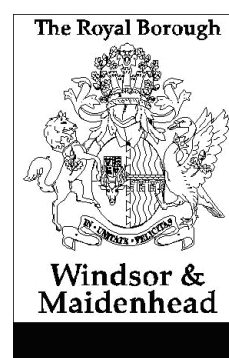


Report for: ACTION



Contains Confidential or Exempt Information	NO - Part I
Title	LGPS Investment Pooling Update
Responsible Officer(s)	Nick Greenwood
Contact officer, job title and phone number	Nick Greenwood Pension Fund Manager 01628 796701
Member reporting	Cllr John Lenton
For Consideration By	Berkshire pension Fund and Pension Fund Advisory Panels
Date to be Considered	11 April 2016
Implementation Date if Not Called In	N/A
Affected Wards	None

REPORT SUMMARY

1. This report update members on the progress made since the last panel meeting on investment pooling within the LGPS

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

Benefits to residents and reasons why they will benefit	Dates by which residents can expect to notice a difference
1. Investment pooling is a mandatory requirement from 1 April 2018	1 April 2018

1. DETAILS OF RECOMMENDATIONS

RECOMMENDATION: That Panel notes this report.

2. REASON FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

2.1 This report updates Members on progress made since the last Panel meeting on investment pooling within the LGPS.

- 2.2 Panel at its meeting on 9 February noted the administering authority's response to the Department for Communities and Local Government's directive that LGPS funds are to pool their investments from 1 April 2018. The text of this response is set out at Annex 1 to this paper.
- 2.3 On March 28th Cllr Lenton as Chair of the Pension Fund Panel received a letter from Marcus Jones MP the Minister for Local Government (reproduced at Annex 2) requesting the Royal Borough as the administering authority for the pension fund to commit to join a specific pool and to confirm in writing by 11 April 2016 which pool it has committed to joining.
- 2.4 The administering authority's response to this letter is reproduced at Annex 3 and confirms that the fund will commit to the Local Pensions Partnership (the working name for the LPFA/Lancashire pool) subject to the Department confirming that this proposed pool will indeed be authorised.
- 2.5 Officers are of the view that the Local Pensions Partnership ("LPP") is the most suitable pool for the pension fund to join for the following reasons:
- 2.5.1 Along with the London Collective Investment Vehicle the LPP is the only pool which has in place an "Authorised Contractual Scheme" ("ACS") the governments preferred vehicle for pooling investments.
- 2.5.2 The LPP is the only pool with a governance structure which is "fit for purpose". Most of the nascent pools have suggested a joint committee approach which we believe is not acceptable to the Department.
- 2.5.3 The LPP is the only pool which has indicated that it is willing to accept our investment strategy.

3. KEY IMPLICATIONS

- 3.1 Investment pooling has been mandated by the Department for Communities and Local Government and the fund has no option other than to join an approved pool.

4. FINANCIAL DETAILS

Financial impact on the Fund

- 4.1 Time will only tell if indeed investment management costs can be reduced by the Fund pooling its investments with other LGPS funds. What can be said is that the Fund will have to bear its share of the running costs of whichever pool it joins.

5. LEGAL IMPLICATIONS

- 5.1 Investment pooling by 1 April 2018 has been mandated by the Department for Communities and Local Government

6. VALUE FOR MONEY

- 6.1 Time will tell if indeed the Fund's investment management costs can be reduced by pooling its investments with other LGPS funds.

7. SUSTAINABILITY IMPACT APPRAISAL

- 7.1 None

8. RISK MANAGEMENT

- 8.1 Pooling of the Fund's investments with other LGPS funds could in itself expose the Fund to unwanted risks. Much will depend on the quality of the staff managing the pool on behalf of the investee funds.

9. LINKS TO STRATEGIC OBJECTIVES

- 9.1 None

10. EQUALITIES, HUMAN RIGHTS AND COMMUNITY COHESION

- 10.1 N/A

11. STAFFING/WORKFORCE AND ACCOMMODATION IMPLICATIONS

- 11.1 At this stage we can not forecast what impact investment pooling will have on staff or accommodation requirements

12. PROPERTY AND ASSETS

- 12.1 It is possible that the assets of the Fund will be transferred to another custodian and probable that some (largely liquid assets) will be held by the custodian to the order of the Authorised Contractual Scheme rather than to the order of the Borough.

13. ANY OTHER IMPLICATIONS

- 13.1 Investment pooling may have other implications for the service provided to stakeholders by the Borough as the administering authority for the Pension fund.

14. CONSULTATION

- 14.1 Pension Fund Panel 9 February 2016.

15. TIMETABLE FOR IMPLEMENTATION

- 15.1 A response to the Minister's letter is required by 11 April 2016.

16. APPENDICES

Annex 1 – Initial response
Annex 2 – Minister’s letter
Annex 3 – response to Minister’s letter

17. BACKGROUND INFORMATION

- 17.1 Local Government Pension Scheme: Investment Reform Criteria and Guidance
(https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479925/criteria_and_guidance_for_investment_reform.pdf)

Annex 1 – Initial response (19 February 2016).

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) and pensions administration.

Cllr J Lenton

Chairman

Berkshire Pension Fund and Pension Fund Advisory Panels

9 February 2016.



Department for
Communities and
Local Government

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24 MAR 2015

Dear Councillor Lenton,

LOCAL GOVERNMENT PENSION SCHEME (LGPS) INVESTMENT REFORM

Thank you for submitting your initial response to the LGPS investment reform criteria and guidance by 19 February.

I welcome your commitment to pooling, but it was disappointing to see that, unlike the overwhelming majority of authorities, you felt unable to commit to a preferred pool at this time. As I am sure you will agree, it is essential that the participating authorities are involved in the development of their pools to ensure that they are satisfied with the resulting governance structure and operating practices of the pool. Indeed, the criteria ask authorities to develop a governance structure that enables them to hold the pool to account and ensure that their investment strategy is implemented effectively.

With this in mind, I strongly encourage you to continue your initial discussions with the emerging pools, and to seek early agreement to a preferred pooling option. I would welcome an update on your proposal by 11 April, including confirmation that you are actively participating in the development of one of the pools.

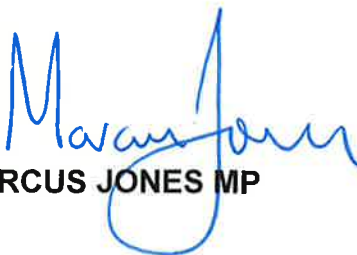
I will also take this opportunity to respond to two questions raised in many pooling submissions:

- Some authorities have indicated that they would prefer to use more than one pool, often to ensure that their investment strategy can be fully implemented. I do not consider that this approach should be necessary as the governance structure should enable authorities to hold the pool to account and ensure that their investment strategy is implemented effectively. However, one pool may of course procure services from another, especially if a particular asset class is not yet available. The use of multiple pools should certainly not be considered as a means to access a preferred manager or very specific asset class not available through your pool.
- My expectation remains that all investments should be made through the pool. However, I recognise that there may be a limited number of existing investments that might be less suitable to pooled arrangements, such as local initiatives or some products tailored to specific liabilities. The rationale for retaining any existing investments outside of the pool

will need to be set out in the final proposal, making clear how this offers value for money. Any exemptions should be minimal and kept under review. I also recognise that a similar approach will need to be taken for illiquid assets with high penalty costs for early exit of a contract. Such investments should not be wound up early as a result of pooling but instead transferred across when practicable, taking into account value for money.

I encourage you to continue dialogue with officials as you develop your thinking over the coming months.

Yours Sincerely,


MARCUS JONES MP



Marcus Jones MP
Minister for Local Government
Department for Communities and Local Government
4th Floor
Fry House
2 Marsham Street
London
SW1P 4DF

Email: marcus.jones@communities.gsi.gov.uk

11 April 2016

Dear

Thank you for your letter of March 24th.

I am rather surprised at your request for an update by 11 April as we have been working towards your original date of 15 July. Maybe there was an intermediate communication that failed to reach me.

As requested I confirm that we have had discussion with a number of parties and in particular with the Local Pensions Partnership ("LPP"). In the event that your Department confirms that this partnership is authorised by your Department as an eligible LGPS investment pool it is likely to become our preferred option. We are satisfied that LPP's proposed governance arrangements will be fit for purpose and are continuing discussions with them to ensure that the LPP will be able to implement our investment strategy.

I would however emphasise that our primary objective is to ensure that the Pensions Fund will be able to discharge to our members, liabilities that will be payable over the next 70 years or so and to do so at minimum cost to our Council Tax payers. Our overall Investment policy is to ensure that this objective is met.

Accordingly at this stage LPP is our preferred option but not a final commitment.

We will be delighted to invest in investment pools that meet our requirements but by their very nature such pools will be orientated to operate on a large scale and opportunities to invest in small projects and companies will be lost to the detriment, not only to pension funds, but also to the detriment of the UK economy.

Yours sincerely

Cllr John Lenton
Chairman Royal County of Berkshire Pension Fund Panels

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