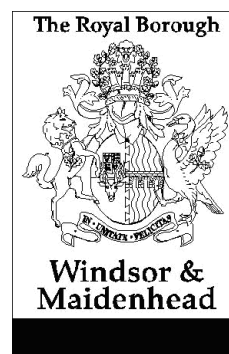


Report for: INFORMATION
Item Number: 5



Contains Confidential or Exempt Information	NO - Part I
Title	LGPS Investment Pooling
Responsible Officer(s)	Nick Greenwood
Contact officer, job title and phone number	Nick Greenwood Pension Fund Manager 01628 796701
Member reporting	n/a
For Consideration By	Berkshire Pension Fund and Pension Fund Advisory Panels
Date to be Considered	26 October 2015
Implementation Date if Not Called In	n/a
Affected Wards	None
Keywords/Index	LGPS Investment

Report Summary

- i) This report advises members of forthcoming consultation on LGPS investment
- ii) It recommends that Officers are authorised to consult with a wide range of parties to draft a consultation response for review and approval by Panel and other stakeholders.
- iii) These recommendations are being made because doing nothing is not an option
- iv) If adopted, the key financial implications for the Fund are uncertain but should result in cost savings
- v) An additional point to note is that backstop legislation will be enacted forcing the Fund to join one or other of the pools created post the consultation.

If recommendations are adopted, how will residents, fund members and other stakeholders benefit?

Benefits to residents, fund members and other stakeholders and reasons why they will benefit	Dates by which they can expect to notice a difference
1. Pooling of LGPS funds will be mandatory with the clear objective of reducing costs	2017?

1. Details of Recommendations

RECOMMENDATION: That:

- I. Panel note this report
- II. Panel authorises Officers to consult with other LGPS funds, the Chairman and Vice Chairman of the Panel and other stakeholders to draft a response once the consultation is published.
- III. The draft response, when available, is circulated to Panel and Advisory Panel members and other stakeholders for their review and comments.

2. Reason for Recommendation(s) and Options Considered

In the recent Budget the Government announced that it would launch, in October 2015, consultation on the pooling of LGPS investments to achieve scheme wide cost savings. At the time of writing the consultation has not been launched (and it is not now expected until November 2015) but following discussions with the Department for Communities and Local Government and George Osborne's conference speech it appears that the consultation will call for proposals that:

- Offer scale – a figure of £30 billion per pool has been suggested as a minimum with the Chancellor suggesting the outcome will be 6 regional pools freeing up several billions (of pounds) to invest in UK Infrastructure
- Offer savings which must be demonstrated (but no quantum yet indicated) and achievable
- Addresses governance issues. The Government intend to stop manager hire/fire decisions being made at a local level but early suggestions are that individual funds will retain investment strategy and asset allocation decisions.

In addition it is likely that a focus will be placed on:

- Simplicity
- Speed of delivery of savings.

At this stage we have no idea to which pool Berkshire will be assigned, who will manage that pool, the degree of freedom that we will be permitted on asset allocation and investment strategy or whether there will be Central Government direction of investment strategy including mandatory Infrastructure investment.

The Government have indicated that they will make a further statement on investment pooling in the next Budget with arrangements in place and operating by May 2020. They will also monitor cost savings to ensure that they are achieved.

It is anticipated that the consultation will call for views on how the regional pools should be constituted and the role for administering authorities. Officers believe that they are 4 governance structures that could be considered as shown in the table below:

Structure	Advantages	Disadvantages	RBWM Role	"Berkshire" Role
Single Administering Authority	Easy to implement	Who selects the admin authority?	Would need to seek seat on admin	Hard to see an influencing role for other

	Internal or External Management Ability to transfer assets between managers	Criteria for selection Is there sufficient in-house expertise?	authority pension committee	employers
Mutually owned Investment Manager	Shared Services a familiar concept Internal or External Management Ability to transfer assets between managers	Requires FCA authorisation Requires capital (for regulatory purposes) Would all affected staff have to be TUPE'd in? Who appoints staff? Mutual would need to become admitted body Is there sufficient in-house expertise?	Potential for seat(s) on management board	Potential for seat(s) on management board
Appoint a single (large) investment house to manage pool	Could be appointed by reverse tender with proceeds used to defer admin authority costs of transfer Professional Management of all asset classes Easier to hold to account for poor cost control	Who appoints the manager? (Treasury/DCLG?) Sanctions for poor performance? Most (all?) assets managed by one firm Redundancy costs born by LGPS funds	Client of pool	One step away from being a client
Independent Pension Management Company created with Independent	Board appoints managers (internal or external)	Influence limited to appointing Board member(s) Where are staff drawn from?	Appointing Board members Client of pool	Consulted regarding Board appointments

Board	Board appointed by administering authorities Potential to use multiple managers to maintain competitive tension (costs and performance) Ability to move assets between managers	LGPS redundancy costs New model (but based on Swedish AP funds and Dutch models)		
-------	---	---	--	--

There will be many implications for investment strategy both at the local and at the regional level. If the LGPS remains a Defined Benefit system and open to accrual there will inevitably over time be a move towards common investment strategies; administering authorities will not be able to hire or fire individual managers and could quite quickly find they are restricted to a small number or even just one investment strategy.

In the short term Officers would expect the initial changes to the Berkshire Fund would be restricted to changes to our roster of liquid securities (i.e. listed equities and bonds) managers. Over time our roster of private fund managers (Infrastructure, Private Equity and Private Debt) will be changed completely. It is easily foreseeable that our exposure to less liquid strategies will be reduced as part of a drive to reduce costs.

In the longer term it would be no surprise to see administering authorities being restricted to a small number of asset mixes (all using the same underlying fund managers) of say growth (targeting say CPI +4%), de-risking (reducing exposure to volatile assets (i.e. equities) and replacing with bonds and cash-flow generative assets such as property and infrastructure) and an ultra-low risk option (entirely bonds) for closed employers and employers with short-term contracts from local authorities. Individual LGPS funds could easily allocate across these strategies as they wished.

It is clearly the Chancellor's intention that these pools will be substantial investors in UK infrastructure which whilst not defined in his speech has been referred to as "transport and housing" by more than one journalist (presumably as a result of a briefing). This may not be too much of a surprise given that much of the UK's infrastructure (electricity, water, gas, airports, ports, gas and electricity transmission networks, hospitals etc. are already in private hands or funded by the private sector). What will have to be addressed is how LGPS funds will be rewarded for their investment in the UK's remaining infrastructure (the M6 Toll Road has been a spectacular under-achiever). It has been suggested from some commentators that the Chancellor has merely expressed a desire for infrastructure investment and that there will be no compulsion on the regional pools to do so unless their investment objectives can be met. We shall have to wait and see.

The implications of pooling extend beyond the investment implications. The most pressing issue is how the Berkshire Pension Fund maintains any influence over the future of the Fund. The table above showing the potential pool structures shows that Officers anticipate an inevitable reduction of influence. If a single administering authority is appointed would it really be willing to grant voting rights to other administering authorities? If a single external manager is appointed it is difficult to see what influence Berkshire could have as it would be unlikely that there would be a mechanism for the Fund to vote with its feet and move to another pool. The two options that provide the best opportunities for influence are the mutually owned investment firm or the fully independent investment firm (which may have better credibility with the Treasury than a mutually owned firm). Again time will tell but in any consultation response we will have to carefully address how the Fund can maintain influence in any regional structure.

The current proposals are only for the pooling of LGPS funds' investments and whether they will develop to full merger of LGPS funds (and hence merging of liabilities) remains to be seen. Until such a merger occurs there will continue to be a role for the Pension Fund Panel albeit limited to receiving investment reports and overseeing the administration of the Fund. Potentially there could also be a role in the managing of liabilities.

Members will be aware that the Pensions Regulator has taken the view that both Panel and Advisory Panel members as well as Pension Board members should undertake the regulator's "trustee knowledge and understanding" modules on the regulator's web-site (this is discussed later in the agenda for this meeting). At this juncture it would appear, as noted above, that the Panel will continue to have a role in the management of the Fund and members will need to complete the regulator's modules.

Members are requested to note this report and authorise Officers to consult with other LGPS funds, the Chairman and Vice chairman of the Panel and other stakeholders to draft a response once the consultation is published.

Option	Comments
Do nothing	The Government will compel the Fund to join a pool or pools so doing nothing is not an option
Consult with other funds and stakeholders	Recommended as it assists in the Fund managing its own destiny.

3. Key Implications

What does success look like, how is it measured, what are the stretch targets?

Defined Outcomes	Unmet	Met	Exceeded	Significantly Exceeded	Date they should be delivered by
Reduce Investment costs by a yet to be determined amount	Investment costs not reduced or reduced with a negative impact on	Investment costs reduced without impact on investment returns	Investment costs reduced and investment returns increased	Investment costs reduced and investment returns significantly	Investment Pools are to be operational by May 2020

	returns			increased	
--	---------	--	--	-----------	--

4. Financial Details

Not applicable at this stage

5. Legal Implications

None at this stage but pooling will be enacted by legislation

6. Value For Money

The Government's intention is to reduce investment management costs across the LGPS

7. Sustainability Impact Appraisal

The Government's intention is that pooling will be a long term and sustainable way of managing LGPS investments.

8. Risk Management

At this stage limited but ultimately

Risks	Uncontrolled Risk	Controls	Controlled Risk
Pooled with dissimilar funds impacting negatively on investment strategy	Mandatory pooling leaving Fund with no choice over with whom it is pooled	Be involved with the creation of pools and selection of "partner" LGPS funds	Choice of pool results in Fund retaining full control over investment strategy and asset allocation.

9. Links to Strategic Objectives

None – compulsory pooling and removal of ability to select fund managers flies in the face of Localism and keeping decisions at a local level.

10. Equalities, Human Rights and Community Cohesion

Not applicable

11. Staffing/Workforce and Accommodation implications:

At this stage none but ultimately there will be an impact on staffing levels and accommodation needs.

12. Property and Assets

Assets will ultimately be managed with one or more pools and the Fund may not have any involvement in managing those assets.

13. Any other implications:

None at this stage

14. Consultation

Central Government consultation will be launched at which stage we will consult with stakeholders and other LGPS funds.

15. Timetable for Implementation

It is understood that consultation will commence in November 2015 with a Government statement on the outcome and way forward in the Budget 2016 and full implementation by May 2020.

16. Appendices

None

17. Background Information

Not yet applicable.