

PENSION FUND COMMITTEE AND PENSION FUND BOARD

23RD March 2016

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this briefing paper is to provide the Committee and Board with an update on the LGPS Pooled Investment work currently underway in England and Wales.**

2 ENGLAND AND WALES POSITION

- 2.1 Following an announcement by George Osborne in October 2015 and a consultation by Department of Communities and Local Government smaller LGPS funds across England and Wales have been encouraged to look at pooling their investments in a drive to increase efficiencies and increase investment in infrastructure.
- 2.2 The key drivers to the pooling of funds were as follows
- Efficiencies in Investment Manager Fees due to increase scale.
 - Pools of scale to ensure investment expertise developed and available.
 - Improve capacity to invest infrastructure projects.
- 2.3 The 89 administering authorities were to work together to come up with proposals for pools of at least £25bn. Initial proposals were to be submitted to Government by 19th February 2016 followed by more detailed proposals by 15th July 2016. All proposals were to include the following elements
- The size of the pool once fully operational
 - Any assets they propose to hold outside the pool and rational for doing so
 - Type of pool, including legal structure if relevant
 - How pool will operate, work to be carried out internally and services to be hired from outside
 - Timetable for establishing the pool and moving assets into pool
- 2.4 Initial proposals have been submitted from various pools and further work is ongoing to look at Governance, costs involved in transferring assets and possible savings to be generated by the pools. Implementation and transfer of funds is expected to start in April 2018.

3 SCOTTISH POSITION

- 3.1 The current review does not directly affect the Scottish LGPS funds but the Scheme Advisory Board for Scotland is being briefed on a regular basis.
- 3.2 The recommendations for the recent Scottish Parliament Local Government and Regeneration Committee inquiry is shown below.

Pooling of pension funds

- 44. The UK Chancellor recently announced 89 LGPS in England and Wales³⁶ are to be pooled into six British Wealth Funds to enable them to invest more in infrastructure and to minimise fees and costs. We also note the potential for the second Markets in Financial Instruments Directive to restrict smaller pension funds ability to invest in infrastructure. We would find it helpful to know what discussions the Scottish Government has had with the UK Government to safeguard opportunities for smaller Scottish pension funds to invest in infrastructure.
- 45. We agree investment in infrastructure is vital to a successful economy, but we are less attracted to the UK's formal pooling arrangements for Scottish pension funds. During our inquiry we heard how informal collaborations worked well because there was a willingness to work together for a shared vision and benefit. Strathclyde, Falkirk and Lothian and a few others are already working with other funds to increase their investment options. This is to be applauded and we encourage funds to seek out opportunities to work collaboratively to benefit from shared expertise in identifying suitable infrastructure investment and to reduce investment costs such as management fees. Being proactive in this regard has particular importance given the potential changes to investment rules.

4 NEXT STEPS

- 4.1 Officers will continue to monitor the English and Welsh position and further briefings will be presented to the Committee and Board.
- 4.2 Officers will continue to seek to identify opportunities for Infrastructure investment opportunities and partnership working opportunities with other Scottish LGPS Funds.

Approved by

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