

**HERTFORDSHIRE COUNTY COUNCIL PENSION FUND POOLING OPTIONS**

*Report of the Director of Resources*

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**1. Purpose of report**

- 1.1 The purpose of this report is to provide members of the County Council with the findings from the independent review of the options for Pension Fund pooling arrangements by Mercer and the recommendations of the Pension Committee to Council of the preferred option for pooling; and to enable Council to consider whether to approve the proposal for the Hertfordshire Pension Fund assets to join the ACCESS Local Government Pension Scheme pool.
- 1.2 This report has also been shared with the Pension Board which has commented on the recommendations proposed by the Pension Committee to Council; contained in paragraph 3.1 of the report.

**2. Summary and Background**

- 2.1 The Government published guidance in November 2015 setting out its criteria for the pooling of Local Government Pension Scheme (LGPS) assets. In this guidance it directed all 89 LGPS Funds in England and Wales to aggregate their assets to form six distinct asset pools. The Government set two deadlines, the first, on 19 February 2016 was for each LGPS Fund to state its commitment to pooling; the second deadline was for the chosen pools to prepare detailed submissions on pool structure to be delivered to Government by 15 July 2016. The Government will assess each pool against the following criteria:
- Size (at least £25bn in assets under management)
  - Governance
  - Reduced fees and “value for money”
  - An increased capacity for investing in infrastructure
- 2.2 The report titled “LGPS Investment Reform” was presented to the Pensions Committee on 5 February and provided the Committee with details on the development of Local Government Pension Scheme (LGPS) asset pools and the options for pooling available to the Hertfordshire Fund. At the 5 February meeting, it was agreed by the Pension Committee members that an independent review of the options be undertaken by Mercer, the Fund’s investment advisor, and that a report should be prepared with a

recommendation on the preferred pool for consideration by the Pensions Committee at their meeting on 1 March 2016.

2.3 Mercer was asked to review three pooling options in particular:

1. The London Collective Investment Vehicle
2. The Lancashire/LPFA pool
3. ACCESS (A collaboration of Central, Eastern and Southern Shires)

Mercer was asked to assess each particular pool against criteria covering: principles, degree of “like-mindedness”, size of pools and number of participants, governance, costs of set-up and on-going costs, synergies of investment managers and consultants used, external versus internal management, and finally transition.

2.4 The Mercer report, attached as Appendix A to this report, provides an evaluation of the criteria in 2.3 of each pool under consideration, with a view to recommending a final pool for the members of the Pensions Committee to agree upon, and recommend to Full Council on 22 March 2016 as the Committee’s preferred choice.

2.5 Members at the last Pension Committee indicated that they considered the key criteria in the selection of a pool would be influenced by the strategic synergies between the parties in the pool. Partners would need to have ‘like-minded’ interests particularly with regards to equitable rights and strong governance, strategic synergies in terms of size, current structures, investment managers and advisors used, and ability to deploy the Council’s investment strategy. The table below summarises the pros and cons of each option and whether it meets the ‘like-minded’ interests of Hertfordshire.

| Option                                     | Pros  | Cons   |
|--|---|--|
| London Collection Investment Vehicle (CIV) | <ul style="list-style-type: none"> <li>• Established FCA company, furthest advanced of the pools</li> <li>• Meets criteria for assets under management (£24bn)</li> <li>• Equitable voting rights</li> <li>• External management</li> </ul> | <ul style="list-style-type: none"> <li>• Governance – one voice amongst many weakens ability to influence</li> <li>• Hertfordshire largest Fund by size</li> <li>• No control over direction of travel</li> <li>• Can’t influence or shape project plan</li> <li>• Transition costs if managers are different</li> <li>• Investment strategy may not be accommodated as investment managers already appointed</li> </ul> |

| Option   | Pros  | Cons   |
|--|---|--|
| London Lancashire Pensions Partnership                           | <ul style="list-style-type: none"> <li>• Regulatory work progressing, expect FCA authorisation in March</li> <li>• No contribution to regulatory capital or set up costs</li> <li>• Equal voting rights if we join as shareholder</li> <li>• Existing relationship with Fund</li> </ul>   | <ul style="list-style-type: none"> <li>• Governance –structure and principles already determined.</li> <li>• Investment managers - few synergies across traditional asset classes</li> <li>• Preference for internal management</li> <li>• Does not meet criteria for assets under management (£11bn)</li> <li>• Potential merger with Northern Powerhouse increases future unknowns</li> <li>• Advisors – does not use external advisors</li> </ul> |
| ACCESS (A Collaboration of Central, Eastern and Southern Shires) | <ul style="list-style-type: none"> <li>• Currently similar governance structures (Shires)</li> <li>• Equitable voting rights</li> <li>• Founding member with 'like minded' partners on common principles, can develop and shape the governance and structure of pool</li> <li>• Synergies across investment managers and advisors used by funds</li> <li>• External management</li> <li>• Meets criteria for assets under management (£30bn +)</li> </ul> | <ul style="list-style-type: none"> <li>• In early stages and less well developed than the other two options</li> <li>• Tight timescale to deliver pool proposal to Government.</li> <li>• Future structure unknown</li> <li>• Set up costs unknown</li> </ul>  |

2.6 The Mercer report, at Appendix A, provides further detail on these pools and concludes that, based on the Council's primary criteria of a strong governance structure and strategic fit, then they would recommend ACCESS as the preferred option for the Hertfordshire Fund to join. In addition to the three options that have been considered in this report, Mercers also looked at whether any of the other pools would be worth considering as a viable option for this Fund. The report concludes that these other pools didn't appear to offer any additional benefits/risks from those that have been considered in more detail in this report.

2.7 The Pension Board has also reviewed the Mercer paper and the process followed by the Pension Committee in arriving at the recommendations in this report. The Pension Board agreed that due process was followed by the Pension Committee and supported the conclusion reached by the Pension Committee in recommending ACCESS.

2.8 The Pension Board noted that the report did not yet reflect how any of the pools would address the criteria for an increased capacity for investment in infrastructure. As the pools are in their formative stages the approach to infrastructure investment and whether this is done at a pool level or through a national platform will be developed through the pooling submissions that will go to Government in July 2016.

### **3. Recommendations**

3.1 The Pension Committee agreed to recommend to County Council that County Council agrees, subject to any impact from the Chancellor of the Exchequer's budget announcement on the 16 March 2016, that:-

- (a) the Hertfordshire Pension Fund gives its commitment to join the ACCESS LGPS pool subject to ACCESS meeting the Government's criteria for pooling when ACCESS submits its final proposal in July 2016; and
- (b) authorises the Chief Finance Officer, in consultation with the Chairman of the Pension Committee, to sign the memorandum of understanding with ACCESS members on behalf of the Hertfordshire Pension Fund to:-
  - (i) demonstrate its commitment to LGPS Multi-Asset Pools; and
  - (ii) facilitate the work required to meet the requirement to submit detailed proposals to Government by the 15 July 2016 deadline.

### **4. Financial Implications**

4.1 Initial estimates of the work required to meet the Government's requirements through project pool are in the order of £60k to July 2016; this will be charged to the Pension Fund. The July submission to Government will provide an assessment of more details costs and benefits of the pooling arrangements.

#### *Background Information*

<https://www.gov.uk/government/consultations/local-government-pension-scheme-opportunities-for-collaboration-cost-savings-and-efficiencies>

<https://www.gov.uk/government/publications/local-government-pension-scheme-investment-reform-criteria-and-guidance>

<https://cmis.hertsdirect.org/hertfordshire/Calendarofcouncilmeetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/307/Committee/11/SelectedTab/Documents/Default.asp>

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