Midlands ITA Pension Fund
Worcestershire County Council Pension Fund

Marcus Jones MP
Minister for Local Government

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Dear Geik,

LGPS CENTRAL INVESTMENT POOL: FINAL PROPOSAL

I would like to thank you and all the authorities involved in the proposed Central pool for your final proposal, which we discussed at our meeting on 15 November. I was glad to note your strong commercial approach and commitment to use scale to drive down fees and improve transparency on costs, as well as your ambition to increase infrastructure investment. I appreciate the hard work and commitment from elected members and officers which the proposal represents, and welcome your determination to deliver on time.

It is now coming up to a year since we set the framework for reform of the investment function of the local government pension scheme, through the guidance and criteria for pooling published in November 2015. I am pleased that authorities across the scheme have responded to the challenge and come together to form partnerships of their own choosing based on a shared view of investment strategy. We do not underestimate the scale of the changes required, but the Government remains committed to pooling in order to deliver reduced costs while maintaining performance as well as to develop capacity and capability for greater investment in infrastructure.

I appreciate that overall costs are likely to rise in the early years, and that salaries are likely to be high for key senior roles within pool operators. But I consider that this is a price worth paying in order to achieve substantial savings, already estimated by the pools at £1-2 billion by 2033 or up to £200 million pa in the medium term. I am confident that as the reform beds in, there are further savings to be achieved.

I therefore expect every administering authority in England and Wales to participate in a pool. I also expect authorities to place all assets in their chosen pool, unless there is a strong value

for money case for delay, taking into account the potential benefits across the pool. In addition my officials will be consulting with all pools on the potential to work with the Local Pensions Partnership to help ensure it delivers the full benefits of scale.

I must also underline that all bodies effectively undertaking collective investments will need to be authorised at the appropriate level by the Financial Conduct Authority (FCA). I appreciate the significant costs and effort required to secure authorisation. However, given the scale and complexity of the pools, and the substantial public funds involved, scheme members and the local taxpayers who underpin the scheme have a right to expect the high level of assurance which is provided by FCA authorisation. Individual funds will continue to be responsible for their investment strategies and asset allocation and will continue to require high standards of governance.

On the basis set out above I am pleased to confirm that I am content for you to proceed as set out in your final proposal.

Turning to the future, I appreciate there has been some delay this autumn, but I have no plans to extend the deadline for pools to become operational in April 2018. I will be reviewing progress of all the pools in spring and autumn 2017 and will expect to see a core team in place in spring 2017 and an application for Financial Conduct Authority authorisation, where not already in place, in autumn 2017. I look forward to seeing more detailed plans for delivering savings, and increasing your infrastructure investment in line with your stated ambition. I will also expect detailed plans for reporting, including on fees and net performance in each listed asset class against an index, standardised across the sector.

A handwritten signature in blue ink, appearing to read 'Marcus Jones', with a stylized, cursive script.

MARCUS JONES MP