

## LGPS UPDATE: POOLING OF INVESTMENTS

### Report of the County Treasurer

Please note that the following recommendations are subject to consideration and determination by the Committee before taking effect.

- Recommendations:**
- (a) That the Devon Pension Fund support in principle the setting up of a South West Collective Investment Vehicle.**
  - (b) That the County Treasurer be authorised to continue work with neighbouring funds in the South West to establish proposals for a South West Collective Investment Vehicle.**

#### 1. Introduction

- 1.1. Prior to the 2015 General Election the Government had been considering the structure of the Local Government Pension Scheme and looking at options for pooling investments. There was an initial “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 Devon Fund was one of many consultees who responded to the consultation, but no response was issued by the Government before the election.
- 1.2. However, the new Government has now returned to the agenda and this report sets out the latest Government proposals and sets out a way forward for the Devon fund.

#### 2. Government Policy

- 2.1 The Government announced its intentions in the details of its July budget statement. The budget documents set out the following policy:  
  
*Local Government Pension Scheme pooled investments – The government will work with Local Government Pension Scheme 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 proposals are required to pool investments.*
- 2.2 Further briefings have provided more information on what is proposed. There will be no formal consultation on any form of structure. The Government is looking for the LGPS community to bring forward their

own proposals on setting up pooling arrangements, but the proposals must be ambitious. A series of criteria will be outlined, which are likely to focus on size, cost (i.e. potential savings) and governance. The Government will be looking for proposals to come forward in the early Autumn, and for formal agreement of the proposals to happen in January. It appears that the previous suggestion that Funds will be forced into passive management of their assets will not be pursued.

- 2.3 There will be significant work required to set up the new arrangements (i.e. a collective investment vehicle or CIV) and the expectation is that these should be in place within three years. Not all of each individual Fund's investments will need to be within the CIV at the start, as many funds will have illiquid investments that they are committed to for a longer period, but the majority of assets should be transferred to the CIV in a managed process over a reasonable timeframe once the vehicle is established. Each individual fund would retain control of strategy and asset allocation decisions, but would need to use the managers employed by the CIV.
- 2.4 The formal consultation is likely to be around changing the investment regulations, which is mostly about removing any barriers to pooling which may be inferred from the current regulations, and the "backstop" legislation. The backstop legislation will simply give the Secretary of State the power to instruct an LGPS Fund to invest through a particular pooled investment vehicle if the fund has not made sufficient progress itself, i.e. if a fund does not voluntarily pool its assets it can be forced to do so.

### **3. The Way Ahead**

- 3.1 There are a variety of ways in which the pooling arrangements could be set up. Regional CIVs are not necessarily the only option but are could be one way forward. Informal discussions have been held with neighbouring councils to consider the possibility of setting up a South West Regional CIV. This would comprise Devon, Cornwall, Somerset, Dorset, Wiltshire, Gloucestershire, Avon (managed by Bath and North East Somerset Council) and the Environment Agency (who are based in Bristol).
- 3.2 In terms of size (total assets of around £19-20 billion) we would be at the bottom end of the Government's expectations, but the intention is that we would be open to other funds joining us. The key issue may be around how this fits in with what the LGPS funds in other regions propose in taking forward the agenda. The Local Government Association will play a role in trying to bring together a co-ordinated solution.
- 3.3 The South West LGPS pension funds have a good record of working together. Officer meetings are held on a regular basis to share best practice, and a number of South West LGPS collaborative frameworks have been set up, for example in relation to actuarial and consultancy services and legal services. These pre-dated the national frameworks that have been set up more recently. The region has many shared characteristics, such as demography, and would not be dominated by a large metropolitan authority. The South West would therefore be a good fit in terms of community of interest and shared objectives. A South West

pooling arrangement would be a genuine partnership with clear accountability to the local funds. The alternative would be to invest in a more remote asset pooling arrangement that could be mandated by the Government.

- 3.4 Cost savings and governance will be key criteria in whether the South West proposal would be acceptable. This will involve looking at the forecast savings that we could make through the setting up of the CIV, and also how the CIV would be organised. The London boroughs have been looking for some time at setting up an “Authorised Contractual Scheme” which is in effect a tax efficient separate corporate entity. This would be one option, although there are significant costs in setting up such a body. A more simple alternative might be a joint committee with a lead authority running the CIV. Some work has already been done on these issues, but more analysis will be needed to firm up on proposals to be made to the Government.
- 3.5 The Committee will need to be aware that these reforms are likely to involve significant changes in the investment of the fund, with significantly less direct involvement in selection of managers, and potentially some compromise with the detailed specification of mandates. However, with this approach the Fund will have direct participation in the operation of the CIV, while other options will probably leave the Fund on the margins. As well as offering cost savings, a well-structured pooled vehicle could offer the opportunity to share expertise and knowledge.

#### **4. Conclusion**

- 4.1 The Government has signalled its clear intention that LGPS investment assets should be pooled, and that action will be taken should local funds fail to engage sufficiently with the agenda. It is therefore proposed that the Devon Fund should join with neighbouring funds in the South West to actively explore options to set up a regional collective investment vehicle, and that officers should continue to collaborate on proposals.
- 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 the new structure, and scope for further review before the funds are transferred over to the CIV. A further report on progress will be brought to the November committee.

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Electoral Divisions: All

Local Government Act 1972

List of Background Papers – Nil

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