

<b>REPORT TO:</b>	<b>LOCAL PENSION BOARD</b> <b>7 January 2016</b>
<b>AGENDA ITEM:</b>	<b>9</b>
<b>SUBJECT:</b>	<b>Consultations Update</b>
<b>LEAD OFFICER:</b>	<b>Richard Simpson, Assistant Chief Executive and section 151 Officer</b>
<b>LEAD MEMBER:</b>	<b>Councillor Wentworth, Chair of Pension Committee</b>
<b>PERSON LEADING AT THE BOARD MEETING:</b>	<b>Nigel Cook, Head of Pensions and Treasury</b>

## **1. EXECUTIVE SUMMARY**

- 1.1 The Government is consulting on changes to the investment regulations relating to the Local Government Pension Scheme (LGPS) and pooling of investments.

## **2. DETAIL**

- 2.1 The previous coalition Government began the process of reforming the Local Government Pension Scheme by commissioning the Public Service Pension Commission, headed by Lord Hutton. The Scheme has been reformed with the introduction of a career average scheme to ensure a fairer balance between what employees pay and the cost to employers and taxpayers, and also addressing long-term affordability. The Government is now focussing attention on the Pension Funds that support the Scheme.
- 2.2 To this end the Department for Communities and Local Government (DCLG) have published a consultation, entitled: 'Local Government Pension Scheme: Revoking and replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations, 2009' (November, 2015).
- 2.3 DCLG is consulting on new investment regulations to come into force on 1 April 2016. There are two elements to the regulations, the first reduces the restrictions on administering authorities' investments and the second, as a safeguard, introduces a new Secretary of State power to intervene in the investment function of an administering authority.
- 2.4 Published in the same bundle of papers are the LGPS Investment and Reform Criteria and Guidance (the Guidance). The Government expects authorities to develop proposals for no more than six pools, each with at least £25 billion of assets and able to invest in infrastructure and drive local growth. It anticipates that the new 'super' funds will benefit from reduced costs through economies of

scale. The Government is inviting local authorities to determine how best to pool their assets and with whom to work, and has prepared criteria against which proposals for pooling will be assessed. DCLG will be “*taking a good hard look*” at those authorities who do not pool their assets.

### **Proposals to pool investments**

- 2.5 Authorities will be required to submit proposals which the Government will assess against the criteria set out in the Guidance. Initial proposals can be individual or joint with other authorities and should include a commitment to pool and a description of progress towards formalising arrangements with other authorities. The Government's presumption is that all investments should be made through the pool, but it is recognised that there may be a “*limited number of existing investments that might be less suitable to pooled arrangements*”. Authorities may therefore explore whether to retain a proportion of existing investments outside of the pool, but the exemptions are required to be minimal and the rationale and clear value for money must be expressly set out in the pooling proposal. There is a similar exception made for existing directly held property. Four criteria are set out in the Guidance, as well as further clarification of what the Government expects authorities will need to consider in order to address each specific one. In headline terms, the four criteria are:
- Asset pools that achieve benefits of scale;
  - Strong governance and decision making;
  - Reduced costs and excellent value for money;
  - An improved capacity and capability to invest in infrastructure.
- 2.6 To address the Government's desire to increase investment in infrastructure, a separate specific criterion has been set, focusing on investment in infrastructure. Although it would be possible for an authority to comply with the criteria by stating its policy for a zero allocation to infrastructure, the requirement to explain how they might obtain or develop capability to invest and ambitions going forward show the Government's strong desire to increase investments in this area.
- 2.7 To assist in the process of pooling, DCLG have published PwC's technical analysis of several different types of collective investment vehicles and their tax arrangements to help authorities develop proposals quickly. This document demonstrates the complexities involved, the project management skills required on set up and the need for professional advice.

### **Time-table**

- 2.8 The timeframe to achieve pooling is demanding:

**19 February 2016** Deadline for submitting:

- a. responses to consultation on new investment regulations; and
- b. initial proposals on approach to meeting pooling criteria and guidance. These can be individual or joint proposals.

**1 April 2016** Date that the new investment regulations are expected to come into force.

**15 July 2016** Deadline for submitting refined and completed submissions. There should be a joint proposal from

	participating authorities in a pool and an individual return from each authority.
<b>1 October 2016</b>	Date by which funds must publish their first statement of investment strategy (following consultation with appropriate persons).
<b>April 2018</b>	Date that transfer of liquid assets to the pools is intended to begin.

Sometime **between July and October 2016** is an unspecified date by which the Government will have assessed a fund's final proposals against the four Criteria and issued a report setting out the extent to which these criteria have been met (or not adequately addressed,).

### 3. RECOMMENDATION

- 3.1 To note the contents of the report.

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**CONTACT OFFICER:** James Haywood,  
Members Services Manager (Scrutiny).  
020 8726 6000 x63319

**ATTACHMENTS:** None