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| Report Title: | Pension Investments Pooling |
| Contains Confidential or Exempt Information? | NO - Part I covering report YES - Part II Appendices 1 and 2. 'Not for publication by virtue of paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972.' |
| Member reporting: | Councillor Lenton, Chairman Pension Fund Panel |
| Meeting and Date: | Pension Fund Panel - 18 December 2017 |
| Responsible Officer(s): | Alison Alexander, Managing Director & Rob Stubbs, Deputy Director and Head of Service |
| Wards affected: | All |

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REPORT SUMMARY

- 1 Local Government Pension Scheme Asset Pooling is a government requirement under the LGPS (Management and Investment of Funds) Regulations 2016. The regulations provide for Secretary of State intervention if pooling is not embraced sufficiently by pension funds, which could include a direction to join a pool.
- 2 It is proposed that the Royal County of Berkshire Pension Fund join the Local Pensions Partnership (LPP) an FCA regulated Company, which is the collaboration of the Lancashire County Council and London Pension Fund Authority funds. LPP 'drive to achieve economies of scale and efficiencies for the benefit of their new members, focusing on managing assets and liabilities (risk) together in order to improve long term fund performance, stabilise contributions and reduced deficits'.
- 3 Governance will be provided through the Berkshire Pension Fund Panel and associated panels. Under pooling, the investment strategy will remain the responsibility of the Berkshire Pension Fund, with LPP being responsible for the appointment of fund managers and the management of the investments of the pension funds in the pool to deliver on the Berkshire Pension Fund's investment strategy.
- 4 At its meeting on 13th November 2017, the Pension Fund Panel agreed to enter into a memorandum of understanding with LPP with a view to joining as a full service client initially.

1 DETAILS OF RECOMMENDATION(S)

RECOMMENDATION: That the Pension Fund Panel notes the report and:

- i) Approves the pooling of 100% of Berkshire's assets with Local Pensions Partnership including the management of legacy assets until such times as they mature and become poolable.
- ii) Agrees the LPP cost for the delivery of Asset and Liability management (ALM) services.

- iii) **Agrees the ALM risk management services annual charge detailed in part II Appendix 1.**
- iv) **Approve implementation costs as detailed in part II Appendix 1.**
- v) **Authorises the Deputy Director and Head of Finance in conjunction with the Chairman of the Pension Panel to undertake work to secure the most appropriate governance model and report back with options for approval.**

2 REASON(S) FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

- 2.1 In 2015 the Government announced that they wanted the 89 Local Government Pension Scheme funds to pool their investments into larger pools in order to achieve savings in investment management costs. The LGPS (Management and Investment of Funds) Regulations 2016 were laid in September 2016, and came into effect on 1st November 2016, with Regulation 8 providing for Secretary of State intervention if it is deemed the regulations and guidance have not been implemented properly by a pension fund.
- 2.2 The objective of pooling the assets is to achieve savings over the longer term from both lower investment management costs and more effective management of the investment assets. The pool will look to deliver the savings based upon the collective buying power the pool provides. Local accountability will be maintained as the Berkshire Pension Fund Panel will remain responsible for strategic decisions including asset allocation. The pooling of assets will only affect the implementation of the investment strategy in terms of manager appointments.
- 2.3 The government expectation is that all LGPS Pension Funds will join a pool, with the LGPS (Management and Investment of Funds) Regulations 2016 providing for Secretary of State intervention if they do not. Therefore if the Berkshire Pension Fund decided not to join the Local Pensions Partnership, it would have to find an alternative pool to join or risk being directed to do so by the Secretary of State.
- 2.4 There have been eight pools established for the 89 LGPS funds and the Pension Fund looked at joining other pools with the final decision to pool with the Local Pensions Partnership being chosen.

Table 1: Options

| Option | Comments |
|---|--|
| Join LPP as a full service client from April 2018 and seek to conclude the issue of shareholding within 18 months. Recommended option. | This would ensure the government requirement for commencement of pooling of assets by April 2018 is achieved. |
| Do not join LPP but seek an alternative pool to join. Not recommended. | Review of, and discussions with, the potential pools found that LPP was the most suitable pool for the Berkshire Pension Fund to join. |
| Do not agree to join any pool. Not recommended. | This will likely result in Secretary of State intervention. |

3 KEY IMPLICATIONS

- 3.1 The estimated costs of transitioning assets will be covered by the pension fund to ensure that no individual employer is disadvantaged by additional costs. Other costs include the legal and administrative costs involved in transitioning assets into LPP.
- 3.2 Whilst estimated costs are detailed within the Business Case – Pensions Pooling, Appendix 1, and were taken from the LPP Proposal, Appendix 2, the actual asset transition costs will not be known until the transitions happen. They will be dependent on the market conditions at the time of transition. The transition of assets is expected to begin in April 2018 and take up to 18 months to complete, although illiquid alternative assets such as private equity may need a longer transition timetable.
- 3.3 Table 2 details the key implications of Pensions Investment Pooling.

Table 2: Key implications

| Outcome | Unmet | Met | Exceeded | Significantly Exceeded | Date of delivery |
|----------------------------|-----------------------------|---|--|-------------------------------|-------------------------|
| Pooling of assets commence | All assets remain un-pooled | Processes are in place for assets to commence pooling in April 2018 | Assets begin pooling from 1 April 2018 | | April 2018 |

4 FINANCIAL DETAILS / VALUE FOR MONEY

- 4.1 Although pension pooling is a Government requirement, the financial modelling detailed in the Business Case demonstrates that there are saving opportunities in the region of £25m over 10 years for the Berkshire Pension Fund in entering into the Local Pensions Partnership.

5 LEGAL IMPLICATIONS

- 5.1 The Royal Borough will engage appropriate legal advice when entering in to the Advisory and Management Agreement.
- 5.2 The Monitoring Officer for the Royal Borough has written to the other Berkshire Monitoring Officers confirming the decision on pension pooling lies with the Berkshire Pension Fund Panel.

6 RISK MANAGEMENT

- 6.1 A full risk log has been created and is monitored. Any new risks will be added as appropriate.

Table 3: Impact of risk and mitigation

| Risks | Uncontrolled Risk | Controls | Controlled Risk |
|--|--|---|---|
| Staff retention | Staff members may decide to leave as result of the changes | Ensure constant engagement through regular communications, staff sessions. | Staff retention is achieved. |
| Failure to meet DCLG imposed deadline of April 2018. | Secretary of State could use powers of intervention. | Provide appropriate detail for BPPF to approve options in December meeting. | April 2018 commencement of pooling of assets is achieved. |

7 POTENTIAL IMPACTS

- 7.1 At this time it is not believed an EQIA needs to be completed, however if that situation changes once the legal due diligence continues, one will be completed at that time. The outcome of which will be reported to the BPPF.

8 CONSULTATION

- 8.1 This is a government requirement, however the Berkshire Pension Fund Panel and Advisory Panel have been kept up to date with the development of the project at each meeting. Both the Pension Fund Panel and the Pension Fund Advisory Panel have reviewed the memorandum of understanding at its meeting on 13th November 2017.
- 8.2 Consultation will be carried out with staff affected under Transfer of Undertakings (Protection of Employment) Regulations 2016.

9 TIMETABLE FOR IMPLEMENTATION

- 9.1 To show the stages and deadlines for implementing the recommendations.

Table 4: Implementation timetable

| Date | Details |
|----------------------------|--|
| 13 November 2017 | Memorandum of Understanding agreed. |
| 18 December 2017 | Business Case approved by BPPF. |
| December 2017 and ongoing | Detailed work on asset classification and mapping. |
| December 2017 and ongoing. | Communication with all stakeholders. |
| January 2018 | TUPE Consultation with affected staff. |
| January 2018 onwards | Legal agreements drawn up. |
| April 2018 | Commencement of pooling of assets. |

- 9.2 Implementation date if not called in: April 2018

10 APPENDICES

10.1 Appendices attached to the report are:

- Appendix 1 – Business Case – Pensions Pooling (Part II)
- Appendix 2 – Local Pensions Partnership Proposal for ALM services (Part II)
- Appendix 3 – Letter from Marcus Jones MP to Cllr Lenton

11 BACKGROUND DOCUMENTS

11.1 The following background documents have been sent to panel members:

- Memorandum of Understanding
- Berkshire Pension Advisory Panel chronology

12 CONSULTATION (MANDATORY)

| Name of consultee | Post held | Date sent | Commented & returned |
|--------------------------|--|------------------|---------------------------------|
| Cllr John Lenton | Chairman, Berkshire Pension Fund Panel and Berkshire Advisory Panel. | 13/12/17 | |
| Alison Alexander | Managing Director | 13/12/17 | 13/12/17 |

REPORT HISTORY

| | |
|--|----------------------------|
| Decision type: Key decision | Urgency item? No |
| Report Author: Rob Stubbs, Deputy Director and Head of Finance | |



**Department for
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Marcus Jones MP
Minister for Local Government

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01 DEC 2017

Dear Councillor Lenton,

Thank you for your letter of 20 October. I am sorry to hear that you did not receive my previous letters.

I am delighted to hear that The Royal County of Berkshire Pension Fund will be joining the Local Pensions Partnership.

I hope you will pass on my personal appreciation and thanks for all the hard work and dedication by elected members and officers across the funds who have been involved.

Yours sincerely,

Marcus Jones

MARCUS JONES MP