

WILTSHIRE COUNCIL

WILTSHIRE LOCAL PENSION BOARD

14 January 2016

Current Government Consultations

Purpose of the Report

1. The purpose of this report is to update the Board of the current government consultations issued on 25 November 2015.

Background

2. The Government has now published its response to a consultation exercise on opportunities for collaboration, cost savings and efficiencies in connection with Local Government Pension Scheme (LGPS) funds.
3. This follows the Government's July Budget 2015 where the Chancellor announced the Government's intention to work with LGPS Administering Authorities to ensure they pool investments to significantly reduce costs while maintaining overall investment performance.
4. The Government has now invited administering authorities to submit, by 19 February 2016, their initial proposals for pooling LGPS assets into up to six 'British Wealth Funds', each containing at least £25 billion of assets; with a refined, final submissions expected by 15 July 2016.
5. This consultation provides guidance and criteria for the pooling proposals. The Government's goals are to achieve cost savings, and enhance funds' ability to invest in infrastructure projects; its ambition is to match the infrastructure investment levels of the top global pension funds.
6. Driven in part by its desire to see greater pooling of assets, the Government also proposes to replace the existing legislation governing LGPS investment, thereby removing detailed constraints on particular types of investment. Authorities will instead have to take account of Government guidance (including guidance on pooling) and directions.

Considerations for the Board

7. The two consultations issued are attached to this report.
 - a) Local Government Pension Scheme: Investment Reform Criteria and Guidance
 - b) Local Government Pension Scheme: Revoking and replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009
8. The first paper relates to the guidance and criteria for pooling of assets while the second document outlines the changes proposed to the Investment Regulations to enable pooling to take place while also providing backstop legislation for the Secretary of State to force a fund to pool should it not come forward with sufficiently ambitious proposals.

9. The initial points that arise from the newly published reform criteria are:
- £25bn is the minimum size for investment pooling
 - The government are looking at up to 6 “Wealth Funds”
 - Strategic Asset Allocation is set to remain within the Administration Authority
 - The argument for Active v Passive investment will still have to be justified
 - Detailed costing, savings, and resources required along with outlines of governance structures will need to form part of the submission
 - Liquid (equities / bonds) assets expected to be moved into a pooling arrangement by April 2018
 - Requirement to outline proposals for amounts to invest in infrastructure will be required
 - Submission based on high level proposals are required by 19 February 2016
 - Detailed submissions with greater detail will be required by 15 July 2016
 - Responses to the consultation can be made as an authority or a group.
10. Officers will provide a further update on how the criteria relate to Project Brunel at the meeting. This is the South West funds pooling of investments collaboration work which is currently exploring the options available to address the Government’s proposals.
11. The second consultation paper is effectively technical changes to the current investment regulations the LGPS has to operate within, with the proposed changes enabling the use of pooled arrangements, while also moving to a more prudential code basis of managing investments by providing more flexibilities to funds.
12. The Fund will need to decide how it intends to respond to both these consultations, and whether this is done on a Fund basis or as part of a group. Members will be kept updated on the drafting and progress of any response. Officers will convene a special meeting of the Pension Fund Committee in early February 2016 to discuss any proposed response.
13. When discussed at the Pension Fund Committee, it highlighted the need for clarity over the details of strategic asset allocation remaining with the Fund in the event of pooling. Currently the proposals included that only the decision on allocation between bonds and equities would remain with the Fund.
14. Members also considered that the choice of investments for funds should not be tied to infrastructure but should be based on investments to bring the best return. The Fund’s infrastructure manager was currently not attracted to investment in UK infrastructure and the Committee agreed some support from the Government would be needed to encourage this.

Environmental Impact of the Proposal

15. Not applicable.

Financial Considerations & Risk Assessment

16. The financial implications of any investment reforms are currently being reviewed and will need to be a consideration into any response. .

17. PEN020: The pooling of asset is a specific risk identified on the Risk Register elsewhere on this agenda. It is important that any proposal is not undertaken at the detriment to the investment return for the Fund.

Legal Implications

18. There are no immediate and significant legal implications arising from this report.

Safeguarding Considerations/Public Health Implications/Equalities Impact

19. There are no known implications at this time.

Reasons for Proposals

20. To ensure the Board is aware of the latest consultations issued by the Government and the timetable for responses.

Proposals

21. The Board is asked to note the attached consultation documents and the proposed timescale and process for formulating a response.

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Unpublished documents relied upon in the production of this report: NONE