



Department for
Communities and
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Marcus Jones MP
Minister for Local Government

**Department for Communities and Local
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Dear Councillor Lenton,

Local Government Pension Scheme pooled investments

I am writing today to update you on developments in the investment reform policy for the Local Government Pension Scheme. As you will recall, at the July 2015 Budget, the Chancellor announced our intention to work with local authorities to develop proposals for pooling their pension scheme assets in order to deliver savings and help funds contribute to the infrastructure investment needed to grow our economy.

Today we move forward in that work by formally inviting the 90 administering authorities to develop ambitious proposals for pooling. To help authorities frame their discussions, I am also publishing the criteria and supporting guidance that their proposals will need to address.

The publication of this document represents the culmination of work to reform Scheme investments that has been underway since 2013. The criteria build on the Hymans Robertson report and the coalition government's May 2014 consultation on options for reform. A Government response has been published as part of today's package. The criteria also draw on the extensive informal discussions that the Government has held with administering authorities and the fund management industry over the summer, to ensure that the criteria are achievable and result in locally led solutions.

I am asking administering authorities to develop up to six 'British Wealth Funds', with at least £25 billion of Scheme assets in each. The criteria also call on authorities to be more ambitious in their investment in infrastructure and encourage them to compare themselves against the example set by the leading global pension fund investors in this respect. In addition, the criteria will drive the reduction of costs and the achievement of excellent value for money, while further promoting strong governance and decision making.

Alongside the criteria, I am publishing a consultation on draft investment regulations which propose to update the existing legislation governing the Scheme's investments to facilitate large-scale asset pooling and otherwise ensure that the Scheme is able to take advantage of new and innovative investment practices. The draft regulations also contain provisions that will allow the Secretary of State to intervene in the investment functions of administering authorities who are not sufficiently ambitious in their asset pooling arrangements, or who

otherwise fail to invest in line with Secretary of State published guidance.

The publication of the criteria and consultation represent a significant step forward in the process of reforming investment practices in the Scheme in order to ensure that it continues to provide value for money. By working ambitiously together to pool assets, efficiencies can be found to help ensure that the Scheme is sustainable in the future.

I have been encouraged by the progress that has already been made by many administering authorities in exploring potential pooling arrangements. I am confident that you will take full advantage of this opportunity to deliver savings for local taxpayers, and become a key player in ensuring that the country has the infrastructure needed to drive local growth. I look forward to seeing your proposals develop and would encourage your officers to discuss your emerging thinking with my officials over the coming weeks.

A handwritten signature in black ink, appearing to read 'Marcus Jones'. The signature is fluid and cursive, with a large initial 'M' and 'J'.

MARCUS JONES MP

Draft Response

LGPS Investment Pooling

The Royal Borough of Windsor and Maidenhead ("the Borough") is the administering authority for the Royal County of Berkshire Pension Fund ("the Fund") a constituent member of the Local Government Pension Scheme ("LGPS") in England & Wales.

The Borough notes the directive from the Department for Communities and Local Government ("DCLG") that the Fund is to pool its investment assets with other LGPS funds and is required to give a commitment to pooling and outline the discussions it has had with other administering authorities to DCLG by February 19th 2016.

The Borough, therefore, confirms that it will comply with the directive to pool. In addition the Borough discloses that Officers have held discussions with a number of the nascent pools.

Based on the Borough's Pension Fund Panel's three key criteria, namely:

- Ability of a pool to deliver the Fund's investment strategy (modest long-term returns with low volatility of those returns to close the funding gap over the deficit recovery period agreed with the Actuary);
- The proposed governance arrangements of the pool; and
- The quality of management of the pool

the Pension Fund Panel has agreed that Officers should continue discussions with the London Pensions Fund Authority and Lancashire County Council and other nascent pools regarding pooling of assets.

In the long run the Panel are of the view that additional cost-savings would be achieved by greater integration of LGPS funds including risk management and sharing (for instance pooling longevity risk), joint investments and pensions administration.

Cllr J Lenton

Chairman

Berkshire Pension Fund and Pension Fund Advisory Panels

9 February 2016.

