

## **PENSION FUND COMMITTEE – 29 JANUARY 2016**

### **FUTURE COLLABORATION – PROPOSAL TO GOVERNMENT**

#### **Report by the Chief Financial Officer**

##### **Background**

1. As part of his July Budget Statement, the Chancellor of the Exchequer set out the Government's intentions to work with Local Government Pension Scheme (LGPS) Administering Authorities to ensure the pooling of investments to significantly reduce costs, whilst maintaining overall investment performance.
2. As part of the Autumn Statement, the Government published criteria against which it would judge the pooling proposals to be received from each administering authority. In summary the criteria are:
  - a) Scale – The Government is looking for a maximum of 6 pools, each with a minimum level of assets of £25bn;
  - b) Strong Governance and Decision Making – to ensure investments are made in the best long-term interests of scheme members, that risks are adequately assessed and managed, and there is a culture of continuous improvement;
  - c) Reduced Costs – No targets have been set, but Government is looking substantial savings in investment fees, over a 15 year period. The Government have recognised there will be significant costs of transition, and delays in achieving savings associated with investments in more illiquid assets e.g. private equity, property;
  - d) Increased Capacity to invest in Infrastructure – the Government believes that increased scale will provide both the capacity and capability to increase the investments in infrastructure.
3. The announcements on 25 November 2015 also included a timetable of events of which the first two key dates are:
  - (a) 19 February 2016 – all administering authorities must submit, either individually or jointly, outline submissions which include a commitment to pooling and a description of their progress towards formalising their arrangements with other authorities.
  - (b) 15 July 2016 – deadline for refined and completed submissions which fully address the criteria above, including detailed governance arrangements, profiles of costs and savings and transition plans.
4. The Government also published a report on the development of new legal structures to support the pooling arrangements which indicate a set up period of c18 months, so that they would expect assets to start being transferred to

the pooled arrangements from April 2018, with the illiquid assets following over future years.

5. Finally the Government published draft regulations that will enable the Secretary of State for Communities and Local Government to intervene in the event that administering authorities do not come forward with sufficiently ambitious proposals.

### **Position in Oxfordshire**

6. Following initial discussions with Officers in authorities across the South, this Committee at its meeting in December agreed to formally explore the option of joining with the funds in South West England to develop a proposal to Government.
7. Eight authorities in the South West have a long tradition of collaborative working, and had completed a significant amount of work on developing a pooling proposal, in association with Price Waterhouse Cooper (PwC), who had also undertaken work directly with the Government. This work included the development of “like-minded” principles against which other authorities could assess themselves before considering joining the group.
8. These like-minded principles aim to develop a truly collaborative basis founded on the principle of one fund one vote, so no one fund dominates the investment agenda. These principles were in line with the key principles discussed during our previous exploration of joint working with Buckinghamshire and Berkshire. The south west Funds therefore were seen as a good fit for the Oxfordshire Fund.
9. Since the December decision, Officers have continued to work with the South West funds, plus Buckinghamshire who have also joined the group. The group has been renamed Brunel to reflect the extension beyond the initial South West Funds. An outline proposal was presented to Section 151 Officers and Committee Chairmen at a meeting on 7 January 2016, with the feedback from that meeting feeding into the on-going work.
10. Key elements of the proposal are to create a Joint Committee to include one representative of each of the member Pension Committees who will oversee the work of the pool. There will also be an Operations Group consisting of officers from each of the administering authorities who will advise the Joint Committee and manage the pool arrangements. The arrangements have been labelled as a Collective Asset Pool (CAP) to distinguish them from the other main option of the Collective Investment Vehicle (CIV) managed as an Authorised Contractual Scheme (ACS)
11. Each of the Local Pension Committees will retain responsibilities of establishing their strategic asset allocation consistent with their pension liability profile and risk appetite. Detailed decisions on available sub-funds and individual fund managers etc though will be taken through the CAP.

12. The work on costs and savings initially focussed on the 8 south west authorities, and has been updated to allow for the inclusion of Oxfordshire and Buckinghamshire. PwC have identified potential annual net savings of £14.5m from the rationalisation of the number of current investment mandates and the re-negotiation of fees. Further savings up to an aspirational target of £70m per annum have been suggested as a result of switching some investments from active to passive management styles, increasing the amount of internal management of investments and by more effective decision making as a result of the improved capability and capacity resulting from the pooled arrangements. These figures are consistent with the earlier work of Hymans undertaken on behalf of the Government.
13. Outside of Project Brunel, there are a number of other proposals beginning to take shape. Other than the Collective Investment Vehicle set up by the 32 London Boroughs none appear to be as advanced in their planning as Project Brunel. These potential other pools include
  - (a) a collection of Central and South East funds under the label ACCESS,
  - (b) authorities in the north based around the three big funds of Greater Manchester, West Yorkshire and Merseyside,
  - (c) authorities in the midlands including the large West Midlands Fund,
  - (d) the welsh funds, who are awaiting a political decision on whether they will be allowed to form their own pool whilst falling well below the Government's scale criteria (£13bn against a minimum target of £25bn),
  - (e) the London Pension Fund Authority and Lancashire, who have been working together for the past year to develop a proposal but will need other authorities to join if they are to reach the minimum £25bn target, and
  - (f) a proposal led by Surrey, Cumbria and East Riding to which other funds have indicated they are willing to join to move this towards the £25bn target.

### **Proposal to Government**

14. With the support of PwC, the 10 Funds who are currently members of Project Brunel have developed a proposal to Government which sets out our position against the 4 key criteria identified in paragraph 2 above. The proposal and the supporting documentation are contained in the annexes to this report.

### **Exempt Information**

15. Annex 1 is the draft proposal to be submitted to the Government. It is intended that this will be a joint proposal to be submitted by all 10 funds within Project Brunel, and is being presented to the relevant Committees over the course of the next week. It is intended that once all Committees have agreed the final proposal for submission to Government, the final proposal will become a public document

16. Annexes 2 and 3 to this report are the initial feasibility study and the initial business case produced by PwC on behalf of Project Brunel. These documents include detailed information on fee levels etc of the individual funds, as well as potential future fee savings.

### **Next Steps**

17. If the proposal is accepted by each of the Pension Committees and the Government, there is still a lot of work to do before the final submission in July. This includes the detailed governance arrangements, the development of the sub-funds to which each Committee will allocate its assets, and a detailed transition plan. This work will involve both Officer and Member input to develop the final submission.
18. Advice obtained as part of the work with Buckinghamshire and Berkshire has suggested that the final decision in advance of the July submission will need to be made by full Council on the recommendation of the Pension Fund. All Members of the Council were therefore invited to attend the Committee meeting today to be aware of the background to the final submission they will be asked to determine.

### **RECOMMENDATION**

19. **The Committee is RECOMMENDED to:**
  - (a) agree the proposal at Annex 1 as the basis for submission to the Government, and**
  - (b) delegate to the Chief Finance Officer the responsibility to agree any final amendments to this proposal following discussion at all 10 Pension Fund Committees, following consultation with the Chairman, Deputy Chairman and the Opposition Spokesperson.**

Lorna Baxter  
Chief Finance Officer

Background papers: None  
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January 2016