

FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CLWYD PENSION FUND COMMITTEE**

DATE: **26th NOVEMBER 2015**

REPORT BY: **CHIEF OFFICER (PEOPLE AND RESOURCES)**

SUBJECT: **POOLING INVESTMENTS (NATIONAL PICTURE)**

1.00 PURPOSE OF REPORT

1.01 To provide Committee Members with an update on the Government's proposal for pooling investments for the LGPS across England and Wales.

2.00 BACKGROUND

2.01 Central Government mentioned the LGPS in the recent budget, and section 2.19 of the 'Red Book' stated:

Local Government Pension Scheme pooled investments -

The Government will work with Local Government Pension Schemes administering authorities to ensure that they pool investments to significantly reduce costs, while maintaining overall investment performance. The government will invite local authorities to come forward with their own proposals to meet common criteria for delivering savings. A consultation to be published later this year will set out those detailed criteria as well as backstop legislation which will ensure that those administering authorities that do not come forward with sufficiently ambitious plans are required to pool.

2.02 Following this came further comment, from both the Chancellor (at the Conservative Party Conference on 6th October 2015) and from the Department for Communities and Local Government ("DCLG"), via a letter from Chris Megainey to all administering authorities on 7th October 2015, regarding the vision for how pooling could be used to fund major UK regional infrastructure projects.

2.03 Any proposals brought forward by administering authorities will need to satisfy three criteria:

- **Scale** (six asset pools of c.£30bn has been used as an illustrative, but not essential number)
- **Savings/Costs** (but no specific level of savings is expected to be set)
- **Governance** (this could be through arrangements like the London Collective Investment Vehicle ("CIV") and its Authorised Contractual Scheme structure but could also take place through Joint Committees or other structures)

- 2.04 According to the DCLG the intention is for administering authorities to take the initiative (reinforcing the point in section 2.19 of the 'Red Book' referencing coming forward with "sufficiently ambitious proposals") and recommend solutions as a LGPS community. The Government is not wedded to any particular solution provided they meet the criteria.
- 2.05 The Government will provide more detail on each of these criteria by the end of November. The consultation mentioned in the budget statement applies only to changes to investment regulations and backstop legislation, not the criteria. Hence now is the time for administering authorities to influence the criteria.
- 2.06 In this respect there has taken place numerous meetings and discussions between LGPS funds, the LGA, DCLG, HM Treasury and an array of advisors and fund managers.
- 2.07 There has been the announcement of a number of collaborations within the LGPS. Though the nature of these collaborations differs, those that have announced such collaborations are:
- London Boroughs (via London CIV)
 - London Pension Fund Authority ("LPFA") and Lancashire
 - "Shires" Group (7 separate funds including Cheshire, Staffordshire, Leicestershire and 4 other Funds from the Midlands region)
 - South West (8 funds within this region)
 - Wales
 - "Other" (joint collaboration between Surrey, Cumbria and East Riding funds)
- 2.08 The remainder of this report provides some more detail to assist Committee Members to understand the national debate.

3.00 CONSIDERATIONS

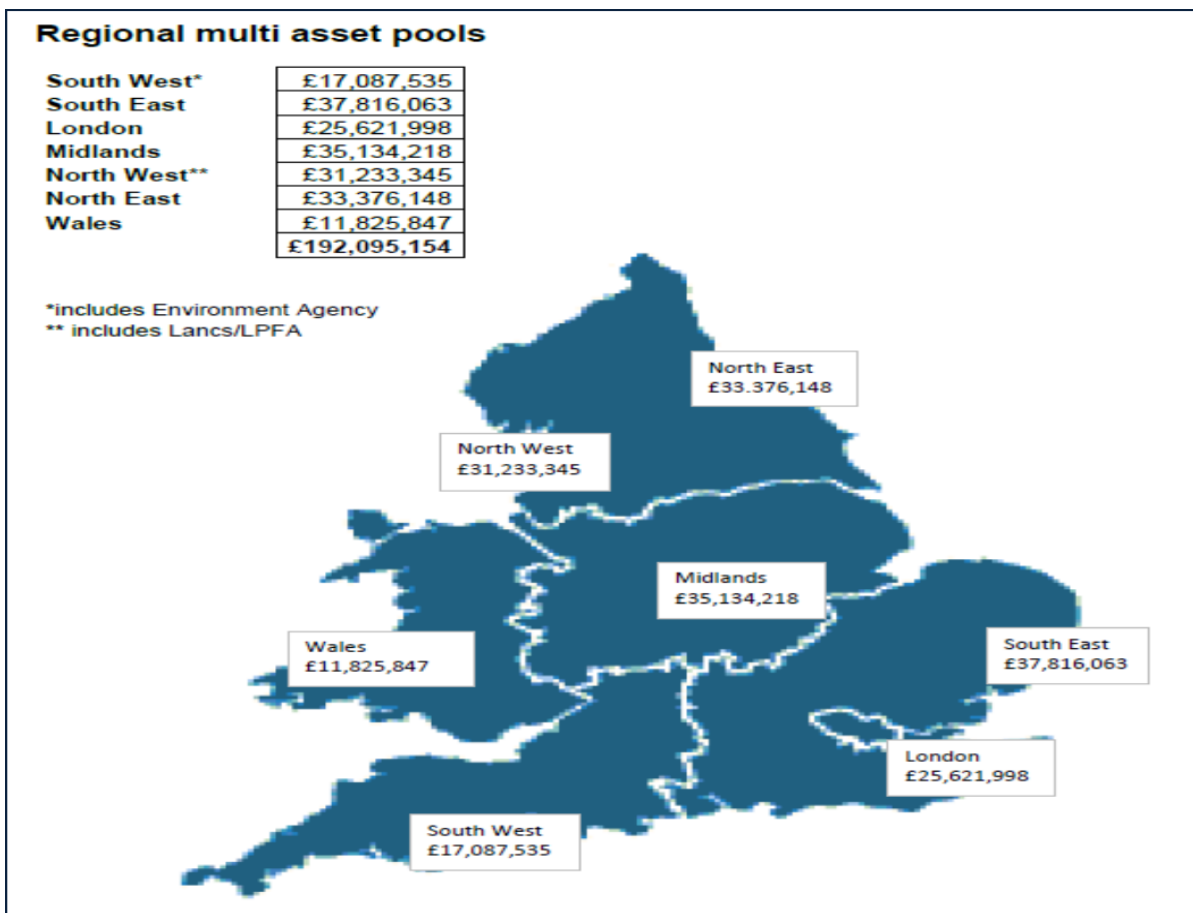
Asset Allocation across LGPS funds in England and Wales

- 3.01 Across the LGPS in England and Wales there are circa £200bn of assets invested across various asset classes. It is estimated £50bn of assets are invested on a passive basis (£3bn in Wales). The table overleaf shows the asset allocation of the LGPS in England and Wales.

Equites	%	AUM	Bonds	%	AUM
Global Pooled (inc UK)	7.0	£14bn	UK	9.2	£18.4bn
UK	21.2	£42.4bn	Overseas	2.3	£ 4.6bn
North America	8.2	£16.4bn	Index Linked	4.2	£ 8.4bn
Europe	6.3	£12.6bn	Pooled Bonds	1.3	£ 2.6bn
Japan	2.9	£ 5.8bn	Alternatives		
Pacific Ex	2.8	£ 5.6bn	Private Equity	4.3	£ 8.6bn
Emerging Markets	3.8	£ 7.6bn	Hedge Funds	2.2	£ 4.4bn
Global Ex UK	9.3	£18.6bn	Other Alternatives	1.4	£ 2.8bn
			Pooled Multi Asset	2.8	£ 5.6bn
Cash	2.7	£ 5.4bn	Property	8.1	£16.2bn

Source: State Street Global Services Local Authority Annual League Tables – March 2015
85 Funds £199,896m AUM

3.02 On 21st September 2015 the Scheme Advisory Board outlined thoughts on the potential to pool assets on a regional basis. The table below demonstrates how it was envisaged that this could happen, although this is not definitive bearing in mind there may be a move towards six pools rather than seven shown below:



What has occurred to date in respect of pooling?

- 3.03 Of the collaborations to date outlined in section 2.07, the London CIV is expected to have funded its first collectively managed assets by end 2015 and other funds will be able to invest via this structure. The South West Group are progressing towards establishing a Governance structure for the initial pooling of their assets, whilst the collaboration between Surrey, Cumbria and East Riding has yet to provide any further definitive information (other than the intention to create a pool).
- 3.04 LPFA and Lancashire have applied for FCA registration to allow for the pooling of their assets to occur (and for other funds to potentially join their pool). Wales are currently progressing with a procurement exercise for assistance in appointing a manager to run a passive mandate. (See agenda item 6).
- 3.05 In respect of the Government's desire to create regional UK infrastructure investment, there has been no concrete progress as yet, given that the final position of asset pooling is still to be determined. Existing options include the PIP (Pensions infrastructure Platform) which has raised over £1bn, sold as 'design and built by pension funds for pension funds'. There is also a Greater Manchester/London Pension Fund Authority (LPFA) infrastructure platform with potential to expand to other parties.

Internal management of assets

- 3.06 14 of the 89 funds manage some or all of their equity and fixed income allocations in house, totalling circa £30bn of assets. Evidence suggests that this can be achieved at a lower cost without compromise to performance. It is unclear at this stage to what extent, if any, internal management of fund(s) assets will be allowed to continue in the medium to long term.

What is due to happen in the immediate to short term?

- 3.07 The pooling criteria is due to be confirmed by the end of November 2015. DCLG has confirmed that proposals from each of the LGPS are expected by February 2016, although these proposals can be broad principles and do not have to be finalised.

What is due to happen in the medium term?

- 3.08 Comments from DCLG are that the progress expected during the term of the current Parliament is that asset pools are established/FCA authorised and operational. It is not expected that all LGPS assets will be pooled during this time.
- 3.09 It is expected that criteria in respect of regional UK infrastructure investing will be provided – this is seen as “a long term direction of travel” for the LGPS.

What is due to happen in the long term?

3.10 Comments from DCLG are that all LGPS assets are to be transferred into pools during the life of the next Parliament although quite how this will be achieved has not been stated.

4.00 RECOMMENDATIONS

4.01 That Committee Members note the report.

5.00 FINANCIAL IMPLICATIONS

5.01 None directly as a result of this report

6.00 ANTIPOVERTY IMPACT

6.01 None directly as a result of this report.

7.00 ENVIRONMENTAL IMPACT

7.01 None directly as a result of this report.

8.00 EQUALITIES IMPACT

8.01 None directly as a result of this report.

9.00 PERSONNEL IMPLICATIONS

9.01 None directly as a result of this report

10.00 CONSULTATION REQUIRED

10.01 None directly as a result of this report.

11.00 CONSULTATION UNDERTAKEN

11.01 None directly as a result of this report.

12.00 APPENDICES

12.01 None

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: Presentations on Scheme Advisory Board Website

Contact Officer: Philip Latham, Clwyd Pension Fund Manager
Tel: 01352 702264
Fax:01352 702279

e-mail: philip.latham@flintshire.gov.uk