

SOUTH YORKSHIRE PENSIONS AUTHORITY

1 OCTOBER 2015

Report of the Fund Director

GOVERNMENT CONSULTATION ON LGPS

1) Purpose of the report

To advise Members that the Government intends to consult over the pooling of investments to reduce costs.

2) Recommendation

That Members note the report and the response so far proposed by the Investment Board.

3) Background information

3.1 This paper is a copy of one presented to the Investment Board last month. Officers will verbally update Members on progress since then.

3.2 In the Summer Budget documents there was a brief paragraph relating to LGPS reform. It is reproduced below:-

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.

3.3 A later message was sent by the Department for Communities and Local Government:-

“As you may be aware, the Chancellor announced at the Budget that local government pension scheme administering authorities will be invited to bring forward proposals to invest collectively and deliver savings.

This announcement represents the next phase in the work to deliver savings from local government pension scheme investments, building on the consultation Opportunities for collaboration, cost saving and efficiencies, published last May.

As the Hymans Robertson report which accompanied that consultation demonstrated, the cost of investment in the scheme is considerably higher than currently reported. With costs estimated to be at least £790 million in

2012-13, there is a clear rationale for exploring the opportunities to deliver savings in this area.

Hymans established that savings and efficiencies of up to £660 million could be achieved by pooling investment into collective investment vehicles to access economies of scale, and by making greater use of passive management for listed assets. Creating larger pools of liquidity could also improve the capacity of the scheme to invest in larger and more innovative projects across the UK and create a platform for better stewardship of the market.

The Chancellor has therefore announced that the Government will work with local government pension scheme administering authorities to significantly reduce investment costs by pooling investments, while maintaining overall investment performance.

Later this year, the Government will invite administering authorities to bring forward your proposals to deliver against that objective. This invitation will be accompanied by criteria that will be used to assess the proposals brought forward, including the scale and size of pooled investments and the role of passive management in an investment strategy.

We know that a number of authorities have already made progress in this area and we intend to build on that work. However the proposals will be most effective when adopted by all 89 funds, so we will also publish a consultation with draft legislation that will require authorities to participate in a collective investment vehicle, should they not come forward with sufficiently ambitious proposals.

The Government is keen to see authorities take the lead in delivering savings. We will publish more detail on the criteria for your proposals, and the consultation on draft legislation, later in the year. However, we will be talking to a wide range of stakeholders over the summer to develop these criteria and expect to commission work from external experts to support this.

In the meantime, should you have any queries about the Budget announcement, please contact either myself or Victoria Edwards using the information provided below.

Chris Megainey

Deputy Director, Workforce, Pay and Pensions, Department for Communities and Local Government"

- 3.4 Further information is awaited.
- 3.5 It appears that Government will expect very high levels of participation in pooled arrangements but there has been very little guidance so far regarding details of size and scope of pools. It is not clear either whether the starting position will be for funds to be presumed to enter into arrangements and then seek exceptions or if funds will start outside of the default and then fall in. It is not clear just how forceful Government will be in achieving these aims.
- 3.6 It seems that asset allocation decisions will remain with administering authorities.

- 3.7 The Fund did, of course, respond to the consultation last year. As part of its input it was demonstrated that this Fund would be adversely affected by switching its assets into pooled vehicles or passive instruments. That position has not changed.
- 3.8 Various seminars and discussions have taken place amongst funds as to the way forward. Whatever the outcome it seems unlikely that keeping the status quo is an option.
- 3.9 The Government announcement hides many complex issues and it is not clear whether Government understands the implications arising out of the questions asked. However, at this stage there is little of substance that can be raised. Further information regarding Government intentions needs to be received but the importance to the future of the LGPS is such that a full response needs to be made.
- 3.10 At its September meeting the Investment Board acknowledged the seriousness of the position given its potential effect upon the Authority and Fund. It was agreed to organise a workshop to discuss the options open to the Authority and this is being done. It was also agreed to investigate participation in a working group believed to be being pulled together by an investment consultancy and, if appropriate, make a financial contribution to the work.

4) Implications

4.1 Financial

There are no specific costs linked to this report other than the cost of participating in the working group. However, there could be significant implications for the Authority depending upon the outcome of the consultation.

4.2 Legal

There are no immediate legal implications.

4.3 Diversity

There are no diversity implications.

4.4 Risk

This Board is the formal decision-making body for investment issues relating to the Fund. It has the responsibility to ensure that the Fund maintains an investment strategy that obtains the best financial return, commensurate with appropriate levels of risk, to ensure the Fund can meet both its immediate and long term liabilities. The employment of independent advisors to assist the Board strengthens the governance of decision-making.

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Background papers used in the preparation of this report are available for inspection at the offices of the Authority in Barnsley