

| Bath & North East Somerset Council | | |
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| MEETING: | AVON PENSION FUND COMMITTEE | |
| MEETING DATE: | 11 December 2015 | AGENDA ITEM NUMBER |
| TITLE: | LGPS Update – Pooling of Investments | |
| WARD: | ALL | |
| AN OPEN PUBLIC ITEM | | |
| List of attachments to this report: Appendix 1 – Letter from DCLG, 7 October 2015 Appendix 2 – Letter from LGA, 3 November 2015 Appendix 3 – LGPS: Opportunities for collaboration, cost savings and efficiencies (2014) – DCLG consultation response Appendix 4 – LGPS: Investment Reform Criteria and Guidance | | |

1 THE ISSUE

- 1.1 At the September meeting the Committee discussed the government’s initiative to pool LGPS investment assets and authorised the S151 Officer to continue work with neighbouring funds in the South West to explore proposals for a South West Collective Investment Vehicle or alternative structure.
- 1.2 This report is to update the Committee on further progress. A verbal update will be given at the meeting.

2 RECOMMENDATION

That the Committee

- 2.1 **Notes the information in this report.**
- 2.2 **Agrees to delegate to a working party, the approval of any proposals or expenditure relating to the project, having circulated any proposals to Committee members for comment/views.**
- 2.3 **Agrees the two Committee members to be on the working party in addition to the Chair and Vice Chair.**

3 FINANCIAL IMPLICATIONS

- 3.1 There is no provision in the 2015/16 budget for specialist advice relating to the pooling of investments. At its meeting in September 2015, the Committee gave the S151 Officer authorisation to explore options with other funds in the SW. To date, the advisory costs for the Options Appraisal and Business Case incurred by the Fund have been £13,500. The 2016-17 budget will include a provision to deliver the final proposal due in 2016 expected to be in the region of £25,000 plus costs of extra resources to support the investments team during 2016-17 whilst work is being done for the project.
- 3.2 There will be costs associated with setting up a pooled arrangement and ongoing management costs once the arrangement is established. These will be costed once there is a decision as to the pooling arrangements to be established. These set up costs will be offset by the savings arising from pooling over the medium/longer term.

4 UPDATE

- 4.1 Since the September meeting the following has developed:
- a) At the Conservative Party conference the Chancellor announced there will be c. 6 pooled funds across the country, “British wealth funds” that will be more able to invest in infrastructure.
 - b) The DCLG then issued a letter to the LGA and administering authorities about the pooling of investments and investing in infrastructure - see Appendix 1.
 - c) Following a series of seminars with officers and Committee Chairs, the LGA issued a letter to Chairs of Pension Committees on 3 November - see Appendix 2.
 - d) As part of the Autumn Statement the following were issued by the DCLG:
 - (i) LGPS: DCLG response to the consultation “Opportunities for collaboration, cost savings and efficiency (which ran from 1 May to 11 July 2014) – see Appendix 3.
 - (ii) LGPS: Revoking and replacing the LGPS (Management and Investments of Funds) Regulations 2009.
 - (iii) LGPS: Investment Reform Criteria and Guidance – see Appendix 4.
- 4.2 Appendices 1-3 are included for information only.
- 4.3 The investment regulations need to be amended to allow effective pooling of assets. In addition the backstop regulations permitting government intervention if funds do not pool their assets form part of these regulations. The Fund’s response to this consultation will be circulated for comments prior to the deadline.
- 4.4 The key points from the Investment Reform Criteria and Guidance (Appendix 4) are:
- a) Criteria:
 - (i) Pools must be at least £25bn in assets to achieve benefits of scale
 - (ii) Pools must demonstrate strong governance and decision-making both within the pooling structure and the local level

- (iii) Pools must demonstrate reduced costs and excellent value for money: how substantial savings in investment fees will be delivered both in the near term and over the next 15 years, while at least maintaining overall investment performance.
 - (iv) Active fund management should only be used where it can be shown to deliver value for money.
 - (v) Pools should improve the capacity to invest in infrastructure.
- b) Timetable:
- (i) 19 February 2016 – Initial pooling proposal to include a commitment to pooling, description of progress made towards formalising arrangements with other funds;
 - (ii) 19 February 2016 - deadline for draft investment regulations consultation which are intended to come into force from 1 April 2016.
 - (iii) 15 July 2016 – detailed pooling proposal that demonstrates how the criteria is met.

5 SOUTH WEST PROJECT

- 5.1 The SW group continues to explore its options and develop the pooled structure. The group issued a press release in October to announce we are working on a collaborative solution.
- 5.2 The report on the initial work exploring possible structures has been circulated to the Committee. Further work is ongoing to develop the business case for the initial proposal to be put to the government.
- 5.3 The Council's Monitoring Officer has confirmed that any decision to pool investment assets would need approval by Council. It is intended that the Committee will approve the final proposal prior to it being submitted to the Council.
- 5.4 As the timetable for decisions regarding pooling proposals will not necessarily coincide with the Committee cycle, it is proposed a working party drawn from members of the Committee is established to work with officers. It is proposed that the working party will comprise the Chair, Vice Chair plus two further members.
- 5.5 The Committee is asked to agree the following delegation to the working party:
- a) To approve any proposals or expenditure relating to the project, having circulated any proposals to committee members for comment/views.

5.6 There will be a verbal update of latest developments at the meeting.

6 RISK MANAGEMENT

- 6.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. The creation of an Investment Panel further

strengthens the governance of investment matters and contributes to reduced risk in these areas.

7 EQUALITIES

7.1 An equalities impact assessment is not necessary.

8 CONSULTATION

8.1 N/a

9 ISSUES TO CONSIDER IN REACHING THE DECISION

9.1 Set out in the report.

10 ADVICE SOUGHT

10.1 The Council's Monitoring Officer (Divisional Director – Legal and Democratic Services) and Section 151 Officer (Divisional Director – Business Support) have had the opportunity to input to this report and have cleared it for publication.

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| Contact person | Liz Woodyard, Investments Manager 01225 395306 |
| Background papers | |
| Please contact the report author if you need to access this report in an alternative format | |