LGPS Investment Reform

Asset Pooling

Background

As part of its Autumn Statement, on 25 November 2015 the Government published its Investment Reform Criteria and Guidance, setting out how LGPS investment pooling will work:

1) Achieve the benefits of **scale** – up to 6 asset pools of £25bn or more

2) Strong **governance** and decision-making – investments should be managed appropriately by the pool with risk adequately assessed and managed. The pool should have appropriate resources and skills. Local authority will hold the pool to account.

Background

3) **Reduced costs** and excellent **value for money** – pools need to deliver substantial savings in investment fees, both in the near term and over the next 15 years while at least maintaining investment performance.

4) An improved capacity to invest in **infrastructure** – proposals should show how the pooling arrangements will enable the funds to invest more in infrastructure

Why are Funds required to pool assets?

- Economies of scale leads to investment management fee savings
- Funds need to at least maintain investment performance, so an improvement on a net-of-fees basis may be realised
- Collaboration and joint-working may lead to a longer-term governance ‘dividend’
- The government is keen to encourage LGPS Funds to increase their weighting to infrastructure

But there will be one-off set up costs, service charges and regulatory capital requirements

Governance and decision making

Strategic asset allocation decisions will remain the responsibility of local Pension Committees

Elected members of each Fund will influence how the pool operates

Investment manager appointment will NOT be controlled by individual Funds

Timeline and proposals to the government

By **19 February 2016** LGPS Funds must submit initial proposals to government including Funds' commitment to pooling and describing 'progress towards formalising arrangements with other authorities'.

By **15 July 2016** LGPS Funds must make final submissions, including proposed governance, structure and implementation plan. Each authority must submit an individual return which sets out the profile of costs and savings, the transition profile for the assets and the rationale for any assets which it proposes to hold outside the pool.

By **1 April 2018** – liquid assets transferred to pools.

Proposed Pooling Solution

Cheshire Pension Fund

worcestershire county council

West Midlands Pension Fund

West Midlands ITA

LGPS CENTRAL

£35bn +

DERBYSHIRE County Council
Improving life for local people

Staffordshire Pension Fund
Local Government Pension Scheme

Leicestershire County Council

Nottinghamshire County Council

SHROPSHIRE COUNTY PENSION FUND

Discussions are also taking place with two other LGPS Funds

LGPS CENTRAL

- LGPS Central Funds have like-minded principles
- **One Fund, One vote** is a key agreed feature
- Six of the Funds worked together successfully on the recent passive procurement, leading to significant savings
- Four officer meetings have already been held

Potential Pools

(£40bn)	Northern Powerhouse
(£35bn)	LGPS Central
(£25bn)	London CIV
(£25bn)	ACCESS (**A** **C**ollaboration of **C**entral, **E**astern and **S**outhern **S**hires)
(£25bn)	South West
(£19bn)	Borders to Coast
(£12bn)	Wales
(£11bn)	Lancashire/LPFA

Scale

Of the eight potential pools, three (Borders to Coast, Lancashire/LPFA and Wales) do not currently meet required scale

Wales (£13bn) may be accepted as a sub-scale pool for political reasons. Will this take one of the six available ‘British Wealth Fund’ positions?

London CIV is likely to be accepted as one of the six ‘British Wealth Funds’

LGPS CENTRAL Work Plan

Setting up the pool will incur one-off costs and these will not be insignificant. The implementation cost for London CIV was c. £2.5m

The optimal legal governance structure for the pool has not yet been determined. Work needs to be commissioned prior to submitting the July proposal to government. This cost is in addition to the c. £2.5m pool implementation cost.

Formation of the pool is a large project and will need to be managed by qualified project managers

The project has to be adequately resourced in order to work effectively, which involves appointing high quality staff