



Committee and Date  
Pension Committee  
23 June 2017

Item

Public

## LGPS CENTRAL - INVESTMENT POOLING

**Responsible Officer** Justin Bridges

e-mail: [justin.bridges@shropshire.gov.uk](mailto:justin.bridges@shropshire.gov.uk)

Tel: (01743)  
252072

### 1. Summary

- 1.1 The purpose of this report is to provide the committee with an update concerning the progress that has been made by LGPS Central (the investment pool that the Shropshire County Pension Fund is part of) towards the requirement to commence investment pooling on 1 April 2018.
- 1.2 Excellent progress has been made by LGPS Central in all aspects of the work that is required to allow an application for authorisation by the Financial Conduct Authority (FCA) to be made in early July. A Non-Executive Chair and a Chief Executive Officer have been appointed by shareholders and work is well advanced in terms of filling the other key management posts.
- 1.3 It is expected that the Regulatory Business Plan will be approved by Shareholders at the Shareholders Forum meeting on the 19 June 2017.

### 2. Recommendations

- 2.1 The Pension Committee are asked to note the report.

## REPORT

### 3. Risk Assessment and Opportunities Appraisal

- 3.1 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.
- 3.2 There are no direct environmental, equalities or climate change consequences arising from this report.

#### **4. Financial Implications**

- 4.1 There is no direct impact on the Council's revenue or capital budgets as all costs (including regulatory capital) will be met from the Pension Fund.
- 4.2 The estimated cost of setting up the jointly owned company is £4.3 million, this will be shared equally between the participating funds, with Shropshire's share being around £542,000. There will also be significant transition costs as existing investment mandates are unwound and funds are transferred into new collective investment vehicles. It is not possible to accurately predict these costs, but the business case includes an estimate of £49.2million. Transition costs will be shared between the funds on an equitable basis.
- 4.3 In addition, as the new company will be a regulated entity, under Financial Conducts Authority (FCA) rules, it will need to hold regulatory capital to guarantee its solvency. The capital introduced into the new company is expected to be in the region of £16 million (£2 million per partner fund), funded through a combination of ordinary share capital (£1.3m per partner fund) and debt (£0.7m per partner fund). The capital introduced will be used to fund the set up costs, fund the regulatory capital requirements and provide the company with on-going operational liquidity.
- 4.4 Estimated net total savings for the pool are in the region of £248 million over a period from 2018/19 to 2033/34, with annual savings of around £33 million being achieved by the end of this period. The comparative figures for the Shropshire County Pension Fund are £36.5 million and £3.1 million respectively.

#### **5. Background**

- 5.1 The Summer Budget of July 2015 contained the following announcement:

“The government will work with the Local Government Pension Scheme administering authorities to ensure that they pool investments to significantly reduce costs, while maintaining overall investment performance. The government will invite local authorities to come forward with their own proposals to meet common criteria for delivering savings. A consultation to be published later this year will set out those detailed criteria as well as backstop legislation which will ensure that those administering authorities that do not come forward with sufficiently ambitious proposals are required to pool investments”.
- 5.2 In late November 2015 the Department of Communities and Local Government (DCLG) issued a document entitled 'Local Government Pension Scheme: Investment Reform Criteria and Guidance'. This document had been widely anticipated and did not contain any surprises to those Funds that had been close to the discussions that had been taking place between the interested parties.
- 5.3 The November document was the first time that the criteria against which the various options would be judged have been formally laid out. The four criteria were:

- A. Asset pools that achieve the benefits of scale – minimum size £25 billion;
- B. Strong governance and decision making;
- C. Reduced costs and excellent value for money;
- D. An improved capacity to invest in Infrastructure.

5.4 The Pension Committee has previously approved Shropshire County Pension Fund's involvement in LGPS Central, and has received regular updates in respect of the progress that has been made by the prospective pool.

## **6. Recent Progress**

- 6.1 All nine Funds that are part of LGPS Central have taken the necessary action to approve the governance structure of the pool. Excellent progress has been made in all aspects of the work that is required to allow an application for authorisation by the Financial Conduct Authority (FCA) to be made in early July. It is expected that the Regulatory Business Plan will be approved by Shareholders (i.e. the Funds) at the Shareholders Forum to be held in Worcestershire on 19 June 2017.
- 6.2 A Non-Executive Chair (Joanne Segars) and a Chief Executive Officer (Andrew Warwick-Thompson) have been appointed by shareholders. Both are well known and highly respected individuals from the pensions sector, and the appointments have been very well received externally. Work is well advanced in terms of filling the other key management posts of LGPS Central – 2 Non-Executive Directors, the Chief Investment Officer and the Chief Operating Officer/Chief Financial Officer.
- 6.3 An 'asset servicer' has been appointed by LGPS Central, and this is a key matter in terms of FCA authorisation. The asset servicer is responsible for the safe-keeping of the assets of the pool and also ensuring that the sub-funds managed by LGPS Central operate legally and fulfil all requirements of the FCA.
- 6.4 LGPS Central's progress is ahead of many of the other prospective pools, and the willingness to work together and compromise where necessary remains strong. Whilst the requirement to have a functioning pool by 1 April 2018 remains challenging, all key targets continue to be met and there is a strong expectation that LGPS Central will be able to commence as an authorised investment manager on this date.
- 6.5 The Committee will be provided with a presentation during the meeting which will give an update of the progress made to date including a high level summary of the Regulatory Business Plan and cost savings model.

**List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)**

Pensions Committee, 28 June 2016, LGPS Central Investment Pooling

Pension Committee, 25 November 2016 – LGPS Central – Investment Pooling

**Cabinet Member**

N/A

**Local Member**

N/A

**Appendices**

N/A