

County Council

17 May 2016

Warwickshire Pension Fund – Pooling of Assets

Recommendation

That the Council agrees to join the Border to Coast investment pool and authorises the Strategic Director for Resources to take all steps which he considers necessary to implement this arrangement

1 Introduction

- 1.1 Warwickshire County Council is the administering authority for Warwickshire Pension Fund. The £1.6bn fund has approximately 160 active employers representing around 30,000 active, deferred and pensioner members. All Local Government Pension Scheme funds currently operate individual investment strategies, appoint fund managers, and hold assets at fund level.
- 1.2 In the July Budget 2015, the Chancellor announced the Government's intention to work with the Local Government Pension Scheme (the Scheme) administering authorities to ensure that they pool investments to significantly reduce costs while maintaining overall investment performance. Pools should take the form of up to six British Wealth Funds, each with assets of at least £25bn, which are able to invest in infrastructure and drive local growth. On 25 November as part of the Autumn Statement a consultation was released which set out how authorities should pool assets and the criteria that should be considered.
- 1.3 On 14 December 2015 Staff and Pensions Committee approved an initial collaboration with a pool of funds named Border to Coast. The initial proposals of this pool were submitted to the Government on 19 February 2016.
- 1.4 This report explains the rationale behind the decision in 1.3 and asks County Council to uphold the recommendation made by Staff and Pensions Committee going forward.

2. The Consultation

- 2.1 The consultation outlined four main criteria that submissions should take into consideration:
- A. Asset pool(s) that achieve the benefits of scale: the 90 administering authorities in England and Wales should collaborate to establish, and invest through asset pools, each with at least £25bn of Scheme assets. The proposals should describe these pools, explain how each administering authority's assets will be allocated among the pools, describe the scale benefits that these arrangements are expected to deliver and explain how those benefits will be realised, measured and reported.
 - B. Strong governance and decision making: the proposed governance structure for the pools should provide authorities with assurance that their investments are being managed appropriately by the pool, in line with their stated investment strategy and in the long-term interests of their members.
 - C. Reduced costs and excellent value for money: in addition to the fees paid for investment, there are further hidden costs that are difficult to ascertain and so are rarely reported in most pension fund accounts. To identify savings, authorities are expected to take the lead in this area and report the costs they incur more transparently. Proposals should explain how the pool(s) will deliver substantial savings in investment fees, both in the near term and over the next 15 years, while at least maintaining overall investment performance.
 - D. An improved capacity to invest in infrastructure: only a very small proportion of Local Government Pension Scheme assets are currently invested in infrastructure; pooling of assets may facilitate greater investment in this area. Proposals should explain how infrastructure will feature in authorities' investment strategies and how the pooling arrangements can improve the capacity and capability to invest in this asset class.
- 2.2 A further submission is due on 15 July 2016, which fully addresses the criteria in this document, and provide any further information that would be helpful in evaluating the proposals.
- 2.3 The July Budget 2015 announcement set out the Government's intention to introduce "backstop" legislation to require those authorities who do not bring forward sufficiently ambitious plans to pool investments.
- 2.4 It is expected that pools will need to be operational and ready to begin the transition of assets by April 2018.

3. Work done to date

3.1 Officers began engaging with three potential pools:

- The Midlands Group
(Comprising West Midlands, Leicestershire, Staffordshire, Shropshire, Cheshire, Derbyshire, Worcestershire and Nottinghamshire)
- The ACCESS Group
(Comprising Northamptonshire, Cambridgeshire, Norfolk, Suffolk, Hertfordshire, Essex, Kent, Hampshire, West and East Sussex)
- Border to Coast
(Comprising Surrey, Bedfordshire, Lincolnshire, South Yorkshire, East Riding, North Yorkshire, Teeside, Durham, Tyne and Wear, Cumbria and Northumberland)

3.2 The Pension Fund Investment Sub-Committee made a recommendation to the Staff and Pensions Committee that Border to Coast was the preferred choice to pool with as they felt that this pool best addressed the following key factors:

- asset allocation strategy must be retained at an individual Fund level
- any new structure should be capable of complementing a bespoke investment strategy for scheme employers with common characteristics
- the Fund should retain a pivotal role in the governance of any pooled structure chosen
- any partner must have a complementary investment ethos and strategy
- any new structures should offer opportunities for savings, while retaining or improving on the Fund's current performance
- the possibility to introduce internal management capability
- any solution provides additional resilience and capacity over and above current governance structures
- the structure chosen must be flexible so as to ensure assets are only transferred into any vehicle when/if it is efficient and effective to do so
- any new structure must be scalable to ensure some level of future proofing

- a solution will seek to provide internal shared resource to progress more proactive management of liability and cash flows
- 3.3 An additional Pension Fund Sub-Committee meeting was held on 29 January 2016 in order to provide an update to members before the February submission deadline. Officers presented their findings following continued engagement with pools.
- 3.4 It was felt that Border to Coast was still the preferred choice due to the following factors:
- Similarity and understanding in funding strategy and investment performance
 - A one fund one vote structure and a sharing of costs and resources
 - Similarity in terms of the average fund size within the pool versus other pools
 - Commitment to the retention of external active management
 - Three funds within the pool have existing in-house management capacity which will be open to the pool if required
 - A projection of realistic savings over the 15 year period through scale and direct manager selection

4. The Proposal by Border to Coast

- 4.1 The proposal will be a pooled investment partnership in an Authorised Contractual Scheme (ACS) structure which has benefits over other structures and is the preferred choice of the Government. There will be the creation of a separate management company that will be wholly owned by the partner funds of the pool. Each of these funds would have an equal holding in the ownership of this company and an equal say in the governance of the structure.
- 4.2 The structure will offer the opportunity to deliver the required savings whilst maintaining or improving on investment performance. Savings can be achieved through scale and the ability to directly invest. There will also be the possibility to use the internal investment capability of the partner funds where appropriate.
- 4.3 It is important that the structure must have suitable flexibility so that assets are only transferred to the new vehicle at the point that it becomes tax efficient and beneficial to the pool to do so.
- 4.4 The structure must also offer solutions to access infrastructure investments to meet the criteria set out by Government.

5. Response from Government

- 5.1 Following the submission of the Border to Coast proposals, Government responded on 24 March 2016.
- 5.2 The response was largely positive with the Minister including the following observations:
- The pool meets the desired scale requirement
 - The initial proposals provide a strong foundation for building the final proposal in July
 - That an Financial Conduct Authority regulated structure provides substantial assurance and that the pool should continue to develop an understanding of the requirement

6. Independent Advice to Pension Fund Investment Sub-Committee

- 6.1 In order to provide officers and members with independent assurance following their decision to pool with Border to Coast, PWC were commissioned to undertake supporting work to be presented to the Pension Fund Investment Sub-Committee on 22 April 2016.
- 6.2 As part of this Study both Border to Coast and the ACCESS group were analysed and the findings presented to the sub-committee.
- 6.3 PWC's findings included the following findings:
- The likely transfer of roles and responsibilities from fund level to pool level for members, officers and third party providers
 - An evaluation of both pools based on the February 2016 submissions
 - Potential outcomes for Warwickshire from pooling
- 6.4 The report also highlighted the good progress Border to Coast have made in terms of structure, appointing advisors and the work around consolidating data in order to provide realistic cost saving estimates to Government in the July 2016 submission.

Background Papers

None

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The report was circulated to the following members prior to publication:

None.