

REPORT OF THE GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES

LGPS – Investment Pooling Update and July Submission	Classification PUBLIC	Enclosures Three
	Ward(s) affected ALL	
Pensions Committee 27th June 2016		

1. INTRODUCTION

- 1.1 This report provides the Committee with an update on the Government's pooling agenda for LGPS funds and the draft response on behalf of the London Collective Investment Vehicle. Members' will recall that an initial response to government for the February deadline was submitted on behalf of both the London Borough of Hackney and the London CIV. A more detailed submission is required by 15th July and Members are being provided with an early draft of that response for consideration.

2. RECOMMENDATIONS

2.1 The Pensions Committee is recommended to:

- **Note the draft response for the July submission to Investment Reform Criteria and Guidance on behalf of the London CIV and agree delegated powers for the final response to the proposals for 15th July 2016 to be done by the Group Director of Finance & Corporate Resources in consultation with the Chair of Pensions Committee.**
- **Note that additional comments on behalf of the London Borough of Hackney are currently being drafted for the 15th July 2016 submission and agree that any final response on behalf of the London Borough of Hackney be agreed with the Director of Finance & Corporate Resources in consultation with the Chair of Pensions Committee**

3. RELATED DECISIONS

- Pensions Committee 23rd March – Investment Pooling Criteria Update
- Pensions Committee 13th January 2016 - Investment Reform Criteria & Guidance and consultation on amending Investment Regulations
- Pensions Committee 21st September 2015 – Pensions Update and Collaborative Working Update
- Pensions Committee 24th June 2015 – Approval to invest regulatory capital in London CIV, required to facilitate the setting up of the Fund.

4. COMMENTS OF THE GROUP DIRECTOR OF FINANCE & CORPORATE RESOURCES

- 4.1 The Criteria and Guidance issued by Government is likely to have far reaching financial implications for all LGPS funds in England and Wales. Pooling of

investments is targeted by government to lead to significant savings in the management of LGPS assets and it is hoped in due course that additional governance benefits will also at least maintain performance if not enhance it. This will obviously impact on the Fund in terms of the costs incurred in the future. As part of the required responses to the Criteria and Governance is a requirement on authorities to provide financial information on the level of savings that can be expected from pooling of investments both in the short term and over the longer term (15 years). These estimated savings and full financial information is required along with detailed proposals on pooling by the 15th July 2016.

- 4.2 As Members will be aware the London Borough of Hackney has been an active partner in the early and ongoing collaboration amongst London LGPS Funds to form the London Collective Investment Vehicle (CIV) and whilst there have been initial set up costs of £75,000 and a requirement for £150,000 Regulatory Capital Investment, these are expected to be relatively insignificant in terms of the longer term investment manager fee savings which the CIV will deliver.
- 4.3 Officers of the Council who are on the Investment Advisory Committee to the London CIV are working with them and reviewing the draft response including the proposed financial detail to be able to finalise the pool submission.

5. COMMENTS OF THE DIRECTOR, LEGAL SERVICES

- 5.1 The report being presented to Pensions Committee highlights some fundamental changes to the way in which LGPS investments will be managed going forwards following on from the Government's Investment Reform Criteria and Guidance issued last November. The guidance required all funds to respond with detailed proposals to the Criterion, however, it is clear following confirmation from DCLG that individual responses from Pension Funds are not required and that the main focus should be a comprehensive submission from the Pool, in the London Borough of Hackney Pension Fund case, the London CIV. It is for Members of this Committee to review the draft submission to ensure that it adequately addresses the issues raised by the DCLG Criteria and Guidance and where appropriate to submit an additional response on behalf of the London Borough of Hackney.
- 5.2 There are no immediate legal implications arising from this report.

6. BACKGROUND/TEXT OF THE REPORT

- 6.1 On 25th November 2015, the Government published its long awaited Investment Reform Criteria and Guidance. Initial responses were required by the 19th February 2016, setting out proposals as to how funds were going to meet these criterion with a further more detailed submission required by 15th July 2016.
- 6.2 This is the culmination of a considerable period of consultation and debate on the future for the management of pension funds in the LGPS. Long serving Members of this Committee will recall the Hutton Review which commenced in 2010 looking at public service pension schemes and leading to the scheme changes in 2014. The government has also considered merger of LGPS funds along with requiring funds to invest the majority of assets passively and a consultation in 2014; Opportunities for collaboration, cost savings and efficiencies to which the Government received 200 responses.

- 6.3 As Members will be aware, Hackney has been closely involved in the establishment of the London CIV as way to deliver fee savings and wider governance benefits to funds in London.
- 6.4 Both the London CIV and the London Borough of Hackney submitted initial responses in February and these were provided to the Committee at its meeting in March. At the time of that meeting, no formal response had been received from government, although this has subsequently been received, a copy of which is attached at appendix 1 to this report.
- 6.5 Officers of the Council have continued to work with the London CIV to supply data for inclusion in the July submission as well as providing feedback at the Investment Advisory Committee meetings.
- 6.6 By way of a reminder the criteria to be addressed are:
- Asset Pool(s) that achieve the benefits of scale (£25bn)
 - Strong Governance and decision making
 - Reduced costs and excellent value for money
 - An improved capacity to invest in infrastructure
- 6.7 At this stage there are a total of 8 Pools which have been formed from the 89 LGPS Funds across England and Wales, including the London CIV. Pools range in size from 2 funds up to 32/33 funds in London. All pools are currently working towards drafting responses in line with the criterion set out by government and a template for responses has been agreed by government. The pools are also working closely together in considering issues which affect all pools and in order to collaborate on areas of common interest. Two working groups have been formed to look at specific areas; infrastructure and stewardship.
- 6.8 The London CIV has provided an initial draft response and this is attached at Appendix 2, but acknowledges that this remains work in progress particularly as further information is being sought from the individual funds to collate some of the fund specific data on current fees, asset allocation and areas which they would keep outside the pool. The draft response has been sent to all London Funds for feedback and also been provided to the Pensions Sectoral Joint Committee (a London Councils Committee) for consideration. This body is part of the overall governance structure of the London CIV with all shareholders, i.e. London Boroughs who has elected to become shareholders with a nominated representative from each Borough, primarily the Pension Committee Chairs.
- 6.9 Officers have been submitting data to both the CIV and a specialist benchmarking provider in order to ensure that the CIV has the information necessary to provide a comprehensive response on behalf of the London Pool.
- 6.10 Whilst the draft response on behalf of the London CIV Pool requires more depth in a number of areas, this is largely dependent on responses being received from Boroughs, who are currently completing templates with additional information required for the response. A further draft response is expected to be issued in early July with a final one being signed off by the Pensions Sectoral Joint Committee in time for submission to government by 15th July.

- 6.11 Members are asked to consider the draft response on behalf of the Pool and provide any additional comments or feedback for consideration by the CIV. As this Committee does not meet until after the submission deadline, Members are asked to agree that a final response on behalf of the pool can be signed off by the Group Director of Finance and Corporate Resources in consultation with the Chair of Pensions Committee.
- 6.12 At the time of writing, officers are also considering the London Pool's response and any additional response that should be submitted on behalf of the London Borough of Hackney as an individual authority. Any additional comments are being considered in light of the pool response and whilst an individual response is not required (appendix 3) as set out by DCLG, it may be considered appropriate for the Authority to submit additional comments setting out the views of this Committee and the Pension Fund. This can take the form of an appendix to the Pool response. It is not intended to complete a separate submission template, but additional comments around the mandatory nature of pooling, flexibility around investments, views on infrastructure and responsible investment could be encompassed in an individual annex to the Pool submission or by way of a separate letter to DCLG. Officers are currently working on draft observations and these will be circulated to Members of this Committee for comment. As with the Pool submission, Members are however, asked to agree that a final response on behalf of the pool can be signed off by the Group Director of Finance and Corporate Resources in consultation with the Chair of Pensions Committee.

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LIST OF APPENDICES

Appendix 1 - DCLG Response to the London CIV
Appendix 2 - Draft response from London CIV for the July submission
Appendix 3 - Letter from DCLG

BACKGROUND PAPERS

None