

Local Members' Interest
N/A

Audit and Standards Committee – 13 March 2017

Local Government Pension Scheme (LGPS) Asset Pooling

Report of the Director of Finance and Resources

Recommendation

1. That the Audit and Standards Committee support the recommendation of the Pensions Committee in making the following recommendations to Full Council:
 - A. To enter into a shareholders agreement to become a joint shareholder of LGPS Central Ltd; a private company limited by shares, held solely by the participating funds, on a 'one fund, one vote' basis; incorporated for investment management purposes and regulated under the Financial Services and Markets Act 2000.
 - B. To approve the Staffordshire Pension Fund's involvement in the governance and management arrangements for future Pension Fund investment management activity in accordance with the Governance Structure, shown at paragraph 7 and the Terms of Reference summarised in Appendix 2 of this report, more specifically:
 - (i) To appoint the Chair of the Staffordshire Pensions Committee or their nominated representative, to attend all Shareholder Forum meetings and to exercise the Council's voting rights as a shareholder of LGPS Central Ltd.
 - (ii) To enter into an Inter-Authority Agreement with;
 - Cheshire West and Chester Council
 - Derbyshire County Council,
 - Leicestershire County Council,
 - Nottinghamshire County Council,
 - Shropshire Council,
 - Wolverhampton City Council and
 - Worcestershire County Council
- to regulate how the above authorities collaborate with each other in relation to the investment activities of LGPS Central Ltd.
- (iii) To establish a joint pension fund investment pool, in accordance with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.
 - (iv) To establish a Joint Committee under s102 of the Local Government Act 1972, to provide joint oversight of the pool and to suggest recommendations to the

Practitioners Advisory Forum from time to time, in accordance with the terms of the Inter-Authority Agreement.

- (v) To appoint the Chair of the Staffordshire Pensions Panel or their nominated representative, to attend all meetings of and act as the Council's representative on the Joint Committee.
 - (vi) To agree in principle to any future request for the Council to act as lead authority to provide governance and administrative support to the Joint Committee on behalf of the participating Councils, subject to an appropriate cost sharing agreement in respect of officer time and other expenses.
 - (vii) To appoint the Director of Finance and Resources (and s151 Officer) or their nominated representative to represent the Council on a Practitioner Advisory Forum, providing joint officer support to the Joint Committee and support and decision making advice to the Shareholder Forum.
- C. To authorise the Director of Strategy, Governance and Change and the Director of Finance and Resources to enter into the Shareholders Agreement and the Inter-Authority Agreement to establish a joint asset pool, and investment management company and Joint Committee, as outlined in this report, and to implement the agreed recommendations.

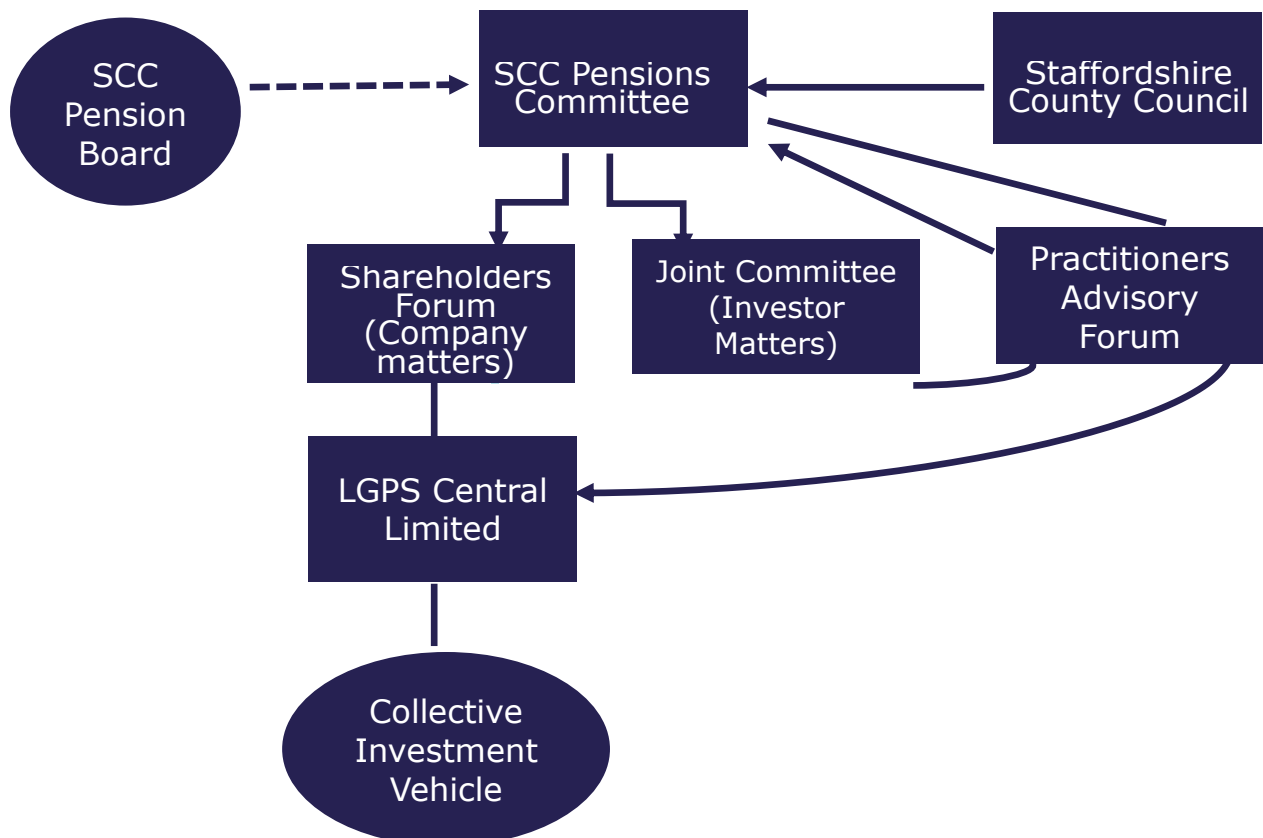
Background

2. Over the last two and a half years, the government has explored a number of options for improving the efficiency and sustainability of the LGPS and has undertaken extensive consultation on the potential to deliver savings through greater investment management collaboration.
3. In the summer of 2015, the government announced its intention to introduce a new regulatory framework which would facilitate collective investing and issued guidance and criteria to help administering authorities to develop proposals for pooling aimed at reducing costs and improving efficiency. Initial proposals were required by February 2016, followed by more detailed business case submissions in July 2016, with a target implementation date of 1 April 2018. The government also announced that 'backstop' powers would be introduced to allow the Secretary of State to intervene where authorities failed to bring forward sufficiently ambitious proposals in accordance with the guidance and criteria issued.
4. Informal links with several Midlands based LGPS Funds became the starting point for wider discussions in the context of the formal requirement for pooling. This resulted in a joint proposal from Cheshire, Derbyshire, Leicestershire, Nottinghamshire, Shropshire, Staffordshire, West Midlands and Worcestershire to create 'LGPS Central', with combined assets of £35 billion. The Minister, Marcus Jones MP provided written confirmation, in November 2016, that LGPS Central had been formally accepted as a Local Authority Pension Fund Pool.
5. Over the last 12 months, the Staffordshire Pensions Committee, Pensions Panel and Local Pensions Board have been kept informed of the progress being made in meeting the Government's criteria. Legal workshops, presentations and reports have been presented on the proposed governance structure, the business case and the

associated implications, of the submission made to Government in July 2016. The Chairs of the Pensions Committee and Pensions Panel together with the Director of Finance and Resources have attended regular joint meetings of the 8 Partner Funds.

A focus on strong Governance and Decision Making

6. LGPS pooling relates solely to the assets of the 8 Partner Funds. Each administering authority will retain the decision making function about the Investment Strategy and the Strategic Asset Allocation of the Fund. As liabilities will also be retained locally, decisions about the Funding Strategy and Contribution Strategy will also remain with the administering authority's Pensions Committee and Pensions Panel.
7. The chart below details the Governance Structure for LGPS Central. A Shareholders Forum, comprising one elected Member from each of the 8 Partner Funds will act as the supervisory body of the pool and will fulfil the shareholders' role in ensuring that the company is managed efficiently and effectively. A Joint Committee, set up in accordance with the provisions of the Local Government Act 1972, will be the forum for dealing with common investor issues and for the collective monitoring of the performance of the pool against its objectives. To support the Joint Committee and the Shareholders' Forum, a Practitioners Advisory Forum will be created, consisting of Officers from each of the 8 Partner Funds. This Forum will provide day to day oversight of the company and will monitor its investment performance and investment costs. The Forum will also act as the customer, monitoring levels of customer service and the delivery of wider investor services such as responsible investment and voting. More detail can be found in the paper produced by Eversheds LLP, attached at Appendix 1.



8. In order to facilitate the effective Governance arrangements for LGPS Central, there needs to be a number of changes made to the County Council's constitution. These primarily include the agreement to become a shareholder in LGPS Central and to become party to a Joint Committee. More detailed amendments are required to the terms of reference for the Pensions Committee and Pensions Panel. Full details of the required changes are provided at Appendix 2 for information.

Equalities and Climate Change Implications

9. There are no direct implications arising from this report.

Legal Implications

10. The legal considerations are outlined in the report to the Pensions Committee on 30 January 2017.
<https://www.staffspf.org.uk/Finance-and-Investments/Asset-Pooling.aspx>

Resource and Value for Money Implications

11. The resource and value for money implications are outlined in the report to the Pensions Committee on 30 January 2017.
<https://www.staffspf.org.uk/Finance-and-Investments/Asset-Pooling.aspx>

Risk Implications

12. The risk implications are outlined in the report to the Pensions Committee on 30 January 2017.
<https://www.staffspf.org.uk/Finance-and-Investments/Asset-Pooling.aspx>

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Background Documents:

Report to Pensions Committee 30 January 2017
Local Government Act 1972
Localism Act 2011
LGPS (Management and Investment of Funds) Regulations 2016
CIPFA Investment Pooling Governance Principles