

PENSIONS COMMITTEE

3 FEBRUARY 2016

LGPS ASSET POOLING

Recommendation

1. **The Chief Financial Officer recommends that:**
 - a) **The LGPS Asset Pooling Report be noted;**
 - b) **The LGPS CENTRAL pool be approved as the preferred pool option;**
 - c) **Authority be delegated to the Chief Financial Officer in consultation with the Chairman and Vice-Chairman to continue discussions with LGPS CENTRAL pool members to determine a joint response to the Government's consultation by 19 February 2016 regarding LGPS asset pooling and similarly for determining an individual response from the Fund; and**
 - d) **The proposed changes required to the Extended Scheme of Delegation to the Chief Financial Officer in light of the government's LGPS asset pooling agenda as set out in Appendix 3 be approved.**

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.
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.

Criteria for pooling of assets

5. The following criteria will be applied to proposals for the pooling of assets;
 - a) Achieve the benefits of **scale** – up to 6 asset pools of £25bn or more
 - b) 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.
 - c) **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.
 - d) An improved capacity to invest in **infrastructure** – proposals should show how the pooling arrangements will enable the funds to invest more in infrastructure

Timetable and Proposals to government

6. By **19 February 2016** Funds must submit an initial proposal to government including commitments to pooling, describing 'progress towards formalising arrangements with other authorities'. These submissions can be individual or joint, or both.
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. 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.

LGPS CENTRAL

8. Eight like-minded LGPS Funds based in the central England area are proposing to form a pool that meets the government's criteria for the pooling of assets. The pool's asset value would be at least £35bn, which exceeds the scale criteria set by government. A key feature of the proposal is that a 'One Fund, One Vote' policy would apply to ensure each Fund has equal influence over pool implementation and decisions once operational.

Extended Scheme of Delegation to the Chief Financial Officer

9. The Committee, on 10 June 2015, approved a number of delegations of its function concerning the management of the administration of the Fund to the Chief Financial Officer. In order for the Fund to meet the government's agenda for LGPS asset pooling new delegations may be required. Therefore the Committee is asked to consider whether the current delegations are sufficient and consider the proposed delegations in Appendix 3. The Head of Legal and Democratic Services is content with the proposals from a constitutional point of view.

Contact Points

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Supporting Information

- LGPS Investment Reform Asset Pooling presentation - Appendix 1
- Press release - Appendix 2
- Extended Scheme of Delegation to the Chief Financial Officer – Appendix 3

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