

Appendix 'A' - Annex 1

Department for Communities and Local Government (DCLG) Consultations

- Expected for over a year, DCLG released its criteria for rolling the LGPS's 89 funds into six wealth funds to help "match" the infrastructure investment levels of leading global pension funds, and significantly reduce costs.
- The Government is now asking administering authorities to put forward proposals for pooling scheme assets by 19 February 2016.
- Their proposals will be assessed against four key criteria:
 - Asset Pools that achieve the benefits of scale.
 - Strong governance and decision making.
 - Reduced costs and excellent value for money.
 - An improved capacity to invest in infrastructure.
- There were no great surprises in the pooling criteria, though the wording has changed slightly. Six pools and a minimum asset size of £25bn were widely expected.
- 'Value for money' has been included in the cost criteria as well as 'Capability to invest' in the infrastructure criteria rather than a mandated figure. This implies and certain level of flexibility.
- The criteria recognised that in areas such as illiquid investments, where the Hymans report last year highlighted substantial potential for cost savings, the £25bn target figure may not be reached. There is recognition that the pools may not be suitable for some existing investments such as direct property.
- The Cabinet Office also published a consultation on revoking and replacing the LGPS investment regulations in order to remove prescriptive rules, as well as consulting on backstop legislation to force administering authorities to pool their assets with others.
- LPFA, Lancashire and the London Collective Investment Vehicle (CIV) are raised specifically as encouraging reform in this area, particularly around the 35% allocation cap.
- This consultation recognises that funds may be hamstrung by existing regulations which place restrictions on certain investments, which in turn may constrain pooling efforts. Therefore, it proposes to move to a prudential approach which places the onus on authorities and Funds to determine their investment strategy which appropriately takes risk in to account. Essentially – 'we trust you know your own knitting'.
- However, this is proposed in parallel with a power allowing the Secretary of State to intervene if they believe the guidance set is not being followed.

Breakdown

- Funds should include a commitment to pooling and a description of progress towards formalising arrangements with other authorities. The government's preference is likely to be for funds to do this through CIVs using the authorised contractual scheme, based on analysis by PwC published in a separate report by the Cabinet Office and Department for Communities and Local Government earlier this year.
- Authorities are expected to take the lead in cost savings and report the costs they incur more transparently. Proposals are expected to include how the pool(s) will deliver substantial savings in investment fees, both in the near term

and over the next 15 years, while at least maintaining overall investment performance.

- Additionally, active fund management should only be employed where it can be shown to deliver value for money, and authorities should report how fees and net performance in each listed asset class compare to a passive index.
- Finally, proposals should explain in detail how infrastructure will feature in authorities' investment strategies and how the pooling arrangements can improve the capacity and capability to invest in this asset class.

Time scale

Investment regulations

- Consultation responses are to be submitted by **19 February 2016**.

LGPS Reform

- I. Authorities are asked to submit initial proposals by **19 February, 2016**. These proposals should include a commitment to pooling and a description of their progress towards formalising arrangement with other Funds.
- II. A refined submission is expected by **15 July, 2016**. This submission must fully address the detailed criteria set out in the consultation. The submission must comprise:
 - a. For each pool, a joint proposal from participating authorities/funds setting out pooling arrangements in detail.
 - b. For each authority/fund, an individual return detailing its commitment to, and expectations of, the pool.

It is expected that liquid assets are transferred into the pools over a relative short timeframe, beginning from April 2018. It has been recognised that illiquid assets are likely to transition over a longer period of time.