

Essex Pension Fund Strategy Board	PSB/26/15
date: 16 December 2015	

LGPS Reform

Report by the Director for Essex Pension Fund

Enquiries to Kevin McDonald on 0333 0138 488

1. Purpose of the Report

- 1.1 To update the PSB on developments regarding potential structural reforms of the Local Government Pension Scheme as a result of the July 2015 Budget announcement.
- 1.2 To update the PSB on the publication, on the day of the November 2015 Autumn Statement of:
 - criteria for LGPS investment reform (annex A);
 - a consultation on revised LGPS Investment Regulations (annex B) and
 - Government's response to the May 2014 consultation on "*Opportunities for collaboration, cost saving and efficiencies*" (web-link provided in para 12.3)

2. Recommendations

- 2.1 That the report be noted.

List of Annexes to this report:

Annex A – DCLG: LGPS investment reform criteria & guidance

Annex B – DCLG consultation: replacing LGPS investment Regulations

Annex C – LGA: pooling briefing note

Annex D – JWG/Project Pool: November 2015 progress update

Annex E – Access Group: Statement

3. Structural Reform

- 3.1 At its meeting on 18 September 2013, the Essex Pension Board (Board) agreed the basis of its response to the *call for evidence* on the future structure of the LGPS issued jointly by the Local Government Association (LGA) and the Department for Communities & Local Government (DCLG).
- 3.2 Following receipt of responses to the call for evidence, DCLG commissioned analysis of structural reform options to be led by Hymans Robertson. These options covered:
 - merging funds; and
 - the use of Collective Investments Vehicles (CIVs).
- 3.3 On 1 May 2014, DCLG published the consultation document “*Opportunities for collaboration, cost saving and efficiencies*” along with the analysis undertaken by Hymans Robertson.
- 3.4 The consultation’s emphasis centred on the use of CIVs and passive management, at the time removing the option of fund mergers.
- 3.5 At its meeting on 9 July 2014 the Board agreed its response to the consultation.

4. Budget 2015

- 4.1 The Chancellor on the 8 July 2015 announced in his budget statement the following:

2.19 Local Government Pension Scheme pooled investments – The government will work with Local Government Pension Scheme administering authorities to ensure that they pool investments to significantly reduce costs, while maintaining overall investment performance. The government will invite local authorities to come forward with their own proposals to meet common criteria for delivering savings. A consultation to be published later this year will set out those detailed criteria as well as backstop legislation which will ensure that those administering authorities that do not come forward with sufficiently ambitious proposals are required to pool investments.

5. Developments between the July Budget and the November Autumn Statement

- 5.1 During August, the Local Government Association arranged a roundtable event and, in conjunction with the Shadow Scheme Advisory Board a seminar to explore this issue. Officials from DCLG were in attendance at both events and the Fund was represented.
- 5.2 On 16 October 2015 Cllr Bass attended a briefing held by the Local Government Association (LGA) for the Chairmen of LGPS Pension Committees. Annex C is the briefing note produced by the LGA after that event.
- 5.3 At the meeting of the PSB on 16 September, it was reported that Fund officers were participating in a collaborative Joint Working Group (JWG also known as "*project pool*") with officers of other LGPS Funds aiming to produce a joint draft response to Government for s101 Cttee Members to consider early in 2016. As reported to the ISC on 25 November, work on this project is ongoing and the JWG's November update is attached at Annex D.
- 5.4 Fund officers also continue in dialogue with their counterparts elsewhere in the LGPS. Officers from a group of Funds, including a number from the eastern region, have met on two occasions September & November. This is now referred to as the "Access" group. The Access group's statement after the November meeting is shown at annex E.

6. Government publications released with November 2015 Autumn Statement

- 6.1 On the 25 November 2015, released with Autumn Statement documents were:
- criteria for LGPS investment reform (annex A);
 - a consultation on revised LGPS Investment Regulations (annex B) and
 - Government's response to the May 2014 consultation on "*Opportunities for collaboration, cost saving and efficiencies*"
- 6.2 Annexes A and B are each 25 pages. The response to the May 2014 consultation is 35 pages and a web link to its location is provided in para 12.3.

- 6.3 The criteria are:
- asset pools that achieve the benefits of **scale**
 - strong **governance** & decision making
 - reduced **costs** and excellent value for money
 - improved capacity to invest in **infrastructure**
- 6.4 Funds are required to respond in two stages. By **19 February 2016** submissions should include a commitment to pooling and a description of progress towards formalising their arrangements with other Funds. At this first stage both individual or joint submissions can be made.
(NB: preliminary discussions have been held with DCLG which indicate it would be acceptable for the Fund to submit its initial response after the 22nd February 2016, the date of the next scheduled ISC.)
- 6.5 Refined and completed submissions are required by **15 July 2016**. At this second stage the Government anticipates:
- for each pool, a joint proposal from participating Funds setting out the pooling arrangement in detail. For example, this may cover the governance structures, decision-making processes and implementation timetable; and
 - for each Fund, an individual return detailing the authority's commitment to, and expectations of, the pool(s). This should include their profile of costs and savings, the transition profile for their assets, and the rationale for any assets they intend to hold outside of the pools in the long term.
- 6.6 Also published was the consultation on revised investment regulations (annex B). In a move that has been anticipated for some years, these replace the existing investment limits and with a "prudential code" approach. Each Fund will be required to produce an Investment Strategy Statement by 1 October 2016. The areas to be addressed by the ISS will include the Fund's assessment of suitable investments, its approach to risk and, in light of the current developments, its approach to pooling.
- 6.7 In addition, the revised Regulations require Funds to make changes to their investment strategy should the Secretary of State consider it appropriate. This element of the Regulations is the "backstop legislation" to which the Chancellor made reference in the July 2015 budget (see para 4.1). The deadline for responses is 19 February 2016.

7. Next steps

7.1 A timeline of the build up to the initial submission is set out below:

Date	Event	Comment
15 Dec	Officer & Adviser meeting	
16 Dec	PSB	
Early/Mid Jan	Release of project POOL report	Circulated to Members of ISC & PSB. Copied to Members of PAB.
15 Jan	PAB (Local Pension Board)	Scheduled meeting Update on process (for info)
Mid/late Jan	POOL event for Chairmen & Fund officers	Cllr Bass to attend with Director
Late Jan TBC	Officer & Adviser meeting	
Late Jan	Circulate outline paper ahead of ISC	Invite comment & feedback
Early Feb	Officer / Advisers finalise papers	
13 Feb	Fund officers dispatch ISC agenda	
19 Feb	CLG deadline	CLG “comfortable” with a response early the following week.
22 Feb	ISC	Initial submission agreed
23 Feb	Initial submission dispatched.	

8. Link to Essex Pension Fund Objectives

8.1 Investments:

- to maximise the returns from investments within reasonable risk parameters.
- to ensure the Fund is properly managed.

9. Risk Implications

- 9.1 The risks associated with the Fund's investment strategy are published in the Statement of Investment Principles, a web link to which is set out below.
<http://www.essexpensionfund.co.uk/themes/essex/scheme%20documents/Statement%20of%20Investment%20Principles%20March%202015.pdf>
- 9.2 Officers and advisers are considering the risk implications of pooling, and this will feature in future ISC reports.

10. Communication Implications

- 10.1 A submission to Government is required in February 2016 and July 2016.

11. Finance and Resources Implications

- 11.1 In addition to the work undertaken by Officers, the Fund is due to make a contribution of £10,000 to the costs of the JWG initiative (project POOL).
- 11.2 Future costs will be incurred in the establishment of pools.

12. Background papers

- 12.1 DCLG consultation "Opportunities for collaboration, cost saving and efficiencies" – May 2014
- 12.2 Fund response agreed 9 July 2014
- 12.3 Government response to May 2014 consultation
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479721/Government_response_-_consultation.pdf
- 12.4 PricewaterhouseCoopers report on establishing Collective Investment Vehicles
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479482/PwC_Project_Metro_Report.pdf