

Croydon Council

REPORT TO:	PENSION COMMITTEE 8 March 2016
AGENDA ITEM:	6
SUBJECT:	Requirement to Pool LGPS Funds
LEAD OFFICER:	Richard Simpson, Assistant Chief Executive (Corporate Resources and Section 151 Officer)
CABINET MEMBER	Councillor Simon Hall Cabinet Member for Finance and Treasury
WARDS:	All
CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management: The requirement to combine the assets of the Croydon Pension Fund represents a significant challenge and risk to the Council. If this project is not managed effectively there will be implications for the Council.	
FINANCIAL SUMMARY: This requirement has been imposed upon local authorities in order to reduce the costs of investing the Pension Fund and to make it more efficient for the Fund to invest in infrastructure. Additional work is required to evaluate the value of potential savings.	
FORWARD PLAN KEY DECISION REFERENCE NO: N/A	

1. RECOMMENDATIONS

1.1 The Committee is invited to note the pooling proposal submitted to the Department for Communities and Local Government as detailed at Appendix A to this report.

2. EXECUTIVE SUMMARY

2.1 The government require Local Government Pension Scheme administrating authorities to bring forward proposals to pool assets in six regional pools, each

with assets of around £25bn. This report presents the Croydon Pension Fund's proposal, which relies upon the London CIV.

3. DETAIL

- 3.1 One of the first actions taken by the previous coalition government was to commission a review of public sector pension provision. The findings of that review, published in the Hutton Report, have had a profound impact on the Local Government Scheme, leading to the introduction of a revised benefit structure in the form of the Career Average Revalued Earnings (CARE) scheme, additional layers of governance arrangements and particular focus on local pension funds. Having considered, and dismissed, a merger of Local Government Pension Scheme funds, the current government has decided to require local authorities to group together to form six regional funds with assets of circa £25 billion each.
- 3.2 The government published '*Local Government Pension Scheme: Investment Reform Criteria and Guidance*' in November 2015, with accompanying technical analysis about the different collective investment vehicles and their tax arrangements by PricewaterhouseCoopers. At the same time the government invited local government pension scheme administering authorities to come forward with proposals to invest their assets through pools of at least £25 billion to achieve cost savings and the benefits of scale. The government also stated that 'asset pooling will ... enable administering authorities to improve their capacity and capability to invest in large scale infrastructure projects.'
- 3.3 The guidance sets out the four criteria against which proposals will be assessed:
- Benefits of scale;
 - Strong governance and decision making;
 - Reduced costs and excellent value for money; and
 - An improved capacity to invest in infrastructure.
- 3.4 The government have signalled their intention in undertaking this project by describing the pools as British Wealth funds. Regardless of this label, LGPS Pension Funds are a provision, established to meet the current and future liabilities of the Scheme. Ultimately, if the fund of assets is insufficient to match this liability it would be for the local authority, not central government, to make good the shortfall.
- 3.5 Anticipating the need to demonstrate progress towards merger of funds, closer collaboration in procurement or some sort of pooling arrangement, Croydon has been closely involved in the establishment of the London CIV. The Collective Investment Vehicle (the CIV) will represent Croydon's response to the government's invitation to put forward a proposal. Attached as Appendix A is a paper prepared by the CIV to explain how it can generate the outcomes expected by the government from establishing regional pools.
- 3.6 Also attached to this report as Appendix B is the response sent to the government by the 19 February deadline. The government expects each pool to submit a detailed, more refined and complete submissions by 15 July 2016, which fully addresses the criteria set out in the guidance document, and that

provides any further information that would be helpful in evaluating the proposals. At this second stage, the submissions should comprise:

- for each pool, a joint proposal from each authorities setting out the pooling arrangement in detail. For example, this may cover the governance structures, decision-making processes and implementation timetable; and
- for each authority, 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.

3.7 A report, setting out this level of detail, will be submitted to the June meeting of the Committee for comment.

3.8 At present there are 8 regional pools being developed, with aggregate assets under management of £218 billion.

Central	£35bn
Border to Coast	£32bn
Northern Powerhouse	£40bn
London	£25bn
Welsh	£12bn
Brunel	£20bn
ACCESS	£25bn
Scotland and Northern Ireland	£29bn
Total	£218bn

4 FINANCIAL CONSIDERATIONS

4.1 This proposal has fundamental implications for the LGPS and Croydon Council in particular. The quality of investment decisions impacts directly upon the future viability of the scheme and influences the level of contributions required from the Council and from other scheme employers. Ultimately any shortfall will fall to the Council to make good.

5 OTHER CONSIDERATIONS

5.1 Other than the considerations referred to above, there are no customer Focus, Equalities, Environment and Design, Crime and Disorder or Human Rights considerations arising from this report.

6 COMMENTS OF THE SOLICITOR TO THE COUNCIL

6.1 The Council Solicitor comments that there are no direct legal considerations arising from this report.

(Approved by: Gabriel MacGregor, Head of Corporate Law on behalf of the Council Solicitor and Monitoring Officer)

CONTACT OFFICER:

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Resources Directorate, ext. 62552.

APPENDICES:

Appendix A:
Local Government Pension Scheme: Investment Reform Criteria and Guidance,
November 2015, Department for Communities and Local Government.

Appendix B:
Pooling Proposal, Croydon Council.

Appendix C:
London CIV response to pooling criteria and guidance.

BACKGROUND DOCUMENTS:

None