REPORT FOR:	**PENSION FUND COMMITTEE**
Date of Meeting:	21 June 2016
Subject:	**Information Report -** Local Government Pension Scheme Pooling Arrangements Update
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No
Wards affected:	All
Enclosures:	Appendix 1: Investment Benchmarking for Harrow (CEM Benchmarking) Appendix 2: Letter from Minister for Local Government 24 March 2016 Appendix 3: Letter from DCLG 8 June 2016 Appendix 4: Draft response from CIV to DCLG Appendix 5: Template for individual borough response Appendix 6: Exemptions from pooling of LGPS assets

Section 1 – Summary

The report updates the Committee on the development of the pooling arrangements and the London CIV and invites its comments on the Fund's submission to the CIV as part of its submission to DCLG by 15 July 2016.

Harrow COUNCIL LONDON

Section 2 – Report

A Background

1. At its meeting on 9 March 2016 the Committee received a report which set out the, then, current position as regards the development of Local Government Pension Scheme pooling arrangements and asked Members to consider setting up a small group to assist officers in the development of proposals over the next three months. The discussion of the Committee was minuted as follows:

   The Committee received a report of the Director of Finance, which set out the current position with regard to the development of Local Government Pension Scheme pooling arrangements and the setting up of a small group to assist officers in the development of proposals over the next three months. It was noted that the group currently comprised Colin Robertson, Independent Adviser, and Colin Cartwright, Aon Hewitt. The Chair stated that he would attend the last couple of meetings of the group. Other members of the Committee were welcome to attend and they should contact the Treasury and Pension Fund Manager in the first instance.

   It was noted that the group would discuss how investment costs were handled and this would involve varying degrees of calculations. Members were informed that an organisation, CEM, had taken a high profile role in this regard and their report was available free of charge. It was also noted that the Council was working with the Collective Investment Vehicle (CIV) on this matter and that there were a number of conferences taking place on investments including "Infrastructure" which the Council ought to keep abreast of.

   The Committee was informed that the London CIV had gone "live" and that, over time, it would increase the funds available. Standard Life had made an offer to the London CIV in relation to their GARS product. Colin Cartwright, Aon Hewitt, provided details of the equity funds. Individual members of the Committee made the following comments:

   - *the London CIV needed to be included on the agenda at every meeting;*
   - *funds for investing in the London CIV needed to be identified;*
   - *the Committee needed to understand why it was investing in the London CIV*
   - *The Committee noted that apart from the London Borough of Bromley all London local authorities were members of the London CIV. The London Borough of Hillingdon had joined recently.*

   RESOLVED: *That the report be noted.*

2. The Committee is reminded that in late November 2015 the Council, along with all other administering authorities of the Local Government Pension Scheme, received a document from the Department for Communities and Local Government (DCLG) entitled "Local Government Pension Scheme: Investment Reform Criteria and Guidance." DCLG required an initial response to this document by 19 February 2016 and all Pension Fund Administering authorities responded by the deadline.

3. In addition to this requirement, in Paragraph 2.2 of their document DCLG stated as follows:

   Refined and completed submissions are expected by 15 July 2016, which fully address the criteria in this document, and provide any further information that would be helpful in evaluating the proposals. At this second stage, the submissions should comprise:

   • for each pool, a joint proposal from participating authorities setting out the pooling arrangement in detail. For example, this may cover the governance structures, decision-making processes and implementation timetable; and

   • for each authority, an individual return detailing the authority's commitment to, and expectations of, the pool(s). This should include their profile of costs and savings, the transition profile for their assets, and the rationale for any assets they intend to hold outside of the pools in the long term.

4. The Committee were advised that within the document DCLG had specified that the submission of each administering authority must include:

   - A fully transparent assessment of investment costs and fees as at 31 March 2013.
   - A fully transparent assessment of current investment costs and fees, prepared on the same basis as 2013 for comparison.
   - A detailed estimate of savings over the next 15 years.
   - A detailed estimate of implementation costs and when they will arise, including transition costs as assets are migrated into the pool(s), and an explanation of how these costs will be met.
   - A proposal for reporting transparently against their forecast transition costs and savings, as well as how they will report fees and net performance.

5. The group of officers and advisers has met on one occasion but has subsequently shared a considerable amount of information. The thoughts of the group included the following:
   - We should not alter our investment strategy purely on account of the pooling requirements
   - To support the pooling concept we can seek to transfer the passive mandate as soon as possible when a suitable alternative becomes available
   - We should only transfer our active mandates when we have carried out our fiduciary duty in respect of alternatives
   - In view of the costs of liquidation we should be reluctant to transfer our property and private equity mandates
   - We have not yet developed our thinking on infrastructure investments sufficiently to make any commitment at this stage

- We should encourage the CIV to engage with some of our managers to improve our transfer potential
- The CIV should be encouraged to consider developing its own property and infrastructure funds

B Collection of data

6. As indicated above, CEM Benchmarking (CEM) had offered a free service to all administering authorities to analyse their data in a way that would assist in providing the cost information required by DCLG. At the time of the last Committee officers were already inclined to accept this offer but over subsequent weeks it became clear that every administering authority, not just in London but throughout the whole Country, were likely to be completing the returns hence to do so had become virtually compulsory. The CEM survey was therefore completed and, as a result of discussing the draft returns and a draft report with both CEM and some of the Committee's advisers the final analysis was received on 7 June 2016 and is attached as Appendix 1.

7. Many of the LGPS officers and Members acquainted with the CEM methodology have some misgivings and it is generally accepted that the LGPS Funds have provided information in a format designed primarily for much larger funds most of which are not based in UK. Nevertheless for most funds, including Harrow, the CEM analysis is the best of its type available and it is already having a significant influence on the development of the pooling arrangements.

8. Some of the main conclusions arising from the Harrow review are as follows:
    - The Fund's net return in 2014 of 9.4% was below the Global median of 10.9%
    - The net value added in 2014 of 0.7% was in the top quartile and well above the Global median of -0.1%
    - The Fund's asset risk in 2014 of 11.8% placed it in the top decile and well above the Global median of 9.0%
    - The Fund's total investment costs in 2014-15 of 50.8bps were just above the Global median of 49.2bps
    - The Fund's total investment costs of 50.8bps were below the benchmark costs of 58.7bps
    - Over the last three years the Fund's costs increased from 45.3bps to 50.8bps.

C Completion of DCLG July return

9. Since the returns of mid-February, DCLG has tended to communicate with the embryonic pools rather than individual administering authorities. Until very recently the only response received from Government to the boroughs had been the attached letter from the Minister dated 24 March 2016 (Appendix 2) which appeared to be directed primarily at the CIV but copied to each borough. Nevertheless, the letter did provide additional guidance on the Government's thinking. Recent and more specific advice to the Council tends to have come from the CIV.

10. The information received from the CIV is that every member has completed the CEM survey. As a result, they will be receiving a high level assessment of the collated London fund data to include in the response to Government for their July submission. The CIV have also asked to be given copies of each of their member's reports and the Harrow report has been sent to them.

11. The boroughs have been advised that the London CIV has been working with the Cross-Pool Collaboration Group to create a template for submissions that the Government will accept in compliance with its requirements by 17 July. The pools have been of the view that, notwithstanding its previous Guidance, DCLG would only require pool submissions and this has now been confirmed in a letter from DCLG dated 8 June 2016 (Appendix 3). They specifically advise:

    > *We will require only a single submission from each pool with an annex from each participating fund on assets to be held outside the pool.*

12. We are advised that the Collaboration Group is also considering issues surrounding infrastructure investment and stewardship matters and have expressed concern over Government requirements to estimate future transition costs and for savings estimates for periods as far into the future as 2033.

13. The CIV has now provided its draft response on behalf of the London pool attached as Appendix 4 The draft response covers the key criteria in the pooling criteria and guidance namely:

    - Criterion A – Asset pools that achieve the benefits of scale
    - Criterion B – Strong governance and decision making
    - Criterion C – Reduced costs and excellent value for money
    - Criterion D – An improved capacity to invest in infrastructure

14. The Pensions CIV Sectoral Joint Committee is due to consider this draft on 14 June and the Committee will be updated verbally on its deliberations.

15. To assist the CIV in its submission the Council has received a template attached as Appendix 5. The CIV requested the submission of the data by 10 June to allow them to report as fully as possible to the Sectoral Joint Committee on 14 June. Officers were of the view that so many of the questions asked required the Committee's consideration that they have submitted a return covering only factual information in respect of actual asset allocation.

16. The Committee is invited to review the template and consider how they wish to respond.

17. To assist in both the submission of information and in the implementation of the pooling arrangements a list of possible exemptions from pooling has been received from DCLG and is attached as Appendix 6.

D Annual Service Charge

18. At its meeting on 25 March 2015 the Committee agreed to various payments in respect of the establishment and administration of the CIV.and agreed:

    that where any further payment is needed urgently and a meeting of the Committee is not imminent delegated authority be given to the Director of Finance and Assurance, in consultation with the Chairman of the Committee, to make payments of up to £25,000 in total and to advise the Committee subsequently.

19. The CIV budget is to be considered by the Sectoral Joint Committee on 14 June and it will be recommended to agree that a contribution of £25,000 be sought from each member in respect of an annual service charge for 2016-17.

20. The Director of Finance will make this payment under her delegated authority.

Financial Implications

21. Whilst the pooling initiatives will have a very significant impact on the costs and performance of the Fund the only financial implication arising directly from this report is the payment of the service charge of £25,000 to be met from the Pension Fund.

Risk Management Implications

22. The risks arising from the management and investment of funds are included in the Pension Fund risk register.

Equalities implications

23. There are no direct equalities implications arising from this report.

Council Priorities

25. The financial health of the Pension Fund directly affects the level of employer contribution which then, in turn, affects the resources available for the Council's priorities.

Section 3 - Statutory Officer Clearance

Name	Dawn Calvert	√	Director of Finance
Date:	9 June 2016		

Ward Councillors notified: **NO**

Section 4 - Contact Details

Contact: Ian Talbot, Treasury and Pension Fund Manager
0208 424 1450

Background Papers - None