

Report to: **Pension Committee**

Date: **12 January 2016**

By: **Chief Operating Officer**

Title: **Local Government Pension Scheme - Future Investment Pooling Collaboration**

Purpose: **To inform the Committee of Department of Community and Local Government (DCLG) Criteria regarding the Local Government Pension Scheme (LGPS) Investment Pooling and Consultation on the Investment Regulations, and to seek approval regarding a pooling option proposal.**

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## **RECOMMENDATIONS**

**The Committee is recommended to:**

- 1. note the DCLG Criteria regarding the LGPS Investment Pooling Proposals and Consultation on the Investment Regulations;**
  - 2. agree and approve an option proposal as set out in Appendix 4 for pooling the East Sussex Pension Fund assets with other like-minded funds, and agree the option as the basis on which to submit the criteria/consultation response.**
  - 3. recommend that Officers are authorised to consult with agreed like-minded funds to draft a criteria/consultation response for review and approval by the Pension Committee.**
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### **1. Background**

1.1 Prior to the 2015 General Election the Government had been considering the structure of the Local Government Pension Scheme (LGPS) and looking at options for pooling investments. This included a “Call for Evidence”, and then in May 2014 the Government issued a consultation document entitled “Local Government Pension Scheme: *Opportunities for collaboration, cost savings and efficiencies.*” The East Sussex Pension Fund was one of many consultees who responded to the consultation, but no response was issued by the Government before the election.

1.2 In the ‘Summer 2015’ budget, the government announced that local authorities should put forward proposals to “*pool investments to significantly reduce costs, while maintaining overall investment performance.*” At the time, no more details were given but the government has been sharing its thinking through an informal dialogue with local authorities, fund managers and other interested parties. This exchange has included a series of “round-tables” and other meetings involving the DCLG, HMT teams responsible for the LGPS, and events aimed at elected members.

### **2. DCLG Criteria and Consultation on the Investment Regulations**

2.1 The Government has now published the attached criteria/guidance (Appendix 1) for pooling LGPS fund assets into up to six British Wealth Funds, each containing at least £25billion of scheme assets. Administering authorities are invited to come forward with their proposals for new pooled structures in line with the guidance to significantly reduce costs while maintaining overall investment performance, with the wider ambition of matching the infrastructure investment levels of the top global pension funds.

2.2 The Government has invited proposals for asset pooling that will be assessed against the following criteria:

- a. **Asset pool(s) that achieve the benefits of scale** - administering authorities should collaborate to establish, and invest through asset pools, each with at least £25bn of Scheme assets.
- b. **Strong governance and decision making** - proposed governance structure for the pools should, at the local level, provide authorities with assurance that their investments are being managed appropriately, and, at the pool level, ensure that risk is adequately assessed and managed; investment implementation decisions are made with a long-term view; and a culture of continuous improvement is adopted.
- c. **Reduced costs and excellent value for money** - proposals should explain how the pool(s) will deliver substantial savings in investment fees, both in the near term and over the next 15 years, while at least maintaining overall investment performance.
- d. **An improved capacity to invest in infrastructure** - proposals should explain how infrastructure will feature in authorities' investment strategies and how the pooling arrangements can improve the capacity and capability to invest in this asset class.

2.3 It will be for authorities to suggest how their pooling arrangements will be constituted and will operate. In developing proposals, authorities should have regard to each of the four criteria.

2.4 Alongside the guidance, the Government published a consultation (Appendix 2) on "backstop" legislation that would require those administering authorities that do not come forward with sufficiently ambitious proposals to pool their assets with others. The consultation contains two key proposals:

- i. radical reform of the LGPS investment regulations to enable LGPS funds to pool their investment,
- ii. giving the Secretary of State a new power to intervene in the investment function of the LGPS fund if this investment approach has not had regard to the relevant regulations and guidance.

### **3. East Sussex Pension Fund - Progress**

3.1 A paper on the LGPS pooling was presented to the Pension Committee at its September – investment strategy day meeting, and presentation on LGPS investment pooling by Hyman's at the Committee meeting of 24 November 2015. At its November meeting, the Committee requested that officers continue to consider investment pooling and collaboration options/proposals that will meet the Government criteria's, for consideration at the next special meeting of the Pension Committee on 12 January 2016.

3.2 An analysis of the Government Policy, Criteria, and Consultation is attached as Appendix 3 and the outline of options, vehicle and associated consideration for pooling, with a summary of current initiative is attached as Appendix 4.

### **4. Conclusion and reasons for recommendations**

4.1 The Government has signalled its clear intention that LGPS investment assets should be pooled, there will be no exemptions from pooling, and all local decision making on manager selection will come to an end. That action will be taken should local funds fail to engage sufficiently with the agenda. It is therefore proposed that the East Sussex Pension Fund consider and approve an option to set up/participate within a collective investment vehicle, or regional pool.

4.2 This is the first stage of an extensive process. There will be chance to review detailed proposals before significant investments are made in any new structure, and scopes for further review before the funds are transferred over into any collaborative vehicle.

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Local Member(s):  
All

Background Documents  
None