

Briefing Note

County Council Report – Local Government Pension Scheme

Pooling

Introduction

This note provides some additional information for the County Council report on Local Government Pension Scheme (LGPS) Pooling.

What are the comparative costs of the present and proposed arrangements?

In independent benchmarking work carried out in 2016 it was confirmed that Kent had the lowest investment management and internal management costs of any of the 11 ACCESS Councils. The Kent costs were in the lower quartile of the survey results for all the private and public sector pension schemes globally in the survey.

The Kent Fund is interpreting the latest LGPS Investment Regulations as allowing the Fund to keep money out of the pool on value for money grounds if the costs of using a particular investment manager are higher in the pool than Kent is already paying.

We are also even before the formal pooling starts getting reductions on investment manager fees.

The Minister is insisting that ACCESS set up a Financial Conduct Authority regulated Collective Investment Vehicle. The Kent Fund and all the other ACCESS funds think this is an unnecessary overhead but the Minister will not move on this matter and the ACCESS Chairmen have taken advice on a Judicial Review of the Minister's decision but the chances of success are judged to be very low.

There are substantial legal, procurement and investment consultancy costs in setting up the CIV, ACCESS has quoted a total cost of £3-5m to do this although in all likelihood it could be substantially higher. This would be split equally between the 11 Funds so the Kent Fund currently valued at £5.3bn would pick up around £500k or up to £1m in the worst case.

Additional annual running costs of the CIV are likely to be around £500k for the Kent Fund.

How do the changes affect the ability to control our investments?

The 89 LGPS Funds in England and Wales currently determine the asset allocation of the Fund eg the split of assets between equities, fixed income, property and alternative assets and they also appoint the investment managers. The Government leaves the asset allocation at Fund level but doesn't want Funds appointing investment managers and that becomes a pool responsibility.

Each of the pools are addressing this in different ways, some are setting up internal investment management operations and others are telling their Funds which investment managers they will use.

The ACCESS Chairmen have an underlying principle about the sovereignty of the underlying Funds and they believe they have an approach which allows the Chairmen on behalf of their Funds to select investment managers with the actual appointment being made by our CIV operator.

The approach which ACCESS is taking will allow the Kent Fund to continue to control asset allocation and the selection of investment managers.

What other controls do we have and can the Minister demand we make Infrastructure investments?

The only change to the legal responsibilities of the Fund is that investment manager appointments will be made through the pool, with the provisos that Property remains outside the pool and the VFM test referred to above.

Kent is the third largest of the 11 Funds in ACCESS (Hampshire and Essex being the largest) and we have played a leading role in setting up the pool; we are taking on the key role of procuring a CIV operator and will also be the first host of the secretariat function for the Joint Committee. A strong axis has developed of the South East Councils (Hampshire, West Sussex, East Sussex and Essex) reflecting very similar thinking by the respective Chairmen about pooling ie we comply but in the most minimal way maintaining local control.

The Minister has no legal powers to compel investment in Infrastructure. LGPS Funds exist to pay current and future pensioners, highly speculative greenfield infrastructure is not a suitable asset class for these Funds.

All ACCESS Funds remain highly suspicious of Government intentions on Infrastructure.

What chance is there of changing the Minister's mind?

When pooling was first launched in late 2015 Mr Scholes had a number of discussions with the then Secretary of State Greg Clark. Mr Clark made it absolutely clear even then that there was no question of the Government pulling back from this initiative which it seems came from the Chancellor of the Exchequer.

ACCESS Chairmen have met with Marcus Jones the Local Government Minister and had a very unsatisfactory discussion. There was no scope whatsoever for moving away from a highly prescriptive approach to pooling.

The other alternative of a Judicial Review of the decision was seriously considered by the Chairmen in February with legal advice from Eversheds but it was concluded that it was very unlikely to be successful.

Summary

Across the whole of the LGPS there are poorly managed Funds, particularly in London where each borough has its own Fund.

Kent is in a pool with a set of well managed and like minded Funds and where to date decisions have been made which reflect Kent's views. There now seems to be no possibility of overturning the Government's decision so it is a case of working to ensure that the impact on how the Fund is managed is minimized.

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