

By: Corporate Director of Finance & Procurement
To: Pension Board – 20 April 2016
Subject: **LOCAL GOVERNMENT PENSION SCHEME POOLING**
Classification: Unrestricted

Summary: To update on the LGPS pooling work and seek agreement to proposed project costs.

FOR DECISION

INTRODUCTION

1. This report is to update the Board on progress of the LGPS pooling work. The proposals published by the Government in November 2015 present the most radical changes to the management of the LGPS since it was first established.

LGPS INVESTMENT REFORM CRITERIA AND GUIDANCE

2. The main issues are:
 - (1) Six “British Wealth Funds” (multi asset pools for the purpose of this report) are to be established each with assets of at least £25bn.
 - (2) There will be governance arrangements at pool level involving members to oversee the pool investments.
 - (3) The target date for establishing the pools is 1 April 2018. We envisage that existing mandates would transfer and after that date processes would commence over an extended period to move funds into new mandates.
 - (4) The paper states that “backstop legislation that would require those administering authorities who do not come forward with sufficiently ambitious proposals to pool their assets with others”. This is a very clear statement of intent from Government, that pooling will happen.
 - (5) There will be some investments such as close ended funds which will not be included in the pooling arrangements.
 - (6) Direct Property is excluded and this is a major move from DCLG’s initial position and is the right answer from an investment perspective.

- (7) The proposals leave all the other responsibilities of this Committee unchanged. This Committee will still decide which assets the Fund invests in and all other issues related to the management of the Fund.
 - (8) Greater investment in Infrastructure.
3. Initial responses are required by 19 February and full costed responses by 15 July.

POOLING OPTIONS

4. The Superannuation Fund Committee agreed that the Head of Financial Services should participate in discussions with other Funds. The Chairman, the Deputy Leader and Cabinet Member for Finance & Procurement and the Corporate Director of Finance and Procurement have been kept fully informed of these discussions. All discussions have emphasized that decisions on the way forward are for this Committee.
5. Hymans Robertson had already facilitated a working group of around 25 non-London funds including the largest LGPS funds and a number of County Council funds. Project Pool had a formal structure and a number of sub-groups and the Head of Financial Services participated in the high level pooling workstream. A report should be published before the Committee meeting and this will represent the group of Funds views on how pooling can best be implemented.
6. This work showed that Funds are coming at the pooling issue from many directions and with many different objectives. In the Hyman's work frequent reference was made to the need for Funds to be "like minded" and this will be an issue that we return to.
7. In summary the main findings of the Project Pool work are:
 - (1) Preferred option multi-asset pools formed by region and like-minded group.
 - (2) For most asset types, regional pools may give sufficient size to get the majority of scale benefits / fee reductions.
 - (3) Regional or like-minded groupings also give individual funds more involvement in the governance of pools.
 - (4) For Infrastructure a national pool may be the best answer.
 - (5) Savings will be exceeded in the early years by the costs of setting up the pools and then by the potentially very large transaction costs.

8. Whilst the Hymans work concentrated on the “what” of pooling individual Funds seem to move very quickly to the “who”. This is not a helpful emphasis and it is one which reflects the different agendas Funds have. The main groupings to emerge are:
 - (1) London Collective Investment Vehicle (CIV) (£24bn) – 31 London Boroughs have been working on this project for the last 2 years. It is seen as the way forward on pooling for London Boroughs. To date this has been a voluntary project but it will become mandatory under the pooling proposals.
 - (2) M62 (£50-60bn) – dominated by some very large funds including West Yorkshire, Greater Manchester and Merseyside. Includes a large amount of internal management.
 - (3) Central (35-£40bn) – Midlands funds including the very large West Midlands Fund.
 - (4) ACCESS (£30-38bn) – Central, Eastern and Southern shire county funds.
 - (5) South West (£20-24bn) – South West Funds including the Environment Agency who have been working together and have a strong ESG focus.
 - (6) Border to Coast (£13-17bn) – a disparate geographical group consisting of Surrey, Cumbria, East Riding and Lincolnshire.
 - (7) London Pension Fund Authority / Lancashire (£12-16bn) – apparently seeking to set up an in house investment management business and sell services to other funds.
 - (8) Wales (£15bn) – a logical geographical grouping but too small to meet Government requirements.
9. At its February meeting the Committee determined that Kent should join the ACCESS pool. ACCESS is A Collaboration of Central, eastern and Southern Shires. In terms of membership of ACCESS, the group consists of Hampshire, the Isle of Wight, West Sussex, East Sussex, Essex, Suffolk, Norfolk, Hertfordshire, Cambridgeshire and Northamptonshire. ACCESS now has approaching £30bn of assets and so meets the Government’s criteria on size.
10. DCLG asked for the first responses from Funds on how they would meet the Government criteria The KCC submission to DCLG is attached in Appendix 1 and the ACCESS submission in Appendix 2. The issues of working with new partners are not to be underestimated and the fact that the ACCESS submission is a high quality piece of work says much for how good working relationships are being established and about the quality of support from Hymans Robertson.

NEXT STEPS

11. Governance

- (1) Monthly meetings of the Chairman's Group are being set up.
- (2) The Officer Working Group meets regularly and also has a fortnightly conference call and the workstreams set out below have a weekly call.

12. DCLG Criteria

- (1) For 19 July each fund and pool has to submit "ambitious proposals" for pooling investments against the following criteria:
 - Asset pools that achieve the benefits of scale – the pools must be at least £25bn and the proposals should describe the pools, explain how assets will be split between the pools and describe the benefits.
 - Strong governance and decision making – set out proposed governance arrangements at pool and local level.
 - Reduced costs and excellent value for money – this is across the full range of costs incurred. The savings proposed have to be set out in detail.
 - Improved capacity and capability to invest in Infrastructure – how the proportion of investments in Infrastructure are increased. The Project Pool work envisaged a different approach on Infrastructure to other asset classes with a national pool being established.
- (2) The Head of Financial Services is on the officer sub-group for asset pools and the Treasury and Investments Manager for cost reduction.
- (3) The July response will be very challenging to respond to and it is envisaged that the Superannuation Fund Committee will receive a draft on 24 June. It is already becoming clear that there are a number of key issues where we will need to be robust on our position:
 - Investment vehicle- there are two main options here, either a Collective Investment Vehicle (CIV) where investments are made through an Authorised Contractual Scheme with the ownership of assets transferred to the ACS, or a Collective Asset Pool where ownership of assets remains with the member Funds and investments are pooled. ACCESS in collaboration with several other pools is taking legal advice on this.
 - Governance arrangements- how the member Funds will collectively take decisions.

- Infrastructure- how Funds meet the Government's clear desire to see more investment by Local Authority pension Funds in UK Infrastructure.
- (4) The DCLG feedback to the ACCESS proposal and the response from the group of Chairman is attached in Appendix 3 and 4.

13. **Project Management**

- (1) The Officer Working Group commissioned Hymans Robertson to provide project and technical support to ACCESS through to the July submission. After the July submission a procurement will have to be undertaken for this work moving forward. The high level project plan developed by Hymans is included in Appendix 3.
- (2) Generally the ACCESS work has proceeded on a consensual basis with good collaboration. The approach to the use of investment consultants has though revealed very different approaches between the funds. Some Funds make no use of investment consultants, some work as Kent does commissioning specific pieces of work from consultants and others rely much more heavily on investment consultants.
- (3) The Hymans proposal is:

To date:

ACCESS workshop	£7,000
Consultancy support	£25-30,000
Project support	£27-30,000

Proposed to July:

Project Management costs	£80-100,000
Consultancy support	£100-200,000
Legal costs	To be confirmed

Based upon an equal split of costs this means a figure per fund of £11,500 - £30,500.

- (4) Members are asked to agree a budget of up to £50,000 for the work through to the July submission. This investment should set ACCESS on a solid foundation for receiving Government endorsement of the proposal and for moving on from that.

RECOMMENDATIONS

14. The Board is asked to note this report.

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